



Socioeconomic benefits & Namibia's fiscal share of the oil discoveries: A potential for Namibian economy diversification

By: Mtundeni Ndafyaalako
Executive: Upstream Development and Production

www.namcor.com.na



Presentation Outline



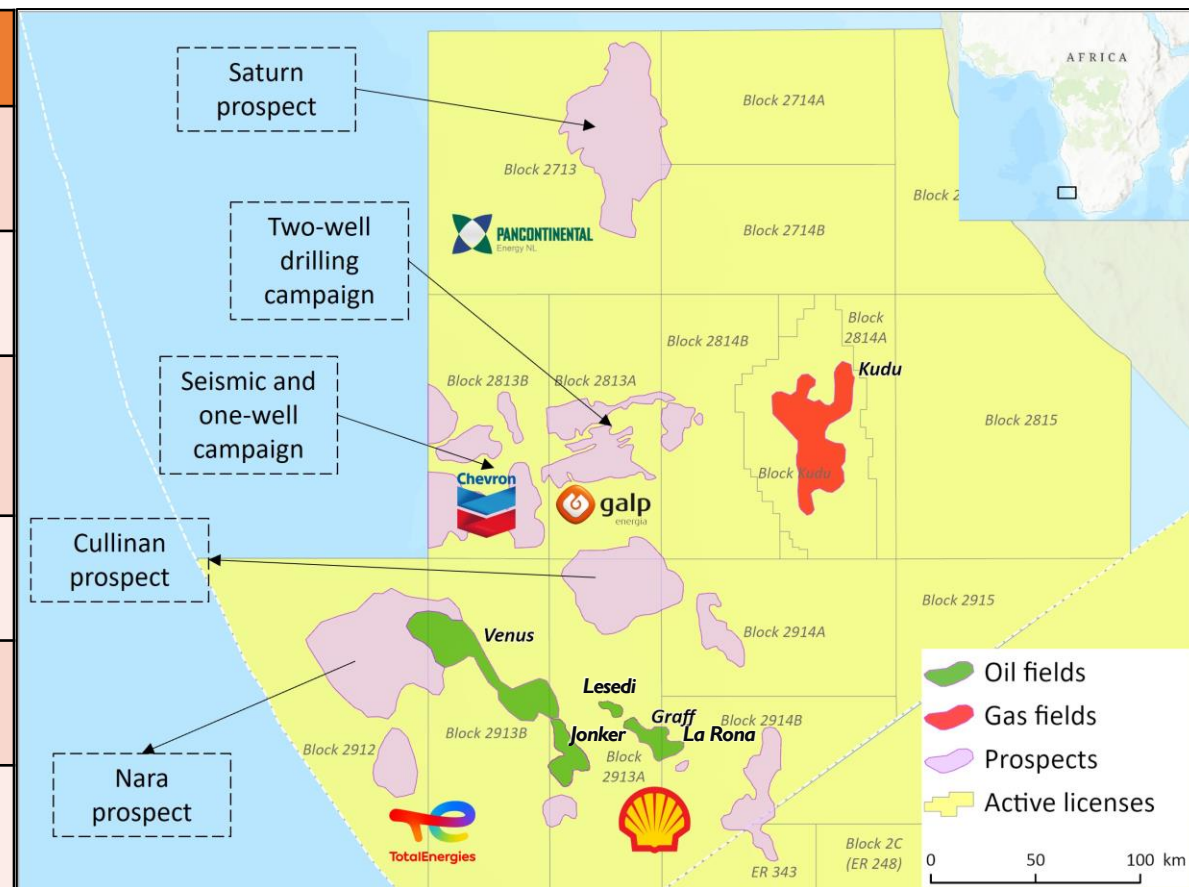
- Introduction to Namibia's Oil Discoveries
- Namibia's fiscal share
- Focus on Government Take: Venus Projected Cashflows and effect on GDP
- What about the Dutch Disease and the Resource Curse?
- Socioeconomic Impact enabler: Local Content
- Sovereign Wealth Funds: An Economy Diversification Tool
- Opportunities for Economy Diversification
- Employment and Jobs Creation
- Potential for local SMEs participation
- Conclusions



Introduction to Namibia's Oil Discoveries



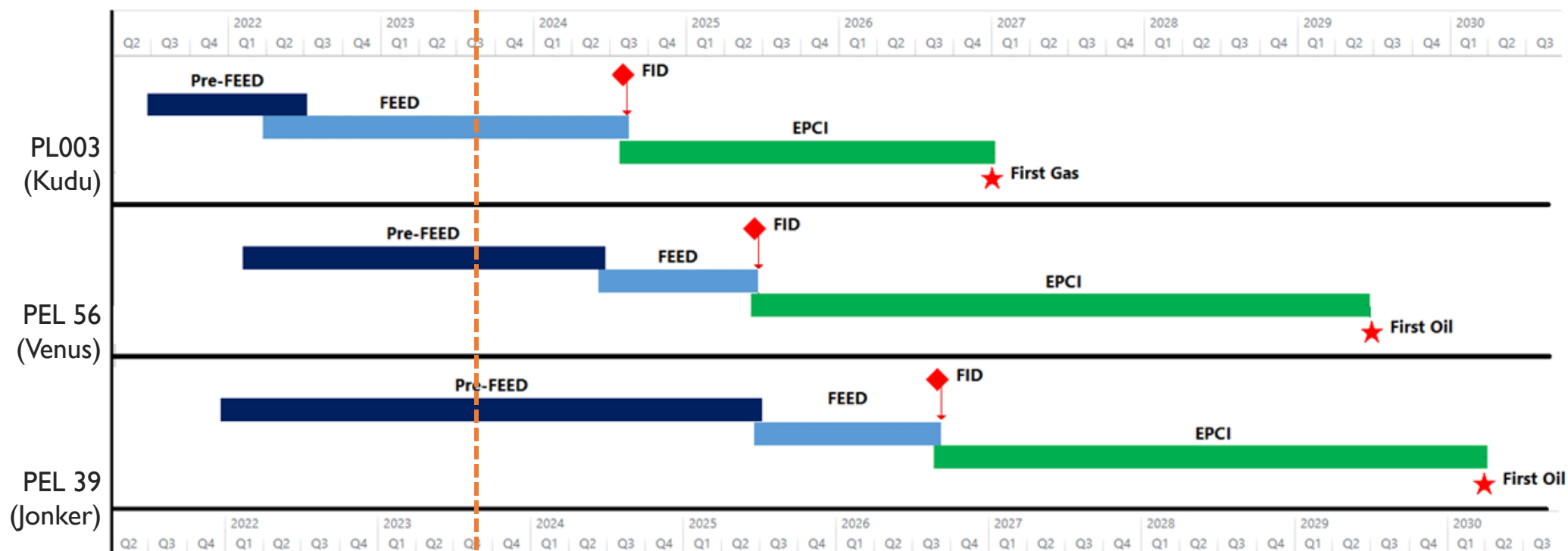
Discovery (fluid)	Date of Discovery	Partners in PELs 39 & 56	Development Strategy
Kudu (PL003) gas	April 1974	BWK (95%), NAMCOR (5%, free carry until FG, 5% back in right)	Gas to power
Graff (PEL 39) oil	February 2022	Shell (45%), Qatar Energy (45%), NAMCOR (10% interest, staged carry until Development)	No concept for development as for now
Venus (PEL 56) oil, gas	March 2022	TotalEnergies (40%), Qatar Energy (30%), Impact Oil & Gas (20%), NAMCOR (10% interest, carry until FO)	Fast-tracked, multi-phased incremental, oil
La Rona (PEL 39) oil	April 2022	Shell (45%), Qatar Energy (45%), NAMCOR (10% interest, staged carry until Development)	No concept for development as for now
Jonker (PEL 39) oil, gas	March 2023	Shell (45%), Qatar Energy (45%), NAMCOR (10% interest, staged carry until Development)	Fast tracked, multi-tie back, phased incremental, oil
Lesedi (PEL 39) oil	July 2023	Shell (45%), Qatar Energy (45%), NAMCOR (10% interest, staged carry until Development)	No concept for development as for now



Modified after Rystad Energy UCube (2022)



Timelines: Projects milestones

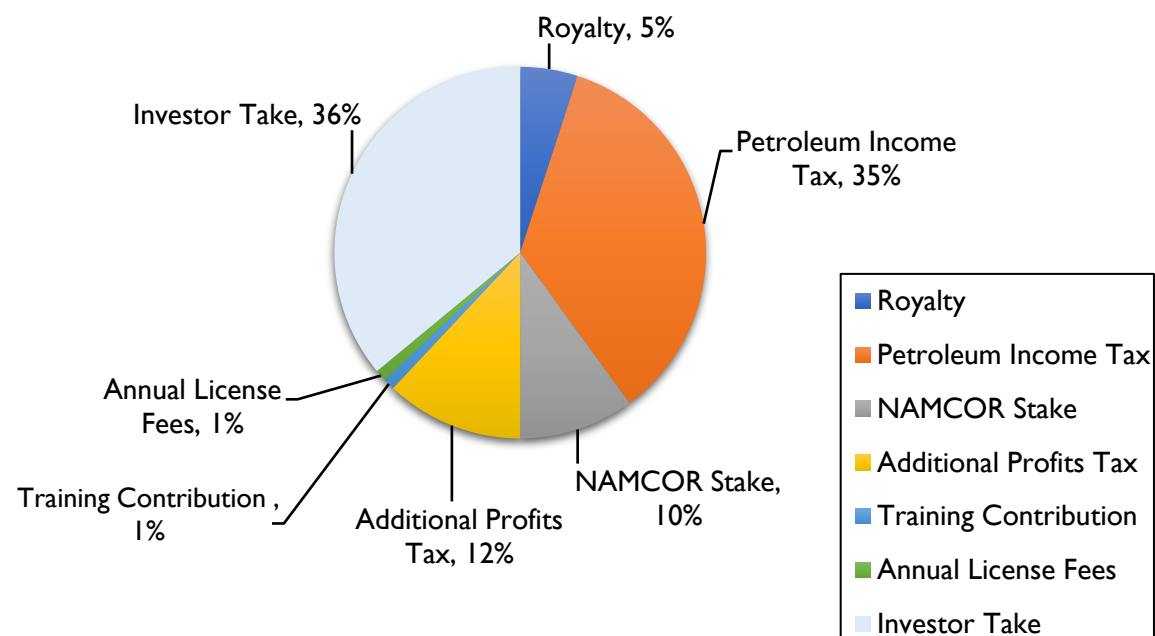


Namibia's Fiscal Share: GRN take ~ 54%

Namibian Petroleum Agreements (PA's): Government is entitled to receive a share of **any successful project** once production has started






Fiscal Feature in Petroleum Agreement	% of Divisible Income
Royalty	5%
Petroleum Income Tax	35%
NAMCOR Stake	10%
Additional Profits Tax	5% -12% (negotiable)
Annual License Fees	N\$1500/km ² (~1%)
Training (Petrofund)	US\$150 000/year (~1%)

Typical income distribution from oil and gas field in Namibia



Fiscal Share: How does Namibia compare to peers?

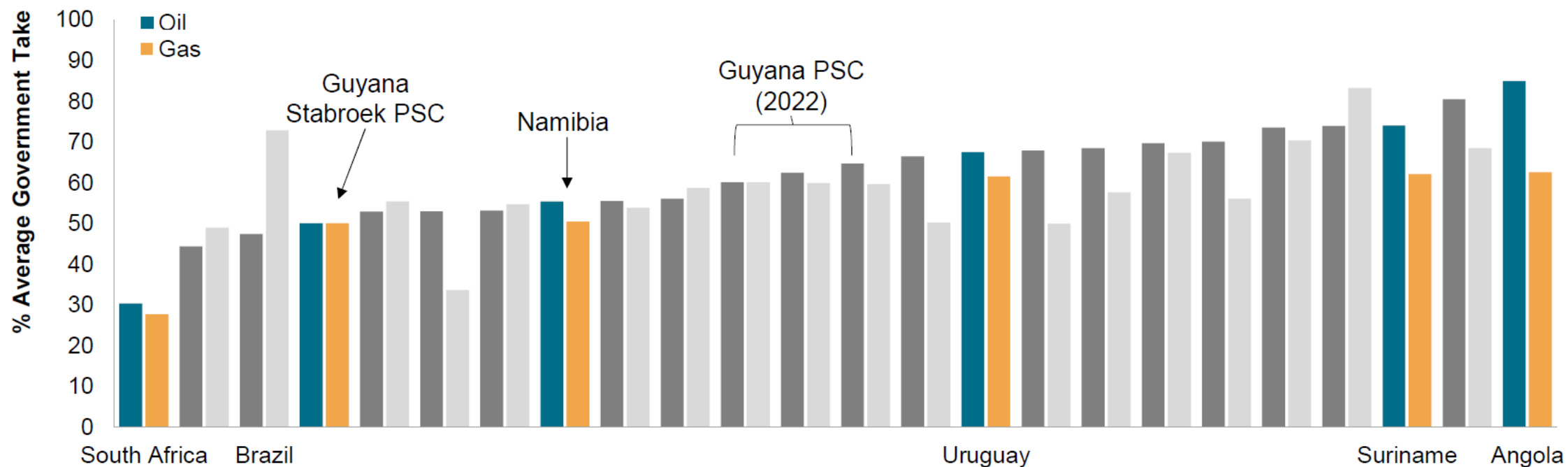


					
Tax	Namibia Concession	Guyana PSC	Guyana Stabroek PSC	Angola PSC	South Africa Concession
Royalty	5% for Oil and Gas	10% for Oil and Gas	2% for Oil and Gas	N/A	0.5% to 5%
Corporate Income Tax	35%	10%	Paid on behalf of the Contractor, out of the Government's share	25%	28%
Additional Income Tax	Additional Profits tax: Varies (Tiers 2 and 3 are negotiable)	N/A	N/A	N/A	N/A
Fees	Training fees, Rental Fees ¹	Training fees, Rental Fees ¹	Training fees, Rental Fees ¹	Training fees, Social Contribution Fee	Training fees, Rental Fees ¹
Bonus	N/A	Signature Bonus ²	Signature Bonus ²	Signature Bonus ²	
State Participation	Recommended, but not mandatory	N/A	N/A	Minimum 20%, Exploration & Appraisal Carried	Minimum 20%, Exploration & Appraisal Carried
PSC Terms	N/A	Profit Share Rate: 50% rate Cost Recovery: 65% rate	Profit Share Rate: 50% rate Cost Recovery: 75% rate	Profit Share Rate: 80% to 20% Cost Recovery: 55% to 70%	N/A

S&P Global
Commodity Insights



Average Government Take: Selected countries



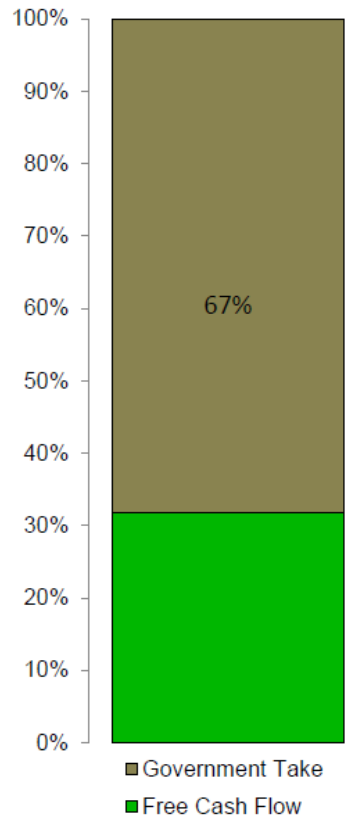
S&P Global
Commodity Insights



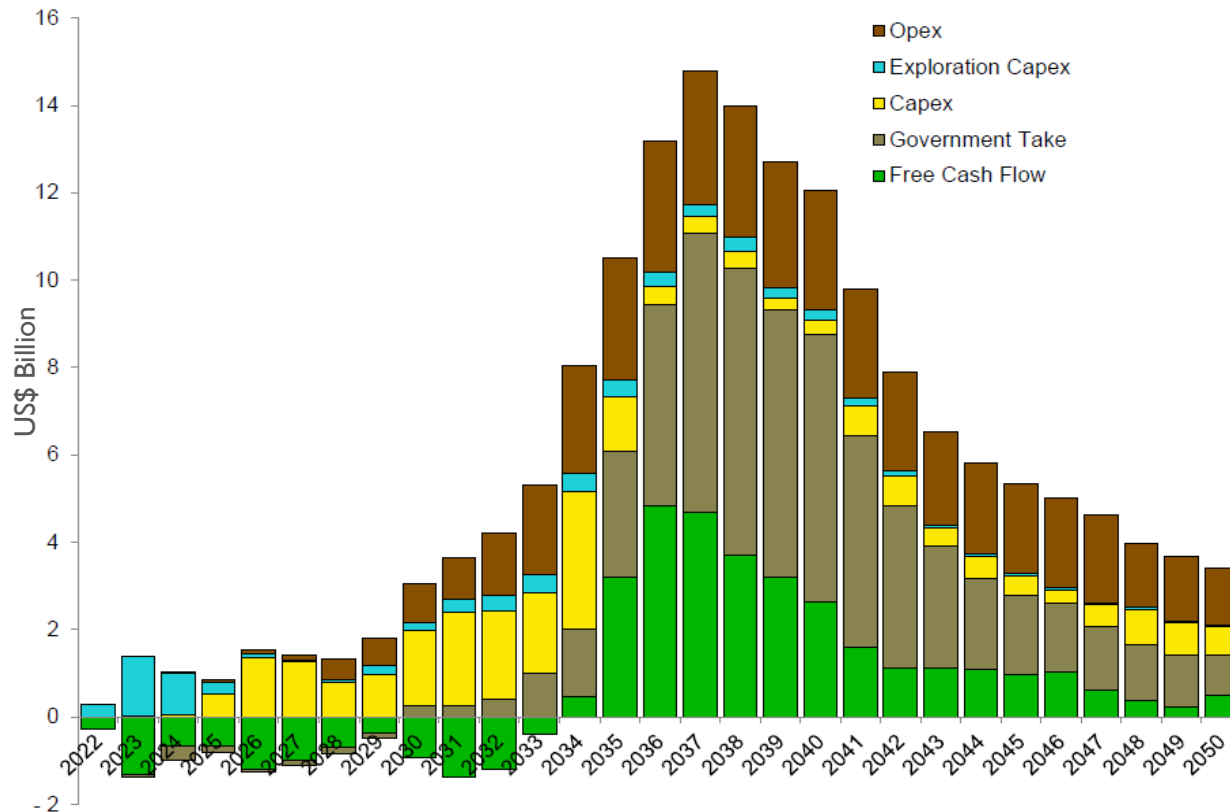
Focus on Government Take: Venus Projected Cashflows



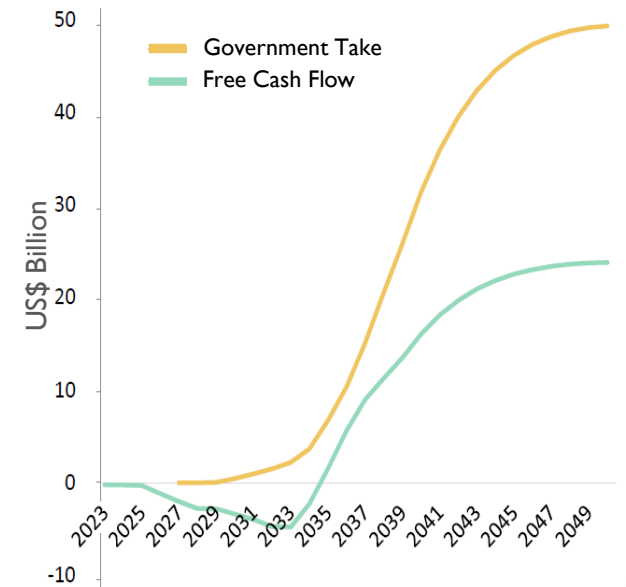
“US\$11 billion of greenfield investments to bring US\$70 billion of government revenues”



RystadEnergy



RystadEnergy



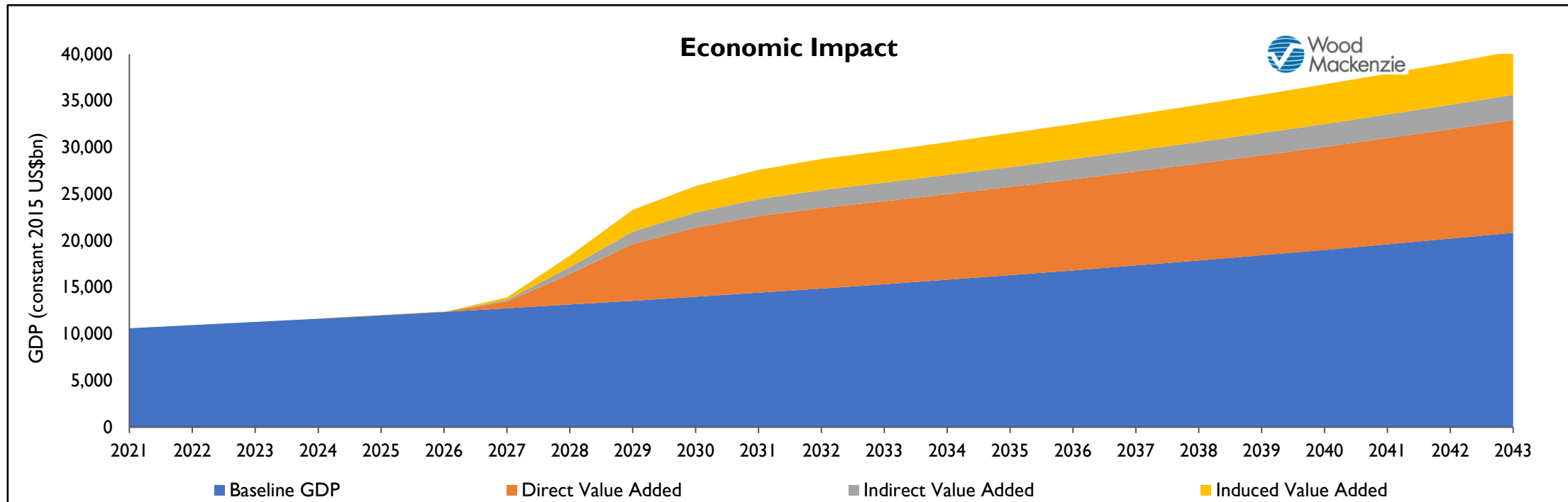
RystadEnergy



Socioeconomic Impact of the Namibian Discoveries



- Initial estimates: Graff and Venus have the potential to almost double the Namibian GDP by 2040 to US\$37 billion
- Between 2033 and 2043, oil and gas will contribute an average of US\$17 billion* per annum to GDP
- By 2043, the contribution of the oil and gas industry will be 48% of total GDP
- At peak production, could add up to US\$5.6 billion** per annum to State Revenues



* Based on 2015 prices

**Aggregate of estimated revenue from royalties, corporation tax, APT and NAMCOR revenue



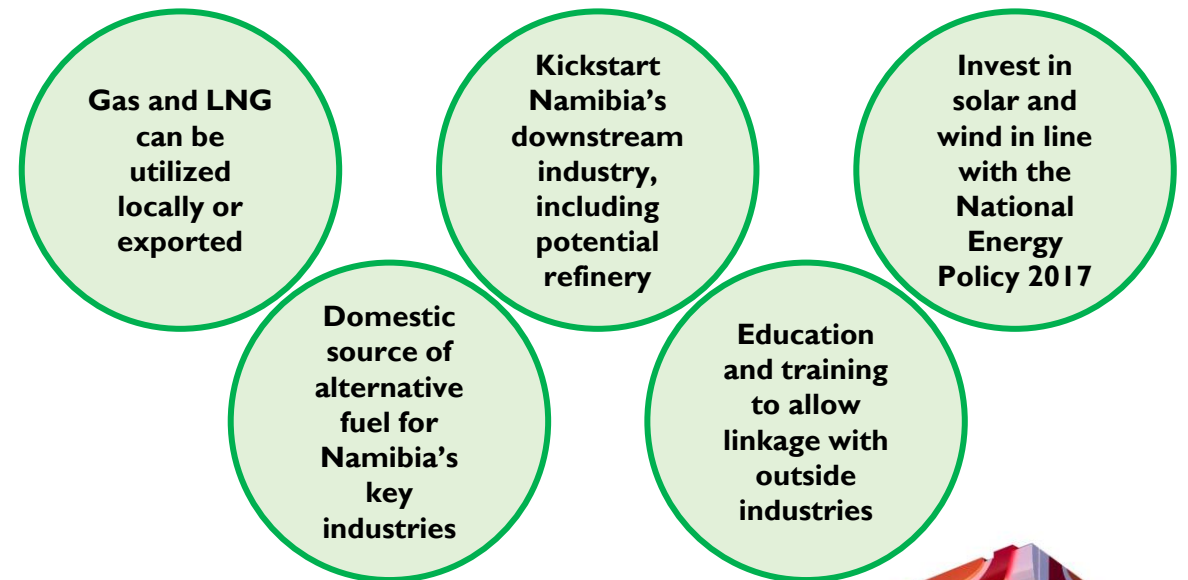
What about the Dutch Disease and the Resource Curse?

Namibia must navigate the risks and grasp opportunities to ensure oil production turns into a blessing for the country

Risks



Opportunities



Socioeconomic Impact enabler: the local content conversation

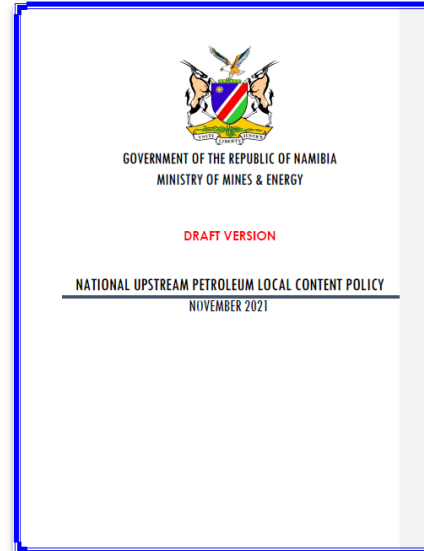


3.1.5 Ensuring the transfer of technology, knowledge and skills

- 1) **Strategies:** Seek Research and Development opportunities in consultation with the industry and local education institutions (e.g. vocational institutions).
- 2) Encourage the use of exchange programmes to accelerate knowledge transfer and building "know-how" amongst government agencies as well as within companies.
- 3) Require operators to disclose efforts in technology and knowledge transfer in the annual Local Content Plan.

3.1.4 Maximising the participation of local suppliers along the value chain

- Strategies:**
- 1) Ensure that legislation stipulates preference for Namibian suppliers of goods and services which are on competitive standards and terms.
 - 2) Require the submission of an annual Local Content Plan (as a requirement for holding a Licence) which will include a Procurement section to cover development and participation of local firms.
 - 3) Require contracts to be unbundled, as much as economically and practically feasible, to match the timing, and financial and human capabilities of local enterprises.
 - 4) Require contracts to also be advertised locally (where appropriate) ensuring access of local enterprises to all tenders.
 - 5) Require tender evaluation processes to place a weighting on local value-added.
 - 6) Facilitate information sharing on procurement practices and standards to local providers, where appropriate.
 - 7) Require the Regulator to maintain a database of local pre-qualified suppliers.
 - 8) Encouraging the formation of partnerships, joint ventures and other commercial arrangements to maximize knowledge transfer from experienced companies to local enterprises. These arrangements will be subject to local law.
 - 9) Facilitate the access to financial services for local firms with particular support to SMEs.



3.1.3 Maximising employment and development of Namibians

- 1) **Strategies:** Actively implement current legislation that stipulates that employment opportunities are publicly advertised, and preference is given to Namibian citizens who possess appropriate qualifications.
- 2) Ensure that meaningful training and development of Namibian citizens is a requirement for operating within the sector.
- 3) Use Training & Development contributions to fund targeted skills development.
- 4) Require the submission of an annual local content plan (as a requirement for holding a Licence) which will include a Human Resources section to cover recruitment, training and development of Namibians.
- 5) Ensure that there is co-ordination between the petroleum sector regulator and other agencies with respect to the recruitment of expatriates.
- 6) Ensure appropriate mechanisms are in place and effectively monitored to accelerate the transfer of skills and knowledge. These shall include but are not limited to mentorships, understudies, succession plans and secondment programmes.

Institution	Roles
Ministry of Mines and Energy (MME)	<ul style="list-style-type: none">- implementing the Local Content Policy.- supervise, coordinate and monitor the implementation of this policy.-To enforce Acts and Regulations- Compliance and enforcement of local content requirements.



Sovereign Wealth Funds: An Economy Diversification Tool

Case Study: How Norway's oil fund works, key milestones in its evolution and why it is successful



Government Pension Fund Global (originally called the Government Petroleum Fund)

2022: Fund worth USD 1.5 trillion

Fund holds 11 549 investments in 69 countries, with a portfolio comprising equities (70%), bonds (27.5%), real estate (2.7%), renewables infrastructure (0.1%).

2021: Fund starts investment in renewables

Fund announced its first investment in unlisted renewable energy infrastructure signing an agreement to purchase 50% of the Borssele 1 & 2 wind farm in the Netherlands

1990: Government Petroleum Fund established

Norway's Parliament passed a law to establish the Government Petroleum Fund. Objective is to ensure a long-term perspective in the management of government petroleum revenues. Production started in 1971

Approach: Long-term investment horizon

The sovereign wealth fund has a long investment horizon and is among other things intended to be managed so that Norway's petroleum wealth benefits future generations as well.

1996: First deposit made to the Fund

The Fund gets its first capital transfer from the Ministry of Finance, all funds to be invested outside Norway like the Norwegian Central Bank's foreign exchange reserves

1997: Fund invests in Bonds and Equity

Fund wholly invested in government bonds (60%) and equity (40%).

1998: Fund management passed to Norges Bank Investment Management

Norges Bank Investment Management was set up, to manage the Fund on behalf of the Ministry of Finance, NBIM converted about 40% of the Fund's bond portfolio into equities

2000-2002: Fund investments diversifies to Asia and Africa

Five emerging markets are added to the Fund's benchmark equity index including Africa and Asia. In 2002, corporate and securitized bond are added to the Fund's benchmark fixed-income index

2004: Ethical guidelines for investment established

The Ethical guidelines for the Fund were established to ensure the Fund only invest in Companies that are ethical

2006-2007: Fund renamed to Government Pension Fund Global, increases equities

the Fund changes its name to the Government Pension Fund Global. In 2007, Ministry of Finance decided to increase the Fund's share of equity from 40% to 60

2008: Real estate mandate, Fund suffers negative returns

Ministry of Finance includes real estate in the Funds investment universe with a maximum share of 5% of total asset, included all emerging markets in the reference index for equities. The Fund suffered a negative return -23.3 due to the international financial crisis the same year

2011: Fund makes first real estate investment

The Fund makes its first real estate investment, 25% stake in The Crow Estate's Regent Street properties in London's busiest shopping street

2012: Norway decides to reduce fund investment in European holdings

The Ministry of Finance announces plans to gradually reduce the share of European holdings to about 40% of the Fund and increase investments in emerging markets to 10%.

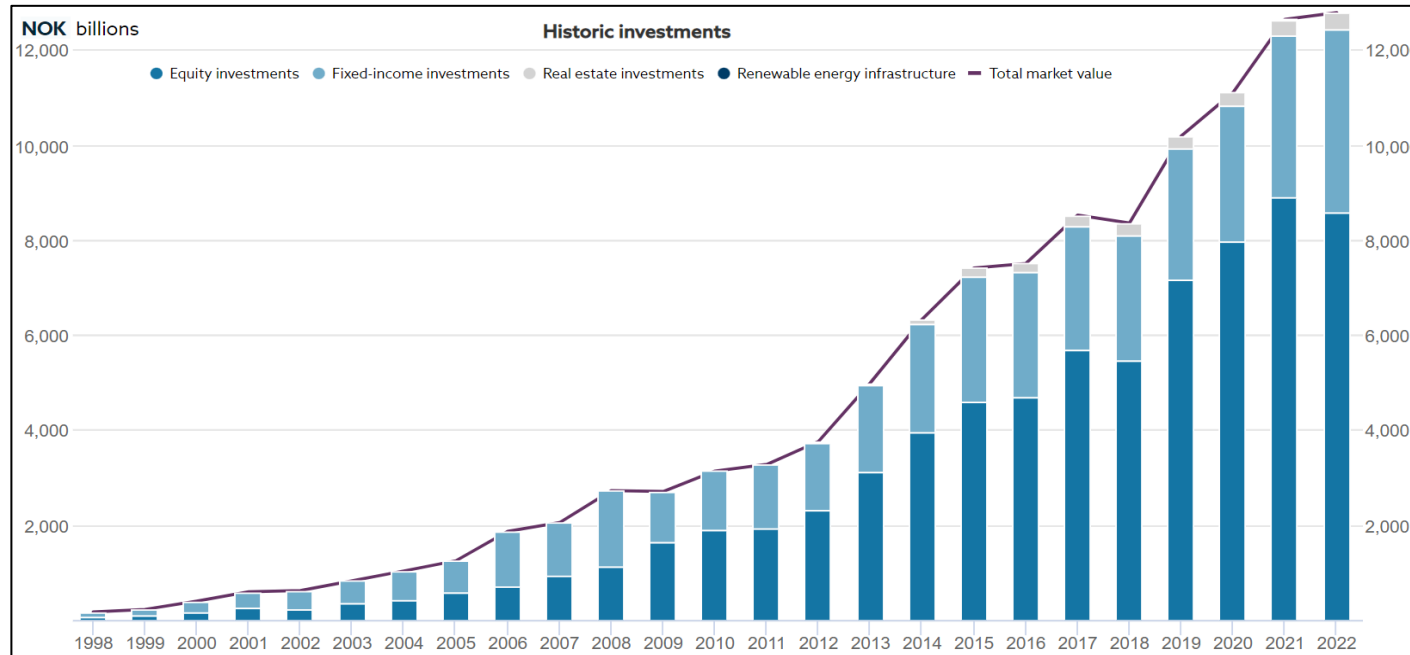
2015: Council of ethics give direct advice to Norges Bank Investment Management

The Council on Ethics started sending its recommendations directly to Norges Bank instead of to the Ministry of Finance. The Norges Bank's Executive board now decides on the observation and exclusion of companies the Fund invests in (publicly).



Sovereign Wealth Funds: An Economy Diversification Tool

Case Study: How Norway's oil fund works, key milestones in its evolution and why it is successful



The World's Largest Sovereign Wealth Funds

Assets under management of the world's largest sovereign wealth funds*

Norway Government Pension Fund Global		\$1,375B
China Investment Corporation		\$1,351B
SAFE Investment Company		\$1,034B
Abu Dhabi Investment Authority		\$993B
Kuwait Investment Authority		\$801B
GIC Private Limited		\$769B
Public Investment Fund		\$700B
Qatar Investment Authority		\$450B

* Latest period U.S. dollar figure if available, estimation otherwise; as of Aug. 2023
Source: Global SWF

statista

- The current Fund's value is **US\$1.4 Trillion**, owns 1.5% of all shares in the world's listed companies., holdings in +9,000 companies worldwide, entitling to share of their profits each year. In 2021, the Fund was worth US\$ 250,000 per Norwegian citizen.
- Diversified investment portfolio focusing on long-term growth.
 - Equities (US\$ 821,6 billion, 69.8%): Basic Material, Consumer Discretionary, Financials, Consumer Staples, Industrials, Health Care, Real Estate, Telecommunications, Technology, Utilities, Energy
 - Fixed Income (value: US\$ 323,2 billion, 27.5%): Treasuries/Government related Bonds, Corporate Bonds, Index linked bonds, Securitized Bonds
 - Real Estate (US\$ 31.3 billion, 2.7%): Office, Retail, Industrial, residential
 - Renewable Energy (US\$ 1,37 billion): Brossele 1 & 2



The Welwitschia Fund: Can we replicate Norway's success?



Stabilization Account (liquid)

- To be used to counteract the effects of negative macroeconomic shocks
- To be used to protect the foreign reserve position
- Targeting investment in liquid and fixed-income investments that are predominately countercyclical to the domestic economy.

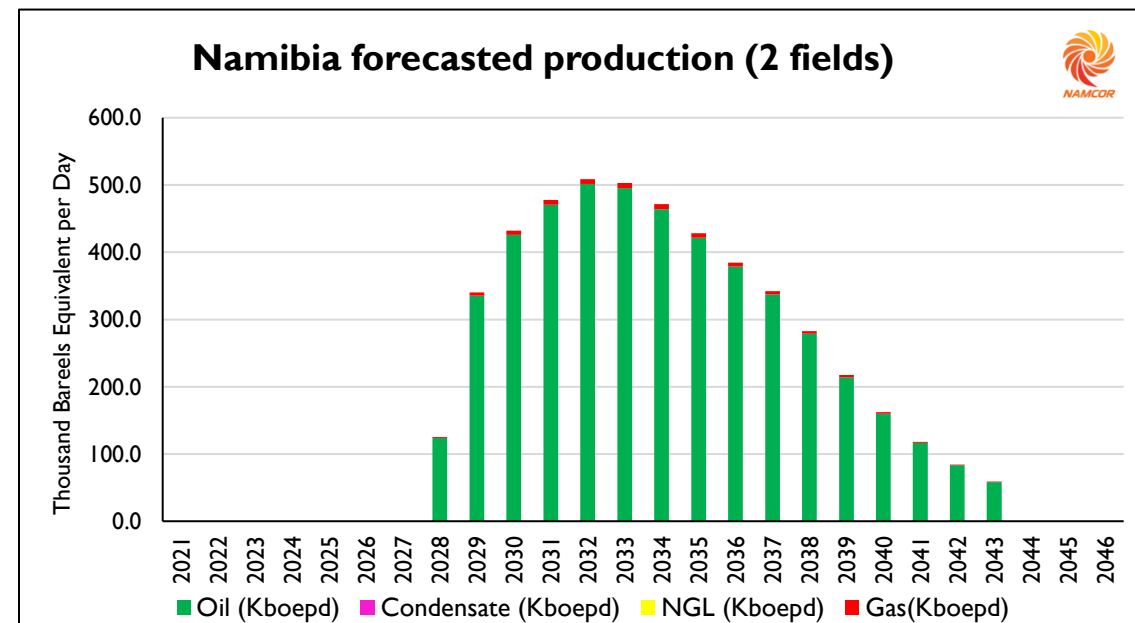
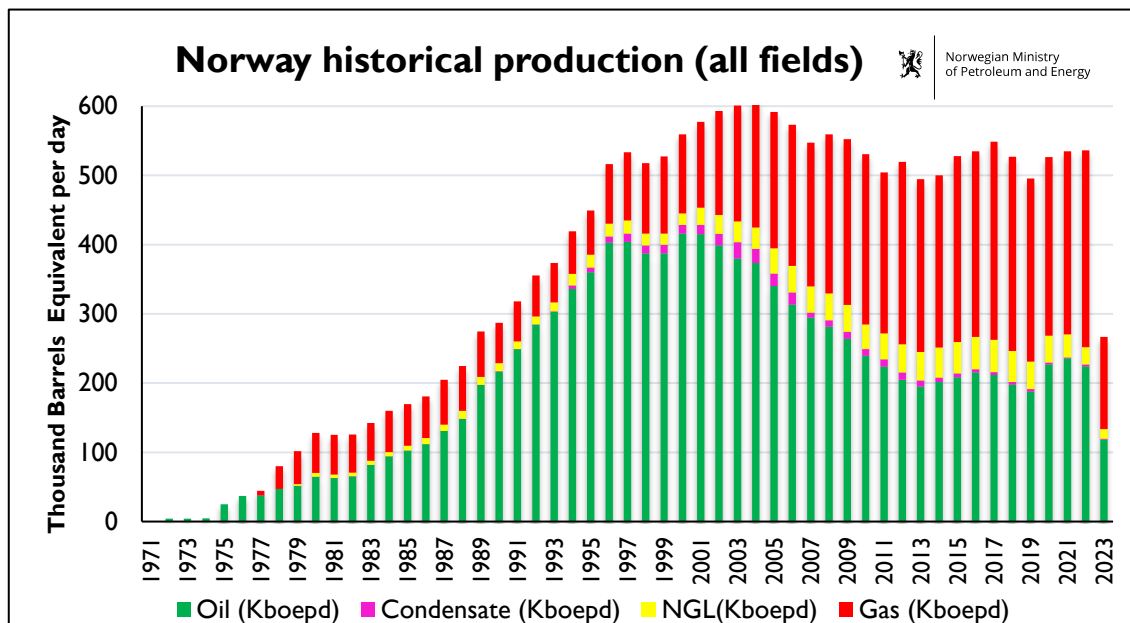
Intergenerational Savings Account (long-term)

- To be used to save for the future generations
- To support domestic economic development & job creation
- Targeting investment in a diversified portfolio of offshore listed equities, fixed income, unlisted investments, real-estate, commodities and other growth assets.
- Also, to invest in some local unlisted investments.

- Established in June 2022, current asset value around USD20 million.
- The Bank of Namibia, under the jurisdiction of the Ministry of Finance, will manage both accounts
- Funding triggered by position of public revenue being at least 30.5% GDP (currently lower)
- Expected aggregate revenue from royalties, corporation tax, APT and NAMCOR revenue could trigger funding.
- Fund has the potential to experience a fast growth within a few years of first oil.



The Welwitschia Fund: Can we replicate Norway's success?



- Namibia's forecasted production could match Norway's production in the equivalent phase, as more fields are expected to come onstream through incremental development.
- Therefore, Namibia stands a good chance of reaping comparable state revenues and associated socioeconomic benefits, which if correct strategies are implemented, could potentially result in a thriving sovereign wealth fund.



Socioeconomic Impact: Potential for Economy Diversification



Revenues from oil production can be used to wider economic benefits can be diversified to those that boost the energy sector itself and those that boost the economy and government programs as a whole

Strengthen Namibia's energy sector

Energy Sector Developments

- Gas to Power: Increase access to power – less than 50% of the population has access to power
- Reduce reliance on coal and South Africa – construct a gas power plant in Lüderitz/Oranjemund
- Reduce emissions footprint of grid power – only currently one non coal or diesel generation plant

Value addition to hydrocarbon products

- Oil refinery – currently all petroleum products are imported
- Gas processing for urea (key for fertilizers) or ammonia – boost agricultural productivity
- Develop LNG (floating or onshore solution) – local energy security and become key exporter

Regional gas monetization opportunities

- GSA to export gas to SAPP market – potential to become key gas supplier to South Africa
- Gas export to Zambia and other – opportunity to become the regional powerhouse
- Domgas – NAMCOR or another designated operator could mean growth for SOE

Further renewable energy

- Solar and wind as per National Energy Policy of 2017 – IOCs are eager to take up sustainable energies projects to their hydrocarbons portfolio
- Green Hydrogen – booming hydrocarbons industry can attract new investment in this space
- Other renewables – IOCs looking at cleaner energies or power FPSO and platforms

Boost wider economy and government agendas

National Roads and Rail Infrastructure

- Coastal Roads – creation of coastal road running south from Walvis Bay to Lüderitz, Elizabeth Bay, Oranjemund and Alexander Bay, to boost coastal supply chain and logistics industry
- Improve/widen the Trans-Caprivi road link and improve and extend the current rail link from Grootfontein to Katima Mulilo, and to Livingstone – enable DRC/Zambia copper to be exported via Walvis Bay port to boost port development and turnover

Nationwide Development Schemes

- Basic electricity access and rural electrification – boost human development in Namibia and increase the O&G sector's social license to operate
- Basic water/sanitation access – boost human development in Namibia and increase the O&G sector's social license to operate
- SME funding – avail funds through DBN to fund entrepreneurs and potentially-high impact startups in key focus areas of the economy (agriculture, renewables, ICT, etc)

FSRU/FSU Infrastructure

- FSRU/FSU in Walvis Bay – Construction of a Floating Storage and Regasification Unit (FSRU) or Floating Storage Unit (FSU) as demand will be likely to be high for FSRU/FSUs due to the long-term impact of Russia Ukraine.

Augmented Ports Capacity

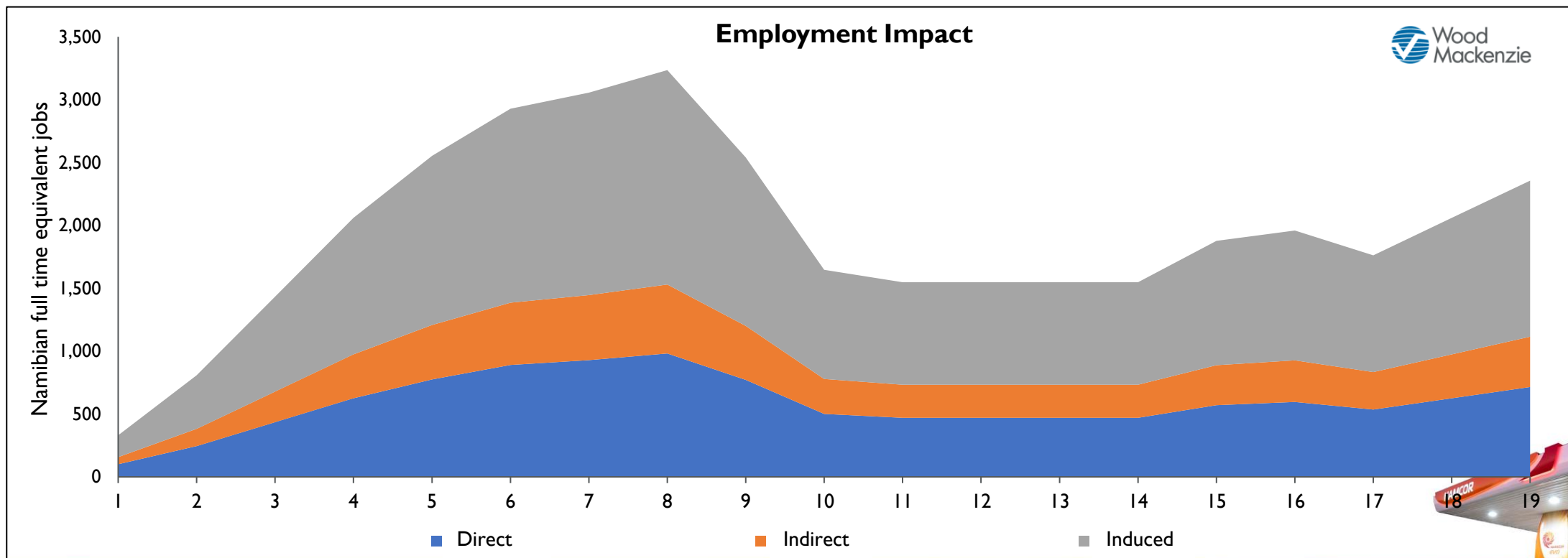
- Deepen and increase Lüderitz Port – increased Lüderitz port capacity will boost Namibia's logistics and supply chain industry that will benefit all sectors of the economy.



Socioeconomic Impact: employment and jobs creation

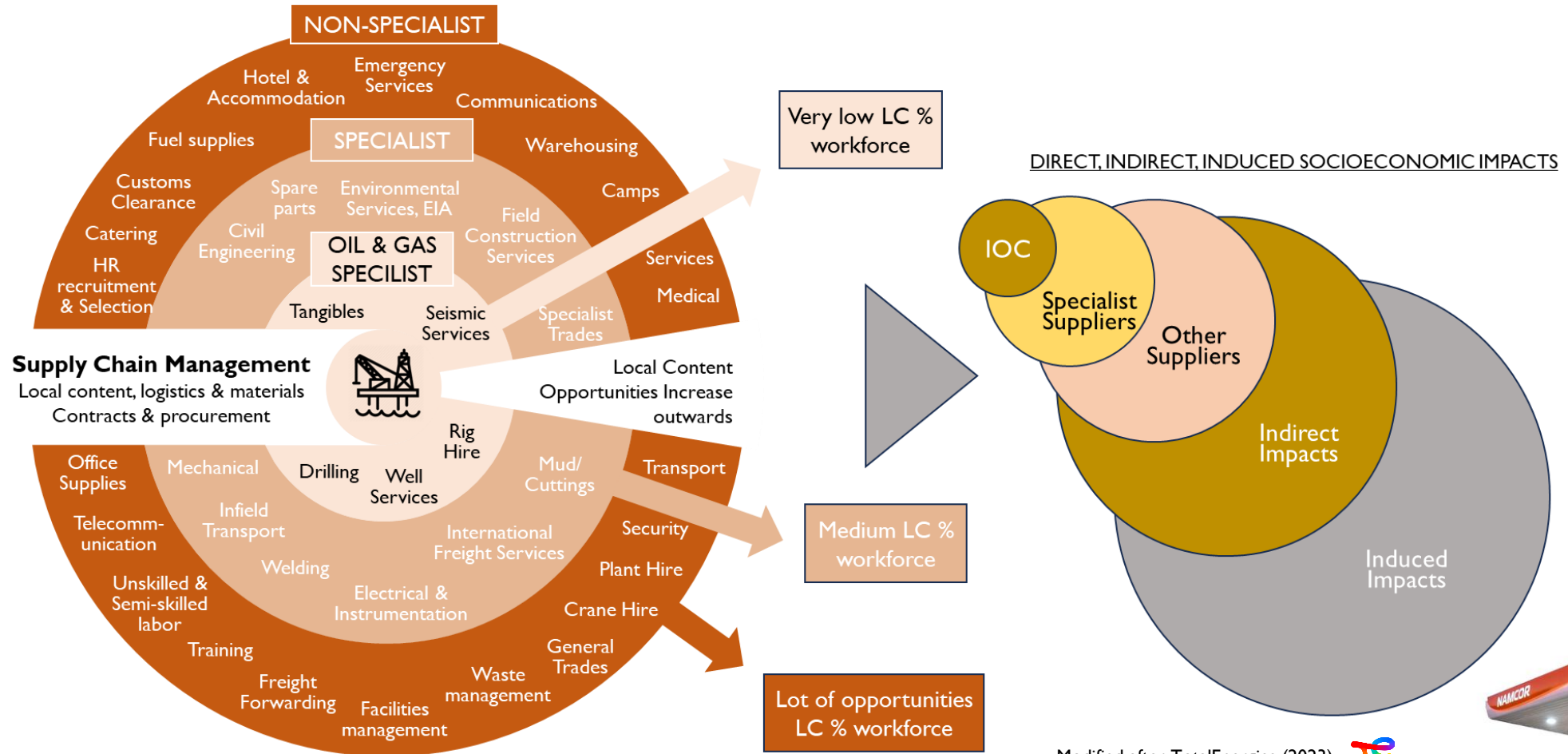


The 2 projects alone (Venus & Graff, pre-appraisal estimates) will generate over 3 600 jobs at peak, with the potential to maintain these levels with the correct management of skills gained



Socioeconomic Impact: Potential for local participation

Wide range of opportunities for jobs and local content participation either in direct or spin-off industries



Modified after TotalEnergies (2023)



What's in it for the Youth?



Blue collar jobs (TVET careers)

Opportunities to pursue a vocational careers in the oil & gas industry, will form majority of jobs. Training opportunities offered by service companies and IOCs



Entrepreneurship & Business Opportunities

Entrepreneurial opportunities for SMEs and startups in a wide variety of indirect and induced industries. Local content policy makes playing field favorable for locals, especially the youth.



Community Development

Oil & gas projects often have CSR and community development initiative improved infrastructure, educational programs, and social projects that directly benefit young people in the region



Study Opportunities & Skills Development

Opportunities to secure a lucrative scholarship with a chance for internship and industry integration.



White collar jobs (Specialized careers)

Opportunities to pursue a specialized and rewarding career in the oil & gas industry. Access to specialized training and development programs, and gain skills that are transferable to various sectors



Global Experience

Oil & gas sector can provide young people with valuable international experience and exposure to global best practices, asset for those looking to build a diverse and successful career



Environmental and Sustainable Opportunities

Unique opportunities for young professionals and innovators to contribute to environmentally responsible practices, such as renewable energy integration and carbon capture technologies.



Conclusions



- In addition to direct and indirect job creation, securing of contracts by local companies, increase in direct and induced tax revenues, the expected government take (aggregate of estimated revenue from royalties, corporation tax, APT and NAMCOR revenue) will potentially fuel unprecedented socioeconomic benefits to the Namibian nation.
- Namibia must avoid pitfalls and grasp the opportunities to ensure its hydrocarbon resources do not turn into the Dutch disease or a resource curse.
- Namibia has a good opportunity of amassing significant hydrocarbon-derived state revenues which if correct strategies are implemented, could potentially result in a thriving sovereign wealth fund., which could be used to drive economy diversification.
- The field development programs of the discoveries will take a multi-phase approach, which suitable for a phased approach Local Content enforcement.





NAMCOR



www.namcor.com.na

THANK YOU