

# Namibia QER Q3 2020

Namibia Quarterly Economic Review

July-September 2020

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## Quarter Summary

### Macroeconomic Situation – some bleak numbers and two historic firsts

Namibia spent most of the third quarter of 2020 still under the State of Emergency which President Geingob had declared on 17 March but this was allowed to lapse six months later on 17 September after Government decided not to extend it. Namibia started the quarter with 205 registered cases of Covid-19 and no deaths. Its first death occurred on 8 July and the country ended the quarter with 11,373 cases and 123 deaths according to the World Health Organisation (WHO).

The Bank of Namibia’s forecast for the economy in 2020 published earlier in the year was revised from -6.9% to -7.8% and the repo rate was cut still further to a record low of 3.75% following the Monetary Policy Committee meeting on 19 August. PSG forecast GDP declining by 7.8% while Cirrus Capital forecast a decline of 8.5%. Meanwhile, estimates for the economic contraction experienced in 2019 were revised from -1.1% to -1.6% by the Namibia Statistics Agency when the full national accounts were published in September. Quarterly GDP estimates showed the economy shrank by 1.8% in the first quarter compared to the same quarter of 2019 and by 11.8% in the second. The Government took the historic step of approaching the International Monetary Fund (IMF) for a loan of N\$4.5bn under the Fund’s Rapid Credit Facility. It is assumed this funding is the N\$3.23bn contained in the national budget under “Other Borrowing (Covid-19)”. Although the amount is small (Government’s estimated budget deficit is over N\$21bn this year), it brings Namibia into a closer relationship with an international institution which Namibia has always treated with suspicion. In another historic move, Government attempted to quickly raise money from the Government Objective Fish Quota it had allocated itself under the Marine Resources Amendment Act in 2015. After initially announcing N\$628m had been raised from the

hurriedly arranged auction, some weeks later it turned out that only N\$8.4m had in fact been raised from five bidders.

The impact of the lockdown and restrictive measures started being felt in direct and indirect ways from job losses in the tourism and hospitality industry to financial results from Namibia Breweries which was severely hit by the alcohol ban imposed under the lockdown. International tourists were allowed back into the country via Hosea Kutako International Airport from 1 September.

## News Highlights

Date	Highlight	Commentary
30 September	Air Namibia cuts salaries by half (The Namibian)	Air Namibia announced that it had cut the salaries of its staff by 50% excluding staff working on domestic routes and management.
30 September	Government fish quota auction raises N\$8.4m (Reuters)	Finance Minister lipumbu Shiimi announced that Government had raised just N\$8.4m in its auction of the Government Objective Quota and blamed speculators for the shortfall between the N\$628m of the bids that had been initially accepted and the final outcome.
24 September	Development Bank of Namibia settles first bond (The Namibian)	The Development Bank of Namibia announced that it had redeemed the DBN20 bond, the first it had issued in September 2017 under its N\$2.5bn medium term bond note programme.
22 September	Namibia Statistics Agency revises GDP down in 2019 (Namibia Economist)	The Namibia Statistics Agency revised the contraction in the economy in 2019 from -1.1% to -1.6%.
19 September	Sam Shivute to head the Namibia Revenue Agency (The Namibian)	Director of Banking Services at the Bank of Namibia Sam Shivute has been appointed operational head of the new Namibia Revenue Agency.
18 September	Government decides not to extend State of Emergency (The Namibian)	The Government decided not to extend the State of Emergency which had been in place for six months and lapsed on 17 September.
17 September	Fishcor instructed to terminate partnership with SPP (The Namibian)	Public Enterprises Minister Leon Jooste instructed Fishcor to terminate its partnership with Seaflower Pelagic Processors (SPP) but it was unclear why.
14 September	First international flight in six months lands at HKIA (The Namibian)	The first international flight to arrive at Hosea Kutako International Airport for six months was an Ethiopian Airlines flight carrying 43 passengers including Namibian nationals and tourists.
13 September	Finance Minister estimates economic contraction of more than 6% for 2020 (The Namibian)	At a briefing at State House, Finance Minister lipumbu Shiimi said he thought the economy would contract by more than the 6% previously thought.
11 September	Ban hits Namibia Breweries results (The Namibian)	In a trading update, Namibia Breweries announced that the ban on alcohol sales during lockdown in Namibia and South Africa would negatively affected sales and

		earnings by between 65% and 75% compared to last year.
9 September	Cirrus Capital estimates 8.5% contraction in 2020 (The Namibian)	Cirrus Capital published its economic outlook for 2020 which estimated that GDP would contract by 8.5% - the largest in the nation's history almost taking the economy back to where it was in 2013.
8 September	South African GDP declines by 51% in Q2 2020 (StatsSA)	South African GDP shrank by 51% quarter-on-quarter in Q2 2020 due to the Covid-19 lockdown.
7 September	Anti-Corruption Commission completes Fishrot investigation (The Namibian)	In a testimony to the Windhoek Magistrate's Court, Anti-Corruption Commission (ACC) investigator Andreas Kanyangela stated that the ACC had completed its investigation into the Fishrot case and had gathered most of the information needed to prosecute the case.
25 August	Namibia's borders to open on 1 September (The Namibian)	Tourism Minister Pohamba Shifeta announced that Namibia's borders would open to international tourists from 1 September via Hosea Kutako International Airport only.
19 August	Bank of Namibia cuts repo rate to 3.75% (BoN)	The Bank of Namibia's Monetary Policy Committee (MPC) cut the repo rate by 25 basis points from 4.0% to 3.75%. The repo has been cut by 2.75% since the beginning of the year.
19 August	Namibia's economy expected to contract by 7.8% in 2020 (Namibia Economist)	The Bank of Namibia published its economic outlook for 2020 which projected the economy would shrink by 7.8% due to Covid-19. The BoN projected positive growth of 2.1% and 2.7% in 2021 and 2022.
13 August	SME Bank minority shareholders abandon court case (The Namibian)	The Zimbabwean minority shareholders in the SME Bank abandoned their bid to have the High Court reverse the closure of the bank and declare it unconstitutional.
12 August	Air Namibia suspends domestic flights (The Namibian)	Air Namibia announced that all domestic flights would be suspended for 18 days until 30 August due to new travel restrictions imposed as a result of Covid-19.
12 August	Namibia reverts to Stage 3 lockdown (Southern Times)	Namibia reverted to Stage 3 lockdown for 16 days after the number of Covid-19 cases surpassed 3,000 and deaths reached 22.
10 August	Government announces plan to auction fishing quota (Bloomberg)	Government announced its intention to sell 60% of its Government Objective Fish Quota in hake and horse mackerel to raise money to help in the fight against Covid-19. 40% of the quota would be reserved for local companies.
7 August	Seaflower Pelagic Processors awarded fishing quota (The Namibian)	Erongo Governor Neville Andre announced that the Government had awarded Seaflower Pelagic Processors (SPP) a fishing quota in a bid to secure 600 jobs following the company's failure to secure a 50,000 tonne horse mackerel quota. Fishcor has a 40% stake in SPP.
5 August	Otjikoto mine produces 43,496 ounces of gold in Q2 2020 (B2Gold)	B2Gold reported that its Otjikoto mine produced 43,496 ounces of gold in Q2 2020. Its annual forecast is 165,000-175,000 ounces for 2020, the same as 2019.

4 August	Namibian Competition Commission blocks sale of Ohorongo (The Namibian)	The Namibian Competition Commission blocked the sale of the majority stake owned by Schwenk to West China Cement because it would lead to coordination with Whale Rock Cement to the detriment of consumers. This is the second attempt by Schwenk to sell its stake in Ohorongo.
29 July	Namibia applies for US\$273m loan from IMF (Bloomberg)	Namibia's Finance Ministry confirmed that it had approached the IMF for a N\$4.5 billion loan to help the country counter the impact of Covid-19.
17 July	Namibia exported USD200m of charcoal in past decade (Southern Times)	According to the manager of the Namibia Charcoal Association Michael Dege, Namibia exported 200,000 tonnes of charcoal in 2019 at a price of N\$5,000 per tonne and is entering lucrative new markets including China.
16 July	Namdeb produces 358,000 carats in Q2 2020 (AA)	Anglo American reported that Namdeb Holdings produced 358,000 carats in Q2 2020 compared to 511,000 carats in Q1 2020. Debmarine Namibia accounted for 305,000 carats of total production.
13 July	Air Namibia appoints Mberirua as interim MD (Namibia Economist)	Air Namibia appointed Theo Mberirua as its interim MD from 13 July taking over from Elia Erastus.
12 July	Geingob says SWAPO did not receive money from Fishrot (The Namibian)	President Geingob stated that SWAPO Party did not directly receive money from the Fishrot scandal – Namibia's biggest case of corruption in fishing – in response to allegations that money helped fund his election campaign. Geingob emphasised that former Ministers Shanghala and Esau are innocent until proven guilty.
10 July	Namibia records first Covid death (The Namibian)	After 116 days and 667 positive cases, Health Minister Kalumbi Shanghala announced Namibia's first Covid-19 death on 8 July, a 45-year old man from Walvis Bay.
8 July	Air Namibia to have planes grounded (Reuters)	Transport Commission chief Eldorette Harmse announced that all of Air Namibia's planes would be grounded by midnight after the cash-strapped airline had failed to secure funding to remain solvent. On 9 July Namibia's High Court allowed Air Namibia to continue with domestic flights.
7 July	Bank BIC Namibia releases results for 2018 (The Namibian)	Bank BIC Namibia released its financial results for 2018 showing it made a loss of N\$26.9m loss and required a cash injection of N\$82.4m from its sister bank in Cape Verde. Bank BIC is majority-owned by Isobel dos Santos who is being prosecuted in Angola for embezzlement and money laundering.
6 July	Public Enterprises Minister appoints temporary board for Fishcor (The Namibian)	Public Enterprises Minister Leon Jooste appointed Milka Mungunda, Ruth Herunga, Mihe Gaomab II and Penny Hiwilipo-Hal for six months to the board for Fishcor, currently at the centre of the Fishrot scandal.
6 July	President Geingob announces continuation of Stage 4 lockdown (The Namibian)	President Geingob announced that 13 regions would remain in Stage 4 while Erongo would remain in Stage 3 of the Covid-19 State of Emergency. Some 90% of Covid cases were in Walvis Bay.

6 July	Applications for new diamond licences open (African Mining Market)	Diamond Commissioner Miina Gahutu announced that applications were now open for a new round of diamond cutting, dealing, tool-making and research licences.
6 July	Gunther Ling appointed Hartlief MD (New Era)	Ohlthaver & List Group subsidiary Hartlief confirmed Gunther Ling as its new MD from 1 March 2020. Ling was previously head of Namibia Dairies.
2 July	Government is considering options for Air Namibia (Reuters)	Finance Minister Nangolo Mbumba told Parliament the Government was considering options for Air Namibia which he said had debts of N\$5 billion in debts including leases and would cost N\$7 billion to implement the company's new business plan. Mbumba said it was important to have a national airline but the current situation was unaffordable.
30 June	Novanam sends home 1,800 workers (The Namibian)	Luderitz-based Novanam sent home 1,800 workers after reaching its hake quota limit for the 2019/20 fishing season which was due to end in September. However, after the company received additional quotas from the Ministry of Fisheries and Marine Resources, workers returned to work a week later.
30 June	Paladin plans to reopen Langer Heinrich (Miningmx)	Paladin energy announced a USD81m plan to restart production on the back of a one-third lift in uranium prices this year. The mine was mothballed in 2018. Resumption of production will depend on whether Paladin secures short-term offtake agreements.
30 June	Fitch downgrades Namport ratings (Fitch)	Fitch Ratings downgraded Namport's credit rating from stable to negative while affirming the company's National Short and Long-Term Rating.

## Special Feature

### Namibia's Diamond Dream – Where Are We?

It has been over 20 years since the Diamond Act of 1999 came into force. Since then much has happened both internationally and in Namibia. This feature summarises the progress made locally in terms of realising Namibia's "Diamond Dream" – a core aim of which is that more is achieved locally with Namibia's diamond resource – and updates readers on the data that is available to assess progress. The key developments since the creation of Namdeb in 1994 have been as follows:

- 1994 – Namdeb created
- 1999 – Diamond Act 1999 passed
- 1999 – New marketing agreement between GRN and De Beers
- 2000 – De Beers delists from JSE and NSX
- 2000 – Kimberley Process initiated
- 2000 – De Beers Marine Namibia created
- 2005 – Diamdel Namibia created
- 2007 – New marketing agreement between GRN and De Beers

- 2007 – Namibian Diamond Trading Company created
- 2011 – Namdeb Holdings created
- 2011 – Oppenheimer family sells shareholding in De Beers to Anglo American
- 2014 – Namdeb Holdings receives 15-year licence extension for land and sea
- 2016 – New 10-year marketing agreement between GRN and De Beers agreed
- 2016 – Namdia created
- 2016 – Export Levy Act passed
- 2020 – EPZ incentives scrapped

The Diamond Act provides the framework within which institutional and policy developments have taken place. It is important to understand the role of the various institutional players that currently make up the industry.

### **Ministry of Mines and Energy**

The Ministry of Mines and Energy is the key policy-making institution for the industry and is headed by the Minister of Mines and Energy. Since 1999 there have been five Ministers of Mines and Energy: Dr Nickey Iyambo, Erkki Nghimtina, Isak Katali, Obeth Kandjoze and Tom Alweendo.

### **Diamond Board**

Under the auspices of the Ministry of Mines and Energy, the Diamond Board of Namibia was classified as a non-commercial State-Owned Enterprise with its own board of directors. The Diamond Board exists to implement and regulate policies towards the diamond industry. It was headed by Diamond Commissioner Kennedy Hamutenya from 1999 to 2016 when he was replaced by Miina Gahutu. Among other things, the Diamond Board is responsible for licensing diamond cutting and polishing operations.

### **Government Diamond Valuator**

The Government Diamond Valuator (GDV) is a private company contracted by Government to provide an independent check that diamonds mined in Namibia are properly valued and priced before they are sold. In 2005 a company called Diamond Marketing Consultants (DMC) was appointed which was partly Namibian-owned. In November 2009 Government announced it had appointed a new GDV for the next five years, Global Diamond Valuers Namibia (formerly Gazania Investment 88), owned by four Namibians: Andries Eiseb, Karl Manfred Isaacks, Timotheus Mujeu and Albino Pringu. The company continued to play this role until 2019 when the Central Procurement Board awarded a N\$300m tender to Gem Diamonds Namibia under controversial circumstances. The company is partly owned by the Finance Manager of Fishcor, Paulus Ngalangi.

### **Namdeb Holdings**

Namdeb Holdings is a 50:50 partnership between the Government of Namibia and De Beers created in 2011 comprising Namdeb Diamond Corporation (the land-based mining operations) and De Beers Marine Namibia (the offshore mining operations). Namdeb is responsible for mining diamonds on- and off-shore, sorting them and then selling them all to the Namibia Diamond Trading Company (NDTC). Namdeb was headed by Inge Zamwaani

from 1999 to 2015 who was eventually replaced by Riaan Burger in 2017. Over the years De Beers Marine has contributed an ever greater share of production to overall output. In 2019 it accounted for 76% of production by volume or 1,292,000 carats out of a total of 1,700,000 carats.

### **De Beers**

Following the exit of the Oppenheimer family in 2011, De Beers is 85% owned by Anglo American plc (listed on the London Stock Exchange) and 15% by the Government of the Republic of Botswana. De Beers has been a constant presence in Namibia's diamond industry since Independence and saw off attempts by Lev Leviev to usurp its leading position in Namibia. Bruce Cleaver has been its CEO since taking over from Phillippe Mellier in 2016. The sales and marketing agreement that exists between De Beers and the Government and which is renegotiated every ten years is secret.

### **Namibia Diamond Trading Company**

The Namibia Diamond Trading Company (NDTC) is a 50:50 partnership between the Government of Namibia and De Beers created in 2007. The NDTC is mandated to carry out the sorting, valuation and sales of all rough diamonds mined by Namdeb Holdings. The market value of production is determined through the sorting and valuation process independently checked by the Government Diamond Valuator (GDV). This valuation forms the basis on which corporate income tax and royalties are paid by Namdeb to the Government. Once the value of production is determined, the NDTC sells the rough diamonds as follows:

1. 15% of Namdeb's run of production by value is sold to Namdia;
2. approximately US\$430m of production is offered to NDTC sightholders annually for cutting and polishing and further downstream diamond beneficiation;
3. the remainder (after sales to Namdia and NDTC sightholders) is offered and sold to De Beers Global Sightholder Sales and exported to Gaborone in Botswana.

Diamond royalties of 10% are paid on all of Namdeb's rough stones regardless of their eventual destination. The NDTC was headed by former Works Permanent Secretary Shihaleni Ndjaba until he retired in 2019 to be replaced by Brent Eiseb.

### **Namibia Desert Diamonds**

Namibia Desert Diamonds (Namdia) is 100% owned by the Government of Namibia. It was established in 2016 and former Diamond Commissioner Kennedy Hamutenya was appointed its CEO. Namdia buys 15% of Namdeb's run of production rough diamonds from the NDTC and sells them to international clients outside the De Beers network of sightholders thus allowing the Government of Namibia to check the value it could obtain for Namibia's rough diamonds independent of De Beers. It is worth noting that Namdia was created more than two decades after Government became a joint shareholder in Namdeb (in 1994) during which time Government presumably became well acquainted with how Namibia's diamonds

were mined, sorted, valued and sold. Namdia also owns 50% of NamGem, a diamond cutting and polishing company whose origins go back to 1998 when it was established by Namdeb. Namdia falls under the Ministry of Public Enterprises. In December 2019 after a lengthy delay, Mines Minister Tom Alweendo announced the first Namdia board had been replaced with a new board consisting of Bryan Eiseb (chairperson) from Exchange Control and Legal Services at the Bank of Namibia, Justus Hausiku, Ndapwilapo Shimutwiken, Jacqueline Pack and Lina Muatunga (the only member of the previous board to be kept on). In June 2020, it was reported that Mines Minister Alweendo blocked the reappointment of former De Beers dealer Neil Haddock whom Namdia had contracted for three years to help sell its diamonds in Dubai. Haddock owns a company called Global Diamond Tenders.

### **NDTC sightholders**

The NDTC sells rough diamonds from Namdeb to cutting and polishing operations in Namibia which have been specially selected as NDTC sightholders. They cut and polish these domestically-sourced diamonds along with rough diamonds they import from other sources. They are not obliged to buy everything offered to them by the NDTC nor to cut and polish all the Namibian diamonds they purchase locally (and can therefore export rough diamonds too). However, sightholders are subject to regular technical visits by NDTC and are regularly assessed by the NDTC on what they have done with their purchases (“utilisation”) as well as how many jobs they have created and to what extent skills have been transferred. These sightholders periodically have to reapply to the NDTC and meet certain criteria to have their special status reassessed. There are currently eight NDTC sightholders:

1. Ankit Gems Namibia (Pty) Ltd
2. Almod Diamonds Namibia t/a Duiker Investment 142 (Pty) Ltd
3. Diacore Diamonds Namibia (Pty) Ltd
4. Julius Klein Diamonds Namibia (Pty) Ltd
5. KGK Diamonds Namibia (Pty) Ltd
6. Pluczenik Diamonds Namibia (Pty) Ltd
7. Schachter & Namdar Namibia (Pty) Ltd
8. Trau Bros Diamonds Namibia (Pty) Ltd

These companies are part of larger privately held companies which conduct diamond cutting and polishing as well as other diamond operations in other countries. Companies which are not De Beers sightholders are eligible to become NDTC sightholders provided they meet NDTC criteria. They have local Namibian shareholders. In the past Kalumbi Shangula has been associated with Ankit, Sara Shikongo with Almod, Helmuth Angula with Julius Klein, and Sadike Nepela with Schachter & Namdar. Up to this year they all enjoyed EPZ status which means they do not pay corporate income tax and enjoy other tax advantages. This is set to change after Parliament agreed to scrap EPZ incentives earlier this year. Sightholders have put a case for VAT exemptions to cushion the impact of the loss of EPZ status. Furthermore, because some sell to local Namibian jewellers, it is now possible for Namibians and tourists to Namibia to buy jewellery with Namibian diamonds which was not the case in 1990. There is a Diamond Manufacturers Association of Namibia (DIAMAN) to which these operations belong. In June 2020, the NDTC announced that the process of



applying to become an NDTC sightholder was open. The current rough diamond supply contracts to the existing eight sightholders will terminate at the end of 2020 and the NDTC has commenced with the sightholder selection process with the intention of entering into new supply contracts with successful applicants at the beginning of 2021.

For outsiders wanting to learn more about the industry and Namibia's progress in achieving its objectives, data and information is hard to find.

Namibia's national accounts contain information about how much diamond mining and diamond cutting and polishing contributes to Namibia's Gross Domestic Product (GDP) as well as the export value of rough as well as of cut and polished diamonds in Namibia dollars. It does not contain information on the import of rough diamonds.

As a member of the Kimberley Process ([www.kimberleyprocess.com](http://www.kimberleyprocess.com)) Namibia has reported the volume and value of its production, export and import of rough diamonds since 2004 and this data is available to the general public.

Anglo American ([www.angloamerican.com](http://www.angloamerican.com)) reports the production volume of rough diamonds produced by Namdeb every quarter. Since 2011 Namdeb no longer produces its own public annual report and no longer releases data on production or sales separately from Anglo America. The Namdeb website is virtually content free. It does contribute data on production volumes to the Chamber of Mines Annual Review.

The Diamond Board ([www.diamondsnamibia.com](http://www.diamondsnamibia.com)) does not release regular information or data about Namibia's diamond industry.

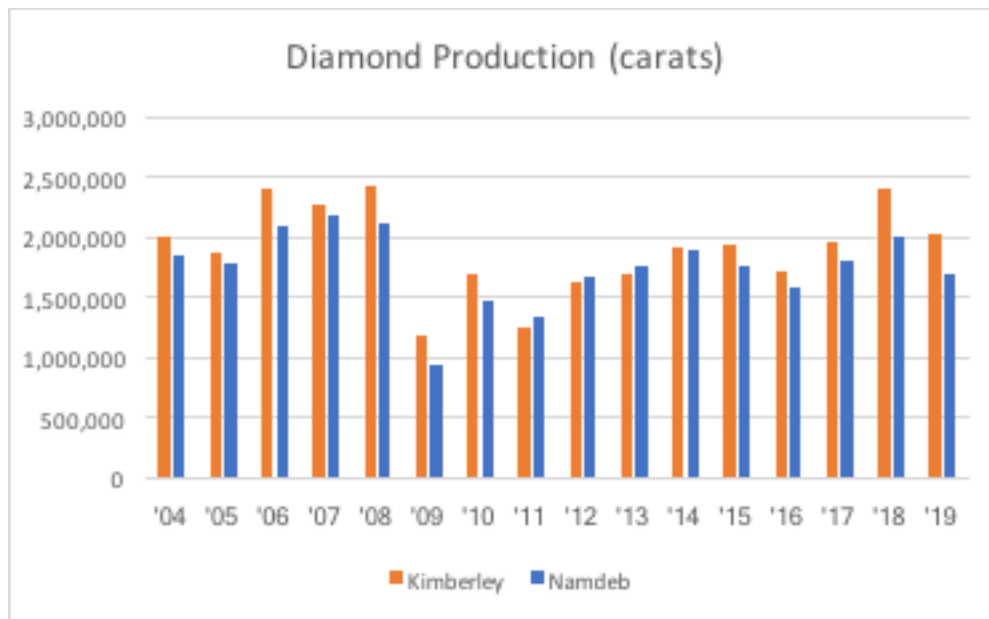
The NDTC does not produce an annual report for public consumption.

Namdia ([www.namdia.com](http://www.namdia.com)) produces an annual report and makes it available on the company website.

None of the NDTC sightholders produce an annual report for public consumption.

### **Rough Diamond Production**

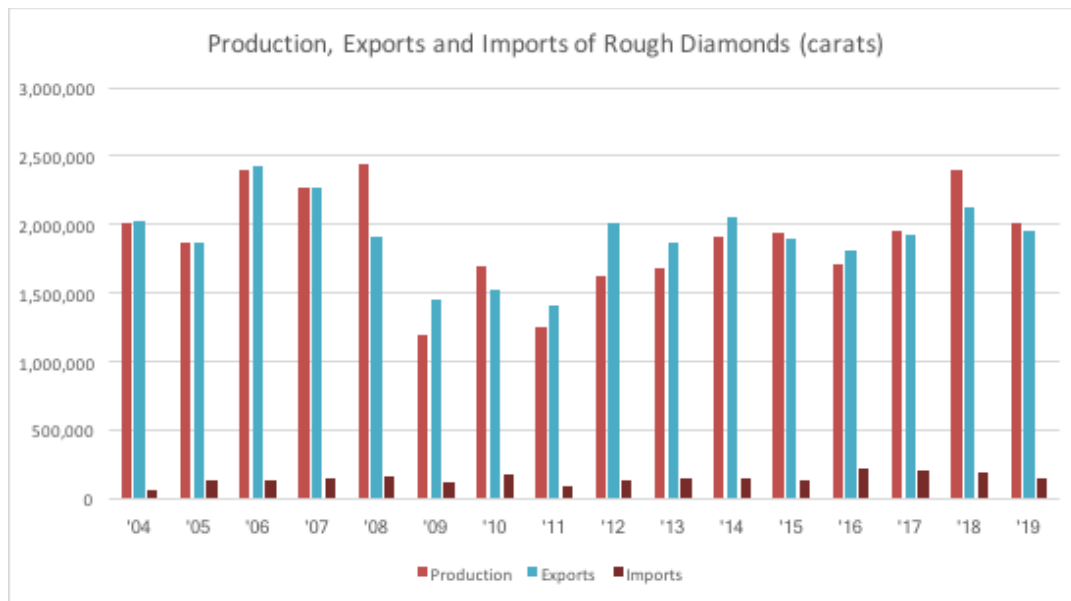
It is interesting to compare the volume of Namibia's production of rough diamonds from three sources: the Kimberley Process, Namdeb (via Anglo American) and Namdeb (via the Chamber of Mines of Namibia). Reassuringly, the numbers provided by Namdeb to the Chamber of Mines of Namibia are almost exactly the same as those provided via Anglo American.



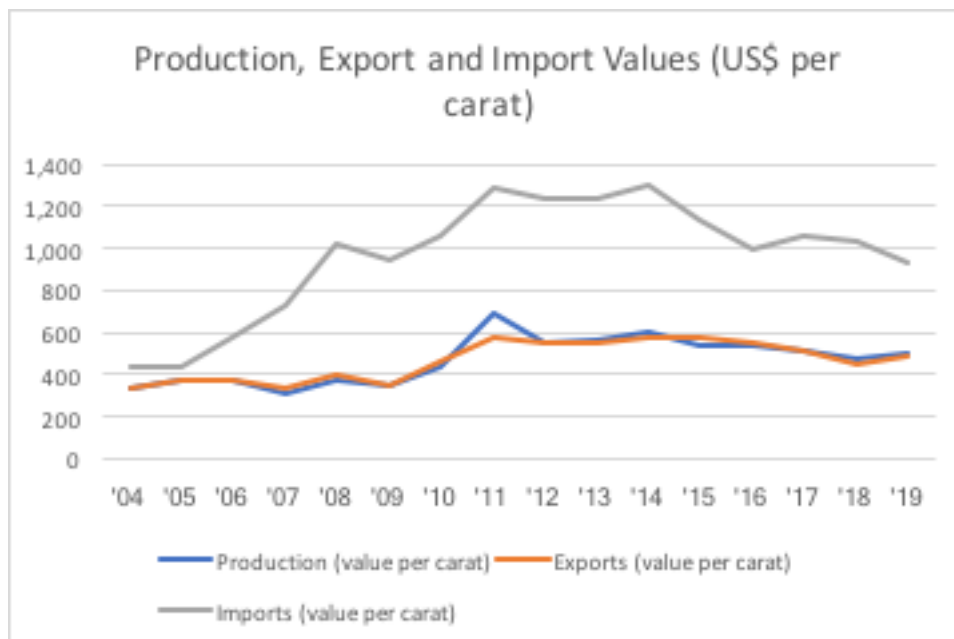
In almost all years from 2004 to 2019, Kimberley production figures are higher than those reported by Namdeb. This can find some explanation in years past when Namdeb was not the only diamond mining company in Namibia (Ocean Diamond Mining, TransHex, Namco, Samicor and Diamond Fields Namibia have produced relatively small quantities of rough diamonds compared to Namdeb). However, in the past decade or so Namdeb has been the only diamond mining operation of any size in Namibia although Diamond Fields Namibia and Samicor (which are not members of the Chamber of Mines of Namibia) continue to produce small quantities of rough diamonds. Despite this, the discrepancies between its production figures and those from the Kimberley Process have sometimes been large, especially since 2015.

### Production, Exports and Imports

Since the establishment of a Namibian diamond cutting and polishing industry started with the creation of NamGem in 1998, Namibia has been an importer as well as an exporter of rough diamonds. This is because it has not made commercial sense to cut and polish all of Namibia's rough diamonds locally. The lack of skills and relatively high labour costs mean only a segment of diamonds (initially between 1.25 and 14 carats but more recently between 1.0 and 14.8 carats) are commercially viable leaving the very small diamonds to lower cost cutting and polishing centres elsewhere in the world. Cutting and polishing factories will buy Namibian rough diamonds that can be commercially processed in Namibia but, because factories require larger volumes to become commercially viable, they also import rough diamonds of the right size and quality to supplement their local purchases. Furthermore, because not all production is sold immediately and stockpiling and de-stocking can occur depending on the state of the diamond market, there can be differences between production and exports. As more locally mined rough diamonds are sold to local cutting and polishing factories, production can be expected to exceed exports of rough diamonds.



The Kimberley Process provides data on the production, export and import of rough diamonds. As, over time, more Namibian rough diamonds are cut and polished locally, one would expect to see production of rough diamonds generally exceed exports of rough diamonds. Although there are years where this is so, there does not appear to be any strong trend. Likewise, over time, one would expect to see imports of rough diamonds increase as local cutting and polishing factories import more to supplement their local supplies. Here too no strong trend is visible which may be because manufacturing costs remain high and the production cycle is longer in Namibia.

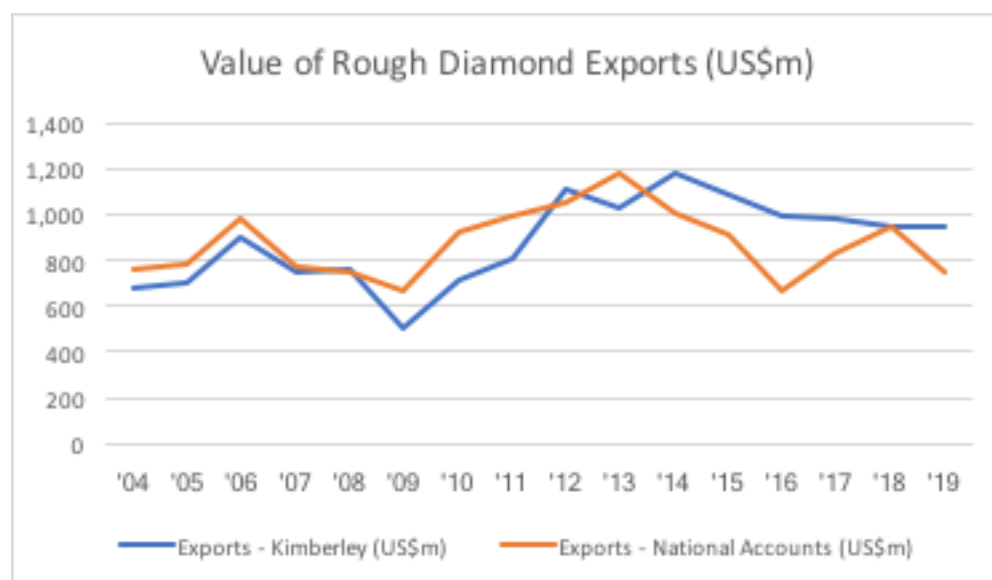


The Kimberley Process provides information on the average value of production, exports and imports and this shown in the chart. While the average values of mined and exported

stones are very close to each other, the average value of imported stones is much higher than either. Presumably this is because Namibian factories only process larger stones (“cuttables”). However, the price difference has been falling in recent years suggesting that Namibian factories may be becoming better at processing smaller stones which have a lower average value per carat.

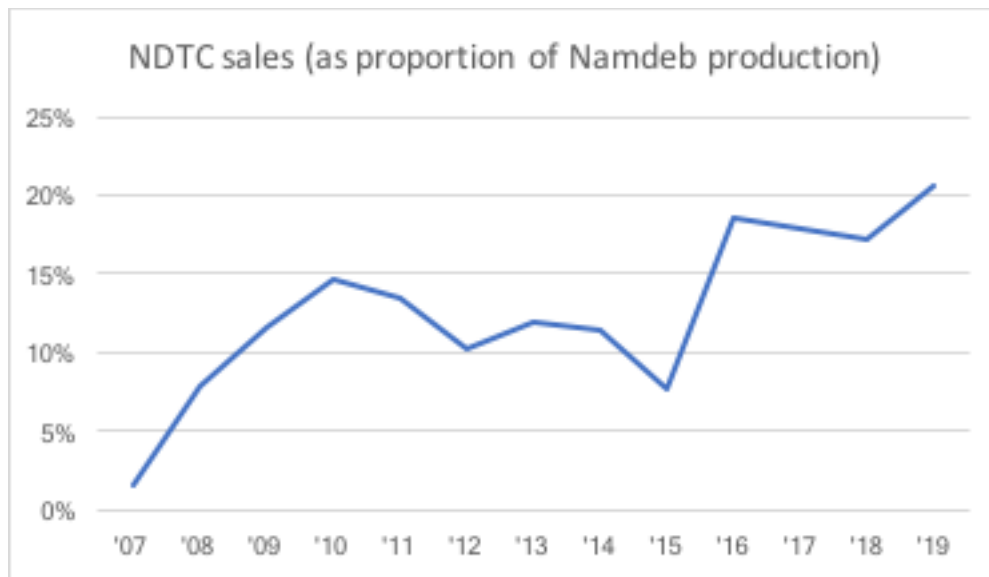
### Exports of Rough Diamonds

As Namibia develops its own cutting and polishing industry, it can be expected that export volumes of rough diamonds level off or even decline. This will be limited by the cap that exists on local sales by NDTC and also by the relatively high manufacturing costs in Namibia. The NDTC states that it is already currently offering close to 85% of Namibia’s cuttable range to Namdia and NDTC sightholders. If Kimberley Process numbers on the value of exports are compared with the value of rough diamond exports from Namibia’s national accounts (using the average N\$:US\$ exchange rate provided in the national accounts) it can be seen that export values from both sources follow a similar pattern but that sometimes there are significant differences between them which is puzzling.



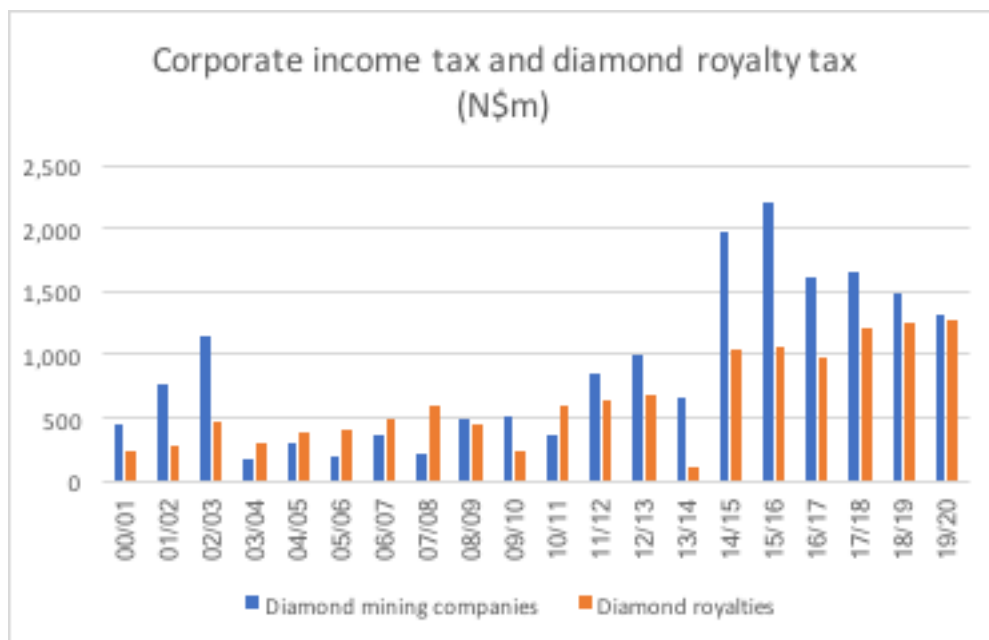
### NDTC Sales

As described above, the NDTC exclusively sells Namdeb’s entire production of rough diamonds and does so to: 1) Namdia (since 2016); 2) to local cutting and polishing factories (NDTC sightholders); and 3) to De Beers Global Sightholder Sales in Botswana. The chart shows the proportion of Namdeb production volumes (carats) sold by NDTC to local sightholders since it was established in 2007 using data supplied by the NDTC. The chart excludes sales to Namdia. The original agreement allowed the NDTC to sell 16% of Namdeb’s cuttable diamonds (those larger than 1.25 carats) locally. It can be seen that sales grew to almost 15% of Namdeb production by 2010 but then sank back to almost half that level by 2015 since when it has grown to over 20%.



### Tax Revenue from Namdeb

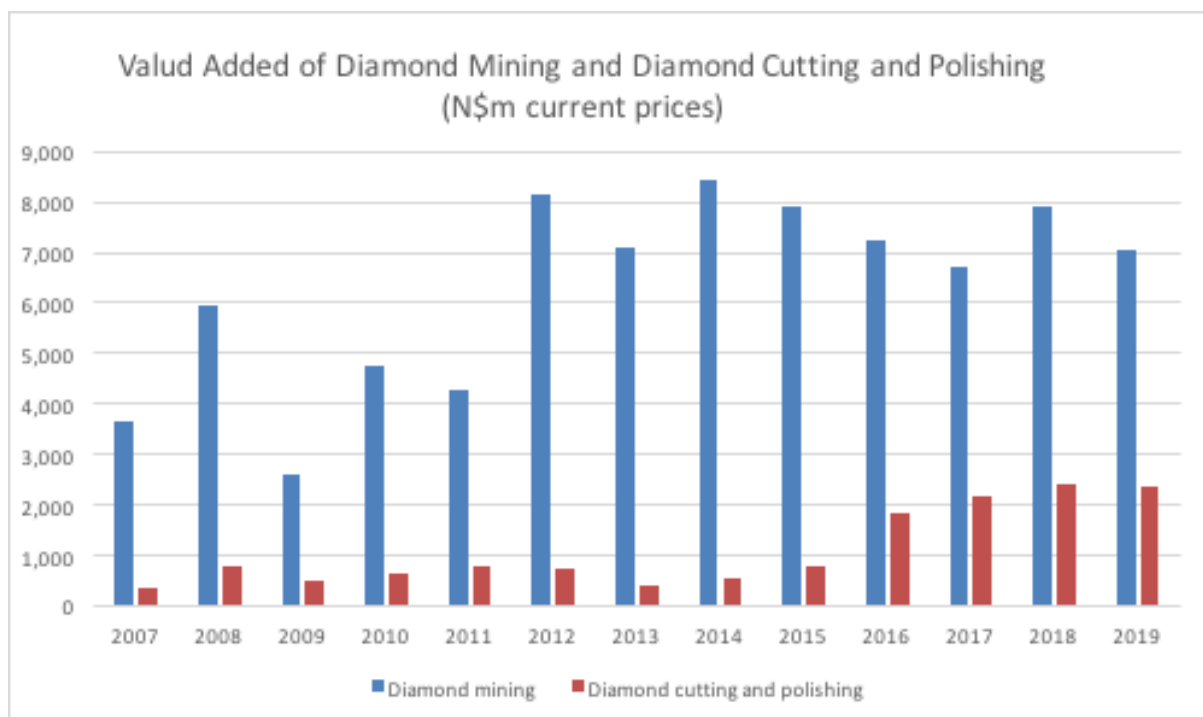
Namdeb has been an important contributor to Namibia's fiscus through an effective 55% corporate income tax rate (much higher than other companies and also other mining companies) plus a 10% tax on the export of rough diamonds plus an export levy of up to 2% on pure unsorted rough diamonds. The NDTC and Namdia contribute further revenues to the fiscus which are separately identified in the national budget document.



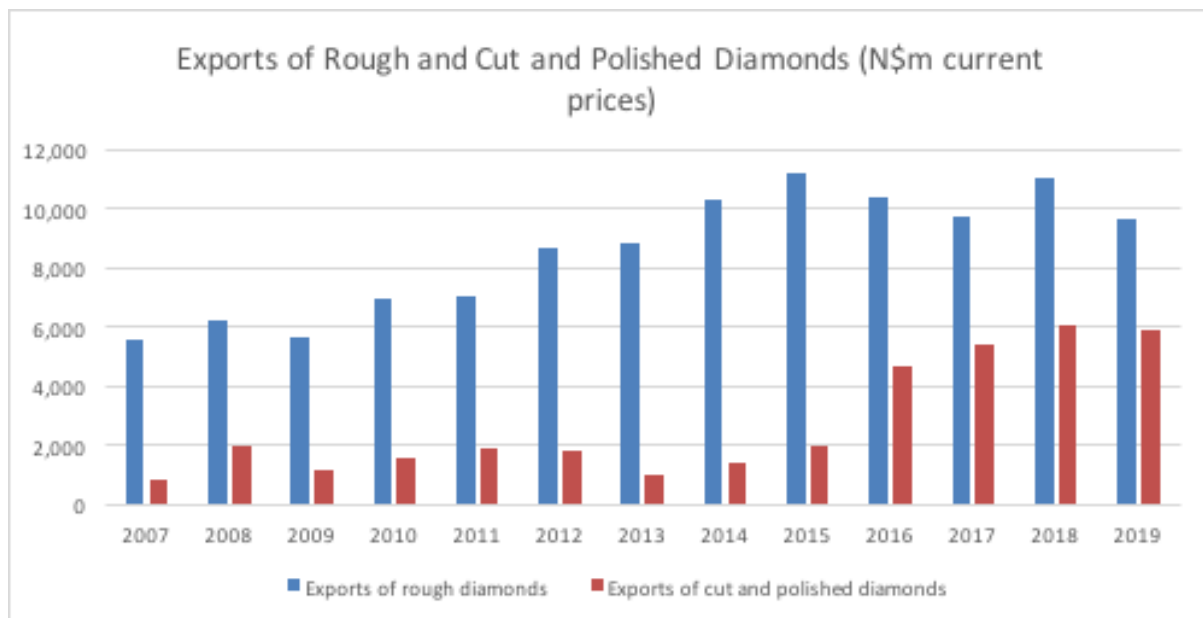
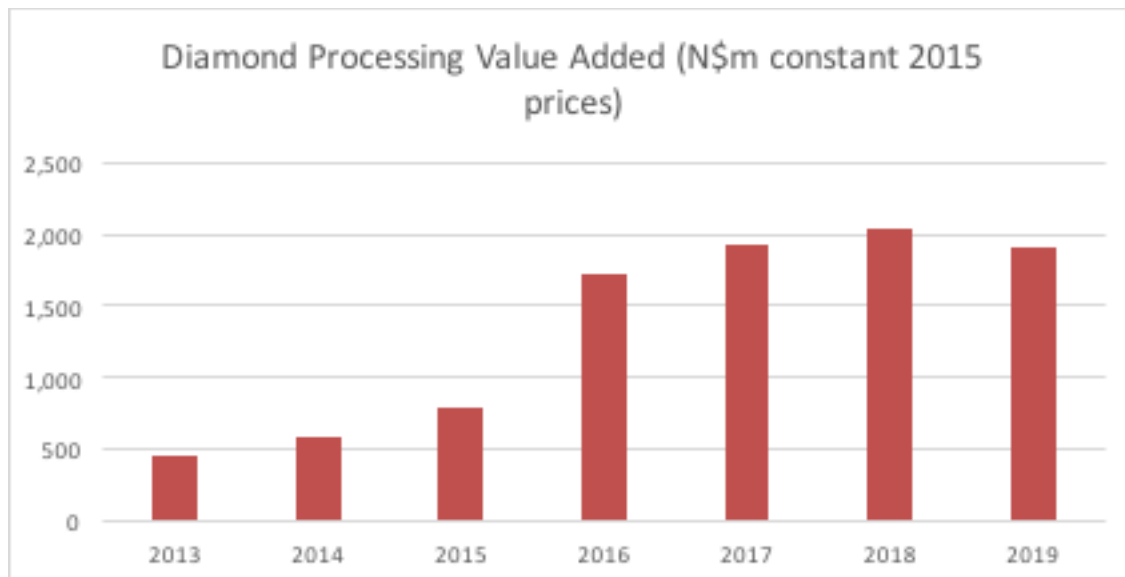
Following over a decade of modest profitability and therefore modest corporate income tax payments, profitability seems to have jumped from 2014/15. This could have come about due to the move from expensive onshore operations to more efficient offshore production. Royalties are paid on all rough diamond sales by NDTC regardless of whether they are to Namdia, NDTC sightholders or De Beers.

### Value Added from Diamonds in the Economy

Namibia's national accounts provide more information about the diamond industry than they used to. The chart below shows the value added contributed by diamond mining as well as diamond cutting and polishing to the national economy. Value added from diamond mining has fluctuated around N\$7bn and N\$8bn since 2012 but value added from diamond cutting and polishing grew sharply from 2013. According to these numbers, diamond processing has grown from a situation where it contributed about one tenth of the value addition from diamond mining to one where it contributed about one third in 2019 – a significant relative shift in importance of processing over mining. Unfortunately, the differences in current price value addition from one set of national accounts to another are so large that they raise serious doubts about the validity of the numbers.



Measured in constant 2015 prices, value added from diamond cutting and polishing has risen sharply since 2013 and jumped in 2016 when sales by the NDTC also rose sharply. This reflects the fact that the supply threshold was increased to US\$430m and that more rough diamonds were offered and sold to NDTC sightholders leading to increased beneficiation. The NDTC reports that for the last three years the local industry has been averaging a utilisation rate of approximately 70%, up from the 20% that had been achieved under the previous Sales and Marketing Agreement.



If exports of rough and of cut and polished diamonds from the National Accounts are examined, it can be seen that the relative weight of the two exports has changed considerably since 2007. Whereas in 2007 the value of processed stone exports was 16% of the value of rough stone exports, in 2019 the value of processed stone exports was 61% of the value of rough stone exports. In this sense, Namibia is becoming almost as much an exporter of cut and polished diamonds as of rough diamonds.

### Namdia

Unlike Namdeb or the NDTC, Namdia publishes a detailed annual report. The table below shows highlights from its first four financial years with financial information provided in Namibia dollars. The purchase entitlements correspond almost exactly to 15% of Namdeb production by volume.

N\$m	16/17*	17/18	18/19	19/20
Revenue	861.7	1,930.5	2,274.9	1,959.1
Profit before taxation	91.5	206.2	238.6	150.2
Tax paid	29.5	66.8	76.7	54.9
Profit after taxation	62.0	139.4	162.0	95.2
Staff employed		20	21	24
*11 months to February 2017				
Purchase entitlement (carats)*		272,518	304,033	262,633
Buying average price per carat	527.20	510.80	531.00	521.58
Selling average price per carat	550.90	533.00	551.50	533.72
% margin	4.5%	4.3%	3.9%	2.3%
*15% of Namdeb production				

Namdia buys rough diamonds from the NDTC and sells them to international clients making a margin in doing so. This margin has declined in the four years of operation from 4.5% to 2.3%. Namdia pays the standard corporate rate of tax of 32%.

### Conclusions

This brief feature has summarised the available information on diamond mining and diamond cutting and polishing in Namibia. Together in 2019, these activities contributed some 5.2% to Namibia's total GDP. The data suggests Namibia is succeeding in creating a local diamond cutting and polishing industry. However, much of the data is puzzling and inconsistent. It is simply not possible for an outsider to the industry to get a clear sense of what has been achieved, how and at what cost. Answers to simple questions, such as how many people the sector employs (and which the NDTC puts at 1,500 people based on its latest assessment of sightholders) are not publicly available. The Diamond Board website contains information about cutting and polishing factories which is completely out of date. The industry as a whole is opaque and secretive and government intervention in the sector has not had the effect of opening it up to greater scrutiny. Given this state of affairs, the Namibian public cannot be certain that the country's most valuable resource is being exploited in an optimal way. Rather they must take it on trust that the few insiders who really know what is going on are working for the benefit of the country as a whole.

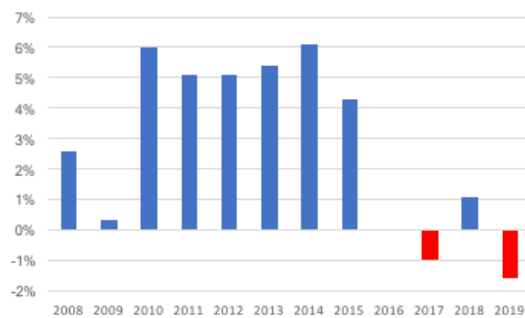
The solution lies partly in improving data consistency and transparency. The Diamond Board should provide useful up-to-date information on industry players (including local shareholders) on its website. The main elements of the agreement between Government and De Beers should be made public (with limited redactions if absolutely necessary). Namdeb and the NDTC should be obliged to publish regular annual reports describing the benefits the industry brings to the economy. The national accounts should continue to include the welcome information on the diamond industry but these should be consistent with other sources of information and not be subject to huge changes from year to year.



The Labour Force Survey should separately identify those employed in the diamond mining industry as well as the diamond cutting and polishing industry. The industry as a whole, including Government and all key players, would do well to come together to publish a regular report on the state of the industry and its importance to Namibia. After the disaster that is Fishrot in another closed and secretive industry, Namibia could become an international role model for how to manage this key national resource.

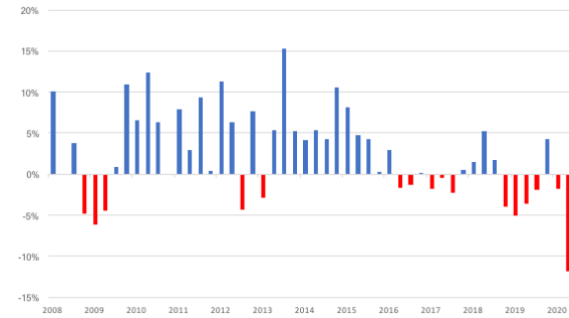
## Key Economic Variables

### GDP Growth (%)



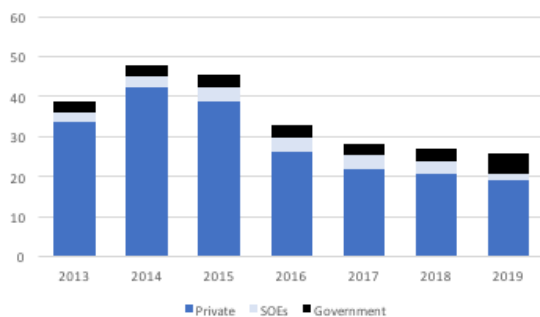
The full national accounts have been released for 2019. There have been some revisions but the economic contraction for 2019 is now estimated at -1.6% compared to -1.1% in the preliminary estimates.

### GDP Quarterly Growth (%)



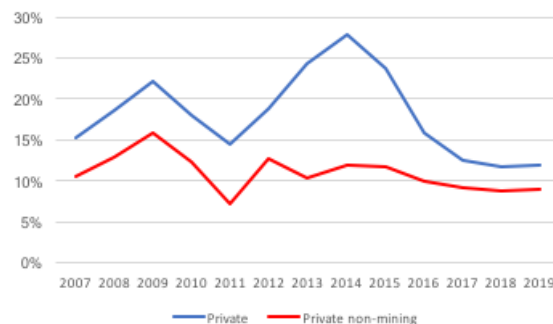
GDP contracted by a massive 11.1% in Q2 2020 compared to Q2 in 2019 after contracting 1.8% in Q1. This is due to the State of Emergency which halted economic activity in large parts of the economy.

### Fixed Investment (N\$bn in 2015 prices)



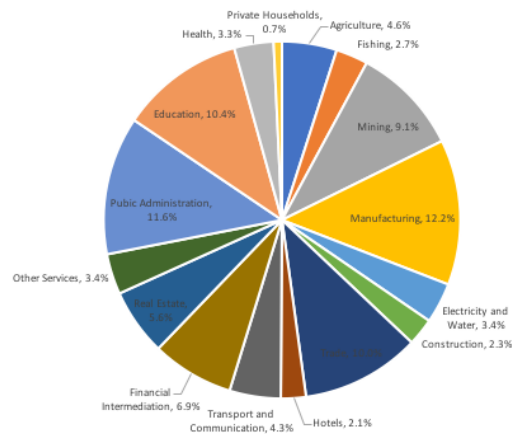
Investment, driven by strong private investment peaked in 2014 but has declined since then in real terms.

### Private Fixed Investment (% of GDP)



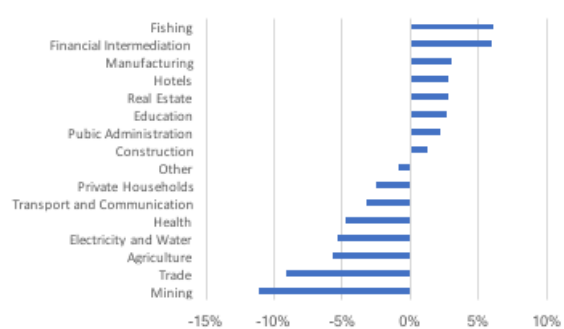
Since 2012 strong private investment has been driven by investment in mining but this has disguised weaker private investment outside the mining sector. Since 2016 non-mining private investment has been below 10% of GDP.

### Sectoral Breakdown of GDP in 2019 (%)



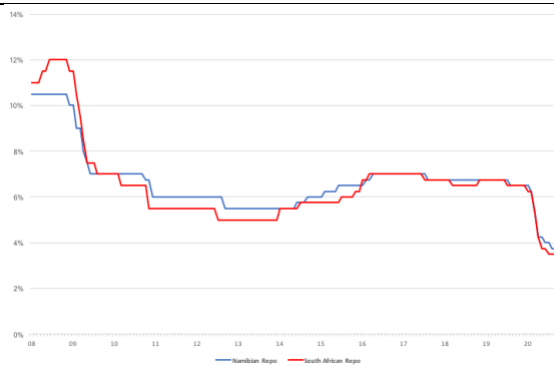
The chart shows the contributions made to overall economic activity in 2019 by the different sectors of the economy. The NSA has provided a more disaggregated sectoral breakdown which is welcome. Service sectors contributed 57.6% while primary and secondary sectors contributed 16.4% and 17.9% respectively.

### Sectoral Growth in 2019 (%)



While output from Fishing, Finance and Manufacturing experienced strong growth in 2019, output again declined significantly across a wide range of sectors with Agriculture, Trade and Mining being particularly hard hit.

### Namibian and SA Repo Rates (%)



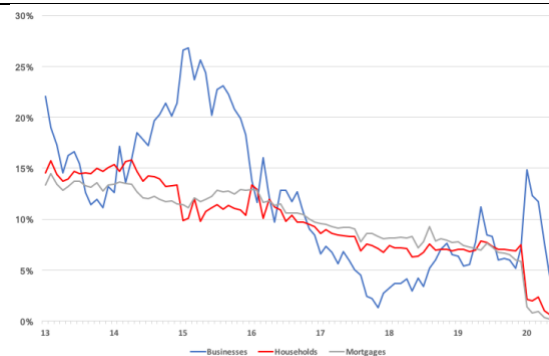
In response to the impact of the national lockdown on an already weak economy, the Bank of Namibia continued to cut the repo rate throughout Q3 so that it ended at the historic low of 3.75% by the end of June. The next MPC meeting of 2020 is due on 21 October.

### Namibian and SA Inflation (% y-o-y)



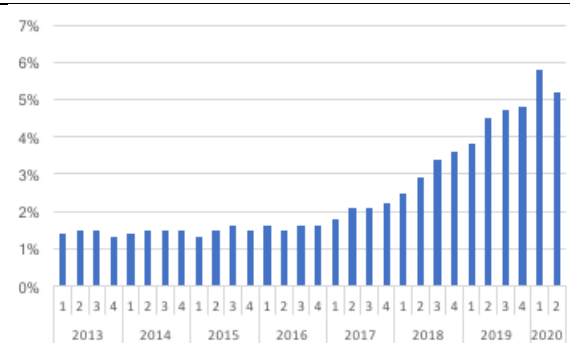
Namibian consumer inflation fell to a historical low of just 1.6% in April before climbing to 2.4% in September.

### Private Sector Credit Extension (% y-o-y)



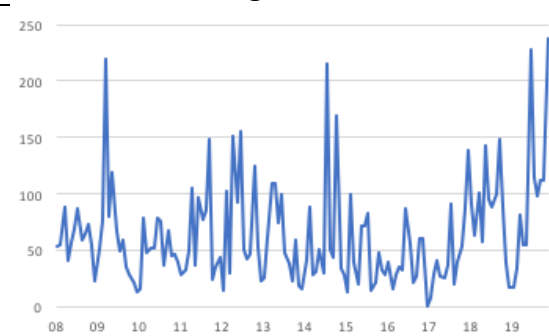
Credit growth to domestic businesses had been starting to show signs of recovery but this has fallen back dramatically since January. At the same time credit growth to households and residential mortgage lending has plunged since the start of the year, unsurprising given the national lockdown imposed in March.

### Non-Performing Loans



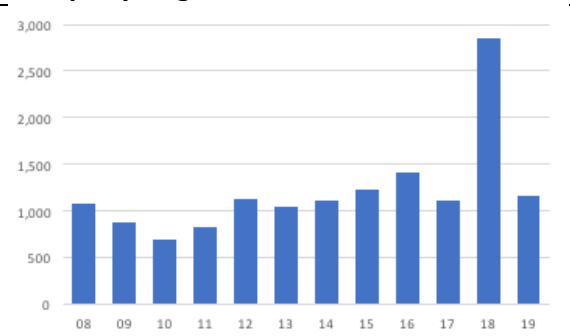
The ratio of Non-Performing Loans (NPLs) reported by the commercial banks to the Bank of Namibia fell from 5.8% at the end of Q1 2020, the highest level since the QER began tracking NPLs, to 5.2% at the end of Q2 2020.

### Windhoek Building Plans



The value of building plans completed in Windhoek has risen in nominal terms since the beginning of 2017 and this rise continued throughout 2018 and resumed again in 2019 peaking sharply in June and November.

### Company Registrations



Registrations of Pty (Ltd) companies dipped in 2017 as the economy weakened but spiked in 2018, primarily due to the registration of new companies in advance of fishing rights being allocated. Registrations in 2019 have returned to roughly the level of 2017.

## Data Trends

	Unit	2014	2015	2016	2017	2018	2019
<b>Annual Economic Growth</b>							
GDP	%	6.1%	4.3%	0.0%	-1.0%	1.1%	-1.6%
GDP current prices	N\$m	134,836	146,019	157,708	171,570	181,009	181,234
Change in Mining Value Added	%	-4.5%	-4.0%	-10.7%	14.2%	16.1%	-11.1%
Change in Manufacturing Value Added	%	3.7%	-3.2%	10.0%	-1.6%	1.2%	3.0%
<b>Fixed Investment</b>							
Fixed Investment	% of GDP	35.1%	31.0%	21.8%	17.9%	17.0%	16.8%
Change in Fixed Investment	%	22.8%	-5.1%	-27.7%	-13.7%	-5.2%	-4.2%
Fixed Investment - Government	'000 N\$m	6,963	7,382	5,586	5,127	5,945	6,868
Fixed Investment - SOEs	'000 N\$m	2,852	3,359	4,000	4,068	3,674	2,115
Fixed Investment - Private	'000 N\$m	37,564	34,507	24,836	21,570	21,197	21,542
<b>Prices and Interest Rates</b>							
Average Inflation	%	5.4%	3.4%	6.7%	6.1%	4.3%	3.7%
Year End Prime Lending Rate	%	9.75%	10.25%	10.75%	10.50%	10.50%	10.25%
Year End Repo Rate	%	6.00%	6.50%	7.00%	6.75%	6.75%	6.50%
<b>Trade and Balance of Payments</b>							
Exports - total goods	N\$bn	42.9	41.6	48.0	49.8	56.5	56.4
Exports - total services	N\$bn	9.7	10.0	7.2	7.9	8.3	7.7
Imports - total goods	N\$bn	76.8	81.7	82.9	73.8	74.8	76.8
Imports - total services	N\$bn	9.6	8.7	10.1	7.9	7.8	8.4
Trade Balance	N\$bn	-33.8	-38.7	-37.8	-24.0	-17.9	-21.1
Balance of Payments	N\$bn	-14.4	-19.6	-23.3	-5.5	-3.1	-5.3
as % of GDP	%	-10.7%	-13.4%	-14.8%	-3.2%	-1.7%	-2.9%
<b>Foreign Exchange</b>							
Year End Exchange Rate (N\$ to USD)	N\$	11.5616	15.5553	13.6240	12.3930	14.4116	14.0418
Year End Exchange Rate (N\$ to EUR)	N\$	14.0532	16.9997	14.3403	14.8063	16.4848	15.7437
Year End Exchange Rate (N\$ to GBP)	N\$	17.9932	23.0652	16.7264	16.6789	18.3424	18.4383
Foreign Exchange Reserves	N\$bn	13.5	23.6	24.7	30.2	31.0	28.9
Fitch credit rating (at year end)		BBB- (stable)	BBB-	BBB- (-ve)	BB+ (stable)	BB+ (stable)	BB
Moody's credit rating (at year end)		Baa3 (stable)	Baa3 (stable)	Baa3 (-ve)	Ba1 (-ve)	Ba1 (-ve)	Ba2 (stable)
<b>Financial Sector</b>							
Private Sector Credit Extension Growth	%	16.4%	13.5%	8.9%	5.1%	6.6%	6.8%
Non-Performing Loans	% of total loans	2.1%	2.2%	2.5%	2.9%	3.6%	4.8%
NSX Overall Index	Index	1,098	865	1,069	1,206	1,303	1,306
NSX Local Index	Index	389	498	547	591	621	614
New Local Listings		0	0	0	1	0	1
<b>Business Indicators</b>							
Namdeb Diamond Production	'000 carats	1,886	1,764	1,573	1,805	2,008	1,700
Uranium Production	tonnes	3,255	2,994	3,654	4,224	5,525	5,476
Gold Production	kg	2,140	6,009	6,604	7,272	6,171	n/a
Mining Licences Granted	number	3	0	1	2	3	0
Exploration Licences Granted	number	138	56	142	174	259	n/a
Number of Companies Formed	number	1,112	1,226	1,409	1,110	2,851	1,153
New Vehicle Sales	number	21,718	21,224	17,038	13,352	11,998	10,379
Tourist Arrivals	'000	1,320	1,388	1,469	1,499	1,557	1,596
- From Africa	'000	1,029	1,083	1,094	1,091	1,164	1,252
- From Europe	'000	222	234	295	312	306	256
- From RoW	'000	69	71	81	97	87	89
International Arrivals at HKIA	'000	125	128	143	213	247	215
Regional Arrivals at HKIA	'000	249	239	248	242	239	223

		2014	2015	2016	2017	2018	2019	
<b>Employment</b>								
Government		95,873	n/a	88,421	n/a	86,587	n/a	
Parastatals		32,983	n/a	25,558	n/a	30,654	n/a	
Private Companies		245,437	n/a	235,877	n/a	214,693	n/a	
Private Households		105,460	n/a	136,417	n/a	70,036	n/a	
Total		479,753	n/a	486,273	n/a	401,970	n/a	
<b>Government Finances</b>								
		FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21
Revenue	N\$bn	49.9	52.2	50.9	58.7	55.9	58.6	51.4
Expenditure	N\$bn	58.7	64.6	62.2	67.5	65.1	66.6	72.8
Balance	N\$bn	-8.8	-12.4	-11.4	-8.9	-9.2	-8.1	-21.4
Public Debt	N\$bn	35.9	59.8	69.9	74.5	87.5	96.9	119.1
Interest Payments	N\$bn	2.1	2.6	4.3	5.4	6.3	7.0	7.7
Public Guarantees	N\$bn	6.4	6.5	6.4	11.0	10.9	11.1	11.1
Revenue	% of GDP	35.4%	34.6%	30.2%	34.2%	31.4%	31.5%	30.0%
Expenditure	% of GDP	41.6%	42.8%	36.9%	39.3%	36.5%	37.7%	42.5%
Balance	% of GDP	-6.2%	-8.2%	-6.7%	-5.2%	-5.2%	-4.5%	-12.5%
Public Debt	% of GDP	25.5%	39.6%	41.5%	43.4%	49.1%	54.8%	69.6%
Interest Payments	% of revenue	4.1%	5.0%	8.5%	9.3%	11.3%	11.9%	15.1%
Public Guarantees	% of GDP	4.5%	4.3%	3.8%	6.4%	6.1%	6.3%	6.5%
<b>International Rankings</b>								
		2014	2015	2016	2017	2018	2019	2020
Global Competitiveness Index Ranking		88/144	85/140	84/135	99/135	100/140	94/141	n/a
Global Competitiveness Index		4.0	4.0	4.0	4.0	4.0	54.5	n/a
Ease of Doing Business Ranking		98/189	88/189	104/189	108/190	106/190	107/190	104/190
Ease of Doing Business Index		61.15	57.16	59.61	59.57	60.29	60.53	61.4
Corruption Perceptions Index Ranking			45/168		53/180	52/180	56/180	n/a
Corruption Perceptions Index		49	53	52	51	53	52	n/a
Ibrahim Index of African Governance		70.3	70.4	69.3	71.2	68.6	n/a	n/a
Ibrahim Index of African Governance Ranking		6/52	5/54	5/54	5/54	4/54	n/a	n/a
Investment Attractiveness Index		76.37	69.78	66.11	60.67	56.66	58.22	n/a
Investment Attractiveness Index Ranking		21/122	33/109	53/104	54/91	60/83	55/76	n/a
Open Budget Index (out of 100)		n/a	46	n/a	50	n/a	n/a	51
World Press Freedom Index - Ranking		22/180	17/180	17/180	24/180	26/180	23/180	23/180

Sources: Anglo American, Bank of Namibia, Business and Intellectual Property Authority, Chamber of Mines of Namibia, Fitch Ratings, Fraser Institute, International Budget Partnership, Ministry of Environment and Tourism, Ministry of Finance, Mo Ibrahim Foundation, Moody's Investor Services, Namibia Airports Company, Namibia Statistics Agency, Namibian Stock Exchange, Reporters Without Frontiers, Transparency International, World Bank, World Economic Forum, World Nuclear Association