



Republic of Namibia

**Reply by the Minister of Finance
to issues raised during the discussions on the
Main Appropriation Bill for the 2011/2012
And
The 2011/2012 - 2013/2014 Medium Term
Expenditure Framework**

Presented by Honourable Saara Kuugongelwa-Amadhila

Minister of Finance

12 April 2011

1. Opening Remarks

2. Honourable Speaker of the National Assembly,

3. Honourable Members of the House,

4. It is an honour for me to make a few answering remarks in response to comments made on the 2011/2012 Appropriation Bill and the 2011/2012-2013/2014 Medium Term Expenditure Framework.

5. The budget has drawn extensive comments from across the wide spectrum of society. I am grateful to all Honourable Members who have contributed to the debate.

6. Let me start by responding to questions about fiscal sustainability. **Over the past years**, we have created the fiscal space that enabled us to follow an expansionary approach in order to strengthen our responses to the developmental challenges that continue to face our nation. However, we have to remain fiscally sustainable at all times. As a result, our debt to GDP ratio will stand at only 28.3 percent at the end of 2011/2012 despite the significant expansion of the budget, well within the target of 30 percent. Over the MTEF period, debt will average at 32.2 percent of GDP, well within the internationally accepted debt sustainability target and below the SADC target of 60 percent. Our approach is therefore sustainable for now.

7. I am saying for now because in the long term, it would be difficult to continue with an approach when expenditure far exceeds revenue. To avoid a debt crisis, similar to that experienced elsewhere in the world, we must maintain our ability to satisfy expenditure demands for development and for debt servicing. We have managed well so far and we shall continue on that path.

8. A question was raised as to why our borrowing during the MTEF is biased towards domestic debt: – this is a deliberate policy aimed at developing the domestic financial market and ensuring minimum exposure to foreign currency exchange risks.
9. I wish to inform that we have developed a borrowing plan which includes new types of borrowing instruments such as retail bonds and inflation linked bonds.
10. Honourable Speaker; Honourable Members,
11. Some Economists and some opposition Members have cast doubt on whether the TIPEEG approach will indeed deliver the desired outcomes, which are to create and maintain a significant number of jobs, grow the economy and improve standards of living. My response is that it will and here is why.
12. We have adopted an approach where a few targeted sectors with significant growth potential receive a significant boost. These few, namely agriculture, tourism, transport and housing and sanitation were carefully selected because of the potential they have to create jobs, grow the economy and improve living standards.
13. Let me share specific consideration that made us select these sectors:
14. Agriculture is the most important sector in respect of employment. 65% of the workforce is directly and indirectly linked to agriculture. It is also the sector where import substitution is most likely to be achieved, and we must address food security as a matter of urgency. Further, in agriculture there is significant potential for both upstream and downstream development.

15. These are some reasons why agriculture was selected. Let me now turn to how our intervention will unfold and let me start with the investment aimed at increasing production, that is boosting the upstream potential.

16. Our interventions are focused on:

- Provision of water supply infrastructures such as dams and pipe lines,
- Development of agriculture infrastructure such as irrigation systems;
- Provision of subsidies for fertilisers and ploughing services;
- Provision of improved seeds and breeding stocks, and other related farming inputs;
- Improved animal health;
- Provision of subsidised land acquisition and production loans; and
- Generous tax incentives, including allowable tax deduction for both capital and operational farming expenses.

17. Increased agricultural production and appropriate storage facilities improves the potential of agro-processing. A pre-requisite for creating value chains based on agricultural produce is a reliable supply of raw material of high quality and sufficient quantity. Proper storage facilities, be it cold storage for perishables or silos for grains satisfy this demand and the serious supply constrain can be overcome.

18. It is our expectation that the private sector will take advantage of this opportunity and embark on further processing of agricultural products.

19. Vegetable and meat canning, milling and production of cereal based finished goods becomes viable. Equally, import substitution of fresh agricultural products is to be enhanced.
20. I am convinced that Government's intervention in this sector, therefore, crowds in private investment by significantly enhancing opportunities for both upstream and downstream agricultural and agro-industrial activities.
21. Our intervention in the tourism sector is targeted at enhancing the countries attractiveness as tourist destination and to increase tourist numbers.
22. Simultaneously our intervention in tourism is targeted at amongst others linking conservation to poverty reduction through communal conservancy programmes. Through this, communities are enabled to benefit directly from environmental resources and tourism activities in their areas and therefore providing communities with incentives to manage and conserve their respective ecosystems and wildlife. This has not only resulted in recoveries of wildlife populations outside national parks but it also created wealth and jobs for many households.
23. Government efforts on community based tourism are further complemented by the Millennium Challenge Account support towards community conservancy management.
24. **Honourable Speaker; Honourable Members,** the tourism sector investment will also cover the **development of infrastructures in the parks.** This will enhance the image of our parks and thereby attract tourists. Investment in this regard will be directed at improving access roads to tourist attraction sites, while ensuring ecological sustainability in our parks.

25. Furthermore, support is provided towards the upgrading of existing and construction of new tourism accommodation facilities owned by NWR. The Namibia Tourism Board (NTB) is provided more funding to intensify marketing of Namibia as a tourist destination. During this MTEF, NWR funded projects are estimated to create additional 660 jobs.
26. There are many linkages associated with developments in the tourism sector, including the development of private tourism accommodation, tour operators, catering services, car rental and travel services.
27. Namibia is currently ranked as the third fastest growing tourist destination in Sub-Saharan Africa. Available statistics indicate that for every 12 tourists who visit Namibia, one permanent job is created.
28. In 2009, the direct impact of tourism on GDP amounted to N\$3.1 billion or 3.8 percent, while direct and indirect impact amounted to N\$11.5 billion or 14 percent.
29. On employment the travel and tourism economy (direct and indirect) accounted for about 81,000 jobs in 2009, with significant potential to grow this number.
30. The Transport sector serves as the catalyst for economic development. Investment in transport sector will address the development and rehabilitation of our strategic transport infrastructure network, encompassing roads, railways, seaports and airports. These in turn will enhance domestic linkages as well as regional economic integration and international competitiveness. Transport infrastructure networks serve as key enablers of private sector growth.

31. Such a public investment in the transport infrastructure will create immediate job opportunities for the short and medium term. Long term job sustainability will be secured through economic multiplier effects brought about by the improved infrastructural base.
32. The Investment in this sector will also promote growth in transport and related service industries such as transport in all its facets; ship repairs; dry ports and accommodation facilities along transport corridors to name but a few.
33. In addition to the direct budget interventions in hardware, Government is addressing the softer issues like bureaucratic procedures or red tape to improve the country's business climate. Measures are instituted to promote consumer protection; competition and trade facilitations, market access and others.
34. **Housing and Sanitation** – the focus of the budget is to ensure availability of serviced land, low cost houses for low income earners as well as urban and rural sanitation infrastructure.
35. Through this programme, 875 house will be built in 2011/2012; 750 house in 2012/2013 and 900 house in 2013/2014.
36. The implementation of this program is expected to generate about 33,063 *new* direct and indirect jobs over the medium term.
37. Further, the recapitalisation of NHE will contribute to the housing construction targets as set out in Vision 2030 and the NDP3. Again this is a public works programme through which immediate jobs are created, but

through which the standard of living of the poor section of our society is improved at the same time.

38. **Household debt** is addressed through monetary policy intervention. Bank of Namibia has consistently reduced the repo interest rate over the past few years which now stand at 6.0 percent. This translates in lower borrowing costs for households. Furthermore, the credit bill that is included in the Financial Institutions and Market Bill (FIMBILL) will extend protection to household and individuals against abusive practices by businesses when they acquire credit.
39. The largest additional amount is earmarked for investments in the Education sector. The Honourable Minister of Education will elaborate during his introduction of Vote 10. For now, it is however important to say that these additional funds are aimed at improving the outcomes of the Educational system in general and more specifically, enhance Tertiary and Vocational Education. With this approach, we anticipate to close the existing skills gap and achieve our objectives in developing a knowledge-based economy.
40. Concerning the call for increase in *Social Safety Nets* the Right Honourable Prime Minister has provided detailed information on our generous social safety nets.
41. Namibia is among only three Sub-Saharan African countries which provide for social grants to their senior citizens. We also provide grants for Orphans and Vulnerable Children (OVCs) and the people with disabilities. We have now added our Veterans of the Liberation Struggle to the recipients of social grants.
42. In addition to social grants, the Government medical aid enables more Namibians to access medical services.

Apart from sustaining this, it supports the health industries and enables Doctors to settle in remote areas, thereby taking health services closer to the rural communities.

43. At N\$3.4 billion, expenditures on welfare programmes are quite high and that leaves little flexibility for significant increases. In spite of this, Government has adjusted the various welfare grants regularly to safeguard against the erosion of their value as a result of inflation. In this MTEF, therefore, we have focussed on expanding the coverage to reach all qualifying beneficiaries.
44. As to the Government's ability to **utilise the proposed development expenditure**, the implementation rate for Government spending has increase over recent years, and in the 2009/10 financial year, the execution rate stood at 98 percent of total budget. This shows that the Government's ability to administer projects and programmes is improving in line with increasing funds. Further, as indicated previously, Government remains seized with the issue of addressing the remaining bottle-necks in the implementation of capital projects.
45. Honourable Speaker, Honourable Members, let me now respond to other issues raised during the general debate.
46. On Revenue Administration, I wish to assure Honourable Members of the House that we are contemplating to implement a range of reforms to strengthen revenue collection and administration. These reforms include review of tax laws; development of new tax administration systems; improved communication with taxpayers and taxpayer education. I also announced that we shall introduce some new taxes, the detail of which are being finalised and will be communicated soon.

47. A question was raised on how many Government guarantees were called. This information is provided in MTEF books every year. However, I would like to report that over the three past years, defaults on loans triggering guarantee calls amounted to N\$38.4 million, spread as follows.

48. N\$27.0 million, in 2008

49. N\$11,4 million, in 2009

50. N\$ 0 million, in 2010

51. As can be seen, the guarantees calls have been brought down significantly by about 58 percent over the last three years.

52. A call was made for the channelling of all donor **grants through the State Revenue Fund**. It is correct that our laws require for all income to the State to be paid into the State Revenue Fund. Furthermore, Development Partners have committed themselves through the Paris Declaration to provide untied aid and to make use of countries' systems. In spite of this, many donors continue to provide aid outside of the countries' systems. We shall continue to engage all development partners to live up to their commitments under the Paris Declaration.

53. Concerning revenue projections for 2012/2013, the correct figure is 14.0 percent growth and not 25 percent as quoted by one Honourable Member. The details of the revenue projections are contained in the MTEF documents.

54. Concerning the worry expressed over the contingency funding, I need to inform the Hon. Members that the contingency provisions are an international standard item in the appropriation acts that cater for unforeseen circumstances. There are clear criteria for

allocating contingency funds and since these funds are already appropriated as part of the budget, there is no need to appropriate allocations again.

55. With regard to the call for the Ministry to hold management of SOEs accountable, I wish to clarify once again that oversight authority over different SOEs is vested in the respective portfolio ministers as provided for in the statutes governing to the establishment and operations of such SOEs.
56. Further, I have previously indicated that all SOEs management would now be required to account for their performances in terms of performance agreements which will be signed by the respective SOE Boards and their portfolio ministers. As oversight authorities for the SOEs under their ministries, the respective portfolio ministers have the responsibility to enforce these performance agreements and ensure that their ministries' accountability reports also cover the operations of their respective SOEs.
57. As to whether Government **protects infant industries**, this issue is dealt with under the ambit of SACU. Further, in line with the SACU Treaty we have established the Competition Commission through an Act of Parliament which is aimed to promote a competitive business environment.
58. With regard to how government sees the role of industrialization in promoting accelerated growth, the government through the Ministry of Trade and Industry is currently working on an Industrial Policy for Namibia for which funding is provided under the MTEF. Further, efforts have been launched to develop a SACU wide industrial policy. Under this initiative, all Member States are to develop ambition papers on industrial development

in SACU which in the case of Namibia is being coordinated by the Ministry of Trade and Industry.

59. On how the budget will support SME development and youth employment, the revised tender bill, which as I have informed this House, is now with the legal drafters provides amongst others for tender reservation for SMEs and youth companies. Further a special funding facility for SME contractors has been established at the DBN and this will earmark funding for SMEs and youth contractor companies.
60. Hon. Speaker, Hon. Members of Parliament, the argument that there is not enough in the budget for **crime prevention** is incorrect, given the increased allocation in this MTEF to this sector. On average, the department of police will receive an annual increase of 52 percent over the MTEF period. This will increase, in particular, funds allocated to combating of crime and border control.
61. Concerning funding for **disaster management**, we have capitalised the National Emergency Disaster Fund to the amount of N\$120 million in the last budget and an amount of N\$60 million is provided under this MTEF. In addition, N\$100 million is availed through the Road Fund Administration for the rehabilitation of roads damaged by the floods. The Emergency Management Bill currently under formulation will further strengthen government's response to emergencies and disasters. At this juncture, I wish to express our appreciation for the generous support so far received from local and international partners towards emergency relief to people affected by floods.
62. On the request to engage the opposition MP's on the Appropriation Bill prior to its tabling, I wish to emphasise the point that I made several times before that through the MTEF, the public is well informed in advance of

Government's expenditure plans. I once again urge those who wish to make input into the budget formulation to use the MTEF to engage the O/M/A's on their specific programmes in order that their proposals can be considered with time.

63. A lot of time and efforts are required to develop the programmes under the budget. They cannot therefore be redesigned on the floor of Parliament. Besides, MTEF programmes are formulated through an extensive consultative process between O/M/A'S and Communities of which the individual MP's are members. They are also based on NDP's, which were formulated through equally consultative processes.

64. **Honourable Speaker**, a recent survey by The International Budget Partnership, an independent rating agent, ranked Namibia the second highest in the SADC region, behind South Africa, in terms the transparency of the budget process.

65. On the commitment of this budget to youth empowerment, this comes through very clearly in the increased allocations to programmes aimed at providing skills to the youth including the bursary scheme which will assist the youth to access tertiary education. Further, I have indicated that once the new tender bill is passed, tenders will be set aside for youth enterprises and funding will be earmarked to youth enterprises under the DBN's bridging facility. The Youth Ministry and the Youth Council will have the obligation to verify youth ownership in the companies that will come forward to benefit from the tenders earmarked for youth contractors. Tender allocation will, however, have to be subject to the transparency as required by procurement laws. Successful youth enterprise development will however only be realised if, in addition to public tenders and funding, the youth will be provided

with all-round support including skills and management training and linkages of youth enterprises to the rest of the economy.

63. So while we are committed to support the programmes under the vote of the Ministry of Youth, youth empowerment must be mainstreamed into the programmes of all O/M/As and private sector programmes, only then will we be successful in our efforts to empower the youth. That notwithstanding in terms of this budget the vote of the Ministry of Youth has grown significantly under this MTEF.

64. Honourable Speaker; Honourable Members, in conclusion I wish to inform this House that during the Committee stage I will table an amendment to the Appropriation Bill to cater for remuneration adjustment for public servants. Government is negotiating with worker representatives for workers remuneration adjustment during the course of this year. To allow for the implementation of the outcome of such negotiations, Cabinet has decided that an amount of N\$844 million is to be provided for in this budget.

65. With these few words, I appeal for your support of the 2011/2012 Appropriation Bill.

I thank you!