



2012/13
Budget Statement
Fiscal Sustainability and Job Creating Growth
Jointly Doing More with Less

Presented by
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Minister of Finance

28 February 2012

What does this Budget Offer?

Honourable Speaker,

1. I rise today to table before this august house the 2012/13 Appropriation Bill and the 2012/13 to 2014/15 Medium-term Expenditure Framework (MTEF). I rise to present the budget which allows Government to stay on course in terms of poverty reduction, enhanced domestic economic development, improved service delivery and accelerated job creation. This budget has been formulated and it will be implemented amidst exceptionally uncertain global financial and economic challenges.
2. The budget recognizes the potential negative impact of the global economic environment on the domestic economy and the fiscus. Simultaneously, the budget recognizes inherent structural challenges and urgent national priorities in our economy for which fiscal policy has a prominent role to play.
3. During the previous and current MTEF, we have significantly expanded the budget, thanks to our strong pre-2008 fiscal position. The expansion was aimed at cushioning the domestic economy from the severe impact of the global economic downturn and addressing the structural challenges in the economy with added impetus.

Honourable Speaker,

Honourable Members,

4. The expansionary fiscal policy we pursued since 2008/09 has served our country well. We have shielded the economy from the severe effects of the global economic meltdown. After a mild recession of 0.4 percent in 2009, the economy rebounded in 2010 with a relatively high growth rate of 6.6 percent.
5. In terms of fiscal parameters, the expansion was not costless. The budget deficit has reached an estimated 11.2 percent of Gross Domestic Product (GDP) in 2011/12 and Central Government debt has increased from 16.6 percent in 2010/11 to an estimated 27.0 percent in 2011/12. This progression has placed us on the upper limits of our fiscal benchmarks.

*Honourable Speaker,
Honourable Members,*

6. When His Excellency, President Hifikepunye Pohamba addressed this house last year on the State of the Nation, he said and I quote: *“Our country faces many socio-economic challenges that must be addressed urgently. These include unemployment, poverty, socio-economic inequalities, labour skills shortages and a narrow industrial base.”* These challenges still remain and the budget before you is a continuation of our targeted approach to overcome them.
7. This is a cautious, but targeted budget. It maintains the fiscal expansion envisaged in the 2011/12 to 2013/14 MTEF, amidst an extraordinary challenging global economic environment. The budget summons our collective responsibility to eliminate waste, to be targeted and timely with programme implementation and to do more with less.
8. There are **four** core areas for fiscal policy during the Medium-term Expenditure Framework (MTEF).
9. **First**, we have to continue entrenching macroeconomic stability by ensuring that our fiscal operations remain on a sustainable path. In this regard, the MTEF encapsulates fiscal restraint, which maintains expenditure commitments in real terms, but guards against significant expenditure expansion. Our goal to maintain fiscal prudence will be supported by renewed efforts to strengthen domestic revenue collection and administration.
10. **Second**, this budget is unrelenting in its resource allocation to priority economic and infrastructure sectors, with the objective of placing the economy on a high and inclusive growth trajectory. We have to depart from the episode of jobless growth. By any measure, unemployment and poverty levels remain unacceptably high. This budget carries forth the resource commitments and prioritization engendered in the Targeted Intervention Programme for Employment and Economic Growth (TIPEEG). The budget provides for significant public investment in key economic and services infrastructure in order to address supply-side constraints and create robust conditions for private sector-led growth and job creation in the long-term.

*Honourable Speaker,
Honourable Members*

11. This is not to discount the progress we have made and the successes we have achieved since 1990. We have maintained macroeconomic stability, fiscal prudence and external financial viability, which have become innate attributes of the SWAPO PARTY-led Government. This is serving us well and drew recognition from the world's financial markets. We have also managed to provide fiscal support to the economy at the height of the global economic meltdown.
12. In this budget, we are making a timely and collective decision for a gradual withdrawal of significant fiscal expansion, in order to regain fiscal space and to be able to deal with future exogenous shocks on our economy.
13. The priority must be to create productive jobs in the private sector and to progressively reorient TIPEEG towards supporting job creation in the long-term. We should also accelerate growth from the current rates of 4 percent annually, if we are to reach a high-income and industrialized status by 2030. Hence the continuation of the targeted interventions under the TIPEEG dispensation in the medium-term.
14. **Third**, the 2012/13 budget summons the venerable duty of individual Offices, Ministries and Agencies (O/M/As) to reduce wastage and to waste neither time nor energy to implement programmes and to realize internal efficiency and value for money. This is what priority allocation and operational efficiency are all about. The core message emanating from the first year of TIPEEG implementation is that more money *per se* does not guarantee success. We have to inculcate the culture of innovation and efficient service delivery.
15. **Fourth**, the budget deploys resources to strategic infrastructure development projects to facilitate regional trade and expand our domestic production frontiers.
16. This Budget proposes policy actions aimed at accelerating inclusive economic growth, job creation and efficient service delivery. Unfortunately, we are facing adverse external conditions, but we can meet our goals if we make a virtue out of necessity.

*Honourable Speaker,
Honourable Members,*

17. I do not propose that we engage in collective pessimism. We should resolutely address the challenges we face. However, one thing is clear. Government is determined not to replicate the debt crisis that emerged in other parts of the world, where excessive and unaffordable debt has brought recession and worsened unemployment. Instead, we will rein in significant expenditure expansion, stabilize growth in public debt and strive for public spending that will support high economic growth and increased employment, while maintaining macroeconomic stability.
18. This is what this Budget will offer. It proposes programmes and reflects policies that will incite all of us to do more with less.
19. Let me unveil the medium-term fiscal objectives up front. In the coming MTEF , Government will provide policy and programme support for:-
 - macroeconomic stability and external financial viability to be maintained;
 - maintaining prioritization of resource allocation to economic sectors with high growth and job creation potential under the TIPEEG dispensation.
 - promoting a conducive environment for our entrepreneurs to innovate, invest, employ and export more;
 - empowering our youth to acquire new and up-to-date skills in schools, vocational training institutions and at the workplace;
 - strengthening the capacity for our country to become self-sufficient in power supply;
 - encouraging Government institutions to become more innovative and more efficient in programme execution and service delivery
 - enhancing public expenditure programmes to produce better results;
 - encouraging our labour unions and public servants to exercise restraint in wage negotiations;
 - encouraging our people and enterprises to contribute more revenue to Government;

- contributing to the development of strategic infrastructure, such as turning the Greater Walvis Bay Area into a Regional Hub for clustered investment in logistics support, shipping, industrialization and service delivery to Western, Central and Southern Africa Regions
- providing the resources for Government to mitigate the impact of, and our people to adapt to climate change, and
- Ensuring deeper regional economic integration and improve Namibian merchandize export capacity.

*Honourable Speaker,
Honourable Members,*

20. Allow me to give an account of developments for the fiscal year that is now almost behind us. Then, I will proceed to summarize policies and programmes that Government proposes to carry out in this Budget and through the 2012/13 to 2014/15 MTEF period.

Assessment of Performance in 2011/12

Global Economic Environment

21. The global economic environment is beset with contagious risks and uncertainty about growth prospects. A cold wind is blowing from the North, and international trade transmission channels may turn this into stormy weather. The adverse impacts on global growth are mainly due to difficulties faced by advanced economies, in particular those in Europe, in resolving the sovereign debt crisis and its growth-reducing effects.
22. While positive growth is projected for 2012 and 2013, we are not out of the woods yet. Global economic growth prospects for 2012 and 2013 have been revised downward from 4.0 and 4.5 percent, to 3.3 and 3.9 percent respectively. While there are signs that the world's largest economy, the United States, is on the mend, the sovereign debt crisis in Europe threatens to decelerate the pace of global economic recovery.
23. Ominously, the Euro zone, which is a traditional market for Namibia's main export products, is projected to slide into a mild recession of 0.5 percent this year and to post a paltry 0.8 percent growth in 2013. The turnaround in these economies depends on the successful resolution of the sovereign debt crisis in

the Euro zone area, which is still uncertain. In several of these economies, structural adjustment and fiscal austerity measures have given way to job losses. For a relatively small economy like Namibia, this is an experience that must be avoided at all costs.

24. The emerging economies of the BRIC countries, (Brazil, Russia, India, and China) which have become increasingly important for global economic prospects are also beginning to suffer from the contagion.
25. As a small open economy, Namibia is susceptible to the contagion from global economic developments through the international trade channel. During the first round of the global economic downturn, our economy contracted by 0.4 percent and revenue took a knock by 3.3 percent. We are already experiencing a slowdown in economic growth with an estimated 4.2 percent in 2011 as compared to 6.6 percent in 2010.

Developments in Regional Economy

26. The Sub-Saharan Africa region achieved strong growth over the past years, although there is variation in the speed of recovery among countries within the region.
27. In most of the region's low-income countries and among the seven oil exporters, growth is almost back to pre-crisis levels. This is important for Namibia as over 10 percent of our exports are destined to low-income African economies. Clearly, there are positive prospects for further growth from the region.
28. In the middle-income countries of Sub-Saharan Africa, including South Africa, economic recovery has been much slower, reflecting greater exposure to global markets. To illustrate, growth in the South African economy also slowed to an estimated 3.1 percent in 2011 and it is projected to reduce further to 2.7 percent in 2012, before recovering to 3.2 percent in 2013 and to 4.2 percent in 2014. This slowdown is of concern to Namibia as South Africa absorbs about 20 percent of our exports. SACU economies are also projected to experience lower growth than initially anticipated, which may put downward pressure on the SACU Common Revenue Pool going forward.

Regional Integration

29. The size of the domestic market makes it imperative that Namibia continues its outward-trade policy to facilitate diversification of export commodities destinations, while enhancing value addition. This includes finding ways to promote Namibia's increased trade with SADC and SACU markets as well as establishing new markets in emerging economies.
30. It is against this background that Government is participating pro-actively in the process of formulating a regional Industrial Development Policy for SACU. In addition, the implementation of the SADC Finance and Investment Protocol will lead to a more conducive investment environment and transparent processes that can help in promoting intra-SADC trade and investment.
31. The SACU industrial policy will allow the BLNS countries to develop their supply-side abilities to improve their range of export commodities.
32. Government is also taking part in the Tripartite Free Trade Area negotiations that were launched in December 2011 for the envisaged Free Trade Area among SADC, East African Community and COMESA. The aim is to conclude these negotiations by 2014.
33. Government also welcomes the decision taken in January 2012 by the African Union Summit to move towards the establishment of an "All AU Free Trade Area" by 2017.

Developments in the Domestic Economy

Macroeconomic Performance

34. The domestic economy is estimated to have expanded by 4.4 percent during 2011. This growth estimate is lower than the 6.6 percent growth rate achieved during 2010. The deterioration in global macroeconomic conditions affected the pace of domestic economic growth in 2011. This low pace of growth is expected to prevail during 2012.

35. Primary industries, especially the mining sector, are estimated to have posted a lower growth in 2011 due to demand slowdown in export markets and commodity price moderation. As a result, mining production output has moderated.
36. Performance in the secondary and tertiary industries also slowed in 2011 on account of subdued global and domestic demand for goods and services. Performance in the manufacturing sector may turn out at only half the level achieved in 2010.
37. Expansionary fiscal and monetary policy provided the necessary stimulus to the economy. Economic growth would have been even slower if Government had not maintained a supportive policy stance to counter the negative impact of the global recession. This helped to stimulate demand through higher public investment and Government and private consumption expenditure.

Employment, Poverty and Inequalities

*Honourable Speaker,
Honourable Members,*

38. Government remains focused in its concerted efforts to address unemployment, poverty and inequalities. It is a matter of great concern to Government that much of the economic growth experienced to date has not translated into significant job creation.
39. Reducing income inequalities remains one of the high priorities for Government. Findings from the successive Household Income and Expenditure Surveys indicate that we are gradually pushing back the frontiers of income inequality, with a systematic reduction in the Gini coefficient ratio from 0.63 in 2003/04 to 0.58 in 2009/10. This gradual reduction places us on course towards the Vision 2030 target of 0.55 ratio.
40. However, unemployment remains unacceptably high. Robert Kaplan once said *“If you can't measure it, you can't manage it”*. I agree with Robert. As a country, we need to improve measurement and consistency of employment and earnings data not only in terms of quality, but also the frequency. The year 2011/12 marked the roll-out of the TIPEEG programme with a targeted objective of creating mass job opportunities in the short-term, while investing in economic infrastructure and addressing domestic supply-side constraints. I am glad that these efforts are accompanied by measures to strengthen our statistical system and institutions to ensure timely and quality data.

Financial Sector Developments

*Honourable Speaker,
Honourable Members,*

41. The Global Competitiveness Report for 2011 ranked our financial sector on the 36th position, out of the 142 countries assessed that year. This rating affirms that our financial sector compares well with the best in the world.
42. We have modernized the legislative and regulatory environment for both the bank and non-bank financial industries. This modernization allows regulatory authorities to exercise risk-based supervision and macro-prudential surveillance to strengthen financial stability and guard against possible emergence of financial crises.
43. We have embarked upon a national strategy to modernize the national payment system and infrastructure. New instruments are being introduced in the capital and money markets. This is embedded in the Government's debt management strategy, which emphasizes domestic borrowing as an instrument for domestic capital markets development.
44. In addition, the financial services industry, especially the banking and other non-bank mobile services providers are initiating new products diversification and innovation.
45. However, significant challenges remain. The level of ownership and localization of financial services remain skewed and the majority of Namibians are financially excluded.
46. The commencement of the implementation of the ten-year Financial Sector Strategy this year heralds the beginning of the new era for the gradual and holistic development of the financial sector. As an integral part of the strategy, a financial literacy programme has been developed amongst other strategies to advance financial inclusion agenda.

47. I am also gratified that the legislative amendments to domestic asset requirements legislation have now been finalized. The coming into force of the amended laws would release financial resources into the economy and represents Government's unequivocal policy thrust to mobilize domestic assets to catalyze domestic investment.
48. A new regulation 29 is due for gazetting into law and marks a watershed policy innovation to operationalize domestic asset requirements engendered by Regulation 15 and 28. Application of Regulation 29 would ensure safe and prudential management of institutional investments in unlisted assets.
49. In addition, work to further review and streamline the Financial Institutions and Markets Bill (FIMBILL) which will govern the non-bank financial industry is nearing completion for its tabling in 2012.

Monetary Policy and Inflation

50. On account of the need to support domestic demand conditions, the Bank of Namibia maintained an accommodative monetary policy stance in 2011, characterized by an unchanged repo rate regime. This supportive monetary policy environment complemented Government's expansionary fiscal policy and private sector activity to aid the economy through the vicissitudes of an otherwise adverse macroeconomic environment.
51. The stock of foreign reserves remained sufficient to maintain the currency peg and import cover, amidst increased imports of production inputs feeding into capital investment in various sectors of the economy.
52. The inflationary conditions remained subdued at an average of 5.1 percent, but an upbeat in the food and oil prices in recent months resulted in upward inflationary pressures.

Trade and Balance of Payments

53. The overall balance of payments is estimated to have remained in deficit, on account of an increased import bill, decreased SACU inflows on the current account and continued capital outflows on the financial account. Reflecting the impact of the Government's counter-cyclical policies and the rising expenditure on imported oil and capital goods, the current account deficit increased, but was financed by positive financing inflows from abroad.
54. As a result, foreign exchange reserves increased slightly at the end of 2011, to just over US\$1.4 billion, representing 2.4 months' of coverage of imports, which

is still sufficient to assure uninterrupted financing of imports and other foreign obligations.

Fiscal Performance

*Honourable Speaker,
Honourable Members,*

55. A distinct outcome of the Government fiscal activity is reflected in the extent to which fiscal policy has contributed to supporting domestic economic activity and our ability to improve the quality of life for every Namibian through expanded provision of services. We have achieved numerous successes on several fronts and Government remains seized with addressing the challenges of unemployment, poverty, inequalities and inclusive economic growth.
56. We have been able to shield the economy from the adverse external environment and maintain a stable macroeconomic environment conducive for private sector investment and wealth creation. Government has been able to maintain and even increase expenditure to provide for national development programmes and public services amidst global economic challenges. We have been able to mobilize public revenue and keep public debt in check.

Revenue Outturn

57. As a result of the economic growth and our domestic revenue mobilization strategy, total revenue and grants for 2011/12 is estimated to have rebounded to N\$26.9 billion. This is an increase of 15.5 percent from N\$23.3 billion collected during 2010/11. The estimated outturn is, however, slightly lower than the budgeted revenue estimate of N\$28.0 billion owing to adverse impacts of a slowdown in global economic activity and revised macroeconomic prospects.
58. Domestic tax revenue streams, particularly Individual Income Tax and Value-Added Tax maintained robust elasticity and anchored the rebound in revenue performance. However, contagion from the global economic slowdown impacted on corporate earnings, with adverse shocks to company tax, especially in respect to mining company tax.
59. While the SACU Common Revenue Pool is estimated to have moved out of deficit in 2010/11, the total Pool deficit for 2009/10 amounting to N\$9.8 billion was due for repayment by SACU Member States during 2011/12. Accordingly,

Namibia has fully settled her share of deficit of N\$2.4 billion. Renewed risks in global and regional economic prospects threaten to stall strong recovery in SACU revenues going forward.

Expenditure outturn

60. Total expenditure allocation for 2011/12, including statutory expenditure, amounted to N\$37.2 billion, which was a 28.7 percent increase from N\$28.9 billion allocated in 2010/11. The significant expenditure expansion is predominantly due to the introduction of TIPEEG and the rise in the civil servants wage bill. Development expenditure nearly doubled to N\$8.1 billion.

Honourable Speaker,

61. I should emphasize that the public sector wage bill as a share of GDP grew from 10 percent in 2008/9 to 14 percent this year. Public servants' wages now absorb virtually half of Government revenue, which was only 33 percent four years ago. This trend needs moderation going forward.
62. The total budget execution rate for 2010/11 stood at 96.9 percent. Operational budget execution rate amounted to 97.7 percent, while the development budget implementation rate stood at 92 percent, as compared to 89 percent achieved during 2009/10.
63. Preliminary expenditure outturn including expenditure commitments for 2011/12 amounts to N\$29.2 billion, which is about 75.8 percent of the N\$38.5 billion allocated. Operational expenditure execution rate is estimated at 77.3 percent.
64. The total development budget expenditure and expenditure commitments, including TIPEEG amounts to N\$6.0 billion, which represents an execution rate of 75.1 percent, out of N\$8.0 development budget allocated during 2011/12.
65. Indeed, *Honourable Speaker, Honourable Members;* the underutilization of development budget and, in particular, TIPEEG allocations is a cause for national concern. Under-utilized allocations, especially those of a development nature should be seen from the perspective of the lost development opportunities, cost of borrowing and how they could have found alternative uses in the economy.

Budget deficit

66. As a result of fiscal expansion undertaken, the budget moved into a deficit since 2009/10. The deficit for 2011/12 is estimated at 11.2 percent of GDP

Debt stock and contingent liabilities

67. The total debt stock for 2011/12 is estimated at N\$24.9 billion. As a percent of GDP, total Central Government debt stock stands at 27 percent, which constituted a two-thirds increase from the 16.6 percent in 2010/11, reflecting the fiscal expansion to accommodate the TIPEEG dispensation. Contingent liabilities, stood at N\$2.6 billion or about 2.6 percent of GDP.

Honourable Speaker,

Honourable Members,

May I remind the House that the fiscal expansion we undertook since 2009/10 could not be undertaken without relaxing the fiscal benchmarks. As such, the following fiscal sustainability benchmarks as revised were adopted:-

- average debt as a ratio of GDP is capped at 35 percent over the MTEF, as revised from the 25 to 30 percent target band;
 - public expenditure level is maintained at 40 percent of GDP annually, as revised from 30 percent.
 - Budget deficit is to be maintained within 7 percent of GDP over the MTEF
 - interest rate payments as a ratio of revenue and contingent liabilities as a ratio GDP are both to be kept at 10 percent annually.
68. In the framework of the 2011/12 to 2013/14 MTEF, the N\$37.2 billion expenditure allocation for 2011/12 stood at 41.2 percent of GDP, translating into a budget deficit of 12.5 percent and a debt ratio of 27.9 percent, which was projected to increase to 35.0 percent by 2013/14.
69. Clearly, the expansion did not only commit all available fiscal space, but virtually also placed all fiscal targets on their upper limits beyond which fiscal sustainability becomes a policy concern. This concern is all the more accentuated by the deterioration in the global economic environment and its concomitant impact on the regional and domestic economy. In this context,

Government has to reign in significant expenditure expansion and stabilize incurrence of additional public debt in the coming MTEF.

Strategic Policy Initiatives

Public Finance Management

70. Government has embarked on a tax policy reform agenda aimed at bringing on line alternative sources of revenue and improving tax administration. In line with the reform process, measures are underway to modernize the tax system through establishment of an Integrated Computerized Tax System, establishing specialized offices and strengthening internal audit capacity. Initial efforts in this regard have resulted in improved revenue collection.
71. Efforts are also underway to further improve tax compliance, including the introduction of voluntary compliance. A simplified special tax system for Small and Medium-sized businesses is being investigated to extend coverage to those entities who are not in the tax net and to reduce compliance costs on small businesses. Government is also undertaking a study to investigate the viability of establishing an autonomous Revenue Authority. The study is expected to be concluded during 2012.
72. We have successfully piloted a complete module of Programme-budgeting which will allow for tracking and reporting of expenditure execution and outcome impacts on a programme basis. This was done through appropriate modifications of the Chart of Accounts of the State Revenue Fund. We will roll-out this approach to all Offices, Ministries and Agencies in the coming years.

Public Procurement

73. The Tender Board Amendment Bill will be tabled before Parliament this year. The amended rules provide for, among others, preferential considerations for majority Namibian ownership of enterprises, the previously disadvantaged persons, women, youth and SMEs. This legislative focus is a landmark development to re-orient public procurement system as a tool for domestic economic development.
74. Amendments have already been made to the Tender Board Regulations to enable Government to implement some of these reforms under the existing law. These amendments will be gazetted in the coming weeks.

Financial Sector Policies

75. Several policy initiatives were also undertaken in the financial sector to strengthen financial stability, promote inclusiveness and elevate the role of finance as a key catalyst for economic development and social transformation.
76. In particular, the Financial Sector Strategy was finalized this year. The Strategy provides for strategic actions to be implemented over a ten-year horizon for a more inclusive financial sector, financial deepening and development, strengthening financial safety nets, localisation of the sector and skills development. A Financial Inclusion Council under the able chairmanship of the Rt. Honourable Prime Minister and an Advisory Board were inaugurated in 2011 to be responsible for the coordination and monitoring of targeted strategies for achieving financial inclusion.
77. On the 15th of March this year, I will launch a National Financial Literacy Programme, which will educate the public on financial management and raise awareness on, among others, consumer rights.
78. In addition, the implementation of the Financial Sector Strategy will provide the necessary impetus for the implementation of the voluntary Financial Sector Charter of the industry, which has been disappointing to date.
79. Mechanisms have been instituted for the implementation of the findings from the User fee Study, which we conducted in 2009/10 to investigate the level of fees and charges in the financial sector and their impacts on financial inclusion. In addition, a FinScope study was undertaken during 2011 to investigate the level of financial inclusion. Its findings will be published next month. Such findings will provide valuable information for policy formulation and monitoring of outcomes.
80. A National Payment System (NPS) Vision 2015 was launched during 2011 under the ambit of the Bank of Namibia. The Vision provides strategic actions to be undertaken to modernize national payment infrastructure.
81. The Financial Intelligence Centre (FIC) continued to advance measures to stem money laundering and bring suspicious transaction under the radar within the framework of the Financial Intelligence Act.

Capital Markets Development

82. In respect to domestic capital markets development, the Government borrowing plan continues to be oriented towards domestic sourcing in order to support capital markets development. We have introduced two new domestic bonds to provide increased market opportunities for local financiers. Retail bonds will also be introduced in the market for the first time in order for individual Namibians to seize the opportunity in investing in these secure instruments.
83. To further buttress the financing for the expansionary budget, Namibia accessed the international financial market for the first time in 2011. The debut Eurobond issuance was on the back of a favourable investment grade of BBB- awarded by Fitch Rating Agency since 2005 and a Baa3 grade awarded by Moody's Rating in 2011.
84. The issuance of the Eurobond made Namibia the fourth Sub-Saharan African country with a sovereign issuance and it has the effect of not only diversifying the country's funding sources, but also raising Namibia's profile among the international investment community.
85. Credit ratings are undertaken to provide independent views on Government's credit worthiness and ability to pay debts. Favourable credit ratings help to reduce the cost of borrowing from both domestic and international sources and also attract other types of capital such as foreign direct investments as well as portfolio investments. It is, therefore, important to maintain our current investment grade ratings.

Legislative Reforms

86. Several legislative reforms have been undertaken to improve the legislative environment in the financial sector.
 - The Mobile Payments Regulations have been formulated under the Payment Systems Management Act to provide an effective regulatory environment for electronic payment services.
 - Drafting of the Financial Institutions and Markets Bill was finalized to provide for risk-based supervision and streamlining of regulatory measures for individual non-bank financial industry sub-sectors.
 - A new Regulation 29 was formulated which will usher-in a safe environment for the implementation of Regulation 15 and 28 dealing with domestic asset requirements encapsulated in the amended laws for long-term insurers and pension funds

- A Tender Board Amendment Bill has been finalized to provide for local economic development and international best practices. The Bill will be subjected to a final round of public consultation before tabling during the course of this year.
- The Draft Audit Bill and State Finance Amendment Bills have been finalized and are undergoing legal drafting.
- A range of tax amendments were introduced in the house in 2011. Other tax amendments will be introduced during the course of this year, including an environmental levy, an export levy on raw material exports and transfer duty amendments.
- We shall also introduce amendments to the Financial Intelligence Act to provide for consistency with best international practices.

State Owned Enterprises (SOEs) Performance

87. Low productivity in SOEs remains a concern. Perpetual bail-outs place constraints on Government fiscal position.
88. The implementation of individual performance agreements with SOEs is aimed at ensuring efficient delivery of results and value for money for the public.

The TIPEEG Intervention

*Honourable Speaker,
Honourable Members,*

89. The 2011/12 budget marked the first roll-out of the Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) as a fast-track dispensation for job-creation and stimulus for high economic growth in the long-term.
90. TIPEEG allocation amounted to N\$5.8 billion for 2011/12 and a total of N\$14.7 billion over the MTEF. Over the MTEF, TIPEEG is expected to generate jobs in excess of 100,000, a network of strategic infrastructure and improved domestic production capacity.
91. In regard to the implementation rate, the total development budget expenditure and expenditure commitments, including TIPEEG amounts to N\$5.9 billion, which represents an execution rate of 73.1 percent.

92. The reported limiting factors which hinder smooth implementation of this programme include:-
- scarcity of engineering capacity in regard to project preparation; and
 - limited implementation and monitoring capacity at Offices/Ministries and Agencies (O/M/As) level
93. I must emphasize that allocated funds should not only be seen to have been spent, but the quality of expenditure and optimum outcomes need to be assured. Going forward, TIPEEG process re-engineering will receive priority attention as well.

Budget Achievements and Challenges

*Honourable Speaker,
Honourable Members,*

94. I would now like to highlight other budgetary accomplishments and challenges in during 2011/12.
95. The **agricultural sector** is a source of livelihood for to about 65 percent of our population and a key sector for exports earnings.

In this sector:-

- The area under irrigation under the Green Scheme programme was increased from 9,500 hectares to an estimated 12,000 hectares.
- Disease control programme was expanded in the Communal Areas to improve animal health and product quality.

Water

- Provision of clean water has been expanded through extension of water pipelines in communal and informal settlement areas. The number of water boreholes has also increased in the remote areas.
 - As a result, the percentage of population having access to clean water in rural areas increased to an estimated 95.4 percent in 2011/12.
96. In the **education sector**:-
- the number of children from disadvantaged communities completing one year of pre-primary education increased from 5,000 to 12,5000.

- education facilities were provided and upgraded, which provided expanded access and quality.
- Output from Vocational Training and Technical Education increased from 6,500 to over 8,000 graduates
- in the tertiary education sector, the target of 1,000 graduates in key human resources categories was exceeded

97. Like education, **health** is a key growth and productivity enhancer. In this sector:-

- State-of-the-art medical equipments were installed in Katutura, Rundu and Oshakati State Hospitals.
- immunization coverage increased to 87 percent and notable progress was made towards achieving other health sector targets under the Millennium Development Goals
- the Cardiac Unit at Windhoek Central Hospital is fully operational and it held 47 open-heart surgeries. A Telemedicine Center was also established during the year.
- The provision of antiretroviral drugs was expanded to cover over 98,000 persons living with HIV and AIDS.

Social Safety Nets

- Namibia prides itself to be among only three countries in Sub-Saharan Africa which provide social grants to the vulnerable. The coverage for social grants was expanded.
- The veterans support programme reached an increasing number of veterans of the liberation struggle
- Government has carried out relief operations to assist persons affected by floods in the northern and north-eastern regions.

98. **Environment and Tourism** is another sector which was accorded priority attention under the TIPEEG dispensation.

In this sector:-

- Increased marketing was undertaken to increase the number and tourists from existing core and secondary markets as a result of expanded activities of Namibia Tourism Board (NTB).
- it is estimated that the tourism sector generated net foreign revenue in the order of US\$323 million.

- five additional community-based conservancies were established, facilitating access to tourism resources for communities in the rural areas.
- the National Policy on Climate Change was launched with its accompanying Strategy and Action Plan which provide for targeted actions to mitigate the impacts of climate change.

99. In respect to ***private sector development***:-

- DBN disbursed funding to the tune of N\$616.7 million through its funding facilities for various categories of enterprises. This funding benefited 288 Namibian companies, which is a record increase of 88 percent from 153 companies funded during the previous year. The total new permanent jobs created amounted to over 2,100 and about 3,000 temporary jobs, while 3,012 jobs were retained. As part of its broader lending coverage, the DBN intends to set up a Venture Capital Fund to facilitate business start-ups.
- AgriBank provided funding to the tune of N\$17.7 million to small-scale farming projects. The Bank also provided mentorship to about 990 Small-scale farmers and plans to establish a Livestock Credit Scheme for small-scale farmers.
- an Industrial Policy has been formulated under the Ministry of Trade and Industry to give impetus to private sector-led industrialization, export-orientation, value addition, skills development and economic diversification

Infrastructure Development

Port Expansion

- Progress was made with implementing the New Walvis Bay Container Terminal Project. This project is expected to take off early 2012/13 financial year.
- Progress has also been made to establish a Corridor Gas and Oil Terminal at Luderitz so that it becomes an Oil Importing terminal for SADC countries.

Energy

- The Anixas Diesel Power Station was inaugurated in 2011 and resulted in increased output by more than 100 percent from 2.4 Mega Watt to 5.8 Mega Watt.

- Work is progressing on the installation of a fourth unit at Ruacana power station with an increase in power generation capacity from 249 Mega Watts to 341 Mega Watts.
- The rural electrification programme has been expanded resulting in an increase in the share of rural households having access to the national grid to 25 percent towards the target of 27 percent for 2013.

In the Transport sector;

- A total of 405 kilometres of rural gravel roads were developed, exceeding the target of 218 kilometres and several national roads have been rehabilitated
- A new Business Plan for Air Namibia was developed to turn around the Airline business to profitability and two long haul aircrafts were acquired for Air Namibia as part of the turn-around business plan

Macroeconomic Outlook for the MTEF

*Honourable Speaker,
Honourable Members,*

100. This MTEF was formulated amidst renewed risks to the global economic growth. The speed of global economic recovery has slackened. In the Euro zone economies, the fears for a recession have been realized.
101. Anaemic recovery in the global economy points to difficult moments for the domestic economy and the region due to exposure to global trade environment. As such, real GDP growth for Namibia has been revised downward.
102. We expect economic growth to yield 4.4 percent in 2012, and it is projected at 4.8 percent and 4.9 percent in 2013 and 2014, respectively.
103. The projected slowdown will have adverse effects on the real sector economy, especially the export oriented industries and subsequently for public revenue.

Fiscal Outlook and Targets over the MTEF

104. Given the uncertainties in the global economy, the focus of fiscal policy will be on the maintenance of long-term macroeconomic stability. Thus, Government will aim to create fiscal space in preparation for possible exogenous shocks.
105. As a result, no substantial budget expansion will be accommodated beyond what is provided for in the current MTEF. However, the spending plans within the current MTEF will be broadly maintained in order to consolidate economic recovery and support job creation and poverty reduction efforts. Importantly, programmes for education, health and road transport reflect larger allocations to repair flood-related damage to infrastructure and to strengthen support for accessing tertiary education by our youth as well as to intensify the fight against HIV and AIDS. However, the public wage bill has also increased to accommodate the 10 percent salary increase granted to civil servants last year.
106. While the focus of fiscal policy emphasizes consolidation, the unforeseen impacts of climate change will pose serious challenges going forward, with significant costs related to coping with the effects of climate change, exerting pressure on the fiscus. Some important interventions in this regard are under planning and have not been catered for under this MTEF.

Revenue

107. Due to the effects of an adverse macroeconomic environment since 2011, revenue for 2011/12 is estimated to have reached only N\$26.8 billion, which represents a shortfall of about 4.2 percent from N\$28.0 billion budgeted for. However, the estimated outturn represents an increase of 15.5 percent from N\$23.3 billion collected during 2010/11. The year-on-year improvement is a result of the positive economic growth realized during 2010 and 2011 and the national efforts to strengthen revenue collection.
108. For the 2012/13, total revenue and grants is projected to increase to N\$35.4 billion, an increase of about 32 percent. This increase is mainly due to the rebound in SACU revenues for 2010/11. The SACU Common Revenue Pool is estimated to have recorded a surplus during 2010/11, as a result of which Namibia will receive an adjustment of N\$ 2.5 billion in respect of the 2010/11 shares. This adjustment is to be remitted to Namibia during 2012/13, in addition to the country's share for that year. As a result, the total SACU receipts for Namibia during 2012/13 will nearly double to N\$ 13.9 billion, from N\$7.1 billion received during 2010/11.

109. However, on account of global and regional economic slowdown, domestic as well as SACU revenue outturn are projected to generally remain flat during the MTEF. As a proportion of GDP, total revenue is projected to moderate from 34.5 percent in 2012/13 to 31.4 percent during the last two years of the MTEF.
110. To improve revenue collection, Government will continue implementing the initiatives to reform tax policy which will entail identification of new sources of revenue and strengthening tax administration

Tax Policy changes and introduction of new taxes

Honourable Speaker,

111. During 2011, I announced new taxes that will be introduced during 2012/13. As I stated previously, the introduction of the new taxes is premised on three broad objectives, namely:-
- deepening and diversifying the revenue base in an environment of increased trade liberalization and taking into consideration the ability to pay.
 - promotion of domestic value-addition to raw materials and industrialization, particularly in the natural resources sectors, and
 - wealth distribution and social welfare promotion
112. The following are some of the tax amendments that were approved by Parliament in 2011:-
- ✚ introduction of a withholding tax on fees paid to non-residents
 - ✚ an increase in Non-Resident Shareholders Tax, and
 - ✚ taxation on income from the alienation of mineral rights
113. Parliament also approved amendments to Value-Added Tax (VAT), Stamp Duty and Transfer Duty which provided concessions to tax payers.
114. The following tax proposals will be introduced during the course of 2012:-
- ✚ introduction of a differentiated rate on the export of natural resources
 - ✚ a revised Corporate Income Tax for non-diamond mining companies

- ✚ environmental levy on a range of environmentally harmful products, and
 - ✚ Introduction of a transfer duty on the sale of shares in companies owning fixed property and mineral rights or licences.
115. These measures are all part of a broader tax policy and administration reform agenda, which will be pursued over the medium term to improve the tax system.
116. In addition, the following increases in SACU excise tax rates as announced by South Africa in the 2012/13 budget have become operational with effect from 23 February 2012:-

▪ Malt beer	9.99%
▪ Traditional African beer	0.00%
▪ Traditional African beer powder	0.00%
▪ Unfortified wine	7.76%
▪ Fortified wine	6.00%
▪ Sparkling wine	8.03%
▪ Ciders & alcoholic fruit beverages	9.59%
▪ Spirits	20.00%
▪ Cigarettes	5.95%
▪ Cigarette tobacco	4.94%
▪ Pipe tobacco	8.05%
▪ Cigars	5.01%

Expenditure and Budget Balance

*Honourable Speaker,
Honourable Members,*

117. Let me now illustrate the expenditure outlook and funding priorities for the MTEF.
118. Total expenditure for 2012/13 amounts to N\$40.2 billion, seen against an estimated revenue of N\$35.4 billion. Expenditure is projected to remain flat and average N\$40.4 billion over the MTEF, corresponding to 35.2 percent of GDP.
119. This level of expenditure maintains fiscal expansion engendered in the 2011/12 to 2013/14 MTEF.

120. The budget deficit is estimated at 4.4 percent of GDP in 2012/13 and averages 3.3 percent over the MTEF. The budget deficit will be gradually reduced by the end of the MTEF through a combination of revenue base-broadening and expenditure moderation. In essence, the budget represents a commencement of gradual fiscal consolidation. This course of action will allow Government to stabilize public debt in the longer term.
121. As such, Central Government debt is estimated at N\$28.3 billion in 2012/13 or 27.7 percent of GDP. For 2013/14, debt is estimated at N\$34.5 billion or 30.3 percent of GDP, while for 2014/15, total debt is projected to increase moderately to N\$35.5 billion or 27.9 percent of GDP.

Policy Interventions for the MTEF

Safe-guarding macroeconomic stability and fiscal sustainability

122. Government will continue to entrench macroeconomic stability and fiscal prudence as a prerequisite for growing the economy and addressing socio-economic challenges. The fiscal stance for the MTEF is the adoption of a fiscal consolidation path towards stabilization of public debt and budget deficit through a combination of moderation in expenditure expansion and improvement in revenue.

The Targeted Intervention Programme for Employment and Economic Growth (TIPEEG)

123. Government will continue with the implementation of TIPEEG programme. The TIPEEG resource prioritization approach is carried through in the MTEF and it will be integrated into the Fourth National Development Plan (NDP4).
124. Following a slow start during the first year of implementation, targeted interventions will be instituted during 2012/13 to marshal improved implementation through capacity-building and effective monitoring.

Implementing a revenue mobilization strategy and tax policy reform agenda

125. Government will pursue the reforms of tax policy with the objective of enhancing its contribution to socio-economic objectives, while maintaining the competitiveness of the tax system. A key emphasis of the reform process involves improvement of tax administration and revenue base-broadening and deepening. A Taxpayers public education program launched during 2011 will be

strengthened to improve public awareness and reduce the cost of compliance and administration.

Strengthening Public Finance Management (PFM) and enhancing value for money

126. To strengthen public finance management and improve the quality of expenditure, public expenditure review and tracking will be rolled-out to all budget Votes, starting in 2012/13. Full deployment of Programme-budgeting will also be rolled out to all votes during the MTEF to enhance targeting of resources and public accountability.

Promoting financial inclusion and modern legislative environment

127. Measures geared to bring about a more inclusive financial sector will be pursued during the MTEF. In particular, a 10-year Financial Sector Strategy will be implemented. In addition, legislative reforms will be pursued to optimize the role of the financial sector in the economy and alignment with international best practices. Such reforms will include specific provisions to address the findings of the User fee Study, especially in respect to high user fees and charges in both the bank and non-bank financial sectors. In addition, a financial literacy program will be rolled out this year to provide consumer education.

Private Sector development

128. The activities of the Development Bank of Namibia and Agribank have been supplemented by the coming on line of the Microfinance bank, FIDES Bank, to provide funding for businesses, especially for SMEs. DBN is investigating the possibility of establishing a National Venture Capital Fund and preparations are under way to establish an SME Bank under the ambit of the Ministry of Trade and Industry.

Public procurement as an instrument for local economic development

129. The new Tender Board Bill will be tabled in this House this year. The new Bill provides for more support to the local economy, the previously disadvantaged as well as enhancing good governance practices.

Expenditure Priorities for the MTEF

Honourable Speaker,

130. Our country faces severe structural challenges emanating from several decades of differentiated treatment and neglect. We have set our priorities and we take pride in the successes we have achieved on several key fronts.
131. However, the challenges of unemployment, poverty and skills shortages remain. We have to continue efforts to address these challenges, while still remaining within our means by doing more with less.

Economic growth, employment creation and poverty reduction

132. Promoting broad-based economic growth and job creation remain an important priority for Government.
133. In this regard, the key intervention areas for the MTEF are the priority sectors identified under the TIPEEG programme, namely; Agriculture, Housing and Sanitation, Tourism and Transport.
134. Under the TIPEEG intervention:-
 - Agriculture is allocated N\$3.7 billion over the MTEF
 - Housing and Sanitation is allocated a total of N\$4.1 billion over the MTEF
 - Transport is allocated N\$2.8 billion over the MTEF, with additional funds to be sourced from external sources for the sector, and
 - Tourism is allocated a total of N\$286.8 million over the MTEF
135. However, TIPEEG shall be reoriented under NDP4, in order to focus on the creation of long-term jobs in the private sector in the long-run. Further, the bottlenecks that hinder accelerated implementation of the programmes and the development budget in general will continue to be addressed by strengthening

the technical capacity for project planning and execution by Offices, Ministries and Agencies.

Other measures to improve execution include using the administrative capacities of regional councils and local authorities in order to de-congest the centre, and strengthening mechanisms for monitoring and reporting on TIPEEG's accomplishments.

Agriculture

136. Amongst the many activities to be undertaken in the ***agricultural sector***, we are providing funds to continue with the Green Scheme and establish a National Fresh Produce Hub infrastructure, operationalize the Namibian Agricultural Marketing and Trade Agency
137. Resources are also availed to intensify animal health programmes and to promote marketing of livestock products from communal areas.
138. Agribank will receive funding to provide production loans, especially to small-scale farmers.

Water

139. As a semi-arid country, we have to brave investment in water infrastructure to secure adequate supplies for households and businesses. In this regard, rural water supply and the Desalination Plant at the coast and the Neckartal Dam are among the priorities over the MTEF. The Neckartal Dam project is expected to commence in 2012/13 and it will support irrigation activities in the Karas region

Infrastructure development

- Funding is provided for the development and upgrading of transport infrastructure to link remote areas to the national network and to enhance regional connectivity and cross-border trade. This will expand our production base and facilitate trade.
- Air Namibia will receive additional funding to execute its new business plan and optimize the Airline's contribution to the economy.

Human resources development and skills formation

140. **Education** remains the top priority and receives a lion's share of the budget. A total of N\$9.4 billion is allocated to the education sector during 2012/13, which is 23.6 percent of total expenditure. Over the MTEF, the total allocation to education amounts to N\$28.1 billion.

141. This allocation would provide funds to, among others:-
- construct and upgrade educational facilities
 - recruit qualified teachers and construct accommodation facilities for teachers in rural areas as well as improve teacher skills
 - Improve funding to the Students Financial Assistance Fund to enable more youths to access tertiary education.
 - provide for increased vocational training.
142. This budget allocates N\$4.0 billion to the **health sector**. For the MTEF, total allocation to the health sector amounts N\$11.1 billion.
- The allocation will support delivery of quality health services. In particular, the allocation will help sustain critical programmes previously funded by donors who are now phasing out their funding; improve health facilities and recruitment of professional staff.

Strengthening Social Safety Nets

143. In this budget:-
- The old-age pension is increased by an additional N\$50.00 per month, to bring the monthly pension grants to N\$550.
 - Allocations are made to expand coverage of the Orphans and Vulnerable Children.
 - Allocations for emergency relief are strengthened to provide relief to people affected by natural disasters as well as repair for damage to infrastructure.
 - Provisions are also made to continue with support programmes for veterans of the liberation struggle

Defense, Safety and Public Order

144. Allocations to the security sectors are aimed at:--
- upgrading the facilities of our security forces and enhance Namibia's participation in peacekeeping missions as part of the United Nation's membership responsibilities
 - constructing and renovating court structures and reducing the backlog of cases in our courts
 - building office and accommodation facilities for the police, and recruiting and training new members of the force

Youth Development

145. Under this MTEF, we seek to increasingly place our youth at the centre of development by creating opportunities for youth employment and empowerment.
146. During this MTEF:-
- Allocations to the Youth, National Sports and Culture amounts to N\$1.6 billion
 - As part of this allocation, funding is provided to the National Youth Credit Scheme to support young entrepreneurs who want to start income generating activities.
 - The national procurement rules have been amended to provide for preferential considerations for youth empowerment

Energy

In the energy sector, the budget interventions are aimed at expanding electrification in rural areas, especially to clear the backlog in the electrification of public facilities and also to strengthen the national generation and transmission capacity.

Housing and improved sanitation

147. A total amount of N\$1.3 billion over the MTEF is allocated to Ministry of Regional, Local Government, Housing and Rural Development to cater for the servicing of land and improved sanitary standards in urban, peri-urban and rural areas. A total of N\$90 million is allocated to NHE over the MTEF to provide for the construction of low cost housing. In addition, the Government's Institutions Pension Fund (GIPF) has developed a housing scheme for fund members to access a portion of their pension to finance acquisition of houses. The Transfer Duty Act and Stamp Duty Act have also been amended to provide for the increase of the tax threshold to assist low-income earners to acquire houses.

EXPECTED RESULTS

*Honourable Speaker,
Honourable Members,*

148. Doing more with less and getting more value for money are the key principles that will govern Public Finance Management.
149. The Accountability Report of Government gives an account of achievements realized with appropriated funds.

Use of Contingency Allocations for 2011/12

150. During the current financial year, an amount of N\$250.0 million was allocated as a contingency provision. Of this amount, N\$80 million was spent to meet the emergency needs as presented by Offices, Ministries and Agencies. I have distributed the list of activities that have benefited from the Contingency Provisions.

Conclusion

*Honourable Speaker,
Honourable Members,*

151. Our counter cyclical fiscal and monetary policies have worked well and have had a positive impact on growth and poverty reduction. The main message of this Budget is that the time has come for developing fiscal buffers to prepare for fiscal consolidation by 2014/15.
152. Credible fiscal measures that build buffers will also help to create fiscal space for supporting future economic growth. As to Government itself, we aim at becoming a cost-efficient and accountable government that delivers timely and high-quality services.
153. Where our policies did not have their expected impact, this should incite us to consider alternative approaches. But Government cannot solve the challenges facing our country through public sector institutions alone. At the end of the day, it is the activities of the private sector that will propel our country to greater heights.
154. New collaboration models between Government and private sector partners are, therefore, to play their role. Economic development is not about what Government alone can do, but what Government, the private sector, civil society organizations and labor unions can do together.

*Honorable Speaker,
Honourable Members,*

155. In his address to the nation on the occasion of the celebration of the 21st independence anniversary our President, HE Hifikepunye Pohamba reminded us

that “ *On 21 March 1990, we took the destiny of our nation into our own hands and reinforced the process of crafting a new direction for our country to accelerate socio-economic development, to improve and expand the delivery of public services and to build new infrastructure such as roads, railways, airports, power lines, water pipelines, housing units and other public facilities*”.

He continued “*We seized the opportunity to harness Government resources and machinery to address the question of inequality in the provision of many public services including education, health care, social grants and other services. This task of nation building has been, and continues to be tremendously difficult. However, I can confidently say that we are making steady gains towards the achievement of our goals and objectives.*”

156. It is this conviction that underlies the proposals made in this budget and MTEF. We must remain seized with the opportunity to determine the destiny of our nation by deploying and implementing credible socio-economic strategies for the good of all Namibians, while guarding our hard won fiscal sovereignty.
157. Lastly, let me express my sincere gratitude to all our development partners and stakeholder community for the material, financial and technical assistance rendered to Namibia in furtherance of our socio-economic development. I also thank His Excellency President Hifikepunye Pohamba for his continued trust in me as the Minister of Finance.
158. I wish to thank the Right Honourable Prime Minister and my Cabinet colleagues for their support and understanding during the budget formulation process. My unalloyed gratitude goes to my officials and the NPC Secretariat for the meticulous and hard work expended to prepare the budget documentation. Let me also acknowledge here the tremendous contribution of our departed colleague `Ms Cecilia Ndishishi. Her passing on will be felt sorely, but her spirit lives on as a fountain of inspiration.
159. *Honourable Speaker, Honourable Members*; it is now my pleasure to table the 2012/13 Appropriation Bill and 2012/13 to 2014/15 MTEF to the House for consideration and approval.

I thank you.