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# Namibia

## Country mining guide

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Strategy Series

# Contents

# Executive summary

Sound macroeconomic policies in addition to a stable political environment have contributed to the fact that Namibia has been able to record strong economic growth rates over the past decade. World Bank statistics suggest Namibian real GDP growth averaged 4.6% p.a. over the 2000-12 period. The mining and agricultural industries have traditionally been the main drivers of economic growth. Due to the central role of these industries, growth in Namibia is prone to influence from the global economy via its impact on mineral demand and prices, while domestic weather conditions influence farming activity. The latter was especially relevant in relation to Namibia's economic growth in 2013, when a drought plagued the country. As a result, economic growth slowed, from 6.7% in 2012 to 4.4% in 2013. Namibia's medium-term growth prospects look more promising, buoyed by construction requirements associated with several large-scale infrastructural initiatives such as the Walvis Bay expansion project and the construction of the Neckartal Dam. However, despite the country's positive growth track record, socioeconomic challenges in relation to poverty, land redistribution, income inequality and high unemployment persist, while past policies aimed at addressing these issues have been mostly unsuccessful.

Namibia is the fourth-largest exporter of non-fuel minerals in Africa, with this category contributing around half of all exports over the past decade. Namibia's mining industry produces diamonds, uranium, copper, magnesium, zinc, silver, gold, lead, semi-precious stones and industrial minerals. However, diamonds and uranium still represent the country's most salient commodities from an export revenue point of view.

Namibia is amongst the world's top 10 diamond producers, with the Diamond Act of 1999 regulating the handling, transportation and refining of diamonds. The Bank of Namibia (BoN, the central bank) estimated that diamond mining production increased by 5.7% to 1.7 million carats in 2013, driven by increased activities in onshore and offshore mining that resulted from the re-opening of an old mine and the acquisition of an offshore mining vessel. Furthermore, the BoN highlighted that favourable labour relations and the absence of any significant technical difficulties contributed to the increase in diamond output during 2013. Diamond prices rose steadily after the drop in demand in the wake of the global financial crisis, before falling sharply again in mid-2011 due to a lack of demand in Europe, corresponding with economic woes there at the time. The most influential drivers in the diamond markets have historically been the US and Europe, with India and China becoming increasingly important. While economic growth in Europe has remained lacklustre at best, it is forecast to revive in the medium term, with demand for diamonds to increase alongside. De Beers projects global diamond demand to expand by between 4% and 4.5% in 2014, with the US market showing strong growth.

The World Nuclear Association believes Namibia's mines are capable of providing at least 10% of global supply from its proven 5% of global recoverable resources, and believes that authorities remain committed to expanding the sector. Uranium mining is one of the most important sectors in Namibia from a foreign investment and export revenue perspective. However, the capital intensive industry creates few jobs and offers little direct benefit to the country other than financial inflows. The global economic slowdown of 2008-09 pressured uranium prices to a point where investment in new or expanding activities became unprofitable. In addition, Japan's tsunami and nuclear crisis during March 2011 soured global sentiment towards nuclear power plants, with several European countries halting further expansion and announcing a gradual shutdown of these operations over the coming decades. This pushed the uranium price to below $40/lb. According to the BoN, the average uranium price declined from $49/lb in 2012 to $38.9/lb last year. Namibia's uranium production declined by 2.4% to 5,382 tonnes in 2013, mainly due to operational challenges and limited water supply at the mines due to a drought at the time.

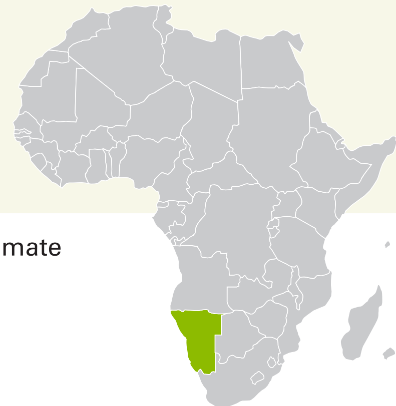
**4.4%** GDP growth in 2013

**4th** Largest exporter of non-fuel minerals in Africa

**Top 10** Amongst World's Top 10 diamond producers (1.7 million carats in 2013) (Source: Bank of Nambia Annual Report 2013, p. 129)

**10%** Namibia has 2 significant uranium mines capable of providing 10% of worlds mining output. (Source: World Nuclear Association accessed July 2014)

# Country snapshot[1,2,3,4]

| Namibia | |
|---|---|
| Geography<br> | Namibia is a sub-Saharan African nation, bordering Angola (1,376 km), Botswana (1,360 km), South Africa (967 km), Zambia (233 km) and the South Atlantic Ocean. The country has a total land area of 823,290 $km^2$, of which a mere 1,002 $km^2$ are covered by water. Namibia is located in the south-western part of sub-Saharan Africa (22o57 S, 17o15 E) and the most prevalent natural hazard is prolonged periods of drought. |
| Climate | The climate in Namibia is mostly arid. Sometimes described as one of the sunniest countries in the world, Namibia experiences more than 300 days of sunshine annually. Rainfall is sparse and erratic, and most prevalent on either side of the summer season, between September and November and again between February and April. Temperatures vary greatly depending on location, ranging from highs of over 45°C in the Namib desert to much lower temperatures along the coast due to the cold Benguela current of the bordering Atlantic Ocean. |
| Population | As of July 2013, the desert economy had a population estimated in the region of 2.2 million and growing by roughly 0.75% per annum. The country's inhabitants are relatively young on average, with a median age of 22.8 years, while the life expectancy at birth is estimated at 51.85 years.[1] |
| Currency | • The official currency of the country is the Namibian dollar, adopted in 1993 after Namibia gained independence from South Africa. The Namibia dollar is pegged to the South African rand on a one-to-one basis.<br>• The following represents the average exchange rate in 2013:<br>- N$ 12.6: EUR 1<br>- N$ 9.6: USD 1 |

*Source: CIA Factbook, Reuters, World Bank, UCLA*

[1] "The World Factbook", CIA, accessed 8 April 2014
[2] "Country Profiles: Namibia", UCLA African Studies Centre, accessed 8 April 2014
[3] "Namibia: Country Brief", The World Bank, accessed 8 April 2014
[4] "Reuters data", accessed 4 June 2014

# World Bank ranking: Ease of doing business[5]

Namibia ranked 98th among the 189 countries covered in the World Bank's Doing Business 2014 index. The country dropped four positions from the rank it achieved in the previous edition of the publication.

The indicators in which Namibia recorded its best relative performances were: dealing with construction permits (31st), getting credit (55th), enforcing contracts (69th), and getting electricity (72nd). In turn, the country performed poorly in relation to the following: registering property (178th), trading across borders (141st), starting a business (132nd), and paying taxes (114th). The reason for the country's particularly poor performance in relation to registering property is twofold. Firstly, while other economies have generally been reducing the time required to register property through the implementation of computerised land registries and time limits on procedures, Namibia has mostly failed to make any improvements in this regard. Secondly, the costs associated with registering property (as a percentage of the property value) in Namibia have remained fairly constant up until 2010 and have subsequently increased significantly, while the sub-Saharan Africa regional average reflects a marked decline over the same period. The most recent edition of the doing business report highlighted yet another increase in the aforementioned costs: "Namibia made transferring property more expensive by increasing the transfer and stamp duties."

NAMIBIA RANK IN 2014 DOING BUSINESS


1=best; 189=worst; *(Source: World Bank)*

**Table 1: Namibia's ranking on the different parameters in the World Bank's Doing Business 2014 index.**

| Parameter | Ease of doing business rank 2014 |
|---|---|
| Starting a business | 132 |
| Dealing with construction permits | 31 |
| Getting electricity | 72 |
| Registering property | 178 |
| Getting credit | 55 |
| Protecting investors | 80 |
| Paying taxes | 114 |
| Trading across borders | 141 |
| Enforcing contracts | 69 |
| Resolving insolvency | 85 |

*Source: Doing Business 2014 report, World Bank*

5 "Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises", World Bank, October 2013

# Type of government[6]

Namibia has a presidential system of government and a bicameral legislature. The president is both the chief of state and the head of government. Sam Nujoma was president from Namibia's independence in 1990 until 2005 – a constitutional amendment permitted the founding leader a third term. In November 2004, citizens elected the then Minister of Lands, Resettlement and Rehabilitation, Hifikepunye Pohamba, to be the next president. Mr Pohamba was re-elected in November 2009 for his second and final term in office. The inauguration was held in March 2010, in conjunction with celebrations marking the country's 20th year of independence. Namibia's most recent presidential and parliamentary elections were held in November 2009. The South West Africa People's Organisation (SWAPO) and incumbent President Pohamba won with 75% and 76% of the votes, respectively. The Rally for Democracy and Progress (RDP) won 11% of the vote, the most by a single opposition party. While some procedural irregularities were observed, international and domestic observers pronounced the elections to be generally free and fair.

The legislative branch of government consists of a national council and a national assembly. The national council is the upper chamber of Namibia's bicameral Parliament. The national council has 26 seats, comprising of two members from each of the 13 regional councils. Each regional council elects two of its members to serve on the national council for a six-year term. The last regional council elections were held during November 2010, while the next elections are scheduled to take place in 2016. The national assembly is the lower chamber of Namibia's bicameral Parliament. It has a total of 78 seats, 72 of which are elected by popular vote through a system of party-list proportional representation to serve five-year terms. An additional six non-voting members are appointed by the president. Elections for the national assembly were last held in November 2009, while the next elections will take place during November 2014. The Namibian cabinet is appointed by the president from among the members of the national assembly.

The judicial branch mainly consists of the Supreme Court, High Court, Labour Court, regional and district magistrates' courts and community courts. The Supreme Court comprises of a chief justice and at least three judges in quorum sessions. Judges are appointed by the president of Namibia upon recommendation by the Judicial Service Commission.

The next presidential elections will be held towards the end of 2014. For now, the party political landscape remains unchanged, with ruling party SWAPO firmly in control of the country. SWAPO's share of the vote has remained steady between 74% and 76% since 1994 and will not drop off by very much in the next decade or so. The party held its fifth elective congress in December 2012, at which Hage Geingob was re-elected as party vice-president. A few days later Mr Geingob was appointed prime minister, which indicates he is SWAPO's probable candidate for the 2014 presidential race. He may still face opposition from within the party before the race, however. SWAPO's nearest challenger is the RDP, a SWAPO offshoot which enjoys about 10% of electoral support. The RDP's main function up to now has been to criticise SWAPO: a necessary role, but it will be years before the RDP looks like a viable ruling party.


[6] "The World Factbook", CIA, accessed 9 April 2014

# Economy and fiscal policy[7,8,9,10,11]

Namibia's economic structure is a complex hybrid of old and new. It has a sophisticated, modern sector based on highly capital intensive mining activities and commercial farming on the one hand, and a large informal sector mostly comprising subsistence farming on the other – each playing a fundamental role in the dual-economy's wellbeing. Although the Namibian economy has a small agricultural sector in terms of value added, the farming industry offers employment to around one in six workers. The majority of Namibians are directly or indirectly dependent on farming activity for their livelihoods. In contrast, the rich mining industry – dominated by uranium and diamond mining – employs very few people. The manufacturing sector is still fairly underdeveloped, mainly due to stringent competition from South Africa and the small domestic market. The services sector includes a large tourism industry, a developed banking industry, and a strong retail industry.

Sound macroeconomic policies in addition to a stable political environment have contributed to the fact that Namibia has been able to record strong economic growth rates over the past decade. World Bank statistics suggest Namibian real GDP growth averaged 4.6% p.a. over the 2000-12 period. The mining and agricultural industries have traditionally been the main drivers of economic growth. Due to the central role of these industries, growth in Namibia is prone to influence from the global economy via its impact on mineral demand and prices, while domestic weather conditions influence farming activity. The latter was especially relevant in relation to Namibia's economic growth in 2013, when a drought plagued the country. As a result, economic growth slowed, from 6.7% in 2012 to 4.4% in 2013. Namibia's medium-term growth prospects look more promising, buoyed by construction requirements associated with several large-scale infrastructural initiatives such as the Walvis Bay expansion project and the construction of the Neckartal Dam. However, these projects currently underway in the country have added pressure on the trade deficit due to the imports of building materials and certain high-value parts and components. As a result, Namibia's current account deficit widened from N$1.3bn in 2012 to N$4bn during 2013. Namibia's current account balance only turned negative in 2009, prior to which the country mostly realised large current account surpluses. These past current account surpluses contributed to the fact that Namibia still maintains a positive international investment position, and as such the country's external debt, amounting to 33.5% of GDP in 2013, is still considered low and manageable.

Meanwhile, the BoN's monetary policy stance historically shadows that of its South African counterpart due to the Common Monetary Area (CMA) arrangement that requires all member nations to keep their exchange rates on par with the South African rand. As a result, Namibia's inflation figures are highly correlated with those of South Africa. Inflation in the desert economy reached an annual average of 5.6% during 2013. The Namibia Statistics Agency (NSA) released its latest monthly Namibian Consumer Price Index (NCPI) figures on 15 May 2014. Headline inflation increased to 5.9% y-o-y in April, up from 5.2% y-o-y recorded in March. Headline inflation continues to be anchored to an extent by low annual inflation readings for the housing, water, electricity and gas index, which is assigned the biggest weight amongst the different sub-indices in the NCPI basket. However, even in this case, the upside inflation risks remain significant. On 13 May 2014, the Electricity Control Board (ECB) approved a 13.2% increase in electricity tariffs, effective from the start of July 2014. When viewed in conjunction with a widening trade deficit and declining foreign reserves, the recent increase in inflation certainly makes an interest rate increase more likely. However, this will also depend on the South African interest rate environment.

In its recent Country Strategy Paper (CSP) for Namibia published during December 2013, the African Development Bank (AfDB) notes that the Namibian fiscal situation has deteriorated, mainly as a result of "the prolongation of the expansionary fiscal policy… used as a countercyclical tool to sustain economic growth in the aftermath of the global economic crisis." In its 2013 Article IV Consultation report, the International Monetary Fund (IMF) reiterated the need for medium-term fiscal consolidation as a strategy

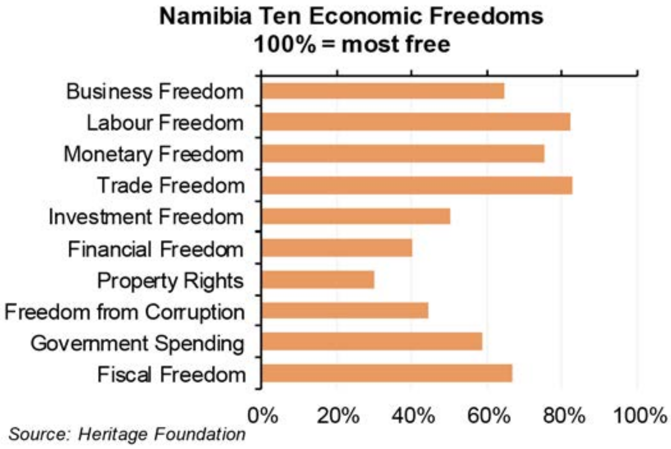
7 "2013 Article IV Consultation Report", IMF, February 2014
8 "Country Strategy Paper: 2014 – 2018", African Development Bank
9 "World Databank", World Bank, accessed 9 April 2014
10 "2013 National Accounts: Rebased", Namibia Statistics Agency, April 2014
11 "Namibia Consumer Price Index: April", Namibia Statistics Agency, May 2014

to rebuild fiscal and foreign reserve buffers; the latter recently declined to a level below the Fund's recommended three months worth of import cover benchmark. The IMF still deemed the country to be vulnerable to external shocks given the local currency's peg to the South African rand and lingering uncertainty in relation to the global economic recovery and the impact thereof on key export commodity prices. However, the 2014/15 fiscal budget does not seem to heed the multilateral organisation's advice, at least not in the short term, with the deficit expected to widen from 5.4% of GDP in 2013 to 5.8% of GDP this year.

In addition, despite the country's positive growth track record, socioeconomic challenges in relation to poverty, land redistribution, income inequality and high unemployment persist, while past policies aimed at addressing these issues have been mostly unsuccessful. In July 2012, the Namibian government launched its Fourth National Development Plan (NDP4). Economic growth, job creation, and increased income equality are the three overarching objectives of NDP4. It proposes to achieve these goals through industrial policies aimed at stimulating growth in tourism, regional trade logistics, agriculture and manufacturing. More recently, the "Growth at Home" strategy attempts to diversify foreign direct investment (FDI) destinations, especially towards the development of the manufacturing and agro-processing sectors. Attracting foreign investment to these sectors was part of the Namibian government's broader industrial development strategy, aimed at ensuring more value is added to products within the Namibian borders, and as such creating additional employment opportunities.

# Heritage Foundation: Index of Economic Freedom[12]

## 2014 Index of Economic Freedom




The Heritage Foundation Index of Economic Freedom for 2014 ranked Namibia 94th out of 186 countries, down 10 positions from the previous ranking. Furthermore, Namibia was ranked 12th out of 46 countries in the sub-Saharan Africa region. Namibia's overall economic freedom score declined from 60.5 (scale: 1-100) obtained in the previous index to the current score of 59.4. The overall decline was attributed to the fact that weaker performances in relation to business freedom and the control of government spending outweighed the improvements in labour freedom, trade freedom, and fiscal freedom.

Upon closer examination of the individual sub-categories, it is evident that Namibia performs particularly poorly with regard to property rights, financial freedom and freedom from corruption. In relation to the property rights category, Namibia achieved a score of 30, well below the world average equal to 42.6. According to the Heritage Foundation, property rights in Namibia are not effectively protected. Also, corruption is highlighted as a key weakness: "Official corruption remains a problem, and investigations of major cases proceed slowly. Public office is often given as a reward for political service, and tribal affiliation is a factor. The rule of law remains weak and access to justice is obstructed by economic and geographic barriers, a shortage of public defenders, and delays." Namibia signed the United Nations Convention Against Corruption (UNCAC) on 9 December 2003. The Convention was subsequently ratified by the Namibian Parliament on 28 April 2004. In a recent media release dated 10 December 2013, the Institute for Public Policy Research (IPPR) identified various areas where Namibia failed in meeting the requirements of UNCAC. The most noteworthy of these were:

- Lack of whistle-blower protection law;
- No access to information policy/law; and
- Lack of comprehensive law on the declaration of assets by parliamentarians and public servants.

[12] "2014 Index of Economic Freedom", Heritage Foundation

**Table 2: Namibia's ranking in Heritage Foundation's Index of Economic Freedom 2014**

| Parameter | Score | Rank |
|---|---|---|
| Property Rights | 30.0 | 97 |
| Freedom from Corruption | 44.2 | 57 |
| Fiscal Freedom | 66.9 | 151 |
| Government Spending | 58.8 | 121 |
| Business Freedom | 64.4 | 94 |
| Labour Freedom | 81.9 | 21 |
| Monetary Freedom | 75.0 | 99 |
| Trade Freedom | 82.9 | 54 |
| Investment Freedom | 50.0 | 97 |
| Financial Freedom | 40.0 | 105 |
| **Source: 2014 Index of Economic Freedom, Heritage Foundation** | | |

*Sources: Fraser Institute's Survey of Mining Companies 2012/2013*

# Fraser Institute rankings[13,14]

## Economic Freedom of the World 2013 report

Among the 152 countries covered in the Fraser Institute's Economic Freedom of the World 2013 report, Namibia ranked 106th, with a score of 6.39 on a scale of zero to 10, with zero being the worst and 10 being the best. Namibia dropped 12 positions when compared to the ranking it achieved in the previous publication.

The annual peer-reviewed report ranks countries around the world based on their policies and the impact thereof on 42 different economic measures in the following areas:

- Size of government: Expenditures, taxes and enterprises
- Legal structure and security of property rights
- Access to sound money
- Freedom to trade internationally; and
- Regulation of credit, labour and business

Considering the sub-categories outlined above, Namibia obtained its lowest score in relation to the 'size of government' category. This category aims to determine the extent to which countries rely on political processes to allocate resources and goods and services. In Namibia's case, its scores for fiscal consumption and government investment were especially poor, both of which were deemed to constitute a disproportionately large share of total consumption and total investment respectively. The Fraser Institute explains that when the fiscal consumption share of total consumption is too large, political choice is being substituted for personal choice. In addition, seeing as government enterprises operate in a more protected environment than compared to private institutions, government investments are more prone to yield lower returns.

[13] "Economic Freedom of the World 2013", Annual Report , Fraser Institute, September 2013
[14] "Survey of Mining Companies: 2012/2013", Fraser Institute, February 2013

## Survey of Mining Companies 2012/2013[11]

Namibia performed comparatively well among the 96 jurisdictions covered by the Fraser Institute's Survey of Mining Companies 2012/13. The country was ranked on three distinct indices. The Policy Perception Index measures the effects of government policies on exploration. The Best Practices Mineral Potential Index is based on respondents' answers to questions about the mineral potential of jurisdictions, assuming their policies are based on "best practices" and no land use restrictions. The Current Mineral Potential Index is based on respondents' answers to whether a jurisdiction's mineral potential under the current policy environment encourages or discourages exploration. It assumes current regulations and land-use restrictions. Namibia's most recent ranking on each of these indices, among a total of 96 jurisdictions, was:

- 30th on the Policy Perception Index,
- 40th on the Best Practices Mineral Potential Index, and
- 35th on the Current Mineral Potential Index.

# Regulatory environment[15,16,17,18]

The Minerals Policy of Namibia highlights the guiding principles and direction of the industry while also communicating the values of the Namibian people in pursuit of the development of the mining sector. All mining related activities in Namibia are regulated by the Minerals (Prospecting and Mining) Act of 1992. This Act was promulgated soon after independence in order to repeal old legislation inherited from the colonial regime.

Furthermore, all mineral rights are vested in the State, as per the aforementioned act: "Subject to any right conferred under any provision of this Act, any right in relation to the reconnaissance or prospecting for, and the mining and sale or disposal of, and the exercise of control over, any mineral or group of minerals vests, notwithstanding any right of ownership of any person in relation to any land in, on or under which any such mineral or group of minerals is found, in the State."

Several types of mining and prospecting licenses exist, each of which is outlined briefly below:

- Non-exclusive prospecting licenses: These licenses permit for prospecting non-exclusively in any open ground as long as the area is not restricted by other mineral rights. Prospectors must provide the Mining Commissioner with the details of all samples removed from the non-exclusive prospecting license area. Non-exclusive prospecting licenses are valid for 12 months.
- Reconnaissance licenses: Reconnaissance licenses allow regional remote sensing techniques. These licenses are valid for six months (renewable under special circumstances) and can be made exclusive in some instances. A geological evaluation and work plan needs to be submitted to the Mining Commissioner.
- Exclusive prospecting license: An individual exclusive prospecting license can cover areas not exceeding 1,000 km2 and is valid for three years, with two renewals of two years each. It is also possible that two or more exclusive prospecting licenses are granted for more than one mineral in the same area. A geological evaluation and work plan are pre-requisites prior to issuing of the exclusive prospecting license.
- Mineral deposit retention licenses: These allow successful prospectors to retain the rights to mineral deposits which are deemed economically unviable in the short term. Mineral deposit retention licenses are valid for up to five years. These licenses can be renewed subject to limited work and expenditure obligations.
- Mining licenses: Mining licenses can be awarded to Namibian citizens and companies registered in Namibia. They are valid for the life of the mine or an initial 25 years, renewable up to 15 years at a time. Applicants must have the financial and technical resources to mine effectively and safely. Prior to licenses being issued, all applicants are required to complete an environmental contract with the Department of Environment and Tourism. Environmental impact assessments must be facilitated with respect to air pollution, dust generation, water supply, drainage/waste water disposal, land disturbance and protection of flora and fauna.

15 "Minerals (Prospecting and Mining) Act of 1992", accessed 10 April 2014
16 "Minerals Policy of Namibia", 2003, Namibia Chamber of Mines
17 "Role of Epangelo in the Namibian Mining Sector", 2013, Mining Expo
18 "Namibia: Legislation for Strategic Minerals Imminent", The Namibian, 27 May 2014

However, although the mining sector remained a significant contributor to the country's economy, the Namibian government deemed that the contribution thereof to state revenues – mainly through royalties – was disproportionately small and did not allow ordinary Namibians to adequately benefit from their country's natural resources. As a result, the Epangelo Mining Company (Pty) Ltd (Epangelo) was established in 2008 under the Namibian Companies Act, with the Namibian government as the sole shareholder. According to the Epangelo, its 2030 vision is as follows:

*"To ensure national participation in the discovery, exploitation and beneficiation of Namibia's mineral resources whilst developing and consolidating a portfolio of high quality assets and services for the benefit of its stakeholders."*

During April 2011, a Cabinet decision declared uranium, gold, copper, coal, diamonds and rare earth metals as strategic minerals. The state-owned Epangelo would be granted the right to own all new licences issued for the purpose of exploration and for the mining of strategic minerals. However, the changes would not be applied retrospectively, in that the renewal of existing exploration and mining licenses would still be allowed, conditional on whether a degree of development and progress has taken place. During early-July 2013 the company offered 39 exclusive prospecting licenses (EPLs) to joint venture (JV) partners in strategic minerals. These JV's operate on the so-called earn-in framework, whereby Epangelo will at first own 100% of these prospects, while partners will over time be able to increase their holdings, dependent on certain milestones being met. The achieved milestones will result in the dilution of Epangelo's shareholding in favour of the JV partner with varying percentage ownership as agreed.

On 27 May 2014, the Namibian reported that the government was still in the process of drafting legislation for the mining of strategic minerals, with two committees already in place to deal with the matter. At a recent mining conference, the permanent secretary in the Ministry of Mines and Energy (MME), Kahijoro Kahuure, stated: "In the not too distant future legislation might be in place to deal with this matter. There is a committee dealing with strategic minerals and a technical committee was put in place." However, Mr Kahuure would not reveal if a new law would be drafted or if the Minerals Act of 1992 would be amended.

# Sustainability and environment[19,20,21,22,23,24]

## Socioeconomic situation

Despite the fact that the country managed to achieve robust economic growth rates over the past decade, certain socioeconomic issues persist. These issues pertain to poverty, unemployment, income inequality and food insecurity related risks. The latter was recently aggravated by the drought that plagued the desert economy in 2014. The World Food Programme (WFP) estimated that the number of severely food insecure individuals in Namibia increased from 330,300 during May 2013 to 463,600 in November of the same year. Although the drought has now passed and the number of severely food insecure individuals might have declined slightly, the issue still remains largely unresolved.

The United Nations Development Programme's (UNDP) country profile for Namibia states: "As a middle-income country with one of the most unequal income distributions in the world, Namibia is a place of poverty amid plenty." According to the Household Income and Expenditure Survey (HIES) 2009/10,

In March 2011, the Minerals Policy was released by the Ministry of Mines and Energy. This policy sets out a number of key areas including socioeconomicelated areas such as human resources amongst others and how the mining industry can assist in terms of training up locals

[19] "Country overview", World Food Programme, accessed 11 April 2014

[20] "Understanding poverty in Namibia", United Nations Development Programme, accessed 11 April 2014

[21] "Household Income and Expenditure Survey 2009/10", 2012, Namibia Statistics Agency

published by the NSA, 19.5% of the country's households earned a monthly income below the upper-bound national poverty line calculated at N$377.96, and as such were classified as falling into the "poor" category. The "severely poor" category included all households with a monthly income below the lower-bound national poverty line, set at N$277.54. In this case, 9.6% of households were classified as being "severely poor". Although these figures reflected an improvement when compared to a similar survey conducted six years earlier, World Bank statistics suggest Namibia's poverty gap remains significantly larger than compared to the upper middle-income country average.

A closely related point – and also possibly one of the main contributing factors to the poverty situation – is Namibia's unequal income distribution. The UNDP notes that the poorest 10% of households command just 1% of the country's total income whereas the wealthiest 10% control more than half. The HIES found that Namibia's GINI coefficient – a statistical measure of income inequality – measured 0.597 during the 2009/10 survey, down from 0.603 measured six years earlier. Nonetheless[25], the HIES acknowledged that Namibia's income inequality was among the worst in the world.

The country's socioeconomic issues outlined above have recently contributed to signs of political tension that, if not addressed, could become a problem over the medium term. However, for the time being, there is no sign that these tensions are threatening to escape the confines of legitimate political activity.

## Safety and security

The United States Department of State (USDS) has identified Namibia as a "Critical" residential and non-residential crime threat location on a scale of low, medium, high, and critical. The USDS further notes that, although robberies, muggings, and thefts occur frequently, these are usually more petty-type crimes. However, personal robberies and residential break-ins and thefts also remain prevalent.

Road safety is acceptable in urban areas. Furthermore, although the major national roads are generally very well maintained, Namibia's network of gravel secondary roads can be dangerous, particularly during the rainy season. Driving at night outside urban areas is also considered treacherous, as unlit roads make it difficult to see obstructions and animals that frequently cross the roads.

The safety and health of 'persons employed or otherwise present in or at mines' is provided for in the Mine Health and Safety Regulations (10th Draft) issued by the Ministry of Mines and Energy under section 138A of the Minerals (Prospecting and Mining) Act 33 of 1992 as amended.

The Regulations hold the owners of mines, mine managers and persons employed or otherwise present in or at mines responsible for the safety of themselves and others although the greatest responsibility will lie with the owners of mines and mine managers as they are required to ensure a safe working environment exists.

[22] "World Bank: Databank", World Bank, accessed 11 April 2014

[23] "Country Strategy Paper 2014 - 2018", 2013, African Development Bank

[24] "Namibia 2013 Crime and Safety Report", United States Department of State, accessed 11 April 2014

[25] A GINI coefficient of zero expresses perfect income equality, whereas a value of one indicates perfect income inequality.

## HIV/AIDS

Unlike its neighbours in South Africa and Botswana, Namibia showed marked decreases in its HIV/AIDS prevalence rate over the past decade. Although the downward trend has stabilised at around 13.4% in 2011 for adults between the ages of 15 and 64, it is still down significantly from a peak of 22% in 2002. The initial impact of the disease took a massive toll on the health services in the country, but a concerted effort from the government has largely reversed the shortfalls. Life expectancy, down from a peak of 60.9 years in 1992 to 57.2 in 2002, has rebounded strongly to 62.3 years in 2011, according to World Bank data. When compared to its aforementioned neighbours, the impact of HIV/AIDS has had neither as big or prolonged an impact on the Namibian people's life expectancy.

Challenges in overcoming the disease still remain, and relative to the global situation, the HIV pandemic affects a large proportion of its people. When deconstructing the number of infections and the rates associated with it, a clearer picture forms. There is very little difference between the prevalence rates in urban and rural areas. The average age of an HIV/AIDS sufferer has been increasing over the last few years, even though most of the new infections occur in the 15-24 year old bracket, which has been ascribed to the increased antiretroviral coverage. Approximately 18% of all deaths in Namibia in the 2010/11 financial year were HIV/AIDS-related, or 4,500 cases. Slightly less than 10% of new infections in 2010/11 were mother-to-child transmissions, a preventable transfer.

Namibia remains committed to the many goals set out in the United Nations' (UN) 2015 Millennium Development Goals. As far as planning goes, Namibia's Ministry of Health hopes that many of its goals will be met by 2015, and can be met if all stakeholders stick to the plans set out.

## Environmental issues

As one of the driest countries in sub-Saharan Africa, Namibia is especially vulnerable to climate change, which often manifests itself in floods and droughts. Seeing as a large proportion of the country's population rely on climate-sensitive sectors such as agriculture, forestry and fishing, Namibia is particularly vigilant in relation to environmental protection, so much so that it is enshrined in the Namibian constitution.

During 2011, Namibian authorities adopted the National Climate Change Policy. The policy aims to strengthen the country's climate change adaptation and mitigation measures. According to the AfDB:

*"The country's exemplary community-based natural resource management program, which provides incentives to communities to manage and use wildlife and other natural resources in sustainable and productive ways, has earned it a good reputation internationally for prudent environmental management."*

The Minerals (Prospecting and Mining) Act 33 of 1992 as amended, under section 128 states that the Minister can direct the person who was the holder of a non-exclusive prospecting licence or mineral licence 'to take all such steps as may be necessary to remedy to the satisfaction of the Minister any damage caused by any prospecting operations and mining operations carried on by such holder to the surface of, and the environment in, such area'.

Section 130 'Liability of holders of licences or mining claims for pollution of environment or other damages or losses caused' requires the holder of the licence or mining claim to report any spillage of minerals to the Minister and are held liable to remedy the damage done to the area.

In addition, the Environmental Management Act 7 of 2007 applies to the mining industry as well. The act requires the issuance of environmental permits and licenses for a range of activities which would have an impact on the environment. This includes mining operations. The Minister of Environment and Tourism will publish these activities in the Government Gazette. In order for the operations to commence, they need to apply for an environmental clearance certificate.

# Taxation[26]

Namibia's individual tax year extends from the 1st of March to the last day in February. Company tax years run parallel to financial years. Tax is levied on the taxable income of individuals, trusts and companies from sources in or deemed to be within Namibia. Covering all the details in relation to Namibia's tax regime would be an exhaustive exercise, as such; this section merely aims to highlight the most important rates and guidelines for individual and corporate tax in addition to value-added tax

## Individual income tax

Personal income tax is levied on the total taxable annual income of individuals at progressive marginal rates over a series of income brackets. For instance, the personal income tax rate on 1 March 2014 for individuals with an annual income ranging from N$300,001 to N$500,000 amounted to a lump sum of N$59,000 in addition to 28% for each Namibian dollar above N$300,001. The table below summarises the different income brackets together with the associated tax amount payable:

**Table 3: Namibia personal income tax rates for the 2014/15 tax year**

| Annual taxable income (N$) | Individual tax rate |
|---|---|
| 0 – 50,000 | Exempt from personal income tax |
| 50,001 – 100,000 | 18% for each dollar above 50,001 |
| 100,001 – 300,000 | 9,000 plus 25% for each dollar above 100,001 |
| 300,001 – 500,000 | 59,000 plus 28% for each dollar above 300,001 |
| 500,001 – 800,000 | 115,000 plus 30% for each dollar above 500,001 |
| 800,001 – 1,500,000 | 205,000 plus 32% for each dollar above 800,000 |
| Higher than 1,500,000 | 429,000 plus 37% for each dollar above 1,500,001 |

**Source: KPMG Tax Card 2013/14; Namibia Budget Statement 2014/15**

In addition, individuals are exempt from tax on interest income, on condition that such interest was accrued from deposits at the Nampost Savings Bank or from stock or securities issued by the Government of Namibia or any regional council or local authority. Interest income derived from alternative means or from other sources, such as private sector banks or unit trusts, is taxable at a rate of 10%. Furthermore, contributions to approved pension/provident funds, retirement annuity funds and certain policies for educational purposes are deductible for tax purposes to a maximum amount of N$40,000 per annum in total. In contrast, contributions to medical aid funds and actual medical expenses are not deductible for personal income tax purposes.

[26] "Taxation in Namibia", Library & Information services, accessed 14 April 2014

## Corporate income tax

**Table 4: Namibia corporate tax rates for the 2014/15 tax year**

| Company category | Corporate tax rate |
|---|---|
| Corporate tax rate | 33% (for years of assessment commencing on or after 1 January 2013); A reduction to 32% has been announced but not yet promulgated at the time of publishing this document. |
| Mining companies (other than diamond and petroleum mining companies) | 37.5% |
| Diamond mining companies | 55% |
| Petroleum companies | 35% (plus Additional Profits Tax determined according to a formula) |

**Source: KPMG Tax Card 2013/14; Namibia Budget Statement 2014/15**

The Namibian corporate tax rate for the 2013/2014 financial year amounts to 33%; a decrease to 32% was announced for the 2014/15 financial year of pre-tax operating profit but this is still to be promulgated. This rate increases to 37.5% for mining companies (other than diamond and petroleum mining companies), whereas diamond mines specifically are taxed at 55%. Two years earlier, the Namibian authorities envisaged hiking the tax rate applicable to mining companies to 44%, but decided against such a move following widespread criticism from industry participants.

Also, despite calls from the diamond mining sector for lower taxes – especially from Namdeb, an equal share joint venture between the Namibian government and the De Beers Group – the 55% tax rate remained in place when Namibian finance minister, Saara Kuugongelwa-Amadhila, unveiled the 2014/15 fiscal budget to the National Assembly on 19 February 2014.

**Table 5: Namibia mining royalties for the 2014/15 tax year**

| Company category | Royalty rate |
|---|---|
| Precious metals/ Base and rare metals | 3% |
| Semi-precious stones/Industrial metals/Non-Nuclear fuel minerals | 2% |
| Nuclear fuel minerals | 3% |
| Oil and Gas | 5 % |

**Source: KPMG Tax Card 2013/14; Namibia Budget Statement 2014/15**

Besides the 55% tax on operating profit, diamond mining companies are also liable to pay a 10% royalty on turnover. Royalties levied on other mining companies, as per the Minerals (Prospecting and Mining) Act of 1981, range from 2% - 5% of the market value of the minerals extracted by the license holders in the course of carrying out the mining activity.

### Value-added tax (VAT)

VAT is levied on the taxable value of goods sold or imported. In Namibia, the VAT is levied at a rate of 15%. VAT does not apply to the direct exports of goods and services. Besides the previously mentioned, various other goods are exempt from VAT. Business generating a turnover in excess of N$200,000 for the past or future 12 month period should register for VAT. (The Minister of Finance announced an increase in this threshold to N$500 000, but this change has not yet been promulgated at the date of this publication).

# Power Supply[27]

According to the Electricity Act of 2007, the Namibia Power Corporation (NamPower, the national power utility) is mandated to generate, transmit, supply and trade electricity, while also exporting, importing and to a limited extent distributing it. In terms of the 1998 White Paper on Energy Policy, NamPower is to work towards the supply of 100% of peak demand for electricity (and 75% of total demand) from Namibian sources of power generation. However, the company's 2013 annual report states that only 39% of total electricity supply was locally generated during the July 2012 – June 2013 period. The remainder was sourced via imports from South Africa (27%), Zimbabwe (11%), Zambia (22%) and Mozambique (1%). Locally generated power stemmed predominantly from the Ruacana hydropower plant (332 MW) on the Kunene River, which accounted for roughly 96% of the total local power supply during the July 2012 – June 2013 period. The coal-fired Van Eck installation (120 MW) outside of the capital Windhoek as well as NamPower's thermal station at Walvis Bay (24 MW), which uses expensive fossil fuels, were also used to generate electricity for local consumption.

Namibia has recently become increasingly dependent on imports to ensure it meets the steadily rising local demand for electricity. During the July 2011 – June 2012 period, Namibia was able to generate 47% of total annual power supply locally, however, this figure dropped to 39% the following year as already noted above. The growing reliance on imported electricity exposes the country to increased risk. NamPower Managing Director, Paulinus Shilamba, told a media briefing during May 2013 that he does not have clarity from South Africa's Eskom on how the latter will manage electricity exports if load shedding is required in Africa's second largest economy. Subsequent to this, NamPower signed an extension to the Supplemental Agreement with Eskom, effective until March 2015, in which the latter retains the right to terminate should NamPower exceed the allowable import energy value or if load shedding is required in South Africa, in which case Eskom will curtail electricity exports to Namibia.

Namibia's electricity supply issues were exaggerated by the drought during 2013. The drought resulted in a drop in the water level of the Kunene, the river responsible for driving the nation's hydropower plant. The power shortage issues within the region have forced Namibia to seek assistance from its neighbour, Zambia, to enable it to meet its increasing electricity demand. NamPower's Paulinus Shilamba revealed late in December 2013 that Namibia was seeking nearly 100 MW of additional power from Zambia. NamPower was also in the process of negotiating a 100 MW power purchase agreement with Mozambique as well as a 50 MW purchase agreement with Zimbabwe. The shortage of local power generation capacity has also added pressure on the cost of electricity. Earlier in 2013, the ECB approved a 12% increase in electricity prices with effect from 1 July 2013. NamPower commented that the hefty

[27] "2013 Annual Report", 2013, Namibia Power Corporation

increase was attributed to it pursuing various costly generation and transmission strategies in order to keep the lights on in Namibia. This included extensive capital investment, with the upward adjustment in electricity prices supporting actual costs incurred. More recently, the outgoing Chief Executive Officer (CEO) of the ECB noted that electricity prices were likely to continue rising to help fund efforts to bolster the desert economy's local power generation efforts. On May 13, the ECB approved a 13.2% increase in electricity tariffs, effective from the start of July.

Namibia is planning to move from an electricity-deficit country at present to a power exporter by 2018. The country's Energy Sector Plan is looking towards the construction of a 600 MW hydropower installation, several potential wind farm projects generating 114 MW, three solar stations, a diesel-powered facility, and an 800 MW gas-to-power plant. The most ambitious of these, the Kudu Gas power project, is to be a Combined Cycle Gas Turbine (CCGT) power station. The power station will be supplied by the equally ambitious development of the off-shore Kudu Gas fields; to be carried out by the National Petroleum Corporation of Namibia (Namcor). Speaking at the annual Diamond Festival in Oranjemund early in December 2013, Mr Shilamba reiterated that the Kudu Gas project was the most prominent and top priority amongst the country's capital projects. Mr Shilamba also noted that negotiations with the South African Department of Energy, as the procurer, and Eskom, as the buyer, were progressing as planned. Negotiations with the Copperbelt Energy Corporation (CEC) of Zambia for a Joint Development Agreement have been concluded. Mr Shilamba expected a final investment decision by the middle of 2014 and commercial operation to commence by early 2018.

To alleviate energy constraints in the interim, Namibia has launched the Short-Term Critical Supply (STCS) programme. The programme, expected to cost in the region of N$350m, will include the free installation of one million LED bulbs throughout the country, the replacement of 20,000 electrical water heaters with solar water heaters through a rebate initiative, as well as negotiations with large customers for access to their standby diesel generators to support electricity demand. The programme is expected to save a combined 110 MW over a period of five years.

# Infrastructure Development[28,29]

When the country gained independence from South Africa in 1990, it inherited well-functioning physical infrastructure for the most part. The AfDB ranked Namibia 11th out of the 53 African countries considered when compiling its most recent African Infrastructure Development Index (AIDI), published in May 2013. The index is based on four infrastructure related categories, namely: transport; electricity; information and communication technology; and water and sanitation. When considering the sub-indices individually, Namibia achieved its worst ranking in relation to the information and communication technology category (15th), followed by the water and sanitation (13th), electricity (12th) and transport (8th) categories.

As already alluded to previously in this factsheet, Namibia is currently in the planning and/or development phase of various large-scale infrastructural projects. The most prominent of these is certainly the Kudu Gas power project. Besides this, the expansion planned for the Walvis Bay port represents yet another enormous undertaking. The Walvis Bay port is set for an N$3bn expansion in addition to a N$30bn port development to the north of the town. The aim of the latter is to provide more shipping services to other countries in the region. Namibia Ports Authority (NPA) CEO, Bisey Uirab, argues that the new facility – both referred to as North Port and the Southern African Development Community (SADC) Gateway Port – is needed to allow Namibia to support the fast-growing volumes of goods flows via the Trans-Caprivi corridor from Zambia, the Democratic Republic of the Congo (DRC), Botswana, and Gauteng.

[28] "Namibia Country Strategy Paper: 2014 – 2018", 2013, African Development Bank
[29] "The Africa Infrastructure Development Index", 2013, African Development Bank

Only 20% of Walvis Bay traffic is currently destined to be used in Namibia. The new port will include a tanker berth (the first phase of the project that could commence as early as 2015), a fuel storage facility, a shipyard, container and dry bulk terminals, and connections with railway lines and roads (The Mmamabula coal fields in Botswana are seen as a key railway destination). The 1,300 hectares facility is expected to handle 100 million tonnes of cargo when completed. Mr Uirab argued that Namibia offers a stable political environment and excellent road infrastructure to facilitate trade with Europe and North America and that the current port is very efficient. Botswana, Zambia and Zimbabwe already have dry port facilities at Walvis Bay.

As part of the Walvis Bay port expansion project, Namcor will start building a N$2.4bn fuel storage and offloading dock as it envisages a return to the retail market. The 80 million litre storage facility, to be linked by pipeline to the dock, will allow Namcor to sell and distribute petroleum products in Namibia. According to the Managing Director, Obeth Kandjoze, Namcor will seek to refresh a government mandate, which was revoked in 2010, to import and distribute half of Namibia's petroleum requirements by 2015.

Reuters reported on 24 March 2014 that Namibia and Botswana signed a bilateral agreement for the development of the Trans-Kalahari railway (TKR) line. The 1,500 km TKR line will primarily be used to transport coal from Botswana to the port at Walvis Bay for export to key markets in China and India.

# Labour relations and employment situation[30,31]

Namibia introduced the Labour Act of 1992 shortly after gaining independence to replace the previous colonial labour relations system. The new law encouraged collective bargaining, entrenched the basic rights of workers and trade unions, provided a procedural framework for strike action to take place and aimed to protect workers against unfair labour practices. Although the law was interpreted as an improvement from its predecessor, it still did not meet the expectations of trade unions, which believed employers influenced the drafting thereof through behind-the-scenes lobbying. Trade unions criticized the 1992 version of the labour law for not making provision for minimum wages, not ensuring paid maternity leave and not allowing for at least 21 days of annual leave for all workers, amongst other condemnations.

The revised Labour Act of 2004 was passed by the Namibian Parliament, but was never fully implemented. The debate raged on between the different public and private sector constituents until the new Labour Law of 2007 was passed and subsequently implemented. A significant addition to the law pertained to the introduction of a new dispute resolution mechanism characterised by a system of mediation and arbitration involving an impartial third party. However, trade unions still expressed certain grievances with the new law, specifically in relation to the concern that the administrative requirements for a legal strike might be too time-consuming. On the other hand, trade unions welcomed changes pertaining to improved basic conditions of employment – increased annual leave, better provisions for maternity and compassionate leave – as well as the inclusion of Article 128 which prohibited labour hire companies.

Besides improvements in relation to the country's labour legislation, Namibia still grapples with high levels of unemployment. On 27 March 2014, the NSA released its annual Labour Force Survey (LFS) for 2013. The latest release represents the first time the country has published the survey for two consecutive years running. Positively, the findings from the LFS suggest that the desert economy's labour force increased by 13% to 980,781 in 2013. In addition, the labour force participation rate increased from 66% during 2012 to 70.9% in 2013. However, although the total size of the employed population increased, the proportionately larger increase in the labour force meant that the unemployment rate increased from 27.4% during 2012 to 29.6% in 2013.

30 "Namibia's Changing Labour relations", 2010, Herbert Jauch, New Era

31 "2013 Labour Force Survey", 2014, Namibia Statistics Agency

The fact that unemployment increased last year is not that surprising, considering the slowdown in economic growth, from 6.7% during 2012 to 4.4% in 2013. A significant contributing factor to the slowdown in real GDP growth last year was the effect of the prolonged drought on the agricultural industry, which accounts for the vast majority of employment. Seeing as it will take time for the agricultural industry to recover completely, unemployment might remain elevated over the short term.

# Inbound and outbound investment

The government's official stance under the Foreign Investment Act of 1990 is in favour of foreign investment, with the exception of a less accommodating attitude towards agricultural land. The Namibia Investment Centre (NIC) is the state's official investment agency and was created by the Act of 1990, and has 'commercial councillors' in Germany, Mauritius, India, France, South Africa, Brazil and the US, amongst other countries. The Ministry of Trade and Industry (within which the NIC operates) has administered the country's Export Processing Zones (EPZs) since they were established in 1995. The EPZ regime is intended to: 1) facilitate imports of productive technology, skills and capital; 2) support the manufacturing sector in growing its contribution to job creation and economic activity; as well as 3) support diversification of the economy. Enterprises qualifying for EPZ status are exempted from corporate income tax and duties like VAT, with personal and employees' income tax the only payable dues. (These incentives are not time-bound.) Note that EPZ status is not limited to a certain geographic area, and companies qualifying for this classification can establish their operations in a geographic location of their choice. Agglomeration of such entities are also allowed, with the Walvis Bay EPZ including companies involved in automotive parts manufacturing and assembly, manufacturing of fishing equipment, as well as granite processing.

The Namibia Competition Act of 2003 "seeks to enhance the promotion and safeguarding of competition in the Namibian economy", through the Namibia Competition Commission (NaCC). This piece of legislation has jurisdiction over all areas of the economy, except collective bargaining activities or agreements negotiated and/or concluded in terms of the Labour Act of 1992, "concerted conduct designed to achieve a non-commercial socio-economic objective or goods", or services specifically declared by the state as being exempt from the act. This implies that competition authorities have jurisdiction over foreign direct investment (FDI) via merger and acquisition (M&A) control. The NaCC will actively review any M&A proposals "and approving only those which are not likely to be detrimental to competition in the specific markets". In this regard, the NaCC was involved in the takeover of South African retailer Massmart by the Arkansas-based Wal-Mart during 2011, due to the former having three stores in Namibia. The commission approved the merger contingent on three conditions: no job losses over the next two years; existing labour agreements will be honoured; and cooperation with the government on domestic supplier development. In a different case, the NaCC also imposed strict conditions in the merger of Telecom Namibia and Powercom (which operates as the mobile operator Leo).

**Investor-friendly features:**

- Political stability;
- Positive business environment in a regional and African context;
- Low levels of crime and corruption;
- On-going reforms to state-owned enterprises;
- Located near the large economies of South Africa, Angola and landlocked Botswana;
- Continued expansion of the financial sector and financial markets;
- History of strong economic growth;
- Positive medium- to long-term outlook for the mining sector; and
- A literate and bilingual labour force.

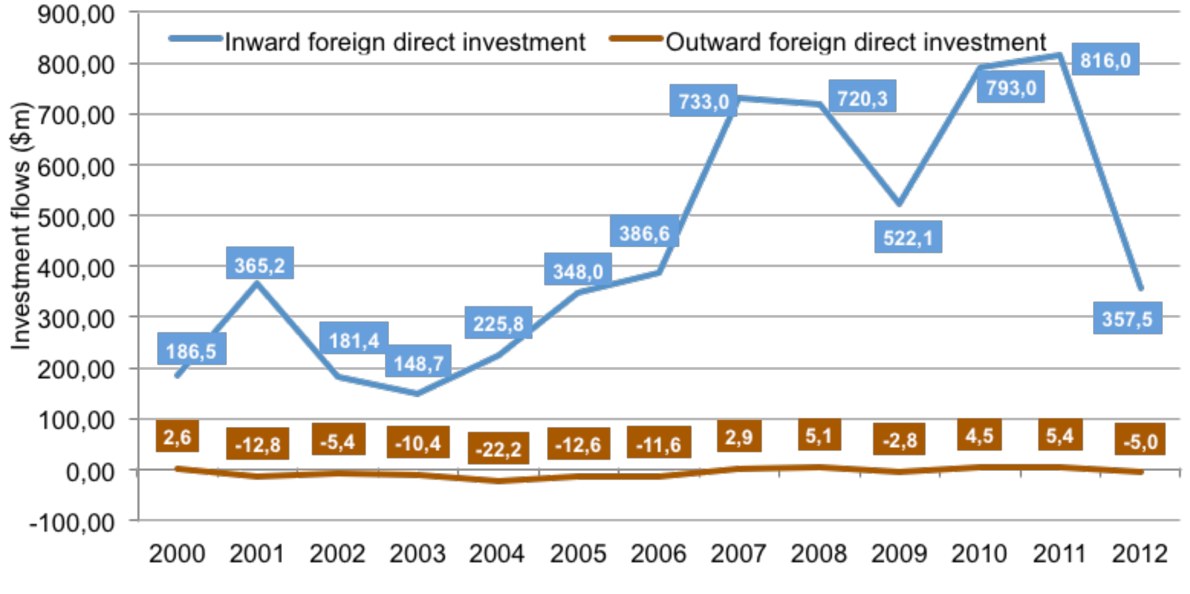
**Investment disincentives:**

- Small domestic market;
- Harsh climate and vulnerability to climate change;
- Long distances between towns and cities;
- High HIV/AIDS prevalence rate affecting labour productivity;
- Shortage of skilled labour alongside high unemployment rate;
- Challenges to supply of public utilities; and
- Land reform programmes weighing on commercial agriculture potential.

Although Namibia performs well in relation to attracting FDI, especially when compared to some of its African peers, the mining sector continues to account for the vast majority of FDI inflows. During September 2013, Minister of Trade and Industry Calle Schlettwein said that, while Namibia's investment climate was considered reasonable, it still needed to improve. The minister also specifically referred to attracting investment to a more diverse range of sectors, especially towards the development of the manufacturing and agro-processing sectors. Attracting foreign investment to these sectors was part of the Namibian government's broader "Growth-at-Home" industrial development strategy, aimed at ensuring more value is added to products within the Namibian borders, and as such creating additional employment opportunities. To this end, Namibian Prime Minister, Hage Geingob, recently led a delegation consisting of representatives from the agro-processing, health, manufacturing, automotive, textile, chemicals, fisheries and logistics industries to China for talks to promote bilateral trade between the two countries. The prime minister stated: *"I think we are going to have very interesting discussions, dealing with the economy, our future cooperation in the economy and for China to help us develop this country."*

**Figure 1: Trend for inward and outward foreign direct investment in Namibia, 2000–12**

Inward and outward foreign direct investment in Namibia, 2000-12




Source: World Investment Report, 2013, United Nations Conference on Trade and Development

However, the small size of the Namibian domestic economy will continue to impede development in the manufacturing and related sectors, seeing as it is simply more cost-effective to import goods from South Africa, while the agricultural sector was recently plagued by a severe drought, and as such won't be seen as a particularly promising prospect from an investment point of view, at least over the short term. We believe the mining industry will continue to be the main FDI draw card in the medium term. The recovery of the global economy, albeit at a slow rate, and the associated impact thereof on demand for Namibian mineral exports bodes well for future FDI inflows into the mining sector. According to the United Nations Conference on Trade and Development (UNCTAD), net FDI amounted to roughly $0.35bn in 2012. The IMF, in its 2013 Article IV Consultation report, estimates that net FDI was slightly higher and equalled approximately $0.39bn in 2012. Even though no official figures have been released, the Fund expects net FDI accelerated to $1.02bn during 2013, and forecasts this figure will increase further to $1.15bn in 2014

# Key commodities – Production and reserves[32,33]

Namibia is the fourth-largest exporter of non-fuel minerals in Africa, with this category contributing around half of all exports over the past decade. Namibia's mining industry produces diamonds, uranium, copper, magnesium, zinc, silver, gold, lead, semi-precious stones and industrial minerals.

## Diamond Production

Diamond excavation is located in and around the Orange River, which poses some limitations on the sector's development. In a tussle that has continued for decades, the governments of Namibia and South Africa remain divided over the exact geographic border between them – whether on the northern bank of the river or along the middle of the water channel.

Namibia is amongst the world's top 10 diamond producers, with the Diamond Act of 1999 regulating the handling, transportation and refining of diamonds. The central bank estimated that diamond mining production increased by 5.7% to 1.7 million carats in 2013, driven by increased activities in onshore and offshore mining that resulted from the re-opening of an old mine and the acquisition of an offshore mining vessel. Furthermore, the BoN highlighted that favourable labour relations and the absence of any significant technical difficulties contributed to the increase in diamond output during 2013.

Diamond prices rose steadily after the drop in demand in the wake of the global financial crisis, before falling sharply again in mid-2011 due to a lack of demand in Europe, corresponding with economic woes there at the time. The most influential drivers in the diamond markets have historically been the US and Europe, with India and China becoming increasingly important. While economic growth in Europe has remained lacklustre at best, it is forecast to revive in the medium term, with demand for diamonds to increase alongside. De Beers projects global diamond demand to expand by between 4% and 4.5% in 2014, with the US market showing strong growth.

**Figure 2: Diamond production in Namibia, 2007–13E**

Diamond production in Namibia, 2007–13E


Sources: USGS, Bank of Namibia

[32] "Namibia Minerals Yearbook: 2011", 2012, USGS.
[33] "2013 Annual Report", 2014, Bank of Namibia.

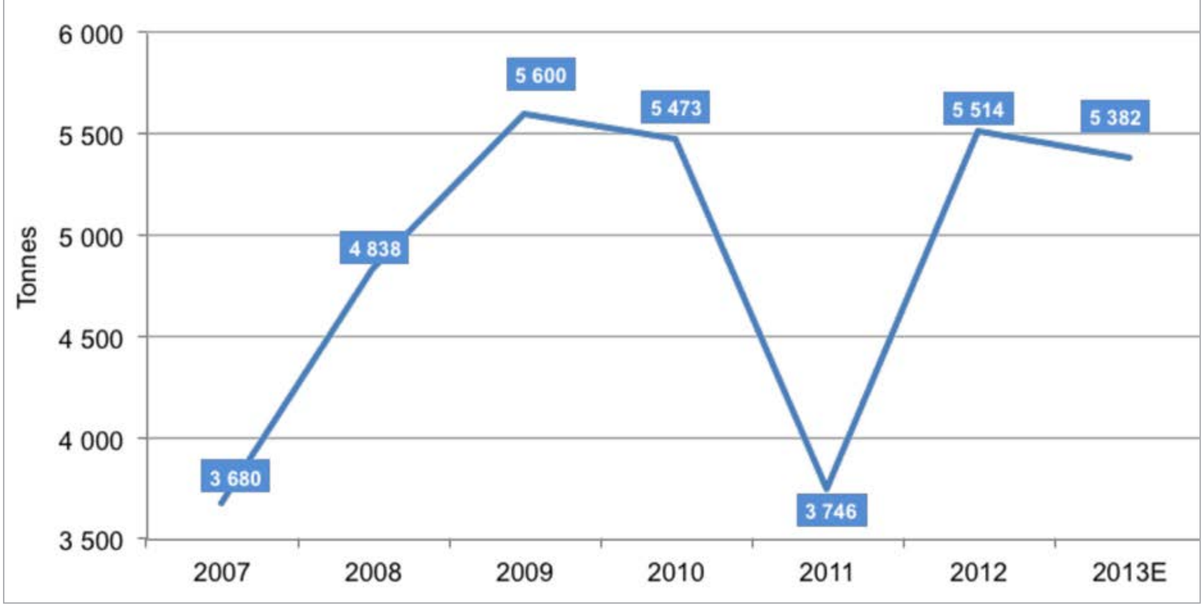
## Uranium Production

The mid-western regions of Namibia have a large number of uranium deposits and prospects, with many of these first discovered in the 1960s – and have been made economically viable to mine on the back of higher uranium prices. In the recent past, the country's uranium output has been largely sold to power utilities in Central Europe, North America and South-East Asia. The World Nuclear Association believes Namibia's mines are capable of providing at least 10% of global supply from its proven 5% of global recoverable resources, and believes that authorities remain committed to expanding the sector.

Uranium mining is one of the most important sectors in Namibia from a foreign investment and export revenue perspective. However, the capital intensive industry creates few jobs and offers little direct benefit to the country other than financial inflows. The global economic slowdown of 2008-09 pressured uranium prices to a point where investment in new or expanding activities became unprofitable. In addition, Japan's tsunami and nuclear crisis during March 2011 soured global sentiment towards nuclear power plants, with several European countries halting further expansion and announcing a gradual shutdown of these operations over the coming decades. This pushed the uranium price to below $40/lb. According to the BoN, the average uranium price declined from $49/lb in 2012 to $38.9/lb last year. Namibia's uranium production declined by 2.4% to 5,382 tonnes in 2013, mainly due to operational challenges and limited water supply at the mines due to a drought at the time.

**Figure 3: Uranium production in Namibia, 2007–13E**

Uranium production in Namibia, 2007–13E




Sources: USGS, Bank of Namibia

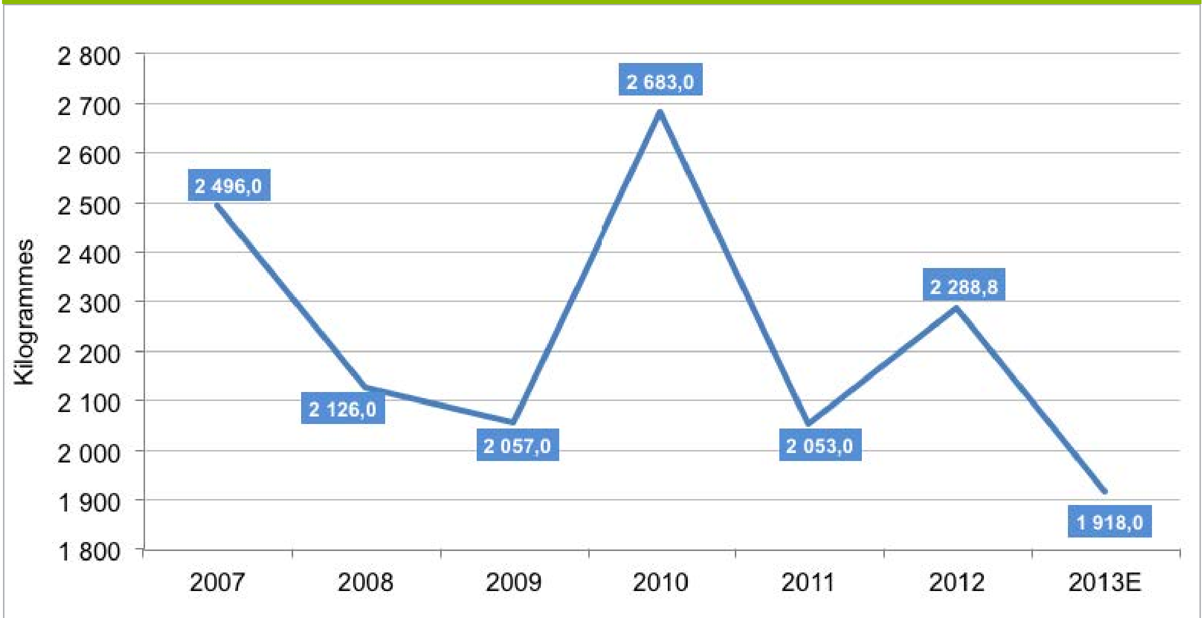
## Gold Production

According to the USGS, the Navachab mine was the only industrial gold operation in Namibia in 2011. The mine is located near the town of Karibib, roughly 170 km northwest of the capital city of Windhoek and was owned and operated by AngloGold Namibia, a wholly owned subsidiary of Anglogold Ashanti. The USGS estimates that production at the Navachab mine decreased to 2,053 kg in 2011, down from 2,683 kg produced in 2010.

On February 10, Anglogold Ashanti announced that it had signed an agreement to sell its entire interest in its Namibian subsidiary to the QKR Corporation from the United Kingdom. According to Anglogold Ashanti, the agreement provided "for an upfront consideration based on an enterprise value of $110m which would be adjusted to take into account the company's net debt and working capital position on the closing date of the transaction." However, the agreement was subject to a number of conditions, including approval from third party regulatory institutions. Whether the transaction was actually completed remains uncertain. On 30 May 2014, allAfrica reported that traditional leaders from the area met with the MME to reiterate their call that the Navachab mine does not fall entirely into foreign hands. The media report also noted that a bid was received from the South African firm, Giyani Gold Corporation.

**Figure 4: Gold production in Namibia, 2007–13E**

Gold production in Namibia, 2007–13E




Sources: USGS, Bank of Namibia

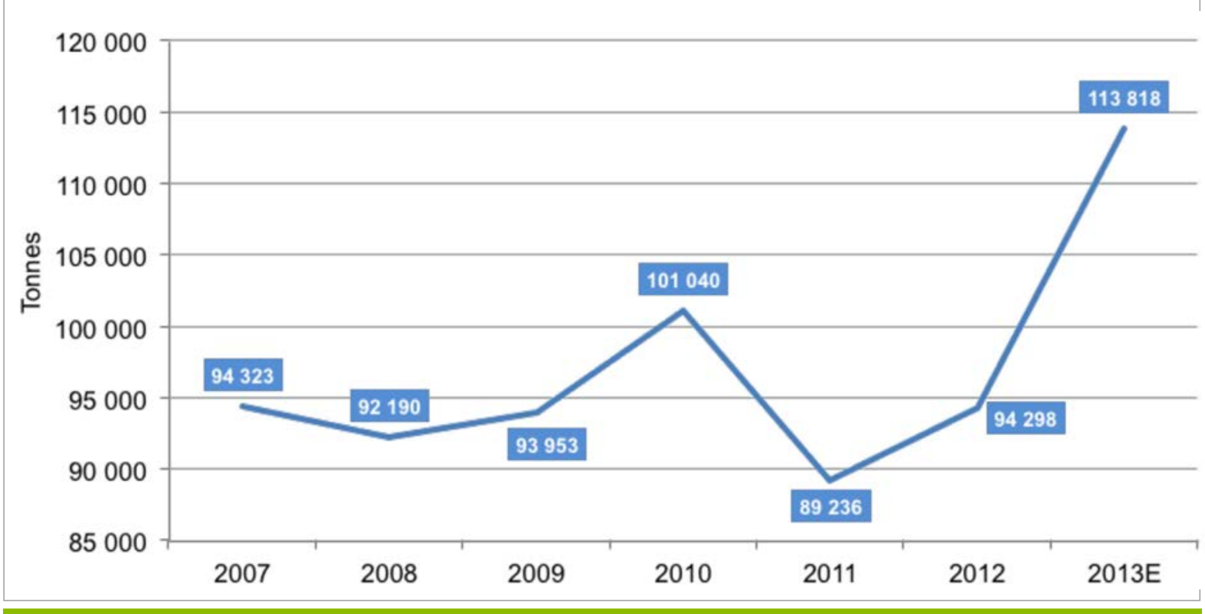
In other developments, the Canadian domiciled B2Gold Corporation is set to start producing gold from the Otjikoto mine by the end of 2014. According to the BoN, gold output declined to 1,918 kg in 2013, down from 2,289 kg produced during the previous year. The decline in output was partly attributed to the mining of lower grade ores.

## Zinc Production

China-Africa Resources was founded in 2011 through a joint venture between Weatherly International and the East China Minerals Exploration and Development Bureau (ECE), with the purpose of carrying out a feasibility study to evaluate the possibility of restarting the long-closed Berg Aukas zinc mine. The feasibility study was supposed to be completed by the end of 2013; however, statements regarding the findings have not been forthcoming, but might be explored during the company's Annual General Meeting (AGM) for 2014. Furthermore, according to the USGS, Glencore entered into an agreement with Exxaro Base Metals to acquire the latter's 50.04% ownership share in the Rosh Pinah underground zinc mine during 2011. At the time, the remaining lifespan of the mine was estimated in the region of eight years. The BoN notes that the mine experienced various operational challenges during 2011 and 2012, but that these issues were resolved with the change in ownership structure. The central bank estimates that zinc production increased to 113,818 tonnes in 2013, up 20.7% compared to the level produced in 2012. However, on 3 June 2014, Reuters reported that Glencore planned to cut 124 jobs at the Rosh Pinah mine in an attempt to bring down costs.

**Figure 5: Zinc production in Namibia, 2007–13E**

Zinc production in Namibia, 2007–13E




Sources: USGS, Bank of Namibia

## Copper Production

Namibia was ranked 35th on a global list of copper ore producers by tonnage of output during 2008; however, copper output has declined significantly since then. Nonetheless, the country is still important from a refined copper perspective as local and foreign ore (imported from Zambia, South Africa, Zimbabwe, Chile, Peru and Bulgaria) are processed at the Tsumeb smelter. Canadian-based Dundee Precious Metals took over the smelting installation in July 2010, and stated at the time that it is committed to its operation for at least 20 years. The installation has a smelting capacity of 185,000 tonnes of high arsenic copper concentrate per annum, which Dundee is planning to expand to 240,000 tonnes p.a. in the near future.

# Mining prospects in Namibia

## Diamonds

The BoN noted in 2011 that onshore diamond mining is likely to end by 2014, as resources become depleted. However, seeing as Namibia has the richest marine diamond deposits in the world – 97% of waterborne output being of gem quality – an expansion in offshore diamond mining represents a significant opportunity going forward. Namibian diamonds were originally transported via the Orange River into the Atlantic Ocean and distributed northwards by long-shore currents. As onshore diamond reserves are depleted, production will predominantly stem from offshore operations.

According to the MME, besides several small scale Black Economic Empowerment (BEE) companies, there are currently three main players mining diamonds off the coast of Namibia. These include De Beers Marine, Sakawe Mining and Diamond Fields International. During May 2014, De Beers noted that an anticipated breakthrough in offshore diamond technology will enable the company to tap into an estimated 80 million carats of marine diamonds believed to be deposited in the shallow waters of the Atlantic sea bed. De Beers country manager, Daniel Kali, noted: "Mining in the mid-waters is premised on making a breakthrough in technology to exploit those deposits. Some interesting work has been done but we haven't reached a level where the researchers can say they are satisfied."

## Uranium

Namibia's annual uranium output should increase over the medium term as operations at the new Husab uranium mine is gradually ramped up. On 9 May 2014, The Namibian reported that mining operations had commenced at the Husab uranium mine. Construction of the mine was ahead of schedule and expected to be completed by the end of 2015. Nonetheless, the mine is still expected to reach capacity output only by 2017. Yet, production will increase gradually until then. However, at the time of this publication, there were still no signs of a recovery in the price of uranium. Although Japan recently approved and adopted a new energy strategy allowing for the use of nuclear power, the number and timing of Japanese reactor re-starts remain uncertain. Regardless, with global uranium stockpiles being relatively high, the price of yellow cake might remain low for longer than originally anticipated.

# Major mining companies in Namibia[34]

Namibia's mining industry is highly concentrated by commodity type, as a small number of large mining firms account for the vast majority of output. According to the USGS, AngloGold Ashanti is the main company involved in gold mining in Namibia, although this is set to change as the company decided to sell its stake in the Navachab mine. The diamond mining industry is dominated by Namdeb – a joint venture between the government and the De Beers conglomerate – which produces upwards of 95% of the local diamond output. The company is also the largest taxpayer and second-largest employer in the country. Other companies playing a smaller role in the industry include Sakawe Mining Corporation and Diaz Exploration.

The uranium mining industry is dominated by two mines: the Rössing mine (majority owned by the Rio Tinto Group) has been operational since 1976 and is the world's third largest uranium mine by output, while the Langer Heinrich operation (fully owned by Paladin Energy Ltd) commenced output in 2006. In May 2013 ground was broken on a third mine, the $2.5bn Husab project is the world's third-largest uranium-only deposit and has the potential to produce around 6,820 tonnes per year, more than Namibia's entire current uranium output. The Husab mine should take roughly three years to complete, and is expected to be at full capacity by 2017.

**Key domestic players**

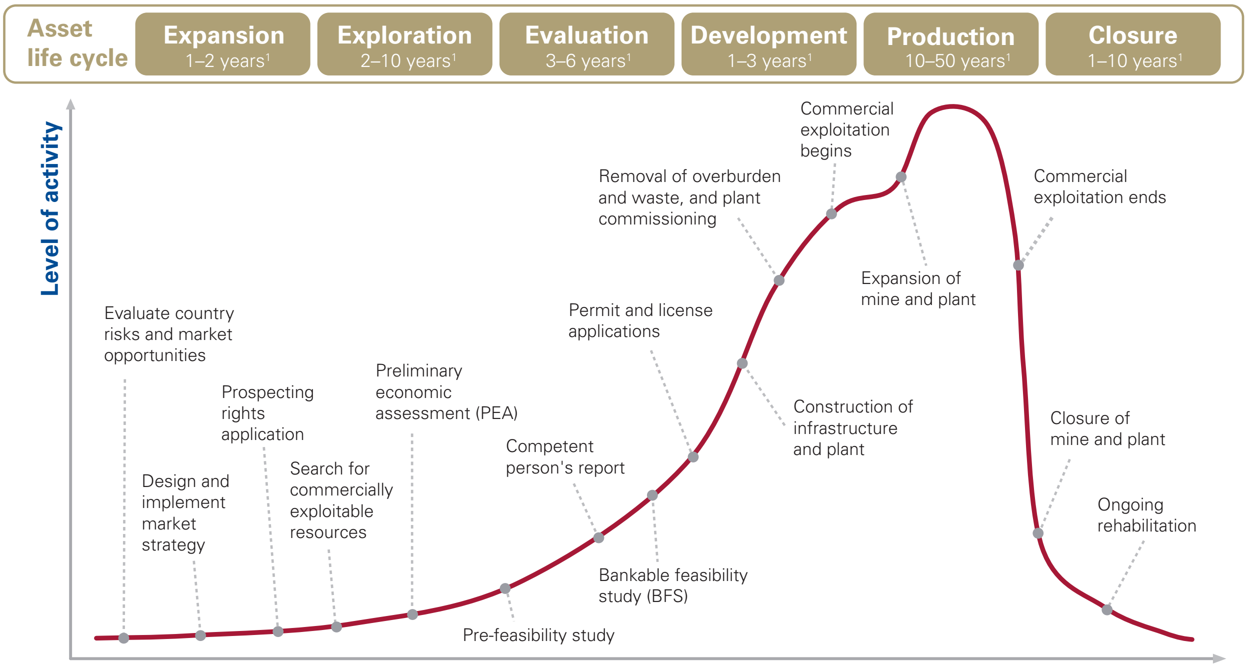
- Diaz Exploration (Pty) Ltd
- Epangelo Mining Company (Pty) Ltd
- Namdeb Diamond Corporation (Pty) Ltd – [Government 50%; De Beers 50%]
- Namibia Mineral Development Company

[34] The USGS Minerals Yearbook for Namibia was used to identify the mining companies operating in Namibia. Where applicable, the information was updated by information attained via news reports. The domestic companies list includes companies whose country of ultimate parent and geographic location is Namibia. The foreign companies list includes companies whose geographic location is Namibia but the country of ultimate parent was not from Namibia.

**Foreign companies with operations in Namibia**

- AngloGold Namibia (Pty) Ltd – [AngloGold Ashanti]
- B2Gold Corporation
- De Beers Marine Namibia – [Namdeb 30%; De Beers 70%]
- Diamond Fields International
- East China Minerals Exploration and Development Bureau
- Joint venture of Diamond Fields (Pty) Ltd – [Diamond Fields International Ltd 100%]
- Langer Heinrich Uranium (Pty) Ltd – [Paladin Energy Ltd 100%]
- Namibia Custom Smelters (Pty) Ltd – [Dundee Precious Metals Inc 100%]
- Ohorongo Cement (Pty) Ltd – [Majority ownership: Schwenk Zement KG]
- Okorusu Fluorspar (Pty) Ltd – [Solvay S.A.]
- Rosh Pinah Zinc Corporation (Pty) Ltd – [Glencore 80.08%]
- Rössing Uranium Ltd – [Rio Tinto Group 69%; Government of Iran 15%; IDC SA 10%; Government 3%; other 3%]
- Sakawe Mining Corporation – [Leviev Group of Companies]
- Skorpion Mining Company (Pty) Ltd – [Vedanta Zinc International 100%]
- Swakop Uranium (Pty) Ltd – [China General Nuclear Power Company (CGNPC)]
- Weatherly Mining Namibia Ltd – [Weatherly International Plc 100%]

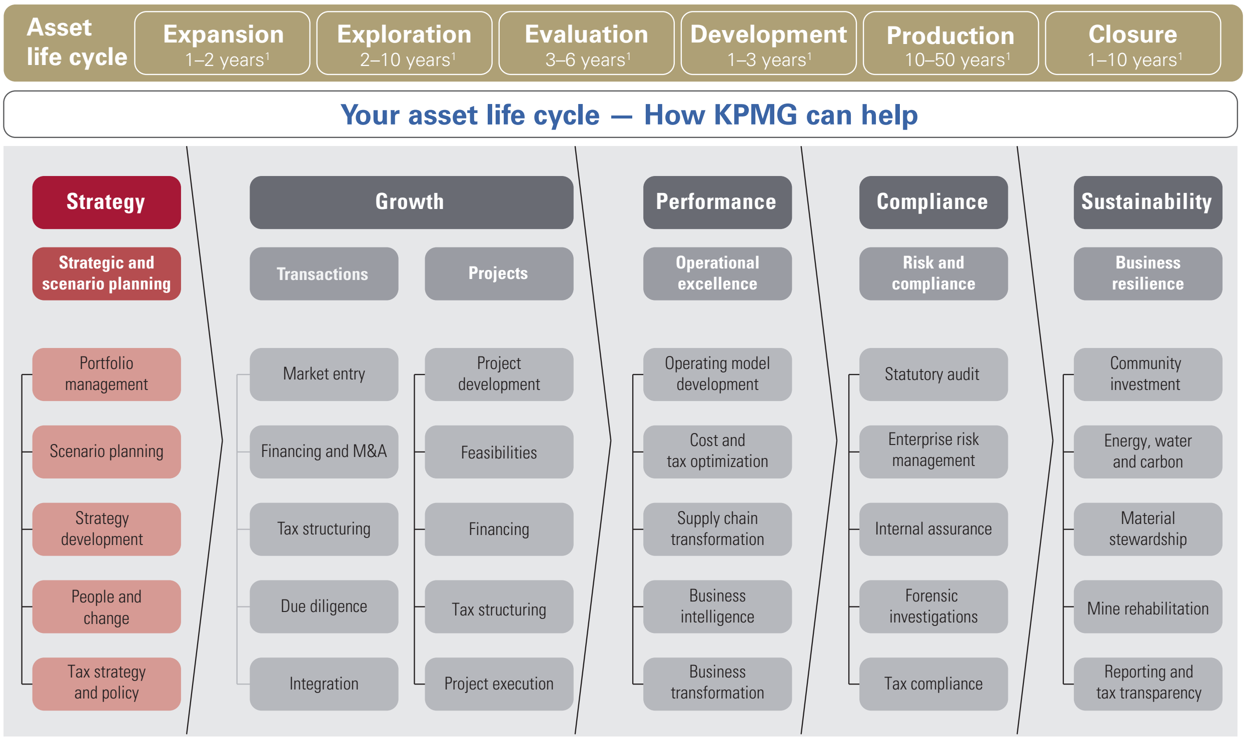
# Mining asset life cycle




Source: KPMG International 2012

Note: (1) Estimated duration of stage in the mining asset life cycle

# KPMG's mining strategy service offerings




Source: KPMG International 2012
Note: (1) Estimated duration of stage in the mining asset life cycle

# KPMG's Global Mining practice

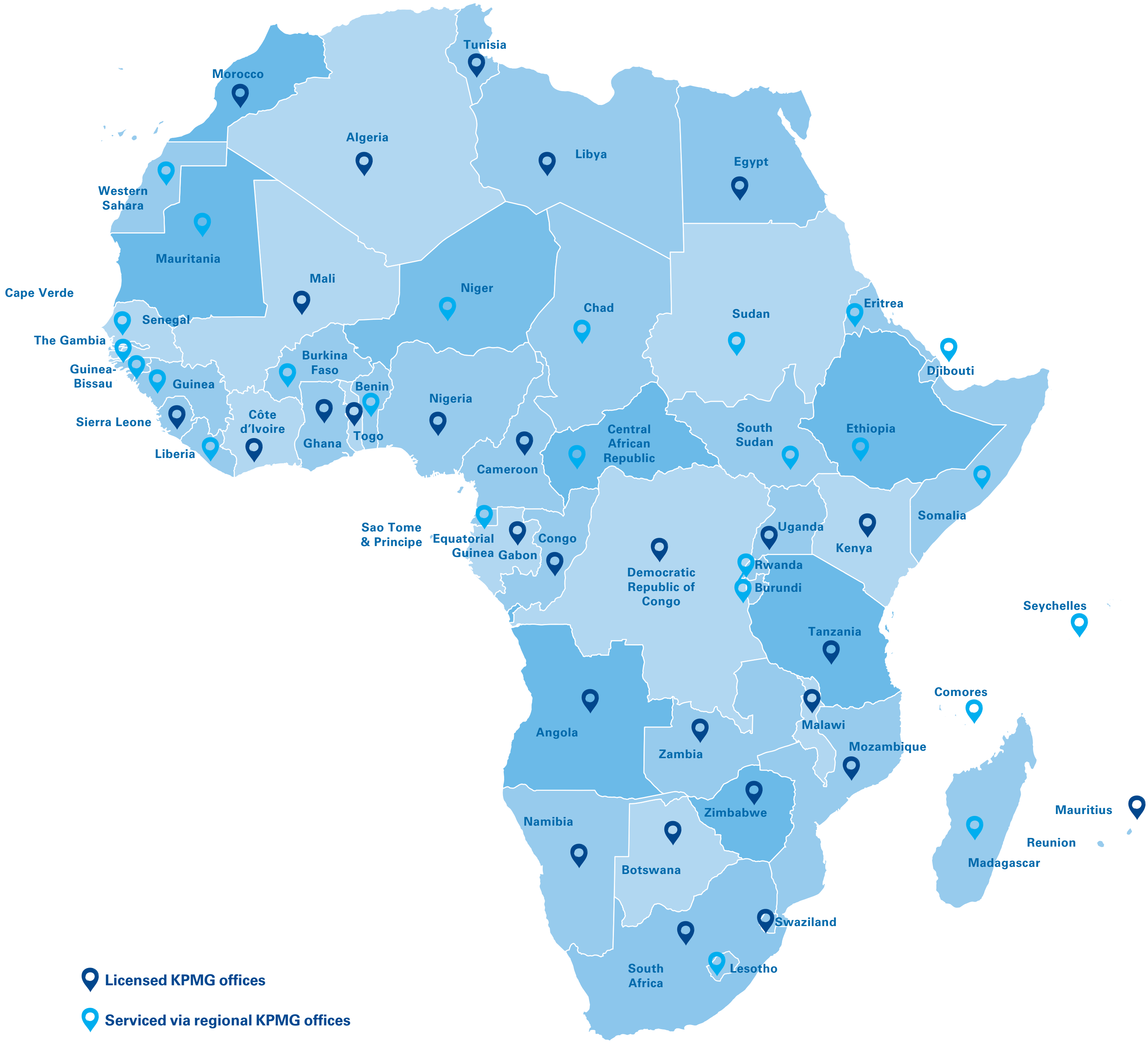
KPMG member firms' mining clients operate in many countries and have a diverse range of needs. In each of these countries, we have local practices that understand the mining industry's challenges, regulatory requirements and preferred practices.

It is this local knowledge, supported and co-ordinated through KPMG's regional mining centers, that helps ensure our mining clients consistently receive high-quality services and advice tailored to their specific challenges, conditions, regulations and markets. We offer global connectivity through our 14 dedicated mining centers in key locations around the world, working together as one global network. They are a direct response to the rapidly evolving mining sector and the resultant challenges that industry players face.

Located in or near areas that traditionally have high levels of mining activity, we have centers in Melbourne, Brisbane, Perth, Rio de Janeiro, Santiago, Singapore,Toronto, Vancouver, Beijing, Moscow, Johannesburg, London, Denver and Mumbai. These centers support mining companies around the world, helping them to anticipate and meet their business challenges.

For more information, visit kpmg.com/mining

# KPMG's footprint in Africa

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