Statement for the 2011/12 Budget

Presented by the Hon. Saara Kuugongelwa-Amadhila
Minister of Finance

March 2011

OPENING REMARKS

Honourable Speaker,

Honourable Members of the National Assembly,

1. I am honoured to present to this August House the Appropriation Bill for financial year 2011/12 and the Medium Term Expenditure Framework covering the period 2011/12 to 2013/14.

2. This budget is presented against the backdrop of 20 years of democratic governance and peace in our country. This year Namibia attains 21 years as a sovereign nation and we can look back to a record of successes on the social, political and economic fronts. We as a nation should be proud of these achievements and strive to maintain them. The stability and democracy that we have brought about laid the essential foundations for the socio-economic development that we have realised.

3. The budget is tabled at the time when the global and domestic economy has just emerged from the depth of the greatest recession since the 1930s. Over the last few years our economy has been through a challenging period of global financial and economic crises, which inevitably slowed the progress we had made on growth and job creation. However, our Government has responded promptly and effectively and this helped to steer the economy through those difficult times. Government interventions have significantly contributed to the domestic economic recovery without putting undue strain on our fiscal situation.

4. During the opening of the third Parliament, His Excellency President Hifikepunye Pohamba said amongst others: "*This occasion is taking place at a time when our nation is looking to Government with great anticipation to provide answers to the pressing issues of the day. These*

include the question of unemployment; the needed improvements in the provision of quality education, health care, housing, access to land and other social amenities." He continued "*I call upon all Namibians, in all our respective capacities, to employ all the means at our disposal, and to harness the available technical, financial and natural resources in order to effectively fight and defeat the problem of unemployment*."

Honourable Speaker, Honourable Members

5. We are in the fortunate situation to have the fiscal space within which we can give attention to these pressing issues of the day and hence I shall table an expansionary budget.

6. We will continue to promote economic growth and job creation, and we shall accelerate progress with achieving our development goals over the short, medium and long term. In order to realise this, we must not only look at the actions expected from our Government, but we must also get the support and firm commitment from the private sector and each individual within our great country.

7. This year's MTEF follows consecutive expansionary budgets that I tabled for the last two years. The previous expansionary budget helped to shield the economy from the negative effect of the crisis and we were successful indeed. This time around we expand the budget yet again to consolidate the economic recovery, create jobs and improve welfare conditions while safeguarding macroeconomic sustainability.

8. Although the worst of the global economic crisis appears to be over, considerable risks to the global recovery remain and hence we cannot become complacent. Such risks include unrest in North Africa and the Middle East, which is adding to the upward pressure on oil and commodity prices. Further, the sovereign debt crisis in the Euro Zone could derail recovery in that region with spill-over effects across the globe. In turn food prices could escalate further, placing a burden on the most vulnerable in society.

9. Alongside global risks that could impact on the domestic economy, Namibia also faces many socio-economic and structural challenges, which need to be addressed urgently. These challenges include high unemployment, poverty, inequality, labour skills shortages and a narrow

industrial base. For these reasons, it is appropriate that the fiscal policy stance over the coming MTEF must remain expansionary.

10. Starting this financial year, the Government will implement a Targeted Intervention Programme for Employment and Economic Growth (or TIPEEG). This program is aimed specifically at addressing economic growth and the high unemployment rate through support to strategic growth sectors. The TIPEEG will focus on four key sectors, namely, agriculture, transport, tourism and housing and sanitation.

11. The total budget for the programme over the MTEF is provided under each of the sectors and it amounts to N$ 9.1 billion. Inclusive of Public Works, the allocation for job creation amounts to N$14.7 billion. It is envisaged that the implementation of TIPEEG will result in the preservation and creation of about 104,000 direct and indirect job opportunities.

12. Maintaining an expansionary budget will be more challenging over the MTEF given risks to revenue. Government will therefore explore alternative revenue sources to ensure that a favourable fiscal position is maintained.

Honourable Speaker, Honourable Members

13. Before delving into the challenges and the interventions which this budget necessitates, let me remind the House of some of the economic and fiscal policies upon which SWAPO Party received its landslide mandate from the Namibian people.

- "Namibia's economic landscape will be refined to address bottlenecks of supply and obstacles that limit the pace of faster and sustainable economic growth, employment creation and poverty reduction."
- We shall "Design programmes geared towards encouraging initiatives in economic activities, such SME development….."
- Development finance institutions will be capacitated to promote investment in productive economic activities and entrepreneurship development. Capacity building for the management of financial institutions and capital market will be enhanced to ensure the credibility and reliability of the financial system in the country."

- In order to ensure broad-based economic development and growth, it is imperative that there is significant investment in economic infrastructure, which supports economic activities in the country. In this regard, strong emphasis will be put on housing, water, energy, telecommunication, roads, rail network, airports and seaports, office space and business facilities."

14. These broad policy guidelines formed the basis for the MTEF and budget. I shall now give a brief outline of the economic developments and outlook underlying this budget.

MACROECONOMIC PERFORMANCE

15. Namibia, like other open economies, depends on trade with the rest of the world. Developments in the world economies have a direct impact on our economic performance. It is therefore important that I sketch the picture of the global economic developments.

Global Economy

16. The recovery in the global economy has taken hold. Global GDP is estimated to have grown by 4.8 percent in 2010, following a contraction of 0.6 percent in 2009. However, this aggregate picture disguises the wide variation in growth among different regions.

17. The world's largest economy, the US, showed moderate growth in 2010; however consumers and financial institutions remain cautious. The large quantitative easing measures introduced by the US Government have led to increasing government debt, which must be repaid over the medium to long term. Developments in the Euro zone are similar, characterised by low levels of growth and high levels of debt.

18. On the other hand, emerging and developing economies have dominated the global recovery, particularly the economies of India and China. Capital flows into emerging economies have also been growing rapidly over recent years, driven by the quantitative easing measures of developed nations. While capital inflows into the emerging economies present opportunities for investment and economic growth, they also lead

to the appreciation of currencies which negatively affect the exports competitiveness and widen the current account deficit.

19. The two-speed recovery is expected to continue, with high growth prospects in emerging and developing economies and continued slow growth expected in developed regions. The debt crisis, which has derailed several Euro zone economies, could spread further, threatening the global recovery. Over the medium term, we foresee a period of fiscal restraint in developed countries, as they will need to reverse their large stimulus measures to decrease debt and address internal and external imbalances.

20. Economic growth in emerging economies presents numerous opportunities for Namibia for trade and investment. This is particularly important given the slow growth in developed economies.

Regional Economy

21. At the regional level, Sub-Saharan Africa weathered the economic downturn relatively well. The region avoided being drawn into a fully-blown recession primarily due to limited exposure to the risks that caused global financial crisis and the ability to respond with countercyclical fiscal and monetary policies. The picture in the SADC region is similar and growth is projected to remain strong over the next few years. Within SACU, growth prospects are also positive although projected growth rates are slightly below the SADC regional average.

22. Growth in South Africa has been moderate and unemployment remains a challenge. In an effort to stimulate economic growth, the South African Government adopted fiscal expansion measures and cut interest rates to their lowest levels since 1999. This has important implications for Namibia, due to the fixed exchange rate with the Rand and the strong trade links.

Domestic Economy

23. Namibia did not escape the effects of the global economic downturn, however, the economy has recovered well in 2010, with an estimated growth of 4.8 percent. The Government's expansionary measures were

key to this recovery, enabled by the fiscal prudence before the crisis. Similarly, the Bank of Namibia responded with an accommodative monetary policy since December 2008.

24. Secondary and tertiary industries have performed steadily over the last three years, with average growth around 6 percent. However, a moderate performance is estimated for 2010, with a growth of 3.9 percent in the secondary industries and 3.5 percent in the tertiary industries. The performance of primary industries is more closely connected with global conditions, hence these industries experienced a downturn in 2009, with a contraction of 27 percent. However in 2010 they are estimated to have grown by 19 percent as the global economy began to recover.

Consumption and Investment

25. Growth in total consumption maintained a steady level through the worst of the crisis with growth of almost 7 percent in 2009. This was partly due to the countercyclical fiscal and monetary policies that were pursued. In 2010, growth in total consumption expenditure is estimated to have slowed to 3.8 percent due to lower consumer confidence.

26. Investment expenditure has been more reflective of the global downturn, contracting by 1.6 percent during 2009. As both global and domestic conditions improved, investment picked up in 2010, growing by an estimated 5.1 percent.

Exchange Rate

27. Over the last two years, the Namibia Dollar has appreciated against most major currencies, particularly the US Dollar and the Euro. This is partly due to the stimulus measures adopted in Europe and the US, which resulted in massive global capital flows, including inflows into the Common Monetary Area. Capital flows into the Common Monetary Area, especially into South Africa, are attracted by relatively higher interest rates. These flows are likely to slow in 2011 before reversing in the following year. Furthermore, higher commodity prices have put upward pressure on the South African Rand.

28. The capital inflows led to the appreciation of the Rand and this has eroded the competitiveness of Namibia's exports, having a negative impact on economic growth, Government revenue and the Balance of Payments.

Balance of Payments

29. Namibia's external sector reflects the global economic slowdown, with the surplus on external balance falling to N$1.1 billion in 2009. The external balance of the Balance of Payments is estimated to have fallen into a deficit in 2010. This is due to the significant fall in the current account surplus due to the reduced current transfer receipts and the outflows recorded in portfolio- and other long-term investments in the capital and financial account.

Trade Balance

30. The global economic decline in 2009 led to a decline in the demand for Namibia's commodity exports. However, export performance is estimated to have improved significantly in 2010 with the overall global recovery gathering pace. Growth in the level of imports was, however, slightly lower in 2010 in line with the overall decline in the volumes of imported commodities relative to 2009.

31. Overall, the Trade Balance is estimated to have remained in deficit during both 2009 and 2010. Going forward exports growth however is expected to exceed imports growth largely due to growing global demand for commodities, which will help to reduce the deficit.

Inflation and Monetary Policy

32. In line with overall economic conditions, the Bank of Namibia pursued an expansionary monetary policy in 2009 and 2010. This policy stance was supported by a benign inflation environment and significant international reserves. Inflation has been on a downward trend since early 2009, falling to 3.1 percent by the end of 2010. However, the recent increase in global

commodity prices suggests that this trend may start to reverse. The Bank of Namibia will continue to closely monitor developments to ensure that an appropriate response is made, if required.

THE 2010/2011 PRELIMINARY FISCAL OUTTURNS

Revenue Outturn

33. In recent years, the Government has implemented revenue-enhancing measures, through strengthening revenue collection and administration, including forensic tax audits, strengthened internal audit functions and tax assessment. As a result, domestic revenue outturn performed relatively well amidst a subdued global environment.

34. Total revenue for 2010/2011 is estimated to amount to N$22.5 billion, which is in line with expectations. The 2010/11 outturn is, however, lower than N$24.0 billion realized during 2009/10, mainly due to the impact of the global economic downturn on the SACU Common Revenue Pool. Namibia's share of the deficit in the SACU Common Revenue Pool for 2008/2009, amounting to N$2.0, billion was settled during 2010/11. A further deficit share accruing from the SACU Common Revenue Pool in 2009/2010 is due for repayment in the coming financial year.

35. Reductions in SACU receipts were incurred in 2009/10, when the SACU Common Revenue Pool recorded an estimated deficit of N$9.8 billion as a result of the global economic crisis, of which Namibia's share is estimated at N$2.4 billion. The estimated deficit will be deducted from Namibia's share of SACU revenues for 2011/12. As a contribution to tax revenue SACU receipts represented an estimated 29.3 percent in the 2010/11 fiscal year.

36. Tax revenue (including SACU receipts) constitutes the mainstay of total revenue and it is expected to account for 26.5 percent of total revenue and grants in 2010/11.

37. Overall tax revenue is estimated at N$20.4 billion in 2010/11, compared to N$22.2 billion collected in 2009/10. While SACU revenues have

fallen, domestic revenue outturn has remained resilient. Individual income tax, Value-Added Tax and mining company taxes displayed better performance among the domestic tax revenue streams.

Budget Balance and Debt Stock Outturns

Total debt stock

38. During 2010 total debt stock increased slightly, reaching 16.9 percent of GDP in December 2010 compared to 15.1 percent of GDP in December 2009. Domestic debt constitutes the majority of total debt stock, with a share of 77 percent. Debt servicing costs stood at N$830 million or 0.9 percent of GDP.

Government Guarantees

39. The stock of Government loan guarantees decreased in 2010 to N$2.4 billion at the end of the year. This represents 2.7 percent of GDP, which is well within the 10 percent target for contingent liabilities.

Performance of SOE's

40. In order to hold SOE's management accountable for their performance, Government has introduced Performance Agreements as well as Subsidy Agreements. The performance agreements for the SOE's falling under the Ministry of Finance will be signed before the end of March 2011.

41. The SOE's receiving subsidies from the Government signed Subsidy Agreements in 2010. Subsidy agreements will be requirements for Government funding to all SOE's. This is expected to promote efficiency and accountability in the utilisation and improved outcomes of budget transfers to SOE's. Details of the performance of SOE's are found in the Accountability Report, which is part of the Budget documentation.

Regional Economic Integration

42. The benefits of regional integration in the form of increased volume of trade, enlarged markets and rapid economic growth and financial market development are expected to far outweigh the resulting loss in revenue. Namibia is committed to advancing regional integration in a sustainable and timely manner.

Developments in SACU

43. As part of its new vision, SACU has developed and agreed on a number of key priority areas of work to promote win-win solutions to address several challenges currently facing the Customs Union, which came as a result of advancement in globalisation of trade and financial services. Some of the priority areas identified are: development of a regional industrial policy including trade and tariff policy, cross border trade facilitation initiatives, the review of revenue sharing arrangement, establishing common institutions within agreed policy framework and unified engagement on Trade Negotiations.

44. Recently, SACU has initiated the process of reviewing the Revenue Sharing Formula to evaluate the operations of the current revenue sharing arrangement and develop possible options on an equitable revenue sharing arrangement. The revised formula will be an outcome of the negotiation process among Member States.

45. Further, SACU is negotiating a Preferential Trade Agreement with India.

Developments in SADC

46. SADC Member States have agreed to continue with the preparatory work towards the attainment of the SADC Customs Union. A high level Expert Group has been appointed with a mandate to consolidate and refine technical work done so far in order for the Region to reach agreement and common understanding on the parameters, benchmarks, timelines, a model customs union and its implementation modalities.

47. Namibia has ratified the SADC Protocol on Finance and Investment. The Protocol, which has already entered into force, aims to harmonise the finance and investment policies in the Member States.

48. SADC is preparing for negotiations towards the establishment of the COMESA-EAC-SADC Tripartite Free Trade Area (FTA). To this effect, the Memorandum of Understanding (MOU) on Inter-Regional Cooperation and Integration between COMESA, EAC and SADC has been signed by the three Regional Economic Communities (RECs). The MOU has entered into force since the 19th January 2011.

49. A Tripartite Summit of SADC-ECA-COMESA Heads of State and Government is scheduled to take place in March 2011. The Summit is organised primarily for the launch of the Tripartite Free Trade Area negotiations. In this regard, the Summit will approve the Roadmap and timeframes for the negotiations; the negotiating modalities and structures.

50. Negotiations regarding the SADC-EU EPA are on-going and we remain committed to the process. The timeframe for concluding the negotiations will largely depend on the extent to which the parties accommodate each other on issues of interest and the challenges that such issues would present to the negotiations. A new deadline for the negotiation has been set for July 2011.

Budget Achievements in 2010/11

51. In 2010/11 the Government achieved progress in a range of areas. To highlight some of the key achievements over the year:

- In the health sector, Government has expanded the coverage of the National Immunization Programme against polio as well as increased provision of Vitamin A supplements.
- 12 out of the 13 regions of Namibia continued to implement Community Tuberculosis Care through CB DOT.
- A total of 87,000 Malaria bed nets were procured and distributed, and Malaria incidence dropped from 64.8 to 39.3 cases per 1000 people.

- The threshold of viral loads has been lowered to make early treatment with ARVs possible.
- A programme of upgrading and renovating of health infrastructure has been implemnted.
- In the education sector pre-primary education has been expanded by 100 classes.
- A comprehensive programme of upgrading of school buildings and related infrastructure, teachers housing, provision of additional classrooms and the delivery of teaching materials has been started.
- The new curriculum for Grades 1 to 12 was implemented; and implementation has commenced for the establishment of the School of Medicine and the School of Engineering at UNAM.
- In the agriculture and water sectors 80 percent of cattle have been vaccinated against Foot and Mouth Disease and Contagious Bovine Pleuropneumonia (CBP) in the NCAs.
- 36 new sites for orchards and woodlots have been identified for planting during 2010/11, totalling 162 ha, and bulk and rural water supply infrastructure has been developed in different parts of the Country.
- In the financial sector, a licence to establish an SME Bank was granted in 2010 to pave the way towards providing finance to SMEs and micro entrepreneurs across a range of economic sectors, and a funding of N$60 million has been provided under the MTEF.
- The National Assembly during its current session considered and approved the Pensions Amendment Bill, the Long Term Insurance Amendment Bill, the Unit Trust Amendment Bill, the Inspection of Financial Institutions Amendment Bill; these amendments pave the way to develop the domestic capital market and create investment opportunities for our domestic savings.
- The Development Bank of Namibia (DBN) was capitalised to a total of over N$ 1 billion and its gross loans and equity advances stand at N$993 million.

- The DBN established four facilities through which loans and equity advances are provided; namely the Public Sector Facility – N$ 210 million); Private Sector Facility – (N$ 120 million);Enterprise Development Facility – (N$110 million); The Special Development Fund Facility – (N$ 86 million).

- The DBN's bridging facility enabled small and medium sized enterprises to participate in public tenders to the value of N$676.2 million, creating and maintaining 5007 jobs.

- AgriBank advanced loans for the acquisition of farm land, livestock aquaculture, equipment and implements, infrastructure, farm workers housing, production loans for crop farmers; total loans for 2010 amount to about N$ 254 million.
  Both banks receive additional capital for the 2011/12 financial year, namely N$ 300 million and N$ 31 million respectively.

- In the transport sector the Okahandja-Karibib tar road is being re-constructed.

- The Tsumeb-Tsintsabis tar road has been completed.

- The Walvis Bay airport upgrading is nearing completion.

- The civil aviation radar system has been acquired and operationlised.

- Rolling stock and rails have been upgraded and refurbished and the extension of the northern rail towards the Angolan border is progressing.

- In the energy sector the Caprivi-Tsumeb Interconnector Link has been completed.

- Several rural communities have been integrated and linked up with national power grid

- Pilot wind energy plants are being established in Lùderitz and Walvis Bay.
- In the tourism sector accommodation facilities of NWR at the main tourist attractions have been completely overhauled and renovated.

- The Namibian Tourism Board (NTB) has successfully launched its new marketing strategy.

- In the housing and sanitation sector 94.6 percent of households in rural communities have access to clean water.
- Several villages and informal settlements were provided with acceptable sanitation systems.
- NHE constructed housing units in several locations for the low income groups.

52. These highlights indicate some of the ways in which public spending helps to improve people's lives and the prospects for the Namibian economy.

UPDATE ON POLICY INTERVENTIONS

Public Finance Management

53. Alongside the increased expenditure outlined in this budget, the Government will continue to improve the effectiveness and efficiency of Public Financial Management (PFM). The PFM programme is expected to strengthen revenue collection and expenditure control functions in order to enhance transparency and accountability.

54. In line with the Government's objective to improve efficiency, capacity building has been considered as one of critical components of Public Finance Management. In this regards, capacity building programmes are being undertaken.

55. An integrated tax management system is being developed under the Public Finance Management Programmes. The system is expected to simplify tax administration process and improve services to taxpayers.

Capital Market Developments

56. The Government has introduced three new bonds in the domestic market to finance Government spending, reduce borrowing pressure on the existing bonds and ensure a sufficient level of bonds on the yield curve of the domestic market. The new bonds offered Government an opportunity to borrow at the low coupon payments, ranging between 7.8 percent and

8.0 percent, compared to the existing bonds with coupon rates ranging between 9.5 percent and 10.5 percent.

57. Government introduced a Primary Dealership system for Government bonds. In the same vein, government has decided to issue bonds to the Bank of Namibia to establish a portfolio in order to facilitate settlement by short Primary Dealers. Primary dealers act as the issuers interface into the financial market, and represent one of the most important tools which can be used to develop the money and capital market in Namibia.

58. Following the adoption of the Financial Services Charter (2009), a Financial Services Charter Council has been established to oversee, monitor, and report on the financial sector's compliance with the Charter. Unfortunately progress has been disappointing. Little has happened to give effect to the commitment made by the industry under the Charter, casting doubt on the commitment of the industry to voluntary reform. We shall therefore forge ahead with public initiatives to ensure transformation of the sector.

59. One such initiative, which I am pleased to mention, is the Financial Sector Development Strategy, which is now under way. The reform envisaged by this strategy will further deepen and broaden the Namibian financial sector, improve the regulation as well as market conduct of participants.

60. A key element in this Strategy is the issue of Financial Inclusion. Creating a favourable environment in which the financial sector would flourish and create equal access to financial services remains an important goal of government. The current high level of financial exclusion estimated at more than half of the economically active population as well the inaccessibility to finance by SMEs is unacceptable. In this regard, we shall continue to pursue the objective of financial inclusion with meaningful vigour.

61. The Financial Intelligence Centre, which was established in May 2009, is making good progress to mitigate the national risk of Money Laundering by ensuring compliance with the Financial Intelligence Act (2007).

Legislative Amendments and Financial Sector Reforms

62. The State Finance Amendment Bill (2009): The new Amendment Bill has been finalised and it will be put through the necessary approval process. The Audit Bill has been cleared by Cabinet and is awaiting clearance by the Cabinet Committee on Legislation.

63. In addition, the Banking Institutions Act as amended in 2010 would further provide for the enhancement of local ownership of banking institutions and their controlling companies. In this regard I will issue regulation in 2011.

64. As stated earlier the amendments to the Pension Funds, Long-term Insurance and Unit Trust Amendment Bills were recently approved by this August House and corresponding regulations have already been prepared and finalised. These Amendments represent a watershed development in mobilisation of domestic savings for development.

65. These amendments will result in substantial funds being released into the economy and improve the general domestic investment climate.

PROCUREMENT

66. The new Tender Board Bill has been cleared by Cabinet and the Cabinet Committee on Legislation and is now with Legal Drafters. The Bill is planned to be tabled in Parliament this year.

67. Among the important aspects addressed in the amendments are the requirement of majority ownership by Namibians and 30 percent ownership by formaly disadvantaged Namibians in Companies bidding for public tenders; reservation by Government of certain tenders for target beneficiaries, such as youth, women and SMEs, delegation by the Tender Board of some powers to the Regional Councils and a review panel to consider complaints from aggrieved parties.

68. To assist SMEs to participate in public procurement, Government has set up bridging facilities at Development Bank of Namibia to enable SMEs and BEE's to get access to finance. Further, a cession of contract income arrangement was approved to enable contractors to cede contract income in lieu of security.

Domestic Economic Outlook

69. Turning to the domestic economic outlook, the recovery witnessed in the Namibian economy in 2010 is expected to continue over the MTEF period with GDP forecasted to grow at 4.3 percent in 2011, 5.1 percent in 2012, 5.9 percent in 2013 and 6.0 percent in 2014. Exports are expected to be a key factor in this growth.

70. Secondary and tertiary industries are forecast to grow at an average rate of 6.6 percent and 5.7 respectively over the MTEF. Growth in primary industries is expected to be more volatile over the period, averaging 0.5 percent over the MTEF.

FISCAL OUTLOOK

Revenue Outlook

71. Total revenue and grants for 2011/12 are projected at N$28.0 billion, which constitutes a 24 percent increase from the N$22.5 billion estimated for 2010/11. Tax revenue is expected to improve moderately over the MTEF due to improvements in commodity prices and mining activity. Total revenue and grants are expected to improve from 28.5 percent of GDP in 2011/12 to 29.1 percent of GDP in 2012/13 and 30.4 percent of GDP in 2013/14.

72. New trade agreements and a new SACU Revenue Sharing Formula that could result in considerable decreases in revenue are on the horizon. A lower return on exports due to currency appreciation is another medium term risk that may exert pressure on revenue growth.

73. In light of the above-mentioned risks, and given public expenditure requirements, we will continue to aim at strengthening revenue collection. Government will further implement measures to broaden the revenue base by tapping alternative sources of revenue without compromising global and regional competitiveness.

External Grants

74. Grant support from development partners in 2011/12 will amount to N$1.6 billion outside the State Revenue Fund and N$230 million through the State Revenue Fund.

75. This support covers a range of key intervention areas, primarily HIV/AIDS, the environment, education, infrastructure and agriculture. In order to improve financial planning and accountability and ensure a coordinated programme of development, I request development partners to ensure that funding is channelled through the budget.

76. The government continues to also receive support from local Non-State Actors such as churches who are cooperating in the areas of health and education. Several NGOs are operating in a wide range of activities, including environment, health, education and rural development to mention a few. We thank our partners for working with us to make improvements in these critical areas.

Fiscal Policy Intervention

77. Revenue Administration: The Ministry of Finance is engaged in a process to improve the administration of taxes. As part of the process technical assistance was sought. The resultant report contains recommendations, some of which could be implemented in a short to medium term period. After further internal consultations Cabinet will be approached for the required approval.

78. The IT system supporting tax administration is being upgraded in order to develop a fully integrated tax administration system. Once completed, the

system is expected to simplify tax administration and improve services to taxpayer and also to improve compliance and collections.

79. As stated earlier Government has initiated the process to design the financial sector development strategy through a collaborative effort with `the Bank of Namibia. The draft strategy is now being subjected to stakeholders' consultation and it will be launched this year.

80. A process to develop a coordinated national strategy on financial inclusion was also started with a high-level policy workshop held in February 2011.

Expenditure Proposals, Allocations and Fiscal Targets over the MTEF

Expenditure Proposals

81. Total government spending for the 2011/12-2013/2014 MTEF period is estimated at N$119 billion, of which about N$23 billion or 19 percent of total expenditure is allocated to the development budget. Total additional allocation amounts to N$14.9 billion or 12.4 percent of total expenditure over the MTEF.

82. Expenditure is estimated to expand by 36.0 percent (N$9.94bn) in 2011/12. In 2012/13 it shrinks by 0.4 percent (N$144.0 million) in relation to the allocation for 2011/12, but in terms of the current MTEF projections it is an increase of `N$ 6.4 billion. Expenditure increases again in 2013/14 by 18.3 percent (N$6.87bn). The significant expansion is necessary to sustain the momentum of the economic recovery and to support job creation initiatives..

Expenditure Allocations

83. In line with the economic outlook and in an effort to address the challenges facing Namibia, the focus of expenditure will be on consolidating economic growth, job creation, infrastructure development, welfare improvement and a more equitably wealth distribution.

84. More specifically, the additional allocations in this year's budget will be targeted the following objectives:

- promoting economic growth;
- employment creation;
- infrastructure development
- improving the development of our human capital;
- guaranteeing law and order;
- ensuring food security;
- improving health services;
- improving welfare conditions;
- development of youth and women; and
- rural development

85. I will now give a brief overview of some key spending areas to which additional resources have been allocated over the MTEF.

Economic Growth and Job Creation

86. Despite numerous efforts of Government to promote economic growth and job creation, unemployment remains high especially among the youth. To further strengthen such efforts, a special targeted programme aimed at promoting economic growth and job creation has now been adopted, namely the *Targeted Intervention Program for Employment and Economic Growth (TIPEEG)*

87. TIPEEG starts in the 2011/2012 financial year and intends to address the high unemployment through supporting strategic high growth sectors.

88. The total cost of TIPEEG over the MTEF is provided under each respective sector and amounts to N$ 9.1 billion. Inclusive of public works the allocation increases to N$ 14.6 billion. It is envisaged that the program will facilitate the preservation and creation of about 104 000 direct and indirect jobs.

89. The targeted intervention program focuses on four sectors, namely agriculture, tourism and transport as well as housing and sanitation.

Agriculture

90. Improving food security is essential to poverty reduction through ensuring that the nutritional needs of citizens are met. Further, agriculture holds great potential for economic growth and job creation.

91. Additional allocations are therefore made to the sector for activities related to improved livestock farming, animal health, horticulture development (Green Scheme Projects), provision of Bulk and Rural Water Supply, and improved crop production.

92. Successful implementation of agricultural projects will strengthen food security, supporting rural and local level development and increase employment opportunities.

93. Besides food production, food storage is essential to mitigate the risk of future food shortages. Therefore, the Government is investing in silos in different parts of the country.

94. The total allocation to the agricultural sector is estimated at approximately N$7 billion for the MTEF period. Of this amount, approximately N$866 million is an additional allocation.

Tourism Sector

95. Tourism sector has grown rapidly and Namibia has been rated as the fourth World fastest growing country in tourism. It is believed that for every 12 tourists that visit Namibia, a permanent job is created.

96. Tourism sector is allocated a total estimated amount of N$1.9 billion for the MTEF including an additional allocation of N$678 million. This budget is earmarked for investment in tourist infrastructure, tourism marketing and development of community-based tourism, as well as upgrading of infrastructure in national parks.

Transport sector

97. Transport infrastructures play a critical role in our country, serving as catalyst for economic development. While our transport infrastructures are relatively well developed and maintained, most of them need rehabilitation.

98. The budget is allocated to cater for the development and improvement of transport infrastructures, including roads and railway network. The sector is allocated an estimated amount of N$6.5 billion including an additional allocation of N$1.6 billion over the MTEF.

Other Sectors

99. Besides the above priorities, other areas with potential for economic growth and employment creation continue to receive attention. It is recognised that mining is one of key industries for the Namibian economy. Therefore, additional resources have been allocated for the review of the Minerals Bill and to capitalise the Epangelo Mining Corporation.

100. Further to optimise private sector investment, the budget supports measures to maintain a competitive market. In this regard, resources are allocated to operationalise the Namibia Competition Commission. This will ensure that the playing field is levelled and that all actors in the economy can optimally contribute to economic development and anti-competitive behaviours that undermine efficiency and constrains growth are curbed.

101. Funding is also provided to Public Development Finance Institutions that is to DBN, AgriBank and NHE in order to facilitate access to funding for SME development, agricultural production and home acquisition. The dedicated SME BANK, which is set to open its doors in 2011/12, is also provided with funding for capitalisation.

Fostering the development of our human capital: Education

102. Education is one of the most important long-term investments, if Namibia is to achieve the level of economic development targeted in the Vision 2030. For this reason the Government continues to devote the largest share of the budget to this sector.

103. Improving the quality of education and facilitating access to pre-primary and primary education is imperative to create the solid foundations that will assist students throughout their educative period.

104. Additional funds are therefore provided for the construction of additional classrooms and hostels and to resource the schools with qualified teachers and study materials. To provide critical skills needed for driving Vision 2030, additional funding is provided for the establishment of the School of Medicine and School of Engineering at the University of Namibia and the Polytechnic of Namibia and Vocational Training Centres. More resources are also allocated to reach more youth who are seeking financial support to further their studies.

105. We are also strengthening our cooperation with Non-State Actors in development by allocating more resources to church schools, private schools and community schools and hostels.

106. Students' concentration, and hence their ability to learn, is heavily influenced by their nutritional levels. In this regards, the Government is enlarging the amount provided to meals in both public and private schools and hostels.

107. In recognition of the role education can play in promoting long-term economic growth and reducing unemployment, the Government has provided an additional N$3.9 billion to education over the MTEF, bringing the total MTEF allocation for the sector to N$26.2 billion.

Safeguarding Law and Order

108. The rule of law and security are a pre-requisite for economic growth and development. Therefore, additional resources are allocated to the Namibian Police in order to strengthen service delivery and improve safety and security within the border of our country.

109. Additional funds are allocated to Justice to assist in clearing backlogs and strengthening capacity in the Directorate of legal aid.

110. The Government is allocating more funds to the development of prison accommodation to avoid over-crowding and training facilities in order to provide prisoners with skills that will help to facilitate their rehabilitation after completion of their sentence.

111. For law and order, including police, justice and prisons and correctional services, the Government will allocate an additional N$761 million. This will bring total spending up to N$12.1 billion over the MTEF period.

Health

112. The Government continues to improve the health system in an all-embracing manner to ensure that all Namibians have access to high quality medical services.

113. In this regard, additional funds have been allocated for improving health care management, reducing the threshold for Anti-Retroviral treatment, acquisition of pharmaceuticals and for Malaria Elimination and TB Programmes.

114. Furthermore, additional funds will be allocated for the treatment of patients with special or uncommon diseases.

115. Health and Social Services will receive an additional N$1.3 billion taking total spending to N$10.1 billion over the MTEF period.

Housing and Sanitation

116. Housing and sanitation is one of Government's priorities over the MTEF period. The programmes include servicing of land, construction of low cost housing as well as construction of urban and rural sanitation facilities.

117. The allocations to these programmes amount to N$2.8 billion over the MTEF period.

Social Safety Net

118. Women, children and the elderly are usually the most vulnerable members of our society. In the face of persistent poverty the Government will allocate additional funding to maintain and improve the social safety nets.

119. Furthermore, the men and women who fought to secure our independence will also receive the recognition and support they deserve.

Youth Development

120. Youth unemployment is one the greatest problems facing our society. Among other initiatives directed at mitigating this problem, resources have been allocated to the Namibia Youth Credit Scheme to support young entrepreneurs who want to start their own businesses.

121. Total expenditure for Youth, National Service, Sport and Culture will increase by N$257 million, taking total spending to N$1.5 billion over the MTEF period.

122. Besides these allocations the youth are the primary beneficiaries of allocations made to Education and health. Further, additional funding provided under TIPEEG will mainly benefit the youth through increased possibilities for employment, including youth enterprise development.

Rural Development

123. In order to improve living standards of people living in rural areas, the Government is significantly expanding its budget allocation to this sector.

124. In particular, additional funding is allocated to support the Regional Councils in order to capacitate them to effectively manage the affairs of the regions. Capacity at regional level has become increasingly important as decentralisation is phasing in. Besides the funding to these programmes, increased funding to agriculture, rural water supply, rural electrification, housing and sanitation infrastructures will stimulate economic activities in the rural areas, create jobs and improve welfare conditions.

125. Government allocation to Regional and Local Government, Housing and Rural Development increased by N$13.9 billion, taking total spending to N$15.7 billion over the MTEF period.

Fiscal Targets over the MTEF

126. In order to fund the identified priorities, Government adjusted the budget deficit target from 5 to 7 percent of GDP over the 2011/12 – 2013/14 MTEF, while expenditure ratio will be adjusted to 40 percent of GDP.

Expenditure

127. Total expenditure over the MTEF will amount to N$119.9 billion. As a percentage of GDP, expenditure will average 36.4 percent over the MTEF period. Development expenditure will total N$22.8 billion, representing about 19.0 percent of total expenditure.

Budget Balance

128. The budget deficit is estimated at 9.8 percent in 2011/12. For 2012/13, however, it is expected to fall to 5.2 percent of GDP but it picks up again to 6.2 percent in 2013/14. All in all, the budget deficit will average 7.1 percent of GDP during the MTEF period.

Public Debt Outlook

129. The increases in the budget deficits will inevitably lead to increasing public debt over the MTEF period. Therefore, total debt is estimated at N$27.0 billion in 2011/12, and it is expected to rise to N$33.1 billion and N$41.4 billion in 2012/13 and 2013/14 respectively.

130. In relative terms, total debt is estimated to increase to 27.4 percent of GDP in 2011/12, 30.3 percent of GDP in 2012/13 and 33.9 percent of GDP in 2013/14.

Debt Servicing

131. The cost of servicing the debt is estimated at N$1.8 billion, N$2.5 billion and N$3 billion in 2011/12, 2012/13 and 2013/14 respectively. A comprehensive risk analysis will continuously be done to ensure that all costs pertaining to both new domestic and foreign borrowing and the existing debt stock are kept at a minimum.

Development of Debt Market

132. Over the medium term the domestic debt market will be developed to promote a transparent and liquid secondary market and ensure an efficient and competitive primary market that will attract investors, reduce the costs of borrowing and facilitate debt management and monetary policy execution. In addition a government bond program will be designed to reduce the long-term costs of raising debt, which will involve increasing liquidity, transparency and predictability while incorporating investor preferences into the program.

TAX REFORMS AND EXCHANGE CONTROLS LIBERALISATION

Change in Excise Duties (‘sin taxes’ as per SACU agreement)

133. Excise duties are being applied within the Common Customs Area of SACU based on a decision by SACU Ministers of Finance. In this regard,

I wish to indicate that SACU is currently looking into ways of strengthening the consultative process of setting these tariffs.

134. Rates are informed by health considerations, international benchmarks on the tax burdens for such products, and pricing information collected from industry stakeholders. In line with targets set for the total tax burdens on respective excisable commodities, the following percentage increases have been agreed upon for implementation with effect from 23rd February 2011:

- Unfortified wine 8.41 percent
- Fortified wine 7.44 percent
- Sparkling wine 4.49 percent
- Ciders & alcoholic fruit beverages 7.53 percent
- Spirits 10.00 percent
- Cigarettes 8.94 percent
- Cigarette tobacco 8.22 percent
- Pipe tobacco 10.37 percent
- Cigars 6.00 percent

135. These amended rates of duty are set out in more detail in the Taxation Proposal which I shall table here in terms of section 65(1) of the Customs and Excise Act of 1998, and will be deemed to have come into operation as from midnight 23rd February 2011.

Tax reforms

136. The Government is currently undertaking tax policy reviews including tax administration with the view to optimise revenue collection with emphasis on finding alternative sources of revenues. We shall propose to this House some legislative amendments during the course of the year.

Foreign Exchange Liberalisation

137. The Government is committed to the process of gradual liberalisation of exchange controls with a view to encouraging economic growth. This commitment is in line with the exchange control liberalisation measures

as outlined in the Common Monetary Area (CMA) and full liberalisation of exchange control amongst SADC member states as per the SADC Finance and Investment Protocol.

138. Changes in exchange controls proposals are as follows:

- The current period for the mandatory repatriation of exports proceeds to Namibia has been increased from three months to six months from the date of shipment. Furthermore, the retention period of foreign currency on the Foreign Currency Account at Authorised Dealers has likewise been increased from 90 days to 180 days.
- Foreign portfolio investments by Namibian Institutional Investors for offshore investments are currently limited at 30 percent. This limit will be raised to 35 percent.
- Restrictions on financial assistance to local foreign-owned companies will be abolished in order to improve access to domestic credit for the financing of bona fide foreign direct investment and for domestic working capital requirements,
- The cash limit for Namibian residents who are travelling overland to and from Namibia through Botswana will be increased from N$5,000 to N$10,000. This allocation is in addition to the existing annual N$1 million discretionary allowance for individuals travelling outside the Common Monetary Area.

Environmental Tax

139. The preparation to introduce the Environmental Taxes is advanced. The tax is introduced on the basis of the “polluter pays” principle. The tax is instituted to achieve the dual objectives of correcting for negative environmental externalities by acting as a disincentive excise tax to induce behavioural change, and to raise revenue. A tax proposal in this regard will be tabled in the National Assembly soon.

Contingency provisions

Honourable Speaker, Honourable Members

140. As is common practice I take this opportunity to inform the House about the contingency expenditure for the current financial year. I have distributed the table depicting the specific expenses incurred out of the contingency provision.

CONCLUSIONS

Honourable Speaker, Honourable Members,

141. When VISION 2030 was launched by the Founding Father, His Excellency President Sam Nujoma said: "*While we all recognise that the future is filled with uncertainties, we must build our Vision for our country on the philosophy of success in the face of all hurdles*. *The mission of our Vision must be to resolve all those issues that may inhibit future development and to set ambitious targets which will challenge all sectors of our economy into determined action."*

142. The budget I presented to you today is a budget that enhances and consolidates gains made during the recovery. It focuses on those issues that are key to the people-centred policies of the ruling SWAPO-Party namely: job creation, poverty reduction and reduction of inequality, economic growth, human resources development and social fairness.

143. The growth forecasts I highlighted during my speech are ambitious, yet realistic. However, without hard work across all sectors of the economy, these forecasts will not become a reality. With drive, hard work and innovation, we can even exceed these growth forecasts and reach the go-getting targets as set out in Vision 2030.

144. The global economy has emerged from the worst of the downturn and emerging markets offer new opportunities for trade and growth. The Government's continued expansionary budget will help to lay the foundation for economic growth and address the persisting socio-economic challenges that face Namibia. As a country, we need to grasp these opportunities to make structural improvements and achieve lasting, sustainable development.

145. Lastly, may I take this opportunity to thank all our development partners for the material and technical assistance that we received. Our successes in economic development were greatly enhanced by your support. I want to, voice my deep appreciation to His Excellency President Hifikepunye Pohamba for his continued trust and for affording me the opportunity to steer the country's public finances. May I also thank my colleagues Cabinet Ministers and the Director-General of NPC for their support and understanding during the budget formulation. I also wish to applaud my officials, and the NPC Secretariat who had a very busy time, for the hard work they put in to compile and finalise the budget documentation.

Honourable Speaker, Honourable Members

146. I now have the pleasure to table the Appropriation Bill for 2011/12 and the Medium Term Expenditure Framework for the period 2011/12 to 2013/14 before this August House for its consideration and approval.

I thank you.