DEMOCRACY REPORT

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NATIONAL BUDGET 2012/13 – SHOW US THE JOBS

By Robin Sherbourne

Namibia's Minister of Finance Saara Kuugongelwa-Amadhila tabled her ninth full national budget in Parliament on 28 February 2012 under the heading "Fiscal Sustainability and Job-Creating Growth: Doing More With Less". The 2012/13 budget is based on a realistic assessment of medium-term growth prospects and gives a much more reassuring view of the future of Namibia's public finances than last year's budget with nominal spending capped over the coming three years, progressively smaller deficits and lower overall debt. No tax surprises were sprung but the Minister promised to follow through on proposals made last year. Of particular concern is that many of last year's revenue targets were missed while Namibia continues to remain dangerously dependent on income from the Southern African Customs Union. Unsurprisingly, on the spending side, it has proven difficult to fully execute the ambitious Targeted Intervention Programme for Employment and Economic Growth (Tipeeg) and there seems to be a realisation that slower and smoother might be better. Unfortunately, there seems little prospect of ever knowing what the impact of the spending programme is likely to be. The one thing missing from the Minister's speech was any mention of job creation by Tipeeg. Furthermore, with Tipeeg focusing all the attention on public spending, the importance of better policy runs the risk of being forgotten. A dynamic economy will be one that weans itself off government support. Perhaps it is time to apply some tippex to Tipeeg and focus on addressing the real bottlenecks to growth and creating an economic environment that encourages genuine entrepreneurship and greater productive investment?

Information and Transparency

The IPPR has welcomed the improvement in budget documentation that the Ministry of Finance has brought about in the past decade and more. This year saw the publication of the now familiar six budget documents: the Budget Speech, the Estimates of Revenue and Expenditure, the Development Programmes Estimates of Expenditure, the Medium-Term Expenditure Framework (MTEF), the Macroeconomic Framework, the Accountability Report being supplemented by a seventh, a revised Citizen's Guide to the National Budget. While the IPPR congratulates the Ministry for is openness and for taking on board past criticisms, there may now be a case for a certain degree of simplification and rationalisation. These documents can generally be downloaded free of charge from www.mof.gov.na.

Budget Macroeconomics

Minister Kuugongelwa-Amadhila warned of "an extraordinary challenging global economic environment" stemming mainly from the Eurozone debt crisis. She has subsequently revised down her previous growth forecasts but she is still forecasting growth of between 4 percent and 5 percent up to 2015. These appear realistic given developments that are known to be taking place during the period but depend in part on Namibia's main export markets holding up. Namibia's Gross Domestic Product (GDP) is expected to reach N$102 billion for the first time in 2012. Similarly, the Minister is expecting inflation to average 6.2 percent between 2012 and 2015, very much in line with expectations in South Africa.

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Last year's budget saw the coming together of both the second year of a significant dip in revenues from the Southern African Customs Union (SACU) and an enormous rise in development spending thanks primarily to government's Targetted Intervention Programme for Employment and Economic Growth (Tipeeg) the aim of which was to boost infrastructure spending over a three year period to reduce Namibia's high level of unemployment as revealed by the 2008 Namibian Labour Force Survey (NLFS). The consequence of this was that the budget deficit and the stock of debt were forecast to rise significantly up to the last year of the Medium Term Expenditure Framework (MTEF) 2013/14.

This year's budget suggests the Minister has recognised the need to reassure the bond markets (especially given the US$500 million Eurobond issue last November and the mild downgrade in outlook from Fitch Ratings earlier this year) through a certain amount of fiscal consolidation. The estimate for the deficit in 2011/12 rose from the original 9.8 percent of GDP to an unprecedented 11.2 percent, a huge cause for concern.

Nominal spending during the MTEF period is predicted to remain constant at around N$40 billion. Rising GDP and an increase in the all-important SACU revenues should mean that the budget deficit starts to decline year-on-year and the overall stock of public debt peak at 30.3 percent of GDP by 2013/14. This is a much more reassuring picture than the one painted last year and suggests the Minister has taken on board concerns expressed by a variety of observers at the time of the last budget. Given the need to underwrite huge infrastructure projects currently in the pipeline, we believe the Minister's ability to push the stock of debt much above 30 percent of GDP is greatly limited. Interest payments on debt – domestic and foreign – are forecast to rise from meagre 1.2 percent of GDP in 2010/11 to 2.8 percent in 2014/15.

Table 1: Main Budget Numbers

N$m	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	*%
Taxes on income and profits	6,729.7	8,069.7	8,136.6	9,910.4	10,412.1	11,593.8	13,282.9	15,687.2	11.3%
Taxes on property	148.9	171.1	221.9	138.5	233.1	282.4	307.2	333.9	21.2%
Taxes on goods and services	4,081.5	4,339.0	5,162.3	5,284.7	7,393.9	7,850.7	8,642.3	9,872.3	6.2%
Taxes on international trade	8,085.1	8,502.1	8,585.2	5,975.9	7,137.0	13,795.8	11,036.4	11,661.6	93.3%
Other taxes	137.9	142.2	166.7	208.4	229.8	288.5	318.0	349.6	25.5%
Total tax revenue	**19,183.1**	**21,224.1**	**22,272.7**	**21,518.0**	**25,405.8**	**33,811.2**	**33,586.8**	**37,904.6**	33.1%
Non-tax revenue	1,411.4	2,122.8	1,568.5	1,697.9	1,402.4	1,564.5	1,624.4	1,724.0	11.6%
Return on capital	16.1	16.9	4.6	4.2	20.4	19.7	20.3	17.1	-3.4%
Grants	78.0	82.9	200.8	23.5	24.2	24.9	25.7	26.5	3.0%
Total revenue and grants	**20,688.6**	**23,446.8**	**24,046.6**	**23,243.6**	**26,852.8**	**35,420.4**	**35,257.2**	**39,672.2**	31.9%
Operational expenditure	14,369.6	17,932.1	19,411.0	22,411.0	27,801.1	31,045.0	31,167.4	29363.673	11.7%
Development budget	1,834.8	2,646.7	4,147.6	4,143.1	8,070.0	6,715.7	7,150.9	7,040.9	-16.8%
Statutory (excl interest)	14.8	255.5	154.0	33.2	14.8	202.0	202.0	202.0	1262.2%
Statutory (interest)	1,164.0	1,110.3	1,196.4	965.5	1,279.8	2,194.3	2,480.8	3,583.5	71.4%
Total expenditure	**17,383.3**	**21,944.5**	**24,908.9**	**27,552.7**	**37,165.8**	**40,157.0**	**41,001.1**	**40,190.1**	8.0%

*% change from 2011/12 to 2012/13

Table 2: Medium Term Expenditure Framework Projections 2001/02-2014/15 in percent of GDP

	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15
MTEF 2001/02														
Revenue	31.0%	31.0%	31.4%											
Expenditure	34.9%	33.9%	34.3%											
Balance	-3.6%	-2.9%	-2.9%											
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														
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%		
MTEF 2011/12														
Revenue											28.5%	29.1%	30.4%	
Expenditure											38.3%	34.3%	36.6%	
Balance											-9.8%	-5.2%	-6.2%	
MTEF 2012/13														
Revenue												34.6%	30.9%	31.2%
Expenditure												39.2%	36.0%	31.6%
Balance												-4.6%	-5.0%	-0.4%
Actual outturns														
Revenue	31.8%	31.9%	28.2%	30.6%	33.1%	36.5%	32.7%	31.4%	30.0%	27.8%				
Expenditure	36.0%	34.4%	35.4%	34.2%	33.3%	31.7%	27.5%	29.4%	31.1%	33.0%				
Balance	-4.2%	-2.5%	-7.2%	-3.6%	-0.2%	+4.8%	+5.2%	+2.0%	-1.1%	-5.2%				

Source: MTEF documents 2001/02-2012/13, Ministry of Finance

Since the outbreak of the world economic crisis in 2008, the rules of the fiscal game have changed internationally. Highly industrialised countries are running deficits unheard of in recent times. Many are getting into serious debt traps. This has allowed Namibia to spend and borrow as never before. Namibia's fiscal targets for debt, public expenditure, the budget deficit, and interest payment and contingent liabilities (government loan guarantees) first introduced in 2001 have been chopped and changed in recent years. The latest targets highlighted in the budget speech are as follows:

1. Debt as a ratio of GDP is capped at 35 percent over the MTEF (revised from the 25 percent to 30 percent target band);
2. Public expenditure is maintained at 40 percent of GDP annually (revised from 30 percent);
3. Budget deficit is maintained within 7 percent of GDP over the MTEF; and
4. Interest payments as a ratio of revenue and contingent liabilities as a ratio of GDP to be kept at 10 percent annually.

Although it could be argued that these targets have been changed so much that they have lost all credibility, retaining them is important in that it signals government understands it operates under constraints and shows the direction the Minister wants to take the nation's finances.

Revenue Highlights…

Total revenue and grants are forecast to rise from N$26.8 billion in 2011/12 to N$35.4 billion in 2012/13. One worrying development is that actual revenues in 2011/12 appear to be significantly lower than forecast in March 2011. While SACU revenues are known in advance and taxes on goods and services performed better than expected, the third big chunk of revenue – taxes on income and profits – is coming in at 14.8 percent behind target with personal income tax, mining and non-mining corporate tax all contributing to the shortfall. Overall revenues and grants are 4.1 percent lower than expected, an unusual situation given that the Ministry of Finance generally underestimates revenue. This casts doubt on the robustness of revenue forecasts going forward. It also suggests that the Ministry's claim of greater effectiveness in tax administration lacks hard evidence. The long-proclaimed intention to raise non-tax revenue also appears unfulfilled. Non-tax revenue is set to remain almost constant in nominal terms between 2007/08 and 2014/15 at around N$1.5 billion.

Meanwhile SACU revenues look set to return to making a huge contribution to revenues. Taxes on international trade are forecast to contribute 38.9 percent of total tax revenues in 2012/13 and thereafter contribute about one third. This is due to N$2.5 billion of Customs Revenue Formula Adjustments thanks to a surplus recorded in 2010/11 due even after Namibia pays the N$2.4 billion "borrowed" from the SACU Revenue Pool in 2011/12. Namibia's continued dependence on SACU revenue augers badly for the upcoming negotiations over a new Revenue Sharing Formula where the bottom line is that generous SACU payments to the BLNS will have to be dropped in order to accommodate new SACU members and fulfil the aim of using SACU as the building block of future regional integration. The report commissioned by the SACU Secretariat published in March 2011 recommended a move to a new formula which would have seen Namibia's revenues fall by two-thirds.

The Minister already promised in 2011 to introduce new taxes to "deepen and diversify the revenue base, promote domestic value addition and distribute wealth and promote social welfare". Parliament has already approved the introduction of a withholding tax on fees paid to non-residents, an increase in Non-Resident Shareholders Tax (NRST) and taxes on income from the alienation of mineral rights as well as amendments to VAT, Stamp Duty and Transfer Duty. The rationale behind some of these tax initiatives is clear but the extremely broad nature of the new withholding tax will raise the cost of investing in new projects in Namibia (which are often dependent on outside professionals) and are likely to result in Treaty Shopping as investors seek to channel their activities through countries which have double taxation agreements with Namibia. The rationale for penalising minority shareholders does not seem to be particularly well thought through.

Further tax measures are in the pipeline including the introduction of a differentiated levy on the export of natural resources, a revised corporate tax regime for non-diamond mining companies, environmental levies on a range of harmful products, and the introduction of a transfer duty on the sale of shares in companies owning fixed property and mineral rights and licences. These are not necessarily bad in principle but it is to be hoped the Ministry will give more thought to their design and implementation before any final announcement is made. The premature announcements made last July were extremely damaging to investor confidence and Namibia's image abroad. As is usual, excise duties were raised in line with SACU-wide agreements.

The most encouraging aspect of the Minister's announcements on tax was the tacit recognition that something more radical has to be done to modernise and simplify the tax system and tax administration. The Minister stated that she is investigating the idea of an autonomous Revenue Authority as well as voluntary compliance and a simplified tax system for Small and Medium-sized Enterprises (SMEs). This is especially important in the context of the reform of the SACU Revenue Sharing Formula. The striking thing is that the idea that government might simply be too big for Namibia's revenue base appears never to have been contemplated. Talk is always of making up for lost SACU revenue through new or broader taxes. There is plenty of evidence that Namibia is lagging ever further behind Botswana, Mauritius and South Africa not to mention countries on other continents on many issues to do with tax including tax rates and the time needed to comply with tax requirements.

Expenditure Highlights by Vote…

The following paragraphs highlight what are believed to be the issues of greatest importance in each of the expenditure votes contained in the budget document. The focus is primarily but not exclusively on significant changes in allocations from the previous financial year 2011/12. Of course, as pointed out by government itself when it introduced the Performance Effectiveness Management Programme (PEMP) in 2002, it would be useful to focus the debate on budget outcomes rather than simply on budget allocations. However, the reality is that reliable and timely data rarely exists to be able to do this, quite apart from the question of the need for an independent body (the Auditor General perhaps) to do the measuring rather than government itself. The original PEMP with long lists of outcomes and targets has been revised so that the Medium-Term Expenditure Framework (MTEF) document incorporates Vote objectives and targets and provides details of programmes and how they have been and are to be funded over the MTEF period, providing details of external assistance in and outside the State Revenue Fund. The government Accountability Report (now in its fifth year) then provides information on whether objectives and targets have been reached and explanations of shortfalls where they have occurred. Sadly, the inclusion of financial statements from SOEs appears to have been dropped. These are generally so hard to get hold of that their presence in previous MTEF documents provided a welcome additional source of information.

The 2012/13 budget sees total spending rise by 8 percent to N$40.1 billion from N$37.1 billion in 2011/12. Out of total budgeted spending of N$40.1 billion in 2012/13, operational spending is budgeted to rise to N$31.0 billion, some 77.3 percent of all spending and 30.3 percent of estimated GDP, its highest level since 2001/02. Spending on Goods and Other Services rises modestly to N$6.1 billion from N$5.8 billion while Subsidies and Other Current Subsidies rise to N$9.3 billion from N$N$8.2 billion in 2011/12. But it is Personnel Expenditure that makes up the lion's share of operational spending. Thanks to recent wage settlements, total personnel spending rose from N$10.7 billion in 2010/11 to N$12.0 billion in 2011/12 to a budgeted N$14.3 billion in 2012/13 or 42.5 percent of current spending. The budget document indicates that 84,069 public service posts are currently filled out of an establishment of 104,447. The Minister herself went out of her way to emphasise that "public servants' wages now absorb virtually half of government revenue, which was only 33 percent four years ago." Her rather toothless call to "do more with less" would be more convincing if specific measures had been put in place to nudge Namibia's relatively huge bureaucracy in a more efficient direction. The stop-start approach to public sector salaries, poor management and politicisation does little to encourage the most able to stay and make a career in the public service. Last year's budget credibility was severely dented by the need for Parliament to approve a N$844 million settlement not long after the budget had been tabled which raised the projected deficit from 9.8 percent of GDP to 10.7 percent.

Vote 01 Office of the President

For some years, the largest single item of expenditure under Vote 01 has been the new State House under Main Division 02. The emphasis now appears to be turning to the project "State House Extensions in Regions", the total cost of which will be N$1.2 billion over the MTEF period and beyond. The Accountability Report suggests State House has been 95 percent complete since 2008/09.

The Namibia Central Intelligence Service (NCIS) receives an allocation of N$97 million compared to last year's N$92 million, meaning its budget allocation has almost doubled in the last five year. Now that the construction of the new office building is all but complete, Main Division 03 Office of the Founding President receives a far lower N$7.4 million this year.

Vote 02 Office of the Prime Minister

The allocation to the Prime Minister's Vote remains almost constant at N$252 million. The National Emergency Disaster Fund, receives N$20 million under Main Division 02 while the new Namibia Institute of Public Administration and Management (NIPAM) received N$20.9 million under Main Division 04. The State-Owned Enterprise Governance Council Main Division 07 receives N$8.2 million.

Vote 03 National Assembly

Funding of political parties rises from N$23.4 million to N$28.2 million despite parties' inability or unwillingness to state how they have used state funds in the past. N$500,000 goes towards a feasibility study which will look into the construction of a new Parliament Building.

Vote 04 Office of the Auditor General

The Auditor General receives slightly less than last year but the Office's new N$110.4 million building looks set to be complete by 2013/14. The Accountability Report states that 160 legally stipulated reports were still outstanding on 31 March 2011 and the number of "value for money audits" covered barely one percent of total government expenditure. The key issue remains that little or no action continues to be taken once these reports have been completed as neither the Auditor General nor the Public Accounts Committee has the power to push through any recommendations although the Accountability Report notes vaguely that "a few recommendations were implemented".

Vote 05 Home Affairs and Immigration

This vote sees its allocation rise slightly to N$254.3 million. Bureaucratic delays to the issuing of permits remains an issue of concern to the business sector especially but the Accountability Report states that "Visas are issued in 10 days while some of the permits are issued within 30 working days. There is an improvement on permits such as study and ordinary residence permits which are currently taking 60 to 90 working days for one to receive a response. Permanent Residence Permits take one year."

Vote 06 Police

The Police Vote 06 sees its allocation rise 14.2 percent to N$2.362 billion making it the sixth largest vote by allocation. Main Division 02 Combatting of Crime receives a 20.8 percent increase in funding. The Minister made special mention of this in her speech saying the allocation would go towards recruiting and training new members of the police force.

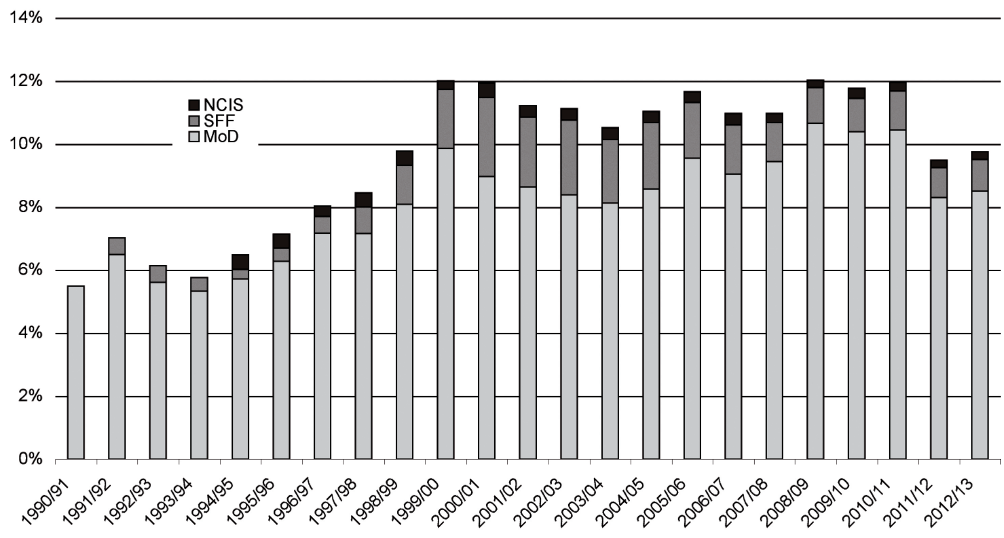
Vote 07 Foreign Affairs

The budget of the Ministry of Foreign Affairs falls from N$545.6 million to N$542.8 million. Of this N$105.3 million will go towards purchasing diplomatic premises abroad which, it is argued, will save on rental costs. There appears little sign that an economic assessment of costs and benefits is starting to play a role in determining the effectiveness of missions abroad.

Vote 08 Defence

Defence spending has been steadily increasing as a share of total spending since Independence and the last decade has seen a consistent share of between 8 and 10 percent of total spending go towards defence. However, as a proportion of total spending, defence spending dropped in 2011/12 and looks set to remain at that level in 2012/13 although total spending actually rose by 9.2 percent to N$3.414 billion making Defence the third largest vote after Education and Finance. One of the Ministry's targets is to recruit 1,000 per year over the MTEF period 2010/11-2013/14. The Ministry says is has "managed to recruit 4,400 new members, however, due to death, retirement and resignations it is difficult to reach this target." The Ministry's previous aim to recruit a total force strength of 15,000 for the Army, Air Force and Navy is not mentioned. The budget document indicates that 20,711 posts are filled under the Defence Vote, 15,489 under Main Division 04 Namibian Army, 1,679 under Main Division 05 21st Brigade, 974 under Main Division 06 Namibian Air Force, and 939 under Main Division 08 Namibian Navy. Research and Development, the Ministry's term for procurement, receives N$252.7 million this year out of a total multi-year budget of N$5.657 billion. The Accountability Report gives no information on the types of weapons procurement undertaken or planned.

Defence spending as % of total budgeted spending



Source: Budget documents

Table 3: Budget Transfers to Air Namibia

	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
N$m N$'000	9.5	20.0	293.0	325.0	400.0	366.0	116.0	153.4	538.7	150.0	100.0	120.5	406.0	500.0

Source: Budget Documents

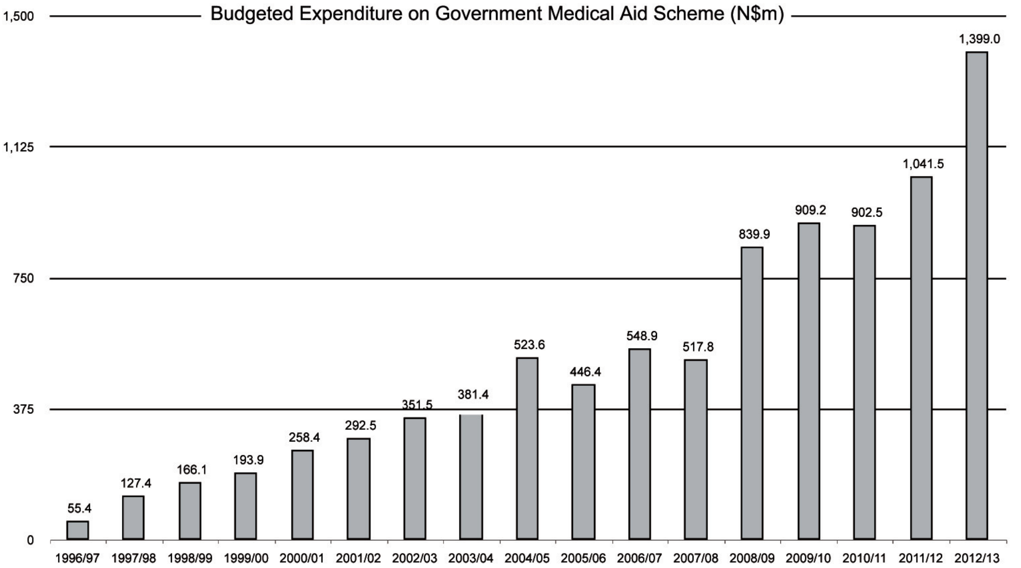
Vote 09 Finance

The Finance Vote is traditionally a large one as it encompasses both financial support to many parastatals as well as debt repayments for government as a whole. This year its allocation rose 15.0 percent to N$5.691 billion. Again substantial transfers are envisaged as "equity participation" including N$19.4 milllion to the Zambezi Waterfront, N$150 million to NamPower, N$40 million to Agribank and N$319 million to the Development Bank of Namibia. Air Namibia, which usually features under the Finance Vote, is moved to the Transport Vote 24 and receives N$500 million for yet another "turnaround strategy". The IPPR estimates that Air Namibia has now received N$3.5 billion in transfers from the budget since 1999.

Finance has allocated N$171.2 million as a contingency provision under Main Division 10. Under public debt transactions, N$200 million is allocated to government guarantees but no explanation is given why. The provision for the government medical aid scheme (another personnel cost under Vote 09 Finance) has increased by an eye-watering 34 percent since last year to a record N$1.4 billion. Allocations to government medical aid now vastly exceed that to social pensions. Assuming 84,069 filled posts on the establishment of 104,447, this implies an average cost per public servant of almost N$16,600 in this financial year.

Vote 10 Education

Guided by the Education and Training Sector Improvement Programme (ETSIP), this year's budget allocates a record N$9.416 billion to education, 13.4 percent more than in 2011/12 and 23.4 percent of the entire budget. The allocation to primary, secondary and higher education is up 20.3 percent, 12.9 percent and 10.1 percent respectively while vocational training receives only 3.4 percent more. The University of Namibia is allocated N$153.0 million and the Polytechnic of Namibia N$66.0 million, far lower than last year. The Namibian Student Financial Assistance Fund (NSFAF) received N$296.6 million, 32.1 percent more than in 2011/12. The single largest development project is Unam's School of Medicine which receives N$101.5 million out of an expected N$1.142 billion in total project costs. Interestingly, one of the Ministry's key targets is to expand the National School Feeding Programme, one of the recommendations of the 2008 Food Task Force. According to the Accountability Report, some 224,276 children were covered by the Programme in 2010/11, far higher than the target of 200,000 which was supposed to be reached by 2014.



Source: Budget Documents

Vote 12 Gender Equality and Child Welfare

The budget of Vote 12 has expanded enormously in recent years as a result of an expansion of maintenance and foster parent grants. Out of this year's N$568.0 million, N$348.0 million is earmarked for these social allowances which have been equalised at N$200 per child per month. The Accountability Report states that 83 percent of orphans – some 124,351 children – had access to social grants in 2010/11 and the Ministry says it is on track to reach 98 percent by the end of this financial year.

Vote 13 Health, Social Services and Rehabilitation

The Health Vote received a 19.3 percent increase in funding to N$3.975 billion with Main Division 03 Referral Hospital Services receiving most of this increase in resources. Hospital upgrading and renovations are allocated N$487.9 million in the Development Budget. Health is one of only four votes to receiving funding outside the State Revenue Fund thanks to assistance from the World Health Organisation, the Global Fund, and the US Pepfar programme. In her speech the Minister recognised the fact that this external source of funding is likely to dry up and that government will have to start footing the bill itself, a statement that earned her a round of applause from parliamentarians during her speech. The Ministry says that 95,670 people received ARV treatment from the State in 2010/11 meaning it is on track to reach its target this year. Despite the latest increase, however, this budget sees some 9.9 per cent of total spending allocated towards health, far below the 15 percent recommended by the UN.

Vote 14 Labour and Social Welfare

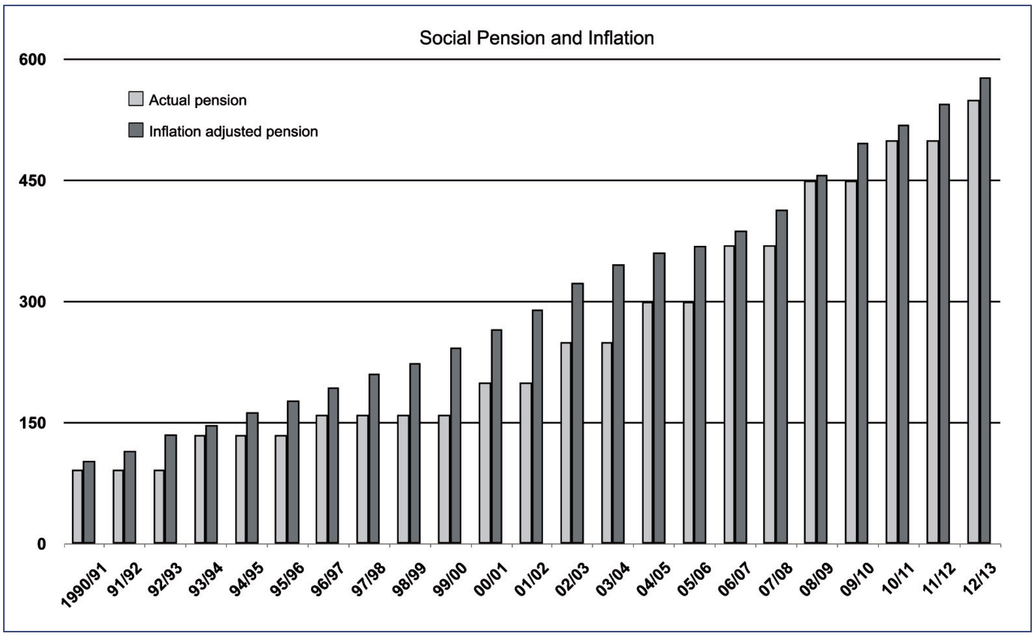
After two years without change, the social pension was raised from N$500 to N$550 a month as the total allocation to pensions is budgeted to reached N$1.031 billion for the first time. On the face of it, this 10 percent increase looks generous. However, all the latest increase really does is bring back the purchasing power of the social pension to just below where it was at Independence. Pensioners have not enjoyed any real increase in living standards since 1990 and have had to endure long periods during which their pension has lost value in real terms. The lowest pension of N$92 for black Namibians at Independence would be worth N$578 today if it had been raised only by the rate of inflation. The issue of means-testing the pension does not appear to have made progress. Vote 14 is missing from this year's Accountability Report.

Vote 15 Mines and Energy

Vote 15 receives an allocation of N$60.7 million for rural electrification under Main Division 05 Energy, the Vote's largest single project in 2012/13. Small-scale mining receives a higher allocation than usual of N$18.0 million while the state-owned mining company Epangelo again receives N$5 million, a paltry amount given the realities of the industry in which it is supposed to operate. The implicit signal is that government expects to see Epangelo receive "free carries" as the licence holder for strategic minerals.

Vote 16 Justice

The Justice Vote receives a substantially higher allocation this year of 26.6 percent due in most part to a 53.6 increase in the remuneration budget line. While the percentage of High Court registered criminal cases finalised reached 81.3 percent in 2010/11, the percentage of Lower Court registered criminal



cases finalised fell to just 33 percent in the same year, the Ministry blaming this on “shortages of prosecutors, further investigations by the police, absence of witnesses, abscondment of the accused persons and congested rolls”.

Vote 17 Regional and Local government, Housing and Rural Development

The main highlight is the massive decline in subsidies to villages from N$430 million in 2011/12 to N$45 million under Main Division 03 Regional government, Local and Traditional Authority Coordination. Sanitation is one of Tipeeg’s five focus areas. Rural sanitation projects were allocated N$88.3 million while urban sanitation received N$388.3 million. The programme to construct Traditional Authority offices in many parts of the country has commenced.

Vote 18 Environment and Tourism

Tourism is another of Tipeeg’s focus areas but the Namibia Tourism Board (NTB) sees its allocation fall from N$70 million to N$50 million (and the MTEF suggests it will fall further in future years). NWR receives a transfer of N$15 million and also N$45.0 for the development of tourist facilities after last year’s N$249.6 million allocation. It seems that government has given up trying to make NWR financially self-sufficient. The fencing of conservation areas receives N$35 million. The newly-launched Environmental Investment Fund (EIF) receives N$18 million.

Vote 19 Trade and Industry

Vote 19 receives a hefty 30.3 percent increase in its budget allocation which covers a number of large projects including N$170 million to the Sites and Premises Development Programme, N$44.8 million for the Entrepreneurship Development Programme, N$40.1 million for the Naute Grape Development Project and N$58 million for cold storage facilities in the DRC. Under Minister Geingob, the Ministry of Trade and Industry has seen its budget grow from N$185.9 million in 2008 (the year of his appointment) to this year’s N$728.0 million.

Vote 20 Agriculture, Water and Forestry

Agriculture is another Tipeeg focus that sees it allocation decline in terms of Vote allocation. Vote 20 receives N$2.034 billion in 2012/13. The Vote includes a number of very large development projects including the construction of large dams (allocated N$260.0 million), the Green Scheme (allocated N$215.9 million) and rural water supply allocated (N$100.0 million). The construction of new Ministry regional offices also received N$104.5 million. N$50 million goes towards the Affirmative Action Loans Scheme.

Vote 21 Prisons and Correctional Services

The lion’s share of the Vote’s Development Budget spending is devoted to the construction of the N$399.6 million Scott Open Rehabilitation Farm which receives N$51.5 million out of the N$84.7 million Development Budget.

Vote 24 Transport

Transport is another Tipeeg focus area but one that sees a slight increase in budget allocation over last year’s huge allocation. Unlike Works, Transport has a large number of expensive projects including Air Transport Infrastructure, Railway Network Development and Road Construction and Upgrading. Altogether the Transport Vote’s development projects receive N$1.505 billion in 2012/13 from the State Revenue Fund. The Vote also receives N$24.1 million from outside the State Revenue Fund. Air Namibia is allocated N$500 million under Main Division 05 Civil Aviation Infrastructure.

Vote 25 Lands and Resettlement

The amount allocated for land purchases under the National Resettlement Policy rises from N$50 million in 2011/12 to N$91.2 million in 2012/13. Land tax receipts are now included under Taxes on Property in the Revenue section of the budget. The tax is expected to raise N$40 million in 2012/13.

Vote 26 National Planning Commission

The allocation to the National Planning Commission declined steeply due mainly to the coming to an end of work on the 2011 Population and Housing Census. The Census is estimated to cost N$276.9 million, most of which was spent in 2011/12 when it was conducted. Main Division 06 National Statistical Agency will receive N$46.4 million, a huge increase on the allocation to operational expenses in 2011/12, as it prepares to become a separate State-Owned Enterprises called the Namibia Statistics Agency (NSA).

Vote 27 Youth, National Service, Sport and Culture

Vote 27 receives N$528.7 million in 2012/13.

Vote 28 Electoral Commission

The Electoral Commission sees its budget rise by 77.7 percent to N$199.4 million, most of which is due to a new Main Division 03 Voter Education which receives N$44.5 million.

Vote 29 Information and Broadcasting

Subsidies to the loss-making state-owned media NBC

(N$108.0 million), Nampa (N$15 million), New Era (N$5.7 million) and NAMZIM (N$5.7 million) come to a total of N$134.3 million. The Film and Video Development Fund sees its budget allocation rise from N$1.2 million to N$7.5 million. One development project, Expansion and Upgrading of the NBC Transmitter Network, receives N$60 million.

Vote 30 Anti-Corruption Commission

The Anti-Corruption Commission sees its allocation cut from N$62.5 million to N$50.3 million mostly due to the near completion of its new headquarters. According to the budget document, 47 posts have now been filled out of a total of 49 funded posts on the establishment.

Vote 31 War Veteran Affairs

Subventions under Vote 31 War Veteran Affairs amount to N$995 million, almost the same as the allocation to social pensions. The Accountability Report states that, although the Ministry's target was to register 15,000 veterans by 2012, a total of 41,200 had been registered by 2011/12.

Development Budget 2012/13 and Tipeeg

The table on page 11 highlights all development projects included in the Development Budget 2012/13 which are due to receive N$30 million or more in 2012/13 and ranks them in order of size. Some projects which are similar in nature, such as military bases, school renovations and others, have been grouped together. These projects or groups of projects make up just over 80 percent of the entire Development Budget in 2012/13 by value. Grouped in this way, it can be seen that Tipeeg target areas transport (roads), sanitation, and agriculture (large dams and the Green Scheme) are most definitely prioritised in terms of budget allocations. At the same time security (police stations, military R&D, military bases) clearly remains a huge spending priority as does State House and health.

Last year's budget was marked by the introduction of Tipeeg which helped increase the allocation to the Development Budget from an already high N$5.2 billion budgeted in 2010/11 to N$8.1 billion in 2011/12. These numbers exclude expenditures outside the State Revenue Fund. It was always going to be a challenge to spend such vast additional sums of money as quickly as government planned. Sure enough actual spending figures and estimates of execution rates announced by the Minister underline this reality. Out of the N$5.2 billion planned in 2010/11, N$4.1 billion was actually spent, a ratio of 78.8 percent although in her budget speech the Minister claimed an execution rate of 92 percent. Out of the N$8.1 billion planned in 2011/12, the Minister admitted the execution rate had been a much lower 75.1 percent, still much higher than we expected given the nature of many of the projects to be financed. There is a lack of clarity about just what the term "execution rate" means. Furthermore, the Minister made a point of injecting some realism into the debate on Tipeeg emphasising that "more money per se does not guarantee success". The Development Budget allocation through the State Revenue Fund was cut to N$6.7 billion in 2012/13 from the previous year's N$8.1 billion.

Time to Tippex Tipeeg?

All in all, the budget contained few real surprises. However, as far as budgeting is concerned, boring is generally better. While there are undoubtedly infrastructure bottlenecks in the economy which have significant potential to hold back growth and which need to be addressed through public spending, it has never been clear that Namibia's modest record on economic growth and poor record on formal employment growth is primarily down to a lack of public spending. Furthermore, these bottlenecks are primarily the responsibility of key SOEs such as NamPower, NamWater, Namport and TransNamib (underwritten by government) which need to be encouraged in every way possible with getting on and investing to unblock the bottle. While the Minister displayed a certain amount of openness towards modifying Tipeeg in order to ensure it meets its objectives, much more important are the policies which determine costs and competitiveness of producing in Namibia and which foster investor certainty. Why have Namibian businesses been so reluctant to take on new workers? Disappointingly, the Minister made precious little mention of these. While all the attention has been fixed on Tipeeg and which projects government is and is not funding, many other important policy issues seem to have slipped through the cracks.

continued on page 12

Table 4: Main Development Projects 2012-15

	Total	2012/13	2013/14	2014/15
Total		**7,168.6**	**7,408.9**	**7,215.7**
Total inside State Revenue Fund		6,715.7	7,150.9	7,040.9
Total outside State Revenue Fund*		452.9	258.0	174.8
Total of all projects N$30 million and more		5,413.7	5,679.4	5,395.4
Road construction and upgrading	4,925.1	880.0	928.7	700.5
Urban sanitation	3,645.7	388.3	500.0	217.8
Police stations and accommodation	2,150.2	272.7	300.0	350.0
Construction of large dams	3,250.0	260.0	708.3	531.3
Military R&D	5,657.7	252.7	296.0	300.0
Green Scheme	3,530.0	215.9	166.5	217.4
Hospitals building, upgrading and renovations	1,150.0	211.9	156.5	156.2
Military bases	5,154.5	201.5	204.5	210.0
State House extensions in Regions	1,172.3	178.4	158.5	180.0
Sites and Premises Development Programme	731.9	170.0	166.0	231.0
School renovations nationwide	3,831.2	159.2	259.9	286.7
Railway network upgrading	538.2	127.6	119.7	156.5
Purchase of diplomatic premises abroad	694.2	105.3	110.0	150.0
Construction of MAWF regional offices	246.5	104.5	17.5	65.5
UNAM School of Medicine	1,142.5	101.5	70.0	30.0
Rural secondary pipeline construction	901.3	100.0	66.9	143.2
Senior secondary education projects	712.6	92.9	94.0	101.0
Land purchases	460.8	91.2	50.0	80.0
Road rehabilitation and maintenance	619.4	90.3	87.0	20.0
Prisons construction and renovation	2,089.7	84.7	90.0	100.0
Revenue and Customs offices and accommodation	552.2	79.3	80.0	29.3
Aus Luderitz railway line	741.5	75.4	70.0	58.0
Nationwide PHC centre construction	353.2	70.0	70.0	90.4
PoN projects	1,078.9	66.0	56.0	49.6
Nationwide PHC clinic construction	426.3	65.0	80.0	80.0
Oshakati intermediate hospital extension	489.5	61.0	80.0	77.0
Rural electrification	595.6	60.7	45.0	60.0
Integrated forestry resource management	270.8	60.0	44.6	74.2
Expansion and upgrading of NBC transmitter network	410.5	60.0	62.0	62.5
Cold storage facilities in DRC	114.6	58.0	13.6	3.0
National Horticulture Development Initiative	1,813.1	52.2	69.7	3.9
Court upgrading and renovations	485.4	49.5	56.7	75.0
Windhoek Air Traffic Control	167.3	45.0	15.3	51.0
Facilities for NWR	297.3	45.0	-	2.7
Entrepreneurship Development Programme	190.4	44.9	45.2	40.0
Upgrading of NAC airports	204.1	44.3	32.4	85.0
Implementation Community Based Management	148.7	44.3	33.6	31.3
Construction of head office for Civil Aviation	98.2	42.0	30.6	20.0
Other UNAM projects	1,840.0	40.5	64.3	84.3
Extension of Naute Grape Development Project	143.3	40.1	33.4	5.0
Katutura hospital renovation	188.2	40.0	40.0	40.0
Windhoek Central hospital renovation	202.1	40.0	70.0	50.0
government hangar	119.3	35.7	20.0	20.0
New office for Auditor General	110.4	35.0	3.3	-
Fencing of conservation areas	190.4	35.0	40.0	40.0
Northern Railway Line extension	213.9	35.0	10.0	72.0
Research and Feasibility Studies in Water	90.2	32.3	11.4	22.6
2011 Population and Housing Census	276.9	29.0	14.3	4.3
All other projects		1,302.0	1,471.5	1,645.4

Source: Development Programmes Estimates of Expenditure 2012/13-2014/15

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At the end of the day, while going out of her way to agree with Robert Kaplan's "If you can't measure it you can't manage it", the Minister made no mention of the employment impact of Tipeeg which was its original raison d'etre. She gave quite a detailed breakdown of the employment impact of lending by the Development Bank of Namibia and she could have offered at least some ballpark numbers. The implicit message seems to be that no mechanisms are in place to measure the impact on employment. The low execution rate (Tipeeg was due to create 104,000 jobs between 2011 and 2015) suggests government is learning the hard way that this approach to boosting employment and growth has very definite limits. Sadly government only measures employment every four years and the next NLFS, due to be conducted this year, is likely to be published only in 2014 if past experience is anything to go by. It will be hard to disentangle what new employment can be attributed to Tipeeg and what was due to other factors. Let us hope that the new Namibian Statistics Agency will put a priority on employment statistics.

About the Author

Robin Sherbourne holds a BA in physics from Oxford University and an MSc in economics from the London School of Economics in the UK. He was the first Overseas Development Institute fellow to be placed in Namibia starting in 1991 as a researcher at the Namibian Economic Policy Research Unit and as an economic advisor in the National Planning Commission until 1995. He then spent two years as an economic advisor in the UK's Department of the Environment before returning to Namibia. Robin became well-known as a newspaper columnist and commentator on local economic affairs in his weekly column "Economic Eye" in The Namibian between 1998 and 2000. He introduced a course at the University of Namibia on the Namibian economy and as an economic and business analyst helped develop the research programme of local stock-broking firm IJG Securities. In 2000 Robin established the Windhoek-based Institute for Public Policy Research, where he is still a board member, and in 2004 the current affairs monthly Insight Namibia magazine. He worked briefly as an advisor to the Research Department of the Bank of Namibia in 2008 before becoming the first Group Economist for Old Mutual, Nedbank and NedCapital in Namibia. He is now an independent economist. He has a long list of publications on the Namibian economy to his name including the Guide to the Namibian Economy.

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Democracy Report will observe, analyse and disseminate information about the debates and activities of both the National Council and National Assembly. The project will produce specialist research papers per year aimed at enhancing wider understanding of issues that on the legislative agenda.

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To promote a better understanding of the tenets of democracy throughout Namibia.

To encourage participation in national debates on policy issues through the creation of a variety of forums.

To create a greater awareness and discourse among the general public about the role of parliament.

To enable stakeholders to have a better understanding of the legislation and other issues before parliament and, in so doing, contributed to informed public and parliamentary discourse.

To review the performance of parliament in terms of its capacity to deliver legislation as well as its functioning in terms of its committee systems; accountability; and administration.

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