

Waiting for Namibia's Great Leap Forward

State of the Namibian Economy 2022

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28 September 2022

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B2GOLD NAMIBIA

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Invites you to the Guide to the Namibian Economy Book launch

Hosted by RMB



THURSDAY

22nd September 2022

VENUE

RMB/FNB Building 4th floor
@Parkside, 130 Independence Avenue.

TIME

17:30 for 18:00

DRESS CODE

Semi Formal

RSVP

By Monday, 19 September 2022
to: nnalisa@b2gold.com

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IPPR

NAMIBIA QER Q2 2022

NAMIBIA QUARTERLY ECONOMIC REVIEW APRIL - JUNE 2022

Special Feature: Meeting the Challenges of Oil and Gas	News Highlights	Key Economic Variables	Data Trends
1	8	14	16

Meeting the Challenges of Oil and Gas: Forewarned is Forearmed

Introduction

On 10 January 2022 industry trade magazine Upstream reported that Shell had made a major oil discovery at its Graff-1 well offshore in southern Namibia. Since then Shell has confirmed the find which was followed by an announcement in February by TotalEnergies that it had made a second discovery at its Venus well not far from Graff-1. It has become clear that Namibia stands on the brink of a very substantial discovery of oil and gas, although the exact quantities have yet to be determined with greater precision. This feature briefly summarises the experiences of seven other major oil and gas producing countries in Sub-Saharan Africa – Angola, Equatorial Guinea, Gabon, Ghana, Mozambique, Nigeria and Uganda – which may hold important lessons for Namibia and also briefly analyses some of the main economic challenges that Namibia will face as it seeks to exploit its newly discovered hydrocarbon resources.

Angola

With a population of 32.9 million people, lower-middle-income Angola was the fourth largest oil producer in Africa after Nigeria, Libya and Algeria and ranked 18th in the world in 2021. Its economy is heavily dependent on the oil and gas sector. The crude oil sector accounts for about one third of the country's GDP and 95% of its exports. The first commercial discovery of oil took place in 1955 in the onshore Kwanza Basin. Since that discovery, Angola's oil industry has grown substantially, despite a civil war that lasted from 1975 to 2002. Deepwater exploration in Angola began in the early 1990s and, in 1994, deepwater blocks were licensed, which led to more than 50 significant discoveries. The first deepwater field to come online was the Chevron-operated Kuito field in late 1999 and oil production boomed as several deepwater fields came online up to 2008. The majority of the proven reserves are located in the offshore parts of the Lower Congo and Kwanza Basins. Most exploration activity in Angola is conducted offshore at depths of more than 1,200 metres with the lion's share of exploration and production activities located in the offshore part of the Lower Con-

Hanns Seidel Foundation

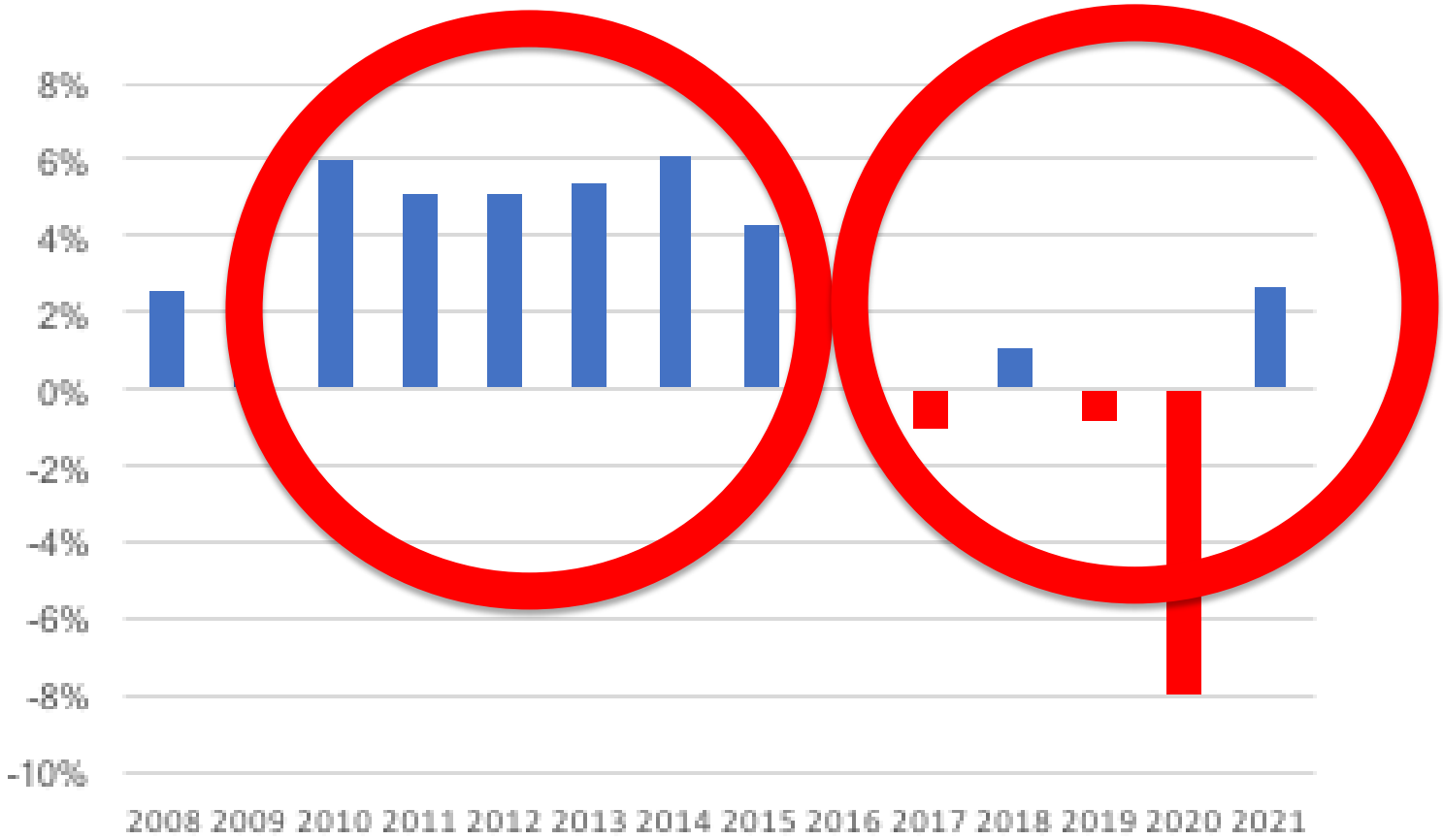
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Where have we come from?

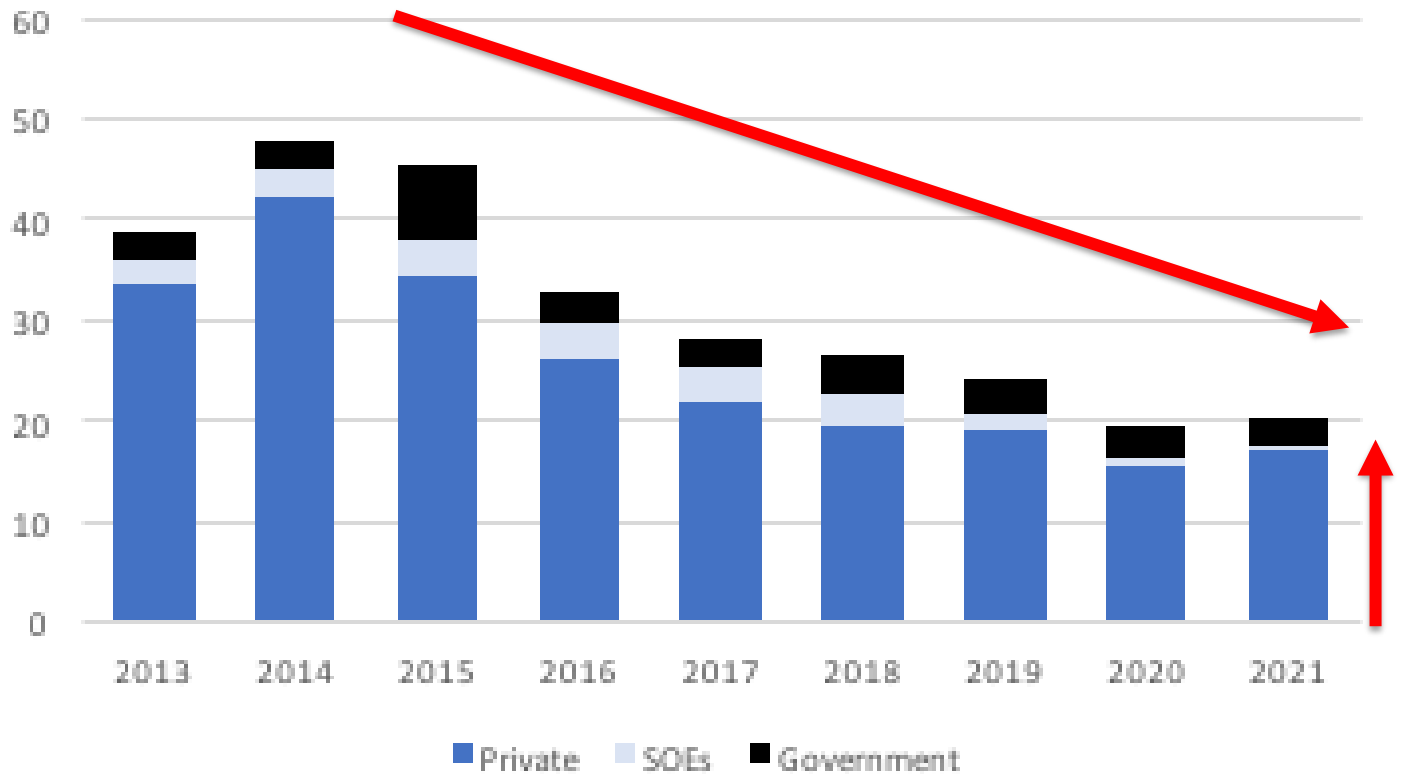
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The Mystery of the Growth that Disappeared



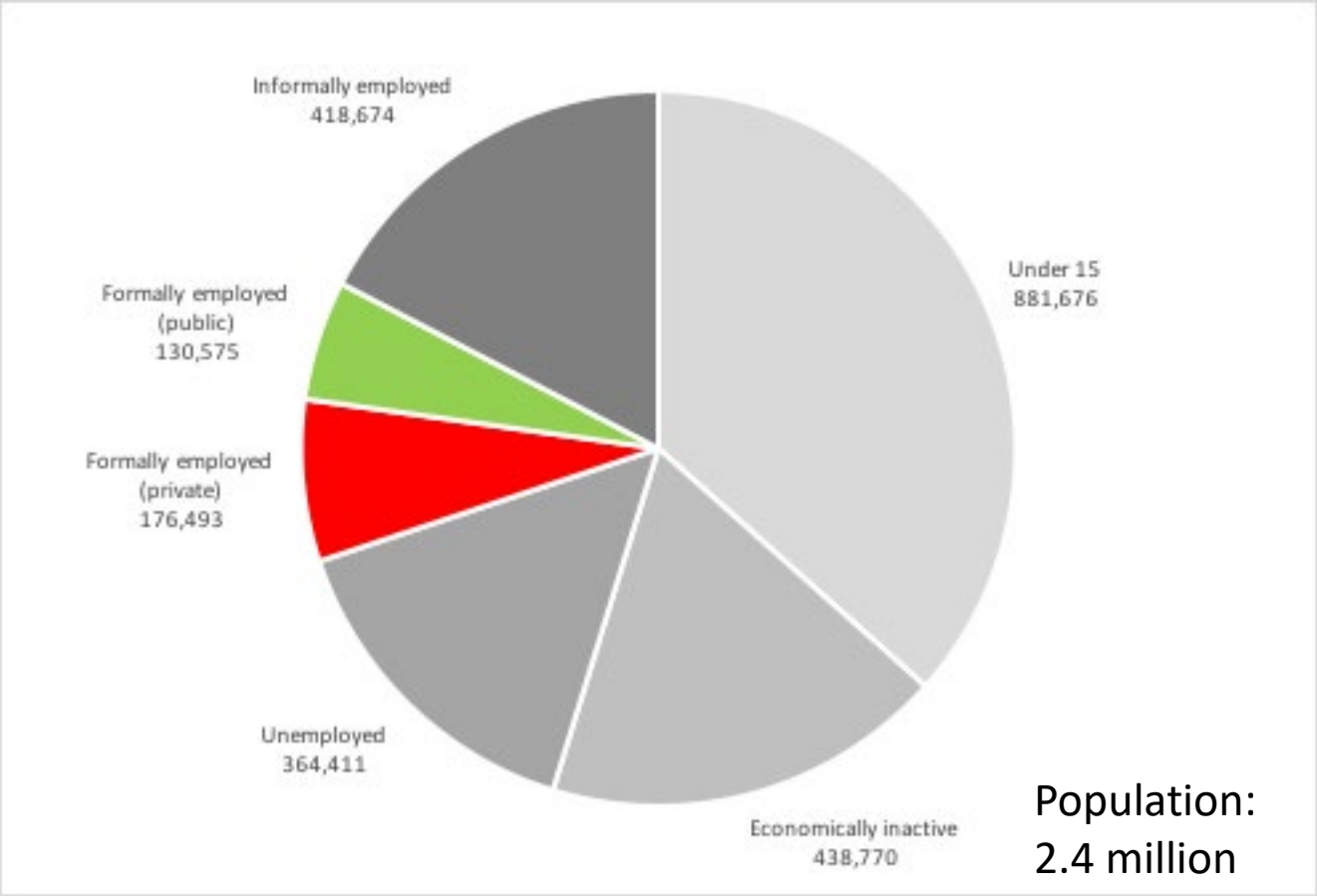
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Investment has been on a long-term decline



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We have not been creating jobs

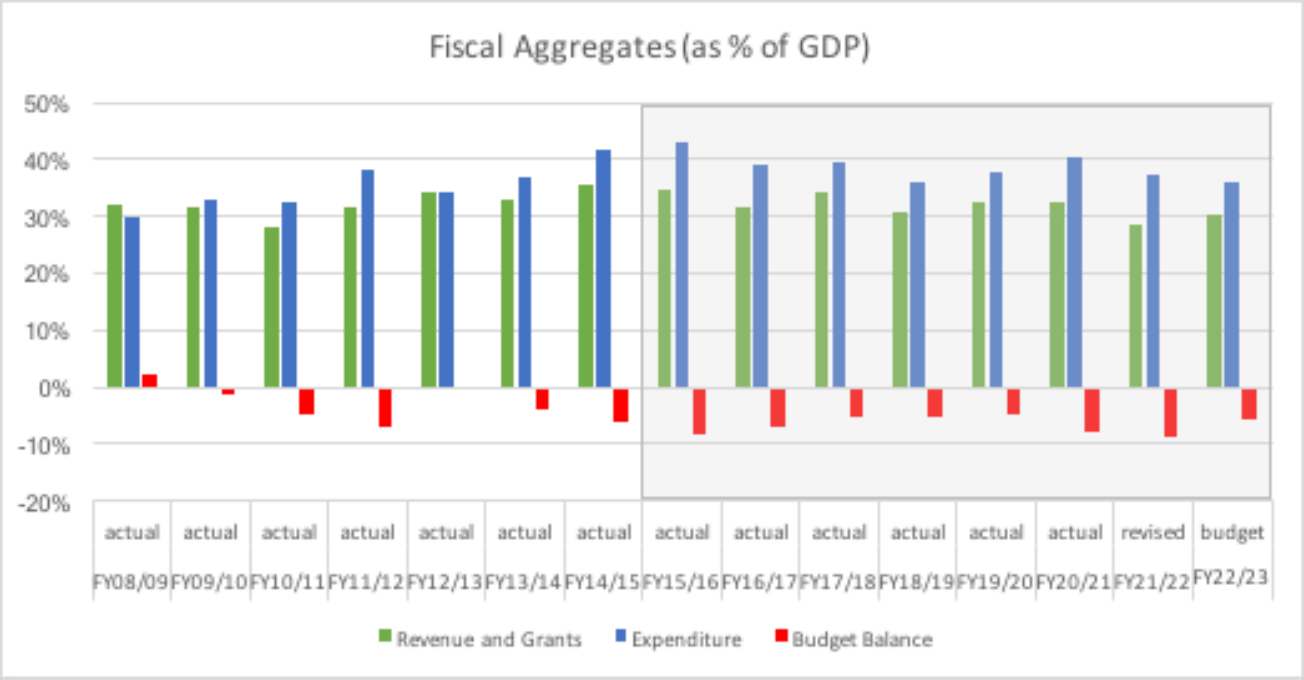


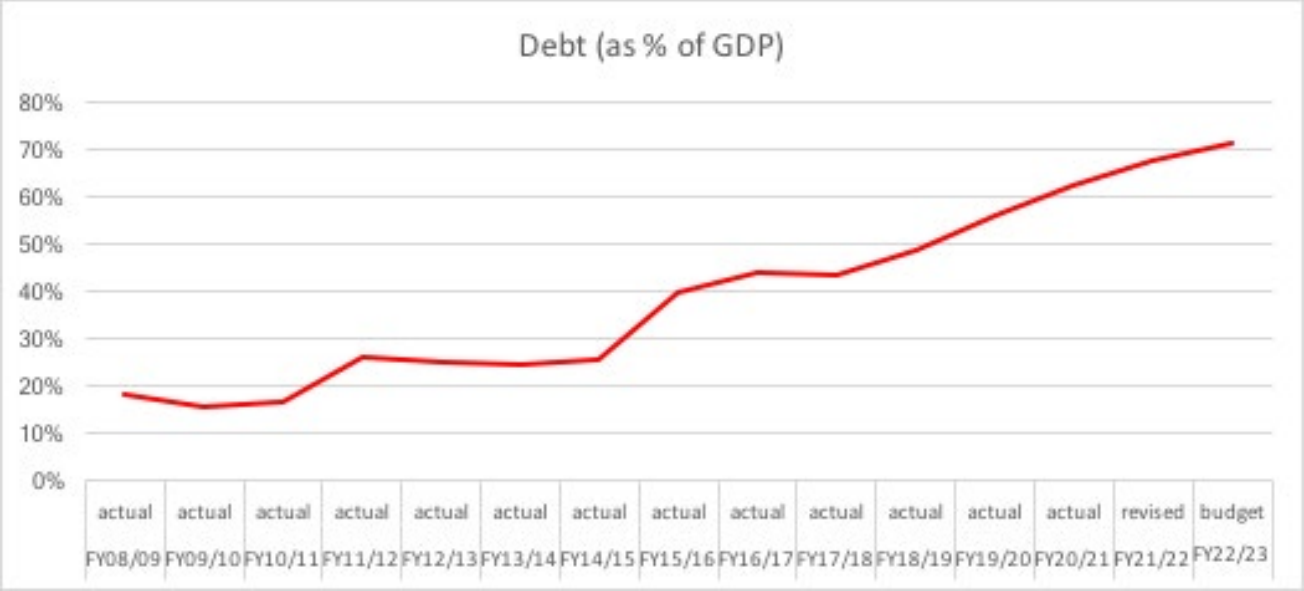
The situation in 2018 before Covid during which we lost at least 12,000 jobs

Population:
2.4 million

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We lost control of the public finances and have been downgraded by credit rating agencies since 2016





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Why did growth disappear?

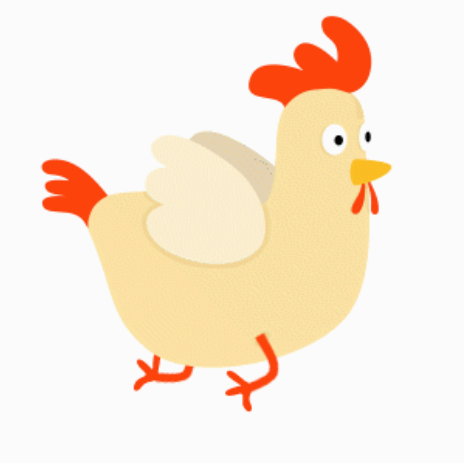
Two sets of reasons

Reason 1: Events Outside Our Control

- Uranium price plummets after Fukushima in 2011
- Mineral prices (but positive as well as negative)
- Mine closures (Trekkopje, Langer Heinrich, Okorusu, Matchless, Otjihase, Tchudi, Skorpion)
- National Drought Emergencies in 2013, 2016 and 2019
- Slowdowns in Angola and South Africa from 2016
- Covid pandemic (1st in March 2020 to 45th in July 2022)

Reason 2: Chickens







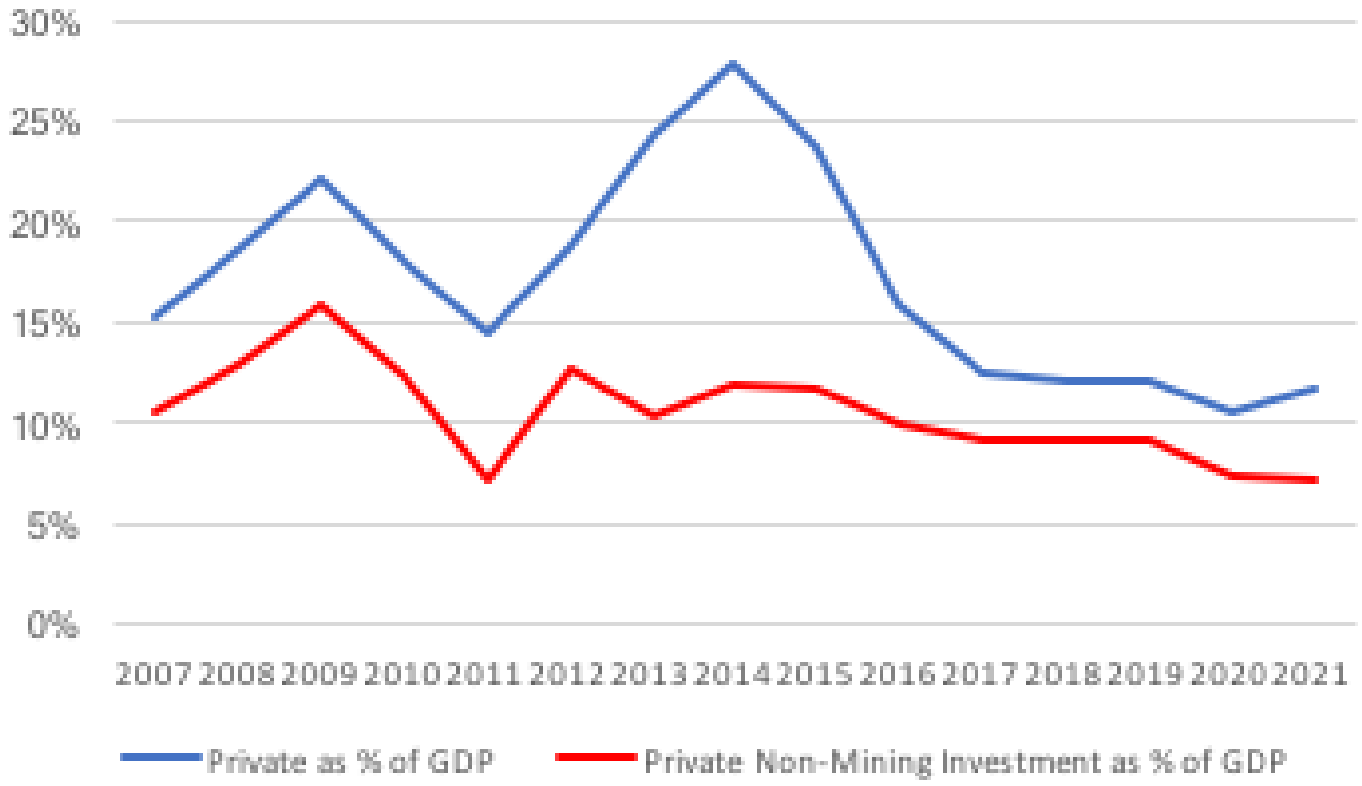


Do we take policy seriously? The charge sheet

- Green Scheme in 2007 AGRIBUSDEV wound up
- Quota allocation, ministerial discretion and Fishrot
- Mining export levy, royalty taxes, deductability and ad hoc “additional conditions”
- Phosphate licence ML170 granted in 2011
- Scrap EPZ, manufacturing and export incentives without better offer
- Peugeot-Opel NDC/NIDA JV established in 2018
- Telecoms policy of 1999 to promote competition but state domination
- Banking licence for SME Bank then liquidation in 2017
- Ministry of Public Enterprises in 2015 but no results (but Air Namibia)
- NIPA passed in 2016 but not enforced
- After 2003 TESEF in 2008 then NEEEF in 2012 then
- PPP Policy in 2017 but no PPPs
- NIPDB in 2020 but “one more stop shop” with no power over policy?

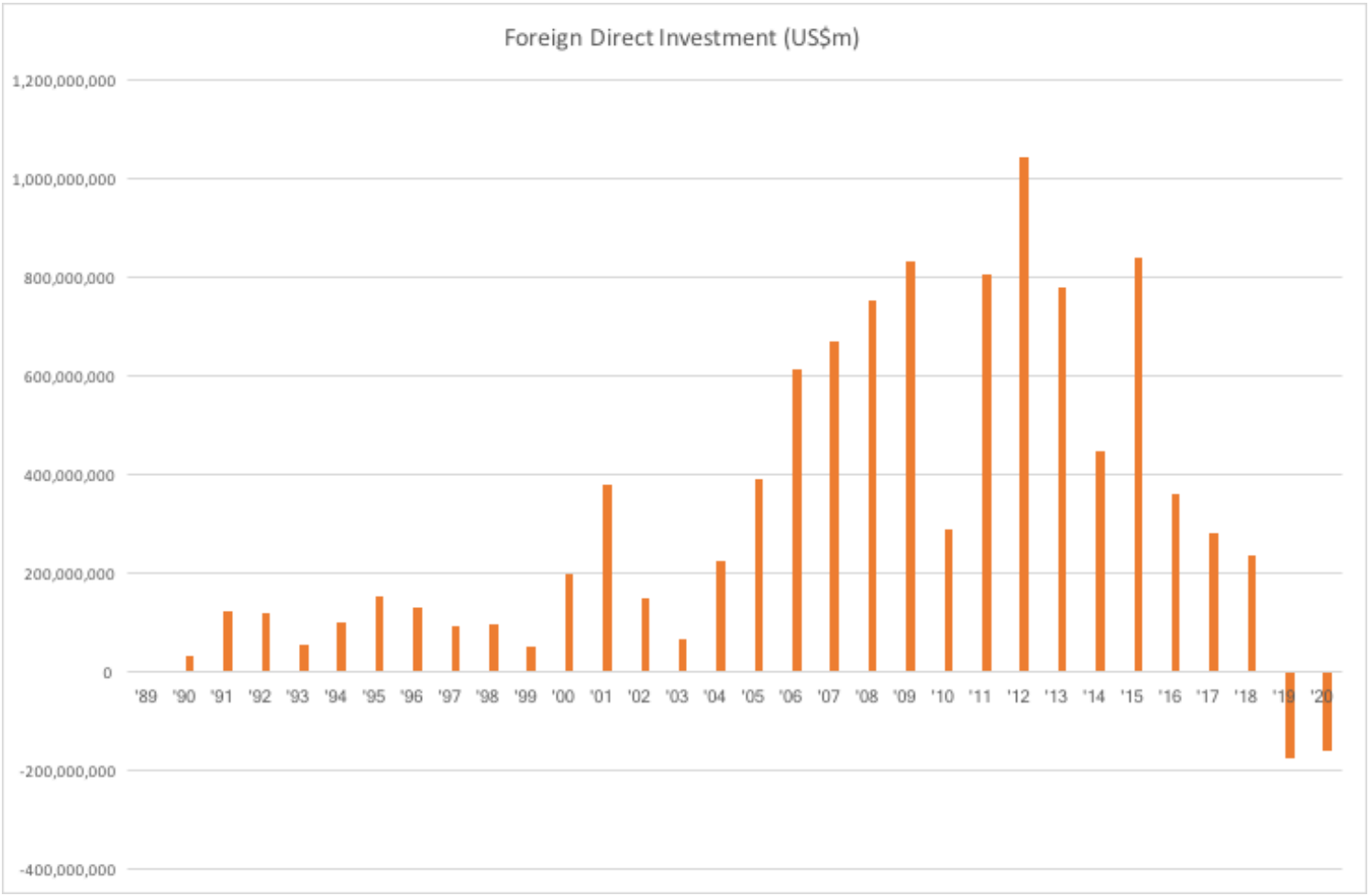
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Non-Government investment has also been in decline masked by Husab and Otjikoto



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FDI has been in decline



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We have not reformed commercial Public Enterprises

NamPower	**Namibia Wildlife Resorts**
MTC	**Namibia Airports Company**
Namibia Post	**TransNamib Holdings**
Namibia Ports Authority	**Namibia Industrial Development Agency**
Telecom Namibia	**Epangelo Mining Company**
Namibia Desert Diamonds	**Lüderitz Waterfront Company**
Namibia Water Corporation	**National Fishing Corporation**
Roads Authority*	**Henties Bay Waterfront**
Meat Corporation of Namibia	**Roads Contractor Company**
National Petroleum Corporation	**Zambezi Waterfront**

NB: Air Namibia was liquidated but our hand was forced

We do not properly assess public infrastructure projects

- Northern railway line extension
- Neckartal dam
- National oil storage facility
- Harbour port expansion
- New international airport (thankfully abandoned)
- Endless new Government and PE offices
- Roads, roads and more roads
- Feeding trough for contractors – unnecessary, over-engineered, and inflated price tags
- What growth and jobs have we got to show for all our borrowing?

Policy Characteristics

- A knee-jerk propensity to blame economic problems on external factors ("world markets") and acts of God ("drought") and a refusal to take responsibility despite "year of accountability" and lots of talk
- An extreme reluctance to take difficult decisions which are clearly in the long-term interests of the economy (for example the bloated public sector and loss-making PEs which have featured in almost every budget statement since the 1990s)
- A tendency to float half-baked policy ideas which then hang over the investment landscape like a cloud of uncertainty (the NEEEB and NIPA being just two examples)
- A lack of long-term strategic focus on export diversification which is the key to growth and jobs (but HLPNE)

So where are we going?

Key Events During Coming Years

- War in Ukraine, energy price crisis and “de-globalisation”
- Higher global interest rates, recession in high-income countries and zero Covid policy in China
- Limited revenues until oil starts flowing
- Namibia becomes majority urban society
- Namibian elections in 2024 – peak SWAPO?
- South African elections in May 2024 – peak ANC?
- USD750 million Eurobond2 redemption in 2025
- Climate change +1.5^{o} by 2030 (agriculture, fishing, hydro etc)
- Energy transition up to 2030 and beyond (uranium and renewables)

So far I've been very critical but the wonderful thing about Namibia is that not everything goes wrong at once and there are always good things happening at the same time as bad things. I'll say a few words about green hydrogen and oil.

Green Hydrogen (GH_2) and Green Ammonia (GNH_3)

- Namibia has the resources (sun, wind, coastline, land)
- Risks inherent in new global industry on supply and demand side where pricing mechanism and profitability not yet clear
- Strategic relationship with Germany and EU?
- Can Namibia produce GH_2 and GNH_3 at competitive prices or will industry require long-term EU subsidies?
- Will it be environmentally friendly?
- Hyphen green hydrogen by end of 2026 (best case scenario)
- €30 million pilot projects (Cleanergy O&L CMB port facility, refuelling station, DF locomotives with TransNamib, Daures GNH_3 agriculture)
- HDF power in Erongo
- Namibia is one big GH_2 laboratory and so far is playing by the book!

Oil and Gas

Tom Alweendo, Minister of Mines and Energy:

Namibia will not “suffocate itself by cutting off potential oil and gas resources that will assist in solving our problems”.

Contrast this with the IEA’s (May 2021) Roadmap of 400 milestones to reach Net Zero by 2050:

“…from today, no investment in new fossil fuel supply projects, and no further final investment decisions for new unabated coal plants. By 2035, there are no sales of new internal combustion engine passenger cars, and by 2040, the global electricity sector has already reached net-zero emissions.”

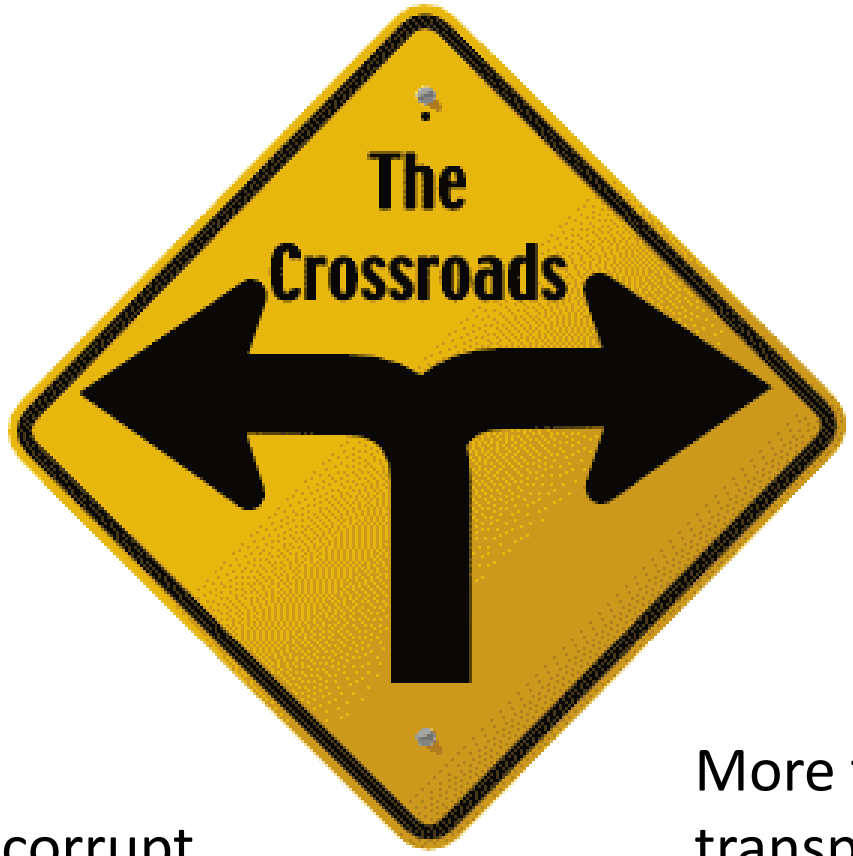
Oil and Gas

- Finds by Shell/Qatar/Namcor and TotalEnergies/Qatar/Impact/Namcor early this year
- More drilling required but potentially huge finds (among top 20 global discoveries of last decade)
- Technically challenging due to depths and weather
- Production within 4 years (government) longer (oil companies) Wood MacKenzie 2027
- At peak could add up to USD5.6 billion a year to state revenues
- Door is closing and haggling over refineries, local content etc will cost time
- Economic challenges of oil discoveries (see IPPR QER Q2 2022 for more)

It is good policy and effective implementation not natural resources endowments and luck that determine economic performance – we are not just passive victims of circumstance!

"We must free ourselves of the hope that the sea will ever rest. We must learn to sail in high winds."

Aristotle Onassis



Politicised, untechnocratic, corrupt and ad hoc economic management of the economy

More technocratic, transparent, rules-based strategic management of the economy and export diversification

Namibia: Yes There Are Two Paths You Can Go By

Low Road

- Next President turns blind eye to corruption and enriched elite continue to ignore needs of poor
- Delayed start to oil and GH_2 projects leading to extended period of limited revenue
- Government borrows heavily in advance of oil revenues for unproductive ends
- Oil revenues exacerbate corruption
- Government uses oil revenues as reason to give up on diversifying economy
- Namibia suffers from classic “resource curse”

High Road

- New President clamps down on corruption and adopts more technocratic approach to economic management
- Oil and GH_2 projects start to take shape in coming years allowing government to borrow and bridge fiscal gap
- Oil and gas revenues are effectively managed and benefits are distributed across population leading to poverty reduction and resources for climate adaptation
- Government ensures Dutch disease is avoided and uses oil and GH_2 as a means of diversifying economy



Read my book and see if you come to the same conclusions as me!

Any questions?

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