Institute for Public Policy Research

National Budget 2010/11: In Search of Recovery and Sustainable Growth

By Klaus Schade

IPPR Briefing Paper 50 April 2010

Saara Kuugongelwa-Amadhila was sworn in for another term as Minister of Finance just a few days before tabling the National Budget on 30 March 2010. Her former Permanent Secretary, Calle Schlettwein is now her Deputy Minister. This move represents continuity at the helm of the Ministry, and hence no major surprises were expected from the Medium-Term Expenditure Framework (MTEF) for the period 2010/11 to 2012/13. The Minister faced the challenge of balancing fiscal prudence during a continuing economic crisis with the need to stimulate the economy, as well as addressing social issues such as an unprecedented unemployment rate of over 50%, persistent poverty and income inequality. Overall, she dealt with such challenges reasonably well. The overestimation of SACU transfers in previous years resulted in substantial downward adjustments of revenues, while additional expenditure was allocated to social sectors and the capital budget. Subsequently, the budget deficit surged as expected and will generally exceed the target of 5% over GDP over the next MTEF, but remains in manageable terrain. Total government debt will rise in line with an increased deficit, but will stay within the target of 30% over GDP. The combination of additional capital expenditure and increases in social grants during the Fiscal Year 2010/11 may contribute to economic recovery. A stronger growth performance is based mainly on domestic developments (such as the commencement of production at the Ohorongo cement factory and the Trekkopje uranium mine), whereas the economic recovery in Namibia's traditional export markets – in particular in Europe – remains uncertain. This will have a bearing on revenue expectations.

Information and transparency

The Ministry should be applauded for the prompt uploading of the budget documents on its website. This sets an example for other ministries and agencies to follow, given that some government websites are somewhat out of date. However, there are a number of publications that overlap each other in part, such as the Macro-economic Overview and the Fiscal Overview, where the latter overlaps with the Macroeconomic Overview and the introductory chapter of the MTEF. The data mentioned in the various documents are not always consistent, such as the budget deficit estimated for 2009/10 in the MTEF (-1.6%) and in the Minister's speech (-2.0%); the budget balance (MTEF, page 15, and

Estimates of Revenue and Expenditure, page 1) and total expenditure in the MTEF (page 10) and the Estimates of Revenue and Expenditure (page 21). Even within the same document, information is sometimes inconsistent, for instance the Estimates of Expenditure and Revenue information on statutory expenditure differ between pages 20 and 22, as do the estimates for the Medical Aid Scheme on page 130. It is an indication that documents are finalised at different points in time, and are not always reconciled and amended. Cutting down on the number of published documents would certainly make the last-minute reconciliation of information easier.

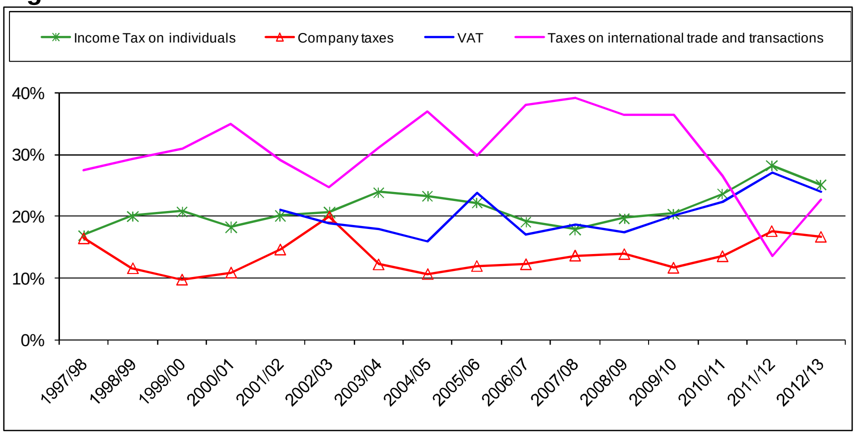
As has become customary over the past few years, the tabling of the budget was followed by a gala dinner the same evening, and a breakfast meeting the following morning attended by the Minister, her Deputy and other officials from the Ministry and the private sector. While the Minister delivered the Keynote Address, local and foreign economists provided an initial analysis of the budget. This provides a good opportunity for the public and private sectors to exchange ideas, identify challenges that remain and raise points of concern. The need for a stronger public/private partnership was emphasised by re-elected President, Hifikepunye Pohamba, at the first meeting of the new Cabinet on the same day. It would therefore seem advisable to hold a pre-budget hearing, in time to allow for input by the private sector into the budget before it is finalised, and to get some early hints on possible changes in the forthcoming MTEF. Timely notice of the date on which the budget is to be tabled in the National Assembly would facilitate the planning of such events. In the meeting with the private sector, the Minister promised to take this into account for the next budget. And finally, a mid-term review of the budget would provide government and the public with good information about the progress of programme implementation.

Revenue

General: Total revenue is expected to grow over the MTEF period from N$22.5 bn to N$26.2 bn, but with a significant dip in 2011/12 to N$20.9 bn owing to adjustments in the SACU transfers.

Some highlights of the main revenue sources

Figure 1 Contribution of selected revenue sources to total revenue in %, 1997/98 to 2012/13



The projections for the SACU common revenue pool were overly-optimistic for the past two years and resulted in a deficit of the pool, since transfers to SACU member countries are based on estimates and not on actual inflows into the pool. This necessitated substantial transfer adjustments that are stretched over two years only, since South Africa was reportedly unwilling to agree to a longer adjustment period. The adjustments of N$1.3 billion and N$3.1 bn this and next year, combined with a general decline in revenue from international trade owing to the economic slowdown has resulted in a severe drop of income for Government. In absolute terms, transfers from the SACU pool shrink from N$8.6 billion in 2009/10 to N$6.0 bn, and a meagre N$2.8 bn for 2010/11 and 2011/12 respectively, before it is expected to recover to N$5.9 bn at the end of the MTEF period. As a result, other income sources such as income taxes on individuals and companies as well as VAT assume a greater significance.

Uncertainty clouds the future revenue stream from SACU. The five SACU countries recently agreed to continue the Economic Partnership Agreement (EPA) negotiations as a bloc, and have managed to avoid a split within the union that could have affected revenue collection and distribution. Revenue from taxes on trade will be affected, although this depends in part on the concrete outcome of these negotiations. Trade taxes account for about 50% of the SACU revenue pool, while the other 50% is contributed by excise duties. Moreover, even more relevant for future income are the deliberations taking place in South Africa concerning the current Revenue Sharing Formula (RSF). Domestic development needs have sparked a debate in South Africa on whether the current transfers to the smaller SACU economies are justified and in the best interest of South Africa. The debate could translate into a re-negotiation of the formula, and possibly the establishment of a Development Fund fed by SACU revenue and used to support development programmes in SACU countries. Whatever the case may be, there is no guarantee of a constant future transfer flow from SACU, at least at the level to which Namibia has become accustomed, and Government will need either to develop other revenue sources rapidly, or to adjust expenditure in order to maintain fiscal prudence. The policy announcements concerning easier access for SMEs to finance, preferential treatment in public tenders and so on could result in more SMEs joining the formal sector, registering with the Ministry of Finance (a certificate of good standing with the Ministry is required whenever companies participate in public tenders) and paying taxes. Less red tape, a more conducive economic environment and focussed incentives for informal businesses to join the formal sector would all help to broaden the tax base and cushion the economy from declining revenue in trade taxes.

The Ministry's efforts to strengthen tax law compliance are also paying off. The contribution of company taxes and Value Added Tax (VAT) to total revenue has been increasing for the last couple of years. This trend is expected to continue, particularly since the Ministry is investing substantially in strengthening its audit capacity. Income tax revenue from companies is expected to increase this year by 10% to N$3 bn, and further to N$4.4 bn in 2012/13. Despite the losses incurred by diamond mining companies last year and the bleak outlook for the diamond industry, for this year at least the Receiver of Revenue estimates income from this source of N$185 m (2010/11) and an increase to N$215 m in 2012/13. However, this is still far below previous levels. Other mining companies have become a far more important source of revenue than diamond mining companies since 2007/08. Their contribution is estimated at N$462 m (2010/11) and is expected to almost treble by 2012/13 to N$1.2 bn. This can be attributed to a large extent to the opening of the Areva uranium mine once it is making profits and the expansion of other uranium mines in the country. Despite the contraction of the economy in 2009, income from VAT increased by almost 22% and is expected to grow by between 12% and 18% over the MTEF period. VAT contributes between N$5 bn and N$6.3 bn to the state coffers. Income tax on individuals contributes slightly more than VAT to total revenue, namely N$5.3 bn and N$6.6 bn for 2010/11 and 2012/13 respectively. It thus becomes the main source of income for government during this MTEF period.

Non tax income: Government benefited from a substantial dividend payment by the Bank of Namibia of N$253.4 m in 2009/10 and N$342.9 m in 2010/11. The amounts account for some 80% of all dividends paid to government, or 1.1% and 1.5% respectively of total revenue. Relatively few State-owned enterprises (SOEs) have contributed regularly to government income. Some notable exceptions are the Namibia Airports Company, the Namibia Post & Telecommunications Holdings, NamPort, NamPower (until 2007/08 when it started receiving funds from government) and Namibia Reinsurance Company.

Mineral royalties are expected to make an increasingly significant contribution to total revenue. While diamond royalties accounted on average for some 3% of total revenue between 1997/98 and 2008/09, the proportion declines to just 1% over the MTEF period on account of a cut in production of almost 50%. Royalties from other minerals on the other hand are expected to more than double from N$150 m (2009/10) to N$350 m (2012/13). However, past experience has shown that the expected and actually received royalties can vary substantially, as it did in 2009/10, which could be an indication that waivers had been granted to companies. In order for Namibia to reap the benefits of her natural resources, natural resource taxation needs to be strengthened. Waivers for the payment of mineral royalties should only be granted in exceptional cases, be based on very clear guidelines, and be made public in order to increase transparency. This would support government efforts to increase compliance with laws governing the taxation of natural resources.

Income from Namibia's natural resources as well as from the SACU pool could be considered 'windfall' gains. Government could consider the establishment of a Sovereign Wealth Fund for such revenue that could be dedicated to specific development programmes benefiting present as well as future generations. Part of the proposed Sovereign Wealth Fund could be saved for challenging times such as when resources (including transfers from SACU) are drying up. In particular, the increased interest in Namibia's uranium deposits presents potential benefits for government coffers in the form of additional tax and royalty payments. If all the proposed uranium mining projects materialise, the financial benefits could be significant, though they would need to be managed well. Other resource-rich countries such as Norway and Botswana run Sovereign Wealth Funds and could serve as case studies.

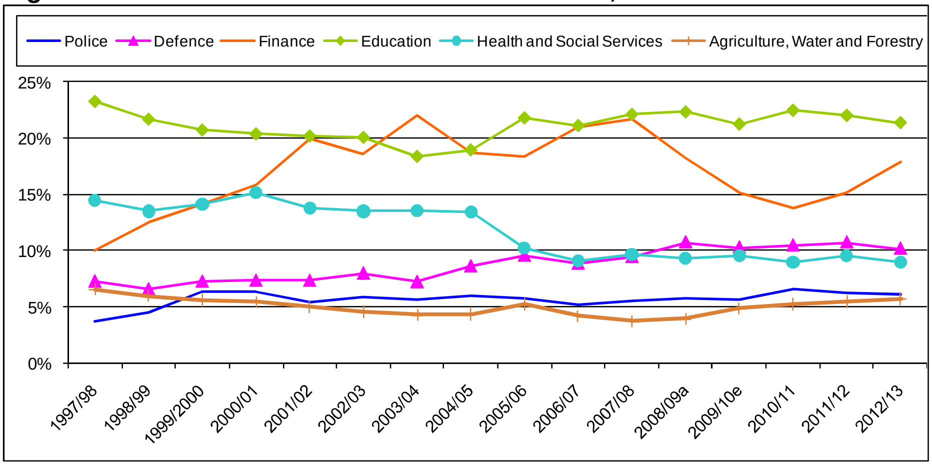
Tax announcements: As expected, taxes remained unchanged following last year's revision of individual income tax brackets, the lowering of company taxes and transfer duties and zero-rating of VAT on certain food items. However, apart from the individual income tax adjustment, these revisions were not gazetted at the end of the Fiscal Year 2009/10. It is expected that they will be implemented during April 2010, but the company tax adjustment will be backdated to 1 January 2009. Companies can therefore expect a rebate from the Receiver of Revenue. Excise duties on alcohol and tobacco were increased, as in the other SACU countries, with effect from 17 February 2010. Excise duties such as taxes on international trade are transferred to the SACU Common Revenue Pool before being distributed to the SACU member countries based on a certain formula. Government intends to introduce an Environmental Tax in order to diversify its revenue sources and encourage the environmentally-sustainable use of resources. However, the Minister did not provide further details on taxable products or tax rates. A review of existing tax incentives, such as the Export Processing Zone Scheme, tax incentives for manufacturing companies etc., concerning their effectiveness in attracting private sector investment could help to identify tax schemes that do not fulfil expectations. Terminating ineffective tax incentive schemes would raise revenue from these sources.

Expenditure

General: Total expenditure is expected to increase by 14.0% from N$25.4 bn (2009/10) to N$28.9 bn in 2010/11 reflecting a real increase of some 5% against an inflation rate of 8.8% for 2009. The development budget shows an above-average expansion of 14.3% compared to the operational budget that will grow by 12.9%. The strong growth of the development budget would be good news for the economy if the money were used to improve the infrastructure that is needed to attract private sector investment. Total expenditure is expected to stay at N$28.9 bn in 2011/12, before increasing by 8.9% to NAD31.5 bn. While development expenditure is expected to decline by 11.1% in 2011/12 and operational expenditure to grow by a meagre 0.3%, statutory expenditure will rise by almost 40% to N$1.8 bn, reflecting the increasing costs of financing the deficit. After two years of substantial increments in wages and salaries, public servants cannot expect much relief in the coming years owing to these expenditure ceilings.

Some highlights of allocation by votes

Figure 2 Allocation to selected votes in %, 1997/98 to 2012/13



Note: The drop in the relative share allocated to Ministry of Health and Social Services is caused by moving the responsibility for social grants to the Ministry of Labour and Social Welfare

Security: The graph above depicts the marked upward trend in the allocation of financial resources to the security sectors. The share for the police has increased from 3.7% in 1997/98 to 6.5% (2010/11), while defence spending has risen from 7.2% to 10.4% during the same period. Justification for the increased allocation to the Ministry of Defence is sometimes presented in terms of Namibia's international duties in peacekeeping missions. The cost of such involvements is often refunded by the UN at a later stage. The MTEF does not provide detailed costs for these missions; they are included in the programme 'International Deployments'. However, the allocation to this programme that includes activities other than the deployment of troops in foreign countries amounts to some N$180 million over the MTEF period, accounting for 2% only of the total defence budget of N$9.3 billion. On the other hand, the acquisition of operational equipment and machinery absorbs over NAD1.3 billion during the same period.

Education: The President reportedly demanded a drastic improvement in the performance of the education sector when addressing the new cabinet for the first time. The sector's share of the total budget has increased since 2003/04 from 18.3% to the current 22.4%, or slightly less than the sector received in 1997/98. Although Namibia has invested heavily in the education sector since Independence, the outputs have often not met expectations. The ongoing Education and Training Sector Improvement Programme (ETSIP) is expected to address some of these shortcomings. While adequate financial resources are necessary to provide crucial facilities, alone they are not sufficient to produce the skills and qualifications Namibia needs to acquire if we want to alleviate poverty and achieve Vision2030. Management issues also need to be addressed and the involvement of parents (through the School Board) and communities needs to be strengthened. A stronger relationship with private schools and financial support for their operations as announced in the budget speech is welcome, since they complement public facilities significantly and contribute to the improvement of the qualifications and skills of young Namibians. However, the Estimates of Revenue and Expenditures for 2010/11 to 2012/13 do not record any subsidies to private primary and secondary schools contrary to previous years when they received some N$13.9m and N$12.4 m respectively. It could also be time for a radical change in approach. Research in other countries has shown that learners taught for six years in their mother tongue have achieved better academic results overall than their peers who received instruction in their mother tongue for only three years (as is the case in Namibia). Another option could be to introduce a two-tier system after primary education, with one branch focusing more on vocational training and the other more on academic education.

Primary education receives some 10% of total expenditure. This includes costs for the School Feeding Programme that supports Orphans and Vulnerable Children (OVCs) in Primary Schools. The Government intends to expand coverage of this programme from some 160,000 beneficiaries at present to 200,000 by 2013, but does not provide detailed cost projections for this programme. Since this is not an education-related task, the programme could be moved to the Ministry of Gender Equality and Child Welfare's OVC Programme that is responsible for the OVC grants. The share of secondary education has been on the decline since the new millennium, dropping from some 5.9% (2000/01) of total expenditure to 2.9% (2010/11) and a meagre 1.5% in 2012/13. In absolute terms the allocation will shrink from N$851 m to just N$466 m during the MTEF period. This trend is worrying, given the tasks ahead (the provision of laboratories and computer equipment, of advisory teachers and so on) and given that no explanation is offered for the decline.

Health: The allocation to the Ministry of Health has been more or less constant over the years, if contributions to social grants are excluded that were moved to the responsibility of the Ministry of Labour and Social Welfare. The allocation to clinics and health centres accounts for 5.5% of total expenditure in 2010/11, slightly down from 5.9% in last year's budget. Development partners play an important role in financing the health sector. In addition to the allocation through the State Revenue Fund they provide some 10%, mainly allocated to the Disease Control Programme for the prevention of TB, Malaria and HIV/AIDS. Although the contribution to Health is declining, Namibia has not experienced the serious drop in financial assistance from international partners that was feared as a consequence of the global financial and economic crisis. The roll-out of anti-retroviral treatment to 104 health facilities (currently available at 64 health facilities) and the prevention of mother-to-child transmission from 242 to 256 antenatal care centres will improve the standard of living of HIV positive citizens and their families, increase their life expectancy and enhance their productive involvement in society. Applying the new World Health Organisation guidelines for ARV treatment – eligibility threshold for treatment be increased from a CD4 count of 200 to a CD4 count of 350 – will increase the number of HIV positive persons in need of treatment substantially and subsequently the costs. This is not yet reflected in the budget for the MTEF period.

Contributions to the Medical Aid Scheme under the Ministry of Finance have been increasing over the past ten years, accounting for a larger proportion of total expenditure than secondary education, namely 3.3% (up from 1.5% in 2000/01). It is expected to increase further to 4.2% by 2013 or in absolute terms from N$0.9 bn to N$1.6 bn. This is not only a reflection of rising costs for medical services, but also of HIV-related expenses.

Agriculture: Despite the commitment of the Namibian Government to allocate 10% of the national budget to agriculture (as agreed in the Maputo Declaration in 2003 by the Head of States of the African Union), the sector is expected to receive only 5.7% in 2012/13 – up from 4.9% in 2009/10. The Crop Production and Horticulture Development Programme that includes new initiatives such as the Green Scheme and the Dry-land Crop Production Programme for the Northern Communal Areas receives some N$385 m (up by N$70 m) this financial year. However, its allocation is expected to decline by N$40 m during the MTEF period to N$348 m. Both of the above-mentioned initiatives are expected to boost domestic food production and could offer opportunities for downstream agro-processing activities. While allocations to the small-scale irrigation schemes (including training of farmers) will steadily increase, the amount for the procurement of tractors and implements as well as the monitoring of service provision and input supply will decline from N$26 m to just N$2 m over the MTEF period. There is no mention in the Ministry's Medium-Term Plan (MTP) of a continuing subsidy for fertilisers, pesticides and/or improved seeds that could play a crucial role in improving agricultural production in the communal areas, as the example of Malawi has demonstrated over the past few years, and the allocation does not suggest that this is part of the MTP.

Finance: The Ministry of Finance is possibly the only Ministry that would rather its allocation were reduced, since this would indicate less spending on statutory expenditure (interest payments, honouring loan guarantees), on subsidies for State-Owned Enterprises, or on medical expenses for public servants (as indicated above). The Ministry's allocation is down to 13.7% from almost 22% in 2007/08 but expected to increase to 17.8% in 2012/13. The trend clearly reflects the allocation to statutory expenditure that accounts for 33% to 45% of the Ministry's total allocation over the MTEF period. The current low level of interest rates certainly benefits the Government since it reduces the cost of borrowing. Honouring loan guarantees is expected to drop from N$255 m (2008/09) to zero at the end of the MTEF period.

State-Owned Enterprises: Subsidies to State-Owned Enterprises (SOEs) are recorded as operational expenses under the Ministry of Finance's vote, although they are mainly used to fund the capital projects of benefiting parastatals. The share of the total budget put aside for lending and equity participation has dropped over the years from 2.6% (1997/98) to below 1% at the end of this MTEF.

TransNamib was granted a once-off subsidy of N$83.9 million in order to upgrade the railway infrastructure. This is a meagre amount when compared to a further N$350 m for NamPower, and given the mammoth task ahead for the railway company. The extension of harbours as well as of the railway lines to Oshakati and Angola, and the plans for a Trans-Caprivi railway line will require a major rehabilitation and upgrade of the existing network. Railway passenger transport to the north has been abandoned, reportedly because of fears for the safety of passengers since some stretches of the network have become dilapidated. Major investment is required to bring the current network up to standard, before even considering replacing the century-old narrow gauge with a standard gauge that would allow for higher speeds. The current allocation can only address some major problems, but will not improve the competitiveness of the railway system at large, and this could render the expansion of the network inefficient.

NamPower gets an additional N$350 m although it is expected to charge cost-recovery prices in order to finance their operations and investments. The amount is in part allocated to the construction of the Emergency Generation Diesel Power Plant diesel generator at Walvis Bay. Previous allocations to NamPower were meant to strengthen the capital base in order to embark on major electricity-generating projects such as the development of the Kudu Gas field. Although NamPower will have received a total of N$1.6 billion at the end of the MTEF from state coffers, the projects seems not to have moved much closer to realisation. Investing a fraction of this amount as subsidies for private sector investment in renewable energy sources would certainly have contributed to reducing the demand for electricity (in the case of solar water heaters) or lessening the demand for fossil fuels (wind and solar power, wood gasification, etc.). NamWater on the other hand is apparently not in need of public funds despite the demand for increased water supply, in particular at the coast. If Namibia is to reap the economic benefits of her uranium deposits, substantial investment in water supply (most likely from desalination plants) is needed.

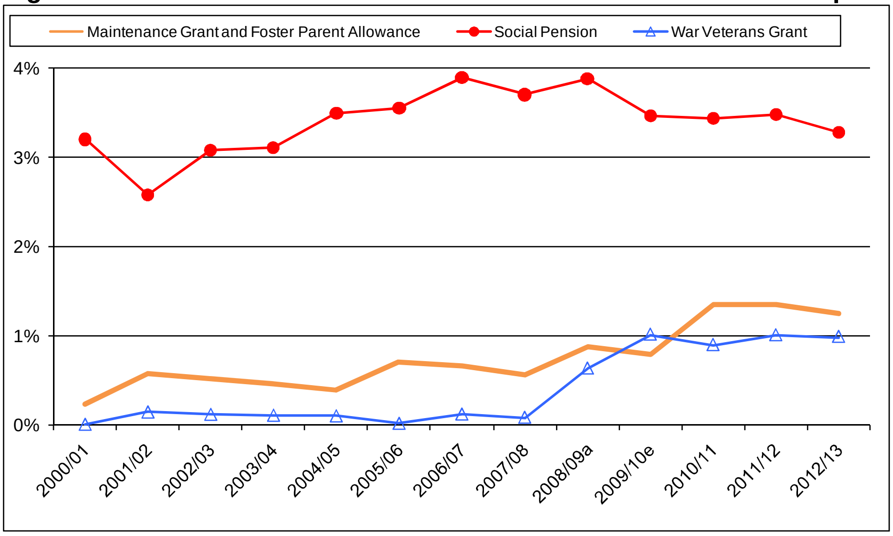
The financial support of Air Namibia continues with another N$170 m in state funds for the MTEF period, which is at least N$110 m more than was estimated in the previous MTEF. This brings state support to N$2.6 bn since 2001/02. Although the support is expected to drop to N$30 m at the end of the MTEF, past experience would suggest that these amounts will be adjusted upward.

The Development Bank of Namibia is expected to receive a total of N$150 m over the MTEF period, which is equal to the amount it received in the previous financial year alone. This is not likely to be sufficient to accommodate all the funding proposals it has received. The establishment of an SME Bank replacing the Small Business Credit Guarantee Trust could support the promotion of SMEs in the country. However, it also leads to the increase in the number of institutions with similar functions (Development Bank, SME Bank and the Micro-lending Bank).

Social Grants: Various Ministries are responsible for the provision of social grants, namely the Ministry of Labour and Social Welfare (Old Age and Disability Grant), Ministry of Gender Equality and Child Welfare (Orphans and Vulnerable Children Grant) and the Ministry of Veterans' Affairs (War Veterans Grant). Expenditure on social grants (OVC, Old Age, War Veterans) has never exceeded 6% of total expenditure. It is even expected to decline slightly over the MTEF period from 5.7% to 5.5%, and thus there should be no doubt as to its financial sustainability.

One of the few surprises contained in the new budget is the announcement of an increase in the Old Age Grant to N$500 per month (up from N$450) and of the OVC Grant by N$30 per month. Both increases are certainly good news, although the adjustment of the OVC Grant lags far behind the Old Age Grant, particularly considering the beneficiaries have not seen any increase for a number of years. The coverage of the Old Age Grant is expected to increase from 155,161 in 2009/10 to 171,000 pensioners in 2012/13. However, the amount allocated for Old Age Grants for the coming years suggests that no further increments are planned over the MTEF, which is bad news for the pensioners, since the real value of social pensions will decline due to inflation. On the other hand, the total allocation to pensions for political office bearers (under the Ministry of Finance's vote, and not part of social grants) is expected to more than double from N$7.1 m (2010/11) to N$15 m (2012/13). The coverage of the OVC Grant was increased by 10,489 OVCs, and the Ministry of Child Welfare intends to cover 98% of Orphans' access to the grant by 2013. However, the allocation to the OVC programme over the next three years would not allow for a major increase in the coverage nor for an increase in the monthly grant amount, since the allocation increases only from N$390 m (2010/11) to N$394 m in 2012/13. Similarly the number of registered War Veterans is expected to increase from 8,200 (2009/10) to 15,000 (2012/13), although the allocation for 2012/13 provides for not more than 12,900 pensioners based on the current allowance of N$2,000 per month.

Figure 3 Allocation to various Social Grants in % of total expenditure, 2000/01 to 2012/13



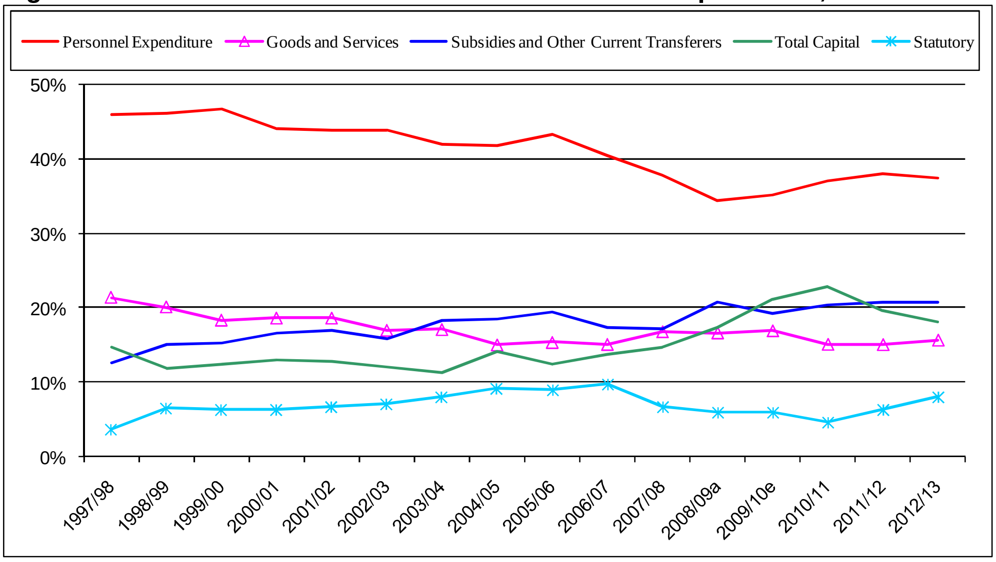
The School Feeding Programme for OVCs is currently accommodated within the Ministry of Education. Since this is not an education-related expense, it could be moved to the Ministry of Gender Equality and Child Welfare's OVC Programme.

Some highlights of allocation by item

Government is the largest employer in the country, with 86,026 filled positions at present, while 92,730 positions are funded in the financial year 2010/11. The number of public servants increased by roughly 11,000 since 2002/03. However, the share of personnel expenditure has declined since 1997/98, from more than 45% of total expenditure to some 37% during the current MTEF period. The slight increase in its relative allocation since 2008/09 can be attributed to the salary increment for public servants of 12% for the last and the current financial year.

Most notable is the increase in capital expenditure over the years, from below 15% (1997/98) to almost 23% in 2010/11, before dropping to 18% in 2012/13. While the capital budget was notoriously under-spent in the past, the implementation rate improved to almost 90% in 2008/09. The government faces the challenge of balancing speedy implementation of capital projects with ensuring quality investments that have a high potential for socio-economic returns in the coming years. Furthermore, investment in new transport infrastructure, schools, clinics and office buildings require allocations for their maintenance and the provision of equipment, for instance for new classrooms and new government buildings. The allocation to 'materials and supplies' accounts for 2.8% of total expenditure in 2010/11, down from 3.3% in 2009/10, but is expected to increase to 3.1% by 2012/13. Similarly, the share allocated to maintenance is expected to increase over the METF period from 1% in 2009/10 to 1.3% (2012/13).

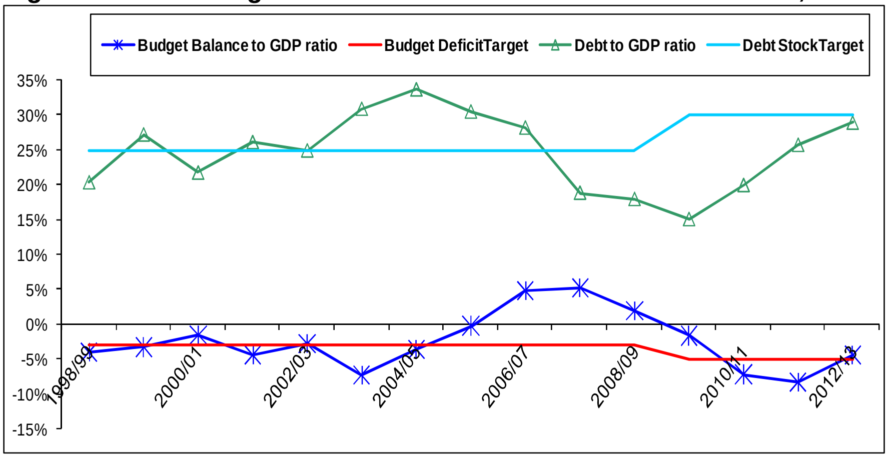
Figure 4 Allocation to main items in % of total expenditure, 1997/98 to 2012/13



While statutory expenditure had dropped since 2006/07 as a result of budget surpluses, it is set to increase from 5.8% in 2009/10 to 8.1% by the end of the METF period. The relatively low interest rates on the foreign and domestic markets help to contain costs for the increasing budget deficit.

Fiscal balance

Figure 5 Budget balance and total debt as a ratio of GDP, 1998/99 to 2012/13



Higher-than-expected revenue during 2009/10 reduced the estimated budget deficit to 1.7%, instead of the expected 5.2%. This has been a common pattern in recent years: conservative revenue estimates are actually exceeded, and result in a better-than-anticipated budget balance. While caution in revenue expectations is commendable, and while it is a challenge to forecast economic performance accurately, underestimating revenue does come with a cost. Programmes that could have been implemented were not implemented, because the necessary financial resources were not expected. If past trends are repeated, we can expect a lower deficit than the 6.6% predicted over the MTEF period. Compared to neighbouring countries and advanced economies in our traditional export markets, Namibia is performing fairly well in terms of the deficit and debt ratio.

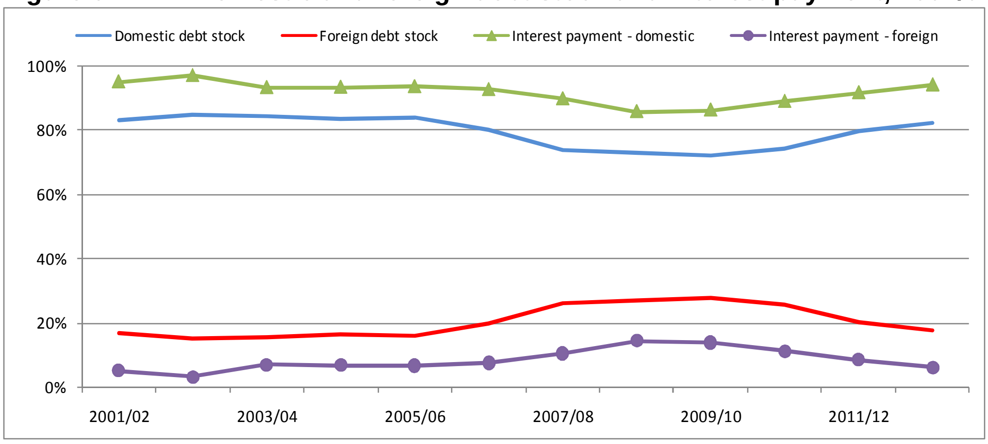
To date internal and external borrowing has been used to finance capital expenditure, and could therefore be regarded as an investment that will provide returns in the future. However, for the first time in Namibia's history, borrowing will have to be used in 2011/12 to finance a gap of N$2.3 m in recurrent expenditure. Even though the deficit in 2012/13 will once again be lower than capital expenditure, the overall shrinking share of capital expenditure that is financed from own sources – rather than from borrowing – reflects the precarious fiscal position of the current MTEF.

Government quietly adjusted the deficit target in last year's MTEF from 3% to 5% and the debt target from 25% to 30% respectively, which is still very much within international standards. While it will be a challenge to meet the deficit target over the MTEF period, debts will be kept below the 30% target.

Debt stock and interest payment

The impact of the increased budget deficit on additional borrowing is cushioned by tapping into cash reserves built up in three years of budget surpluses. Government will use about N$3.7 bn of these reserves to cover the deficit, and borrow an additional N$21.4 bn mainly on the domestic market (89%). This is good news for individual and institutional investors, who prefer low-risk investment with reasonable returns. Given the liquidity of the domestic financial market, the risk of crowding out private sector borrowing (and investment) is relatively low. While public debt puts a burden on future generations who have to repay the loans, it provides an income in the form of interest payments for financial investors, and if the borrowed money is spent wisely, will lay the foundation for stronger economic growth and better social services. The crux of the matter lies in identifying projects that have a high potential for good social and economic returns. This is never an easy task, but even less so in the absence of up-to-date, reliable data. For instance, despite the apparent crisis in the labour market (unemployment rate in the broad sense hovers above 51%), the Labour Force Survey of 2008 has not yet been released. In order to monitor whether government spending has had the desired impact on the labour market, annual labour force statistics are crucial. Without them, it is almost impossible to adjust and redirect government spending.

Figure 6 Domestic and foreign debt stock and interest payment, 2001/02 to 2012/13



After declining to about 72% in 2009/10, domestic debt stock as a share of total debt stock is on the rise again, and is expected to reach 82% in 2012/13. Subsequently, domestic interest payment as a share of total interest payment is expected to increase to 94%, up from 86% in 2009/10. This is good news in that more of the borrowing-related costs will benefit Namibian investors, but the figures also indicate that borrowing on the domestic market is more expensive in terms of interest payments than on the international market. However, international borrowing always carries the currency risk, and it is therefore wise to limit our exposure to foreign loans. Like all other borrowers, Government benefits from the current low interest rates on the domestic market. It is expected that interest rates are kept at this level well into the year 2011.

Table 1 Medium Term Expenditure Frameworks: estimates versus actuals

	02-03	*03-04*	*04-05*	*05-06*	*06-07*	*07-08*	*08-09*	*09-10*	*10-11*	*11-12*	**12-13**
MTEF 2002/03											
Revenue	30.1%	28.1%	26.5%								
Expenditure	34.5%	31.1%	29.0%								
Balance	-4.4%	-3.0%	-2.5%								
MTEF 2003/04											
Revenue		30.4%	28.3%	26.7%							
Expenditure		33.4%	31.6%	29.7%							
Balance		-3.0%	-3.3%	-3.0%							
MTEF 2004/05											
Revenue			32.3%	28.3%	27.3%						
Expenditure			33.8%	29.6%	28.3%						
Balance			-1.6%	-1.4%	-1.0%						
MTEF 2005/06											
Revenue				31.7%	31.6%	28.6%					
Expenditure				32.9%	30.4%	27.7%					
Balance				-1.2%	1.2%	0.8%					
MTEF 2006/07											
Revenue					35.9%	30.5%	28.9%				
Expenditure					35.6%	32.1%	31.3%				
Balance					0.3%	-1.7%	-2.3%				
MTEF 2007/08											
Revenue						36.3%	30.1%	28.6%			
Expenditure						35.2%	31.2%	29.7%			
Balance						1.1%	-1.1%	-1.1%			
MTEF 2008/09											
Revenue							35.1%	33.7%	32.3%		
Expenditure							37.7%	33.7%	31.2%		
Balance							-2.7%	0.0%	1.1%		
MTEF 2009/10[1]											
Revenue								31.2%	28.6%	28.6%	
Expenditure								36.4%	35.7%	33.1%	
Balance								-5.2%	-7.1%	-4.6%	
MTEF 2010/11											
Revenue									25.2%	21.1%	23.7%
Expenditure									32.3%	29.4%	28.2%
Balance									-7.1%	-8.2%	-4.4%
Actual outturns								Est[2]			
Revenue	31.9%	28.2%	30.6%	33.1%	36.5%	32.7%	31.4%	29.2%			
Expenditure	34.4%	35.4%	34.2%	33.3%	31.7%	27.5%	29.4%	30.8%			
Balance	-2.5%	-7.2%	-3.6%	-0.2%	4.8%	5.2%	2.0%	-1.6%			

Note: (1) A significant GDP upward revision before the 2009/10 MTEF affects comparisons with previous MTEF
(2) Estimate with updated revenue as per Appendix 1, MTEF 2010/11 – 2012/13

Table 2 Allocation by vote in N$ and %, 2009/10 and 2010/11

VOTE	2009/10 (NAD m)	2010/11 (NAD m)	2009/10 (% of total)	2010/11 (% of total)	Change in %
Office of the President	356	360	1.4%	1.2%	1.2%
Prime Minister	293	165	1.2%	0.6%	-43.9%
National Assembly	110	118	0.4%	0.4%	7.1%
Auditor General	36	53	0.1%	0.2%	47.9%
Home Affairs and Immigration	153	174	0.6%	0.6%	14.1%
Police	1,428	1,890	5.6%	6.5%	32.4%
Foreign Affairs	389	505	1.5%	1.7%	30.1%
Defence	2,598	3,015	10.2%	10.4%	16.0%
Finance	3,838	3,967	15.1%	13.7%	3.4%
Education	5,375	6,476	21.2%	22.4%	20.5%
National Council	45	51	0.2%	0.2%	13.4%
Gender Equality and Child Welfare	298	522	1.2%	1.8%	74.9%
Health and Social Services	2,415	2,593	9.5%	9.0%	7.4%
Labour and Social Welfare	1,036	1,140	4.1%	3.9%	10.0%
Mines and Energy	164	177	0.6%	0.6%	7.8%
Justice	291	327	1.1%	1.1%	12.4%
Regional and Local Government, Housing and Rural Development	797	959	3.1%	3.3%	20.3%
Environment and Tourism	306	348	1.2%	1.2%	13.8%
Trade and Industry	345	491	1.4%	1.7%	42.3%
Agriculture, Water and Forestry	1,234	1,519	4.9%	5.3%	23.0%
Prisons and Correctional Services	342	420	1.3%	1.5%	22.8%
Fisheries and Marine Resources	258	322	1.0%	1.1%	25.0%
Works	481	463	1.9%	1.6%	-3.8%
Transport	1,398	1,309	5.5%	4.5%	-6.4%
Lands and Resettlement	174	190	0.7%	0.7%	9.1%
National Planning Commission	99	134	0.4%	0.5%	36.0%
Youth, National Service, Sport and Culture	380	459	1.5%	1.6%	20.8%
Electoral Commission	180	182	0.7%	0.6%	1.1%
Information, Communication and Technology	235	251	0.9%	0.9%	7.1%
Anti Corruption Commission	27	37	0.1%	0.1%	36.3%
Veteran Affairs	273	275	1.1%	1.0%	0.4%
Total	**25,353**	**28,892**	**100.0%**	**100.0%**	**14.0%**

Source: Estimates of Revenue and Expenditure 2010/11 page 21.
Note: Total expenditure differs from the figures provided in the Medium Term Expenditure Framework 2010/11 to 2012/13 page 10.

About the IPPR

The **Institute for Public Policy Research (IPPR)** is a not-for-profit organisation with a mission to deliver independent, analytical, critical yet constructive research on social, political and economic issues that affect development in Namibia. The IPPR has been established in the belief that development is ***best promoted through free and critical debate informed by quality research***.

About the Author

Klaus Schade is an IPPR Research Associate and independent economic analyst. He worked for the Namibian Economic Policy Research Unit (Nepru) for almost 13 years in various senior positions, most notably as Acting Director from May 2006 until April 2009. He has extensive experience in macro-economic and fiscal policy analysis, poverty as well as trade and regional integration issues. He led the Namibian team for the construction of the Social Accounting Matrix. He has been involved in various regional research networks, such as the Southern and Eastern Africa Policy Research Network (SEAPREN) and was a member of the Board of Directors of the Trade Law Centre of Southern Africa (Tralac).

14 Nachtigal Street · PO Box 6566, Ausspannplatz, Windhoek, Namibia · Tel: +264 61 240514 Fax +264 61 240516
info@ippr.org.na · www.ippr.org.na