

BUDGET STATEMENT : FISCAL YEAR 1996/97

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BUDGET STATEMENT : FISCAL YEAR 1996/97

1. INTRODUCTION

- 1.1 Mr. Speaker, the promotion of growth and equity, in the context of macro-economic stability, has been the central objectives of the Namibian Government since Independence. These development objectives stem from obvious concerns: the lacklustre growth performance of the economy for long periods in the past and the extreme income inequalities that existed in the country at Independence.
- 1.2 Examining historical trends in the Namibian economy one is struck by the low rate of economic growth during the 'seventies and 'eighties. The inadequacy of economic growth, combined with public policies based on racial prejudices, at that time, have led to acute income inequalities and widespread poverty in the country.
- 1.3 It is only in the six years since Independence that there seems to have been a discernible marked shift in the growth trend of the economy. Though modest and uneven, the economy has been able to register between 1990 and 1995, an average growth rate of 3.5 per cent. Consequently, during this period, real income per capita has risen marginally by about 0.4 per cent per year, signalling a suspension of the decline in real per capita income. However, since Independence there has also been a rising expectation from the people, the majority of whom has hitherto been excluded from the benefits of development, for improved living conditions and better access to economic and social opportunities.
- 1.4 To bring about a politically meaningful material improvement to the population requires sustaining higher growth rates of 5 per cent or more as projected in the First Five-Year Development Plan. Therefore, apart from reviving the economy, the reduction of income inequalities and poverty would have to remain the principal objectives of Government.
- 1.5 Within the framework of the Development Plan, the annual Budget is a powerful tool that could and should be employed to achieve the macro-economic objective of speeding up the rate of economic growth, investment and employment within a stable economic environment, as well as to achieve the social objectives of poverty eradication and human development. In this regard, we have to streamline the composition of the Budget so that it can actually be used as an effective economic instrument. But, Mr. Speaker, it cannot be expected that the Budget alone should be engaged in achieving the country's overall socio-economic objectives. We also have to look beyond the Budget at the economic environment, the institutional structures, and at the financial system to see whether these are conducive for economic development and whether these complement the intervention of the Budget. In my Budget Statement I would like to expand a little on these aspects which do not directly relate to Budget, but which have an important bearing on that what is to be achieved with the Budget for 1996/97 and the Development Budget for the next three years.
- 1.6 However, before I review the budgetary allocations for the fiscal year 1996/97, it is necessary to inform the House about the recent economic trends and pertinent economic issues that are likely to influence Namibian economic and fiscal performance during the fiscal year 1996/97 and beyond, and to provide a policy framework for the

budget.

- 1.7 The Namibian economy, as most economies today, is to large degree dependent on the development in the surrounding regional and international economies. It is, however, important to take steps to safeguard a fair amount of economic and political independence.

2. RECENT TRENDS IN AND PROSPECTS FOR THE ECONOMIC ENVIRONMENT

The world economy

- 2.1 Underlying trends in the world economy continue to be encouraging in many respects, with economic policies contributing importantly to the favourable performance and prospects of most countries. The output of world economy continued to expand at a relatively strong rate of 3.7 per cent during 1995, compared to 3.6 per cent in the previous year. In most of the industrial world, economic expansion has now been under way for some time, with inflation in many cases remaining at its lowest level since the early 'sixties.
- 2.2 The pace of economic expansion in the industrial countries, which during the last couple of years advanced at a lower rate than that in many emerging countries, slowed during 1995. Amongst the countries where the upswing has been the strongest - the United States, Canada, the United Kingdom, and Australia - some moderation of growth was appropriate following the rapid absorption of slack during 1994. Germany, France, and several other continental European countries are still recovering from the 1992-93 recession. Economic growth in Japan remains weak and has registered its most serious economic slowdown in the postwar period, which has resulted from a series of financial shocks. For industrial countries as a group, the output growth fell slightly from 3.1 per cent in 1994 to about 2.5 per cent in 1995.
- 2.3 Developing countries continue to register much higher economic growth than the industrial world, which is mainly explained by the sustained buoyant expansion in Asia. Developing countries in other regions have, however, also witnessed encouraging developments in their economic performance and prospects.
- 2.4 An even more noticeable improvement in output growth was registered in sub-Saharan Africa where growth rates rose from 2 per cent in 1994 to 5 per cent in 1995. The short-term outlook for the region seems favourable with the average output expected to improve further to about 5.5 per cent per annum during 1996. This would allow a slight gain in average real per capita income. At the same time, average inflation has slowed down from more than 50 per cent in 1994 to about 25 per cent in 1995. It is projected to slow down to below 10 per cent by 1996 mainly reflecting tightened financial policies and improved supplies of agricultural products.
- 2.5 The upward pressure on commodity prices in 1994 was reversed during the course of 1995 mainly as a result of the slowdown in economic activity in the industrial countries. In 1996 commodity prices are expected to weaken somewhat further in a context of moderate demand and favourable supply conditions.

- 2.6 Following the sharp cyclical rebound in 1994, when the volume of world trade in goods and services rose by almost 9 per cent, the expansion of trade continued at a rapid pace of about 8 per cent in 1995 and is expected to further grow at a slightly lower rate of 6 per cent in 1996.
- 2.7 Relative to the growth of output and export earnings, the external debt burden of the developing countries has declined steadily during the past decade and is expected to reach 29 per cent of GDP and 108 per cent of export earnings in 1996. For most African countries, however, the debt burden remains extremely high and the accumulation of arrears continues to raise overall debt burden, which in much of sub-Saharan Africa has reached levels that exceed 400 per cent of export earnings. There is, of course, the added risk that excessive debt burdens may deter foreign direct investment and other private flows to some of these countries.

The South African economy

- 2.8 The South African economy has, since 1993, recorded progressive improvements. Despite a slack in South Africa's economy in the beginning of 1995, due to adverse weather conditions, the mining of lower-grade gold-bearing ore and labour unrest on gold mines, the economy recovered well and a 3 per cent growth rate is now estimated for 1995 as a whole. The strong production developments in South Africa were accompanied by a slightly lower expansion of domestic expenditure. Whereas a noticeable increase was recorded in both real private consumption expenditure and real outlays on fixed capital goods, the government continued to restrict its real consumption expenditure. South Africa also continued boosting its export performance, but this was more than neutralised by strong increases in net service payments and in merchandise imports, on account of strong investment demand boosted by a stable foreign exchange. As a consequence, the deficit on the current account of South Africa's balance of payments is estimated to have increased from R2 billion in 1994 to about R10 billion in 1995. This shortfall was compensated for by a further large net capital inflow, financing the vigorous domestic investments. The continued strong increase in bank credit extended to the private sector remains the single most important component of the excessive expansion of South Africa's money supply, which exceeded the upper guideline limit by a considerable margin. The strong money supply growth, together with the firm domestic demand and the large budget deficit are some of the factors that assert upward pressures on South African inflation. However, the strong increase in import deliveries has been able to dampen some of the inflationary pressures.
- 2.9 South Africa's medium-term outlook remains encouraging, against the backdrop of the strong surge in fixed investment, the continued inflow of foreign capital and the much improved export performance. Consumer and business confidence have also improved substantially in view of the relatively stable political conditions in the country, while improved labour productivity and increased utilisation of production capacity have added further impetus to South Africa's favourable economic outlook.

The Namibian economy

- 2.10 Many of the observations I am about to make about the Namibian economy are still based on projections, and necessary revisions will be made during the course of the next few months.
- 2.11 After a vigorous expansion in **economic activity** of 5.8 per cent during 1994, the growth in Namibian economy in 1995 fell markedly to about 2 per cent. Although both the internal and external economic environment in the country has improved significantly, the adverse climatic and oceanic conditions could not support the continued strong rate of economic growth. Consequently, agriculture and the fish processing sub-sector suffered considerable output losses during 1995. Excluding agriculture and fish processing, the rest of the economy was able to expand at a rate of 4 per cent during last year.
- 2.12 The output of the **agricultural sector** fell by 7 per cent during 1995 having expanded by some 20 per cent in the previous year. Late and insufficient rains during the 1994/95 season, which had resulted in significant crop losses in subsistence agriculture and livestock reductions in commercial agriculture, were the primary causes for the poor agricultural output.
- 2.13 Both diamond and uranium **mining** continued to expand their output at slightly lower rates during 1995 than in 1994. However, the output performance of other mining industries was rather poor during 1995. The combined mineral output during 1995 increased by some 6 per cent, compared to a growth rate of about 11 per cent in the previous year.
- 2.14 The **fishing industry** expanded by a steady 6 per cent, despite the poor pelagic fish catches, which reflect the unfavourable marine conditions experienced during 1995. Mainly as a result of the poor throughput in the pelagic fish reduction plants during 1995, the real value added in **manufacturing** fell sharply during 1995, which contrasts with the strong and steady expansions recorded during the previous three years.
- 2.15 After a brief relapse in 1994, the **construction industry** recovered well during 1995 when the real value added of the sector increased by 10 per cent. Major building and civil construction works continued to support the activities of this sector.
- 2.16 The **tertiary sectors** continued to make steady progress supported by the robust investment demand, which stimulated the trade and services sector. However, the strong expansion recorded in the hotel and restaurant sub-sector during 1994 has levelled off in 1995. Because of stricter employment control in government services, the real value added in general government continued to register a slightly slower growth rate.
- 2.17 The **expenditure side of the gross domestic product** was significantly influenced by the draw-down of inventories, particularly in the agricultural sector. Consequently, the aggregate real gross domestic expenditure fell by some 4 per cent, compared to a 15 per cent expansion recorded during 1994. Real private consumption expenditure fell marginally during 1995, reflecting the steady but slightly weakened consumer demand. Real consumption expenditure by general government, on the other hand, continued to expand slightly by about 1 per cent. Real fixed capital formation expanded quite

vigorously at a rate of about 11 per cent during 1995, which is the fourth consecutive year with strong increases in real investments. This brings total fixed investment in relation to the GDP to a unprecedented level of 24 per cent. The general government expanded its real outlays on fixed capital goods by about 8 per cent, following last fiscal year's boost in the development budget. Mainly on account of the firmer investment activity in the trade and accommodation sector and in electricity and water supply, real capital formation in the non-government sectors increased by 11 per cent during 1995.

- 2.18 Observations of the balance of payments during 1995 show quite mixed results. For the first time since 1990 a trade deficit was recorded, which resulted from a combination of strong imports and poor exports of pelagic fish and fish products. However, the vigorous growth in tourism income, the firm balance on foreign investment income, as well as the significant increase in net transfer receipts from the rest of the world restricted the deterioration of the overall surplus on the current account of Namibia's **balance of payments**. As a consequence the current surplus narrowed from N\$ 615 million, or 6 per cent of GDP, in 1994 to N\$ 440 million, or 4 per cent of GDP, in 1995.
- 2.19 Low international inflation together with South Africa's restrictive stance of monetary policy and its downward correction in the price levels of fresh food stuffs because of improved weather conditions, have prompted the overall **inflation rate** in Namibia (as measured by the consumer price index increase for Windhoek) to recede slightly from 10.8 per cent in 1994 to 9.9 per cent in 1995. A considerable deceleration in consumer price inflation was witnessed during the latter half of 1995 originating mainly in much slower food price increases.
- 2.20 **Monetary developments** during 1995 continued to be characterised by strong increases in virtually all monetary aggregates. Bank credit extended to the private sector, which is the main origin of money supply growth in Namibia, expanded on average by 33 per cent during 1995 and put further pressure on inflation developments in the country. Net credit extended by the monetary system to the central government also increased sharply during 1995, following a mild expansion in 1994.
- 2.21 The successful attempts to restrain additional expenditure requests in the **public sector**, combined with the improved performance and collections of virtually all revenues, prompted me during in November last year when tabling the additional budget for 1995/96 to reduce the overall budget deficit of the central government from a level of 4 per cent of GDP in the main budget for 1995/96 to a revised estimate of 3.8 per cent. All indications are that we are still on target in keeping to this deficit level.
- 2.22 The medium-term prospects of the Namibian economy are duly recorded in the First National Development Plan, or NDP1. Output growth is estimated at 5 per cent per annum for the period 1995 to 2000. The major sources of this growth are agriculture and manufacturing, including fish processing, and tourism. The NDP1 foresees the share of gross domestic investment to stay at about 18 per cent of GDP as a necessary precondition to achieve the projected output growth. The current account of the balance of payments is projected to remain soundly positive, on the grounds of the restrained domestic demand, on the one hand, and export driven output growth on the other. At the projected growth rate of 5 per cent, the country's foreign reserve positions

would also be strengthened.

- 2.23 Regarding the rate of inflation, the Plan anticipates an average 12 per cent rate of growth per annum during the entire Plan period. It is expected, however, that the South African rand would continue to depreciate in relation to the US dollar, reflecting relatively the growing strength of the US economy, and the expansionary impact of the Reconstruction and Development Programme (RDP) of the South African Government on its balance of payments and inflation.

The economic challenges of Government

- 2.24 Having outlined the recent developments and projections in the economic environment, it is also important to recognise the underlying macro-economic problems facing the Namibian economy in the medium term. The 1995/96 Budget Guidelines, the Public Expenditure Review and the First National Development Plan have identified the following characteristic problem features of the economy: inadequate growth in per capita income, a steadily rising rate of unemployment, and the extensiveness of poverty.

Sluggish growth

- 2.25 In my introductory remarks I pointed out that in the six years following Independence real per capita income expanded on average at 0.4 per cent per annum. This is, however, an unsatisfactory improvement, which is the consequence of sluggish economic growth and excessive population growth. Should the progress of the economy be confined merely to this rate of economic growth and should there be no reduction in the population growth rate, it would require almost 174 years to double Namibia's real per capita income from its 1995 level. This type of development is unacceptable; it has the propensity to slide us down from the fifth income rank in Africa.
- 2.26 Apart from employment in the public sector, the only sectors that contributed significantly to employment creation since Independence were fishing, construction and the domestic trade sector. The increase in new employment could not match the rapid growth of the economically active part of Namibia's population. Consequently, the unemployment situation worsened and it is estimated that less than half of the increase in the labour force between 1990 and 1995 was actually provided with employment opportunities.

Narrow production base

- 2.27 The core structural problems of the Namibian economy are to a large extent reflections of its narrow resource and production base. The absence of a solid leading economic sector, such as mining was in the 'seventies, is another unique feature that has developed recently in the Namibian economic scene. Traditionally, mining has been the mainstay of the Namibian economy contributing significantly to value added, employment and exports. But, within a matter of six years the share of mining in total GDP dropped from 28 per cent in 1989 to only 13 per cent in 1995, clearly indicating how fast the structure of the Namibian economy is changing.

- 2.28 Namibia's production base remains highly susceptible to exogenous forces. Namibia's other main sectors, agriculture and fishing, as well as industries linked to these primary sectors, depend on climatic and oceanic conditions, as well as cyclical business factors, which determine the demand for and prices of basic export commodities.
- 2.29 In the absence of mining as a leading sector, the sources of growth of the economy have to shift more and more to other emerging sectors: agriculture, manufacturing, and tourism. Considering these emerging sectors' social and economic potential impact on poverty alleviation and employment, this year's and subsequent budgets should focus on this sector.

The investment constraint

- 2.30 Accelerated investment is a major source of economic growth. On this count, the performance of our economy, though encouraging, is not adequate. Last year, Namibia's fixed investment in relation to GDP reached ratio a of 24 per cent, which is 8 percentage points higher than the average ratio for sub-Saharan countries, but still 12 percentage points lower than the investment ratio of East Asian countries.
- 2.31 The origin of Namibia's traditionally low investment ratio should not necessarily be traced back to a lack of investment opportunities or low business confidence, but should rather be ascribed to inadequate current national savings and Namibia's inability to attract adequate quantities of foreign savings in the form of foreign direct investments.

Income inequality

- 2.32 Namibia, on account of its high level average per capita income, is considered a middle-income country, and one of the richest countries in Sub-Saharan Africa. Yet, income distribution is so extremely skewed that the majority of the population suffers from extensive poverty. There is also a striking regional dimension to income inequalities. Most of the registered national income originates from a few cities and some towns in the central and southern areas, and little from the northern rural areas, where about 70 per cent of the population is concentrated.

The problem of poverty

- 2.33 Many studies have shown that no less than 50 per cent of the total population qualify to be registered below the poverty line. Main causes and manifestations of poverty are both under-development and excessive population growth. Namibia's population growth rate of 3.1 per cent per annum exceeds the average growth rate for Africa of 2.9 per cent. By African and international standards this is considered to be high. At this rate of growth, Namibia's population would double in about 23 years. This would undoubtedly put heavy strain on the land and water resources of the country, which are already in great stress.
- 2.34 The demographic profile would also be expected to change, putting even heavier

burden on the budget for social services. The dependent population, that is those aged between 0 and 14 years are now reported to constitute 42 per cent of the total population. Further improved health service provision would reduce the mortality rate of infants and children, and would, in turn, further increase the proportion of dependents. Consequently, the level of social expenditure, in terms of providing education and health services to the burgeoning population with such demographic features would continue to rise markedly. The rising share of social expenditures within the budget would put pressure on the allocation for other public services. These are serious problems that would confront the country in its attempt to alleviate poverty. At the same time, however, the younger generation's increasing share in Namibia's population should be seen as an important source for potential future increased growth.

- 2.35 To alleviate poverty, the strategy is to implement a population policy and to stimulate the growth of the economy at the target rate of growth of at least 5 per cent per annum. It is equally important to ensure the market participation of the small-scale producer and the poor in the national economy. At the same time, it also requires the continued redirection of public expenditures to benefit the poor and vulnerable groups of the population. A successful implementation of poverty reduction programmes also requires a proper identification of the poor for whom the benefit of expenditures is to be shifted.

3. THE FORMULATION OF THE 1996/97 BUDGET

The broad development objective of the 1996/97 budget

- 3.1 Mr. Speaker, against these underlying characteristic features and socio-economic situation of the Namibian economy, the Government is tackling the problems of the country through development planning. The First National Development Plan for the period 1995 to 2000 was approved by this House in November last year. You will recall that during this Plan period, Government intends to pursue the following plan objectives:
- (a) to ensure rising per capita income for the population, through an average economic growth rate of at least 5 per cent per annum;
 - (b) to create ample employment opportunities;
 - (c) to reduce inequalities in income distribution; and
 - (d) to design economic and social programmes to help alleviate poverty and to help vulnerable groups of society.
- 3.2 The budget for 1996/97 is firmly based on these broad development objectives. This compels the Government to make a number of difficult trade-offs and to take a fresh look at the expenditure priorities during the formulation of the budget. This in turn necessitated us to revisit draft budgets a number of times during which certain expenditure programmes were cut back or postponed and others were emphasised or expedited. I do admit that it was not a painless exercise for most of my colleagues, but

I would like to express my gratitude to them for the commendable way in which they perceived the challenges that confront us and for the good co-operation of their ministries.

- 3.3 Mr. Speaker, allow me also the opportunity to make a few remarks regarding the persistent need for fiscal discipline. A Budget is a quantitative and qualitative expression of Government goals. To reach the designated goals, the budget determines the financial resources required and assigns responsibilities to budgetary units for ensuring full implementation of programmes. Hence, the exercise of budgeting does not stop with the approval of the budget. Budgeting is an on-going process. Equally important as the formulation of the budget is its successful implementation.
- 3.4 For the budget to be fully and successfully implemented, it requires the utmost fiscal discipline necessary for an effective expenditure management, the responsibility of which rests individually and collectively on all line ministries and agencies. The principle being that no tax payers money should be used at no less than its maximum value.
- 3.5 Improving and sustaining fiscal discipline in Government has always been the central concern of my ministry. For this reason, the Ministry, on its part, has undertaken several measures to improve budgeting and accounting systems with the view to enhancing its expenditure management and control systems. The Integrated computerized Financial Management System sponsored by UNDP/IMF Project, is fast progressing. The Funds Control System, has, since April 1995, been operational in all line ministries. A new budgeting module has also been introduced in all ministry sites. The Financial Management System has also been expanded to incorporate the Medical Aid Schemes, while legal measures have been taken to prevent a recurrence of the medical claim fraud that has regrettably cropped up during the last two years.
- 3.6 Similar measures are being taken on the revenue-side. A comprehensive plan to streamline and modernize our tax system has been developed, both in terms of tax administration and tax policy, by technical assistance under UNDP/IMF project. The implementation of some of the recommended measure have started this year. Modern computerisation of the tax revenue accounts is also expected to be launched within the year.
- 3.7 Starting from scratch, our Customs and Excise Administration has expanded its services to a satisfactory level. Measures are being taken to improve customs procedures, and customs surveillance. The capacity of the department to process customs documents to provide timely and accurate international trade data is being developed with the on-going implementation of ASYCUDA System with technical assistance from Denmark.
- 3.8 All these are necessary, but not sufficient, measures for effective expenditure management and the provision of services to the taxpayer, unless, of course, complemented by similar cost-saving measures by authorities in line ministries. In this regard, it is expected that line ministries take better charge of resources allocated to them by the budget to realize fully and in time their respective programmes; and desist

from coming-up with additional budget requests only two or three months after the budget has been approved. Fiscal discipline, therefore, should be the motto for the year!

The strategies for growth and the alleviation of poverty

- 3.9 Accelerated economic growth requires raising the investment rate. This requires laying down a framework to encourage higher national savings and foreign capital inflows and to channel these resources into attractive investment avenues. Furthermore, a large, diversified small and medium scale business sector is the backbone of a vibrant democracy and a strong economy capable of adapting to ever-changing investment climate. Also, encouraging such a sector ensures equitable distribution of income, wealth and generation of employment opportunities in the future. This avenue, in addition to developing Namibia's human resources, seems the sensible way for Namibia, just as for other mineral-rich countries, to invest its "good luck" in being endowed with mineral resources. In this regard, Government could undertake a number of steps to ease or even remove existing investment impediments through the encouragement of large, medium and small producers and streamlining the regulatory and institutional framework.

Encouraging medium and large scale producers

- 3.10 The establishment of interrelated or interdependent investment packages by the private sector should be encouraged as a means for generating demands for each other's products and expand the size of the market.
- 3.11 In this case, Government could enter into joint ventures or act as investment promoter to encourage some wary and hesitant domestic and foreign investors to focus on areas Government deems critical for the long-term development of the country or region. The Government's endeavour to establish Tourist and Trade Centres, of which the Lüderitz Waterfront is already in the planning stage, is one point in case.

Increasing the market participation of small producers

- 3.12 A more promising aspect of raising savings and investment is increasing market participation of small producers. Small businesses and micro enterprises can bear significant results in the short to medium term in alleviating poverty and unemployment and in raising the share of ownership of wealth.
- 3.13 Government, through its expenditure policy and its interaction with the private sector and organised commerce, can effectively increase the market participation of small producers, including the poor, in the national economy. In this regard I can highlight the establishment of national industrial parks and small and medium-scale enterprise development units under the Ministry of Trade and Industry. N\$ 13 million is earmarked for this programme. Moreover, many communal farmers still have no marketing channels for their produce and are actually forced to a subsistence life-style. Government would therefore encourage the establishment of marketing cooperatives

in the communal areas to encourage surplus cash crop production.

- 3.14 There are several benefits accruing from following a strategy of development focused on supporting small-scale producers. The micro-economic efficiency is enhanced, through maximisation of total factor productivity, as small holders and small-scaled industries and the informal sector producers are supported. Hence, when the redistribution of productive resources, both assets and inputs, are made in favour of these producers, the result is more rapid and broad-based output growth. This phenomenon would, in turn, improve equal income distribution within the urban and rural sectors, and contribute to the alleviation of poverty.
- 3.15 In so far as the small-scale producers face a different set of factor prices in relation to large producers, their choice of technologies and techniques of production would be more in line with the natural resource endowments of the Namibian economy. This means less capital- and less import-intensive use of resources in production, hence, augmenting employment possibilities and enhancing a favourable balance of payment situation.

Measures to support small- and medium-scale enterprises

- 3.16 Small- and medium-scale businesses face many obstacles in Namibia. Lack or restricted access to finance, raw materials and information, unfamiliarity with marketing and accounting procedures, and tender procedures form the large part of these obstacles. Furthermore, large or small, businesses could only thrive if the playing field is even for all. And the first thing to do by way of attracting them is to make the incentives Government provides as transparent and, to the largest extent, as neutral as possible to all producers, irrespective of whether they cater for the export or domestic markets.
- 3.17 Several steps could be taken to create an enabling environment fostering growth of this sector and to give support and encouragement to such businesses.
- (a) Partnership between big businesses, other established businesses, NGOs, parastatals, with small businesses and micro enterprises should be encouraged. Some of the established enterprises, for instance, could enter into equity participation with small businesses, on the proviso that the former would gradually withdraw as the latter develop and become confident. Others could provide start-up capital or set up the accounting and operational procedures, and still others could provide the required training. Coordination of support services where the private sector is predominantly involved, could be done by the Chamber of Commerce.
- (b) An On-Lending Scheme, from which concessionary loan finance could be channelled to financial institutions towards small businesses should be established. The Government is currently negotiating with The European Investment Bank, The Nordic Development Bank and The French Development Bank to achieve exactly this. Consultations with the European Investment Bank regarding a Global Loan Facility has progressed particularly well.

- (c) Assistance should be provided to set up, with the collaboration of NGOs, regional local support centres to provide marketing facilities, training, information technology, legal services, and networking possibilities.
- (d) The subcontracting of Government and parastatal activities to small producers should be encouraged to increase the share of small-scale businesses in public sector procurement programmes.
- (e) Mechanisms to coordinate, supervise and lobby for the implementation of all these and other measures in the future should be adopted.

Institutional changes in the financial system and regulatory framework

- 3.18 Apart from these factors, and in spite of steps taken since Independence, there still seem to be regulatory constraints to the smooth entry of business enterprises, particularly small ones, into the Namibian economy. Further deregulations and close political support may have to be provided to allow professionals and other service businesses in all fields, including legal, education, health, transport and agriculture, to enter and operate.
- 3.19 The cost of borrowing funds is a factor that figures in the opening or expanding businesses in an economy. The interest rate structure and the high cost of borrowing funds are reported to be constraints to potential investors, particularly to small entrepreneurs, who need to raise working capital from financial institutions. With the cost of financing ranging from 18.5 per cent to 28 per cent, it appears that only speculative, rather than venture capital, could be attracted into the country. As a consequence, Namibia should encourage term lending and, to this end, the Government is considering to complement or consolidate some of the existing government owned development institutions into a development bank to be jointly owned by Government and foreign development finance institutions or banks. The investigations are continuing to find the right means of channeling capital and also to determine to what extent the development bank should be involved in development projects.
- 3.20 With the backdrop of these constraints, it is essential for Government to make a complete review of the investment climate with a view to simplify existing policies and incentives, and making them transparent and predictable enough to attract and induce new and existing investors to invest.
- 3.21 Having outlined Government's policy stance, whose budgetary implications are more in the future than in the present, let me revert now to the framework of the 1996/97 budget.

4. ESTIMATES OF REVENUE FOR 1996/97

- 4.1 **Total revenue** from domestic sources for 1996/97 is estimated at N\$ 4 489 million,

which is N\$ 661 million or 17 per cent more than the revenue estimated at the time of the main budget for 1995/96. In relation to Namibia's projected GDP, total revenue is expected to remain roughly on the level of 33 per cent. Also, total **tax revenue**, which is estimated to rise from N\$ 3371 million to N\$ 3988 million over the same period, would remain at about 29 per cent of GDP. This ratio, which indicates the tax share that Government derives from the income generated in the country to finance public services, has remained relatively stable since Independence moving between the range of 29 to 31 per cent of GDP. This clearly reflects the Government's objective to stabilise overall economic activity and not to negatively affect the income generating capacity of the economy through its tax system. There is also a discernible shift away from taxes on income and profits towards taxes on consumption, which indicates of Government's ambition to stimulate private and corporate income generation in the economy.

- 4.2 Given this broad setting of the size and composition of revenues, I would briefly deal with some outstanding revenue items and categories.
- 4.3 **Tax on income and profits** is expected to amount to N\$ 1193 million in 1996/97, compared to about N\$ 1021 million in the previous budget. This represents an increase of N\$ 172 million or 17 per cent. The bulk of this increase, or N\$ 105 million, would originate from income tax on individuals, while N\$ 48 million is expected from non-mining companies. These improved income tax proceeds are a reflection of the much improved collection efforts, as well as the generally favourable economic environment. Diamond mining company tax is expected to decrease slightly by N\$ 5 million, but would remain at a fairly high level of N\$ 100 million. Conditions in non-diamond mining companies are expected to improve mildly which would increase their company tax payments from a fairly low level of N\$ 30 million to N\$ 40 million. The introduction of a levy on gambling income is anticipated to yield about N\$ 10 million.
- 4.4 **Domestic taxes on goods and services** are expected to expand by N\$ 229 million, or 20 per cent, to N\$ 1360 million, which mainly originates from general sales tax, additional sales duty and fuel levies. In percentage terms, the largest increase of 39 per cent is expected from additional sales duties, which is basically explained by the much improved collection efforts.
- 4.5 The favourable conditions in the building and property market during fiscal year 1996/97 are reflected in a N\$ 14 million increase in **transfer duties** and a N\$ 10 million increase in **stamp duties**.
- 4.6 **Taxes on international trade and transactions** during this fiscal year consist exclusively of Namibia's customs and excise receipt from SACU, with export duties on diamonds having been converted into a royalty payment which is not regarded as a tax and therefore classified elsewhere. Namibia's customs and excise compensation will increase from N\$ 1155 million in 1995/96 to about N\$ 1348 million in 1996/97. The 17 per cent increase in this fiscal year is considerably lower than the 28 per cent increase recorded in the previous fiscal year. The reduced growth in this revenue source during 1996/97 is basically explained by a slow-down in the expansion of imports recorded during 1994/95, particularly in the importation of fishing vessels.

- 4.7 Other revenue estimates that need to be highlighted are the following. The proceeds from **dividends** in corporations and statutory bodies in which the Government holds commercial interests, are expected to rise from N\$ 33 million in 1995/96 to N\$ 70 million in 1996/97. This increase reflects the dividend declarations of NamPower, the profit share in the Bank of Namibia and dividend payments by certain mining companies.
- 4.8 Honourable Members will note a decrease of about N\$ 23 million in the estimate for **administrative fees and charges** in 1996/97 compared to the previous fiscal year. This decrease is justified by the fact that the departmental revenues of the bulk water supply function will fall away once that function is commercialised later during this year. Disregarding the revenue from bulk water supply from the revenue for 1995/96, other administrative fees and charges are expected to increase by N\$ 50 million, or 37 per cent between 1995/96 and 1996/97. This increase reflects the continuous efforts to adjust user charges and tariffs for government supplied services as well as improved collection efforts. The same argumentation applies to the recent upward adjustment in **motor vehicle licence fees** which is expected to yield N\$ 30 million in 1996/97 compared to N\$ 19 million in the previous year. The departmental revenues would be more fully explained during the committee stage of the budget debate.

5. EXPENDITURE PROPOSALS FOR 1996/97

Trend and level of total expenditure

- 5.1 The total expenditure proposed in the budget for 1996/97 amounts to N\$ 5073 million, which is N\$ 733 million, or almost 17 per cent, above last year's budget. This rate of expansion is just below the budgeted expenditure increase between 1994/95 and 1995/96. In relation to Namibia's expected GDP, total government expenditure would decrease marginally from 37.8 per cent in 1995/96 to 37.5 per cent in 1996/97.
- 5.2 Recognising the objective of fostering faster economic growth and a firm level of investment, the budget proposes that an increase of 21 per cent to an amount of N\$ 824 million be set aside for development capital and lending for 1996/97. At this level the development budget is expected to increase from 5.9 per cent of GDP in 1995/96 to 6.1 per cent in 1996/97. The increase in development capital of 21 per cent compares favourably with the increase of 16 per cent in total current expenditure provided for the 1996/97 budget and clearly demonstrates the emphasis that is being placed on investment and development.
- 5.3 Given the enhanced share of development expenditure, Honourable Members might ask what other budget components have reduced its proportional allocation. One important feature is that the share of the wage bill in total expenditure is steadily falling. Whilst the wage bill still accounted for 48 per cent of total expenditure in 1993/94, its allocation was gradually cut back to an expected level of 45.5 per cent in the budget for 1996/97. This is a consequence of ongoing rationalisation of the personnel establishment, the improved expenditure control and the initial restrictions on salary adjustments and on the filling of vacancies. Commercialisation of public enterprises

has, of course, also contributed to containing the share of the wage bill.

Current expenditure

- 5.4 Total current expenditure to be voted for 1996/97 amounts to N\$ 4099 million, which is N\$ 560 million, or 15.8 per cent, above the level of the previous year. This rate of increase is considerably lower than the 17.2 per cent recorded in the previous budget, which is ascribed to the lower increases in personnel expenditure and in expenditure on goods and services. The provision for subsidies and other current transfers, however, expanded at a rate of almost 29 per cent, which is ascribed *inter alia* to increased transfers to tertiary institutions and for scholarships and social pensions, as well as transfers related to the commercialisation of bulk water supply and certain agricultural services in crop growing communal areas. In addition, the provision for contingencies under the Finance vote was increased from N\$50 to N\$70 million.
- 5.5 In this regard, I would like to inform the House that due to the ongoing process of restructuring the Development Brigade Corporation, whose financial implications are not fully known yet, I anticipate to meet the financial requirements of the corporation from the contingency provision during the course of the year.
- 5.6 In addition, in view of the emphasis now being placed on the development of small and medium business enterprises, I will make adequate transfers to the Job Creation Fund and to a small- to medium-sized business credit scheme using funds from savings from various votes as soon as viable projects are submitted. The credit scheme could attract up to N\$ 10 million, and would supplement the N\$ 13 million already provided for the establishment of industrial parks and small and medium-scale enterprise development units under the vote of Trade and Industry, as well as the N\$ 25 million offered by the European Investment Bank in the form of a Global Loan Facility for on-lending to small- and medium-sized enterprises. I would, of course, report back to this House about the appropriation of contingencies and other shifts in funds during the additional budget.
- 5.7 Regarding the provision for personnel expenditure, I would like to make a couple of remarks. I have already pointed out the slow and steady reduction in the share of the wage bill in total expenditure, which was partially the result of the wage freeze between 1992 and 1995. Since a wage freeze is essentially a temporary measure which becomes unsustainable over a longer period of time, the recommendations of the Wages and Salary Commission came at an opportune moment.
- 5.8 In accordance with an earlier Cabinet resolution, provision is also made to implement the recommendations of the Wages and Salary Commission. The allocation necessary to implement these recommendations amounts to N\$ 352 million which is provided under the vote of the Office of the Prime Minister. At this stage it is not possible to apportion this amount to the respective component of the remuneration structure, since it would be utilised for the overall restructuring of the public wage system. A substantive announcement would soon be made in this House by the Right Honourable Prime Minister.
- 5.9 Mr. Speaker, I want to stress that the implementation of the recommendations of the Wages and Salary Commission does not involve any additional allocations over and

above the equivalent of a ten per cent general salary increase. The recommendations that are to be implemented during the 1996/97 budget basically involve a restructured remuneration system and will not have any immediate financial implications. However, the longer-term recommendations will most certainly require a number of far-reaching measures. Here I refer specifically to the recommended down-sizing of the public service, which will represent a grueling challenge for policy-makers during the next few years.

- 5.10 Following negotiations with the Board of Trustees of the Government Institution Pension Fund (GIPF), it was agreed to reduce the rate of the employer's contribution to the GIPF from 21 per cent of the wage bill to 16 per cent. This reduction would result in a further saving of N\$80 million. Since the GIPF is currently over-funded, this cut would not affect the position of contributing and non-contributing members of the GIPF.

Capital expenditure

- 5.11 An amount of N\$ 824 million has been provided in the 1996/97 budget as capital, lending and equity participation, commonly known as the **Development Budget**. This is N\$ 144 million or 21 per cent more than the amount provided in the previous budget. Apart from the programmes funded through the Development Budget, a further N\$ 401 million is expended on capital and development programmes funded outside the budget through foreign grants. This brings the total provision for development programmes for 1996/97 to N\$ 1225 million, which is equivalent to 9 per cent of GDP of which the Government is to contribute about 6 per cent of GDP.
- 5.12 The Development Budget, which is tabled before you today, contains detailed information about the individual projects and classifications according to functions, sectors, institutions, regions and sources of funding. I would, therefore, limit myself to a few remarks about the sectoral allocation of the development budget.
- 5.13 The productive sectors are allocated 29 per cent of the resources in 1996/97, which reflects the concentration of efforts to promote and enhance the role of the private sector in productive activities. The most important productive sector is agriculture whose main objective is to improve the level of national household food security. The agricultural programme of investment presented in the 1996/97 Development Budget includes projects aimed at: creating productive employment opportunities, increasing the value added to national output, increased crop and food production and irrigation projects to improve levels of household food security and agricultural exports.
- 5.14 In the mining sector the Ministry of Mines and Energy will focus its expenditure on creating an enabling environment for the private sector through upgrading the National Institute of Mining and Technology and developing an industrial mineral resource inventory and geophysical survey. It will also construct a new headquarters building.
- 5.15 The manufacturing sector receives a small but increasing proportion of total development resources, as the Ministry of Trade and Industry makes efforts to restructure its development activities and introduces programmes such as the industrial park construction, which I have already mentioned.

- 5.16 I believe an appropriate allocation of development expenditure has been achieved in these sectors, which is further supported by allocations to the productive sector that are made outside of the State Revenue Fund.
- 5.17 The social sectors receive 38 per cent of total development resources in 1996/97. Resources are being used to expand the coverage of primary education particularly in rural areas through two large projects: the Nationwide Classroom Conversion and the Nationwide Primary School Upgrading Project. These account for 36 per cent of education resources. Basic education resources are focused on primary education, with 1.5 times as much spending devoted to primary education compared to secondary education. The construction of two training colleges at Katima Mulilo and Rundu will be completed in 1996 to improve the quality of education.
- 5.18 Rural water supply's objectives are to reduce levels of rural poverty and to achieve more equitable distribution of the country's wealth. Almost N\$30m are allocated to rural water supply in 1996/97. N\$9.5m of which is devoted to the Nationwide Boreholes Construction and Rehabilitation Programme which will provide a sustainable water supply for rural communities around the country. Another N\$4.9m will be spent on the Rural Secondary Pipelines Construction Project which will provide potable water to rural communities in the Cuvelai basin.
- 5.19 The Ministry of Health has devoted 78 per cent of its 1996/97 development allocation towards curative health care, making the point that these are referral hospitals supportive of the primary health care system while other projects are constructing hospitals in previously neglected areas.
- 5.20 In the housing sector, government assists residents through various social housing programmes, but the bulk of the housing allocation is allocated to urban and rural housing loans such as the Build Together Programme, a self-help programme designed to improve standards of living of low-income Namibians by providing them with affordable housing loans.
- 5.21 The share of the infrastructure sectors is about 22 per cent of the 1996/97 development budget. The provision of electricity in rural areas forms an important part of this allocation. The emphasis in the transport sector is on the completion of two large trunk road projects: the Trans-Caprivi and Trans-Kalahari highways. The Namibian portion of the latter project will be completed during 1996.
- 5.22 The public administration sector is to attract a share of 11 per cent of the development budget for 1996/97. In this sector, a large share of resources are allocated by donors to institutional capacity building and technical assistance in the public sector, with an emphasis on the management of the economy.
- 5.23 During 1996/97 N\$13m will be spent on municipal programmes to plan and develop erven and provide water and electricity services. Regional councils will receive N\$8.3m to plan and administer proposed settlement areas. Towns and Villages will receive N\$30m for electricity, water supply, sewerage and streets upgrading.

- 5.24 Attention is also focused on police, public order and safety and Justice to decrease the crime rate in Namibia. Additional resources have been devoted in the development budget to accommodate the employment of 1,000 ex-combatants in the defence force through the expansion of barracks and training facilities.

Statutory expenditure

- 5.25 The statutory expenditures shown in the budget refer to expenditure which are not appropriated in terms of the Appropriation Act, but which in terms of the State Finance Act represent direct charges on the State Revenue Fund. These expenditure, which consist mainly of interest charges on domestic borrowing, are expected to increase by 24 per cent from N\$ 121 million in 1995/96 to N\$ 150 million in 1996/97. This rapid increase basically reflect the increased cost of borrowing as a result of the tighter monetary conditions which have substantially firmed the money market interest rates. I will, of course, return to the Government debt position at a later stage.

6. THE LEVEL AND FINANCING OF THE DEFICIT

- 6.1 As I have reported earlier, the total amount of revenue and grants that are expected to be generated during 1996/97 amounts to N\$4524 million. This exceeds the amount provided for current and statutory expenditure of N\$4249 million by N\$275 million or 6.5 per cent. It is our aim to maximise the excess of current revenue over current expenditure, by strengthening our revenue collection capacity and by cutting unnecessary current expenditure, and to utilise this excess to fund a large portion of the development budget. In this budget the excess of current revenue over current expenditure is sufficient to finance about one third of the amount proposed for development capital of N\$824 million. The two thirds balance of the development capital of N\$549 million represents the overall deficit that needs to be funded by drawing down cash balances and by borrowing on the domestic and external markets.
- 6.2 Given this financing framework, the overall deficit for 1996/97 amounts to 4.1 per cent of the projected GDP of N\$ 13 520. We do, however, expect the actual deficit to be lower because of possible under-implementation of expenditure programmes, a phenomenon we have been experiencing in the past.
- 6.3 About 18 per cent of the deficit for 1996/97 would be financed by utilising the estimated cash surplus of N\$ 100 million that is expected to be brought forward from the previous fiscal year. Another N\$ 50 million or 9 per cent of the deficit will be financed by foreign loans. As in the past, this source of finance will take the form of project related loans at highly concessional terms. The balance of the deficit for 1996/97 or 73 per cent is expected to be financed by borrowing from domestic sources. This will be arranged through a borrowing programme consisting of treasury bills and medium-term Government securities. Government's total borrowing requirement for 1996/97 amounts to 3.3 per cent of the projected GDP, a level not expected to put upward pressure on interest rates or adversely affect the sources of loanable funds in the local

market.

- 6.4 Total outstanding debt at the beginning of the fiscal year amounts to N\$ 2660 million, which is about 23 per cent of the GDP. Given our borrowing requirement for 1996/97 the stock of debt is expected to increase to N\$ 3190 million or 24 per cent of GDP at the end of the fiscal year. As soon as a final agreement regarding the pre-independence debt can be reached with the South African Government, Namibia's public debt would be reduced to N\$ 2020 million or 15 per cent of GDP at the end of 1996/97. Although I consider the pre-independence debt agreement as an important achievement for Namibia, I remain alert about the fast growth of the remaining public debt. In relation to GDP it has grown faster than the rate of growth of the economy. At the current level, however, the public debt, which originates mainly from the local market, remains manageable and non-inflationary, but we clearly have to guard against stretching these limits too far too soon. At an expected economic growth rate of 5 per cent, the expected increase in the public debt of 3.3 per cent of GDP would be within the accepted norm.

7. **TAXATION PROPOSALS**

- 7.1 Before concluding, Mr. Speaker, let me inform the House about recent steps taken to upgrade Namibia's tax administration and about tax proposals to be tabled during the course of this session of Parliament.

Administrative measures

- 7.2 As has been reported to the Honourable House during the last two years, the Inland Revenue Directorate has embarked on a project to streamline, strengthen and simplify Namibia's tax administration. This project, which is technically supported by the International Monetary Fund, has made substantial progress over the last 16 months, and certain of the proposed amendments to the Income Tax Act are a direct result of the efforts of the Modernisation Project Team.
- 7.3 During the past year the Inland Revenue Directorate has changed to a functional approach in administering the income tax, sales tax and sales duty legislation. Our staff, both existing members and new entrants, are receiving functional training so as to deal with their duties more effectively and productively. Still, much remains to be achieved in the area of training and streamlining administrative procedures. The modernisation of the computer system, including both hardware and software, is also now receiving attention. In our efforts to update the Receiver's data base we call upon the general public for their co-operation and assistance, since they will be required to complete certain questionnaires, such as the one that was mailed to sales tax vendors during December 1995.
- 7.4 On completion of the modernisation of the procedures and the computerized systems for income tax, sales tax and sales duties, the Inland Revenue Directorate will direct its attention to the development of a **value added tax**, or VAT, system for Namibia. Although it is rather early to set a definite date for the introduction of the VAT system to replace sales tax and additional sales duties, it can be expected towards 1998 or 1999.

Statutory measures

General

- 7.5 The 1995 amendments to the income tax, sales tax and sales duty legislation include a change in the method of calculating interest on overdue amounts and an increase in the rate of interest. After these amendments had been tabled in the National Assembly, it was realised that common law restricted the amount of interest that may be levied, to the amount on which the interest was calculated - that is: interest may not exceed the amount of debt!
- 7.6 As the new method of calculation and the higher rate would result in the interest equalling and then exceeding the amount of debt in 3 to 4 years, it has become necessary to amend these Acts to provide that the accumulated interest may exceed the amount of the debt on which the interest is calculated.
- 7.7 To date the practice has been that the executive official in each ministry was appointed in the legislation as the person responsible for the administration thereof. The Government's approach is that the Minister is accountable to the National Assembly for the affairs of his ministry. Therefore it has become necessary to amend the legislation mentioned above to appoint the Minister as the person who is responsible for the administering of these Acts.

Sales tax

- 7.8 Unfortunately I have to advise this House that certain motor vehicle dealers have been abusing the generous measures applied in the levying of sales tax on demonstration vehicles.
- 7.9 Vehicles are registered for demonstration purposes and sales tax paid on concessional terms, but, then the vehicles are used as "company" cars - that is: for demonstration purposes as well as for other business and privately by salesmen, other staff members and even the owner! The correct usage of demonstration vehicles could never be controlled as Inland Revenue was not in a position to enforce the restrictions that apply to the use of demonstration vehicles - we had to rely on the integrity of all the motor dealers!
- 7.10 I have therefore decided to withdraw the existing special treatment of demonstration vehicles, which implies that the full sales tax will be payable on any vehicle registered.
- 7.11 The proposal that additional new or used goods in the amount of N\$ 10 000 imported as accompanied passengers' baggage, be exempted from sales tax and additional sales duties, will certainly be welcomed by all. I am also proposing that the exempt value of books, newspapers, journals and periodicals imported into Namibia by post, be increased from N\$ 40 to N\$ 100.

Additional sales duties

- 7.12 I propose to reinstate the exemption previously extended in Section 6 (h) retrospectively, so as to delineate the scope of its application more clearly. This section will exempt from additional sales duties, under certain circumstances, the importation and the sale of goods used directly in a manufacturing process where the goods will be consumed and/or rendered worthless or form an integral part of the manufactured goods.
- 7.13 A very important proposal is that the name of this Act be changed to Additional Sales Levy Act, so as to differentiate it from Acts in terms of which duties are levied which are similar to customs and excise duties and which form part of the customs pool.

Income tax on individuals

- 7.14 Once again there is a measure of good news for certain taxpayers. This stems from the proposed new tax rates which will reduce the tax payable by individuals. Tax payers in the lower income brackets will benefit more than those with higher incomes.
- 7.15 To further simplify the income tax system and the administration of the Income Tax Act, I propose to do away with the sole breadwinners' abatement as this is extremely discriminatory against other taxpayers. This will slightly increase the income tax for certain sole breadwinners. These proposed amendments and new rates will apply as from the 1st March 1996.

Further amendments to the Income Tax Act

- 7.16 I wish to propose the following further amendments to the Income Tax Act:
- (a) The income of foreign institutions and institutions of foreign governments, who extend aid and assistance to or in Namibia, will be exempted from income tax.
 - (b) The proceeds on dissolution of a provident fund will be taxed as in the case of the dissolution of a pension fund.
 - (c) Technical amendments to provisions in the Act dealing with tariff rating, the special abatement for manufacturers and other smaller items will be required.
- 7.17 These amendments will also become effective on 1st March 1996.
- 7.18 There are, however, a number of further amendments that stem from the tax reform process and will only become effective **at a date to be announced well in advance.** These amendments are the following:
- (a) The due date for the filing of the Return of Income will be set at 120 days after the end of the year of assessment. At present returns must be filled at 90 days.
 - (b) A system of "self-assessment" will be introduced, and the Return of Income will now require a computation of the taxable income, as well as a computation of the tax due.

- (c) Returns for prior years which are still outstanding, are to be submitted on a deadline date and should include computations of the taxable income and tax due.
- (d) In certain circumstances individuals will not be required to submit a Return of Income, which means that the employees' tax deducted by the employers will become the final tax.
- (e) Taxpayers will be required to pay any balance of tax by the due date for the filing of Returns for any particular year of assessment. The granting of extension of time to file returns will not include allowing extension of time for the payment of any balance.
- (f) In respect of prior years for which taxpayers have not filed returns, such tax will be due and payable on a fixed due-date.
- (g) At present provisional tax payers are making only two provisional payments during a tax year. Amendments will be proposed to Schedule 2 of the Act to provide for the introduction of a system of four provisional tax payments.

7.19 I also wish to state that the standard livestock values will not be changed, in view of the drought conditions experienced during the last two years.

7.20 I will table appropriate Amendment Bills in this House in due course, to enact and implement the proposed amendments.

7.21 Finally, I want to announce that my Ministry is also working on draft legislation to provide for a tax amnesty. I hope to table that Bill at the same time as the tax amendment bills.

8. CONCLUSION

8.1 The economic environment in the economies of the world and the region, as well as the anticipated economic conditions in the national economy are conducive for enhanced and sustained economic growth and development. However, a number of unfavorable problems and features of the Namibian economy continue to restrain the speed and intensity of economic development of the country to attain the targeted rate of growth of 5 per cent per annum. The problems of unemployment and poverty, inadequate investment and savings, as well as income inequality necessitate the Government to continue to focus on these problems on a sustainable basis.

8.2 I believe that the Budget has laid down the foundations in terms of policy measures and strategies so as to address many of the critical problem areas, which I tried to highlight in my statement. Also, considerable efforts have gone into the budget to streamline the expenditure composition, raising the allocation for development programmes and putting more emphasis on the development of smaller enterprises. Moreover, given the fact that our tax rates have reached levels that could be regarded as regionally competitive, and given the need to fund a large portion of our development budget from current revenues, it was not feasible to extend any further

major tax concessions. Instead, we have rather concentrated on tidying and streamlining the existing tax provisions so as to facilitate and simplify tax compliance in Namibia. Finally, Mr. Speaker, the budget that I have tabled projects a manageable deficit level, which will not overly expand the public debt and not endanger overall fiscal stability. Our effort of striking a balance between accelerating economic development, streamlining the budget and remaining within our means has surely not been an easy one. But, provided that all line ministries keep within the limits of their allocations and provided that the planned development programmes are timeously and fully implemented, I believe that the budget for 1996/97 will have a significant development impact.