Republic of Namibia

Reply by the Minister of Finance On Matters Raised during the Second Reading of the 2016/17 Appropriation Amendment Bill and the 2017/18- 2019/20 Medium Term Budget Policy Statement

Calle Schlettwein, MP

Minister of Finance

09 November 2016

INTRODUCTION

Honourable Speaker,

1. Let me take this opportunity to respond to the questions, comments and matters raised during the Second Reading of the 2016/17 Appropriation Amendment Bill and the corresponding Medium Term Budget Policy Statement.

2. Before I address the specific matters raised by the Honourable Members, let me first and foremost; express my gratitude to all members of the House and those who have taken the floor for the principle support of the Budget Review policy stance.

3. I am especially glad to note that the House is in agreement that the current economic condition necessitates the alignment of expenditure to the revised macroeconomic framework and revenue outlook. In this way, we will be able to guard against our macroeconomic stability.

4. Your support reflects our common commitment to fiscal prudence and sustainability. This is what the 2016/17 Mid-Year Budget Review seeks to achieve by aligning public spending to the revised revenue outlook. It prioritizes long-term benefits and the sustainability of fiscal outcomes over short-term gains.

Honourable Speaker,

5. A number of relevant comments have been made during the Budget Review discussions. No doubt, such comments will improve our budgeting process and policy frameworks going forward. In fact, that is the added benefit of the Mid-

Year Budget Review. It does not only allow the Government to implement timely measures during the budget year, but it also accords the legislature opportunity to make input in advance of the tabling of the budget.

6. A number of comments were made regarding the broader fiscal consolidation policy stance and such comments were supportive of the proposed stance. Specific comments were made with regard to the constraints impacting on the Development projects implementation rate, expenditure alignment to priorities and the proposed expenditure reallocation.

7. While the House embraced the Mid-Year Review as an added novelty to the budget process, some members reflected on its legal grounding and compliance with appropriation provisions of the law. Pertinent questions were also raised about the timing and magnitude of the fiscal adjustment, the actions being taken to curb potential Illicit Financial Flows (IFFs) and the impact of proposed changes to Regulation 28.

8. *Honourable Speaker*, let me now go into details on the specific matters raised.

The Mid-Year Budget Review: Compliance with Constitutional Provisions

9. In respect to the Mid-Year Budget Review, I have severally emphasized the policy objective of introducing such a review in the budget process. It serves the dual purpose of enhancing expenditure realignment and the transparency of the budget process. Expenditure realignment allows us to align expenditure to the changing macroeconomic and revenue conditions as well as realizing allocative efficiencies through reallocation of freed-up resources to

priority programmes and where more value for money is best realized.

10. Second, transparency and greater participation is obtained through advance announcement of the budget policies and informed input by the legislature and the public prior to the tabling of the budget.

11. In essence, *Honourable Speaker*, the provision of Article 126 of the Constitution, read with Section 1 of the State Finance Act envisage that the economic environment under which a budget is presented is dynamic and may change from time to time and Treasury may, through the legislature, align the national budget to fundamental changes in the economic and financial developments. The introduction of the Budget Review process is, therefore, not contrary to the provisions of the law.

12. It is an added feature in our Public Finance Management and the budget process, which is now formalized in the same manner as we adopted Medium-Term Expenditure Framework in the early 2000 and Program-Budgeting about six years ago.

13. In this regard, ***Honourable Kavekotora*** posed a question if the proposals made in the Appropriation Amendment Bill are in compliance with Article 126, as the Honourable Member was of the view that the proposed expenditure suspensions and cuts already took effect.

{ Refer to insert response}

Hon Prof. Peter Katjavivi
Speaker of the National Assembly
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Namibia

11 October 2016

Dear Hon Professor Katjavivi

CONSTITUTIONAL POWER OF THE MINISTRY OF FINANCE : BUDGET CUTS

We acknowledge receipt of you letter dated 7th October 2016 in which you invited me to appear before the Parliamentary Standing Committee on Rules and Orders and Internal Arrangements of the National Assembly.

Hon Speaker, please be informed that I shall avail myself for the above mentioned meeting. However, some of the matters your committee has raised are pivotal to our ability to manage public finances and therefore I see the need to officially respond.

The statutory framework in which the budget Is executed comprises of firstly, the Namibian Constitution and specifically in Articles 125 to 127. Secondly, the State Finance Act and relevant Appropriation Acts need to be considered.

Article 125, The State Revenue Fund, of the Namibian Constitution states that:

> "(1) The Central Revenue Fund of the mandated territory of South West Africa instituted in terms of section 3 of the Exchequer andAudit Proclamation, 1979 (Proclamation 85 of 1979) of Proclamation R 101 of 1985 shall continue as the State Revenue Fund of the Republic of Namibia.
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> (2) All income accruing to the Central Government shall be deposited in the State Revenue Fund and the authority to dispose thereof vest in the Government of Namibia.
>
> (3) Nothing contained in Sub-Article (2) hereof shall preclude the enactment of any law or the application of any law which provides that:
>
>> (a) the government shall pay particular monies accruing to it into a fund designated for a special purpose; or
>>
>> (b) any body or institution to which any monies accruing to the State have been paid, may retain such monies or portions thereof for the purpose of defraying the expenses of such body or institution; or
>>
>> (c) where necessary, subsidies be allocated to regional and Local Authorities.
>
> (4) No money shall be withdrawn from the State Revenue Fund except in accordance with an Act of Parliament.
>
> (5) No body or person other than Government shall have the power to withdraw monies from the State Revenue Fund."

Article 126 of the Namibian Constitution deals with appropriations and states that:

> (1) The Minister responsible for Finance shall, at least once every year and thereafter at such interim stages as may be necessary, present for the consideration of the National Assembly estimates of revenue , expenditure and income for the prospective financial year.

(2) The National Assembly shall consider such estimates and pass pursuant thereto such Appropriation Acts as are in its opinion necessary to meet the financial requirements of the State from time to time.

The State Finance Act, Act No 31 of 1991, in section 16, General powers of Treasury, provides that:

"(1) The Treasury may-

(a) notwithstanding the provisions of section 6, authorize that a saving on-

(i) a Column 2 amount of a vote or on an amount mentioned in a main division of a vote, be utilized towards the defrayal of anticipated expenditure which may result in an excess of an amount mentioned in any main division of the vote concerned, including a main division established under section 9(1)(c); or

(ii) an amount mentioned in a subdivision of a main division of a vote, be utilized towards the defrayal of anticipated expenditure which may result in an excess of an amount mentioned in any other subdivision of the main division concerned , including any new subdivision which may be established with the authorization of the Treasury;

(b) notwithstanding anything to the contrary in this Act or any other law contained, in its discretion, from time to time withhold or suspend the disbursement of an amount of money mentioned in an estimate of expenditure or in respect of which the withdrawal has been authorized under section 9 or which has been appropriated by or under any law, including a law whereby money has been appropriated for an statutory institution;

(c)

(b) inform the Permanent Secretary and the Auditor- General as soon as practicable of cases in respect of which claims have been waived under para- graph (c)(i) of subsection (1).

(6) The Treasury shall not exercise the power con- ferred upon it by paragraph (c)(i) ofsubsection (1) unless it is satisfied that -

(a) the amount involved is irrecoverable or the recovery thereof would be uneconomical;

(b) therecoveryoftheamountinvolvedwouldcause undue hardship to the debtor or his or her dependants because they would be deprived of their minimum essential means of livelihood; or

(c) itwouldbetotheadvantageoftheStatetowaive any such claim

Implementation challenges affecting development Projects

14. ***Honourable Lucia Iipumbu*** raised the important issue on the alignment of the budget to development priorities, while ***Honourable Sioka*** raised questions regarding capital projects implementation rate.

15. Indeed, I agree that the budget should increasingly be attuned to the policy priorities as articulated in our development policy frameworks. In the Budget Review, we have endeavoured, to the extent possible, protect allocations to priority sectors. Going forward, as the green shoots sprouts and fiscal space emerges, such resources should be utilized to scale-up allocations to the key growth and social development priorities.

16. The Development Budget implementation rate has averaged around 91.6 percent in the past three years. Indeed, an average of 8.4 percent underutilization rate represents an opportunity cost of foregone development outcomes. The factors impacting on the implementation rate are largely attributed to, among others, administrative and technical capacity challenges on project preparation and approval process, the procurement process and the duration of undertaking feasibility studies.

17. The restructuring of Tender Board into the envisaged Central Procurement Board with a supporting Policy Unit and the establishment of the Procurement Committees at the entity level will bring some needed efficiency in the public tender processes, while technical capacity development in project preparation will continue to be an important area going forward.

Tax Reforms and combatting IFFs

18. *Honourable Kavekotora* has further raised the important on the actions we are taking to curb potential Illicit Financial Flows (IFFs) in the context of the findings of the Thabo Mbeki Report on this matter.

19. As a resource-based economy with large multinational investments, the provision of modern taxpayer services to all the taxpayer community and upgrading of tax assessment and audit skills are important areas of action and institutional reforms.

20. First, we have segmented taxpayers in various categories in order to better manage and administer the provision of taxpayer services to the specific categories of taxpayers. As such, the large taxpayers resort under the Large Taxpayers Office with associated skills needed to provide services and conduct appropriate assessments at that level.

21. Further, Namibia has taken up membership to a global network of information sharing and capacity development aimed at deterring illicit financial flows and revenue base erosion. Within this framework, our Large Taxpayers Office is receiving technical assistance from Finland and further audit capacity development is being provided through cooperation with the European Union.

Impact of Proposed Changes to Regulation 28

22. Honourable Kavekotora has also commented on the possible unintended consequences of envisaged changes to Domestic Asset Requirements in the form of changes to Regulation 28.

23. Namibia is a net exporter of capital, yet we have a substantial investment gap. Much of the growth projects and investment in key sectors such as mining are financed from abroad, while our own capital flows out. We should be able to provide a policy environment for addressing this contradiction without compromising the business imperative and pension fund returns.

24. Our approach to lifting the domestic asset requirements is a phased one, and it is accompanied by other reform measures such as such as implementation of a PPP framework and how best to leverage Public Enterprises in this regard so that the investments made have underlying returns.

THE MEDIUM-TERM FISCAL CONSOLIDATION PATH

Honourable Speaker,

25. The comments made by ***Honourable Nico Smit*** and other honourable members on the magnitude of the fiscal consolidation and the expenditure cuts proposed in the Appropriation Amendment Bill are generally supportive of the policy actions of the Budget Review.

26. I would, however, wish to clarify the policy position regarding the timing and magnitude of the expenditure consolidation, the potential impact on economic growth and measures to mitigate such negative growth impacts.

27. There is a perceived view that Government should have better foreseen the current slowdown and bring about adjustment in expenditure much earlier.

28. Indeed, the FY2015/16 Budget Review and the FY2016/17 Budget and MTEF have introduced the "*growth-friendly fiscal consolidation*" programme, anchored on targeted expenditure reduction. As it stands, the current MTEF, as presented in February 2016, contemplated the reduction of expenditure to GDP ratio from 39 percent in FY2015/16 to 35 percent by FY2016/17 and average around 32 percent of GDP over the MTEF. The current MTEF had also proposed to reduce the budget deficit to an average of below 3 percent of GDP.

29. While the direction of the downward adjustments have been foreseen and considered, the magnitude of the shocks is substantially higher, leading to downward adjustments in forecasts by several international and regional bodies as well as governments, especially in the Sub-Saharan African Region.

30. We will also maintain policy coordination between fiscal and monetary policy to support the adjustment period, while catalysing opportunities for greater private sector participation in the economy. The proposed speed of fiscal consolidation only reinforced the actions that Government has initiated already.

31. As ***Honourable Venaani*** and all of us have observed, the proposed expenditure cuts are comprehensive. This is, however, necessary from the sustainability and timeliness perspectives. We have considered the potential impact on growth. Hence, the emphasis on spending cuts with least impact on growth and accelerating implementation of structural reforms to support growth and mitigate the growth-reducing impacts of fiscal adjustment. In some instances, we have to find better and alternative means of conducting our operations, while doing more with less.

32. The implementation of the PPP framework is critical. Changes to Regulation 28 will release substantial investible capital in the domestic economy and we have to accelerate SOE reforms to support investment opportunities in the market.

33. For the past two days, Namibia has held a successful national Investment Conference as a means of engaging with potential investors and finding opportunities for partnerships in key areas of economic advancement.

Honourable Speaker,
Honourable Members,

34. To conclude, let me take this opportunity to thank the Honourable members for the general support of the Appropriation Amendment Bill and its accompanying Medium-term Policy Framework.

35. I may not have answered each and every question individually, but I have attempted to cover the main topics. Your support of the Appropriation Amendment Bill will timeously give effect to the protection of hard-won macroeconomic stability and addressing the funding of urgent priorities to which resource reallocations are proposed.

36. We will follow through with the proposed policy framework in the preparation of the FY2017/18 Budget and MTEF.

37. With these remarks *Honourable Members*, I thank you all for your support of the Appropriation Amendment Bill.

I thank you