



Republic of Namibia
Ministry of Finance

Reply by the Minister of Finance
On Matters Raised during the Second Reading of the
2020/21
Appropriation Bill
and the
2020/21 Expenditure Framework

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05 June 2020

*Honourable Speaker,
Honourable Members,*

1. I rise to respond to the questions, comments and matters raised during the Second Reading of the 2020/21 Appropriation Bill and Expenditure Framework.
2. At the on-set, I would like to thank the Honourable Members and the political parties who have taken the floor and made contributions on the budgetary policy framework and the specific budget allocation proposals.
3. I appreciate the fact that there is a general convergence that providing targeted resources to the national interventions to contain and defeat COVID-19 is a necessary and urgent objective at this point in time. It is a necessary condition for our preparedness to gradually opening up the economy and trade during these unprecedented times.
4. Equally, I appreciate and concur with the emphasis made that going forward, we must greatly enable the economy and its productive capacity in order to bring about inclusive growth, job creation and the improvement of the living standards of all Namibians. This is to be built on the successes we have made and the lessons learn from the developmental challenges we are facing and tackling.
5. *Honourable Speaker*, the questions posed and contributions made refer to various aspects of the Appropriation Bill and the Expenditure Framework. I will respond to these questions and proposals from the thematic perspective and the sub-themes in which these matters fall.
6. The main sub-themes for the various interventions are in regard to the (i) proposed budgetary allocation priorities,

(ii) the fiscal incidence on socio-economic development in such fields as health, education, land-servicing and housing, (iii) reviving the economy, supporting SMEs and undertaking the necessary reforms such as agrarian and land reforms, (vi) macro-fiscal projections and debt management strategy and (iv) budget allocations to, and allocative efficiency within the various Offices/Ministries and Agencies, especially the allocations to the agricultural sector.

7. As I respond to these broad thematic aspects raised, I may not cover each detail pertaining to specific funding proposals for programmes under the various Budget Votes. I would rely on my Cabinet colleagues to provide specific details on the various programmes at the Committee Stage.
8. Let me now go to the specifics of the main matters raised.

Budget Allocation Priorities

9. Input was provided that the allocation priorities of the FY2020/21 Appropriation Bill do not reflect the developmental objectives and the underlying theme of this budget, that is, “*Together Defeating COVID-19, Together thriving again*”. This input featured prominently in the contribution by Honourable Members.
10. *Honourable Speaker*, while the relative budgetary allocations are subject to realignment over time, it should be noted that the key development priorities for Namibia lie in balancing the needs of social sector and that of the other sectors such as the economic sector to bring about improved quality of life, economic diversification, inclusive growth and shared prosperity within environmentally sustainable manner.

11. In the social sectors, human capital development, skills formation and the provision of basic amenities are fundamental to addressing the triple challenges of unemployment, poverty and income inequalities.
12. There is, therefore, no contention that social sectors have historically received, and continue to receive, the highest share of the budgetary allocation. This priority allocation is retained in this budget, whereby 49.5 percent of the total non-interest expenditure is allocated to the social sectors. This, among others, reflects the scaled-up allocations to the health sector to enable us to better respond to the COVID-19 pandemic. There is, therefore, no misstep in ensuring that the largest share of the budget is accorded to addressing challenges in the social sector.
13. The allocations to the social sector include, among others, provisions for social safety nets, ranging from Old Age pension grants, Orphans and Vulnerable Children grant. Funding has also been provided for Mass Land Serving, sanitation and affordable housing.
14. We continue to make progress in this regard:
 - Absolute poverty is more than halved, from 41 percent in early 2000s to 17.4 percent of the population by 2015/16. Extreme poverty has reduced to 10.7 percent.
 - The Gini Coefficient ratio is estimated at 0.56, compared to 0.70 in the 1990s. However, we acknowledge that the level of inequalities remains high relative to aggregate income levels and requires more concerted efforts to address it.

- Access to education has increased to a large percentage of the population and so does access to primary health and potable water. Namibia is a recognized globally for having responded purposefully to the HIV and AIDS pandemic,
- Life expectancy of Namibians has improved to 59 years, reflecting dividends from investment made in various dimensions of Human Development Index.

15. While unemployment and income inequalities still remain structurally high, we have been able to roll-out an extensive social safety nets program and improve incomes through growth to propel Namibia into the legion of Upper Middle Income Countries.

Honourable Speaker,

16. The economic and infrastructure sector is allocated the second highest funding in this budget, at 23.2 percent of total non-interest expenditure. This underpins the importance placed on economic growth as a necessary condition for poverty reduction and job creation. The completion of the new Container terminal at the Port of Walvis Bay has, for example, expanded the Port container and cargo handling capacity, thus adding to our national competitiveness and logistics hub advantage.

- On-going infrastructure projects are funded within the Development Budget,
- Off-budget project financing is deliberately undertaken to invest in growth enhancing infrastructure in the rail, road and port infrastructure. This is, for instance, with particular reference to the AfDB-funded projects for agricultural mechanisation program, rail and road infrastructure rehabilitation, public schools renovation and the bulk water infrastructure rehabilitation program. In addition, this budget avails an amount of N\$929.2 million to the

water sector to complement AfDB (N\$1.8 billion and the envisaged KfW funding amounting to N\$800 million).

- In the energy sector, Nampower has unveiled its investment program in wind and solar energy generation and distribution, with investment of no less than N\$10 billion envisaged over the next three years.
- Specific funding continues to be made to elevate the role of the SME sector in the economy, job creation and wealth generation. Following the closure of the SME Bank, the SME window was transferred back to the Development Bank of Namibia. An SME Financing Strategy was also rolled-out last year to provide for the Credit Guarantee Facility, Mentoring and Coaching Program and eventually the Venture Capital Fund. These suites of SME product offerings are targeting youth entrepreneurs covering both professionals and artisans. Funding and Government guarantees are provided in this budget to support DBN loan book offerings to the SME sector and arrangements for the implementation of this programme is at an advanced stage.

17. Some Honourable members are concerned about the relative allocations to the agricultural sector. I would like confirm that over the years, Government has invested heavily in this sector. For example, the amount of money invested in the green schemes and the recently completed Neckartal Dam, an investment of N\$5.6 billion, are cases in point, just to mention a few. What needs to happen now is to ensure that these assets are functioning at full capacity for the country to reap the necessary benefits of these investments.

18. I should also mention that although more governments investment in agriculture are needed to unlock private sector investment and domestic productive capacity, we

should not lose sight of the fact that agriculture is a commercial activity and therefore greatly benefits from commercial funding through Agribank and commercial banks. Hence, one may not see the whole picture if the focus is only on the budget of the Ministry of Agriculture, Water and Land Reform.

19. In this regard, increased funding and a Government guarantee package is deployed to AgriBank to support activities in the agricultural sector. Over the past three years, AgriBank has extended up to N\$1.0 billion of loans to farmers in various regions of the country, thus greatly enabling economic activity in the agricultural sector. Drought relief disbursements amounting to N\$245 million has also been provided by AgriBank over the past year. I should hasten to say that those who are enjoying these loans have a fiduciary and moral duty to pay back these loans because a failure to do so would weaken the very institution we created to support agricultural production and agronomy in general. *Honourable speaker*, such people will not enjoy my support.

20. Equally commercial bank loans to Agriculture over the past five years have averaged in excess of N\$4 billion, indicating a healthy flow of funds to this sector

Reviving the economy and implementing structural reforms

21. As I stated in the Budget Statement, it is material that we identify evidence-based high growth investment opportunities in various sectors of the economy to be incorporated in the next Medium-Term Expenditure Framework and articulated in the 2020 Mid-Year Budget Review Policy Statement. His Excellency, The President has provided high-level policy guidance on the building

blocks of the medium-term Economic Recovery Plan in his State of the Nation Address yesterday to include “regaining fiscal stability, structural economic reforms, public sector reforms and improving productivity”.

22. I have alluded to such reforms in the Budget Statement, taking into consideration the work done by the High-Level Panel on the Economy. We have, therefore, not missed the opportunity for the reform. A considerable body of reforms have been articulated, for which practical considerations have to be made to enable implementation.

23. The contributions made during the Second Reading of this Bill are welcome input in the reforms ahead. We, however, need to quantify these proposals and package these for implementation.

24. On the question for how long must the fiscus continue to experience funding erosion through PSEMAS before something tangible is done, we are taking steps to reform PSEMAS as announced in the budget statement, but proper consultation is needed before these reforms are considered.

MACROECONOMIC-FISCAL PROJECTIONS

25. *Honourable Speaker*, let me now address the concerns raised about the macro-fiscal projections underpinning the budget and the plausibility of the assumptions thereof.

26. In this respect, I wish to state that the detailed assumptions underpinning macroeconomic and revenue assumptions are published in the Fiscal Strategy for the MTEF. Such assumptions are informed by rigorous assessment of the domestic economy, input by industry and professional bodies and take into account regional and global economic assessments.

27. The revision of the economic outlook and the corresponding revenue envelope are not only specific to Namibia.

28. All economies are affected by the fallout from COVID-19, adversely impacting on nominal GDP, real GDP growth and revenue outturn and necessitating periodic review:-

- Globally, what was anticipated to be 3.4 percent growth has turned into a contraction and economic slump only last seen during the Great Depression in 1930s,
- At home, given the openness of the domestic economy and the subdued economic activity over the past three years, GDP and revenue growth are accordingly revised downwards for this year and over the medium-term,
- The determining factors on the GDP outturn relative to forecasts over the previous MTEF are explained by the revisions made to the National Accounts as well as the current impact arising from COVID-19.
- For instance, the Preliminary National Accounts for 2018 placed nominal GDP for 2017 at N\$180.6 billion and for 2018 at N\$192.1 billion. These estimates were 5 to 7 percent better than the budget. However, the subsequent downward revisions in the National Accounts necessitated corresponding review, including downward revisions in the revenue outlook.

29. *Honourable Swartboo* has raised a concern on the relevance of establishing the Namibia Revenue Agency. This is, *Honourable Speaker*, a macro-critical institutional reform for the country which will underpin the revenue mobilization strategy for Namibia going forward. The

essence is to bring about operational efficiency in the revenue administration function through attraction of specialized skills, a speedy provision of taxpayer service and the implementation of the revenue reform agenda. Most countries in the SADC region have moved in this direction and they are reaping the fruits of more revenue and better provision of taxpayer services.

Budget Allocations to Various Budget Votes

30. *Honourable Speaker*, various observations were made on the appropriateness of proposed allocations to various Offices/Ministries and Agencies.
31. Such allocations are for current programs which have not yet reached completion stage. Over time, allocation to new and existing priorities will be strengthened as fiscal space emerges.
32. *Honourable Murorwa*, while applauding the Emergency Income Grant as we all do, has raised what appears to be a gap in the number of beneficiaries relative to the payment made and suggested an audit be made.
33. First, I wish to indicate that among the private sector partners we are co-operating on this intervention is *Deloitte Namibia*, whose primary role is to audit the transactions and systems. At the same time, the Auditor General has also commenced with the audit of the EIG. We have made these arrangements to ensure that the processes and spending of taxpayers' money is transparent and beyond reproach.
34. With regards to the number of beneficiaries and amounts paid, while the total of N\$561.96 million is paid, about N\$1.5 million was still not claimed from the bank wallets due to technical aspects of the SIM Cards used. This is not,

in actual fact, an over payment. The total number of paid beneficiaries would rise to 749,280 Namibians once all disbursements made to date are claimed.

Budget Deficit and Public Debt Management

35. *Honourable Speaker*, let me end my response with considerations on the budget deficit financing and public debt management strategy:-

- The anticipated budget deficit of 12.5 percent of GDP is a once-off peak, reflecting the needed policy stance to maintain spending commitments on social and economic sectors as well as to provide scaled-up funding to the health sector,
- financing for the budget deficit is through a combination of own savings, domestic and external borrowing. Indeed, we have savings that were earmarked for the repayments of future debts and those who are doubting can easily reconcile this information by looking at the movements in the debt stock during this fiscal year.
- No doubt, we have to stabilize the growth in public debt and reduce public debt now estimated at 68.7 percent of GDP.
- Debt stabilization will be achieved through a combination of measures, mainly through growth of the economy, revenue mobilization, leveraging state assets and expenditure containment measures. These are the important intervention measures over the medium to long-term.

Honourable Speaker,

36. With these remarks, I wish conclude my response by sharing my recent experience with some Namibian youths. I had a long conversation with the youth, representing different ethnic languages in Namibia. We engaged on a number of topics, including what it means to be a productive member of Parliament. Needless to say, I walked away from that conversation with a loud and clear message, which is as follows: *As members of Parliament:*

- *We have a moral duty to propel Namibia into a better future;*
- *We have a parental duty to be good role models to our children and the youth in general and;*
- *We, indeed, have a patriotic duty to unite all Namibians.*

I now seek your support for the proposed Appropriation Bill and the Expenditure Framework.

I thank you