



Republic of Namibia

**Reply by the Minister of Finance
On Matters Raised during the Discussions of the
2013/14
Appropriation Bill
and the
2013/14 - 2015/16 Medium Term Expenditure
Framework**

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Minister of Finance

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Honourable Speaker

1. I take this opportunity to respond to comments and questions raised during the Second Reading of the 2013/14 Appropriation Bill.
2. I would like to express my gratitude to the Honourable members of the House and the public at large for putting forth pertinent issues. This will no doubt improve the budget process going forward.
3. I have clustered the matters raised according to relevant themes. As such, I will not refer to particular members who raised the issues. I will address the general issues raised and only refer to some specific cases for clarification. I count on the support of my Cabinet colleagues to provide more detail on the sector programmes under their ministries.

BUDGET CYCLE, MTEF METHODOLOGY AND PROVISIONS FOR TRANSPARENCY & ACCOUNTABILITY.

***Honourable Speaker,
Honourable members,***

4. Several comments were made regarding the participatory character of the budget preparation process. This is in regard to (i) the public and opposition parties input into the budget formulation and (ii) transparency in the budget formulation process.
5. Namibia adopted a multi-year, Expenditure Framework in 2003. The MTEF does not only enhance financial planning, but it also improves transparency by providing information on the ~~three years of~~ anticipated income and expenditure ^{for three years} by Vote and programme.

6. This accords the legislature and the public ample opportunity to provide input into the expenditure proposals, before the annual Appropriation Bill is finalized and presented to Parliament.
7. I thus encourage the Honourable Members of the House to also scrutinize the proposals for the next two financial years and make timely and well considered input.
8. I should also point out that the budget formulation, in fact, starts at the Vote level, with individual O/M/As formulating their budget requests based on sectoral needs. This process has the involvement of Regional Authorities and other stakeholders.
9. Indeed, Namibia's openness in budgeting has been reflected in the country's improving scores in the internationally recognised Open Budget Survey. Namibia's score has risen from 46 to 55 over the past four years, which saw the country placed third in all of Sub-Saharan Africa in 2012.
10. As we are faced with limited resources, there is a need for prioritization to ensure that Government spending remains within sustainability levels, while still addressing the important needs of the country. As an example, total additional expenditure requests advanced by O/M/As for 2013/14 alone were in excess of N\$15 billion, against N\$6.5 billion which could be accommodated.
11. This is the essence of budget hearings which is an interactive process between the Line Ministries and the Treasury before the budget is finalized. This extensive participatory process cannot be equated with central planning.

12. I agree that we should continue to embrace reform and continually assess our performance in relation to our peers and the region. We will continue with further reforms to our budget, but this has to be done in such a way that we do not unduly overburden the budget process.

PLAUSIBILITY OF MACROECONOMIC PROJECTIONS

13. Let me also respond to comments made on the plausibility of macroeconomic and revenue projections.
14. An important tenet for credible macroeconomic projections is the professional autonomy under which they are made.
15. Economic forecasting is undertaken by the Macroeconomic Working Group (MEWG), which is comprised of officials from various stakeholder institutions. Further, macroeconomic forecasting is preceded by an assessment of the performance of the global economy. In addition, a national annual industrial survey is undertaken to assess medium-term prospects as well as to test the validity of projection assumptions.
16. With respect to the economic forecast for the MTEF, we are cognisant that Namibia is an open economy. This degree of openness means that developments in the global economy have significant impact on our economy. As such, our historical economic performance generally tracks global economic developments.
17. The global economic growth is projected to proceed at a relatively subdued pace.

18. This militates against robust growth in the domestic economy, and it is in this context that the domestic economic growth is projected to proceed at an average rate of 4.4 percent over the medium-term, which is only moderately above the projected growth in the global economy. Domestic policy interventions are expected to support this pace of projected recovery.
19. The Preliminary National Accounts released a fortnight ago put the estimated GDP growth rate for 2012 at 5 percent, which was higher than the 4.0 estimated in the Macroeconomic Framework. This suggests that economic activity has picked up, thanks to domestic economic policy and improving global market conditions, although risk factors remain elevated.

MEASURES FOR REVENUE PROJECTIONS

20. In regard to revenue projections, objective criteria are maintained by ensuring that projections are independently made by a different Department other than the Receiver of Revenue. This delineation of responsibility ensures that projected levels constitute collection targets which the Receiver should strive to achieve.
21. A GDP-based methodology is applied in forecasting revenue. This essentially means that the performance of a specific tax revenue stream is determined by the projected growth in its underlying economic activity. If economic activity turns out to be better-than-anticipated, this would have the resultant positive effects on revenue and vice-versa. In addition, revenue reform measures are also generating positive outcomes.
22. In recognition of the importance of revenue forecasting in public finance management, the Ministry has adopted a 95

percent revenue forecasting accuracy as one of its ministerial targets.

23. With respect to the previous MTEF, the budgeted revenue for 2009/10 was N\$22.8 billion against an outturn of N\$24.0 billion, giving a forecast accuracy of 94.7 percent. For 2010/11, the projected revenue and outturn was N\$22.7 billion and N\$23.4 billion, respectively, giving a 97.1 percent forecast accuracy, while for 2011/12, the forecast accuracy was 93.6 percent. This translated in an average of 95.1percent forecast accuracy over the MTEF, which was in line with the target. Exogenous factors affecting global and domestic economic environment would generally impact on forecasting accuracy.
24. In spite of this achievement, we shall continually improve on our forecasting capacity and tools. As such, the Ministry has undertaken to develop an Integrated Forecasting Model, alongside human resources capacity-building exercises to serve both macroeconomic and revenue forecasting, as well as simulation of fiscal policy impacts on the economy.
25. During the tabling of the budget, I have indicated that total revenue outturn for 2012/13 is estimated at N\$37.1 billion, which was an upward adjustment from the budgeted N\$35.4 billion.
26. Some Honourable Members have enquired if such an upward adjustment is realistic. We believe that this is attainable. By the end of February, preliminary revenue outturn stood at N\$34.9 billion, which was about 94.1percent of the revised estimates.

TAX POLICY CHANGES: POLICY RATIONALE AND SOCIO-ECONOMIC IMPLICATIONS

*Honourable Speaker,
Honourable Members,*

27. In regard to tax reductions, there is general consensus that the proposed changes are necessary and plausible.
28. The rationale for the proposed measures is to relieve the tax burden on individuals and businesses, enhance progressivity of the tax system and promote competitiveness of the economy, which supports increased economic activity and the reduction of inequities.
29. Anecdotal assessment has attested to the progressivity of the proposed measures. The low-income groups are the largest beneficiaries of this policy change, with savings for the income earners below N\$180,000 expected to save as much as N\$ 13,800 per annum. As presented, the upper tax rate of 37 percent has remained unchanged, although the brackets have been defined more clearly.
30. These adjustments are also expected to encourage voluntary compliance by taxpayers as compliance costs have now reduced.
31. I should also state that our reform efforts will continue in order to improve tax administration and revenue collection, and the Ministry will elevate the profile of taxpayer's education campaign going forward.
32. As I have indicated in the Budget Statement, the cost of the proposed tax changes is taken into account in the projected revenue for the MTEF.

33. On whether fiscal policy has any impact on the economy, I wish to emphasize that fiscal and monetary policy have especially provided support to the economy during the difficult period of the global economic downturn by stimulating domestic demand and addressing domestic supply-side constraints.
34. The fiscal policy nexus for inducing economic activity and long-term growth lies in the development of growth-enhancing infrastructure as well as human capital development.

SOCIO-ECONOMIC PROGRESS & CHALLENGES

Hon. Speaker,

35. **Namibia's Human Development Index (HDI)** score for **2012** shows an improvement over the last five years, placing Namibia's global ranking at 128 out of 186 countries. This places us mid-way in the 'Medium Human Development' category. The Human Development Index Report shows that non-monetary poverty (as measured by education and health outcomes) has reduced in recent years, with life expectancy rising from 60 years in 2007 to 63 in 2012. Literacy rates have also improved considerably.
36. Successive National Household Income and Expenditure Surveys also showed a gradual decline in poverty over the years. Relative poverty fell from 38 percent in 1993/94 to 20 percent in 2009/10.

37. Extreme poverty also declined over this period, from 9 percent in 1993/94 to 4 percent in 2003/04 and further to 2.0 percent in 2009/10.
38. The Gini coefficient ratio has improved from 0.7 at independence to 0.58 in 2009/10, compared to the Vision 2030 target of 0.55 by 2015.
39. I should hasten to add that the Gini Coefficient ratio of 0.58 is still high and measures to further reduce poverty need to be strengthened. However, statistics indicate positive results of Government policy which shows that the policy direction is right.
40. Government will, therefore, continue with efforts, including under this budget to, *inter alia*, promote job creation, economic growth, welfare improvements and equitable wealth distribution. These are the objectives set forth in NDP4.

EXPENDITURE ALLOCATION AND BUDGET REFORMS

41. Comments were made regarding the targeting and execution of the budget. I would like to respond to the main concerns raised as follows:-
42. As at the 31 March 2013, the Total Preliminary Expenditure outturn amounted to N\$34.4 billion out of the N\$37.7 billion budget, which gives an implementation rate of 91 percent.
43. For operational expenditure, the preliminary budget execution rate stood at 92 percent, while for the

development budget, it amounts to 86 percent. These rates are preliminary, pending reconciliation of information.

44. However, I share the view that any under-utilization of the budget is undesirable, especially in *the context of socio-economic challenges facing our country and the need for improved service delivery*. It is, therefore, of utmost importance that all stakeholders work together to address the causes of budget under-utilisation and, most important, to ensure that the outcome from our expenditure are improved.

EFFECTIVENESS OF FISCAL COUNTERCYCLICALITY

45. Honourable members also wanted to know the effectiveness of the expansionary fiscal policy undertaken since the onset of the global financial crisis five years ago.
46. The objective of fiscal countercyclicality is to serve as a stimulus to growth during a period of economic downturn.
47. Evidence suggests that the fiscal expansion has served our economy relatively well. The domestic economy only experienced a mild contraction of 1.1 percent in 2009, compared to an average of 2.3 percent contraction for SACU economies and it has rebounded strongly since then with a strong growth of 6.6 percent achieved in 2010.
48. The resurgence of the Euro zone sovereign debt crisis in 2011 has had a depressing effect on global trade and economic growth and consequently on our economy.
49. However, economic recovery is now picking up speed. The growth rate of 5 percent estimated in the Preliminary

National Accounts for 2012 is marginally better than the initial 4.9 percent projected in the Macroeconomic Framework. This result is in part due to the effectiveness of domestic policy interventions in addition to improvements in the global market conditions.

DEBT MANAGEMENT

50. There is a consensus that expenditure and public debt need to be stabilized. In this regard, the expenditure ceilings proposed in the MTEF indicate a consolidation path. The projected deficit is obviously at a higher level than earlier projected under the previous MTEF, but it is still in line with the consolidation path and well within sustainability levels. It is important that fiscal policy not only supports the economy during periods of difficulties, but that it also addresses structural challenges and establish a solid basis for long-term sustainable growth. *otherwise the econ can stay*

STOCK OF INTERNATIONAL RESERVES

51. The country's level of foreign reserves increased from N\$14.4 billion in 2011 to N\$14.7 billion in 2012. While this level is low compared to more mineral endowed countries, it is, however, sufficient to support the currency peg which is the most important policy parameter in the current exchange rate regime. Moreover, the reserves level is also above the international benchmark of three months of import coverage. This implies that Namibia is in a position to honour its international obligations.
52. Foreign reserves are determined by two main channels: exports and imports. Therefore, for the country to be able to have a high level of reserves, it must boost its export capacity to an unprecedented level.

53. I believe the efforts underway to build up the economic capacity as envisaged in the NDP4 are steps in the right direction. Other measures such as Regulation 28, which deals with capital outflows, have also contributed positively to foreign reserves and will continue to do so in the future.

TIPEEG IMPLEMENTATION OUTCOMES AND NEXT STEPS

Honourable Speaker,

54. As I have indicated previously, TIPEEG is an integral part of the development budget, whose overall execution rate is by the end of the year estimated at 86 percent.
55. According to the information provided by the National Planning Commission which is the coordinator of the TIPEEG programmes, the total number of jobs created under TIPEEG stood at 15,152 or a total of 41,444 jobs since 2011/12.
56. In terms of the contribution to growth, the preliminary National Accounts for 2012 indicates that the construction industry recorded growth rates of 19 percent and 12 percent in 2011 and 2012 respectively. Public infrastructure projects under the TIPEEG significantly contributed to this outcome.
57. While TIPEEG was designed as a short-term programme, the objectives for job-creation and long-term inclusive growth will be pursued in terms of NDP4.

58. The lessons learnt from the TIPEEG dispensation underscore the need for improved monitoring and evaluation.

PUBLIC FINANCE MANAGEMENT LAW REFORMS

59. Questions were raised with regard to the status of the review of the State Finance Act. I wish to indicate that the Ministry has finalized the Layman's Draft of the Public Finance Management Bill. The Bill will undergo a drafting process and tabled in this House, hopefully still this year.
60. The Bill should be seen as forming part of a broader strategy on improving financial management in the public sector, including the budgeting process, financial management systems, public procurement and tax reforms.

STATE-OWNED ENTERPRISES: PERFORMANCE

Honourable Speaker,

61. Much has been said about the performance of the State-Owned Enterprises. I agree that the performance of some of the SOEs need to substantially improve.
62. As I have indicated, the SOE Governance Council has developed policy guidelines for the operations of SOEs.
63. It is now incumbent on the portfolio Ministers to ensure implementation and monitoring of these measures.
64. Indeed, some SOEs perpetually rely on budgetary transfers and this is not sustainable. Through Public Finance reforms, we shall strive to ensure that budget transfers to SOEs are aimed at financing strategic interventions that will help optimise growth and public service delivery.

65. With regard to the funding of Air Namibia on which there has been extensive discussions, allocations for 2013/14 amount to N\$1.1 billion. For 2014/15 and 2015/16, the allocations are N\$362.2 million and N\$304.1 million respectively. This information is contained under the vote of Transport. The allocations are made for the acquisition and maintenance of the aircrafts and the lease of aircrafts. Allocations were also made to enable the airline company to meet liabilities related to outstanding fuel payments. There was no intention to conceal this information and any lack of clarity is regretted.

THE TENDER BOARD AND PUBLIC PROCUREMENT REFORMS

66. With regard to public procurement, concern was expressed regarding the amounts exempted from open bidding.

67. In this regard, I would like to clarify a few operational matters. Firstly, there are standard expense items for which O/M/As, including the National Assembly, get Tender exemptions annually for practical reasons. These items include payments for municipal services, rental fees, subsistence and travel allowance and subscription and membership fees to international organisations. TIPEEG projects were also exempted from tender procedures only in regard to the period of tendering, which was reduced from 21 days to 14 days in an attempt to fast-track the implementation of the projects. However, the transparency procedures as required under the Tender Board Act and Regulations applied. This is in line with the spirit and procedures of the Tender Board Act.

68. You could just imagine the red-tape that you would have to overcome in order to undertake a trip abroad, if there was no tender exemption granted for this.
69. Other forms of procurement which require exemptions as a matter of necessity are those pertaining to emergency relief. In the new law, different tender procedures will be established for emergency procurement to obviate the need for exemptions, while still allowing for fast-tracking of procurement during emergencies.
70. Transfers to SOEs and Regional Authorities are also included in tender exemptions. However, procurement involving these funds is subjected to the procurement systems of those institutions.
71. Finally, the procurement benchmark amount is currently provided for in the Act. This means that procurement involving amounts that may be small are subjected to bidding. To avoid this and ensure efficiency in procurement, tender exemption is granted.
72. The new procurement bill provides for the threshold for tenders to be set in gazetted regulations, rather than in the Act. This will facilitate for regular adjustments to ensure that small tenders are not subjected to the procedures that large tenders are subjected to, as this may not be efficient.
73. I, however, agree that some of the tenders that were exempted, especially large ones, needed not to have been exempted. Such exemptions weaken the ability for tender board to ensure that public procurement delivers value for money. The need for tender exemptions can be obviated if O/M/A's project preparations are done in good time so that there is enough time to follow the open-bidding procurement procedures.

74. In regard to decentralisation of project implementation to Regional Councils, this falls under the ambit of the Decentralisation Act. Once a Ministry has delegated the implementation of a project to a Regional Council, the procurement under that project will be done by the Regional Tender Board in terms of the regional Council's Act.

FIGHTING CORRUPTION

Honourable Speaker,

75. As an effort to strengthen support to the fight against corruption, we have provided additional funding to both the National Police and the Anti-Corruption Commission.
76. Additional funding is also provided to the Ministry of Justice to strengthen the administration of justice and the capacity of courts.

SKILLS DEVELOPMENT

77. Several Honourable members have underscored the critical need for the development of market-related vocational skills to promote job creation and reduce the cost of doing business. The Ministry of Education will put in place the Human Resources Development Plan to address skills shortages in the economy.
78. In the context of the proposed budget and MTEF, allocations to education and training remain significant to fund, among others, Basic education and increased intake for vocational and tertiary education. However, I concur with the various contributions made in regard to the need

for commensurate improvement in the quality of educational outcomes.

SECURE SOURCES OF ENERGY & WATER

79. In respect to energy supply, in addition to the funds made available to the Ministry of Mines and Energy, Government is engaged with the Ministry on guarantees to be provided for the Kudu Gas Project.

80. With regard to the budget allocation to development programmes, it is important to note that there was an increase of N\$1.4 billion above the allocations of the previous year.

81. For 2014/15, although there is a slight reduction to N\$8.12 billion compared to N\$8.15 billion into 2013/14, this amount is still significantly higher ^(by 1.02 bn) than N\$7.04 billion estimated for that year under the previous MTEF. Further, it is important to note that the bulk of the infrastructure development programmes of the Government are undertaken through SOEs. Part of the funding that is raised by SOEs for infrastructure development is secured by Government guarantees. In addition, a significant amount of funding is provided off-budgeted loans. Over the MTEF, this amounts to N\$1.4 billion. When this is considered, then the total public funding to infrastructure is much higher than what is provided through the budget.

* But I agree that ^{the} increasing personnel expenditure ^{is necessary for} crowd out investments in growth enhancement and public service delivery.
82. Finally, concerns were raised about the adequacy of Old-age and OVC grants. As indicated already, the Government is cognizant that the current levels are less than adequate. However, they are what can be currently afforded by the economy. We have to balance between

It also pose a serious challenge for fiscal sustainability. It is of utmost importance that it is restrained.

Summary efforts needs to be intensified to improve performance

funding welfare programmes, that we agree are important for poverty alleviation, and investment in growth enhancing interventions, in order to safeguard fiscal sustainability and long-term sustainable growth.

83. The Government remains committed to continuously review these grants as more resources become available.

CONCLUDING REMARKS

84. In closing, I want to express my appreciation once more for the support expressed by Honourable Members and the public at large with respect to the Budget.

85. I also appreciate the valuable proposals made, which no doubt will help us to improve the budget further. I cannot agree more with the proposals to reduce the time allocated for the budget debate in order to allow more time for implementation.

86. This is especially true given that we have a three-year MTEF where budget allocations are known two years in advance and discussed at the time of introducing the MTEF. I trust that the next stages of the budget will take this into consideration and facilitate for an expedited passage of the budget.

87. I may not have answered each and every question individually. However, I have attempted to cover the main issues. My Cabinet colleagues will clarify in more detail issues concerning their respective sectors during the Committee stage.

88. With these remarks, I profoundly thank you for your contributions and appeal for your support for the Appropriation Bill.

I thank you!