Democracy Report

APRIL 2016

Special Briefing Report No.12

By Rowland Brown

FISCAL SUSTAINABILITY AND GROWTH: A DIFFICULT BALANCING ACT

Frederico Links

Summary

The Minister of Finance tabled the 2016/17 budget on the 25th of February, 2016. During his year in office, and in the two budgets under the current Minister of Finance, some major changes and developments, largely for the better, have been witnessed. Moreover, the Minister's speeches, which remain partially disconnected from the actual expenditure focus, appear to be illustrating further will to make further expenditure changes. As such, broadly speaking, the budget big picture, as laid out in the budget speech, was positive. The Minister recognised the fact that the global economy remains weak and that the Namibian economy too is slowing. As a result of this, revenue expectations have been revised down in a notable manner. The Ministry now expects revenue growth of just 2% in 2016/17 when compared to the budgeted numbers for 2015/16. This is well below nominal growth expectations for the year, and suggests that revenue for 2015/16 is likely to come in significantly lower than what was budgeted for. This has been further exacerbated by Namibia having to repay a total of N$2.96 billion back to the SACU Common Revenue Pool due to overpayment in previous years.

Due to the slowdown in revenue collection, expenditure too will be revised down in order to ensure that the deficit does not balloon. As a result, government expenditure is going to decline from N$67 billion in 2015/16, to N$66 billion in 2016/17. This is a decline of just over 1% in nominal terms, but will likely exceed 7% in real terms. This will result in a forecast deficit of 4.3%. We believe that the actual deficit may be larger than this, however, as the Ministry of Finance GDP growth forecasts of 4.3% in real terms, and 14.2% in nominal terms, for 2016/17 are simply too ambitious. However, with a deficit of 4.3%, some space (albeit limited) still remains should revenue disappoint.

Over the past year, the cost of funding the deficit has increased notably as a result of the debt to GDP ratio spiking out to a level of 37%, from just 23.7% at the end of the 2014/15 financial year. As such, the debt-to-GDP ratio has now surpassed the self-imposed threshold of 35%. Moreover, this is not, by any means, the only debt benchmark that we have now exceeded, with foreign debt as a percentage of total debt, being another notable overshoot.

Democracy Report is a regular publication featuring analysis and commentary relating to the legislative agenda of the Parliament of the Republic of Namibia. It is produced by the Institute for Public Policy Research (IPPR), PO Box 6566, Windhoek, Namibia. Tel: +264 61 240514, Fax: +264 61 240516,info@ippr.org.na. The publication is also available as a PDF download from http://www.ippr.org.na Democracy Report is funded by the Embassy of Finland

EMBASSY OF FINLAND WINDHOEK

This large increase in debt is due to both lower than forecast growth, as well as sizeable debt issuance through the year. The total outstanding debt of the country has increased by over 70% in the last year alone, driven by both domestic and external debt issuance. This level of debt issuance is unquestionably unsustainable in the long term if continued and in this vein the Minister's move for greater fiscal consolidation is timeous and much needed. Nevertheless, debt servicing will cost 8.5% of total revenue in 2016/17, or some N$4.9bn.

On the expenditure side, the proposed improvement in expenditure alignment with the national development plan and stripping out of some of the less productive expenditure in the budget are highly positive and much needed developments. Because of the low-impact nature of this expenditure, we don't expect its removal to have too dramatic an impact on growth. In this vein, there remains a lot of meat on the bones of the budget, as there is a huge amount of non-productive, highly consumptive expenditure contained therein. As such, we believe that this stated change in expenditure focus is generally a positive move and should ensure that we start to run a more productive budget and that government will better prioritise the use of its finite funds.

Table 1: Key metrics

	2015/16 Budget	Mid-Term Review	2016/17 Budget	Independent Forecast
2015/16				
GDP Growth 2015 (Real)	5.70%	5.20%	4.50%	3.70%
Revenue (N$bn)	58.44	55.57	56.76	55.62
Expenditure (N$bn)	67.08	67.08	67.08	67.08
Deficit (%GDP)	-5.30%	-5.30%	-5.20%	-5.30%
Debt to GDP	29.40%	29.80%	37.00%	36.50%
2016/17				
GDP Growth 2015 (Real)	5.00%	5.50%	4.30%	2.50%
Revenue (N$bn)	63.05	56.00	57.84	54.95
Expenditure (N$bn)	71.24	71.24	66.00	66.00
Deficit (%GDP)	-4.60%	-8.70%	-4.30%	-4.50%
Debt to GDP	32.90%	29.20%	34.60%	36.80%

Source: MoF, IJG Securities

Key points in the speech

- The total revenue for 2014/15 stood at N$49.93 billion, this being 4.8% lower than budgeted revenue, but a 19.1% increase from the previous year.
- The preliminary revenue outturn for the FY2015/16 is estimated at N$56.76 billion, which is 4.6% lower than the budget estimates of N$58.44 billion, due to adjustments for shortfalls from the previous year and a lower than anticipated economic activity.
- Total spending for the FY2014/15 amounted to N$58.70 billion, reflecting a spending rate of 97.5%, compared to 98.2% in the previous year.
- For the FY2015/16, total expenditure by mid-February is estimated at N$53.08 billion, representing 79.1% of the N$67.08 billion budget. This comprised 80.8% execution rate for operational budget and 71.6% for the development budget.
- Total expenditure is to decrease to N$66.00 billion in 2016/17, down 1.9% when compared to 2015/16 and down 7.3% when compared to the previous estimates for 2016/17.
- Of this, N$61.12 billion is non-interest expenditure, highlighting the fact that at just under N$5 billion, the interest costs of Government's fast increasing debt, is becoming sizeable in nature.
- The operational budget received a total allocation of N$56.9 billion (including debt servicing costs), while the development budget received just N$9.1 billion.
- The budget deficit is projected at 4.3% of GDP in the budget year, and is expected to average around 3.0% over the MTEF.
- Total debt is now estimated at about 37% of GDP. For the FY2016/17, this proportion is projected to reduce to 34.6% and is forecast to average around 30.6% over the MTEF, thanks to the consolidation phase and better improvements in the pace of economic activity.
- In nominal terms, total debt is projected to increase to N$63.73 billion in FY2016/17, from N$61.32 billion in FY2015/16, and to average around N$68.22 billion over the MTEF.
- The Old Age Pension grant is increased by an additional N$100.00 to N$1,100.00 per month.
- MoF will be increasing the fuel levy, which is different from the National Energy Fund levy, and has remained unchanged since 1998.
- The Ministry will continue to finalise the consultation on the proposed introduction of Solidarity Tax during the course of the coming year
- Sin tax percentage increases have been agreed upon to become applicable retrospectively with effect from 24 February 2016.
- MoF has started with industry consultation on the amendments to Regulation 28, Regulation 15 and Regulation 29 to, among others, lift the domestic asset requirement threshold from the 35% of total assets to between 40 and 50% over the MTEF period.
- Government will develop proposals for the partial listing of some of the Public Enterprises on the Namibian Stock Exchange (NSX) and is assessing the feasibility of listing an infrastructure bond on NSX.

Macroeconomic Backdrop

Growth environment

The Namibian economy has performed admirably over the years from 2010 to 2014. Over this period, growth averaged over 5.6%, compared to average growth since independence of 4.3%. This abnormally strong growth was driven by three key factors. Firstly, Namibia has been through a prolonged period of historically low interest rates which drove unprecedented uptake of credit by the private sector; secondly, major fiscal expansion from 2011 until now, driving money into the pockets of the public, as well as major civil works programmes; finally, unprecedented levels of foreign direct investment into the country, driven by the consecutive construction of three FDI funded mines in the country.

These factors resulted in a consumption and construction boom in the country, which saw a major expansion in the local economy, with the economy rebasing from a N$83 billion dollar economy to a close to N$160 billion dollar economy in a period of six years.

However, subsequently, the macroeconomic environment in Namibia has started to deteriorate notably, as a combination of factors have come together to dampen growth and drive imbalances within the local economy. The unwinding of historically low interest rates, lower levels of Government spending, less foreign direct investment into the country, fewer Angolan retail tourists, a reduction in diamond output, weak commodity prices, drought, potential water supply constraints and a high base, are a notable few.

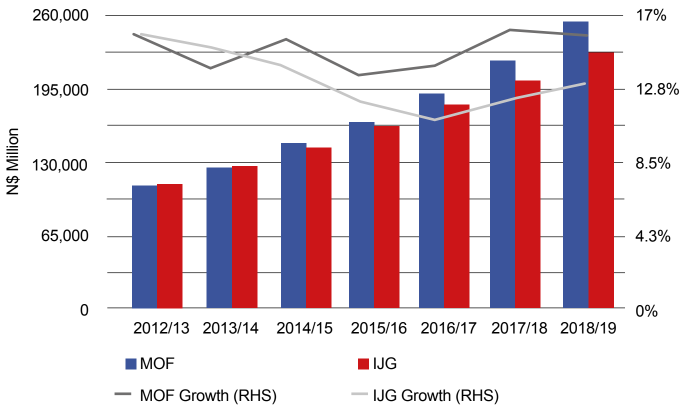
The unwinding of expansive monetary and fiscal policy, however, comes at an inopportune time, as government spending is being cut, and interest rates risen, into economic weakness. That this situation could have been avoided through more prudent monetary and fiscal policy in recent years, no doubt can exist. However, given the current situation, such policy tightening is unquestionably, the right thing to be doing.

While many are still forecasting growth of 4% or over this year, given the unwinding of stimulus and the other factors mentioned above, this is all but impossible. It seems unlikely that we will see growth of over 2.5% in 2016, and there is an outside chance of a contraction in the local economy, given aforementioned factors, and should we have any unexpected surprises, such as energy or water issues. At the same time, high frequency indicators suggest that growth slowed, admittedly from phenomenally high levels, in 2015.

The Ministry of Finance is forecasting growth of 4.5% for 2015 and 4.3% for 2016. The latter is a notable downward revision from the growth forecast for the year in the 2015/16 budget, which expected growth of 5.0% for 2016. This was then revised up to 5.5% in the mid-term review, before the current revision to 4.3%. The Ministry notes: "However, this pace of growth mirrors the historical average growth rate for Namibia and signals a readjustment from the boom years of expansionary fiscal and monetary policies".

On a nominal basis, the Ministry is expecting growth of 13.45% in 2015/16, increasing to 14.18% in 2016/17. This increase is interesting, considering the growth slowdown in real terms. Other forecasts for nominal GDP growth are more tempered, at 12.09% in 2015/16 and 11% in 2016/17.

Chart 1: Nominal GDP



Source: MoF, IJG Securities

The relatively high growth rates expected by the Ministry of Finance remain unlikely to materialise, and thus many of the additional forecasts, particularly on the revenue front, are likely to be ambitious. Moreover, the expected lower growth in the upcoming and previous financial years, mean that the base for future years is being set too high, and thus downward revisions can be expected in both GDP growth and revenue growth going forward.

Inflation

Inflation expectations for the upcoming fiscal year are notably higher than was the case in 2015. There are a number of reasons for this. Firstly, major rand weakening through 2015 has driven up the cost of imports into the CMA in rand terms; secondly, oil prices, which fell dramatically through 2014 and 2015, now appear to be stabilising, and the pass-through of base effects is likely to see an upward rebasing in inflation; third, rand weakness and other factors have driven up costs for many services in the country, including many critical utilities such as electricity and water; fourth, drought and poor harvests in the region mean that food prices are likely to increase, particularly if basic grain imports are required; and fifth, increasing interest rates are likely to see some pass-through of increased borrowing costs to consumers, and reduce consumer disposable income.

As a result of the above, the real value spend of consumers is likely to be reduced, as disposable incomes come under pressure. This pressure is likely to drive increased demand for credit, as well as large wage settlement demands, both in the private and public sectors.

External position

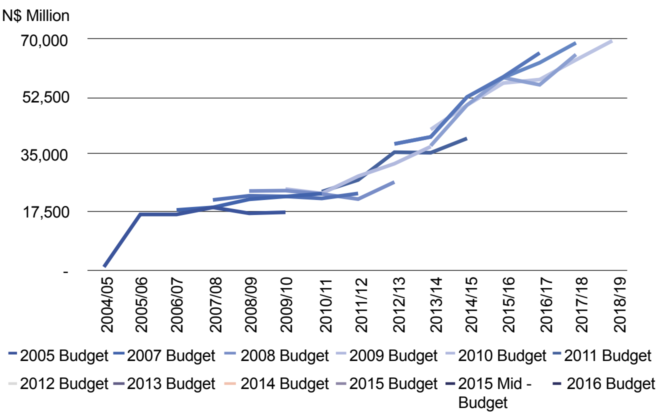
The balance of payments of Namibia has remained under pressure for a number of years driven, particularly, by exceptional import volumes when compared to the historical norms of the country. In part, this is due to the abnormally high levels of construction activity that took place between 2012 and 2015 led by the construction of three mines, major public works programmes and retail floor space development. In addition to this, however, major fiscal and monetary expansion has also spurred private purchases of imported goods, as low interest rates, high government spending, wage settlements above inflation, and income tax cuts, buoyed the disposable income of local consumers. While the growth in imports has run rampant over recent years, export growth has been largely stagnant over the same period, and as a result, the current account has experienced huge deficits.

While the capital and financial account has been positive, on an annual basis, every year since 2008, the magnitude of the inflow has not been adequate to offset the net outflows on the current account, and as such the overall balance of payments was negative in 2014, and would have been highly negative in 2015 had it not been for external debt issuance by the Government. As a result of the major deterioration in the external position through 2015, the Ministry of Finance was forced to issue hard currency debt in order to protect the country's external position, as months of important cover fell well below the three-month prudential limit, to a low of 1.6 months in September 2015, presenting a very real rating downgrade risk to the country. As such, a large component of the external funds raised are to be ring-fenced to protect the external position.

Revenue

According to the Ministry of Finance, revenue for 2015/16 is expected to come in at N$56.8 billion, N$1.7bn less than the amount budgeted for in the 2015/16 budget. In 2016/17, revenue growth is expected at less than 2%, and as such total revenue for the year is expected to be just N$57.8bn, a N$5.2bn decline when compared to the number budgeted for in the 2015/16 budget.

Chart 2: Revenue

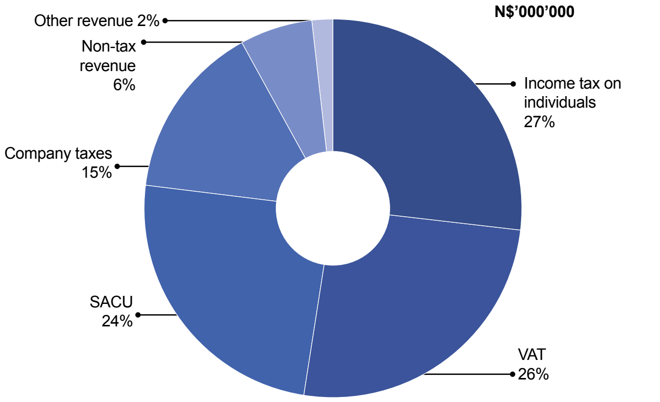


Source: MoF

Revenue is derived from a number of sources, but by far the largest single source is personal income tax paid by Namibian taxpayers. This represents some 27% of total revenue in 2016/17, and forms a critical part of the social contract between the public and government. The public entrusts their money to government in order that the government may provide public services to the taxpayer. In addition to personal income tax, the second largest source of funds for government is VAT collections which are levelled on the entire Namibian public. These represent some 26% of total revenue in the 2016/17 financial year and too represent a core part of the social contract between the public and the public sector. Thereafter, the third largest source of funds for government is SACU payments from the southern African customs pool, which represents some 24% of total revenue in the upcoming financial year. Company taxes make up approximately 15% of total revenue, while the remainder is made up by non-tax and other tax revenue.

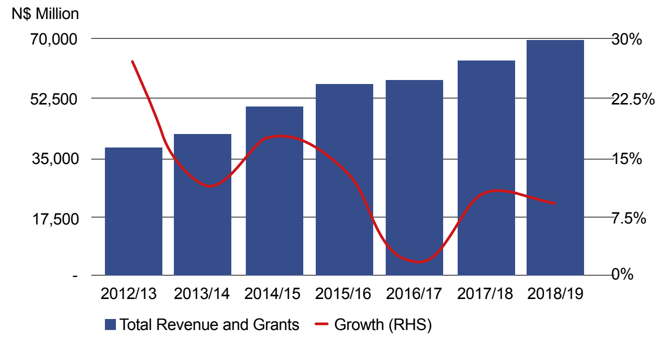
Generally, SACU receipts represent a larger share of total revenue than VAT. However as Namibia was overpaid by SACU in 2014/15, the country will now have to pay back just under N$3 billion in the upcoming financial year. As well as this, trade into and out of Southern Africa is likely to come under pressure in 2016, due to the fact that commodity prices are low and the global economy is relatively weak with demand for exports from Africa to China, particularly, on the decline.

Chart 3: Revenue Breakdown (N$ Million)



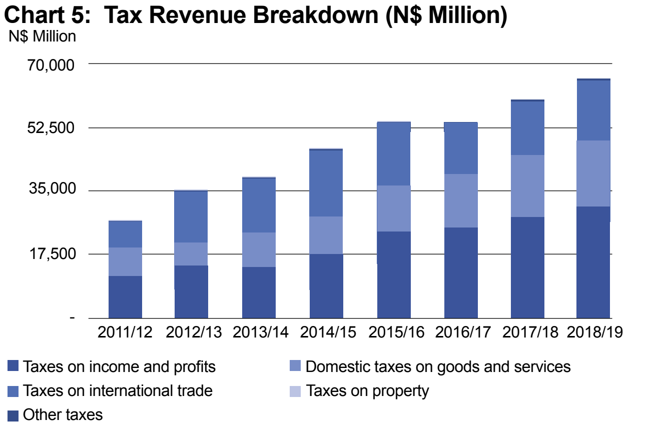
Source: MoF

Chart 4: Revenue (N$ Million)



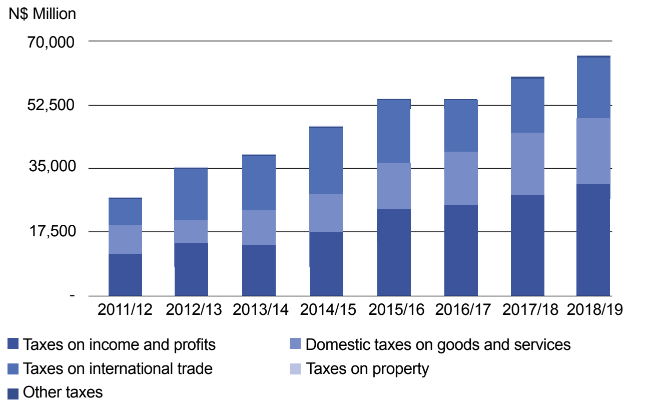
Source: MoF

Chart 5: Tax Revenue Breakdown (N$ Million)



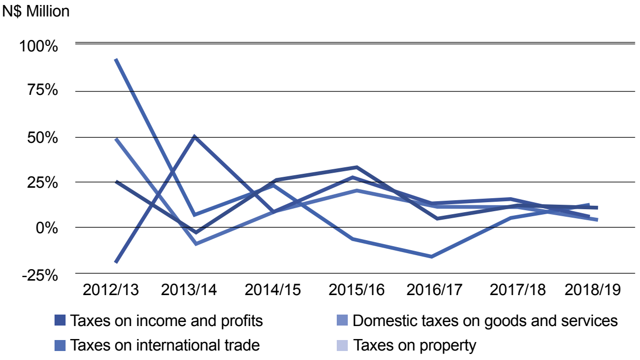
Source: MoF

Chart 6: Income and Profit Taxes (N$ Million)



As a result of the SACU repayment, SACU revenues are expected to have contracted in 2015/16 and will contract further in 2016/17. As such, following the 6.7% contraction in 2015/16, SACU receipts are expected to fall another 16.5% in the upcoming financial year. While the Ministry of Finance does not expect to see contractions in other major revenue lines in 2016/17, revenue growth is expected to slow pretty much across the board, with taxes on income and profit growth slowing from 33.2% in 2015/16 to just 4.7% in 2016/17. Similarly, VAT collection growth is expected to slow from the budgeted growth of 27.5% in 2015/16, to 13.1% in 2016/17.

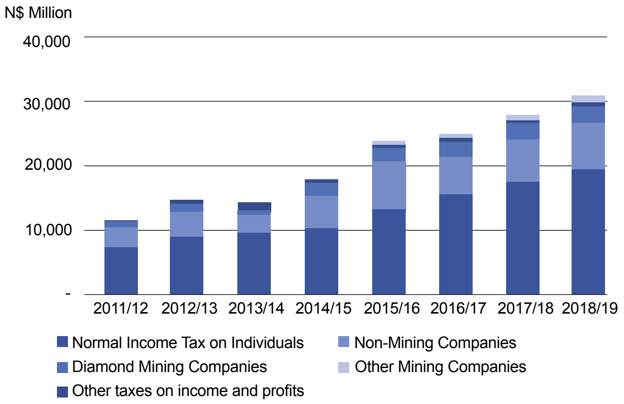
Chart 7: Tax revenue growth (N$ Million)



Source: MoF

Personal income tax makes up by far the largest portion of taxes on income and profits and is expected to represent some N$15.5 billion in 2016/17 (28% of total revenue). Thereafter, taxes on non-mining corporates form the second largest source of income and profit taxes, at N$5.8 billion in 2016/17, followed by diamond mining company taxes, at N$491 million.

Chart 8: Income and Profit Taxes (N$ Million)



Source: MoF

On the back of what we believe to be slightly too strong growth forecasts, we believe that revenue won't achieve the levels of growth that the Ministry of Finance is forecasting. This stems from two key issues. Firstly, we believe that the base figure used by the Ministry of Finance for 2015 growth is marginally too high, and secondly, that the 2016 growth figure is significantly too high. Based on our view that the local economy is set to slow off the very high base created over recent years, we believe that growth in many of the revenue lines mentioned, remains highly ambitious. This is true of personal income tax, corporate tax, VAT and diamond mining company tax.

Comparisons

Despite the slowdown in revenue collection, Namibia's government still collects an abnormally large amount of revenue, relative to GDP, when compared to other nations. While the global average is approximately 23% of GDP, Namibia is over 10 percentage points higher, at 34% of GDP. This raises questions about proposals to increase revenue through new taxes, and perhaps suggests that the current deficit challenges that Namibia faces are more to do with expenditure than with revenue.

New taxes

"Our focus is not only to broaden and deepen the tax base, but also to make the tax system more progressive, so that it contributes positively to the social objectives of reducing income inequalities. We understand that the proposed Solidarity Tax is not fully understood by various sections of society. Therefore, this and other high-impact programmes for targeted funding from this tax need to be well defined. We shall therefore continue to engage the public on the specific tax proposal for a broader understanding on the benefit, principles and administrative arrangements for this national intervention." Calle Schlettwein, Budget Speech, March 2016

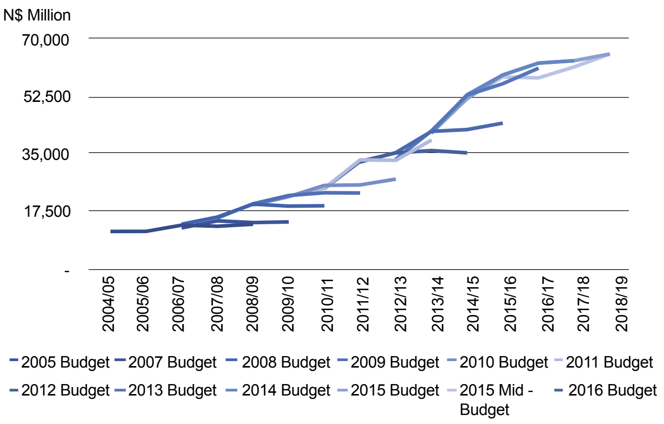
From the speech, government will:

- proceed to finalise the approval and implementation process of the environmental and export taxes to promote domestic value addition;
- increasing the fuel levy administered under Schedule 1, Part 5 of the Customs and Excise Act;
- assess the feasibility of a presumptive tax on informal sector
- develop the Double Taxation Agreement Policy;
- increasingly leverage international tax cooperation on matters of illicit trade flows and transfer pricing;
- continue to finalise the consultation on the proposed introduction of Solidarity Tax during the course of the coming year;
- proceed with strengthening the provisions for recovery of tax debts, deploy the new Integrated Tax System; and
- implement the transitional modalities for the establishment of a Semi-Autonomous Revenue Agency.

Expenditure

On the expenditure front, total expenditure for the 2016/17 financial year is expected at just under N$66 billion. Of this, N$9 billion is development expenditure, while N$56.9 billion is operational expenditure. This represents a decline in total expenditure of 1.1% when compared to the 2015 financial year. Most of this decline comes from a major reduction in development budget expenditure. While operational expenditure is expected to increase by 3% from 2015 to 2016, development expenditure is expected to decline by 18.1% over the same period. This is highly concerning given that the development spend now makes up just 13.7% of total expenditure, far below the 20% target expenditure. This is significantly lower than the budgeted levels seen in recent years. Moreover, it comes at a time when Namibia is on the cusp of a fairly notable infrastructure crisis. As such we believe the Ministry of Finance will be looking for other ways in which to fund infrastructure in the country.

Chart 9: Expenditure (N$ Million)

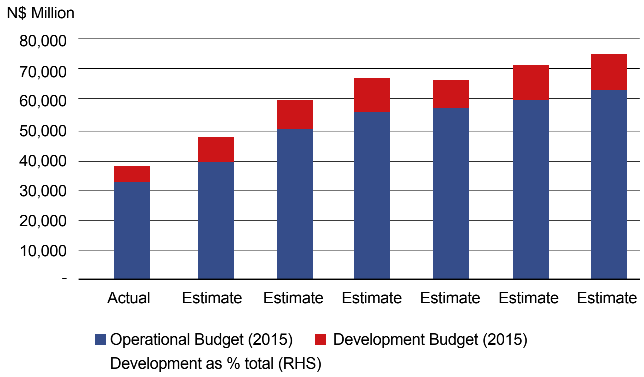


Over the MTEF, growth in expenditure is expected to slow considerably, with total expenditure expected to grow by just 6.1% in total between 2016/17 and 2017/18 and 5.9% between 2017/18 and 2018/19. However, if history is any predictor of the future, it is unlikely that such low rates of expenditure growth will be seen, and future budgets are likely to see expenditure increasing over current forecasts.

As noted, total expenditure for the 2016 financial year is set to be 1.1% lower than the previous financial year. This reflects a major downward revision in total expenditure for the upcoming financial year, when compared to the numbers budgeted in the previous budget of 2015. We see a downward revision in operational expenditure of 3% between the two budgets, while development expenditure has been revised down by a whopping 27.9%. This means that the total expenditure envelope for 2016/17 when compared to the previous budgeted numbers for this financial year has seen a downward expenditure revision of 7.4%. This shows the ever increasing dominance of the operational budget when compared to the total budget. Once again this is highly concerning due to the nature of the operational spend, the vast majority of which is utilised for consumptive activities rather than productive activities. As such, unproductive expenditure makes up and ever larger portion of total expenditure. Given the infrastructure challenges that the country faces, this situation is undesirable. Moreover, it is unsustainable in nature as underspending on infrastructure is likely to reduce tax payments which support this consumptive expenditure going forward if infrastructure issues remain unaddressed.

Of total expenditure, N$61.12 billion constitute non-interest expenditure, highlighting the fact that at just under N$5 billion, the interest costs of government's fast increasing debt are becoming significant. Nevertheless, at approximately 8.5% of GDP, this remains below the statutory limit of 10%.

Chart 10: Budget breakdown



Thus, while the expenditure reduction is welcome, and critical for the long-term outlook of the country, the nature of the cuts, and the remaining expenditure, leave much to be desired.

Table 2: Changing expenditure expectations

N$ Million	Actual	Estimate	Estimate	Estimate	Estimate
	2015/16	2015/16	2015/16	2015/16	2015/16
Operational Budget (2015)	50,608	55,996	58,687	59,572	
Development Budget (2015)	9,578	11,095	12,557	12,500	
Total (2015)	60,186	67,092	71,244	72,072	
Operational Budget (2016)	50,154	55,280	56,939	58,952	63,410
Development Budget (2016)	8,692	11,065	9,057	10,906	11,008
Total (2016)	58,846	66,345	65,996	69,858	74,418
Operational Change 2015-2016 Budgets (N$)	(453)	(717)	(1,748)	(620)	63,410
Development Change 2015-2016 Budgets (N$)	(887)	(30)	(3,500)	(1,594)	11,008
Total Change 2015-2016 Budgets (N$)	(1,340)	(747)	(5,248)	(2,214)	74,418
Operational Change 2015-2016 Budgets (%)	-0.9%	-1.3%	-3.0%	-1.0%	
Operational Change 2015-2016 Budgets (%)	-9.3%	-0.3%	-27.9%	-12.8%	
Development Change 2015-2016 Budgets (%)	-2.2%	-1.1%	-7.4%	-3.1%	
Total Change 2015-2016 Budgets (%)	25.6%	12.7%	-0.5%	5.9%	3.3%
Year on Year Change	14.8%	16.7%	13.7%	15.6%	14.8%

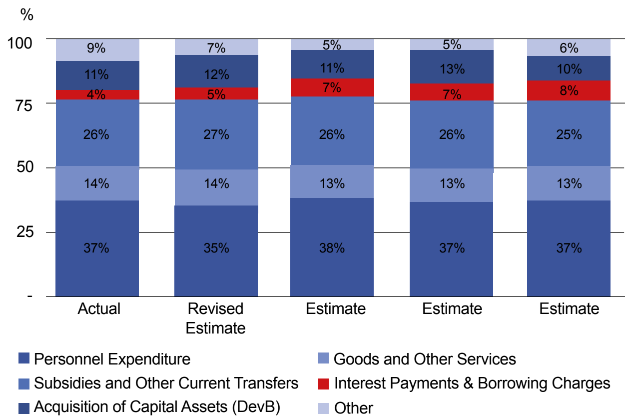
From a main-item expenditure perspective, personnel expenditure continues to represent the single largest expenditure line, at 38% of total expenditure in 2016/17. This category of expenditure has seen growth of 7.3% between 2015/16 and 2016/17, largely due to the increase in expenditure on "improvement of remuneration structure", which has received a budget allocation of N$1.5 billion in the upcoming fiscal year, from N$394 million in the previous year. Thereafter, subsidies and other current transfers, which include transfers to SOEs and social grants and pensions, makes up a further 26% of expenditure. At 13% of expenditure, goods and other services makes up the third largest line item. This category of expenditure contains the likes of travel and subsistence allowances, materials and supplies, transport and training courses, symposiums and workshops, and has seen a notable cut in size, both when compared to 2015/16, and when compared to previous forecasts for 2016/17.

Table 3: Selected areas of savings

N$	2015/16	2016/17
Travel and Subsistence Allowance	744,417,310	600,214,000
Transport	1,084,160,928	910,436,342
Maintenance Expenses	583,434,259	461,496,635
Training Courses, Symposiums and Workshops	440,720,965	241,388,000
Entertainment-Politicians	5,723,927	4,685,000
Office Refreshment	20,400,640	13,078,800
SOE	1,105,686,996	860,749,000
Furniture and Office Equipment	238,422,053	123,248,000
Vehicles	426,752,186	170,805,000
Total	4,649,719,264	3,386,100,777
Saving		1,263,618,487

Acquisition of capital assets, under the development budget, is the fourth largest line item, at 11% of the total, or some N$7.1 billion. This is a notable (13%) reduction from the N$8.2 billion budgeted for 2015/16. Finally, interest payments represent 7% of total expenditure, or some N$4.9 billion, up from N$3.1 billion in 2015/16.

Chart 11: Expenditure breakdown

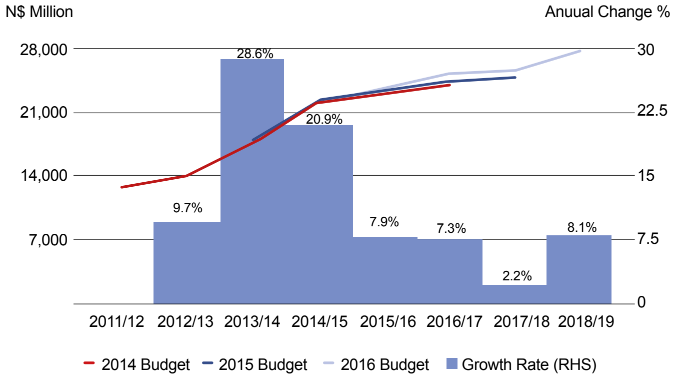


Personnel expenditure

Personnel expenditure makes up just under 40% of total expenditure in the current budget, totalling some N$25.1 billion. This represents some 14% of GDP, which places Namibia, according to the IMF, as the country with the 6th highest civil service wage bill to GDP in the world. The magnitude of this spend is highly concerning.

Following a number of years of abnormally high, windfall revenues, the civil service wage bill has rebased to an exceptionally high level. In 2012/13, 2013/14 and 2014/15, personnel costs increased by 9.7%, 28.6% and 20.9%, respectively (compounding). Now, as revenue growth slows, the high levels of personnel expenditure are difficult, if not impossible, to wind back in. As such, personnel expenditure makes up a larger percentage of total expenditure than normal, as other budget lines are cut, but personnel expenditure continues to increase. The expected increase for 2016/17 is 7.3%, and represents an upward revision of just under N$1 billion from the level budgeted for in 2016/17 in the 2015 budget.

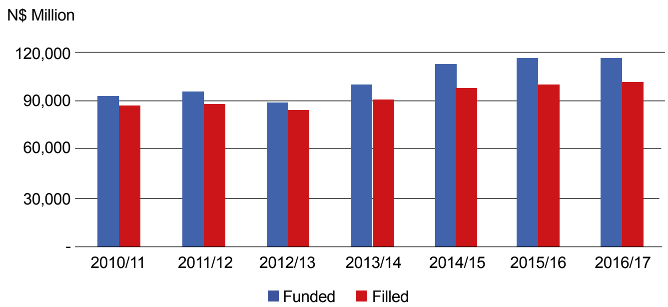
Chart 12: Personnel Expenditure



The reasons for the large increases in personnel expenditure are twofold. Firstly, notable increases in government employment have been seen over the past five years, and secondly, average wages have seen rapid increases, well above inflation. The latter has been driven by efforts to align civil service salaries to those of the private sector, which has seen notable upward re-grading of salaries across the board.

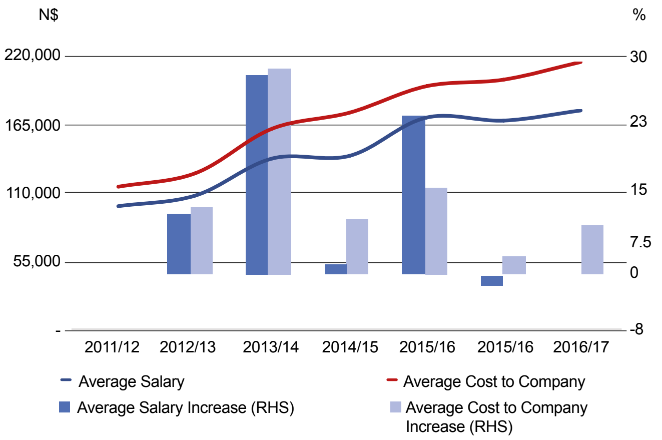
The number of filled Government positions has increased from 88,372 in 2011/12, to 100,719 in 2016/17. Over the same period, the number of funded positions has increased from 95,550 to 116,510.

Chart 13: Government Staffing



Over the same period, the average Government salary has increased from N$107,376 to N$176,197, while the average cost to company (wages and benefits) has increased from N$125,435, to N$215,395. Thus, while the number of positions in Government have increased just 22% over the five year period, the total personnel costs of Government have increase by 109%. This is largely ascribable to the 72% increase in average wage over this period.

Chart 14: Average Salary



When compared to inflation, wage increases have been vast. Should the average wage in 2010 (N$114,513) have been adjusted for inflation each subsequent year, the current average wage would be N$154,051. However, the actual average wage at present is N$215,395, close to 40% higher than the inflation suggested wage.

Staffing numbers by vote can, to a large extent, explain the total expenditure allocation by vote. This is to say that votes with large staff numbers receive large budget allocations, as staff costs make up the main expenditure item for most votes. The votes with the largest number of staff are education (37,874), defence (19,052), police (15,180), health (10,380) and agriculture (3,590).

Average compensation for employees varies greatly across the different votes, largely driven by the number of staff members and their relative seniority. Foreign affairs and the electoral commission have by far the highest average wages, well over N$1 million per employee. While the former is due to the high cost of diplomatic missions (average compensation of N$2.8m for employees on diplomatic mission), the latter is harder to explain. Two programmes, namely "administration of elections" and "voter education and information dissemination" appear to have abnormally high compensation. For the former, total personnel expenditure for 2016/17 totals N$12.8 million, for just 12 positions (average of N$1.07 million on average), while the latter is even harder to explain. For just five positions, total personnel expenditure for 2016/17 is budgeted at N$21.0 million, a whopping average compensation of N$4.2 million per employee.

The next highest average compensation by vote is seen in the National Assembly and National Council, both of which have average compensation of approximately N$560,000 per annum. Thereafter Public Enterprises and the National Planning Commission are approximately N$540,00 and N$406,000, respectively.

Noteworthy are the average wages in education, which sees the average wage in Higher Education lower than the average government wage. Also noteworthy is that the average wage for Defence is some N$50,000 per year higher than the average wage in the Police. Thus, the Defence force are paid, on average, a premium of 24% over the Police.

Expenditure breakdown by vote

From a ministerial perspective, expenditure remains highly slanted to education, in line with the country's keen focus on improving educational coverage, and to some degree, outcomes. Education was allocated N$12.8 billion in the budget year and N$40.8 billion over the MTEF. As has been largely anticipated, budgetary provision has been made in the current year and through the MTEF for the continued dissemination of free education. Following the announcement of free primary education in 2013, government has extended this policy to cover secondary education, which started in the previous fiscal year. Access to tertiary education will be further expanded through formula-based funding, increased financial assistance to students and funding for innovation, Research and Development as well as facilities for vocational training.

Excluding statutory payments undertaken by the Ministry of Finance, Defence moved down one spot after receiving the second largest expenditure envelope for two consecutive years. Defence gathered N$6.6 billion in 2016/17 and N$20.8 billion over the MTEF period. This allocation primarily goes to fund the large number of Defence Force soldiers on the Ministry's payroll. Health and Social Services received the second largest allocation, of N$7.2 billion in 2016/17 and N$23.0 billion across the MTEF.

While majority of allocations to Ministries decreased in the 2016/17 fiscal year when compared to the previous estimates for 2016/17, they are broadly in line with historic allocations. However, it is interesting to note the sizeable cuts in allocations were made to the Ministry of Mines and Energy across the MTEF. This cut was made due the fact that the Kudu gas-to-power project is now, apparently, off the table. In this light, the Ministry is in line to receive a little over N$330 million in 2016/17 and just shy of N$1.0 billion over the MTEF, down from last year's MTEF estimate of N$5.9 billion.

Chart 15: MTEF Expenditure Breakdown

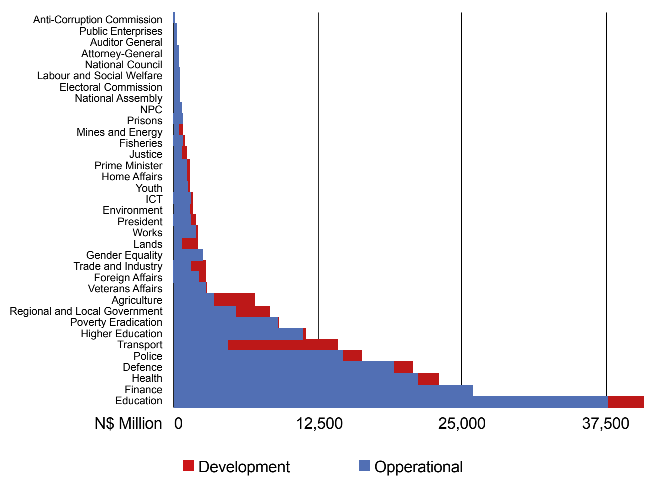
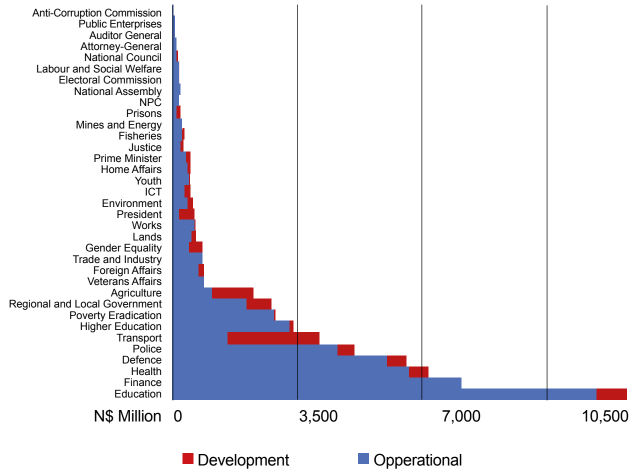


Chart 16: 2016/17 Expenditure Breakdown



Sectoral Allocation

On a sectoral allocation basis, a notable relative increase has been seen in social spending which increases by 6.8% in the upcoming year. At the same time, public safety, and administration, see expenditure cuts of 9.0% and 7.0% respectively. Most concerning, however, are the large cuts being put through on economic and infrastructure spend, which are being reduced by 15.3% and 11.0%, respectively. This is very much in-line with the apparent social priorities of government, but if not more carefully carried out, will result in restriction on the productive sectors of the economy, and thus lower government revenues in the long term. That said, we are seeing a strong focus on poverty alleviation and social support under the current President and Government, which must be commended and supported. In this regard, a number of social spending initiatives have been launched or extended, most notably the increase in the Old Age Pension grant, up N$100 to N$1,100 per month.

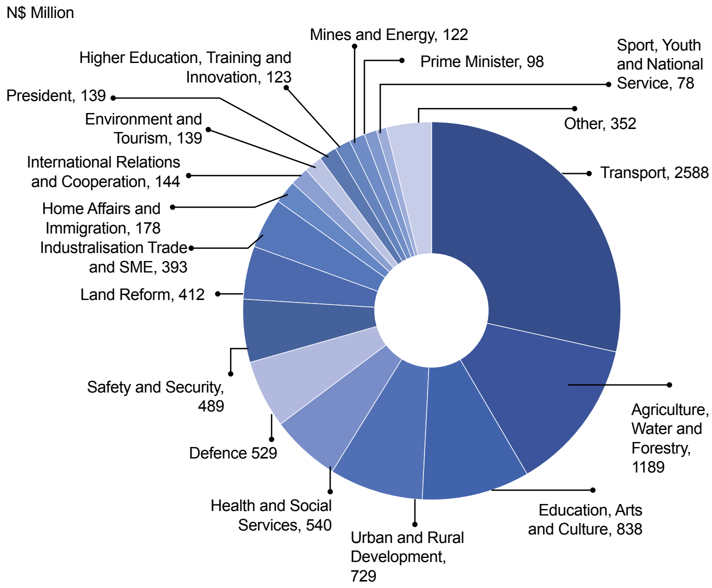
Table 4: Expenditure breakdown by sector

	Expenditure			Growth		
	2016/17	2017/18	2018/19	2016/17	2017/18	2018/19
Social	28,528	30,204	32,675	6.8%	5.9%	8.2%
Public safety	13,007	13,411	14,600	-9.0%	3.1%	8.9%
Administration	6,031	5,452	6,066	-7.0%	-9.6%	11.3%
Economic	8,394	9,106	9,324	-15.3%	8.5%	2.4%
Infrastructure	5,162	6,703	6,057	-11.0%	29.9%	-9.6%
Total (excl. statutory payment)	61,121	64,876	68,722	-3.3%	6.1%	5.9%

Development Budget

In the Development Budget, Transport makes up the single largest recipient of funds, receiving a total of N$2.6 billion in the current year. These funds will be used, primarily, for the construction and upgrading of the national railway lines, the on-going expansion of the Port of Walvis Bay and several local roads. Second to this is expenditure on Agriculture Water and Forestry, totalling N$1.2 billion, which will be used, primarily, to support the Green Scheme, Neckartal Dam and for the construction of water pipelines across the country. Finally, closing out the three largest allocations is Education, Arts and Culture, which will receive N$838.6 million in the current financial year, which spending focuses primarily on the construction extra learning facilities and upgrading of schools. These three votes represent close to 50% of the total development budget's allocations.

Chart 17: Development Budget Breakdown



Source: MoF

Table 5: Large project allocation, new projects

Project Name	Project Cost(N$'000)
20/11/10 - Bulk Water Supply	3,615,000
24/02/122 - Keetmanshoop via Aroab to Klein Menasse Border Post 6 km	1,020,600
08/04/18 - Construction of H. Katjipuka Military Base	500,000
08/04/20 - Construction of 21 Guard Military Base	500,000
20/07/3 - Establishment of Agro Processing Facilities	500,000
19/04/27 - Construction of Pharmaceutical Manufacturing Plant in Okahandja	303,200
08/04/19 - Construction of Leopards Valley Sports Complex	200,000
16/02/2 - Construction of Attorney-General's Office	150,000
21/04/1 - Elizabeth Nepemba Correctional Facility Extension Construction	140,008
18/07/8 - Construction of Infrastructure for Solid Waste	140,000
20/05/9 - Production incentives for sunflower oil seed and cowpeas	135,000
33/04/1 - Construction Food Bank Khomas	129,254
18/06/3 - Development and Establishment of Research and Development Center for Biotrade in Namibia	120,000
24/02/98 - Construction of gravel road D3622: Omukukutu - Omboloka (25km)	103,345

Table 6: Large project allocation, 2016/17

Vote	Project	2016/17 Budget Allocation
Transport	Railway Network Upgrading	N$390m
Land Reform	Land Purchase Project	N$327m
Defence	Research and Development	N$306m
Agriculture	Construction of Large Dams, Desalination and Provision of Water to larger Settlements	N$253m
Transport	Upgrading the TR9/1: Windhoek-Hosea Kutako road to a dual carriage (44km)	N$224m
Transport	Rehabilitation of the TR 1/16: Windhoek -Okahandja Road (67km)	N$220m
Agriculture	Green Scheme	N$216m
Transport	Upgrading of MR91 Gobabis - Aminius & MR 40 Aminius - Aranos (245Km) to bitumen standard	N$182m
Transport	Construction of Swakopmund - Henties Bay - Kamanjab Link (412 km).	N$154m
Education	Basic Education Facilities Upgrading	N$150m
International Relations	Purchasing, Constructing and Renovating of Diplomatic Premises Abroad	N$143m
President	State Security Infrastructure	N$132m
Land Reform	Development of Communal Areas	N$125m
Agriculture	Rural Water Supply Coverage (Rural Secondary Pipeline Construction)	N$125m
Transport	Upgrading of Oshakati - Ongenga (DR 3609) road to bitumen standard	N$121m
Transport	Construction of gravel road: Isize - Sifuha - Malindi- Schuckmannsburg (50km)	N$116m
Transport	Maintenance of Roads: Flood Damaged Infrastructure Repair	N$100m
Transport	Northern Railway Line Extension	N$98m
Prime Minister	Construction of the Second Office of the Prime Minister	N$97m
Trade	Agro Processing Development	N$95m

In the 2016/17 financial year, the largest project allocations are: Railway Network Upgrading for a total cost of N$390m; the on-going Land Purchase Project for N$327m, the Research and Development project for the Defence Force (a huge project, shrouded in secrecy) for a total of N$306m, the Construction of Large Dams, Desalination and Provision of Water to Larger Settlements project, which is mainly made up of the Neckartal Dam project, for a total of N$253m; the Upgrading of the TR9/1: Windhoek-Hosea Kutako road to a dual carriageway for N$224m; the Rehabilitation of the TR 1/16: Windhoek-Okahandja Road for N$220m; and the Green Scheme for N$216m.

Table 7: Large project allocation, MTEF

Vote	Project	2016/17 Budget Allocation
Transport	Railway Network Upgrading	N$390m
Land Reform	Land Purchase Project	N$327m
Defence	Research and Development	N$306m
Agriculture	Construction of Large Dams, Desalination and Provision of Water to larger Settlements	N$253m
Transport	Upgrading the TR9/1: Windhoek-Hosea Kutako road to a dual carriage (44km)	N$224m
Transport	Rehabilitation of the TR 1/16: Windhoek -Okahandja Road (67km)	N$220m
Agriculture	Green Scheme	N$216m
Transport	Upgrading of MR91 Gobabis - Aminius & MR 40 Aminius - Aranos (245Km) to bitumen standard	N$182m
Transport	Construction of Swakopmund - Henties Bay - Kamanjab Link (412 km).	N$154m
Education	Basic Education Facilities Upgrading	N$150m
International Relations	Purchasing, Constructing and Renovating of Diplomatic Premises Abroad	N$143m
President	State Security Infrastructure	N$132m
Land Reform	Development of Communal Areas	N$125m
Agriculture	Rural Water Supply Coverage (Rural Secondary Pipeline Construction)	N$125m
Transport	Upgrading of Oshakati - Ongenga (DR 3609) road to bitumen standard	N$121m
Transport	Construction of gravel road: Isize - Sifuha - Malindi- Schuckmannsburg (50km)	N$116m
Transport	Maintenance of Roads: Flood Damaged Infrastructure Repair	N$100m
Transport	Northern Railway Line Extension	N$98m
Prime Minister	Construction of the Second Office of the Prime Minister	N$97m
Trade	Agro Processing Development	N$95m

The large funding allocations for the MTEF period are similar to those of the 2016/17 financial year, with a handful of exceptions. As well as the railway upgrading, land purchase, research and development for the defence force, Windhoek-Hosea Kutako road, Construction of Large Dams, and green scheme projects, we also see the inclusion of: the Development of the Cape Fria-Katima Mulilo Railway Line (the largest project in the development budget) for N$919m; the Artificial recharge of the Windhoek aquifer for N$688m (mostly to be spent in 2017/18); the Construction of Swakopmund - Henties Bay - Kamanjab road for N$672m; and the Purchasing, Constructing and Renovating of Diplomatic Premises Abroad for N$571m.

A number of new, sizaeble, projects have been included in the current development budget. The most notable amongst these is the "bulk water supply" project, which sees N$3.6 billion allocated to bringing water to Windhoek, given the current water crisis that the city is facing. However, the first allocation of funds is only in 2018/19, with N$156.5 million being allocated for this year.

Additional notable new inclusions are two new military bases, each to cost N$500 million. These are the H. Katjipuka Military Base and the 21 Guard Military Base.

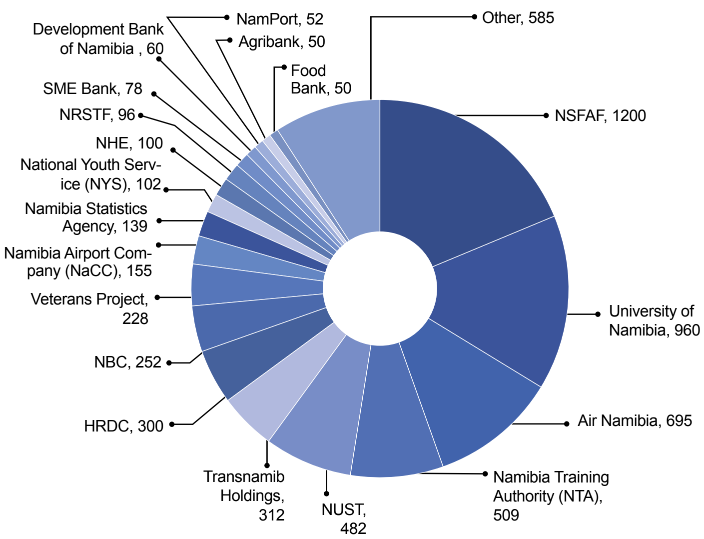
Table 8: Large project allocation, total project cost

Vote	Project	Total Project Cost
Transport	Development of the Cape Fria- Katima Mulilo Railway Line	N$10.4bn
Education	Establishment of Hostels at Schools Nationwide	N$10.0bn
Defence	Research and Development	N$6.66bn
Transport	Railway Network Upgrading	N$5.46bn
Rural, Urban Development	Implementation of the Master Plan for Oshakati Town	N$3.29bn
Transport	Rehabilitation of the TR 1/16: Windhoek -Okahandja Road (67km)	N$3.26bn
Agriculture	Construction of Large Dams, Desalination and Provision of Water to larger Settlements	N$3.12bn
Land Reform	Land Purchase Project	N$3.01bn
Agriculture	Bulk Water Supply	N$3.00bn
Agriculture	De-bushing in Commercial and Communal areas	N$3.00bn
Transport	Upgrading the TR9/1: Windhoek-Hosea Kutako road to a dual carriage (44km)	N$2.70bn
Agriculture	Green Scheme	N$2.54bn
Transport	Northern Railway Line Extension	N$2.37bn
National Assembly	Construction of a New Parliament Building	N$2.01bn
Rural, Urban Development	Construction of Services Infrastructure in Outapi Extension 8	N$1.97bn
Transport	Maintenance of Roads: Paved and None Paved Roads and Flood Damaged Infrastructure Repair	N$1.81bn
International Relations	Purchasing, Constructing and Renovating of Diplomatic Premises Abroad	N$1.63bn
Education	Basic Education Facilities Upgrading	N$1.40bn
President	State Security Infrastructure	N$1.38bn
Transport	Upgrading of the MR 44: Swakopmund -Walvis Bay Road (44 km)	N$1.31bn
Agriculture	National Horticulture Development Initiative (Horticulture Production, Processing and Marketing)	N$1.18bn
Transport	Upgrading of MR91 Gobabis - Aminius & MR 40 Aminius - Aranos (245Km) to bitumen standard	N$1.16bn
Education	Construction of Teachers Houses	N$1.14bn
Agriculture	Rural Water Supply Coverage (Rural Secondary Pipeline Construction)	N$1.11bn
Trade	Construction of Sites and Premises Industrial Estates	N$1.10bn
Home Affairs	Construction of Head Office for MHAI	N$1.07bn
Agriculture	Integrated Forest Resource Management	N$1.06bn
Correctional Service	Construction and Renovation of Official Accommodation	N$1.04bn
Education	Renovations of School Nation Wide	N$1.00bn
Prime Minister	Construction of the Second Office of the Prime Minister	N$0.99bn
Rural, Urban Development	Construction of Services Infrastructure in Walvis Bay (Phase 3)	N$0.98bn
Police	Upgrading of Police Stations	N$0.98bn
Transport	Upgrading and Rehabilitation of Aus-Luderitz Railway Line	N$0.89bn
Rural, Urban Development	Construction of Services Infrastructure in Katima Mulilo	N$0.89bn
Police	Construction of Police Accommodation in (Housing Various Centre)	N$0.85bn
Transport	Construction of Swakopmund - Henties Bay - Kamanjab Link (412 KM).	N$0.81bn
Defence	Upgrading of Leopards Valley Military Base	N$0.80bn
Defence	Construction of General Military Referral Hospital	N$0.80bn
Health	Construction and upgrading of Primary Health Care Clinics Nationwide	N$0.74bn
Transport	Upgrading of TR 14/2: Gobabis - Otjinene road to bitumen standard	N$0.72bn
Mines and Energy	Rural Electrification	N$0.69bn
Transport	Construction and Tarring of the road from Opuwo to Epupa	N$0.68bn
Transport	Construction and Tarring of the road from Opuwo to Sesfontein	N$0.64bn

Table 8: Large project allocation, total project cost(continued)

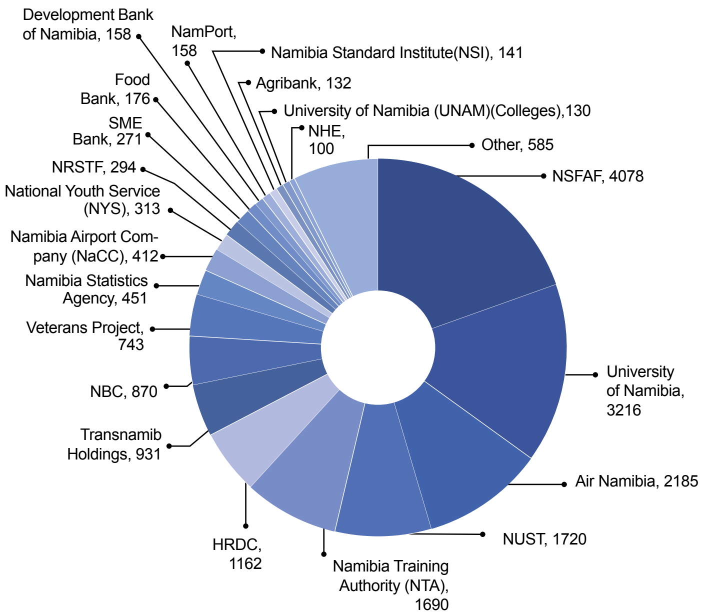
Vote	Project	Total Project Cost
Defence	Rehabilitation of old bases countrywide	N$0.62bn
Rural, Urban Development	Upgrading and development of Informal Settlements & Low Income Townships in Windhoek	N$0.61bn
Rural, Urban Development	Construction of Services Infrastructure in Nkurenkuru Phase 2	N$0.60bn
Education	Building and Maintenance	N$0.60bn
Defence	Construction of Oluno Military Base	N$0.57bn
Justice	Justitia Building Upgrading & Construction	N$0.56bn
Defence	Construction of Gobabis Military Base	N$0.55bn
Transport	Upgrading the MR 110: Rundu - Elundu Road to Bitumen Standard	N$0.55bn
Defence	Construction of Mpacha Military Base	N$0.55bn
Defence	Upgrading and Renovation of Otjiwarongo Military Base	N$0.55bn
Transport	Rehabilitation of the TR 2/1: Swakopmund -Walvis Bay Road (30 km)	N$0.54bn
Justice	Upgrading and Construction of Lower Courts	N$0.53bn
Transport	Rehabilitation of the Keetmanshoop - Mariental road (386km)	N$0.53bn
Rural, Urban Development	Construction of Services Infrastructure in Oshakati	N$0.52bn
Transport	Upgrading of DR 3608: Omafo - Ongenga - Outapi road to Bitumen Standard	N$0.50bn
Defence	Construction of H. Katjipuka Military Base	N$0.50bn
Agriculture	Establishment of Agro Processing Facilities	N$0.50bn
Education	Structural Upgrading of Community Hostels	N$0.50bn
Transport	24/06/1 - Procurement of a Marine Radar System for Namibia	N$0.50bn
Defence	08/04/20 - Construction of 21 Guard Military Base	N$0.49bn
Health	13/04/14 - Construction and upgrading of Primary Health Care Centres Nationwide	N$0.48bn
Agriculture	20/02/3 - Construction of MAWF Regional Offices	N$0.48bn
Transport	24/02/91 - Maintenance of Roads: Flood Damaged Infrastructure Repair	N$0.47bn
Health	13/04/6 - Upgrading and renovation of Oshakati Intermediate Hospital	N$0.47bn
Transport	24/02/88 - Upgrading of MR118: Oranjemund to Rosh Pinah (100 Km).	N$0.46bn
Agriculture	20/11/2 - Implementation of Community Based Management	N$0.46bn
Agriculture	20/03/1 - Construction of Veterinary Clinics, Offices and Accommodation	N$0.46bn
Trade	19/04/22 - Special Industrialization Programme	N$0.45bn
Environment and Tourism	18/07/2 - Construction and Extension of Regional Offices and Houses for Staff	N$0.42bn
Labour	14/03/11 - Construction of the Ministry of Labour Head Office	N$0.40bn

Chart 18: 2016/17 Transfers to State Owned Enterprises (N$Million)



A total of N$6.4 billion is to be transferred to State-Owned Enterprises (SOEs) in the 2016/17 year of the budget, while a total of N$20.9 billion is to be made available over the MTEF period. In the upcoming budget year, the single largest transfer, of N$1.2 billion, goes to the Namibia Students Financial Assistance Fund (NSFAF) in order that the fund can provide loans and other financial assistance to students. In addition to this, large transfers are to be made to UNAM, NUST and NTA, of N$961 million, N$482 million and N$509 million respectively. After UNAM, Air Namibia once again receives a a huge transfer, totalling N$695 million. TransNamib too receives a large transfer of N$313 million. The Habitat Research and Development Centre and the National Housing Enterprise are the only notable transfers made for housing, totalling N$300 million and N$100 million respectively. An allocation of N$50 million is made for the Ministry of Poverty Eradication's Food Bank.

Chart 19: Transfers to SOE's Over MTEF (N$ Million)



Over the MTEF period, the allocations look fairly similar. By far the largest allocation (N$4.1 billion) goes to the NSFAF, while N$3.2 billion is allocated to UNAM, N$1.7 billion is allocated to NUST and N$1.7 billion is allocated to NTA. Air Namibia is to receive a whopping N$2.2 billion for operating expenses, while TransNamib is to receive some N$932 million for "rail rehabilitation and resuscitation of the transport sector".

From a housing perspective, the Habitat Research and Development Centre and the National Housing Enterprise are to receive total transfers of N$1.2 billion and N$100 million, respectively. An allocation of N$176 million is made for the Ministry of Poverty Eradication's Food Bank over the MTEF period.

Budget Balance

"It is our expectation that we will see spreads of government bond yields increasing over the South African benchmarks due to sheer volume of supply. It is also expected that the corporate sector will start to pay up for listed debt as corporate paper is benchmarked off the government yield curve. Therefore funding in general in Namibia is set to become more expensive and liquidity will slowly start drying up in our economy." IJG Budget Review 2015.

The 2014/15 budget deficit was 6.1% of GDP according to the Ministry of Finance, totalling some N$8.9 billion. For 2015/16, the forecast deficit, according to the Ministry of Finance, is N$9.6 billion, or 5.8% of GDP. The forecast for the upcoming year is N$8.2 billion, or 4.3% of GDP, according to the Ministry. Revenue is expected to remain lower than expenditure over the course of the MTEF. However, the debt to GDP ratio is forecast to improve, as GDP is forecast, by the Ministry, to grow faster than debt levels. We believe this to be highly unlikely.

Chart 20: Budget Balance

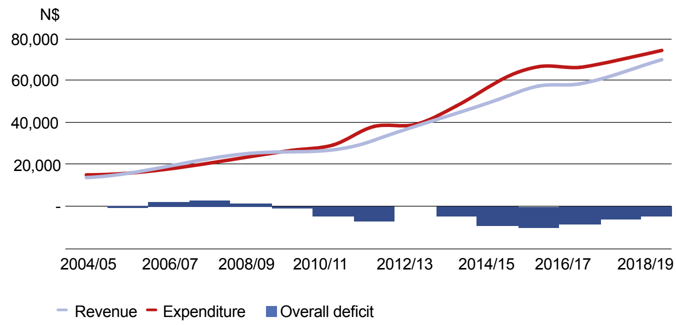
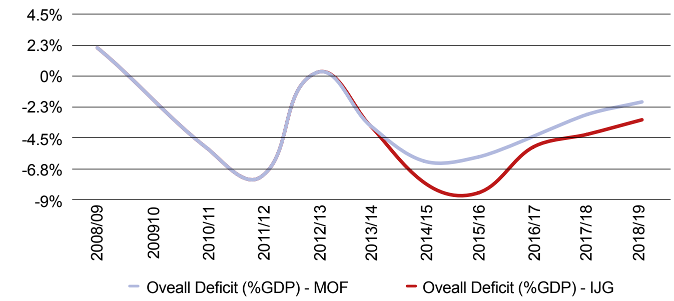
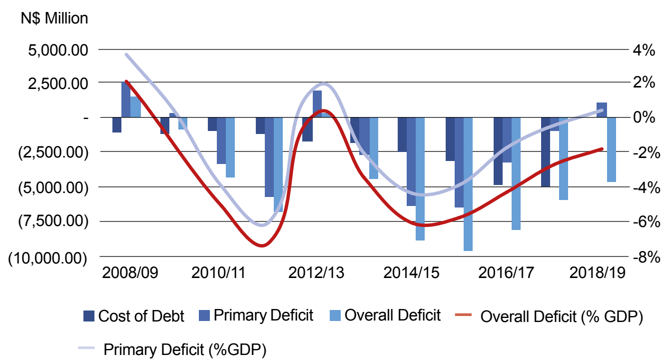


Chart 21: Budget Balance



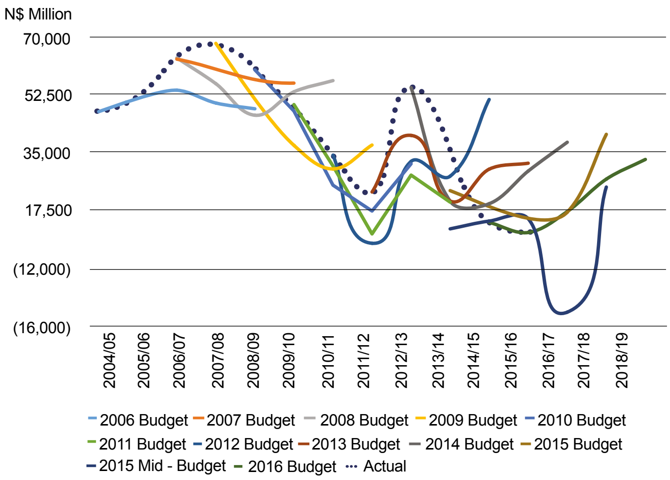
Based on the Ministry forecasts, the primary deficit will total N$3.3 billion in 2016/17, and the cost of debt will total N$4.9 billion. As such, while the overall deficit is projected at 4.3% of GDP, the primary deficit will be just 1.7% of GDP. Over the MTEF period, the overall deficit is expected to shrink notably, and turn into a primary surplus in 2018/19. However the cost of debt will increase notably, totalling N$5.7 billion in the final MTEF year. However, the Ministry's strong growth forecasts mean that this is expected to be 2.2% of GDP.

Chart 22: Deficit



Notable, with regards to the deficit, is that recent forecasts for the deficit and the rate of reduction of such, have been excessively ambitious. Since 2012/13, the forecasts have shown the intention to pursue fiscal consolidation, but this consolidation has not yet been seen. Given current developments in the local economy and with the fiscal position of the state, should this continue in the current MTEF, Namibia faces a rating downgrade to "junk" status.

Chart 23: Deficit Forecasts



Debt Stock

Total debt stock was, originally, forecast to increase to 29.3% of GDP in 2015/16. However, this target was far exceeded with debt to GDP rising to 37%. The major driver of this spike in debt to GDP was the raising of Namibia's second Eurobond of US$750 million and the subsequent currency depreciation towards the end of the calendar year.

As a result of this increase in domestic and foreign debt issuance as well as the currency depreciation total debt stock now amounts to N$59.79 billion, up 68.4% from the previous year. Domestic debt stock makes up N$31.46 billion of the total while foreign debt stock has ballooned to N$28.33 billion from N$12.85 billion.

The slightly reduced budget deficit for the 2016/17 financial year along with the portion of the Eurobond proceeds set aside for deficit funding provide some ease on the domestic funding requirement when compared to the 2015/16 budget. We estimate that a slightly larger amount of domestic issuance will take place in 2016/17 as in 2015/16, and that the South African market will once again be tapped to further supplement local issuance. Overseas markets will not be tapped this coming financial year and further Eurobond issuance over the MTEF is highly unlikely as fiscal consolidation would deem it unnecessary.

What is of concern going forward is the cost of financing of Government debt. Credit rating downgrades loom over the common monetary area which would result in more expensive financing going forward, and as roughly 65% of local debt stock will be redeemed and rolled during the MTEF this may see a large portion of local debt becoming more expensive. Even should the region manage to stave off ratings downgrades the cost of debt has already increased across the yield curve, compared to the levels at which treasury bills and bonds have been issued in the past.

Chart 24: Namibian Public Debt

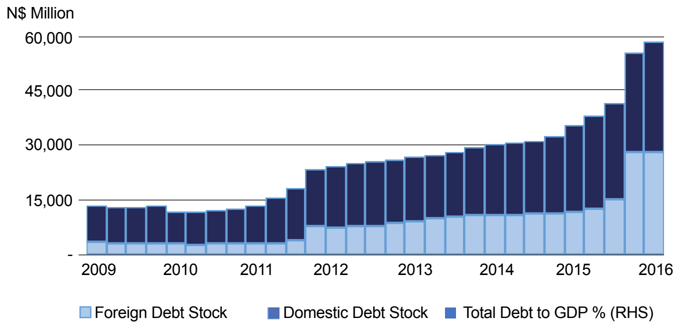
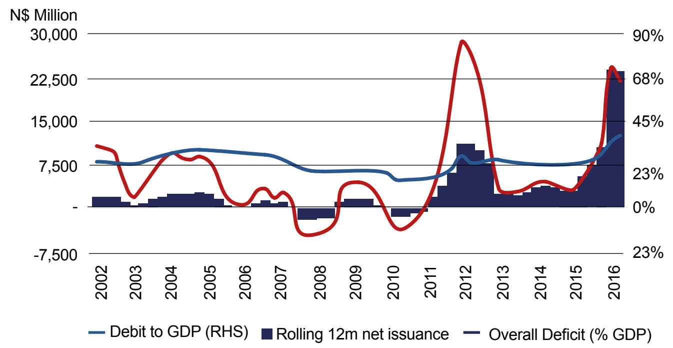


Chart 25: Public Debt



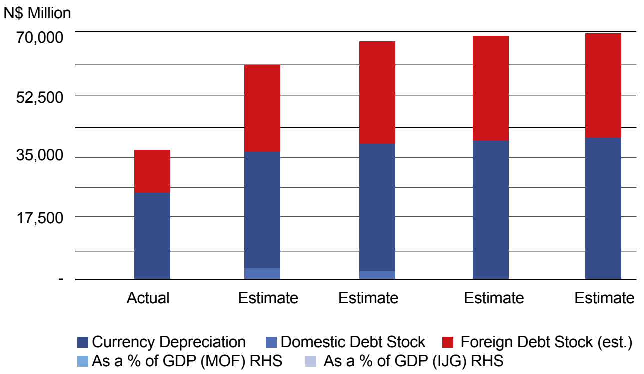
As a result of the extensive debt issuance in 2015/16, Namibia has now breached many of its self-imposed prudential limits for public debt, most notably the total debt-to-GDP, and foreign debt-to-GDP targets. This is highly concerning but apparently is not yet raising alarm bells among top officials in the country.

Table 9: Large project allocation, total project cost

	Benchmark	Current
Total debt / GDP	35%	35%
Domestic debt / GDP	28%	19%
Foreign debt / GDP	7%	18%
Foreign debt (excl. Rand) / GDP	7%	12%
Total debt Service / Revenue	10%	8%
Total debt Service/ GDP	3%	3%
Domestic debt / Total debt	80%	52%
External debt / Total debt	20%	48%
External debt (excl. Rand) / Total debt	20%	33%
Debt falling due within 12 months	30%	22%
Total Guarantees / GDP	10%	8%
Bonds as % of Total (Domestic)	60%	59%
TBs as % of Total (Domestic)	40%	41%

Over the MTEF period, the Ministry of Finance's expectation is for growth to slowly reduce the debt-to-GDP ratio, taking it back under the threshold level. However, we believe this to be extremely unlikely as deficits will be larger than expected and GDP growth notably lower than expected.

Chart 26: Debt Stock



Assessment

Macroeconomic setting

The broad macroeconomic decisions around the budget have, undoubtedly, been good. Both the Minister and the President have repeatedly spoken about the importance of maintaining macroeconomic stability in the country and efforts have certainly been made to ensure that this happens.

That this is challenging, given the current macroeconomic environment in Namibia and internationally, is unquestionable. Many factors currently suggest that Namibia's growth risks are tilted to the downside while inflation risks are very much to the upside. Thus, the moves for fiscal consolidation were critically needed, however difficult they might be to enforce. Thus, credit must be given to the team that took what is likely to be an unpopular decision, but certainly the correct and responsible one, to cut spending.

In our review in 2014/15, we noted with concern that the budget had moved from counter-cyclical to pro-cyclical, and that this would likely result in abnormally strong growth, but drive imbalances in the local economy. Moreover, we noted that this pro-cyclical spending would deplete fiscal buffers, which would present a risk to the local economy "should further shocks occur". This situation is now playing out as predicted, and as such we are being forced to reduce stimulus (both fiscal and monetary) into a situation of exogenous weakness. This is undesirable generally, but given the current fiscal position of Namibia, certainly the right thing to do, given where we are now.

Thus, fiscal policy has actually amplified the business cycle swings, rather than dampened such. From this, we hope that a lesson will be learned for the future, and that fiscal policy will be better utilised to manage the business cycle going forward. While deeper and more aggressive cuts in spending were, perhaps, warranted, the moves taken to reduce spending, while attempting to minimise the growth impacts of such on the local economy, are understandable. A fine line needs to be walked to ensure that a downswing in the economy isn't any more amplified than it has to be, while maintaining fiscal credibility.

Should we see water or energy constraints through the year, this outlook would deteriorate further. However upside surprises, particularly with regards to a recovery in commodity prices and leadership change in South Africa, could also bolster the outlook for the better.

As such, the Ministry of Finance will have to be dynamic in its activities surrounding the economy this year, as we are far from out of the woods, but at least, from a fiscal policy perspective, moving in the right direction.

Revenue

On the revenue front, the current downward revisions on collection are certainly a positive step forward. These come about as revenue collection in 2015/16 has disappointed somewhat, and as it is known that revenue from SACU will decline in 2016/17. As such, revenue growth forecasts appear very subdued. This said, without credible outturn figures for 2015/16, it is hard to know what actual growth is likely to be. Should the base be lower than that currently suggested by MoF, these growth forecasts may actually be significantly larger than the numbers currently suggest. We feel this is likely, but remain aware that we tend see slight underspending and that revenue collection has recently surprised on the upside.

We ascribe this upside surprise to conservative growth forecasts in 2012-2014, particularly, whereby the Ministry generally saw growth around 4% while private forecasts and the actual outturn, were generally a percentage point or more higher. Going forward, it is believed that the Ministry's forecasts, particularly for 2016, are ambitious and thus that revenue may negatively surprise despite the low growth target. This slowdown is expected on VAT, personal income tax and corporate tax, as well as the aforementioned slump in SACU revenue.

New taxes

With regards to the environmental tax, Government is expecting to collect N$518 million in 2017/18 and N$547 million in 2018/19, with nothing budgeted for the 2016/17 year. With regards to export taxes, nothing appears to be directly budgeted for, however non-diamond mining company tax is budgeted to increase by 44% between 2017/18 and 2018/19, which may be down to export taxes. These export taxes are a bad idea, as they are unlikely to achieve their objective (of further value addition in Namibia) and are highly likely to end up being, in effect, a punitive tax on miners.

Proposals for a presumptive tax on the informal sector are somewhat concerning as well. However it appears that such a tax is currently being considered (and hopefully researched), rather than proposed for implementation. It is generally felt that such a tax will be challenging to administer, as well as placing a tax burden on a relatively low-income part of the economy.

Efforts to reduce transfer-pricing have been discussed for a number of years, and while understandable, need to be implemented with caution. Because of the nature of the global mining industry, shareholder return at parent-company level determines investment destination priorities and as such efforts should be taken to ensure that Namibia remains an attractive destination for mining investment. This should be done while ensuring that the country receives fair compensation for the use of its resources (in the form of royalties) and a fair share of profits from mining activities (in the form of taxes).

While the proposed solidarity tax has been repeatedly mentioned, little genuine information on its form has been released. As such, it is certainly a positive that a team has now been created to work on the details, and that a white paper is to be produced. The Minister has stated that "the Solidarity Tax will be a progressive, redistributive tax which will contribute to the reduction of income inequalities and take into consideration the income levels and the ability to pay. Thus, it is not a tax base broadening measure, but a redistributive tax with a relatively high tax threshold." However, it remains unclear as to whether this will be a "wealth tax" (on the stock of wealth), or an "income tax on the wealthy" (on the flow of wealth or income). Clarity is required on this, and a number of other issues, namely:

1. What form will this tax take?
2. Who will pay this tax?
3. What will the funds be used for (in detail)?
4. What will the administration of this tax cost, and who will pay the cost?
5. What impact will this expenditure have on poverty reduction (with evidence)?

Efforts to improve tax administration and strengthening the provisions for recovery of tax debts and the deployment of the new Integrated Tax System are welcome developments, and build on the notable progress made in this regard over recent years. Included in this development will hopefully be the ability to submit tax returns electronically.

Views on the formation of a revenue agency are highly varied. Generally, it is believed to be a positive move if and only if the right people are hired to staff and manage the agency. In this regard, focus needs to be put on appointing tax experts to the agency to fill top positions. Lessons should be learned from other SOEs, notably the likes of the Namibia Statistics Agency.

Expenditure

Defence

Defence continues to receive allocations of funds that are disproportionately large, particularly given the finite budget size and peaceful nature of the country and region. Recent comments from political leaders that suggest that this can be justified because large allocations are also made to education and healthcare, are lacking in logic. Moreover, the argument that suggests that our defence spending is linked, exclusively, to peace keeping activities, or that this spending is somehow required to "safeguard" peace and security in Namibia, are equally misleading. The reality is that while few question the need for Namibia to spend on defence, the magnitude of this spend cannot be justified.

While rarely openly admitted, one of the major reasons for the large budget allocations to Defence is that this Ministry is used as a job-creation vehicle in effort to address Namibia's high levels of unemployment, particularly amongst the youth. While this is understandable to some degree, it is important to question whether this approach is the optimum strategy for creating employment in Namibia. In addition to this, a further question is that of whether Namibia and her tax-payers are deriving the maximum return from this investment in job creation through the defence force. The answer in this regard is undoubtedly a resounding 'no'.

For many tax payers, this disproportionately large expenditure on defence derives limited benefit beyond the social benefits of not having high numbers of unemployed people in the country. That this situation could be improved, there is little doubt. There are many tasks in Namibia that the current defence force could be positively involved in, from the mass land servicing project, to food banks, to (commercial) agricultural and manufacturing projects.

Thus, while it is unrealistic to expect a reduction in operational defence spending in the short term, this spending needs to be capped going forward, with funds being re-routed to priorities, and efforts to create an enabling environment for business, which will then absorb the otherwise unemployed.

Moreover, huge secret development budget projects are a moral outrage. Few rational individuals can honestly stand up and defend the fact that the third largest project in the country's development budget is "Research and Development" for the Defence Force. This is simply not what our country needs, while we do need housing, water, energy and the likes. It appears, however, that few Namibians are aware that prioritising projects such as these are a large part of the reason that we do not have sufficient funds to house the country, for example.

Moreover, the idea that building many new half-billion dollar plus military bases is a current priority for Namibia is absurd. These projects should, without question, be scrapped, and the funds should be rerouted to providing serviced land for all Namibians (including those employed in the Defence Force), and supporting the construction of housing for the nation.

Offices

Once again, there are huge allocations in the current budget for new offices for the Government. The cost of these offices is hard to unravel, as the average cost per employee in each ministry appears to differ vastly, and there appears to be an on-going inter-ministerial competition to see who can construct the most lavish headquarters. The concern, however, is that despite the large amount being spent on new offices, no greater output appears to be derived from these OMAs. As well as this, there appears to be a hugely inefficient use of the current floor space available to Government, and rather than making more efficient use of the current space, new floor space is continuously added, at huge cost to the taxpayer (most of whom use significantly less floor space themselves). In addition to this, these offices do nothing to add to the productive capacity of the country, and end up draining funds that are much needed for productive infrastructure and housing.

There remains a great need for a detailed audit of Government's assets, and an effort to optimise the use thereof. This is long overdue.

Table 10: Selected government office buildings

Selected Office Buildings and Estimated Total Project Cost	N$ Million
Construction of a New Parliament Building	2,009
Construction of Head Office for MHAI	1,065
Construction of MAWF Regional Offices	480
Construction of Veterinary Clinics, Offices and Accommodation	459
Construction and Extension of Regional Offices and Houses for Staff for MET	420
Construction of the Ministry of Labour Head Office	398
Construction of Additional Offices for the National Police Headquarters	389
Construction of MICT Head Office	361
Construction of Ministerial Head Quarter	293
Construction and Upgrading of MET Headquarters (Phillip Troskie Building)	279
Construction of the Civil Aviation Head Office	279
Construction of Prosecutor-General's Office	270
Construction of Attorney-General's Office	150

Housing

For many Namibians, housing is the single most important service that they would like to see provided, or supported, by the Government. The current budget does have some allocations for this. However these allocations are relatively minor in nature, when compared to the scale of the problem, the budget as a whole, and the regularity with which it is discussed as a priority.

The current budget contains a number of ongoing projects to provide serviced land within municipal areas. These are highly varied in size, but for the most part see fairly minor allocations within the current budget year. As such, while there does appear to be an effort afoot to provide funds for increases in serviced land for housing, the scale of this spend is relatively low. Given that this is the cause of many of the country's housing woes, driven by municipal monopolies over servicing land, this lack of prioritisation of this issue is disappointing. Large subsidies have been made to the regions of Namibia, but little to towns and municipalities. It is not completely clear how these funds are to be used.

In addition to direct budget allocations to servicing land within the vote of Rural and Urban Development, a handful of transfers can be seen to state-owned enterprises. The largest recipient here is the Habitat, Research and Development Centre, which is involved in researching and developing alternative housing solutions. It is to receive N$300 million in 2016/17 and a total of almost N$1.2 billion across the MTEF period. However, despite the huge size of this transfer, the only detail on its purpose contained in the budget is "operational expenses", which is not only insufficient explanation for such a large transfer, but also likely to be inaccurate. A similar concern exists around another transfer to "Trust Fund", which appears as a transfer to an SOE under the same vote, for a total cost of N$90.75 million across the MTEF, with no detail as to what the fund is, or what the money will be spent on. The National Housing Enterprise (NHE) is to receive one N$100 million payment in the 2016/17 financial year, and nothing thereafter. This is perhaps understandable give the current challenges faced by the institution, but it does raise questions as to whether, and how, low-cost housing is to be funded in future.

Based on the above, it cannot be said that nothing is being done on housing. The key questions here, however, are firstly, whether enough is being done to address the major housing challenge that Namibia is faced with, and secondly, whether the current approach is the optimal one. In both cases, the answer is likely to be "no".

The current approach to addressing the housing crisis appears to have far too little focus on removing the current bottleneck and stabilising prices through a normal market system, and far too much focus on Government provision of houses. Given the scale of the issue, this approach is destined to fail. Moreover, unless the critical bottleneck – of provision of serviced land – is addressed, the cost of providing houses is likely to remain prohibitively high, excluding many Namibians from the housing market for many years to come.

As such, there are two key focuses that should be pursued. Firstly, a strong focus on major increases in available serviced land across the county; and secondly, targeted support for those who are still unable to help themselves to construct housing, once land has been availed.

Given Namibia's budget, there is no reason that, over a period of five to 10 years, every Namibian family should not be given a piece of free, serviced, land. This can and should be funded with current revenue sources, by scrapping some of the current wasteful projects in the development budget, of which there are many, and by reducing wasteful operational expenditure.
Should this happen, we can expect to see major steps forward on poverty reduction, improvements in wealth equality, less intergenerational poverty, more access to banking services and (constructive) debt, less demand for imported consumables (as people favour investing in their property), more construction activity and job creation, more construction-linked manufacturing, etc.

Should this be funded through the budget, it would form a genuine redistributive expenditure, whereby more wealthy Namibians would, through tax contributions, effectively be helping to support less fortunate Namibians to gain access to housing. For many taxpayers, this would be a far greater show of solidarity than many of the current proposals on the table, and many would be willing to contribute extra to ensure all Namibians have access to reasonable housing. Moreover, there can be little doubt that this would be a huge political win.

Table 11: Housing funding

N$ Million	2014/15	2015/16	2016/17	2017/18	2018/19
Subsidies to the Regions	616	595	740	740	721
Subsidies to the Towns & Municipalities	21	21	50	42	50
Subsidies to Village Councils	40	40	65	50	40
Trust Fund	30	30	30	30	31
Operational Budget Transfer to Government Organisations - Social Grant	309	504	620	350	415
Development Budget transfers to Government Organisations	801	1,067	689	794	1,282
Total	1,816	2,257	2,194	2,006	2,538

Provision of key service infrastructure

One of the primary roles of Government is to provide public services and public goods. These services often include natural monopolies, such as energy transmission, rail networks or water networks. Most of these services are critical to the smooth functioning of the economy, and to date, these services have been well provided by administrators of the country. However, after many years of largely uninterrupted supply, some key services are now coming under pressure when it comes to keeping up with demand growth. Notable amongst these are water and electricity. However, other services, such as sewerage (admittedly the responsibility of municipalities more than the Government directly), are facing similar challenges.

In this regard, four key areas are focused on at present, namely water, energy, road and rail.

Central Area of Namibia (CAN) Water Supply

Over the past two years, it has become increasingly clear that the water storage system of the central area of Namibia (CAN) is no longer able to keep up with ever-growing demand for water in the area, particularly should we experience abnormally low rainfall and droughts.

After a number of poor rainfall years, the central area, including Windhoek, is now on the verge of, if not already embroiled in, a notable water crisis. At present, efforts are being made to reduce consumption in order to see the CAN through to the next rain season. However it appears that the key dams providing water to Windhoek may run dry between September and December of 2016, thus reducing current supply to less than 30% of current demand,

Despite this impending crisis, no notable funding has been availed to address this challenge, in whatever form possible, in the current fiscal year. Over the MTEF period, there are allocations to the artificial recharge of the Windhoek aquifer at N$343.8 million in 2017/18 and 2018/19, as well as a new, sizeable, project titled “Bulk Water Supply”, one of the objectives of which is “to augment water to Central Area of Namibia (CAN) from the Kavango River”. Once again, no funding has been availed for this project in the current fiscal year, with the first funds made available from 2018/19, to the tune of N$156.5m. Thereafter N$3.5 billion has been allocated for the rest of the project (thought to be about 50% of the total funding required to pull this project off).

It appears that the current situation in Windhoek is fairly precarious, and already in its current state, likely to drive a growth slowdown in the CAN, particularly driven by a slowdown in the water-heavy construction sector. This will undoubtedly have far reaching consequences – unemployment, retail activity, tax payments to Government etc -, which consequences may stand to worsen should rainfall once again disappoint in the 2016/17 rainfall year. Should this happen, we can expect a large scale crisis for the Namibian economy.

Energy

As with water, Namibia faces a number of energy challenges, as the country remains far from self-sufficient, and surplus energy in the region, which has been relied upon to fill this gap to date, is both hard to gain access to, and increasingly expensive.

As such, the country faces a challenging balancing act between current supply and demand, which may result in supply interruptions. That the Government has, recently, started to take this risk very seriously, no doubt exists. Efforts are being introduced to expand current domestic supply, including the addition of both thermal and renewable generation capacity, as well as to secure further deals for supply from the region. A hugely welcome development was the shelving of the Kudu Gas project, which has plagued Namibia for many years, acting as a barrier to any real commitment in the energy generation space until recently. For this, the Minister of Finance deserves great credit. As a result of this move, independent power producers, privately funded, will be looked to in order to provide energy supply for the first time, while large transfers for the Kudu project have been removed from the budget.

However, the current situation, which has arguably been exacerbated by a slow decision making process and a state-owned monopoly, is likely to result in a notable increase in power prices in the country should we need to turn to emergency supply. At present this seems likely. However, despite the obvious implications of such large price increases, as well as the causes of such, no allocation of funds to cover these price increases appear in the budget, suggesting that these price increases will simply be passed through consumers, who are simply at the mercy of a monopoly institution.

Rail

A number of years after the launch of Namibia’s fourth National Development Plan (NDP4), which focuses, amongst others, on logistics, this year’s budget sees a huge increase in allocation of funds to Namibia’s rail infrastructure. This is an excellent development, which is likely to increase Namibia’s productive capacity, and open doors for new businesses and improve the attractiveness of Namibia as an investment destination for foreign businesses.

The largest and fourth largest development budget projects are now rail projects, with total project costs of N$10.4 and N$5.5 billion, respectively. Provided these funds are used for core rail infrastructure, rather than the stated “Cape Fria to Katima Mulilo” link, these projects, if implemented, will increase the relative competitiveness of Namibia as a logistics hub, increase flow of goods through Namibia and Namibian ports, and reduce the current overuse and thus damage to current road infrastructure, particularly by trucks.

Road

For a number of years, sizeable allocations have been made for the improvement and development of Namibian road infrastructure. These projects include bot upgrading gravel roads and increasing bitumen road coverage. The quality of the current projects in the road space is highly varied. A number of the projects are unquestionably justified and needed, while others, are a major waste of finite resources. Improvements the roads between the capital, airport, Rehoboth and Okahandja are welcome, given the volume of traffic on these roads. Similarly, the Swakopmund to Walvis Bay upgrading to a dual carriageway is highly welcomed, and much needed.

However, many of the other projects are notably lower priorities, as many do not suffer from overuse and high traffic volumes, and as such are unlikely to derive to the country a larger economic benefit than their financial cost.

Maintenance

For many years, a major budget concern has been the lack of focus on maintenance of Government assets, and thus the persistent need to replace infrastructure which should not need replacing. This is equally true of a number of state-owned enterprises, most notably Namibia Wildlife Resorts. However, in the current budget, we see large allocations for maintenance of Government assets, most notably schools and hospitals. This is an excellent development.

Social support, poverty reduction and (sustainable) redistribution

The current budget has seen a huge increase in social spending, with more of such expected to come, given the expected introduction of the proposed Solidarity Tax within the MTEF period. Given Namibia’s current inequality and poverty levels, this social spending is much needed. Very few Namibians would question the need to ensure that no-one is starving or bound into poverty in our small population. As such, the President’s declared “war on poverty” is welcomed.

However, key concerns remain as to the details of this “war on poverty” and how it will be effectively implemented. The primary concern at present is that this new agenda will be bolted onto current priorities, and that the public will once again be called upon to fund it. This is not necessary, given the waste in the current budget, and with some simple reforms, far more could be achieved using the funds currently available to the Government.

In addition to this, questions still exist as to the quality of the social spend, and whether the current approach is indeed, the optimum. In this regard, a core question is that of whether we are actually addressing the long-term causes of poverty and inequality, and whether we are empowering Namibians to improve their livelihoods, or whether we are handing out short-term support packages that simply create a dependency culture. In this regard, it appears that the focus to date is on short-term measures to reduce extreme poverty, which is welcomed. However, more is needed to address long-term poverty issues, most notably through improved access to capital and improved education.

Education and Health

The current spending on education and healthcare is certainly excellent with regards to the commitment it shows to providing access to these services by the Government. However, the quality of these services still leaves much to be desired. While many politicians may still argue against this point, the adage of “actions speaking louder than words” applies. The reality is that most of the country’s politicians do not attend public hospitals or send their children to public schools. The reason for this is simple – while available, the quality of public services in this space leaves much to be desired. As such, major and difficult educational reform, particularly at teacher level, is critically needed in order to make this huge spend worthwhile.

State-Owned Enterprises

The large transfers to SOEs remain highly controversial in Namibia. While some are good, particularly those for educational institutions, others remain absolutely unacceptable. Most notable amongst these are the ongoing transfers to Air Namibia and Namibia Wildlife Resorts. These transfer drain funds away from real priorities, and are a contributing factor to the lack of funds for poverty reduction and housing, for example. Transfers to Namibia Wildlife Resorts are inexplicable, and unlevel the competitive playing field for local tourism ventures. Moreover, there is no reason why this institution should not be profitable if properly run. With regards to Air Namibia, it is currently unclear if the economic benefits of the airline outweigh its financial costs. Until it is established that this is the case, these large transfers should not be the norm. Moreover, there are a number of other options that may prove more efficient for securing business and tourism arrivals in Namibia, which should be explored before we continue to pour huge amounts of money into the black-hole that is Air Namibia.

Hugely concerning with regards to these transfers is the massive lack of transparency in many of the institutions that receive funds. Once again Air Namibia and Namibia Wildlife Resorts feature high on this list. Neither has produced annual reports or annual financial statements (available to the public) in a number of years. This is simply unacceptable as these institutions receive public funds which then go unaccounted for. Thus, without question, not a single cent of taxpayer money should be made available to these institutions (and all other SOEs and OMAs) until every cent allocated can be accounted for in a fully transparent manner.

Wage bill

Namibia has the 6th largest civil service wage bill in the world, relative to GDP, according to the IMF. This bill is supported and funded through abnormally high revenue collection relative to GDP, as well as through extensive credit issuance (which frees up funds for the wage bill), and underinvestment in core infrastructure. The size of the wage bill has increased hugely over the past half-decade, going from N$12 billion in 2011/12, to N$25 billion in 2016/17. This doubling of the wage bill in just half a decade is unquestionably cause for concern. Moreover, this figure does not reflect the increased support costs that ensue from the bill, including office space, utilities, travel and subsistence and similar.

The wage bill growth has been driven by both more Government positions, but also huge increases in average wages, which have been increased at a rate far above inflation. The reasoning behind this is that a concerted effort has been made to align civil service salaries to those of the private sector, in order to be more competitive and to attract skills. It is unclear as of yet, whether this approach is going to work or not, but it certainly appears that at present, the current civil service is collecting a larger wage to do a similar job.

However, the ballooning of the wage bill has occurred through a period of abnormally high growth, which has seen revenue collection move away from trend levels. As such, the ballooning of the wage bill has been funded by non-sustainable means, both in the form of debt, windfall revenue and savings from underinvestment in infrastructure.

Many analysts warned about the major increases in operational expenditure through the boom years, noting that it would be difficult to wind in in future. However, this advice was largely ignored, and now that this large wage bill is in place, it is, as predicted, proving difficult to contain. Not only are there demands for large wage settlements from Government employees (the largest single labour force in the country, generally unionised), but there is continued pressure on Government to create more jobs.

This is incredibly concerning, as the approach being pursued for job creation is completely unsustainable, and likely to cripple the economy if not rapidly addressed. The large civil service is likely to hamper the country's ability to adequately fund infrastructure and vital services that result in increased productive activity in the country (without forcing pension savings to make up for the underinvestment, for example). Should the wage bill continue to consume ever more of the total revenue of the state, less funds will be available to ensure that the private part of the economy can continue to function efficiently, and thus the absolute levels of revenue could be expected to decline.

A radical change to the thinking of Government is required when it comes to job creation, with the state needing to take a more active role in creating a conducive environment for investment and job creation, rather than trying to create jobs directly. This means less pernicious legislation attacking owners of capital, less anti-foreign legislation, better service provision and improved infrastructure.

Procedure

The current budget covers the expenditure of N$210 billion of the taxpayers' money. For any taxpayer that takes the time to go through the documentation in detail, it is easy to see that insufficient work and review goes into the allocation of these funds, to ensure maximum impact of their spend. This is largely due to the budgeting process, which is and has been for many years, flawed.

Thus, in order to address the root of the problem, a number of these shortcomings are highlighted below:

"MTEF Budgeting"

The Ministry of Finance terms the budget a Medium Term Expenditure Framework, where in realty, it is more of a single year budget, with a broad indication of minimum allocations over the following two years so as to allow for some longer term panning by Government Offices, Ministries and Agencies. However, given that the final budget figures often differ by more than 40 % from their first estimate for a financial year, it simply cannot be said that the Ministry of Finance practises three-year budgeting. Moreover, rather than facilitating the long-term planning of government, this annual revision of budgets rather sows uncertainty. As such, it is of critical importance that longer-term budgeting is not only implemented, but stuck to.

The supposed three-year budgeting process contains another significant downfall, namely that budgeting focuses primarily on the upcoming financial year, rather than year two and three of the budget. As such, year two and three of the budget do not receive the scrutiny they should. However, they go on to form the base from which the year two and three budgets are crafted at the point at which they become the current year's budget. As such, large numbers of improperly and inadequately appraised projects find their way into the budget through the combination of actual single year budgeting, and feigned (annual) MTEF budgeting.

Budget cycles vs development plan cycles

An additional challenge pertaining to the supposed MTEF structure of budgeting is that there is a natural disconnect between the country's development plans, which run in five-year cycles, and the MTEF's, which run in three-year cycles. As such, for at least the first two years of the three-year plans, the MTEF fails to deliver on and prioritise the issues highlighted in the said development plan. As a result, many years of the development plan are effectively lost from a budgeting point of view, and given the size of the budget relative to GDP, it is a development tool with potential second to none.

Incremental budgeting

For a number of years, the Ministry of Finance has been practising incremental budgeting, whereby new projects are tagged onto old projects and old methods of budgeting. As such, the current budget, as with many pervious budgets, appears to sow a significant disconnect between the development goals of the country and the funding priorities of Government. Rather than breaking down the budget and rebuilding it each year (or three years, as should be done with an MTEF) with top priorities first in line for the finite funding available, new projects, however important, are only funded if funds are available after all of the older projects and systems have been catered for. It cannot be overstated the extent of the detrimental impact that this has on the development process and the ability of Government to reach and meet development goals and targets.

Evidence and audited budgeting

Every year expenditure on goods and services, (including subsistence and travel, material and supplies, utilities, maintenance and transport) and acquisition of capital assets (furniture, vehicles and operational equipment) sees sizeable increases. However, the requirement for such expenditure is often not supported through audits or assessments by the Ministry of Finance. As such, many O/M/As sit with vast fleets of unused or misused vehicles, allow misuse of travel and subsistence allowances and other such trespasses, and purchase new office equipment rather than repairing and recycling older equipment.

General administration

Every year, the budget suffers a number of last minute changes, which result in documents showing innumerable and significantly different numbers for critical aspects of the budget (for example there are at least three funding shortfall numbers between the Medium Term Expenditure Framework, Estimates of Revenue and Expenditure and the Budget Speech). As well as this, more often than not, there is a general failure by the Ministry of Finance to produce all of the budget documentation in time for the budget tabling at parliament and to produce sufficient copies of the budget for the media, analysts and public. Moreover, the Ministry fails to release all of the budget documentation on their website for an extended period after the launch of the budget, further undermining access for the public and general budget transparency. All of these problems are completely avoidable. However a last minute scramble in the Ministry, rather than consistent full-year budgeting, means that every year these discrepancies arise. Moreover, this last-minute budgeting no doubt results in less than perfect allocation of funding and thus optimal outcomes.

Results orientation

Finally, and most importantly, the budgeting process often appears to be more about allocating money than assuring its optimal use. Few projects are properly reviewed and appraised as a matter of course before receiving funding, and as such the allocations are often far from ideal to assure optimal development outcomes. Thereafter, there is usually very little follow-up on the budgets to assess the success of allocations in terms of development and stated outcomes for programmes and projects. As such, few lessons are learned from failed projects, and few failing projects are salvaged.

Notes

Notes

About the Author

Rowland Brown was born and raised in Namibia, before studying in Scotland, where he received a Masters degree in Economics at the University of Aberdeen. Upon completion of his studies, he returned to Namibia and subsequently worked in the National Planning Commission and Capricorn Investment Holdings, the Bank of Namibia and IJG Securities as an Economist. He is also the Founding Chairperson of the Economic Association of Namibia, and a regular contributor to local publications and discussions. His interests lie in the areas of Financial and Development Economics and he worked extensively on Namibia's Industrial Policy and the country's Fourth National Development Plan.

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.

About IPPR

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

Incorporated Association Not for Gain Registration Number 21/2000/468
Directors: M M C Koep, D Motinga, N Nghipondoka-Robiati, J Ellis, G Hopwood (ex-officio)

70-72 Dr Frans Indongo Street, Windhoek · PO Box 6566, Ausspannplatz, Windhoek, Namibia ·
Tel: +264 61 240514/5 Fax +264 61 240516
info@ippr.org.na · www.ippr.org.na