

## AFRICA RISK CONSULTING

### Country briefing – Namibia

27 October 2014

#### 1 Summary

*SWAPO presidential candidate Hage Geingob remains on course for a resounding victory in the 28 November presidential election while SWAPO is on track also to easily retain its current two-thirds majority in the enlarged National Assembly in the simultaneous legislative election. None of the main opposition parties has articulated a distinctive alternative. The main issue could yet turn out to be the conduct of the poll by the Electoral Commission of Namibia (ECN), which will use electronic voting machines (EVMs) to record the vote for the first time. Any major problems could result in another legal challenge to the election results. The Bank of Namibia (BoN) has kept its benchmark interest rate at 6% to underpin economic growth, although it remains concerned about soaring domestic lending to individuals. This has fed through to higher imports, resulting in a substantial increase in the foreign trade deficit and a doubling of the current account deficit in the first half of 2014 compared to a year earlier.*

#### 1.1 Geingob remains the hot favourite

Ruling South West Africa People's Organisation (SWAPO) candidate **Hage Geingob** appears to be cruising to victory on 28 November. So far, no opposition party has come up with a compelling alternative policy agenda. Geingob will face a more limited field in the presidential election than outgoing head of state **Hifikepunye Pohamba** (2005-present) did in 2009. Pohamba faced 11 opposition party candidates (all but four of whom polled under 10,000 votes each). Declared candidates so far are:

- **Rally for Democracy and Progress (RDP)** leader **Hidipo Hamutenya**
- **DTA of Namibia** leader **McHenry Venaani**
- **Congress of Democrats (CoD)** leader **Ben Ulenga**, and
- **All People's Party (APP)** leader **Ignatius Sixwameni**.

**United Democratic Front (UDF)** leader **Justus Garoëb** has decided not to challenge Geingob, a fellow ethnic **Damara**, while **Republican Party (RP)** leader **Henk Mudge** is also supporting Geingob.

As in 2009, Hamutenya is likely to come a distant second in the presidential poll, with the other candidates – with the possible exception of Venaani – nowhere. At SWAPO election rallies, Geingob has built his case on national unity grounds, with little reference to specific policies. He told an 18 October rally in the eastern town of **Gobabi** that building a nation is not an overnight job but a process that takes some time, and SWAPO is the only party that could lead Namibia “*towards achieving victory in the second phase of the struggle for economic independence*”.<sup>1</sup> In the absence of substantive policy debates – even the controversial constitutional amendment law which was officially gazetted on 13 October has failed to gain traction with voters as an issue – most parties have resorted to exaggerated claims as to how well they would perform in government. SWAPO secretary general **Nangolo Mbumba** said his party aims to win all 96 seats in the enlarged NA.<sup>2</sup>

There is little to separate the main parties in terms of economic policy, as most – with the exception of the avowedly Marxist **Workers’ Revolutionary Party (WRP)** and the newly-formed **Namibia Economic Freedom Fighters (NEFF)** – support continued foreign direct investment (FDI) into the economy. Support for radical parties remains low, despite unemployment remaining high (21%), with a widening gap between the poor majority and the wealthier minority. The WRP is tiny and was unrepresented in the outgoing NA; it is highly unlikely to win a seat this time round, and NEFF also will almost certainly gain insufficient votes to return an MP. The latter takes its cue from the **Economic Freedom Fighters (EFF)** party formed in **South Africa** in 2013 by **Julius Malema**, former president of the **African National Congress Youth League**.

The land issue is where some significant policy differences have emerged and alternative solutions are being propounded.<sup>3</sup> SWAPO says it will continue to redistribute land according to the existing ‘willing buyer-willing seller’ policy, with the aim of acquiring 2.5 million hectares by 2020, while consolidating the commercial and communal land reform acts into one land law. The DTA, which is generally right-of-centre, has an urban thrust to its land policy and wants to see solutions to the present housing crisis, which has put homes beyond the reach of most Namibians. It would introduce urban resettlement programmes to give people free serviced plots, “*because with the status quo not a single poor person will ever afford land in the urban areas,*” according to Venaani.<sup>4</sup>

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<sup>1</sup> New Era, 20 Oct 2014.

<sup>2</sup> New Era, 21 Oct 2014.

<sup>3</sup> New Era, 23 Oct 2014.

<sup>4</sup> New Era, 21 Oct 2014.

## 1.2 The use of EVMs becomes a major election issue

There is widespread concern among opposition parties and some election watch groups at potential disruption to the elections due to the first time introduction of **electronic voting machines (EVMs)**. In addition, polling will take place on one day only, compared to being spread over two days previously, which could result in some rural voters from remoter areas being unable to get to the polling stations on time. Although the **Electoral Bill** to reconstitute the **Electoral Commission of Namibia (ECN)** as an independent body along with the **Third Constitutional Amendment Bill** has now been enacted, there is arguably insufficient time to make all the necessary administrative changes before the elections. The **Supreme Court** criticised the ECN for its sloppy conduct of the 2009 **National Assembly (NA)** election when it finally (in 2012) rejected a protracted legal challenge to the official results by nine opposition parties on the grounds of insufficient evidence of polling irregularities (a ruling the parties reluctantly accepted). Now it would appear that the ECN has learned little from this: its decision to introduce EVMs almost guarantees another disputed election even before the polls have opened. There has been no national information campaign to advise voters how to use the new machines, which **India**-based **Bharat Electronics** have supplied at a cost of N\$61 million (US\$6 million).

In a belated attempt to reassure the parties and voters, the ECN announced at the end of October election officials would hold a 'mock election' on November 28 at 6am, one hour before the start of actual voting at 7am. At a 22 October **Election Watch Namibia** meeting, ECN director **Paul Isaaks** said the results would be removed from the machines before real voting begins.<sup>5</sup> He maintained this was the only way of assuring all parties that EVMs are not prone to tampering and manipulation, noting that they had been successfully used in three recent local authority by-elections. During late October Bharat engineers were in Namibia to complete a 'first level check' to ensure the machines were fully operative. This included ensuring the machines' batteries were fully charged. This has done little to assuage opposition parties' fears that the EVMs will compromise the probity of the elections.

A key unresolved issue is the lack of a verifiable, printed out 'paper trail' confirming that the machines tally accurately how many votes each party receives. Concerns intensified following a ruling by India's Supreme Court earlier this year that "*the paper trail is an indispensable requirement of free and fair elections*".<sup>6</sup> Isaaks argued the ECN could not be blamed for the lack of a paper trail because the EVMs were procured before the Indian court had ruled. This has not persuaded activists who say that the new electoral law specifically made provision for EVM print outs. Opposition discontent over using EVMs without a paper trail erupted at a 21 October ECN stakeholder meeting in **Windhoek** when

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<sup>5</sup> The Namibian, 24 Oct 2014.

<sup>6</sup> The Namibian, 24 Oct 2014

WRP members, including party leader **Hawat Beukes**, denounced election officials as “crooks”. He accused ECN officials of not doing enough to ease the public's concerns.<sup>7</sup> DTA vice president **Vipuakuje Muharukua** also questioned the ECN's need to rush the use of the EVMs when there was so much controversy and uncertainty surrounding them, labelling the ECN's activities as “fishy”. He suggested that the ECN revert to the traditional voting method (ballot papers) while it straightens out the EVM issue.<sup>8</sup>

### 1.3 Interest rates held as trade deficit widens

In a boost to the domestic economy, the **Bank of Namibia (BoN)** kept its repurchase (repo) rate unchanged on 6% at its 21 October **Monetary Policy Committee (MPC)** meeting. In its monetary policy statement of 22 October, the BoN said it had decided “to support domestic activities” while monitoring the impact of its two repo rate increases of a combined 50 basis points earlier this year from June’s 5.5% level. The principal aim of the increase to 6% had been to rein in the strong growth in household credit which, according to the BoN, is largely financing “unproductive imported luxury goods” and placing additional pressure on the country’s foreign reserves. These decreased substantially this year, from N\$18.6 billion (US\$1.7 billion) in January to N\$13.7 billion (US\$1.3 billion) in August. The BoN is clearly wary of choking off economic growth by another increase in the repo rate, although it said the growth in unproductive imports and decline in international reserves “remains a concern”.<sup>9</sup> This suggests that it may yet decide on another rate increase at the final MPC committee meeting of 2014 on 10 December.

Domestic economic performance improved during the first eight months of 2014, driven mainly by higher output growth in the diamond sector, construction, manufacturing, and wholesale and retail trade, offsetting lower agriculture, uranium and refined zinc output. For the rest of 2014, the BoN expects growth to remain strong compared to 2013, supported by construction activities and domestic demand, although it noted that low global commodity prices (excepting diamonds) “could impact negatively on export earnings, mining profits and employment”.<sup>10</sup>

Overall private sector credit extension continued to expand strongly during January-August 2014, at an average annual rate of 15.5%, up from 14.2% in the same period of last year. Credit growth to both individuals and the business sector remained high. According to Windhoek stockbrokers **IJG Securities**, overall credit extension grew by 16.3% in August, taking total credit outstanding to N\$64.9 billion (US\$6.1 billion). It noted this meant a total of N\$9.7 billion (US\$0.9 billion) had been

<sup>7</sup> The Namibian, 23 Oct 2014.

<sup>8</sup> The Namibian, 23 Oct 2014.

<sup>9</sup> Bank of Namibia, Monetary Policy Statement, 22 Oct 2014.

<sup>10</sup> Bank of Namibia, Monetary Policy Statement, 22 Oct 2014.

extended over the past year, of which N\$5.6 billion (US\$0.5 billion) had been taken up by individuals, *“the highest level of net issuance seen over a 12 month period in the history of the country”*.<sup>11</sup> Credit extension to businesses grew by a record 19.7% in August, up from 17.2% in July; this is a positive trend in that it shows firms are continuing to invest, but will have exacerbated the BoN’s concern that the economy may be overheating.

The BoN’s latest quarterly bulletin shows that the merchandise trade deficit widened to N\$12.4 billion (US\$1.2 billion) in the first six months of 2014 from N\$8.9 billion (US\$1 billion) in the first half of 2013.<sup>12</sup> Imports surged to N\$36.6 billion (US\$3.4 billion), from N\$28.4 billion (US\$3.1 billion) previously. Exports also grew, but more slowly, to N\$24.2 billion (US\$2.3 billion), up from N\$19.5 billion (US\$2.1 billion) previously. Diamond exports rose strongly in local currency terms, by 24% to N\$6.8 billion, from N\$5.5 billion, although on the back of a depreciated Namibian dollar. In **United States (US)** dollar terms (in which diamond sales are priced), exports grew by only 7% to US\$0.6 billion. But this was sufficient to more than offset a reduction in uranium exports (also priced in US dollars) from US\$0.3 billion to US\$0.2 billion, reflecting weaker prices and lower output. The higher foreign trade deficit was the main cause of a widening in the current account deficit, which more than doubled to N\$4.9 billion (US\$0.5 billion) from N\$2.0 billion (US\$0.2 billion) a year earlier.

#### 1.4 Crucial diamond marketing negotiations underway

Namibia is pushing for a higher proportion of rough diamonds produced by the country’s sole producer **Namdeb Diamond Corp. (Namdeb)**, owned 50:50 by the government and **De Beers**, to be processed by local cutting and polishing firms. The current seven-year marketing agreement with De Beers, now owned 85% by **London-listed Anglo American Corp.**, expires in January 2015, providing Namibia with an opportunity to negotiate better terms – both for more stones to be sold locally and some to be potentially marketed internationally by a new state-owned Namibian company – as a condition for the country continuing to sell the majority of its output via De Beers’ **Diamond Trading Company (DTC)**. DTC relocated its global marketing and sales operations from its headquarters in London to the **Diamond Trading Company Botswana (DTCB)** in **Gaborone** during 2013, reflecting Botswana’s position as the biggest global producer of rough diamonds by value. Namibian diamond exports are currently shipped to Gaborone for final assortment and sale to De Beers’ global ‘sightholders’ (clients), rather than to London. Diamond commissioner **Kennedy Hamutenya** heads Namibia’s cabinet-appointed negotiating team while mines and energy ministry permanent secretary **Kahijoro Kahuure** chairs discussions. Other negotiators include government lawyer **Chris Nghaamwa**, BoN senior economist **Lelly Usiku**, government diamond valuator **Special Eiseb**, mining

<sup>11</sup> IJG Securities, PSCE August 2014, 6 Oct 2014.

<sup>12</sup> Bank of Namibia, Quarterly Economic Bulletin Sep 2014.

commissioner **Erasmus Shivolo** and **Diamond Board** secretary **Martha Haukongo**. In a mid-October interview Hamutenya declined to set out the negotiating team's terms of reference:

*"There is much at stake for Namibia and therefore we cannot just rush to reach an agreement for the sake of it without applying our minds."*<sup>13</sup>

Namibia expects to negotiate a 'win-win' diamond deal within the next two months. Hamutenya maintains that even though De Beers has moved its diamond hub from London to Gaborone, *"it is business as usual. The diamond cartel continues to run the show, even in Botswana"*.<sup>14</sup> Namibia is trying to maximise benefits from diamonds but to do that, the country needs to create a viable and sustainable industry:

*"We are not necessarily trying to duplicate what is happening in Botswana. We can never compete with them on volume, but we have quality."*<sup>15</sup>

According to diamond trade statistics published by the **Kimberley Process Certification Scheme (KPCS)** industry body, while Namibia produces much less than Botswana, its diamonds are of far higher value. In 2013, Botswana's production was worth US\$3.6 billion. Although Namibia's output was only 7% that of Botswana's in volume terms, Namibian output value was US\$1.4 billion. This was because the average value of Namibian diamonds was US\$805 per carat (the highest of any producer), five times greater than Botswana's US\$156 per carat.<sup>16</sup> Hamutenya added:

*"We have to give the Namibian sector more oxygen to compete in a cut-throat environment and this we are able to achieve by looking at Namibia-specific tailor-made solutions."*<sup>17</sup>

Under the current marketing agreement that came into effect at the start of 2008, 10% of Namdeb production by volume is sold to local cutting and polishing firms. Under a three-year sales programme introduced in 2012 the **Namibia Diamond Trading Company (NDTC)**, also owned 50:50 by the government and De Beers, allocated rough diamond supply (on a quota basis) to 13 local cutting firms. All recipient firms have to satisfy strict 'best practice' criteria – based on De Beers' specifications – and show a minimal turnover of US\$10 million to be granted sightholder status with the NDTC. The process has reportedly worked well so far and exports of cut diamonds have recently grown. NDTC chief executive officer **Shihaleni Ndjaba** stated in October that rough diamonds worth N\$14 billion (US\$1.3 billion) had been sold to local sightholders since 2008 with sales of N\$3 billion (US\$0.3 billion) expected this year. The NDTC will announce its new list of sightholders for a further

<sup>13</sup> The Namibian, 17 Oct 2014.

<sup>14</sup> The Namibian, 17 Oct 2014.

<sup>15</sup> The Namibian, 17 Oct 2014.

<sup>16</sup> KPCS, Annual Global Summary: 2013 Production, imports, exports and KPC Counts.

<sup>17</sup> The Namibian, 17 Oct 2014.

three years in March 2015. But some firms have complained their quotas are insufficient and the government wants more rough diamonds to be made available to ensure cutting firms continue to expand on a viable basis and increase local employment. At a briefing meeting with senior diamond industry representatives in October, Geingob said that more local rough diamonds should be supplied to local processing and cutting factories as the present 10% volume supply was not sufficient for Namibia to develop local value-add and create more jobs. At the moment, the 11 operational factories (two of the 13 allocated diamonds in 2012 appear to have closed or ceased trading) employ just over 900 people.<sup>18</sup>

Expanding downstream processing of unprocessed mineral products (including diamonds) is a key component of the government's industrialisation strategy. Implementation is at "a very advanced stage" according to trade and industry minister **Calle Schlettwein**, who is expected to retain his post in a new cabinet announced by Geingob in March 2015. Schlettwein told the annual general meeting of the **Namibia Trade Forum (NTF)** in late October that

*"... a weak productive capacity and poor links between manufacturers and distributors and retailers is one of the striking constraints to growing productive capacity and the consumption of locally manufactured goods."*<sup>19</sup>

A recently published report on mineral 'beneficiation', including diamonds, by the **Stockholm-based Raw Materials Group (RMG)**, part of the global group **SNL Metals & Mining**, appears to have ruffled some government feathers. The report – prepared for Namibia's **Joint Value Addition Committee**, on which the government and the **Chamber of Mines of Namibia (CMN)** are both represented – concluded that Botswana is now an almost insurmountable competitor to Namibia and it would not make economic sense for De Beers to develop another centre within the region: "It is considered to be more cost effective to expand existing facilities in Botswana than to develop new centres."<sup>20</sup> But a source close to the Namibian government negotiating team was reported to have discounted this:

*"They (RMG) are good with base and other minerals but clearly they know little about diamonds, except what they picked up in literature."*<sup>21</sup>

Earlier this year, mines and energy minister **Isak Katali** said Namibia would follow Botswana's example in establishing a government wholly-owned marketing company to sell a proportion of

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<sup>18</sup> The Namibian, 9 Oct 2014.

<sup>19</sup> The Namibian, 21 Oct 2014.

<sup>20</sup> RMG, Beneficiation Possibilities for Namibia's Minerals, Final Draft, 31 July 2014.

<sup>21</sup> The Namibian, 17 Oct 2014.

diamonds globally. Botswana's **Okavango Diamond Company** began selling 13% of the country's diamonds in December 2013, under the country's new ten-year marketing deal with De Beers.

## 2 Implications

Contrary to earlier expectations, the constitutional amendments pushed through by Geingob have died away as a potential election issue. This is probably because with the changes now formally enacted there is little point in continuing to oppose them. The opposition to SWAPO seems bereft of ideas. The RDP's drift has been the biggest surprise to many, especially as its leadership contains skilled former SWAPO politicians who know the political machine in Namibia and how it works. The RDP's president, Hidipo Hamutenya, was once one of the most influential members of the cabinet<sup>22</sup> in successive jobs at information, trade and industry and foreign affairs, but now seems a spent force, possibly due to ill health in recent years.

There is a real danger the use of 'no print-out' EVMs in both the presidential and parliamentary elections could again discredit the ECN's ability to manage a free and fair election. If there are again serious discrepancies, as seems probable, at least one or more of the opposition parties is likely to mount a legal challenge to the results.

With the outcome of the elections not in doubt, it only remains unclear how different a Geingob-led government will be from a Pohamba administration. It will certainly be equally business-friendly, partly because of the number of Geingob's friends and relatives of leading SWAPO politicians who have made money exploiting their political connections. There has been an attempt to label a specific 'Geingobonomics', but little detail has emerged. It seems clear that Geingob's 'big idea' is an industrialisation programme, based on the greater local value-adding of natural resources, although it is still uncertain how far this will succeed in securing private sector investment. Most foreign firms prefer to invest in existing sectors, such as mining, where the risks and rewards are known. While the potential benefits of diversifying the economy are evident (in potential employment and poverty-reduction terms), it is less clear how it can be made sufficiently attractive – ie profitable – in practice to foreign private investors. There will have to be a degree of state involvement to kick-start any such process.

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