

AFRICA RISK CONSULTING

Namibia Monthly Briefing May 2023

Namibia Summary 18 May 2023

The Namibian dollar depreciates following the South African Rand's depreciation after a United States diplomat accuses South Africa on 11 May of exporting arms to Russia. The risks and uncertainties regarding South Africa's relationship with Russia pose a danger to Namibia's economy, which is highly dependent on the South African economy. The Institute for Public Policy Research (IPPR) releases a report on 5 May warning that despite improvements in generating independent electricity supply in 2022, it is not fast enough to meet the electricity demands. The report also cautions against Namibia's dependence on electricity imports. Namibia's mines and energy minister, Tom Alweendo, addresses attendees at a two-day local content policy (LCP) workshop for the oil and gas sector on 11 May. Alweendo emphasises that foreign companies involved in local oil and gas exploration must abide by local content policies.

Namibia's economy under threat from the depreciating South African currency

The depreciation of the **South African** rand has raised concerns among **Namibian** economic analysts as Namibia's economy is highly intertwined with the South African economy.¹ The rand recorded its lowest level yet against the **United States** dollar on 12 May, trading at R19.47 to the dollar. This depreciation of the rand came after US diplomat, **Reuben Brigety**, on 11 May, accused South Africa of supplying weapons to **Russia**, putting further strain on an already weakening rand.² Following Brigety's accusations, the Namibian dollar weakened to N\$19 to the USD.³ Namibia's currency being pegged to the rand, its limited economic diversification and the country's trade relationship with South Africa are some of the factors that indicate how intricately linked the Namibian economy is to the South African economy.⁴

The Namibian dollar has a one-to-one peg with the rand, which historically has enabled stability for Namibia's currency, however, any depreciation in South Africa's currency directly devalues the Namibian dollar (*see ARC Briefing Feb 2023*).⁵ Economist and researcher **Josef Kefas Sheehama**, writing for the **Namibia Economist**, highlighted the pressure this depreciation places on Namibia's purchasing power, particularly for a country that has a high import dependency and a high share of dollar-invoiced imports.

South Africa's **Department of International Relations and Cooperation (Dirco)** spokesperson said that Brigety has since apologised for his accusations and South Africa's president **Cyril Ramaphosa** (2018-present) launched an independent investigation into the accusation to evaluate its validity.⁶ However, uncertainty surrounding any further actions also places pressure on the Namibian dollar.

¹ Namibia Economist, 15 May 2023

² Washington Post, 11 May 2023

³ Windhoek Observer, 15 May 2023

⁴ Namibia Economist, 15 May 2023

⁵ Namibia Economist, 15 May 2023

⁶ EWN, 13 May 2023

Sheehama believes that the currency peg limits Namibia's capability to independently react to economic shocks and determine its currency's true value.⁷ The **Bank of Namibia** (central bank) deviated from South Africa's repo rate increase on 19 April, opting to instead lift the hike the report by 25 basis points to 7.25% whereas the **South African Reserve Bank (SARB)** increased its rate by 50 basis points to 7.75%⁸ However, this is one deviation by Namibia does not reflect any radical deviation or shift away from the currency peg.

Namibia's economy is highly reliant on the exports of a limited number of sectors, including diamonds, uranium, and fishing, and its narrow industrial base makes the country extremely vulnerable to economic shocks or downturns in South Africa, which is one of its largest trading partners.⁹ In 2020, South Africa was Namibia's second-largest export destination, with exports reaching a value of N\$16 billion (\$834.72m).¹⁰

Sheehama indicates that if sanctions are imposed on South Africa, this would further complicate and negatively impact the level of trade between the two countries. Sanctions imposed on Russia after its invasion of **Ukraine** in February 2022 resulted in Russia losing 45% of its GDP by May 2022 and Russia became partially isolated from the global economy.¹¹ Although it is unlikely that foreign businesses will flee South Africa or that sanctions will be imposed on South Africa, with the evidence regarding the arms exports from South Africa and Russia under question, the accusations have deterred investors who do not want to be associated or face penalties from any associations with a Russian-linked economy. The attention the story caught in the global media has deterred investors after the currency depreciation and the uncertainty surrounding the matter is likely to further punish the South African economy.¹²

South Africa and Namibia also enjoy strong bilateral relations and Namibia is unlikely to distance itself from South Africa based on any threat or risk of sanctions against South Africa. The history of the armed liberation struggle and the socialist ideologies of the ruling parties in Namibia and South Africa, respectively including the **South-West Africa People's Organisation (SWAPO)** and the **African National Congress (ANC)**, also involves close historical ties to Russia.¹³ The leaders from the ruling parties of South Africa and Namibia have both criticised the sanctions imposed on Russia. Further, president **Hage Geingob** (2015-present) has made publicly clear SWAPO's close relationship with Russia on different occasions, including at a SWAPO policy conference in July 2022:

"I always say, whoever was involved in the liberation struggle, somehow, Soviet Union, Russian people were there to support us..."¹⁴

Both South Africa and Namibia also abstained on 2 March from a **United Nations (UN)** emergency resolution to demand that Russia withdraw from Ukraine.¹⁵ South Africa's government attracts more media attention to its cordial relationship with Russia when compared to Namibia, particularly as it is one of Africa's strongest economies and is also a member of the **Brazil, Russia, India, China and South Africa (BRICS)** alliance, but Namibia seemingly follows in the footsteps of South Africa's decisions.¹⁶

Nonetheless, Namibia has been wooing **Western** investors and received considerable investments into the energy sector, particularly the oil and green hydrogen sector, as countries

⁷ Namibia Economist, 15 May 2023

⁸ News24, 19 Apr 2023

⁹ Namibia Economist, 15 May 2023

¹⁰ Wesgro, May 2021

¹¹ Investment Monitor, 19 May 2022

¹² ARC Briefing Analyst, 17 May 2023

¹³ The Conversation, 11 May 2023

¹⁴ Namibian Sun, 4 July 2022

¹⁵ News24, 13 Oct 2022

¹⁶ ARC Briefing Analyst, 17 May 2023

and investors looked to move away from investing in Russia's energy sector (*See ARC Briefing Jun 2022*).

The tensions involving South Africa and the US also reflect how Namibia is vulnerable to such geopolitical risks. Any prolonged economic uncertainty for South Africa involving these tensions will have a spillover effect on Namibia, reducing investment flows.¹⁷ However, the Namibian government will remain a close partner with South Africa. During a bilateral visit between Geingob and Ramaphosa on 20 April, Geingob emphasised that he would like to enter partnerships with South Africa and allow South Africa to play an advisory role in the energy opportunities involving oil, gas and green hydrogen.¹⁸

It remains to be seen how Namibia's support for Russia and close relationship with South Africa impacts any economic relations or agreements with Western nations, if at all, but for now, it seems that any punishment on the Namibian economy based on any relations with Russia will be from the perception of or actions from South Africa's foreign policy.¹⁹

Namibia's electricity supply under question

The **Institute for Public Policy Research (IPPR)** released a quarterly economic review report on 5 May, warning that despite improvements in generating independent electricity supply in 2022, it is not fast enough to meet the electricity demands.²⁰ The IPPR quarterly review indicates that the main risks to Namibia's electricity generation capacity are its dependence on imported electricity, outdated infrastructure and inadequate generation capacity. The report indicated that in 2022, Namibia imported more than 70% of its power requirements and is heavily reliant on the **Southern African Power Pool**. It also noted that this dependency came as power supplies from the **Rucana** hydroelectric power station declined through 2022.²¹

The **Namibian Power Corporation's (NamPower)** 2022 annual report concurs with these findings.²² Namibia's total supply for the national grid in 2022 was 4,097GWh of which 1,253GWh was imported from South Africa's national electricity producer, **Eskom**. **Zambia** and **Zimbabwe's** national electricity, **Zambia Electricity Supply Corporation Limited (ZESCO)** and **Zimbabwe Power Company (ZPC)**, respectively supplied 1,018GWh and 390GWh. Between 2015 and 2022, 44% of South Africa's exports to Namibia were electricity (*See ARC Briefing Namibia Mar 2023*). NamPower's report further indicates that Namibia's dependence on importing electricity has incurred a N\$2 billion (\$103.8m) loss for NamPower at the group and company levels.

The IPPR quarterly review also indicates that ZESCO and Eskom face their own challenges to supply electricity to local consumers, and while Namibia's electricity supply has not been interrupted by rolling blackouts and appears to be stable when compared to neighbouring South Africa, the IPPR warns that policymakers should take necessary action to avert the risk of unreliable electricity supply.²³ NamPower's annual report also acknowledges the risks, such a heavy dependence on imported energy has for Namibia including a lack of sufficient and reliable supply of electricity.

Although Namibia's Ruacana hydro-powered dam was positively impacted by temporarily high rainfall levels in April, NamPower's annual report recorded low rainfall in the dam's catchment area in the **Kunene River**, on the border of Namibia and **Angola**, over the year 2022.²⁴ The

¹⁷ Namibia Economist, 15 May 2023

¹⁸ Informante, 22 April 2023

¹⁹ ARC Briefing Analyst, 17 May 2023

²⁰ Institute for Public Policy Research (IPPR), 5 May 2023

²¹ New Era, 8 May 2023

²² Institute of Public Policy Research, 5 May 2023

²³ Institute of Public Policy Research, 5 May 2023

²⁴ New Era, 8 May 2023

IPRR also highlights that climate change poses a major risk for Namibia's electricity generation as rising temperatures have resulted in lower rainfall over the four years from 2018 to 2022.

The IPPR's review recommends two steps for Namibia to turn the issues around, including setting realistic targets regarding Eskom, including the update of South Africa's energy mix policy outlined in the country's Integrated Resource Plan (IRP). Secondly, the IPPR recommends that reforms aimed at increasing competition and reducing political interference should be implemented in order for the grid to be supplied by private producers, which would also reduce the monopoly that Eskom has and reduce the political control over the procurement of electricity power.²⁵

Foreign companies must implement local content policies

Mines and energy minister **Tom Alweendo** addressed attendees at a two-day local content policy (LCP) workshop for the oil and gas sector in **Windhoek** on 11 May where he warned of the consequences of excluding Namibians from benefitting from the sector. Local content is a term that defines active participation of a local workforce in a country's sector through employment and is increasingly being adopted in policies of resource-rich developing countries where foreign ownership and investment in local resources are high.

Alweendo encouraged the adoption of LCP and mentioned that based on lessons from other oil-producing countries, the exclusion of locals from benefitting from the oil and gas industry has resulted in social discontent, unrest, and inequality:

*"What we need to do, however, is to manage the resources with a clear understanding that the resources belong to both current and future generations."*²⁶

This workshop is particularly relevant for Namibia as over the last year there have been three major offshore light oil discoveries from foreign businesses and Namibia has been grappling with inequality, high unemployment, and poverty. The recent oil discoveries are still in the exploration phase and have not yielded any real economic outputs for businesses. Analysts predict that the oil industry can double the size of Namibia's economy by 2040 and that the government could benefit from approximately N\$53.5 billion (\$3.5 billion) during the peak production periods of the oil fields.²⁷

A draft policy framework for local content has already been drafted by Namibia's energy and mines ministry but is in the process of being refined towards finalisation.²⁸ In light of the recent oil discoveries in Namibia, Alweendo indicated that international companies must comply with local content policies:

*"It shall be a requirement for international companies that would participate in the Namibian oil and gas sector to be fully conversant with the LCP."*²⁹

Alweendo said foreign companies will have to adopt monitoring and evaluation frameworks in order for the state to monitor compliance with local content policies.

²⁵ Institute of Public Policy Research, 5 May 2023

²⁶ New Era, 12 May 2023

²⁷ New Era, 12 May 2023

²⁸ Windhoek Observer, 12 May 2023

²⁹ New Era, 12 May 2023

Planner

2024 **(Namibia)** General elections

Chronology

17 May 2023 **Halifax (Namibia)** *Access Wire*. **Namibia Critical Metals Inc (NCMI)** signs a Memorandum of Understanding (MoU) with **E-Tech Resources** and **Ondoto Rare Earth (Pty) Ltd** allowing NCMI to conduct a feasibility study to construct a rare earth separation plant;

17 May 2023 **Cairo (Egypt)** *Egypt State Information Service*. Egypt's **State Information Service (SIS)** announces the beginning of political consultations between Egypt and **Namibia**;

17 May 2023 **Windhoek (Namibia)** *Namibia Economist*. **Agricultural Bank of Namibia (Agribank)** encourages farmers to sell some of their livestock to prevent stock losses in the face of inconsistent rainfall and vegetation losses;

16 May 2023 **Windhoek (Namibia)** *The Namibian*. **Namibia Revenue Agency (Namra)** is launching an investigative team from 1 July to look into businesses that are evading tax;

16 May 2023 **Windhoek (Namibia)** *Africa News*. Supreme court recognises same-sex marriages contracted between **Namibian** citizens and foreign spouses, overruling a former high court ruling which refuses to accept same-sex marriages concluded outside of Namibia;

14 May 2023 **Windhoek (Namibia)** *Namibian Broadcasting Corporation*. International relations and cooperation ministry releases a media statement welcoming a ceasefire agreement, in effect from 13 May, brokered by **Egypt** between **Israel** and the **Gaza Strip**;

12 May 2023 **Windhoek (Namibia)** *New Era*. **Walvis Bay Corridor Group (WBCG)** announces a sterling performance for the 2022/23 financial year during which cargo entering and leaving the corridor increases by 50%;

11 May 2023 **Windhoek (Namibia)** *The Namibian*. **Namibia Statistics Agency's (NSA)** latest economic statistics show the trade deficit worsened from a deficit of N\$412m (\$21.40m) in February to N\$453m (\$23.53m) in March;

11 May 2023 **Windhoek (Namibia)** *New Era*. **Namibia's Electricity Control Board (ECB)** announces an electricity tariff hike by 8.97% from N\$1.8222 (\$0.095) to N\$1.9856 (\$0.103) per kilowatt-hour (kWh) for the period of 2023/24, to be implemented from 1 July;

10 May 2023 **Windhoek (Namibia)** *The Namibian*. **Namibia Power Corporation Limited** spokesperson **Tangeni Kambangula** announces that the power utility will suspend electricity supply to defaulting customers from 5 June unless these customers settle their full outstanding amounts before then;

9 May 2023 **Windhoek (Namibia)** *New Era*. **Europe Day** celebrations are held in Windhoek where **European Union (EU)** ambassador to Namibia, **Sinikka Antila**, shares information on the strategic plan for green hydrogen and sustainable raw material value chains signed in November 2022 between president **Hage Geingob** and EU president **Ursula von den Leyen**;

8 May 2023 **Windhoek (Namibia)** *TimesLive*. **Namibia** hosts a **Southern African Development Community** extraordinary organ troika summit where an update on the conflict in the eastern **Democratic Republic of Congo (DRC)** is shared with leaders;

8-12 May 2023 **Windhoek (Namibia)** *The Namibian*. Government spokesperson, **Peya Mushelenga**, announces that cabinet approves a revised national resettlement policy for implementation between 2013 to 2033;

1 May 2023 **Windhoek (Namibia)** *The Namibian*. **Chamber of Mines (CoM) Annual Review for 2022** reports mining sector growth of 21.6% in 2022 compared to 11% in 2021, on the back of good performance by the diamond sector, with the mining sector increasing its contribution to Namibia's GDP from 9.2% in 2021 to 12.2% in 2022;

25 Apr 2023 **Windhoek (Namibia)** *The Namibian*. International relations minister **Netumbo Nandi-Ndaitwah** says Namibians whose whereabouts have been confirmed in **Sudan** are safe and in the process of being evacuated from the war-torn country;

20 Apr 2023 **Windhoek (Namibia)** *The Namibian*. **Germany's** special envoy on energy and climate change to Namibia, **Rainer Bacher**, says Germany is expected to pass two new laws on decarbonisation, which could create an offtake market for Namibia's green hydrogen and ammonia;

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