



DEMOCRACY REPORT

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THE BUDGET 2019-20: ADAPTING TO FISCAL CONSTRAINTS

The 2019/20 budget was presented in March 2019 by the Minister of Finance to outline Namibia's predicted spending and income flows for the next financial year. The budget speech came at a time of low economic growth for the country, and amidst high expectations from the public for solutions to the financial crunch. The speech also came during a national election year, which some speculated could restrain government's commitment to radically decreasing expenditure through personnel cuts. Nevertheless, the 2019/2020 budget sets a course for the Namibian government for the next year, and impacts not only government's ability to complete their tasks, but also the direct socio-economic wellbeing of citizens.

The Budget at a Glance: Macroeconomic Backdrop

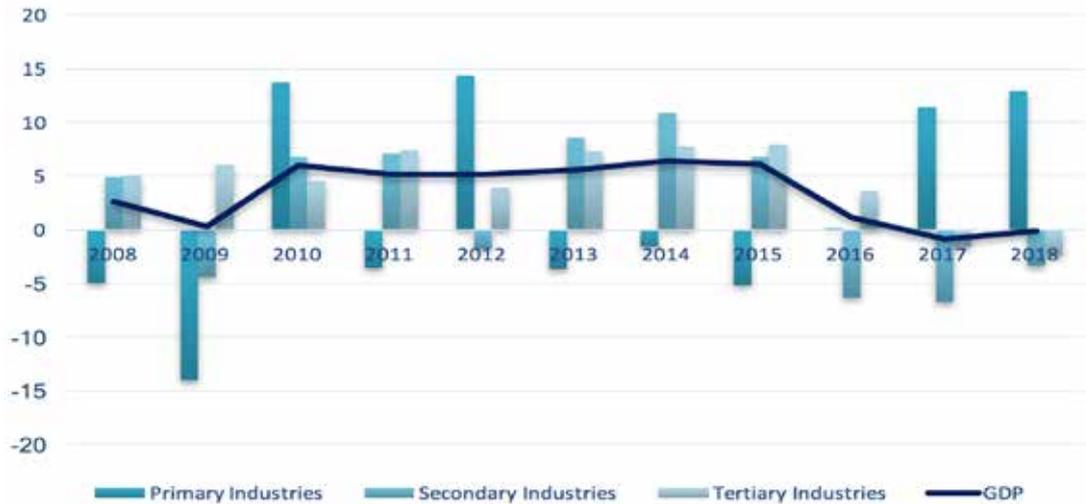
At the end of 2016, the Namibian economy entered a recessionary phase as external and internal headwinds derailed growth and laid the foundation for two consecutive years of economic contraction. Steep reductions in construction sector activity and depressed consumer demand in the retail sectors resulted in real GDP growth contracting by 0.9 percent in 2017. This not only signified the country's first economic contraction since 1993, but also, marked the lowest point in what is set to be a prolonged journey towards sustained economic growth and recovery.

The economy remained depressed during much of 2018 as reduced consumer spending and subdued activity in the manufacturing and public administration sectors muted overall growth. According to preliminary figures, the economy is estimated to have registered a marginal contraction of 0.1 percent. The primary industries i.e. those involved with raw/natural materials grew by 12.9 percent and as such recorded the sectors highest growth since 2012, whilst, the secondary and tertiary sector industries are



estimated to have contracted by 3.4 and 2.4 percent, respectively. Primary industry growth was supported in large part by higher than expected outputs in the mining sector. However, contractions in the construction industry and reduced consumer demand and public spending led to suppressed growth and negative growth, respectively.

Graph 1: Real GDP and Industry Growth Rates (%)



Going into 2019, real GDP growth is projected to bottom out of contraction with 0.3 percent growth despite subdued activity in the primary industries as the outlook for key sectors in the secondary and tertiary industries improves, and public investment increases.

Following a strong performance in 2018, the primary industry is expected to perform poorly as a result of underwhelming rainfall likely weakening both livestock and crop output, and the placement of the Langer Heinrich Uranium mine into “care and maintenance”. At the same time, the closure of the Elizabeth Diamond Mine will likely depress overall mining production. In the secondary industries, recoveries in the construction sector, coupled with improved water and electricity infrastructure, as well as increased manufacturing activity will likely support positive growth. Similarly, the tertiary industry - which supports the bulk of the economy - is expected to recover as improvements in consumer demand translate into growth in the wholesale and retail trade, financial intermediation and business services sectors. Additionally, as the Husab uranium mine comes into full production – the increased uranium production it is expected to contribute towards growth in the short to medium term, however, its effect on growth will likely be muted by timid uranium prices. Overall, growth is expected to strengthen over time and average at 3 percent over the medium to long term, as external conditions improve and public investment recovers.

Risks to the growth outlook include poor rainfall, decreased mining output, stagnant competitiveness, slower regional growth, and weak recovery in Namibia’s key trading partners - most notably South Africa and Angola. The Angolan economy is expected to emerge from recession in 2019 with a growth rate of 1.2 percent driven by increased diamond exports. Should the economic recovery in Angola fail to materialize, the impact would continue to be felt in the wholesale and retail trade, education and business services sectors. A slowdown in demand for minerals from Namibia’s major trading partners such as China would also increase the risk to growth in the country’s mining sector. Following near zero growth in 2018, South Africa is expected to grow by 1.0 percent in 2019. However, electricity supply constraints and deteriorating government finances threaten the country’s growth outlook, and with that, the size of the SACU revenue pool.

In February 2019, Fitch - a global credit rating agency - joined Moody’s ratings agency in revising the outlook on Namibia’s sovereign rating from stable to negative at ‘BB+’ or one notch below investment grade. The ratings agency said that their revision of Namibia’s outlook reflected a downward assessment of the country’s future growth prospects. They warned against the adverse implications that this is likely to have on the government’s ability to stabilize public debt. Both agencies had previously warned that debt would surprise negatively, and with the Ministry of Finance now largely expecting the debt stock to exceed 50 percent of GDP in 2020, it appears their concerns were warranted.

However, despite the continuous upward revisions to debt, the government’s fiscal metrics have improved considerably since the 2016/17 financial year. The budget deficit has fallen year on year as a

result of the governments consolidation efforts, and as consumption continues to grow at a slower pace over the medium expenditure framework (MTEF) - risks to the fiscus are largely expected to remain subdued. Upcoming off-budget project financing derived from the African Development Bank is expected to enhance capital expenditure and will likely support construction sector activity and contribute towards boosting domestic growth. However, fiscal consolidation is expected to continue to exert downside pressure on the economy.

Inflation

Annual average inflation moderated to 4.3 percent in 2018 from 6.2 percent in 2017. This was largely as a result of falling house and food prices. Going into 2019, overall inflation is expected to average at 4.7 percent as food, non-alcoholic beverages and transport inflation ticks upwards. However, whilst inflation is expected to trend slightly higher in 2019 - it should remain low enough to boost consumers' real spending power if the tax burden on household remains relatively unchanged.

Interest Rates

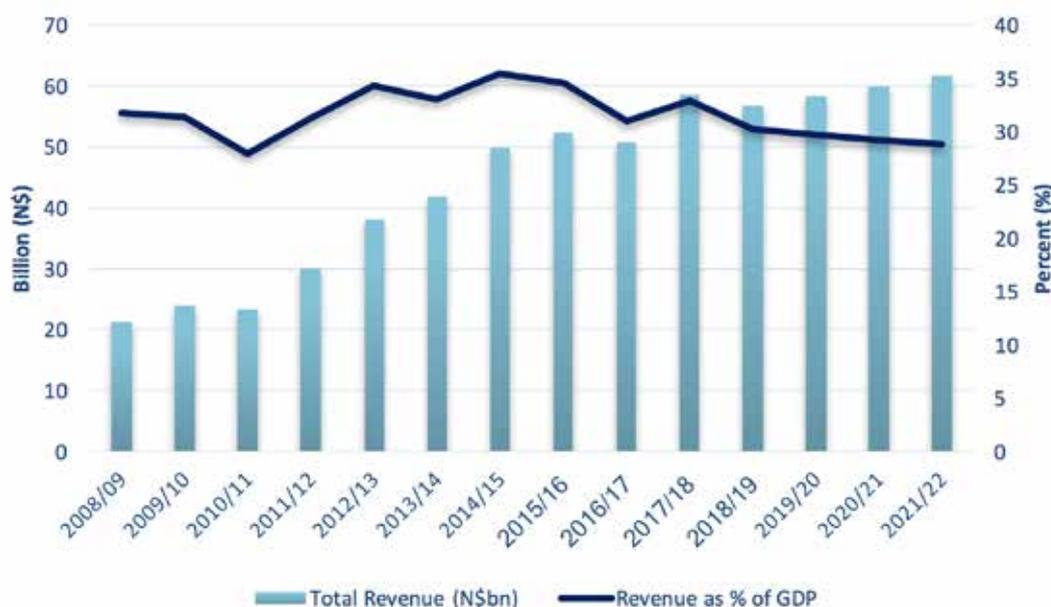
Interest rates have remained relatively accommodative over the past 18 months, with the Bank of Namibia having last increased the policy rate in August 2017. The repo rate was left unchanged in April 2019, and will likely remain at the current rate over the short to medium term as the central bank strives to continue to support the fledgling economy. Of course, the Bank of Namibia will have to remain mindful of the South African Reserve Banks' (SARB) policy rate path, and with that, their expectations for inflation.

Rising oil prices and a weaker rand saw fuel prices increase towards the end of 2018, however, fuel and transport prices have moderated since then; and as a result, inflation has largely remained benign and is expected to stay well within the SARB's 3 – 6 percent target band. As such, it seems likely that the SARB will keep interest rates steady, however, risks to the outlook remain as the US continues its rate hiking cycle and leads the global shift towards monetary policy tightening.

Revenue

The revenue outturn for the 2018/19 financial year is expected to remain unchanged from the Mid-Year Budget review at N\$56.7 billion. For the upcoming 2019/20 financial year, total revenue is projected to be 3 percent higher than 2018/19 estimates, at N\$58.4 billion. Revenue for the 2019/20 financial year has been revised upwards by N\$1.26 billion since the mid-year review as a result of higher than anticipated SACU receipts. This revision stems from an improvement in South Africa's growth outlook. Looking towards the outer years of the MTEF though, revenue has been revised up-wards by N\$116 million in 2020/21 but downwards by N\$2.49 billion in the 2021/22 financial year when compared to the forecasts set out in the 2018 mid-term review.

Graph 2: Revenue Growth



Total revenue is expected to increase to N\$59.9 billion in 2020/21 and NS61.8 billion in 2021/22, growing modestly at 3 percent over the MTEF. As a percentage of GDP, revenue is expected to come in at 29.7 percent of GDP in 2019/20 and remain at 29.2 percent of GDP over the MTEF (after having averaged at about 32.6 percent of GDP over the past 7 years). Whilst largely expected, the revenue outlook illustrates how the performance of the struggling domestic economy and dampened outlook on SACU transfers has affected the fiscus by placing government revenue under significant pressure.

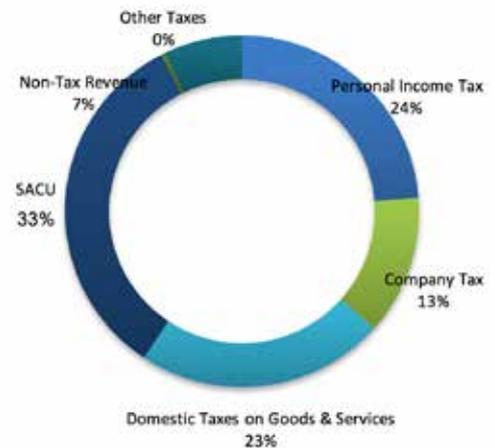
Revenue Breakdown

Tax revenue will continue to form the base of government revenue, with non-tax revenue only being expected to contribute 7 percent (N\$4.1 billion) towards the total in 2019/20. However, non-tax revenue - which mainly comprises revenue generated by State Owned Enterprises and mining royalties - is projected to moderately increase to 7.2 percent (N\$4.3 billion) and 7.5 percent (4.6 billion) in 2020/21 and 2021/22, respectively. This is largely expected to come as a result of the royalties derived from mining activities in the diamond, uranium, lithium, and tin mining sectors increasing over the MTEF.

Graph 3: Revenue Growth



Graph 4: 2019/20 Revenue Composition



During the 2019/20 financial year, tax revenue is expected to account for 92.7 percent or N\$54.1 billion of total revenue. Of this, revenue derived from SACU transfers will constitute 32.4 percent (N\$18.9 billion) of total revenue making it the largest contributor. This is to be followed by Personal Income Tax and VAT contributing 23.2 percent and 22.2 percent, respectively. Company tax is estimated to contribute 12.6 percent toward total revenue in 2019/20; however, at N\$7.3 billion this represents a N\$1.06 billion decrease compared to the N\$8.4 billion collected in the 2018/19 financial year. Company tax is expected to remain below the N\$8.2 billion average of the previous MTEF, and only projected to approach N\$7.7 billion in 2021/22 as weak economic conditions continue to weigh on business activity, and, particularly impact non-mining companies negatively.

SACU

SACU revenue was unexpectedly high, with revenue from the customs union projected to increase by N\$1.54 billion or 8.9 percent from the 2018/19 financial year and come in at N\$18.8 billion in 2019/20. Relative to estimates from the mid-year budget review, SACU revenue has been revised upwards by N\$2.69 billion for 2019/20 despite the country having to make a N\$2.51 billion repayment during the upcoming year. The uptick in SACU transfers is expected to ease pressure on the budget deficit and is attributed to the region’s improved growth outlook.

Over the MTEF, SACU revenue is expected to increase by 2 percent - roughly in line with growth estimates, and reach N\$19.6 billion in 2021/22. Although lower than previous financial periods - such as 2012/13 and 2014/15, where SACU transfers accounted for as much as 36 percent of government revenue – SACU revenue alone is still expected to amount for 32 percent of total revenue over the MTEF. Given that material risks that could significantly threaten global trade and regional growth (such as Brexit, the US and China trade tensions and, closer to home, ESKOM’s power crisis) still exist, the outlook for SACU revenue continues to be worrisome. The volatility of SACU transfers will continue to be a material threat to the government’s fiscal metrics for the foreseeable future, as Namibia’s reliance on revenue

from the customs union is expected to continue unabated despite renewed discussions to adjust the revenue sharing formula and calls to diversify away from SACU reliance.

Graph 5: SACU Revenue



Value Added Tax (VAT)

Domestic tax on goods and services, is expected to decline by N\$356 million in 2019/20, falling by 3 per cent from the previous financial year to N\$12.9 billion from N\$13.3 billion in 2018/19. This is a significant downward revision from the N\$14 billion projected in the previous mid-year review. However, given the sombre outlook for consumer demand and an economy anticipating below 1 percent GDP growth - it's not surprising that VAT has been revised downwards. That said, VAT is still expected to account for 22 percent of total revenue in 2019/20, and over the remainder of the MTEF. As such, VAT is still expected to remain the third biggest contributor to government revenue over the MTEF - with its contribution amounting to N\$13.8 billion in 2021/22 as household consumption recovers.

Personal Income and Company Tax

Graph 6: Tax on Income and Profits



Personal Income and Company tax is expected to decrease by 2.8 percent in 2019/20, falling to N\$21.81 billion in 2018/19. Company tax, which contributes roughly a third of the total, is largely responsible for the decline.

Company tax is expected to fall by N\$1.06 billion, with much of that emanating from reduced tax collection from non-mining companies. Subdued demand conditions are expected to weigh on the profits of non-mining companies, whilst decreased onshore diamond production is expected to constrain revenue derived from diamond mining companies. The outlook for company tax is expected to remain bleak over

the MTEF as it fails to approach the N\$8 billion mark before the end of the forecast period.

Graph 7: Company Tax



Over the MTEF, both personal income and company tax are projected to rebound and eventually reach N\$23.17 billion in 2021/22. Income tax on individuals is expected to account for much of the recovery, however, revenue generated from personal tax has largely remained stagnant having actually fallen by N\$22 million between 2017/18 and 2018/19. Given the limited employment opportunities present in the market, as well as, the fact that wages will remain flat for public servants in the upcoming financial year (and will likely increase below inflation over the MTEF), it's difficult to see where the additional revenue from individual tax will come from.

Proposed taxes

A number of new tax amendments – some of which were announced at the 2018/19 mid-year budget review, were proposed in the 2019/20 budget and are expected to come into effect in 2020. According to the Ministry of Finance, these tax proposals are intended to bring about greater levels of equity by allowing for taxpayers with similar income to be taxed equally and reducing the opportunities for tax avoidance, tax leakages and illicit flows. Once in effect, the ministry expects the revised taxes to generate N\$400 million in additional domestic revenue.

Some of the proposed taxes include the following:

- Phasing out the current tax incentive for manufacturers and exporters of manufactured goods
- Repealing Export Promotion Zones (EPZs) and introducing Special Economic Zones, with a sunset clause for current operators with EPZ status
- Introducing a 10% dividend tax for dividends paid to residents
- Abolishing the conduit principle in the taxation of trusts
- Taxing the commercial activities of charitable, religious, educational at normal corporate tax rates
- Taxing Namibian residents on income earned from foreign sources
- Increasing the tax deductibility of retirement fund contributions from N\$40,000 per annum to 27.5% of income with a maximum of N\$150,000
- Disallowing the deductibility of fees and interest paid to non-residents for calculating taxable income until payment of withholding tax is proven
- Introducing VAT on the income of listed asset managers and on proceeds of the sale of shares or membership in a company owning commercial immovable property
- Removing zero-rating VAT on sugar
- Disallowing the deductibility of royalties for non-diamond mining entities

Along with this, the following excise levies and duties are expected to be introduced:

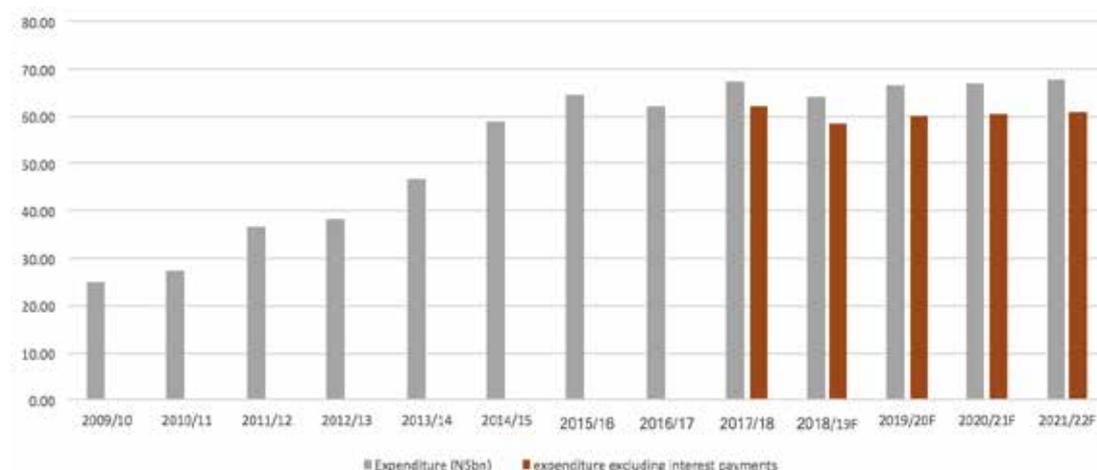
- A fuel levy increase of 25 cents per litre
- Expanding the export levy to include other agricultural, forestry and game products and other mining products currently not covered
- Increasing the export levy for dimension stones from 2% to 15%
- Introducing an export levy of 15 % for timber

Expenditure

Total government expenditure has been trending upwards since the financial period 2009/10, rising 171.1% to peak at N\$67.1bn in 2017/2018. The slight decrease seen in 2016/17 financial period, when the consolidation commenced, was short-lived in 2017/2018. However, during the 2018/19 financial period, the budget reaffirmed its commitment to consolidation, cutting expenditure by 5% to N\$64.3bn. However, the consolidation mainly affected developmental expenditure, instead of areas of concern such as the wage bill and continued support of inefficient SOE's.

Also notable are projections of expenditure of N\$60.1bn in 2019/20 (excluding interest payments). Furthermore, expenditure excluding interest payment and guarantees stands at approximately N\$49bn in 2019/20. This indicates that the country's financial progress continues to be hindered by steadily increasing interest payments, coupled with the somewhat controversial financing of inefficient SOEs.

Graph 8: Total expenditure vs expenditure excluding interest payment

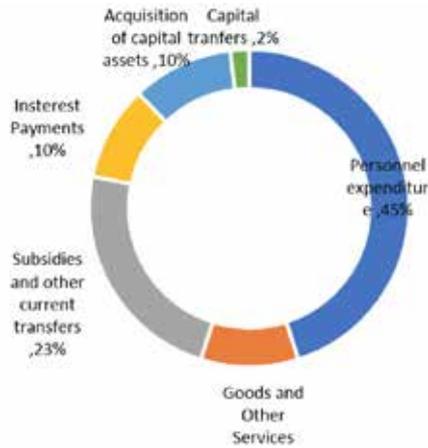


Composition of Expenditures

A significant share of the 2019/20 of the total expenditure budget (N\$52.2bn) will be spent on recurrent expenditures, accounting for 78.6% of the total budget. Capital spending will consume N\$7.9bn (11%) of the total budget allocation. Of the recurrent expenditure allocations more than half is dedicated towards personnel costs. The total cost of the wage bill consumes 51% of the country's total revenue, and remains unsustainable - particularly in an economic climate where individual and corporate tax revenue is projected to decline.

This year's budget is expected to focus on the development budget, increasing it by 42% to N\$7.9bn, with a greater emphasis on economic growth enhancing infrastructure investment, as well as private sector participation. This increase should be translated with caution as the increase is from a lower base of N\$5.6bn.

Graph 9: Total expenditure composition



Graph 10: Development and operational expenditure

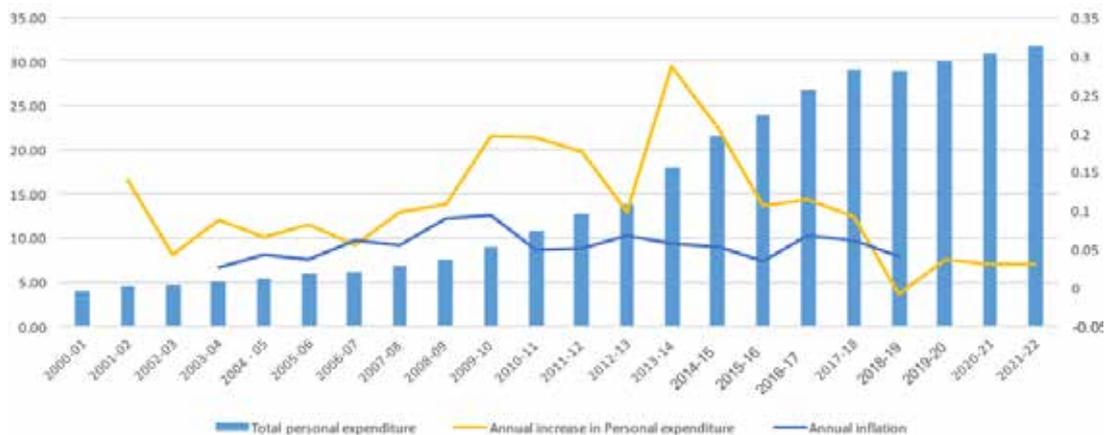


Personnel expenditure

Employment costs have increased by 288.9% over last decade, peaking at N\$29.2bn in 2017/18. This figure has fallen slightly to N\$28.9bn in the financial period of 2018/19, due to public sector hiring restraints coupled with the consolidation of positions in 2018. During the Budget Speech, the Minister of Finance emphasised that recent upward trend of the public wage bill was due largely to job regrading and notch improvements above inflationary adjustments. However, the figure below indicates that the wage bill has been increasing above inflation since 2001/02, with a significant increase of about 28.8% in 2014/15. The problem of an unsustainable wage bill boiled up over time.

Furthermore, the wage bill is expected to increase below inflation over the next three years, which is unrealistic given the 46% youth unemployment rate recently reported by the NSA coupled with the demand for inflation increases by public servants. Considering that 2019 is an election year, we expect the public sector to continue hiring, albeit at a slower pace that past election years.

Graph 11: Wage bill versus inflation



Development expenditure by sector

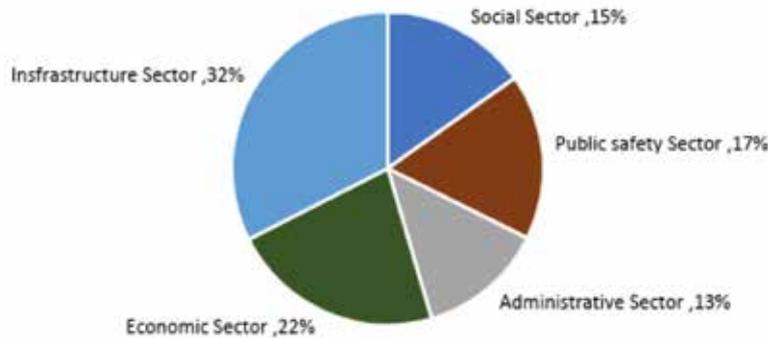
The development budget is the key economic growth driver and return-generating allocation in the budget, despite only receiving 11% of the total budget. The figure below indicates the developmental budget allocation by sectors, with about 33% or N\$2.3bn allocation to the infrastructure sector and 22% or N\$1.7bn towards the economic sector. However, because most of these projects are funded by debt, they are likely to have an adverse impact on the budget deficit.

Most of the developmental projects that the country is embarking on are not return generating and growth stimulating, not now, nor over the next 3 years. The likelihood of the country being in the same fiscal position in the next 3-5 years is still medium to high. These projects include:

- 1) Transport received N\$2.5bn in 2019/20 towards the completion of on-going phases of road capital projects. In addition, a portion of the African Development Bank (AfDB) loan will be channelled towards transport road and rail infrastructure which is financed through the AfDB-funded Economic

- Governance and Competitiveness Program.
- 2) Agriculture received about a N\$1.0bn which is going towards water infrastructure refurbishment and development program.
- 3) School renovation.

Graph 12: Development expenditure by sector in %

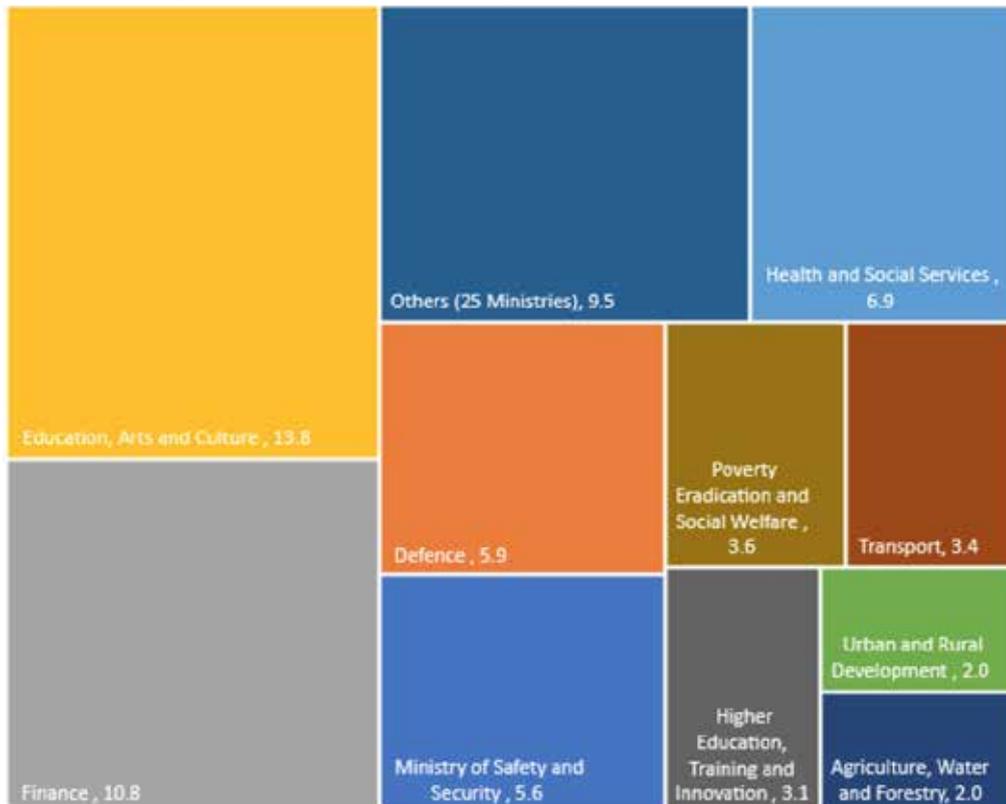


Expenditure Outside Budget (Foreign Loans)

As is normally the trend in many countries, the 2019/20 Budget allocated the largest share of the budget towards education, with the Ministry of Education, Arts and Culture being allocated 20.7% of total expenditure (N\$13.8bn). Despite this, and past prioritisation in budgets, the state of education in Namibia has given cause for concern. Education is a crucial part of the country’s development agenda; a well-equipped youth requires an education that provides sufficient and relevant skills.

The health sector received approximately N\$6.9bn in 2019/20, the third largest allocation in the budget. Similarly to the education sector, it is crucial that the health sector ensure that public finances are efficiently and effectively utilised. Furthermore, government-provided services such as public hospitals have a duty to compensate for the taxes that fund their operation. It is, however, notable that Namibia has a dependency ratio of 68% and that only 725 000 people are employed looking at the NSA labour force survey of 2018. As such, the increasing fiscal needs of public ser-vices need to be decided in the context of these limitations.

Graph 13: Budget Allocation by ministries (N\$bn)

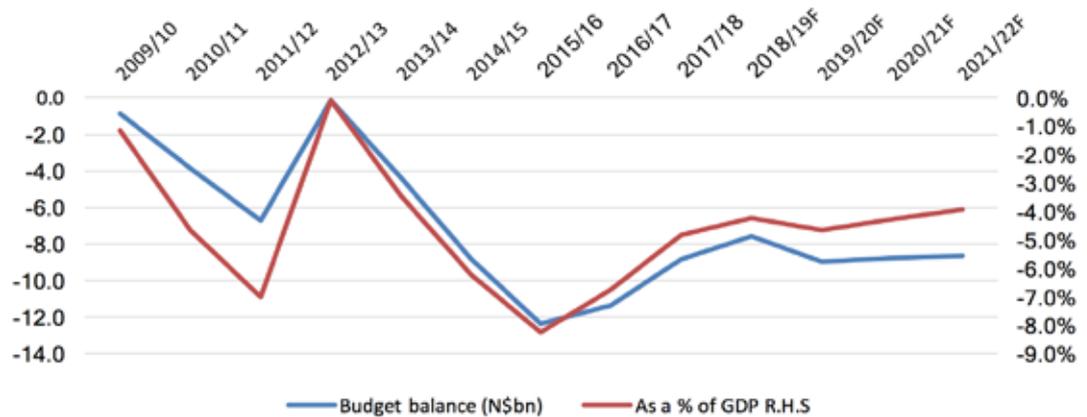


Budget Deficit

One of the key achievements that has been realized as a direct result of fiscal consolidation has been the progress government has made in narrowing the budget deficit. Aligning revenue and expenditure growth was identified as a key priority at the 2016/17 mid-year budget review when the fiscal consolidation strategy was first announced. At the time, the budget deficit for the previous financial year (2015/16) was estimated to have been as high as N\$12.4 billion or 8.2 percent of GDP – and without timely intervention, it is very likely that this figure would have ballooned even further. However, the efforts that have been made since then to not only contain the growth of expenditure but also mobilize domestic revenue have resulted in the budget deficit falling consecutively since the 2015/16 financial year.

After having come down from N\$12.4 billion in 2015/16 to N\$11.4 billion and N\$8.8 billion in 2016/17 and 2017/18, respectively; the budget deficit is expected to continue to narrow over the MTEF, albeit at a slower pace. The Ministry of Finance expects the deficit to fall from N\$8.3 billion or 4.4 percent of GDP in 2018/19, to N\$8.1 billion or 4.1 percent. At the end of the forecast period, the deficit is projected to eventually reach 2.8 percent of GDP or N\$6 billion in 2021/22. However, downside risks to the outlook remain as reducing the deficit will depend on revenue meeting expectations. As it stands, the revenue outlook is underpinned by stronger growth in South Africa driving increased SACU transfers and enhanced mining company taxes improving domestic revenue. However, should regional growth – particularly in South Africa - and commodity prices underwhelm, revenue will likely underperform and as such apply pressure on the government’s ability to reduce the budget deficit as swiftly as envisioned. The biggest portion of the deficit is debt servicing cost. The Minister, during the budget speech, highlighted the fact that the deficit will be financed through a combination of domestic, multilateral and bilateral borrowing - in other words, by debt. This could cause a recurring deficit problem in the coming years.

Graph 14: Budget balance (N\$bn) vs as a % of GDP



Guarantees

Loan guarantees were projected to increase rapidly based on eligible projects before the budget was tabled. These loans are mainly offered to SOE’s, and were expected to increase by 15.6% to N\$14.8bn in 2018/2019, and N\$17.4bn in 2020/2021. During the 2019/20 Budget, these loans were revised downwards to N\$11.1bn in 2019/20 and further projected to increase to N\$11.5bn in 2021/22. Comparatively, the Minister of Finance in South Africa has said that stringent measures will be put in place for SOE guarantees, reflecting an attempt to curb wastage of state finance and enhance efficient allocation.

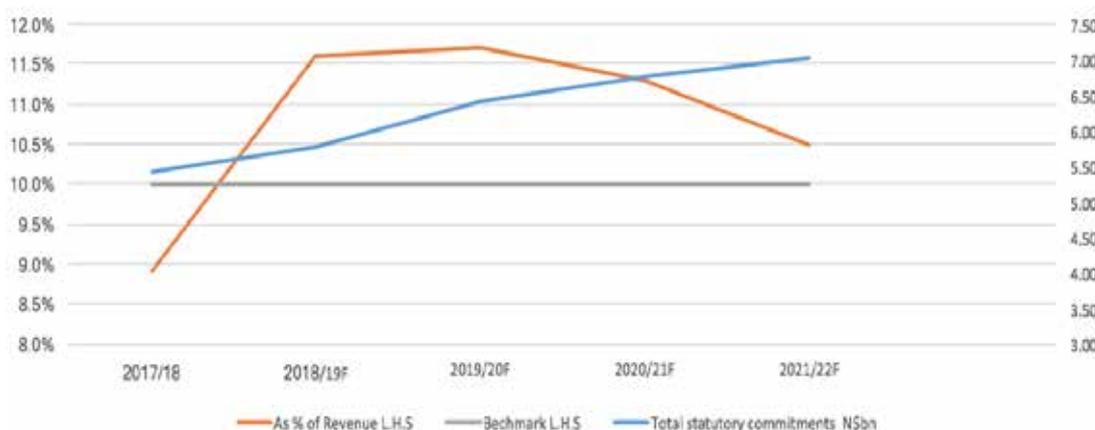
Debt servicing cost

Interest payments average N\$6.7 billion or 11.2% of revenue over the MTEF. This is above the 10% cap, reflecting the increasing burden of debt servicing obligations. For the financial year 2019/20, debt servicing costs are expected to increase to N\$6.4bn: N\$4.1bn will go towards domestic interest payments and N\$2.3bn towards foreign interest repayments. If spent on domestic goods and services (rather than being reinvested), the domestic interest payments could create demand-driven growth which would encourage exponential growth.

Graph 15: Guarantees



Graph 16: Statutory commitments



Government debt

Namibia’s so-called ‘debt problem’ is really an interest repayment problem. Domestic debt has increased by 141% to N\$55.3bn since 2015; this figure could have been higher had the economy not experienced a low liquidity environment in 2017 which resulted into low demand for debt securities. This could possibly have been higher had the economy not experienced low liquidity environment in 2017. The rise was a result of fixed income securities with bonds increasing by 124% to N\$28.5bn since 2015. Treasury bills recorded an increase of 115% to N\$22.0bn. The introduction of inflation linked bonds (ILBs) in August 2015 increased options for government securities, and these have increased by 4800% to N\$4.8bn to date.

Total government debt stood at N\$87.0bn at the end of the financial year 2018/19 which is a 16.9% increase compared to the prior period. As much as current debt levels are concerning, future projects don’t address this concern. Total debt is expected to increase to N\$112.3bn over the MTEF period, which is equivalent to 52.3% of GDP. This is far above our 35% ceiling, and is likely to increase to the 60% SADC ceiling if not addressed. The high public debt stock and associated debt servicing have increased the pressure on our investment grade credit rating, and has led to a credit rating downgrade by Fitch and Moody’s.

The reality is that if the rising debt level is not accompanied by economic growth, we will face serious problems in the next six years. Namibia’s debt maturity profile is skewed to the short end which could put pressure on government finances in the short run.

Graph 17: Total government debt vs as a % of GDP

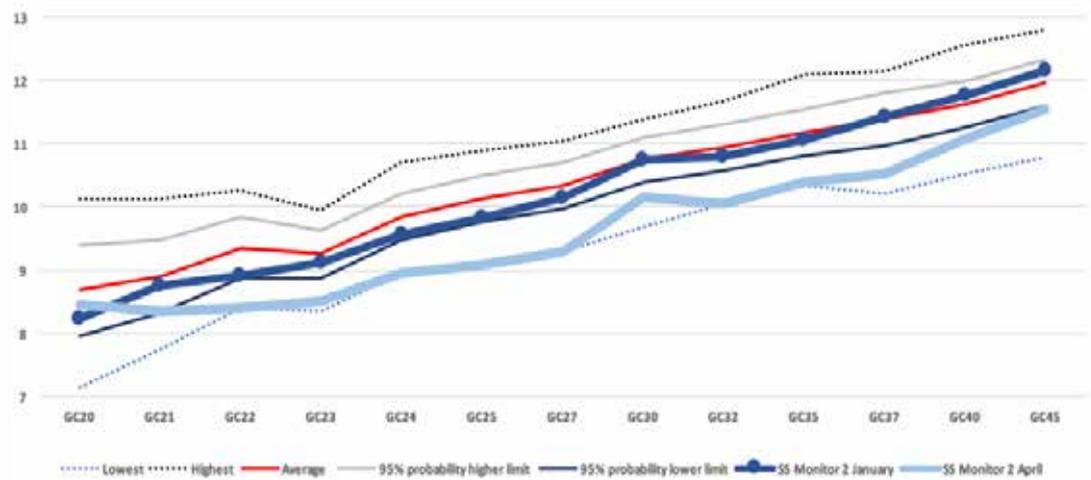


Fixed income instruments

Government debt continues to outpace economic growth. Following a lack of demand for maturities in 2017/beginning of 2018, the local asset requirement regulation was changed to reach 45% at the end of March 2019 to increase liquidity in the market. Demand for bonds has increased significantly, with bid to cover ratios increasing to a current record high 5.4:1 currently, up from <1:1 on average in 2017 and the beginning of 2018. The demand for maturity for the rest of 2019 will remain high due to a sufficient inflow of funds via the 45% local asset managers requirement but will eventually normalise. This will keep bond and Treasury Bill (TB) yields moderately low and at a cheaper option for the central bank.

The sad reality is that the financial year 2019/20 debt to be raised domestically (N\$6.5bn) is only sufficient to cover the debt servicing cost (N\$6.4bn) leaving only approximately N\$0.4bn being channelled to the actual deficit. If this persists, we should not expect an increase in debt to have a significant positive influence on economic growth.

Graph 18: Namibian yield curve: January 2017 to date



The Way Forward

The 2019/20 budget demonstrates that the fiscal consolidation has been advancing. However, rising public debt, continued over-reliance on SACU receipts and the high public wage bill indicate that its effectiveness has not only been hindered by the lack of growth but also been constrained by the absence of key structural reforms within critical areas.

Achieving positive real GDP growth needs to be set as a key priority for the fiscus over the MTEF as positive growth will not only contribute towards narrowing the budget deficit but will also ensure that the debt burden is firmly placed on a downward trajectory. Having recognized this, the government intends to initiate growth through a number of 'growth friendly' policies and interventions. These interventions

include increasing public-sector infrastructure investment packages, and enhancing support for Public Private Partnerships (PPPs) and private sector investments. However, frontloading growth in the manner which the government desires will be difficult to achieve given that (1) the development budget (which is primarily utilized for infrastructure development) has a history of being underspent, and (2) policy uncertainty will likely continue to deter the private sector from investing in the domestic economy or entering into PPPs arrangements.

Given the limited fiscal space available to the government to stimulate the domestic economy, the focus going forward should now firmly turn towards improving the business and investment climate. Considerable low hanging fruit exists in the policy space to not only attract foreign and domestic investment into Namibia, but also, to enable the country to reap the benefits from the ongoing infrastructure development and project financing. Central to achieving this will be the government deepening its efforts to address the policy uncertainty related to the New Equitable Economic Empowerment Framework (NEEEF), the Investment Promotion Act and tax amendments which could be dampening investor sentiment and stifling private sector investment.

Whilst recent reforms to bolster SME development, such as the proposed credit guarantee scheme and venture capital fund, have been positive steps in the right direction and need to be duly recognized as such, continued emphasis also needs to be placed on using procurement as an empowerment tool for local entrepreneurs. The Central Procurement Board of Namibia was established to enhance the efficiency of the procurement process and expedite the awarding of tenders. However, the Board has been ineffective in fulfilling their mandate in a timely manner and this has resulted in the near stand-still of the issuing of tenders. The regulatory bottle-neck facing the Central Procurement Board has translated into low execution rates for necessary expenditure which otherwise could have fed into economic growth.

As a country, Namibia aspires to have SMEs at the forefront of driving growth. However, the majority of the country's SMEs are involved in trade related activities - largely in the services and construction sectors where there is very little value addition taking place. As such, a range of targeted and complex interventions are needed from both the public and private sector in order to create mutually beneficial networks and business linkages with SMEs.

Finally, considerable reforms need to be undertaken in order to address the regulatory bottlenecks hindering the country's regional and global competitiveness. Namibia has gradually been slipping down the World Bank's Ease of Doing Business rankings – having dropped one place between 2017 and 2018 from 106 to 107 out of 190 countries in the 2019 report. Within this ranking, Namibia placed 172th out of 190 for the ease of starting a business and 174th for registering a business. These regulatory challenges are examples of two minor bottlenecks that could have the potential to draw a significant amount of investment and opportunities into the country if effectively addressed.

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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. Democracy Report is funded by the Embassy of Finland.

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 on social, political and economic issues that affect development in Namibia. The IPPR was established in the belief that development is best promoted through free and critical debate informed by quality research.



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