



Republic of Namibia

**Reply by the Minister of Finance
On Matters Raised during the Discussions of the
2016/17
Appropriation Bill
and the
2016/17- 2018/19 Medium Term Expenditure
Framework**

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INTRODUCTION

***Honourable Speaker,
Honourable Members,
Fellow Namibians***

1. I rise to respond to the questions, comments and matters raised during the Second Reading of the 2016/17 Appropriation Bill and the 2016/17 - 2018/19 Medium Term Expenditure Framework.

Honourable Speaker,

2. I listened objectively to the interventions that the Honourable Members made on the various policy and allocations proposed in the budget.
3. Additionally, since the tabling of the Budget, I had the privilege to engage the civil society and the business community on the budget proposals in different regions of our country.
4. I held five post-budget discussion fora here in Khomas Region and engaged the public and the business community in Erongo, Ohangwena, Omusati and Oshana Regions. And I look forward to the public discourse in other regions during the coming weeks and days.
5. During these interactions, I had the opportunity to appreciate how the public largely embrace the Budget and the confidence expressed in the Government's track record of public finance management. Indeed, I had the opportunity to appreciate how Namibians aspire to make a meaningful contribution to national development, from the passionate aspirations of *Ohangwena Business Women Network Association* aspiring to engage in collective

income generating activities, to a fine example of an Enterprising Namibian in the form of *Roama Gates Manufacturing Pty Ltd* in Ondangwa, specializing in farm gates manufacture with good local retail industry outreach.

6. The proposals put forth during these engagements, and the various interventions made in this august House, reflect the common aspirations in regard to the budget as an important fiscal policy tool that can unlock immense socio-economic development opportunities for our country.
7. At the same time, the budget policy proposals have also benefited from the unfettered opinion of our credit rating agencies. Both Fitch and Moody's Investor Services have reaffirmed our credit rating position and conferred confidence in the fiscal stance and policy interventions proposed in the budget before you.
8. *Honourable Speaker*, during the Second Reading of the Bill, the Honourable Members have expressed general support for the Bill. Alongside this support for the Bill, good proposals and calls for effective budget implementation and sectoral reform interventions have been made, which will no doubt improve the allocative efficiency and spending quality going forward.
9. I, therefore, wish to thank you Honourable Members, the respective political parties and the public at large for the support and for the specific suggestions made, which will no doubt will improve the budget going forward.
10. I wish to thank Honourable Mc Henry Venaani, Hon. Muharukua, and Hon. Elma Dienda from the Official Opposition Party, the DTA of Namibia, for their input. I thank Honourable Maamberua from Swanu, Hon. Murorua and Hon. Auchab from the UDF; Hon. Mike Kavekatora

from the RDP, Hon. Van Wyk from UPM, Hon. Kaapala from the Workers Revolutionary Party and Hon //Gowases from the Republican Party for their valuable inputs.

11. It will be remiss of me if I did not thank the Honourable Members from the SWAPO Party who took the floor to make their contributions in support of the Appropriation Bill. In this regard, I would like to thank Hon. Deputy Prime Minister Netumbo Nandi-Ndaitwah, Hon. Minister Alweendo, Hon. Minister Tweya, Hon. Minister Nujoma, Hon. Deputy Minister Klazen, Hon. Deputy Minister Iipumbu, Hon. Deputy Minister Mushelenga, Hon. Deputy Minister Witbooi, Hon. Deputy Minister Simataa, Hon. Karupa, Hon. Katoma, Hon. Caley, Hon. Hambyuka, Hon. Kafula, Hon. Jagger and Hon. Kandumbu.

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

13. The sub-themes made are mainly in regard to (i) the budget policy coherence with Vision 2030 objectives, (ii) macro-fiscal projections underpinning the budget, (iii) budgetary allocative efficiency, (iv) spending efficiency in the social sectors, (v) provisions for budget deficit financing and safeguards for debt sustainability and (vi) proposals related to Public Enterprises reform and infrastructure development.

COHERENCE OF BUDGET POLICY PRIORITIES AND ALIGNMENT WITH VISION 2030

14. Hon. Muharukua and Hon. Maamberua have asked if the budget is back-tracking on the Vision 2030 objectives and whether this reflects implicit change in policy.
15. To the contrary, *Honourable Speaker*, the Budget Policy Statement, right up front, articulates the key priorities for the budget and the MTEF. The Statement articulates the priorities for achieving shared prosperity for all Namibians, developing the skills base, eradicating poverty; diversifying and industrializing the economy and improving the living standards of Namibians in an inclusive manner. These are the defining goals for Vision 2030, and indeed for NDP4.
16. This policy coherence is embedded in the proposed spending priorities of the budget. It is of policy significance that the budget increasingly provides funding for the implementation of programme initiatives to achieve these national goals.
17. I have also emphasized that to achieve these national goals and, thus, the Vision; we need to accelerate the implementation of the funded programmes, drive internal efficiency and implement policy and administrative reforms to realize value for money and optimise outcomes.
18. The thematic focus of the budget emphasizes the growth and pro-poor dimensions which are critical elements of Vision 2030 and the budget split reinforces this thematic approach. In this way, with the forthcoming budget we realign our approach to emphasise outcome rather than merely inputs; this concept has already taken shape via the performance management systems which have been

introduced in the civil service, and being rolled out to parastatals.

Thus, the coherence between the Budget and Vision 2030 goals is provided for in the following respect:-

- *The budget prioritizes and funds interventions for inclusive growth and sustainable development, wealth creation and shared prosperity, poverty eradication and the improvement of social welfare as well as improved service delivery,*
- *The alignment of the MTEF to NDP4 and, subsequently, the pillars of the high-impact, “**Harambee Prosperity Plan**” to provide development momentum as we transition to NDP5, and*
- *NDPs to which the budget and the MTEF are aligned are a stepwise progression to achieving national aspirations contained in Vision 2030.*

MACRO-FISCAL BUDGET PROJECTIONS

19. Some concerns were raised in this House regarding the accuracy of the projections for economic growth, which is projected at 4.3 percent in the light of lower growth for South Africa (estimated at 0.9 percent), as well as the projected revenue growth that underpins this budget. Hon. Kavekatora, Hon. Muharukua and Hon. Venaani have, in particular, spoken on these matters.

20. Indeed, *Honourable Speaker*, the South African economy has faced a number of key constraints that do not afflict Namibia, chief among which are load-shedding and major industrial relations issues. In 2014, for instance, Namibia registered a 6.4 percent economic growth rate, compared to 1.5 percent for South Africa, while the estimated corresponding growth figures for 2015 are 4.5 percent and 1.5 percent, respectively. Thus, there is some level of decoupling, although comparisons should take into consideration the relative sizes of the two economies.
21. On the other hand, Namibia's growth rate is set to slow more marginally in the medium-term as boom cycles in construction, retail and financial services taper off. The cyclical nature of these effects suggests a temporary phenomenon, rather than a more permanent structural trend. It is, of course, a dynamic environment which requires adjusting to changing circumstances.
22. We are of the opinion that, in spite of weak commodity prices and relatively slow growth in external demand, the coming into operation of large-scale mining projects will support decent levels of economic growth. Namibia's output of uranium in 2017, for example, is projected to be more than three times the volume produced in 2015, thanks in large part to the Husab uranium mine. Gold output is similarly expected to more than triple in 2016 relative to 2014, with the B2Gold mine at Otjikoto reaching full production.
23. This considerable improvement in growth in the mining sector is expected to be accompanied by an eventual recovery in agriculture from the low base created by drought, and a relatively mild slowing in growth in major service sectors such as retail and financial intermediation. Furthermore, tourism and export-oriented industries are

expected to benefit considerably in 2016 from the recent depreciation of the Namibia dollar.

24. In respect to revenue outlook and tax administration reforms, I have announced a broad range of tax base broadening and deepening as well as a host of tax administration reform measures. The work on the establishment of a Revenue Agency is on course with the Draft Legislation having been approved by Cabinet. The Bill will be subjected to further public consultation and legal certification and we are gearing up to the establishment of the Agency by 2017. The work to develop the Integrated Tax System (ITAS) has also progressed for the launch of the new tax system over the same calendar.

25. The Large Taxpayers Office has proved critical in providing efficient services to taxpayers and we are leveraging international tax cooperation to boost local capacity on matters of audit, transfer pricing and tax planning.

26. The Government's forecasts for economic growth are in line with the equivalent projections from the IMF, which foresaw 5.0% growth in 2016, Fitch Ratings, which forecasts 4.6% growth, and Moody's, which sees growth averaging 5% over the coming few years.

27. In respect to SACU revenues, there will indeed be challenging times ahead, but Government has already demonstrated its flexibility in coping with these conditions. Both the Mid-Year Review of the 2015/16 Budget and the Budget we are currently debating contain significant restraint of non-core operational and development expenditure, in order to align the expenditure lines to the

revised revenue outlook. Simply put, when times are relatively tougher, we have shown that we can do more with less.

28. There were also concerns raised regarding the impact of low global commodity prices on revenue, suggesting that this impact has been underestimated. Namibia's economy and the tax base are considerably more diversified now than was the case in past decades, so that commodity-linked revenue has fallen in relative importance. The mining sector accounted for just 29.5% of company tax receipts in 2014/15, with company taxes also being significantly less prominent than individual income tax, VAT and SACU receipts. For this reason, we feel the impact of low commodity prices has been incorporated as accurately as possible into the published revenue forecasts. It is also encouraging to note that a gradual recovery in the prices of gold and diamonds has taken root since the beginning of 2016.

29. With regard to the plausibility of the projected revenue, the Year-on-Year growth in revenue for FY2016/17 is only estimated at about 2 percent, compared to 14.2 percent achieved in the last three years. This projected slowdown reflects the extent to which downside risks to economic and revenue growth have been considered in the projections.

BUDGETARY ALLOCATION AND SPENDING EFFICIENCY IN SOCIAL SECTORS

30. *Honourable Speaker*, several interventions were made in regard to the budgetary allocations to the Social Sectors of education, health and housing in relation to the quality of outcomes.

31. The Honourable Members have expressed their support for the priority attention accorded to these basic enablers of our economic and social development.
32. Indeed, the quality of outcomes that are commensurate with the levels of spending in these sectors remain a matter of national concern. I share this concern. The respective line Ministries are seized with the implementation of the necessary reforms. From the public finance management point of view, I have announced in this budget that we will undertake targeted Public Expenditure Reviews, particularly in the social sectors; in order to assess outcome-based spending quality and value for money. No doubt, outcomes from such fund-tracking undertakings will contribute to the system reforms in these sectors.
33. In respect to the sector-specific measures to improve the efficiency of the systems and service delivery models, I would rely on my colleagues to provide the details during our discussions at the Committee Stage.

RELEVANCE OF INFRASTRUCTURE AND STATE-OWNED ENTERPRISES IN THE BUDGET

34. Honourable Speaker, there is general concurrence on the need to invest in efficient public infrastructure, especially in economic and ICT spheres. Through interventions in this sector, we have been able to build good harbour and road infrastructure. Funding is provided to refurbish the railway sector as a key component in trade facilitation and regional integration agenda.
35. Concerns were raised over the risk of water shortages and their potentially harmful impact on economic performance as well as the needs in the electricity generation sector.

36. Water security is being addressed through the activities of the Department of Rural Water Supply of the Ministry of Agriculture, Water and Forestry and the operations of Namwater. Among the many initiatives underway in this area are water recycling programmes, improvements to treatment and reclamation facilities and efforts to encourage lower water consumption. Desalination is furthermore emerging as a viable option in the water sector.
37. On the energy sector, the capacity of some of the existing power generation stations has been improved and new renewable power generation capacity has come on stream. Government's policy stance on this area has adopted the aim of achieving energy self-sufficiency as soon as possible, while also diversifying our energy sources outwards toward solar, wind, hydro and biomass energy generation, areas in which there is great potential for Power Purchasing Agreements, thereby injecting competition and a diversified supply of energy.
38. As a result of the affordability concerns, the Kudu Gas-to-Power project has had to be deferred.
39. In these crucial utilities of electricity and water, Government recognises the importance of pricing, both in ensuring the consumer's interests are kept at heart, and in maintaining the country's competitiveness as a place to do business.
40. With regard to the scarcity of serviced land in various Local Authorities, the budget proposes scaled-up allocations for land servicing over the MTEF to fast-track delivery of affordable housing in line with the national

commitment in this regard. These allocations and related budgetary support to various levels of Local and Traditional Authorities will be made through the Ministry of Urban and Rural Development.

41. 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 proposed assessment for partial listing of some of these entities is designed to reduce 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

42. Several interventions were made with regard to the relative weight of budgetary allocations to various Budget Votes.
43. The share of non-interest expenditure on the social sector has increased by 5 percentage points to 47 percent, reflecting the Government's commitment to improving access to services in this sector. In spite of the fall in the overall non-statutory expenditure ceiling, the Ministry of Education, Arts and Culture has seen its allocation rise by 13.0% to N\$12.79 billion, and the Ministry of Health and Social Services has likewise seen an increase of 11.4% to N\$7.23 billion.
44. While the relative share of non-interest expenditure to the economic sector has moderated to 14 percent in FY2016/17 from 16 percent in FY2015/16, this reflects the

streamlining of expenditure on non-productive outlays. Additionally, the economic sector benefits from the targeted capital budgetary transfers to Public Enterprises. This is the sector in which PPP arrangements and the leveraging of private capital can most contribute to infrastructure development.

45. I concur that in order to realize our *Growth at Home Strategy* and make a dent on poverty, improve the trade balance and stabilise the balance of payments, foster domestic productive capacity, food security and domestic agro-processing, we need to, among other interventions, improve both the budgetary allocation to, and productivity in the agricultural sector.

46. While the allocation to the social sector has been strengthened, the current need for expenditure consolidation requires that fiscal expansion be curtailed in order to stabilize public debt within sustainable levels and regain fiscal space that will subsequently allow us to provide optimal funding.

47. It is for this reason that allocations to other sectors have not expanded appreciably in this budget and over the MTEF. It is only through this short-term adjustment that we ensure long-term sustainable operations.

48. As such, the allocation to the Defence Vote has been reduced from N\$7.23 billion in FY2015/16 to N\$6.60 billion proposed in the budget as a result of the consolidation framework, but also to free up resources to protect gains in the social and economic sectors and without compromising on safety and security.

49. The National Defence is a professional force, which needs to be mobile to be able to cover the geographical spread of our vast country. During times of civil national need, the force has provided the necessary support to social courses. Additionally, Namibia - as a product of international solidarity and support - participates in regional and international peace keeping operations for which the defence force plays a critical role. Clearly, the reduction in the proposed allocation to defence is a trade-off that has to be made, against the backdrop of an increasing need to improve the living conditions of our servicemen and women.

BUDGET DEFICIT FINANCING AND SAFEGUARDS FOR DEBT SUSTAINABILITY

Honourable Speaker,

50. With regard to the financing of the projected budget deficit for FY2016/17, I have indicated that an amount of US\$190 million from the Eurobond proceeds was set aside to support the financing of budget deficit.
51. The remainder of the financing needs will be sourced from the domestic market and, if need be, from the regional market.
52. Comments have been made in regard to the growth in public debt during the FY2015/16. This was necessitated by the need to meet the budgetary commitments against the backdrop of lower-than-projected economic growth and revenue as well as the need to support the country's international reserve position. As I have stated, the expected gains in increased exports from recent new projects and the related moderation in heavy machinery imports for some projects will support the reserve rebuilding efforts over the long-term.

53. However, this does not take away the urgent need for accelerated and targeted measures to improve domestic productive capacity going forward.

CONCLUDING REMARKS

54. *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.

55. 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.

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

57. 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.

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

I thank you

