

Namibia Budget Review 2008/2009

Breaking new barriers*



*connectedthinking

PRICEWATERHOUSECOOPERS 

Agenda

- Barriers to Growth
- The highlights of the Budget
- Budget analysis
- Tax legislation
- How do we compare with our neighbours?
- Does the budget address our barriers?



What are the barriers to higher growth?

The most obvious challenges to achieving our growth and development objectives

- Skills! Skills! Skills!
- Capacity to deliver
- International competitiveness
- Attractiveness of the business environment
- Active Namibian participation in business
- Logistics inefficiencies and cost
- Reliability of energy supply
- Dealing with climate change
- The fight against HIV/Aids
- Poverty Alleviation

The Basics of the Budget – In Summary

- Pro-growth for the poor
- Growth strategy
- Higher than expected revenue
- Spending on Education and Health
- Budget deficit for the year of N\$1.6 billion
- Alleviation of Poverty
- Resource Development
- Enhancing competitiveness



The Basics of the Budget – Pro-Growth for the Poor

- Social pensions up with 22%
- Allowances to former plan fighters
- Disaster flood relief of N\$280 million



The Basics of the Budget – Growth Strategy



- Optimise revenue collection through tax law enforcement
- Finalisation of Government's Report on Taxation Incentive Scheme to promote economic growth and employment creation

The Basics of the Budget – Revenue

- Total revenue previously forecasted for 2008/09 at N\$16.6 billion, was increased to N\$ 20.9 billion in the budget, a 26% increase
- Total revenue budget for 2007/08 raised from N\$ 18.4 billion to N\$ 20.9 billion

The Basics of the Budget – Expenditure / Debt

- Budgeted expenditure for 2008/09 increased to N\$ 22.5 billion in comparison to N\$17.8 billion in the prior year
- Debt amounts to N\$14.8 billion in 2008/09

The Basics of the Budget – Expenditure Allocations

| | N\$ billion |
|-------------|-------------|
| Education | 4.8 |
| Health | 6.4 |
| Transport | 3.5 |
| Defence | 2.4 |
| Police | 1.3 |
| Agriculture | 0.9 |
| Housing | 0.6 |

The Basics of the Budget – Infrastructure Development / Assistance from external funding (“outside the budget”)

| | N\$ million |
|---|-------------|
| Transport industry: | 500 |
| Customs scanners: | 344 |
| Rural electrification: | 209 |
| Tandjieskoppe Irrigation: Green Scheme: | 209.8 |
| Eiseb Small-scale Farm Development: | 181.5 |
| Medical Equipment: | 125.1 |
| NBC: | 100 |
| Upgrading of state hospitals: | 90 |

Some significant allocatons

| | N\$ million |
|--|-------------|
| Medical Aid costs (PSEMAS) | 860 |
| Cost relating to school hostels | 307 |
| Funds allocated Grade 10 repeaters | 300 |
| Road Fund Administration | 300 |
| Roads Contractor Company | 70 |
| Military Equipment | 265 |
| Nampower- infrastructure | 250 |
| Nampower- backup | 120 |
| Educational quality control activities | 200 |
| Air Namibia | 150 |
| Purchase of Falcon 7X Jet | 130 |
| Agribank | 100 |

Some significant allocations (continue)

| | N\$ million |
|---------------------------------------|--------------------|
| State House | 95 |
| Namwater | 50 |
| Demarcation of farms for resettlement | 50 |
| New Regional Home Affairs offices | 28 |
| New Passport system | 25 |
| New Immigration systems | 25 |
| New military basis | 17 |
| Tourism facilities | 24 |

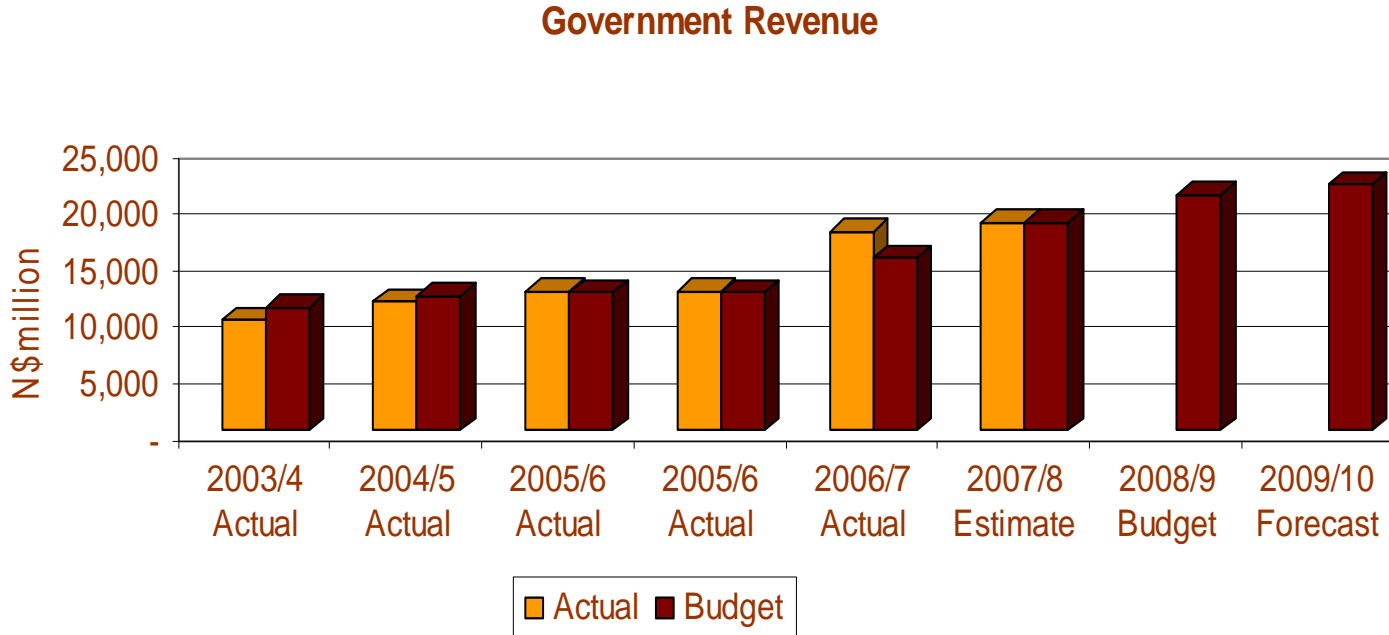
Budget analysis



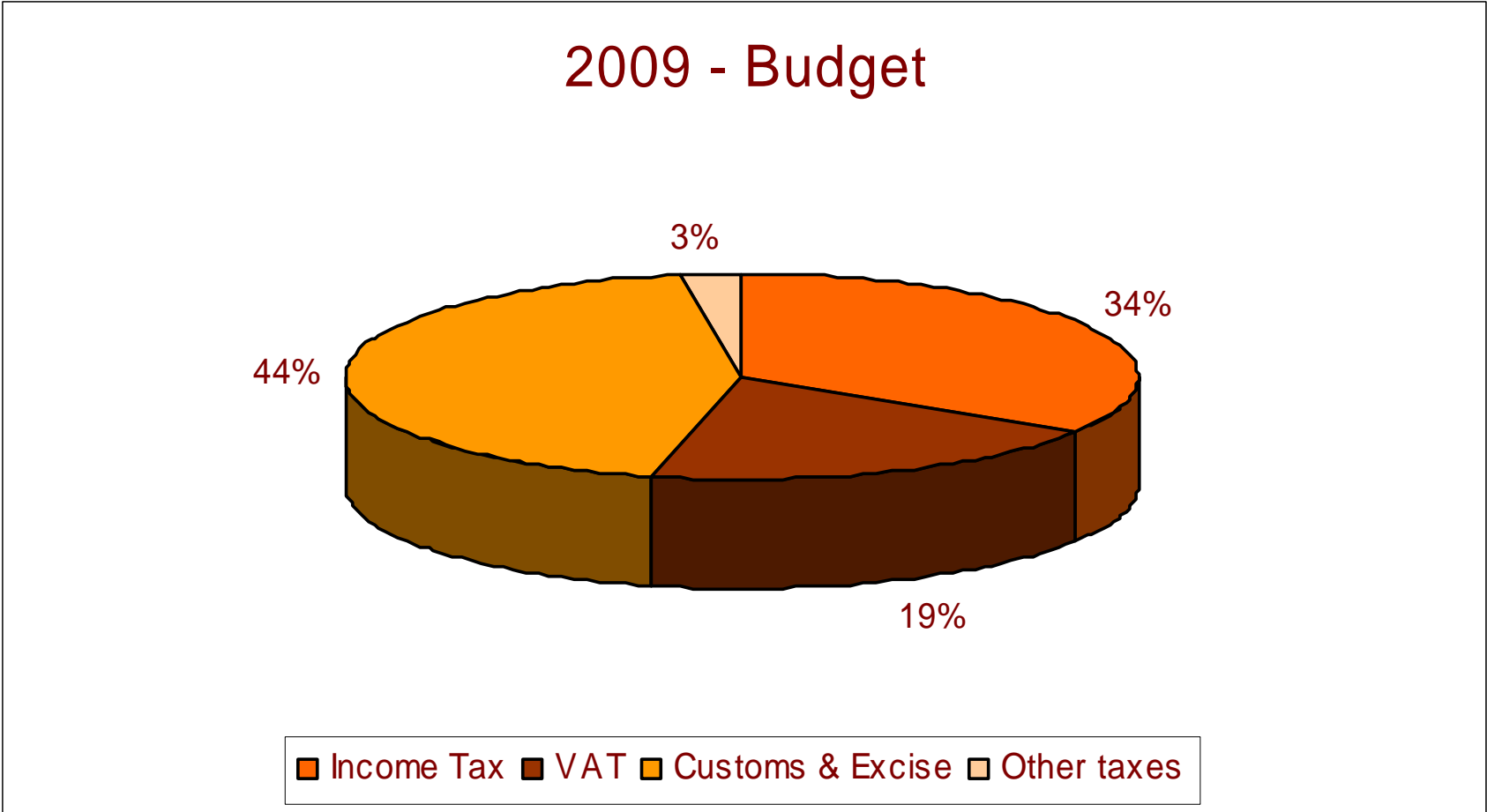
The Numbers in the Budget

| | 2004 N\$ million Actual | 2005 N\$ million Actual | 2006 N\$ million Actual | 2007 N\$ million Actual | 2008 N\$ million Estimate | 2009 N\$ million Budget | 2010 N\$ million Forecast | 2011 N\$ million Forecast |
|--------------------------------------|--|--|--|--|--|--|--|--|
| Revenue | 10,836 | 11,425 | 13,108 | 17,593 | 18,386 | 20,873 | 21,753 | 22,640 |
| Spending | (12,243) | (12,493) | (13,189) | (15,279) | (17,827) | (22,464) | (21,749) | (21,871) |
| Surplus / (Deficit) | (1,408) | (1,068) | (81) | 2,314 | 559 | (1,592) | 4 | 769 |
| Surplus/(Deficit) as % of GDP | (4.1%) | (2.9%) | (0.2%) | 4.8% | 1.0% | (2.7%) | 0.0% | 1.1% |
| Government debt | 10,213 | 12,642 | 12,772 | 13,636 | 11,693 | 14,785 | 16,515 | 17,599 |
| Debt as % of GDP | 30.1% | 33.8% | 32.3% | 28.3% | 21.8% | 24.8% | 25.6% | 25.1% |
| GDP | 33,941 | 37,385 | 39,562 | 48,228 | 53,564 | 59,516 | 64,590 | 70,017 |

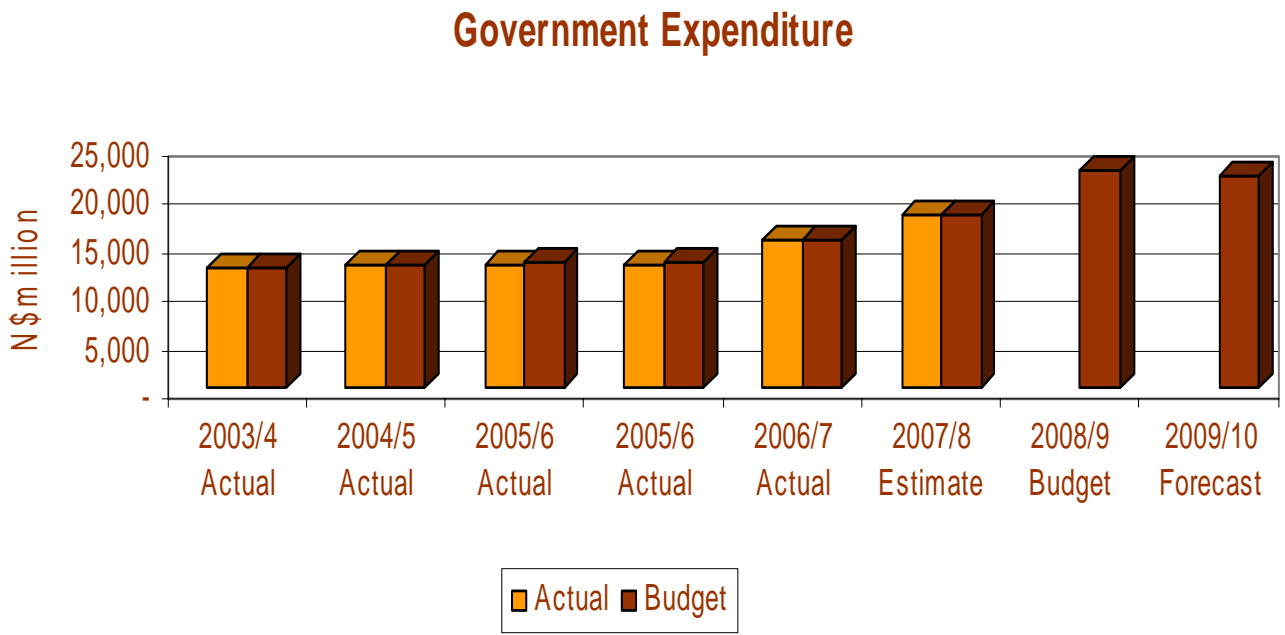
Government Revenue On The Increase*



Tax Revenue Composition



Increase In Expenditure exceeding Revenue



Tax legislation Amendments



Tax Programmes

- Allocation of additional funds for increase of forensic tax audits and maintaining high standards of customs
- New Revenue offices at Otjiwarongo and Keetmanshoop and satellite office at Katima Mulilo.
- Customs scanners
- Reviewing tax incentives schemes

Tax legislation Amendments

- Taxability of interest element on unit trust income, effective 01 March 2008
- Introduction of 10% withholding tax on interest income, effective 01 March 2009
- Increase in sin taxes

How Do We Compare With Our Neighbours?



Highest Tax Rates For Low And Middle Income Individuals

| Taxable income | South Africa (Over 65) | South Africa (Under 65) | Namibia | Botswana (Residents) |
|----------------|---------------------------|----------------------------|----------------|-------------------------|
| N\$ / R | R | R | N\$ | N\$*** |
| 40,000 | - | - | 700 | 255 |
| 80,000 | 1,080 | 6,120 | 12,500 | 3,019 |
| 200,000 | 28,390 | 33,430 | 53,900 | 27,748 |
| 300,000 | 59,890 | 64,930 | 88,900 | 52,748 |
| 500,000 | 133,690 | 138,730 | 158,900 | 102,748 |
| 526,000 | 144,090 | 149,130 | 168,000 | 109,248 |
| 573,175 | 162,960 | 168,000 | 184,511 | 121,042 |
| 585,775 | 168,000 | 173,040 | 188,921 | 124,192 |

*** Converted at a rate of BWP 1= NAD 1.16351

Highest Corporate Tax Rates

| | South Africa | Namibia | Botswana |
|--|--------------|---------------|----------|
| Corporate tax rate | | | |
| - Basic tax rate | 28.00% | 35.00% | 15.00% |
| - Additional tax rate | 0.00% | 0.00% | 10.00% |
| Branch taxation | 33.00% | 35.00% | 25.00% |
| Manufacturing companies | | | |
| - Basic tax rate | 28.00% | 18.00% | 5.00% |
| - Additional tax rate | 0.00% | 0.00% | 10.00% |
| Secondary tax on dividends | | | |
| - From 1 October 2007 | 10.00% | Nil | Nil |
| Withholding tax on dividends (Subject to Double Tax Agreements) | Nil | 10.00% | 15.00% |

Highest Corporate Tax Rates Compensated By Lack Of Other Taxes

| | South Africa | Namibia | Botswana |
|--------------------------------|--------------|---------------|-----------|
| Value-added tax | 14.00% | 15.00% | 10.00% |
| Donations / Estate duty | 20.00% | Nil | Nil |
| Pension fund | | | |
| - Approved funds | Nil | Nil | Nil |
| - Unapproved funds | Nil | Nil | 7.50% |
| Short-term insurance companies | 28.00% | 35.00% | 15% + 10% |
| Long-term insurance companies | | | |
| - Corporate fund | 28.00% | 14.00% | 15% + 10% |
| - Company policyholder fund | 28.00% | 14.00% | 15% + 10% |
| - Individual policyholder fund | 30.00% | 14.00% | 15% + 10% |
| - Other | 0.00% | 14.00% | 15% + 10% |

Namibia's Relatively Small Economy

| | N\$ Billion South Africa | N\$ Billion Namibia | N\$ Billion Botswana *** |
|---------------------------------------|-----------------------------|------------------------|-----------------------------|
| Revenue | 625.4 | 20.9 | 34.8 |
| Expenditure | 611.1 | 22.5 | 35.2 |
| National budget surplus/(deficit) | 14.3 | -1.6 | -0.4 |
| GDP | 2,286.9 | 59.5 | 83.2 |
| Surplus/ deficit as percentage of GDP | 0.60% | -2.67% | 0.40% |

*** Converted at a rate of BWP 1= NAD 1.16351

So how does the budget address these barriers?



| Barrier | Budget Intervention |
|-------------------------------|--|
| Skills shortage | <ul style="list-style-type: none"> • Continue with current tax legislation on bursary grants • National Youth Services training 1000 recruits annually • Funding for grade 10 repeaters • Relative to our budget sufficient funds allocated to Education, the effective utilisation thereof should be monitored. |
| Capacity to deliver | <ul style="list-style-type: none"> • Establishment of NIPAM (N\$24 m) |
| International competitiveness | <ul style="list-style-type: none"> • Setting up a productivity unit to accelerate the process of improved productivity • Ensuring business registration and formation proceed with minimum delays • Establishment of Namibian Standards Institution • Addressing anti-competitive practices |

| Barrier | Budget Intervention |
|--|--|
| Attractiveness of the business environment | <ul style="list-style-type: none"> • Improve marketing of livestock farmers north of the veterinary corridor • Structural improvements in judicial process and ensuring sufficient funds allocated in order to achieve this • Funds towards the Financial Intelligence Centre • Funding the expansion of the ACC |
| Active Namibian participation in business | <ul style="list-style-type: none"> • Additional N\$300 million for small scale projects and industrialisation over two years through DBN • Pension funds and Long-term insurance: 5% minimum investment in unlisted Namibian companies (amendments to regulation 28) |

Barrier

Logistics inefficiencies and costs

Budget Intervention

- Utilisation of funds allocated for maintenance. Over the last three years only 82% of maintenance budget was spent. Government is reviewing policy on maintenance programme to improve maintenance
- The 2006/07 year reflected capital budget utilisation in excess of 97%
- N\$500 million allocation on public transport
- Improved infrastructure for cancer treatment, outreaches and ambulance facilities
- Expansion of Water Rule development projects
- Runway at Walvis Bay

| Barrier | Budget Intervention |
|---|--|
| Reliability and sustainability of energy supply | <ul style="list-style-type: none"> Increased investment in electricity production and import infrastructure. Household supply boosted by rural electrification programme Allocation of N\$610 million to Nampower over 3 years on infrastructure and back-up energy supply |
| Dealing with climate change | <ul style="list-style-type: none"> Natural Emergency Disaster Fund:N\$20 million annually. Floods victims:N\$260 million |
| Fight against HIV Aids | <ul style="list-style-type: none"> 37 000 HIV Aids patients received HIV treatment 2007/08 year, increased to 65 000 during 2008/09 |

Barrier

Budget Intervention

Alleviating poverty

- 21% increase to N\$450 monthly social pension allowance. Pensioners expected to increase from 150 000 to 180 000 over next three years
- All orphans to receive grants by 2010
- War veterans allowance increase to N2 000
- Development and Implementation of TESEF
- Contribution to SME Credit Guarantee Trust
- Capital injection by Development Bank

| Barrier | Possible further measures to address barriers |
|--|--|
| Skills shortage | <ul style="list-style-type: none"> • Encouraging internship through tax incentives • Introducing the skills levy to reflect effective training. • Active participation by parents in children's education & encouragement thereof by Government. • Ensuring that training and bursary allocation in the proposed Empowerment Score Card carry sufficient weight. |
| Attractiveness of the business environment | <ul style="list-style-type: none"> • Lower tax rates for qualifying small enterprises |

| Barrier | Possible further measures to address barriers |
|---|---|
| Reliability and sustainability of energy supply | <ul style="list-style-type: none"> • Increase in biodiesel fuel and solar energy tax concessions • Exemption of bioethanol from fuel tax |
| International competitiveness | <ul style="list-style-type: none"> • Our current international competitiveness position declined from 79 to 88. Analysing results in order to determine areas of improvement and efficient allocation of funds to achieve improvement. |
| Capacity to deliver | <ul style="list-style-type: none"> • Remuneration linked to effective performance management and to skills levels in different sectors |
| Dealing with climate change | <ul style="list-style-type: none"> • Identifying risk areas and implementing measures to reduce the risk, e.g. Hardap Region |

“All the good maxims have been written. It only remains to put them into practice.

..from head to heart to hands...”

Blaise Pascal

Thank you

*The budget speech and presentations
are available on: www.pwc.com/na*