



REPUBLIC OF NAMIBIA

Statement to Parliament

2011/12 Motivation Speech for Vote 09: Ministry of Finance

Presented by Hon. Calle H-G Schlettwein

Deputy Minister of Finance

14 April 2011

Honourable Speaker,
Honourable Deputy Speaker,
Honourable Members of the National Assembly,

1. I have the greatest honour to present the details of the proposed budget for Vote 09: Ministry of Finance. Before I proceed, I would like to thank all Honourable members who had very kind words for the teams at the Ministry of Finance and the National Planning Commission for the good work on preparing the budget documents. Thank you very much! I rise today to seek for your support to approve the proposed budget for Vote 09. Your approval will enable the Ministry of Finance to execute its constitutional mandate and to carry out its functions.
2. The mandate of the Ministry of Finance encompasses public finance management, management of Government assets and liabilities and financial sector development. In this regard, we design and administer fiscal and financial policies that ensure macro-economic stability, capital markets development and sustainable socio-economic development.
3. The Ministry of Finance is further entrusted with the stewardship of the financial sector. In this regard, the Ministry formulates and implements policies aimed at unleashing the potential of the financial sector in the economy as well as regulatory oversight over the sector.
4. We have lived up to our mission and vision of being a dynamic and reputable institution, excelling in fiscal and financial management. Namibia has been accredited regionally and internationally for sound macroeconomic stability and fiscal prudence. We are ranked as the second highest country in the SADC region with the most transparent budget process. This is an achievement to be treasured and maintained.

5. Honourable Speaker, before I delve into the salient programmes for the Vote, allow me to reflect briefly on the core principles underpinning the 2011/12 Appropriation Bill. Our approach for the 2011/12 – 2013/14 MTEF is to address, in a focused and prioritized manner, the persistent socio-economic challenges facing our country both in the medium-term and the long-term.
6. In the medium-term, significant emphasis will be given to job-creation in its multi-faceted dimensions, boosting production and investing in growth-enhancing infrastructure. The magnitude of fiscal expansion is the greatest in the medium-term in order to amplify the impact of fiscal multipliers in the economy. Hence, our focused approach on the priority sectors of the economy in which growth and job-creation potential is the greatest. Government will also implement fiscal and other legislative reforms aimed at improving state revenue, skills development and overall investment climate.
7. **Honourable Speaker**, the 2011/12 budget adopts a targeted approach to make a significant dent on unemployment and poverty on the one hand, and invest in prospects for a better tomorrow, on the other hand. At the same time, the budget is a demonstration of our consistent policy commitment towards investment in human capital development and the provision of social services.
8. As the global economy recovers, it is now a matter of strategic national policy choice that our fiscal policy is increasingly attuned, more than ever before, to responding to our domestic challenges among which unemployment and poverty are the most acute.

9. Fiscal policy interventions should not only be limited to countering external shocks. Fiscal policy measures should increasingly be directed at addressing domestic development challenges and competitiveness.
10. Over the long-term, our investment today and reform agenda will pay dividends. As the economy assumes a broad-based growth trajectory, we have to rein in significant fiscal expansion in order to strengthen the fiscal space in favour of long-term sustainability of fiscal outcomes. We have not adjudicated our commitment to macroeconomic stability and fiscal prudence.

HIGHLIGHTS OF VOTE PERFORMANCE DURING 2009/10 AND 2010/11

11. Honourable Speaker; Honourable members, allow me to highlight some of the main achievements for Vote 09 during the last two years. In terms of our ministerial targets, we have achieved all our targets during 2009/10 fiscal year.
12. Total revenue outturn for 2009/10 amounted N\$24.0 billion, about 2.5 higher than N\$23.4 percent collected in 2008/9. Revenue forecast improved from 93.3 percent in 2008/09 to 97.9 percent in 2009/10, thereby achieving the ministerial target of 95 percent revenue forecast accuracy.
13. Total expenditure amounted to 31.1 percent of GDP in 2009/2010, which is below the 40 percent target. The expenditure outturn for 2010/11 is estimated at 31.2 percent of GDP as Government undertook fiscal expansionary fiscal policy to cushion the economy from the impact of the global economic and financial crisis.
14. Our expenditure control target require that total expenditure variance be maintained within 2 percent of budgeted expenditure. During 2009/10, total expenditure variance

amounted to only 0.6 percent on overall budget ceilings. This outcome is a result of returns from our investment in financial infrastructure and IFMS in particular.

15. The budget deficit for 2009/10 amounted to 1.1 percent of GDP. This ratio is estimated to have increased to 5.7 percent of GDP by 2010/11 due to countercyclical fiscal policy elucidated above. The deficit outturn remained well below the 7 percent target.
16. Honourable Speaker, the budget for Ministry of Finance caters for, among others, Central Government debt repayment obligations. Over the last three years, total Central Government debt remained below the target of 30 percent of GDP, despite significant fiscal expansion undertaken since 2008/09 fiscal year. Total Central Government debt outturn for 2009/10 amounted to 14.8 percent of GDP and it is estimated to reach 20.1 percent of GDP by 2010/11. Government debt has recorded an average of 16.9 percent of GDP over the period 2007/2008-2009/2010.
17. The Government guarantees are capped at 10 percent of GDP, and over the past three years, it recorded an average of 4.2 percent of GDP.

MTEF PROGRAMMES

18. For the 2011/12 fiscal year, the Ministry is requesting a total amount of N\$ 3,696,605 (N\$3.7 billion). This comprises of N\$ 3,572,040 (N\$3.6 billion) operational budget and N\$84,025 (N\$84.0 million) development budget. The operational budget includes N\$40,000 (N\$40.0 million) budget support contribution from the European Union in support of the Public Finance Management Programme and related activities. The proposed allocation for the MTEF amounts to N\$ 10,513,773 (N\$10.5 billion) .

19. The requested amount will support continuation and improvement of activities of the seven (7) programmes for Vote 09 during the current MTEF period.
20. Honourable members, I now seize this opportunity to present the details of the Vote 09 Programmes, activities and amounts requested for your consideration and support.

Programme 1: Economic Policy Advice

21. The purpose of this programme is to provide economic policy advice to Government and facilitate availability of timely and accurate fiscal and financial statistics. In essence, macroeconomic and fiscal policy advice aimed at maintaining macro-economic stability, accelerating economic growth and addressing socio economic challenges obtains from this programme.
22. The main programme activities for the MTEF comprise **formulation of macroeconomic and fiscal policies, monitoring and assessing the impacts of regional and international economy, production of Government Finance Statistics (GFS), and undertaking research and special studies.** Outputs from this programme form an important input into the budget process. These outputs entail the production of macroeconomic and fiscal policy frameworks for the MTEFs, research papers and statistical reports. During the MTEF, we also intend to further invest in an Integrated Macroeconomic Modelling tool and related skills development in order to further improve our economic and fiscal forecasting capacity.
23. The Ministry is working closely with Financial Sector Charter Council in order to fast-track the operationalisation of the Charter and its undertakings on the transformation of the financial sector. We are also in the process of finalizing a Financial Sector Strategy together with the Bank of Namibia and Namfisa to further strengthen advancement of

financial inclusion and broad-based participation objectives. These efforts are further complimented by the drive to roll-out financial literacy activities country-wide.

24. This programme further caters for the implementation of our commitment to the SADC Finance and Investment Protocol (FIP) which we as a country ratified during 2010. In this regard, we are setting up institutional and monitoring mechanism for tracking progress on the obligations under the Protocol. At the same time, the Ministry is working together with the Ministry of Trade and Industry to develop a comprehensive set of policy instruments aimed at industrial development within the context of the new SACU Vision and Mission. We are further taking initiatives to revive engagements on monetary policy issues among members in the Common Monetary Area (CMA).
25. A total allocation of N\$16,961(N\$16.96 million) is proposed for the MTEF, consisting of N\$5,209 (N\$5.2 Million) during 2011/12; N\$5,577(N\$5.58 million) in 2012/13 and N\$6,175 (N\$6.18 million) in 2013/14.

Programme 2: Revenue Management

26. This programme aims at optimizing revenue collection for the state and efficient tax and duties administration.
27. Honourable Members, during the ensuring MTEF, the activities for **enhancing overall tax administration and revenue collection** will receive priority attention. This focused attention should be seen in the context of downside risks to revenue. Global economic recovery is proceeding slowly in some of our main markets. Closer at home, we are still to overcome shocks to revenue from taxes on international trade under the ambit of SACU.

28. There has been varying misconceptions perpetuated in the media about the prospects of future SACU revenues on the back of emerging recovery among the SACU economies. The SACU Common Revenue Pool is projected to recover during the last two years of the MTEF. However, the SACU Revenue Sharing Formula (RSF) is up for review. The negotiation process is yet to start. Future outturns from this revenue stream will depend on the outcome of the negotiations among SACU member states.
29. In this context, honourable members we plan to undertake specific interventions under this programme aimed at enhancing our future revenue prospects. **Specific tax policy reforms** aimed at deepening and broadening the revenue base and improving the contribution of tax policy to overall development objectives will be undertaken. We will **introduce alternative sources of revenue**, the details of which will be tabled before this august house in due course. We intend to improve the skills capacity and organizational structure of the Receiver of Revenue in order to render the intended outputs.
30. Other activities under this programme entail **law enforcement and public education, trade facilitation and negotiations and infrastructure development**. Through these targeted activities, we expect to realize improved revenue collection, strengthened outreach and increased compliance.
31. A total allocation of N\$1,769,607 (N\$1.77 billion) is proposed for the MTEF, consisting of N\$412,980 (N\$412.98 Million) during 2011/12; N\$615,126 (N\$615.1 million) in 2012/13 and N\$741,501(N\$741.5 million) in 2013/14.

Programme 3: Public Expenditure Management

32. The main purpose of this programme is to ensure that public expenditure delivers results and value for money. It focuses on ensuring that the utilization of public resources meets the needs of the public in an effective, efficient and equitable manner. It entails expenditure planning, approval, monitoring and control.
33. In executing this programme, we plan to undertake the following activities:
- **Expenditure planning and control** through efficient utilization and maintenance of the Integrated Financial Management Systems (IFMS) to facilitate smooth public financial operations and to ensure that government spending is within the approved ceilings. This year, we have implemented an Electronic Funds Transfer System (EFTS) which will reduce the cost of government financial transactions and risk of fraud by reducing use of cheque payments. Accounting and reporting on expenditure in terms of the programme-budget system will be piloted during this financial year. We intend to roll out this innovation to all budget votes during the MTEF period. Honourable members, this programme attracts donor budget support because our systems are found to meet international budget support criteria. Last year, we undertook Public Expenditure Review in the General Education Sector with the support of the EU. We whole heartedly thank our development partners. The results of the review will prove crucial for education reform in general, and better targeting of funds in particular. During the ensuing MTEF, we intent to roll-out Public Expenditure Review to all budget Votes.
 - Other planned activities under this programme are the **contingency provision, and honouring our international obligations and managing subscription fees.**

34. A total allocation of N\$976,118 (N\$976.1 million) is proposed for the MTEF, consisting of N\$293,998 (N\$293.998 Million) in 2011/12; N\$347,440(N\$347.4 million) in 2012/13 and N\$334,680 (N\$334.7 million) in 2013/14.

Programme 4: Procurement programme

35. This programme covers to the administration of the government procurement system in accordance with the Tender Board Act. The main activities entail provision of **secretarial services** and **institutional and capacity development** for tender board secretariat. We have responded to public calls for the reform and streamlining of public procurement rules. The Tender Board Bill is in its final stages of drafting and it will be tabled before this August House during the course of the year as announced in the Minister's budget statement. As expected, this critical intervention would promote local economic development by optimizing participation of Namibian companies, SMEs and formerly disadvantaged groups especially in the South in the public tender system. The Bill also aims at ensuring that all procurement systems in the public sector are following standardized criteria in respect of transparency, governance and accountability.
36. A total allocation of N\$19,301 (N\$19.3 million) is proposed for the MTEF, consisting of N\$6,003 (N\$6.0 Million) in 2011/12; N\$6,855 (N\$6.7 million) in 2012/13 and N\$6,443 (N\$6.4 million) in 2013/14.

Programme 5: Assets and Liabilities Management

37. The purpose of this programme is to manage risks associated with short and long- term Government borrowing or lending and to administer the State Finance Act and Treasury Instructions. The programme also covers the effective use and safeguarding management of Government assets.

38. There are four main activities under this programme, namely;-

- **Debt Management**, which encompasses overall management and debt repayment obligations for Central Government. We have adopted a risk-based management of our assets and liabilities. As such, we are undertaking review of the Sovereign Debt Management Strategy, taking into consideration market risks and liquidity provisions. A new borrowing plan has been developed to cater for our borrowings needs during the MTEF and beyond as announced by the Minister. The Minister has launched an investor and market relationship programme which will bridge information gaps and maintain an interactive relationship with the market.
- The second main activity is the **management of Government assets** by regulating the use, custody and the disposal of Government assets in accordance with Treasury Instructions. In this regard, we are developing a comprehensive asset register and asset management policy together with the Ministry of Works and Transport.
- The third main activity is the **transfer of subsidies to SOEs** to enable them to carry out their functions within their mandate. Honouable Speaker, I should emphasize that SOEs are entrusted with the provision of critical public utilities such as energy, water, transport and telecommunication. They are also required to provide for indispensable, growth-enabling infrastructure. In this regard, SOEs continue to play a critical role in our economy. In order promote efficiency and hold SOE managers and boards accountable for the state subsidies provided, Government has since 2010 instituted subsidy agreements which shall apply to each SOE receiving state subsidy. SOEs are also required to develop business plans as a basis for the targeting of subsidies to specific programmes.

- The sustainability of the operation of Air Namibia has attracted a lot of public interest. We concur that this matter merits close scrutiny. I am pleased to inform this August House that we have contracted a group of IATA experts to develop and cost a Business Plan and Turn Around Strategy for Air Namibia. The final report has been submitted and will be shared with all relevant stakeholders including Cabinet for further scrutiny and adoption.
 - The fourth related activity under this programme is the **monitoring of SOEs performance** for which each SOE is expected to sign a performance agreement with its line Ministry. On Vote 09 part, the performance agreements for SOEs under our mandate have been concluded by March 2011. We encourage all other remaining Votes to follow suit.
39. With these interventions, we expect to better manage our fixed and financial assets, improve capital market development and enhanced performance and accountability by SOEs.
40. A total allocation of N\$ 2,225,439 (N\$2.2 billion) is proposed for the MTEF, consisting of N\$ 1,370,801 (N\$1.4 billion) during 2011/12; N\$ 837,981 (N\$837.98 million) in 2012/13 and N\$ 16,657 (N\$16.7 million) in 2013/14.

Programme 6: Medical and Statutory Pension Scheme

41. The purpose of this programme is to assist the Public Service Employees Medical Aid Scheme members and their dependants in meeting medical expenses. The main activities of the programme include **administration and claims payments** and **managing the pension funds of judges and those of political office bearers**. We seek to provide

access to, and maintain provision of affordable health care to the broader majority of public servants and timely processing of payments.

42. A total allocation of N\$ 4,520,841 (N\$4.5 billion) is proposed for the MTEF, consisting of N\$ 1,178,196 (N\$1.1 billion) during 2011/12; N\$ 1,472,409 (N\$1.47 billion) in 2012/13 and N\$ 1,870,236 (N\$1.87 billion) in 2013/14.
43. Honourable members, **I should mention that total allocation to this programme amounts to about 43 percent of Vote 09 budget during the MTEF. For 2011/12 budget, it amounts to about 33 percent. When debt servicing costs and transfers to SOEs are added, the percentages increase to about 65 percent and 71 percent respectively.**

Programme 7: Coordination and Support Services

44. The purpose of this programme is to provide administrative support to the Vote's programmes and to ensure proper **financial management, optimal deployment of resources, capacity building and acquisition and maintenance of IT resources.**
45. A total allocation of N\$ 811,495 (N\$811 million) is proposed for the MTEF, consisting of N\$ 304,853 (N\$304.7 million) during 2011/12; N\$ 275,608 (N\$275.6 million) in 2012/13 and N\$ 231,034 (N\$231.0 million) in 2013/14.

Concluding Remarks

Honourable Members, Vote 9 is entrusted with the responsibility of managing public finances on behalf of Government and the people of Namibia. We remain committed to the principles of prudent macroeconomic management, efficiency in management of state assets and adherence to fiscal discipline.

With these remarks I now move that this Honourable House considers and approves an amount of N\$3,656,065 (N\$3.7 billion) as amended for Vote 09: Ministry of Finance for the 2011/12 fiscal year and N\$ 10,513,773 (N\$10.5 billion) as amended for the MTEF.

I thank you.