This Budget Brief is one in a series of four that examine the extent to which the Namibian Government budgets address the needs of children in Namibia. This brief focuses on the national budget, in particular the macroeconomic context along with overall expenditure and revenue priorities and recent performance. Other briefs focus on education, social assistance and welfare, and health and sanitation.
The economy is in recession, which means that real incomes are falling and job losses are widespread. There is urgency to scale up social protection programmes to protect the most vulnerable families and children during the economic crisis.

Youth unemployment is staggeringly high and rising. It will be important to assess and introduce options to address the challenges surrounding youth unemployment.

Spending on defence is more than double total spending on social welfare/poverty reduction. If the government is serious about addressing poverty and inequality it will need to re-evaluate current budget priorities.

The wage bill consumes far too much of available resources. Curtailing spending in this area can allow for greater investments in badly needed goods and services, like text books and medicines, as well as support long-term capital projects that can catalyse long-term growth prospects.

The majority of foreign aid is not recorded on budget, which undermines budget planning processes and leads to duplication of services. Development partners and the government should ensure that all aid is recorded on budget in fiscal year 2019/20.

Heavy reliance on SACU revenues leads to unpredictable funding flows and unrealistic budgets. It will be important to assess options to expand fiscal space in order to diversify and stabilization revenue.

Budget transparency continues to improve. The government should build on ongoing efforts, including by publishing the approved budget and Citizen’s Budget on-line and creating opportunities for civil society to contribute across the annual budget cycle.

### Key indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
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<tbody>
<tr>
<td>Total population, projection 2017</td>
<td>2,368,747</td>
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<tr>
<td>Child population (0-18yrs of age), 2016</td>
<td>1,040,533</td>
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<tr>
<td>Children as % of population, 2016</td>
<td>44.84%</td>
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<tr>
<td>GDP per capita in nominal terms, 2016</td>
<td>NAD69,279 (USD4,710)</td>
</tr>
<tr>
<td>Poverty rate based on Basic Needs Poverty Line, 2009/10</td>
<td>19.5%</td>
</tr>
<tr>
<td>Child poverty rate, 2009/10</td>
<td>34.0%</td>
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<tr>
<td>Budget deficit (est.), 2017/18</td>
<td>3.6%</td>
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<tr>
<td>Donor funding as % of revenue, 2017/18</td>
<td>0.3%</td>
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<tr>
<td>Public debt to GDP ratio, 2017/18</td>
<td>41.9%</td>
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<tr>
<td>Inflation rate (annual), December 2017</td>
<td>5.2%</td>
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<tr>
<td>Food inflation rate (annual), September 2017</td>
<td>4.2%</td>
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Macro and Socioeconomic Context

Namibia’s economy experienced significant turbulence in 2016 and 2017. Low commodity prices coupled with the completion of major private and public sector construction projects resulted in a marked slowdown of economic activities. In addition, government spending was scaled back in order to curtail high budget deficits and rising public debt. Overall, economic growth slowed down from an average of 5.7% between 2010 and 2015 to just 1.1% in 2016 (Figure 1). Projections for 2017 indicate that the economy might contract for only the second time since Independence (1993 -1.3%). The Namibian economy has been in a technical recession since the second quarter 2016.

Low growth and high population growth has translated into declining per capita income. For instance, in 2016, real per capita income fell by 0.8% to NAD 47,216, a trend which is expected to worsen during 2017 based on projections from the IMF. However, in nominal terms GDP rose from NAD 64,732 in 2016 to NAD 69,279 in 2017, which amounts to a seven percent increase.

The Namibian economy is reliant on natural resources including agriculture, fishing, mining and tourism well as a large public sector. In 2016, the wholesale and retail trade sector was the largest single contributor to GDP at 11.7%, which was closely followed by the mining and the public administration and defence sectors at 11.3 and 11.2% of GDP, respectively, diamond mining (mainly offshore), dominates the mining sector’s value addition (nearly 60%).
The youth unemployment rate rose from 38% in 2012 to close to 45% in 2016, with younger populations (those between the ages of 15 and 19 years) most affected (more than 70%). In addition, it is important to recognize the high share of informal employment, which characterizes two out of every three jobs in the country.

**Inflation is also on the upswing.** The overall inflation rate doubled between 2015 and 2016 from 3.4% to 6.7%, but appears to have slowed down in 2017 to an average of 6.3%. Food and non-alcoholic beverages account for 16.5% of the total consumption basket and hence the substantial drop in food price inflation from double-digit price increases until February 2017 to below 5% since May 2017 resulted in the overall decline of the inflation rate. Some food items, such as bread and cereals, have seen an actual drop in prices (negative inflation rate), which is good news for poor households that spend a much larger share of total consumption on food than better off households. Since poor households tend to have more children (see UNICEF Budget Brief – Social assistance and welfare), children benefit as well.

**Rising population growth is another important trend affecting Namibia.** The population grew on average by 1.9% between 2011 and 2016, which is a notable increase from prior periods (e.g. the average rate between 2001 and 2011 was 1.4%) (Figure 4). This could be partially contributed to the successful roll-out of anti-retroviral treatment (ART) for HIV positive persons that reduced HIV-related deaths. As of 2016, the population stood at just over 2.3 million resulting in a population density of 2.8 persons per square kilometre, which is one of the lowest globally. Children below the age of 18 years accounted for 42.7% of the total population in 2016, which represented a slight decline compared to 2011 (43.1%).
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Levels of poverty and inequality elevated but are improving. According to the 2009/10 Namibia Household Income and Expenditure Survey, 19.5% of all households were classified as being poor and 9.6% as being severely poor. The share of poor and severely poor households declined by about 30% compared to 2009/10. Income inequality has dropped as well, although only marginally. The Gini coefficient fell from 0.603 in 2003/04 to 0.597 in 2009/10 and to 0.572 in 2015/16. Social protection programmes and, in particular, social grants seem to have had a positive impact on poverty reduction and income inequality.

Key observations

- The economy is in recession, with per capita income declining
- Unemployment, and in particular youth unemployment, remains a major challenge. The contraction in the construction and wholesale and retail trade sector this year is resulting in job losses, while sufficient rainfall at the beginning of the year boosted job creation in the agricultural sector.
- Poverty and income inequality are high but improving; giving greater priority to these issues can also increase the demand for domestically produced goods and services and hence boost long-term economic growth prospects.

The share of poor and severely poor households declined by about 30% compared to 2009/10.
Aggregate spending trends and priorities

Total government spending has declined in recent years. Over the 2008/09 to 2017/18 period, total expenditure averaged around 37% of GDP, but is anticipated to drop to 32.5% on average over the next two fiscal years (FY) (Figure 2). The share has been on a downward trend since it reached a peak of 42.4% in 2014/15 and is projected drop to 32.5% on average over the next two Financial Years. Due to accelerating debt accumulation and the looming risk of being downgraded by international sovereign rating agencies, the Government announced budget cuts of about NAD500 million in the mid-term budget statement in October 2016. FY2016/17 was the first FY that saw an actual nominal decrease in total expenditure compared to the previous year. Expenditure have been increased again in the current FY 2017/18, by slightly more than a billion to NAD62.5 billion.

Budget cuts have negatively impacted economic growth as well as the government’s sovereign credit rating. Giving the government’s influential role in the economy, scaling back spending contributed to the decline of growth in 2016 to 1.1% and is likely contributing to the current recession. Despite the Government’s effort
to address the fiscal challenges, Moody’s Investors Services revised Namibia’s investment rating to non-investment grade in August 2017, while Fitch Ratings followed in November 2017. Moody’s cited among others fiscal imbalances (rising public debts), limited capacity to manage shocks (reliance on SACU transfers) and government liquidity pressure as reasons for its decision.

In terms of spending priorities, education receives far and away the largest budget, followed by health and defence. Regarding education, the Ministry of Education, Arts and Culture and the Ministry of Higher Education, Training and Innovation have received on average close to 24% of the national budget between 2008/09 and 2017/18; this share is projected to slightly increase to

**Key observations**

- The government is aggressively slashing spending, which is likely to exacerbate economic recession.
- The high share of Government expenditure over GDP increases the vulnerability of the economy to adjustments in the public sector.
- The government’s prioritizes investments in education and health, but continues to spend more than twice on defence than on poverty eradication and social welfare services.
The government budget is heavily skewed toward salaries and wages. This amounted to around 45% of the budget in the current fiscal year, which has been steadily rising since 2015/16 due to budget cuts in other areas (Figure 4). ‘Subsidies and other current transfers’ is the second largest item, which accounts for around 25% of total spending and includes contributions to social grants and civil servant health coverage, among others. Capital expenditure – investment in infrastructure – has been the third largest expenditure item averaging about 18.8%. Capital expenditure accounts for 10% of the budget in the current fiscal year, but has been hard hit by budget cuts. Total spending, mainly in infrastructure, fell from NAD 9.9 billion in 2015/16 to NAD 6.7 billion in 2017/18, with the cuts targeting non-essential expenditure like new office buildings and a planned new parliament but also affecting long-term projects. Goods and services, which include medicines, textbooks and stationery, but also subsistence and travel allowances, absorbed 14.6% of total expenditure. Like capital projects, allocations to this item have been substantially reduced in particular for subsistence and travel allowances and for materials and supplies.

The current fiscal constraints offer the opportunity to review current spending items. This has particular implications for the structure of Government and State-owned Enterprises, which could achieve efficiency gains by streamlining certain functions, as well as for better prioritizing expenditure. Current efforts to curb ‘wasteful’ expenditure should also continue, which were initiated when budget cuts were introduced in October 2016. For instance, travel and subsistence allowances were cut from 1.1% of total expenditure in 2015/16 to 0.5% in the current fiscal year, while transport costs fell from 1.9% to 0.7% of the budget over the same period. There are also ongoing efforts to reduce spending on new vehicles. Moreover, the Government continues to take a stronger stance against non-performing State-owned Enterprises (and corruption). For instance, one SoE was closed after fraud was detected and another is being liquidated.
Key observations

➤ Increases in personnel expenditure that are far above the inflation rate indicate that there is room for adjustment in the wage bill in terms of annual salary increments as well as in terms of overall staffing.

➤ The high wage bill leaves less funds available for vital goods such as textbooks and medicines and vital investment in infrastructure that will result in private sector investment.

➤ The current fiscal challenges forces Government to re-prioritise and to reduce wasteful expenditure. However, current budget cuts need to be supported by a medium to long-term vision for the public sector.

➤ The budget needs to be rebalanced with sufficient funding made available for priority programmes and capital projects in order to support future growth and address Namibia’s main challenges of poverty, income inequality and unemployment.
Budget credibility and execution

The government has performed quite strong in terms of planning and spending budgets. Actual total expenditure accounted for 96% of the original estimates over the FYs 2012/13 to 2015/16. The minor deviance below 100% was caused by lower execution rates for development projects (88%), while subsidies and other transfers exceeded the original allocation by 3%, on average. Allocations for goods and services were also not fully utilised (94%) compared to personnel expenditure, which was close to 100% throughout the time period.

The analysis of the Auditor General’s reports points in the same direction, but the magnitude of deviations differs. The Auditor General’s reports include virements (authorised reallocation of funds between divisions) and hence estimated allocations as per Appropriation Act differ from authorised expenditure. Over the FYs 2010/11 to 2014/15 the execution rate for development expenditure stood at 92% of authorised allocations, ranging between 89% (FY2012/13) and 95% (2014/15). Slightly more than authorised was spent on personnel (101%), while on average subsidies and other current transfers matched authorised expenditure. Similar to development expenditure authorised expenditure on goods and services were not fully utilised (95%). Overall, 97% of authorised expenditure was utilised over this period, however with variations and for some items fluctuations between over- and underspending.

As described in the health and sanitation budget brief, low execution rates for capital projects can be caused by the need to retender projects and other delays in the implementation of projects. In particular large infrastructure projects are prone to delays and would therefore suggest a more cautious or realistic approach to their implementation. Other factors influencing a timely implementation of capital projects include the available of professionals such as quantity surveyors and engineers or the ability of contractors to complete projects on time or at all.

Key observations

- The reasons for continuous underspending on development projects need to be identified and addressed in order to present realistic budgets.

Financing the national budget

Government income heavily relies on transfers from the Southern African Customs Union (SACU) Common Revenue Pool. In the current fiscal year, SACU transfers amounted to around 25% of total revenues (Figure 10). However, SACU transfers have steadily declined since 2012/13 when they amounted to around 35% of revenue. These transfers refer to customs and excise duties that are pooled from all SACU member states and re-distributed according to certain formulae. Since the transfers were overestimated for previous years, Namibia had to pay back about NAD4 billion last year, which contributed to the decision to cut expenditure substantially. The size of the revenue pool and hence the transfers depend to a large extent on the performance.
In addition to SACU transfers, domestic taxes constitute the other major financing source of the government budget. The majority of tax revenue is derived from income and goods and services (Value Added Taxes or VAT), each of which contributes around 25% of total revenue in the current fiscal year. Corporate taxes, in contrast, amounted to around 15% of total revenue. Due to the prevailing economic climate, company taxes dropped from NAD9,198 mln in 2015/16 to currently NAD7,833 mln, but are expected to recover in the next two FYs if economic growth picks up.

ODA contributes around 3% of total government revenue. Based on the latest available data from the OECD (2015), development funding amounted to USD142 million. However, grant revenue for the same year was estimated at USD 3.75 million / (NAD45) million or 0.1% of total revenue. The discrepancy is explained, at least in part, by the fact that not all grants are channelled through the State Revenue Fund and hence are not included in the national budget. In particular foreign assistance to the health sector (tuberculosis, HIV/AIDS and malaria) is disbursed directly to the programmes and are not reflected in the budget (see Budget Brief on Health for more information).

**Fiscal deficit and public debts**

The government has failed to achieve its debt targets. In the wake of the global financial and economic crisis in 2008, the Government increased its internal fiscal targets from 3% for the budget deficit to 7% and from 25% for total public debts to 35%. However, these targets were exceeded in recent years due the depreciation of the Namibia dollar, which increased the cost of servicing and repaying external debt, as well as inaccurate economic growth projections. As such, the budget deficit reached 8.3% in FY2015/16 and 7.3% in FY2016/17, while total public debt was expected to exceed 40% of GDP in the current fiscal year. Whether Government will achieve its target to reduce public debts to below 40% at the end of the FY2019/20 depends on a number of factors including the exchange rate, economic growth and the actual transfers from the SACU revenue pool.

**Key observations**

- Government’s reliance on transfers from the SACU Common Revenue Pool makes it vulnerable to the economic performance of the largest SACU economy – South Africa.
- Not all financial support from International Cooperation Partners is channelled through the State Revenue Fund and recorded in the budget documents. This reduces accountability and transparency; it also undermines budget planning processes and increases the risk of duplication.
stocks accounted for more than 80% of total public debts. This changed with the issuance of the USD-denominated Eurobond in FY2011/12, which resulted in foreign debt stock increasing to more than 30% of total public debt. The issuance of another USD-denominated Eurobond coupled with the depreciation of the NAD against the USD pushed foreign debt stocks to 50% during 2015/16. For the FY2017/18, domestic debt stocks are prospected to account for 60% of total public debt.

Impact of fiscal policy

The Government of Namibia has used fiscal policy to address poverty, inequality and job creation with some success. Allocations have prioritised social sectors including social housing and other social programmes, while Government pursues a progressive income tax policy. The first NAD 50,000 income earned during a FY is exempted from income taxes. Any amount earned above this tax threshold is progressively taxed starting with a marginal tax rate of 18% up to 37% for every dollar earned above NAD1.5 million per annum. Moreover, a study by the Namibia Statistics Agency (NSA) and World Bank released in July 2017 concludes that Government’s prioritisation on social spending, in particular in-kind spending such as on primary education, reduces poverty and income inequality in Namibia.

However, a greater focus on job creation and universal social transfers could improve progress. Although Namibia’s tax system is progressive – tax rates increase with rising income – it hardly contributes to poverty alleviation and a reduction in income inequality, because income taxes are usually paid by the better off. This means that redistribution alone is not enough; fiscal policy needs to be supported by policies that create a conducive environment for job creation as well as improved social grant transfers since currently all income deciles benefit from social transfers, not just

Key observations

- In light of the major financing needs in the country, it is important to question the government’s self-imposed debt targets. For low income countries with strong policies and institutions, the recommended benchmark for debt is 55% of GDP, while for emerging markets (i.e. Namibia) the threshold is 70% of GDP.
- The high budget deficit and total public debts reduces fiscal space and increases budgetary allocations to statutory expenditure and reduces allocations to other expenditure items.
- Increasing fiscal space again would require a review of expenditure side in particular the high wage bill, since Government has more control over expenditure than over revenue.
the poor. The results of an earlier NSA study on child poverty points in the same direction. The provision of social grants reduces child poverty by almost seven percentage points from 40.8% to 34.0%. If the current child grant system would be extended to universal coverage, “child poverty could be reduced from 34% to 9% and extreme child poverty would be eliminated” (UNICEF, 2016:7) according to a macro-simulation model for Namibia (see also UNICEF Budget Brief – Social Assistance and Welfare).

Key observations

- Universal grants would increase the impact they will have on poverty reduction and reduction of income inequality. This however needs additional resources.

Open Budget Survey results

Compared to African peers, Namibia performs quite strongly on budget transparency. The country participates in the bi-annual Open Budget Survey (OBS) conducted by the International Budget Partnership. The country scored 55 in 2013, 46 in 2015 and 50 in 2017. 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 (48 out of 100), as are the opportunities for the public to engage in the budget process (0 out of 100). The weakness of the legislature is in part explained by the lack of professional assistance, such as researchers, for Members of Parliament to prepare adequately for the budget debates. Budgetary information provided by the government is considered to be limited, while the oversight by the auditor general is adequate (75 out of 100). Namibia have improve her score in the 2017 OBS, since the country has meanwhile introduced a mid-term budget review, which is one of the core documents previously not published by Namibia.

Key observations

- The oversight function of the legislature is weak, but can be strengthened among other through the employment of sufficient professional assistants.
- The publication of a budget calendar and other documents will increase the transparency of the budget process and open space for more engagement with other stakeholders.
- Namibia’s does not provides the public with opportunities to engage in budget processes. This can be improved by publishing budget information in open data formats, allowing multiple mechanisms to reach out to engage citizens and non-state actors, including traditionally excluded and vulnerable groups and individuals, and voices that are seldom heard.