



Budget Speech by
Hon. Obeth Kandjoze, MP
Minister of Mines and Energy
Vote: 15

March 29, 2016
National Assembly

Preamble

I have the greatest honour and privilege to present the Ministry of Mines and Energy's budget, Vote 15 for the financial year 2016/2017 for consideration by this August house. Before I proceed with my speech please allow me to first express my profound gratitude towards H.E. Dr. Hage G. Geingob, President of the Republic of Namibia for entrusting me with the leadership of this very important economic Ministry.

Secondly, I would like to thank the Ministers of Finance and Economic Planning and their teams for a well-crafted budget.

The Ministry of Mines and Energy is established to take custody of Namibia's rich endowment of mineral, geological and energy resources and to create an environment in which these resources can contribute to the country's socio-economic development.

One of the important components of the Ministry is the Geological Survey of Namibia (GSN) that plays a central role in the development of Namibia's mineral and geological resources and in fostering sustainable development with due regard to the environment. There is a direct correlation between the availability of quality geoscientific data and a country's attractiveness for mineral exploration and investment.

A key reason Namibia continues to attract investment in the mining and oil sectors, despite the current slump in commodity prices, is the ability of the Geological Survey of Namibia to generate and provide high quality geoscience data. Without these geological data sets we cannot develop new mines, discover oil and find new water sources, amongst other things.

This year's budget is presented at a time when the prices of commodities have been depressed and in some cases have declined to levels that threaten the viability and sustainability of some of the prospecting and mining operations.

Increasing financial market volatility, continued slowdown in emerging and developing economies and weaker growth in oil exporting countries and labour unrest compounded the situation. Despite the above, the industry managed to contribute some N\$ 25 Billion in export earnings and N\$ 1 Billion was derived from Royalties during the 2015/2016 financial year.

However, continued declining commodity prices and weak demand for exports will surely negatively impact on Namibia's own real GDP growth and inflation rate. The weak global economic prospects will in general, therefore negatively impact on the performance of the mining sector in Namibia. In addition, effective implementation of an extraction software to provide the ministry with the ability to monitor mining extraction scale on an annual basis to legislate against unwanted or expedited production profiles are required urgently. Escalating electricity and water prices also increase operating cost for mining companies.

**Hon. Deputy Speaker & Chairperson of the Whole House Committee
Honourable Members**

Namibia is a net importer of electricity, importing between 50% and 70% of its energy requirements from the region. The potential for electricity shortages and the concurrent increase in electricity – a key input in driving economic activities – has the potential to further undermine domestic growth prospects.

The Ministry has robust plans in place to construct new power plants, (*short, medium and long term*) to avoid electricity shortages. The Ministry also endeavours to continue with its rural electrification project using grid and off grid technologies.

Security of supply of Petroleum products is of vital significance to the smooth flow and growth of the national economy for a non-producing

country such as ours. To that end the construction of the national strategic fuel storage tank farm is envisaged to continue during the 2016/17 financial year.

On the diamond front, negotiations on a the Sales and Marketing Agreement with De Beers that will pave the way for increased supply of rough diamonds to the local diamond manufacturing industry are now finalised. The new Agreement will supply about half of Namibia's diamonds of all sizes, shapes and qualities to our local manufacturers. This would allow our factories to operate at full capacity, create more jobs and enhance their profitability and sustainability.

Additionally the new agreement will usher into being a 100% Namibian Government owned Diamond Sales and Marketing Company. Its mandate will be to sell a 15% representative cut of Namdeb Holdings' rough diamond production while the same outfit will establish a Namibian diamond brand in the downstream market. Work on the establishment of this company is in progress.

Honourable Members

Diamonds are the smallest commodity with the highest concentration of value, and are easy to conceal and to smuggle through porous borders. The limited number of inspectors together with serious resource constrains, whilst considering the vast Namibian territory (*including at sea*), are stretched. This hampers their ability to be at the right places, at the right time to combat the illicit trade of diamonds.

Hon. Deputy Speaker & Chairperson of the Whole House Committee
Honourable Members

Let me take this opportunity to thank our bilateral and multilateral partners, as well as private foundations for their contribution to our development agenda through their technical and financial support.

I hereby take this opportunity to thank the Deputy Minister Honourable, Kornelia Shilunga, the Permanent Secretary, Mr. Simeon Negumbo, management and staff, for their commitment and support.

Honourable Deputy Speaker, I hereby table this Budget of Vote 15, amounting to N\$ 246,565,000.00 before this August House for your consideration and approval.

Attached please the detailed motivation of Vote 15

I thank you.

**Hon. Deputy Speaker & Chairperson of the Whole House Committee
Honourable Members**

Programme 1:

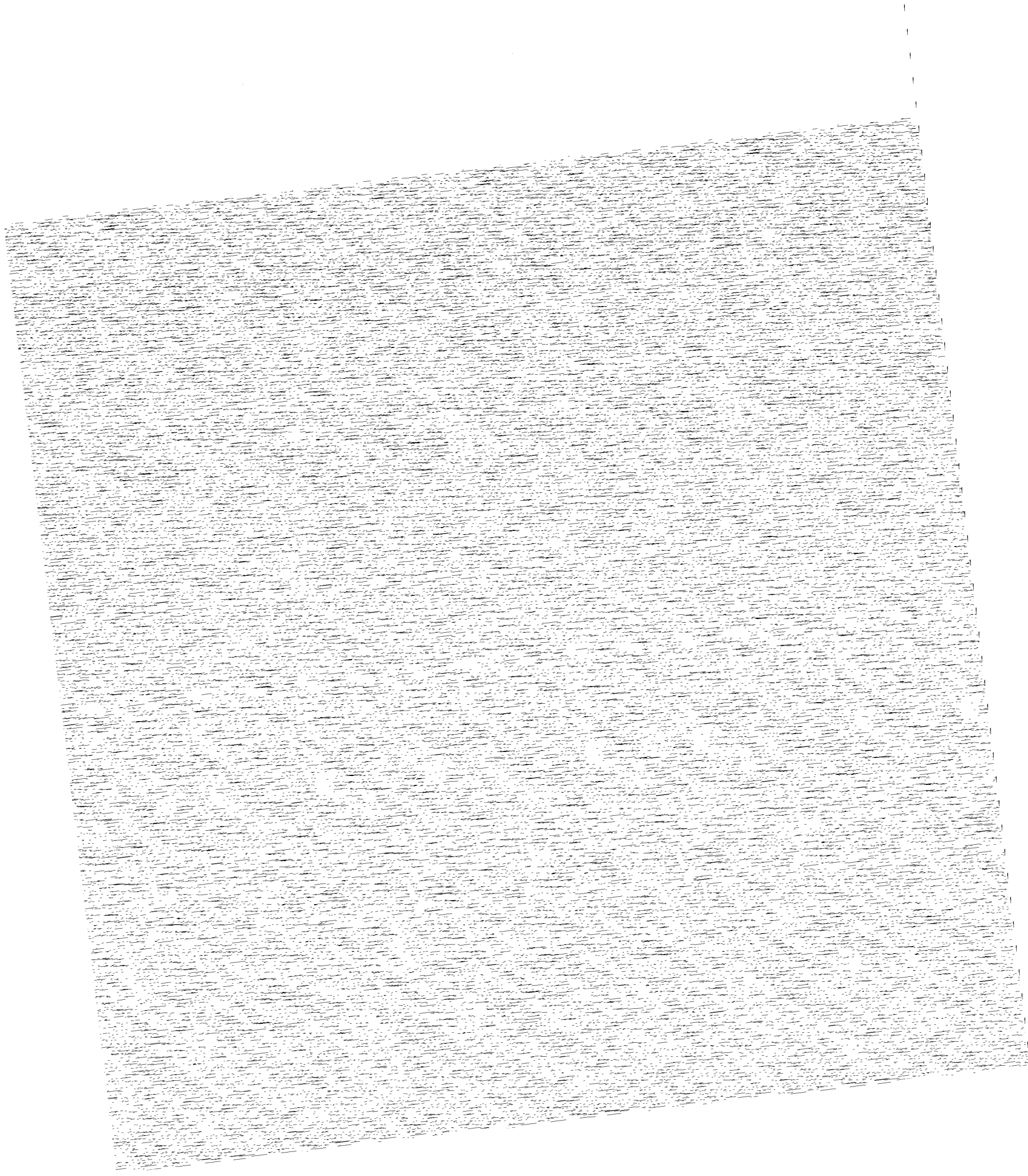
CREATION OF KNOWLEDGE OF NAMIBIA'S GEOLOGICAL RESOURCES

N\$ 53,940,000.00 has been earmarked for the 2016/2017 financial year N\$ 28,290,000.00 apportioned to the Operational Budget and N\$ 25,650,000.00 to the Development Budget, in order to enhance the understanding of Namibia's geo-environment and to uphold the sustainable utilisation of geological and mineral resources.

Over the 2013/14 – 2015/16 MTEF, the GSN completed a detailed mapping project along the border with South Africa in the //Karas Region, conducted regional geochemical sampling in the Tsumeb and Otjiwarongo areas and engaged in economic geology projects to enhance the sustainable use of the Namibian mineral potential.

The German and Finnish Government assisted the Ministry on these two important projects through our bilateral cooperation. I want to take this opportunity to sincerely thank them. Additionally, during this period, The Survey conducted regional geophysical electromagnetic airborne surveys in the Omaheke, Otjizondjupa and Oshikoto Regions. The North-east central areas of the Kalahari is now covered with airborne electromagnetic data; geophysical data that provides more information of the geology below the Kalahari sand cover.

During the 2016/17 budget year, the GSN intends to continue the detailed mapping project in the Kunene, Oshana and //Karas Regions. It will conduct further research on the potential and viability of industrial minerals to unlock further resource potential beneficial to the small scale mining industry. The GSN will continue with geophysical interpretation of the newly acquired electromagnetic data sets to identify possible water



**Hon Dep. Speaker & Chairperson of the Whole House Committee,
Hon Members,**

In an environment where investors are tight-fisted with their capital and reluctant to invest, it is imperative that we continue to promote Namibia's prospectivity to potential investors at home and abroad.

In 2014, the Report by The Fraser Institute, a Canadian Survey Institute, ranked Namibia as the most attractive mining investment destinations in Africa. We moved down in rank to 4th in 2015 because of concerns in some provisions of our Environmental Act. It is vital that we continue to keep Namibia on the map, especially during the period when commodity prices are depressed, and characterised by financial volatility, deteriorating industrial relations and escalating costs.

I am pleased to inform this August House that the process of reviewing the Minerals (Prospecting and Mining) Act (No 33 of 1992) which has been long in the making, is now very close to being finalised and would be tabled in this esteemed house as soon as possible.

The inter-ministerial Joint Value Addition and Beneficiation Committee, in the furtherance of its work, appointed a consultant to assist in identifying opportunities for local value addition and further beneficiation of minerals. To assist Small-Scale Mining, the Ministry is setting up a dimension stone, semi-precious and slate stone processing facilities in Khorixas, Kunene Region and Noordoewer, //Karas Region.

The construction of the facility is in its final phase. The Committee intends to undertake planned visits to a number of manufacturing plants in selected countries in the new financial year with a view to finally develop a robust, feasible and practical mineral beneficiation strategy for Namibia.

The Ministry is hard at work reviewing our systems and procedures to ensure that the mineral exploration and mining licences are transparent, above board and that they can pass the test of scrutiny by any peer review process. We are also taking steps to working closely with the Anti-Corruption Commission (ACC) to ensure that our systems and procedures are not prone to abuse and graft.

As part of the above process in 2014 we adopted the Flexi Cadastral System, which by its design enhances the management and handling of mineral rights applications in an efficient and transparent manner. As a tool it has provided the effective monitoring of mining licenses, ensuring that license terms and conditions are being complied with.

**Hon Dep Speaker and Chairperson of the Whole House Committee
Hon Members**

Programme 3:

PROTECTION OF NAMIBIA'S DIAMOND INDUSTRY

N\$ 10,871,000.00 is allocated for the monitoring, regulation and facilitation of the diamond industry.

Even after a century of diamond mining in Namibia, and the depletion of most diamond resources onshore, diamonds continue to contribute disproportionately to the State Revenue Fund. In the last financial year Namdeb Holdings (Pty) Limited alone contributed some N\$3 billion to state coffers in the form of taxes, royalties, dividends and Non Resident Shareholders Tax (NRST).

To ensure sustainability and expansion of the life of mines, during 2016 N\$9 billion would be spent on capital projects to upgrade and enhance prospecting and mining equipment and vessels to ensure that additional diamond resources (trapped on the ocean seabed) can be unlocked. A new exploration vessel, the SS Nujoma, would soon be deployed offshore Namibian waters to help discover new diamond resources. This would

ensure that Debmarmine Namibia continues to sustainably keep the mining of diamonds to the year 2050.

Despite the challenging diamond market conditions which have seen declining prices of rough diamonds and reduced demand for polished diamonds, the upstream side of the diamond industry has been particularly resilient. This is due to a combination of innovations in marine mining technology, research and development, cost cutting measures, favourable exchange rate and world class skills.

At some point Namibia had established 13 diamond cutting and polishing factories and employed about 2000 people. However, today only ten factories remain open and only about 650 people remain employed in the diamond manufacturing sector.

During the third quarter of 2015/2016 financial year the Ministry held the Second Diamond Conference under the Theme: **“Challenges Facing Diamond Beneficiation in Southern Africa”**. The event was a timely opportunity for stakeholders which deliberated on and shared ideas on the challenges facing the diamond manufacturing industry.

Diamonds are the smallest commodity with the highest concentration of value, and are easy to conceal and to smuggle through porous borders. Security innovation remains non-negotiable in order to plug loopholes in our security systems, therewith stemming the theft and smuggling of diamonds.

It is against that backdrop that we have established logistical bases in Oranjemund, Luderitz and Swakopmund to enable diamond inspectors to reside in close proximity to where diamonds are mined and extracted, thus protecting rough diamonds at source.

Regulation and monitoring of diamond prospecting operations is a daunting task because prospecting and mining operations are taking place across the length and width of the vast Namibian territory (including at sea). Inspectors are stretched, which hampers their ability to be at the right places, at the right time.

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Hon Members,**

Programme 4:

ENERGY and POWER SUPPLY

N\$ 98, 876,000.00 is allocated to the Ministry to improve energy supply in the country.

Namibia's over reliance on electricity imports from the Southern African Power Pool - to supplement its supply requirements - by its very nature poses a real threat to the country's strategic economic vision and industrialization. The energy demand-supply balance has now evolved, and going forward we can no longer continue to rely on surplus generation from the region.

There is thus an urgent need to respond decisively to the country's energy constraints in a manner that safeguards the country from any forms of energy shortages which if not addressed widely and on a far reaching scale will stifle economic growth, development and will hold back socio-economic upliftment of our people.

The Ministry of Mines and Energy acknowledged the challenges being experienced in the sub-region and in particular in Namibia, from the Security of Supply of electricity point of view. In line with that the MME, ECB and NamPower have instituted measures to ensure that the country is secured with electricity supply for the period 2016 to 2019 through an assortment of the following projects in addition to our current installed generation, capacity of 454MW:

(a) Solar PV Power Supply Projects:

- 14 Renewable Energy Feed-in Tariff (REFIT) projects of 5MW each at different locations country wide (70MW in total)
- 20 MW Solar PV from Independent Power Producer

(b) 44MW Wind Energy Project from Independent Power Producer

The MME have committed to vigorously deploy renewable energy technology in order to supplement our energy supply for the simple reason that Namibia has demonstrated to be amongst the only nations of the world with the best wind energy and irradiation potential.

(c) HFO/Diesel 120 MW Short Term Generation Project

The procurement of the 120 MW power plant is working progress, and a stop-gap, whilst we proceed with plans for a permanent long-term base load power plant.

(d) Confirmed Import Supply Options are:

- Currently we are importing 300 MW from Eskom,
- 50 - 100 MW from EDM of Mozambique,
- 40 MW from Lusemfwa Hydro Power plant of Zambia and
- 50 MW from ZPC of Zimbabwe.

These imports offer Namibia a total capacity of 490 MW available from the region at different times of the day. It is now quite obvious that to sufficiently meet our energy needs in the short to medium term we have to develop an energy mix that takes advantage of all available forms of energy resources — be it coal, solar, wind, hydro, gas or even nuclear energy.

At the same time, it remains imperative that we continue to build and nurture win-win relationships within SADC and the rest of Africa.

Baseload Projects

The two future major-base-load power stations are Kudu Gas to Power and Baynes Hydro Power Stations. Kudu as earlier stated is and remains a long terms solution, which will cater for Namibia's growing power needs. The development of Baynes awaits finalisation of negotiations with affected people in Angola and Namibia, and Environmental Assessment Report and Environmental Management Plan (EMP).

Rural Electrification Projects

The Ministry shall continue with rural electrification programme, for which an amount of N\$ 67 million is budgeted for the 2016/17 financial year, to ensure that electricity to public and private infrastructures in rural areas is provided. During 2015/16 financial year 110 public institutions, 340 households and business centres have been electrified countrywide. The Ministry has been actively supporting the use of renewable energy technologies to provide energy to remote public institutions throughout the country. In the 2015/2016 financial year we electrified two off-grid schools in the Tsumkwe constituency in Otjizondjupa Region with containerized solar systems.

Solar Revolving Fund (SRF)

The Solar Revolving Fund finances the purchase of Solar Home Systems (SHS), Photovoltaic Pumps (PVP) and Solar Water Heaters (SWH). With this fund we aim to promote the use of renewable energy technologies, especially in the rural areas.

I am pleased to report that we have recorded an increase in the demand for solar systems, especially in the communities living in off-grid areas. During the financial year 2015/2016 the fund has successfully financed 400 loans/systems amounting to just over eleven million Namibian Dollars.

Programme 5:

SUPPLY OF REFINED PETROLEUM PRODUCTS AND SECURITY

N\$ 10,107,000.00

Honourable Speaker,

I have said much about electricity and its challenges and opportunities. Please allow me to divert attention to another equally important form of energy – Refined Petroleum Products Supply. Security of supply of Petroleum products is of vital significance to the smooth flow and growth of the national economy for a price taking and a non-producing country such as ours.

To that end the construction of the national strategic fuel storage tank farm, six product pipelines and marine offloading jetty facilities in Walvis Bay is envisaged to continue during the 2016/17 financial year. The aim of the project is to provide the country with security of supply of petroleum products.

Given that the supply of Petroleum products is of strategic economic importance to our economy, it is only wise that we diversify our sources of supply in order to enhance security of supply. One of the mechanisms through which the Ministry endeavours to ensure reliable, affordable and cost reflective energy is through the National Energy Fund (NEF).

The NEF serves amongst others the following functions:

- subsidises energy prices;
- provides financial support to energy projects for the overall benefit of all Namibians and
- ensures that the national energy mix reacts proportionally and proactively towards global energy developments.

In the 2015/16 financial year the fund subsidised oil prices to the tune of N\$ 165,282,300.00. The NEF generates funds through levies imposed on controlled petroleum products and electricity.

In the same financial year, the NEF also paid out an amount of N\$ 40,000,000.00 to NamPower to conduct Concentrated Solar Power and Biomass feasibility studies on behalf of the Ministry. Similarly, the Fund also paid out an amount of just over N\$130,000,000.00 for the road fuel delivery subsidy to rural/far outlying areas of the country, not connected to the national rail network.

**Hon Dep Speaker and Chairperson of the Whole House Committee,
Hon Members,**

Programme 6:

SUPERVISION AND SUPPORT SERVICES

N\$10, 237,000.00 and N\$29,786,000.00 provided for under the
Development Budget

During the 2015/2016 financial year the Ministry of Mines and Energy have made considerable efforts towards realigning the organisational culture in order to position the Ministry to respond efficiently and effectively to the tasks to our Activities and Programmes in line with our Strategic Plan while streamlining our structure to enhance efficiency and promote organisation wide communication and teamwork.

Both the Offices of the Dep. Minister and Permanent Secretary have played and pivotal role in driving the above objective and I am greatly honoured by their humility and cooperation.

Let me take this opportunity to thank our bilateral and multilateral partners, as well as private foundations for their contribution to our development agenda through their technical and financial support.

I hereby take this opportunity to thank the Deputy Minister Honourable, Kornelia Shilunga, the Permanent Secretary, Mr. Simeon Negumbo, management and staff, for their commitment and support.

