Bank of Namibia

PUBLIC LECTURE TALKING POINTS

BUILDING WEALTH BEYOND NATURAL RESOURCES: NAMIBIA'S NEXT GROWTH STORY

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- Director of Ceremonies,
- Mr. Lesego Moseki, Governor of the Bank of Botswana,
- Vice Chancellor, Prof. Kenneth Matengu,
- UNAM management,
- University of Namibia students,
- Distinguished Ladies and Gentlemen,

Good morning.

1. **It is both a privilege and a pleasure for me to join you today at this public lecture under the theme "***Building Wealth Beyond Natural Resources: Namibia's Next Growth Story***".**

2. **We are very happy that UNAM has agreed to host us for this public lecture this morning.** From our perspective, the topic of "building wealth beyond natural resources" is not only fitting given the present economic circumstances of our country, but also an appropriate conversation to have with our young people. We are taking advantage of the opportunity to have Governor Moseki in our midst, so that we use this time today not only to reflect on the policy options we are exploring as Namibia, but also

to learn from our neighbour, Botswana, on how it has utilised revenues from the diamond sector to build its economy.

3. **Namibia has traditionally been a natural resource-centred economy.** For decades, our GDP growth has been a story narrated on the margins of exogenous developments in international commodity prices. As far back as the 1800s, indigenous people around the Otavi Mountain Land mined, processed, and traded copper and copper products. Commercial mining commenced more recently and intensified following the diamond rush around 1908, when a young railway worker, Zacharias Lewala, picked up a large shiny diamond whilst on duty near Kolmanskop, outside of Luderitz. Since then, our economic fortunes as a country have risen and fallen with mining activities.

4. **As you are all aware, there have been recent discoveries of significant oil and gas reserves off our shores**. As a result, our economic ties to the natural resources sector are set to deepen. Against this background, we thought this was an opportune time to speak with our young people not only about the importance of natural resources for domestic economic outcomes but, most importantly, about “How do we build wealth beyond natural resources?” I am sure very few young people can imagine Tsumeb as a bustling mining town, as it was at the

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height of copper mining at Tsumeb Copper Limited (TCL) in the 1900s. Equally, very few of our young people will understand just how transformative it was to have a parent employed by the Consolidated Diamond Mines (CDM) in the 1970s and 1980s.

5. **The conversation today aims to ask: "**What will be left for future generations once we have depleted the copper deposits around Tsumeb, dug out all the uranium in the Erongo Region, excavated all the marine diamonds off the Oranjemund coast, and mined all the zinc deposits outside Rosh Pinah? What will we pass on to future generations? Are tales and stories of the good old days in Tsumeb and Oranjemund enough? Are charts of booms and busts in GDP growth over decades a sufficient legacy?"

6. **As policymakers, we have concluded that we need to do things differently.** While each generation is entitled to reap the benefits of investments and production in renewable resources developed during their time, it is equally important to pass on a share of these resources to future generations. With this realisation, the Ministry of Finance, together with the Bank of Namibia, commenced a process to establish an institutional mechanism to ensure that future generations of Namibia will reap some benefit from the exploitation of natural resources

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undertaken decades before they are born. This is the story I am here to share with you today.

The Namibian economy has grown considerably over the past 45 years. Our growth story as a country is woven from fluctuations in the commodity price cycle, cementing our identity as a resource-dependent economy. As a country, we are blessed with diversified natural resource endowments. In terms of non-renewable resources, Namibia's mining sector is a world-class producer of gem-quality rough diamonds, uranium oxide, special high-grade zinc, gold bullion, blister copper, lead and zinc concentrate, salt and dimension stones.

The country is home to several globally renowned mining companies that have adopted state-of-the-art mining and processing technologies. At the same time, Namibia is also endowed with world-class solar and wind resources, which contribute significantly to the domestic electricity supply mix. Although the Tertiary Industries make up about 55 percent of our GDP, the performance thereof is significantly influenced by the Primary Industries (mining) through revenue contributions to the fiscus and employment generation, including in the secondary industries.

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From our perspective, Namibia's next phase of growth should be two-pronged – exploiting both our renewable and non-renewable resources. Despite the ongoing green transition agenda, we do not believe we should leave our oil and gas reserves in the ground solely to meet global carbon emissions targets. That would not be a fair deal for present and future generations of Namibians. We believe it is prudent to exploit our non-renewable resources, but at the same time we do all necessary to utilise our renewable resource endowments to advance the green transition agenda. This is not a contradiction; it is optimal utilisation of natural resources.

In addition to ongoing mining activities in diamonds, gold, uranium, zinc and copper, we believe the petroleum sector will be the future anchor of our growth. In our country's history, around fifty (50) oil and gas exploration and appraisal wells have been spudded. These yielded results, including the first discovery of Kudu Gas in 1974; however, to date, this project has not advanced to development for various reasons. Since February 2022, more oil and gas discoveries have been confirmed in the Orange Basin, including Shell's Graff and Merlin-1X discoveries, TotalEnergies' Venus deposits, Galp's Mopane project, and Rhino Resources' Volans and Capriconus deposits. These are momentous developments for our country, with the potential to significantly transform

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our economy and generate much-needed Foreign Direct Investment (FDI), foreign exchange reserves, and fiscal revenues for the Government.

Developments in the oil and gas sector have already begun to affect our macroeconomic indicators. Net FDI inflows have reached record levels since 2022, and we expect further increases as projects move from exploration and development to production. This will be a significant component of our growth story in the coming years. Namibia has some of the best solar and wind resources on Earth, underpinned by year-round high solar irradiation and strong coastal winds. Solar photovoltaic systems in Namibia can generate up to twice as much power as similar systems in most European countries. These resource endowments position us to become an emerging global leader in renewable energy and green hydrogen. Unlike diamonds and oil, solar and wind don't deplete.

They were available to our forefathers, as they are to us, and will be available to future generations. While the technologies required to fully exploit these resources are still developing, the time is right for us to begin the necessary conversation to attract investment in these sectors and

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unlock economic activity. Jointly pursuing the petroleum sector and renewables will anchor our dual-track growth strategy.

As I have alluded to earlier, being resource-rich is not sufficient. As we have learnt from our own history, non-renewable resources are here today, gone tomorrow. The contribution of copper to our GDP has fallen to zero, and Tsumeb has long stopped being a bustling mining town. The story of a successful resource-rich economy is anchored in converting temporary revenues from the exploitation of non-renewable resources into long-term financial assets that can produce economic returns for generations. The revenues from mineral exports are subject to volatile prices and shifting demand, none of it under our control. However, if we establish a mechanism to translate such receipts into long-term financial assets for the country. *Natural resources in the ground are not wealth; revenues from natural resources converted into savings, skills, and industries are wealth*.

The Sovereign Wealth Fund for Namibia, christened as the *Welwitschia Fund,* was established in 2022. The name is derived from the Welwitschia Mirabilis plant, which thrives in the Namib desert by conserving the little moisture it receives and can live for centuries. We hope the Welwitschia Fund will live up to its name, representing wealth

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and growth for our country, sprouting like the leaves of the Welwitschia to symbolise resilience in time and space, as well as wealth distribution across generations.

The Welwitschia Fund is underpinned by two primary objectives. These objectives will be achieved through two separate and dedicated sub-accounts of the Fund, namely the Intergenerational Account and the Stabilisation Account. The first objective, served by the Intergenerational Account, is to save for future generations. In this regard, the key rationale for establishing the Fund is to promote intergenerational prosperity for all Namibians by ensuring that the benefits from exploiting the country’s natural resource endowments are shared across generations. In other words, we would like to set aside a portion of the revenue we collect from the current exploitation of mineral resources so that future generations of Namibians can also enjoy the fruits of their country's resource endowment.

The diamonds we are mining today are non-renewable resources; at some point, they will be depleted from our shores. What are we then to bequeath to the next generations of Namibians as a representation that they are citizens of a country that was once blessed with such mineral resources?

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The second objective of the Fund, served by the Stabilisation Account, is the stabilisation of the fiscal and official reserves. This is borne out of the need to enhance national resilience by insulating the socio-economic structure against cyclical shocks and contributing to macroeconomic stability objectives. It is important for a country to have fiscal buffers to stave off vulnerabilities arising from business cycles and shocks. It is imperative to set aside some savings to cushion the economy in the event of unforeseen catastrophes. Having fiscal buffers in place can help lessen the impact of unpredictable events on Namibians' day-to-day livelihoods.

The funding sources of the two accounts are accordingly linked to the specific objectives they serve. The Intergenerational Account, which accumulates wealth for the long term, is envisaged to be funded by revenues from non-renewable mineral resources and by the divestiture of public assets. Meanwhile, the Stabilisation Account will be funded by revenues from renewable natural resources, thereby preserving a portion of SACU receipts and budget surpluses during boom times. This way, the Fund will have an automatic mechanism to preserve a portion of SACU receipts in good times, so we can withdraw from the Fund to sustain Government operations when SACU revenues are low, and the fiscal position needs a boost. The Welwitschia Fund will therefore serve as an automatic shock absorber, enabling us to maintain relatively stable expenditure patterns over time.

At present, the Fund has grown from the initial seed capital of N$280 million in early 2022 to N$508 million, representing an annualised return of 15.5 percent. The Sovereign Wealth Fund Bill, which will legislate the funding rules I mentioned earlier, is expected to be tabled in Parliament later this year, with the Bank of Namibia serving as the Fund's custodian. Within the envisaged legislative framework, there are built-in mechanisms to safeguard the funds. For instance, the capital in the Intergenerational Account cannot be withdrawn at all — only returns can be withdrawn, and even then, such withdrawals are capped at 10 percent of total returns accumulated in the fund.

For the stabilization fund, withdrawals can be made only when a deficit comes from a revenue shortfall, not from higher spending – such withdrawals are also capped at 10 percent of the total asset value. These rules exist to protect the fund from us — from political cycles, and from emergencies that always feel exceptional at the time.

In setting up the funds, we have drawn lessons from other countries such as Norway, where petroleum revenue is saved in a sovereign

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wealth fund under strict fiscal rules, alongside a world-class local supplier industry. Guyana's Natural Resource Fund takes all oil revenue under law, with withdrawals governed by law and investments held in low-risk international assets to preserve wealth and support long-term stability. Similar fiscal rules are found in Chile, Malaysia and Indonesia, where savings rules are combined with processing activities and capacity building to enhance domestic activities. Closer to home in Botswana, the Pula Fund holds diamond revenue savings and supports domestic cutting, polishing, and aggregation activities. The common thread across these examples is to save revenue, build local industries, develop skills, *and maintain strong institutions*.

In addition to prudent management of fiscal revenues through the sovereign wealth fund, it is equally important to further leverage the natural resources sector through robust local-content activities, capacity building, and technology transfers. In this regard, the natural resources sector can serve as a catalyst for skills development and the agglomeration of know-how across the economy. This can be achieved by fostering auxiliary industries with strong local content, supported by a clean regulatory environment and inclusive participation by local players.

This is where I believe our universities have a stronger role to play. Universities are the training ground for the labour force. It is thus

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imperative to ensure that our universities remain attuned to the actual needs of the natural resources sector, so that their training programmes and research agenda are aligned with the skills requirements of the real economy. Students can make a significant contribution through research, start-up initiatives and internships. Our universities are the bridge that can turn our young population into a skilled workforce; without such training, we risk the demographic dividend turning into a burden. We must therefore collaborate to ensure that the university's work is not done in a vacuum but is tied to the resolution of broader national challenges.

To recap: we are a resource-based economy whose growth model has not translated into employment; the Welwitschia Fund is the mechanism for turning temporary resource revenue into lasting financial resources; and beyond revenue, the sector can seed auxiliary industries and facilitate technology transfer.

So, what is my ask? It is for each of us to be part of the solution. Students can do their part in accumulating and building the technical skills the natural resources sector will need to flourish — follow the demand for labour, not just pure academic interest. The broader academic community can support this by aligning curricula and tying the research agenda to national challenges and sectoral needs. The private

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sector can play a role by investing in auxiliary industries along the natural resources value chain and partnering with academia to provide students with opportunities for practical training. On our end, the public sector will focus on building the frameworks required to implement the National Upstream Petroleum Local Content Policy, as well as on building institutions and prudently managing the sector's fiscal revenues.

As I wrap up my remarks, ladies and gentlemen, we are on the cusp of a transformative moment in our economy. We have a real opportunity to transform Namibia’s natural resources into long-term wealth that can serve multiple generations. I hope my talk today has inspired all of us to be part of the solution.

History has repeatedly shown that prosperous nations are those that have taken the time and effort to make the necessary investments and to build capacity and institutions in preparation for an unknown future. We expect the Welwitschia Fund to be one such institution that will help us not only to bequeath something to our children but also to weather whatever storms may come our way in the future. I hope we will all do what we can from our respective vantage points to help build a better Namibia.

Thank you.

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