



Republic of Namibia

**Reply by the Minister of Finance
On Matters Raised during the Second Reading
of the
2017/18
Appropriation Bill
and the
2017/18- 2019/20 Medium Term Expenditure
Framework**

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Minister of Finance

29 March 2017

*Honourable Speaker,
Honourable Members,
Fellow Namibians*

1. I rise to respond to the questions, comments and matters raised during the Second Reading of the 2017/18 Appropriation Bill and the 2017/18 - 2019/20 Medium Term Expenditure Framework.
2. As I have stated during the tabling of the Appropriation Bill, the 2017/18 Budget and MTEF seek to align the budget to the revised macro-fiscal framework and support economic growth and social development objectives by mitigating some of the deep spending cuts heralded by the Mid-Year Review policy stance.
3. I listened objectively to the issues raised during the Second Reading of the Bill. I appreciate the input and suggestions made as they will no doubt improve the budget process, budget policy and allocative efficiency going forward.
4. I wish to thank the Honourable Members, particularly those who have taken the floor for their general support and the comments and proposals made.
5. Additionally, Honourable Speaker, I had the privilege to engage the business community on the budget proposals since the tabling of the Appropriation Bill on the 8th March 2017. During these interactions, I had the opportunity to appreciate how the public largely embraced the Budget and expressed confidence in the medium-term budget policy. I thank the public and the business community for the support and expert views provided.

6. I wish to thank you Honourable Members, the respective political parties and the public at large for the specific suggestions made. In particular, I wish to thank the following:

6.1	Hon. Nico Smit	DTA
6.2	Hon. Elma Dienda	DTA
6.3	Hon. Mike Kavekatora	RDP
6.4	Hon. Dudu Murorua	UDF
6.5	Hon. Meundju Jahanika	NUDO
6.6	Hon. Clara !Gowases	RP
6.7	Hon. Jan Van Wyk	UPM
6.8	Hon. Benson Kaapala	WRP
6.9	Hon. Ester Anna Nghipondoka	SWAPO
6.10	Hon. Stanley Simataa	SWAPO
6.11	Hon. Veicco Nekundi	SWAPO
6.12	Hon. Tom Alweendo	SWAPO
6.13	Hon. Peya Mushelenga	SWAPO
6.14	Hon. Heather Sibungo	SWAPO
6.15	Hon. Lucia Iipumbu	SWAPO
6.16	Hon. Evelyn !Nawases-Taeyele	SWAPO
6.17	Hon. Leevi Katoma	SWAPO
6.18	Hon. Maureen Hinda	SWAPO
6.19	Hon. Itah Kandjii-Murangi	SWAPO
6.20	Hon. Christine //Hoebes	SWAPO
6.21	Hon. Faustina Caley	SWAPO

7. *Honourable Speaker*, the interventions made refer to various sub-themes of the Budget and Budget policy. I will respond to the questions raised and proposals made, from the thematic perspective. As such, I may not necessarily refer to the names of the Honourable members in relation to each contribution made.

8. The main thematic issues raised are in regard to (i) the transparency of the budget process and parliamentary oversight functions, (ii) macro-fiscal projections and expenditure outlook, (iii) domestic policy interventions and outcomes, (iv) budget allocations to various sectors, and (v) structural policy reforms and infrastructure development.

TRANSPARENCY AND PARLIAMENTARY OVERSIGHT FUNCTIONS

9. *Honourable Speaker*, some questions and comments were raised in regard to the openness of the budget process and the mechanisms for parliamentary oversight and supervision functions. Hon. Kavekatora from the RDP and Hon. Jahanika from NUDO particularly emphasized on these matters.
10. In respect to the openness and participation, Namibia is ranked 9th in the Open Budget Index for Sub Saharan Africa. This better regional rating results from the various facets of openness and public participation which are embedded in our budget process.
11. The essence of the introducing the MTEF methodology in the budget process way back in early 2000s is for the budget system to go beyond the short-termism of a single year budget and provide for up to two years of indicative expenditure allocations which will inform the indicative budgets for those years.
12. This information is provided well in advance to the legislature and the public, thus affording the legislature unfettered opportunity to make input in advance of the preparation and tabling of the budget.
13. In addition, Honourable Speaker, the Mid-Year Budget Review reform initiative was added to the budget process

since 2015/16. I have emphasized the policy significance of the Mid-Year Review. Contrary to the assertion that the legislature has no advance access to the assumptions underpinning the budget, the Mid-Year Review Policy Statement goes in detail to provide such information as well as the budget priorities at least three months in advance of the tabling of the budget.

14. I urge the Honourable members to make full use of the wealth of this information.

15. The proposals for establishing a Parliamentary Budget Office or Budget Committee are enshrined in the principle upon which the Public Accounts Committee is founded. Such proposals can be further investigated with the view of establishing how the parliamentary oversight and supervision functions can be further enhanced.

16. We have been open to consultation and transparency at many stages of the Budget process. However, it should be noted that the responsibility for determining the budget continues to rest with the Executive.

MACRO-FISCAL PROJECTIONS AND EXPENDITURE OUTLOOK

17. *Honourable Speaker*, some questions and comments were raised by Honourable Nico Smit on the budget policy and the macro-fiscal projections which anchor the budget and medium-term outlook.

18. Comments were also made on the linkages between the Mid-Year Budget Review Policy Framework and the budget.

19. In this regard Honourable Speaker, allow me to once again emphasize the policy significance and empirical meaning of the Mid-Year Budget Review.

20. The Mid-Year Review is an added facet to the Budget process and brings forth three notable advantages, namely:-

- *policy flexibility to align the budgetary framework to the dynamics of economic and fiscal environment, thus enhancing timeliness of policy action and policy adjustments as the exigencies of the situation dictate,*
- *promote allocative efficiency, by freeing up funds and internal savings for reallocation to priority areas in pursuit of quality of spending and development results, and*
- *enhancing budget transparency by making advance announcement of the medium-term budget policies well in advance of the budget, thereby according the legislature and the public ample opportunity to interrogate the envisaged budget policies and the budgetary framework.*

21. This is the policy context and implementation utility that the Mid-Year Budget Review innovation brings.

22. Some of the observations made found peculiarity in the fact that the macroeconomic and revenue projections set out in the budget do not significantly differ from the Mid-Year Review Policy Statement that was published and tabled in this House in October 2016 and that such insignificant changes implicates the validity of the policy framework underpinning the budget.

23. *Honourable Speaker*, in a credible and plausible policy environment, one should not expect large variations to a projected outlook made in October/November and the revisions made in February/March of the following calendar year. To the contrary, if such large changes occur, then the plausibility of the forecast comes into question. There is thus no policy inconsistency when the budget outlook is in sync with the policy stance announced in the Mid-Year Budget Review and its assumptions, save when significant developments have occurred.
24. As I have stated, this is exactly one of the objectives of the Mid-Year Budget Review in that it provides advance announcement of the outlook in advance of the budget. In this framework the policies and underlying macro-fiscal framework do not come as a surprise to the legislature, Budget Votes and the public.
25. *Honourable Speaker*, let me further emphasize that if and when adjustments have been made to the overall spending ceiling of the original budget, the policy reference going forward is in respect of the Revised Budget. In other words, when the expenditure adjustment and suspension of N\$4.5 billion were made during the 2016/17 Mid-Year Budget Review, this resulted in the adoption of the 2016/17 Appropriation Amendment Bill, setting forth the revised budget upon which the Budget execution and all fiscal indicators will be assessed. Thus, to make reference to the original budget is merely notional and an abstraction from the reality that change has occurred.
26. One of the perceived potential risks for the budget that was portrayed by Honourable Smit is the viability and reliability of the N\$19.60 billion from SACU projected in the budget, which represents about N\$5 billion increase from N\$14.07 billion received during 2016/17.

27. *Honourable Speaker*, this concern is allayed by the provisions of the SACU Agreement on the revenue sharing formalities. In order to avert unforeseen volatility in SACU revenue and abrupt changes during the budget year, SACU revenue shares are determined by the SACU Council of Ministers well in advance of the budget for all SACU Member States. The budget projection for SACU receipts is not speculative, but a firm revenue share. Member State shares for 2017/18 were decided by the SACU Council of Ministers in December 2016. Such shares will be remitted to members on quarterly basis as per the provisions of the SACU Agreement. They are, however, ex-ante payments to be audited a year later.

28. The prospect of a potential negative adjustment as a result of the audit is further assuaged by the fact that in the subsequent years of the MTEF, we have projected moderately lower revenue outlook in order to incorporate potential volatilities emanating from subdued economic environment in the region.

29. *Honourable Members*, taking these plausibility and cautionary provisions into consideration, I wish to reaffirm to the House that due care has been taken to align budgetary expenditure to the revised macroeconomic outlook contained in the Mid-Year Review and incorporating any latest developments thereafter as reflected in the Budget and MTEF. However, this does not suggest that the economic environment will remain static going forward. We should retain the flexibility to adjust to emerging developments.

30. One item of expenditure that has attracted particular attention in the recent debates has been the civil service wage bill. I think we are in general agreement that this

wage bill is high and is pushing the limits of sustainability both in its level and its rate of growth. For this reason, the Office of the Prime Minister is currently working on a combination of measures to address this issue. These may include natural attrition, which, where applied, will be done in a managed way, so that key positions will continue to be filled when they fall vacant. This attrition solution is not expected to be a panacea, but would take its place among various other measures.

DOMESTIC POLICY INTERVENTIONS AND OUTCOMES

31. *Honourable Speaker*, comments were also made in regard to domestic policy interventions, policy outcomes and progress made in the implementation of some of the interventions, particularly in the education sector.
32. In this respect, the budget policy framework has emphasized the alignment of the budget to the national priorities. The national policy priorities are set out in the Harambee Prosperity Plan and the sectoral development plans.
33. In all areas of policy, good governance is essential to the achievement of our desired outcomes. I therefore welcome the expressions of support from several Honourable Members for the fight against corruption, and reiterate that we must unite in the drive to eradicate such governance issues.
34. The fiscal adjustment phase which we have embarked on, presents opportunity to increasingly align the budget to key national priorities as the fiscal space improves. This budget is a commencement of this process.

35. Indeed, Honourable Speaker, Namibia has made commendable progress on several fronts, and this was thanks to the implementation of policy packages to bring about socio-economic development and improve living standards.

- *the size of the economy has expanded and real incomes have grown to propel Namibia in the legion of Upper Middle Income Countries,*
- *we have made progress in reducing income inequalities through growth, from the Gini Coefficient of 0.71 to 0.57,*
- *extreme poverty has fallen to 11 percent by 2015/16 and absolute poverty has reduced to 18 percent along the same calendar,*
- *access to basic services, especially for education, health and portable water has expanded,*
- *we have achieved free primary education and Government is committed to meeting the needs of a free secondary education and increased access to tertiary and vocational training as resources become available. This is attested by the significant share of the budget that continues to be accorded to the education sector,*
- *social safety nets are expanded in quantum and coverage, thus serving as the first line of defence against poverty and vulnerability for beneficiary groups, and*
- *public revenue has grown in line with growth in the economy, thus enabling the Government to provide increasing services to more Namibians.*

36. Certainly, developmental challenges and opportunities still linger.

- *the structure of the economy is still narrow with preponderance on primary production and export,*
- *Unemployment is high,*
- *The distribution of means of income remains highly skewed and inequality, though declining, is one of the highest by global standards, and*
- *Poverty levels are still high, necessitating the deployment of multi-faceted sustainable approaches to poverty reduction and eradication, including the creation of the Ministry of Poverty Eradication and Social Welfare.*

STRUCTURAL POLICY REFORMS AND INFRASTRUCTURE DEVELOPMENT

37. Honourable Speaker, I agree that the budget is a key instrument for fiscal policy support to the economy and social development.

38. However, implementation of supportive policies is needed to compliment the budget and optimize the impact of fiscal policy, while promoting private sector investment and job creation.

39. In this regard, I am indebted to the Honourable members to the support in approving key policy reforms such as the Public Procurement Bill and the PPP Bill.

40. We are proceeding to implement the provisions of these key reforms so that their developmental goals are realised sooner rather than later.
41. Completion of the tax administration reforms for a semi-autonomous Revenue Agency and the modernization of the Public Finance Management law are of utmost priority over the coming financial year.
42. With respect to the operations of Public Enterprises, I should state that repeated bail-outs of some of these enterprises constitute a drain on state coffers, while the under-performance of others denies the public reliable and efficient services. Hence the on-going review by the Ministry of Public Enterprises is timely. The reform process will not only ensure better governance, but will also bring about reduced reliance on the budget, regain efficiency and provide good returns on the shareholders, while improving the reliability of service delivery from these entities.

ALLOCATIVE EFFICIENCY ACROSS VOTES

43. Several interventions were made with regard to the relative weight of budgetary allocations to various Budget Votes. This is in regard to, for instance, allocations to the Ministry of Poverty Eradication and Social Welfare and to the education sector.
44. Honourable Members, we consistently emphasise that pro-poor and inclusiveness of the budget requires that priority should be given to the basic enablers such as skills formation, education and health, scaled-up allocations to economic sectors including agriculture, supporting SMEs and strengthening social safety nets.

45. I therefore wish to emphasise again that this Budget continues to prioritize resource allocations to the social sectors, such as education and health as basic enablers for economic advancement as well as alleviation of poverty and vulnerability.
46. In this regard, let me take a moment to address some specific issues in relation to the Public Service Medical Aid Scheme.
47. I take this opportunity to inform the House that I have, in terms of Section 9(1)(b) and (d) of the State Finance Act (Act No.31 of 1991), read with Section 9(2) of the same Act, authorised expenditure amounting to N\$200.00 million or some (0.33%) of the total appropriated expenditure for 2016/17, as amended, to partially honour payments for medical services provided to members of the Public Service Medical Aid Scheme (PSEMAS). This amount could not be met by the provisions of the Contingency Fund.
48. The payment is in respect of the medical services rendered to PSEMAS members and their dependants during 2016/17 financial year, the cost of which lies in excess of the N\$2.2 billion PSEMAS budget.
49. The provision of medical services is a critical and essential service for the sustenance of life and the quality of life thereof, especially in certain special and emergency circumstances. It is on the basis of these considerations that I have evoked this section of the State Finance Act to ensure payment for services rendered and thus ensure the continuation of smooth provision of medical services to the members of PSEMAS and their registered dependents.

50. Honourable Speaker, to provide context, PSEMAS has a total of 293,250 members and dependents of which about 124,000 are principal members and the rest are pensioners and dependents. This membership and dependency ratio is about 13.1 percent of the total population and thus, substantial in its impact to the population and households.
51. The administration of PSEMAS is outsourced to MetHealth Namibia, to ensure an administrative arrangement based on specialized expertise for the highly specialised range of health services provided to PSEMAS members.
52. In recent years, the scheme has experienced a significant rise in the claims ratio, resulting in the rapid rise of the budget allocated. The N\$2.2 billion budget for 2016/17 is an increase of 22.7 percent from the previous year (N\$1.76 billion), while the membership has grown by only 5.2 percent over the same period.
53. Due to high and increased pattern of claims, the total allocated budget to PSEMAS was by and large fully spent by December 2016, resulting in the build-up of unmet costs for services provided. The build-up of outstanding invoices has placed cash flow constraints on service providers. As a result, some service providers had to demand upfront payments by members for services.
54. The Ministry of Finance, in collaboration with the associations of medical service providers, has launched an investigation into the high claims ratios and the practices of some of the service providers. This investigation has unearthed a myriad of alleged unethical claims practices by some service providers. Such alleged fraudulent claims have been set aside for further in-depth investigation.

55. As an outcome of these investigations and to ensure continuation of the provision of the essential services, the Government undertook to honour an amount of N\$200.00 million for the medical costs in this current financial year. This equates to about 64 percent of the overdue payments in this regard. The remaining amounts are budgeted for in the 2017/18 budget and will be paid as part of the continuation authorisation under over the coming month.
56. Honourable Speaker, strengthening the operational model for PSEMAS is critical for the sustainability of the scheme going forward. The current investigations will equally deal with this matter. At the same time efforts are underway to introduce a biometric card to help stem potential abuse and excessive claims.
57. In the meantime, the intervention taken to honour a substantial amount of the payments to service providers is aimed at ensuring critical and lifesaving service delivery to the membership of PSEMAS. This specific provision of the State Finance Act is utilized in special circumstances.

CONCLUDING REMARKS

58. *Honourable Speaker*, to conclude, allow me once again to express my gratitude for the support shown for the budget by the Honourable Members and the public at large.
59. Significant emphasis was laid on the need for effective implementation of the budget, policy reforms to amplify the impact of the budget on development outcomes and innovative reforms to improve internal efficiency. This cannot be further re-emphasized.

60. In this fiscal consolidation framework, we are called upon to work collaboratively for sustainable development results and to do more with less.

61. 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, specific to their respective Votes and sectors, during the Committee stage.

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

I thank you