



Economic Association of Namibia Conference on Energy

Speech by

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Representatives from government organizations,

Representatives of Business and Industry;

Members of the media,

Ladies and Gentlemen,

I would like to express my congratulations to the Economic Association of Namibia for organizing this very important conference on energy. I am also very grateful that the Ministry of Finance has been invited to actively participate at this event. Bringing together different stakeholders and collectively discussing challenging and complex issues offers us the best chance to find sound solutions. Our current energy situation indeed poses a challenge, and calls for a considered but swift resolution.

*[We need to take urgent measures to attain self-sufficiency in electricity generation]*

In order to quickly establish the context, I would like to touch upon the electricity situation in our country. The peak electricity demand in the country at present is close to 600 MW. We substantially rely on energy imports from our neighbors – where depending on the time of the year we import between 40% and 80% of our energy requirement. This makes us extremely exposed to the view that other countries take on how much electricity can be spared for us.

At the same time this dependency shall not resolve on its own - it is rather becoming increasingly concerning for us. Looking at the past, the total electricity consumption in Namibia has increased by an annual average growth rate of about 1.7%. The ‘maximum peak power demand’ as the highest recorded level of load on the power grid in one year also increased by about 18% from 2008 to 2014. As per a

recent assessment made by the African Development Bank, power demand in the country is projected to grow smartly at close to 9.5% per year between 2015 and 2020 on the back of announced industrial projects. Moving to the supply side of the discussion - we have had the unusual privilege of being in the neighborhood of a relatively large country that at a point of time heavily invested in spare electricity generation capacity. However, the energy surpluses in the southern African region have now shrunk to net deficit levels.

Access to electricity remains an important issue; particularly so for rural areas given the size of our country. According to recent estimates of the International Energy Agency, the overall electrification rate for Namibia stands at 34% (in rural locations at around 15%) which is slightly above Sub-Saharan African average but well below the average across developing countries and even Africa as a whole. This simply means that demand for electricity should grow even more, once we are able to bring its benefits to an increasing proportion of our population.

Availability of reliable electricity supply is also a necessary condition for advancement of the economic interests of our country. The main source of growth in power consumption in the past 5 years up to 2014 was the expansion of energy-intensive mining and secondary industries. These productive sectors of the economy accounted for nearly 70% of electricity consumption and contributed over a quarter of our GDP in 2013. I have been a strong advocate of achieving economic growth in our country through progressive value addition. An essential condition for this to be achieved is to ensure that relevant factors of production are available at a competitive price and with certainty. Reliable electricity supply is one of the chief constituents of a conducive pro-growth environment. Therefore it is absolutely essential for us to achieve self-sufficiency in electricity supply.

Further in this discussion I will get into the aspect of affordability, but while we are on the subject of self-sufficiency – I would like to point

out that we should also not plan for excessively large investments in power infrastructure that may create capacity too far in advance of requirement. We need to cover the present power supply shortfall as soon as possible, and thereafter electricity generation and transmission capacity should grow to match demand.

*[The solutions that we go for need to be affordable and technically suitable for us]*

In line with the importance of the electricity sector, this is also a component of development that requires substantial investments – electricity generation, transmission, and distribution typically attracts the highest proportion of spending amongst the various infrastructure sectors. In considering power projects, we therefore need to strike a careful balance between nature and scale of investments and affordability for both, the consumers and the exchequer.

Put into context, Namibia exhibits electricity tariffs that are higher than most countries in the Southern African region. A study on electricity tariffs conducted by the Namibia Manufacturer Association in 2012, showed that national residential tariffs were on average 25% higher than in South Africa. When compared against industrialized developed nations, Namibia's average industrial tariff level is significantly above that of the European Union, Norway, and the United States – only being comparable to Germany. The latter, however, has announced its efforts to bring electricity tariffs to a more competitive level.

Without an affordable and reliable supply of energy, it is a daunting task to attract investment particularly into manufacturing, to promote business activities, including start-ups and SMEs, and to eradicate poverty and create employment especially in remote rural locations. As a key input in many production processes, electricity and its prices, undoubtedly matter for the general competitiveness of the Namibian

economy. We should be careful that the steps we take in the present do not put Namibia on a trajectory of increasing and uncompetitive electricity costs.

We also need to be cognizant of the fact that Namibia is a small economy. This is reflected both in terms of state finances and energy needs of our electricity system. The demand for electricity in Namibia is several times lower than the production capacities of single power generation projects that are routinely built around the world. This should intuitively tell us that we should stand behind the scale of projects that are manageable for an economy of our size. From a diversification of risk standpoint, it will be suitable for us to promote multiple mid-sized power projects. This approach will also enable us to incubate experience across alternative generation technologies.

*[Renewable energy investments should be a compelling option for us]*

Our country has been endowed with many natural resources, but fossil fuels (at-least not which are easily extractable) are not one of them. We should keep this fundamental constraint in mind, because the more we depend on conventional fuel based power solutions – the greater will be our exposure to fuel as well as to currency rate fluctuations. Apart from the obvious environmental positives, embracing renewable energy sources therefor would be extremely healthy for us from a stability of price point of view.

On this subject I am happy to observe that renewable energy technology is evolving and is rapidly becoming more affordable, this is especially true for solar photo-voltaic generation, but efficiency gains have been experienced across the board.

Renewable energy projects now smartly compete with conventional power sources from a cost point of view. To give you an example: as per the Ministry of Finance's assessment, the unit cost of electricity from the Kudu power project is estimated at around 255 Namibian

Dollar Cents (NADc) per KWh. This is after counting in the special export transmission and other infrastructure that needs to be invested in to support the project. In contrast thereto, the 2013 renewable energy IPP procurement round in South Africa yielded unit electricity prices ranging between 67 to 146 Rand cents depending on the type of generation project.

Renewable energy facilities are also very relevant for a sparsely populated country like Namibia where grid connectivity may not be a feasible option for all locations. Renewable energy projects have proven to be very relevant for serving low demand energy islands – and such solutions are not only beneficial for domestic use but also supporting local businesses, like use of locally produced energy for running irrigation pumps.

It is helpful for us that South Africa – with the many well received renewable energy IPP procurement rounds – has been the path-breaker in terms of attracting such investments in the region. Thanks to this, we have experienced power sector developers that now have operations in Southern Africa, and several of these firms have shown keen interest in investing in Namibia as well.

We are aware that Namibia has some of the best solar resources in the world - we also have phenomenally good sites for wind energy. All this sums up to the fact that we have a strong reason to embrace renewables as an important constituent in our energy mix, and we also have conducive conditions for the same. I do hope that we are able to conceptualize and facilitate investments in an increasing number of renewable energy projects.

*[In discussing financing avenues – we need to be prudent about the relevance of government guarantees]*

As we deliberate on the subject of financing of infrastructure, it is relevant to pick up the subject of provision of government guarantees.

It is surprising how often the ministry of finance is requested to extend sovereign assurances in case of financing of large projects. We routinely approached to backstop borrowings by government organizations, as well as requests for backstopping by the sovereign in case of commercial contracts (PPAs is an example). Guarantees are also requested to cover monetary losses in case of nonperformance of a government institution.

The Ministry of Finance is of the view that government guarantees should be extended sparingly. We naturally scrutinize all guarantee requests to ensure that the requested sovereign assistance is planned to be indeed of the nature of a backstop, and that there is a relatively remote probability of the underlying risk materializing. On the other hand, we are equally stringent with respect to not approving guarantees in cases where we believe that contracts between arms of the government and counterparties should be free standing. We believe that this discipline shall assist us in instilling a habit of project due diligence among investors. This is a necessary step towards the maturation of our infrastructure financing markets.

*[Private investments are indispensable in the power sector]*

In my capacity as the Minister of Finance I would like to emphasize the point that the government has finite budgetary resources and we will continue to experience a development backlog if alternative avenues of financing are not embraced.

At present, the government via NamPower continues to be the developer, owner and operator providing infrastructure almost entirely by its own. However, such a model in my view is only essential if there is there is a lack of investment interest or expertise in the private sector to participate in the electricity sector. Neither is the case – I have heard the viewpoint of stakeholders in the private sector across continents and it turns out that the energy sector is of great

interest for investment to them. It is therefore essential that we organize ourselves so that we rope in private investment and expertise by creating an economic environment that not just boosts consumption but also enables investment.

As emphasized before, the increased demand for access and availability of energy, calls for higher levels of investments in the power sector. It also calls for further increased expertise to develop, operate and maintain infrastructure facilities.

While private participation is possible in the entire value chain of the electricity sector, achieving this in the segment of power generation through IPP programs is the most straight-forward. In making a broad assessment of investment needed in the power generation segment: we see that the capital costs can vary substantially based on technologies – with large natural gas based power stations costing in the range of NAD 18 Million per MW to solar thermal generation facilities that can cost up to NAD 70 Million per MW, with other technologies like solar PV, and coal based generation costing in between. Given that in Namibia we at present require development of close to 500 MW of electricity generation capacity, and taking a conservative value of NAD 30 Million per MW of investment requirement – we come to an estimated immediate capital investment need of NAD 15 Billion. From a fiscal capacity point of view, if we were to depend entirely on public sector funds to finance this infrastructure need, we would be putting the country's macroeconomic stability in jeopardy and crowd out investments in other development programs for multiple years!

In order to ease the burden on public finances and utilize market expertise, we need to seek the collaboration with the private sector, which can provide both – financial resources and expertise. I am confident that collaboration through Public-Private Partnerships can thus bring multiple advantages.



Ladies and gentlemen, I see this event as a great initiative to bring different involved stakeholders together to deliberate on ideas to resolve the current situation regarding our energy sector.

I thank you for listening and look forward to take part in this important discussion.