

AFRICA RISK CONSULTING**Namibia Monthly Briefing April 2018**

Namibia Summary 27 April 2018

President Hage Geingob (2015- present) scraps the provision for compulsory 25% BEE equity transfers in Namibia's draft National Equitable Economic Empowerment Framework (NEEEF). The Namibia Statistics Agency (NSA) publishes its 2017 preliminary national accounts showing that real GDP contracted by 0.8% last year, double the previously-estimated rate, despite a strong performance by agriculture and mining. The Bank of Namibia (BoN) (central bank) states that the current account deficit decreased substantially in 2017. The BoN holds the repo rate at 6.75% due to foreign reserves decreasing in the first quarter of 2018. NSA figures show year-on-year inflation remained low at 3.5% in March. Australia-based Celsius Resources announces a large cobalt resource for its Opuwo project. Canada-based Desert Lion Energy makes its first lithium concentrate shipment to China.

Geingob terminates 25% BEE equity transfers...

President **Hage Geingob** (2015-present) scrapped the most controversial clause of the draft **National Equitable Economic Empowerment Framework (NEEEF)** in his annual **State of the Nation Address (SONA)** to the **National Assembly** on 11 April.¹ ARC had long anticipated that Geingob would ditch the provision in the NEEEF for compulsory transfer of 25% minimum equity stakes in all **Namibian** firms to black economic empowerment (BEE) entities and individuals (historically disadvantaged Namibians (HDNs)).² The provision would have applied to all Namibian firms, whether local (including black-owned) or foreign. Geingob had already made it clear in his opening statement to a NEEEF cabinet workshop on 28 February that all provisions of the existing law were up for revision or removal in light of stakeholder feedback received during 2016-17.³ Both local and foreign investors had maintained the process would disrupt economic operations: although these transfers were to be paid for, the drafting committee had not proposed clear guidelines for financing the transfers or who was to pay for them.⁴

Geingob was unambiguous in his 11 April national address:

"Let me use this opportunity to put the equity pillar of NEEEF into perspective. The 25% equity stake will not translate into broad-based empowerment and is done away with."⁵

He added that in reaching this decision, the cabinet took cognisance that most Namibians, especially the previously disadvantaged, do not have the resources to invest in empowerment

¹ State of the Nation Address (SONA) by President Hage Geingob, 11 Apr 2018.

² See ARC Briefing Namibia, December 2017, January 2018, March 2018.

³ Statement by President Hage Geingob, at the official opening of the cabinet workshop on the NEEEF, 28 Feb 2018.

⁴ Source, Namibia analyst, London

⁵ President Hage Geingob, SONA, 11 Apr 2018.

transactions, nor are they in a position to obtain access to funding to participate in such transactions:

“Some sectors such as mining are particularly capital-intensive and come with a huge risk during the exploration phase.”⁶

It appears that Geingob has heeded advice from his new mines and energy minister, **Tom Alweendo**. In a policy pronouncement on 15 March, Alweendo said Namibia could only benefit from its mineral endowment by attracting the needed investment capital (see *ARC Briefing Namibia March 2018*).⁷

Geingob also highlighted the positive impact of employee share schemes, which he described as,

“...one of the most effective forms of broad-based empowerment. I encourage such an approach.”⁸

Business representatives in Namibia and abroad welcomed Geingob’s announcement. Local economist **Klaus Schade** commented:

“The move was expected and sends a positive signal to all investors, domestic and foreign direct investors.”⁹

However, Schade cautioned that business would want to see the final revised law,

“... in order to assess the impact on achieving the objectives of reducing inequality and poverty, since there were other concerns, such as the composition of boards and managements.”¹⁰

Namibia Stock Exchange (NSX) chief executive officer **Tiaan Bazuin** noted that since NEEEF consultations had been underway, the ownership stake provision had held some foreign investment back:

“With this statement I believe we can get those investments back on track.”¹¹

Australia-based Bannerman Resources CEO **Brandon Munro** said Geingob’s statement reaffirmed Namibia’s attractiveness as a mining investment destination:

“Namibia has been independent for more than 25 years and has demonstrated sensible policy decision making throughout that time. This latest example reaffirms my conviction that Namibia is the world’s premier uranium development jurisdiction.”¹²

Bannerman owns the **Etango** uranium project near the **Husab** uranium mine. Last year the firm completed an empowerment transaction with the **One Nation** charity that Geingob’s wife, **Monica Geingos**, heads and which now has a 5% equity interest in locally-registered **Bannerman Mining Namibia (BMN)**.¹³

⁶ President Hage Geingob, SONA, 11 Apr 2018.

⁷ Namibian, 15 Mar 2018.

⁸ President Hage Geingob, SONA, 11 Apr 2018.

⁹ Klaus Schade quoted in Namibian Sun, 12 Apr 2018.

¹⁰ Klaus Schade quoted in Namibian Sun, 12 Apr 2018.

¹¹ Namibian Sun, 12 Apr 2018.

¹² Brandon Munro, emailed comment to selected recipients on the SONA statement by Geingob of 12 Apr 2018.

¹³ Source, Namibia analyst, London

By junking the vexed minimum 25% BEE equity provision, Geingob has done much to restore Namibia's standing with foreign investors. Sentiment towards Namibia had soured in some quarters, as evidenced by Namibia's lower ranking in the **Canada-based Fraser Institute's** annual global mining index.¹⁴ The final draft law is expected to be approved by cabinet later this year, paving the way for it to be tabled in parliament either late in 2018 or early next year.¹⁵ It is unclear at this stage whether the government will remove other aspects of the draft law identified by companies as investor-unfriendly.

Real GDP decreases by almost 1% last year...

Namibia's economy contracted more sharply last year than previously estimated, according to the 2017 preliminary national accounts published on 29 March by the **Namibia Statistics Agency (NSA)**.¹⁶ This was almost double the 0.4% real GDP contraction that the finance ministry estimated in the 2018/19 budget tabled on 7 March (see *ARC Briefing Namibia March 2018*). In addition, GDP growth for 2016 was revised down from 1.1% to 0.7%, meaning that for the two years combined, average annual growth was just in negative territory.¹⁷

The key drivers behind the economy's contraction last year – the first recorded since 1993 – were negative value-added growth by the secondary and tertiary industries of -6.7% and -1.1% respectively.¹⁸ A second year of sharply reduced output by the construction sector – down by 25.6% after a 26.3% contraction in 2016 – coupled with lower manufacturing value-added output growth of 1.4%, down from 5.2% in 2016, accounted for the decrease in secondary industries' output. The main downward pressure on the tertiary industries came from a 7.1% contraction in wholesale and retail sector value-added, coupled with a 2.0% contraction in hotels and restaurants (a proxy for the tourism industry). Both recorded positive growth in 2016. Public administration and defence recorded barely positive growth of 0.3%, compared to 3.3% the previous year, reflecting the cumulative impact of the budget spending cuts introduced in the 2016/17 fiscal year.

On the expenditure side of GDP, gross fixed capital formation (GFCF) declined for a successive year, posting a 24.4% decline compared 28.7% in 2016 measured in constant (2010) prices.¹⁹ This is because foreign direct investment (FDI) has declined substantially with the completion of the Husab uranium mine and other new mines in 2015. In 2014, GFCF grew by 33.7% – its fastest expansion ever – but had already fallen to 7.9% in the following year. In current price terms, GFCF fell from just over N\$50 billion (\$3.9 billion) in 2015, to N\$28.3 billion (\$2.1 billion) last year, a 43% drop in local currency terms and 46% decrease in **United States (US)** dollar terms.²⁰

...despite higher agricultural and mining output

In contrast, primary sector industries' real value-added expanded by 10.7%, compared to a 1.5% contraction in 2016 and contractions in the three preceding years also, due to strong growth by both agriculture and mining.²¹ Agriculture recorded 12.8% growth, up from 1.8%

¹⁴ Fraser Institute Annual Survey of Mining Companies 2017, 22 Feb 2018.

¹⁵Source, Namibia analyst, London

¹⁶ Namibia Statistics Agency, Preliminary National Accounts 2017, 29 Mar 2018.

¹⁷ Namibia Statistics Agency, Preliminary National Accounts 2017, 29 Mar 2018.

¹⁸ Namibia Statistics Agency, Preliminary National Accounts 2017, 29 Mar 2018.

¹⁹ Namibia Statistics Agency, Preliminary National Accounts 2017, 29 Mar 2018.

²⁰ Namibia Statistics Agency, Preliminary National Accounts 2017, 29 Mar 2018.

²¹ Namibia Statistics Agency, Preliminary National Accounts 2017, 29 Mar 2018.

in 2016, reflecting the post-drought recovery in both livestock and crop farming. However, growth is set to slow this year due to low/erratic rainfall during the November 2017 to April 2018 wet season, which has hit planting and yields of both subsistence millet and commercial maize.

Mining should continue on last year's growth path: real value-added rose by 12.8%, compared to contractions in the three previous years.²² All mining sub-sectors posted positive growth in 2017, with diamonds up by 12.0% (-9.6% in 2016), uranium up by 23.4% (13.6% in 2016), reflecting higher volume output by the **Rössing** mine (68.6%-owned by **Anglo-Australian** resources group **Rio Tinto**) and first production by the Husab mine commissioned at the end of 2016. Output of metal ores (gold, copper, zinc) was up by 9.9%, from only 0.1% in 2016.²³

Husab's production ramp-up, albeit slower than originally expected, is expected to aid mining's recovery in 2018. However, **CGN Global Uranium (CGNGU)** managing director **Jian Huang** told the 17-19 April **World Nuclear Fuel Cycle (WNFC)** annual meeting in **Madrid** that Husab is still encountering technical issues with its ore processing operation.²⁴ CGNGU is a wholly-owned subsidiary of **China General Nuclear (CGN)** which holds a 90% equity interest in Husab's local owner, **Swakop Uranium**, with Namibian government-owned **Epangelo Mining Co.** holding a 10% free-carried interest. Husab has produced some 1,000 tonnes of uranium oxide so far.²⁵ Huang said that ramp-up to full capacity of 15 million pounds (6,800 tonnes) is not anticipated to be reached until 2019-20. Huang also confirmed that all current output is going to **China**.²⁶ Only when full capacity is attained will CGNGU sell up to 20% of total production on the global nuclear fuel market.²⁷

Current account deficit narrows

Namibia's external position improved last year, with a sharp reduction in the current account deficit due to a reduced foreign trade shortfall and increased receipts from the **Southern African Customs Union (SACU)**.²⁸ According to figures published in the 2017 annual report of the **Bank of Namibia (BoN)** (central bank), the foreign trade deficit shrank to N\$18.5 billion (\$1.4 billion) from N\$31.7 billion (\$2.2 billion) in 2016, a 42% decrease in local currency terms and down by 36% in US dollar terms.²⁹ The differential reflects the appreciation of the **South African** rand, to which Namibia's dollar is pegged at par, from R1=\$0.068 in 2016 to R1=\$0.075 last year.³⁰

The value of imports fell by 16% to \$5.4 billion last year, while the value of exports rose by 16% to \$4.0 billion.³¹ Diamond exports were down in local currency terms, but their value rose by 3% in US dollar terms to \$728m. The other positive trend was a 36% increase in Namibia's share of the pooled SACU customs receipts to \$1.4 billion. This reflects higher imports during 2015-2016 as payments are distributed with a two-year time lag. In

²² Namibia Statistics Agency, Preliminary National Accounts 2017, 29 Mar 2018.

²³ Namibia Statistics Agency, Preliminary National Accounts 2017, 29 Mar 2018.

²⁴ WNFC presentation by CGN Global Uranium managing director Jian Huang, 18 Apr 2018.

²⁵ WNFC presentation by CGN Global Uranium managing director Jian Huang, 18 Apr 2018.

²⁶ WNFC presentation by CGN Global Uranium managing director Jian Huang, 18 Apr 2018.

²⁷ WNFC presentation by CGN Global Uranium managing director Jian Huang, 18 Apr 2018.

²⁸ Bank of Namibia, 2017 Annual report, March 2018.

²⁹ Bank of Namibia, 2017 Annual report, March 2018.

³⁰ Bank of Namibia, 2017 Annual report, March 2018.

³¹ Bank of Namibia, 2017 Annual report, March 2018.

consequence, SACU receipts are likely to fall back again in 2018-2019 due to slower growth in imports. The overall impact was to slash the current account deficit to N\$3.9 billion (\$297m), 83% below that of 2016 and the lowest for over five years. In US dollar terms, the deficit narrowed by 81%.

Bank of Namibia holds repo rate at 6.75%

The central bank opted to hold Namibia's repurchase (repo) rate unchanged at 6.75% at its 11 April **Monetary Policy Committee (MPC)** meeting.³² This was unexpected as the **South African Reserve Bank (SARB)** (central bank) had dropped its repo rate to 6.5% on 28 March, citing an improved inflation outlook.³³ The Bank of Namibia usually keeps Namibia's interest rate aligned with that of South Africa to minimise financial volatility, given the close synergies between the two countries' economies.

BoN governor **Iipumbu Shiimi** underlined the fragility of SACU receipts as the central bank's main stated reason for holding the repo rate unchanged:

*"This decision was taken to safeguard the level of foreign reserves in view of the decline in SACU revenue [since the start of 2018] and various risks related to future developments in foreign reserves... At this level, the repo rate remains supportive of economic growth."*³⁴

Namibia's stock of international reserves fell by N\$4.1 billion (\$0.3 billion) to N\$26.1 billion (\$2.2 billion) at end-March 2018 compared to end-December 2017.³⁵ This represents a 14% decrease in local currency terms and a 12% fall in US dollar terms. In consequence, import coverage has fallen from 4.6 months at end-December to 3.8 months at end-March. Shiimi noted:

*"Although reserves remain sufficient to sustain the currency peg between the Namibia dollar and the South African rand, it is relatively low compared to Namibia's peers in the region."*³⁶

Inflation unchanged at 3.5% in March

Domestic inflation remained unchanged in March from the preceding month at 3.5% year-on-year (y/y), half the rate of a year earlier (7.0%).³⁷ A major contributory factor is that the South African rand, to which the Namibia dollar is linked at par, has remained resilient (see above).³⁸ This has continued to keep a lid on the cost of Namibia's imports, including food and consumer goods. Inflation for food and non-alcoholic beverages – at 16.5% the second-largest weighted component of the **National Consumer Price Index (NCPI)** basket – was slightly higher than February (2.0%) at 2.7% at 2.0% y/y.³⁹ Prices for bread and cereals decreased by 1.3% although prices for most other items increased. This was more than offset by almost unchanged inflation for housing and utilities, with the biggest NCPI basket weighting at 28.4%, at 3.3% y/y (3.2% in February) and lower transport inflation (14.3% of

³² Bank of Namibia, Monetary Policy Statement, 11 Apr 2018.

³³ IOL, 28 March 2018

³⁴ Bank of Namibia, Monetary Policy Statement, 11 Apr 2018.

³⁵ Bank of Namibia, Monetary Policy Statement, 11 Apr 2018.

³⁶ Bank of Namibia, Monetary Policy Statement, 11 Apr 2018.

³⁷ Namibia Statistics Agency, Namibia Consumer Price Index March 2018.

³⁸ XE Currency Converter, 27 Apr 2018.

³⁹ Namibia Statistics Agency, Namibia Consumer Price Index March 2018.

the basket).⁴⁰ This decreased from 6.6% y/y in February to 5.4%. The cost of operating vehicles rose by 5.4%, compared to 7.3% in February, and that for purchasing vehicles slowed to 6.9% (8.2% previously).

The global oil price has continued to firm due to the impact of production cuts that the **Organisation of Petroleum Exporting Countries (OPEC)** introduced earlier in 2018 and in response to rising interest rates and fears of a world trade war after US President **Donald Trump** (2017-present) imposed \$60 billion in tariffs on Chinese imports in March. The benchmark **Brent** crude price stood at a year high of just under \$75 per barrel as of 26 April.⁴¹ The impact of higher oil prices will stay partially cushioned as long as significant local currency depreciation does not resume. **Windhoek** stockbroker **IJG Namibia** noted that SARB governor **Lesetja Kganyago** had noted in the central bank's March 2018 monetary policy statement that the main changes in its central bank inflation forecast related to the rand's exchange rate and cautioned that a global trade war could push inflation expectations higher.⁴²

Large cobalt resource announced at Opuwo

Development of battery metals resources is continuing to accelerate (see *ARC Briefing Namibia January 2018, March 2018*). Australia-based **Celsius Resources** declared a large maiden resource for its **Opuwo** cobalt project in **Kunene Province**, northwest Namibia, on 16 April.⁴³ The firm, which was due to dual-list its shares on the NSX in the last week of April, acquired a 95% interest in Opuwo via a September 2017 transaction with local firm **Gecko Namibia**, which became the largest shareholder in Celsius with a current shareholding of 8.4%.⁴⁴ A local empowerment entity, the **Former Robben Island Political Prisoners' Trust**, holds a 5% free-carried equity interest in Celsius.⁴⁵ The project area covers some 1,470 sq km, including 782 sq km acquired from Gecko, with mineralisation intersected over a 15 km zone by initial drilling and chemical assays, with over 100 km of mineralised strike length.⁴⁶

Celsius MD **Brendan Borg** said the maiden **Joint Ore Reserves Committee (JORC)** cobalt estimate announced in mid-April exceeded the firm's expectations and its exploration target.⁴⁷ A project scoping study is already underway and is scheduled for completion by mid-2018.⁴⁸ Independent consultants **DMT Kai Batler** estimated the deposit contains 112m tonnes of ore over a 10 km zone, of which 72m tonnes is in the indicated category, with mineralisation remaining open in all directions, making further drilling worthwhile.⁴⁹ At an average grade of 0.11% cobalt, this translates into a contained cobalt resource of 126,100 tonnes, with 95% comprising fresh sulphide ore. However it will be several years before a mine is developed as Celsius will need to complete a bankable definitive feasibility study (DFS) with more detailed cost estimates as a basis for raising funds.

⁴⁰ Namibia Statistics Agency, Namibia Consumer Price Index March 2018.

⁴¹ Business Insider UK, 27 Apr 2018,

⁴² IJG Namibia, NCPI- Mar 2018.

⁴³ Celsius Resources, ASX Release, 16 Apr 2018, Investor presentation, Hong Kong, April 2018.

⁴⁴ Celsius Resources, ASX Release, 16 Apr 2018, Investor presentation, Hong Kong, April 2018.

⁴⁵ Celsius Resources, ASX Release, 16 Apr 2018, Investor presentation, Hong Kong, April 2018.

⁴⁶ Celsius Resources, ASX Release, 16 Apr 2018, Investor presentation, Hong Kong, April 2018.

⁴⁷ Mining Review Africa, 16 Apr 2018.

⁴⁸ Mining Review Africa, 16 Apr 2018.

⁴⁹ Celsius Resources, ASX Release, 16 Apr 2018, Investor presentation, Hong Kong, April 2018.

Meanwhile, **Canada-based Desert Lion Energy (DLE)** has delivered its first consignment of lithium concentrate to **Walvis Bay** harbour, ready for shipment to its offtake partner and Chinese lepidolite converter, **Jiangsi Jinhui Lithium Co.** (see *ARC Briefing Namibia March 2018*).⁵⁰ The first shipment is some 30,000 tonnes, earning DLE about \$3.8m in gross revenue. The terms of the offtake agreement commit Jinhui to purchase all lithium concentrate product, estimated at some 150-160,00 tonnes during DLE's first production phase of the next 12 to 18 months. Payment for the initial shipment was collateralised by an unconditional letter of credit from Jinhui in favour of DLE for an amount equal to 110% of the purchase price. Lithium concentrate is currently being delivered from existing stockpiles at the old mine sites near **Karibib** in central Namibia, but the firm plans to recommence mining. DLE president and CEO **Tim Johnston** commented:

*"The delivery of the first shipment of lithium concentrate ... demonstrates the production chain is operational from reclaiming, processing and sorting all the way through to the delivery of product. We look forward to continuing to execute this phase of production, while moving towards the production of higher-value products and large-scale mining in the second half of 2018/19."*⁵¹

The company intends to complete a mineral resource estimate and preliminary economic assessment (PEA) of the project by end-June this year.⁵²

Planner

15 May 2018 **(Namibia)** April 2018 NCPI **Namibia Statistics Agency**;
 13 June 2018 **(Namibia)** **Bank of Namibia** Monetary Policy Committee (MPC) meeting;
 14 June 2018 **(Namibia)** Q1 2018 GDP report;
 H2 2018 **(Namibia)** National Land Conference

Chronology

25 Apr 2018 **(Namibia)** *New Era*. Indictment document accusing 18 people of defrauding the Namibian government through false value added tax refunds alleges a N\$210m (\$16.87m) swindle, up from the initial N\$114m (\$9.16m) estimate;

25 Apr 2018 **(South Africa)** *The Namibian*. The **Bank of Namibia** (central bank) will follow the investigation of a former **KPMG** employee tasked to trace N\$200m (\$16.0m) that disappeared from the since state-owned **SME Bank**;

12 Apr 2018 **(Namibia)** *Biznews*. Namibia scraps clause in a bill that proposed that all businesses must be 25% owned by "historically disadvantaged people";

12 Apr 2018 **(Namibia)** *Reuters*. Namibia's consumer inflation stays level at 3.5% year-on-year in March;

10 Apr 2018 **(Botswana)** *New Era*. Botswana President **Mokgweetsi Masisi** insists that there is no border tension between **Namibia** and Botswana despite regular reports that

⁵⁰ Desert Lion Energy announcement, 25 Apr 2018.

⁵¹ Desert Lion Energy announcement, 25 Apr 2018.

⁵² Desert Lion Energy announcement, 25 Apr 2018.

Namibians are shot dead by the **Botswana Defence Force (BDF)** on suspicion that they have crossed into Botswana to poach;

10 Apr 2018 **Windhoek (Namibia)** *All Africa*. Trade unions affiliated to the **Trade Union Congress of Namibia (TUCNA)** accuse the government of short-sightedness due to a recent directive from the **Bank of Namibia** to freeze public sector pay and stop all new public appointments;

9 Apr 2018 **(Namibia)** *News24*. President **Hage Geingob** denies accusations of corruption stemming from “*advisory work*” during the purchase of **Canada**-based mining company, **Uramin**, by **France**-based nuclear company, **Areva**;

6 Apr 2018 **(Namibia)** *New Era*. Finance Minister **Calle Schlettwein** denies accusations that Namibia is servicing bilateral debt with borrowed **Chinese** money;

4 Apr 2018 **(Namibia)** *Proactive Investors*. **AfriTin Mining** completes a detailed plan for its **Uis Tin Mine**, including a five-year production schedule;

28 Mar 2018 **(China)** *Namibia Economist*. President **Hage Geingob** makes a state visit to China, due to last until 3 April;

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