DEMOCRACY REPORT

• BY ROBIN SHERBOURNE | SPECIAL BRIEFING REPORT | OCTOBER 2022

Minister of Finance Iipumbu Shiimi delivered his Mid-Year Budget Review statement in the National Assembly on 25 October 2022.

The Mid-Year Budget Review FY2022/23:

The Ship Is Steadied But Will It Sail Anywhere?

Finance Minister Iipumbu Shiimi tabled Namibia's eighth Mid-Year Budget Review (MYBR) in Parliament on Tuesday 25 October 2022.

Former Finance Minister Calle Schlettwein introduced the first Mid-Year Budget Review Policy Statement in November 2015 not long after being appointed by President Geingob at the beginning of his first presidential term as "an added pillar for fiscal transparency, accountability, and a more open budget formulation process".

At the time, Schlettwein emphasised that the associated Appropriation Amendment Bill "proposes a redeployment of funds identified with Budget Votes for reallocation to various priority programmes within and across the Budget Votes, without increasing overall expenditure and therefore without increasing the overall budget ceiling". It was not, therefore, an additional budget.

Former Finance Minister Saara Kuugongwelwa-Amadhila had done away with additional budgets in FY2006/07 replacing them with "revised budgets" arguing that additional budgets undermined fiscal discipline and good planning as ministries could submit proposals for the main budget safe in the knowledge that they could be drastically changed in the additional budget later in the financial year.

As will be seen below, it looks like Namibia's MYBR is returning to being more of an additional budget than a revised budget with all implications that involves for fiscal discipline and planning. Nonetheless, the information contained in the MYBR is welcome, as a fiscal year can be an awfully long time in periods of global economic and political disruption like the one currently being experienced.

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Growth – it will take another year for the economy to return to its pre-Covid size

The level of resources available to the Minister of Finance is primarily dependent on the performance of the economy. The table below shows how the Minister's growth forecasts have changed since the onset of the Covid pandemic in early 2020. Whilst at the onset in May 2020 it was thought the pandemic would reduce GDP over two years, the view now is that most damage was inflicted in 2020 after which some degree of bounce back was experienced but that a good deal of long-term economic "scarring" meant a full return to pre-Covid levels of activity would not take place for several years.

The latest revisions to GDP show the damage was not quite as bad as the estimate contained in this year's main budget and last year's MYBR (-8.0% now compared to -8.5% then). The Minister expects all major sectors of the economy to grow in 2022 (with the exceptions of Electricity and Water, Construction, and Administrative Support Services) and 2023 but the numbers he presents shows that he believes the economy will only return to its pre-Covid size towards the end of 2023. This seems realistic given the length of time it will take the tourism and hospitality sector to recover. Overall, the Ministry must be congratulated on having done a good job forecasting growth throughout the pandemic.

Table 1: Estimated Growth Rates and Forecasts over Covid Period

	2015	2016	2017	2018	2019	2020	2021	2022 (f)	2023 (f)	2024 (f)
Budget FY20/21 (27 May 2020)										
GDP growth	4.5%	-0.3%	-0.3%	0.7%	-1.1%	-6.6%	-1.1%	3.6%	2.2%	n/a
MYBR FY20/21 (20 October 2020)										
GDP growth	4.5%	-0.3%	-0.3%	1.1%	-1.6%	-7.9%	2.2%	3.9%	n/a	n/a
Budget FY21/22 (17 March 2021)										
GDP growth	4.3%	-0.0%	-1.0%	1.1%	-1.6%	-7.3%	2.1%	2.8%	n/a	n/a
MYBR FY21/22 (3 November 2021)										
GDP growth	4.3%	0.0%	-1.0%	1.1%	-0.9%	-8.5%	1.9%	2.8%	3.4%	2.7%
Budget FY22/23 (24 February 2022)										
GDP growth	4.3%	0.0%	-1.0%	1.1.%	-0.9%	-8.5%	1.2%	2.9%	3.7%	2.5%
MYBR FY22/23 (25 October 2022)										
GDP growth	4.3%	0.0%	-1.0%	1.1%	-0.8%	-8.0%	2.7%	2.8%	3.4%	2.9%

Source: National Accounts and Budget Documents

Revenues – a better outturn for FY21/22 and a surprisingly strong outlook for FY22/23

The Minister has provided an updated view of expected revenues this year. Total revenue and grants in FY21/22 came in at N$55.4 billion compared to the revised estimate of N$53.6 billion and the main budget estimate of N$52.1 billion. Overall revenue and grants in FY22/23 is now forecast to reach N$64.1 billion compared to the N$59.7 billion expected in February, an increase of N$4.4 billion. This is a result of particularly strong rises in collections from individual income tax, diamond mining and non-mining corporate tax, VAT, and dividends from SOEs (the Minister makes special mention of DebMarine Namibia which launched a new vessel the Benguela Gem earlier this year which has the capacity to mine 500,000 carats a year) within Other Revenue and Grants. Throughout the pandemic, the Minister has been consistently conservative in his estimates of revenue.

Table 2: Changes in Revenue Streams (N$m)

Revenue Stream	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY22/23	% change
	Actual	Actual	Actual	Actual	Budget	MYBR	
Income tax on individuals	13,588	14,147	13,768	14,629	14,657	15,302	+4.4%
Corporate income tax	7,325	7,257	7,559	7,485	7,291	8,416	+15.4%
VAT	11,461	11,516	8,326	11,431	11,472	12,575	+9.6%
SACU	17,375	18,922	22,252	14,751	14,190	14,190	0.0%
Total tax revenue	52,189	54,816	54,575	51,249	50,376	53,439	+6.0%
Total other revenue and grants	3,559	3,511	2,997	4,112	9,302	10,625	+14.2%
Total revenue and grants	55,882	58,425	57,838	55,379	59,678	64,064	+7.3%

Source: Estimates of Revenue and Expenditure (FY2018/19 from Fiscal Strategy)

Expenditure – once again more spending in preference to paying down debt

On the expenditure side, the Minister raises total spending from N$70.8 billion to N$74.7 billion. This is 6.3% more than in FY21/22 which, given September inflation was 7.1%, represents a real decrease in spending. He announced that savings of N$387.3 million had been identified for reallocation across votes. Rather than use the additional revenues mentioned above and the expenditure savings to reduce debt, the Mid-Term Review makes an additional N$3.9 billion available for reallocation across budget votes. This despite the Minister claiming that he was committed "to channel much of the increases in revenues to addressing fiscal imbalances and improving our fiscal metrics, going forward".

The Minister highlighted the following additional expenditure items which he insisted were urgent and could not be deferred to the next main budget. Together these allocations bring the operational budget up from N$56.6 billion to N$60.1 billion and the development budget up from N$5.0 billion to N$5.5 billion.

- The ceilings of all votes were revised upwards by N$1.3 billion to accommodate the 3.0% salary and benefits adjustment for civil servants agreed in August. The backdated salary adjustments were made on 14 October. A Wage Bill Committee has produced a report with recommendations on restraining the public sector wage bill which are currently being assessed. A temporary public sector recruitment freeze has been imposed for the remainder of this financial year.

- The development budget is increased by N$497.7 million to settle outstanding invoices and cater for potential shortfalls on critical ongoing projects to ensure continuity and avoid further penalties on road projects as well as covering the shortfall on the Land Servicing Programme and the extension of the apron at the Hosea Kutako International Airport.

- Additional personnel expenditure of N$747.4 million was granted, mainly to the votes of Health and Social Services and Education, Arts and Culture. The Minister noted that the Auditor General had flagged persistent overspending by these two votes in previous financial years, primarily due to underbudgeting.

- Goods and Services receives an additional N$872.9 million to cover projected shortfalls on utilities, funding to combat the outbreak of foot and mouth disease and lung sickness and address inflation in transport costs.

- Subsidies and Other Transfers receives an additional N$531.1 million for Government organisations to cover shortfalls in student funding at NSFAF and the refurbishment of locomotives for TransNamib.

- An additional N$99.3 million is provided for the Acquisition of Capital Assets, primarily for the purchase of medical equipment to support the medical internship programme.

- The allocation for interest payments has been reduced slightly from N$9.210 billion to N$9.133 billion.

Table 3: Amended Spending by Vote (N$'000)

N$'000	Appropriated Amounts in Budget	Amended Amounts in MTR	Difference
Vote 01 Office of the President	613,507	725,669	112,162
Vote 02 Office of the Prime Minister	394,332	400,483	6,151
Vote 03 National Assembly	110,996	167,427	56,431
Vote 04 Auditor-General	108,267	116,671	8,404
Vote 07 International Relations and Cooperation	849,062	925,285	76,223
Vote 08 Defence	5,847,695	6,070,213	222,518
Vote 09 Finance	5,208,275	5,194,620	-13,655
Vote 10 Education, Arts and Culture	14,074,985	15,154,632	1,079,647
Vote 11 National Council	91,933	102,900	10,967
Vote 13 Health and Social Services	8,350,333	8,851,502	501,169
Vote 14 Labour, Industrial Relations	160,356	189,788	29,432
Vote 15 Mines and Energy	194,126	198,544	4,418
Vote 16 Justice	446,353	457,843	11,490
Vote 17 Urban and Rural Development	1,331,773	1,438,783	107,010
Vote 18 Environment, Forestry and Tourism	478,952	528,255	49,303
Vote 19 Industrialisation and Trade	232,102	298,834	66,732
Vote 21 Judiciary	369,480	386,714	17,234

Vote 22 Fisheries and Marine Resources	175,547	191,360	15,813
Vote 23 Works	535,716	565,163	29,447
Vote 24 Transport	2,587,113	3,141,804	554,691
Vote 26 National Planning Commission	182,781	187,984	5,203
Vote 27 Sport, Youth and National Service	330,921	335,428	4,507
Vote 28 Electoral Commission of Namibia	85,349	97,132	11,783
Vote 29 Information and Communication Technology	521,872	560,131	38,259
Vote 30 Anti-Corruption Commission	62,771	73,971	11,200
Vote 31 Veteran Affairs	874,444	1,032,153	157,709
Vote 32 Higher Education, Technology	3,325,100	3,495,646	170,546
Vote 34 Public Enterprises	790,669	894,315	103,646
Vote 36 Gender Equality, Poverty Eradication	5,508,460	5,523,746	15,286
Vote 37 Agriculture and Land Reform	1,250,768	1,384,635	133,867
Vote 38 Water	623,333	570,910	-52,423
Vote 39 Home Affairs, Immigration	5,838,630	6,296,336	457,706
Total	61,556,001	65,558,877	4,002,876
Interest payments	9,210,000	9,133,000	-77,000
Total Including interest payments	70,766,001	74,691,877	

With these reallocations, spending by sub-division changed as set out in the table below. Total expenditure rises by N$3.9 billion from the N$70.8 billion set out in the February Budget to N$74.7 billion. The Development Budget, which is often touted as a spur to growth, grows from N$5.0 billion to N$5.5 billion.

Table 4: Total Revised Spending by Sub-Division (N$m)

Sub-Division	MYBR Actual	FY22/23 Budget	FY22/23 MYBR
Operational Expenditure			
Personnel Expenditure	30,210	30,116	32,056
Good and Services	8,037	7,261	8,124
Subsidies and Other Current Transfers	18,074	18,492	19,092
Interest Payments and Guarantees	7,737	9,210	9,133
Acquisition of Capital Assets	619	686	789
Capital Transfers	3	2	2
Total Operational Expenditure		65,609	65,768
Development Expenditure			
Goods and Other Services	118	285	285
Acquisition of Capital Assets	3,325	4,010	4,497
Capital Transfers	1,250	702	712
Total Development Expenditure	4,693	4,998	5,495
Grand Total	70,302	70,766	74,692

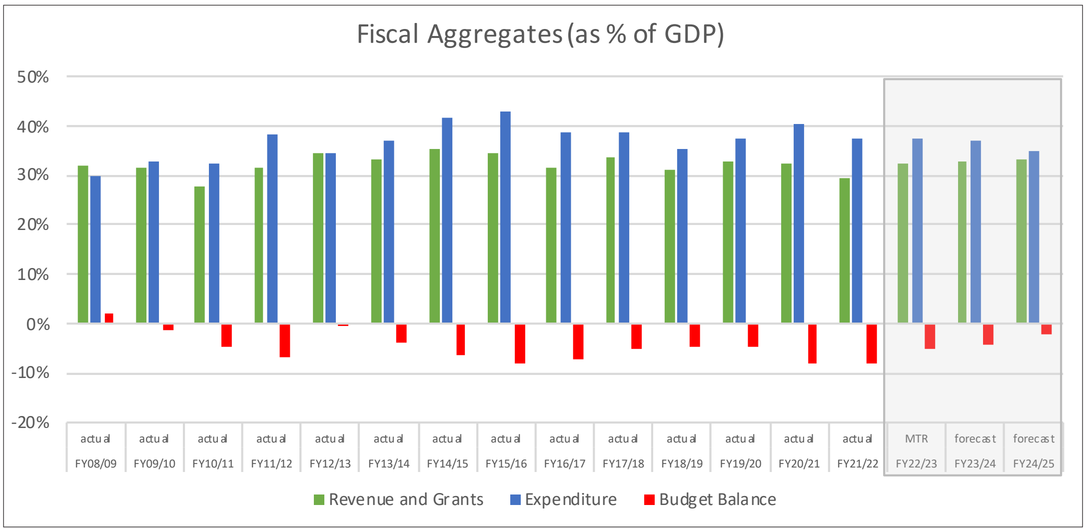
Source: Mid-Year Budget Review for FY22/23 and Fiscal Policy Statement for FY2022/23-2024/25 and Medium Term Expenditure Framework

Overall Fiscal Picture – deficit peaks this year and then declines until FY24/25

Using the GDP forecasts discussed above, revenue in FY22/23 is set to rise as a percentage of GDP from 30.2% in the main budget to 32.2% in the MYBR while expenditure is forecast to rise as a percentage of GDP from 35.8% in the main budget to 37.5% in the MYBR. Combined this implies that the overall budget deficit declines somewhat from 5.6% of GDP in the main budget to 5.3% in the MYBR. Interest payments are estimated to reach 14.3% of total revenue and grants, well above the government's target of 10%.

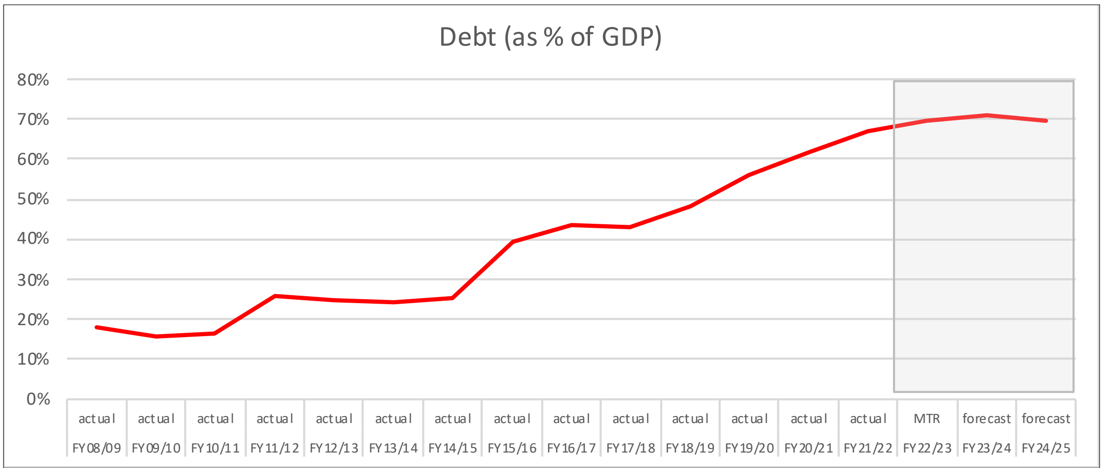
Zooming out, the big picture is of total spending steadily falling over the course of the updated MTEF from a peak of 40.4% of GDP in FY20/21, the year of Covid, to 35.0% of GDP by the end of the MTEF period in FY24/25. Revenues recover from their Covid dip of 29.4% of GDP in FY21/22 to reach 33.0% of GDP by FY24/25. This allows a reduction in the budget deficit from a peak of 8.0% of GDP in FY20/21 to just 2.0% of GDP by FY24/25. The sum of domestic and foreign debt continues to grow but because the economy is also forecast to grow, overall debt peaks at 71.0% of GDP in FY23/24 and stabilises below 70.0% by FY24/25, significantly lower than forecast is last year's MYBR. Such high levels of debt put Namibia in a precarious position should another crisis strike.

Chart 1: Revenue, Expenditure and Budget Balance as % of GDP



It is worth noting that expenditure has never returned to the 30% level it found itself at going into the Global Financial Crisis in FY08/09 under former Finance Minister Saara Kuugongelwa-Amadhila and seems to have settled into a new band of between 35% and 40% of GDP. Government's own original fiscal targets introduced in 2001 under former Finance Minister Nangolo Mbumba limited public spending to 30% of GDP, public debt to 25% of GDP and the budget deficit to 3% of GDP. However, there has been significant slippage over the past two decades as circumstances have changed. Interestingly, it is clear that the economy has slowed as the size of government and government borrowing has increased. Whether there is a causal link cannot be discussed here.

Chart 2: Debt as % of GDP



Issues of Note

Like most Mid-Term Reviews, the Minister gave brief updates on initiatives that have already been in the pipeline but he also made a number of significant new announcements.

On the revenue side, pressure has been building to reduce Namibia's corporate tax rate which many (including the Namibian Investment Promotion and Development Board) consider high by regional and international standards and this is something that the Minister has mentioned in previous budget speeches.

In his speech he asserts that "now is not the right time to introduce any tax proposals that could stifle economic recovery" (suggesting he has certain tax increases in mind) but immediately goes on to say he has resolved that "the non-mining company tax rate will be reduced by two percentage points over the two outer years of the next MTEF" to provide relief to taxpayers. This is confusing to say the least. In other words to reduce it to 31% in FY24/25 and 30% in FY25/26. That is some way off. He also undertakes to assess the option of increasing the tax threshold for individuals from the current N$50,000 to N$100,000 in order to provide relief to low-income earners. Tax data is extremely scarce and it is not possible for outsiders to assess what the fiscal impact of such an ambitious move might be. There are updates on past commitments to increase the deductibility on pension fund contributions and education policy deductions to a maximum of N$150,000 and provisions for thin capitalisation rules, and also VAT zero rating on sanitary pads, a commitment made in the February 2021 budget. Tax changes generally take time in Namibia. This year's better than expected revenue numbers support the view that newly-established NamRA is making improvements in tax collection.

A number of expenditure commitments over the three financial years from FY22/23 to FY24/25 are worthy of note. However, most do not take place in this financial year and some may be somewhat optimistic. Overall the impression is given that there is no money this year for very much (which is true) so better announce possible future changes than nothing at all (which may simply make him a hostage to fortune).

To cushion the most vulnerable members of society against rising food prices, a further N$5.2 million is allocated to the Ministry of Gender Equality, Poverty Eradication, and Social Welfare to increase the new monthly Conditional Income Grant (CIG) (the President referred to it as a "modified, conditional Basic Income Grant" in his State of the Nation Speech earlier in the year) for former food bank recipients from N$500 to N$600 a month from October 2022. These cash grants commenced in April this year and are paid to heads of households via Cashmaster, commercial banks or Nampost. They were reported as helping 9,967 households across all regions of the country. Unlike Brazil's Programa Bolsa Família (PBF) for example, which really is a conditional payment (the condition being that children go to school or get vaccinated), this grant is not really conditional and the eligibility criteria are also not clear. The main budget provided for N$61 million for a "Basic Income Grant" under the vote of the Ministry of Gender Equality, Poverty Eradication and Social Welfare (Vote 36 Main Division 06).

The Disability Grant for beneficiaries under the age of 18 is raised from N$250 to N$1,300 a month at a cost of N$97 million but from FY23/24. The monthly Old Age Grant (pension) and Disability Grant will be raised by N$100 a month from FY23/24 "should resources permit". It seems strange to raise expectations in this way.

Funding will be allocated to the National Census from FY23/24. This is welcome news but suggests the census data will only become available well after the November 2024 presidential and national assembly elections. Without census data it is impossible to calculate election turnouts as a percentage of the voting age population as opposed to a percentage of registered voters.

Financial provision has been made for Presidential, National Assembly as well as Regional and Local Authority Elections to be held from 2024 but this surely can be taken for granted.

Allocations towards the Public Service Employees Medical Aid Scheme (PSEMAS) have been reduced by N$1 billion over the two-year period FY2023/24 to FY2024/25 as a result of reforms to the benefit structure of the scheme. PSEMAS is budgeted to cost N$3.2 billion in FY2022/23 so these savings are significant should they arise.

The outer years of the MTEF factor in reduced transfers to public enterprises as a result of governance reforms, including the phased introduction of the State Ownership Policy and the subsequent transformation strategy. Given government's poor track record of public enterprise reform so far, it is hard to take this seriously. The old Ministry of Public Enterprises is due to come under the wing of the Ministry of Finance in the next month or so and it is possible that the latter will have more clout than the former.

A Business Rescue Fund to assist SMEs adversely affected by Covid will be launched by the Development Bank of Namibia in November but funding will only be provided in the next financial year. Amendments to the Road Fund Administration Act will also be made so that prescribed debt of road users can be written off.

Government has put seven Green Schemes (three brownfields, three developed green schemes and one dairy project) out to tender and the MYBR allocates an additional N$40 million to revive production while the leasing process unfolds.

President Geingob is planning to announce that the preferred bidder Hyphen will formally become the implementing agent of the proposed green hydrogen plant and an announcement is due at the CoP27 meeting in Cairo, Egypt in November.

Information and Transparency

The decision to produce a MYBR by the previous Minister of Finance was welcome and met the need from government and outsiders for in-year budget information. This is especially true during times of rapid economic change and global economic disruption. However, there remains a shortage of critical information including 1) more detailed information about the personnel composition of the public sector (including posts on the establishment and posts filled by vote) 2) a more detailed breakdown of public debt (such as the breakdown provided by former Minister Schlettwein on 23 May 2019), 3) a more detailed breakdown of loan guarantees (which has always been shrouded in mystery) and 4) a clear update on transfers to public enterprises and reforms that have actually been implemented. The Ministry now holds regular consultations with civil society organisations and other sectors (starting with a well-attended meeting with civil society representatives on July 22 this year about the MYBR). It is strange then that the Minister did not mention these consultations in his speech. One earlier ad hoc consultation meeting with the Minister led to the proposed changes to VAT on sanitary pads first mentioned in the 2021/22 budget speech.

Conclusions

This year's Mid-Year Budget Review was similar to last year's containing no major new policy announcements or surprises. Yet again the Minister was faced with more revenue than he expected in the main budget as well as some modest savings. Instead of paying down debt, he decided to spend the additional money, a significant portion going towards personnel costs because of the civil service pay and benefits increase. With such a large public sector and so many loss-making public enterprises, limited revenue growth gives the Minister little room for manoeuvre. Once the costs of maintaining the status quo have been covered there is little room for additional spending and forecasts presented by the Minister suggests little is likely to change in the run-up to the next presidential elections in 2024. The key to reducing debt to more sustainable levels is to reinvigorate investment and growth – especially private and Foreign Direct Investment, both of which have fallen steadily since 2016 (see previous QERs). This is recognised by the Minister who, recalling last year's statement, once again made mention of several initiatives to do this – the revised Namibia Investment Promotion Act now called the Namibian Investment Promotion and Facilitation Act is now in draft bill form and "ready for workshopping", cutting the corporate tax rate, starting SEZs (the policy was approved by Cabinet in August and a Bill is being drafted), 47 potential industries with the potential to diversify the Windhoek economy (after last year's 97 potential product lines identified by the Harvard Growth Lab), the High Value Fruits Productivity Task Force, a new Meat Value Chain Productivity Task Force which holds "vast potential" for employment creation – but things still seem to be moving at a leisurely pace. Namibia is stuck in a low-growth equilibrium and requires faster and more radical reform if it wants to be more than a steady ship.

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About Democracy Report

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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.

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