

2016/17 FY Budget Theme: “Towards A Pro-Poor Growth Fiscal Consolidation”

Commentary On The 2016/17 FY Budget

**By Hon. McHenry Venaani,
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CHECK AGAINST DELIVERY

Hon. Speaker, Hon Members,

This Budget comes at a time of increased uncertainty in the global economy; allow me Honourable speaker to delve a bit into recent economic development.

According to the IMF's World Economic Outlook as updated in January 2016, global growth was estimated to have grown by 3.1 per cent in 2016 compared to 3.4 per cent in 2015, mainly due to the fifth consecutive decline in the growth of emerging market and developing economies. Looking forward, growth is projected to be 3.4 per cent in 2016 and 3.6 per cent in 2017, respectively.

Three keys issues continue to influence the global economy:

1. The gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing towards consumption and services,
2. Lower prices for energy and other commodities, and

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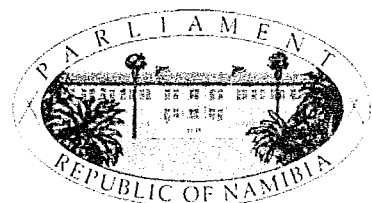
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1. A gradual tightening in the monetary policy coupled with improving financial conditions in the United States.

As expected, these three key issues also affected Namibia as the economy is estimated to have slowed down due to weaker commodity prices in 2015. Most minerals production is estimated to have declined with the exception of gold due to falling commodity prices and weaker demands for minerals from China.

South African Economic Performance

According to the January 2016 WEO Update, the South African economy slowed by 1.3 per cent in 2015 and will moderate further by 0.7 per cent in 2016. Key factors that will weaken growth include: electricity load-shedding, low commodity prices, drought and low confidence among both businesses and consumers. Further, the threat of the imminent sovereign downgrading of South Africa to a Junk status could have negative implications on the economy through limited investments and constrained borrowing abilities. Excessive exchange rate volatility could also negatively impact the economy thereby amplifying uncertainties towards the South African economy.

The intensity of drought in South Africa and its impact on food prices poses a risk to Namibian food situation as we import +/- 60 per cent of food from South Africa. This is expected to increase prices for Namibian consumers thereby pushing up general inflation

Risks To the Namibian Economy Include: low commodity prices that may lead to deterioration in the country's external position and exert pressure on both the current account balance and the international reserves. Electricity supply constraints that started in South Africa could worsen further and spill over to the Namibian economy and stifle growth. Increasing uncertainties in the South African economy, mainly in the form of low growth, drought conditions and the possible sovereign downgrading, are likely to increase exchange rate volatility further, with consequential effects on inflation (cost push inflation). Finally, the negative impact of the decline in oil prices on the Angolan economy is likely to have a dent on Namibia's growth, mainly through wholesale and retail trade.

A growing economy gives us more revenue; we borrow less, create jobs, new opportunities for youth and enable new types of businesses to be created. The problem is that the Namibian economic growth trajectory is drastically slowing down.

With this helicopter view on the global economy and particularly Namibia's key trading partners' economies, therefore, allow me to scrutinise the current budget tabled to Parliament on the 25 February 2016 with a purpose of highlighting some major areas that will bring about sustained and inclusive economic growth, and that will ensure poverty reduction and increased prosperity to the Namibian Nation as a whole.

The Budget

The focus of my commentary this year, aims to draw attentions to the issues of budget implementation rather than focusing on the levels or amount of money allocated to the various Ministries. This is particularly so given that the proportions in terms of the allocations are more or less maintained and have been consistent over many years. The budget has to insure that public money is spent in accordance with national priorities and on programs that are effective in achieving public objectives. Lack of implementation (particularly on developmental expenditure) and huge virements of funds being the major culprits in undermining the budget objectives.

It's now 26 years of budgeting dominated by allocation to the Social Sector (Health, Education etc.)...The trend is known, however it is the impact of the allocation to these Sectors and Ministries in achieving the much needed improvement in the general life of ordinary Namibians that remains elusive and leaves a lot to be desired.

What's the alternative? It's not the allocation that is the problem, the whole social sector programs (education, health, among others) need overhauling. The systems and programmes through which these services are delivered should be transformed if they are not working. *“The definition of insanity is doing the same thing over and over and expecting different results.”*

A: Public Expenditure

At the outset, whilst a lot still remains to be done, I would like to thank Government for initiating a process of down-sizing the public service. A policy direction which I fervently encouraged and motivated in my budget speech last year and has been a consistent party position for many years.

The expenditure side of the budget remains focused on the social sector, however further analysis is needed to determine the efficiency and effectiveness of the allocations and the impact of these sectors on socio-economic development.

Education / Vocational Training

Education

The education sector particularly at the secondary school level remains in a critical condition characterised by high failure rates at the Grade 10 and Grade 12 levels. As evidenced by the 2014 Matric Results, less than 50% of all grade 12 learners pass and less than 30% pass with the points required for entrance into tertiary studies.

Hon. Members, allow me to hone into the structural composition of our education system in finer detail: what we have is a pyramid styled system with many primary schools, fewer junior secondary schools and even less senior secondary schools.

Hypothetically, given the aforementioned, let's imagine the situation where say 90% or even 80% of all grade 1 learners succeed in passing through the different grades and all reach grade 12 – where will these learners be accommodated? Given that by design we have lesser spaces available the higher up you go in the education pyramid? If a high percentage of grade 1 learners were to reach grade 12, then the problem we would have is that our education system is inherently designed for large chunks of all scholars to fall out along the way, which explains the small percentage of secondary schools and tertiary institutions when contrasted with primary schools.

The question then should not be what is wrong with the system and why are so many learners failing, but rather why is our education system designed with failure built in to it? Critics of capitalist ideology often use the phrase: "Poverty exists not because capitalism is failing as an institution, but because that is how the institution inherently works." Is this same not true for our education system?

When you have a system that in secondary education begins to progressively increase the lacklustre standards that have been inculcated into our learners since Grade 1, then one can only but deduce that failure is an inevitable – if not in-built – part of the system. Why would I say this? In order to progress from Grade 9 to 10, a learner needs 18 points in 6 subjects. In order to progress from Grade 10 to 11, a learner needs 23 points in 6 subjects. For university entrance, that same learner, then needs 25 points in 5 subjects. These progressive increases point to a system that is designed to progressively sieve out students, which also

explains why the number of senior secondary schools pale in comparison to junior secondary schools and senior secondary schools.

As we sit here, there are once again proposals – and the Hon. Minister of Education, Arts and Culture is on record regarding this - of increasing the points total required to pass Grade 12.

This will leave us with an even larger amount of matric failures and school drop outs who need to be absorbed into the mainstream economy.

SACMEQ Report: Literacy, Numeracy, Science Sub (13)

High budgetary allocations cannot and will not fix a broken system, unless they are specifically geared towards scientifically scrutinizing, reviewing and overhauling that sector. Our education sector needs a complete overhaul, of that I am convinced.

Vocational Training

As a result of the systemic flaws in our education system, Namibia continues to produce a high amount of school leavers who end up unemployed and with nowhere to go and nothing to do.

According to the Namibian Labour Force Survey (2014) conducted by the Namibia Statistics Agency (NSA), youth unemployment rate ranges from 37.8% to 41.7% for the young people between the ages of 15-34. Please note that someone is not considered unemployed if they are still in school or studying at tertiary level.

In this regard, if the structure and reality of our education system is that we produce that many drop-outs and given our Grade 12 failure rate, then the simple reality is that around 40% of our youth are either unskilled or have a low level of skills and qualifications. It is against that rationale that I propose that Government focus should be directed at ***elevating the role and the quality of Vocational Training.***

Aside from increasing its coverage, in terms of building more training centres, the qualifications offered by these institutions should not only be diversified, but should receive a similar accreditation to your more theoretical-orientated courses at your traditional universities, as most graduates from Vocational Training Centres are more job ready when compared with most Universities graduates.

There remains talk of a desire to graduate Namibia into an industrialized country. How do we achieve industrialization, without people who are skilled in making and building things?

Additionally, Vocational Schools have the ability not only to absorb youth who are not necessarily academically-gearred, but also importantly equip them with skills that will allow them directly contribute to Namibia's future industrialization, whilst at the same time, enabling them to earn a living and support their families, instead of depending on hand-outs or resorting to other social ills like criminal activity out of desperation.

Focus should also be paid to the sectors of the economy: *Analysis should be made to establish which sectors need more vocational education and more training should then be done for those sectors;*

GRN Open Sheds across country
25000 entries to create skills

such as manufacturing and processing, as opposed to only flooding the market with traditional trades such as plumbing, electricity and bricklaying.

Poverty Eradication

In terms of poverty eradication, as indicated previously, the creation of the Ministry of Ministry of Poverty eradication is a step in right direction. Improving the poverty focus of public expenditure management clearly requires that Government understands who the poor are (in terms of social characteristics or geographical concentrations), the factors that move them into or out of poverty, and how the nature of poverty is changing. It's therefore, imperative for Parliament to scrutinise the various programmes budgeted for and projects that will be pursued under this Vote.

→ Bolsa Familia → 43 million of Brazil

So far, we have only heard about the Food Bank Project from the National Consultations that took place – which whilst it is a good start, is none the less in my view a short-term measure, to address hunger and poverty.

What we really need is a concise blue-print outlining key long term projects with measurable and tangible results that are time-bound. Hopefully, this will be the year we all finally get clarity on how exactly it is we will reduce or alleviate (extreme) poverty.

I once again, as I did in my budget statement last year, would like to draw the attention of Hon. Kameeta and this august house, to the plight of single mothers and further note, that any anti-poverty initiatives which do not

address the plight of single mothers – who head a large number of Namibian homes – will result in the job only being half done.

Agriculture

It goes without saying that as in industry or sector which employs about 30% of the total labour force, the Agricultural Sector remains critical to not only our over-all socio-economic development, but Agriculture will also be a key player in the fight against unemployment, job creation and ultimately, poverty.

This assertion is confirmed by the fact that about 70 per cent of the Namibian population depends directly or indirectly on agriculture for their livelihood and daily sustenance (NHIES, 2012).

Poverty cannot be alleviated without us first and foremost being conscious of Namibia's unique socio-economic reality: a reality which is characterised by large numbers of rural-based people who depend directly on Agriculture for their daily bread.

If we are to make a serious progress in the battle against poverty, then it is imperative that we fast-track skills development and modernization in our Agricultural Sector.

In this regard, I therefore, borrow from the DTA Manifesto, and make the following **Agriculture Policy Proposals**:

1. **Quality Seeds Programmes And Projects:** Under this, I would emphasize the concept of ensuring proper seeds distribution to farmers (both subsistence and commercial) – quality seeds provision to attain a higher yield in this area.
2. **Increased Use Of Quality And Environmental-Friendly Fertilizers:** In a greater scheme of our production, we need to support the natural recovery of the soil which tends to be perennially overused and over-grazed, particularly in the rural areas, and thus coupled with continually low rain fall in the recent past, the soil is never given a chance to recuperate, and subsequently, the land is able to carry less cattle and yield less crops.

3. Improved Irrigation Versus Rain-Fed Agriculture: Namibia is a drought prone country, and for us to realise high yield productivity, targeted efforts from Government are required to move the whole sector from being rain-fed to an irrigation-supported agriculture.

Underground Aquifers →

4. Building Of A Buffer Zone Between Namibia And Angola: The northern communal regions, despite the presence of over 1.6 Million heads of cattle, continue to suffer as a result of the agricultural policy which has seen the isolated only to markets above the redline and as result suffer from limited access to markets and under-pricing. Building a buffer zone between Namibia and Angola will go a long way towards alleviating the difficulties experienced by farmers north of the red line.

5. Development Of A Contemporary Drought Policy: Namibia as a drought-prone country cannot operate on a National Drought Policy that was last reviewed in 2001, and given the now consistent low rainfall patterns, a new comprehensive policy that looks at drought readiness and preparation, instead of drought response as a purely crisis management matter, is long overdue.

B: Government Revenue

Revenue collection uncertainty: With the continued slowdown in the growth of most emerging economies, as a mineral dependent country, revenue projection and outturn for Namibia remains bleak. We have already experienced the impact of the slowdown of the South African economy and the SACU pool which remains a key primary source for Namibia.

The main question remains: *What are the tangible avenues that the Minister of Finance proposes to expand revenue collection without increasing tax-payer burden in Namibia?* When compared to its peers in the region, Namibia is on higher margin in terms of tax rate thus limiting room for any further tax rates increments. One wonders how any additional proposed tax will impact the pockets of our fellow citizens on the street....

It is against that light that I welcomed the announcement from the Minister of Finance to have nation-wide consultations on the issue of Solidary (Wealth) Tax. My take on this is that we need a clear blue-print of the ring-fenced projects meant to be financed by this tax. The understanding is that these types of taxes are temporary in nature; therefore projects with measurable and tangible results that are time-bound should be identified and made known during the nationwide consultations, before the already heavy tax burden on individuals is further increased.

A central issue relating to increasing revenue sources and finding ways to replace the expected SACU Pool shortfalls, is improving the overall

collection efficiency of the Namibian Tax System, especially as it relates to companies.

The tax burden is heavier on individuals as compared to corporations. Taxes on income and profits are increasingly becoming a primary source of revenue for government and have been growing at an average growth rate of 3.5% over the last 5 years. However individual income tax continues to dominate the contribution to tax revenue accounting close to 26.5 percent on average, while company taxes on average account for only 12.2 % per cent of tax revenue in Namibia. Individually, tax revenues from individual incomes are expected to grow by an average rate of 22 % compared to annual growth rate of 15% on the corporate taxes between 2012/13-2016-17 (Budget Book, 2014).

Our ability to collect more tax from, especially, multinational companies in the mining and fishing sectors is greatly hampered by, *inter alia*;

- a) conferring EPZ Status and granting tax holidays to certain multinational companies;
- b) The issue of transfer pricing and equity-debt swaps among the big multinationals remains untracked despite the existence of the Transfer Pricing Act of 2009; and
- c) The lack of Internal Capacity and Tax Experts to identify and put measures in place to combat the various ingenious ways which businesses device to get around paying corporate and business profit taxes.

Hon. Speaker, Hon. Members, we need to bring-about greater efficiency and expertise in the tax administration in Namibia – tax assessment and refunds in this country take an extremely long period to be finalized. We need modern systems in the Revenue Administration Department of

Government. It is interesting to note that of the 15 SADC Countries: Namibia, Madagascar, DRC and Angola are the only countries without independent revenue authorities. The envisaged revenue agency should be the platform for such a reform. Perhaps a step in this direction is what is needed in order for Namibia to optimize and improve the overall efficiency of our tax collection system – which could in turn directly positively-impact on our revenue streams.

C) Financing Of The Proposed Budget Deficit

Over the last financial year, we have seen an unprecedented growth in government external debt due to Eurobonds: The government debt stock is increasing, and it's changing in terms of its composition. The external debt component witnessed a huge increase due to the sourcing of the Eurobond in 2012 and again in 2015. As of December 2015, the Eurobond Debt accounted for *68.6% of the total external debt*.

Critical question: What are the costs and the use of the Eurobond?

By nature the Eurobonds are international commercial debt instruments, thereby making them expensive due to interest rate and exchange rate risks. However, due to the low prevailing interest rates that characterize the economic landscape over the last few years, Namibia seemed to have gotten a better deal compared to raising debt in the domestic market.

The depreciation of rand, and by implication the Namibia dollar – seems to have been forgotten. The depreciation of the Namibian dollar against the major currencies also contributed to increase in the debt stock over the last two fiscal years due to increased foreign borrowing.

The critical question remains – are the proceeds going to be used on economic productive projects that will yield returns for its repayments. Or its burden is passed over to the taxpayers and future generations. It's in the best interest of the nation to see key infrastructural projects not government buildings funded with such a rather expensive instrument. *I hope to see a clear list of project with clear timelines and their impact assessment on improving the social-economic conditions being made available and presented in a very concise manner. Thick unreadable documents such the Developmental budgets do not serve the purpose and the ever-changing MTEFs documents that do not reflect projects continuity makes it difficult to track the impact made and whether these projects were indeed completed or abandoned.*

D) Key Critical Policy Interventions Required From Government

(i) Energy Projects

Lack of sufficient and reliable electricity supply remains an impediment to Namibia's economic growth and development. However, Namibia remains endowed with plentiful sunshine and wind, which could be harvested to supply energy for its nation in a sustainable manner. *Persistent lack of political will to take bold decisions and invest in proper renewable sources of energy will continue to hinder the future industrialisation plan of the country as industries remains without reliable powers to carried-out their activities.* Is it's regrettable to see that despite instituting measures to carb emission through taxes, the same Government backed a non-viable and non-renewable source of energy with its dire consequences on the climate.

The same sentiments can be made ***with regards to water***. We continue to preach the same things, with no sign actions to address these issues that have been with us since independence.

(ii) Dismal Performance Of The SOEs And The Partial Listing

Partial Listing Of SOEs

The Minister of Finance should provide more information regarding the **partial listing of SOEs** – key identified SOEs and timelines. Feedback on strategies and timelines from the Ministry of SOEs will go a long way to clarify the notion behind partial listings and its benefit to the ordinary Namibians.

We should also re-evaluate the list of the SOEs and assess which ones are still relevant and worth the taxpayers money to continue to be funded. Those that are not essential and even those that are no longer relevant should be privatised or be allowed to die a natural death as opposed to them being on life support for a prolonged period of time. We cannot continue to have non-sustainable SOEs for the sake of national pride, or simply put pride such as a national airline. If it is not sustainable, let it cease to exist.

Strategic Alliances –

(iii) Job Creation Strategies

The need for accelerated Job Creation should not be seen as an opportunity or need for Government to increase its civil force. Government's role is primarily to create a conducive environment for the private sector to create jobs – it is not the role of Government to expand

the size of the civil servant force – thereby resulting in huge uncontrollable wage-bill.

- We need clear feedback on implementable strategies and timelines from the Ministry of Employment creation.

Conclusion And Key Recommendations

Hon. Speaker, Hon. Members, in conclusion I make the following recommendations:

1. There is a need to fundamentally change the pattern of public expenditure and the process by which this is determined. There is a need for the Ministry of Finance, as a matter of urgency to undertake Public Expenditure reviews to identify the needed changes and link their outcomes to the budget process. *Public resources should stimulate economic activity by prioritising spending on actions that have a direct impact on the economy.*
2. Vocational Training should be prioritised as a key strategic tool to tackle unemployment, job creation and poverty alleviation.
3. Amendments of Regulation 28 are required to curb capital flight and funds, so that they can be used for domestic investment. There is a need to fast-track reforms that are aimed at improving Tax Administration to bring-about efficiency and effectiveness in tax services and improved revenue collection. Proper and regular analysis on the Namibian Debt situation is paramount to avoid over-burdening the future generations.



4. We also seem to have lost faith in the National Development Plans and Vision 2030, we hear less and less commitment with every budget tabled. Have our aspirations changed along the way. Are we admitting to having had been poor planners, unrealistic and delusional. Is it time to go back to basics?

5. In conclusion, I would like to applaud the Minister of Finance for an attempt to consolidate expenditure. However, greater priority should still be given modernizing our agricultural sector and overhauling our social sector so that the sizeable inputs we put in, begin to bear outputs.

Thank You.