



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

NAMIBIA

Petroleum Fiscal Regime Review

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High-Level Summary Technical Assistance Report
Fiscal Affairs Department

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: Following a surge in petroleum sector exploration, the Namibian authorities requested a review of their petroleum upstream fiscal regime. The petroleum fiscal regime balances investor and government interests and is fit for purpose although untested in practice. A number of recommended policy measures if implemented would provide clarity and simplicity for taxpayers while safeguarding government revenue collections. Fiscal transparency can be enhanced by publishing petroleum agreements while the costs and benefits of state participation should be considered.

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Background

In response to a request from the Minister of Finance and Public Enterprises, Hon. Iipumbu Shiimi, a team from the IMF Fiscal Affairs Department visited Windhoek during November 28 – December 13, 2023. The purpose of the visit was to provide technical assistance on the taxation and fiscal management of large-scale petroleum investments that are currently under consideration.

Summary of Findings

In recent years, there has been a surge in petroleum exploration activities in Namibian offshore waters. This has resulted in several promising petroleum discoveries in the Orange Basin. The appraisal of the discoveries is still ongoing, and none has yet been declared commercially viable. There are also preparations underway to develop natural gas and hydrogen production.

If the projects were to move forward, the mega projects could have a transformative impact on Namibia providing a substantial but temporary increase in government revenues over several decades. However, depending on the pace of the energy transition, demand for hydrocarbons will decline which raises the possibility that some of the discovered petroleum resources may become stranded assets.

Government has not yet incorporated any revenue from these potential investments into the medium-term fiscal planning. This is appropriately prudent. Any large-scale investment project should only be brought into the baseline fiscal and macroeconomic framework when investors reach their Final Investment Decision and a Field Development Plan is approved by the petroleum sector regulator.

Still, preparations should begin for potential petroleum development. In the fiscal area this includes ensuring that the petroleum fiscal regime, in policy and legislation, is fit for purpose and enhancing capacity to administer revenue collections. Consideration of options for the macro-fiscal framework, should be underpinned by scenario analysis using a petroleum revenue forecasting framework. Critically, capacity for petroleum regulatory functions should be boosted, with a move over time toward a separation of policy, regulatory, and commercial institutional responsibilities.

The Namibian petroleum fiscal regime is of a tax-royalty licence type with state participation. It combines a petroleum income tax at a rate of 35 percent, an additional profits tax (APT) with three cumulative cashflow tiers applying when a project has realized a minimum real rate of return of 15 percent at a tax rate of 25 percent, petroleum royalty at 5 percent, and in most licences a 10 percent state participation on a carry basis.

The petroleum fiscal regime is well-balanced between investor and government interests albeit untested in the absence of any upstream production. Fiscal modeling suggests that the government is aligned with that in other recent emerging petroleum producers. The relatively low royalty avoids discouraging investment but also implies that revenue collections will be more back-loaded through profit-based taxes. At the same time, government will only fully share in more profitable project outcomes if the APT is effectively applied.

Summary of Recommendations

The technical team reviewed the petroleum tax policy and legislation recommending policy measures to provide clarity and simplicity for taxpayers while safeguarding revenue collections. The base for the petroleum income tax can be safeguarded by capping interest deductibility and limiting tax loss carry-forward. There is a need to provide taxpayer guidance on the APT and simplify the tax. The use of withholding taxes should be expanded by clarifying circumstances of application including on service payments. Certainty is needed for the intended taxation of capital gains on both direct and indirect transfers of interests in petroleum rights, including a *de minimis* threshold for the latter.

The state participation share in existing petroleum agreements is held by the national oil company, NAMCOR. Financial benefits from state participation include the State sharing in the potential upside of a petroleum project by getting a higher share of project cashflow. There are also non-financial benefits such as being involved in the management of the project and developing sector expertise. However, often the cost of state participation is not fully appreciated by decision makers. This includes obligations by NAMCOR to meet its proportionate share of exploration and development costs (cash calls) funded either through a carry arrangement, commercial borrowing, or transfers from the national budget. Depending on the dividend policy in NAMCOR, there may also be a tradeoff between using state participation share to further expand investment by NAMCOR versus scaling up public investment or social spending.

Experience from other countries has shown that the petroleum sector is vulnerable to governance and corruption challenges. To ensure sustained benefits for its population, Namibia should preempt such challenges by adhering to the highest standards for transparency and governance. An immediate downpayment on this effort could be realized by making publicly available in an easily accessible manner all petroleum agreements concluded by the government.

To ensure effective and consistent policy coordination moving forward, government should establish an inter-ministerial committee to coordinate petroleum sector policy design and implementation. This should be supported by a technical level cooperation mechanism between relevant ministries and agencies.

Petroleum fiscal modeling can support evidence-based decision making. Government is encouraged to establish an inter-agency petroleum modeling team and adopt the modeling tools developed by the mission. Government could progress on a memorandum of understanding for inter-agency sharing of data and information pertaining to petroleum sector projects.