



KEYNOTE ADDRESS

ROUNDTABLE DISCUSSION

NAMIBIA ECONOMIC SOCIETY

BY

HONOURABLE

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(MINISTER OF FINANCE)

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Director of Ceremonies
 Members of the Board of Namibia Economic Society
 Distinguished invited guests
 Ladies and Gentlemen

I am delighted to be invited to address this morning's roundtable discussion on specific macro economic policies and their impact on the economy. In particular, I have been asked to focus on fiscal policy, structure and the transmission mechanisms to pro-poor economic growth and development.

I was pleased to see that the organisers have linked fiscal policy with pro-poor growth and development. For me, that linkage is vital: This is because Fiscal policy is not an end in itself but a means of ensuring that our efforts to alleviate poverty and inequality are sustainable.

Maintaining fiscal discipline, while failing to address those problems from our colonial legacy, would not result in growth but in social disaffection. On the other hand pro-poor growth and development policies that are not implemented within the framework of a robust fiscal framework would simply result in levels of debt that the country could not afford to service.

As we have seen elsewhere, the pain of correcting excessive debt falls largely on the poor.

So, what is the Government's fiscal policy? I am sure that I do not need to remind this audience that it is based around three targets:

- budget deficit not to exceed 3% of GDP;
- public expenditure not to exceed 30% of GDP;
- debt stock not to exceed 25% of GDP.

All are set to be achieved over the medium term period. And that is a key feature of our fiscal policy – it is not based on single year targets, but for achievement on average over the medium term. That provides the Government with the fiscal flexibility it needs to smooth peaks and troughs of revenue, without endangering fiscal sustainability or the steady advances in social provision that the Government is achieving.

The structure of Namibia's economy, with its high dependency on primary goods, makes it particularly vulnerable to external shocks, notably rapid movements in commodity prices or exchange rates.

We need to be able to manage the risk to continuing development that those shocks represent and to ensure that the poor are protected from their worst effects. Our medium term fiscal stance enables us to do that.

Let me take as an example this year's budget. I was fortunate to be presented with revenues significantly in excess of those previously forecast. A number of factors combined to produce that effect:

- the SACU revenue windfall;
- improved tax collection (largely as a result of forensic audits);
- higher world mineral prices.

As you will have spotted, those factors would tend to imply a revenue peak, rather than a long term sustainable trend:

- the SACU revenue decreases can also result in public revenue decreases;
- part of the improved tax collection represents one-off tax arrears payments for previous years;
- history suggests that the current boom in mineral prices will, at some point, suffer a correction.

It will come as no surprise, that every spending Ministry was able to present me with proposals for how we could spend those additional revenues, and more. However, instead of embarking upon short-term populist (but unsustainable) spending, the Government decided upon a three-pronged strategy to promote longer-term pro-poor growth and development:

- improving the infrastructure that enables business to prosper, notably in the road, rail and power sectors;
- improving social provision, especially for orphans and OVCs, health and education and tax cuts for poorer earners;
- debt reduction (through a planned budget surplus) that will enable us to cushion the effects of any less favourable revenues in future.

Some of you will, and indeed have, criticised individual elements of that package. Commentators have suggested the need for: greater or different infrastructure development; alternative policies to address poverty and inequality; a looser or tighter fiscal stance.

But, I hope we can all agree that a balanced fiscal policy was the right overall approach.

That three pronged strategy also helps us handle another risk to our fiscal targets – higher interest rates and inflation. Here the impacts are more complex and, to some extent, self-correcting. Higher interest rates increase the cost of borrowing and debt servicing.

While inflation tends to increase revenues in the short term as the tax on goods and services increases, over the medium term the net effect is less certain and may even be negative. Even with a programme budget, where Ministries must seek improved efficiency there nevertheless, comes a point where service delivery levels might be threatened. That, of itself puts expenditure pressures on the Government.

Moreover, as the cost of goods and services rise, those that can least afford them will suffer most. And, of course, it is the duty of the Government to protect the poorest from the worst effects of those rising prices. There again, a prudent fiscal stance that maintains our good international credit rating, linked to debt reduction in peak revenue years, allows us to cushion the effects of higher interest rates and inflation.

The Government has a disciplined fiscal stance and a track record in meeting its targets. Those targets imply a constraint (in the technical meaning of the term) on total public expenditure and borrowing. Within that constraint, how does the Government seek to ensure that resources are used to best effect for pro-poor growth and development?

In my 2005 Budget, I announced the move to **Programme Budgeting**. Central to the new budget approach is that we no longer budget on the basis of inputs (salaries, vehicles, S&T etc); instead, resource allocations are to a large extent based on expected impacts and outcomes. Within each programme, Ministries are free to switch resources between different input types, provided they achieve the results expected.

For some years we have included outcome, impact and output data (in PEMP) as part of the Medium Term Plans of each Ministry. Those have been increasingly used to analyse expenditure proposals and competing priorities.

With the coming of programme budgeting, that has been reinforced with the setting of targets for each Ministry to achieve from within its MTEF ceilings. Those targets, generally set over a three year period, form part of the MTEF that has been laid before Parliament and will, in due course, form the basis for accounting to Parliament for results.

In line with that approach, all expenditure proposals must now be motivated in terms of expected outcomes and impacts. That enables the Government to assess the best mix of outcomes it can achieve within the constraint implied by its fiscal policy.

Key to making those decisions is analysis. That analysis is based upon:

- performance and outcome data that allows critical consideration of the robustness of claimed impacts; and, of the cost effectiveness of proposed interventions;
- consideration of alternatives to public expenditure, such as changes in legislation or the tax regime;
- how closely each proposal fits with the Government's policy priorities, particularly pro-poor growth and development.

I should pause here to observe that this is a more sophisticated approach to pro-poor budgeting than the simplistic labelling of certain sectors as "pro-poor", as advocated by some for African countries. All expenditure proposals have potential impacts on poverty and inequality. And, all should be examined in that light, without prejudging the issue.

Crime, for example, has a disproportionate effect on the poorest who can neither insure nor bear the costs of any losses or medical treatment. Yet, increased expenditure on law and order is rarely regarded as pro-poor.

Master of ceremonies

Those of you that follow the budget debates in Parliament will have noted how the currency of those debates has changed in the last three years, since the introduction of programme budgeting. Rarely now do we hear about more staff for this directorate or more vehicles for that division. The emphasis is now very much on what the Government is trying to achieve and how the resources allocated will contribute to that.

I only wish that certain economic commentators would take a similarly enlightened view of the purpose of the budget. Too many still regard fiscal policy as an end in itself, rather than a means of bringing about pro-poor growth and development.

Those of you who have been following the development of NDP3 will have noted that the guidelines also required a programme budgeting approach to be followed, with activities to be funded judged according to the outcomes expected and the Nation's priorities.

Let me finish by reminding you that Government cannot bring about growth or development by itself. It needs to work with other stakeholders.

The economists of this country have an important role to play. Not just those that work in Government (including those that advise me); but, also the wider community of economic analysts and commentators.

Master of ceremonies

I am not one to dismiss alternative points of view. I welcome thoughtful dissent and different approaches to the problems and opportunities that the Nation faces. We need your ideas, your constructive criticism and your honest analysis, if this country is to develop.

With these few remarks, I conclude my Keynote Address.

May I again thank the organisers for putting up an important debate which I am sure will prove thought provoking. In that regard, I look forward to a lively discussion.