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Mobilising Domestic Resources for Development Financing in Namibia — Constraints and Opportunities

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Aid disbursements to Namibia, historically one of the main recipients of official development assistance (ODA) in Africa, are projected to decline over the next few years. Namibia aspires to become a prosperous and industrialised country and to be ranked among the developed countries of the world by 2030. To realise this vision, the government recognises the need for enhanced revenue mobilisation while at the same time improving internal efficiency and reducing wastage.

Revenue mobilisation reduces a country's dependence on external flows which are 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. Revenue mobilisation is important in creating the necessary fiscal space for governments to implement their development programmes.

Fiscal space can be viewed as the outcome of interactions between the government's own fiscal revenue, public debt, external financing and expenditure restructuring. Taxation remains the main source of government revenue in Namibia, accounting for about 94 per cent of total revenue in 2011/12. Between 1990 and 2011, Namibia's tax/gross domestic product (GDP) fluctuated between 23 per cent and 32 per cent, averaging around 27.5 per cent over the entire period. Although 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, this was revised upwards to 35 per cent in the 2011/12 to 2013/14 MTEF to reflect the fiscal expansion under the Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) programme.

Namibia's debt stock as a percentage of GDP experienced an upward trend between 1998 and 2005, starting from 20.8 per cent of GDP in 1998 before peaking at 34.5 per cent in 2005. After 2005, however, Namibia steadily reduced its debt stock to 24.7 per cent of GDP in 2010 before it rose again, reaching 27 per cent of GDP in the 2011/12 fiscal year.

Over the period 1990–2011, Namibia had a negative excess of investment over saving—that is, national savings exceeded domestic investments—meaning that the country has not historically been relying on external capital to finance investments. In terms of expenditure restructuring, the public wage bill has generally averaged between 14 and 16 per cent of GDP, which is quite high relative to capital (development) expenditure as a percentage of GDP, which averaged around 5 per cent between 1997 and 2004.

On the one hand, Namibia has one of the most sophisticated, diverse and developed financial systems in Africa. On the other hand, the financial system remains highly concentrated and 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. As a result of this high concentration, an estimated 31 per cent of the Namibian population are currently excluded from financial services.

Between 1970 and 2010 total capital flight from 13 Southern Africa Development Community (SADC) countries, excluding Namibia, amounted to USD250.9 billion (in constant 2010 USD), and by 2010 the stock of capital flight including compound interest earnings for these countries had 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. Although Namibia was not included in the countries sampled, it is plausible to assume that Namibia, like other SADC countries, has been adversely affected by capital flight.

Over the past two decades, the pace of revenue mobilisation in Namibia has been slow compared to the 28 sub-Saharan African low-income countries included in the Drummond et al. (2012) study. This implies that there is only limited scope for the Namibian economy to mobilise additional tax resources to fund national development programmes and projects, especially in the short run. Therefore, in addition to effecting tax reform measures such as widening the tax base, alternative sources of revenue and policy and institutional reforms are needed for Namibia to fund its development programmes, especially in the wake of the projected decline in ODA over the next few years.

As a country with high tax collection, high tax effort and a generally negative pace of revenue mobilisation, the greatest potential for enhancing domestic resource mobilisation in Namibia lies in exploring other economic policy options and institutional reforms, including, but not limited to, boosting domestic savings and promoting investments on a sustained basis; fighting capital flight; judicious and innovative use of pension funds and remittances; and external borrowing.

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