

Namibia 2010/II National Budget Analysis



First Capital (PTY) Limited

First Capital (PTY) Limited (First Capital), established in July 2009, offers treasury and portfolio management service to Namibian institutional, corporate and individual investors/clients. Through our research arm, First Capital aims to help leaders in the commercial, public, and social sectors develop a deeper understanding of the Namibian and the global economy and to provide a fact base that contributes to informed decision making. First Capital research is a unique combination of different two disciplines, including investment, finance and economics. By integrating these different perspectives, First Capital is able to gain insights into the microeconomic underpinnings of the broad trends shaping the Namibian economy. Further information about First Capital and its services and to obtain copies of our published reports please see the address below:



FIRST CAPITAL
(P t y) L i m i t e d

[Contact Us](#)

Analysts

Martin Mwinga,
Mwangala Nalisa
Maiya-liisa Nghikembua

49 KINGFISHER ROAD
HOCHLAND PARK
WINDHOEK
NAMIBIA

P.O Box 4461
WINDHOEK
Tel: +264 (061) 257 802
Fax: +264 (061) 257 806



**FIRST
CAPITAL**

TREASURY



**FIRST
CAPITAL**

ASSET MANAGEMENT



**FIRST
CAPITAL**

RESEARCH

Namibia 2010/11 National Budget Analysis

Introduction

The Minister of Finance Saara Kuugongelwa-Amadhila delivered the 2010/11 Budget Speech to the National Assembly on 30th March 2010. The Minister of Finance was upbeat on the global economic outlook, and forecasted the Namibian economy to grow by 3.8% in 2010. This is a reasonable growth projection taking into account the uneven fragile recovery, with strong growth in China and much of the rest of Asia, but more modest recoveries in the US and, specially, Europe which are the main trading partners for Namibia.

We would like to highlight from the outset that, the revised expenditure, and deficit numbers in the budget speech is different from the revised budget for 2009/10. As shown below for example in the speech the minister said the total expenditure for 2009/10 was 24.88 billion, however within the budget book the expenditure was 25.35 billion. A similar discrepancy was noted for the deficit figures. Readers must take note of this and confirm with the Ministry of Finance.

Table 1: Budget Speech figures Vs 2009/10 Revised Expenditure

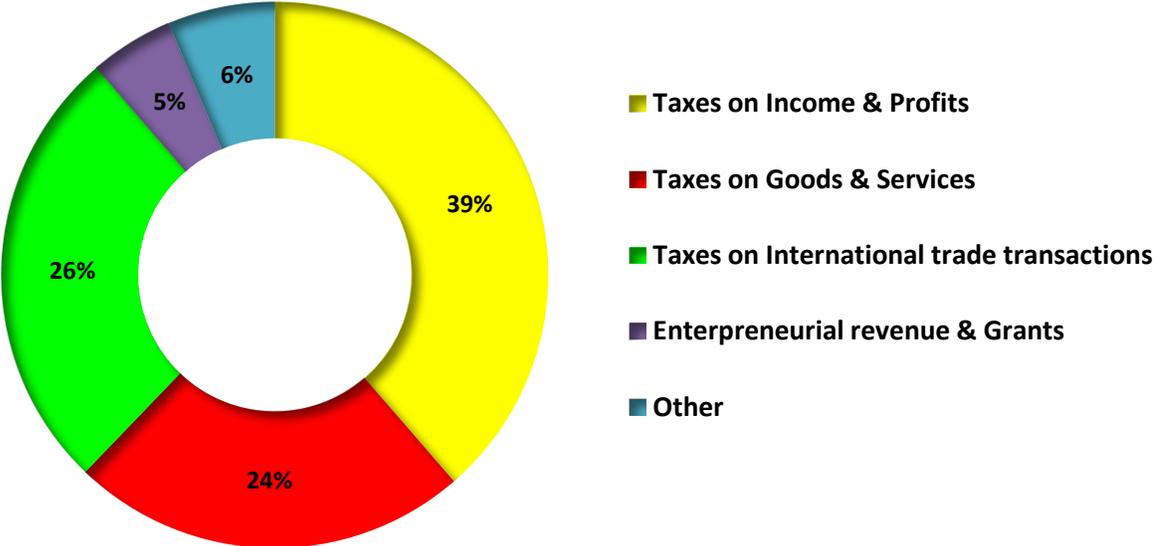
	Budget Speech	Budget Book
Total Expenditure	24.88 billion	25.35 billion
Deficit	2.3 billion	1.8 billion
As % GDP	2.0%	2.5%

All figures are for 2009/10

Revenues Estimates: The revised tax revenue estimate for 2009/10 is now N\$1.8 billion above the 2009 increasing from N\$21.8 billion (original estimate in 2009) to N\$23.6 billion (revised estimate in 2010). All major tax categories were revised upward, with taxes on income and profits now projected to increase by N\$1.5 billion. The upward revision in revenue comes at the time

when the economy was projected to grow by negative one (-1%) and contrary to economic logic, where an elastic tax system (VAT, income & profit tax) should be responsive and sensitive to economic growth. The only logical explanation for such an improved tax revenue in a period of massive economic contraction is when there is a major improvement in tax collections. The Minister expects government revenues under current laws and policies (no tax policies announced) to total \$22.5 billion this fiscal year (2010/11), a decline of \$1.0 billion, over the revised amount in 2009/10 fiscal year. The combination of the global recession and sharp drops in imports within SACU is expected to lead to sizable declines in receipts from taxes on international trade (SACU receipts), while individual and corporate income taxes are projected to rise. Receipts from taxes on income and profits are projected to increase this year by \$910 million, or by 8 percent to N\$8.7 billion, while receipts from SACU are estimated to decline by N\$2.6 billion to N\$5.9 billion. As a share of GDP, revenues are projected to decline from 29.2 percent in 2009/10 to 25.2 percent in 2010/11.

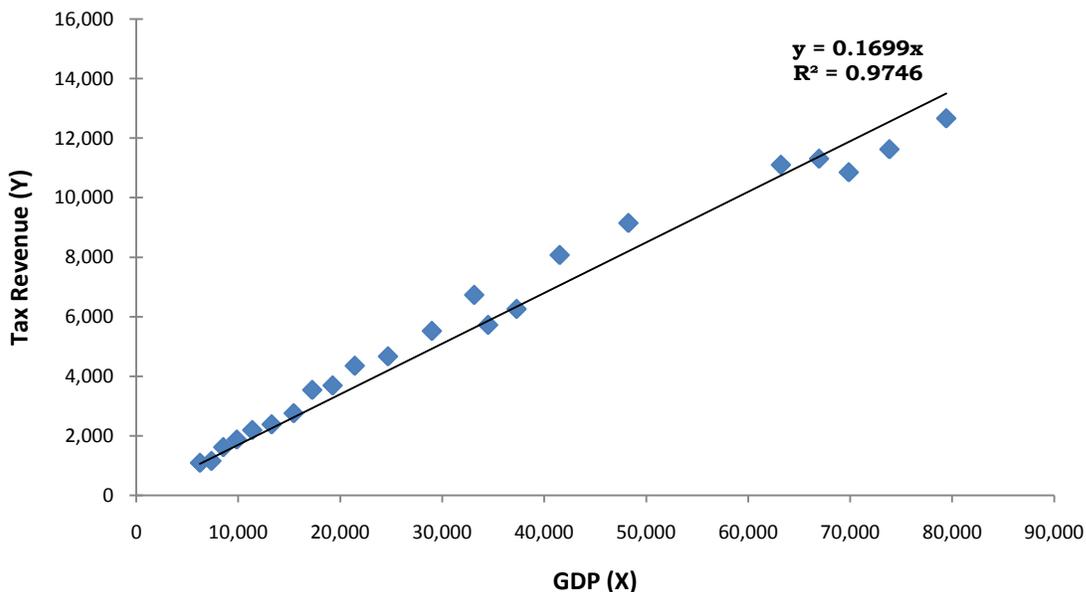
Figure 1: A Breakdown of Total Government Revenue



How dependent is government revenue on economic growth (GDP)?

The Minister of Finance estimated higher taxes on income and profits for the fiscal year 2009/10 despite the local economy projected to have contracted by -1.0%. We did run a simple regression analysis to determine the correlation and sensitivity of government revenue to Namibia's GDP growth. This relationship was estimated using data from 1990 to 2011, including receipts from the Southern African Custom Union (SACU revenue). The result as presented in figure 2 below confirms a positive correlation between Government Revenue (Total Tax Revenue) and GDP with an r-square of 0.97. The implication here is that contraction in GDP will have a significant negative effect on government tax revenue, and VAT. Based on this regression model we project much lower government tax revenue for both 2009/10 and 2010/11 when the actual figures become available.

Figure 2: Relationship between GDP & Government Tax Revenue

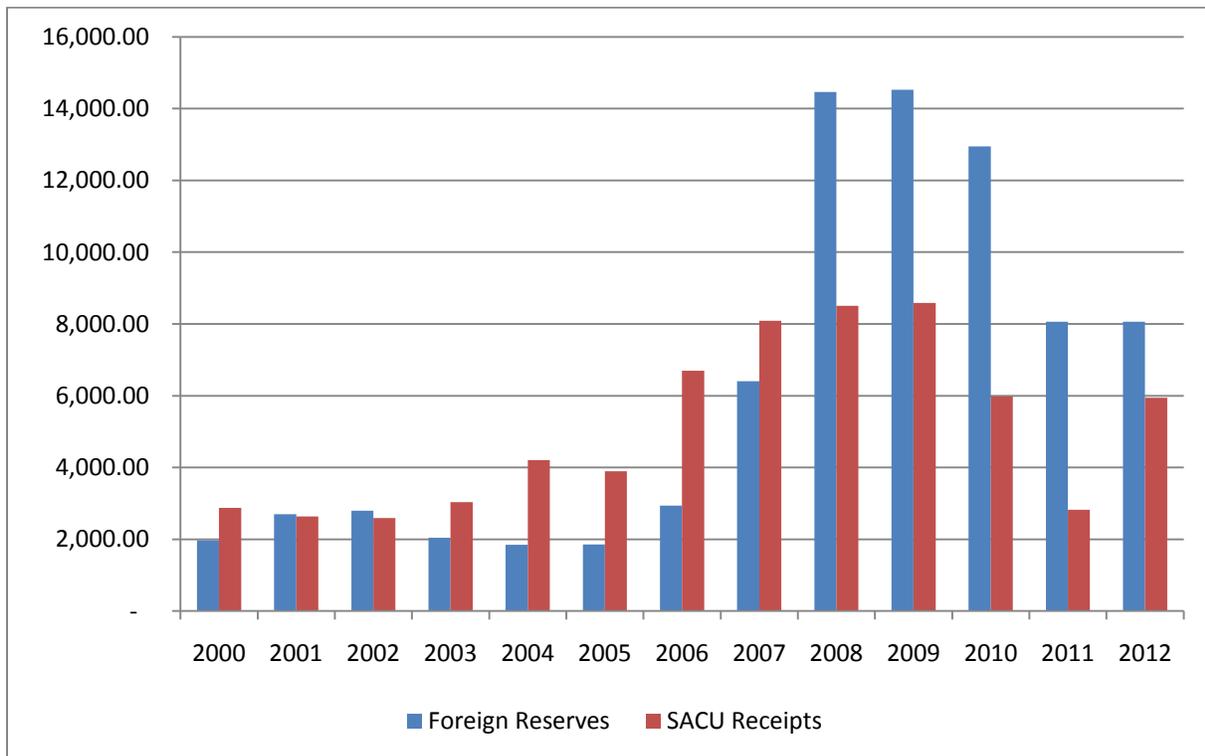


Data Collection from 1990 - 2011

SACU Receipts main driver of Foreign Exchange Reserves

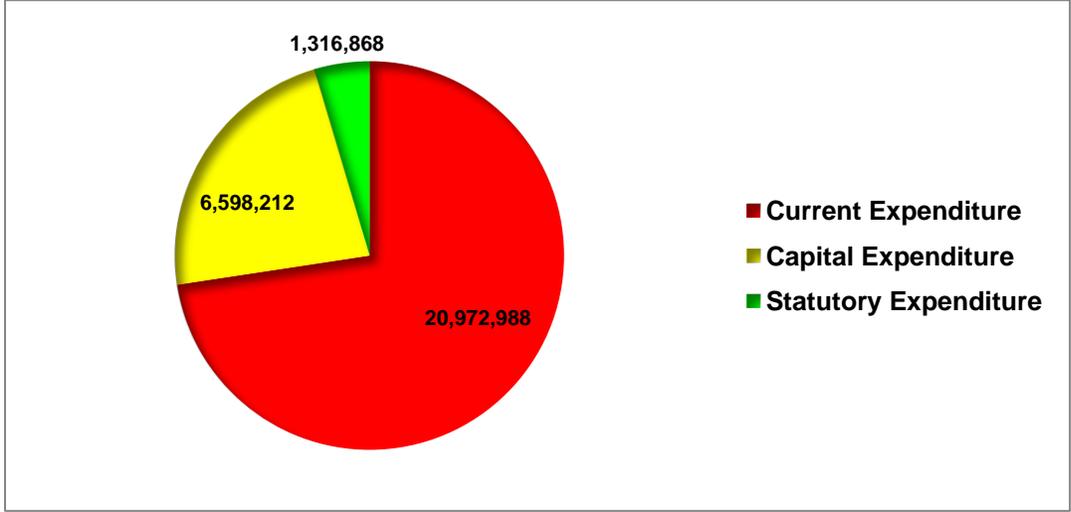
The rise in SACU revenue, and the budget surplus over 2006-2008 contributed significantly to the growth in Namibia's foreign reserves. The 2010/11 projects SACU revenue to decline to N\$5 billion and N\$2.8 billion in 2010/11 and 2011/12 respectively. Figure 3 below shows a strong positive relationship between growth in SACU receipts and Namibia's foreign reserves. With such a decline in SACU receipts, Namibia's foreign reserves are likely to decline substantially over the coming years. This is a risk that needs to be managed as Namibia could fall into a situation of a twin deficit where both the current account in the balance of payments and government budget are in a deficit simultaneously.

Figure 3: SACU Receipts main driver of Namibia's Foreign Reserves



Outlays/Expenditures: Expenditure for 2009/10 was revised downward to N\$24.9 billion (budget speech) and N\$25.3 billion in the main budget book from the budgeted amount of N\$25.4 billion in 2009, representing an implementation rate of 98 per cent. Total expenditure in 2010/11 is estimated at N\$27.6 billion, representing an increase of 8.6% over the 2009/10 revised budget when one uses the numbers in the main budget book. Current expenditure accounts for N\$20.9 billion or 76% of total expenditure, while 24 per cent or N\$6.6 billion of expenditure is earmarked for capital expenditure, and the remaining 5% or N\$1.3 billion is earmarked for statutory or debt servicing expenditure (see figure 4). While capital and current expenditures are expected to remain around the same levels over the coming few years, statutory expenditure (net interest costs) are projected to rise substantially over the coming years, as interest rates are expected to enter a rising cycle and the level of government debt to rise substantial due to rising budget deficits.

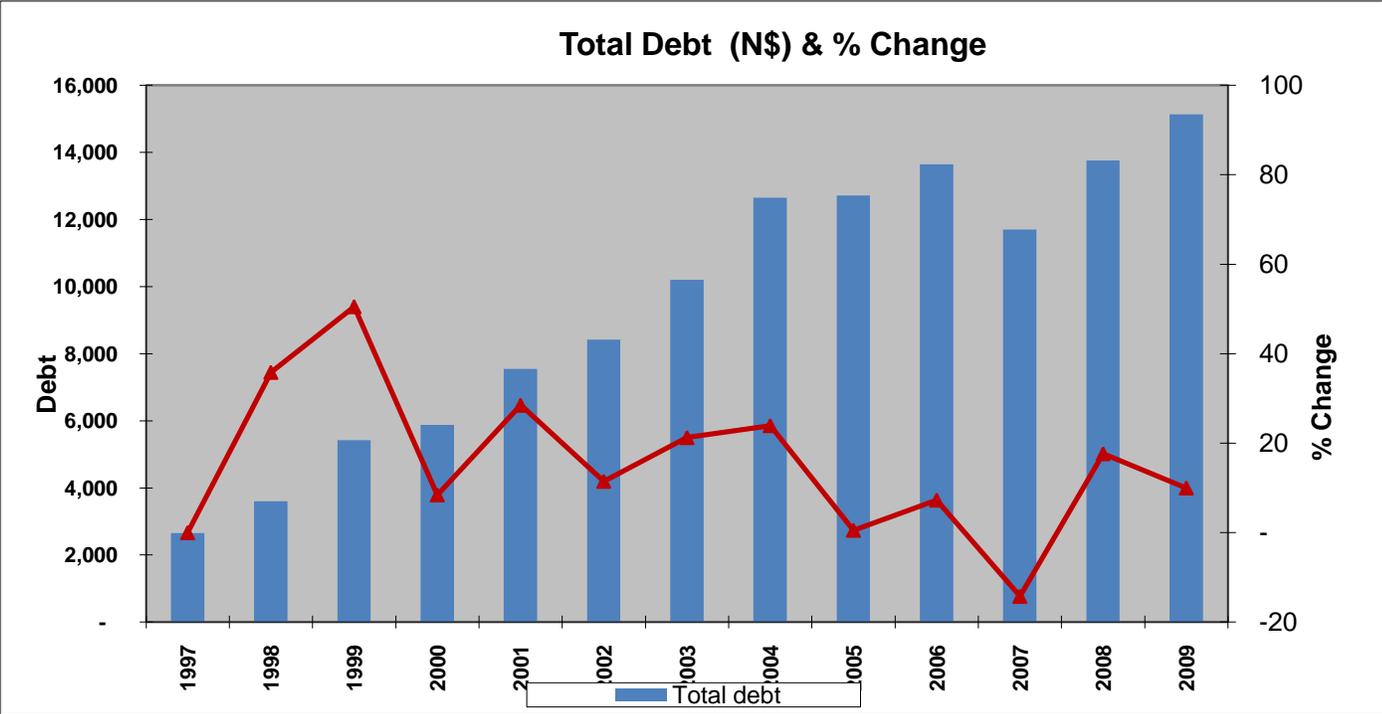
Figure 4: Breakdown of Total Government Expenditure



Budget Deficit & Debt: The Minister of Finance revised the 2009/10 budget deficit from 5% to 2% partly due to rise in revenue and under spending of more than N\$1 billion. Unless the actual GDP for 2009 turns out to be higher than the estimated growth of negative 1 per cent, First Capital projects deficit to be

much higher in 2009/10. The Minister estimated a budget deficit of 7% of GDP for 2010/11 on account significant drops in SACU revenue. The 2010/11 budget estimates total debt to increase to N\$17.9 billion in 2010/11 from N\$12.2 billion in 2009/10 and is projected to increase significantly in 2011/12 (N\$26.5 billion) and 2012/13 (N\$32.0 billion). In terms of composition, domestic debt remains dominant accounting for 74% of total debt, while foreign debt accounts for 26% of total debt in 2010/11.

Figure 5: Growth in Total Debt



Contingent explicit risks: Government Debt Guarantees to SOEs

Although government debt guarantees are not large relative to other countries, they are rising and should be treated with caution. Although government guarantees was almost zero in the early 1990s, guarantees have been increasing over the years and now stands at around N\$3 billion. Further risk of a financial pressure to the central government relate to the ownership of loss-making and indebted state owned enterprises (SOEs) and statutory bodies that have become permanently dependent on government for grants and subsidies.

Although government expects most these SOEs to improve performance, some of these institutions are operating in markets where competition is increasing and the cost of investment keeps on increasing faster, putting sustainability of these entities at risk, and posing major financial risks on central government in future.

Figure 6: State Owned Debt (SOEs) Guarantees by GRN

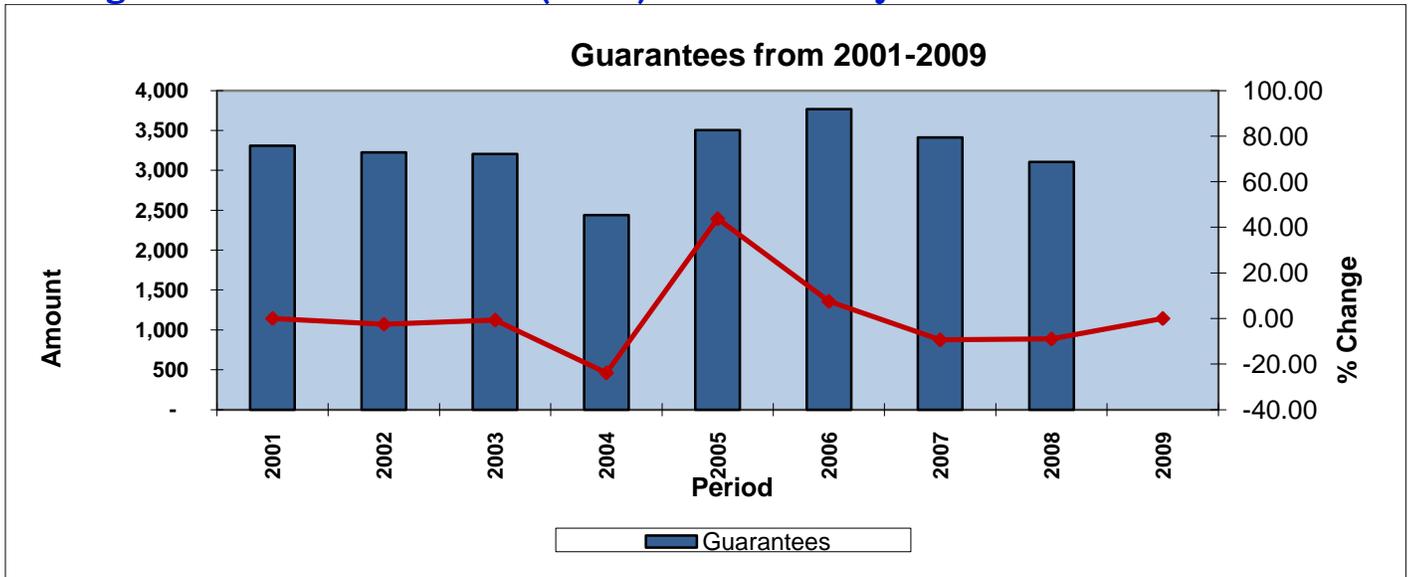
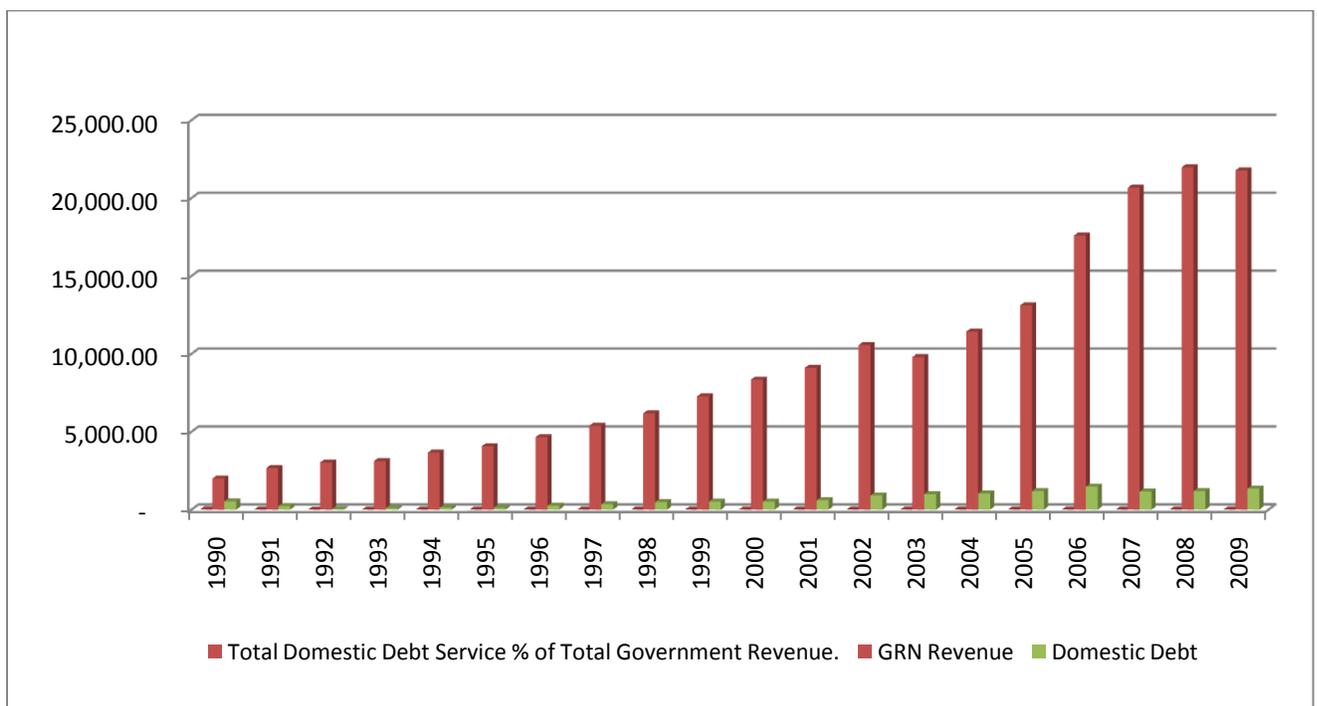


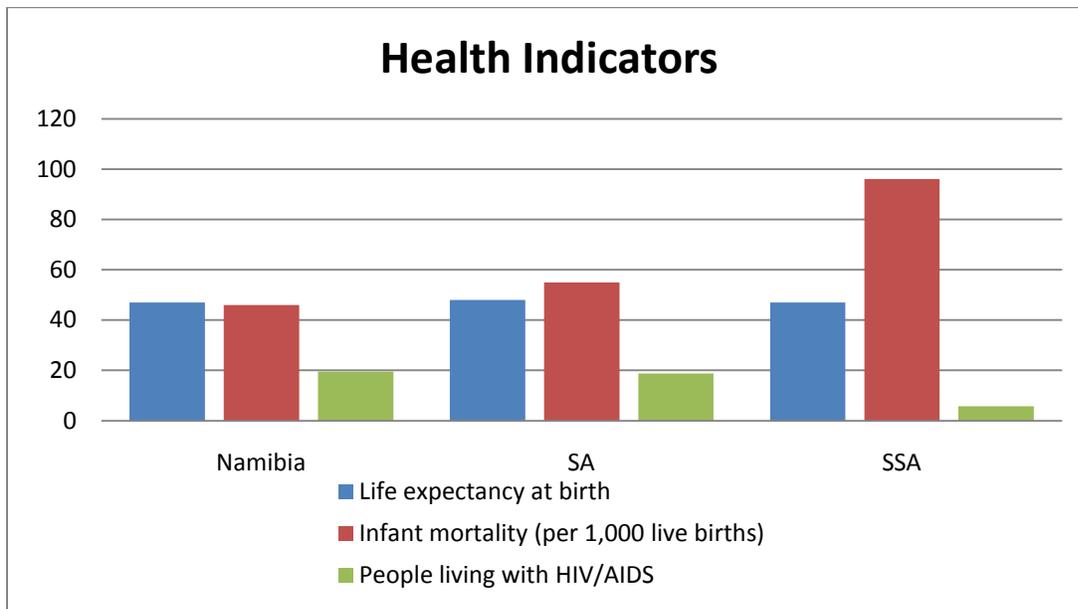
Figure 7: Total Debt Service as % of Government Revenue



Health Budget Allocation: Are we deriving benefits

Health: Namibia is home to a growing number of orphans principally due to the increased mortality associated with the AIDS epidemic (Ministry of Health and Social Services 2001). According to estimates based on the NHIES, a total of 85,000 households have either a single or double parent orphan aged 0-17 years (i.e. one or both biological parent(s) is/are not alive). In comparison to other countries in Sub-Sahara Africa, Namibia health indicators are much better than most countries, with the exception of HIV/AIDS being much higher than other countries. The 2010/11 budget sets aside a health allocation of N\$2.6 billion, slightly higher than the N\$2.4 billion allocated in 2009/10.

Figure 8: Health Indicators

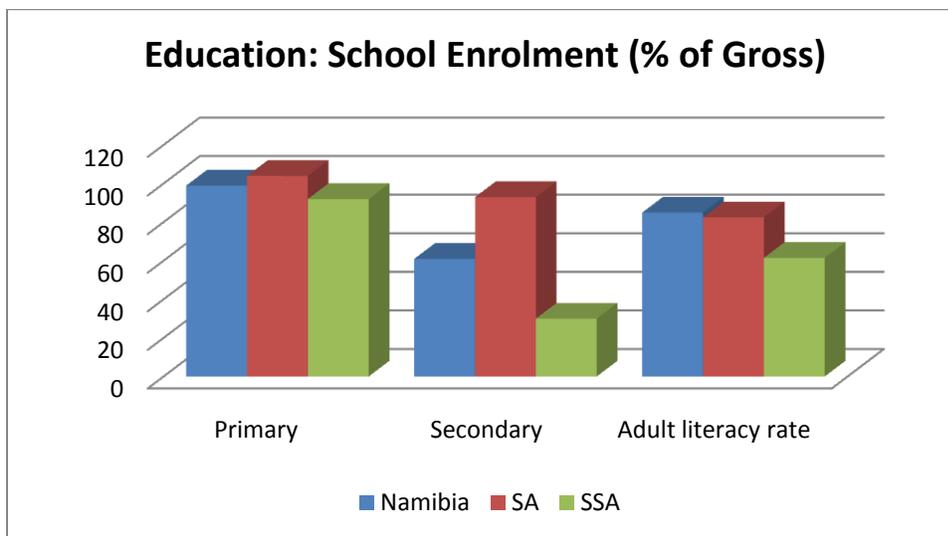


Source: World Bank, UNDP, IMF 2008

Allocation to Education: Is our expenditure yielding results

Education: The poverty status of households has tended to have influence on school attendance. The school attendance rate for those households who are not poor is higher than those households in the moderately and extremely poor households at all levels. Figure 9 below shows that by allocating a substantial portion of its budget on education, and providing more education facilities, Namibia scores very well on school enrolment and adult literacy rate, achieving rates above those attained by SSA. Education received the largest allocation of N\$6 billion and is projected to receive the biggest share from the national budget over the coming years.

Figure 9: School Enrolment (% of Gross Enrolment)



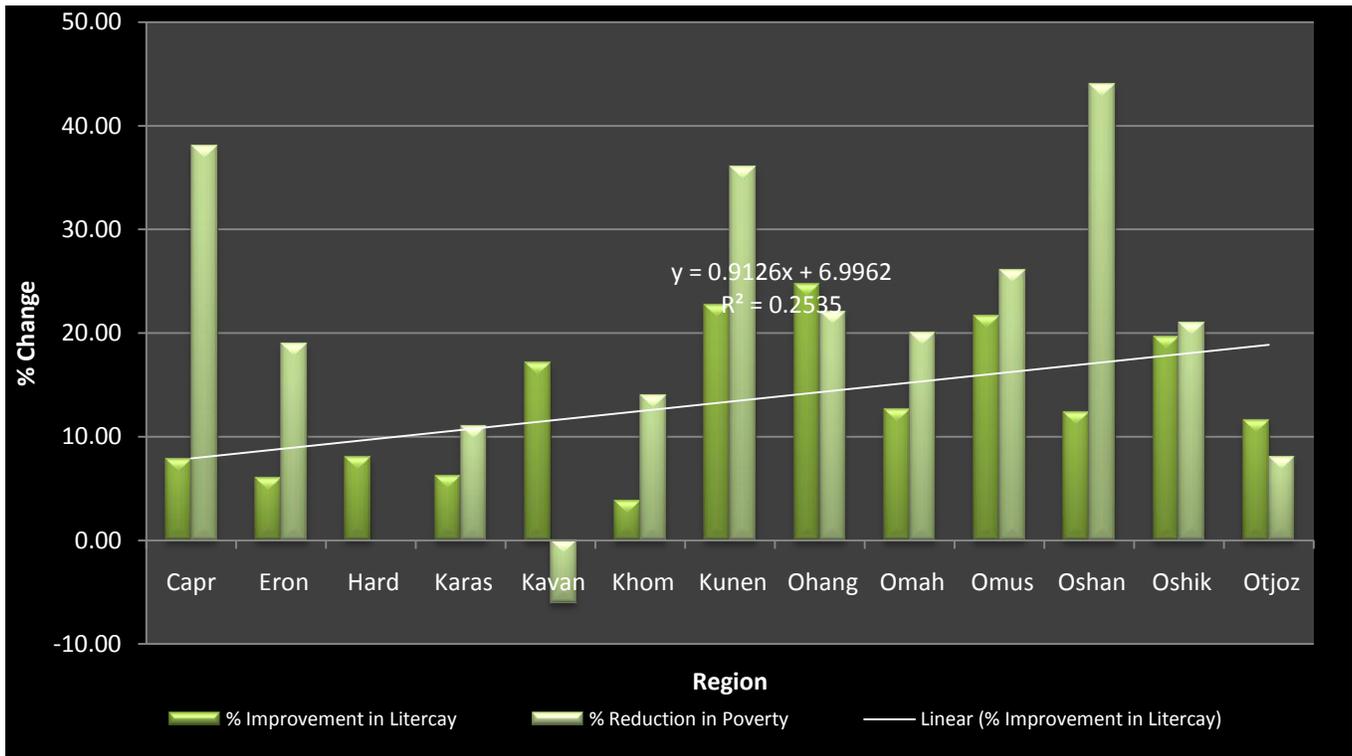
Source: World Bank, IMF

Education Vs Reduction in Poverty by Region

When poverty and literacy rates are compared between 1994 and 2004 there is a marked correlation between reduction in poverty and huge improvements in education. The only region where poverty increased despite improvements in education is the Kavango Region. This could be explained by a large proportion of an elderly age group in the region. All other factors held constant, one notes

that there is a huge response to reduction in poverty by improving the level of education.

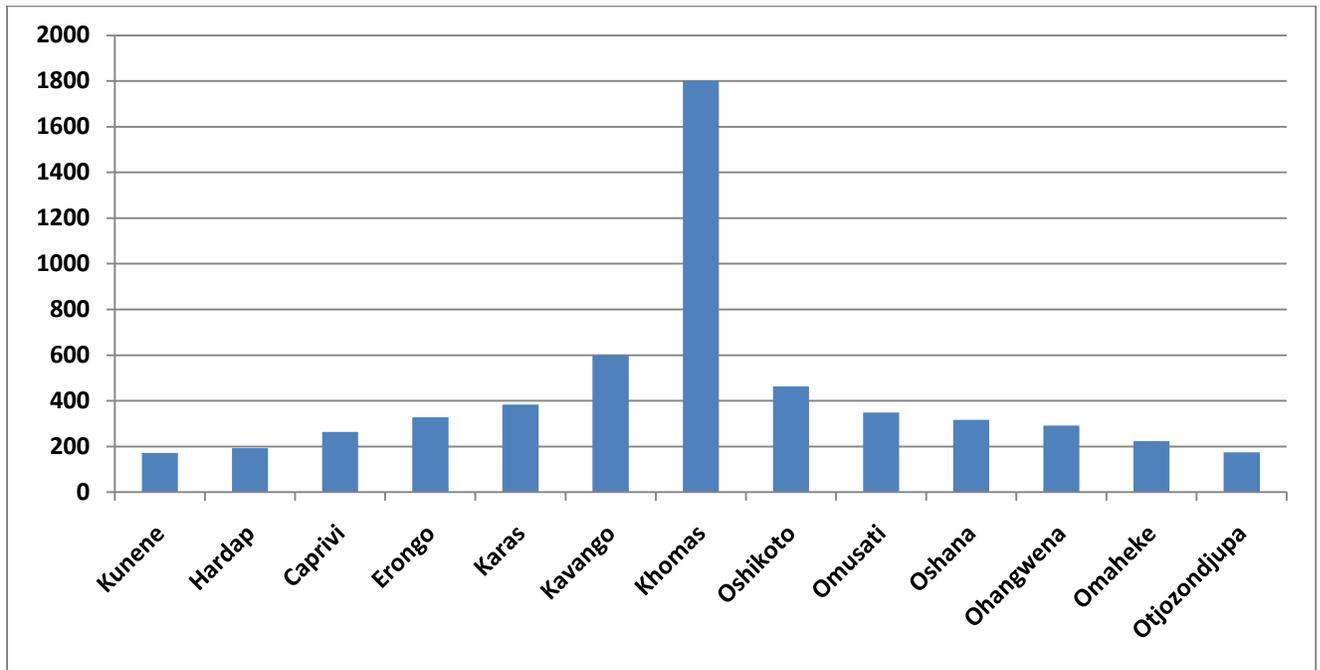
Figure 10: Education Vs Reduction in Poverty by Region (1994 Vs 2004 NHIES)



Development Budget Expenditure by Region

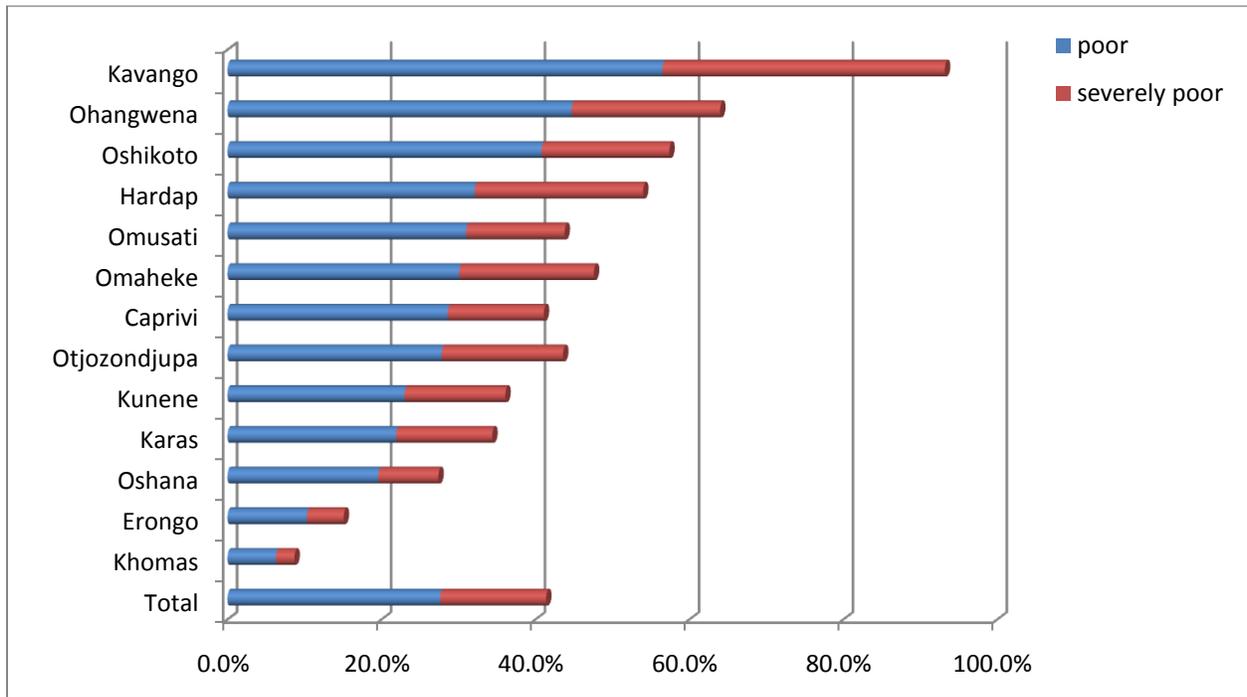
The 2010/11 Budget proposes an amount of N\$1.8 billion for capital expenditure to the Khomas region, followed by Kavango region which received the second largest allocation and the is the poorest region in Namibia.

Figure 11: Development Budget Expenditure by Region



The 2003/04 Namibia Household Income & Expenditure Survey (NHIES) shows that poverty levels in Namibia are higher in rural areas, especially in Kavango, Ohangwena and Oshikoto. The 2010/11 development budget seem to have taken into account Namibia’s poverty profile in allocating resources, with the two poorest regions (Kavango & Oshikoto) receiving the highest allocation after Khomas. Although Ohangwena is the second poorest region in Namibia, it is placed 7th on the development budget allocation table. The small allocation to Ongwendiva Region could reflect shortage of bankable projects or the inability of the Regional Council in identifying enough projects.

Figure 12: Incidence of Poverty by region, 2003/2004



What this Budget Means for Businesses

While there is tax relief for businesses, the 2010/11 budget contains measures to support small and medium enterprises (SMEs) and BEE companies. An amount of N\$339 million has been allocated over the MTEF to support SMEs and BEE companies. The Development Bank of Namibia (DBN) receives N\$100 million for bridging facility for BEE and SMEs. The 2010/11 budget makes provision for a capital budget of N\$6 billion, and spending of this budget normally goes through a tender process which favours SMEs and BEE companies. Below is a table giving a breakdown of items to be funded and your business can participate in these tenders.

Table 2: 2010/11 Capital Budget Allocations

Allocation	Furniture & office equipment	Vehicles	Machinery & plants	Purchase of building	Construction & renovation
Education	4 371 000		383 000	4700 000	247 798 000
Defense	15 789 000	216 367 000	2358347000		108 000 000
Finance	39 850 000	1095 000			70 117 000
Health and Social services	8 063 000	60700 000	69 361 000		202 282 000
Agriculture, water & forestry	6 172 000	15 600 000	30 467 000		448 169 000
Fisheries & marine Resources	2 342 000	2227 000	306 000		153 070 000
Police	19 988 000	15 000 000	78 367 000	2000 000	103 543 000
Transport	1 968 000	112 906 000	93 438 000	5000 000	760 910 000
Works	1 203 000		477 000		49 028 000
Labour and social welfare	3 136 000	2 779 000			8 386 000
Mines and energy	1230 000	326 000	3 710 000		56 221 000
Lands and Resettlement	2 396 000	4 425 000			6 920 000
Total	97 215 000	428 923 900	2634856 000	11 700 000	2 214 444 000

Appendix

Table 3: Allocation in N\$ to Institutions, projects & Organisations

Allocation in N\$ to projects & organisations				
Projects/Organisations	Actual		Estimate	Estimate
	2007/8	2008/9*	2009/10	2010/11
Regional Council Caprivi(Education)				28,829,000
Regional Council Kavango(Education)				76,856,000
NAMCOL	29,664,000	41,680,000	56,080,000	58,606,000
University of Namibia	205,004,000	260,105,000	306,130,000	273,926,000
Polytechnic of Namibia	80,201,000	106,891,000	146,891,000	153,523,000
Scholarships	56,109,000	213,622,000	213,772,000	223,420,000
Windhoek Vocational Training Centre	6,000,000	9,000,000	12,077,000	12,622,000
NTA	0	0	49,000,000	51,213,000
Maintenance grants, Foster parent allowances	99,591,000	176,481,215	202,061,000	369,000,000
Health Professional Board	5,000,000	9,900,000	9,900,000	9,900,000
Roman Catholic Mission Hospital	64,846,000	91,466,043	72,469,000	123,002,000
Lutheran Medical Mission	82,944,000	66,499,999	114,992,000	102,175,000
Anglican Medical Mission	3,016,000	4,633,971	4,278,000	6,173,000
Development Bank of Namibia	29,000,000	150,000,000	150,000,000	50,000,000
Air Namibia	536,760,000	150,000,000	100,000,000	80,000,000
Social Pensions	659,784,000	851,446,000	878,433,000	950,877,664
Funeral Plan	29,000,000	32,720,000	34,251,000	40,000,000
Subsidies to towns	20,795,000	184,158,171	21,000,000	21,000,000
Subsidies to Villages	40,000,000	26,902,000	39,000,000	41,000,000
Subsidies to Regions	174,347,000	38,208,000	221,440,000	259,300,000
Trust Fund(MRLGHRD)	30,000,000	30,000,000	30,000,000	30,000,000
Subsidies for Fire Brigades			37,500,000	40,500,000
Compensation for Loss of communal land				13,500,000
NBC	62,600,000	116,118,000	100,842,000	103,942,000
NAMPA	9,700,000	11,500,000	11,500,000	11,500,000
NAMZIM	1,200,000	2,000,000	4,300,000	4,000,000
New Era	4,000,000	4,500,000	3,000,000	3,500,000
Single Quarters Upgrading	3,000,000	5,000,000	5,000,000	7,644,000
Informal Settlement Upgrading	3,000,000	4,000,000	3,908,000	11,600,000
Build Together Loans	33,000,000	5,000,000	33,000,000	37,923,000
Assistance to political Parties	16,484,000	17,688,000	23,700,000	25,233,000
Namibia Tourism Board	25,000,000	25,000,000	32,000,000	32,000,000
NDC: Dry land Crop Production			26,000,000	24,000,000
Agribank: AAL	48,350,000	50,000,000	50,000,000	50,000,000
NDC:Meatco upgrading of Abattoirs			5,000,000	5,000,000
NDC: NCA marketing Schemes			6,000,000	6,000,000

Agribank: Strategic Food reserve project			6,000,000	6,000,000
MCA				17,000,000
National Youth Council	3,000,000	3,600,000	8,708,000	8,893,000
National Youth Service	0	111,929,000	146,806,000	147,811,000
Namibian Youth Credit scheme			2,600,000	12,613,000
Veterans	0	120,000,000	221,800,000	221,800,000
Pensions to Judges	14,000,000	15,222,000	16,000,000	28,267,000
Contingency Provision(MoF)	179,831,333	200,000,000	265,000,000	250,000,000
Nampower	500,000,000	370,000,000	120,000,000	100,000,000
Namwater	0	50,000,000	50,000,000	50,000,000
Agribank	150,000,000	100,000,000	31,000,000	60,243,000
National Emergency Disaster Fund	5,150,000	20,000,000	20,000,000	20,000,000
Drought Relief	0	180,000,000	109,400,000	0
Road Fund Administration	0	300,000,000	0	100,000,000
TransNamib				83,900,000

** Includes actual figures from the 2010/11 Budget and Estimates from the 2009/10 budget*