REPUBLIC OF NAMIBIA

FISCAL POLICY AND THE NATIONAL ECONOMY

Aligning Public Expenditure with the Medium-Term Development Plan for Socio-Economic Development

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ABSTRACT

Working papers describe research in progress by the author(s) and are published to solicit comments and suggestions for further investigation on the subject matter.

This research paper attempts to determine whether Namibia's fiscal policy through the annual National Budget is guided by the national development priorities set out in the fourth National Development Plan (NDP4). The analysis focuses on the trends in revenue performance and expenditure allocations and aims to determine the pattern in the budgeting priorities. The revenue performance analysis looks at tax reforms, major contributors to government revenue, and key drivers of revenue growth. On the other hand, expenditure analysis looks at the expenditure breakdown between operational and development, functional shifts in public spending and the key drivers of expenditure growth. It would appear that during the review period, fiscal policy practice was demand-oriented and stimulated growth, but did not create employment opportunities. This is evident from the stagnant unemployment rate in Namibia, slightly below 30.0 percent. The shift in budget expenditure allocations particularly between recurrent expenditure and capital expenditure is seemingly hampered by rigidity in recurrent expenditure components, which make up the highest proportion of the budget and continue to drive expenditure growth. Given the imminent decline in revenue from the Southern African Customs Union (SACU), the persistent structural budget deficit and growing public debt, fiscal space is constrained and therefore, public expenditure prioritisation and management should be pursued in order to maintain fiscal sustainability.

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1. INTRODUCTION

In pursuit of socio-economic development, developing countries often experience continuous budget-related challenges. These relate to high expenditure growth and most often inefficiencies in public expenditure management coupled with limited revenue sources resulting in unsustainable fiscal imbalances. In spite of these challenges, these governments are often under tremendous pressure to improve public sector performance and most importantly socio-economic service-delivery to citizens.

It is therefore of utmost importance to ensure that fiscal policy practice through the National Budget is aligned to and incorporates the national development objectives as outlined in the medium-term development plans. Namibia's fourth National Development Plan (NDP4) was launched in mid-2012 and compared to preceding NDPs it has fewer goals, with the focus on areas and sectors with greatest potential to impact on Namibia's development challenges (NPC, 2012). This research paper attempts to establish the link between national development planning and the National Budget in Namibia since the launch of NDP4. In particular, the research objective is to determine whether the pattern of budget allocations were in line with addressing the set national goals of high and sustained economic growth, employment creation, equitable income distribution and poverty alleviation. A key question to be asked here is whether there has been prioritisation of public expenditure that can optimise the realisation of NDP4.

Box 1: NDP4 at a glance

- The NDP4 is differentiated from previous NDPs in that it concentrates on fewer goals; three in particular, compared to four, eight and twenty one goals in NDP1, NDP2 and NDP3, respectively. These goals, which were also part of the goals in the preceding NDPs are:
  - *High and sustained economic growth*
  - *Creation of employment opportunities*
  - *Increased income equality*
- The importance of prioritisation has been recognised, hence the identification of and focus on areas/ sectors with greatest potential to optimise the economy's development agenda. The priority sectors identified are *Logistics*, *Tourism*, *Manufacturing* and *Agriculture*.
- The NDP4 further identifies the basic enablers (also known as foundation issues) essential for economic development:
  - *Public infrastructure development*
  - *Extreme poverty reduction and social upliftment*
  - *Access to quality health care services*
  - *Education and skills development*
  - *Institutional environment conducive to economic development*. Fiscal policy sustainability through enhanced revenue collection and public expenditure management is emphasised in order to pursue and maintain macroeconomic stability.

Source: (NPC, 2012)

2. THEORETICAL UNDERPINNINGS OF AN EFFECTIVE FISCAL POLICY

As Calitz and Siebrits (2008) correctly point out, fiscal policy is one of the tools for pursuing macroeconomic goals such as high and sustainable economic growth, employment creation, a low and stable rate of inflation and a sustainable balance of payments position. They further posit that fiscal policy can also be used as a redistributive tool to address socio-economic imbalances such as poverty and income inequality, therefore, the effectiveness of fiscal policy should be judged on its contribution to achieving these macroeconomic goals, which coincides with the national development objectives. A brief discussion on fiscal policy's role in achieving each of the three NDP4 goals is considered below.

2.1 FISCAL POLICY AND ECONOMIC GROWTH

Generally speaking, fiscal policy plays a key role in promoting and maintaining macroeconomic stability which in turn is a prerequisite for high and sustainable economic growth. More specifically, Rademacher (2011) argued that fiscal policy influences economic growth through its impact on the technical know-how, progress in technical production and accumulation of productive resources such as human capital. The amount of resources allocated to the education sector generally reflects investment in skills development and training which determines human capital. The quality of the health care system also influences the productivity of the workforce thus public spending on health care enhances human capital. Other than education and health, public spending devoted to the economic and infrastructure sector (see Table 8) enhances the productive potential of the economy to ensure high and sustainable economic growth. On the other hand, technical progress as determined by Foreign Direct Investment (FDI) is influenced by fiscal policy through tax incentives and increased spending allocation for infrastructure investment and improvement. On the demand side, countercyclical and fiscal stimulus measures such as tax reliefs to individuals and increased public investment spending can boost consumption and investment which stimulate economic growth.

2.2 FISCAL POLICY AND INCOME (RE)DISTRIBUTION

As pointed out earlier, fiscal policy plays a critical role in ensuring equitable resource allocation which can potentially lead to increased income equality and poverty alleviation. According to The World Bank (2014), South Africa has effectively reduced poverty and inequality through progressive taxation and spending. Progressive taxation is achieved through direct taxes such as personal and corporate income taxes where the amount of tax collected increases as income levels increase. Tax relief to individuals and adjustments to personal income tax brackets are common practice, particularly during times of economic downturn, to minimise the tax burden on low-income earners and boost their disposable income. Furthermore, given the fact that poor people have a relatively higher propensity to consume, that is, they consume a large proportion of their disposable income, consumption taxes like Value Added Tax (VAT) are regressive and are known to affect low-income earners the most. Hence the needs for VAT zero-ratings or exemptions for some goods and services, such as staple foods and basic necessities that low-income earners spend most of their income on.

Social transfers and grants to vulnerable members of society such as the elderly, the disabled, orphans and vulnerable children is another fiscal policy tool for redistribution of resources. However, as emphasised by The World Bank (2014), social programs and spending should be well designed and targeted if they are to have the intended impact in terms of bridging the income gap and reducing poverty[1].

Other social spending includes expenditure on education and health care services and the provision of basic and essential services such as water, electricity, housing and sanitation. The literature emphasises that focus on lower level services such as primary education and primary health care through universal primary education and primary health care services are known to have a more significant impact on poor and low-income earners.

1 This could be achieved through implementation of means-tested social grants.

2.3 FISCAL POLICY AND EMPLOYMENT CREATION

Fiscal policy's role in employment creation is dependent on the nature of unemployment in the economy, i.e. the type of unemployment. Generally, supply side interventions enhance the productive potential of the economy resulting in increased demand for labour and high output levels. Demand side oriented fiscal policy focuses on consumption and seems to have limited impact on employment creation rather creating excess demand in the economy which is met by increased imports. Public works programmes are one of the short-term solutions to both unemployment and poverty.

Unemployment in many developing countries is exacerbated by the lack of skills in the labour force due to poor quality of education and limited skills development opportunities, resulting in structural unemployment. Therefore, the allocation of funds to targeted skills and training development programmes can empower those with low skills and unemployed thus enhancing their employability. Promoting an economic environment conducive for self-employment opportunities and for Small and Medium sized Enterprises (SMEs) to function through easier access to finance and other means is also important to address unemployment.

3. OVERVIEW OF THE NAMIBIAN ECONOMY

In order to set the scene for the analysis, this section provides a brief overview of the macroeconomic and socio-economic developments and industry growth performance in the Namibian economy over the period 2011 to 2014.

3.1 MACROECONOMIC AND SOCIO-ECONOMIC DEVELOPMENT

On the macroeconomic front, Namibia's economic growth performance over the past four years has been quite strong, recording growth rates above five percent per annum. The inflation level has also remained moderate and stable. However, the persistent structural budget balance is an indication of the inflexibility of the major public spending components dominated by recurring expenditures such as the public wage bill. This is a possible risk to fiscal sustainability and ultimately macroeconomic stability, particularly if revenue collection declines, as expected in the medium-term, and in the absence of alternative revenue sources. The current account deficit over the years reflects the strong domestic demand for imports necessitated by the increased investment in public infrastructure investment. Phiri and Odhiambo (2015) suggest that fiscal consolidation measures will be required to strengthen Namibia's national savings rate in order to ease the pressure on the current account balance.

Table 1: Selected indicators

	2011	2012	2013	2014		2011	2012	2013	2014
Real GDP Growth	5.1	5.1	5.7	6.4	**Unemployment rate**	-	27.4	29.6	28.1
Real GDP per capita growth	3.5	3.1	3.7	4.4	**Youth unemployment rate**	-	37.8	41.7	39.2
CPI Inflation	5.0	6.7	5.6	5.4	**Poverty rate (Head count)**	28.7*	-	-	-
Structural Budget Balance % of potential GDP**	-4	0.5	-4.8	-7.2 #	**Gini coefficient**	0.5971*	-	-	-
Current account Balance % of GDP	-2.8	-5.8#	-4.1#	-6.8#					

*** Data in Financial years* *# Estimate* ** 2009/10*

Source: NSA 2014 National Accounts, NSA 2009/10 NHIES report, NSA LFS reports, BoN 2014 annual report & MoF Fiscal strategy 2015/16-2017/18. Authors' calculations of the structural budget balance.

Economic growth has translated into relatively higher real GDP per capita. However, this does not mean the average Namibian is better off because of the highly uneven distribution of income as reflected by the relatively high Gini coefficient. Thus, the inclusivity of economic growth in Namibia remains questionable. Even though many argue that there has been significant reduction in poverty since independence, poverty remains quite high with about a third of the population still living in poverty. Links (2015) even argues that the dry conditions and drought experienced over recent years could have increased the poverty levels.

The unemployment rate remains high and stagnant, with about a third of the Namibian labour force unemployed. The youth age group, estimated to constitute sixty percent of the Namibian population, has the highest level of unemployment. Moreover, about forty percent of those employed are involved in low paying jobs in the agricultural and private households sectors. This, and the fact that majority of the employed population do not have postsecondary school education qualification points to a high lack of skills and subsequent low income for the majority of those employed.

The picture painted in the table above is one of a relatively stable macroeconomic environment though with seemingly structural constraints and serious socio-economic imbalances. It remains unclear whether the role of fiscal policy in the Namibian economy has mainly concentrated on its stabilising function at the expense of its distributive function and socio-economic development. While there could possibly be a trade-off between the two functions, some would argue that the pursuance and maintenance of macroeconomic stability is a prerequisite for socio-economic development. Whichever is the case, it is important to strike a balance between the two and the role of fiscal policy in addressing some of the structural constraints in the economy therefore remains critical. Furthermore, targeted interventions to create the much needed employment opportunities particularly for the youth age group, deliberate measures to draw the poor into mainstream economic activities and redistribution of income through social grants must be effective.

3.2 INDUSTRY GROWTH PERFORMANCE

The economy grew by an average of 5.7 percent per year over the period 2012 to 2014 which is closer to the envisaged average growth of 6.0 percent for NDP4 period (2012/13 to 2016/17). However, growth is expected to slow down in 2015 due to drought effects, low commodity prices and the completion of major construction projects. The tertiary industry has been a key and the most consistent contributor to overall economic growth in the economy.

Table 2: Gross Domestic Product (GDP) growth by industry

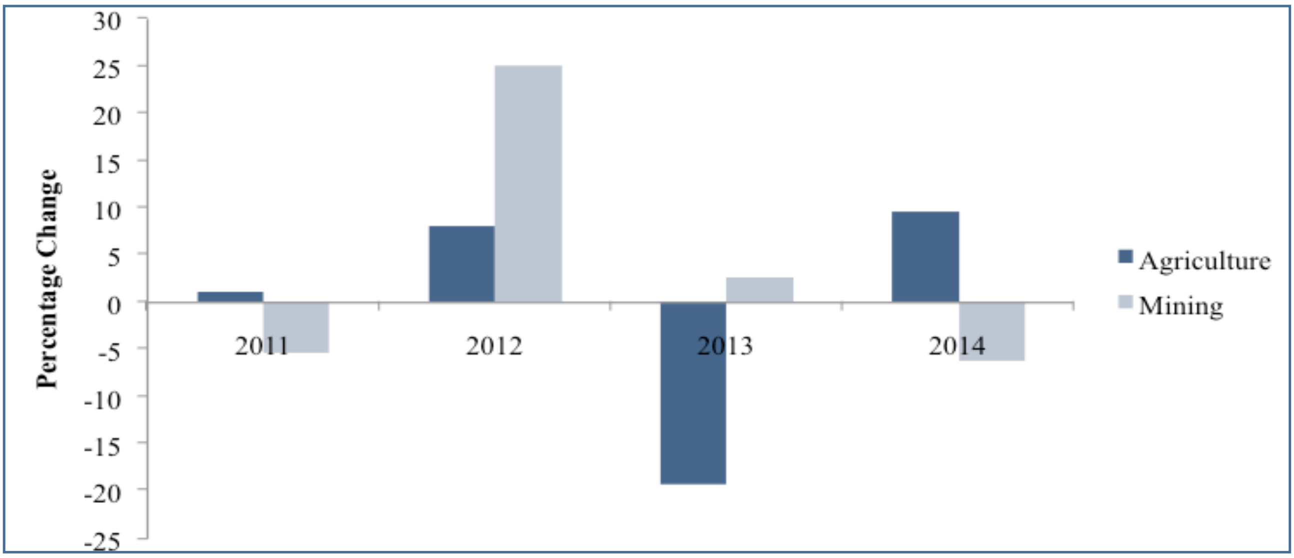
	2011	2012	2013	2014
Primary	-3.6	14.4	-3.2	-2.2
Secondary	7.1	-1.8	8.6	9.4
Tertiary	7.4	3.9	7.2	7.4
GDP	**5.1**	**5.1**	**5.7**	**6.4**

Source: NSA 2014 National Accounts.

3.2.1 The Primary Industry

The primary industry has been in contraction over the recent years. The economic performance of the mining sector is dictated by the international commodity prices, while the agricultural sector is subjected to the climatic conditions, both of which have been unfavourable over the period under review.

Figure 1: Growth in the Agriculture and Mining sectors



Source: NSA 2014 National Accounts.

The agriculture sector contracted by 19.3 percent in 2013 mainly as a result of the contraction in the livestock farming sub-sector due to drought. The drought also affected the crop farming sub-sector with a decline in land planted for both wheat and white maize; e.g. from 2 314 to 2 198 thousand hectares in 2012 and from 14 156 to 13 794 thousand hectares in 2013. Consequently, the total harvest quantity declined.

Although the National Agriculture Policy has an objective of increasing production levels to ensure ample food security in the country, there are a number of hindrances to the agricultural sector - drought, in particular, which is exacerbated by adverse climatic conditions. The government is actively subsidising farmers in order to sustain the agricultural industry during periods of drought. The farmers' relief programme is expected to cost the government N$219 million, of which N$169 million is earmarked for water supply and N$50 million to pay for the livestock marketing incentive scheme, the livestock grazing-lease scheme and transport scheme for livestock to and from grazing areas.

In terms of crop production, the 2013/14 harvesting season for white maize, a staple food for many Namibians, delivered approximately 73 000 tons, while for the 2014/15 season the harvest was an estimated less than 33 000 tons. This means imports of maize grain have to be heightened to supplement the shortfall between local supply and demand.

Competition on world markets is fierce and technological change and advancements are critical requirements to which the fishing sector must adapt in order to thrive. The volatility in the fishing sector is due to the fact that its international markets are subjected to other factors such as volatility in exchange rates. The performance of the sector is determined by the total landing of fish species, the number of licensed vessels and the Total Allowable Catch (TAC). Efforts to improve growth in this sector could include (but are not limited to) diversification to aquaculture which is possible with the construction of inland fish farms (ponds) with the involvement of different communities. Intensifying research and development to find efficient ways of minimising production costs, as well as the implementation of conservation measures so as not to deplete the fish stock should also be taken under consideration. The Ministry of Fisheries and Marine Resources recently reviewed the fishing rights in order to determine how to improve activities in the sector. The agency concluded a maximum period of 20 years for fishing rights would give role-players more time to enable for long-term planning and investment.

The Ministry of Fisheries and Marine Resources has put in place mechanisms to better manage the collection of government's statutory fees from the fishing sector through its Revenue Collection Management System (RCMS) which was developed and linked directly to the industry to improve its monitoring function and debtor management. The ministry further requested of stakeholders in the sector to honour their obligations to the Marine Resources Fund where the minister said defaulting exists. Another development in the sector is the introduction of domestic value addition to horse mackerel fishing which provides for 2.0 percent of the total allowable catch (TAC) to be processed locally for cannery. This policy requires onshore or vessel factories, machinery and increased work force participation to produce canned horse mackerel. Through this, asset investment is assured as well due to increased job creation emanating from this initiative.

The mining sector remains one of the largest economic sectors and a major contributor to the primary industry with an estimated 11.5 percent contribution to overall GDP growth, over the last four years. The approach to mining in Namibia was transformed with the reopening of the Tsumeb-area copper mines and smelter, the opening of the Skorpion zinc project, the B2Gold mines and the continued developments in offshore diamond exploration for the past few years.

The uranium mining sub-sector was boosted by the commencement of projects such as those of Rio Tinto/Rössing and Langer Heinrich, Husab, Trekkopje, Bannerman, Marenica, Reptile and Valencia. In spite of mining's high contribution, the sector needs to be sustained, thus in 2011 the Ministry of Mines and Energy produced a report called the Strategic Environmental Management Plan (SEMP) which also serves as a guide to land use decisions to ensure availability and sustainability of resources for the current and future welfare of the country (Ministry of Mines and Energy, 2012).

Overall, the mineral prices for certain commodities were not favourable during the review period, for example the uranium price declined from U$52/lb in mid-2012 to U$35/lb in the last quarter of 2013 and the trend is set to continue in 2014. In order for uranium to fetch higher prices on the international market, because of the increase in domestic production, Namibia should consider the domestic processing of uranium by milling into yellowcake and enriching it for fuel fabrication to produce fuel assemblies or bundles for export.

3.2.2 The Secondary Industry

Growth in the secondary industry was mainly due to positive growth in the construction sub-sector. This can be attributed to the government's major developmental projects such as the construction of Neckartal Dam at a total cost of N$2.9 billion, the construction of shopping malls such as The Grove Mall of Namibia in Windhoek at an investment of N$1.1 billion, as well as construction in the mining sector.

Table 3: Secondary industries growth

	2011	2012	2013	2014
Manufacturing	5.7	-6.8	4.2	-2.2
Electricity and Water	1.7	15.6	-1.6	4.9
Construction	15.9	7.5	28.2	40.5

Source: NSA 2014 National Accounts.

The mass housing projects envisaged 185,000 houses to be built by 2030 at an investment of approximately N$2.5 billion in the 2013/14 financial year, first phase. In addition, the government adopted the stance to grow the economy as well as create jobs by introducing targeted interventions such as the Targeted Intervention Program for Employment and Economic Growth (TIPEEG) that invested about N$14.9 billion into infrastructure and created more than 80 000 jobs, most of which were temporal.

Because the manufacturing sector is heavily reliant on the performance of the primary sector, drought resulted in more livestock slaughtered during 2013 which boosted growth in the meat processing sub-sector compared to other years. In terms of contribution to GDP, the manufacturing sector maintained an average of 10.0 percent during the review period.

The electricity and water sector rebounded to 4.9 percent in 2014 after a contraction of 1.6 percent in 2013 due in main part to the drought which affected water flow at the Ruacana power station. As a result, electricity production reduced thereby necessitating the increased import of electricity to mitigate the deficit. Its contribution to GDP has been steady, averaging 2.0 percent for the period under reviewThis sector is one of the backbones of the economy and is critical to increased production. For the electricity and water sub-sectors both, cost-recovery tariffs at different rates by bulk suppliers and distributors is important to generate revenue to sustain the provision and improvement of service-delivery. Machinery and equipment are utilised at both production and distribution levels, with concomitant costs incurred for maintenance, which are recovered from the consumer. It is a well-known fact that Namibian communities have different income levels, therefore the need for government subsidies to supply water and electricity to low-income communities. Fiscal policy interventions are also applied to accommodate subsidies of this nature and many others.

3.2.3 The Tertiary Industry

The tertiary industry remains the largest contributor to domestic economic growth, with more than 50 percent contribution to GDP per annum. The hotels and restaurants sub-sector, which is a proxy for tourism, continues with positive annual average growth of 8.0 percent as the international market, especially the Eurozone, recovers. The other factor is the strengthening of international currencies (US dollar) against the Namibian dollar. This could serve as an incentive for more tourists to visit Namibia and at the same time boost the performance of the sub-sector. This however only translates into an average contribution of 2.0 percent to GDP.

Table 4: Tertiary industries growth

	2011	2012	2013	2014
Wholesale and retail trade, repairs	5.8	4.3	14.4	15.2
Hotels and restaurants	9.5	8.1	9.1	5.3
Transport, and communication	4.9	8.0	6.4	6.6
Financial intermediation	5.7	6.8	17.9	9.9
Real estate and business services	5.7	4.7	4.6	3.2
Community, social and personal service activities	11.2	-16.6	-9.9	2.8
Public administration and defence	5.3	2.7	3.6	-0.7
Education	17.4	4.4	3.3	11.1
Health	5.7	5.7	9.0	7.9
Private household with employed persons	8.6	8.6	-6.7	5.5

Source: NSA 2014 National Accounts.

The transport and communication sectors also contributed positively to the growth of the tertiary industry by achieving an annual average growth rate of 6.5 percent and an average of 4.7 percent real value contribution to GDP. The growth in the transport and communication sectors is a result of the sector receiving priority in development budget allocation. Substantial amounts of funds were allocated to the transport sector for roads upgrading and construction, rehabilitation of aerodromes and maintenance of railways and airports infrastructure. The sector has labour intensive projects which benefit the communities in the immediate vicinity of the projects by way of employment and income-generation which elevate living standards.

Increased activities in the telecommunications sub-sector such as the expansion of network coverage to attract increased number of subscribers for Telecom and MTC as well as the roll-out of NBC's Digital Terrestrial Television (DTTV or DTT). DTTV is a technological evolution in broadcasting and a significant advancement over analogue television. DTTV broadcasts land-based (terrestrial) signals also contributed positively to the sector's growth.

3.3 DEMAND SIDE

The demand for goods and services consists of final consumption expenditure for both the private and general government sectors, expenditure on gross fixed capital formation (GFCF) and net exports. These components reflect the expenditure on GDP by the different sectors of the economy and the rest of the world. The percentage share of GDP for final consumption expenditure is more than three times that of GFCF and net exports.

Final consumption expenditure, which is made up of private and general government expenditure, is the main contributor to GDP. Final consumption expenditure grew by an average of 7.8 percent between 2011 and 2014, primarily due to growth in private consumption. The continued expansionary policy implemented annually by government through increased remuneration and re-grading of civil servant salaries as well as reduced individual tax thresholds have resulted in an increase in disposable income and private consumption.

The growth rate of gross fixed capital formation averaged 20.0 percent during the period under review. Notable investments motivating GFCF growth include mining as the result of new entrants to the sector (new mines); an increase in construction activities from government with the implementation of major projects and developments, and private investments in the construction of private buildings and shopping malls.

The trade deficit has been steadily increasing over the past four years, as the annual growth in imports of goods and services continues to outweigh exports. Increase in imports is a result of increased demand in private and public consumption due to the expansionary fiscal policy and the construction boom. Exports of diamonds, uranium, fishing and fish-processing were affected by external factors such as unfavourable international prices. Another factor added to this effect was reduced demand in South Africa, Namibia's largest trading partner, due to the poor performance of the South African economy over recent years. The steady growth in exports during 2012 and 2013 was mainly driven by the meat sub-sector in which live and slaughtered animals were exported in large quantities as the direct result of drought conditions in Namibia.

4. OVERVIEW OF THE NATIONAL BUDGET

Revenue and expenditure interventions can be used to achieve the macroeconomic and national development objectives as outlined in NDP4. The analysis below focuses on the revenue and expenditure trends and highlights the underlying explanations for such and their impact on the set goals. The revenue performance analysis looks at the tax reforms and major contributors to government revenue and the key drivers of revenue growth. This, given the revenue-spend hypothesis[2] for the Namibian economy essentially determine the resources available for expenditure. The expenditure analysis focuses on the split of expenditure between operational and developmental goals, functional shifts in public spending and the key drivers of growth in expenditure which help determine the patterns in budgeting priorities. Total public revenue as a percentage of GDP was 31.4 percent in 2011/12 and is estimated to increase to over 35 percent in 2015/16. Taxes on international trade and transactions from the Southern African Customs Union (SACU) have been a major source of revenue over the years, contributing about a third of total public revenue. It is however highly volatile and is expected to decline in the medium-term due to the low economic growth outlook for the South African economy. South Africa contributes the greater share to the revenue pool. Furthermore, the ongoing process of widening trade integration, particularly the Southern African Development Community (SADC), East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA) Tripartite Free Trade Area (TFTA) agreement negotiations will also have long term implications for SACU and ultimately the revenue from taxes on international trade and transactions.

On the domestic front, there seems to be an improvement in tax administration and collection. Income tax on individuals has been one of the key and most consistent contributors to public revenue growth. Domestic taxes on goods and services also seem to have reacted positively to counter-cyclical measures such as tax relief and bracket adjustments for individual income earners and the improvements in civil servants remunerations which increased disposable income and consumption thereby boosting revenue generated from Value Added Tax (VAT).

Table 5: Decomposition of revenue growth (% of total)

	2011/12	2012/13	2013/14	2014/15 est	2015/16 est
Taxes on International trade and transactions	17.7	82.6	23.7	28.2	-22.0
Income tax on individuals	21.1	19.3	16.7	31.9	40.9
Company Taxes	5.1	14.0	-41.1	29.8	48.3
Domestic taxes on goods and services	41.3	-18.5	79.9	13.9	43.0
Non-tax revenue	13.0	1.2	1.5	2.6	-14.6
External Grants	2.4	-2.0	6.7	-2.3	0.8
Other	-0.6	3.5	12.6	-4.2	3.5
Total Revenue Growth	**28.0**	**27.0**	**10.3**	**28.6**	**8.4**

Source: Fiscal Strategy 2015/16-2017/18.

With the expected decline in revenue from the SACU revenue pool, domestic tax revenue is expected to be the main contributor to revenue growth going forward. However, the seemingly small tax base in the Namibian economy, due to a high level of unemployment and low income levels, among others, means growth in individuals' income taxes revenue might only be possible through enhanced efficiency in the tax system rather than broadening the tax base. The same applies to domestic taxes on goods and services revenue. VAT accounts for over ninety percent of the domestic taxes on goods and services. However, it is generally regressive, imposing a high burden on the poor and

2 See Eita and Mbazima (2008).

low-income earners, thus offering little scope for increasing VAT. The proposed increase in the VAT threshold will benefit SMEs but will result in a reduction in domestic taxes on goods and services revenue. Company taxes seem to be volatile, with minerals revenue highly dependent on commodity prices. It remains unclear therefore whether increases in domestic tax revenue will be sufficient to offset the reduction in SACU revenue should the latter be more drastic than anticipated.

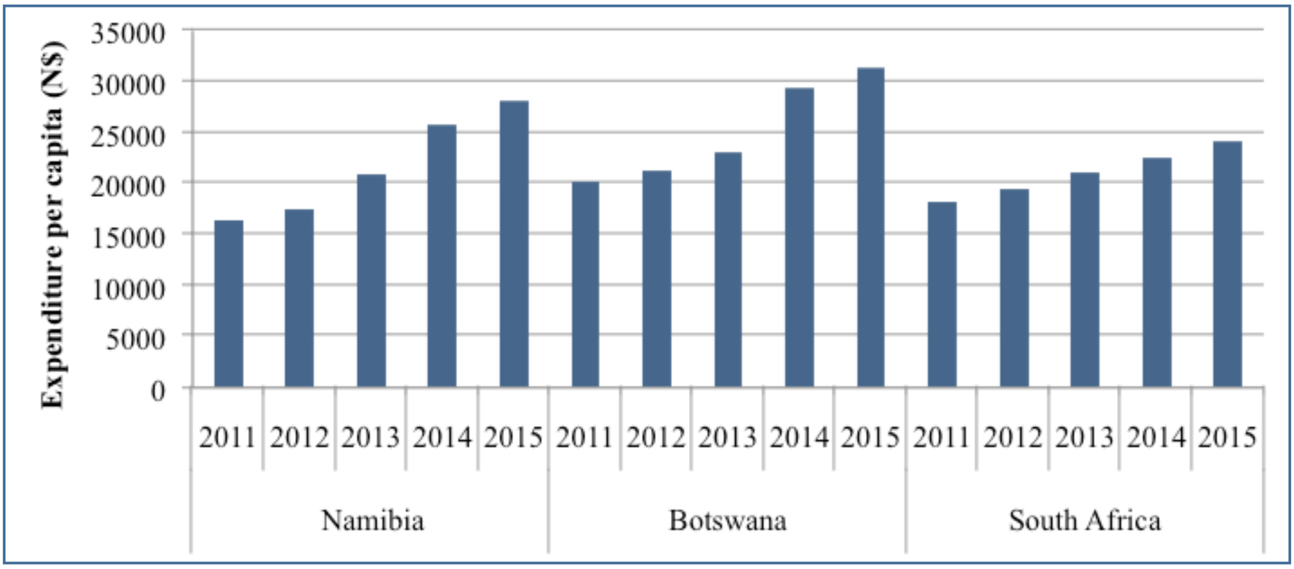
Therefore, revenue diversification in order to enhance revenue collection and performance could be a solution to the decline in one of the major sources of revenue. However, there seems to be limited alternative revenue sources. Kojo (2010) emphasises that developing economies need to align their public expenditure to long term revenue prospects. This requires effective and quality spending through prioritised allocations which are subsequently vital in pursuing and maintaining fiscal sustainability.

Direct taxes such as individual income tax are progressive. Furthermore, the tax threshold for individuals was raised to N$ 50 000 per year in 2013/14. The raise in threshold benefits low-income earners and impacts positively on income distribution. Moreover, the VAT zero-rating on some basic goods and necessities after the recent global economic down-turn makes such goods more affordable to the poor and low-income earners. The lowering of the corporate tax rate to 32.0 percent has the potential to enhance competitiveness. Overall, the individual tax rate adjustments have increased disposable income and consumption, hence final consumption expenditure was the main contributor to GDP.

4.1 PUBLIC EXPENDITURE AND PRIORITIES

Namibia's per capita expenditure increased by almost three quarters over the period 2011/12 to 2015/16 and compares favourably to the expenditure of countries such as Botswana and South Africa (see Figure 2). Total public expenditure as percentage of GDP increased from about 34.0 percent in 2011/12 to 40.0 percent in 2015/16. Demand-side oriented and counter-cyclical fiscal measures are the main contributors to these developments. As a result, final consumption expenditure was the main contributor to GDP and increased by an average of 8.0 percent over the past four years. Furthermore, the wholesale and retail industry grew with an average of 10.0 percent over the same period. However, as mentioned elsewhere previously, the Namibian labour market was stagnant and unresponsive to the relatively strong economic growth of recent years, and points to the ineffectiveness and limitations of fiscal policy interventions in enhancing the economy's production capacity to create employment opportunities.

Figure 2: Expenditure per capita



Source: IMF Database and South African reserve Bank.

Public expenditure is broadly divided into operational/recurrent and development/investment spending, with the latter commonly referred to as productive spending. Recurrent expenditure makes up over 80.0 percent of the total budget, with more than a third of that amount allocated to personnel related expenditure. Personnel expenditure and goods, and other services components, are the major components of operational expenditure and the main contributors to expenditure growth. On average, recurrent expenditure accounts for about 80.0 percent of the annual expenditure growth between 2013/14 and 2015/16. This is an indication of the rigidity of such expenditure components and the challenge they pose to fiscal consolidation and sustainability. The relatively insignificant correlation between annual growth rates in total expenditure and tax revenue suggests that expenditure allocations are not in line with revenue prospects. Furthermore, given the persistent fiscal deficit and an increasing debt level (estimated to be 27.5 percent of GDP in 2015/16), fiscal space is constrained. Therefore, the nature of the composition of public expenditure, dominated by inflexible recurrent expenditure, appears to inhibit the possibility of a shift in expenditure allocation between existing recurrent and capital expenditure. It is also important to note that investment and development expenditure essentially create future operational expenditure commitments.

Development and investment expenditure favours the four priority areas of NDP4, with about a third of the total capital expenditure allocated to these sectors. Other sectors such as education, health, housing and sanitation also seem to be receiving priority, even though much more can be done considering the increase in amount of productive resources committed to security, governance and public administration (approximately 33.0 percent in 2015/16). The development budget execution rate hovers in the vicinity of around 90.0 percent per annum. Kojo (2010) noted that implementation of development programmes is commonly hampered by structural constraints which in turn results in a rather low rate of capital expenditure execution. There exists a need to strengthen the process of design, review and appraisal for development projects and eliminate bureaucratic obstacles in the tendering system, among others, in order to ensure optimal application of development funds for optimal results.

Table 6: Development and Investment expenditure by Sector, percentage of total

	2013/14	2014/15	2015/16
Logistics	20.7	21.8	25.7
Agriculture and Forestry	5.5	6.0	5.5
Manufacturing	4.9	4.3	3.7
Environmental and Tourism	2.1	0.9	1.3
Education	7.9	8.0	6.2
Energy	1.4	1.9	0.6
Health	8.4	7.3	6.3
Housing	2.1	7.6	9.2
Poverty	0.4	0.6	0.9
Water and Sanitation	20.7	8.8	5.0
Security	15.7	17.0	15.9
Governance and Public Administration	6.3	12.9	17.1
Other	4	2.8	2.5

Source: NPC Development Programmes, various publications.

On the functional composition of government spending, the social, economic and infrastructure sectors together make up over 60.0 percent of the total budget, with the social sector being the dominant one. Spending on education and health accounts for almost 80.0 percent of the social sector budget and are the key drivers of the social spending. However, this seems primarily to be due in part to the relatively high number of employees in these sectors.

Skills deficiency is one of the greatest structural challenges in the Namibian economy, therefore, in order for fiscal policy to be effective in creating employment in Namibia it must be aimed at enhancing skills capacity and promoting a productive labour force through human resource development. In the long run, the spill-over effects of an educated and skilled labour force can result in high economic growth and income levels, and can potentially reduce both income inequality and poverty. Furthermore, by creating employment, the tax base can be broadened and in the process result in potentially higher tax revenue for government.

Education spending focuses on primary education; free universal primary education was introduced and school feeding programmes are also in place. Primary education enrolments are high, accompanied by a high grade 10 failure rate; the quality of education particularly at the lower level remains a concern. Vocational education and training's share of the total education budget allocation has only been approximately 3.2 percent annually for the periods 2011/12 to 2015/16, for the construction, upgrading and renovation mainly of vocational training centres (VTC's) such as those at Keetmanshoop, Rundu, Eenhana and Gobabis. This is an important intervention to increase access to vocational and practical skills training given the relatively high failure rate in grade 10 and low completion rate of grade 12 which seems to aggravate the youth unemployment rate. Moreover, as noted in a recent study conducted by the National Planning Commission (NPC, 2014) on the employability of VTC trainees, there is a need to improve the standards of training and also re-introduce vocational subjects in the formal school system. Provision of sufficient equipment used in the industry and ensuring that there are sufficiently qualified instructors through competitive employment packages should also be considered. It is also important to form partnerships with key industry role players in order to ensure that trainees are offered internship opportunities to gain invaluable practical skills and experience.

Table 7: Decomposition of expenditure growth (% of total)

	2011/12	2012/13	2013/14	2014/15	2015/16
Social	44.3	58.1	52.9	35.3	33.0
Economic & Infrastructure	36.4	-6.2	52.3	21.2	6.3
Public Safety & Order	4.4	21.5	32.0	33.5	13.6
Administrative	15.0	26.6	-37.2	10.1	47.1
Total Expenditure Growth	**28.4**	**8.2**	**12.9**	**27**	**16.5**

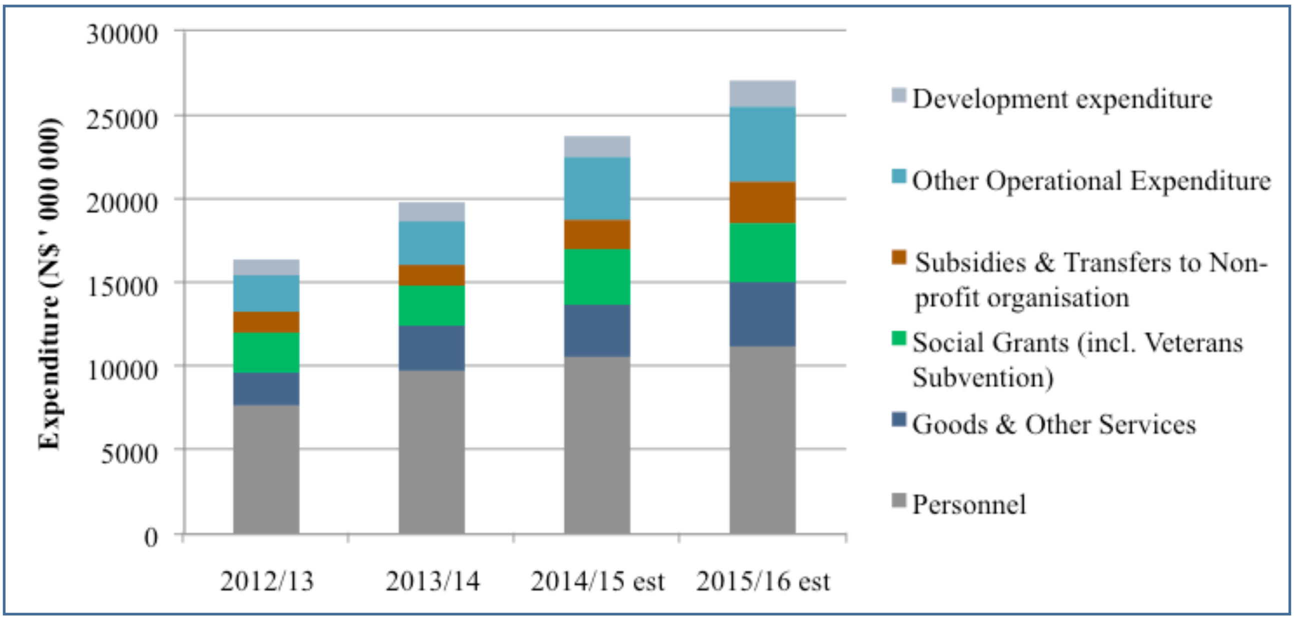
Source: MoF Estimates of Revenue and Expenditure, various publications.

Economic and infrastructure sector expenditure is mainly driven by transport and communications as a result of increased public infrastructure investment as well as regional and local housing, driven by the demand for service-delivery such as housing, water and sanitation. The increased expenditure allocations to administrative, public safety and order remains questionable given the urgency for expenditure allocation to areas of priority.

Treasury emphasises that creating income generating opportunities for the economically active is the most sustainable and long-term solution to income inequality and poverty (MoF, 2015). However, social safety net programmes for the elderly, disabled, orphans, vulnerable children (OVC) and war veterans are in place and regarded as "the first line of defence against poverty" (MoF, 2015). According to National Statistics Agency (2012), poverty increases with age from 50 years upwards, with the poverty incidence relatively high for households headed by elderly people whose main source of income is an old age pension grant. Though there has been a decline of about 17.0 percentage points in poverty incidence for this age group, the fact that almost 37.0 percent of households headed by pensioners lived in poverty in 2009/10 must be a concern. Does this suggest that income from old age social grants is inadequate? The answer could be yes, particularly given the fact that the dependency ratio of the elderly is relatively high. Seen in this light, the increase in the old age social grants in 2015/16 from N$ 600 to N$ 1000[3] per month is perhaps one of the key budget interventions to ensure the elderly who are the most vulnerable economically, receive an adequate minimum monthly income.

3 It is expected to increase further to N$ 1200 by 2017/18. However, the war veterans' grant (N$ 2 200 per month) is still more than double that of old age people.

Figure 3: Composition of social spending



Source: MoF Estimates of Revenue and Expenditure, various publications.

Social grants represent approximately 13 percent of total social spending. The focus, particularly for the elderly, disabled and OVCs seems to have been more on universal coverage[4] than the adequacy of the social grants in providing a minimum adequate income. However, as argued by Chiripanhura and Nino-Zarazua (2013), "one factor inhibiting the effectiveness of the basic social grant is that it is not targeted at the needy". Therefore the debate remains whether a targeted old age social grant will not be more effective in addressing income inequality than the current universal system.

4 According to the Government Accountability report for 2013/14, the 2013/14 coverage rate is 98 percent for old age grants and 86 percent for OVCs.

5. CONCLUSION AND POLICY IMPLICATIONS

This research paper attempted to determine whether the Namibian National Budget is guided by the national development priorities set out in the national development plan with a particular focus on the period covering the NDP4.

It appears that the shift in budget expenditure allocations particularly between the recurrent expenditure and the development/investment expenditure (commonly referred to as productive expenditure) is hampered by the rigidity in recurrent expenditure components, particularly the public wage bill. These components make up the highest proportion of the budget and continue to drive expenditure growth. Given the fact that expenditure seems to grow at a faster rate than revenue, the imminent decline in revenue from the Southern African Customs Union and the persistent fiscal deficit and growing public debt, fiscal space is constrained. Furthermore, the continuous trend of allocating relatively more resources to the security and administrative sectors remains a concern.

Despite relatively strong economic growth performance, the unemployment rate has remained stagnant. This suggests that the demand oriented fiscal policy which focuses on consumption is limited in terms of creating employment opportunities. Emphasis should therefore be placed on interventions which enhance the economy's production capacity in order to promote both sustainable growth and employment creation. Co-ordinated efforts from other macroeconomic tools such as industrial policy and monetary policy should complement fiscal policy in achieving these goals.

The coverage of social grants has improved over the years and the adjustment in old age grants in 2015/16 is a remarkable effort to redistribute resources. However, introducing a more targeted social grant scheme, particularly for the elderly, could improve the effectiveness of social grants in addressing income inequality and poverty, and might be worth exploring.

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7. APPENDIX

Table 8: Budget Votes Functional Classification

SOCIAL	ADMINISTRATIVE
Education	President
Poverty eradication and Social welfare	Prime Minister
Gender Equality and Child Welfare	National Assembly
Health and Social Services	Auditor General
Labour and Social Welfare	Foreign Affairs
Youth, National Service, Sports and Culture	National Council
Veteran Affairs	National Planning Commission
	Electoral Commission
ECONOMIC & INFRASTRUCTURE	Anti-Corruption Commission
Mines and Energy	Home Affairs and Immigration
Regional and Local Government, Housing and Rural Development	Finance
Environment and Tourism	
Trade and Industry	**PUBLIC SAFETY AND ORDER**
Agriculture, Water and Forestry	Police
Fisheries and Marine Resources	Defence
Works	Attorney general
Transport and Communication	Justice
Lands and Resettlement	Prison and Correctional Services
Public Enterprises	
Information and Broadcasting	