THE RALLY FOR DEMOCRACY AND PROGRESS (RDP)

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The RDP Response to the Budget Submission for 2013/2014 by Honorable Minister of Finance, Saara Kuugongelwa Amadhila

By Honorable Jesaya Nyamu

5th March 2013

Honorable Speaker

Honorable Parliamentarians

The draft budget formulation before us is in its entirety a product of the executive without a single input from the opposition parties or the public at large. It has been the habit of the government of the day to deny meaningful participation by the opposition parties, business community and the general public in the budget formulation, which participation would have resulted in a draft budget based on consensus, transparency and accountability. Today, most open societies prefer this approach as opposed to government exclusivity.

In the present approach, the Parliament, including back-benchers from both opposition and those from the ruling party are used as rubber stamp in the passing of the finance bill or annual budget. Should this practice continue in spite of our appeal that the public is fully consulted in the process of the budget formulation, the RDP may find it difficult to participate in this debate aimed solely to rubber stamping resulting in the passing of the draft without a single change of not even a coma.

Honorable Speaker

Honorable Members

Today's headlines in the Namibia Sun newspaper reads: "Namibia fury at country's 'miserable' rating". The finding of the international research has placed Namibia at the bottom of the nations in hell. The index rating has caused uproar primarily from those who live in the fool's paradise. But the majority of our people in the rural areas and numerous so called settlements throughout the country will find no faults with the exposure as they live in a war of hunger and deprivation without hope.

We politicians should get out of our boxes and cocoons and devise policies and strategies for the rebirth of our nation.

It is indeed my privilege to offer my party's concerted views on the budget presentation of the Honorable Minister of Finance on Tuesday, 26th February 2013. It will be further recalled the theme of this budget reads: "Growing the Economy, Optimizing Development Outcomes."

Integrity of the process

Let me on the outset offer my congratulations to our sister, the Minister of Finance, for an excellent job on the Appropriation Bill she tabled last week. After ten years of deployment of the extended IMF budget format for Middle Income Countries, she and her ministry have truly mastered the skill of burying complex development and social issues under a myriad of statistics, estimates and projections.

Similarly, the Ministry of Finance has acquired an enviable skill to confuse the process by deceptive semantics. It has now become fashionable to bulldoze expenditure items by giving it a new name, conveniently forgetting targets and strategies of previous budgets, and most distressing, selling it to an unsuspecting electorate as a document that formalizes development to their advantage. As we shall see, the reality is somewhat removed from the theory.

What do we have on paper?

The Minister's budget speech attained new heights this year, on paper at least. Telling us what the budget has to offer, she promised economic growth, efficient service delivery and a brighter future for Namibians from all backgrounds and all walks of life.

But let us start at the beginning - the annual growth of the economy.

As I understand the bigger picture, the entire budgetary process hinges on a certain view of how the overall economy will perform. Those learned people in the Ministry, at the Bank of Namibia and in the National Planning Commission refer to the combined output of all players in the economy as the Gross Domestic Product. Now it was explained to me that there is more than one measure that is applied to determine the size of the economy. However, the way I see it, it is not the absolute measure of the economy that is important but the relative measure from one year to the next. And that is exactly what our budget is supposed to be, a relative projection of current and future income and expenditure, based on the actual history of these components.

Regardless of the exact way the economy is measured, the relative performance from one year to the next, or over several years, is what provides the clearest indication of the direction we are headed. Therefore, measuring, comparing and forecasting the size of the total economy becomes the foundation for all the other derivative processes that depend on this one figure. If we look at the latest budget, our analysts tell us the growth forecasts are almost linear.

According to the published National Accounts the actual size of Gross Domestic Product (GDP) was measured as N$93.5 billion in the 2011/12 fiscal year. The estimated GDP for the year that has only ended last week is N$104.6 billion.

The ministry stated the obvious in the Medium Term Expenditure Framework where they say that the budget is tabled before the end of the fiscal year, but there are some very helpful estimates and actual figures for the period up to the end of January this year. The published GDP figure is based on a projection of an annual growth of 11.7%. It is this figure that provides a revealing fact about the formal side of the budget process.

Crunching the numbers for the years further on in the Medium Term Expenditure Framework, a very noticeable pattern reveals itself. Growth for 2013/14 is estimated at 11.36%, for the next year, 11.52% and for 2015, 11.56%

Without going into too much technical analysis, this flat coefficient shows the Ministry makes certain assumptions about the future growth of the economy, and that their most important assumption is that growth will follow an even predictable trajectory.

From a policy point of view, this translates to the unpleasant fact that the mountains of cash dumped into the economy since the counter cyclical budgets were first announced in 2010, have not contributed to generate any real growth dynamics. The economy's performance is restricted by structural limitations, and the Ministry knows this but it does not tell this secret to the electorate.

By analyzing the macro-economic side of the budget, we can come to no other conclusion that the artificial stimulus provided under the Targeted Intervention programme for Employment and Economic Growth, TIPEEG, is not working. The economy grows as economic reality and market conditions allow, but the huge increase in debt since TIPEEG started in March 2011, is not what grows the economy. In nominal terms, i.e. without considering the impact of inflation, the economy grows at a very steady slightly above 11%. In so-called real terms, i.e. after adjusting for inflation, the economy grows just over 4%.

What it means in practice is that the government's stimulus policy is stoking inflation, and it is increasing our debt exposure by the year, but I will come back to this later again.

Revenue

I now turn my attention to the Revenue side of the budget.

It is commendable that actual fiscal income for 2011/12 significantly exceeded the revenue as projected a year earlier. It must be a source of inspiration for the National Planning Commission to find out, after completion of the National Accounts, that the income surpassed initial expectations, but it is in the same breath, a very poor reflection on the Ministry of Finance's ability to budget appropriately.

Looking at the revenue estimates for last year (2012/13) it is indeed a pleasant surprise that the Ministry now expects revenue to increase by 27% once all fiscal transaction for that year, have been reconciled. That is a massive deviation from the expected figure.

As a comparison, take for instance a private company who is expected to budget within such limited tolerances that the provisional tax it pays may not deviate more than 10% from the final tax.

If it does, the company is penalized for this miscalculation or erroneous projection. When the Ministry of Finance shows a much bigger deviation, they use this as another way of pretending the rise in revenue is due to their diligent budgeting, which it is not.

The massive jump in revenue between 2011 and 2012 can be ascribed to two major events. The first is what would be called a "low base" by my learned analysts. This means that revenues were suppressed during and after the international financial crisis, and once business conditions assumed a more normal pattern, taxes on income and profit reflected a similar positive trend.

The other reason is the improved contribution from companies and State owned enterprises following the artificial stimulation under TIPEEG, which in my view, sets the stage for future inflation, the full effect of which we have not seen yet. But I have promised that I will focus on inflation later again, and then I will present a more formal analysis of the distortions inflation is working in our growth forecasts, and consequently, in the entire budgeting process.

For the purpose of presenting an informed analysis of fiscal income, it is safe to disregard the totals given under TOTAL REVENUE AND GRANTS. This I do because grants are often discretionary and tend to distort the picture of the available resources, especially long-term resources, the government has access to. Tax revenue, a sub-category of the above category, provides a more reliable picture of the soundness of the economy, and of the allocation of resources.

It is noticeable that the Ministry of Finance does not expect the distorted income picture to continue as is clearly reflected in the Medium Term Expenditure Framework. Revenue from own sources is projected to grow 8.7% this year compared to last, 7.9% in 2014 and finally, 6.4% in 2015.

These projections demonstrate that the Ministry is assuming a return to a normal growth line, and it will be of major importance in later fiscal years, to compare the current projections to actual outcomes. If the Ministry's analysts publish an assumed 11.5% growth in GDP with revenue income only growing by 6.4%, it shows there is a shift in dynamics for which they try to make provision in their forecasts, or there is substantially higher inflation on our horizon. The latter will be the case if the government continues flooding the capital market with excessive liquidity. It is also an indication that the TIPEEG policy is largely a disappointment. It looks good on paper and it produced very impressive figures, if one does not know what it going on.

Expenditure

As I have stated earlier, the foundation of the budget process is the so-called Gross Domestic Product, or more particularly, the growth in GDP, i.e. the relative movement in value from one year to the next. I have pointed out the weakness in these projections and assumptions.

The second most important building block for a reliable budget, are the revenue assumptions and projections. Above I have pointed out the anomalies especially the major distortions taking place from 2011 to 2012.

There is another aspect of the formal side of revenue projection which I must point out to this house. It also underscores my earlier observations that the budgeting process, especially from the ministry's input, is flat, static and uninspired. The projections for fiscal year 2012/13 presented to us in last year's Medium Term Expenditure Framework under Sectoral Expenditures, are EXACTLY the same at the figures published in this latest budget.

Now that is completely impossible. When I say they are exactly the same, I do not mean more or less, or nearly the same, I mean exactly, up to the cent.

Even if the sectoral expenditure items are still based on estimates for 2012, then there is a sufficient history up to January this year, to give a clearer indication of the progress in the financial year. These figures are published by the Ministry itself, but the budget expenditures, as published, do not take the real outcomes into consideration.

This, to us, is a strong finger pointing at the budget process, and at its applicability for managing the financial side of Namibia. Projections of a previous year that are incorporated into a new budget as estimates, smack of oversight. It also indicates that the entire budget process with all its impressive documentation, may be a deliberate attempt to hide the pertinent lack of development funding.

Allocation by votes

The amount of work that goes into compiling the documents which support the budget process is admirable. I have to congratulate the staff in every ministry who are tasked with the formidable responsibility of adjusting and aligning every ministry's budget requirements every year.

Looking through the latest Medium Term Expenditure Framework, I am filled with a sense of appreciation for the enormous amount of work that goes into the detailed description of the various programmes which require budget allocations.

Programme descriptions

These descriptions form the background against which every ministry must make projections for its financial needs for the new fiscal year. It is only when I compare the newest Expenditure Framework with last year's and the year before that I notice how static these documents are. It is almost as if the ministries have settled into a comfort zone and now only increase their financing needs by the factor supplied by the Ministry of Finance. I notice slight changes between fiscal years further into the future, but these changes are also reflective of changes in the overall budget documentation.

The budget smells of central planning, in other words a top down approach. The Ministry of Finance makes broad calculations on the macro-economic side and then pass this on to the line ministries who adjust their figures, not as per project but according to their cut of approved overall expenditure.

Assumptions on which projections are based

Reliability of these assumptions

The budget documents present us with a glimpse into the budget methodology which, on the surface, seems valid and reliable. The Ministry even graciously publish their set of assumptions both for external conditions (international) and local economic performance (domestic economy). Many of the assumptions are common sense assumptions but there are some important points that may be contentious and depend on whether one agrees with the budget analysts or not.

Reliability of statistics

We understand and realize that statistics are the key to responsible and reliable budgets. We commend the government for establishing the National Statistics Agency and putting it on a firm footing to start producing the stream of reliable statistics we have waited for so long. All that the Agency must now do is actually producing those statistics. We eagerly anticipate and await the first set of National Accounts fully produced under the mandate of the new entity.

Budgetary expansion, expenditure and revenue trajectories

I have delved in some detail into the statistical comparisons of growth, revenue and expenditure.

I explained to the members of this house, that despite the political hype and aplomb with which the budget is offered to us, it has turned into a repetitive paper exercise and it does not reflect the developmental realities of Namibia.

Nominal growth versus real growth

As indicated earlier, nominal growth assumes a rather flat (linear) trajectory of about 11.5% annually. Real growth is another matter and it will depend largely on domestic inflation, but also on the way inflation is measure by the Namibian Statistics Agency. Suffice to say, there is a glaring anomaly in the budget forecasts between nominal growth, real growth and inflation.

THERE IS NO EXIT FROM TIPEEG

Budget consolidation is one of those popular semantic distortions to hide the fact that we maintain an expansionary trajectory in expenditure with a vague hope that revenue will somehow catch up with the burgeoning debt load taken on by the government to finance strategies which should be financed from conventional revenue sources provided real efficiencies in the overall execution of the budget leads to higher productivity.

We continue to finance growth through more debt and then we call it "Development of the local Capital Market." Another clever piece of semantics.

There is a distinct anomaly between the government's published Borrowing Schedule and the provision it makes for expenditure in the budget. TIPEEG as an intervention to foster growth and job creation in targeted economic sectors has been offered to us in 2011 as a financial way of relieving the social pressure building up in the face of massive unemployment, inequality and poverty.

In that year, the Minister indicated that TIPEEG is a three-year programme and that results will be monitored as the fiscal years progress. At the end of the intervention, an exit strategy was indicated. It is indeed a sad day that we now have to realize there is no exit strategy.

What is referred to as fiscal consolidation, is a word play and is not reflected in the budget. Once a critical analysis of the comparative budget elements is made from one year to the next, it is clear that there is no intention to discontinue TIPEEG or some similar policy instrument. It is an insult to the poor majority of Namibians that an attempt at alleviating their condition is used as a ploy to continue misallocation of funds. This budget misses many opportunities where actual interventions in the form of capital investments, can make a meaningful difference in the lives of hundreds of thousands of people. As it is now, the budget, through its current expenditure, drains the state of resources, and all that the poor (people) provide is a not so plausible excuse for a continuation of poor (bad) allocation of resources.

Taxation

It is a heartening signal sent out by the Minister when she announced the changes to tax policy. The detail of these can be found in the her budget speech, but I am sure it will not go unnoticed by salary earners in the lower bracket that basic annual income is tax exempt up to N$50,000. Previously this ceiling was N$40,000.

The adjustment to various other taxes should also have provided some relief from statutory expenses carried by ordinary Namibians in the form of Transfer Duty and Stamp Duty, especially for the effect it has to put property ownership further out of reach of all but the richest. If any person in this house doubts the effect of the unmeasured or "shadow" inflation I have alluded to earlier in my response, they must just look at house and farm prices.

I am sure companies will find a welcome relief in the one percent reduction in company tax, although it is our contention that company tax will have to recede further to bring Namibia in line with other tax regimes in the region.

According to the Ministry's calculations, these tax concessions will reduce revenue by N$1.2 billion. These tax concessions are long overdue. Any tax relief, similar to lower interest rates, has a measurable multiplier effect on the consumption side of the economy. Literature determines this effect to range between a factor of 1.4 to as high as 2. In simple terms it means that every one dollar the government is prepared to forfeit as tax revenue, that one dollar increases the economic output by one dollar and forty cents, or even two dollars. This in turn increases the revenue base. This basic fact should have been realized by our financial planners a long time ago. As it stands now, the very significant contribution to the economy that comes from government spending has eroded the investment base of the private sector.

This single important fact is the major reason for the pervasive high unemployment and the government's inability to fix it through programmes such as TIPEEG.

Taxation as economic growth or expansion

1. Changes to personal tax rates

It is surprising to see that the budget pursues a policy of “trickle down economies” as the basis for economic growth.

This is what is referred to as a 'supply side economic policy' which assumes that by increasing the access of consumers to disposable income that the economy will grow through their increased spending power. In the case of the current budget, the economic growth assumption is based on the increase supply of disposable funds through tax cuts as a means to stimulate growth.

In the latter part of the 20th Century, this economic growth framework is most notable for its use by the Republican Party in the United States, in particular by Ronald Reagan in the 1980s in his policy of Reaganomics which advocated the lowering of tax rates with a focus on reducing tax rates for the wealthy in order to maximize total consumer spending power within the economy.

In the United States the economic growth policy of trickle down / Reaganomics resulted in an increase in nominal annual debt from US$900 billion to US$2.8 trillion due to decreased government tax revenues.

In addition to increased national debt levels, an additional consequence of the application of trickle down / Reaganomics within the United States, and one which is of particular importance to the on-going goal of Namibia to reduce poverty by reducing income disparities between the rich and poor, was an increased gap in income levels between rich and poor and a corresponding increase to the United States Gini coefficient measuring income in-equality within the country.

While it is agreed it is critically important to allow low and middle-income earners to maintain more of their earnings in order to meet increasing cost of living requirements through tax exemptions and a reduction in income tax levels, it is counterproductive to the goal of addressing income disparities between the rich and poor within Namibia to reduce income tax levels for top income earners.

2. Growing the economy

The assumption made that decreased income tax levels and the corresponding increase in consumer spending will increase economic growth within Namibia is false.

In order to increase economic prosperity and decrease income disparities within Namibia, it is necessary to grow the economy and in doing so to create jobs.

The primary means to increase jobs in Namibia through economic growth should be based on developing economic policies and programs which will facilitate the economy transitioning from its current resource extraction dependence state to one where enterprises both small and large, domestic and foreign, are encouraged to be established and nurtured to grow through an internationally competitive taxation framework.

At present, if we compare the tax situation within Namibia to that of some of our neighbors South Africa and Botswana, Namibia has the least favorable tax environment to encourage the establishment of business ventures by either domestic on non-Namibians.

As an example:

Taxation Measurement	Namibia	Botswana	South Africa
Corporate Tax Rate	35%	15-25% (industry dependent)	28%
VAT Threshold based on gross business income	NAD200,000	BWP500,000 (NAD / ZAR560,000)	ZAR1,000,000
VAT Rate	15%	10%	14%

With respect to the tax rates indicated above, rates which directly influence the viability of establishing a successful business in Namibia, the country ranks worst when compared to its neighbors, Botswana and South Africa in each category.

In so far as the government claims it is supportive of the establishment of small and medium enterprises within the country as a means to grow the economy, decrease unemployment, and to reduce income in-equality between the rich and poor, unfortunately, its policies of taxation do precisely the opposite by discouraging the establishment of new businesses by being excessively high and uncompetitive.

Consequently, it is proposed that a tax environment which encourages the starting of businesses along with the corresponding growth in jobs is established though a decreased corporate tax rate for businesses registered and operating in Namibia, and an increase in the VAT collection threshold to NAD800,000 for businesses registered and operating in Namibia.

These two proposed steps are a key initiative towards planting the seeds and nurturing the growth of a dynamic and competitive environment for the growth of jobs through small and medium business development within Namibia.

Debt

The scariest aspect of the national budgets of the past five years is the growing reliance on debt. In an earlier budget speech, the Minister praised their own frugality claiming that cost-saving measures and higher revenue collections contributed to the gradual reduction of debt, when in fact, this was not the case. The slow reduction in debt happened as a consequence of under-spending, which eventually surfaced in poor service delivery, especially in the health, education and security votes.

Only when it was obvious to the electorate that State Hospitals, the schooling system and the Namibian Police were in such severe disrepute that these institutions failed to execute their mandate, did the government wake up to the reality of under-spending and under-investment.

In the meantime, the lack of proper economic planning was overtaken by disruptive events of a global nature, which forced the national budget into its counter cyclical "survival mode" but it also drained Namibia of the resources that should have gone into health, education and security.

The persistent and significant growth of public debt from the 2010 budget onwards is feebly disguised, again by semantic wordplay like "growing the local capital market" when in reality, it was required by the government to finance its current expenditure. The result is a lack of appropriate investment in capital projects, diminishing the process of Fixed Capital Formation, and consequently robbing the economy of its future vigor and growth potential.

In 2009 total public debt was a modest 18% of GDP. The first two years of the counter cyclical budget saw that level explode to 26.4% of GDP. This is not a serious threat to the Namibian economy, but it displayed an alarming trend. It also exposed the government's vulnerability to current expenses. In an effort to provide a soft economic landing in 2010, the national budget had to access sources of funding previously not available or not considered of acceptable risk.

The debt trajectory will see total public debt increase from N$24.7 billion in 2011/12 to N$44.5 billion in 2015/16. This is a staggering 80% increase over five years without a commensurate increase in either GDP or revenue. As an annual average, it means our debt grows by 16.7% every year.

Given that GDP is projected at a steady nominal increase of 11.5% per year up to 2016, no measure of statistical engineering can hide the fact that we are slowly growing closer to a debt trap.

For each and every Namibian, the crucial question to answer is whether he or she wants to continue life with an ever increasing debt burden, or whether we want to increase our portion of investment so that our future returns can outperform the regional benchmarks.

For a prosperous future, we need a conscious policy of debt reduction, current expenditure containment, and an ever-growing slice of investment expenditure.

Let me offer you an example. Our neighbor Botswana, has a very comparable economy to ours in terms of territory, population, natural resources, climate and development profile. Botswana suffered the same setback as we did in 2009 when the international economy imploded, but their budget deficit for this year is 0.6%. Why can they do it and not us – what is the magic formula?

Honorable Speaker

Distinguished Members of Parliament

I rest my case.