INSTITUTE FOR PUBLIC POLICY RESEARCH

Giving The Can Another Kick - But How Long Is The Road?

ANALYSIS - Namibia's National Budget 2020/21

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Introduction

Newly-appointed Finance Minister Iipumbu Shiimi tabled Namibia's National Budget for 2020/21 in front of a reassembled and masked Parliament on Wednesday 27 May almost two months after the end of Namibia's financial year. The run-up to the Budget had been completely overshadowed by the Covid-19 pandemic and measures taken under the State of Emergency which was declared by President Geingob from 17 March. After being appointed on 22 March, Minister Shiimi moved quickly to introduce measures to address the pandemic and announced the following measures on 1 April:

- Introducing a once-off Emergency Income Grant (EIG) of N$750 per qualifying person costed at a total of N$562m.
- A tax-back loan scheme for tax registered and taxpaying employees and self-employed individuals allowing them to borrow up to 1/12th of their tax payment during the previous year at a low interest rate to be repaid after one year.
- A water subsidy during lockdown so that people can access water without water cards at an estimated cost of N$10m for the first lockdown.
- A wage subsidy for the hardest hit sectors of the economy to help businesses keep hold of employees at an estimated cost of N$400m.
- The accelerated repayment of overdue and undisputed VAT refunds at an estimated cost of at least N$3bn.
- The accelerated payment of overdue and undisputed invoices for goods and services provided to Government at an estimated cost of N$800m.
- A non-agricultural small business loan scheme worth N$500m through the Development Bank of Namibia.
- An agricultural business loan scheme worth N$200m through the Agricultural Bank of Namibia.
- Granting relief to borrowers from the Development Bank of Namibia and the Agricultural Bank of Namibia.
- A tax-back loan scheme for non-mining companies allowing them to borrow up to 1/12th of their tax payment during the previous year at a low interest rate to be repaid after one year capped at N$470m.
- Relaxation of labour regulations to protect jobs allowing employers including Government and business owners to negotiate a reduction in wages of up to 40% for the worst hit industries.

All in all, Minister Shiimi argued that his Stimulus and Relief Package amounted to N$8.1bn of support. However, the N$3bn in VAT refunds represents money that Government anyway owed business. These expenditures were provided for under the continuation authorisation and the Presidential Proclamation No. 14 of 2020, based on invoking Section 9 of State Finance Act, Act No. 31 of 1991 which allowed him to take fiscal measures after the Budget was postponed indefinitely on 26 February and before the Budget could be tabled and approved by Parliament which was only reconvened on 26 May.

The budget was then an exercise in working out how these were to be paid for and trying to make the numbers stack up. Very little in the way of new measures, policies or announcements were made. Instead, the Minister promised to work on "a modicum of policy reforms" designed to constitute "pillars of the medium- to long-term economic recovery and transformation plan" which would be finalised in advance of the Mid-Year Budget Review to be tabled in Q3 of this year. The Minister made a clean breast of this being a one-year budget (para 50 of his budget statement) with no serious attempt to present a longer-term picture of how the country would manage the unprecedented levels of debt it would lead to.

The overall economic picture was already very gloomy before the coronavirus turned up to make a bad situation much worse. Shiimi's predecessor, Calle Schlettwein, had already presided over four years of little or no growth and it was against this background that the new Minister was forced to act. He took the growth forecast released recently by the Bank of Namibia as his starting point. Whereas last year Schlettwein was hoping for positive growth of 2.2% in 2020, Shiimi now sees GDP shrinking by 6.6% in 2020 and by 1.1% in 2021 before growth resumes in 2022 and beyond.

Table 1: Estimated Growth Rates and Forecasts

	2015	2016	2017	2018	2019	2020	2021
GDP growth	4.5%	-0.3%	-0.3%	0.7%	-1.1%	-6.6%	-1.1%

Budget documentation presented three scenarios, the worst of which sees the impact of Covid-19 lasting for 18 months and reducing GDP by 9.8% in 2020 and 1.5% in 2021. The reduction in nominal GDP highlighted in the IPPR's last Quarterly Economic Review (QER) was mentioned explicitly. Government had already used monetary policy to support the weak economy but two further cuts in the Bank of Namibia's repo rate were made in March and April to take it down by 200 basis points to 4.25%, the lowest it has ever been in post-Independence Namibia.

Table 2: Nominal GDP

Nominal GDP (N$m)	2018/19	2019/20	2020/21
Estimates of Revenue and Expenditure (Table 3)	193,641	197,901	171,133
Fiscal Strategy (Table 6)	178,208	176,426	171,133

Confusingly, estimates of nominal GDP differ between the key documents of the Estimates of Revenue and Expenditure and the Fiscal Strategy.

Revenue Highlights – Revenues Plunge but Would be Far Worse without SACU

Revenue and grants are estimated to total N$51.4bn in FY2020/21 or 30.0% of forecast GDP, some 12% lower than the revised total of N$58.6bn in FY2019/20. According to the Minister's speech, dramatically lower revenues from VAT collections, individual income tax, and corporate income tax are to some extent mitigated by strong receipts from SACU of N$22.3bn. Confusingly, however, there are differences (albeit not large) between the numbers contained in the Estimates of Revenue and Expenditure (Table 4) and those in the Fiscal Strategy document (Annex 1: Table 6) whilst the budget speech contains percentage changes that are not reflected in either document. SACU revenues are always agreed a year in advance and then subject to a process of adjustment (up or down) in future years if estimates differ from actual receipts. Namibia can expect adjustments downwards in future years for this important item of revenue.

Table 3: Changes in Revenue Streams (N$m)

Revenue Stream	FY17/18 Actual	FY18/19 Actual	FY19/20 Revised	FY20/21 Budget
Income tax on individuals	13,267	13,588	13,623	9,585
Corporate income tax	7,860	7,325	7,415	4,803
VAT	12,049	11,461	11,964	10,017
SACU	19,597	17,375	18,917	22,252
Total tax revenue	54,591	51,813	54,252	48,408
Total other revenue and grants	4,005	3,934	3,986	2,989
Total revenue and grants	58,659	55,882	58,405	51,397

Source: Estimates of Revenue and Expenditure (FY17/18 from Fiscal Strategy)

The Minister very sensibly stated up front that "given the challenging economic landscape, this is not the time to introduce new taxes." In a welcome move, he withdrew the proposal to disallow the deductibility of mining royalty taxes for non-diamond mining companies which the Chamber of Mines last year had highlighted as a deterrence to mining investment and another addition to the steady drip-drip of new taxes imposed on the industry. He confirmed the recent elimination of manufacturing and EPZ tax incentives and promised to establish Special Economic Zones this year. The abolition of EPZ incentives was first suggested in 2006 by then Minister of Finance Kuugongelwa-Amadhila. Although this has not yet been promulgated and signed into law and registered manufacturers can continue to claim for a further one year, this means there are currently no tax incentives of any significance to attract the manufacturing investment required to transform the economy. It seems strange to announce the abolition of manufacturing and EPZ incentives without first having something to replace them with.

The Minister went out of his way to confirm the N$50,000 tax threshold for individuals and emphasised they had to pay tax regardless of the way their income had been derived. Tax rates for individuals were last changed in 2013. Many of the other tax measures proposed by his predecessor remain under review but he promised they would be subject to consultation before decisions are made to proceed. The only definitive tax changes made were nominal increases to excise duties or "sin taxes" on alcohol and tobacco from 27 February. He further promised to move ahead with recruitment for the new Namibia Revenue Agency (NamRA) which has been subject to several delays and he also gave the nod to improving tax administration, the functionality of the Integrated Tax System and leveraging regional and international cooperation on tax matters.

However, a wide range of tax changes floated by his predecessors were left hanging in the air and received little or no specific mention. A good summary of these by Gerda Brand of Deloitte Namibia is to be found https://www.youtube.com/watch?v=e8sRAFbFtd4 which also includes recommendations from the High Level Panel on the Namibian Economy published in February 2020.

Table 4: Status of Recent Tax Proposals

Tax Amendment	Budget 20/21
Residency/hybrid tax system	No mention but under review
Taxation of trusts as companies	No mention but under review
10% dividend withholding tax for residents	No mention but under review
Taxation of commercial activities of institutions	No mention but under review
Change of wear&tear allowance from 3 to 5 years	No mention but under review
Prohibited deductions of foreign losses	No mention but under review
Cap on assessed losses to 5 years	No mention but under review
Thin capitalisation ratio	No mention but under review
Imposition of VAT on listed fund managers	No mention but under review
Introduction of VAT on property share transactions	No mention but under review
Limit on contributions to retirement funds	No mention but under review
Export levy on dimension stone	No mention but under review
Export levy on timber	Consultation due
Lower tax regime for small businesses	No mention but under review
Capital gains tax	No mention but under review
Transfer duty on property owning companies	No mention but under review

The list demonstrates once again Government's propensity to float tax proposals and then leave them hanging over Namibia's business environment for prolonged periods of time causing immense uncertainty. It is to be hoped that the new Minister will take a different approach and propose changes based on rigorous research and analysis, conduct consultations and implement changes within a limited period of time, say a year. It also suggests Government continues to believe that there are significant amounts of untaxed revenue in the economy that can be taxed without altering incentives to a detrimental extent. Namibia's ratio of tax to GDP is already high for an Upper Middle-Income country suggesting this is not the case even if one takes generous revenues from SACU out of the calculation. Outside a limited but taxable formal sector, it makes little sense to impose taxes on poor people and informal businesses with the intention of channelling services back to them through a bloated and inefficient public sector. Furthermore, each tax should be subject to a simple cost-benefit rule so that the revenue brought in exceeds the cost of administration and enforcement. There are obvious advantages to keeping Namibia's tax system clear and simple.

Expenditure Highlights – Business as Usual Plus Special Measures

According to the Minister's speech, expenditure is estimated to total N$72.8bn in FY2020/21 or 42.5% of forecast GDP. This consists of N$64.4bn of expenditure due for appropriation plus N$8.4bn in interest payments and other statutory payments. Government budget documents break total spending down into operational and development spending of N$57.9bn and N$6.4bn respectively. Revenues of N$51.4bn in FY2020/21 will not be sufficient to cover operational spending of N$57.9bn. In other words, Government will be borrowing to cover day-to-day spending. Interest payments exceed development spending.

Significantly, development spending – consisting mostly of capital and infrastructure - falls from the budgeted N$7.9bn in FY2019/20 to N$6.4bn in FY20/21. Namibia's N$4bn project loan from the African Development Bank under the Economic Governance and Competitiveness Program contributes N$645m towards financing infrastructure in FY2020/21 while the remaining N$1.7bn will be deployed over the two years for road and rail infrastructure.

Table 5: Total Spending by Sub-Division (N$m)

Sub-Division	FY17/18	FY18/19	FY19/20	FY20/21
Personnel Expenditure	29,171	29,389	29,781	28,735
Good and Services	8,421	6,403	7,330	8,524
Subsidies and Other Current Transfers	16,867	12,815	12,907	19,900
Interest Payments and Guarantees	5,430	7,143	7,706	8,443
Acquisition of Capital Assets	4,180	4,689	5,868	5,485
Capital Transfers	1,259	4,801	4,322	1,236
Total	65,328	65,241	67,941	72,772

Source: Estimates of Revenue and Expenditure (Table 8 Estimates of Revenue and Expenditure)

Total budgeted spending (operational plus development) in FY2020/21 broken down by sub-division shown in the table above displays several significant changes over FY2019/20. While spending on public sector wages remains roughly constant in nominal terms, spending on good and services, subsidies and other current transfers and interest payments all rise.

Table 5 shows total Government spending by Vote divided into operational and development spending. Following President Geingob's announcement of a new Government on 22 February some votes have changed. The Ministry of Gender Equality and Child Welfare (Vote 12) and the Ministry of Poverty Eradication and Welfare (Vote 33) have been absorbed into the Office of the President as Gender Equality, Poverty Eradication and Welfare (Vote 36). The former Ministry of Agriculture, Water and Forestry (Vote 20) and the Ministry of Lands and Resettlement (Vote 25) has been restructured into the Ministry of Agriculture, Water and Land Reform (Votes 37 and 38).

Table 6: Operational and Development Expenditure by Vote (N$m)

Vote		Actual 2018/19	Revised 2019/20	Budget 2020/21	Actual 2018/19	Revised 2019/20	Budget 2020/21	Actual 2018/19	Revised 2019/20	Budget 2020/21
1	President	472	382	446	29	77	48	500	459	494
2	Prime Minister	355	501	418	0	8	4	355	509	421
3	National Assembly	104	114	124	3	3	7	107	116	131
4	Auditor General	110	110	109	0	0	0	110	110	109
5	Home Affairs and Immigration	402	444	427	164	233	90	566	676	517
6	Police	4,888	5,066	5,095	331	485	340	5,219	5,551	5,435
7	Foreign Affairs	760	820	901	76	121	109	836	941	1,011
8	Defence	5,606	5,508	5,904	435	375	325	6,041	5,883	6,229
9	Finance	4,244	4,394	6,214	1	8	6	4,245	4,402	6,220
10	Education	13,232	13,351	13,291	464	478	895	13,696	13,830	14,186
11	National Council	94	92	101	0	0	0	94	92	101
12	Gender Equality and Child Welfare	1,180	1,366	0	3	10	0	1,183	1,376	0
13	Health and Social Services	6,587	6,643	7,666	231	230	285	6,818	6,873	7,951
14	Labour and Social Welfare	177	182	180	0	6	8	178	188	188
15	Mines and Energy	140	161	149	71	64	85	211	225	234
16	Justice	202	231	416	62	96	65	264	326	481
17	Urban and Rural Development	1,377	1,455	1,163	451	527	550	1,828	1,982	1,713
18	Environment and Tourism	467	509	480	31	48	105	498	556	585
19	Trade and Industry	217	176	123	106	49	52	323	226	175
20	Agriculture, Water and Forestry	1,081	1,247	0	831	768	0	1,911	2,015	0
21	Prisons and Correctional Services	369	360	376	0	0	0	369	360	376
22	Fisheries and Marine Resources	220	229	218	11	11	19	231	240	237
23	Works	601	585	565	16	12	27	617	597	592
24	Transport	1,457	1,194	426	1,343	1,899	1,978	2,800	3,094	2,404
25	Lands and Resettlement	204	248	0	120	249	0	323	497	0
26	National Planning Commission	159	248	170	0	0	114	159	248	284
27	Youth, National Service, Sport and Culture	286	271	288	2	23	19	288	294	307
28	Electoral Commission	61	350	282	1	0	0	62	350	282
29	Information and Communication Technology	416	337	496	12	21	30	428	359	526
30	Anti-Corruption Commission	58	60	62	0	0	0	58	60	62
31	Veterans Affairs	702	731	843	6	9	5	708	739	848
32	Higher Education	3,409	3,115	3,221	13	22	81	3,422	3,137	3,302
33	Poverty Eradication and Social Welfare	3,410	3,679	0	0	0	0	3,410	3,679	0
34	Public Enterprises	40	39	1,409	0	0	0	40	39	1,409
35	Office of the Attorney-General	198	203	0	0	0	0	198	203	0
36	Gender Equality, Poverty Eradication and Social Welfare	0	0	5,229	3	3	26	3	3	5,255
37	Agriculture and Land Reform	0	0	855	0	0	482	0	0	1,337
38	Water	0	0	272	0	0	657	0	0	929
Total		53,282	54,403	57,919	4,816	5,833	6,410	58,098	60,236	64,329

Once these changes have been taken into account, operational spending by Vote has changed remarkably between FY2019/20 and FY2020/21.

There is a significant reduction in the allocation to the Office of the Prime Minister (Vote 02) mainly due to reductions in Maintenance Expenses (Vote 02 Main Division 01) and to the National Emergency and Disaster Fund (Vote 02 Main Division 02).

There is a reduction in the allocation to Home Affairs and Immigration (Vote 05) mainly due to Goods and Services under (Vote 05 Main Division 04 Visas, Permits, Passports and Citizenship).

Spending on Defence (Vote 06) remains at the same level as recent years at around 10% of total spending.

There is a significant increase in the allocation to Finance (Vote 09) mainly due to higher spending on Government Organisations (for NamRA under Vote 09 Main Division 02), on Covid-19 measures (under Vote 09 Main Division 10) on interest payments (Vote 09 Main Division 14). The Covid-19 measures under Main Division 10 include N$772m for the Emergency Income Grant (EIG) (compared to the original estimate of N$562m when the policy was first announced) and N$400m for the wage subsidy. The total allocation under Vote 09 Main Division 14 (Public Debt Transactions) rises from N$6.4bn to N$8.4bn including N$706m for guarantees.

There is a significant increase in the allocation to Health (Vote 13) mainly due to higher spending on Goods and Services (under Vote 13 Main Division 04 Regional Health and Social Welfare Services and under Vote 13 Main Division 07 Tertiary Health Care Services). This is Covid-19-related expenditure.

There is a huge increase in spending on Justice (Vote 16) due to the inclusion of three new Main Divisions 09 (Provision of Legal Services), 10 (Civil Litigation), and 11 (Public Prosecution) totalling almost N$160m.

There is a significant decrease in the allocation to Trade and Industry (Vote 19) due mainly to a reduction in spending on the Investment Centre (Vote 19 Main Division 05) which is due to be replaced by the new Namibian Investment Promotion and Development Board in the Office of the President. This receives N$42m under Vote 01 Main Division 07 (Trade Investment Board).

There is a significant reduction in the allocation to Transport (Vote 24) due to reductions in Main Division 02 (Transportation Infrastructure) but this is partly countered by increases to Main Division 03 (Railway Infrastructure Management).

There is a reduction in the allocation to the Electoral Commission (Vote 28) which was to be expected following the national elections held at the end of 2019.

There is a huge increase in the allocation to Public Enterprises (Vote 34) primarily because Subsidies and Transfers to public enterprises now fall under this Vote under Main Division 04 (Corporate Governance and Financial Advice) which provides details of N$1.4bn worth of support for selected commercial public enterprises including N$984.6m for Air Namibia.

Table 7: Subsidies and Transfers to Commercial Public Enterprises

Public Departmental Enterprises and Private Industries	N$m
Epangelo Mining Company	10.5
Lüderitz Waterfront	1.7
Zambezi Waterfront	1.0
TransNamib Holdings	0.0
Air Namibia	984.6
Namibia Airports Company (NAC)	86.5
National Institute of Pathology (NIP)	146.0
Roads Contracts Construction (RCC)	21.0
Agro-Marketing and Trade Agency (AMTA)	60.0
AGRI-BUS-DEV	60.0
Total Public Departmental Enterprises and Private Industries	1,371.3

As far as development spending is concerned (mainly capital expenditure), the main spenders (receiving N$100m or more) are (in descending order):

1. Transport (Vote 24)
2. Education (Vote 10)
3. Water (Vote 38)
4. Urban and Rural Development (Vote 17)
5. Agriculture and Land Reform (Vote 37)
6. Police (Vote 06)
7. Defence (Vote 08)
8. Health (Vote 13)
9. National Planning Commission (Vote 26)
10. Foreign Affairs (Vote 07)
11. Environment and Tourism (Vote 18)

According to the Development Budget, of the 401 projects funded in FY2020/21, only 11 are new suggesting Government has made an attempt to scale back development spending due to fiscal constraints. The largest increases in allocations were to Education (Vote 10) primarily for school building and renovation and Health (Vote 13) for hospital construction, upgrading and renovation but Environment and Tourism (Vote 18), Fisheries and Marine Resources (Vote 22) and Works (Vote 23) also see substantial increases compared to last year. Transport is by far the largest recipient of allocations to development spending receiving N$1,067m for roads and N$799m for rail infrastructure inside the State Revenue Fund (SRF) plus N$375m and N$680m outside the SRF respectively. Expenditure on land purchases under the new Ministry of Agriculture and Land Reform (Vote 37) is halved to N$100m.

Deficit and Debt – Entering Uncharted Territory

The revenue and expenditure estimates described above yield a budget deficit of N$21.4bn or 12.5% of estimated GDP implying that Namibia's total debt stock reaches an unprecedented 69.6% of GDP by the end of FY2020/21. This level of public debt takes Namibia into uncharted territory. In his speech the Minister states that the deficit will be financed through "a combination of own savings and domestic and external borrowing". It is not clear what own savings exist apart from the sinking funds set aside to redeem Government's four JSE-listed bonds as well as the US$500m Eurobond1 which matures in FY2021/22 and the US$750m Eurobond2 which matures in FY2025/26.

As of 31 March 2019, the Ministry of Finance stated that the balance on the ZAR was N$858m (for the four JSE-listed bonds) and on the USD fund was US$350m (for the two Eurobonds). The Minister did not mention what the latest balances were or how these funds were to be replenished. The assumption always seems to have been that these bonds could all be rolled over but it is not certain whether this will be possible in Namibia's highly constrained new circumstances nor at what price.

Since 2017, Namibia's sovereign credit ratings have been steadily downgraded by Fitch (from BBB- Stable in 2014 to BB in 2019) and Moody's (from Baa3 Stable in 2015 to Ba2 Negative in 2020) as Namibia has shown little sign of making significant fiscal and other reforms. Namibia has not taken heed of three years of ratings downgrades to prepare itself for the debt redemptions that are now due. This is likely to mean Namibia will have to pay significantly higher rates of interest on foreign borrowings, especially in a global situation where many governments are having to borrow much more than expected.

Table 8: Key Fiscal Aggregates (as % of GDP)

	FY15/16 actual	FY16/17 actual	FY17/18 actual	FY18/19 actual	FY19/20 actual	FY20/21 budget
Revenue and Grants	34.6%	31.8%	34.2%	31.4%	31.5%	30.0%
Expenditure	42.8%	38.9%	39.3%	36.5%	37.7%	42.5%
Budget Balance	-8.2%	-7.1%	-5.2%	-5.2%	-4.5%	-12.5%
Debt	39.6%	43.7%	43.4%	49.1%	54.8%	69.6%
Interest Payments	5.0%	8.5%	9.3%	11.3%	11.9%	15.1%
Guarantees	4.3%	4.0%	6.4%	6.1%	6.3%	6.5%

Source: Fiscal Strategy Documents

Chart 1: Key Fiscal Aggregates (as % of GDP)

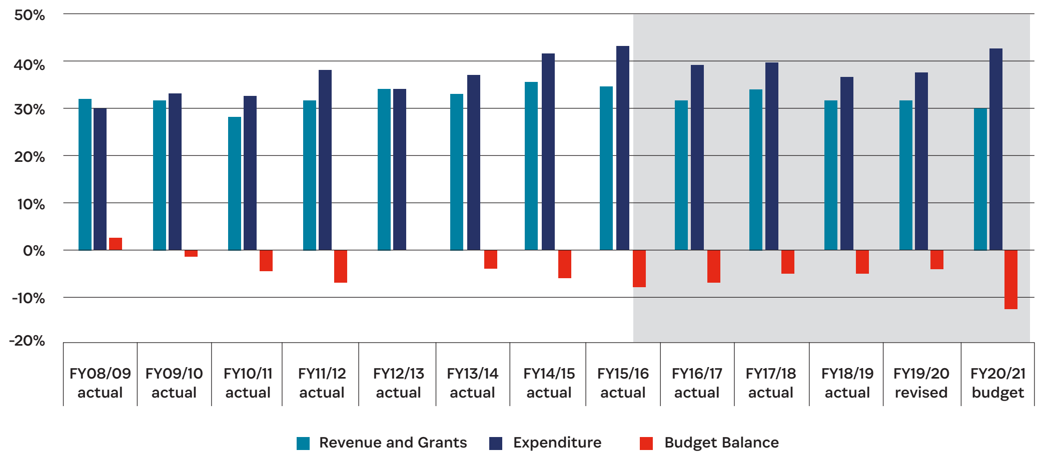
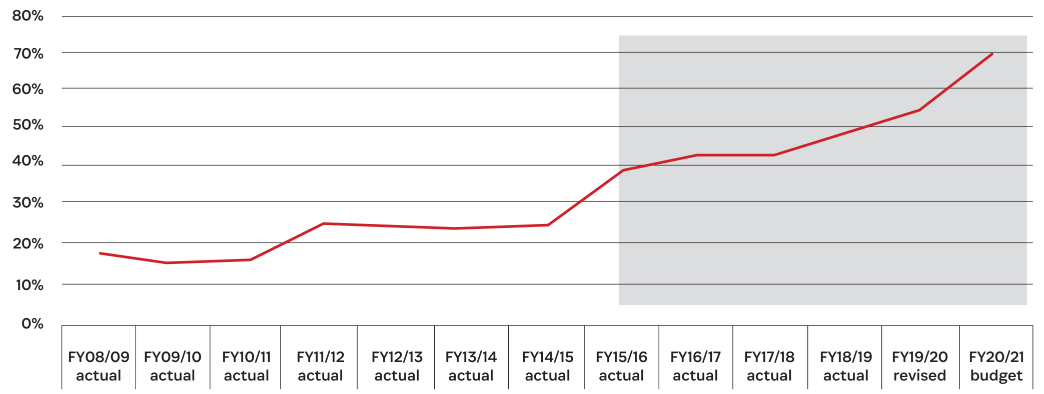


Chart 2: Ratio of Debt to GDP (as % of GDP)



A useful summary of the challenges facing many African countries which have issued foreign current debt is contained in a recent edition of The Economist https://www.economist.com/middle-east-and-africa/2020/06/06/african-governments-face-a-wall-of-debt-repayments. The danger of default or opting for any sort of debt relief is that countries that do so will be locked out of capital markets in future. Given Namibia is also likely to shy away from debt relief and will be reluctant to approach International Financial Institutions (with the possible exception of the AfDB) for help, further pressure on the Government Institutions Pension Fund and other domestic pension funds can be expected.

Budget transactions are summarised in the Estimates of Revenue and Expenditure document in Table 3: Namibia Statement of the Central Government Operations which is reproduced below.

Table 9: Summary of Central Government Operations

Item in FY2020/21	N$m
GDP (estimated)	171,033.0
1. Total revenue and grants	**51,397.1**
2. Operating expenses	66,051.2
Compensation of employees	28,735.3
Goods and services	8,972.3
Domestic interest payments	4,800.8
Foreign interest payments	2,936.5
Other statutory payments	706.0
Subsidies	12,076.5
Grants	193.5
Social benefits	7,630.2
Operating balance (1-2)	-14,654.0
3. Capital expenditure	8,247.5
Acquisition of non-financial assets	5,485.2
Projects outside the budget (4)	1,526.4
Capital transfers	1,235.9
4. Total expenditure inside budget (2+3-4)	72,772.2
5. Primary balance	12,931.8
6. Overall balance (1-2-3)	-21,375.1
7. Other funding requirements	4,835.0
Foreign debt repayments	330.0
Bond redemption	1,615.0
Bank of Namibia line of credit	2,890.0
8. Net borrowing requirement (6-7)	26,210.1
9. Financing	26,210.1
Cash reserves	9,115.0
Domestic borrowing	10,338.7
Foreign borrowing	
AfDB	2,000.0
AfDB	1,526.4
Other borrowing (Covid-19)	3,230.0
Public and guaranteed debt	**128,623.7**
Total debt	**117,494.7**

Transparency and Access to Information

This year's budget was put together and tabled in an environment of crisis. It seems unfair to be too critical of something that was clearly a rushed job but criticisms can certainly be made.

The Budget Speech, Estimates of Revenue and Expenditure, the Fiscal Strategy and the MTEF document were available on the day the budget was tabled despite problems with the Ministry of Finance website. However, it took another week for the NPC to publish the Development Budget on 3 June. This document is well-produced and contains a wealth of information about Government's development spending but generally receives little attention, possibly because as this year it is often published some time after the Budget has been tabled. As of June 9 2020, almost two weeks after the budget was tabled, the Accountability Report for 2018-19 had still not been published on the Ministry of Finance website.

The Estimates of Revenue and Expenditure is a large and complex document, made more complicated this year by the restructuring of expenditure by Classifications of the Functions of Government (COFOG) in line with the IMF's Government Finance Statistics Manual 2014. Table 2 of the Estimates of Revenue and Expenditure presents total spending according to COFOG. Thus, for example, military spending declines as a proportion of total spending from 9.7% by Vote (Vote 08 Defence) to 9.5% by Function (702) because the N$98.985m to Military Hospitals (Vote 08 Main Division 07) is reclassified by Function as General Hospital Services (707). While in principle this is a good thing, in practice it makes an already complex document even more confusing. The restructuring of Government ministries announced in February adds to the confusion and makes comparison of this year with previous years difficult.

The Estimates document promises information on the subsidies and transfers to SOEs but these are nowhere to be found (although there is a limited list of information under Vote 34 Main Division 04 (as described above).

One would expect information to be consistent across documents but this is not the case. For example, estimates for nominal GDP by FY differ from document to document. This suggests that the Estimates document was worked on until the very last moment.

Finally, apart from the Covid-19 measures which had already been announced, the main issue this budget had to deal with was how the budget deficit was to be financed and how the country was going to avoid running into a serious fiscal crisis. On this issue the speech and other budget documentation were almost silent.

All in all, budget documentation is generally poorly produced. Documentation is only available as pdfs implying anyone wanting to do serious analysis has to retype numbers in the documents into spreadsheets. Only specialists with time on their hands can really expect to understand what is being proposed.

Conclusions – Keep Kicking the Can but How Long is the Road?

This year's budget took place against the unprecedented backdrop of a global pandemic. This came on top of four years of economic depression and an election whose outcome knocked the prestige of the ruling party and the President. Government was duty-bound to respond to the challenges posed by the pandemic but had to do so from a position of extreme fiscal weakness. Government chose to add the cost of its special measures to existing spending programmes and borrow the difference thereby pushing up overall levels of debt to historically unprecedented levels. Overall, spending on public sector salaries, subsidies for loss-making public enterprises, and defence continued much as before.

If the country could be certain of V-shaped recovery and therefore higher levels of growth and tax revenues there would be cause for hope. However, this is far from certain, not only because the effects of the pandemic are likely to leave long-lasting scars on the economy (especially in key sectors of the economy such as tourism), and not only because revenue outturns could be much worse than forecast, but also because this crisis takes place at a time after which key policy choices – specifically the Namibia Investment Promotion Act and the National Equitable Economic Empowerment Framework – have already created immense economic uncertainty and frightened foreign investors.

One of the things post-Independence Namibia could be most proud of (and what attracted a good deal of investment) was its stable macroeconomic situation. Zero growth plus borrowing on such a scale could lead to a debt trap i.e. a situation where the country ends up in an unsustainable spiral - constantly having to borrow more at ever higher rates of interest so that it can repay debt. Minister Shiimi recognises this danger and talked of "a modicum of policy reforms" to be finalised in advance of the Mid-Year Review in October and hinted at what these might comprise of in Paragraph 76 of his budget speech. These include such well-rehearsed phrases such as "improving national competitiveness", "right sizing the public sector", and "implementing time-bound reforms of public enterprises".

Lest anyone needs reminding, the President's Harambee Prosperity Plan (HPP) of 2016 committed Government to

- "anchoring our public debt to GDP ratio to 30%"
- "maintain and improve on our international sovereign credit ratings of BBB minus"
- "create at least 8,000 new jobs in the manufacturing sector" and to
- "become the most competitive economy in Africa", among other things.

Newly appointed Minister Shiimi was never going to tackle these issues with his first budget which was essentially an emergency budget. The can of real reform has once again been kicked down the road with the pandemic used as a plausible pretext for doing so. But the harsh truth is that, unless radical reforms are embraced, Government will soon run out of road.

Namibia Needs to Improve on Budget Transparency

The Open Budget Survey is the world's only independent, comparative and fact-based research instrument that uses internationally accepted criteria to assess public access to central government budget information; formal opportunities for the public to participate in the national budget process; and the role of budget oversight institutions such as the legislature and auditor in the budget process.

In the latest Open Budget Survey, published in May 2020, Namibia improved its transparency score slightly - moving from 50 points out of 100 in 2017 to 51. A score of 61 is considered the minimum threshold to foster an informed public debate on budgets. The global average transparency score in the OBS 2019 was 45.

Out of the 117 countries assessed Namibia came 47th - the same position as in 2017.

"Namibia is performing better than the global average but can still do more to join the ranks of those countries considered to be providing substantial information on both the allocation and spending of public money, " said Graham Hopwood, Executive Director of the Institute for Public Policy Research (IPPR), which conducted the research for Namibia.

"Namibia could make further strides in budget transparency by improving the timing of audit reporting and making the accountability report more comprehensive, among other measures."

Namibia published 7 of the 8 required public documents within the timeframe set by the survey. Only a comprehensive audit report on government expenditure was published late. This is an improvement on 2017 when several documents were either not issued or published late.

Hopwood added, "In the past Namibia has received plaudits for introducing a citizens guide to the budget and a mid-year review. We are now in a position to do more – particularly in the area of promoting public participation in budget formulation and monitoring."

Namibia was the fourth best performer in Africa (behind South Africa, Uganda, and Ghana) and the second in the Southern African region (behind South Africa).

Six of the countries surveyed release extensive budget information and scored 81 or higher: New Zealand, South Africa, Sweden, Mexico, Georgia and Brazil.

The current COVID-19 global pandemic has resulted in many countries imposing emergency spending measures.

Hopwood said, "Fiscal transparency is absolutely crucial during times of national emergency as it is more important than ever to ensure government spending is effective and positively assists the people in need."

Namibia performed extremely poorly on the public participation part of the survey – registering a 0 score - as there are no formal opportunities for meaningful public participation afforded by the government, parliament or the Auditor-General's office.

The OBS recommends that the Ministry of Finance introduce pilot mechanisms to engage the public during budget formulation and to monitor budget implementation.

Parliament should also provide opportunities for members of the public to testify during hearings on the budget proposal prior to its approval as well as during hearings on audit reports.

Further details are available in the country report on Namibia to be found at:
https://www.internationalbudget.org/open-budget-survey/country-results/2019/namibia

International
Budget
Partnership

A Call for Open Budgets

The IPPR has supported this public Call for Action launched by the International Budget Partnership

Open budgets help governments establish a more secure mandate by creating new avenues to connect to citizens and build trust.

We, the undersigned, believe all people should have access to detailed information about their governments' budgets, with meaningful opportunities for input and engagement--including people living in poverty and other marginalized communities.

Thus, over the next five years, we call on all national governments to:

1. Publish information on how public resources are generated, allocated and spent - in a timely manner that is accessible to all, as specified in the Open Budget Survey.

2. Create opportunities for all people, particularly those from marginalized communities, to provide input into the budget process.

3. Strengthen monitoring and oversight of budget execution through independent institutions.

4. Sustain improvements achieved on open budgeting, protecting them from political shifts.

We recognise that all stakeholders have an important role to play in advancing this shared agenda and commit to the engagement needed.

About the Institute for Public Policy Research (IPPR)

The Institute for Public Policy Research was established in 2001 as 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.

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The IBP works in collaboration with civil society, state actors, international institutions, and the private sector – to bring about a world in which empowered citizens participate in open, inclusive budgeting processes to shape policies and practices that promote equity and justice on a sustainable basis.