

REPUBLIC OF NAMIBIA

Budget Statement for 1997/98

1. OPENING REMARKS

- 1.1 Honourable Speaker and Honourable Members of the National Assembly, in accordance with Article 125 of the Namibian Constitution, I have the distinct honour to present to this August House the estimates of income and expenditure for the 1997/98 financial year.
- 1.2 I would like to devote the opening remarks of the budget statement to what I understand to be my assignment as Minister of Finance, and reflect on the role of the budget as an instrument of economic development.
- 1.3 In my previous portfolio as the Minister of Agriculture, Water and Rural Development, I was basically the user of funds who served my particular sector as best as possible with the resources allocated to my vote. However, soon after my repositioning as Finance Minister, I became aware of the difficulties and intricacies involved in allocating public resources, given the widely divergent demands put on the Treasury, the limited means accessible to Government, demands for Government intervention in priority areas, the need to redress the inequalities that still mark the Namibian society, and the Government's commitment to foster a stable economic environment.
- 1.4 Of course, this awareness is not a new one, since it resembles the basic economic challenge human beings face, that is, how human beings use, or fail to use, the resources at their disposal to satisfy their needs. It is against this background, that one realises the significance of the budget as an economic tool and the importance of budgetary policy to affect the level of activity in the economy as a whole. What is expected from the budget in the Namibian context, however, reaches beyond the management of the national economy; it involves changes and interventions in the sectoral, regional, social and even political spheres of the economic society as well.
- 1.5 Nevertheless we need to acknowledge, that the budget cannot be held solely responsible for correcting all social and economic woes of Namibia. A much stronger economic management effort from the Government as a whole is required to make desired impact on the socio-economic development of Namibia. Moreover, to be an effective instrument of addressing the development needs of the society, the budget itself must be structurally reformed to make it more maneuverable and flexible. At present the budget is a rather rigid tool leaving little room for change and fine-tuning, basically because of the predominance of recurring expenditure commitments over which any Minister of Finance will have very little influence.
- 1.6 It is against this background that I would like to present the Budget for 1997/98. In the rest of my statement I will, firstly, raise some pertinent issues relating to **economic management** in Namibia, secondly, reemphasize the pressing socio-economic

dilemmas that continue to face us, thirdly, examine current economic developments and future economic prospects, fourthly, set out the economic and budget objectives and policies to be pursued during the 1997/98, and finally outline the design and the composition of the Budget.

2. PERTINENT ISSUES RELATING TO ECONOMIC MANAGEMENT

- 2.1 Hon. Speaker, an **economic management culture** amongst the administrators and users of public funds is an absolute necessity. Honesty, transparency, accountability, prudence, teamwork and foresightedness are the qualities I would consider as vital elements of a good economic management culture.
- 2.2 Information regarding the Government's fiscal objectives, policies and operations must be accessible and publicly debated and analysed. The legislator, the private investor, the foreign donor, the tax payer, the media and the public at large will certainly benefit from this enhanced **transparency** in the public administration. Closely related to transparency, is **accountability**. To be fully effective, measures to achieve political and legal accountability need to be accompanied by arrangements to make the Namibian civil service accountable. To this end, the performance of public agencies and officials requires monitoring and an effective system needs to be put in place to correct possible bureaucratic inefficiencies and abuses. It is paradoxical, Hon. Speaker, that the annual budget is exposed to considerable measure of political and public debate, while the eventual outcome of these budgets goes by with very little scrutiny and interest by the same public. For this reason, I feel that the Auditor-General's reports and probes, as well as the parliamentary scrutiny of the public accounts, should be supplemented by periodic feed-back about the state of accounts, the financial position of government and the success or failure in achieving the agreed upon budget objectives. I would therefore like to provide relevant feedback at the end of each financial year to this House, while briefing Cabinet more regularly on the progress in budget implementation. Finally, I would instruct my officials to periodically *Gazette* relevant information about Government's revenue, expenditure and debt position.
- 2.3 Hon. Speaker, another aspect of **accountability** that is firmly drawing my attention is the growing tendency amongst line ministries to call for the creation of extra-budgetary funds, entities and / or accounts. The ostensible rationale for creating these extra-budgetary entities is to facilitate the channelling and spending of donor money, earmarked revenue or, in some cases, even loan funds. Please note that I am not referring here to the issue of commercialisation, which is Government policy with which I fully concur. Where there is a clear commercial character associated with the creation of accounts or funds outside the State Revenue Fund, outsourcing would be a distinct possibility, but the creation of extra-budgetary accounts, funds and entities in order to evade financial and staff rules and regulations would certainly be resisted and refused.
- 2.4 Another key requirement for a well founded economic management culture is **expenditure planning**. Ministries preparing their expenditure estimates should have a clear idea of where they are going and how they want to achieve their goals. The NDP1 and the policy framework approved by Cabinet before the commencement of the budget formulation process clearly spell out the national objectives and policies. These

objectives and policies should be the guiding principles to commit all Ministries to design and submit their expenditure programmes for the Budget. The Ministries should also deliberate on how and when to achieve the national and sectoral goals. Well researched, prepared and presented expenditure programmes always have a better chance of receiving funding than those that are based on vague generalities, incomplete information or pure guesstimates. It is much more reassuring to support those ministries that have a clear long-term vision of their objectives, strategies and projects than those that regularly seek support for those "immediate" or "urgent" projects that emerge during the course of the financial year. This discipline applies with equal force to external government agencies and state-owned enterprises that lodge requests for funds, credit or guarantees to the Ministry of Finance. In the same vein, I do not see the need for Ministries to unreasonably shift funds within their votes to rectify over and underspent items. Excessive transfer of funds within budget votes, or virementation as Treasury calls it, is further evidence of deficient expenditure planning, lack of foresightedness and weaknesses in reconciling the sectoral goals and programmes, on the one hand, with expenditure requests, on the other. In this regard, I will take a stricter stance on requests for funding not provided for in the budget, on inadequately justified expenditure programmes and on excessive shifts of funds within individual votes.

- 2.5 Hon. Speaker, the recent increase of detected fraud cases could imply that there are numerous other instances of fraud that are still undetected. As custodian of public funds and as supervisor over public properties, the Ministry of Finance will have to deal with this situation as a matter of urgency.

3. POLICY ISSUES

- 3.1 Hon. Speaker, in perusing the past six budgets since Independence, one realizes that economic policies pursued by the Government are basically aimed at the attainment of the dual objectives of growth and equity within the context of macroeconomic stability. The underlining factors for the choice of these two objectives are the realization that only through accelerated growth of the economy can a meaningful improvement in the welfare of the people be achieved, and the concern about the persistent highly skewed income distribution and the need therefore to implement socially acceptable equity programmes. Another factor implicit in pursuing policies aimed at achieving macroeconomic stability is the realisation that these would not only enhance activities at home, but also assist in integrating Namibia's economy into the regional, as well as the global economy. The circumstances in which these policies were formulated still persist today, and therefore, my approach towards the 1997/98 budget would continue to be guided by these broad objectives and policies.

- 3.2 Hon. Speaker, allow me to highlight the most crucial issues that continue to confront the Namibian economy and thus the Namibian society. I would like to single out three critical, yet related, problem areas, namely, unemployment, sluggish economic growth, skewed distribution of income, which, incidentally, are the main focal points of NDP1. In addition, in presenting the seventh budget since Independence, I believe it is certainly a suitable opportunity to reemphasise the importance of fiscal consolidation and prudence in the public sector. Apart from my opening remarks in this regard, I will return to various issues relating to good governance during the course of my

statement.

- 3.3 Although accurate data are not available to prove the current magnitude of **unemployment** in Namibia, the Honourable Members will agree that the situation is critical. The causes and manifestations of unemployment in Namibia are intricately intertwined which, together with dualism in the Namibian society and economy, makes the definition and the solution of the problem extremely complicated. The consequences of unemployment manifest themselves in a number of social ills. It is the primary cause of poverty, crime, violence, substance abuse, suicide, family disintegration, homelessness, squatting and many more.
- 3.4 In combatting unemployment, one soon finds oneself addressing both causes and effects of unemployment at the same time. Namibia, in this regard, is no exception. The question therefore arises: how should and could Government use the budget and related instruments to address this particular problem.
- 3.5 **Economic growth**, as we will soon establish, will become a pertinent issue in Namibia over the remainder of the plan period of NDP1. At least one reason for the significance of economic growth in Government's policies, is the fact that we are falling behind the target of 5 per cent growth set forth in the five-year Plan period ending in 2000. Economic growth, as I have indicated earlier, is needed to improve the welfare of the people, and will strengthen the Government's hand in pursuing policies aimed at narrowing social inequalities.
- 3.6 Real *per capita* income has risen on average by 0.6 per cent between 1990 and 1995. In 1996, however, the real *per capita* income declined by 0.3 per cent. Clearly, these numbers demonstrate that the rate of economic activity needs to be accelerated strongly. Admittedly, factors external to the economy have lately played major roles in determining the pace of growth and the direction of development of the economy. The droughts have become a frequently recurring characteristic of the economy which significantly impact on the performance of the agriculture sector, and the economy at large. Another phenomenon that has an equally significant effect on the economy is the performance of the regional and the international economies. Beyond these factors, however, the recent slowdown in the economy should to a large degree be ascribed to sluggish increase in fixed capital investment since 1994.
- 3.7 Another pressing issue is that of **distribution of income and opportunities**. The policy of national reconciliation as well as that of affirmative action have made a meaningful impact on the glaring signs of inequalities in Namibia. Moreover, the Government's programmes of social and economic upliftment of neglected regions of the country, particularly those affected by the liberation struggle, have opened up opportunities, have stimulated economic activity and have relieved acute cases of poverty in those regions. However, the highly skewed distribution of income, wealth and opportunities remains highly conspicuous and the gaps, despite Government intervention, are still disappointingly wide.
- 3.8 Additionally, let me touch on the subject of prudence as part of the Government's fiscal policy. I believe that fiscal prudence sets the groundwork for growth, which, in turn, is an important precondition for defeating poverty in the long run. I further believe that we

have succeeded in bringing expenditures more closely in line with revenues to ensure that the resulting deficits are consistent with other Government macroeconomic policies and objectives. However, in two areas considerable strengthening is required: one, to improve the effectiveness of government spending, and, two, to enhance our administrative capacity to design and implement high-quality expenditure and revenue programmes.

- 3.9 Before I continue to discuss the outlook for the 1997/98 national budget, I would like to review some pertinent economic developments that took place during 1996 and to envision some aspects of the economic environment that will affect our Budget for 1997/98.

4. **THE ECONOMIC ENVIRONMENT**

The global economy

- 4.1 The **world economy** is continuing, on average, to grow at a satisfactory pace, and is supported in particular by buoyant growth in many emerging market economies. The economies of the seven major industrial countries have shown some signs of weakness, but began picking up again during the course of 1996. While growth has clearly slowed below average in some cases, factors that appear to lie behind the slowdown are likely to prove temporary. Overall, there do not seem to be grounds to expect a prolonged or generalized slowdown, and global growth is expected to be around 4 per cent a year in 1996 and 1997 as compared with the rate of 3.5 per cent to which it slipped in 1995.

Regional economies

- 4.2 Economic conditions in **developing countries** remain buoyant and it is anticipated that growth in some of these countries will accelerate still further. Some of the poorest countries, especially in Africa, have strengthened their growth performance and prospects as a result of vigorous efforts to implement far-reaching macroeconomic and structural reforms. Many African economies are, however, still distressed by inadequate external resource flows to supplement domestic savings and to increase investment, and by persistent external indebtedness which seriously impedes their development efforts.
- 4.3 Specifically, the **South African economy** is experiencing a slowdown in overall economic activity, mainly because of weakened private consumption and investment demand. The South African current account deficit is, however, narrowing due to the strong export drive and the weakened domestic demand. Strong depreciation of the rand since mid-February 1996, both in nominal and real effective terms, could to some extent be explained by a number of weak economic fundamentals, but to large extent speculation has played a key role in putting pressure on the currency. Fortunately, the currency had stabilised towards the end of last year, and it is anticipated that its position will remain fairly stable throughout 1997.

The conditions in the Namibian economy

4.4 In view of the fact that the economy was seriously exposed to harsh external influences during the past year, which prevented it from achieving its full economic potential, overall economic activities slowed down markedly. On other fronts, significant progress was recorded. I would regard the following as the key economic factors during last year:

- (a) The rate of **economic activity** has been slowing down over the past two years, which basically reflects the unfavorable circumstances that faced communal agriculture, and the deteriorated conditions in most secondary industries, notably in fish processing, electricity supply and construction, as well as a strong relapse in the hotel and restaurant sub-sector. As a consequence, the rate of economic growth decelerated from 6.4 per cent in 1994, to 5.1 per cent in 1995, and to 2.8 per cent in 1996.
- (b) The excessively high **rate of inflation**, which had beset the Namibian economy for more than 10 years, has reached a more manageable level of 8 per cent in 1996, following the gradual decline since the middle of 1995.
- (c) Although the nominal level of **fixed investment** in relation to the GDP is encouraging, I am concerned about the sluggish real increase recorded since 1994.
- (d) Current account of the Namibian **balance of payments** has come under pressure due to sustained strong imports related to domestic consumption and investment demand and emergency supplies, as well as the deteriorated export base, because of adverse climatic conditions.
- (e) The **fiscal deficit** has been contained below 5 per cent of GDP and below the budgeted limit over the past four financial years, reflecting a combination of fiscal restraint, strengthened revenue collections and a measure of underspending on capital projects.
- (f) Driven by the restrictive **monetary policy** stance, the strong expansion in bank credit extended to the private sector in Namibia has hesitantly started slowing down.

Prospects for the Namibian economy

4.5 Hon. Speaker, there are a number of positive and negative influences that are likely to confront the Namibian economy during the cycle of the 1997/98 Budget. Permit me now to examine some of these opportunities and risks.

4.6 There are a number of promising developments in the global, regional and national economies that could reinforce the inherent vigour of our own economy. Here I refer specifically to the following:

- (a) The most outstanding development for the Namibian economy is the above-average rainy season with which most regions of the country are being blessed. This has considerably enhanced the medium-term prospects for the

agricultural sector and hence also the outlook for the economy in general.

- (b) The world economy is expected to continue in an upward phase, with growth in trade volumes even more robust than that of output volumes. Sustained foreign demand, coupled with increased price competitiveness, should give Namibian exporters the prospect for a more robust performance.
- (c) Combined with this is the added prospect of further global trade liberalisation on which Namibian exporters can capitalise.
- (d) The weakened exchange rate is expected to stabilise during 1997, and, depending on the strength of foreign capital inflow into South Africa, could even appreciate in real effective terms.
- (e) Considering the detrimental effect of sustained high real interest rates on consumer demand and on GDP growth, there is a distinct possibility that the South African monetary authorities will lower the bank rate as soon as the tight money market conditions begin to ease in 1997.
- (f) Although observers anticipate a short-lived slowdown in the South African economy, they believe that the fundamentals are in place for a more robust growth performance in a more stable environment by 1998.
- (g) South Africa has recently introduced a policy package aimed at achieving macro-economic stability by reducing the budget deficit, encouraging savings, containing inflation, stabilising the exchange rate, and further liberalising exchange control and trade policies. These policies also suit Namibia, since they are broadly in line with our own policy objectives and could improve Namibia's efforts to attract foreign investment.
- (h) Namibia is also striving to find a positive and early conclusion to the ongoing SACU renegotiations with particular reference to co-responsibility in trade policy formulation and an equitable revenue sharing arrangement.

4.7 There are, of course, also possible threats that could retard the progress of an early recovery of the Namibian economy. These are as follows:

- (a) The agricultural recovery will, most probably, be confined to the replenishment of livestock herds, and will not involve any remarkable improvement in marketing and exports.
- (b) Due to intensified trade liberalisation, Namibian industries that still enjoy some measure of tariff protection would have to become much more price and quality competitive.
- (c) Prices of raw-materials are likely to continue to decline in real terms and could adversely affect the prospects of the Namibian base metal industry.
- (d) The slowdown in the South African economy in 1997 will, due to our close trade

and financial links, also affect the performance of the Namibian economy.

- 4.8 Apart from these positive and negative external leverages that will affect the performance of the Namibian economy in varying degrees, there are a number of homegrown measures that will begin bearing fruit and lead to improved domestic economic conditions. In particular, mining, manufacturing, tourism and financial services sectors are anticipated to show a more robust performance. While Namibia has the capacity to expand at a rate of 5 per cent per annum over the medium-term, especially in view of considerable improvement in the external and internal conditions, I do not believe that we will be able to achieve that kind of growth during this year. After last year's slackening in the growth rate, the economy will most probably move through a consolidation phase in 1997 before a full recovery can be expected in 1998.

5. ECONOMIC AND BUDGET POLICY OBJECTIVES

Broad development objectives

- 5.1 As I have mentioned before, in the formulation and implementation of the 1997/98 Budget we would to a large extent be guided by the development goals and objectives of Namibia's First National Development Plan (NDP1) for the period 1995 to 2000, which is a Policy Document endorsed by this August House. My Cabinet Colleagues and myself are committed to this vital policy document, since it spells out the national, sectoral and regional objectives, strategies and policies. As a way of emphasis, I would like to repeat the overall plan objectives here. These are:
- (a) to ensure rising per capita income for the population, sustain, to the extent possible, a 5 per cent rate of growth of the economy 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.

Economic and budget policy objectives

- 5.2 Hon. Speaker, I have started off by outlining my personal stance in handling the Finance portfolio, after which I reiterated the pressing policy issues and problems that face the Namibian society. Thereafter, I examined the possible consequences of projected economic developments and having this House of our national development objectives. Against this background, I would like to put forward the following economic and budget policy objectives to be pursued during the 1997/98 financial year:
- (a) To reactivate the economy by introducing strategies and programmes aimed at increasing investment and job creation and by diversifying the economy into areas where it is less vulnerable to external factors.
 - (b) To provide for contingencies to neutralise the impact of future adverse climatic conditions.

- (c) To reemphasize the need for fiscal and budgetary discipline and to counter fraudulent activities in public and financial administration.
- (d) To reassess the efficiency and effectiveness of redistribution programmes.
- (e) To review the present structure of Namibia's financial system and institutions with a view to establish a more innovative and development orientated financial system.
- (f) To bring into balance the disproportionate share of personnel expenditure in the total budget by speeding up the design and introduction of measures aimed at down-sizing and right-sizing the public service in line with all WASCOM recommendations.
- (g) To design a prudent and transparent public borrowing policy so as to reduce the potential risk of a growing debt burden.
- (h) To reform Namibia's tax system and administration so as to strengthen collections and enhance tax compliance.

5.3 Hon. Speaker, allow me to be more explicit about each of these objectives.

(a) Reactivating and diversifying the economy

5.4 To ease the unemployment situation in Namibia, the Government has not tried to artificially create jobs. Even in addressing the post-independence social reintegration of the war-affected population, the approach was and still is to create functional job opportunities. The broader unemployment issue was initially addressed by creating an investment friendly environment by bringing down income tax rates and introducing various kinds of tax concessions. This was followed by initiatives to stimulate investment in specific sectors, including mining, fishing and fish processing, manufacturing and export orientated industries. The focal point now has shifted to the stimulation of small and medium-sized enterprises. In addition, a determined process of commercialisation, which can, if proven successful, be augmented eventually by privatisation initiatives, can add considerable impetus to the already established economic climate. I am convinced that the combination of these policies and initiatives can make a meaningful impact on the country's unemployment problem. However, for these policies and strategies to be successful they have to be complemented by commensurate responses from the private sector, from those already employed and from organised labour. The private sector should seize the opportunities emanating from these policy initiatives to expand their existing operations and to invest in new ventures. From those fortunate enough to be employed and from the trade unions representing their interests in the labour market, I expect restraint in their wage demands. Undue pressure on wages actually reduces the prospect of accelerating the pace of job creation and would render most of the policy initiatives ineffective. Hon. Speaker, I am convinced that a meaningful impact could be made on unemployment if all the relevant participants in the economy begin to realise that unemployment does affect each and everyone and not only those without jobs, and that a concerted effort to

create employment opportunities will be to everybody's benefit.

- 5.5 To make the Namibian economy less vulnerable to external factors, the Government began introducing various programmes and strategies aimed at diversifying the economy. The principal way is to stimulate investments and job creation in small, medium and micro enterprises, which can supplement Government's efforts to attract foreign investment. In this regard, the creation of Export Processing Zones in Walvis Bay, Tsumeb, Okahandja and other places is intended to open up business opportunities for export oriented industries taking advantage of the strategic location of our harbour and other favourable sites. So far, some 20 investment applications have been submitted to the Investment Centre of the Ministry of Trade and Industry, 11 of which have been approved with a total projected investment of N\$150 million. The plans for establishing a waterfront development in Lüderitz under the Tourist and Trade Centre Programme have advanced well and will open up opportunities for trade and tourist related ventures in this southern region. Similar schemes will be considered in other neglected regions of Namibia. Measures taken to support small- and medium-scale enterprises include the establishment of national industrial parks and small and medium-scale enterprise development units. In addition, Cabinet has recently approved the Policy and Programme on Small Business Enterprises, which provides a comprehensive policy framework addressing the development needs of small business enterprises in Namibia.
- 5.6 Arrangements to implement a Private Sector Global Loan Facility intended for on-lending to small and medium-sized enterprises have been concluded with the European Investment Bank, via the Bank of Namibia. Up to N\$50 million could be tapped from this source for long-term onlending at favourable and fixed interest rates to ultimate borrowers in sectors, such as mining, manufacturing, agro-industries, fish processing, and tourism. This facility will be supplemented by a facility originating from the interest subsidy of the Global Loan Facility which will be earmarked for a credit scheme for micro enterprises through the Namibia Development Corporation and the Development Fund of Namibia. In addition, an agreement was reached with the European Union to use aid funds from the European Development Fund for further assistance to micro enterprises. To make all these facilities effective, requires a coordination mechanism amongst the various institutions and facilities that cater for small and medium size enterprises.
- (b) Lessening the impact of recurring adverse climatic conditions
- 5.7 Confronted with recurring droughts, Government is being tasked to provide appropriate assistance to lessen the hardship to producers and consumers of agricultural products. Various forms of assistance were provided, which have most certainly strained public resources, for which the opportunity costs are great. What the Government has realised throughout this critical period is that it is not possible to accurately predict weather conditions and to allocate budgetary resources accordingly and adequately. Although the Contingency Provision under the Finance Vote had been tapped to make resources available for emergency assistance, transfer of funds proved difficult because of the tight budget cycle.
- 5.8 To counter this problem, Cabinet has endorsed the idea of creating a Drought

Contingency Fund. Later in the year, I will approach this House to propose the legal framework for the creation of such a Fund which will operate separately from but in parallel to the State Revenue Fund. It is proposed that regular appropriations be made from the State Revenue Fund, which will be allowed to accumulate in the Drought Contingency Fund for appropriation during present and future droughts. This route will strengthen our hand in attracting foreign assistance, and in acting swiftly in cases of emergency, and allow us to account separately for resources obtained and appropriations made, and to assess the impact the assistance has made on the beneficiaries. Beneficiaries, either as individuals or through their union affiliations, will also be required to contribute towards the Fund.

(c) Ensuring fiscal and budgetary discipline

- 5.9 In my opening remarks I have outlined my personal approach, which I believe to be close to that of the Cabinet collective, to ensure fiscal prudence and budgetary discipline and to counter fraudulent activities in public administration. Fiscal prudence, as I have said before, is the cornerstone for economic growth. The fiscal deficit has to be funded by tapping private or foreign savings through borrowing, by printing money, or by some mixture of the three, and we recognise that too great a strain on any of these sources of finances can create major macroeconomic imbalances. Fiscal crises in many developing countries resulting from unsound policies - and the related problems of external debt, inflation and recession - are still very vivid in the minds of all of us.
- 5.10 Fiscal policies, however, tend to lose credibility and effectiveness if the Government's spending priorities are distorted. In certain respects, Namibia faces a serious problem with disproportionate expenditure allocations, which are difficult to reverse or correct. Current expenditure is competing with capital expenditure, labour inputs are crowding out nonlabour inputs, while Government's own spending ability is being reduced by growing transfers from the budget to external government agencies and state-owned enterprises. To bring into balance the lopsided expenditure composition is not an easy task and will require a coordinated effort throughout Government institutions. Although the Ministry of Finance does not strongly intervene in the allocation of resources within the individual votes, it will have to consider becoming more prescriptive in the suballocation of funds if the expenditure composition continues to be distorted.
- 5.11 Hon. Speaker, I would like to return to the growing indications of mismanagement and signs of corruption in Namibia's public administration. However tight the systems and strict the controls, malpractices involving public funds and assets continue to crop up time and again. As Minister of Finance, under the guidance of the Treasury Cabinet Committee, I will come down hard on those guilty of graft and greed by strengthening the legislative powers and by reinforcing control mechanisms to prevent and to timely detect malpractices. The commercial branch of the Namibian Police would require further strengthening to deal with these white-collar crimes. The internal audit department of the Ministry of Finance could also closely collaborate with the Police to assure swifter investigations and apprehensions. Harsh actions recently taken by our courts in dealing with cases of fraud is proof of the gravity with which the society views such crimes. Officials helping themselves to public resources fail to see the consequences for themselves and for the people of this country. In the final analysis,

however, it is not the power of the statute nor the tightness of the systems that would deter corruption, but a change in attitude, leading to greater efficiency, teamwork, compliance and dedication. The Public Service Charter, to which every official will have to subscribe, is aimed at achieving exactly this. Last week in this very House, His Excellency, Dr. Sam Nujoma, when opening this Parliamentary session, said the following: "*We should not leave any room for corruption, graft and inefficiency. This commitment must permeate the entire government hierarchy, from the highest political office bearers to the lowest rank in the public service.*" Let us, therefore, live up to this commitment.

(d) Reassessing the Government's redistribution programmes

- 5.12 Poverty alleviation and other ways of redistributing income and resources have been part of the Government's overall policies. Yet, it is important to reassess whether the resources, in the form of subsidies or other spending, actually reach the poor efficiently and effectively.
- 5.13 In executing the 1997/98 budget we should take care that the poor are properly targeted since in many cases, be it through tax exemptions, provision of water, primary education, basic health care and social pensions, the less poor or even the affluent do actually benefit more from these programmes. Many social ministries have improved their administrative capacity to properly target, identify and reach poor and vulnerable groups in Namibia.
- 5.14 I do, however, believe that the responsibility of alleviating poverty in Namibia should not simply be the responsibility of the social sector ministries; economic sector ministries and their related parastatals could also assist by redesigning their expenditure programmes in agriculture, fishing, construction, commerce, tourism and the service industry, to allow the poor access to participate in these sectors, even if this participation is initially only on an elementary and humble basis. Line Ministries should also consider decentralising their activities into the rural and under-developed regions to allow for greater diversity of services to the vulnerable groups and to activate economic activity in the emerging sectors of the economy.
- 5.15 Hon. Speaker, reintegration of the ex-combatants into the broader Namibian society remains an urgent task. Considerable relief was given through recruitment in the Defense Force, in the Namibian Police and in various projects under the auspices of the Development Brigade Corporation, the Job Creation Fund, and the Social Integration Fund. In addition, the World Bank has offered technical assistance in designing reconstruction and poverty reduction programmes in the northern regions.

(e) Reviewing the financial system and institutions

- 5.16 Another objective for this financial year should be to undertake a complete review of the **structure of Namibia's financial system** and institutions with a view to establishing a more innovative, competitive and development oriented financial system. This review would include the development of a fully operative debt securities market in Namibia, with particular emphasis on activating a secondary market for government debt instruments.

5.17 The review would also involve the streamlining and strengthening of the institutional setup of development and development finance institutions in Namibia. The Ministry of Finance has appointed consultants to carry out a study to determine an appropriate institutional structure which will be able to mobilize long-term capital from local and international sources for development financing in Namibia. The consultants are also expected to advise the Government of any possible reforms needed in the present institutional arrangement to improve the distribution of development capital to final beneficiaries. The terms of reference will further require them to investigate the feasibility of a development bank or an alternative specialised development finance institution for Namibia. Their final findings and recommendations are due next month.

(f) Reducing the share of personnel expenditure in the budget

5.18 Several recommendations of the **Wage and Salary Commission** can be broadly categorised into the following features: remuneration policies and conditions, employment policies and conditions, and efficiency and effectiveness in Government. Since the adoption of the Commission's recommendations, the government's remuneration structures have been modified, involving the introduction of a new grading system and the consolidation of various benefits and allowances into the basic pay. Work on introducing policies and strategies to enhance the efficiency and effectiveness in Government commenced recently. However, in the area of cutting down the size of the civil service much still remains to be done, and in some important respects the implementation of the recommendations is running way behind schedule.

5.19 Given the more attractive remuneration structures resulting from the new grading and salary system, most Ministries were put in a good position to attract better candidates for some key vacancies. This has resulted in an increase in employment under a number of votes, as I will point out later, which is in direct conflict with the spirit of the recommendations of the Wage and Salary Commission. In view of the slow and imbalanced implementation of the recommendations of the Wages and Salary Commission, I am compelled today to propose measures that will hopefully bring the implementation of measures for the down-sizing / right-sizing of the civil service back on track.

5.20 One of the key policy instruments to reduce the Government's employment and its wage bill is through **commercialisation, outsourcing** and eventual **privatisation**. Following the recommendation of the Wage and Salary Commission in 1995, it was acknowledged that privatisation is in principle a meaningful method of reducing the size of the Namibian civil service.

5.21 As an intermediate approach, it was, however, decided to start the process by reforming existing state-owned enterprises and by establishing new commercial entities from existing Government departments, directorates, and divisions. The intention is to establish economically and financially viable enterprises, which are not overly dependent on the Government budget and then to allow partial or full privatisation of these corporations at an appropriate future stage.

5.22 As mentioned earlier, a broad **policy framework** needs to be drafted and criteria set to

facilitate an objective and effective commercialisation and privatisation process. Having accepted these principles, it is necessary to draft a **legal framework** setting out the various practical steps towards commercialisation and privatisation so as to ensure that the agreed principles and standards are adhered to.

- 5.23 Within the broad guidelines already accepted by Cabinet, a number of Ministries have made considerable progress in commercialising and outsourcing a number of functions. Commercialisation of the bulk water supply function will hopefully materialise during this year with the establishment of the NamWater Corporation. The Department of Transport will implement the Dedicated Road Fund during this fiscal year, while the commercialisation of the operation of airports is being investigated. Draft legislation will be considered by this Honourable House to create two new state-owned entities under the Ministry of Environment and Tourism, namely the Namibia Wildlife Resorts and the Namibia Tourism Board. Numerous other functions have been tentatively earmarked as possible candidates for commercialisation and the Office of the Prime Minister is doing the groundwork by investigating the suitability and desirability of commercialising these entities. During the second reading debate, my Cabinet Colleagues will provide details of the progress made under their respective Ministerial votes.
- 5.24 Once again I wish to reiterate that outsourcing of government activities can only be considered in cases where the alienated entity can become commercially viable. The idea of outsourcing of non-commercial entities for the purpose of evading public scrutiny and control should not even be entertained.

(g) Formulating prudent and transparent public borrowing policy

- 5.25 Although the level of Namibia's overall public debt is still manageable, there are a number of disturbing factors. Firstly, the speed with which the post-independence debt has accumulated is quite alarming -- from 2 per cent of GDP at Independence to 16 per cent at the end of March 1996. Secondly, due to the grace period granted to most foreign loans, the servicing of these loans will only be felt in a few years time. Thirdly, there is a growing threat emanating from financial guarantees issued by the Government in favour of borrowing activities by external public agencies and state-owned enterprises, which could possibly further increase Government's ultimate indebtedness. These concerns, therefore, require a closer examination of all the issues pertaining to debt management in Namibia.
- 5.26 In the **domestic market** Namibian treasury bills and government stocks are issued in what could be described as a captive market where the demand for securities exceeds the supply by wide margins. There is, therefore, no question of crowding-out private credit, since the bulk of the securities are held by non-bank financial institutions. This situation resulted from the local investment requirement introduced by the Government to repatriate Namibian portfolios invested mainly in South Africa. As a result, too much emphasis is put on primary market issues, with little consideration given to market making in the primary market to appropriate structures for the development of secondary markets.
- 5.27 Namibia has the required characteristics to develop a fully operative debt securities market. The first priority, i.e. to develop the short end of the debt securities market has

already been achieved. It is important also to ensure active participation in the market by allowing more dealers and traders, thereby enhancing trading and liquidity in the securities market. The next step would be to improve the selling techniques and market making systems to encourage market development as well as monetary control.

A third step would be to gradually increase the maturity of debt instruments sold and traded until full yield curves have been established. It would also be necessary to consider separating the Bank of Namibia's role as monetary authority, on the one hand, and its role as primary marketing agent for Government securities, on the other. These developments will strengthen the Bank of Namibia's hand, within the limits of the CMA, to exercise some monetary policy interventions, mainly to secure liquidity in the financial system. In addition, an actively performing debt securities market in Namibia would certainly also open the window for foreign investors to come in.

5.28 Closely related to borrowing policy is the government's **cash flow analysis**. In this area, considerable strengthening is definitely needed since a proper cash flow analysis and projection will redress some of the current problems experienced in determining the Government's borrowing requirement. The Government's cash resources should be monitored constantly as the change in these resources, together with revenue and expenditure trends, will provide reliable information about the evolution of the budget deficit, which in turn would serve as basis for determining the Government's local and foreign borrowing requirements.

5.29 As far as **foreign borrowing** is concerned, clearer guidelines and procedures have to be issued to stop the current *laissez-faire* approach that has developed in Namibia, whereby line ministries commit the Ministry of Finance, and thereby the whole country, to enter into foreign loan agreements which are not scrutinized beforehand to determine the fiscal and monetary implications of the loan commitments and the feasibility and desirability of the projects. The Ministry of Finance, in conjunction with the National Planning Commission, the Office of the Attorney General and the Bank of Namibia will in due course draft standard instructions for securing foreign loans for Government and for the issuing of Government guarantees for foreign borrowing by parastatals and other bodies. Such instructions are necessary to prevent some of the administrative and legal problems experienced in the past. Considerable institutional and staff strengthening is also required in the debt management unit of the Ministry of Finance.

(h) Reforming Namibia's tax system and administration

5.30 To increase the degree of tax compliance by existing and potential taxpayers in Namibia, to ensure greater efficiency and fair and equitable treatment of all taxpayers, the Ministry of Finance has embarked upon a major tax administration modernisation project. The project involves the redesigning of the institutional setup and staffing requirement of the Inland Revenue Department, the revision of work procedures and operations, staff training, updating of the existing legislation and enforcement tools, and designing and installing new computerised tax administration applications.

5.31 As far as the organisational structure of the Inland Revenue Department is concerned, a decision was already taken to decentralise the activities of the department into regional offices so as to offer a better and more convenient service to the taxpayer and

to increase tax compliance.

- 5.32 Part of the project will be to examine and update existing tax systems. In this respect, investigation into the feasibility of a **value added tax (VAT)** will start soon for possible introduction sometime between 1998 and 2000.
- 5.33 The effectiveness and responsiveness of the concessions and incentives offered under the existing income tax regime will also be examined in view of their complicated and isolated application. The possibility of introducing cash incentives as alternative to tax incentives will be part of such investigation.

The expected outturn for 1996/97 and its implication for the 1997/98 Budget

- 5.34 Before presenting the framework for the 1997/98 budget, I would like to give the Hon. Members a cursory view of the preliminary outcome of the current budget ending at the end of this month, since this will reflect upon the structure of the new budget.
- 5.35 You will recall that the additional budget for 1996/97 which I tabled in this House in November last year had the effect of increasing the overall deficit in relation to GDP from 4.1 per cent in the original budget to 4.9 per cent of the GDP. The recorded trends of revenue and expenditure so far indicate that the targeted deficit of 4.9 per cent of GDP will not be reached, but it is most likely to be closer to the original level of 4.1 per cent. Such a budget outturn is, however, not confined to the 1996/97 financial year, since over the past number of years, expenditure programmes are not being fully implemented, while more revenue is being collected than estimated in the original and revised budgets.
- 5.36 I would, therefore, express my concern over our country's failure to meet its target deficit levels. The mismatch between the actual and budget deficit in relation to GDP implies that the originally planned expansionary impact of the budget is not being achieved. Although a lower than anticipated budget deficit is desirable from a macroeconomic stabilization point of view, it also reveals that there are still considerable deficiencies in the planning and implementation capacity of Government Ministries. Many Ministries will have to strengthen their project design, costing and implementation capacities to ensure timely and effective budget execution.

The write-off of Namibia's pre-independence debt

- 5.37 Hon. Speaker, it gives me pleasure to inform this House that the South African Parliament has passed legislation recently that will enable South Africa to enter into a bilateral agreement with Namibia to finally cancel the debt that was accumulated by the former administration before Independence.
- 5.38 Cancellation of the pre-independence debt will take effect when the bilateral agreement entered into by the respective Ministers of Finance will be ratified by the respective Parliaments. As soon as my South African counterpart and myself have concluded the agreement, I will approach this House for its ratification. It is expected that this process will be completed during April 1997, whereafter some **N\$1.6 billion** will disappear from the debt records of the Republic of Namibia.

- 5.39 I am extremely grateful and so ought to be this August House for the amicable way the two Heads of State, Drs. Nujoma and Mandela, have handled and settled this vexing and sensitive political, as well as financial, problem.
- 5.39 Against this background, I would like to present you with a brief review of the main aggregates of the revenue and expenditure side of the budget and to set out the level and financing of the deficit for the financial year 1997/98.

6. RESOURCE MOBILISATION IN 1997/98

- 6.1 Actual revenue collections for the fiscal year 1995/96, estimates for the 1996/97 budget, as well as estimates for 1997/98 are shown in the printed budget document.
- 6.2 Total estimated revenue for 1997/98 from all tax and non-tax revenue sources, including grants, is put at **N\$5199 million**, which represents an increase of **N\$676 million**, or almost 15 per cent over the 1996/97 budget. This rate of increase is somewhat lower than the 17 per cent increase in revenue collection between 1995/96 and 1996/97. Growth in tax revenues is expected to decrease more notably from about 18 per cent in the 1996/97 budget to 14 per cent in 1997/98. This slowdown in the nominal expansion in revenue reflects the lower rate of inflation, lower consumption levels, as well as relapse in some key sectors of the economy. However, measured in relation to GDP, total revenue is expected to increase marginally from 33.4 per cent in 1996/97 to 34.4 per cent in 1997/98.
- 6.3 Tax revenue as a percentage of GDP is anticipated to increase mildly from 29.5 per cent in 1996/97 to 30.1 per cent in 1997/98. This expansion, which is discernible in virtually all tax categories, is attributable to the fact that the estimated proceeds are expected to rise faster than the growth in the nominal GDP. This in turn is not due to any increases in the tax rates, but rather the fruits of our initiatives to improve tax administration and compliance.
- 6.4 Namibia's revenue from the Customs Union is showing steady growth, both in absolute terms and in relation to GDP, and in 1997/98 has become the largest single tax category. In previous years, the category of domestic taxes on goods and services had been the largest revenue earner. Still, the overall composition of Namibia's tax revenue remains fairly well balanced between income tax, customs union revenue, and other indirect taxes.

7. EXPENDITURE PROPOSALS FOR 1997/98

The proposed level and composition of expenditure

- 7.1 Total expenditure proposed in the budget for 1997/98 amounts to **N\$5755 million**, which is N\$681 million, or 13.4 per cent above last year's budget. This rate of increase represents a considerable slowdown compared with the expansion of the previous budget of almost 17 per cent. The rise in the total budget will, however, be higher than the nominal expansion of the GDP of 11.5 per cent, and, as a result, the share of the budget in the GDP will increase from 37.5 per cent in 1996/97 to 38.1 per cent in

1997/98.

- 7.2 The composition of expenditure shifted slightly in favour of capital and development expenditure, including lending and equity participation and capital transfers. These expenditures are estimated at **N\$999 million**, which represent an increase of about 21 per cent over the provision for 1996/97. With this provision, the share of capital and development expenditure in the total budget is expected to increase from 16.2 per cent in 1996/97 to 17.4 per cent in 1997/98.
- 7.3 The provision for current expenditure for which approval is requested from this House, is put at N\$4546 million which is about 11 per cent more than the allocation in the previous fiscal year. This compares favourably with the increase in current expenditure recorded between 1995/96 and 1996/97 of almost 16 per cent.
- 7.4 In 1997/98 N\$210 million, 3.6 per cent of the total budget is set aside for statutory expenditure, which refers mainly to interest payments on Government debt, which, due to higher interest rates, is slightly up from the 3 per cent share reserved for this purpose in the previous budget.
- 7.5 Hon. Speaker, the overall composition of the Budget is consistent with our broad policy objectives. The consistent increase in capital expenditure over the last two financial years is evidence of our commitment to stimulate long-term development of our economy. Value is added through the creation of capital assets, while future generations will be given the opportunity of using these assets for productive activities.
- 7.6 However, as I have already pointed out, the provision for the Government's wage bill for 1997/98 still causes reason for concern, because of its effect of crowding out non-personnel related expenditures. In 1997/98 about N\$2.6 billion, or 14 per cent more than the provision of N\$2.3 billion in the previous fiscal year, has been estimated for personnel related expenditure. There has already been a considerable slippage in halting the expansion in personnel costs between 1995/96 and 1996/97. Hon. Speaker, I am afraid that the lack of progress in down-sizing the civil service has to a large degree been carried forward into the new fiscal year. The Wage and Salary Commission had recommended that as from fiscal year 1996/97 there should be a five year programme of reduction in the provision for personnel cost of 2 per cent per annum. Instead, the provision for personnel costs has increased by 14 per cent two years in succession. Given the fact that we have fallen behind on this score, and given the limited scope of reducing the staff size to the suggested levels over the short-term, I have recommended, with the approval of Cabinet, that the "second phase" salary adjustments, which were initially scheduled to be implemented on 1 April 1997, be postponed until measurable and commensurate progress in down-sizing the civil service has been made. This strategy would, of course, require the full cooperation of all the line Ministries in adhering to this provision and in participating fully in the initiatives undertaken by the Office of Prime Minister, which is tasked to oversee and steer the implementation of the recommendations of the Wage and Salary Commission.
- 7.7 Let me finally revert to the importance of nurturing an **economic management culture** in Namibia. I cannot overemphasise the significance of enhanced **transparency** and

accountability in the execution of the 1997/98 budget. Since the limits of the Budget are already stretched as far as the composition of expenditures is concerned, careful **expenditure planning** is an absolute necessity in utilising the allocated funds. The Ministry of Finance will monitor the utilisation of funds very closely, while the Office of the Prime Minister is committed to containing the staffing at reasonable levels.

8. THE LEVEL AND FINANCING OF THE BUDGET DEFICIT

The level of the budget deficit

- 8.1 In harmony with the framework provided in NDP1, the government will provide a sustainable fiscal balance and will lower the fiscal deficit to around 3 per cent of GDP towards the end of the Plan period. The preliminary outturn for 1996/97 indicates that the overall budget deficit will be in the region of 4 per cent of GDP.
- 8.2 Given the long-term the target of 3 per cent by the year 2000, and given the available resources for the 1997/98 fiscal year, the budget has been formulated to not exceed a deficit level for 1997/98 of 3.7 per cent of the expected GDP.
- 8.3 The revenues and grants that could be mobilised in 1997/98 amount to **N\$5199 million**. This exceeds the amount provided for current and statutory expenditure by N\$444 million or 9.3 per cent. These surplus savings of current revenue over current and statutory expenditure, is able to finance about 44 per cent of total capital expenditure. The remainder of N\$555 million, or 56 per cent of total capital expenditure, will be financed by borrowing and by drawing down the State's cash reserves.
- 8.4 The overall fiscal deficit for the 1997/98 financial year of **N\$555 million** is only N\$5 million more than the fiscal deficit proposed in the 1996/97 fiscal year. In relation to the GDP the deficit is anticipated to be reduced from 4.1 per cent to 3.7 per cent. This achievement demonstrates our determination of reducing Government's expenditure levels at a faster rate than the revenue collections, relative to overall economic activity.

The financing of the budget deficit

- 8.5 Since Independence, the Namibian Government has borrowed almost exclusively from the local financial market, although some foreign borrowing was secured during the last few years. The instruments Government uses to tap the local market are basically in the form of short-term treasury bills and short- to medium-term government stock. The foreign borrowing window has been opened only after a suitable arrangement had been secured with the Bank of Namibia in terms of which the Government's foreign exchange risk was neutralised by reinvesting the foreign borrowed currencies in overseas markets.
- 8.6 As to the composition of foreign and domestic borrowing, I feel that Namibia should carefully consider taking advantage of foreign loans currently offered by bilateral and multilateral finance institutions to finance capital projects specified in the Budget. The

balance of the deficit should be financed from Government's cash reserves and by issuing securities in the local money and capital market.

9. CONCLUSION

- 9.1 Hon. Speaker, the preconditions under which I am tabling the Budget for 1997/98 today are reflecting the distinct setbacks recorded last year in key sectors causing the growth in the economy to slow down markedly. Sluggishness in some of the industrial sectors is likely to be carried forward into the ensuing year, but, as mentioned before, there are also a number of promising developments anticipated in the external economic environment that will enhance the prospects for an early recovery in the Namibian economy.
- 9.2 Nevertheless, the Budget bears the message of cautious optimism - cautious, because of the conservative way the revenue and expenditure sides of the Budget are designed; optimistic, as a reflection of the fruit to be borne from the pragmatic policy framework put forward in this Budget. I am of the opinion that fiscal prudence sets the groundwork for economic growth and prosperity. Therefore, our policy objectives are primarily aimed at fiscal consolidation and prudence in the public sector.
- 9.3 The economic and budget policy objectives for 1997/98 signal our determination to stabilise the macroeconomic environment within a fairly sluggish and vulnerable phase of the economy. The increased surplus of Government's current revenue over its current expenditure is our contribution towards the national savings effort, which, together with the firmer provision for capital expenditure is aimed to further stimulate investment and job creation. This is supplemented by expenditure programmes aimed at enhancing investment in private small, medium and micro-business enterprises. The proposals further include efforts to meet the reduced deficit level and the timely and effective implementation of expenditure programmes and development projects. In addition, proposals are made to bring the civil service reform back on track, so as to release resources that could be better used to implement suitable expenditure programmes to increase the pace of development.
- 9.4 In summary, the policy proposals for the 1997/98 financial year are aimed at speeding up the process of fiscal consolidation and to make the budget more development oriented. These are important policy approaches which would be the prime source of macroeconomic stability and increased confidence for investment which would prepare Namibia to reap the benefits of increased integration of goods and financial markets in the regional as well as global economy.
- 9.5 I now have the honour to call upon the Honourable Members of the National Assembly to debate, analyse, query and thereafter approve the expenditure to be voted for the 1997/98 financial year.

I thank you.