



Republic of Namibia

**Reply by the Minister of Finance
On Matters Raised during the Discussions of the
2014/15
Appropriation Bill
and the
2014/15 - 2016/17 Medium Term Expenditure
Framework**

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Minister of Finance

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INTRODUCTION

Honourable Speaker

1. I take this opportunity to respond to the questions and comments raised during the Second Reading of the 2014/15 Appropriation Bill.
2. I am indebted to the Honourable Members and the public at large for raising pertinent issues which will no doubt improve the budget process going forward.
3. I will refer to the general issues raised. My Cabinet colleagues will provide details of the sector programmes under their ministries during the Committee stage.

BUDGET PROCESS: PROVISIONS FOR TRANSPARENCY & ACCOUNTABILITY

4. Regarding the openness and transparency of the budget process, I have in the past explained that transparency and participation in the budget process is provided for at three levels;-
5. *First*, in respect to participation in the budget formulation, it remains a tradition that the national budget consultation process starts at Vote level and involves all stakeholders at constituency and regional level.
6. *Secondly*, since 2002/3, Namibia has implemented a multi-year budgeting process whereby the Medium-Term Expenditure Framework (MTEF) provides information on the three years of anticipated income and expenditure by Vote and programme. This accords the legislature and the public the opportunity to scrutinize proposed budgetary allocations and provide input into the expenditure proposals before the annual Appropriation Bill is presented to Parliament.

7. I thus urge the Honourable Members to fully utilise the MTEF by providing inputs into the proposals for all the MTEF years.
8. The discussions and inputs provided during the Second reading of the Appropriation Bill inform the budget process going forward.
9. **Thirdly**, the MTEF is based on the NDPs and sectoral master plans of the O/M/As which were formulated with the input of stakeholders.
10. In addition, the Government Accountability Report embeds transparency and accountability in the execution of the budget programmes by providing detailed information on what the public sector accomplishes with the appropriated funds, thereby holding Offices, Ministries and Agencies (O/M/As) accountable for the outputs and outcomes.
11. I call on the Honourable members and the public at large to take time and read through the Government Accountability Report.
12. Government also goes the extra mile to publish a Citizen's Guide to the Budget which provides simplified information that is accessible to ordinary Namibians. This keeps the public well-informed about the budget. The Citizen's Budget for 2014/15, which is translated in various indigenous languages, is at this time now ready for distribution.

PROGRESS IN ADDRESSING SOCIO-ECONOMIC CHALLENGES

3. I have already alluded to the socio-economic challenges that our nation still faces in my budget statement. I have also indicated how the current budget will continue to address these challenges.

4. However, while many challenges still remain, we have made verifiable progress in many areas.

5. In particular,

15.1 Our country has recorded consistent positive economic growth rates, with the economy expanding by two and a half times since 1990. Real GDP growth averaged 5.1 percent in the last ten years.

15.2 National income per capita has increased by more than 60 per cent in real terms, propelling Namibia to reach Upper-Middle Income status in 2010. In nominal terms, income per capita now stands at N\$50,234 or some US\$6,126 at current exchange rates, compared to N\$19,048 or US\$1,811 dollars ten years ago.

15.3 We have also made progress in pushing back the frontiers of poverty and inequalities. The latest National Household Income and Expenditure Survey showed that relative poverty has been almost halved since independence, from 38 percent in 1993/94 to 20 percent by 2009/10. Further extreme poverty has fallen from 9 percent to 2 percent, and the country's Gini coefficient has narrowed from 0.70 at independence to 0.58 in 2009/10 against the Vision 2030 target of 0.55 by 2015.

16. This represents significant progress and provides a solid foundation for attaining our objectives under Vision 2030, which will be further built upon by the current MTEF and by NDP4.

OPERATIONAL VERSUS DEVELOPMENT BUDGET

17. The issue of the size of the public service, while it has significant implications for the budget, goes beyond the scope of the budget formulation. Dealing with this matter is a process that requires cooperation among different stakeholders.

18. *Honourable Speaker*, the provisions for public servants remuneration that are made under the current MTEF arise from the agreement between the Government and Trade Unions and include a 10 percent salary increase for civil servants effective 1 April 2014. They also include adjustments as a result of appeals to the Job Evaluation and Re-grading (JEG) implemented from 2013/14. Together, these measures account for some N\$2.5 billion or 5.2 percent of the operational budget in 2014/15.

19. Without doubt, the public wage bill, standing at N\$22.0 billion in the 2014/15 budget or about 42 percent of revenue is a cause of concern.

TRANSFERS TO STATE-OWNED ENTERPRISES

20. Concerning the transfers to SOEs amounting to N\$9.5 billion, this amount includes funding for infrastructure development such as upgrading of harbour and airport infrastructure, development of the Kudu Gas to Power project and rail transport equipment.
21. Support to Air Namibia is earmarked mainly for transport equipment and maintenance to ensure secure supply of services to one of the strategic industries in the economy.
22. I should emphasize that the transfers for infrastructure development form part of the strategic capital investment required to establish a basis for long-term sustainable growth of the economy and should not be seen as a bail-out of the SOEs.
23. Similarly, the transfers to institutions of higher education, the Veterans Fund, financial assistance to students and youth empowerment are standing commitments that form part of the expenditure of the respective budget Votes.
24. Finally, transfers to Development Finance Institutions such as DBN, AgriBank, SME Bank and NHE are necessary to support productive economic activities, including industrial development, SME support and financing for housing.
25. As indicated in the budget statement, the transfers for infrastructure development supplement other forms of support to be provided in the form of guarantees for loans to be raised by SOEs themselves and as co-financing to catalyse funding from other sources. Such is the case with the allocation to Namport, Nampower and NHE. For instance, the allocation of N\$625 million to Namport over the MTEF will assist the port authority in raising N\$2.3

billion for the port expansion project. Similarly, an amount of N\$1.6 billion to Nampower over the current MTEF period will assist the power utility in raising N\$6 billion in the next five years for investment in the Kudu Gas to Power project. The *Estimates of Income and Expenditure* provides a complete breakdown of the transfers to SOEs.

26. However, the continued dependence of some SOEs on Government for operational support remains a concern, as are the delays in the finalization of financial statements and continued instances of qualified and disclaimed audit opinions. Government expects improved performance from all SOEs as required under the SOE Governance Act.

27. I am glad to note that an increasing number of SOEs have entered into performance contracts with their line Ministries. O/M/As are required to ensure that disbursements are released in line with the subsidies agreements with specific deliverables.

28. *Honourable Speaker*, Allocations to development expenditure has seen steady growth. The development budget has been scaled-up in recent years to serve as a key lever for fiscal countercyclicality. Since 2007/08, the Development Budget has more than doubled from N\$2.1 billion to N\$7.8 billion in 2011/12 and further increased to a proposed N\$ 9.6 billion in 2014/15.

29. If seen together with the budgetary transfers for infrastructure projects under SOEs, the total development budget would amount to N\$10.8 billion for 2014/15, corresponding to 18.0 percent of the budget.

TIPEEG AND TRANSITION TO LONG-TERM GROWTH AND JOB CREATION

30. Concerning TIPEEG, the House may recall that TIPEEG was designed with the twin objectives of creating jobs through an expanded public works programme and to stimulate long-term growth through scaled-up investment in strategic sectors of the economy.
31. Job creation continues to be a priority under NDP4, to be pursued through, amongst others, investment in strategic infrastructure, human resources development and the promotion of private sector investment.

PROVISIONS FOR INDUSTRIALIZATION AND PRIVATE SECTOR SUPPORT

32. With respect to the support provided for industrialization, Government provides a suite of tax incentives targeted for the manufacturing sector and exporters of manufactured goods. This is in addition to allocations made through the Ministry of Trade and Industry.
33. Further, increased allocations are made to DBN, AgriBank and SME Bank in 2014/15 to provide capital to industry. This is in addition to the loan books of these institutions and it is further supplemented by provisions for preference for local products under the Public Procurement system.

Honourable Speaker,
Honourable members,

34. Measures to grow the share of locally manufactured goods and promote domestic value-addition and supply chains remain important areas for domestic industrial policy action.

35. In this regard, I will, during the course of the 2014/15 financial year, introduce the Export Tax Bill which proposes a range of taxes to incentivize domestic value addition, especially in the natural resources sector.

36. Amendments to rules pertaining to domestic asset requirements for pension funds and long-term insurers have become effective since January this year. The amendments oblige these institutional investors to invest a portion of their total assets in local unlisted investment opportunities. This landslide regulatory reform avails substantial domestic savings for investment in projects locally. I invite the private sector to take advantage of this window of opportunity.

STRENGTHENING THE SOCIAL SAFETY NETS

37. Concerning old-age pension grants, I wish to reiterate our Government's commitment to continually improve the living conditions of our senior citizens.

38. It is for this reason that Namibia is one of only four countries on the African continent which provides old-age grants.

39. Government adjusts old-age grants every two years. However, increases were made in the last two consecutive years in order to strengthen the quality of the grants. In this year's budget, the focus is placed on expanding the coverage of the grants to ensure that we reach all the qualifying beneficiaries. We have also increased grants to Orphans and Vulnerable Children (OVC).

40. Given that many of the OVCs are under the care of their grandparents and had relied on their grandparents' old-age

grants, the increase in OVC grants will also provide relief to many senior citizens who have OVCs under their care.

SKILLS FORMATION AND YOUTH EMPOWERMENT

41. *Honourable Speaker*, skills scarcity is the most binding constraint to our economic development, resulting in weak capacity for policy implementation and high unemployment.
42. It is in view of this that education has received the largest share of the budget ever since independence.
43. In order to promote improved outcomes from investment in the education sector, Government undertook an expenditure review to assess the effectiveness of the resources allocated to the sector. The Ministry of Education is currently seized with the implementation of the recommendations from this review.
44. Given the concentration of unemployment among the unskilled and lowly-skilled, increased allocation is made to provision of skills.
45. The allocation to Financial Assistance for students is increased to N\$836.2 million in this budget and it will reach an estimated N\$1 billion in 2016/17 and a total of N\$2.7 billion over the MTEF.
46. Similarly, the allocation to vocational training institutions has been more than doubled in this budget to cater for better equipment and increased intake.
47. The private sector will also actively come on board, with the training levy due for implementation in the coming financial year.

48. Besides allocations to skills training, increased allocations are also made to the National Youth Service and National Youth Council for an expanded intake in youth skills development programmes and youth empowerment.

49. As I indicated previously, youth-owned companies will now receive preferences under the revised Public Procurement rules.

SAFEGUARDS FOR DEBT SUSTAINABILITY

Honourable Speaker,

50. Regarding the sustainability of public debt, the SADC fiscal sustainability parameters encapsulated in the Finance and Investment Protocol require that public debt should not exceed 60 percent of GDP.

51. Namibia has set itself a national debt benchmark of 35 percent of GDP, but Government debt has consistently remained below this benchmark. The debt level now stands at about 27.8 percent of GDP. This level of debt is well within sustainable levels.

52. However, Government is aware of the need to check the growth in public debt. The N\$14.7 billion additional allocation under this year's budget is out of a total of N\$31.4 billion requested by O/M/As. Debt is projected to reduce to 25.6 percent of GDP by 2016/17.

53. Our approach to funding the major portion of public debt from the domestic market is in keeping with our Debt Management Strategy, which is aimed at supporting the domestic capital market and hedging against exchange rate volatility. We see no risk of Government crowding out of

the private sector, given the high levels of domestic savings.

54. The Public-Private Partnership framework that is currently under development will enable us to catalyse private sector resources towards investment in infrastructure, thus providing relief on the budget.

CONSUMER-CENTRIC FINANCIAL SECTOR REFORMS

55. Concerning the high fees and charges by the financial sector institutions, I am happy to report that steps are being taken in this regard and progress is being made in addressing this phenomenon.

56. At the policy level, Government, in collaboration with the financial services industry, has launched a Financial Sector Strategy which entails measures to foster financial inclusion by introducing products for low-income earners as well as improving financial knowledge of the population.

57. We have, among other successes, recorded the following progress:-

- Improvement in access to financial services as measured nationally through Finscope Surveys.
- A range of new products such as the Basic Bank Account facility have been introduced to cater for the needs of low-income earners.
- In regard to consumer financial education, a Financial Literacy Initiative was launched in 2012 and it has since taken its education campaign to 11 regions of the country on various themes of financial discipline. On the Second Anniversary of this

initiative on 15 March this year, I will have the privilege to launch the financial education campaign in Gobabis, Omaheke Region.

58. Through the Development Financial Institutions, Government shall continue to support the provision of increasing credit to the private sector.

59. As I indicated in the budget statement, measures are under way to put in place the Financial Services Ombudsman Bill and the Consumer Credit Bill.

60. Together, these measures have a combined effect of promoting access to finance and banking services for previously excluded persons.

MONITORING AND EVALUATION OF BUDGET OUTCOMES

*Honourable Speaker,
Honourable Members,*

61. With regard to the expressed need for improved implementation of the budget, I can only agree.

62. As a Parliament, we can support the realization of better budget execution by accelerating the passage of the Appropriation Bill to allow for more time for budget implementation.

CONCLUDING REMARKS

63. *Honourable Speaker*, in closing, I wish to once again express my unreserved appreciation for the support shown for the budget by the Honourable Members and the public at large.
64. I may not have answered each and every question individually, but I have attempted to cover the main topics. My Cabinet colleagues will provide detailed clarifications during the Committee stage.
65. With these remarks *Honourable Members*, I appeal for your support of the Appropriation Bill.

I thank you