Nuru series : Natural resources, environment and sustainable development

Could Namibia become the world's new energy hub ?

INTRODUCTION

Since **2022**, international firms have been drilling wells off the coast of Namibia, a country located in Southern Africa, and bordered by the Atlantic Ocean. Its southern border is shared with South Africa. The country also shares a border with Botswana to the East, and with Angola as its Northern neighbor. International interest around the country's potential to become a new oil producer, regional energy hub has been growing. Though it could take five years before the oil started to flow, companies like **TotalEnergies (France), Galp (Portugal), Shell (United Kingdom),** have been involved in the process.

Of sizeable importance, these oil reserves have been placing Namibia on the map of **next oil producing countries** and sparked interest amongst international firms on the lookout for extensive sources of Or Noir (Black gold). But is this discovery really opportune ? Oil booms and other raw material findings across the African continent have shown poor rates of success when it comes to measuring their contribution to the territory's economic development. The risk would be falling yet again in another trap of the ***Dutch disease,*** or growing chronically dependent on volatile prices and finite resources. Even more, in the current context, green development is growing. More and more countries are turning towards greener sources of energy, many are moving towards net-zero targets. **With such evolutions, would this oil discovery really be an asset for Namibia, and more importantly for its people ?**

CONTEXT

Namibia is a vast area inhabited by only **2,5 million people,** and the country is known for being the driest zone of Sub-saharan Africa, with a considerable part of its territory being made of the Namib Desert. **Namibia was declared independent from apartheid South Africa in 1990,** which had been ruling over the country since 1915. From then on, Namibia has been enjoying a rather stable political environment. As a matter of fact, though the country has been ruled by the South West Africa People's Organisation (SWAPO) since its independence, it is a **multi-party democracy**.

The World Bank classifies Namibia as an upper-middle income country, due to resource wealth and a quite stable political environment. The World Bank, however, also explains that Namibia is one of the world's most unequal countries. The organization describes Namibia as a « dual economy » because it benefits from a developed modern sector while still entertaining a vivid informal, subsistence oriented one. Since 1990, the services sector has been representing more than half of the country's total GDP. However, labor creation is slow, the primary sector still has low productivity and such consequences lead to high rates of unemployment.

Oil was found on the shores, now, what's next ?

Oil rig in Namibia

In the case of Namibia, since February 2022, **17 drills were made and 15 have been declared commercially viable.** The first phase, which is the exploration one can take from 1 to 5 years, companies identify potentially viable oil and gas sources. In the case of Namibia, since February 2022, 17 drills were made and 15 have been declared commercially viable.

The stakes are high for the country. Namibia has been exporting goods for a while, including mining resources, with diamonds being the main source of revenue in the sector. The country, therefore, is already resource rich. **These oil findings though, could completely transform its economy by potentially doubling its GDP by 2040.** For such perspectives to then lead towards tangible changes on the ground, the road ahead might be very long. From building the correct supporting infrastructures and supporting the projects through the process, to training local capacities, **the right cooperation between the concerned actors is paramount.**

Moreover, there's also a dire necessity to make sure the expected financial gains from oil exploitation go towards the sustainable development of the country. There are different phases to the life cycle of the upstream oil industry (the upstream corresponds to activities related to exploration and production). Along these five phases, three levels of job creation exist : direct skilled, less skilled jobs and indirect/induced jobs. The challenge, therefore, is to make sure the job market for these positions are available to the local workforce in order to address current issues, such as unemployment, through capacity building and training of local workforce.

1. **Exploration** — Search for oil and gas deposits.
2. **Appraisal** — Define the oil & gas volumes.
3. **Development** — Installation of drilling equipment and drilling.
4. **Production** — Gas extraction.
5. **Abandonment** — Removing of surface equipment and plagging the well.

Life cycle of upstream oil activities

In 2023, the United Nations estimated the unemployment rate at 34%, and the youth unemployment rate at 48%. According to *The Namibian*, a local journal, former president Geingob *"pleaded with the private sector to help create jobs, because the government is unable to address it"*. On those grounds, the discovery of what could be a job yielding sector if granted the right conditions is more than welcome.

It is even more important in the context of growing interest for green energy, as the consensus around an oil-less future, or at least oil-independent future is gaining importance. As such, the challenge for Namibia will be to create the necessary infrastructure, but even more so, it will be to develop other industries for them to be capable of supporting the economic growth AND sustainable development of the country.

Avoiding the Dutch disease and escape the Nigerian scenario

The risk resource-rich countries face is usually **relying on only one resource, without developing other segments of their economy,** which leads to their becoming overly reliant on the commodity. Such was the case of Nigeria, which is the world's largest oil producer in Africa. That status is nonetheless crippled with contradictions, as most of the oil produced on the Nigerian territory is exported, and the country still imports for local consumption.

Oil in Nigeria was discovered in 1956. According to experts, before the oil boom which happened in the 1970', the government was very reliant on revenues from the agricultural sector, but there has been little structural development, meaning oil revenues were not invested to support the agriculture or the manufacturing sector. In the case of Nigeria, rather than a blessing, oil was a curse, which can be explained through the *Dutch Disease*. **It encompasses the negative effects dependence on a single resource has on the economy.** The exploitation and exportation of said resource increases the value of the local currency, making its other exports less competitive which then leads to deindustrialization, or lack of investment from the government in industries that otherwise would be productive. Thus, though the country in the past had a strong agricultural sector, its productivity is now low, and unable to provide for the domestic market, making food imports necessary.

Another key aspect in the Nigerian scenario is the quality of the institutions. **Research says that the Nigerian institutions have not been strong enough** to efficiently manage the considerable amount of oil revenue in order for the latter to have a positive impact on the economy. As of today, **almost all of Nigerian states - Nigeria being a federal state - depend on oil revenues,** and intuitively, the most dependent are the oil producing states (Akwa Ibom, Delta State, Rivers State). Contrary to Nigeria, **Namibia has enjoyed a rather stable political stage since independence.** In terms of corruption, moreover, Transparency International ranks Namibia 59/180 countries, as opposed to Nigeria, ranked 145/180.

Corruption rank of Namibia versus Nigeria according to Transparency International

Investing for the future

Norway Government Pension Fund Global	1,631
China Investment Corporation	1,350
SAFE Investment Company	1,090
Abu Dhabi Investment Authority	993
Public Investment Fund	925

The world's biggest sovereign funds according to Statista, with their assets in billions of dollars.

Other scenarios have played out significantly better than the Nigerian one in other regions of the world, namely the gulf countries and Norway. **Norway is particularly known for its Sovereign wealth fund (SWF), which has been fed by oil and gas revenues.**

To make up for its issues, **Nigeria itself has established in 2011 a Sovereign Wealth Fund,** which is managed by the National Sovereign Investment Authority.

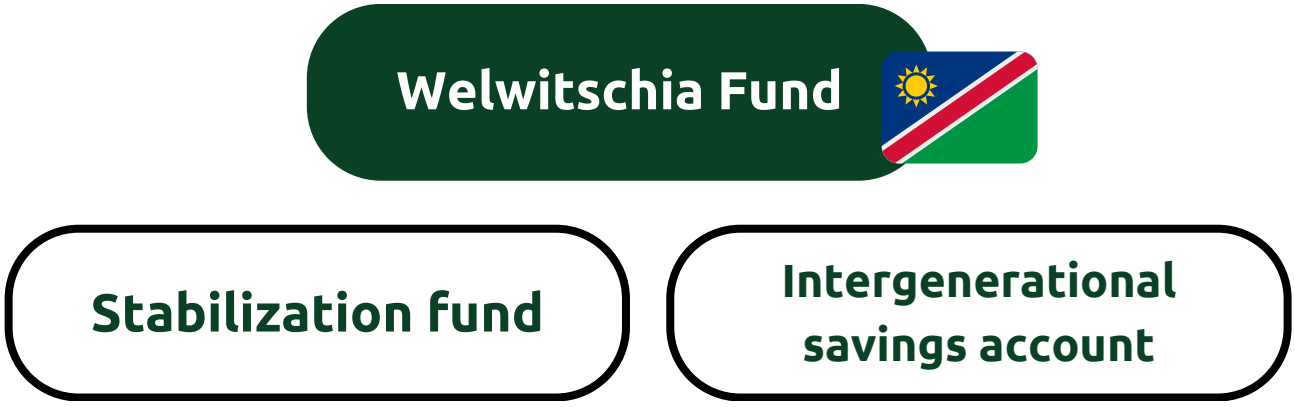
A SWF is an investment fund which is owned by a State (so, a general government, both central government, and sub-national governments, in cases like Nigeria, where the country is a Federal State). Many resource-rich countries have put in place an SWF for various purposes, as there are different types of Sovereign Wealth Funds.

When the first drills started to show some success in Namibia, the government decided to create a **Sovereign Wealth Fund named "Welwitschia Fund", which is divided in 2 parts :**

- **Stabilization fund** : *« Stabilization funds are designed as pools of capital which governments can draw on to smooth the budget »* .

- **Intergenerational savings account** : according to the financial provisions and fund rules, the funds available in this account will be invested to benefit the future generations, and at least 15% of its revenue will come from the royalties on non-renewable sources "such as those from minerals and other sub-soil sources".

The mission of the fund, according to the Namibian government is *«To build national resilience by insulating the socio economic structure against cyclical shocks, promoting intergenerational prosperity for all Namibians through the inter temporal distribution of benefits flowing from the country's natural resource endowments, as well as contributing to the macroeconomic objectives».*



Structure of the Namibian Sovereign Wealth Fund

One aspect **which has yet to be discussed deeper is the future of oil in our current context,** as countries are starting to implement carbon taxes, which will deeply impact African countries that are or will be dependent on oil resources. Many countries have committed to a shift, away from coal, and progressive decrease of fossil fuels. Worries have sparked, therefore, for Namibia, as the country is only now entering the oil and gas scene. « *Building national resilience »,* in such scenarios would be anticipating those risks of oil not being this attractive anymore.

Namibia disposes of natural wind and sun resources, and also has very high potential for developing green hydrogen (green hydrogen is hydrogen obtained through the use of renewable energies in the production process). According to the Green Hydrogen Organisation, Namibia has « a potential to offer low-cost green hydrogen production, second only to Chile ». The country has attracted **foreign actors, namely Europeans,** wishing to produce green hydrogen in Namibia and **decarbonise their own industries.** In 2022, illustrating that growing international interest for Namibian riches, the European International Bank signed a Joint Declaration with the former president Hage Geingob for a potential loan of €500 million to finance renewable hydrogen and renewable energy investments.

The Namibian government, furthermore, **aims for Namibia to become a future green hydrogen hub.** Highlighting this growing interest, Namibia entered into an agreement with Hyphen Hydrogen Energy for a 9.4 billion dollars project. Hyphen Hydrogen Energy « is a Namibian registered hydrogen development company, for international, regional and domestic supply ». The Green Hydrogen Organisation says that such a project is expected to create 15 000 direct jobs during the first four years of construction.

Conclusion

These observations lead us to one conclusion : the energy market is definitely putting Namibia back on the map. Formerly known for its dry territory, its diamonds or tourism opportunities, Namibia's image now resembles the future of energy : **a transition away from non-renewables, and the continuous search for cleaner energy sources.**

It could combine **both the necessity to answer to current energy consumption needs through fossil fuels, but also the imperative of transforming our industries towards greener ones.**

The matter is even more critical for countries that are highly vulnerable to the effects of climate change like Namibia, which has been experiencing droughts of historic proportions.

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EXPANDING HORIZONS OF AFRICAN GEOPOLITICS

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