# FISCAL POLICY AND THE NATIONAL ECONOMY

ALIGNING PUBLIC EXPENDITURE TO MEDIUM TERM DEVELOPMENT PLAN FOR SOCIO-ECONOMIC DEVELOPMENT

2015

*Samuel Nakale*

*Manongwa Sikanda*

*Mubusisi Mabuku*

## Contents

**List of Tables**



**List of Figures**

## 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 service delivery to the citizenry. These range from education and health care services, infrastructure development and social transfers, among others.

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. This policy brief therefore attempt to establish this linkage in the Namibian economy over the period 2004 to 2014 by identifying key spending priority areas. In particular, the research objectives are two-fold:

a) To advise the National Planning Commission and Government on the effectiveness and sustainability of the fiscal policy stance over the period 2004 to 2014. This is in view of limited resources spent to arrest a multiplicity of challenges in the country's development agenda.
b) To determine whether the pattern of budget allocations to priority sectors and votes has been in line with addressing the set national objectives of high and sustained economic growth, employment creation, equitable income distribution and poverty alleviation. A key question to be asked here is whether these important national objectives are being met through budget allocations to appropriate sectors and votes that can bring about the desired results.

## 2. Theoretical underpinnings of an effective fiscal policy

Fiscal policy is one of the tools for pursuing macroeconomic goals such as high and sustainable economic growth, employment creation, low and stable rate of inflation and sustainable balance of payments position (Calitz & Siebrits, 2008). Furthermore, fiscal policy can be used as a redistributive tool to address socio-economic imbalances such as poverty and income inequality. Accordingly, being the main fiscal policy instrument, the national budget is used to determine the level and composition of public revenue and spending. The efficiency of revenue collection and productivity and prioritization of public spending is critical for the effectiveness and sustainability of fiscal policy. This is particularly true for developing countries with limited resources to be spent and whose aim is addressing a multiplicity of challenges in the socio-economic development agenda.

## 2.1. Fiscal sustainability

Fiscal sustainability seeks to assess whether fiscal policy practice in terms of public revenue performance and expenditure management can be maintained in the long-run without resorting to excessive debt levels[1]. Thus, both public debt and fiscal balance are commonly used to assess fiscal sustainability. Even though an increasing debt-to-GDP ratio is generally a cause of concern, internationally, debt-to-GDP ratio above 60 percent is deemed unsustainable. On the other hand, most countries strive for a fiscal deficit as percentage of GDP of 3 percent or less. Higher fiscal deficits lead to increased borrowing, recurring debt and increased debt financing, the vicious circle of deficit and debt. Subsequently a rise in interest rates crowds out private investment which inhibits economic growth.

According to Bova *et al* (2014), there have been an increasing number of developing countries that have adopted fiscal rules over the last two decades[2]. The primary objective of fiscal rules is arguably pursuance of prudent fiscal policy, stabilization and ultimately fiscal sustainability. Fiscal rules are commonly defined in terms of key fiscal indicators and the four types are expenditure rule, revenue rule, budget balance rule and debt rule (Bova *et al*, 2014). Adherence to fiscal rules can however pose a challenge for example post economic crisis because striking a fine balance between fiscal consolidation and supportive fiscal policy through countercyclical measures can be a daunting task.

Fiscal rules, though necessary, are not sufficient in ensuring fiscal sustainability. The effectiveness and efficiency of public expenditure through productive and prioritized spending is crucial. This requires linking the national budget to the national objectives and reducing recurrent expenditures in order to free up funds for further investment spending. However, increasing the development budget allocation does not always translate into the intended level of capital spending and impact thereof. Kojo (2010) noted that implementation of the development programmes is at times hampered by structural constraints thus resulting in rather low capital expenditure executions. Therefore, fiscal policy should also aim at addressing structural constraints in the economy to optimize its effectiveness. Further, lack of fiscal discipline can impact negatively on fiscal sustainability, macroeconomic stability and subsequently hamper economic growth.

Revenue performance and collection largely determines the available resources for spending. There is however a concern of most developing countries' limited revenue base and heavy reliance on finite and unstable revenue sources. Revenue from mineral resources averaged about 40 percent of Botswana's annual revenue over the last decade. Similarly, for Namibia, the revenue from the Southern African Customs Union (SACU) revenue pool, on average, accounted for over a third of Namibia's annual public revenue over the last decade. There is however uncertainty surrounding these revenue sources with an expected decline in revenue from these sources for both countries. Results from a sensitivity analysis done by Kojo

[1]Chalk and Hemming (2000) noted that there is no exact definition for fiscal sustainability in the literature.

[2] Namibia first adopted fiscal rules in 2001 and is among the few countries using fiscal rules in sub-Saharan Africa.

(2010) indicate that Botswana's fiscal policy sustainability is vulnerable to shocks in the mining sector particularly reduction in diamond production. This is due to the country's heavy reliance on diamond mining as a source of growth and public revenue. While no sensitivity analysis has been done for Namibia's fiscal sustainability in relation to SACU revenue, warning signs are there that continuous dependency on this source of revenue could pose a risk to fiscal sustainability in the medium term (Rademacher, 2011). This is due to the persistent uncertainty and speculations about the revision of the revenue sharing formula as well as the expected decline in revenue from the SACU pool due to the expansion of regional and trade integration in Africa[3]. Other than revenue diversification, Kojo (2010) emphasizes that developing economies need to align their public expenditure to long term revenue prospects. This will ensure efficiency of public expenditure and promotion of fiscal sustainability.

### 2.2. Fiscal policy and economic growth

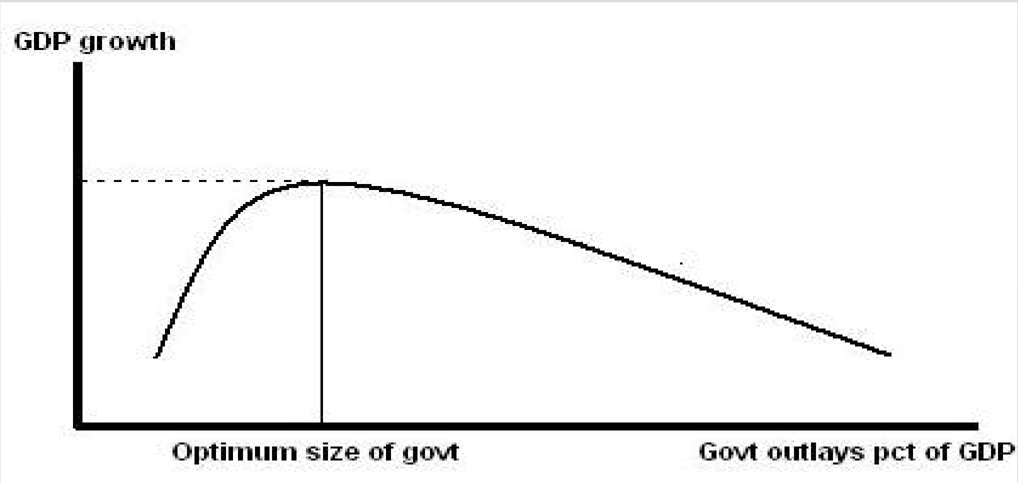
Fiscal policy plays a key role in promoting and maintaining macroeconomic stability which in turn is a pre-requisite for high and sustainable economic growth. In addition, Rademacher (2011) argue that fiscal policy influences economic growth through its impact on the technical know-how, progress in technical production and accumulation of productive resources such as human capital. Most developing countries seem to focus more on accumulation of human capital resources by spending relatively more on education and health in order to enhance the employability and productivity of the workforce. On the other hand, technical progress as determined mostly by foreign direct investment (FDI) is influenced by fiscal policy through tax incentives such as reduction in corporate taxes, increased spending for infrastructural investment and improvement, as well as skills development. On the demand side, countercyclical interventions such as tax reliefs to individuals and increased public investment spending can boost consumption and investment which stimulates economic growth.

[3] The Tripartite Free Trade Agreement between COMESA, EAC and SADC is expected to be launched mid 2015 (MoF, 2015).

**Box 1 The size of government and economic growth**

Gwartney *et al* (1998) argue that "in theory the relationship between government expenditure and economic growth is ambiguous." Public investment in physical infrastructure can enhance economic growth. Furthermore, the government plays an important role in the provision of public goods and essential services such as education, health care, public safety, housing and sanitation which are all vital for socio-economic development. However, empirical evidence suggests that there is an optimal size of government, as measured by public expenditure's share of GDP, beyond which public expenditure can potentially inhibit growth. This relationship is in the form of an inverted U shaped curve as presented below.

***Figure 1: BARS curve***




*Source: Gwartney et al (1998)*

Empirical analyses by Gwartney *et al* (1998) and others cited therein which predominantly focused on developed countries suggest that the optimal level of government spending is on average about 20 percent of GDP. Of course it would be interesting to establish whether it is more or less the same for developing countries. Even so, this theory reinforces the importance of effective fiscal policy practice through maximisation of revenue productivity and spending efficiency.

### 2.3 Fiscal policy and social issues

Poverty and income inequality remains the greatest challenges in many developing countries. 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 African economic update, 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 the income levels increases. Tax reliefs to individuals and adjustments of personal income tax brackets are common practices, particularly during economic downturn, to minimize 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 the low income earners the most. Hence, the need for VAT zero rating or exemption for some goods and services, such as staple food and basic necessities that low income earners spend much of their income on.

Social transfers and grants to the vulnerable members of the society such as old age people, disabled people, orphans and vulnerable children is another fiscal policy tool for redistribution of resources. However, as emphasized by 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[4]. The *HelpAge International Global AgeWatch Index* which ranks countries according to the social and economic wellbeing of people above the age of 60 further recommends that old age people should be guaranteed an adequate minimum income through old age pensions[5].

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. It is emphasized in the literature that focus on lower level services such as primary education and primary health care through the universal primary education and primary health care services are known to have a more significant impact on the poor and low income earners. The spillover effects from health and education spending have a potential to address some of the root causes of poverty and thus improve socio economic development in the long run. In addition, empowering and capacitating the unskilled and unemployed poor people through targeted skills and training development programs has potential to improve their skills and employability.

[4] This could be achieved through implementation of means-tested social grants.

[5] The index is based on four domains which are; health, income, capability and enabling environment. In the 2014 ranking South Africa, Zambia, Tanzania and Malawi ranked 80th, 88th, 92nd and 93rd out of 96 countries respectively. South Africa, however, ranked relatively high (19) in the income security domain due to its old age pension coverage. Namibia was not included in the index. See http://www.helpage.org/global-agewatch/

# 3. Overview of the Namibian economy

## 3.1. Namibian Industry overview

During the period under review, the Namibian economy recorded the highest growth in 2004 (12.3 percent) which was mainly due to the export of goods and services which yielded a surplus of 2.1 percentage points while investments also grew on average by 18 percent. A key driver of growth in the real sector has been the tertiary industry which has remained the largest contributor to the overall economic growth with an average contribution of more than 50 percent during the review period. Secondary and primary industries contributed an average of around 20 percent each for the same period. Encouragingly, the economy grew by 5.2 percent (on average) from 2010 to 2014 which is closer to the envisaged growth of 6.5 percent during the period (2012-2017) of the Fourth National Development Plan (NDP 4).

However, the economy experienced a slow growth at the beginning of the global economic crisis recording 2.4 percent in 2008 and even lower 0.6 percent in 2009. This sluggish growth was the result of commodities becoming too expensive on the global market which negatively affected Namibia's export activities as well as import activities during that period. Although a slow growth rate was experienced, in real value there was a noticeable increase of N$4 million registered between 2008 and 2009, which translates to a 0.5 percent of value increase. As expected, the economy slowed down to 4.5 percent in 2014 due to the effect of drought in the agricultural sector. However, it is expected to eventually pick up again to more than 5.0 percent in 2015 and 2016 respectively when the sector recovers. Growth from tertiary and secondary industries will continue to pick up as the manufacturing, tourism and construction sectors keep expanding as a result of improvements and new developments. Table 1 below depict how industries faired during the review period.

**Table 1: GDP growth by industry**

| **Industry** | **GDP growth by industry** | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| Primary | 20.0 | -3.1 | 12.8 | -4.0 | -4.9 | -14.0 | 13.7 | -3.6 | 14.4 | -6.1 | -2.3 |
| Secondary | 2.0 | 8.8 | 8.1 | 9.1 | 4.9 | -4.4 | 6.8 | 7.3 | -1.3 | 8.4 | 4.7 |
| Tertiary | 10.4 | 2.1 | 5.5 | 7.4 | 4.6 | 6.6 | 4.5 | 7.5 | 3.9 | 7.2 | 6.3 |
| **Overall** | **12.3** | **2.5** | **7.1** | **5.4** | **2.4** | **0.6** | **6.0** | **5.2** | **5.2** | **5.1** | **4.5** |

*Source: Namibia Statistics Agency (2004-2006 not yet revised)*

### 3.1.1. The Primary Industry

Looking at the primary industry, it continued to fluctuate and grew on average by 2.1 percent during the review period. This was due to the fact that production in the major contributor, mining sector is dictated by the international price, while the agricultural sector is tuned to the climatic conditions as it harshly affect it. In table 1, it can further be observed that in 2004 the industry grew markedly by 20 percent due to the growth in the mining and quarrying sector that grew by 45 percent, while crop farming and forestry subsector also grew by 15.2 percent. But due to volatility of minerals, especially diamond and uranium, the primary industry saw a slow growth in 2005 contracting to 3.1 percent, while it picked up to 12.8 percent in the subsequent year. Figure 2 below shows how volatile the sectors are as they are dictated by what has already been mentioned above.[6]

**Figure 2: Growth in the Agriculture and Mining sectors**


*Data source: Namibia Statistics Agency*

The **sector agriculture** shrank on average by 0.2 percent during the review period despite efforts from the government to put up green scheme projects that could boost the sector, but instead contracted by 26.7 percent in 2013 just like it did in at the beginning of the financial crisis. This was caused by the contraction in the livestock farming subsector due to drought which affect the meat markets locally and internationally. The drought affected the crop farming sub-sector by a decline of land planted for both wheat and white maize e.g. from 2314 to 2198 thousand hectares in 2012 and from 14156 to 13794 thousand hectares in 2013. Consequently the total quantity harvested declined with the most notable decline being from wheat harvest which reduced by 24 percent during 2013.

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 mainly climate conditions which exacerbate drought. Of recent, the Government through the Ministry of Agriculture, Water and Forestry has encouraged registered commercial farmers, especially in the maize triangle of Otavi, Grootfontein and Tsumeb to obtain loans from Agribank and construct their own silos, where the fund scheme will help with interest repayment. According to (Brock, 2013), "under the plan, an approved registered grain miller will own and manage the silo, repay the capital and just 25 percent of the interest of this loan, while the Namibia Agronomic Board (NAB) will pay the remaining 75 percent over 10 years." The move is necessitated to alleviate a major risk of lack of storage capacity during bumper crop harvest for farmers in the maize triangle. Funding for the scheme comes from the surplus of the 1.4 percent levy paid by the registered farmers and the 0.95 percent levy paid by millers of maize to the NAB.

[6]Price, inflation, exchange rate, climatic condition in the case of Agriculture, sometimes even political stability

The Government is busy with subsidies to farmers in order to sustain the agricultural industry during the challenging drought period. Through the farmers' relief programme, it 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 a transport scheme for livestock to and from grazing areas.

In terms of crop production especially white maize which is the staple food for many Namibians, for the 2013/14 harvesting season the white maize harvested in the country was approximately 73 000 tons, while for the 2014/15 season less than 45 percent (33 000 tons) is expected to be harvested. This calls for government intervention. The National Early Warning and Food Information Unit in the Ministry of Agriculture, Water and Forestry have warned on the looming drought in the country. It is for this reason that the government has reserved N$300 million for drought food to relieve about 417,944 people who are affected. Through all these and many other efforts, the sector is receiving close attention from the government to also preserve jobs and sustain its growth.

Over the past eleven years (2004-2014), the **fishing sector's** average annual contribution to the economy shrank to 0.1 percent. This shows a marked reduction of economic activities in this sector compared to the 6.2 percent annual average contribution during 1994-2003 period. The value contribution of the sector in 2006 was about N$2.0 billion, which further fluctuated between N$2.5 billion and N$2.9 billion during the years 2008-2011, but eventually picked up to over N$3 billion in 2012, 2013 and 2014 respectively. The variations could be explained by the financial crisis as well as the changing dynamics of the fishing sector which has occurred over the past years as the industry has become more mature and complex.

International competition on the world markets is fierce and therefore technological change and advancements are imminent requirements for which the sector has to adjust to in order to thrive. During 2004-2006, the sector's contribution was below N$2 billion while post 2006 period's contribution increased markedly upwards of N$2 billion. This was due to favourable fish commodity prices, while input costs such as fuel was reasonably below US$50 per barrel of crude oil. These fluctuations point to how volatile the sector is considering that its bigger markets are prone to bombardment by other factors such as exchange rate and inflation which directly impact commodity prices on the international market.

The contractions experienced in 2013 were partly as a result of: (i) reduced total landing of fish species which reduced by 1 percent from a total of 467 004 metric tonnes (mt) in 2012 to 463 367 metric tonnes during 2013; (ii) reduction in the number of licensed vessels which also reduced from 250 vessels in 2012 to only 242 in 2013; and (iii) the Total Allowable Catch (TAC) reduced by 17 percent from 204 450 mt in 2012 to 168 500 mt in 2013.

Efforts to improve the growth in this sector could be pursued and these could include (but not limited to) diversification to aquaculture. This could be done through building many inland fish farms (ponds) with involvement of different communities. Also to intensify research and development to find efficient ways of minimizing production cost, as well as conservation measures not to deplete the fish stock. The Ministry of Fisheries and Marine

Resources has recently reviewed the fishing rights in order to determine how to improve the activities in the sector. A maximum of 20 years in terms of fishing rights was concluded to give role players more time to cater for long-term planning and investment.

The Ministry of Fisheries and Marine Resources has put in place mechanisms to better manage government' statutory fees collected from the fishing sector through its Revenue Collection Management System (RCMS) which has been developed and linked directly to the industry so that it improves its monitoring and debtors management. The Ministry further implores the sector to honour its obligations to the Marine Resources Fund where the Minister says there are still defaulters. Another development in the sector is the introduction of value addition to horse mackerel fishery where 2.0 percent of the total allowable catch (TAC) is to be processed for cannery. This policy requires onshore or vessel factory, machinery and increased work force to produce canned horse mackerel. With this, asset investment is assured as well as job creation emanating from this initiative.

Overall, the country is doing well in the fishery resources/sector thus has even embarked on market diversification through COMESA-EAC-SADC Tripartite Free Trade Agreement (FTA) to see to it that Namibia's fish and fish products find suitable market, as well as to lessen market barriers. However, conservation of fish stock remains paramount and has tight measures to guard against illegal fishing that could deplete fish stock. In addition, there is need to pursue and enlarge inland fishery (aquaculture) for long-term sustainability of the sector.

The **mining sector** remains one of the largest economic sectors and the major contributor to the primary industry with an average of 59 percent during the review period, which translate to about 11.5 percent contribution to the GDP during the same time. It further accounts for about 25 percent of the country's income. The stance of mining in Namibia has been transformed with the reopening of the Tsumeb-area copper mines and smelter, the opening of the Skorpion zinc project, the expansion of the fluorspar and the B2 gold mines, and the continued developments of the offshore diamond explorations for the past few years.

The sub-sector uranium mining such as the Rio Tinto/Rössing and Langer Heinrich, Husab, Trekkopje the Bannerman, Marenica, Reptile and Valencia uranium projects have come into perspective to boost the mining sector. In spite of the high contribution, the sector needs to be sustained, thus in 2011 the Ministry of Mines and Energy produced a report on Strategic Environmental Management Plan (SEMP) which is also guiding the land use decisions to ensure availability and sustainability of resources for the current and future welfare of the country (Ministry of Mines and Energy, 2012/13).

The sector growth oscillated between 30.1 percent in 2008 and worst decline of 24.9 percent in 2011 during the global recession period, however its contribution to the economy had a peak of N$4.2 billion in 2008 and declined thereafter to N$1.6 billion in 2014. The diamond mining sub-sector which was expected to show no growth owing to the depletion of on-shore deposits surprisingly registered a positive growth of 7.9 and 10.0 percent in 2013 and 2014 respectively. Other mining and quarrying registered a mere 1.0 percent growth in 2014 a decline from 1.8 percent in 2013.

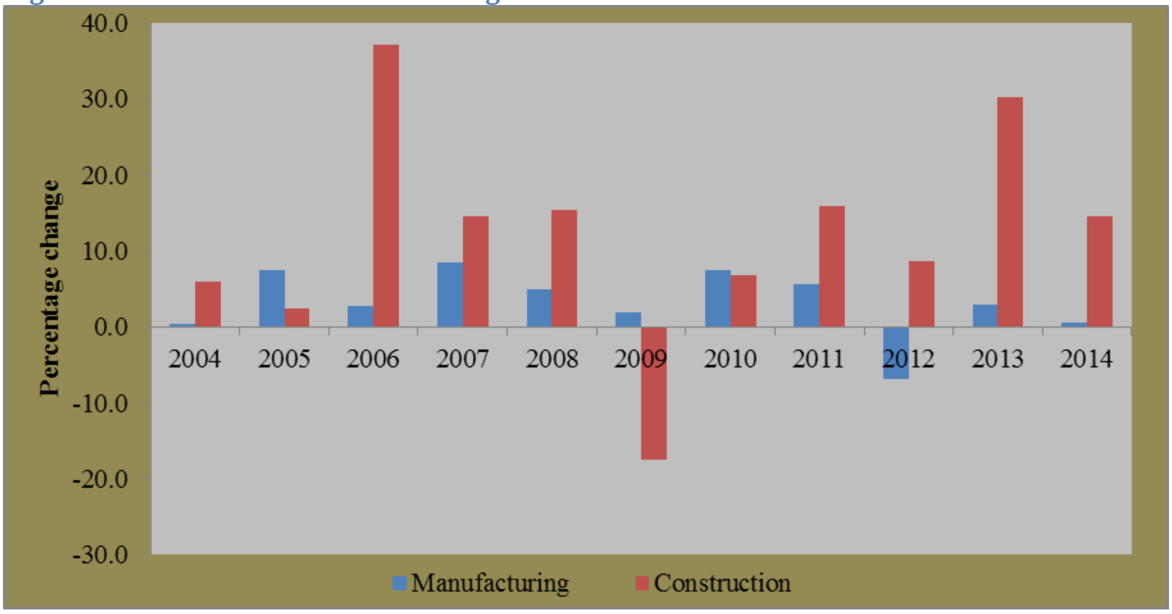
Overall, the mineral prices for certain commodities were not favourable during 2013, for instance Uranium price declined from U$52/lb in mid-2012 to U$35/lb in the last quarter of 2013. For Uranium to fetch high prices at the international market, since production has increased, Namibia has to also increase the processing of Uranium by milling it into yellowcake, then enriching it before fuel fabrication to produce fuel assemblies or bundles for export.

On the whole, outlook in the primary industry looks promising and is projected to recover by 7.5 percent in 2015. The positive projections are mainly explained by the expected recovery from advanced economies which will stimulate the global demand recovery. This will in turn increase exports of primary goods such as livestock and meat, fish and fish products as well as minerals whose impact will be a marked growth of the sector as a whole.

### 3.1.2. The Secondary Industry

This industry is made up of three main sectors: the manufacturing, electricity and water, and construction. Overall, the secondary industry had stagnated growth during the review period as it recorded an average growth of 4.9 percent, with an average real value contribution of N$13.1 billion translating to 17.7 percent to the economy. Manufacturing is the biggest in terms of subsectors that comprise it as well as its contribution to the economy, in spite that, the sector had the highest average contribution of 12.9 percent to the industrial growth, followed by construction sector with an average of 3.5 percent over the review period. Therefore it is imperative to grow the sector to enhance its contribution to the economy, as can be seen that construction is growing faster than manufacturing in the secondary industry.

**Figure 3: Growth in the Manufacturing and Construction sectors**




*Data source: Namibia Statistics Agency*

Within manufacturing sector, other food products and beverages and other manufacturing sub-sectors seem to grow at a snail pace but their average contributions (5.0 and 7.4 percent respectively) were far much higher than those of meat processing (0.5 percent) and fish processing (0.1 percent) sub-sectors, which recorded enormous average growths of 40 and 32.7 percent respectively. The above mentioned scenario enlightens that real value contributors to the manufacturing sector were other food products and beverages, and other manufacturing with an average contribution of N$3.9 billion and N$5.8 billion respectively, while meat and fish processing subsectors on average recorded less than half a billion each. The public and private sectors should now pay much attention to increasing growth in subsectors that can contribute largely to the manufacturing sector.

**Table 2: Secondary industry growth**

| Secondary industry | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Manufacturing | 0.4 | 7.5 | 2.7 | 8.5 | 4.9 | 2.0 | 7.5 | 5.7 | -6.8 | 2.9 | 0.5 |
| Electricity and water | 7.0 | 24.3 | 5.7 | 4.3 | -8.9 | -16.4 | 2.4 | 3.1 | 17.8 | 0.3 | 6.0 |
| Construction | 5.9 | 2.4 | 37.2 | 14.5 | 15.4 | -17.5 | 6.8 | 15.9 | 8.7 | 30.2 | 14.6 |
| | | | | | | | | | | | |
| **Total** | **2.0** | **8.8** | **8.1** | **9.1** | **4.9** | **-4.4** | **6.8** | **7.3** | **-1.3** | **8.4** | **4.7** |

*Source: Namibia Statistics Agency (2010 base year)*

The secondary industry recorded a positive growth of 4.7 percent in 2014 while it contributed 19.4 percent to the economy. This growth was due to the positive growth from the **construction** sector which recorded a tremendous growth of 14.6 percent which translated into 4.0 percent contribution to the economy in 2014 (Tables 2 and 3). Growth in the construction sector in 2014 could also be attributed to the Government's major developmental projects taking place such as the Neckartal dam on which N$2.8 billion will be spent upon completion, construction of the Grove mall in Windhoek with investment amounting to N$1.1 billion, construction in the mines, as well as construction of shopping malls in other towns.

The mass housing project where 185,000 houses are envisaged to be built by 2030 also have invested about N$2.5 billion in 2013/14 financial year of its first phase. Furthermore, the government took a stance to grow the economy as well as creating jobs by introducing targeted interventions such as TIPEEG that invested about N$14.7 billion into infrastructure and creating more than 80 000 jobs of which most of them were temporal.

**Table 3: Secondary industry contribution to GDP**

| Secondary industry | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Manufacturing | 12.5 | 12.4 | 14.4 | 13.6 | 11.5 | 13.0 | 12.5 | 13.7 | 12.2 | 12.4 | 13.3 |
| Electricity and water | 2.1 | 2.4 | 1.9 | 2.4 | 2.0 | 2.0 | 1.9 | 2.0 | 1.9 | 2.0 | 2.1 |
| Construction | 2.7 | 2.7 | 3.4 | 3.5 | 4.0 | 3.2 | 3.2 | 3.5 | 3.3 | 3.9 | 4.0 |
| **Total** | **17.3** | **17.5** | **19.7** | **19.5** | **17.5** | **18.3** | **17.5** | **19.1** | **17.4** | **18.3** | **19.4** |

*Source: Namibia Statistics Agency (2010 base year)*

Since the manufacturing sector is heavily reliant on the primary industry performance, the drought impact resulted in more livestock being slaughtered during 2013. This boosted some growth (15.8 percent) in meat processing sub-sector compared to other years. In terms of contribution to GDP during the eleven year period, manufacturing sector maintained an average of 12.9 percent and its annual average growth was 3.3 percent.

The secondary industry expanded by 4.7 percent in 2014 while it is projected to expand by 5.3 percent in 2015. This will mainly be driven by continued growth in the construction sector resulting from the mass housing project, private sector investments and the winding up of TIPEEG projects. Sustaining the level of the development budget post TIPEEG, increased effective implementation of capital projects, deliberate and assertiveness in investing in power-generating and water producing activities will increase the production capacity of the economy in short to medium term.

The **electricity and water** sector rebounded to 6.0 percent in 2014 having contracted by 0.3 percent in 2013 mainly due to the drought which affected the water flow at the Ruacana power station. As a result, electricity production reduced and import of electricity increased to square up the deficit experienced. Its contribution to GDP has been steady, averaging 2.1 percent for the period under review. This sector is one of the backbones of the economy in terms of being the sector with boosting activities that should continue heighten production. Water is an economic and public good therefore the Government has the responsibility of making such service available to all. It is understood that water has to be fit for human consumption as well as for other usage, thus processes have to be engaged to bring it to that acceptable standard. The sector needs to be financially stable to continue providing this service for household and industrial purposes.

Both for electricity and water sub-sectors, cost recovery tariffs at different rates by the bulk suppliers and the distributors are important to generate revenue that can sustain the provision and even improved service. Machinery and equipment are utilized at both production and distribution levels, therefore a need for maintenance, these necessitate costs involved to be recovered down to the consumer. It's well known that communities are at different income levels, therefore government comes in with subsidies when such commodities are supplied to low income community. Fiscal policies are then adjusted to accommodate such subsidies and many others. Corporate and individual taxes are adjusted through income thresholds while loyalties are collected to generate revenue that will partly be apportioned to different services.

### 3.1.3. The Tertiary Industry

Since independence, the tertiary industry has continued to be the largest contributor to the economy accounting for more than 50 percent in many years. In terms of growth, during the eleven year period under review, it recorded an annual average growth of 6.0 percent. The industry registered the highest growth of 10.4 percent in 2004, while the subsequent year registered the lowest (2.1 percent). Thereafter the industry's real growth hovered between 3.9 percent and 7.5 percent.

In 2007, 2011 and 2014 the **hotels and restaurants subsector** boosted the overall industrial growth by more than 9.0 percent respectively (Table 4). The hotels and restaurants sub-sector a proxy for tourism continues with positive annual average growth of 7.2 percent as the international market especially the Eurozone recovers. The other factor would have been the strengthening of the international currency (US dollar) over the weak Namibian currency. This could serve as an incentive for more tourists to visit Namibia and at the same time boost the performance of the subsector. Regardless of positive growth noticed in Table 4, the sub-sector had little real contribution to the GDP with an average of 1.7 percent, therefore would have been best to intensify infrastructure investment in the subsector to realise its potential in real contribution to the economy in long run.

The **transport and communication** sector also contributed positively to the growth of the tertiary industry as it recorded an annual average growth of 10.3 percent, translating to an average of 4.9 percent real value contribution to GDP. Both sub-sectors (Transport and storage, and Post and telecommunications) that make up transport and communication seemed to maintain their positive growth levels over the review period. The sector's noticeable growth (25.8 percent) in 2004 shows the potential to expand and contribute significantly to the economy.

The functioning of Walvis Bay corridor groups through Trans-Kalahari, Trans-Cunene, Trans-Oranje and Trans-Caprivi high ways have contributed significantly to making Walvis Bay harbour to become recognized as a better gate way to and from the international markets. Coupled with corridor groups, Southern African Development Community (SADC) states agreed to form National Customs Business Forum (NCBF) where facilitation of stronger partnership between customs and business at national level be established to promote regular and result oriented dialogue, and also to take action on challenges arising in the supply chain of goods.

**Table 4: Tertiary industry growth over eleven year period**

| Tertiary industry | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Hotels & restaurants | 8.4 | 2.4 | 7.4 | 10.6 | 3.5 | 5.5 | 6.5 | 9.5 | 8.1 | 8.0 | 9.3 |
| Transport & communication | 25.8 | 9.3 | 14.2 | 5.4 | 10.7 | 16.0 | 6.7 | 4.9 | 8.0 | 6.4 | 5.6 |
| Wholesale and retail trade | 8.3 | 9.7 | 7.6 | 7.9 | -4.0 | 10.0 | 7.5 | 5.8 | 4.3 | 14.5 | 8.6 |
| Financial intermediation | 14.3 | 15.1 | 4.3 | 12.0 | 16.0 | -2.5 | 9.5 | 5.7 | 6.8 | 16.0 | 7.7 |
| Real estate & business services | 7.2 | 6.8 | 3.6 | 7.6 | 3.0 | 11.3 | 0.8 | 6.3 | 5.0 | 4.1 | 3.2 |
| Community, social & personal service activities | 12.1 | 6.9 | 2.9 | 0.8 | 0.7 | -0.5 | 1.6 | 11.2 | -17.6 | 1.9 | 6.9 |
| Public administration & defence | 4.0 | -4.8 | 3.9 | 10.4 | 11.8 | 5.3 | 2.8 | 5.3 | 2.9 | 3.4 | 4.8 |
| Education | 19.8 | -8.0 | 3.5 | 6.0 | 4.9 | 3.0 | -0.2 | 17.4 | 4.5 | 3.3 | 5.9 |
| Health | 1.5 | -19.9 | 1.0 | 5.8 | -8.0 | 5.5 | 9.5 | 5.7 | 5.7 | 6.7 | 7.6 |
| Private household with employed persons | 2.2 | 2.2 | 2.2 | 3.4 | 8.6 | 8.6 | 8.6 | 8.6 | 8.6 | -6.7 | 4.8 |
| | | | | | | | | | | | |
| **Total** | **10.4** | **2.1** | **5.5** | **7.4** | **4.6** | **6.6** | **4.5** | **7.5** | **3.9** | **7.2** | **6.3** |

*Source: Namibia Statistics Agency*

The growth in the transport and communication sector is a result of the sector receiving priority in the development budget allocation to implement priority programmes and projects under the sector. An annual average of N$1.3 billion was allocated to the transport department during the financial years 2009/10 – 2012/13 for roads upgrading and construction, rehabilitation of aerodromes and maintenance of roads, railways and airports infrastructure. The sector has projects which are labour based constructions, where communities in surrounding areas of the project benefit by being employed, and eventually earn income which improves their living standards.

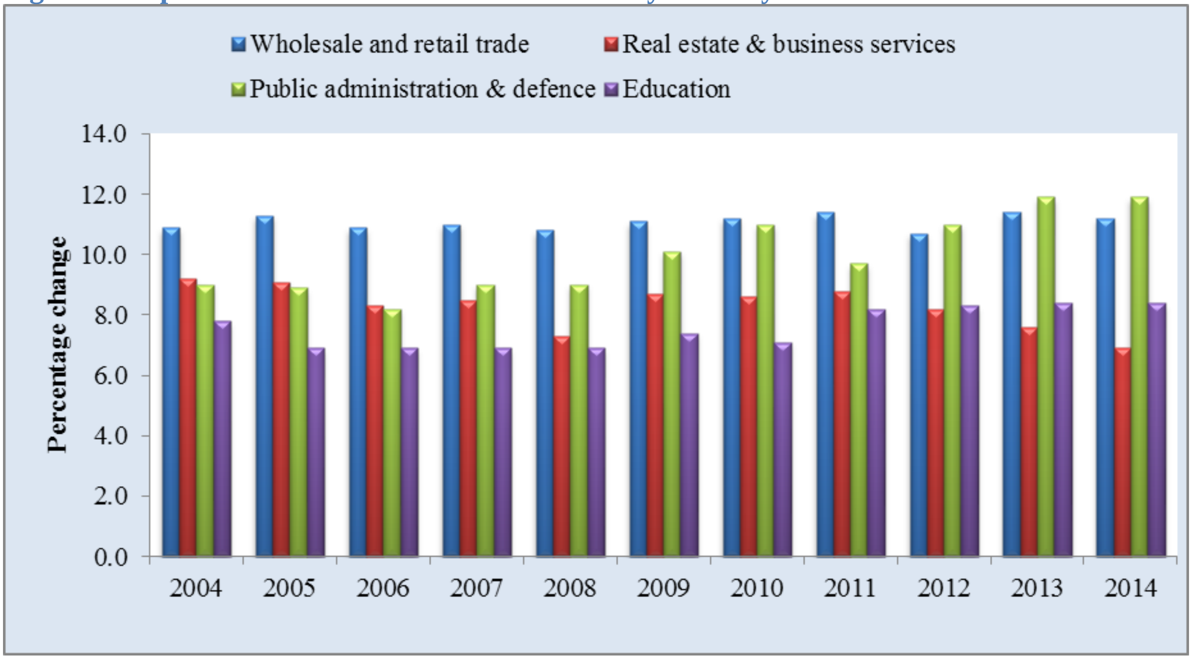
Increased activities in the telecommunications sub-sector such as expansion of network coverage to attract increased number of subscribers for Telecom and MTC as well as the roll out of NBC's Digital Terrestrial Television (DTTV or **DTT**).The DTTV is a technological evolution of broadcast television and advancement over analog television. **DTTV broadcasts** land-based (terrestrial) signals also contributed positively to the sector's growth.
The **financial intermediation** sector's annual average growth stood at 9.5 percent during the review period although had experienced a negative growth (2.5 percent) during 2009 on the back of the global financial crisis. However, the sector rebounded to record positive growth of 9.5 percent, 16.0 percent and 7.7 percent in 2010, 2013 and 2014 respectively. This positive growth was attributable to a stable financial environment in Namibia in addition to the entry of new role-players, specifically financing banks such as the Development Bank of Namibia (DBN) in 2004 and SME Bank in 2013.

The sector grew as a result of these financing banks' strategies to grow their business books by means of provision of loans to individuals and SMEs in support of entrepreneurship and ultimate creation of numerous and sustainable job opportunities. However the increase of the repo rate in 2014 had a negative impact on commercial banks as consumers reduced their credit demand due to high interest rate. The financial sector is thus projected to maintain its growth by 10 percent on average next year which will contribute to the industry's projected expansion of 4.8 percent in 2015.

Although the sector financial intermediation had substantial annual average growth (10.2 percent), its real contribution during the review period emerged to be 5 percent; therefore a need to increase the contribution as the sector is growing. Other sectors with potential growth are tourism, transport, real estate and business services and, wholesale and retail, trade.

Figure 4 shows which were the top contributors in the tertiary industry, and one could deduce that with the establishment of DBN and SME banks, many small and medium business owners could now gain access, especially to these financial institutions to borrow funds and boost their businesses, thus in 2012 and 2013 respectively, sectors such as real estate and business services emerged to be the highest contributor to the industry, while Wholesale and retail trade, repair become the second contributor. This point to the fact that Namibia's private sector has the potential of growing the economy, of course the public sector (public administration and defence) continue to create the necessary conducive business environment for businesses to flourish.

**Figure 4: Top four GDP contributors in the Tertiary industry**




*Data source: Namibia Statistics Agency*

## 3.2. Demand Side

The demand for goods and services comprise of final consumption expenditure for both the private and general Government sectors, expenditure on gross fixed capital formation (GFCF), changes in inventories and net exports. These components reflect the expenditure on GDP by the 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. This means that operational expenditure is very high compared to the fixed capital expenditure where investment is derived from. This trend is way too high and thus needs to be slowed down if Namibia is to achieve its vision 2030. It is for this reason that even the share of export of goods and services will always remain lower than that of imports of goods and services because there is less investment taking place in the country in terms of value addition (Table 5).

**Table 5: Total expenditure as share on GDP**

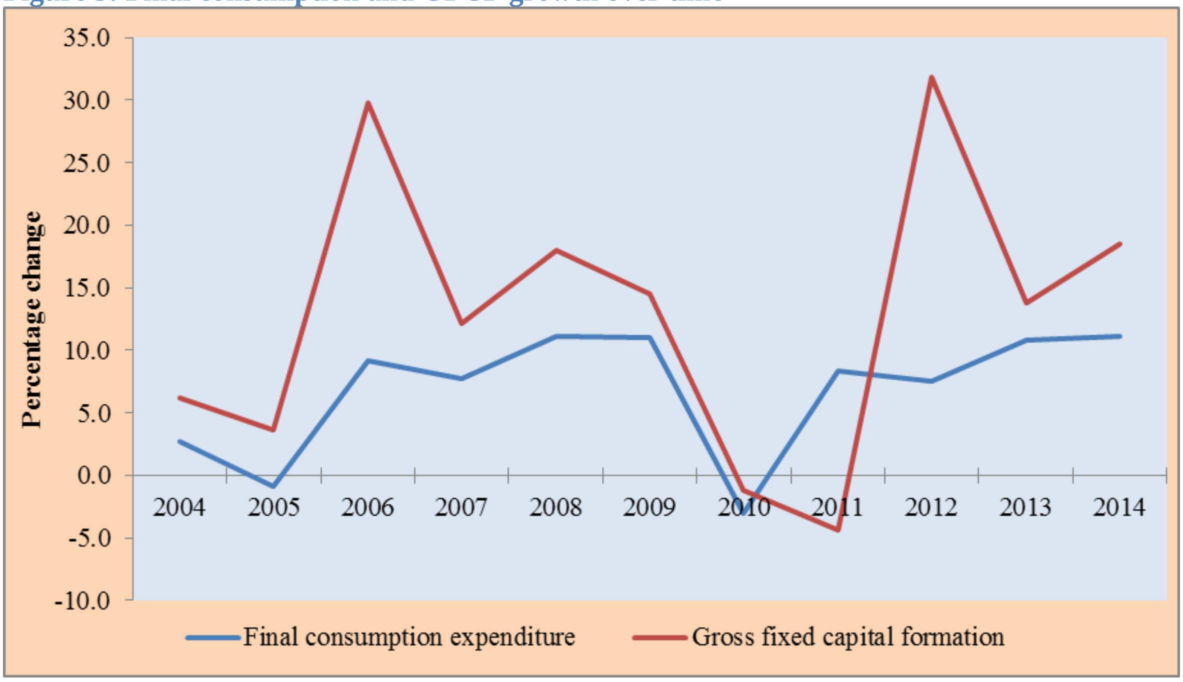
| Expenditure category | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Final consumption expenditure | 81.1 | 77.2 | 75.6 | 81.0 | 84.1 | 93.5 | 88.8 | 89.6 | 89.8 | 94.1 | 95.5 |
| Private | 60.7 | 57.9 | 56.2 | 57.1 | 62.3 | 69.7 | 63.2 | 66.4 | 64.8 | 67.1 | 68.4 |
| General government | 20.4 | 19.3 | 19.5 | 23.9 | 21.9 | 23.9 | 25.6 | 23.2 | 25.0 | 27.1 | 27.1 |
| Gross fixed capital formation | 18.6 | 18.6 | 21.6 | 22.0 | 25.4 | 28.0 | 25.3 | 22.7 | 25.9 | 26.1 | 28.0 |
| Changes in inventories | 0.5 | 1.1 | 0.6 | 2.4 | 3.0 | -0.7 | -1.2 | -0.3 | 1.0 | -1.3 | 0.0 |
| **Gross domestic expenditure** | **100.2** | **96.9** | **97.9** | **105.3** | **112.5** | **120.8** | **112.9** | **111.9** | **116.6** | **119.0** | **123.5** |
| Exports of goods & services | 39.8 | 40.4 | 45.5 | 50.5 | 54.5 | 52.4 | 47.8 | 45.5 | 43.5 | 44.0 | 39.6 |
| Imports of goods & services | 42.1 | 40.3 | 41.6 | 55.8 | 67.0 | 73.1 | 60.7 | 57.5 | 60.1 | 62.9 | 63.2 |
| Discrepancy | 2.1 | 3.0 | -1.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **GDP at market prices** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

*Source: Namibia Statistics Agency (2004-2006 not yet revised)*

### 3.2.1. Consumption

Final consumption expenditure, which is made up of private and general Government expenditures, is the main contributor to GDP with an annual average of 86.4 percent share during the review period while GFCF recorded an annual average of 23.8 percent during the same period. In 2013, the final consumption expenditure grew by 11.1 percent which was attributed to the positive growth from the private consumption which grew by 12.8 percent as well as a steady growth from the Government expenditure. The continued expansionary policy by Government through increased remuneration and re-grading of civil servant salaries as well as reduced individual tax thresholds have resulted in the increase in private consumption by private household. Expenditure on fixed capital fluctuates and does not show steady growth, which means investment in the country is somehow insecure (Figure 5).

**Figure 5: Final consumption and GFCF growth over time**




*Data source: Namibia Statistics Agency*

### 3.2.2. Investment

Real investment expenditure is measured using Gross Fixed Capital Formation (GFCF) and changes in inventories. The growth rate of GFCF averaged 13 percent during the period under review, negative growths of minus 1.2 and 4.4 percent were recorded in 2010 and 2011 respectively (Figure 5). The negative growths are attributable to the aftermath of the financial crisis while accelerated average growth in investment expenditure resulted from growth in investment in the economic sectors coupled with recovery from financial crisis. Notable investments that drove GFCF growth include (i) mining as a result of opening up of new entrants (new mines); (ii) an increase in construction sector both from Government as the implementation of major projects (Neckartal dam which is estimated to spending an amount of N$2.9 billion) and other TIPEEG projects estimated to spend N$14.9 billion over the three year period (2011/12 -2013/14); (iii) developments due to the continuation of NDP4 priority areas and (iv) private investments in the constructions of private buildings and shopping malls.

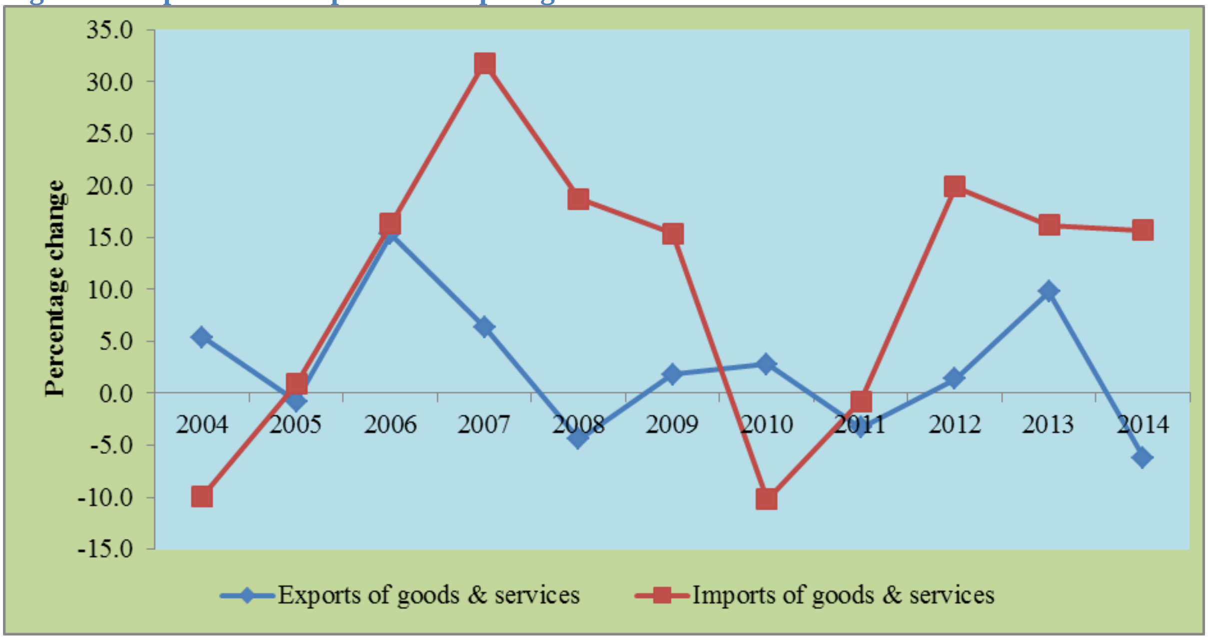
### 3.2.3. Imports and Exports

The trend for both exports and imports rose sharply with the exception of 2009, 2011 and 2014 for which contractions were recorded when commodity prices on the international market were no more favourable and also due to the global economic slowdown. In 2008 real decline in demand for goods and services was felt and worsened in 2009. The contraction in 2014 resulted from declines in exports of diamonds, ores and fish due to unfavourable international prices. Another factor to this is the reduced demand for domestic goods and services by Namibia's largest trading partner South Africa. The growth in export during 2013 was mainly driven by the meat subsector in which live and slaughtered animals were exported in big quantities as a result of drought. Minerals and fish products also contributed to the growth in export during the period under review.

Meanwhile, imports on food products, petroleum products and fuel, machinery and equipment and chemicals continues to put pressure on Namibia's GDP as it maintained the growth of over 15 percent in 2012, 2013 and 2014 respectively, worryingly surpassing exports. Increase in imports is a result of increased demand from both private and public consumption due to expansionary fiscal policy.

Namibia's manufacturing industry does not produce the much-needed materials or inputs for construction, chemicals, heavy equipment, motor vehicles and many others. Until such time when Namibia's manufacturing industry is able to produce some of those goods and thus become an exporter and reduce the wider gap (Figure 6) between exports and imports. Consequences has the effect of leading to an increase or growth of imports, increased borrowing, increased interest rate on loan repayment and eventually trapped in a situation where the country cannot generate its own revenue to sustain programmes and projects.

**Figure 6: Gap between Export and import growths**




*Data source: Namibia Statistics Agency*

Figure 5 shows the gap between imports and export during the review period (2004-2014) from which it is evidently clear that with the exception of 2004 and 2010, imports grew more than exports. However, in terms of value, Namibia recorded deficits (imported more than it exported) throughout the period. Thus Namibia remained a net exporter of goods and services.

## 4. Overview of the Namibian fiscal policy practice

The effectiveness of fiscal policy should be judged on its contribution to achieving the national development objectives stipulated in the medium and long term development plans. This, given the limited resources, can only be realized through the maximization of resource allocation through the alignment of public spending to national economic priorities coupled with diversified and sustainable sources and efficient revenue collection. The national budgets over the last decade have been framed around themes that reflect treasury's commitment to supporting the national objectives. This is reflected by the emphasis on human resources development, social welfare, pro-poor and job-creating growth. Furthermore, the continuous use of the phrase "*doing more with less*" indicates the importance Government has placed in the face of effective and efficient allocation of the limited resources. This is to ensure fiscal sustainability and macroeconomic stability while optimizing the national development outcomes at the same time.

However, the question remains whether the national budget allocations are sufficiently aligned to the Government priorities, as this subsequently impacts on the effectiveness of the development plans' implementation and outcomes. More specifically, following the launch of fourth national development plan (NDP4) with more focus and priorities, this question has attracted more interest recently. Empirical analyses by Schade (2013) and Niishinda (2013) have attempted to determine whether the budget allocations, particularly the 2013/14 budget, are in line with addressing important national objectives. However, the challenge is that there are some notable difficulties in determining the allocations to the identified priority sectors and basic enablers precisely[7]. These analyses were based on the allocation to the various line ministries as proxies i.e. the Environment and Tourism vote as proxy to the tourism sector. Hence the analyses are limited and the results are somewhat inconclusive. It is against this backdrop that this topic is revisited, this time looking at key taxation and spending interventions and programmes introduced in the national budgets over the last decade. The emphasis is on those that can be linked to the achievement of the national objectives or contribution thereof, particularly the development budget which is believed to be the budget's productive spending with potential spillover effects.

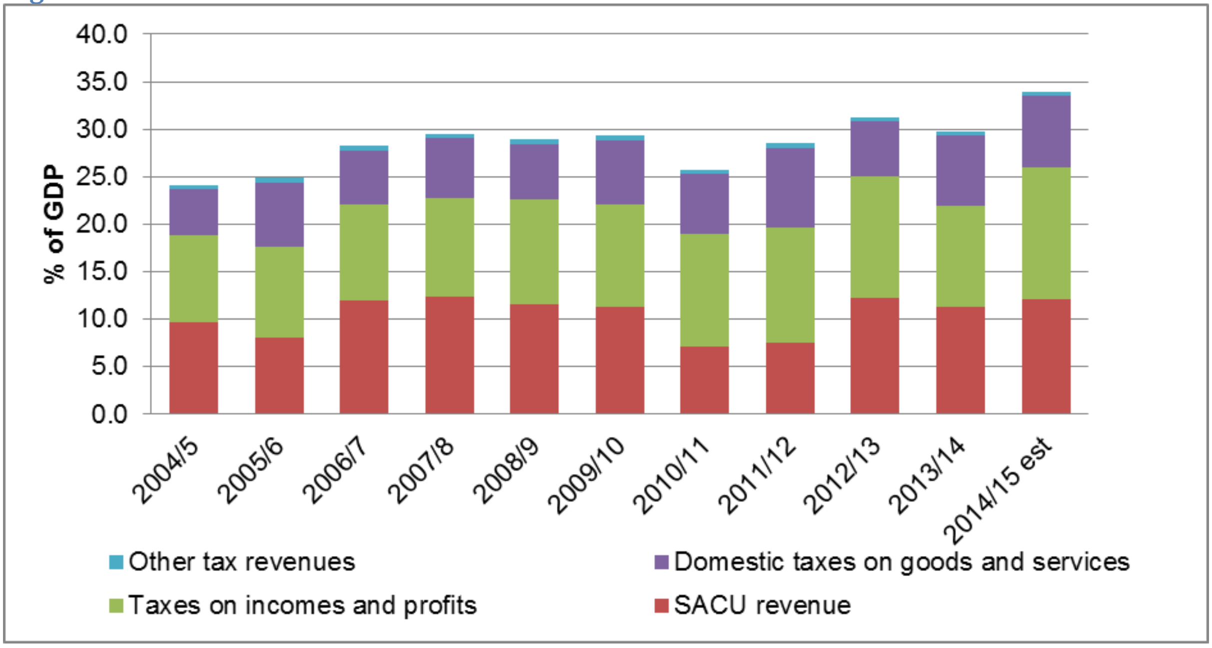
## 4.1. Revenue performance and interventions

Total public revenue as percentage of GDP was on average 28.5 percent for the period under review and remains the major source of revenue. Of concern, however, as emphasized by many is the fact that Namibia is seemingly too dependent on revenue from the SACU pool, which makes up about a third of total revenue. This is clearly evident from the favorable budget balances in the years with relatively good performance in SACU revenue such as 2006/07, 2007/08 and 2012/13. This implies that any shock to the SACU revenue outturn would undoubtedly affect Namibian revenue performance. For example, the reduction in SACU revenue due to the 2008/09 economic crisis has, as clearly depicted in Figure 7 below, impacted on Namibia's revenue collection. Thus, volatility in the size of SACU revenue outturn, which is clearly not in treasury's control, makes it a challenge to plan expenditure because SACU transfers are determined by a revenue sharing formula which has two aspects contributing to its instability:

a) Revenue payments are dependent on both intra-SACU and extra-SACU trade levels which tends to be pro-cyclical and can swing by up to 30 percent from year to year.
b) The two year lagged technical adjustment which can either add or subtract any over or underpayment from the estimated payment that are made two years prior.

[7] The investment and development budget expenditure breakdown by sector as per NDP4 has only been introduced in the 2014/15 to 2016/17 MTEF.

**Figure 7: Tax Revenue**



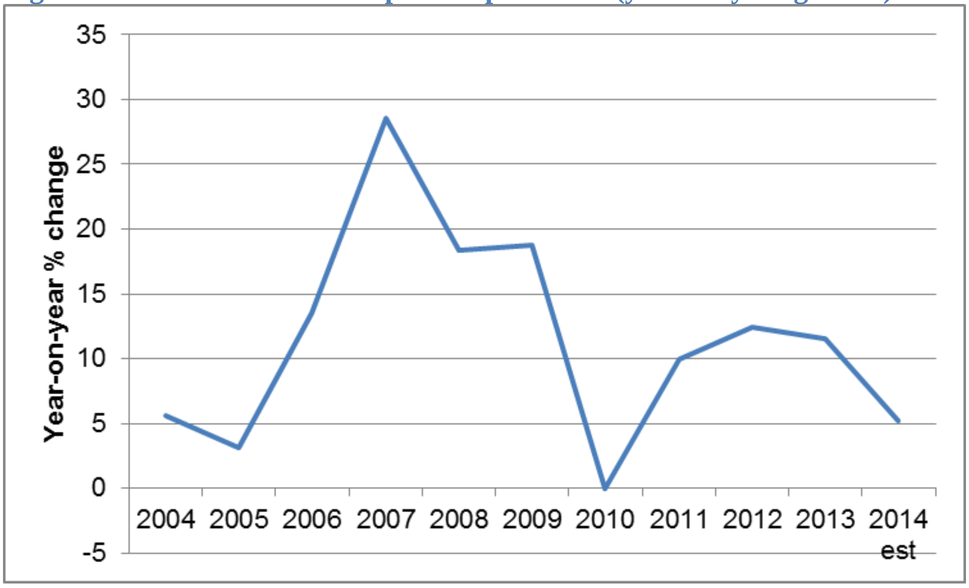

*Source: Ministry of Finance*

Mineral revenues, which makes up on average about 3 percent of total annual revenue for the period under review, are mainly driven by volumes extracted, but more importantly by the commodity prices determined on the international market due to volatility. For instance, mining diamond at sea is more expensive than mining on land, thus if international price for diamond go down, then extraction activities at sea will be too costly. If for instance the commodity price becomes too expensive, then less of that commodity will be sold, hence less income to sustain the production because costs will be too high. Therefore revenue sustainability through our diamond mining is unstable; this applies to other minerals like Uranium as they are volatile due to external factors such as global inflation.

Thus, besides SACU revenue, income tax on individuals and VAT remains the major alternative revenue drivers. However, their base seems to be limited. Therefore they can only be boosted by setting up more manufacturing factories for raw materials beneficiation, at the same time creating more jobs and improving export volumes and value. In return this would potentially increase the income tax from those to be employed, VAT as well as corporate tax. The Keynesian theory however, recommends raising consumption expenditures through tax reliefs and expansionary policy in order to stimulate economic growth and employment. A number of tax reforms were introduced in the period under review. Tax reliefs for low income earners in the form of raising the income tax thresholds for individuals from N$ 24 000 to N$ 36 000 per annum in 2007/08 and further to N$ 40 000 per annum in 2009/10 were effected.

The 2007/08 relief was made possible by the increased revenue collection primarily from SACU in 2006/7 and 2007/08. These reliefs boosted individuals' disposable income, resulting in an increase in final private consumption expenditure by 28.6 percent in 2007/08 and 18.3 percent in 2009/10. However, given the poverty incidence dynamics, these reforms are most likely to only have a more direct impact on income distribution than on poverty alleviation. This is so because most of those affected by poverty do not depend on salaries as their main source of income. Even for those who do, they are already exempted from tax. Thus, another fiscal policy initiative which most likely had a more direct impact on the poor and low income earners is the zero rating of basic necessities, also introduced in 2009/10.

**Figure 8: Private final consumption expenditure (year-on-year growth)**




*Source: Namibia Statistics Agency*

## 4.2. Public expenditure and priorities

Many countries especially developing economies implement incremental budgeting, increasing expenditure in line with inflation across board without paying attention to quality and particular needs of sectors. Prioritization of projects and programmes in line with national objectives coupled with closer monitoring and evaluation of projects and programmes is of critical importance in the public expenditure programming. Public expenditure is broadly divided into operational and development expenditure, with the latter known to play a crucial role in accelerating economic growth.

The size of the government expenditure has increased from below 30 percent during 2004/5-2007/8 to over 30 percent of GDP after 2008/9 with the most significant annual increase occurring in 2010/11. Since 2009/10, expenditure levels have also exceeded the initial set expenditure ceiling of 30 percent to GDP ratio, which has since been revised upward to 40 percent in 2011/12 to seemingly create sufficient fiscal space for expansionary fiscal policy. However, when compared to other SADC member countries, Namibia’s expenditure to GDP averaged 30 percent (almost equal to South Africa) for the review period. Democratic Republic of Congo had the lowest average of almost 13 percent while Lesotho had the highest with an average of over 50 percent.

**Table 6: General Government Total Expenditure (% of GDP) – SADC Countries**[8]

| Country | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Estimates Start After |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Angola | 35.7 | 34.7 | 38.4 | 41.2 | 55.4 | 41.9 | 40.0 | 40.2 | 41.3 | 40.8 | 37.1 | 2013 |
| Botswana | 39.3 | 33.4 | 32.3 | 35.8 | 46.9 | 50.9 | 39.9 | 36.4 | 35.7 | 32.4 | 35.4 | 2012 |
| Democratic Republic of Congo | 8.7 | 11.0 | 9.9 | 10.6 | 12.7 | 13.9 | 17.9 | 16.2 | 15.5 | 12.7 | 11.7 | 2013 |
| Lesotho | 44.6 | 47.8 | 50.3 | 50.1 | 56.2 | 67.4 | 59.0 | 65.1 | 63.1 | 62.6 | 64.1 | 2013 |
| Madagascar | 25.2 | 21.3 | 21.4 | 18.7 | 17.9 | 14.1 | 14.0 | 14.1 | 13.4 | 14.9 | 14.5 | 2013 |
| Malawi | 33.9 | 34.6 | 36.3 | 38.7 | 39.1 | 37.7 | 37.6 | 35.0 | 41.2 | 49.3 | 42.4 | 2015 |
| Mauritius | 23.9 | 24.4 | 23.5 | 22.8 | 23.8 | 26.3 | 25.1 | 24.6 | 23.3 | 24.9 | 24.0 | 2013 |
| Mozambique | 20.9 | 19.8 | 23.5 | 24.6 | 25.0 | 29.4 | 30.0 | 31.9 | 31.4 | 34.9 | 40.3 | 2013 |
| **Namibia** | **28.1** | **26.8** | **25.5** | **25.0** | **27.6** | **31.1** | **32.4** | **36.6** | **33.5** | **34.7** | **38.4** | **2012** |
| Seychelles | 39.9 | 39.0 | 43.6 | 41.9 | 27.0 | 32.1 | 34.6 | 34.7 | 36.1 | 35.6 | 31.9 | 2013 |
| South Africa | 25.4 | 25.8 | 27.1 | 27.2 | 28.7 | 31.7 | 31.5 | 30.9 | 31.3 | 31.7 | 32.1 | 2014 |
| Swaziland | 35.1 | 33.7 | 30.0 | 33.1 | 35.8 | 37.3 | 34.5 | 28.5 | 30.7 | 34.2 | 38.3 | 2013 |
| Tanzania | 17.1 | 18.6 | 17.9 | 18.1 | 18.6 | 20.2 | 20.4 | 19.3 | 19.8 | 19.7 | 19.6 | 2013 |
| Zambia | 23.3 | 22.5 | 19.7 | 19.9 | 19.5 | 17.8 | 18.1 | 19.3 | 22.3 | 25.1 | 24.6 | 2013 |
| Zimbabwe | n/a | 18.5 | 9.7 | 5.9 | 4.3 | 14.0 | 22.6 | 27.9 | 28.6 | 29.7 | 29.0 | 2013 |
| | | | | | | | | | | | | |
| **SADC Average** | **28.6** | **27.5** | **27.3** | **27.6** | **29.2** | **31.1** | **30.5** | **30.7** | **31.2** | **32.2** | **32.2** | |

*Source: International Monetary Fund, World Economic Outlook Database, April 2015*

In terms of expenditure per capita, that is, expenditure per head or person, Namibia compares relatively well with all Common Monetary Area (CMA) countries. Just like with GDP per capita, expenditure per person is important in that it shows how much a country spends on each person. However, both these have the drawback of not taking into consideration the disparities that exist in the populace. As Table 7 below shows, notable is the fact that, with the exception of 2009, Namibia registered expenditure per capita above CMA average for the period under review.

**Table 7: Expenditure per capita (South African Rand) – CMA Countries**[9]

| Country | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Lesotho | 1,936.67 | 2,266.99 | 2,702.62 | 3,151.84 | 4,095.11 | 5,251.19 | 4,958.77 | 6,095.46 | 6,396.63 | 7,253.93 | 7,855.57 |
| Namibia | 6,354.65 | 6,594.79 | 7,171.18 | 7,999.00 | 9,732.81 | 11,689.91 | 13,144.57 | 16,362.52 | 17,474.57 | 20,855.96 | 25,718.39 |
| South Africa | 8,030.07 | 8,922.72 | 10,371.21 | 11,781.51 | 13,765.54 | 15,885.53 | 17,049.48 | 18,121.53 | 19,515.95 | 21,072.31 | 22,584.53 |
| Swaziland | 5,072.15 | 5,279.64 | 5,464.22 | 7,270.59 | 8,810.86 | 9,734.42 | 9,466.79 | 8,248.36 | 9,705.56 | 11,723.70 | 14,158.23 |
| **CMA Average** | **5,348.38** | **5,766.03** | **6,427.31** | **7,550.73** | **9,101.08** | **10,640.26** | **11,154.90** | **12,206.97** | **13,273.18** | **15,226.48** | **17,579.18** |

*Source: International Monetary Fund, World Economic Outlook Database, April 2015*
*Note: Annual population figures have been estimated by IMF.*[10]

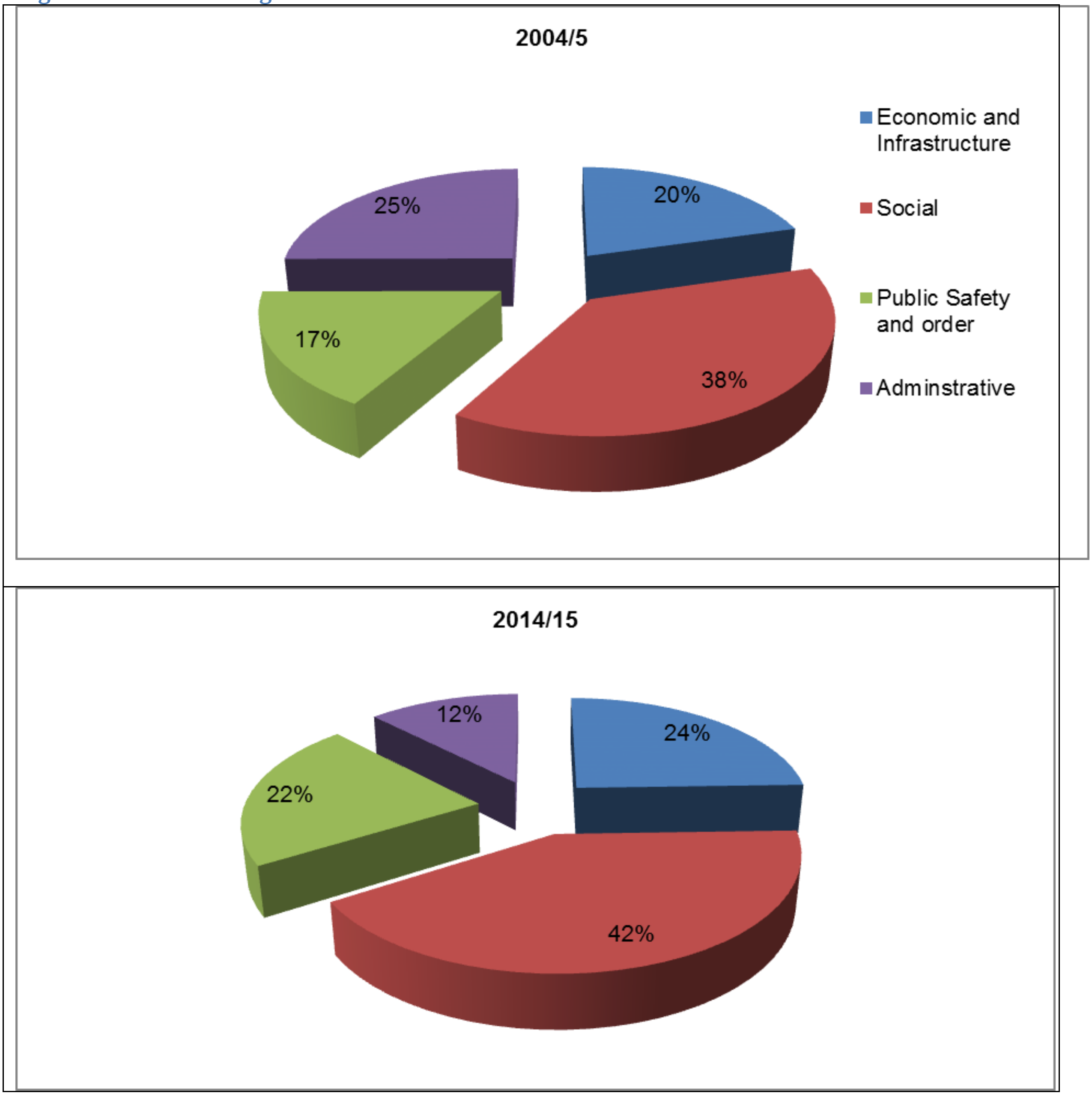
[8]Total expenditure consists of total expense and the net acquisition of nonfinancial assets.
[9]Data for Lesotho, Namibia and Swaziland were in their respective currencies which are all linked on a one-to-one to the South African Rand under the CMA arrangement.
[10] IMF estimates start: Lesotho (population from 2006, government expenditure from 2013); Namibia (population from 2008, government expenditure from 2012); South Africa (population from 2014, government expenditure from 2014); and Swaziland (population from 2009, government expenditure from 2013).

Of all CMA countries, Lesotho had the lowest expenditure per capita followed by Swaziland which all recorded below CMA average for all years of the review period.

### 4.2.1. Analysis by sector

The budget can be classified into four functional sectors, namely; economic and infrastructure, social, public safety and administrative[11]. The figure below which shows a comparison for the sectorial budget allocations in 2004/5 and 2014/15 suggests that there has been a significant shift in priorities from administrative sector to economic, infrastructure and social spending.

**Figure 9: Sectoral Budget allocations**




[11] See appendix for grouping of the votes into the functional classifications.

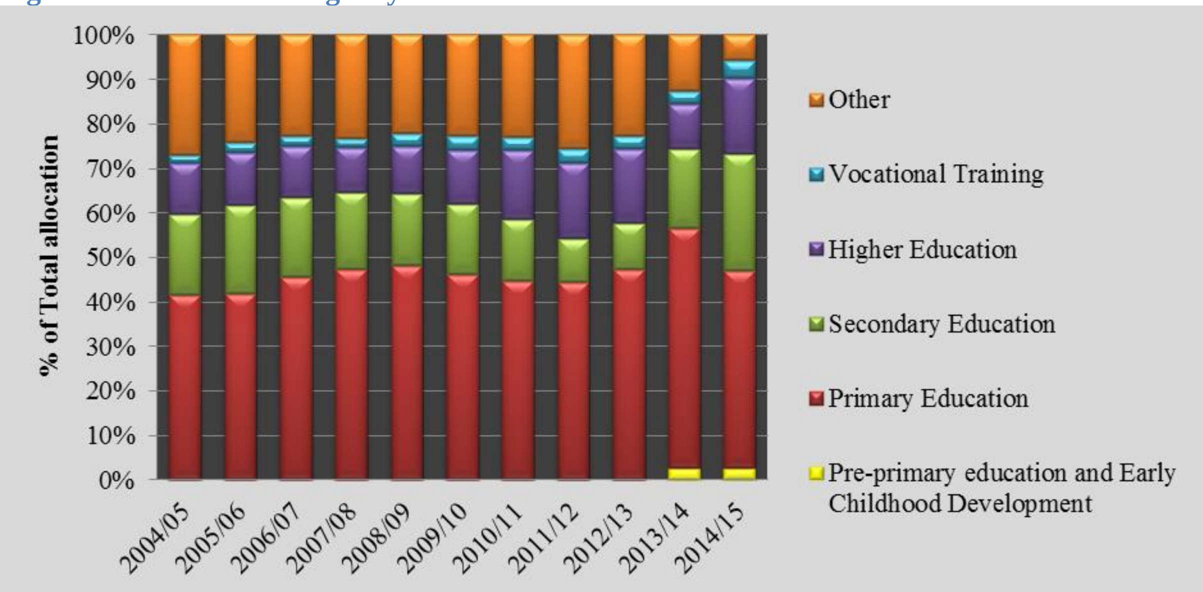
*Source: Ministry of Finance*

The social sector remains the top priority of government with about 40 percent of the annual budget allocation over the eleven year period extended to this sector. It is important to point out that the bulk of the allocation for this sector, more than 80 percent, are earmarked to health and education. This high allocation is specifically for the much needed improvement in education and health outcomes and overall social welfare. The economic and infrastructure sector has also received relatively greater emphasis particularly since the year 2011/12 due to the increase in public infrastructure investment[12]. This was partially part of the expansionary fiscal policy to counter the effects of the 2008/9 economic crisis but most importantly aimed at infrastructural development which is much needed for long term growth and development in the economy. It was also used to create much-needed jobs, although mostly temporal, for the unskilled and unemployed masses.

#### 4.2.1.1. Education and Training

Skills deficiency is one of the greatest structural challenges in the Namibian economy. It is therefore not surprising that education continues to receive the highest priority over the years, on average taking up about 22 percent of the total budget allocation. In order for fiscal policy to be used effectively in creating employment in Namibia it must be aimed at enhancing skills capacity and promoting a productive labor force through human resource development. In the long run, the spill-over effects of an educated and skilled labor 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 widened in the process leading to higher potential tax revenue to boost Government coffers.

**Figure 10: Education Budget by functional classification**




*Source: Ministry of Finance*

[12] The Targeted Intervention Program for Employment and Economic Growth was introduced in 2011 and was aimed at growing the economy and creating a target of 104 000 jobs over the 2011/12 to 2013/14 MTEF. N$ 14.7 billion was earmarked for this programme.

As reflected by its share in the total education spending of over 40 percent, primary education remains a priority of the education sector[13]. The recent years have seen the introduction of free universal primary education and formalisation of pre-primary education. These efforts are aimed at promoting access to education and laying a strong foundation for the education system. The quality of the public education and outcomes have however been questioned by many.

Due to poor performance, grade 10 serves as an exit point from the formal education for many learners. This hints that much needs to be done at the primary education level because it's the major determinant of the overall quality of education. The lack of qualified teachers has been one of the constraints to education outcomes. This, therefore, calls for action to ensure access to vocational education as an alternative in order to equip learners performing poorly in grades 10 and 12 with practical skills and to avoid a widened unskilled labour force and possibility of increasing the already-high unemployment rate.

Vocational education and training's share in the total education budget allocation has only been around 2.5 percent annually over the last decade. This has seen the establishment of a few more vocational training centres complemented by the Ministry of Youth's effort to construct some more youth skills training centres. Despite these efforts, access to vocational education remains limited and questions whether government has fully recognized the importance of creating practical skills by investing more on vocational education and training.

Thus, there is seemingly a need for increasing and improving the training capacity of the existing Vocational Training Centres (VTCs). This can be achieved by investing more in vocational education and training to expand these institutions and increase their capacity. Moreover, as noted in a recent study by National Planning Commission (NPC, 2014) on the employability of VTC students, 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 from which they can gain invaluable practical skills.

#### 4.2.1.2. Social transfers and grants

According to NSA (2012), poverty increases with age from 50 years and above, with the poverty incidence relatively high for households headed by old age people and whose main source of income is pensions. Though there has been a decline of about 17 percentage points in poverty incidence for this age group, the fact that more than a third of households headed by pensioners live in poverty must be a concern. Does this suggest that income from social grants is inadequate? The answer could be yes, particularly given the fact that the dependency

[13] Education's development budget, however, is only about 7 percent of its total budget.

ratio of the old age people is relatively high. They are most likely to be living in rural areas with limited access to basic services such as health care facilities, sanitation and water.

Namibia is one of the few countries in sub-Saharan Africa that provides old age pension grants. Maintenance grants for orphans and vulnerable children (OVCs), war veterans' grants and disability grants are also in place. Total old age pension grants account for about 7 percent of the annual social spending or one percent of GDP. The amount of monthly social grants pension has doubled from N$ 300 in 2004/5 to N$ 600 in 2013/14[14]. The old age pension grant coverage rate increased from 82 percent in 2006/7 to 98 percent in 2013/14, representing more than 155 000 pensioners.

The coverage of the old age pension grant is satisfactory and the government now needs to turn the focus on the adequacy of the income provided to the pensioners. The recent increase, expected to reach N$ 1 200 per month by 2017/18 is a good step in this direction. However, pensions-tested grant as opposed to the current universal grant could go a long way in ensuring that this grant is only extended to those that really need it.

Social welfare and safety nets for the vulnerable members of the society such as the old age, disabled and OVCs should undoubtedly result in a decline in poverty. The significance of this depends on the adequacy of the grants as well as their access to basic necessities. In terms of the old age grant monthly amount, with the exception of South Africa, Namibia compares relatively well to other SACU member countries (see Table 7 below). However, as emphasized by treasury, creating opportunities for income generation through creation of decent jobs, particularly for those economically active is the most sustainable and long term alternative to address poverty (MoF, 2015). This particularly applies to the war veterans, who besides getting hand-outs also receive a monthly war veteran grant with some of them still being economically active. Moreover, an important question is why the war veterans' grant (N$2,200 per month) is way more than the old age pension grants.

**Table 8: Old age grants in SACU countries**

| Country | 2014 monthly old Age pension grant US$ |
|---|---|
| Botswana | 26 |
| Lesotho | 4 |
| **Namibia** | **60** |
| South Africa | 125 |
| Swaziland | 20 |

*Source: http://www.helpage.org/global-agewatch/*

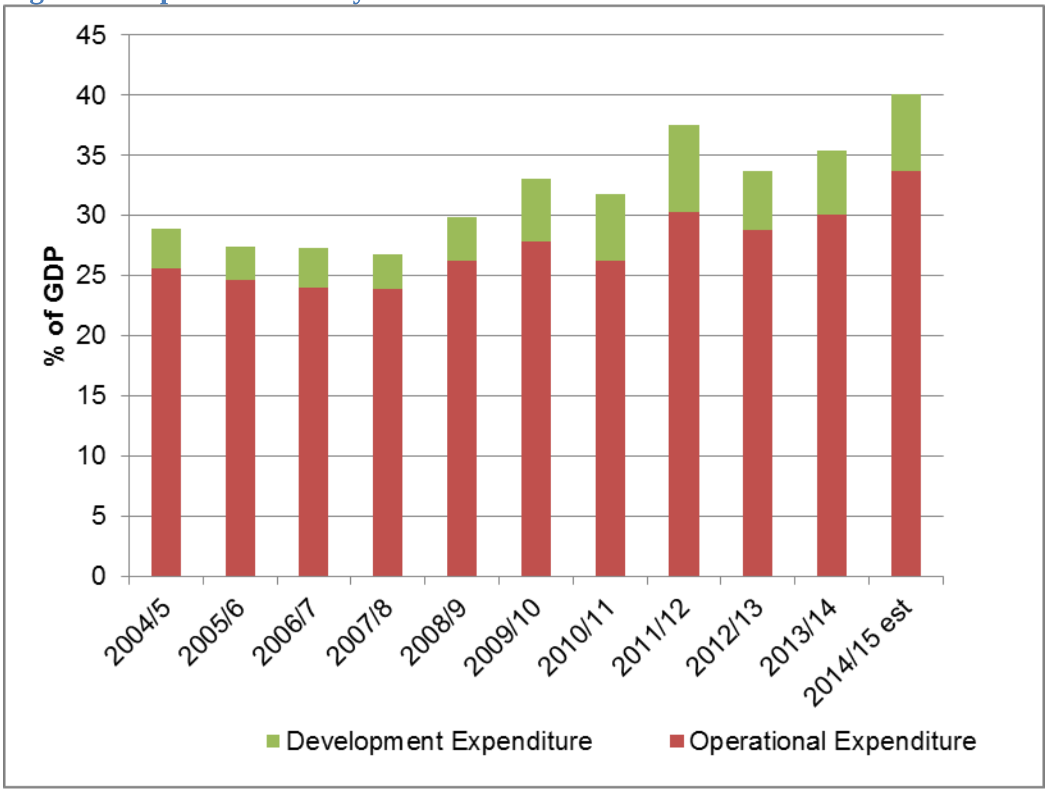
### 4.2.2. Development budget

Programme budgeting through the development budget allows the government to allocate resources to priority areas that can contribute to the national objectives. As such, it is

[14] It has further been increased to N$ 1000 in 2015/16 and expected to increase to N$ 1200 by 2017/18.

commonly referred to as the productive spending of the budget. Even so, IPPR (2009) suggest that there should be a distinction between development spending that has long-term effects, for example physical public infrastructure spending, and expenditure such as construction of ministry buildings which does not. It is however the latter that seems to take up a bulk of the already thin resources allocated to the development budget. Even though it has increased by about 23 percent annually between 2004/05 and 2014/15, development expenditure only accounts for on average 4.5 percent of GDP with a huge chunk still accruing to operational expenditure. Furthermore, the development budget execution rate on average is 90 percent for the period under review suggesting capacity constraints which hinders maximization of the development expenditure and outcomes.

**Figure 1: Expenditure outlay**



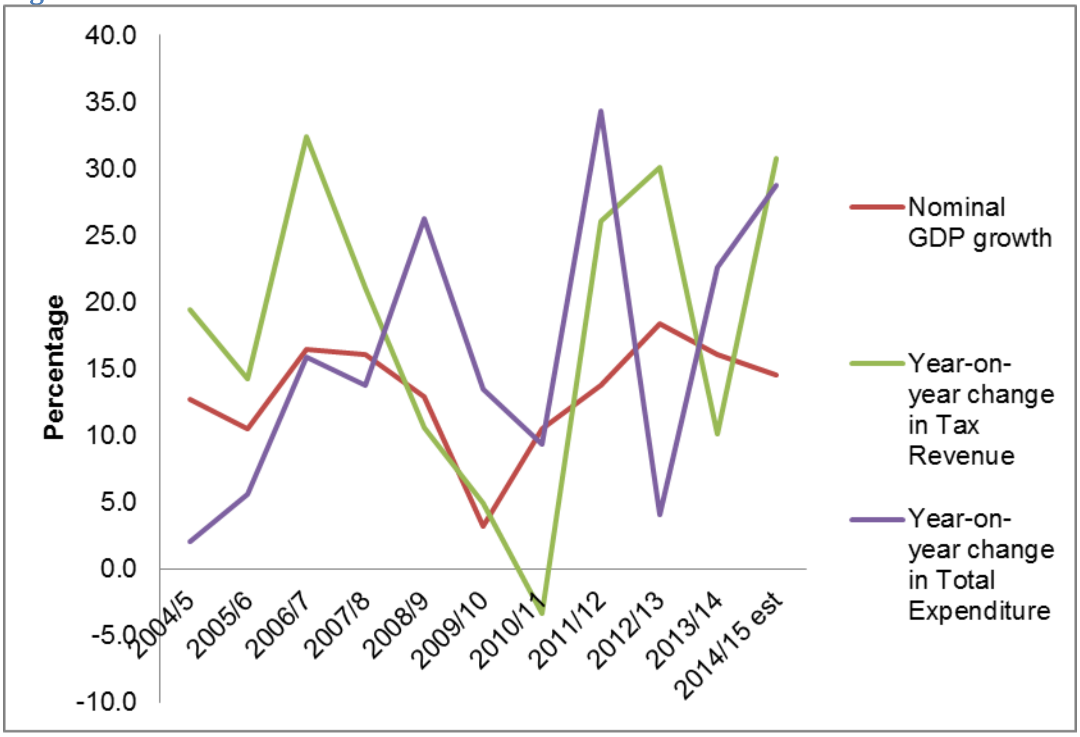

*Source: Ministry of Finance and National Planning Commission*

Some of the main development projects over the period under review include various railways and roads construction and upgrading, provision of basic sanitations in both rural and urban areas, construction of large dams for irrigation and investments in green scheme projects. Furthermore, the construction and upgrading of schools and classrooms, vocational training centres, higher institution campuses, health facilities and accommodation for civil servants such as soldiers and police officers are worth pointing out.

## 4.3. Fiscal Sustainability

Fiscal policy practice in Namibia, particularly in the early 2000s until just before the 2008/09 economic crisis has seemingly put much weight on the promotion and maintenance of macroeconomic stability through fiscal consolidation. Positive budget balances were first and consecutively recorded in the years 2006/7 to 2008/9, partly due to relatively good revenue outturn mainly as a result of a boost in SACU revenue, but perhaps also due to fiscal reforms implemented in the early 2000s. Fortunately, these fiscal consolidation efforts created sufficient fiscal space for expansionary fiscal policy necessitated by the 2008/9 economic crisis. The figure below shows the trends of tax revenue, nominal GDP growth and change in total revenue. This further indicates the volatility associated with tax revenue as a source of revenue for government.

**Figure 22: Tax Revenue**

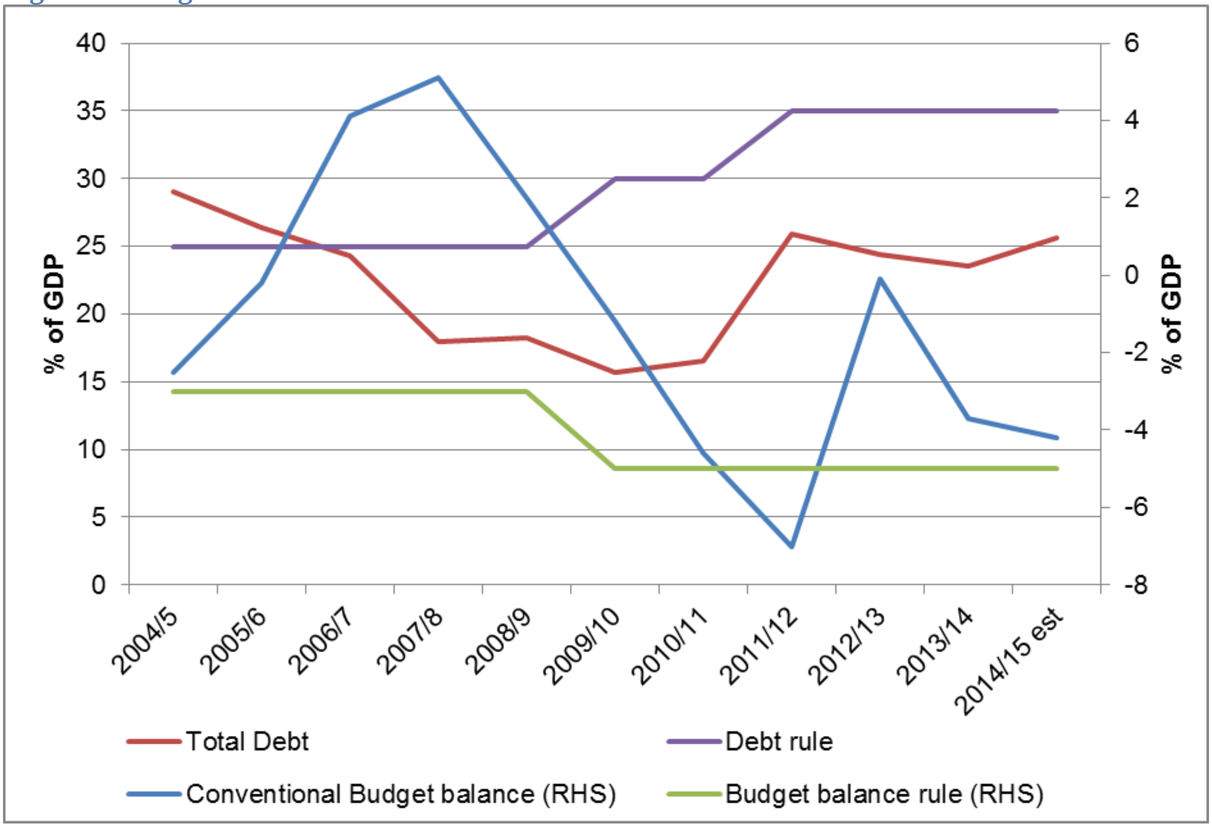



*Source: Ministry of Finance*

A relatively weak correlation between the growth rate in tax revenue and total expenditure suggests that expenditure allocations do not seem to depend on revenues. This could be of concern particularly when the growth rate in expenditure exceeds the growth in revenue as this could be a threat to fiscal sustainability. Furthermore, the weak correlation between total expenditure growth and nominal GDP growth is to be expected due to the economic crisis that started in 2008/9 thus the second half of the period under review countercyclical fiscal policy with expansionary budgets were necessitated by the relatively low growth. Tax revenue and GDP seem to move along, which is not surprising because higher economic growth should lead to higher revenue collection and on the contrary when growth performance is poor, tax revenue is also expected to decline.

The budget balance and the public debt have relatively remained within manageable levels and by international standards suggest no concern as far as fiscal sustainability is concerned. This once again is evidence of the fiscal prudence and discipline by the government. Furthermore, the revision and relaxation of the fiscal rules post economic crisis, while potentially undermining the credibility of the fiscal rules, suggests sufficient fiscal space for continuous expansive fiscal stance in the medium term, to strategically support the economy by continuously investing in infrastructure to promote growth and job creation.

**Figure 3: Budget balance and Public debt**




*Source: Ministry of Finance*

## 5. Conclusion and policy implications

The emphasis for fiscal policy in Namibia in the mid-2000s has seemingly been on fiscal consolidation, which fortunately coincided with a relatively good period for SACU revenue outturn. These efforts, whose primary aim was to ensure fiscal sustainability, have contributed to the achievement of macroeconomic stability.

Post the economic crisis, fiscal policy with the fiscal space created by the consolidation efforts in the preceding period focused more on demand-side interventions to stimulate economic growth and create jobs. These are however not sustainable and going forward it's important that fiscal policy plays a more active role in enhancing the economy's production capacity for sustainable growth, employment creation and income equality which can partly result in poverty alleviation.

There is little evidence that expenditure allocations are in line with revenue prospects given the relatively insignificant correlation between the annual growth rate in total expenditure and tax revenue. This, going forward could pose a risk to fiscal sustainability particularly if there is no reduction in recurrent expenditure coupled with lower revenue collection due to expected decline in SACU revenue and the seemingly lack of other alternative revenue sources to make up for that loss. Further prioritisation of development expenditure with long term effects is necessary. Investigation into the constraints inhibiting full implementation of development budget should also be considered.

Social transfers and grants to the vulnerable citizens remain the most powerful tools to address poverty. There has been encouraging progress in terms of coverage, particularly for old age pension. There is now need to focus on ensuring that the grants provide adequate minimum income, particularly for those who entirely depend on pensions as their main source of income. This can be achieved by moving away from universal grant scheme to a means-targeted system.

The important role that fiscal policy has to play in addressing the structural challenges has recently been recognized and cannot be overemphasized. Often operational inefficiencies results from such constraints. Increasing budgetary allocation to key social sectors such as education and health will be meaningless unless such spending are targeted to addressing issues such as lack of qualified personnel and access to facilities among others. It also remains questionable whether government has fully recognised the importance of vocational education.

Improved performance of the primary, secondary and tertiary industries to improve growth in the fishery sub-sector could include (but not limited to) diversification to inland fishery (aquaculture) through building many fish farms in different communities for long-term sustainability; intensifying research and development to find efficient ways of minimizing production cost, as well as guarding against the depletion of fish stock, and lastly concerted efforts from both the communities and the government of running fish farms jointly without failing.

## 6. References

Bank of Namibia. (2001). “Public Expenditure Management in Namibia.” *Bank of Namibia, Windhoek, Namibia.*

Bova, E., Carcenac, N. &Guerguil, M. (2014).“Fiscal rules and the procyclicality of Fiscal policy in the developing world.”*International Monetary Fund*, WP/14/22.

Brock, M. C. (2013). “Innovative PublicPrivate Partnership announced in the Agronomic Sector.” NBC interview.

Calitz, E. & Siebrits, K. (2008). “Fiscal policy”, *In* Black, P., Calitz, E. & Steenekamp, T. (editors), *Public Economics*, Oxford, Cape Town.

Chalk, N. & Hemming, R. (2000). “Assessing Fiscal Sustainability in Theory and Practice.” *International Monetary Fund Working Paper.*

Gwartney, J., Lawson, R., & Holcombe, R. (1998). “The size and functions of government and economic growth.”*Joint Economic Committee.*

Institute for Public Policy Research. (2009). “National Budget 2009/10: Weathering the Strom or Missing the Boat?”*Windhoek, Namibia.*

Kojo, N. C. (2010). “Diamonds are not forever. Botswana Medium-term Fiscal Sustainability.” *World Bank Policy Research Working Paper.*

International Monetary Fund. (2015). World Economic Outlook Database, April 2015.

Ministry of Agriculture, Water and Forestry. (2008). Water supply and sanitation policy. Windhoek.

Ministry of Finance.“Budget Statement.”*Various publications from 2004 to 2015. Windhoek, Namibia.*

Ministry of Finance. “Estimates of Revenue and Expenditure.” Various publications from 2004 to 2014.*Windhoek, Namibia.*

Ministry of Mines and Energy. (2012). Annual report. Windhoek, Namibia.

National Planning Commission.(2014). “Vocational Education Job Attachment Report.” *Windhoek, Namibia.*

National Statistics Agency. (2012). “Poverty dynamics in Namibia – a comparative study using 1993/94, 2003/04 and the 2009/10 NHIES surveys.”*Windhoek, Namibia.*

Niishinda, E.(2013). “Fiscal Policy Analysis.” *Policy Brief. Windhoek, Namibia.*

Rademacher, I. (2011). “Fiscal Policy and Growth – Boosting employment and competitiveness in Namibia.” *Frierich Ebert Stiftung.*

Schade, K. (2013). "The National Budget 2013/14 Big Bang or Fiscal Consolidation." *Institute for Public Policy Research*

World Bank. (2014). "South Africa Economic Update – Fiscal Policy and redistribution in an unequal society."*Washington, USA.*

# Appendix

***Table A1: Budget Votes Functional classification***

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