



Budget Speech 2017/2018
By
Hon. Obeth Mbui Kandjoze, MP
Minister of Mines and Energy
Vote: 15

Honourable Speaker & Chairperson of the Whole House Committee

Honourable Members of the National Assembly

It is my honour to introduce to the National Assembly the budget allocation of vote 15 of the Ministry of Mines and Energy for the 2017/2018 financial year. I would like to thank Honourable Calle Schlettwein, Minister of Finance and Hon. Tom Alweendo, Minister Economic Planning and Director General of the National Planning Commission and your respective teams for not just a job well done but for a diligent and difficult balancing act against the backdrop of challenging economic times.

Similar to last year, this year's budget is again being presented at a time when commodity prices remain largely depressed and in some cases have declined to levels that threaten the viability and sustainability of some of prospecting and mining operations. One of the highlights for the Ministry of Mines and Energy is the completion of its Green Building in Swakopmund, with a purpose to bring service closer to the people. The initiative of the Green Building is to encourage other institutions to similarly invest in sustainable development.

The Building is installed with sustainable features ranging from solar panels, wind turbines to collect as much sun and wind as possible to enable the building to generate its own power and feed excess power back on to the grid. In addition, the building is harvesting water to be used for gardening and other non-human consumption utilities.

Honourable Members,

Despite the cyclical nature of the minerals industry and some declining commodity prices coupled with increasing financial market volatility, about **twenty-five billion Namibia Dollars (N\$25 billion)** was generated through export earnings and **one billion, four hundred million Namibia Dollars (N\$1.4 billion)** in royalties was collected from mineral rights holders for the benefit of the State Revenue Fund. The growth in value was mainly driven by the diamonds and base metals industry, especially the gold and copper cathode exports. It is worth mentioning that the Ministry is challenged with limited resources that enable smooth activities that lead to high revenue collection.

On a positive front in the uranium sector, we witnessed the production of the first drum of yellowcake from the Husab Uranium Mine towards the end of 2016. Having said that, the uranium sector still experiences profound market challenges, which challenges has resulted in for example the Langer Heinrich Mine curtailing mining operations as well as retrenching a part of its work force. The recently resolved standoff between the Skorpion Zinc Mine and its employees is not only a labour relations matter but is deeply rooted in the challenging economics of the orebody currently being mined. We shall encourage amicable solutions in circumstances like that to be common endeavours in order to move the industry and economic prosperity forward.

During the 2016/2017 financial year, we have seen a decline in exploration expenditure, but nevertheless, the Ministry of Mines and Energy succeeded in the granting of two mining licenses which in all likelihood will result in the development of mines during this financial year. We have also implemented additional conditions on mineral licences to reserve a minimum of five percent (5%) participation in all licenses to Namibians, and twenty percent (20%) historically disadvantaged Namibians must form part of the management structure of the license holder. The applicant must also submit an explicit programme on how it will contribute to poverty eradication, particularly in the context of empowering the poor of the poor, the youth and women.

The Ministry successfully facilitated the negotiations on the Sorting, Valuation, Sales and Marketing Agreement between Government and De Beers, which resulted in a new ten (10) year agreement and the establishment of a hundred percent (100%) state-owned Diamond Sales and Marketing Company, NAMDIA Pty Ltd. These outcomes have not only provided Government an opportunity to have a window on the international market for Namibian diamonds without the De Beers Price Book but also increased the supply of rough diamonds to local cutting and polishing factories beyond 10.8 carats and special stones.

As a result of the latter, supply of rough diamonds has increased from **two hundred and thirty million US Dollars (\$ 230 million) to four hundred and thirty million US Dollars (\$ 430 million)** worth of diamonds. Furthermore, the implementation of this agreement is already improving diamond beneficiation and going forward is creating employment, it is facilitating the transfer of skills and technology, as well as imparting the related multiplier effects to the economy.

Honourable Speaker,

The Ministry of Mines and Energy and its sector stakeholders have taken bold steps to ensure that the Namibian House and its inhabitants are safeguarded against energy shortages by reviewing and crafting new enabling policies and presenting a robust and transparent energy generation plan towards 2030.

Sectoral planning in the energy sector will contribute to the successful implementation of the Harambee Prosperity Plan and the 5th National Development Plan. In terms of government vision for the sector, the **National Energy Policy, Renewable Energy Policy** as well as the **National Integrated Resource Plan** have been finalised.

The Ministry of Mines and Energy acknowledges the challenges that stretch far beyond our country and regional borders and facets that will affect the development of the energy agenda on the global front. The year under review has been challenging with a reprioritisation of resources amongst a challenging energy situation at national and regional level.

The effects of climate change placed additional challenges on existing generation facilities and therefore call for more resilient sustainable energy infrastructures. The reliance on imports still pose a threat to the country until such a time that all the measures taken over the MTEF period thrust the country into a favourable position to meet the ever growing energy demand. Even against the backdrop of all challenges faced by the energy sector, I am pleased to announce that no national load shedding has occurred.

Namibia managed to secure power from her neighbours to supplement local generation to ensure that no load shedding occurs. Our measures take into account the country plans and visions on top of the commitment towards global sustainability plans and our commitments to address the effects of climate change.

The National Energy Fund (NEF) continues to subsidise petroleum and electricity prices through levies imposed on controlled petroleum products and electricity. During the 2016/2017 financial year, the Fund paid **three hundred and forty million Namibia Dollar (N\$**

340 million) to the Suppliers of Petroleum Products to subsidise the prices of petrol and diesel. During 2016/2017, NEF paid an amount of **one hundred and thirty million Namibia Dollar (N\$ 130 million)** for the fuels road delivery subsidy system to the rural and far outlying areas of the country.

In addition, an amount of **fifty million Namibia Dollars (N\$50 million)** was paid from the Fund to NamPower to subsidise the cost of importing electricity. Subsequently, the Fund provided soft loans amounting to **thirty million Namibia Dollars (N\$30 million)** to the Electricity Supply Industry (ESI) for the distribution of electricity for the local authorities which are not in an area with a Regional Electricity Distributor (RED).

A total amount of N\$ 1,5 billion was collected from NEF strategic oil storage levy since its inception in 2012. To date, a total amount of N\$ 3,1 billion was paid towards the strategic oil storage project expenses.

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 2016/2017, the fund has successfully financed 628 loans amounting to **seventeen million Namibia Dollars (N\$17 million)**.

Honourable Speaker,

Since Namibia is a frontier province in the oil and gas industry, the Ministry has continued to promote Namibia's hydrocarbon potential to continue attracting investments, which investments will enhance chances of an economic oil discovery. Despite, the low crude oil prices the Ministry of Mines and Energy persists in its effort to encourage both International Oil Companies (IOCs) and Local companies to carry out exploration activities. Currently, the Ministry of Mines and Energy has issued one (1) Production licence, 35 Exploration licences and four (4) Reconnaissance licences.

Large Oil Companies such as Shell, Azinam, Tullow and Galp have acquired Petroleum Exploration Licenses and continue doing exploration activities in Namibia.

The National Oil Storage Facilities Project is of strategic importance. The project is there to ensure the security of supply and upon completion, the supply of fuel and petroleum products will increase to 30-45 days. The Project is effectively comprised of 3 major sections:

(i) the Offshore Works i.e. the petroleum loading and off-loading facilities; (ii) the Pipeline; and (iii) the Tank Farm for fuel storage. At the moment, the overall project construction progress is more than 60% and the project is on track with completion expected early 2018.

Honourable Speaker & Chairperson of the Whole House Committee

Honourable Members

Being one of the Ministries that drive economic growth, we fully understand the impact of the economic downturn on the Revenue Collection. Despite all that the Ministry managed to collect **an amount of one billion, two hundred sixty-seven million, five hundred twenty-four thousand, two hundred fifty-three and forty-seven Namibia Dollars (N\$1,267,524,253.47)** during 2016/2017 financial year and fully supports the strategy embarked on by the Ministry of Finance to redeploy funds to National priority programmes that would have a greater impact on our economy.

We assure the Hon. Minister of Finance of our unwavering commitment to do our best in continuing to collect revenue and where appropriate, to suggest legislation changes to support the initiative. To this end, the Ministry embarked upon reviewing and updating its current petroleum legal framework to ensure a more competitive application process, as well as amending the current fee structures in order to bring it in line with inflation and prevailing market conditions.

DETAILED MOTIVATION OF VOTE 15

The Ministry has received overall budget allocation of two hundred seven million, nine hundred twenty-five thousand Namibia Dollars (N\$207,925,000), which is distributed among seven programmes as, indicated below: **An amount of one hundred twenty-seven million, nine hundred eighty-two thousand Namibia Dollar (N\$127, 982,000)** is earmarked for the Operational budget of which 79% is earmarked for employee's benefits. **An amount of seventy-nine million, nine hundred forty-three thousand Namibia Dollars (N\$79,943,000)** is development budget.

Programme 1: PROMOTION OF INVESTMENT IN EXPLORATION AND MINING

Twenty-eight million, seven hundred twenty-one thousand Namibia Dollars (N\$28,721,000) was allocated to this programme to ensure the safeguarding of Mineral resources, the well-being of employees working in the Mining industry as well as revenue collection. Therefore, an amount of **one million, six hundred twenty-nine thousand, four hundred Namibia Dollars (N\$16,294,000)** is earmarked for personnel expenditure and other employees benefits under this programme.

An amount of one million Namibia Dollars (N\$1,000,000) is made for the secondment of a staff member to Vienna, Austria, as an attache of the Ministry. **An amount of two hundred fifty-four thousand Namibia Dollars (N\$254,000)** is for subscription fees, **while ten million Namibia Dollars (N\$10,000,000)** is to be transferred to Epangelo Mining Company as a government subsidy. **An amount of one million Namibia Dollars (N\$1,000,000)** is earmarked for the finalisation of a project in Karibib and Noordoewer.

The priorities of the Department of Mines during this financial year are, amongst others, **to finalise the Minerals Bill, the review of the Minerals Policy and to align them to the African Mining Vision.** All approved projects and implemented during the last MTEF period will also be completed. In order to bring services closer to the people, we shall also relocate staff members from head office to the Swakopmund office, particularly to assist the public with geo-information as well as administration of the Minerals (Prospecting and Mining) Act, insofar as the applications and administration of mineral rights is concerned.

The Development of the Minerals beneficiation Strategy remains key to the Ministry in ensuring the sustainability of the sector and export of value added mineral products. The Joint Value Addition Committee has made significant progress in this regard and a tender for the development of the strategy will be awarded in the near future.

Programme 2: CREATION OF KNOWLEDGE OF NAMIBIA'S GEOLOGICAL RESOURCES

This programme involves conducting of geo-scientific research and management of data, with the objective of enhancing the understanding of the geological resources and their potential contribution to the socio-economic development. During 2017/2018 financial year, this programme has received **an amount of fifty-two million, four hundred thirteen thousand Namibia Dollars (N\$52,413,000)** for both operational and development budget. **An amount of thirty-six million, sixty-three thousand Namibia Dollars (N\$36,063,000)** is for operational budget of which mainly (N\$34,000,000) is for personnel expenditure while the (N\$2,000,000) is subscription fees. This allocation highlights the challenges the Ministry will face with respect to carrying out the crucial research and geo-scientific surveys that should be carried out under this programme.

The development budget under this programme constitutes **an amount of sixteen million, three hundred fifty thousand Namibia Dollars (N\$16,350,000)** mainly to settle outstanding invoices of projects, implemented during the 2016/2017 financial year but could not otherwise be not financially honoured in the previous budget allocation.

Main priority of the programme during 2017/18 FY is to improve and enhance the knowledge and information in order to provide products that address the current geology related needs of the nation.

Programme 3: PROTECTION OF NAMIBIA'S DIAMOND INDUSTRY

Eight million, four hundred fifty-six thousand Namibia Dollars (N\$8,456,000) is allocated for the monitoring, regulation and facilitation of the diamond industry. The Ministry, in realising the speedy evolvement of the diamond industry; initiated the review process of the Diamond Act, 13 of 1999 to ensure that the law governing the industry is responsive to the

industry dynamics. This process is anticipated to be finalised in the next financial year given the ever-increasing dynamics experienced in the administration of the aforesaid Act.

Inadequate regulation and monitoring of the diamond downstream industry would defeat governments' intent on local beneficiation and related benefits.

The high export rate of rough diamonds is a concern to the Ministry of Mines and Energy and the Namibian Government. A significant proportion of rough diamonds sold by NDTC in 2016 were exported. Based on export data, only about 20% of the total beneficiation sales made by NDTC during 2016 was processed locally.

In ensuring that the diamond industry remains protected against illicit diamond activities, the Ministry must remain adhering to minimum requirements of the Kimberley Process Certification Scheme and international best practices, thereby upholding a good image of Namibian diamonds and meeting international market standards.

PROGRAMME 4: ENERGY AND POWER SUPPLY

Sixty-one million, six hundred thirty-two thousand Namibia Dollars (N\$61,632,000) is allocated to the Ministry to improve energy supply in the country. The following projects form part of the basket of projects to address energy supply, access to modern energy services and conservation:

Renewable Energy Power Supply Projects:

1. The Renewable Energy Feed-in Tariff (REFIT) interim programme will add a total of 70 MW to the grid by the end of 2017. Currently, two plants are feeding clean energy into the national grid while the remainder is under construction all over the country.
2. The procurement process of the 37 MW Solar PV plant near Mariental, has been completed and will be operational by March 2018
3. The 20 MW Solar PV and 44 MW wind from Independent Power Producers have concluded all agreements with the utility, Nampower, and will be operational by end of 2018

4. A total of 18 MW from the Regional Electricity Distribution (REDs) companies are at advanced stages of completion to be operational by end of 2017
5. Both commercial and residential customers can now also be energy producers through the promulgation of the Net Metering rules, which allows for renewable energy generators below 500 kW.

Confirmed Import Supply Options are:

Currently, we are importing up to 200 MW from Eskom, 39 MW from ZESCO of Zambia and 80 MW from ZPC of Zimbabwe.

Baseload Projects

The Kudu Gas to Power and Baynes Hydro Power projects remains strategic for the country to contribute towards achieving security of supply and the Government is committed to their development. Recently Namcor and BW Offshore concluded a partnership for the development of the Kudu Gas Field and it is anticipated that all commercial agreements will be finalised by the end of 2017. The Namibian and Angolan governments are committed to finalise all remaining environmental studies and outstanding project activities for the development of the Baynes Hydro Power project.

Rural Electrification Projects

The rural electrification programme shall continue to be a priority for the Ministry in providing access and usage of modern energy services. During 2016/17 financial year 31 public institutions, 58 households and business centres have been electrified countrywide with a budget of thirty-nine million (N\$ 39 million).

Demand Side Management (DSM)

In order to reduce our national electricity demand, demand side measures are being introduced. The Electricity Control Board oversees the implementation of these measures by electricity generation and distribution licensees. As such a One million Light Emitting Diode (LED) campaign was launched by NamPower in September 2016 for the replacement of incandescent light bulbs and is expected to reduce peak demand with

about 20MW. Continuous public awareness campaigns by the utilities and electricity distributors are also being conducted as part of the demand side measures.

Efficient and effective energy resource management should become a culture of all the Namibian House consumers.

Programme 5: FACILITATE AND PROMOTE THE DEVELOPMENT OF PETROLEUM RESOURCES AND OIL & GAS

An amount of Ten million, eight thousand Namibia Dollars (N\$ 10,008,000) is earmarked mainly for personnel expenditure of which an amount of eighty-seven thousand Namibia Dollar (N\$87,000) is for outstanding claims on traveling expenses that could not be paid during 2016/2017 financial year.

Programme 6: SUPERVISION AND SUPPORT SERVICES

An amount of two million, nine hundred eighty-nine thousand Namibia Dollars (N\$2,989,000) is earmarked for personnel expenditure regarding policies supervision whereas **an amount of two million, six hundred seventy thousand Namibia Dollar (N\$2,670,000)** is earmarked for personnel expenditure, while **an amount of two hundred eighty-three thousand Namibia Dollar (N\$283,000)** is for travelling allowances.

An amount of forty-one million, three hundred forty-eight thousand Namibia Dollars (N\$ 41,348,000) is allocated for coordination and support services to ensure an enabling environment for employees. **An amount of twenty million, eight hundred eighty-five thousand Namibia Dollar (N\$20,885,000)** is for personnel expenditure. Goods and other services are allocated **an amount of five million, eight hundred seventy thousand Namibia Dollar (N\$5,870,000)** to ensure that utility services are paid for a smooth running of the Ministry. An **amount of six million, six hundred ninety-three thousand Namibia Dollar (N\$6,693,000)** is for subscription fees and outstanding invoices of several utility services that were not honoured in 2016/2017 financial year.

An amount of seven million, nine hundred thousand Namibia Dollar (N\$7,900,000) is earmarked for the retention of the Construction of Regional Office in Swakopmund project as well as general maintenance of the Ministry's buildings.

This programme will concentrate mainly on the facilitation of projects started last year. 2017/18 will be a difficult financial year to run the Ministry, due to limited financial resources.

Programme 8. National Energy Supply

This is a newly created main division and currently not fully funded during 2017/2018 financial year due to limited financial resources. **An amount of two million, three hundred forty-eight thousand Namibia Dollar (N\$2,348,000)** is allocated for personnel expenditure of employees of the Energy Funds being, the National Energy Fund and Solar Revolving Fund.

Honourable Speaker

Allow me to stress that despite the fact that the Ministry of Mines and Energy is one of the institutions that contribute heavily to the state revenue in terms of royalty collection, it is one of the institutions with least budget allocation, leading the Ministry to record a decline in revenue collection due to unavailability of financial resources to enable employees to regulate the industry more thoroughly and widely as possible. Therefore, reduction in revenue collection is highly expected during 2017/2018 financial year.

In conclusion, Honourable Speaker and Honourable Members, I wish to extend my sincerest and heartfelt appreciation to the Deputy Minister of Mines and Energy Honourable, Kornelia Shilunga, the Permanent Secretary, Mr. Simeon Negumbo, management and staff, for their commitment and support.

Honourable Speaker, let me herewith submit this Budget of Vote 15, amounting to **two hundred seven million, nine hundred twenty-five thousand Namibia Dollar (N\$207,925,000)** before this August House for your consideration and approval.

THANK YOU