

MOBILISING DOMESTIC RESOURCES FOR DEVELOPMENT FINANCING IN NAMIBIA — CONSTRAINTS AND OPPORTUNITIES

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MOBILISING DOMESTIC RESOURCES FOR DEVELOPMENT FINANCING

IN NAMIBIA — CONSTRAINTS AND OPPORTUNITIES

Ojijo Odhiambo *and* Emmanuel Ziramba*

1 INTRODUCTION

Namibia is classified as an upper middle-income country with an estimated Gross Domestic Product (GDP) per capita of USD6745 (constant 2000 exchange rate) in 2012 (IMF, 2013). Namibia has historically been one of the main recipients of official development assistance (ODA) in Africa, with an average Country Programmable Aid (CPA)¹ per capita of USD139.4 between 2009 and 2011 — more than three times the continental average of USD40.1 and more than six times the amount received by South Africa over the same period. Although aid disbursements to Namibia have been on a general upward trend since 2005, they are projected to decline over the next few years, with the CPA per capita declining from the 2009–2011 average of USD139.4 to USD127.2 by 2016, as shown in Table 1.

TABLE 1
CPA Disbursements and Projections (constant 2012 prices)

| Country/ Region | CPA per capita (USD) | | | | | | CPA per GNI (%) | | | | | |
|---------------------|----------------------|-------------|-------------|-------|-------|-------|-----------------|-------------|-------------|------|------|------|
| | 2009–11 | 2012 | 2013 | 2014 | 2015 | 2016 | 2009–11 | 2012 | 2013 | 2014 | 2015 | 2016 |
| | Average | Preliminary | Projections | | | | Average | Preliminary | Projections | | | |
| Namibia | 139.4 | 133.5 | 136.4 | 129.9 | 128.4 | 127.2 | 2.6 | 2.3 | 2.3 | 2.1 | 2.0 | 1.9 |
| Botswana | 111.0 | 68.2 | 78.2 | 76.7 | 78.7 | 73.5 | 1.3 | 0.8 | 0.9 | 0.8 | 0.8 | 0.7 |
| South Africa | 22.1 | 23.7 | 28.4 | 29.8 | 26.5 | 26.2 | 0.3 | 0.3 | 0.3 | 0.4 | 0.3 | 0.3 |
| Africa | 40.1 | 39.1 | 39.3 | 39.2 | 37.5 | 36.3 | 2.2 | 2.1 | 2.1 | 2.0 | 1.9 | 1.8 |

Source: OECD DAC Database, available at <http://webnet.oecd.org/dcdgraphs/CPA_recipient/>.

Namibia's long-term development vision is "a prosperous and industrialized Namibia, developed by her human resources, enjoying peace, harmony and political stability" (GRN, 2004). By 2030, the country aims to have moved significantly up the scale of human development to be ranked among the developed countries of the world.

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To translate Vision 2030 into reality, the government prepares National Development Plans (NDPs), which outline the programmes and projects that the country intends to pursue over successive five-year periods. The current NDP, the fourth in the series, has adopted three over-arching goals: economic growth, employment creation and reducing income inequality. To realise these development objectives, the country needs to enhance the mobilisation of domestic resources. The Government of the Republic of Namibia (GRN) recognises the need for enhanced revenue mobilisation and has stated thus “the imperative to fund critical national priority needs calls on government to strengthen revenue mobilization strategies and increasingly harness measures to improve internal efficiency, reduce waste and realise internal savings as important facets for public finance management in the medium-term” (Ministry of Finance, 2013).

This paper analyses past trends in domestic resource mobilisation in Namibia, to identify its pace and its constraints for funding development projects. The main objective of the study is to identify fiscal space which can be used to finance national development in Namibia and to propose policy options for enhancing domestic resource mobilisation. The rest of the paper is structured as follows: Section 2 introduces the concept of domestic resource mobilisation and discusses its theoretical underpinnings in the specific context of Namibia. Section 3 presents the methodological approach employed in this paper and discusses the results, while the conclusions and policy recommendations are presented in Section 4.

2 DOMESTIC RESOURCE MOBILISATION AND ITS DETERMINANTS IN THE NAMIBIAN CONTEXT

2.1 DOMESTIC RESOURCE MOBILISATION

Domestic resource mobilisation can be defined as the generation of savings from domestic sources, both public and private sectors, and their allocation to productive investments within the country. The public sector mobilises resources mainly through the taxation of individuals and companies, and also by borrowing. Public savings are the excess of public revenues over recurrent government expenditure, and what is available for governments to fund public investments. The private sector mobilises private domestic savings from both households and firms, which the financial intermediaries then channel towards productive investments.

Domestic resource mobilisation reduces an economy’s dependence on external flows which have been found to be highly volatile; allows governments greater flexibility in designing and controlling their development agenda; conditions States to improve their domestic environment and the management of public affairs which creates a conducive environment for foreign investments; enhances national ownership over development processes; and strengthens the bonds of accountability between governments and their citizens (UNCTAD, 2005). In effect, domestic resource mobilisation provides developing countries, such as Namibia, with the necessary policy space which is often constrained under the terms and conditions associated with external resources.

2.2 FISCAL SPACE

The concept of fiscal space has been defined in different ways and is, in many respects, still evolving. Heller (2005) defines fiscal space as “the availability of budgetary room in a government’s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy”. Roy and Heuty (2005), however, define fiscal space as “concrete policy actions for enhancing domestic resource mobilization, and the reforms necessary to secure the enabling governance, institutional and economic environments for these policy actions to be effective”. In its 2006 *Interim Report on Fiscal Policy for Growth and Development*, the Development Committee of the joint World Bank/IMF Board defined fiscal space as “the gap between the current expenditure and the maximum level of expenditure a government can undertake without impairing its solvency”.

Roy et al. (2007) further refine the concept of fiscal space and adopt the following definition: “fiscal space is the financing that is available to government as a result of concrete policy actions for enhancing resource mobilization, and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions to be effective, for a specified set of development objectives”. This paper uses an adaptation of the Roy and Heuty (2005) definition of fiscal space and discusses domestic resource mobilisation in the Namibian context by examining the government’s own revenue, derived principally from taxes, and its determinants; public debt; government spending; and other institutional and governance factors.

2.3 DETERMINANTS OF FISCAL SPACE IN THE NAMIBIAN CONTEXT

Fiscal space can be viewed as the outcome of interactions between the four dimensions identified by Rajaraman (2009): own fiscal revenue, public debt, external financing and expenditure restructuring. The first two aspects of fiscal space — namely, own revenue and public borrowing — depend crucially on real economic growth.² A higher real growth generally yields higher incremental tax revenue. Similarly, for a given prudential cap on the (total) debt stock, higher real growth, which generally yields higher incremental tax revenues, allows room for higher public borrowing from domestic and/or external sources as governments would, *ceteris paribus*, find it easier to service the debt.³ There is also external financing, in the form of worker remittances, which does not go into the national treasury. The extent of external financing can be measured by the excess of national investment over national saving rates, where national saving rates include savings from worker remittances. These four dimensions of fiscal space are discussed in greater detail in the sub-sections that follow.

2.3.1 Own Fiscal Revenue

The principal determinants of tax share in GDP are the sectoral composition of value added, the overall level of industrial development (as measured by per capita income), and the importance of international trade in the economy (Stotsky and WoldeMariam, 1997). Evidence suggests that increasing the share of agriculture in GDP reduces tax shares (Chelliah et al., 1975; Tanzi, 1992; Leuthold, 1991; and Stotsky and WoldeMariam, 1997).

There is, however, no consensus on the effect of the share of the mining sectors on GDP. While Stotsky and WoldeMariam (1997) find that the share of the mining sector in GDP reduces tax shares in sub-Saharan Africa, Chelliah et al. (1975) and Tait et al. (1979) find that it raises tax shares. They also find that the export shares and per capita incomes both raise tax shares. Import shares are also found to raise tax shares (Tanzi, 1992; and Stotsky and WoldeMariam, 1997).

2.3.1.1 Composition of output

The sectoral composition of output (value added) is an important factor in determining the tax share in GDP because some sectors of the economy are more amenable to taxation than others and, therefore, generate different taxable surpluses. The share of agriculture in value added, for instance, can be an important determinant of taxable capacity in an economy. If the agricultural sector is dominated by many small subsistence farmers, agriculture will be difficult to tax, as subsistence agriculture is known not to generate large taxable surpluses (Stotsky and Woldemariam, 1997). In certain instances however, a large share of agriculture in value added may reflect an export industry in certain crops or agricultural products, such as horticultural products, which might be more amenable to taxation.

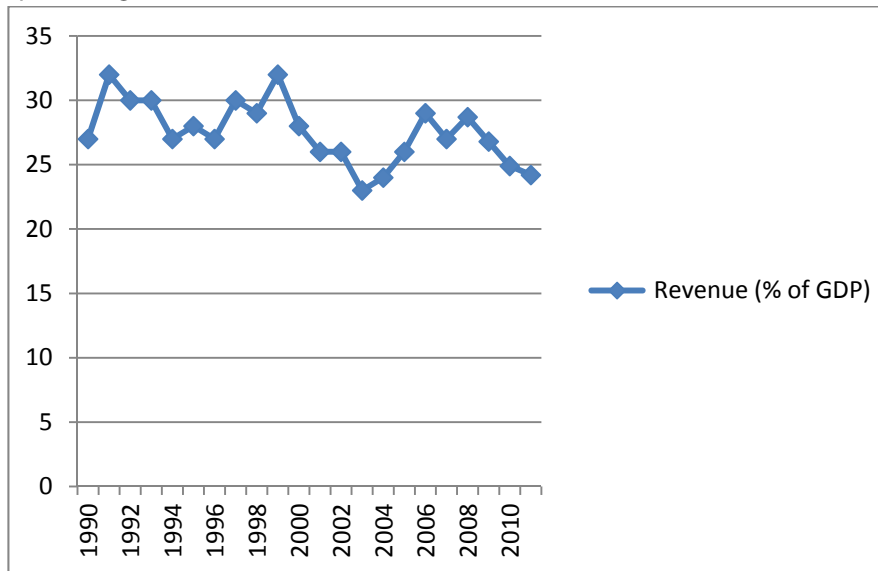
The share of mining may also be important, as mining is known to generate large taxable surpluses (see, for instance, Chelliah et al., 1975; and Tait et al., 1979). This is the case in Namibia, as diamond mining companies are taxed at an effective rate of 55 per cent, while other mining companies are taxed at a flat rate of 37.5 per cent. Oil and gas extraction companies are taxed at a flat rate of 35 per cent and are also subject to additional profits tax. Manufacturing companies are taxed at a flat rate of 18 per cent for a period of 10 years. The share of manufacturing may also be important, as manufacturing companies keep records and are, therefore, easier to tax than agriculture (Stotsky and Woldemariam, 1997).

Between 1990 and 2011, Namibia's tax as a share of GDP fluctuated between 23 per cent in 2003 and 32 per cent in 1991, averaging around 27.5 per cent of GDP over the entire period. From a low of 23 per cent in 2003, tax rose steadily to a 29 per cent share of GDP in 2006 (Figure 1), before declining to 24 per cent in 2011.⁴ The fall in the tax/GDP ratio after 2006 can be explained by the faster pace of growth in the GDP compared to tax revenues, with the economy growing at an average rate of 4.3 per cent over this period, juxtaposed with a decline in revenues from international trade from the Southern Africa Customs Union (SACU) pool over the same period (Ministry of Finance, 2010).⁵

Taxation remains the main source of government revenue in Namibia, accounting for about 94 per cent of total revenue in 2011/12 (AfDB, OECD, UNDP, UNECA, 2012). Total tax revenue in Namibia can be broken down into three main components: taxes on incomes and profits (direct taxes), domestic taxes on goods and services (VAT and excise taxes) and trade taxes. Namibia's tax revenues come mainly from taxes on incomes and profits and from trade taxes in the form of SACU revenues, with domestic taxes on goods and services contributing the smallest share.

FIGURE 1

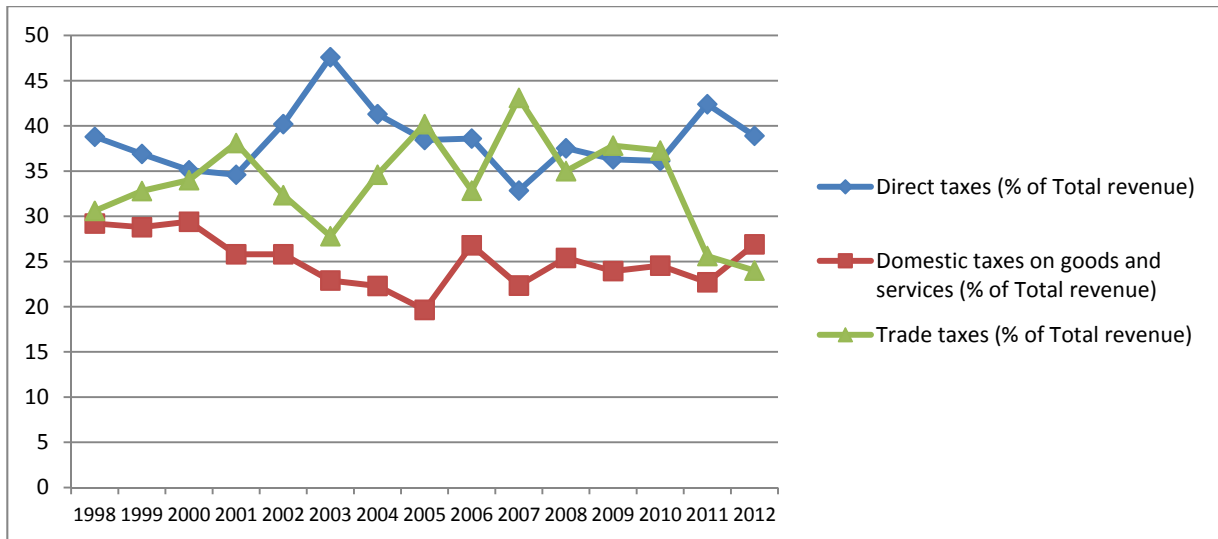
Revenue (as percentage of GDP)



Source: World Development Indicators, 2012.

FIGURE 2

Components of Total Revenue (1997–2012)



Source: Ministry of Finance (compilation of data over many years).

From Figure 2, it can also be seen that the share of trade taxes has been unstable over time and that the share of domestic taxes on goods and services has, in general, been on a downward trend. Although direct taxes (taxes on profits and incomes) have been volatile, these taxes have exhibited a general upward trend in the recent past, compensating, in part, for the decline in taxes on goods and services and trade taxes.

Table 2 presents a breakdown of the overall tax revenues into the three components identified above in percentage changes relative to the 2000/01 (baseline) year.

From the table, it is evident that there was a drop in trade tax revenue as a percentage of GDP relative to the base period. Domestic taxes on goods and services as a percentage of GDP also show a drop relative to the base period. The country, however, managed to find compensating revenue in the form of direct taxes, but the increase in direct taxes relative to the base was not sufficient to offset the drops in both trade taxes and domestic taxes on goods and services. This would explain the observed fall in overall tax revenue as a percentage of GDP (see Figure 1).

Brun et al. (2009) have argued that an analysis of fiscal space conducted solely on the basis of taxes collected is not entirely satisfactory because a significant portion of tax revenues depends on structural factors which cannot be addressed by economic policy in the short term, while the balance (tax effort) is determined by factors that depend on economic policy. The observed rate of taxation in any country can be broken down into two components: **a rate of structural taxation** (tax potential, capacity to contribute), which is dependent on structural factors not related to economic policy, and **tax effort**, which is determined by the tax mobilisation policy. In other words, a country's tax potential can be defined as the rate of taxation one would normally expect, given the country's structural features. The difference between the observed taxation rate and this tax potential is attributed to economic policy. It is, therefore, a measure of the **tax effort**.

TABLE 2

Composition of Tax Revenue — Share of Taxes in GDP (%)

| Year | Taxes on International Trade/GDP (%) | Domestic Taxes on Goods and Services/GDP (%) | Taxes on Incomes and Profits/GDP (%) |
|---------|--------------------------------------|--|--------------------------------------|
| 2000/01 | 11.6 | 7.84 | 10.52 |
| | % change relative to 2000/01 | % change relative to 2000/01 | % change relative to 2000/01 |
| 2001/02 | -2.22 | -0.36 | +1.15 |
| 2002/03 | -3.76 | -1.4 | +2.88 |
| 2003/04 | -2.83 | -2.2 | -0.06 |
| 2004/05 | -0.35 | -2.34 | +0.24 |
| 2005/06 | -2.16 | -0.14 | +0.58 |
| 2006/07 | +2.84 | -0.35 | +0.49 |
| 2007/08 | -1.71 | -0.66 | +0.10 |
| 2008/09 | -2.45 | -0.36 | +1.21 |
| 2009/10 | -1.76 | -1.36 | -0.98 |
| 2010/11 | -4.45 | -1.49 | +1.34 |
| 2011/12 | -3.97 | +0.72 | +1.88 |

Source: Authors' calculations based on Ministry of Finance data.

The structural factors which determine the rate of structural taxation include the level of development. It is expected that the higher a country's level of development — determined by three variables of per capita GDP; the sectoral composition of output, measured by the share of agricultural value added; and the degree of monetisation of the economy, measured by the ratio of aggregate money supply to GDP — the greater will be its capacity to collect revenue.

Brun et al., (2009) further argue that from the demand side, a higher level of development involves an increase in and diversification of the demand for public goods that may make taxpayers more willing to pay more taxes. On the supply side, they argue that an increase in the level of development increases the economy's capacity to contribute in the form of higher tax revenues. The extent of trade openness also influences the rate of structural taxation positively, since, they posit, revenue from international trade is easier to tax than domestic earnings or consumption.

Tax effort has been defined as the index of the ratio between the share of actual tax collection to GDP and the predicted taxable capacity (Le et al., 2008). The measurement of tax effort makes it possible to obtain a preliminary assessment of fiscal space that can be mobilised on the basis of the actual observed rates of public revenues. A positive tax effort suggests that there are potential limitations to mobilising additional public resources, while a negative effort indicates an underutilised fiscal space. Two recent studies on tax potential in Africa by Le, Moreno-Dodson and Rojchaichanthorn (2008) and Le, Moreno-Dodson and Bayraktar (2012) which included Namibia in their sample of countries have classified Namibia in the high tax collection and high tax effort group, with Namibia and South Africa having the highest tax efforts of all sub-Saharan African countries included in the sample. This would mean that Namibia has limited space to levy more taxes compared to the other sub-Saharan African countries included in the study.

TABLE 3

Tax Collection and Tax effort in Selected SADC Countries

| Country | 1994-2003 | | 1994-2009 | |
|---------------------|-----------|------------|-----------|------------|
| | Tax/GDP | Tax Effort | Tax/GDP | Tax Effort |
| Botswana | 17.08 | 0.92 | 17.08 | 0.93 |
| DRC | 4.35 | 0.71 | 5.14 | 0.55 |
| Madagascar | 8.48 | 0.69 | 11.25 | 0.66 |
| Namibia | 28.89 | 1.63 | 30.37 | 1.54 |
| South Africa | 24.9 | 1.35 | 28.69 | 1.43 |
| Zambia | 17.92 | 1.20 | 18.49 | 1.09 |
| Zimbabwe | 23.65 | 1.35 | 25.94 | 1.36 |

Source: Le, Moreno-Dodson and Rojchaichanthorn (2008) and Le, Moreno-Dodson and Bayraktar (2012).

Overall, for countries listed in this group, both studies argue that there is relatively little scope, albeit in varying degrees, for further enhancing revenue collection without generating disproportionately high economic costs. They thus propose that reforms aimed at enhancing the economic efficiency of existing taxes, reducing tax-induced distortions, improving the business climate and simplifying the administration procedures should be sought to lower the overall tax burden.

2.3.1.2 Economic growth

High and sustained economic growth is a necessary condition for successful revenue mobilisation, as a growing economy has better potential to, *ceteris paribus*, create formal employment which increases the tax base. It also increases potential revenue from indirect taxes. Per capita income is generally regarded as the best proxy for the overall level of development (Stotsky and Woldemarian, 1997; Drummond et al. 2012).

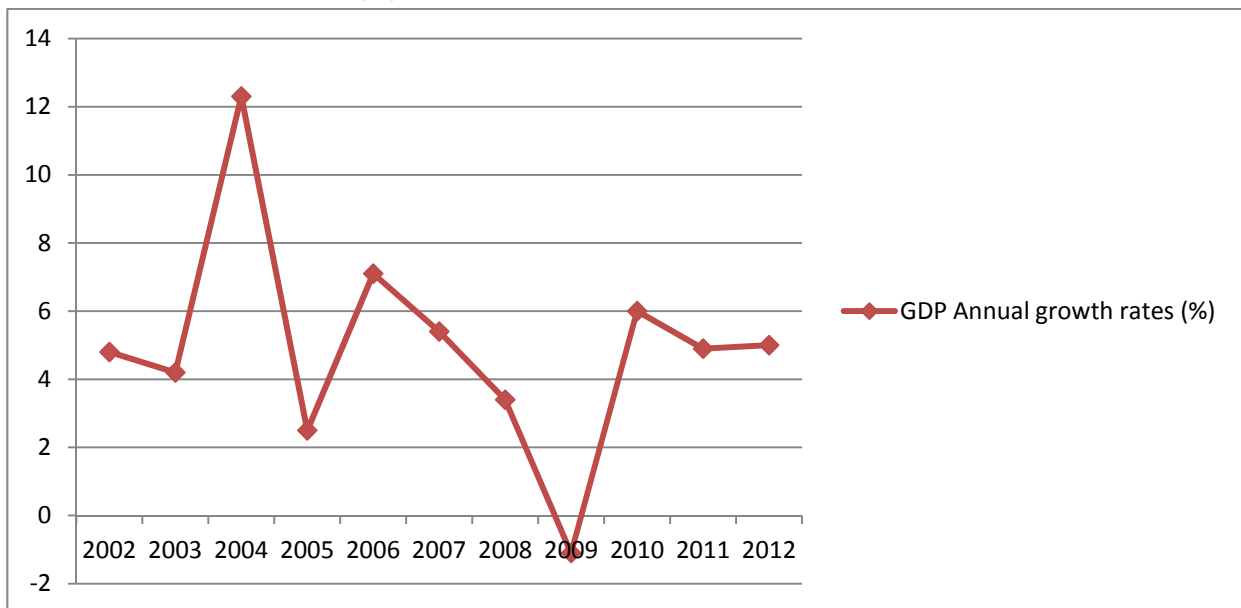
Economic growth is expected to be positively correlated with tax revenue. Thus, the recent (since 2009) upward trend in the growth of Namibia's economy presents an opportunity for increased tax revenues.

2.3.1.3 Openness of the economy

The degree of trade openness (measured by the trade share in GDP) may also be an important determinant of tax revenue, since certain features of international trade make it more amenable to taxation than domestic activities (Stotsky and Woldemarian, 1997). Import or export shares, therefore, are important determinants of tax share.

FIGURE 3

GDP Annual Groth Rates (%)

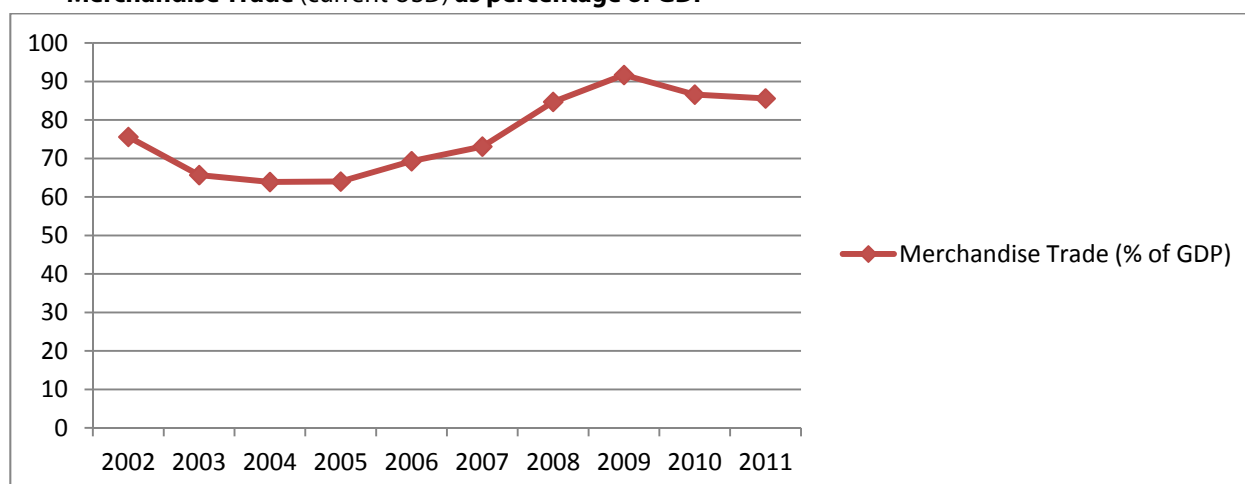


Source: Namibia Statistics Agency, 2013: Preliminary National Accounts 2012.

2.3.1.4 Macroeconomic stability

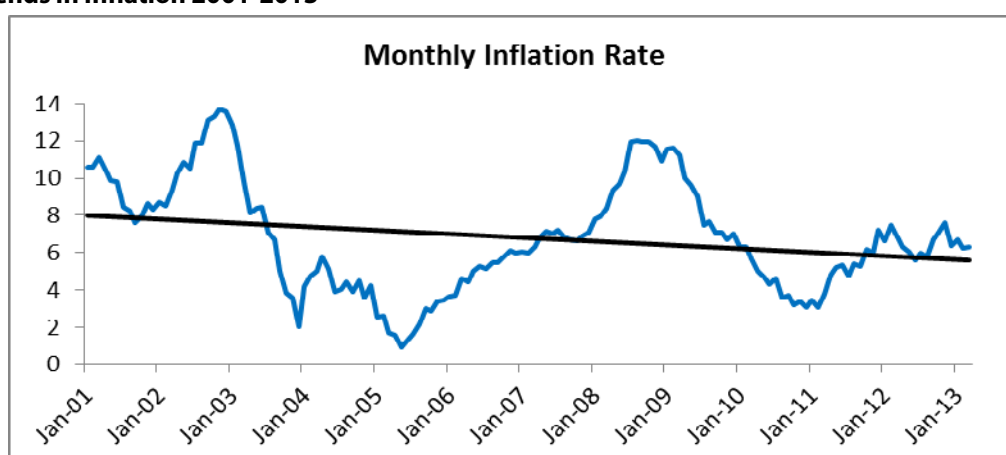
High and increasing inflation, as a general proxy for macroeconomic instability, might have a detrimental impact on tax collection. In Namibia, however, over the past decade, although characterised by wide fluctuations, inflation has been on a general downward trend, as shown in Figure 5.

FIGURE 4

Merchandise Trade (current USD) as percentage of GDP

Source: World Bank data. Available at <<http://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS>>.

FIGURE 5

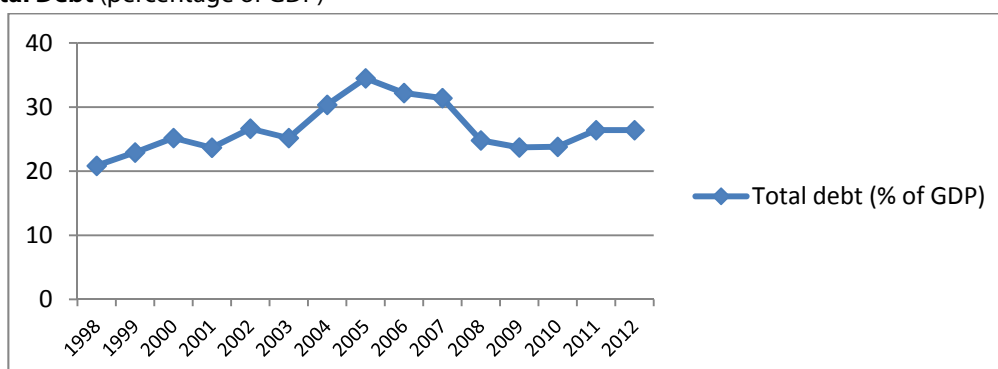
Trends in Inflation 2001-2013

Source: Namibia Statistics Agency, 2013: Preliminary National Accounts.

2.3.2 Public Debt

Traditionally the limit on debt stock as set in the rolling Medium-Term Expenditure Frameworks (MTEF) has been in the range of 25 to 30 per cent of GDP. It was, however, revised upwards to 35 per cent of GDP in the 2011/12 to 2013/14 MTEF to reflect the fiscal expansion under the Targeted Intervention Programme for Employment and Economic Growth (TIPEEG).⁶ Namibia's debt stock as a percentage of GDP was on an upward trend between 1998 and 2005. Starting from a ratio of 20.8 per cent of GDP in 1998, total debt stock peaked at 34.5 per cent of GDP in 2005. After 2005, however, Namibia steadily reduced its debt stock, falling to 24.7 per cent of GDP in 2010 before rising again, reaching 27 per cent of GDP in the 2011/12 fiscal year. This (recent) upward trend in total debt is expected to continue in the near future, reaching 30.7 per cent of GDP by the 2015/16 fiscal year as a result of the fiscal expansion which the government adopted to accommodate the TIPEEG.

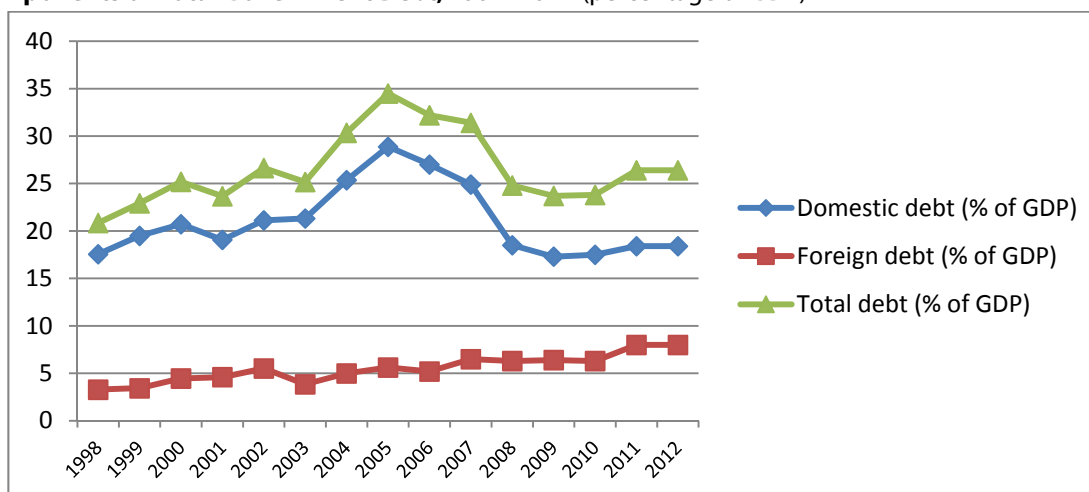
FIGURE 6

Total Debt (percentage of GDP)

Source: Ministry of Finance (compilation of data over many years).

Government debt has always been dominated by domestic debt in the form of treasury bills and government bonds. In 2004 domestic debt accounted for 85 per cent of total debt, while in 2010 it constituted 77 per cent of the total debt. By 2004 it was argued that the issue of crowding out of private-sector investment had not arisen (Ministry of Finance, 2004). Foreign debt averaged around 5 per cent of GDP between 1997 and 2009.

FIGURE 7

Components of Total Government Debt, 1997-2012 (percentage of GDP)

Source: Ministry of Finance (compilation of data for many years).

2.3.3 Externally Sourced Financing

Rajaraman (2009) pointed out that the excess of national investments over national saving rates yields the contribution to investment sourced from external savings. Table 4 reports the differences between investment (measured by gross fixed capital formation) and gross saving rates (both measured as a percentage of GDP) for Namibia between 1990 and 2011.

Gross savings are defined as the difference between gross national income and public and private consumption, plus net current transfers in the form of private remittances into the domestic economy. It is evident from Table 4 that Namibia had a negative excess of

investment over saving since 1990 — that is, national savings have consistently exceeded domestic investments — meaning that the country has not historically been relying on external capital to finance public investments.

TABLE 4

Contribution of National Savings to National Investment in Namibia (selected years)

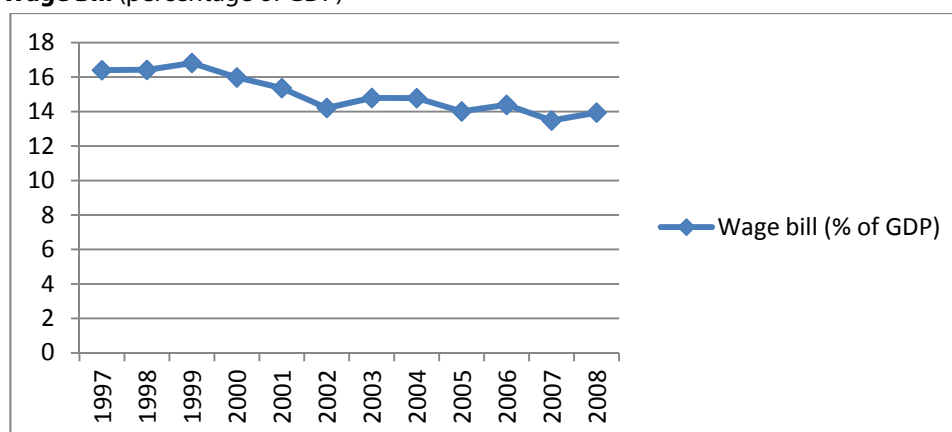
| Year | Investment–Savings (% GDP) |
|------|----------------------------|
| 1990 | -14 |
| 1995 | -10 |
| 2000 | -8 |
| 2005 | -9 |
| 2006 | -10 |
| 2007 | -8 |
| 2008 | -6 |
| 2009 | -3 |
| 2010 | -8 |
| 2011 | -9 |

Source: World Development Indicators, 2012.

2.3.4 Structure of Government Spending

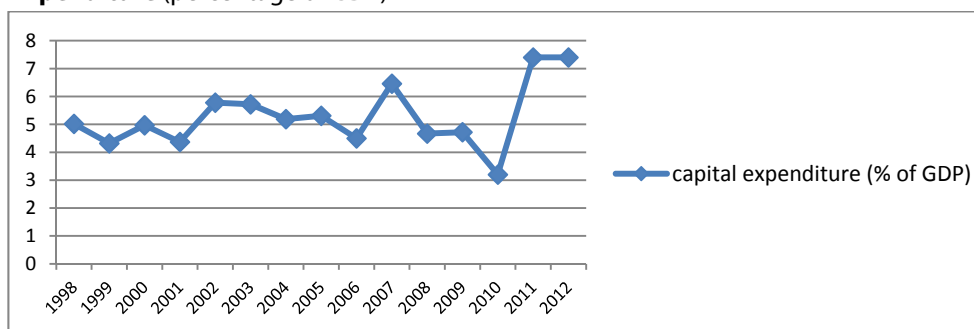
Figure 8 shows the public wage bill as a percentage of GDP between 1997 and 2008. The public wage bill has generally averaged between 14 and 16 per cent, which is quite high relative to capital (development) expenditure as a percentage of GDP, which averaged around 5 per cent between 1997 and 2004. Capital expenditure as a percentage of GDP fell to around 3 per cent in 2010, before rising sharply to over 7 per cent in 2011 and 2012 due to the introduction of the TIPEEG, as shown in Figure 9. The importance of the preservation of government capital expenditure cannot be overemphasised, as consistently low capital expenditure of below 5 per cent of GDP would undoubtedly have adverse effects on the development of the country.

FIGURE 8

Public Wage Bill (percentage of GDP)

Source: Ministry of Finance (compilation of data for many years).

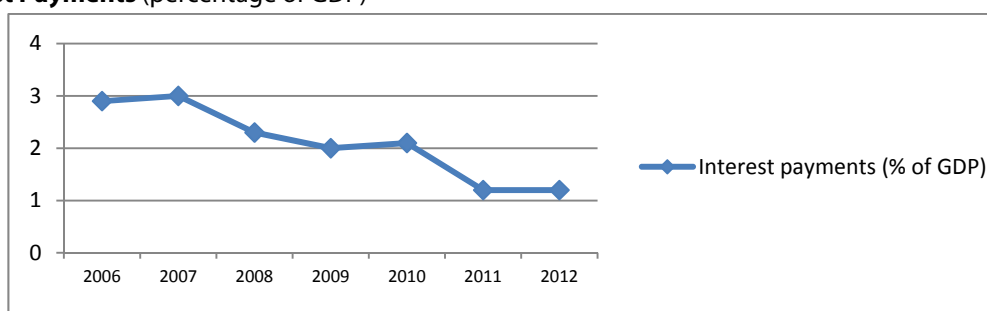
FIGURE 9

Capital Expenditure (percentage of GDP)

Source: Ministry of Finance (compilation of data for many years).

Namibia's interest payment as a share of GDP (see Figure 10), however, has been falling over the years, from around 3 per cent of GDP in 2006 to just over 1 per cent of GDP in 2011 and 2012. This is important, as it releases fiscal resources for other development activities.

FIGURE 10

Interest Payments (percentage of GDP)

Source: Ministry of Finance (compilation of data for many years).

2.3.5 Other Determinants of Fiscal Space

2.3.5.1 Financial markets and intermediation

Namibia has one of the most sophisticated, diverse and developed financial systems in Africa (AfDB, OECD, UNDP, UNECA, 2012). The World Economic Forum (2011) has reported that the Namibian financial markets are well developed by international standards, with sound regulations. The Namibian financial system, however, is highly concentrated. It consists of only four commercial banks, four specialised finance institutions, other non-bank institutions which include insurance companies and pension funds and other smaller institutions, and the stock exchange. Despite the existence of a well-developed financial system there have been concerns regarding financial exclusion. According to the FinScope consumer survey (2012), 31 per cent of the Namibian population were excluded from financial services. It is hoped that the implementation of the Namibia Financial Sector Strategy (2011–2021) will increase the level of financial inclusion in Namibia — a development which would increase the level of private savings, thereby enhancing domestic resource mobilisation.

2.3.5.2 *Capital flight*

Capital flight is a concept which is not clearly defined (UNCTAD, 2005) and has been defined and measured differently by different authors and institutions. The main factors cited as causing capital flight are macroeconomic and political instability, as well as the depth of the financial market (UNCTAD, 2005). Boyce and Ndikumana (2012) provide estimates of capital flight for 33 sub-Saharan African countries for the period 1970–2010. Their sample included all countries in the Southern African Development Community (SADC), with the exception of Namibia. They present key results on capital flight both in absolute terms and in comparison to other capital flows such as debt, aid and foreign direct investment, as well as in relation to the size of the economy. They report that between 1970 and 2010 total capital flight from the 13 SADC countries in their sample amounted to USD250.9 billion (in constant 2010 USD) and that by 2010 the stock of capital flight including compound interest earnings for the 13 SADC countries reached USD348.7 billion, which exceeded the stock of external debt (USD98.8 billion) owed by these countries — in effect, making them a ‘net creditor’ to the rest of the world (Boyce and Ndikumana, 2012). These figures indicate that these countries could be free of debt if they could recover just 28.3 per cent of the capital they have lost through capital flight. Although Namibia was not included in the countries sampled, it is plausible to assume that, like other SADC countries, it has been adversely affected by capital flight.

2.3.5.3 *Institutional factors*

Institutional factors such as the quality of institutions, public governance, rule of law, rent-seeking tendencies and regulatory frameworks have also been identified as important determinants of revenue performance (Drummond et al., 2012). Such factors are believed to influence tax revenue through their contribution to tax evasion, improper tax exemptions and weak tax administration.

3 METHODOLOGY AND RESULTS

3.1 METHODOLOGY

This study uses the frequency distribution of the changes in the revenue-to-GDP ratio to analyse Namibia’s fiscal revenue performance between 1990 and 2011 (for actual observations used, see Figure 1). This involves calculating the changes in the tax/GDP ratios from one period to the next, over rolling one-, three-, five- and 10-year periods, and determining the number of times the percentage change exceeds a certain predetermined threshold. For the three-year horizon, the percentage changes over successive three-year periods, adding one year at a time, are calculated. The same process is employed over the five- and 10-year horizons. The number of observations over the one-, three-, five- and 10-year changes are 21, 20, 18, and 13, respectively. A similar methodology was employed by Drummond et al. (2012) to identify empirical norms for mobilising fiscal revenue in 28 sub-Saharan low-income countries between 1990 and 2010.

3.2 RESULTS

3.2.1 The Pace of Revenue Mobilisation in Namibia

Table 5 presents a summary of the categorisation of changes in the revenue/GDP ratios (in percentage points) over one-, three-, five- and 10-year horizons.

TABLE 5

Summary: Pace of Revenue Mobilisation in Namibia 1990-2011 (percentage point changes)

| | Most frequent pace | Middle pace | Exceptional pace |
|----------------------------------|--------------------|-------------|------------------|
| Short-to-medium-term (1–3 years) | -3–0 | 1–3 | >3 (2/41) |
| Long-term (5–10 years) | -4–0 | 0.8–4 | >4 (3/31) |

Source: Adapted from Drummond et al., 2012.

Note: Categorisation excludes some outliers.

The categorisation used in Table 5 has been adapted from Drummond et al. (2012) to the Namibian context. Those authors found that:

- the **most frequent pace** of mobilising revenue falls between 0.5 and 2 percentage points of GDP in the short to medium term and 2.5–3.5 percentage points of GDP in the longer term;
- the **middle pace** of mobilising revenue falls between 2 and 5 percentage points of GDP for short-to-medium-term changes and 3.5–7.5 percentage points of GDP for longer-term changes; while
- an **exceptional pace** of mobilising revenue occurs when there is an increase of more than 5 percentage points of GDP over the short to medium term and larger than 7.5 percentage points of GDP over the longer term.

TABLE 6

Empirical Norms for Mobilising Fiscal Revenue (percentage points of GDP)

| | Most frequent pace | Middle pace | Exceptional pace |
|----------------------------------|--------------------|-------------|------------------|
| Short-to-medium-term (1–3 years) | 0.5–2 | 2–5 | >5 |
| Long-term (5–10 years) | 2.5–3.5 | 3.5–7.5 | >7.5 |

Source: Results from Drummond et al., 2012.

Unlike the countries included in the Drummond et al. (2012) study, in Namibia the most frequent pace of revenue mobilisation lies between -3 and 0 percentage points of GDP in the short to medium term and -4 and 0 percentage points of GDP in the longer term, while the

middle pace of revenue mobilisation lies between 1 and 3 percentage points in the short term and 0.8 and 4 percentage points in the longer term. The exceptional pace of revenue mobilisation, on the other hand, occurs when the percentage change in revenue to GDP ratio is greater than 3 in the short term and greater than 4 in the longer term.

4 CONCLUSIONS AND POLICY RECOMMENDATIONS

4.1 CONCLUSIONS

This paper sought to analyse the pace of domestic resource mobilisation in Namibia over the past two decades, identifying constraints and suggesting plausible policy options for enhancing domestic resource mobilisation. In terms of revenue mobilisation, this study has established that, unlike the countries included in the Drummond et al. (2012) study, in Namibia the most frequent pace of revenue mobilisation lies between -3 and 0 percentage points of GDP in the short to medium term and -4 and 0 percentage points of GDP in the longer term, while the middle pace of revenue mobilisation lies between 1 and 3 percentage points in the short term and 0.8 and 4 percentage points in the longer term. The exceptional pace of revenue mobilisation, on the other hand, occurs when the percentage change in revenue to GDP ratio is greater than 3 in the short term and greater than 4 in the longer term. This implies that the pace of revenue mobilisation in Namibia has been much slower than in the 28 sub-Saharan African low-income countries included in the Drummond et al. (2012) study.

These findings, *ceteris paribus*, imply that there is only limited scope for the Namibian economy to mobilise additional tax revenues to fund national development programmes and projects, especially in the short term. Therefore, in addition to effecting tax reform measures such as widening the tax base, alternative sources of revenue and economic policy and institutional reforms are needed for Namibia to fund its development programmes.

4.2 POLICY RECOMMENDATIONS

There are a number of plausible policy recommendations that the country could consider to enhance domestic resource mobilisation. As a country with high tax collection, high tax effort and generally a negative pace of revenue mobilisation, in addition to effective tax reforms such as widening the tax base, the greatest potential for enhancing domestic resource mobilisation in Namibia lies in exploring other economic policy options and institutional reforms. These include, but are not limited to, the following:

- **Boosting domestic savings and promoting investment on a sustained basis:** The government can contribute to this by creating a conducive economic policy and legal environment for private-sector growth and development. The government can boost private savings by promoting linkages between formal and informal financial institutions, which would improve access by small and medium-sized enterprises (SMEs) to financial services, and further developing the nascent Namibian capital markets. One way of promoting investments is by reducing the high costs of doing business which discourages private investment, consequently generating negative effects on income and savings.⁷ Other ways of promoting private-sector growth and development

include increasing investments in infrastructure and skills development and further developing the domestic financial system.

- **Fighting capital flight:** To minimise any possible capital flight, a lasting solution lies in continued political stability, improved governance and stable macroeconomic conditions in the form of low inflation and stable exchange rates.
- **External borrowing:** The government could also judiciously use the resources obtained from foreign borrowing to finance infrastructural and other development projects. In November 2012 the Namibian government listed and issued the first non-South African sovereign bond on the Johannesburg Stock Exchange to the value of N\$850 million. More such listings could be used to raise the much-needed financial resources for development projects.
- **Innovative utilisation of remittances:** Namibia receives worker remittances from nationals working in the diaspora.⁸ These can be packaged into private equity funds with a guaranteed rate of return. Such an arrangement would boost inflows and could go a long way to financing development projects in the country.
- **Pension funds:** The government could also use pension contributions from public-sector workers such as the Government Institutions Pension Fund (GIPF), which had a net asset value of N\$35.12 billion in 2008 (GIPF, 2009),⁹ to finance productive investments which generate good returns.

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NOTES

1. Developed in 2007, the CPA is the portion of aid that donors programme for individual countries and thus better reflects the flows of aid that go to partner countries than ODA.
2. Despite contracting by 1.1 per cent in 2009, the Namibian economy grew by an average of 5 per cent between 2002 and 2012, peaking at 12.3 per cent in 2004.
3. Namibia's debt currently stands at 26.3 per cent of GDP, well below the ceiling of 35 per cent set by the government in 2011 to reflect the fiscal expansion under the TIPEEG.
4. Despite the fall recorded between 2006 and 2011, Namibia's tax/GDP ratio has consistently remained around the 25 per cent mark, which is reasonably high.
5. However, the SACU common revenue pool recorded a surplus of N\$9.07 billion in the 2010/11 fiscal year, of which Namibia received (after the usual time lag of two years) N\$2.5 billion during the 2012/13 fiscal year.
6. The TIPEEG is a N\$18.7 billion short-term special (direct and indirect) job creation programme to be implemented over the fiscal periods 2011/12–2013/14 in the following sectors: agriculture (N\$3.6 billion), transport (N\$3.1 billion), housing and sanitation (N\$1.8 billion), tourism (N\$0.65 billion), public works (N\$5.23 billion) and state-owned enterprises (N\$4.32 billion). For details about the TIPEEG, see <<http://www.npc.gov.na/publications/TIPEEG.pdf>>.
7. In the recent past, Namibia has experienced a decline in its Global Competitiveness Index ranking from 74th out of 139 countries in 2010/11 to 92th out of 144 countries in 2012/13. Its ease of doing business ranking also fell, from 81st out of 185 countries in 2012 to 87th out of 185 countries in 2013.
8. From a high of 0.57 per cent of GDP in 1990, worker remittances, expressed as a percentage of GDP, have been in decline over the past two decades and currently (2011) stand at 0.124 per cent of GDP.
9. More recently, the President of the Republic of Namibia, Mr Hifikepunye Pohamba, has been quoted (*New Era*, 31 May 2013) as saying that the GIPF had some N\$65 billion which could be used for investments in infrastructural developments such as roads and housing.



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