

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

Namibia Summary 25 January 2018

President Hage Geingob (2015-present) delays reshuffling the cabinet to replace the new secretary general of the ruling SWAPO Party of Namibia (SWAPO), Sophia Shaningwa, and to decide the fate of long-time opponent Jerry Ekandjo. The economy contracts for a third successive quarter in Q3 2017 and the Bank of Namibia (BoN) (central bank) revises down its 2018 and 2019 GDP growth forecasts. The Namibia Statistics Agency reports that average inflation fell to just over 6% last year. Surging demand for battery metals has spurred exploration in a range of prospective Namibian deposits.

Geingob delays his cabinet reshuffle

President **Hage Geingob** (2015-present) has not yet carried out the cabinet reshuffle he was expected to make following his election as new leader of the ruling **SWAPO of Namibia (SWAPO)** party at November's 6th SWAPO congress (see *ARC Briefing Namibia November 2017*).¹ The immediate need is to replace the urban and rural development minister **Sophia Shaningwa**, who was elected as new SWAPO secretary general. The position of secretary general was redefined under 2013 amendments to the party's constitution as a full-time job, so Shaningwa will have to give up her cabinet post.² Geingob seems in no hurry to replace Shaningwa. Presidential press secretary **Albertus Aochamub** told local media on 16 January that Geingob would do so "so when he is ready".³

Shaningwa's ministry has the crucial role of ensuring the faster roll-out of low cost urban housing to meet Geingob's promises to grass roots protest movement **Affirmative Repositioning (AR)** in July 2015 to head off planned mass urban land occupations (see *ARC Briefing Namibia August 2015*). The government is still far from meeting the target of providing 200,000 serviced urban plots across the country.⁴ Shaningwa said that she and her officials have ensured that two of the largest municipalities – **Walvis Bay** and **Oshikati** – have adhered to the N\$500,000 (\$42,000) ceiling in building houses.⁵

Local sources say Geingob has delayed a cabinet reshuffle to avoid exacerbating internal party tensions after the often fractious congress – a number of long-serving ministers predating Geingob's presidency are expected to be axed.⁶ Although Geingob and his nominated candidates for the other top three party posts won easily, insiders have described the proceedings as fraught.⁷ The most difficult decision for Geingob is whether to dispense with the current youth and sports minister, **Jerry Ekandjo**, who was one of two rival

¹ Source, Namibia analyst, London

² The Namibian, 28 Nov 2017

³ New Era, 16 Jan 2018

⁴ Source, Namibia analyst, London

⁵ New Era, 16 Jan 2018.

⁶ Source, Namibia analyst, Windhoek

⁷ Source, Namibia analyst, Windhoek

candidates for the SWAPO presidency, and the home affairs minister, **Pendukeni Iivula-Ithana**, who stood unsuccessfully for the SWAPO vice president against the deputy prime minister and international relations and cooperation minister, **Netumbo Nandi-Ndaitwah**, under the Team SWAPO banner.⁸ Geingob took issue with Ekandjo for several statements published in the local media during November; in one of these he said “*SWAPO is weak and needs cadres like me to waken it from its economic slumber*”; in another Ekandjo stated that “*Team SWAPO has accused those in charge of the party of being the cause of economic stability, rising youth unemployment and self-enrichment by the elite.*”⁹ Geingob claimed Ekandjo’s remarks were against party rules, adding that the manner in which he had conducted his leadership campaign went against the grain of the party’s values.¹⁰ Ekandjo only holds a junior portfolio but his axing would be seen as Geingob’s determination to rid himself of persistent critics of his leadership and policies, even at the cost of alienating still-influential SWAPO leaders.¹¹ Ekandjo was a protégé of former president **Sam Nujoma** (1990-2005) but it is doubtful that Nujoma, who sits on Geingob’s presidential council, would intervene to save his job.¹²

...GDP contracts for the third quarter in succession

The **Bank of Namibia (BoN)** (central bank) estimates the economy grew by only 0.6% in 2017 in real terms, down from 1.1% in 2016 and below its previous forecast of 2.1%, mainly due to deeper than expected contractions in value-added for construction, and wholesale and retail trade, which more than cancelled out higher mining output.¹³ Even this estimate may prove over-optimistic, with both the **International Monetary Fund (IMF)** and local analysts regarding it as more likely that the economy stayed in recession for calendar year 2017. **PSG Namibia** commented:

*“We now expect that growth will be slightly negative this year, in line with the International Monetary Fund's most recent projections following the conclusion of the IMF's 2017 Article IV consultation with Namibia earlier this month.”*¹⁴

The IMF expects growth to have been slightly negative in 2017, with positive growth resuming this year. The latest quarterly GDP numbers which the **Namibia Statistics Agency (NSA)** also published in December, showed that the economy contracted by 1.9% in Q3, the third consecutive quarter of negative growth. During the first three quarters of 2017 the average contraction was 1.6%, compared to 1.4% positive growth during the same period of 2016.¹⁵

Construction posted the worst Q3 performance, contracting by a further 37%, taking the sector’s average value-added decrease to 42.5% during January to September 2017, almost double the 23% shrinkage recorded during the same period of 2016.¹⁶ Government spending on buildings decreased by 38%, compared to a 19% decline in Q3 2016.¹⁷ Wholesale and

⁸ Source, Namibia analyst, London

⁹ New Era, 22 Dec 2017.

¹⁰ New Era, 22 Dec 2017.

¹¹ Source, Namibia analyst, London

¹² Source, Namibia analyst, London

¹³ Bank of Namibia, Economic Outlook Update- December 2017.

¹⁴ The Namibian, 19 Dec 2017.

¹⁵ Namibia Statistics Agency, Gross Domestic Product Third Quarter 2017.

¹⁶ Namibia Statistics Agency, Gross Domestic Product Third Quarter 2017.

¹⁷ Namibia Statistics Agency, Gross Domestic Product Third Quarter 2017.

retail trade also fell significantly, contracting by 4.4% in Q3 2017 and by an average 6.7% during the first nine months of 2017, compared to 6.0% positive growth in the same period of 2016.¹⁸

Real GDP growth Q3 2017 (% change)¹⁹			
	2017		2016
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>
Agriculture	5.3	20.3	14.0
Fishing	-1.3	-8.6	-1.1
Mining & quarrying	11.3	25.8	-5.0
Manufacturing	0.8	3.1	-4.1
Construction	-36.9	-45.9	-26.0
Electricity & Water	-5.5	-1.1	1.3
Wholesale & retail trade	-4.4	-8.2	3.6
Hotels & restaurants	0.1	-0.4	6.4
Transport & Communications	1.3	3.5	7.4
Financial services	0.8	0.9	3.9
Real estate and business services	0.1	0.4	2.1
Public administration & defence	-4.0	1.2	-3.3

This reflected weaker domestic demand and reduced consumer confidence, job losses, indebted households, stricter lending criteria by financial institutions, and the government's fiscal tightening measures. Agricultural output growth also decelerated to 5% compared to 20% in Q2 and 14% a year earlier, suggesting the post-drought recovery is subsiding, although there was a huge (8,258%) year-on-year expansion in live cattle exports to **South Africa** and **Angola**.²⁰ Mining sector grew just over 11%, compared to a 5% contraction in Q3 2016, but was under half the Q2 growth rate. Diamond value-added rose by 12.5% and uranium by 33%, the latter reflecting both higher output by the **Rössing** mine (**Rio Tinto** 68.6% equity interest) and initial production by the new **Husab** mine (**China General Nuclear (CGN)** and **China-Africa Development Fund (CADF)** 90% interest) since the start of the year.²¹ Manufacturing output growth slowed from 3.1% in Q2 to 0.8% in Q3, although this was still a better outcome than the 4.1% contraction recorded a year earlier. Diamond cutting and polishing posted double-digit growth of 34%, reflecting increased volumes of locally mined stones sold to local cutters by the **Namibia Diamond Trading Co. (NDTC)**, a government/**De Beers** 50:50 joint venture.²² Under the current marketing agreement between the government and De Beers, domestic sales now include all so-called 'special stones' – typically very large, or unusual stones – recovered by sole producer **Namdeb Holdings**, also a government/De Beers 50:50 joint venture.²³

¹⁸ Namibia Statistics Agency, Gross Domestic Product Third Quarter 2017.

¹⁹ Namibia Statistics Agency, Gross Domestic Product Third Quarter 2017.

²⁰ Namibia Statistics Agency, Gross Domestic Product Third Quarter 2017.

²¹ Namibia Statistics Agency, Gross Domestic Product Third Quarter 2017.

²² Namibia Statistics Agency, Gross Domestic Product Third Quarter 2017.

²³ De Beers, Namibia and De Beers Sign Milestone 10-Year Rough Diamond Sales Agreement, 16 May 2016 .

A strong growth rebound in Q4 was necessary for Namibia to have avoided recession last year; the NSA publishes its Q4 and 2017 preliminary national accounts at the end of March.²⁴ The unexpectedly sharp output contraction in Q3 makes positive growth for last year improbable. However, ARC anticipates that rough diamond production will have continued to rise in Q4 (it was up by 15% y/y in the first nine months of 2017), as the global market for retail diamond jewellery has remained firm (see *ARC Briefing Namibia October 2017*).²⁵ This has resulted in stronger demand for rough stones by worldwide cutting centres that have reduced stock levels and financed additional purchases.²⁶ **Anglo American Corp.**, which owns 85% of De Beers (the **Botswana** government retains a 15% equity stake), is due to announce its Q4 and 2017 annual results in late January.²⁷

...and the BoN revises down its near-term growth forecasts

Due to the economy's weak performance last year, the BoN has reduced its GDP growth projections for 2018 and 2019 to 2.2% and 3.1% respectively.²⁸ This is quite a reduction from growth rate projections of 3.8% and 3.5% respectively in its previous Economic Outlook Update, mainly reflecting last year's weaker than projected economic performance and slower than anticipated build-up to full capacity of the Husab uranium mine.²⁹ The downward revision comes against the backdrop of a strong recovery in global economic growth; the IMF has just updated its world GDP growth figures for both years from 3.7% to 3.9% and revised up its 2017 growth estimate from 3.5% to 3.7%, stating that "*momentum is building in global economic activity*". **The Times** described it "*the strongest statement for economic prospects since the 2008 financial crisis*".³⁰

Positive GDP growth in 2018-19 would be underpinned by a sustained expansion in the mining sector, faster manufacturing output growth, a marginal recovery in wholesale and retail trade, accompanied by a slowdown in the construction sector's rate of contraction.³¹ Although diamond mining value-added output is forecast to grow more modestly compared to an estimated 18% expansion in 2017 due to potential closures of some land mining operations, uranium output growth of 16% and 40% is projected for this year and next as the Husab mine ramps up production.³² The ramp up is taking place more slowly than initially expected and it is by no means certain the mine will achieve its design capacity of 6,800 tonnes of uranium oxide per year by then due to continued demand weakness and low prices on the global yellowcake market.³³ Although fishing output growth will stay weak, and agricultural growth – sourced equally from the livestock and crop growing sub-sectors – will moderate, overall primary sector growth will be 5.0% this year and 6.5% in 2019, corresponding with overall mining output growth of 7.5% and 8.7% respectively.³⁴ Manufacturing will expand by 2.6% in each year, but wholesale and retail output will contract by 1.5% this year, growing by only a fractional (0.3%) in 2019. In the absence of major new

²⁴ Source, Namibia analyst, London

²⁵ Source, Namibia analyst, London

²⁶ Source, Namibia analyst, London

²⁷ Source, Namibia analyst, London

²⁸ Bank of Namibia, Economic Outlook Update- December 2017.

²⁹ Central Bank, Economic Outlook Update- December 2017, Economic Outlook Update- July 2017

³⁰ Guardian, 23 Jan 2018; Times, 23 Jan 2018.

³¹ Source, Namibia analyst, London

³² Bank of Namibia, Economic Outlook Update- December 2017.

³³ Source, Namibia analyst, London

³⁴ Bank of Namibia, Economic Outlook Update- December 2017.

private sector developments, construction will continue to contract, albeit more modestly, at a projected 11% this year and 7% next.³⁵ The public sector's contribution to GDP is projected to grow by only 2.2% on average in 2018-19, down from 2.4% in 2016-17, due to ongoing fiscal consolidation by the government, despite the pace of this having been slowed in November's mid-year budget review (see *ARC Briefing Namibia November 2017*).³⁶

Inflation remains just above 5% for the moment

In December, y/y inflation stayed unchanged at 5.2% for the third successive month, helped by continued stability in the foreign exchange value of the **South African** rand, to which the **Namibia** dollar is linked at par, mainly reflecting the weaker **United States** dollar.³⁷ This kept the lid on the cost of Namibia's imports, including food and consumer goods, while imported inflationary pressures could further ease near-term. Since the start of 2018, the rand/Namibia dollar had strengthened to R1= \$0.083 (\$1= R12.0), its highest value in over a year.³⁸ Average annual inflation fell to 6.2% in 2017, from 6.7% in 2016, according to the NSA's latest monthly inflation report.³⁹ Last year's rate was still almost double annual average inflation of 3.4% in 2015. Prices for food and non-alcoholic beverages – at 16.5% the second-largest weighted component of the **National Consumer Price Index (NCPI)** basket – continued to rise more slowly in December at 2.4% y/y (3.0% in November), with lower prices for meat, oil and fats. Inflation for housing and utilities, with the biggest NCPI basket weighting at 28.4%, rose to 9.2% from 8.6% previously, contributing around half total inflation for December.⁴⁰ Y/y inflation in private rentals was again unchanged at 9.6%, but prices for electricity, gas and other fuels rose by 8.3%, almost double November's 4.6% increase. Transport inflation (14.3% of the basket) accelerated to 6.7% y/y in December (6.1% previously); the cost of operating vehicles rose to 8.6% from 7.3% in November due to higher fuel prices, partially offset by a slower increase of 6.8% in the cost of purchasing vehicles (7.5% in November).

With global oil prices generally expected to continue rising on the back of heightened **Middle East** tensions – the benchmark Brent crude price briefly exceeded \$70 per barrel in 19 January trading, its highest level since mid-2015 – transport inflation is likely to remain on an upward course, which could cause Namibia's overall inflation rate to start climbing again in the first half of 2018. The main near-term upside risks are higher global oil prices, resumed local currency depreciation, and renewed drought, of which there were ominous signs in early January with a general lack of rain across most crop-growing areas of north-central (the **Otavi** commercial maize triangle) and northern Namibia (subsistence millet and wheat crops). A substantial depreciation of the rand – which a further downgrade in South Africa's credit rating could trigger – could re-ignite inflationary pressures fairly rapidly. **Moody's Investor Service (MIS)** will decide whether to further mark down South Africa's sovereign credit rating in February from the current Baa3 (negative outlook) ranking. **Windhoek** stockbrokers **IJG Namibia** noted in their December inflation analysis that:

³⁵ Bank of Namibia, Economic Outlook Update- December 2017.

³⁶ Bank of Namibia, Economic Outlook Update- December 2017.

³⁷ Namibia Statistics Agency, Namibia Consumer Price index December 2017.

³⁸ XE online currency converter, 23 Jan 2018.

³⁹ Namibia Statistics Agency, Namibia Consumer Price index December 2017.

⁴⁰ Namibia Statistics Agency, Namibia Consumer Price index December 2017.

“A disappointing (February) budget preceded or followed by a possible downgrade will lead to a fallout (of South Africa) from major global bond indices, resulting in a weaker currency and definite inflationary pressures.”⁴¹

Battery metals boom fuels new exploration surge

The upsurge in global demand for so-called ‘battery metals’ (particularly cobalt, graphite, lithium and tantalum) for use in electronic applications, electric vehicles and renewable energy technologies has led a number of foreign exploration firms to home in on potential Namibian deposits for these minerals. These are all junior firms listed on the **Australian Securities Exchange (ASX)**, **Toronto Stock Exchange (TSX) Venture Exchange (TSX-V)** and the **United Kingdom** junior stock exchange, the **Alternative Investment Market (AIM)**. No **Chinese** firms are known to be directly involved so far, although investors from China are taking up strategic stakes in some of the firms involved on the ground. In the event of a major discovery leading to a commercial mining development, the Chinese role is sure to expand. Two Australian firms have secured exploration rights for areas prospective for lithium: **Auroch Minerals (Karibib** project, central Namibia) and **Walkabout Resources (Eureka** project, southern Namibia). Although Auroch’s focus has recently shifted to a cobalt-copper-gold project in **Czech Republic**, it is continuing to evaluate Karibib in **Erongo Region**, where it owns one exploration permit 90% under a joint venture with local firm **Dynamic Geo-Consulting Services** and has applied for five more. Its licence area contains four known pegmatite occurrences and is located next to two historic high-grade lithium mines at Helikon and Rubicon.⁴² Walkabout, in which a private Chinese engineering firm, **Jinpeng Mining and Machinery Co.** acquired an 11% equity interest last September by investing \$1m, has two exploration permits in the **Warmbad** area 25 kilometres north of the **Orange River** border with South Africa.⁴³ These cover 2,000 square kilometres in what the firm describes as the *“highly-prospective and under-explored”* **Orange River Pegmatite Belt (ORPB)** in **Karas Region**, and contain 90 kilometres of mineralised strike length in three parallel shear zones targeted for immediate initial exploration.⁴⁴ Walkabout owns one licence outright (granted by the mines and energy ministry last September) and can acquire a 51% earn-in interest in the second by spending A\$200,000 (\$162,000) on exploration under a January memorandum of understanding (MoU) signed with an unidentified Namibian firm (possibly a black economic empowerment (BEE) entity). This would rise to 75% after declaring an initial resource estimate. Walkabout, which is reviewing its previous **Takatkwane** coal flagship project in **Botswana**, is also developing the **Lindi Jumbo** graphite project in **Tanzania**, where it recently completed a definitive feasibility study (DFS). **Canada-based CKR Carbon Corp** holds a majority interest in an exploration permit covering the previously-mined **Aukam** graphite deposit in southern Namibia.⁴⁵ Extensive underground drilling and bulk sampling have identified extensive mineralisation outside the old workings.⁴⁶ Aukam produced some 25,000 tonnes of graphite periodically between 1940 and 1974. The firm looks for *“high quality, natural graphite suitable for use in lithium-ion batteries, graphite foil and other value-added high growth technology applications”* and only

⁴¹ IJG Namibia, NCPI- December 2017.

⁴² Auroch Minerals, ASX announcements 2016-17.

⁴³ Walkabout Resources, ASX announcements 11 Jan 2018, 20 Sep 2017.

⁴⁴ Walkabout Resources, ASX announcements 11 Jan 2018, 20 Sep 2017.

⁴⁵ CKR Carbon Corp., TSX-V announcement 7 Sep 2017.

⁴⁶ CKR Carbon Corp., TSX-V announcement 7 Sep 2017.

selects projects “requiring low capital and a short time to market”.⁴⁷ Canada-based **Namibia Rare Earths (NRE)** previously focussed on its **Lofdal** heavy rare earth elements (REE) project in northwest Namibia and is now finalising an agreement signed last year with local firm **Gecko Namibia** to acquire its 95% interest in the latter’s portfolio of 14 exploration licences.⁴⁸ In return and as part of a C\$550,000 (\$446,000) private share placement, Gecko will end up with a 44% shareholding in NRE. In a January update, the **Halifax, Nova Scotia**-based firm said the transaction would diversify it from a sole commodity base to a broader portfolio containing “a variety of highly critical commodities including cobalt, lithium, graphite, tantalum and niobium”.⁴⁹ Gecko will prioritise exploration of the **Kunene** cobalt-copper prospect in the northwest, which adjoins the **Opuwo** cobalt project containing a **Zambia Copperbelt**-style deposit.⁵⁰ This is located on four exploration permits 95%-owned by Australia’s **Celsius Resources**; a recently completed 15,000 metre drilling programme confirmed a very large mineralised system at depth.⁵¹

Planner

14 Feb 2018 **(Namibia) Bank of Namibia (BoN) Monetary Policy Committee** meeting;

15 Feb 2018 **(Namibia) CPI Bulletin** January 2018

15 Mar 2018 **(Namibia) CPI Bulletin** February 2018

29 Mar 2018 **(Namibia) Q4 2017 GDP Report, Preliminary National Accounts 2017**

Chronology

22 Jan 2018 **Windhoek (Namibia) Namibian**. The **Bank of Namibia** says that volume of counterfeit currency detected in 2016/2017 decreased to just 277 pieces;

22 Jan 2018 **Windhoek (Namibia) Xinhua**. **Namibia** and **China** sign a memorandum of understanding to cooperate on agricultural issues;

19 Jan 2018 **Windhoek (Namibia) Namibian**. Namibia’s public debt announced at 46.9% of gross domestic product in 2017;

18 Jan 2018 **Windhoek (Namibia) Newswire**. **Namibia Rare Earths** receives environmental clearance certificates for the **Lofdal Heavy Rare Earth Project** in northern Namibia;

17 Jan 2018 **Windhoek (Namibia) EWN**. **Namdeb**, the joint venture between the government and **De Beers**, offers voluntary redundancy to workers at the **Oranjemund** branch and 130 are expected to accept;

13 Jan 2018 **Windhoek (Namibia) Mining Review**. **Walkabout Resources** executes a memorandum of understanding for an exclusive prospecting licence in **Warmbad**, in southern Namibia;

10 Jan 2018 **Windhoek (Namibia) Engineering News**. Canada-based **Montero Mining and**

⁴⁷ CKR Carbon Corp., TSX-V announcement 7 Sep 2017.

⁴⁸ Namibia Rare Earths, TSX-V announcement 8 Jan 2018.

⁴⁹ Namibia Rare Earths, TSX-V announcement 8 Jan 2018.

⁵⁰ Namibia Rare Earths, TSX-V announcement 8 Jan 2018.

⁵¹ Celsius Resources, ASX release Jan 2018.

Exploration announces that it has discovered significant lithium mineralisation in Namibia;

10 Jan 2018 **Windhoek (Namibia)** *EWN*. Namibia bans import of all food from **Zambia**, which has been hit with a cholera outbreak;

8 Jan 2018 **Windhoek (Namibia)** *Newswire*. **Namibia Rare Earths** announces plans to complete acquisition of critical metal properties from **Gecko Namibia**;

27 Dec 2017 **Windhoek (Namibia)** *Namibian*. **Namibia Uranium Corporation** discovers new uranium deposit between **Rössing Uranium Mine** and **Husab Mine**;

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