

**AFRICA RISK CONSULTING****Namibia Monthly Briefing October 2017**

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**Namibia Summary 24 October 2017**

*President Hage Geingob (2015-present) faces two challengers for the presidency of the ruling SWAPO Party of Namibia at the party's elective congress in November. Namibia is still under pressure over its economic and commercial links with North Korea. Geingob welcomes Brexit opportunity for Namibia. Structural reforms and capital investment boost are due to be announced in the mid-year budget review. Diamond output increases strongly. The Bank of Namibia (central bank) holds Namibia's repo rate at 2.5% and is tightening capital requirements for commercial banks under Basel III rules.*

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**Two to run against Geingob for the party leadership**

The ruling **SWAPO Party of Namibia** is preparing for its elective congress which will take place in **Windhoek** during November (a precise date has yet to be announced). At a mid-October meeting, the 84-member central committee formally approved a list of 11 candidates who will vie for support from the expected 600 congress delegates for the party's top four posts: the presidency, the vice-presidency, the secretary-general and deputy secretary-general (see *ARC Briefing Namibia August 2017*).<sup>1</sup> This was more than anticipated during meetings of the party's regional and local branches and affiliated organisations in the past six weeks. The majority endorsed President **Hage Geingob** (2015-present) as next party leader, with some calling for his election to be uncontested. It had been widely expected that the only challenger to Geingob would be the current youth and sports minister, **Jerry Ekandjo**, a long-standing opponent of Geingob. Ekandjo did not go into exile before independence in 1990 but was a senior figure in SWAPO's internal organisation (and was imprisoned and tortured several times by **South African** security police). Geingob's victory over Ekandjo in the 2012 contest to be SWAPO vice president put Geingob in pole position to be nominated as SWAPO candidate for the 2014 presidential elections to succeed the former president, **Hifikepunye Pohamba** (2005-2015), at the end of his second five-year term. Pohamba remained SWAPO president after formally handing over as head of state to Geingob in March 2015, although allowed Geingob to lead SWAPO until the next party congress formally endorsed him. A late-comer to the contest is the former prime minister (2005 to 2012) and defence minister (2012 to 2015), **Nahas Angula**.

At a meeting of the 24-member politburo, the party's top decision-making body, which took place several days before the central committee meeting, Geingob had announced his preferred candidates for the vice presidency and secretary-generalships. Top of his list, and potentially Namibia's next head of state should she gain election, is the deputy prime minister and international relations and cooperation minister, **Netumbo Nandi-Ndaitwah**. Like Geingob before her, she would be the leading contender to be the SWAPO candidate for the presidential election in 2024 (although it is conceivable that Geingob might step down at the

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<sup>1</sup> The Namibian, 16 Oct 2017.

end of his first five-year term in 2019). Geingob put forward the urban and rural development minister, **Sophia Shaningwa**, for secretary-general, and a former deputy prime minister, **Marco Hausiku**, for deputy secretary-general.<sup>2</sup> Geingob urged party leaders “to tackle the issues and not the personalities”.<sup>3</sup>

Other approved candidates for the elective congress are:

- for vice president: home affairs minister **Pendukeni Iivula-Ithana** (who also unsuccessfully opposed Geingob for the vice presidency in 2012) and the veteran SWAPO information secretary **Helmuth Angula**;
- for secretary general: **Armas Amukwiyu**, described as a former friend of Geingob who was nominated by the **Omusati** regional coordinator **Sacky Kayone**;
- for deputy secretary-general: former deputy health minister **Petrina Haingura** and **United Africa Group (UAG)** co-owner **Martha Namundjebo-Tilahun**. UAG is a leading Namibian firm involved in hotels, real estate and renewable energy.<sup>4</sup>

It is virtually inconceivable that either Ekandjo or Angula will defeat Geingob for the party presidency and become the party’s candidate for the next presidential election in 2019. Ekandjo has neither the experience nor the character to be a credible national leader in the eyes of most observers.<sup>5</sup> Angula’s time is judged to be past; there is some suspicion that he is standing mainly to split Ekandjo’s vote with Geingob’s backing. Ekandjo is also adjudged to have been a poor youth and sports minister, as national sports facilities have been neglected and allowed to deteriorate. An unspoken current is the residual resentment by some within the party that Geingob is not an **Oshivambo**, the northern community that comprises just over half Namibia’s population and a majority of the SWAPO membership. Geingob has called for a reasoned and peaceful contest to avoid creating division:

*“Reconciliation will be difficult if people are attacked, as it will result in wounds. I appeal that we do things (the) Swapo way. Debate, argue, but do not fight, and at the end of it, hold hands.”<sup>6</sup>*

### Namibia still under pressure over North Korea

Despite having declared that it had ended its economic and commercial links with the **Democratic People’s Republic of Korea (North Korea)** in 2016, Namibia – along with, reportedly, 14 **African** states – remains under pressure on the issue, as previous payments to North Korean contractors are deemed to have helped fund **Pyongyang’s** acquisition of nuclear weapons (*ARC Briefing Namibia September 2017*). The **United Nations (UN) Panel of Experts** is focusing its investigations on the funding of various projects undertaken by **Mansudae Overseas Projects**, including a half-finished new headquarters for Namibia’s defence ministry.<sup>7</sup> Mansudae has been linked to North Korea’s main arms dealing company **Korea Mining Development Trading Corp (Komid)**. CNN reported on 22 October that the UN panel coordinator, **Hugh Griffiths**, said he does not regard Namibia’s actions as sufficient.

<sup>2</sup> The Namibian, 7 Oct 2017.

<sup>3</sup> The Namibian, 7 Oct 2017.

<sup>4</sup> The Namibian, 16 Oct 2017.

<sup>5</sup> Source, Namibia political analyst, London

<sup>6</sup> The Namibian, 16 Oct 2017.

<sup>7</sup> New Era, 24 Oct 2017.

*“Namibia has not been cleared. It is not enough to declare you have been exonerated by the UN for North Korea sanctions violations. The Panel deals with hard facts, with evidence, and that is what we have been asking from Namibia for many months now.”<sup>8</sup>*

Griffiths maintained that the income derived from the 14 African countries was significant enough to boost the prospects of North Korea's nuclear programme, but Nandi-Ndaitwah strongly disagrees.

*“The activities that have been taking place in Namibia in which the Koreans have been involved could not be considered to be generating such a [large] amount of money to fuel nuclear development in North Korea.”<sup>9</sup>*

The local media have reported on several occasions that North Korea had been contracted to build a munitions factory, but defence minister **Penda ya Ndakolo** said there had been no construction of such a factory “ever.”<sup>10</sup> Ya Ndakolo confirmed that his ministry had completed all the work with Mansudae.<sup>11</sup> It would seem clear that Namibia has somewhat belatedly realised the perils of impinging UN sanctions by having continued for so long to deal with state-owned North Korean firms.

### Geingob anticipates Brexit opportunities for Namibia

At a time when negotiations between the **United Kingdom (UK)** government and the **European Commission (EC)** to reach an agreement on the UK's exit from the **European Union (EU), (Brexit)**, have become increasingly intractable, Namibia has provided a welcome boost. In a 12 October speech to the **Burj CEO summit** and awards at a **House of Lords** banquet in **London (UK)**, Geingob said Britain's future exit from the EU provided an opportunity for African countries such as Namibia:

*“Rather than be pessimistic about Brexit, we see Brexit as an opportunity for the proliferation of enhanced and mutually beneficial partnerships between the UK and African states... Hopefully Brexit can result in the strengthening of our **Commonwealth** once again.”<sup>12</sup>*

Geingob noted that Namibia had entered into an economic partnership agreement (EPA) with the EU, but Brexit offers Namibia an opportunity to engage in bilateral negotiations with the UK regarding trade opportunities.<sup>13</sup>

*“While Brexit looks like a closing door to Europe, we must view it as an open door for Africa. Africa is here, it is on the march and ready to do business with a post Brexit UK.”<sup>14</sup>*

From Namibia's perspective, there could undoubtedly be benefits from expanded trading relations with a post-Brexit UK. While the largest export commodity by value to the EU is white fish (hake) exports to **Spain** – Namibia is its largest supplier – the UK is the biggest market for Namibia's global exports of frozen beef to the EU. This is sold duty-free, but the volume is subject to quota. Post-Brexit, the UK would no doubt maintain the duty-free status for Namibian beef while allowing it to export more (subject to available supply). Other

<sup>8</sup> New Era, 24 Oct 2017.

<sup>9</sup> New Era, 24 Oct 2017.

<sup>10</sup> New Era, 24 Oct 2017.

<sup>11</sup> New Era, 24 Oct 2017.

<sup>12</sup> Namibian Presidency, 12 Oct 2017.

<sup>13</sup> Namibian Presidency, 12 Oct 2017.

<sup>14</sup> Namibian Presidency, 12 Oct 2017.

products such as expanding table grape exports from southern Namibia, lager beer and other beverages could also gain from duty- and quota-free export to the UK, if this is offered.

### Tighter spending targets, structural reforms in prospect

Finance minister **Calle Schlettwein** is expected to tighten existing fiscal consolidation measures in his 2017-18 mid-year budget review due to be tabled in the **National Assembly (NA)** by the end of October. ARC anticipates that these will be accompanied by specific commitments to implement structural reforms, including, possibly, a programme to part-privatise some state-owned enterprises (SOEs), as the **International Monetary Fund (IMF)** has long advocated. Measures along these lines are almost certainly needed to avert any further credit ratings downgrades. In mid-August, Namibia lost its investment-grade credit rating with **Moody's Investor Services**, which downgraded its long-term senior unsecured bond and issuer ratings to Ba1 from Baa3, while maintaining a negative outlook (*ARC Briefing Namibia August 2017*). The government is particularly anxious to avoid any similar downgrade by **Fitch Ratings**, which is due to review its current BBB- credit rating by the end of this year.

It seems likely that while maintaining fiscal consolidation, Schlettwein will also announce measures to boost investment in infrastructure and restore the fortunes of the construction sector, which has been in recession for the past two years. Some inkling of his likely proposals were revealed in a speech to the end-September annual general meeting (AGM) of the **Construction Industries Federation of Namibia (CIF)** in Windhoek.<sup>15</sup> On the public sector front, Schlettwein promised to roll out interventions to revive the pace of activity on some of the ongoing major capital projects, while opening up opportunities for new ones. According to Schlettwein, this would be done through

*"... harnessing alternative means of financing, such as the proposed Infrastructure Fund at [Development Bank of Namibia] DBN, assessing Public Private Partnership (PPP) options and aggressively seeking to harness such opportunities while keeping fiscal risks in check."*<sup>16</sup>

Schlettwein added that the government would make concerted efforts to bring about effective SOE reforms along with the better utilisation of state assets as a means of enhancing investment in infrastructure development.<sup>17</sup>

### Higher diamond output to drive Q3 GDP growth

While the **Namibia Statistics Agency (NSA)** will only publish the third quarter GDP figures in mid-December, higher diamond production figures released by London-listed **Anglo American Plc** suggest Namibia's economy may have resumed positive growth of some 1.5% or so after contracting by -1.7% in each of the first two quarters of 2017 (*ARC Briefing Namibia September 2017*).<sup>18</sup> This would confirm that diamonds remain the key growth driver for Namibia's economy, as Schlettwein does not expect the construction sector to recover until 2018 (see above). Anglo American owns an 85% equity interest in **De Beers SA** (the remaining 15% is owned by the **Botswana** government).<sup>19</sup> Its third quarter 2017 production report, published on 24 October, showed Namibia diamond output was 454,000 carats, up

<sup>15</sup> New Era, 6 Oct 2017.

<sup>16</sup> New Era, 6 Oct 2017.

<sup>17</sup> New Era, 6 Oct 2017.

<sup>18</sup> Anglo American, Production Report for the third quarter ended 30 September 2017, 24 Oct 2017.

<sup>19</sup> Anglo American, Production Report for the third quarter ended 30 September 2017, 24 Oct 2017.

12% on a year earlier. For the first nine months of 2017, output by **Namdeb Holdings** – the 50:50 Namibia government/De Beers joint venture) – was 15% higher than the same period of 2016 at 1.3 million carats. This would suggest annual output is likely to come in at around 1.7 million to 1.75 million, up from just under 1.6 million carats in 2016, representing an increase over last year of between 6% to 13% according to ARC's forecast.

The increased production was attributed to higher mining rates from **Debmarine Namibia's** 16,000 tonne **Mafuta** mining vessel.<sup>20</sup> Mafuta is one of five mining vessels and is equipped with a large undersea tracked mining crawler capable of recovering some 240,000 carats annually.<sup>21</sup> Marine recoveries of diamonds along Namibia's southern coastline by Debmarine accounted for 78% of total Namdeb production in Q3 and 80% in the first nine months. This compares to 70% and 75% shares respectively a year earlier, and indicates that offshore recoveries have become the major component of diamond production. This is set to increase as existing land-based deposits (located in the onshore mining area covering some 100 kilometres along the shore line from **Oranjemund**) are in decline, owing to increasingly uneconomic grades. Namdeb had devised an extensive project ten years ago to maximise the life of remaining onshore deposits by recovering stones from near shore and shallow waters by innovative mining techniques, but this was put on hold when the global diamond market suffered a sharp recession in 2015. Continued recovery in global market trading conditions have made higher production levels possible in Namibia, and at De Beers' other mines in Botswana, **Canada** and South Africa. Consolidated rough diamond sales volumes in Q3 by De Beers were 6.9 million carats, up from 5.7 million carats a year earlier, a 21% increase.<sup>22</sup>

### The BoN keeps the repo rate at 6.75%...

The **Bank of Namibia (BoN)** (central bank) held its repurchase (repo) rate unchanged on 6.75% at its monetary policy committee (MPC) meeting of 25 October,<sup>23</sup> despite the economy's continued weak performance – with the principal exceptions of agriculture and mining – and subdued inflation. While year-on-year inflation ticked up to 5.6% in September from 5.4% in each of the preceding two months, price increases for food and non-alcoholic beverages (at 16.5% the second-largest weighted component of the national consumer price index basket) slowed to 4.2%, from 4.6% in August.<sup>24</sup>

The **South African Reserve Bank (SARB)** (central bank) kept its repo rate unchanged on 6.75% at its 19-20 September rate-setting meeting.<sup>25</sup> The BoN is continuing its policy to keep Namibia's repo rate aligned to that of South Africa:

*"This level is deemed appropriate to continue supporting domestic economic growth while maintaining the one-to-one link between the Namibia dollar and the South African rand."*<sup>26</sup>

Both the BoN and the SARB had cut interest rates by 25 basis points (bps) at their rate setting meetings of 18-21 July and 16 August this year (see *ARC Briefing Namibia August 2017*). In its 21 September MPC statement, the SARB said that the decision to hold the repo rate unchanged was due to *"the heightened uncertainties in the economy"* and the *"the*

<sup>20</sup> Wikipedia

<sup>21</sup> Wikipedia

<sup>22</sup> Anglo American, Production Report for the third quarter ended 30 September 2017, 24 Oct 2017..

<sup>23</sup> The Namibian, 25 Oct 2017.

<sup>24</sup> Namibia Statistics Agency, Namibia Consumer Price Index, September 2017.

<sup>25</sup> South African Reserve Bank, Statement of the Monetary Policy Committee, 21 Sep 2017.

<sup>26</sup> BoN governor **Ipumbu Shiimi** quoted in The Namibian, 25 Oct 2017.

*deteriorating assessment of the balance of risks*".<sup>27</sup> Three MPC members had wanted a further 25 bps repo rate reduction while three preferred an unchanged stance: it would seem that the SARB governor **Lesetje Kganyago** made the final choice, although his preference was not indicated.

However, it is probable, in the absence of an unlikely rebound in South African GDP growth in the third quarter of 2017, that the SARB will opt for a 25 bps repo rate cut at its final MPC meeting of this year from 21-23 November. The BoN will almost certainly follow suit at its final 2017 MPC meeting on 6 December.

### **...and tightens capital requirements in line with Basel III**

The BoN is proceeding to implement the new global banking reforms developed by the **Basel Committee on Banking Supervision (BCBS)**, the so-called **Basel III** capital adequacy standards. These are among measures the BCBS has rolled out since the 2007-08 global financial crisis to try to ensure commercial banks are better placed to withstand similar future shocks. According to BoN corporate communications deputy director **Kazembire Zemburuku**, the BoN will shortly communicate revised timelines for full implementation to stakeholders:

*"The aim is to improve the sector's ability to absorb shocks, improve risk management and governance, and strengthen overall transparency and disclosure."*<sup>28</sup>

Zemburuku noted that the application of **Basel I** and **Basel II** provisions had assisted the BoN's supervisory functions in relation to capital measurements for credit, market and operational risks:

*"This has helped to foster a world-class banking system with very robust regulations that is acclaimed globally for its soundness and stability. The impact of the introduction of Basel Standards has ensured that the banking sector remains robust to date."*<sup>29</sup>

Namibia's largest three commercial banks are generally well capitalised. **Bank Windhoek** has a risk-based capital adequacy ratio of 16.6%, above the current minimum regulatory capital requirement of 10%, while South Africa-based **FNB Namibia** has a 17.2% capital adequacy ratio. Although the capital adequacy ratio for South Africa-based **Standard Bank Namibia** is currently lower, at 11.7%, the bank expects to have no difficulty in meeting the progressively higher requirements of Basel III.<sup>30</sup> The most recent central bank financial stability report of April 2017 found that, generally, Namibia's financial markets "*remained sound, profitable and with no disruptions or disorderly functioning of key financial services despite unfavourable domestic and global financial conditions.*"<sup>31</sup> Specifically, the banking sector and the non-bank financial institutions (NBFIs) "*continued to be sound and well capitalised*".<sup>32</sup> It should be noted that this report pre-dated the emergence of significant financial problems at the 65% government-owned **SME Bank**, which was wound up in July (see *ARC Briefing Namibia July 2017*). The BoN report added the caveat that notwithstanding

<sup>27</sup> South African Reserve Bank, Statement of the Monetary Policy Committee, 21 Sep 2017..

<sup>28</sup> Windhoek Observer, 6 Oct 2017.

<sup>29</sup> Windhoek Observer, 6 Oct 2017.

<sup>30</sup> Windhoek Observer, 6 Oct 2017.

<sup>31</sup> Bank of Namibia, Namibia Financial Stability Report, April 2017.

<sup>32</sup> Bank of Namibia, Namibia Financial Stability Report, April 2017.

this sound position, bank liquidity levels and sustainability of the liquidity management strategies “*require monitoring*” (by the central bank).<sup>33</sup>

### Planner

Late November **(Namibia)** SWAPO elective congress due to take place  
 23 Nov 2017 **Windhoek (Namibia)** Sixth session of parliament ends.  
 6 Dec 2017 **(Namibia)** Bank of Namibia monetary policy (rate setting) meeting  
 14 Dec 2017 **(Namibia)** Q3 GDP 2017 report published  
 November 2019 **(Namibia)** Presidential and legislative elections scheduled.

### Chronology

22 Oct 2017 **Oranjemund (Namibia)** *National Post*. Diamond-mining town **Oranjemund** ends restrictions on visitors to town to diversify its economy;  
 12 Oct 2017 **Windhoek (Namibia)** *The Namibian*. The **Teachers Union of Namibia** threatens a nation-wide strike due to the failure of the education ministry to release a list of teaching vacancies for 2018;  
 6 Oct 2017 **Windhoek (Namibia)** *IT-online.co.za*. **Nimbus Infrastructure** lists on the **Namibia Stock Exchange**;  
 4 Oct 2017 **Offshore (Namibia)** *Times of India*. India-based **ONGC Videsh Ltd** acquires from **United Kingdom**-based **Tullow Oil** a 30% interest in an oil block under **Petroleum Exploration License (PEL) 37**;  
 27 Sep 2017 **Windhoek (Namibia)** *Nasdaq*. Finance minister **Calle Schlettwein** announces the economy is expected to grow between 1.8% and 2.3%, down from an initial 2.5% estimate;  
 27 Sep 2017 **(Namibia)** *The Namibian*. The **World Economic Forum’s Global Competitiveness Report** places Namibia at 90 of 138 economies;  
 26 Sep 2017 **Windhoek (Namibia)** *The Namibian*. Tourism occupancy is down 4% year-on-year in one of Namibia’s high season months;

<sup>33</sup> Bank of Namibia, Namibia Financial Stability Report, April 2017.

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