This is one in a series of four briefing papers, initiated by UNICEF, that examine the extent to which the Namibian Government budgets have addressed the needs of children in the country.

Other briefs focus on education; social assistance and welfare; and health and sanitation.
KEY MESSAGES

• Namibia is classified as an upper middle-income country, but wealth distribution is severely skewed. Children are more affected by poverty than adults.
• The government pursues prudent fiscal policy and is not dependent on donor funding.
• There is an intended shift to programme-based budgeting, which is designed to improve budget effectiveness. This should be reinforced by greater use of evaluations to review the effectiveness and efficiency of resources spent.
• In order to increase accountability and transparency, international cooperation partners should channel their funds through the State Revenue Fund.
• While the budget documents state budgetary allocations to main programmes, no breakdown of funding for subprogrammes, such as child health or maternal health, is provided.
• Greater use of fiscal tracking surveys is recommended, to assess how much of the budget reaches intended intermediaries and beneficiaries, e.g. the Namibia AIDS spending assessment is a model that should be replicated in other sectors.
• Investment in child-sensitive budgeting is recommended, through analysis of budget plans and out-turns with a focus on patterns and trends in resources allocated to items that directly benefit children.
• It is necessary to present budgets in a form that children can both understand and provide inputs to.
INTRODUCTION TO THE NAMIBIA GOVERNMENT BUDGET PROCESS

Namibia is the youngest country in Southern Africa, having gained independence on 21 March 1990. It is also the driest country south of the Sahara and has one of the lowest population densities in the world, surpassed only by Mongolia and Greenland. Namibia’s population is 2.3 million people (2016), with a population density of 2.8 persons per km² (up from 2.1 persons per km² in 2001). Population growth has slowed from 3.1% in the decade before independence to 2.6% between 1991 and 2001, and further to 1.4% between 2001 and 2011. Namibia has a young population, with 45.4% being 18 years of age or younger. The female-to-male ratio (50.4 to 49.6 respectively in 2011) is lower among the youth up to the age of 18 years than in the total population (51.6% female).

Lower population growth and improved standards of living, among other factors, resulted in a decline in the size of the average household from 5.2 (1991) to 4.4 (2011). The decline was more pronounced in urban areas – down from 4.7 to 3.8 – than in rural areas, where it dropped from 5.4 to 5.1. Households run by children account for 1.7% of all households, but these are more prevalent in rural areas (2.1%) than in urban areas (1.2%). The same holds for child orphan-headed households. Orphans who are children head 2,953 households – or 0.6% of total households (0.8% in rural areas and 0.4% in urban areas).

Namibia is also one of the most unequal societies. The Gini coefficient, that measures the distribution of income across society, was calculated at 0.7 in 1993/94 on a scale of 0 (complete equal distribution of income) to 1 (maximum inequality).
income) to 1 (complete unequal distribution). Although inequality has declined over the years to 0.6 (2003/04 and 2009/10), it remains high by international standards. As Figure 1 illustrates, average household consumption amounted to N$65,438 in 2009/10. However, the average consumption of female-headed households was only 71.0% of this amount (N$46,474), while it was 121.6% for male-headed households (N$79,586). Furthermore, average consumption in rural areas was 62.0% of the national average, while it amounted to 149.5% in urban areas.

Poverty levels have dropped from 58% of total households in 1993/94 to 20% in 2009/10. Substantial progress was also made in reducing severe poverty from 47% to 10% over the same period of time. Figure 2 shows that households with orphans are, in particular, affected by severe poverty (18%) and poverty (34%), while households with no orphaned children are better off. Of the latter, 10% are classified as severely poor and 22% as poor. Since poorer households tend to have more children, the proportion of the population that is poor or severely poor is larger than the proportion of households.

One of the contributing factors to poverty is unemployment. Despite robust economic growth, the labour market has not been able to absorb all job
The government is the largest employer, providing 97,535 jobs (or 14% of the labour force) in 2014. The unemployment rate averaged 28.4% between 2012 and 2014. Figure 3 illustrates that youth aged 15 to 19 years that are no longer in school are particularly affected by unemployment. In 2012, 56.3% were unemployed, and in 2014 the figure had grown to 64.3%. Unemployment also has a gender bias. Female youth unemployment for this age group averaged 71.7% between 2012 and 2014 compared to male youth unemployment of 54.6%. Opportunities in the labour market increase with educational attainment. Therefore, the provision of quality education plays a crucial role in improving the standard of living.

The unemployment rate remained high, despite economic growth of 5.6% on average between 2010 and 2015. In particular, the construction sector performed very well, growing by 22.5% on average, while the wholesale and retail trade sector grew by 8.7%. This performance is reflected in employment in these two sectors of 33.3% and 29.8% respectively between 2012 and 2014. However, it was not sufficient to absorb school leavers and job losses in other sectors.

Namibia is classified as an upper middle-income country owing to a per capita income of N$64,286 in 2015. As described above, the average per capita figure hides huge discrepancies in income and wealth.
The country’s wealth is based on natural resource extractions. Figure 4 shows that the mining sector accounted for 12.5% of the gross domestic product (GDP) in 2015 with diamond mining contributing 72.0% to mining output or 9.0% to total GDP. While agriculture is the main employer (including self-employment) in the country, its contribution to GDP reached just 3.2%. It is expected that the share will decline further in 2016 owing to the prevailing drought. Despite various initiatives by the government to boost manufacturing activities, the sector’s contribution to GDP contracted in recent years to 8.3% (see Figure 4).

Although not fully reflected in the national accounts because the category refers to hotels and restaurants only, the tourism sector plays an important role as an employer, foreign exchange earner and contributor to GDP. Public administration, defence, health and education accounted for 23.7% of GDP in 2015.

Inflation has declined since 2009 from 9.5% to 3.4% in 2015, but was on the increase again in the first half of 2016 (6.3% on average). This is mainly due to food prices that increased by 11.3% in June 2016 compared to June 2015 (see Figure 5). The costs for transport services dropped in 2015 owing to the decline in oil and consequently in fuel prices, but are rising in 2016 although below average inflation. Transport inflation stood at 3% in June 2016 (see Figure 5). Since the poor spend a considerable share of total expenditure on food


Source: Namibia Statistics Agency, Namibia Consumer Price Index, various months.
and since they usually do not own a vehicle and have therefore not benefitted from lower fuel prices, they experience price increases above the average inflation rate.

The budgetary process in Namibia is determined by the Namibian constitution and the State Finance Act, which define the responsibility of the institutions involved. The Namibian constitution obliges the minister of finance to present an estimate of revenue and expenditure to Parliament at least once a year. The National Assembly approves the budget after it is considered by the National Council, which represents the 14 regions. The Appropriation Bill is a brief summary of the estimates of revenue and expenditure and it has to be signed by the president – at the latest – three months after the beginning of the financial year. After the end of the financial year, which runs from 1 April until 31 March, it is the responsibility of the auditor general to audit the financial statements of the various government institutions and submit the report through the minister of finance to Parliament. The National Assembly can refer the report to the parliamentary standing committee on public accounts, which can conduct hearings with the accounting officers.

The budget cycle starts with the design of a budget calendar, usually around May. The first major activity of the budget cycle is the formulation of the macroeconomic framework compiled by the Ministry of Finance (MoF), the National Planning Commission and the Bank of Namibia. The framework is submitted to the cabinet treasury committee around September/October for approval and sets the ceilings for expenditure for all ministries. The MoF also prepares the fiscal policy framework, which outlines the government’s fiscal targets such as the budget deficit and total debt.

Each ministry prepares the conventional budget and the three-year medium-term plan (MTP) that describes the various ministry activities and sets output targets for the next year. However, the programmes in the MTPs often do not have budgets attached to them. Although most ministries make reference to the national development plans (NDPs) in the MTP, not all NDP targets are reflected in the MTP.

Once agreement is reached with all ministries on their budgets, the final budget is submitted to the cabinet treasury committee for approval in November. The minister of finance presents the budget in Parliament, usually towards the end of February. While some ministries consult with major stakeholders, there is no formal structure in place to involve the private sector and civil society during the preparations. After the tabling of the budget, the ministers have to explain their ministry’s budget in the National Assembly. Members of Parliament use this time to question the ministers. Parliament has the power to propose changes to the budget but that has not yet happened.

Namibia participates in the bi-annual open budget survey (OBS) conducted by the International Budget Partnership. The country scored 55 out of 100 in 2012 and 46 in 2014. The decline is ascribed to new questions that were not included in the 2012 survey. The overall assessment derived from the survey is that budget oversight by the legislature is weak, as are the opportunities for the public to engage in the budget process. Budgetary information provided by the government is considered to be limited, while the oversight by the auditor general is adequate. It is, however, expected that Namibia will improve her score in the 2016 OBS, since the country has meanwhile introduced a mid-term budget review, which includes
a pre-budget statement. In addition, the Ministry of Finance is introducing a new approach to budget development, moving away from incremental line item budgeting to policy and programme-based budgeting to ensure that resources are more clearly aligned to results.

This will also allow clearer tracking of resource allocations to specific programmes.

### 2016/2017 STATE BUDGET

The government’s total budget for 2016/17 amounts to N$66.0 billion (equivalent to US$4.5 billion). Figure 6 illustrates that education has always been a priority for the government. Education and higher education combined receive on average of 24.2% of the total budget over the period 2014/15 to 2018/19. Health and social services, including family welfare services, receive 10.4% and 10.3% is allocated to defence. Poverty Eradication and Social Welfare, a new ministry introduced in 2015, receives about 3.4% between 2015/16 and 2018/19. The Ministry of Gender Equality and Child Welfare received 1.2% of the budget. The ministry is responsible, among other things, for the administration of the child grants (see the budget brief on social assistance and welfare).

Personnel expenditure absorbs the largest chunk of the national budget (36.8%), followed by subsidies and other current transfers (including social grants) at 26.1%. Interest payments for government debts account for 6.2% of total expenditure. Overall, current expenditure absorbs 84.6% of the total budget, while development (capital) expenditure accounts for 15.4%. Total government expenditure is expected to drop from
40% of GDP in 2014/15 to 35% in 2016/17 because of fiscal consolidation.

As Figure 7 shows, the government’s main revenue sources are taxes on income and profits, i.e. income tax paid by individuals and companies. They account for 42.4% of total revenue. Mining companies contribute about 4.0% and non-mining companies 10.8% to total revenue. Namibia’s reliance on transfers from the Southern Africa Customs Union (SACU) Common Revenue Pool (CRP) has declined sharply from 39.8% in 2007/08 to currently about 24.4%. All customs and excise duties collected by SACU member states are transferred to the CRP and distributed to member states according to a revenue sharing formula.

Slightly more revenue is derived from value added tax and other taxes on goods and services (25.6%). External grants contribute 0.3% to the budget. However, the actual share is higher since some grants are channelled directly to programmes such as HIV and AIDS programmes, and not through the State Revenue Fund. Including the United States President’s Fund for AIDS Relief (PEPFAR) funding, total external grants increased from 2.1% in 2004 to 4.4% in 2009, before it started declining again to 0.5% in 2015. While Namibia is not dependent on donor funding, external donors should consider channelling their grants through the State Revenue Fund. This would increase accountability and transparency and the funds would be part of the annual audit of the auditor general. Total revenue over GDP is estimated at 31% in 2016/17.

The utilisation of the budget has increased from 95% in 2012/13 to 99% in 2015/16, mainly owing to an increased execution rate for development projects. In contrast, overspending on personnel costs was reduced in ministries such as the Ministry of Health and Social Services and the Ministry of Education. A brief comparison of estimated revenue versus actual revenue does not indicate a clear trend. In some years, taxes on income and profits and taxes on goods and services were overestimated and in other years underestimated.

The government has set and followed strict fiscal targets for budget deficit over GDP (7%), total public debts (35%) and external debts (10%). These targets were increased from 3% (budget deficit) and 25% (public debts) in the wake of the global financial and economic crisis in 2008 to 7% and 35% respectively. The expected budget deficit for 2016/17 is 4.3%. Public debt increased to 37% – above the fiscal target – in 2015/16, but is expected to decline to 34% in 2016/17.

The government has improved domestic revenue collection over the past years through various measures, including tax audits, and has thus reduced the dependency on transfers from the SACU Common Revenue Pool. In addition, the government is in the process of establishing an autonomous revenue authority that is expected to increase revenue collection further. However, the future of SACU transfers remain in limbo, since South Africa is calling for changes to the revenue sharing formula. Since total public debts are close to government’s fiscal targets and are exposed to exchange rate fluctuations, government’s ability to increase expenditure without additional revenue is currently limited.