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by Klaus Schade

THE NATIONAL BUDGET 2013/14 BIG BANG OR FISCAL CONSOLIDATION?



Brigitte Weidlich

Permanent Secretary in the Ministry of Finance Ericah Shafudah, Finance Minister Saara Kuugongelwa-Amadhila, Economic Advisor to the Minister Paul Hartmann and Bank of Namibia Governor Ipumbu Shiimi.

The President of the Republic of Namibia launched the Fourth National Development Plan (NDP4) in July 2012 covering the period 2012/13 to 2016/17. The government identified three overall goals: High and sustainable economic growth, employment creation and increased income equality. Government envisages achieving these goals through targeted interventions in a few selected strategic areas. The national budget tabled by Minister of Finance Saara Kuugongelwa-Amadhila on 26 February 2013 provides some insights into the extent NDP4 is guiding ministries in formulating and implementing their programmes. While the title of her budget speech “Growing the economy, optimising development outcomes – Jointly doing more with less” hints at further fiscal consolidation, the budget actually displays signs of fiscal expansion with expenditure increasing by almost 20 percent in 2013/14 compared to 2012/13. While revenue collection is not expected to keep pace with expenditure (increased by 8.2 percent) the deficit will grow to 6.4 percent of the Gross Domestic Product (GDP) and more than double the 2.8 percent of 2012/13. The slower revenue growth is not only due to persisting global economic uncertainties, but also to tax relief for individual income earners and companies with the exception of mining companies. In addition to tax payers, the minister had some good news for recipients of old age grants whose monthly non-contributory social pension are increased by NAD50 to NAD600.

Information and transparency

Namibia improved her score in the bi-annual Open Budget Survey 2012 from 53 to 55 out of 100 and is ranked second behind South Africa on the African continent. The score indicates that more information is available to the public. Since the survey

was conducted before the Ministry embarked on producing a Citizens’ Budget – a brief, easily understandable summary of the budget for the ordinary women and men – and distributing it as a supplement to newspapers and via the internet, it is expected that the ranking will improve further. Quite a number of documents related to the budget are available on the ministry’s

website immediately after the budget has been tabled in Parliament or within a week thereafter. These documents include the Budget Speech, the Estimates of Revenue and Expenditure, the Medium-term Expenditure Framework, the Accountability Report for the Financial Year (FY) two years prior to the new FY, the Macro-economic Framework, the Fiscal Policy Framework and the Citizens' Budget. While the amount of information made available as well as the timely presentation of the budget – it was presented for the first time even before the tabling of the national budget in the South African parliament – is commendable the ministry can take easily a few more steps in order to increase the flow of information and transparency. The design of a budget calendar that contains major milestones in the budgetary process and indicates the date the budget is going to be tabled in parliament will help not only parliamentarians, but also the business community and broader public to prepare for the launch. This calendar could include the date for a pre-budget briefing that will provide in particular the business community with an early indication of what to expect from the next budget and would enable them to adjust their own plans and expectations. The number of public events shortly after the presentation of the budget in parliament indicates the strong interest of the broader public in the plans of government over the next three years. Finally, the ministry could publish a mid-term budget review in order to evaluate the execution of programmes and projects half way through the FY and inform the citizens about the progress made. Such a review will indicate how far ministries are in the implementation of their programmes and hence whether adjustments are needed in order to achieve the planned targets.

Macro-economic outlook

The budget is based on a realistic growth scenario over the next three years given the continuing global uncertainties over global economic recovery. The Eurozone, one of Namibia's major trading partners, again entered a period of recession although there are signs that Germany, as the strongest European economy will achieve positive growth during 2013. However, the sovereign debt crisis in a number of southern European countries, in particular Greece, is not yet over and the political stalemate in Italy after general elections at the beginning of 2013 does not help in reassuring investors. The fiscal cliff in the USA is also not yet fully resolved and continues to contribute to uncertainties. While some countries, particularly in Europe, are continuing with austerity measures, others such as Japan are trying to stimulate their economies through additional spending. The different approaches to economic recovery among the G-20 countries illustrates that the coordinated efforts that took place immediately after the financial crisis in the USA turned into a global economic crisis were rather short-lived.

The slow recovery of the global economy affects the demand for raw materials and consequently their prices and the profits of mining companies. The low uranium prices have already resulted in the postponement of the opening of the Trekkopje uranium mine that was put on care and maintenance in the middle of 2012. This impacts on future revenue streams from among others mineral royalties and taxes on corporate profits and individual income. Hence, the expected economic growth over the next three years of 4.3 percent is realistic, but below the growth of 6 percent envisaged in NDP4 that ends only a year after the MTEF period. Therefore, government had to decide whether it goes for a big bang by expediting infrastructure projects hoping to crowd in private sector investment and thus stimulate the economy or to continue with fiscal consolidation in order to keep state finances under control and within the self-set fiscal targets.

Revenue

General

Revenue is expected to increase by 8.2 percent in the Financial Year 2013/14 compared to 2012/13 or by some NAD3 billion (bn) to NAD40.1 bn. Over the whole Medium-term Expenditure Framework (MTEF) period revenue is expected to grow by 23 percent to NAD45.6 bn, which is rather modest compared to revenue growth during previous MTEF periods. This slow growth is attributed to below average increases in transfers from the Southern African Customs Union (SACU) Common Revenue Pool (CRP) that remains Namibia's main revenue source (37 percent of total revenue) for 2013/14 and actual declines during the following two financial years. Tax cuts and subdued demand is expected to result in much lower than previously anticipated income from non-diamond mining companies, while the tax cuts on individual income also takes its toll.

Income from taxes is expected to increase from 93.1 percent of total revenue in 2012/13 to 94.5 percent in 2015/16. Consequently income from non-tax sources such as diamond and other mineral royalties and dividends from State-owned Enterprises (SOEs) is to decline from 6.4 percent (2012/13) to 5.5 percent (2015/16). External grants (development assistance) have never played a significant role in the budget, although some ministerial programmes such as the fight against malaria, tuberculosis and HIV/AIDS were to a large extent donor funded. However, these funds were often channelled outside the State Revenue Fund (SRF) directly to the respective ministry. Since these funds are drying up, the government has to allocate resources from their own revenue sources to these programmes. External grants account for 0.5 percent of total revenue during 2013/14, but no funds are yet confirmed for the following two years.

Some highlights of the main revenue sources

As mentioned above, transfers from SACU remain Namibia's main source of revenue accounting for 37 percent of total income and contributing some NAD14.7 bn to government coffers in 2013/14. This represents a substantial upward adjustment of about NAD3.7 bn over previous projections. However, the contribution from SACU is expected to decline by more than ten percentage points to 26 percent of total revenue in 2015/16 or in nominal terms by NAD2.7 bn.

Since the revenue from SACU is to some extent transfers and not based on economic performance in Namibia, this share should be treated as a windfall gain and used to finance capital expenditure rather than current expenditure. Furthermore, negotiations are ongoing to review the current revenue sharing formula and possible changes are likely in the medium term that will result in Namibia getting a lower share.

The second most important revenue source is taxes on income and profits of individuals and companies contributing 35 percent in 2013/14, but rising to 43 percent in 2015/16 in line with the drop in SACU transfers. Taxes on income and profits are expected to show the strongest growth over the MTEF period of 50 percent from NAD13 bn in 2012/13 to NAD20 bn by 2015/16 –driven mainly by taxes on non-mining companies (up by 66 percent). Income from other than diamond-mining companies is also expected to grow strongly by 58 percent from NAD58 million (m) to NAD82 m. However, this remains a fraction of what non-diamond mining companies contributed to government income in 2007/08 and 2008/09 (above NAD700 m). Individual tax payers are expected to contribute about NAD12 bn in

2015/16, up by 48 percent from the NAD8 bn in 2012/13. These increases are anticipated despite the tax relief (see below).

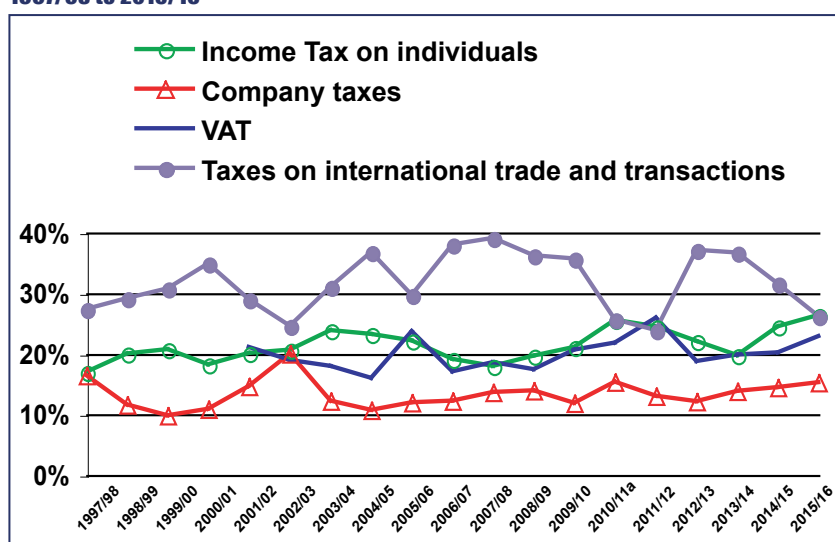
Income from Value Added Tax (VAT) is the third largest income base (21 percent in 2013/14) and depends on the spending mood of the final consumer. Fuelled by the low interest environment, tax cuts for individual income earners, increases in old-age grants and in government expenditure, VAT is anticipated to increase by NAD1 bn or 14 percent in 2013/14 compared to the previous year. Over the whole MTEF period income from VAT is estimated to grow by 50 percent from NAD7.0 bn in 2012/13 to NAD10.5 bn in 2015/16, thereby contributing 23 percent to total revenue.

Non tax income

The contribution of non-tax income has declined over the past decade from a peak of 10.5 percent in 2002/03 to currently 6.4 percent. The decline is expected to continue during the MTEF period from 6.0 percent in 2013/14 to 5.5 percent in 2015/16.

Dividends from SOEs and other companies government has a stake in, such as Namdeb and Rössing Uranium, and mineral royalties are the main non-tax income sources. Only a few SOEs have continuously paid over dividends to their only shareholder, the government, although it is acknowledged that the primary aim of some SOEs is not profit maximisation, but rendering quality services to the Namibian population. Among those that have paid dividends on a regular basis are Namport and Namibia Post and Telecommunications Holdings (NPTH). With about NAD500 m per annum, Namdeb contributes some 70 percent to the income from dividends followed by the Bank of Namibia with a share of about 12 percent or NAD80 to NAD90 m per annum. Namport and NPTH are expected to each hand over cheques to the tune of NAD15 to NAD17 m per annum with each accounting for two percent of total dividends, while Rössing could add another NAD8 m (2013/14) and NAD 4m (2014/15 and 2015/16).

Figure 1 Contribution of selected revenue sources to total revenue in percent, 1997/98 to 2015/16



Mineral royalties account currently for 2.5 percent of total revenue (NAD944 m). The share is expected to decline over the MTEF period to 2.2 percent, while the absolute amount increases marginally to almost a billion NAD. The contribution of royalties to government income is a reflection of the current subdued demand and prices for Namibia's minerals, in particular uranium, as well as the stretching of the development of new mining sites over a longer period.

A revenue line that usually does not attract much public attention warrants closer scrutiny this time. **Interest on the State Account Balance with the Bank of Namibia** more than doubled from NAD28.9 m in 2011/12 to NAD63

m in 2012/13. The increase in interest received from the central bank coincides with the issuance of the USD500 m Eurobond in October 2011. While this increase might have made officials in the Ministry of Finance smile, because of a much higher income, it should actually be a matter of grave concern and should therefore receive attention. Since the interest rate environment has not changed, the increase can only be explained with an increase of funds in the saving account at the central bank. While this again might sound good, it is actually not. In its explanatory note, the Ministry of Finance explains that it receives interest on its savings at the central bank that are calculated at the Treasury Bill interest rate minus 4.5 percent. It can be safely assumed that it is actually meant minus 4.5 percentage points, which implies that when the government pays Treasury Bill holders interest of 5.5 percent, it receives 1 percent interest on its savings from the Bank of Namibia. Given the currently low interest environment, the funds on the account certainly exceed NAD1 bn.

These funds incur costs to the government and thereby to the taxpayer since interest payable are by far below the interest received. Furthermore, these funds are not spent, for instance, on infrastructure projects that would generate a return to the economy and thereby hold back the development of the country. These figures reflect both the lack of major implementable projects and the lack of implementation capacity.

There are two options to reduce such savings, namely speeding up the implementation of vital programmes such as investment in the railway infrastructure or construction of additional electricity generating capacities, or reducing debt and by implication the costs of servicing these debts. The second option has its drawbacks when it comes to domestic debts. The low interest rates, increases in wages and salaries, increased government spending and the cut in tax rates can all fuel inflation. Any further liquidity added to the market will increase inflationary pressure further. Hence, the only way to reduce the savings is by implementing projects speedily. However, according to the MTEF, government expects interest earned on the State Account to decline only marginally by 5 percent to NAD60m in 2013/14 and NAD57m in the following two years. This suggests that the Ministry of Finance does not expect any improvement in the execution rate nor considers using the savings to pay off debts.

Tax announcements

One of the major surprises in the budget speech was certainly the announcement of tax cuts for individual income earners and companies with the exception of diamond mining companies, while increases in the excise duties on tobacco and alcohol are a standard item and determined by Namibia's membership of

SACU. The **tax threshold** for individuals will be raised to NAD50,000 per annum from currently NAD40,000 leaving some NAD225 per month in the pocket of those, who are earning NAD50,000 per annum. Not only are the tax brackets revised, also the **tax rates** are lowered for all income groups except those earning more than NAD1.5 m per annum for whom the rate remains at 37 percent. The entry tax rate is substantially lower with 18 percent for each dollar earned above the threshold of NAD50,000 compared to previously 27 percent.

The **corporate tax rate** has been lowered in two stages from 34 percent currently to 33 percent starting 1 April 2013 and 32 percent from 1 April 2014. Diamond mining companies are exempted from this tax relief. Whether these tax cuts will please the business community remains to be seen. The Namibian Business and Investment Climate Survey (namBIC) 2013 revealed that business people are very concerned about the tax burden in Namibia. The Minister did not refer to the long-overdue review of existing tax incentives for investors in Namibia in order to align them with global trends.

In addition, **transfer and stamp duties** are revised with no transfer duties and stamp duties charged on property up to a value of NAD600,000. This will bring some form of relief to potential house owners who are struggling with spiralling housing costs.

The overall effect of these adjustments is estimated at NAD1.2 bn. To what extent the local economy will benefit from these tax and duty reductions depends on consumer behaviour. The Bank of Namibia raised its concerns several times in 2012 about high consumer debts and spending and low saving and investment in productive assets. If this trend continues, more money will flow outside the country, mainly to South Africa, reducing Namibia's foreign exchange reserves and increasing the widening trade deficit even further. Hence, the consumer needs to be encouraged to save, although this remains challenging in a low-interest environment, to reduce debts and to invest in longer-term assets rather than short-term consumer products.

Government could consider developing a saving culture among consumers by providing incentives for savings. For instance, government could waive the withholding tax for savers that earn income below a certain taxable threshold or top up their savings. A stronger saving culture will in turn reduce the vulnerability in particular of low-income households to any calamity that might strike.

The long-awaited **environmental tax** charged on products considered harmful to the environment is to be implemented in the new FY. The tax is estimated to contribute about NAD224 m in the first year increasing to NAD259 m in 2015/16. It accounts

for roughly half a percent of total revenue. However, the Minister of Finance has not revealed any further details of this tax.

Although the Minister referred to the **export tax** to be levied on certain commodities, no income from this source is explicitly mentioned in the MTEF suggesting that this tax might not be implemented soon. While government needs to ensure that the country receives an appropriate share of her natural resources, a balance needs to be kept with an appropriate return to companies investing in exploiting the natural resources. As recent events in Namibia have shown, mining operations remain a risky business and involve high upfront costs. Two drilling exercises for oil off shore Namibia have not revealed any economically viable resources, while Areva put its Trekkopje mine on maintenance and care owing to various reasons, among others low uranium prices. Furthermore, the development of the Husab uranium mine is expected to cost NAD12 bn and will take almost three years. These developments have to be financed upfront while the costs will be recovered at a later stage. Hence, owning a licence and developing a mine does not necessarily result in immediate returns or in returns at all to the company.

In order to balance the interests of the government and the investor, close consultations are needed before any changes are made to the tax environment that could scare away potential investors.

Finally, Global Financial Integrity (GFI) reported in its latest publication released at the end of 2012 that about USD4.2 bn left Namibia illegally between 2001 and 2010. This amounts to more than NAD30 bn over ten years or NAD3 bn per annum equalling the estimated costs for the Neckartal dam project. Some 90 percent of these outflows were reportedly caused by **trade mispricing or transfer pricing** in order to avoid paying taxes in Namibia. While it is certainly challenging to detect transfer pricing in particular if certain goods or services are not traded on the market and therefore do not bear a market value, some measures could be taken to reduce the loss of revenue.

One of the recommendations in the GFI report refers to the signing of a statement in the commercial invoice “certifying that no trade mispricing in an attempt to avoid duties or taxes has taken place and that the transaction is priced using the OECD arms-length principle”¹. In addition, Namibian shareholders in foreign companies should be sensitised about transfer pricing and scrutinise costs charged by mother companies for goods and services more thoroughly.

¹ Ellis, Justin, 2013, Daylight robbery with impunity, *The Namibian*, 18 Jan. 2013

Expenditure

General

Overall expenditure is expected to rise by 19 percent in 2013/14 to NAD47.6 bn compared to NAD39.9 bn a year earlier. This represents an increase by more than 12 percent in real terms based on the inflation rate of 6.5 percent for 2012. This substantial increase does not really support the notion of fiscal consolidation. However, the growth of expenditure is expected to slow down considerably over the following two years amounting to 1.3 and 4.7 percent respectively. This implies a reduction of expenditure in real terms since the inflation rate is likely to hover around five to six percent.

The increase is mainly driven by **current expenditure** that is expected to grow by 23 percent compared to an increase in **capital expenditure** by 11 percent. While current expenditure is expected to grow by 1 and 5 percent during year 2 and 3 of the MTEF period, capital expenditure is actually expected to decline by 2.2 and 1.7 percent respectively.

This decline in capital expenditure is not in line with the level of investment needed to achieve the overall goals of NDP4. Furthermore, since inflation in the construction sector is often above the normal inflation rate, the real value of capital expenditure is eroded further. Hence, the increase in expenditure is not the Big Bang needed to elevate the country to the next higher level of socio-economic development.

Some highlights of allocation by vote

NDP4 focuses on a few key sectors with a potential to contribute significantly to economic growth and job creation. These sectors include logistics, tourism, manufacturing and agriculture. In addition, the plan identifies some basic enablers that need to be strengthened in order to achieve higher levels of economic growth and raise the level of living such as education, health, public infrastructure, extreme poverty and the institutional environment. For each of these strategic areas strategic initiatives are formulated in NDP4. Not all of these strategic areas can be directly linked to a specific ministry or vote in the budget. However, some can be linked. Only one of these votes, namely education receives additional allocations that are above the expenditure increase of 26.6 percent over the MTEF period. The allocations to all other priority areas of NDP4 show below average growth and in the case of Environment and Tourism there is even a decline. The allocations the Ministry received so far from the Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) resulted in a high baseline and explains to some extent the decline in budgetary allocations during the next MTEF period.

Agriculture

NAD2.4 bn is allocated to agriculture for the 2013/14 FY representing an increase of 16 percent compared to 2012/13. Even though the allocation will grow by another NAD130 m in the second year, the Ministry has to do more or at least the same with less in the third year, when the allocation drops to NAD2.3 bn. Overall, 4.9 percent of the total budget is reserved for agriculture, water and forestry. The water sector is the main beneficiary of the allocation receiving NAD2.8 bn out of a total of NAD7.1 bn over the MTEF period. NAD2.6 bn will be invested in rural water supply and sanitation. The Ministry plans to construct a second desalination plant at the coast by the end of the MTEF period, but does not provide any financial information about the project. Since the existing desalination plant is currently not used owing to the putting on hold of the Trekkopje mine, ways should be explored to fully utilise the capacity of the plant, before a second desalination is built. Close cooperation among all stakeholders is needed in order to establish the water demand over the next couple of years and the supply capacity including the possibility to expand the capacity of the existing desalination plant in order to avoid a duplication of supply.

The agriculture sub-sector receives nearly the same amount as the water sector, namely NAD2.6 bn, which is mainly allocated to agricultural research (NAD1.1 bn) and veterinary services (NAD0.9 bn). Veterinary services include the creation of Foot and Mouth Disease free zones in the Northern Communal Areas, but no further details are provided concerning the removal of the Veterinary Cordon Fence that separates the communal and the commercial agricultural areas. Included in agricultural research is the dry-land crop production programme in the northern communal areas. It aims at increasing the yield over the MTEF period from 258kg/ha for millet and sorghum to 300kg/ha.

Since pilot projects in the north have shown that with the use of conservation tillage and other management tools based on Conservation Agriculture the yield can be increased up to 2 tonnes per hectare, the Ministry's target is rather modest. Furthermore, these targets are lower than those set in the MTEF for the period 2011/12 to 2013/14, when the Ministry aimed at a yield of 375kg/ha.

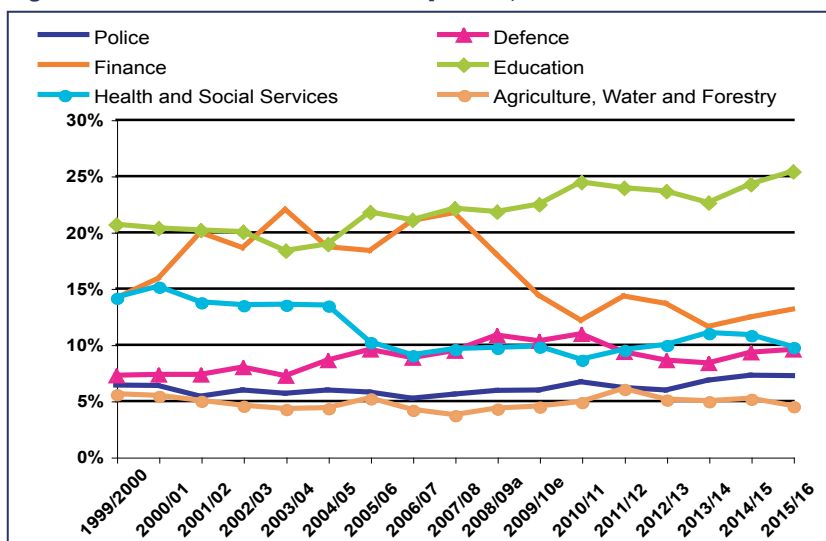
Finally, the ministry intends to increase the area under irrigation from 12,000 ha to 13,000 ha.

Tourism

Environment and Tourism will receive on average 1.2 percent of the total budget over the MTEF period. However, its share is declining from 1.4 percent (2013/14) to 1.1 percent (2015/16). The funds available for the ministry amount to NAD1.8 bn for the whole MTEF period. NAD435 m will be used for wildlife and protected area management; mainly for the fencing of protected areas and the prevention of wildlife crime. NAD361 m is allocated for infrastructure development and maintenance. However, no funds are reserved for the development of NWR tourism facilities. The contribution of some NAD100 m to the Namibia Tourism Board is expected to increase the number of tourists to 1.2 million in 2015.

What is more important than the sheer number of tourists is the benefits the country derives from each of them. In order to increase the benefits, Namibia needs to target the segments of tourists that have the highest spending per day and attract more of those, rather than focusing on the numbers of arrivals alone.

Figure 2 Allocation to selected votes in percent, 1997/98 to 2015/16



Note: The drop in the relative share allocated to the Ministry of Health and Social Services in 2004/05 is caused by moving the responsibility for social grants to the Ministry of Labour and Social Welfare

Transport

The allocation to the transport sector increases by a whopping 46 percent in 2013/14, but drops thereafter by 28 percent before it grows again by 10 percent. The sector can expect a total amount of NAD9.1 bn for the whole MTEF period accounting for 6.2 percent of the total MTEF envelope, which is above average of the past five years. NAD3.3 bn is allocated to aviation

infrastructure (37 percent of the vote's total budget), which includes close to NAD2 bn for **Air Namibia** (representing 22 percent of the vote's budget) while the remaining is spent on upgrading and maintaining airport infrastructure and the construction of an aerodrome at Opuwo. The upgrading and maintenance of **road infrastructure** receives some NAD2.6 bn, while investment in the **railway infrastructure** will amount to NAD1.5 bn (which is less than air transport receives). The Ministry intends to complete the rehabilitation of the 70km between Aus and Lüderitz by 2014/15 and rehabilitate another 400km between Kranzberg and Tsumeb by the end of 2015/16. Regular reports in the media about derailments on Namibia's railway lines should make investment in the railway infrastructure a priority. This is further necessitated by the growth of cargo handled at Walvis Bay and the subsequent increase in truck traffic on Namibia's road that not only increases the maintenance costs of the national road network, but also results in an increase in accidents. Since the rehabilitation of the Aus to Lüderitz section has been on the agenda for more than a decade and since the latest tender was cancelled at the end of last year it remains to be seen whether the Ministry can stick to its time plan. Furthermore, no mention is made about the extension of the railway line through Botswana to South Africa that would require significant additional funds. Botswana apparently favours the railway corridor to Durban and is pondering a new route to Mozambique.

If the country wants to achieve her ambitious target of becoming the logistics hub in southern Africa, significantly more funds need to be allocated to the backbone of such a logistics hub – the railway infrastructure and the rolling stock.

So far, only 46 percent of Namibia's railway lines comply with the SADC recommendation of 18.5 tons axle load.

Education

Education receives, as in the past, the lion's share of the budget. The allocation increases by 36 percent in 2015/16 compared to 2012/13 while the total MTEF envelope amounts to NAD35.2 bn. Its share of the total budget increases from 22.6 per cent to 25.4 percent. About 60 percent of the budget is spent on wages and salaries for the about 35,000 established positions. This share is most likely to increase once the re-grading is approved and implemented. Although there are quite a number of inconsistencies in the targets contained in the Ministry's Medium Term Plan, the Ministry strongly focuses on increasing enrolment in pre-primary education, net enrolment in secondary education and enrolment in vocational training. Primary education absorbs the main chunk of the budget – NAD19.2 bn or 54.4 percent.

Pre-primary education and Vocational Education and Training each receive about NAD1 bn or 3 percent of the Ministry's allocation. Since the Ministry has taken decentralisation seriously and allocates funds for its facilities to all thirteen regional councils it is not possible to establish the effect of free primary education on the Ministry's budget neither the share allocated to personnel expenditure and other inputs, such as textbooks and stationery.

The absence of allocations to Research & Development from the Ministry's budget is of concern although the Commission on Research, Science and Technology falls within its ambit. A meagre NAD32.5 m is reserved for research and research dissemination under higher education, but this will not provide the push needed to diversify and innovate Namibia's industrial base.

The Ministry allocates some NAD2 bn to the **Namibia Student Financial Assistance Fund** (NSFAF). While this is a commendable allocation and allows children from poorer households to study and eventually improve their standard of living, students should pay back these interest-free loans as per their contracts. This is apparently for most students not the case as the Auditor General recently reported. Accumulated arrears have reached more than a billion Namibia dollar since the financial year 2007/08. This is a significant amount that requires a thorough investigation and steps to recover the money. There is, however, no clear hint in the budget documents that the ministry expects any revenue from NSFAF beneficiaries.

Health

The Ministry of Health and Social Services has been allocated in general a higher share of the total budget than in previous years. However, this share is expected to decline from 11.0 percent (2013/14) to 9.8 percent (2015/16). The allocation of NAD5.2 bn for 2013/14 represents an increase of 31.9 percent of 2012/13, but the funds drop by 0.4 percent and 5.5 percent in the following years to NAD4.9 bn (2015/16). The reduction is in part attributed to an expected declining wage bill that accounts for 40.7 percent of total ministerial expenditure in 2013/14 but for only 37.7 percent in 2015/16. The decline suggests that the proposed re-grading and salary scales are not taken into account in the budget. According to media reports the proposed new salary scale for registered nurses ranges from NAD111,571 to NAD133,819 up from currently NAD58,481 to NAD73,623. Since registered nurses account for a large proportion of the total number of employees in the Ministry, these adjustments will have a major impact on the wage bill.

Regional health (65 percent) and referral hospital (25 percent) services absorb nearly 90 percent of the Ministry's budget. Capital expenditure accounts for 12.2 percent of the total budget for these two divisions.

Finance

The main expenditure item in the Ministry of Finance budget is statutory expenditure that has to be honoured by all means, namely interest payments on public debts and loan guarantees for mainly SOEs. Statutory expenditure has almost doubled between the Financial Years 2010/11 and 2013/14 from NAD1.13 bn to NAD2.24 bn and is expected to increase further to NAD3.3 bn in FY2015/16. Interest payment accounts for 4.7 percent of total expenditure in 2013/14 and 6.5 percent in 2015/16. Domestic investors in Treasury Bills and Government Bonds are the main beneficiaries of interest payments accounting for 82 percent of all interest paid in 2013/14 and 86 percent in 2015/16, while the remaining share will be paid to foreign investors. Hence, a large chunk of these payments could eventually benefit the local economy.

Highlights of other ministries

Amounts of NAD42 m (2013/14) and NAD20 m each in the following years are allocated to the **National Emergency Disaster Fund** in the Office of the Prime Minister. An additional amount of NAD1 m is budgeted for food security in the to-be-established Emergency Relief division in the Ministry of Agriculture, Water and Forestry. Given the looming drought, it remains to be seen whether these allocations are sufficient.

Some other ministries have received substantial increases in their allocation for 2013/14. The **Ministry of Information and Communication Technology's** budget is increased by more than 120 percent from NAD305.4 m to NAD677.9 m. Its subsidy for the Namibian Broadcasting Corporation increases almost fourfold from NAD108.0m (2012/13) to NAD411.8m (2013/14) in order to finance the broadcaster's migration to digital television. NBC can expect further support to the tune of NAD302.0m and NAD341.7m during the FY 2014/15 and 2015/16 respectively. The two newspapers New Era and Namzim (Southern Times) receive a total of NAD24.5 m each for the whole MTEF period.

The **Ministry of Home Affairs and Immigration** will receive 64 percent more than last year or a total of NAD418.0m compared to NAD254m in 2012/13. This is mainly attributed to a ballooning **wage bill** that more than doubles from NAD115.5m to NAD249.6.4m in 2013/14, but is expected to drop in the following two years to NAD211.0m and NAD221.5m respectively. No reason is provided for the anticipated declining wage bill. Likewise, the increase in the **police's** allocation by 37 percent in 2013/14 is due to the rising wage bill. The police can expect

some NAD3.2 bn or 6.8 percent of the total budget of which 68 percent is budget for wages and salaries.

Mines and Energy will receive some 47 percent more, mainly owed to increased allocations to government organisations that are expected to receive NAD40m more in 2013/14 and an additional NAD60m more in 2014/15. Since Epangelo Mining, the state-owned mining company, is mentioned separately and will receive about NAD10 m per annum, it remains unclear where exactly the additional NAD140m for government organisations will go.

The only votes that have actually to do more with less are the Ministry of Gender Equality and Child Welfare (MGECW) and the Anti Corruption Commission (ACC). Their budget allocations are cut by 6.5 percent and 3.4 percent respectively in 2013/14 compared to 2012/13. The **MGECW's** lower allocation is mainly owed to a cut in the allocation to Foster Care Grant and Maintenance Grant from NAD360.8m (2012/13) to NAD314.1m in 2013/14. Allocations to the FCG and MG appear to be rather erratic over the MTEF period increasing to NAD340.7m (2014/15) before dropping again to NAD324.3m. No information is provided as to why the Ministry assumes that the number of beneficiaries for these grants fluctuates so strongly during the MTEF period.

Furthermore, the allocations suggest that no increases in the monthly grant amounts are planned, although NDP4 recommends annual adjustments based at least on the inflation rate if not on salary increments in the public sector.

The **ACC** receives NAD10m less for construction and renovation during 2013/14 than in the previous FY, which offsets increases for other items and results in the decline from NAD50.3 m (2012/13) to NAD48.6 m in 2013/14 and further to NAD36.1 m in the last year of the MTEF period (2015/2016).

Some highlights of allocation by item

Personnel expenditure dominates the expenditure by item moving closer to 40 percent of total expenditure. This is still below its share seen a decade ago, but should encourage anew the debate about right-sizing the public sector.

The budget for personnel expenditure increases by 22 percent in 2013/14, but by only 7.6 percent and 3.7 percent during the two following years. These figures suggest that government does not anticipate any salary adjustments at least not in the last year of the MTEF period, which is not very realistic.

Subsidies and other current transfers account for a quarter of all expenditure in 2013/14 and for 23 percent during the next FY. The increase in the 2013/14 allocation by 28 percent is

largely attributed to yet another bailout for Air Namibia. The Minister's announcement of tough decisions has not yet filtered through to non-performing SOEs.

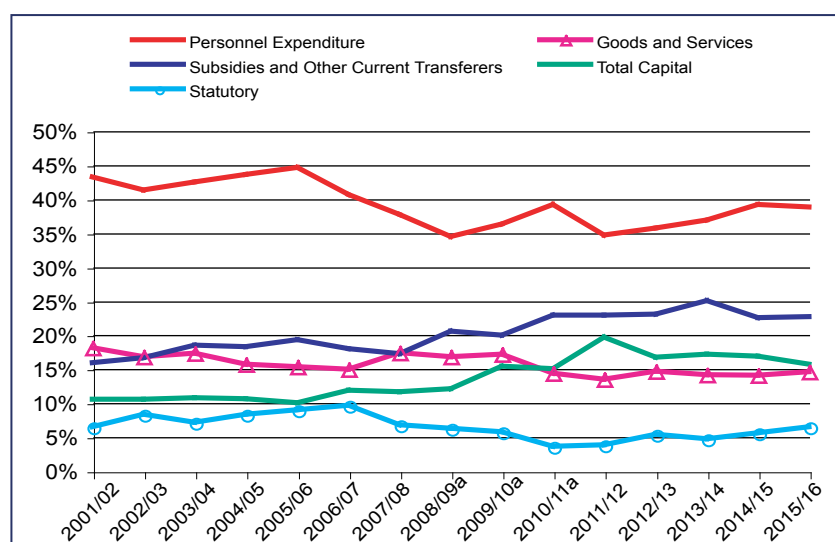
As said above, the re-grading and subsequent salary adjustments will most likely result in an increasing proportion of the total budget allocated to the wage bill. However, this is not yet reflected in the budgetary allocations.

Tough decisions are needed in order to turn SOEs into national assets all citizens are proud of. If Namibia does not have the expertise yet to run certain parastatals, government will need to source the expertise from beyond our borders in order to develop domestic skills and turn the SOEs finally around.

The decline in **capital expenditure** is of concern, since investment in infrastructure lays the foundation for the future development of the country and is crucial for achieving Namibia's long-term Vision 2030 and the medium-term National Development goals. The share of capital expenditure drops from 6.3 percent in 2012/13 to 6.1 percent in 2013/14 and by almost one percentage point to 5.2 percent in 2014/15. It is expected to grow in the last year of the MTEF period to 5.5 percent.

Statutory expenditure absorbs an increasing chunk of the budget from 4.7 percent (2013/14) up to 6.5 percent in 2015/16, but is still kept within the target of 10 percent of total expenditure. The amounts set aside to honour statutory expenditure increase by 5.4 percent in 2013/14 and by a fifth thereafter to NAD2.4 bn,

Figure 3 Allocation to selected items in percent of total expenditure, 2001/02 to 2015/16



NAD 2.7 bn and NAD3.2 bn respectively. A further weakening of the Namibia dollar against the USD will however, increase the interest paid to the Eurobond holders. As said above, if savings are accumulating on the State Account, they could be used to reduce in particular the country's foreign debts.

Social grants

Social grants have played a crucial role in alleviating poverty, not only of the direct beneficiaries, but also their family members. While beneficiaries of the old-age grant have seen some more or less regular adjustments, beneficiaries of the **Maintenance Grant (MG) and Foster Care Grant (FCG)** have to do with less owing to inflation. As described under the vote of MGEW the allocations over the MTEF for FCG and MG are rather erratic and do not suggest any planned increases. These grants were increased in 2000 to NAD200 per month and in 2010 to NAD230 per month. Based on the inflation rates since 2000 the grant is now worth NAD103.49 per month. If beneficiaries had received regular inflationary adjustments they would receive now NAD477 per month. It is, however, acknowledged that the Ministry increased the coverage substantially over the past decade and intends to increase the number of beneficiaries further to 152,000 (2013/14) and to 184,000 by the end of the MTEF period. If the Ministry succeeds with the planned widening of the coverage, the budgetary allocation would only allow for monthly grants of NAD172 in 2013/14 and NAD147 in 2015/16. In addition to these grants, vulnerable school children benefit from the school feeding programme. During the Financial Year 2011/12 238,821 learners benefited from this programme and the Ministry of Education intends to increase the number to a quarter of a million in the FY 2013/14.

On the other hand, **old-age grants** have kept more or less pace with inflation over the past decade, but have not seen an actual improvement in their standard of living. However, since the inflation rate is based on the consumption of an average Namibia, price increases for the consumption basket of a pensioner could well be quite different. Food price hikes affect low-income earners more, to which pensioners belong, since they spend more of their total consumption expenditure on food than the average person. It is therefore important that the Namibia Statistics Agency calculates three inflation rates: for poor households, middle-income households and affluent households. These inflation rates would guide government in the proper adjustment of its social grants. The Ministry of Labour and Social Welfare plans to cover 98 percent of persons eligible for the old-age grant. Based on this coverage and the preliminary results of the Population and Housing Census 2011 that provide information on the number of persons by age group, the

allocation to social pensions suggest that pensioners can expect further increases over the remainder of the MTEF period. The allocation increases from NAD1.0 bn (2012/13) to NAD1.4 bn in 2015/16.

Fiscal balance

The Ministry of Finance said in 2012 that it expected the **budget deficit** to reach 5 percent in 2013/14 and 0.4 percent in 2014/15. However, these figures had to be adjusted upwards in the latest MTEF, because of a significant acceleration of expenditure that is expected to grow by 19.3 percent in 2013/14. Hence, the deficit is anticipated to reach 6.4 percent of GDP, which remains within the domestic fiscal target of 7.0 percent. About half of the required financial resources will be covered by own savings, while the other half will be borrowed on the domestic and international markets. Some NAD3.4 bn will be raised on the domestic market (84 percent) compared to NAD0.7 bn on the international market (16 percent).

The additional borrowing requirements will increase Namibia's **debt stock** to NAD32.4 bn from NAD27.5 bn or to 27.8 percent of GDP. This ratio is expected to top 30 percent at the end of the MTEF period. Although it represents a steep increase from levels seen three years ago (17 percent), it remains within the domestic fiscal target (35 percent) and amounts to half of the international benchmark for total public debt (60 percent).

After the issuance of the USD500 million Eurobond in October 2011, foreign debt stock levels rose to 36.2 percent of total debt in 2012/13, but are expected to drop continuously over the METF period to 27.8 percent in 2015/16. Likewise, interest paid to foreigners holding government bonds showed a steep rise in 2012/13 from 6.4 percent to 14.2 percent. The share is expected to climb further to 17.8 percent in 2013/14, before it declines to 14.0 percent in 2015/16. These figures indicate that it is less costly to borrow on foreign markets. However, foreign borrowing includes a degree of uncertainty because of the exchange rate risk. The current depreciation of the Namibia dollar versus the USD has

Figure 4 Allocation to various Social Grants in percent of total expenditure, 2000/01 to 2015/16

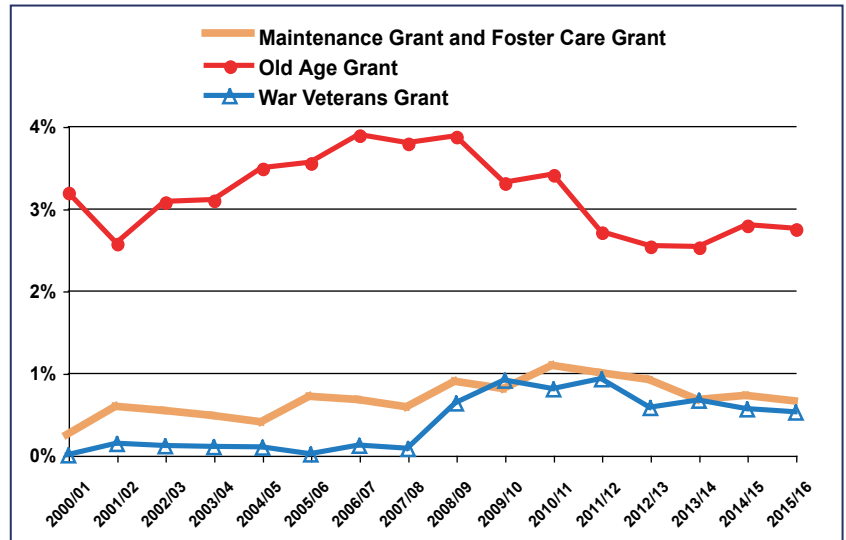


Figure 5 Budget balance and total debt as a ratio of GDP, 1998/99 to 2015/16

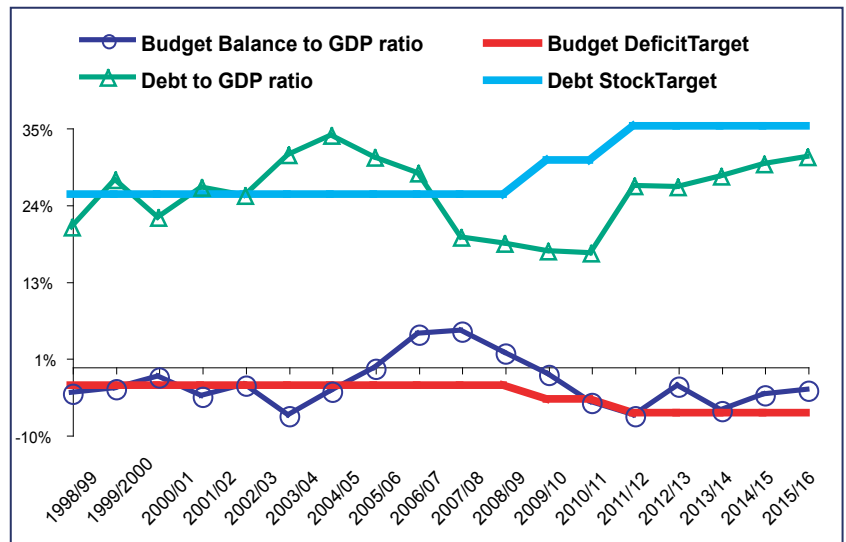
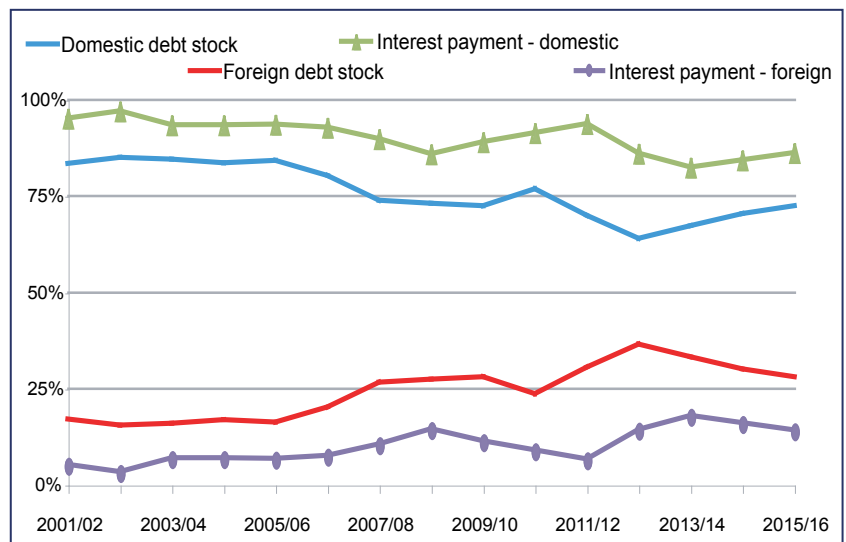


Figure 6 Domestic and foreign debt stock and interest payment, 2001/02 to 2015/16



clearly illustrated this point. Provision is made in the budget to the tune of NAD1 bn per year for expected currency depreciation. For most of the Financial Years since 1996/97, the Ministry of Finance overestimated the deficit or underestimated the surplus. This is mostly caused by underestimating revenue, in particular SACU transfers, and a lower than anticipated execution rate and hence an overestimation of expenditure. If this trend continues, the actual deficit and debt stocks will remain below the targets.

Figure 7 Estimated versus actual budget balance, 1996/97 to 2012/13

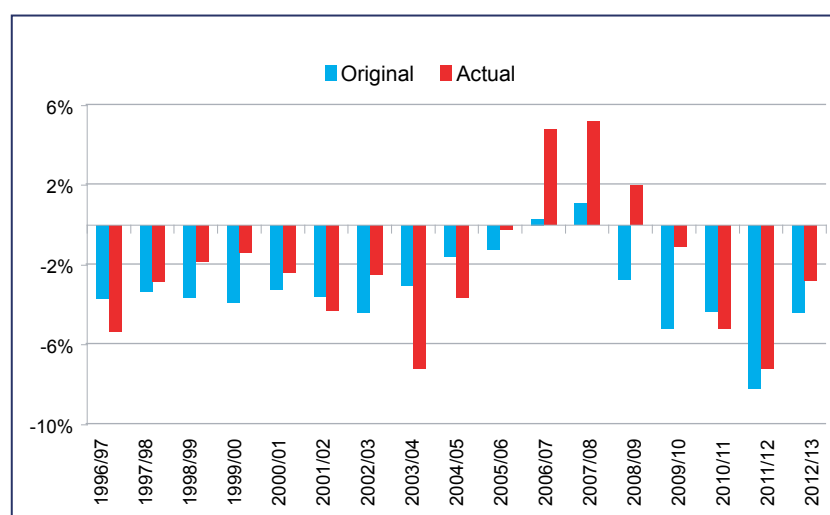


Table 1 Medium Term Expenditure Frameworks: estimates versus actual

	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	15-16
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%			
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%	
MTEF 2013/14														
Revenue												34.5%	33.1%	31.5%
Expenditure												38.9%	35.0%	32.6%
Balance												-6.4%	-4.1%	-3.4%
Actual outturns														
Revenue	31.9%	28.2%	30.6%	33.1%	36.5%	32.7%	31.4%	30.0%	27.8%	32.0%	35.5%			
Expenditure	34.4%	35.4%	34.2%	33.3%	31.7%	27.5%	29.4%	31.1%	33.0%	39.3%	38.3%			
Balance	-2.5%	-7.2%	-3.6%	-0.2%	4.8%	5.2%	2.0%	-1.1%	-5.2%	-7.2%	-2.8%			

Note: (1) A significant GDP upward revision before the 2009/10 MTEF affects comparisons with previous MTEFs.

About the Author

Klaus Schade is an IPPR Research Associate and independent economic analyst. He has worked in Namibia since 1997 and has extensive experience in researching and analysing macro-economic and fiscal policy, poverty and trade and regional integration issues. He has published numerous papers on macro-economic topics, fiscal policy, and trade, and regional integration. For the IPPR he is responsible for the annual Namibia Business and Investment Climate Survey (namBIC) and the bi-monthly Economy Watch Namibia. He works currently as an advisor to the Statistician General at the Namibia Statistics Agency.

About Democracy Report

Democracy Report is a project of the IPPR which analyses and disseminates information relating to the legislative agenda of Namibia's Parliament. The project aims to promote public participation in debates concerning the work of Parliament by publishing regular analyses of legislation and other issues before the National Assembly and the National Council.

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Directors: M M C Koep, D Motinga, W Lindeke, N Nghipondoka-Robiati, A du Pisani, G Hopwood (ex-officio)
14 Nachtigal Street · PO Box 6566, Ausspannplatz, Windhoek, Namibia · Tel: +264 61 240514 Fax +264 61 240516
economist@ippr.org.na · www.ippr.org.na