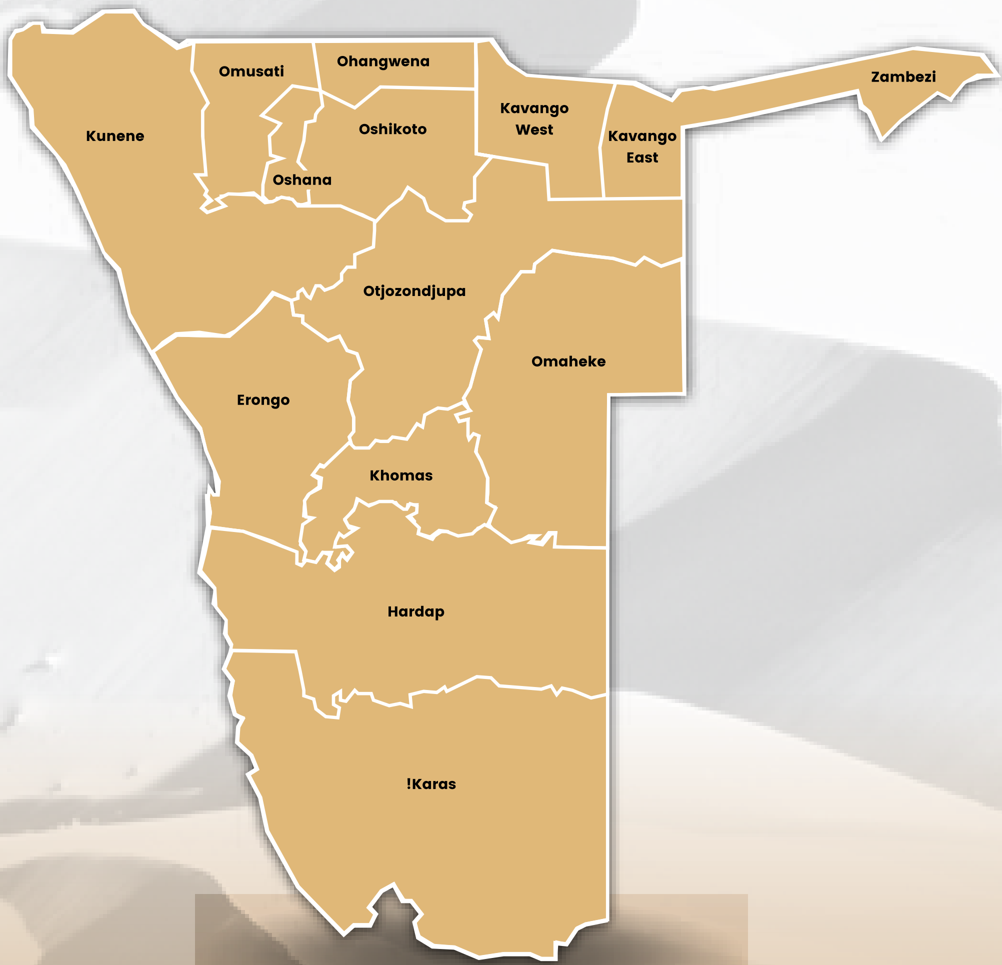
Republic of Namibia



NAMIBIA DEVELOPMENT FINANCE ASSESSMENT REPORT 2019

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Acknowledgement

Windhoek, September 2019

The Namibia Development Assessment (DFA) Report was initiated by the National Planning Commission (NPC) Namibia and the United Nations Development Programme (UNDP) Namibia. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)GmbH, on behalf of the german Federal Ministry of Economic Cooperation and Development (BMZ), provided financial and technical support to the project through the Sustainable Development Initiative Programme (SDG-I). During the assessment, the consultants met with several stakeholders who provided information, inputs and comments to the initial drafts of this report through the stakeholder workshop and the DFA policy seminar.

The process was led and overseen by the Oversight Committee co-chaired by the National Planning Commission and the Ministry of Finance. The Oversight Committee constituted technical staff from the National Planning Commission (NPC), Ministry of Finance (MoF), Bank of Namibia (BON), United Nations Development Programme (UNDP), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Namibia Statistics Agency (NSA) and Namibia Chamber of Commerce and Industry (NCCI).

Technical assistance provided by Dr. Tadele Ferede of the Addis Ababa University and Mr. Roland Brown of Cirrus Capital Namibia to the development of the Development Finance Assessment Report is greatly appreciated.

Foreword

This Development Finance Assessment (DFA) Report was commissioned by the National Planning Commission in corroboration with the Ministry of Finance. The rationale for commissioning the assessment stems from the fact that Namibia has developmental ambitions as articulated in the medium- and long-term development plans, which include among others to develop Namibia as a developed and prosperous country, reduce poverty and inequalities and improve the standard of living of the Namibian people. Furthermore, Namibia is committed to achieving regional and global goals as articulated in Agendas 2030 and 2063.

The value of development financing assessment lies in the fact that it provides an opportunity to have a holistic view with regard to development finance and how these finances could be aligned to national objectives and policies to maximise outputs and outcomes.

The achievement of national, regional and global goals depends on many factors, especially Financing. With respect to Namibia, the objectives can therefore be summarised into two: first, to provide the Government of the Republic of Namibia with a full understanding of existing development finance flows and underlying policies and institutions, and second, to develop recommendations to assist policy actions as well as to guide the design of an integrated national financing framework.

The value of development financing assessment lies in the fact that it provides an opportunity to have a holistic view with regard to development finance and how these finances could be aligned to national objectives and policies to maximise outputs and outcomes. Furthermore, it provides an opportunity for closer and coordinated collaboration involving a broad constituency of actors from across government, the private sector and financial institutions, development partners and other non-state stakeholders to pull resources together and prioritise funding by taking into account comparative advantage for each particular finance flow.

It follows therefore that conducting development finance assessment takes an added importance given the recent economic challenges, limited public finances, huge gap in critical developmental infrastructure coupled with other ambitions such as eliminating poverty by 2025.

It is my conviction, therefore, that the DFA and ultimately, the Integrated National Financial Framework (INFF), adds value to our planning and budgeting system. The process is not meant to re-invent the wheel, but to strengthen and lubricate our system to increase effectiveness and efficiency. This will be apparent in the review of Vision 2030 and subsequent revision of goals and targets as well as in the formulation of the Sixth National Development Plan (NDP6).

As we begin the fourth industrial revolution, I call upon all stakeholders not only to critically interrogate the results of the DFA and embrace the concept of developing the Integrated National Financial Framework, but also to ignite debate among all stakeholders to promote collaboration that will induce concomitant action.

OBETH MBUIPAHA KANDJOZE
Minister of Economic Planning and
Director-General of the National Planning Commission

Preface

The Development Finance Assessment (DFA) and the envisaged Integrated National Finance Framework (INFF) has come at an opportune time when Namibia has started asking herself critical questions as to whether she will meet her developmental objectives by 2022 and 2030 respectively as articulated in NDP5 and Vision 2030. While Namibia embraces regional, continental and global development frameworks, they must be domesticated for full ownership and implementation.

> **Namibia, through the DFA and the implementation of the Integrated National Financial Framework, has the opportunity to turn these threats into opportunities by mobilising both domestics and external resources in a more co-ordinated manner and aligning resources and policies to required outcomes.**

Namibia is less than two and half years before the end of NDP5 and less than 10 years before the end of Agenda 2030 and Vision 2030. While acknowledging progress in many targets, more needs to be done to achieve all goals and indicators as per 2018 SDGs and Voluntary National Report.

Namibia's prospects for achieving national and global goals mirrors the global prospects as indicated in the United Nations Sustainable Development Outlook 2019, which outlines threats to achieving SDGs. These threats include among other things slow economic growth which exacerbates unemployment, inequality which moulds economic and social dynamics, climate change and lack of technological innovations which hampers manufacturing and slow the adaptation and resilience to the effects of climate change.

Namibia, through the DFA and the implementation of the Integrated National Financial Framework, has the opportunity to turn these threats into opportunities by mobilising both domestics and external resources in a more co-ordinated manner and aligning resources and policies to required outcomes. Namibia emphasises the fact that the DFA and INFF should not be parallel processes, but an integral part of the national planning and budgeting course of action.

The results of the DFA points to the fact that Namibia is on a right track in addressing the six components of the INFF which include Vision, Strategic Financing Policy, Financing Policy for specific flows, monitoring and evaluation and accountability and dialogue. However, in each component of the INFF, there are some shortcomings - hence the report proposes the roadmap for improvements. It may very well be that some of the recommendations in the roadmap may include ongoing reforms which validates Namibia's actions and others may ask for the twigging of strategies or propose new ones altogether.

The DFA and subsequent INFF will enhance and strengthen our national planning and budgeting systems for effective delivery of intended outcomes. This will be possible through partnership between all stakeholder, i.e. public, private and non-state actors.

ANNELY HAIPHENE
Executive Director: National Planning Commission

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Acronyms

AAAA	Addis Ababa Action Agenda
ADB	Asian Development Bank
AF	Adaptation Fund
AFDB	African Development Bank
AFD	Agence Francaise de Development
AP-DEF	Asia-Pacific Development Effectiveness Facility
BAU	Business As Usual
BEPS	Base Erosion and Profit Shifting
BON	Bank of Namibia
CSOs	Civil Society Organisations
CSR	Corporate Social Responsibility
CRI	Climate Risk Index
DBSA	Development Bank of South Africa
DFA	Development Finance Assessment
DFIs	Development Finance Institutions
DFID	Department for International Development
DPI	Domestic Private Investment
EIF	Environmental Investment Fund
EPAS	Economic Policy Advisory Services
EVI	Environmental Vulnerability Index
EU	European Union
FDI	Foreign Direct Investment
FGD	Focus Groups Discussion
FY	Financial year
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GFCF	Gross Fixed Capital Formation
GFI	Global Financial Integrity
GGCRS	Green Growth and Climate Resilient Strategy
GIPF	Government Institutions Pension Fund
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GPEDC	Global Partnership for Effective Development Cooperation
GRN	Government of the Republic of Namibia
HDI	Human Development Index
HPP	Harambee Prosperity Plan
IMF	International Monetary Fund
INGOs	International Non-Governmental Organisations
INPSC	Integrated National Perfomance Steering Committee
INPTC	Integrated National Perfomance Technical Committee
INFF	Integrated National Financing Framework
ITAS	Integrated Tax Administration System
KSI	Key Stakeholder Interview
LAs	Local Authorities
MBPS	Mid-Year Budget Policy Statement
MDB	Multilateral Development Banks
M&E	Monitoring and Evaluation
MET	Ministry of Environment and Tourism
MEWG	Macro-Economic Working Group
MoF	Ministry of Finance

MIRCO	Ministry of International Relations and Co-operation
MITSMED	Ministry of Industrialisation, Trade and SME Development
NAMFISA	Namibia Financial Institutions Supervision Authority
NAT	Namibia Accountability Team
NamRA	Namibia Revenue Agency
NANGOF	Namibia Non-Governmental Organisations Forum
NCCI	Namibia Chamber of Commerce and Industry
NDP5	5th Nationa Development Plan
NDP	National Development Plan
NEEEB	New Equitable Economic Empowerment Bill
NFIS	Namibia Financial Inclusion Survey
NGOs	Non-Governmental Organisations
NHIES	Namibia Household Income and Expenditure Survey
NIDA	Namibia Industrial Development Agency
NIPA	Namibia Investment Promotion Act
NPC	National Planning Commission
NSA	Namibia Statistics Agency
NSS	National Statistical System
OMAs	Offices / Ministries / Agencies
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OOFs	Other Official Flows
OT	Oversight Team
PDF	Project Development Facility
PEs	Public Enterprises
PPP	Public-Private Partnership
PSCE	Private Sector Credit Extension
RCs	Regional Councils
REIT	Real Estate Investment Trust
RDCCs	Regional Development Co-ordinating Committees
RISDP	Regional Indicative Strategic Development Plan
SADC	Southern African Development Community
SACU	Southern African Customs Union
SDGs	Sustainable Development Goals
SME	Small and Medium Enterprise
SSA	Sub-Saharan Africa
SSC	South-South Cooperation
SOPAC	South Pacific Applied Geoscience Commission
SS&TC	South-South and Triangular Cooperation
SWGs	Sector Working Groups
SWAPO	SWAPO Party
TA	Technical Assistance
TOR	Terms of Reference
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nation Development Programme
USAID	United States Agency for International Development
VAT	Value Added Tax
VNR	Voluntary National Review
WB	World Bank

Executive summary

The overriding development agenda of the Government of the Republic of Namibia is to become a prosperous and industrialised country as articulated in Vision 2030. It has set out ambitious goals and targets for 2030, including a high standard of living, food security, a diversified and open economy, access to quality education and health services to achieve high human development and a competitive export sector.

The Government of Namibia has also expressed its commitment to ensure effective implementation and achievement of regional and global agreements such as the Agenda 2030 with its 17 Sustainable Development Goals, Agenda 2063, Paris Agreement on Climate Change, and Addis Ababa Action Agenda on financing for development. Realising Vision 2030 and the SDGs requires not only mobilising the right scale and mix of financial (and non-financial) resources, incorporating public and private, domestic and international funds, but also comprehensive financial management structures for both private and public resources. The challenge of financing the SDGs and the national development priorities goes beyond mobilising more money. It is fundamentally related to effective governance and places demand on the re-orientation of how public, private and non-state actors interact with each other in a system that achieves results in the three dimensions of sustainable development: economic, social and environmental.

The main objectives of the Development Finance Assessment exercise were twofold: first, to provide the Government of Namibia with a full understanding of existing development finance flows and underlying policies and institutions, provide a framework for mobilising domestic and international resources. The second objective was to develop recommendations that will guide the design of an integrated national financing framework which encompasses these flows. Namibia has shown steady socio-economic progress as reflected by rising income per capita, declining poverty levels, general improvement in human development outcomes and improved service delivery. However, the country still faces some critical challenges which threatens to reverse the past achievements if not addressed promptly. These challenges include, among others, high levels of inequality, unemployment and under investment in core service infrastructure such as water and energy.

"The main objectives of the Development Finance Assessment exercise were twofold: first, to provide the Government of Namibia with a full understanding of existing development finance flows and underlying policies and institutions, provide a framework for mobilising domestic and international resources. The second objective was to develop recommendations that will guide the design of an integrated national financing framework which encompasses these flows."

The DFA, using the Integrated Financial Framework lens, concludes that the linkages between financing and expected outcomes is inadequate. Accountability and performance management system still needs some improvement, while dialogue architecture between development actors not yet at the desired level. The report concludes that Namibia is doing quite great in mobilising domestic resources as represented by a large proportion of tax revenue in relation to total public sector revenue. While the space for additional mobilisation of resources may be limited, the alternative is to develop the private sector by providing a conducive environment for business and expansion of SME development. In addition, the country has a relative large contractual savings as a potential source of financing for development.Namibia while currently still receives a meagre external resources for financing climate change related activities has great potential to mobilise these funds at a large scale. Similarly, Namibia has not yet realised the benefit of implementing and establishment of the Public Private Partnership policy and Unit respectively.

Headline Recommendations:

- Develop a Financing Strategy that incorporates a mix of tools and models;
- Enhance domestic resource mobilisation;
- Improve the business environment to support private sector development;
- Establish a Project Development Facility (PDF);
- Championing and adopting GDP Plus for mobilizing and targeting ODA;
- Strategic use of ODA and new sources of finance;
- Strengthen monitoring and evaluation system;
- Develop a responsive accountability and enforcement system; and
- Making the existing dialogue architecture more inclusive.

Development Finance Assessment Analytical Framework

1

Introduction

1.1 Rationale

Since independence in 1990, Namibia has shown steady socio-economic progress as reflected by rising income per capita, declining poverty, improved human development outcomes, enhanced service delivery and access to socioeconomic infrastructure services. These past successes have informed policy to a large degree, and in so doing, have contributed to bold aspirations for the future.

> **There is general consensus that realising Vision 2030 and medium-term goals require not only mobilising the right scale and mix of financing sources, incorporating public and private, domestic and international funds, but also a comprehensive financial management structure for both private, public sources and ODA.**

Despite many notable successes, challenges remain. Namibia continues to exhibit some of the highest levels of unemployment (especially youth unemployment) and inequality in the world. Poverty, in both extreme and absolute terms is high for an Upper Middle-Income Country - reflecting inequities and structural challenges of long duration. Furthermore, under-investment in core service infrastructure in the water, energy and rail sectors, if not addressed, stand to threaten productive capacity going forward. Other challenges include but are not limited to financing gaps (mismatch between revenue and expenditure), limited access to bulk and retail infrastructure services, drought, trade imbalance and skills deficit, which together constrain the transformative capacity of the Namibian economy.

The Government of Namibia (GRN) is committed to taking meaningful strides toward becoming a prosperous nation, as articulated in the Vision 2030 (GRN, 2004). Headline targets for 2030 include high standard of living, food security, a diversified and open economy, access to quality education and health services and a competitive export sector (both quality and differentiation). By 2030, Namibia aims to move significantly up the scale of human development to be ranked among the developed countries of the world. Vision 2030 is implemented through successive medium-term development plans. The GRN, in its fifth National Development Plan (NDP5), has identified game-changers to move the Namibian economy from an input-based to a knowledge-based economy through investment in research and development, skill development, diversification of economic activities and enhanced value addition (GRN, 2017).

There is general consensus that realising Vision 2030 and medium-term goals require not only mobilising the right scale and mix of financing sources, incorporating public and private, domestic and international funds, but also a comprehensive financial management structure for both private, public sources and Official Development Assistance (ODA). Among others, there have been a number of international agreements related to development financing, including the Global Partnership for Effective Development Cooperation (GPEDC) and the Addis Ababa Action Agenda (AAAA), (UN, 2015). In particular, the Addis Ababa Action Agenda (or Addis Agenda) recognises the importance of financial diversification for ensuring sustainable development through domestic resource mobilisation, blending, innovative financing, Official Development Assistance (ODA) and private resources The Addis Agenda also requires alignment of development finance to national priorities and changes the way existing resources are used and prioritised. The Addis Agenda further calls for more effective and integrated approaches to managing public and private finance to achieve sustainable development and building capacities in planning, budgeting, information management, monitoring and evaluation and stakeholder engagement.

The development co-operation landscape has been undergoing change both globally and locally. The main internal changes include the limited role of conventional funding mechanisms following Namibia's classification as an upper middle-income country, the increasingly important role of the private sector and growing participation in regional economic partnerships. Changes in external landscape include emergence of new partners (e.g.

foundations, social impact investors, philanthropists, South-South cooperation, etc.), increased diversification of financing sources for development (e.g. climate finance, global funds, etc.) and complex development co-operation architecture, characterised by changes in source, volume, and modality of delivery and a greater number of state and non-state actors, including private actors. Thus, changes in the finance landscape occur on three fronts: (a) the emergence and rise of new development partners (e.g. private foundations, social impact investors, and philanthropists), (b) new financing and delivery modalities (Public-Private Partnerships) and (c) new funds such as climate finance, global funds, etc, (AP-DEF, ADB and UNDP, 2014; Greenhill et al., 2013).

The Government of Namibia recognises that the new landscape of development finance warrants establishing a long-term and holistic development financing model that extends beyond traditional public sector budgeting to include the resources mobilised by all development actors to finance national development priorities and SDGs. In light of this, the Addis Agenda provides the foundation for a new global framework for financing sustainable development that aligns financing flows and policies with economic, social and environmental priorities. Accordingly, the Development Finance Assessment (DFA) and the roadmap aim to articulate what the GRN wants to achieve with its different forms of finance flows (including finance and technical assistance) and the required institutional and governance changes to achieve national goals. The DFA for Namibia is expected to provide a comprehensive perspective of finance flows and policy and institutional arrangements in establishing an Integrated National Financing Framework (INFF).

1.2 Objective and Scope of the Report

The overall objective of the report is to provide the Government of the Republic of Namibia with a full understanding of development finance flows, provide a framework for mobilising domestic and international resources and underlying institutions and policies currently available and their alignment with national development goals and priorities.

To achieve the overall objective, the report covers the following:

- Provide an overview of the evolution and allocation of financing flows in Namibia;
- An assessment of national planning and budgeting systems and their results orientation;
- Mapping and analysis of financing for development flows, defining a new mode for mobilising Official Development Assistance and their associated policy and institutional frameworks, as well as the analysis of the interface between the different flows and their complementarities to achieve the NDPs and the SDGs;
- In-depth analysis of policy and institutional options for strengthening the alignment of priority flows with national development plans/strategies and the SDGs and projections of future trends with these selected flows (if possible and desirable); and
- A roadmap to establish an integrated national financing framework (INFF) for achieving the national development goals and SDGs.

1.3 Methodology and Data Sources

A Development Finance Assessment framework presents a comprehensive mapping of all financial flows which can be linked to policy and institutional reforms for managing these flows. It also provides recommendations as to how to manage evolving trends of development finance within a coherent framework in line with national development priorities. The UNDP (2019) identifies five interlinked pillars: a) analysis of finance trends, b) integrated planning and finance policy functions that help link development aspirations with policies, c) public-private collaboration, d) monitoring and review systems, and e) transparency and accountability between actors (Figure 1).

Each of these dimensions aims to answer specific financing, policy and systemic questions, including the following:

- What opportunities and challenges does the financing landscape present for realising national sustainable development plans? What is the balance between different forms of finance (e.g. public versus private resources; domestic versus external)?

- How are planning and finance policy functions aligned to mobilise the resources needed to realise development priorities?
- How does government create an environment that is conducive to inclusive and sustainable growth?
- What systems exist to track finance and monitor SDG outcomes, and how are these used to support policies that aim to deliver SDG outcomes?
- How does the government and other actors hold each other accountable and engage in policy dialogue that supports greater effectiveness?

Figure 1: **Development Finance Assessment Analytical Framework**

Source: UNDP (2019)

From an operational point of view, the assessment follows a two-pronged approach for data generation and analysis including (a) desk work aimed at reviewing relevant documents (e.g. policies and strategies), statistics and consolidating the information available from secondary sources, and (b) stakeholder consultations, through key stakeholder interviews and meetings.

The assessment involved review of a wide-range of documents, including the relevant government policies, strategies and plans of the government (e.g. policies, strategies and development plans, such as Vision 2030, NDP5, etc.). The DFA draws together secondary information from government policies, Namibia Statistics Agency, Organisation for Economic Cooperation and Development (OECD), World Bank, Bank of Namibia, Environmental Investment Fund, Ministry of Finance (MoF), National Planning Commission (NPC) and other analytical reports. The main challenges were unavailability and completeness of data for certain development finance flows, which resulted in an incomplete picture of development finance flows for Namibia in totality.

2

Country Context

2.1 Introduction

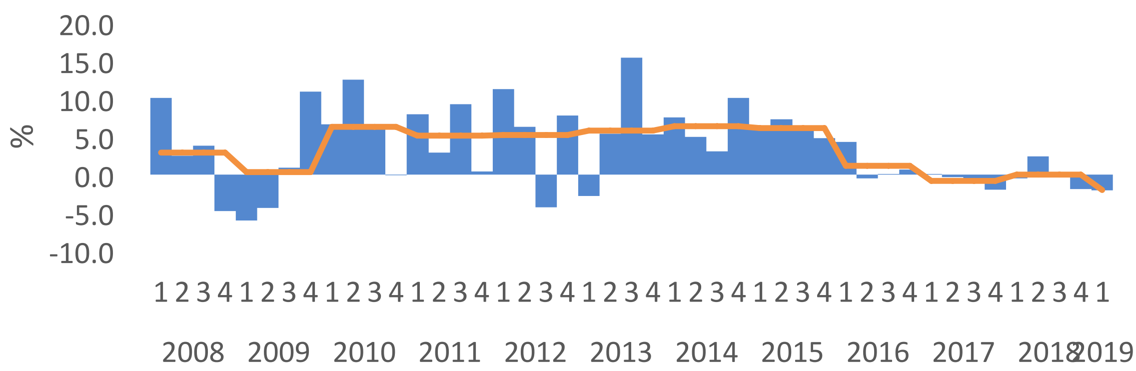
Namibia attained her independence on 21st March 1990 from South Africa after a protracted war of liberation. The country's high Gross Domestic Product (GDP) level in relation to a small population of about 2.3 million (2016), resulting in high per capita GDP have made it to be classified as an upper-middle-income country. Political stability and sound economic management have helped anchor poverty reduction. The past high economic growth and the generous public spending on social programmes had positive impact on income poverty levels reduction, however these has not translated into job creation and persistent high levels of inequality still exist.

Measured at the international poverty lines of 2011 purchasing power parity (PPP) $1.90 per person per day, 14.6% of the population were poor in 2018 following a fall from 22.6% in 2009. The corresponding poverty rate at the 2011 PPP $3.20 per person per day in 2018 32.0%, relatively high for an upper middle-income country. Poverty levels are high in female-headed households, the households headed by less educated, larger families, children and the elderly, and laborers in subsistence farming (World Bank, 2019).

2.2 Economic Performance and Structure

The Namibian economy registered an average growth rate of 4.05% with the country's GDP per capita increasing from US$2,392 in 1980 to US$5,231 in 2017 (World Bank, 2019). Namibia is an upper-middle-income country, with gross national income per capita of US$9,387 (2011 PPP $) in 2017. The country experienced strong economic growth from 2010 to 2015, driven primarily by increased investments in extractive sectors and strong government expenditure which boosted the construction and social sectors (NPC, 2018a) (Figure 2). Economic growth averaged 4.6% per year during the fourth national development plan (NDP4) for the years 2012/13–2016/17. However, this growth has not been sustained as the economy experienced contractions in 2017 and 2018 due to both internal and external factors, including low commodity prices, fiscal consolidation and low aggregate demand (due to decreased private sector credit extension and low disposable income levels). In particular, the economy has become highly depended on the tertiary sector, which contributed more than 85% of overall growth between 2007 and 2017. A simple growth accounting exercise also indicates that the primary sector accounted for less than one percent of total growth over the same period.

Figure 2: Economic growth episodes



Source: NSA

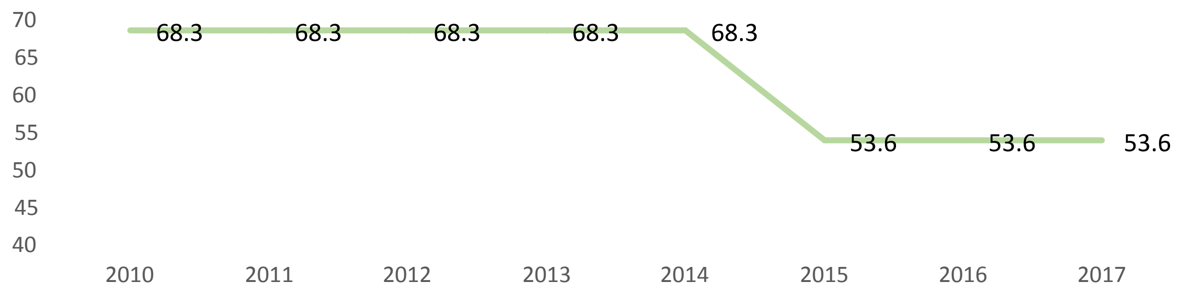
2.3 Social Development

2.3.1 Human development, poverty and inequality

Namibia has shown improvements in human development, with its Human Development Index (HDI) value growing at 0.41% per year between 1990 and 2017. With the HDI value of 0.647 in 2017, the country ranked 129th, placing the country above the average of 0.645 for countries in the medium human development group and above the average of 0.537 for countries in Sub-Saharan Africa (UNDP, 2018). Life expectancy at birth in Namibia has increased from 61.5 years in 1990 to 64.7 years in 2017. The expected years of schooling have also increased from 11.1 to 12.3 years during the same period. Similarly, the per cent of the population classified as "poor" dropped from 69.3% in 1993/94 to 37.7% in 2003/04, to 19.5% in 2009/10 and then to 17.4% in 2015/16 (NSA, 2017). At the same time, the percentage of population classified as "severely poor" fell from 58.9% in 1993/94 to 10.7% in 2015/16, according to the Namibia Household Income and Expenditure Surveys (NHIESs). However, a large proportion (42%) of the population is still poor as measured by Multi-Dimensional Poverty Index (UNDP, 2018).[1]

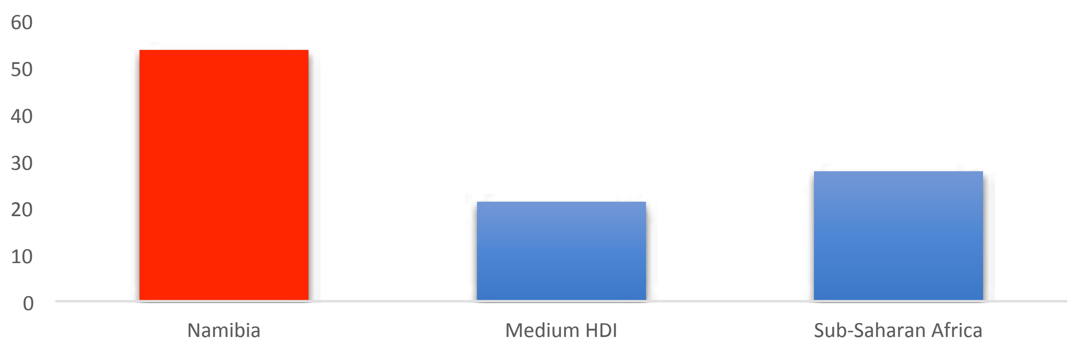
Although the Namibian economy experienced economic growth over the past two decades, this economic growth has not led to a significant reduction in income inequality. Income inequality in Namibia has shown a declining trend (Figure 3), but remains very high compared to countries that have medium human development and Sub-Saharan Africa countries (Figure 4). This indicates that economic growth has not been inclusive, i.e. a large proportion the society has not benefited from the growth dividend as indicated by a Gini–Coeffient of 0.56 in 2014/15.

Figure 3: Trend in income inequality



Source: UNDP (2018); http://hdr.undp.org/en/countries/profiles/NAM

Figure 4: Inequality in Namibia compared to medium HDI and sub-Saharan countries



Source: UNDP (2018); http://hdr.undp.org/en/countries/profiles/NAM

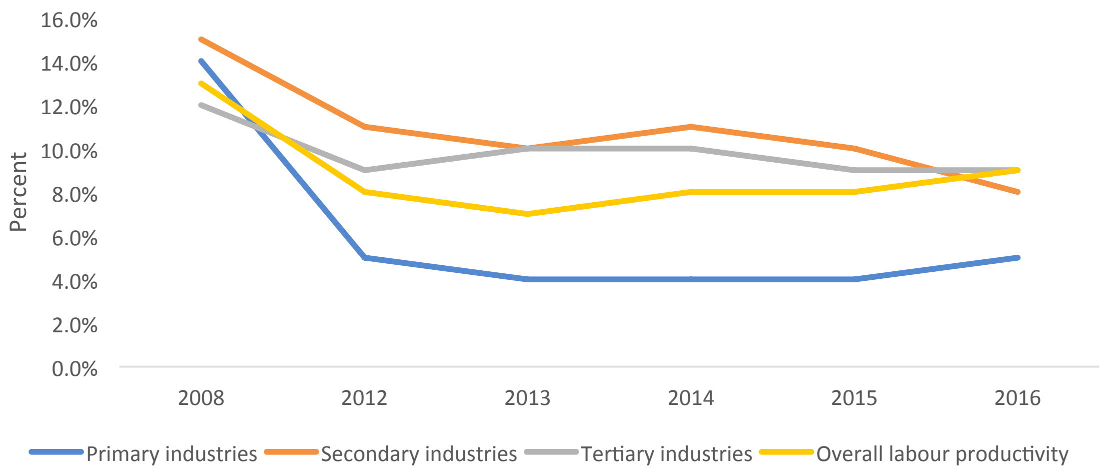
[1] See http://hdr.undp.org/en/countries/profiles/NAM

2.3.2 Labour force and labour productivity

Increased productivity is the key determinant of long-term economic growth.

Namibia's labour force (those 15 years and above) increased from 983,843 in 2014 to 1,090,153 in 2018, growing by 6.2% per year on average. However, the number of employed persons in the country increased marginally from 712,752 in 2014 to 725,742 in 2018, increased by 7.2% per year on average. The country's unemployment rate, 33.4% in 2018, improved slightly from that of 2016 (34%). However, it remains above the level seen in 2014 (28.1%). Given the lacklustre medium term economic outlook, estimates indicate that unemployment is unlikely to decline in the coming years. Increased productivity is the key determinant of long-term economic growth. Together with higher employment, it is the primary route to higher living standards and prosperity (NPC, 2018a; McMillan & Rodrik, 2011). In Namibia, however, the overall labour productivity is declining (Figure 5).[2] It is imperative that Government benchmark with other countries with the view to put in place a human capital development program in order to address the skill development challenge.

Figure 5: Trends in labour productivity



Source: NPC (2018b)

2.4 Environmental Vulnerability and Sustainability

Namibia's natural resources have contributed significantly to its economic and social development. In particular, the mining sector has been a key driver of economic growth in recent years (Nakale, 2016). Primary commodities and raw materials constitute a large part of Namibia's economic base - particularly export, primarily agriculture and fishing. However, the dependence on this primary-sector export presents obvious challenges, especially when ambitious economic and social targets need to be balanced with environmental sustainability and economic stability. According to the Environmental Vulnerability Index (EVI)[3] Namibia is ranked as the fifth with an index of 200 most resilient country in the world. In comparison, Botswana is ranked as the fourth with an index of 181 and Zimbabwe is ranked as sixth with an index of 200 most resilient country.

Namibia is more prone to floods and drought conditions.

[2] Labour productivity is obtained by dividing labour value added by the number of employed population. Given that the numerator is measured in N$, then the unit of labour productivity is also in N$.

[3] The Environmental Vulnerability Index (EVI) is a measurement devised by the South Pacific Applied Geoscience Commission (SOPAC), the United Nations Environment Program and others to characterize the relative severity of various types of environmental issues suffered by 243 enumerated individual nations and other geographies (such as Antarctica). The results of the EVI are used to focus on planned solutions to negative pressures on the environment, whilst promoting sustainability.

Further, the Global Climate Risk Index (CRI)[4] 2019 indicates that Namibia was ranked as 124 with a CRI score of 116. Despite these depictions and global ranking, the negative effects and impact to the people, society and economy of Namibia due to climate-related hazards are growing. A Country Risk Profile that considered many possible scenarios such as their likelihood, associated impact and using a significant amount of scientific information on hazard, exposure and vulnerabilities, assessed Namibia to be most at risk to floods and droughts. Trend analyses depicts this growing vulnerability to the climate change impacts, with severe impacts on the Namibia's terrestrial ecosystems that provides services and goods to sustain human and ecosystem well-being.

[4] The Global Climate Risk Index 2019 analyses to what extent countries and regions have been affected by impacts of weather-related loss events (storms, floods, heat waves etc.). The most recent data available — for 2017 and from 1998 to 2017 — were taken into account.

3

Overall Financing Landscape

3.1 Introduction

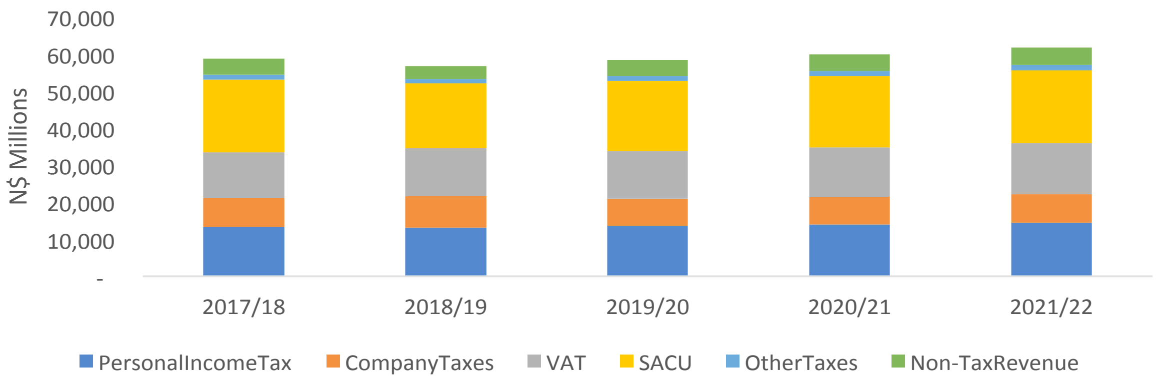
Namibia is one of the countries with the highest tax revenue to GDP "ratios" (27%) in the world. Revenue growth has slowed significantly in recent years and the outlook has deteriorated. This has led the Government of Namibia to embark on a process of "fiscal consolidation" aimed at reducing the substantial deficits to more sustainable long-term levels (MoF, 2019). The main revenue drivers are Personal Income Tax, Value-Added Tax, Corporate tax and contributions from SACU.

3.2 Domestic Finance

3.2.1 Domestic Public Finance

Domestic public finance (government revenue and borrowing) has grown from total expenditure of N$17.383 billion in FY2007/08 to N$67.532 billion in FY2017/18. This was driven by substantial growth in tax revenue, which collectively accounts for approximately 93% of total public sector revenue, coupled with high budget deficits in recent years.

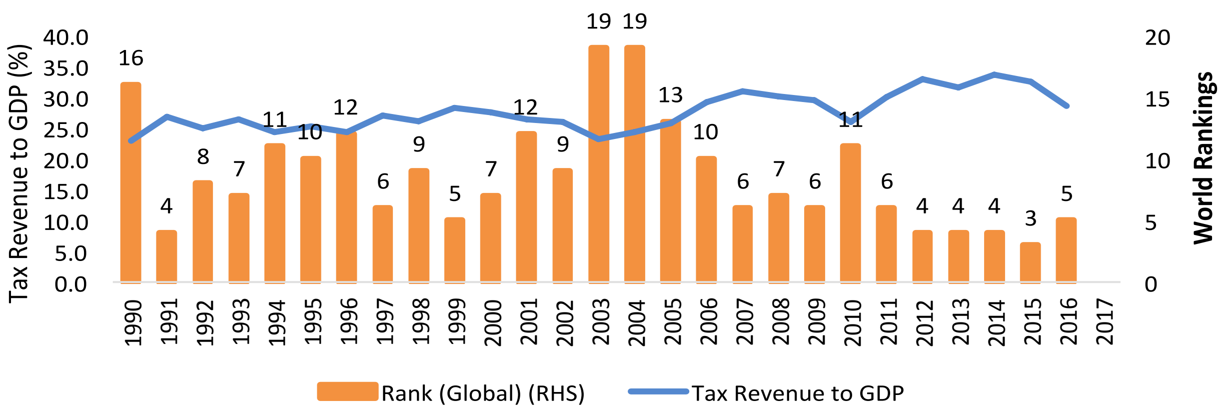
Figure 6: Structure of government revenue



Source: Ministry of Finance

It is notable that Namibia currently has one of the highest tax revenue to GDP ratios in the world, having held ranks between third and fifth globally in the past five years. At present, the country's tax revenue to GDP ratio, as calculated by the World Bank, stands at 28.5%.

Figure 7: Namibia tax revenue



Source: World Bank

Revenue growth has slowed significantly in recent years and the outlook has weakened. The Government of Namibia has since embarked on a process of "fiscal consolidation" aimed at reducing the substantial deficits to more sustainable long-term levels (MoF, 2019). This is to be achieved by aligning expenditure with revenue growth and inflation while ring-fencing social expenditure. As economic growth slowed, revenue out-turns and future projections have been tapered down - gradually falling as a per cent of GDP. Nevertheless, the tax revenue remains high by global standards - at approximately 28% of GDP in 2017.

Composition of tax revenue

SACU

SACU receipts typically represent the single largest source of revenue for the Namibian Government, generally accounting for around a third of total revenue. The uncertainties and ongoing discussions on the SACU Revenue Formula and the conclusion of free trade agreements on the regional and continental levels present a significant challenge to domestic public finances.

SACU revenue is allocated and disbursed from the Common Revenue Pool a priori by the SACU Council, which in the past has led to large allocations which have been repaid (netted out of future receipts). The size of the revenue pool is also dependent on the performance of the customs union's largest member, South Africa, whose economy has stagnated for the better part of a decade.

Figure 8: SACU revenue

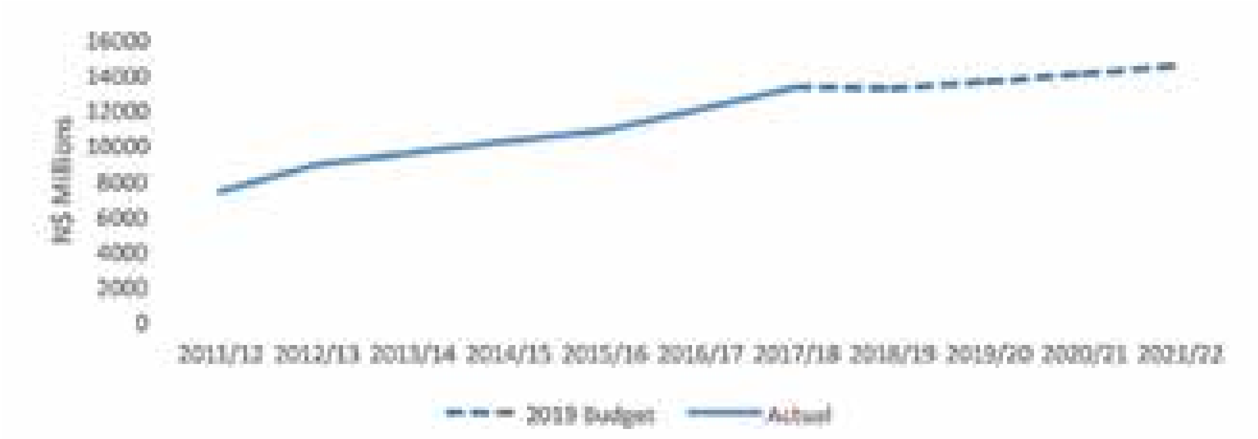
Source: Ministry of Finance

Personal Income Tax

Revenue collected from individuals is the second largest revenue source for the Namibian Government. Income below N$50,000 a year is tax exempt, whereafter progressive tax tables see increased taxation of the marginal dollar up to a maximum rate of 37%.

Compared to OECD countries, Namibia's personal income tax relative to GDP is broadly in-line with the high-income nations' average - at 7.23% in 2017/18. Given the relatively narrow tax base and the relatively competitive personal income tax collections compared to GDP, it can be assumed that a relatively small per cent of the population is highly taxed. As a result, efforts to increase personal income tax are unlikely to generate large amounts of additional revenue at the top end. Broadening the tax base may see lower-income individuals taxed to an excessive degree.

Figure 9: **Income tax on individuals**

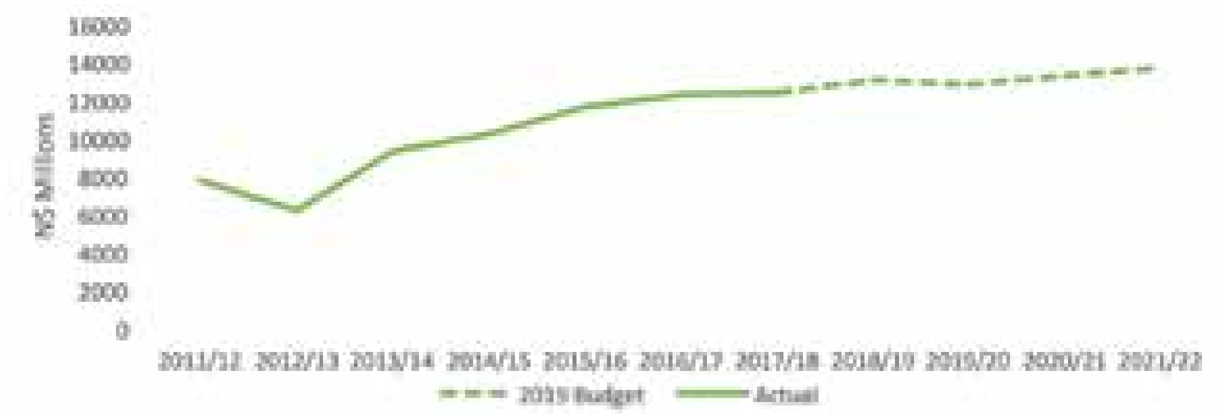


Source: Ministry of Finance

Value Added Tax (VAT)

VAT is the third largest revenue source for the Government. Much like other domestic tax revenue, VAT is dependent on the general health of the local economy - particularly households. In 2017/18, total VAT receipts were approximately 6.8% of GDP. However, with relatively weak households characterised by high levels of household debt, low levels of employment and stagnating wages, the outlook for VAT receipts is relative weak. This is suggestive of weak household expenditure going forward, given a low-growth economy and high unemployment forcing consumers to prioritise their spending needs.

Figure 10: **Trends in value added tax**



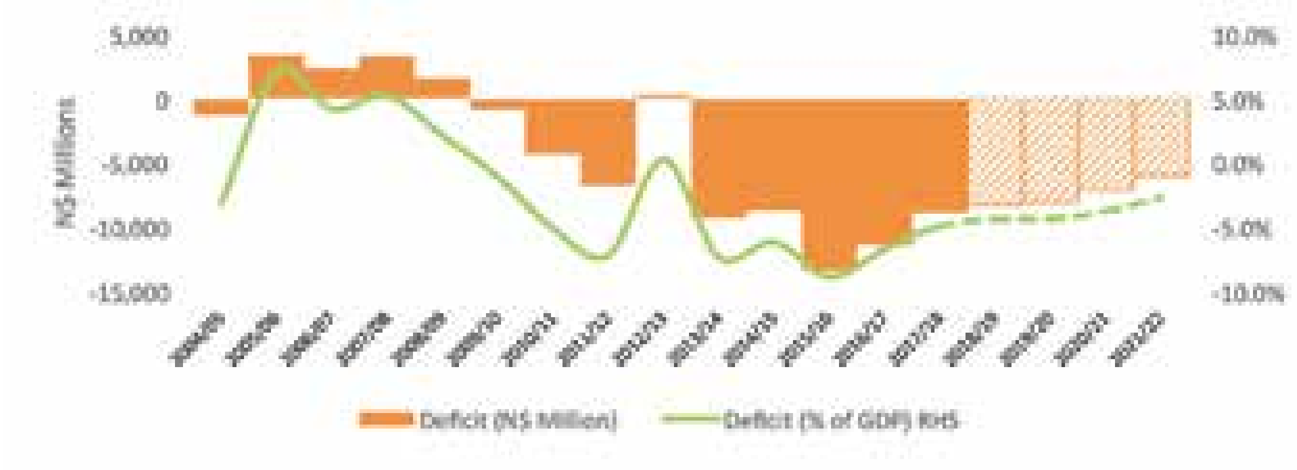
Source: Ministry of Finance

Government borrowing (debt and bonds)

Deficit

Namibia has not run a substantial budget surplus in over a decade. Unsustainable growth in debt and the weak economic outlook have culminated in fiscal consolidation efforts to gradually reduce the deficit from 8.9% of GDP in FY2015/16 to a projected 2.7% of GDP in FY2020/21.

Figure 11: Government budget deficit



Source: Ministry of Finance

Guarantees

The Government of Namibia has made use of guarantees as an off-balance sheet support instrument to support Public Enterprises (PEs) and infrastructure development as well as to promote leveraging public-private partnerships. This exercise has, in part, caused the increase in Government guarantees over the past decade. Commendably, this approach was changed in the FY2019/20 budget, which has since seen forecasts for domestic guarantees stabilising at approximately between N$1.7 and N$1.9 billion and foreign guarantees stabilising between N$9 and N$10 billion.

Figure 12: Trends in total guarantees

Source: Ministry of Finance

As a result, total guarantees are expected to stabilise at approximately N$11 billion over the upcoming three-year period. While this can be viewed as positive, it may also be a lost opportunity in the sense that strategic leveraging off the balance sheet of certain PEs may well be an optimal approach to rekindling growth and increasing productive capacity in a more efficient manner.

Debt

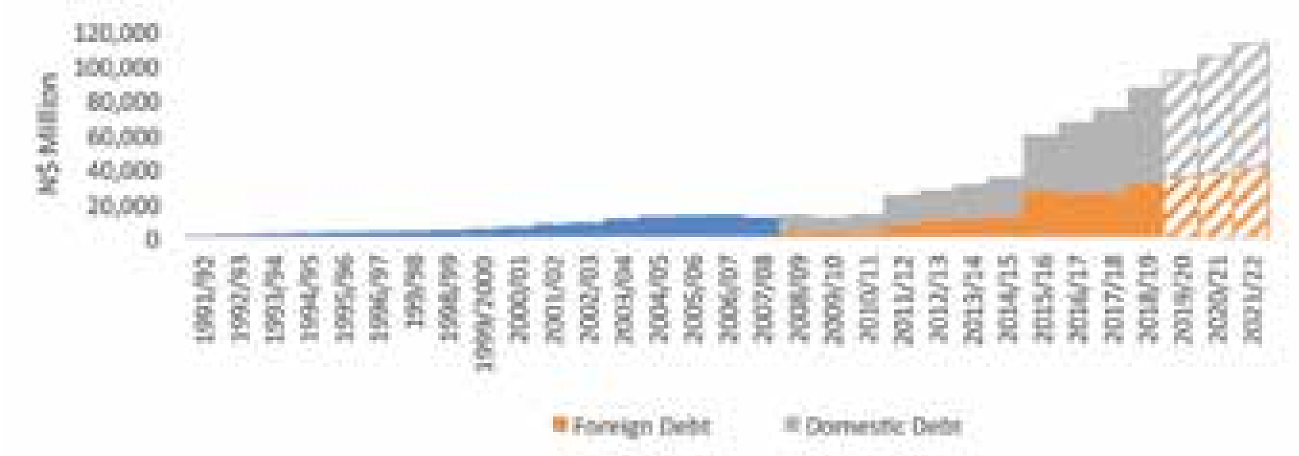
The newly-independent Namibian administration started with relatively little public debt, totalling just below N$1.1 billion equivalent to 11.9% of GDP in the 1991/92 financial year. By the 1999/2000 financial year, the debt stock stood at a total N$5.2 billion or 21.7% of GDP.

Figure 13: Public debt to GDP

Source: Ministry of Finance

Government debt continued to rise into the early 2000s. Strong GDP growth saw several budget surpluses in the mid-2000s. These budget surpluses (and concurrent debt repayments) along with slower debt issuance thereafter, saw debt-to-GDP fall below 20% from FY2007/08 to FY2010/11.

Figure 14: Government debt stock



Source: Ministry of Finance

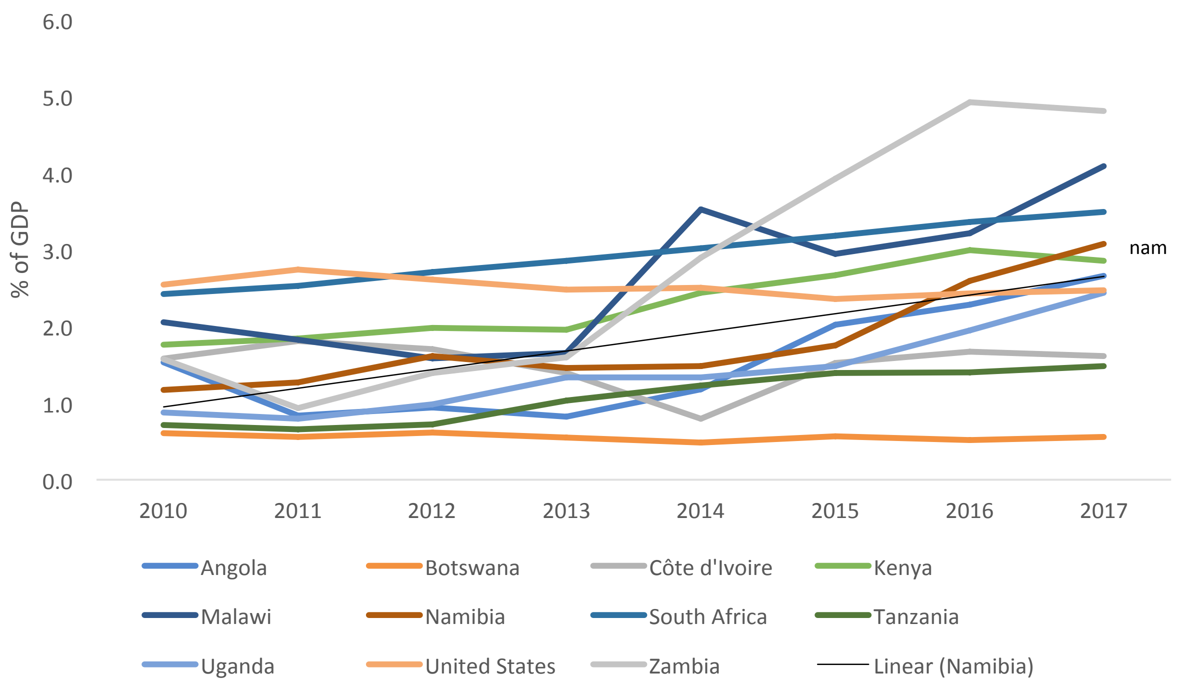
Namibia's first Eurobond was issued in 2011, taking the public debt stock from N$13.8 billion or 16.4% of GDP the prior year, to N$24.7 billion or 26.2% of GDP in FY2011/12. A second Eurobond was issued in 2015, seeing debt increase from N$35.0 billion to N$59.6 billion. This, in conjunction with budget deficits, saw Namibia's public debt balloon from N$13.8 billion in 2011 to well above N$90 billion in 2019.

Total public debt is expected to surpass the N$100 billion (51% of GDP) level in FY2020/21 and hit N$112.3 billion (52.3% of GDP) by the end of FY2021/22. After a period of rapid debt accumulation (i.e. from 2011 to 2015), the policy of pro-growth fiscal consolidation sees expenditure being contained with steady revenue growth gradually reducing the deficit (thereby slowing debt accumulation). However, the effects of fiscal consolidation are still minimal due to the slow economic growth of the recent past.

Debt servicing

Namibia's sovereign debt stock has increased approximately four-and-a-half fold over the past decade, which increase has had a direct effect on the cost of servicing the nation's debt. As of 2017, debt servicing surpassed 3% of GDP. Furthermore, interest payments now make a significant proportion of revenue collected by the government. Interest payments as a per cent of revenue will surpass the 10% threshold in 2020.

Figure 15: Debt servicing as a share of GDP

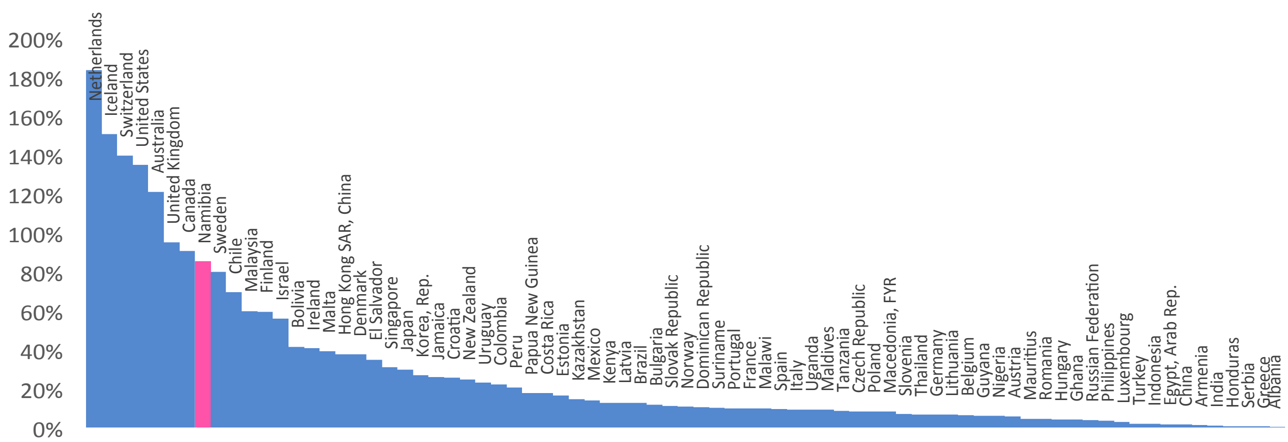


Source: World Bank (2017)

3.2.2 Domestic Private Finance

Contractual Savings

Figure 16: Ratio of pension fund assets to GDP (%) (Latest Data 2015-2017)

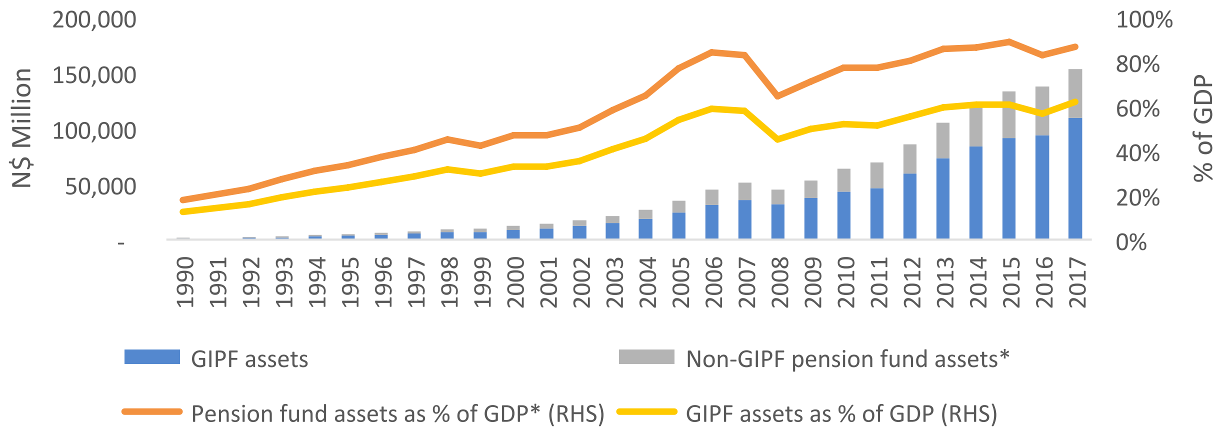


Source: World Bank

The total assets of Namibian pension funds were valued at N$152.9 billion, which is 86.6% of GDP.

Beyond public funds, the largest single source of domestic development funding is the contractual savings pool of the nation primarily made up of pension and life insurance assets. As of the end of 2017, the total assets of Namibian pension funds were valued at N$152.9 billion, which is 86.6% of GDP. At the same time, life insurance fund assets totalled N$53.9 billion, about 30.6% of GDP (NAMFISA, Quarterly Report 2018/ First Quarter, 2018).

Figure 17: Pension Industry Assets to GDP



Source: Namibia Financial Institutions Regulatory Authority, GIPF

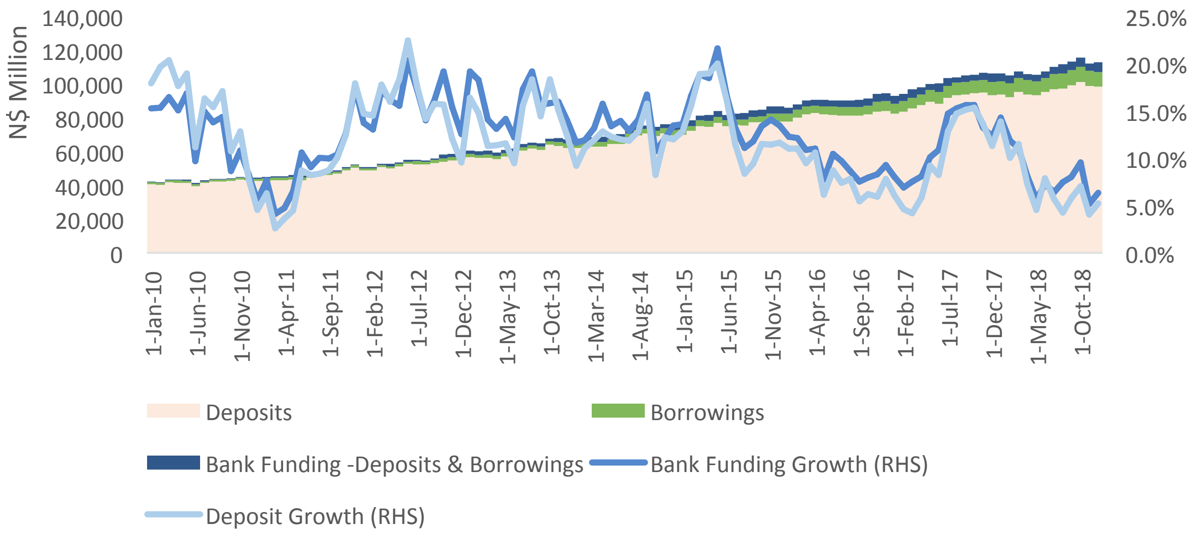
Regulation that governs the jurisdiction of pension fund assets requires that 45% of these assets must be invested in viable domestic assets, as stipulated in Regulation 13 (#6697 August 2018) of the Pension Funds Act (24 of 1956). In this regard, recent initiatives by the Government Institutions Pension Fund (GIPF) have brought about the creation of a number of investment vehicles and the issuance of a number of infrastructure investment mandates, totalling approximately N$3 billion, with a focus on revenue generating infrastructure.

Commercial Bank Credit

At the end of February 2019, total private credit outstanding amounted to N$97.7 billion, of which N$57.4 billion belonged to households and N$39.1 billion to businesses. Overall, mortgage loans (mostly for dwellings) account for nearly 50% of total Private Sector Credit Extension (PSCE), while overdraft and instalment credit accounts for 16% each. Historically, credit extended to households typically accounts for around 61% of total PSCE while credit extended to businesses accounts for 36%. Growth in private credit has fallen below the double-digit levels seen earlier in the decade, as a result of the weaker macro-environment and riskier credit environment.

Total private credit outstanding amounted to N$97.7 billion at February 2019.

Figure 18(a): **Banking Sector Funding Growth**



Source: Bank of Namibia

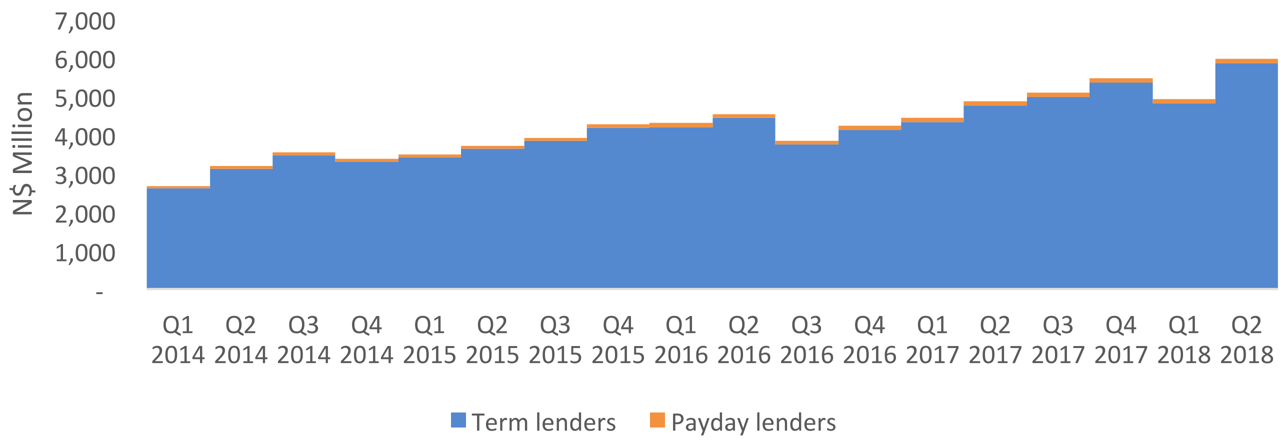
Figure 18(b): **Banking Sector Credit Extension Growth**

Source: Bank of Namibia

Microfinance

The micro-finance loan book is relatively small when compared to the loan books of the commercial banks in the country. Anecdotal evidence suggests that the most of the loans extended in this industry are short-term and mostly provide cash-flow relief for lower-income individuals. High interest rates charged by this industry, and the short-term nature of the loans extended, tend to mean that the direct developmental benefits are relatively minor if present.

Figure 19: **Microfinance Institutions Loan Book**

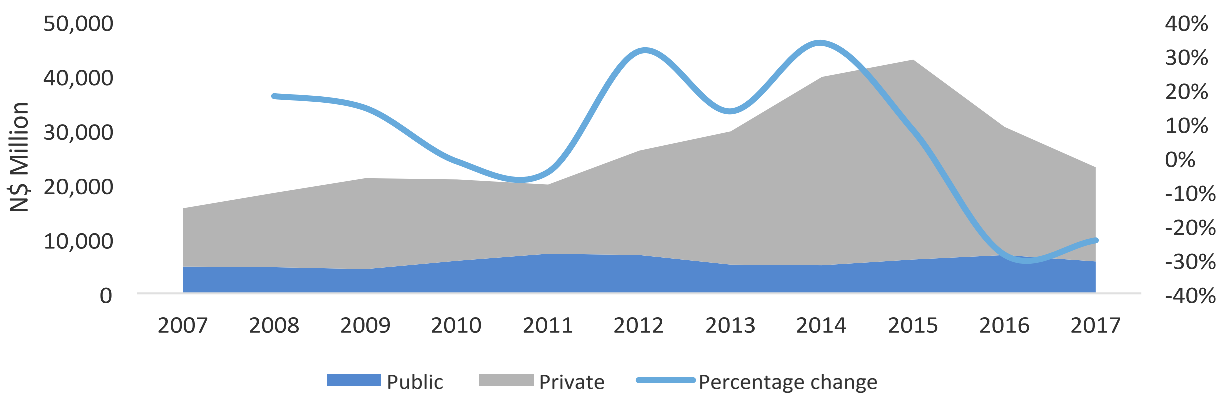


Source: Namibia Financial Institutions Supervisory Authority

Private investment

Over the past decade (2008-2017), Namibia has recorded average annual real growth in Gross Fixed Capital Formation (GFCF) of 6.0%. This number, however, hides the volatility in GFCF over this same period. The decade began with double-digit growth in GFCF of 18.0% in 2008 and 14.5% in 2009, followed by two years of mild contractions in GFCF before a return to growth (of 31.2% off this low base) in 2012. Growth remained strong during Namibia's 'boom' years, driven particularly by investment in Agriculture, Fishing, and Mining and quarrying.

Figure 20: **GFCF by Ownership (real)**

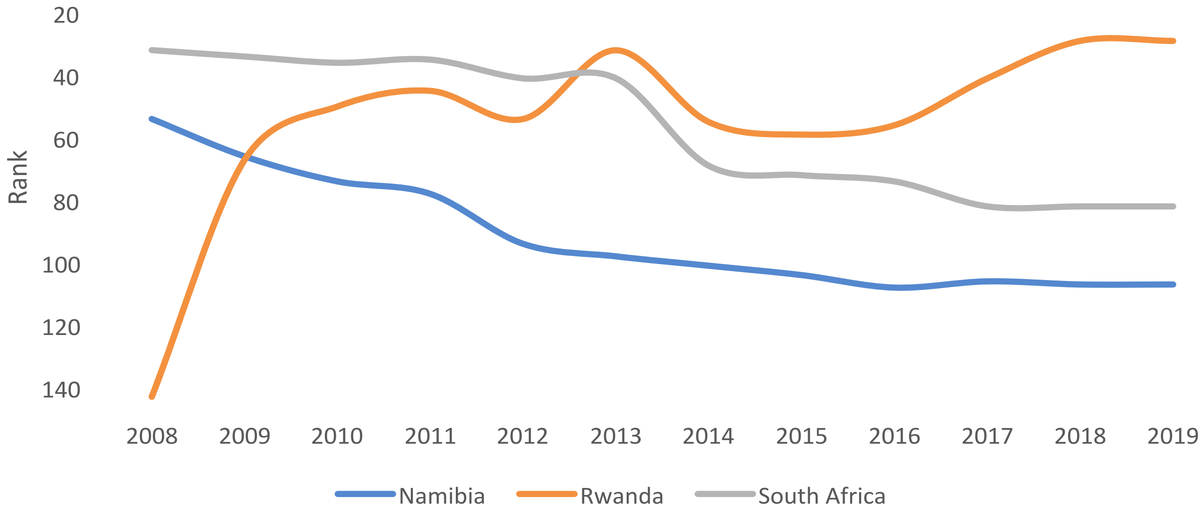


Source: National Statistics Agency

Growth in GFCF stalled in 2016, recording a contraction of 28.6%, followed by a further contraction of 24.4% in 2017. The tapering off for large-scale investment in the mining sector the reduced private investment as well as the negative swing in the commodity cycle, resulted in a reduction in investment into the local economy, particularly in fixed capital. This turn of events was further exacerbated by policy uncertainty relating to investment, especially around the Namibia Investment Promotion Act (NIPA) (No. 9 of 2016) and the New Equitable Economic Empowerment Bill (NEEEB). Although NIPA was passed and signed in 2016, it was not implemented. Subsequent amendments are being proposed which, when passed, will see the Act being implemented. The business climate in Namibia, as measured by various global surveys and assessments, remain challenging for investors. High frequency indicators show weak business and consumer confidence, high household indebtedness, slow credit extension, as well as businesses of all sizes downsizing or ceasing operations altogether.

The business environment is captured in Namibia's recent performances in global surveys. Namibia scored 58.7 (out of 100) in the 2019 Economic Freedom Index, marginally above South Africa's drop to 58.3 but well below Rwanda's further improvement to 71.1 (Heritage Foundation, 2019). The 2019 Ease of Doing Business Survey showed Namibia retained her low rank of 107th, with South Africa in 82nd and Rwanda impressing at 29th (World Bank, 2019). The WEF's Global Competitiveness Index paints a similar picture, with Namibia dropping to 6 places to 90th in the 2017/18 report, with Rwanda and South Africa and 58th and 61st, respectively.

Figure 21: **Ease of Doing Business (Global rank)**



Source: World Bank (2019)

As evidenced in the afore-mentioned surveys, there is still room for improving the business climate in Namibia. While private sector development reforms are often targeted at a micro level, broader macro solutions should be the first port of call.

Opportunities and Challenges

Limited resources within the public sector means development projects will need to compete with returns that will likely be higher from other projects. Overcoming this challenge will require drawing in the private sector by offering sufficient and sustainable returns or mitigating risks, among other things. The strategic use of PPPs is one method of drawing in the private sector. Additionally, some areas that require development finance may not be attractive to the private sector. In some cases, they may be either limited to or dominated by monopolies, often Public Entities (PEs), thus requiring government to take some of the risks to attract investment in these areas.

Table 1 presents various development areas/priorities against which form of finance would likely best serve that particular area. Greater liberalisation and competition in these sectors should result in greater interest in providing innovative solutions. Reading the table, an 'ü' symbol represents the appropriateness of this funding source for the sector (between 1 and 3 ticks), while the cross(es) indicate that funding from this source will either be inappropriate or difficult to come by.

Table 1: Potential sources of finance by sector

		Finance sources							
		Private Sector						International	
		Government Guarantees	SOEs	Private Equity	Private Debt	Com-mercial Banks	Pension Funds	DFIs	Climate Finance
Development Priority	Low-cost housing	✓✓	✓✓	✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓
	Land	✓✓✓	•	•	•	•	•	•	•
	Healthcare	•	•	•	✓✓✓	✓✓✓	✓✓	✓✓	✓✓✓
	Rail Infrastructure	•	✓✓✓	✓✓✓	•	✓✓	✓✓	•	✓✓✓
	Rail operations	•	•	✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓
	Roads	✓✓✓	✓✓✓	✓✓✓	•	✓✓	•	•	✓✓
	Agriculture	✓✓	•	✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓
	Energy (generation)	•	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓
	Water	✓✓	✓✓✓	✓✓✓	•	✓✓✓	✓✓✓	•	✓✓✓
	Sewerage & sanitation	✓✓	✓✓✓	✓✓✓	•	✓✓✓	✓✓	✓✓	✓✓✓
	Education	✓✓✓	✓✓	✓✓	•	•	✓✓	•	✓✓

Notes: The number of ticks (✓) indicates the suitability of finance sources for a particular sector.

Source: Authors' compilation

There is a high potential high potential for attracting private funding in areas such as agriculture, energy sewerage and sanitation which are currently being funded through public funds. Mobilisation of the private sector funding for these areas will not only relieve government from funding burden (who in turn could divert public resources to where private sector is not attracted), but will bring in efficient allocation of developmental resources.

3.3 External Financing Landscape

3.3.1 International Public Finance

International public finance consists of Official Development Assistance (ODA), Other Official Flows (OOFs) and government borrowing from international sources. On aggregate, international public finance more than doubled between 2007 and 2017, from US$325 million (N$2.3 billion) to US$657 million (N$8.7 billion).

Official Development Assistance

Official Development Assistance has historically been an important source of financing for economic and social development and infrastructure expenditure. However, ODA assistance has been on a downward trajectory - consistent with the experience of other countries as they approach and attain upper-middle-income status. ODA including grants, loans and technical assistance fluctuated between US$216.9 million (N$2.6 billion) and US$382.7 million (N$3.3 billion) between 2007 and 2017 (Figure 22).

Figure 22: Trends in Official Development Assistance (Million US$)

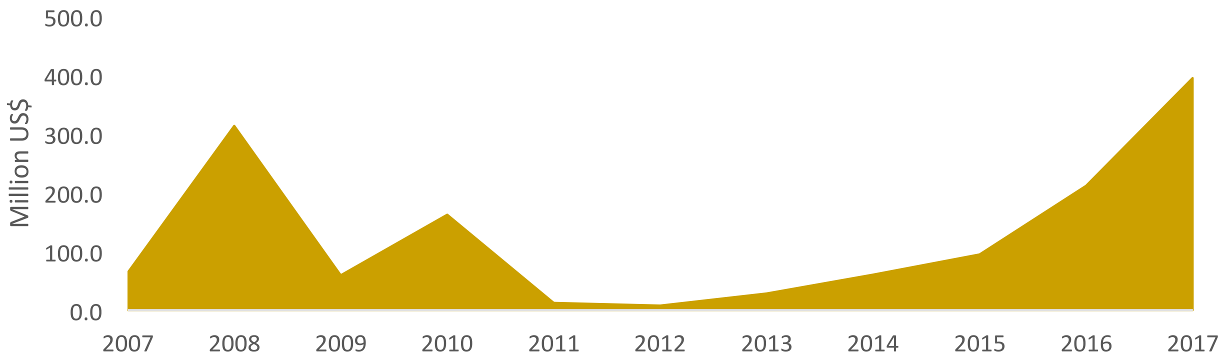
Source: OECD database

Other Official Flows[1]

Other Official Flows (OOFs) have become an important source of financing for development priorities in Namibia. OOFs increased from US$63.4 (N$455.5) million in 2007 to US$395.1 million (N$5.3 billion) in 2017, reflecting government's reliance on other official flows to adjust for declining levels of grants (Figure 23). Namibia's leap to upper-middle-income status helps explain the increasing volumes of less concessional OOFs since 2015. Government borrowing from international sources has also increased, reflecting Namibia's increasing reliance on foreign financing to fulfil its expenditure commitments.

These flows are highly dependent on the investment and business climate of the country. Further mobilisation of OOFs depend on improvement in the investment climate.

Figure 23: Other official flows (Million US$)



Source: OECD database

[1] According to OECD, OOFs are defined as transactions by the official sector which do not meet conditions for eligibility as ODA or official aid, either because they are not primarily aimed at development, or because they have a grant element of less than 25% (see https://stats.oecd.org/glossary/detail.asp?ID=1954).

According to the OECD statistics, external finance (ODA) primarily targeted social infrastructure and services such as transport and communications, energy, etc. Productive sectors such as agriculture and industry, and water received a lesser allocation. In 2017, the amount of finance committed by development partners to support agriculture and industry was very limited. US$15.3 million was allocated for agriculture, forestry and fishing. An allocation of US$4.1 million was made for industry, mining and construction. There is a need to develop strategies and innovative ways to mobilise resources to finance national priority areas while taking into account comparative strength of development partners.

Figure 24: Sectoral allocation of external finance (ODA)

Source: Based OECD database

External Climate Finance

Namibia receives international public climate finance from multiple sources (Table 2). International climate finance receipts increased from N$1.1 million in 2013 to N$146 million in 2019. The majority of climate finance was delivered as grants, especially from the Special Climate Change Fund (SCCF) administered by the Global Environmental Facility (GEF), Green Climate Fund (GCF), Agence Francaise de Development (AFD) and Readiness Financing. The Environmental Investment Fund of Namibia (EIF) has the ability to mobilise grants from GCF through preparing climate related projects. Between 2017 and 2019, EIF facilitated the attainment of N$584 million from GCF. In addition, Namibia has benefitted from large pool of funds through regional and international accredited entities (e.g. DBSA, AfDB, and Deutsche Bank) to the GCF, which provides climate financing for mitigation actions in the energy sector.

Table 2: External Climate Finance (Million N$)

	2013	2014	2015	2016	2017	2018	Prelimi-nary 2019
Green Climate Fund	0.00	0.00	0.00	0.00	292.00	146.00	146.00
Agence Francaise de Development (AFD)	0.00	0.00	0.00	0.00	734.00	0.00	0.00
Readiness financing	0.00	0.00	5.70	4.30	0.00	0.00	0.00
Other sources: UNFCCC	1.14	1.04	0.00	0.00	0.00	0.00	0.00
Total	**1.1**	**1.0**	**5.7**	**4.3**	**1026.0**	**146.0**	**146.00**

Source: Environmental Investment Fund

To realise the desired results, much faster turn-around project execution paces will be required. Thus, Namibia could be facing challenges in/with project implementation as opposed to accessing funding. Given that accessing international climate finance requires high quality bankable projects, Namibia's modest achievements in mobilising climate finances provide comfort for development partners to invest in the climate-sensitive sectors with most impactful development results. The EIF, which has demonstrated capacities to develop high quality bankable micro projects in a relative short-time frame, need strategic and targeted support to transform into a large scale organisation. This could target a number of strategic support areas such as funding for priming, project preparation and packaging as well as carrying out pre-feasibility studies. To enable such transition, the EIF would require a higher accreditation status with the GCF. Convincing development partners like the GCF that a small organisation such as the EIF is capable of implementing a N$4 billion project, for example, is a challenge. Therefore institutional development interventions should be undertaken to address such shortcomings. The allocation of climate finance by sectors reveal that climate finance has been mainly allocated to eco-system services (e.g. water and energy), agriculture (crop production and livestock) and community-based natural resource management.

Although there are climate funds available at global level, Namibia faces scalability and institutional capacity challenges to manage multiple or large-scale projects. This in turn hampers the country's access to funding needed for climate resilient development path owing to a number of factors: a) lack of accredited entities to access large-scale funding, b) development partners perspectives and conditionalities concerning country's abilities to design well-packaged projects, c) limited trust placed on national entities to manage implementation of large scale climate-funded project and d) perceived and associated country absorptive capacities challenges. Because of its geographic location and vulnerability to climate change, Namibia has a comparative advantage in mobilising climate finance and investing in climate-related activities. In view of this, Namibia need to be more proactive in mobilising climate finance through capacitating EIF to access and mobilise large scale climate finance funds. There is also a need to establish a strong climate finance database which shall provide information not only on the amount of climate finance, but also the sources and uses of climate finance - disaggregated by sector. Rwanda provides a good example of how climate finance can be mobilised, administered, disbursed and monitored.

Box 1. Rwanda's experience in mobilising and managing climate funds

Rwanda follows climate-resilient and low-carbon development pathway. Rwanda's vision 2020 (now Vision 2050) and medium-term development plan (National Strategy for Transformation) provide the basis for the country's official climate-responsive development plan, the Green Growth and Climate Resilient Strategy (GGCRS). The strategy has been mainstreamed at all level of the government. Climate change has become a political priority in Rwanda, which provides an enabling environment for mobilising and administering climate finance. Rwanda has established a dedicated institution for mobilising climate finance known as Environment and Climate Fund (or FONERWA). FONERWA, which is Africa's largest demand-based climate fund, is in charge of financing climate resilient, low-carbon development in Rwanda (Chenells, 2015).

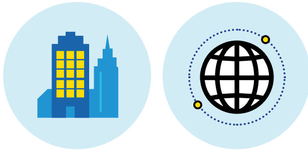
Based on a strong accountability system at all levels of Government, Rwanda provides a useful example of leveraging climate finance. The key lessons include the following:

i) Good co-operative governance frameworks, with collaborations across Ministries and significant stakeholder engagements;
ii) Highly inclusive needs assessments in the development programmes and projects; engagements
iii) The capacity of institutions to administer and manage funding and drive project development;
iv) Establishment of joint sector reviews to address conflicting institutional responsibilities. The review brings together different stakeholders (e.g. public sector, private sector, development partners, NGOs, etc.) operating in the same sector or subsector.

FONERWA is staffed with the expertise needed to access and mobilise international climate finance, and provides assistance necessary to enhance the development of climate-related projects.

Source: Chenells (2015); www.fonerwa.org

3.3.2 International Private Finance

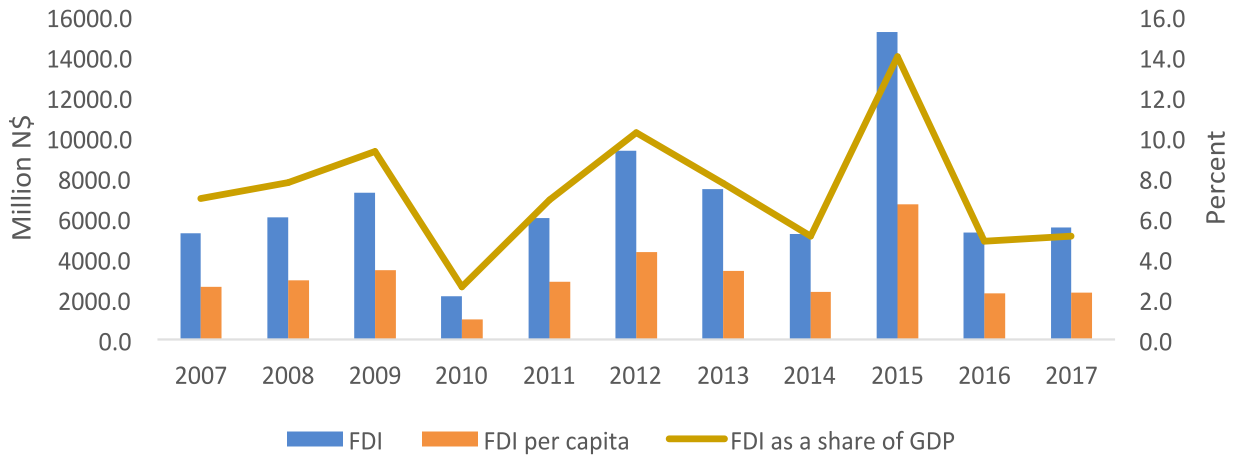


International private resources include private borrowing, portfolio funds, Foreign Direct Investment and remittances. In Namibia, international private resources have increased significantly in both relative and absolute terms, from US$49.4 (N$425.8) billion in 2009 to US$83 (N$1104.3) billion in 2017 or by 6.7% per year on average.

Foreign Direct Investment

Between 2007 and 2015, FDI inflows increased from US$ 733.0 million (N$ 5.3 billion) to US$1.25 (N$15.2) billion. However, the volume of FDI inflows decreased substantially to US$361 and US$416 millions in 2016 and 2017 respectively. This is a consequence of the recession and the completion of major construction projects mainly in mining sector. FDI to Namibia is a significant source of finance and it supports a number of industries.

Figure 25: Trends in Namibia FDI inflow

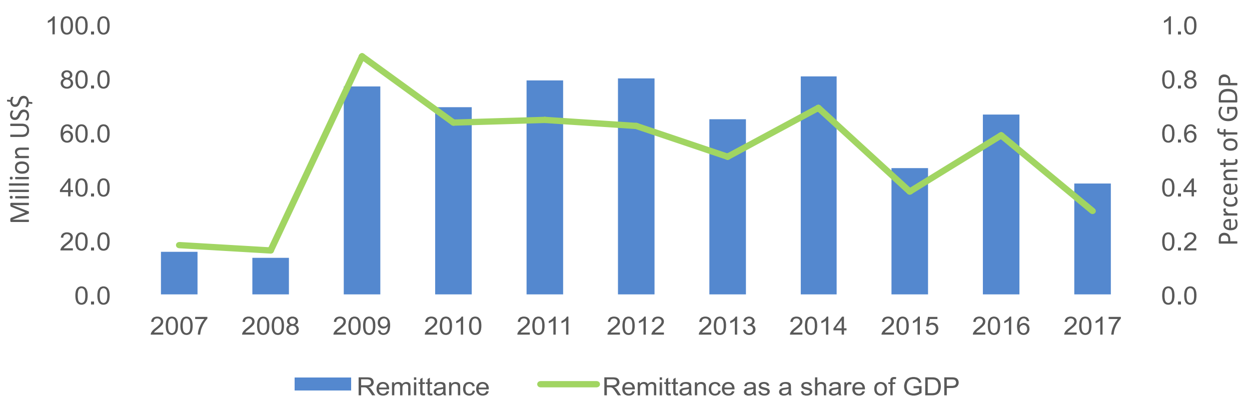


Source: Based on UNCTAD database

Remittances

Namibian remittances are comparatively low in volume compared to other international private flows such as FDI. However, they have increased from US$15.4 (N$112.9) million in 2007 to US$43 (N$546.7) million in 2017. This small size of remittance is not surprising given Namibia's small population and the limited diaspora from the country vis-à-vis many other African countries.

Figure 26: Trends in volume of remittances to Namibia



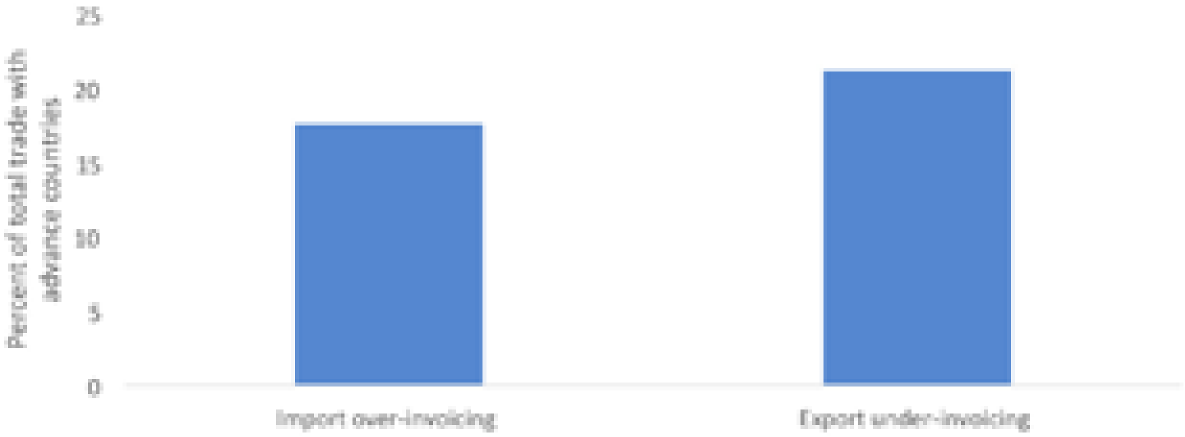
Source: World Bank

3.3.3 Illicit Financial Flows (IFFs)

Given that it is difficult to obtain data on trans-national criminal activities and corruption, analysis of illicit financial flows focuses only on two tax-related illicit financial flows: trade misinvoicing, and Base Erosion and Profit Shifting (BEPS).2 In 2015, illicit financial outflows through trade mis-invoicing amounted to US$867 million (N$10.6 billion) in Namibia. Between 2004 and 2013, the average trade mis-invoicing outflows was US$1,268 million (about N$10.3 billion) (Global Financial Integrity (GFI), 2015). In particular, import trade over-invoicing and export trade under-invoicing have remained the main drivers of illicit financial outflows. Discussions with stakeholders indicate that transfer pricing - especially in the transport and mining sectors, has remained one of the avenues for shifting capital out of the country.

This indicate existence of capacity weaknesses in arresting abuses of trade misinvoicing and transfer pricing, especially by multi-national enterprises. This calls for building domestic capacity to implement the transfer pricing rules, take proactive steps to narrow the information gap and obtain regular and correct information from relevant companies. This also requires strengthening the audit preparation capacity of tax administrators to make information requests to taxpayers more precise and explicit, and enforce reporting and disclosure obligations.

Figure 27: **Illicit Financial Outflows through mis-invoicing international trade transactions-2015**



Source: Global Financial Integrity Report (2015)

3.4 Analysis of alternative scenarios for development finance flows

The DFA intends to identify key areas where there are opportunities to mobilise new sources of finance and enhance the impact of others. This report also intends to assess quantitatively the likely trends of development finance flows which requires projecting the financing flows in the next five years (forward-looking). Projections will be based on different scenarios and assumptions such as historical growth episodes and factors that influence development finance both globally and in Namibia. The objective of this exercise is to extrapolate from current trends to estimate finance flows for the future.

3.4.1 Assumptions and scenario building

The DFA projection model takes into account two main factors:

- **Namibia-specific factors:** Domestic factors such as policy direction and changes, economic growth trends and the relative attractiveness of Namibia as an investment destination.
- **Global economic factors:** International factors such as economic business cycles and global development cooperation frameworks with a view towards FDI and remittances.

[2] The motivation for each type of trade misinvoicing is different. Traders may understate the value of imports to avoid import duties and overstate the value of exports to collect more export subsidies. Likewise, traders may understate export values or overstate import values to bypass capital controls and evade income tax (UN, 2019).

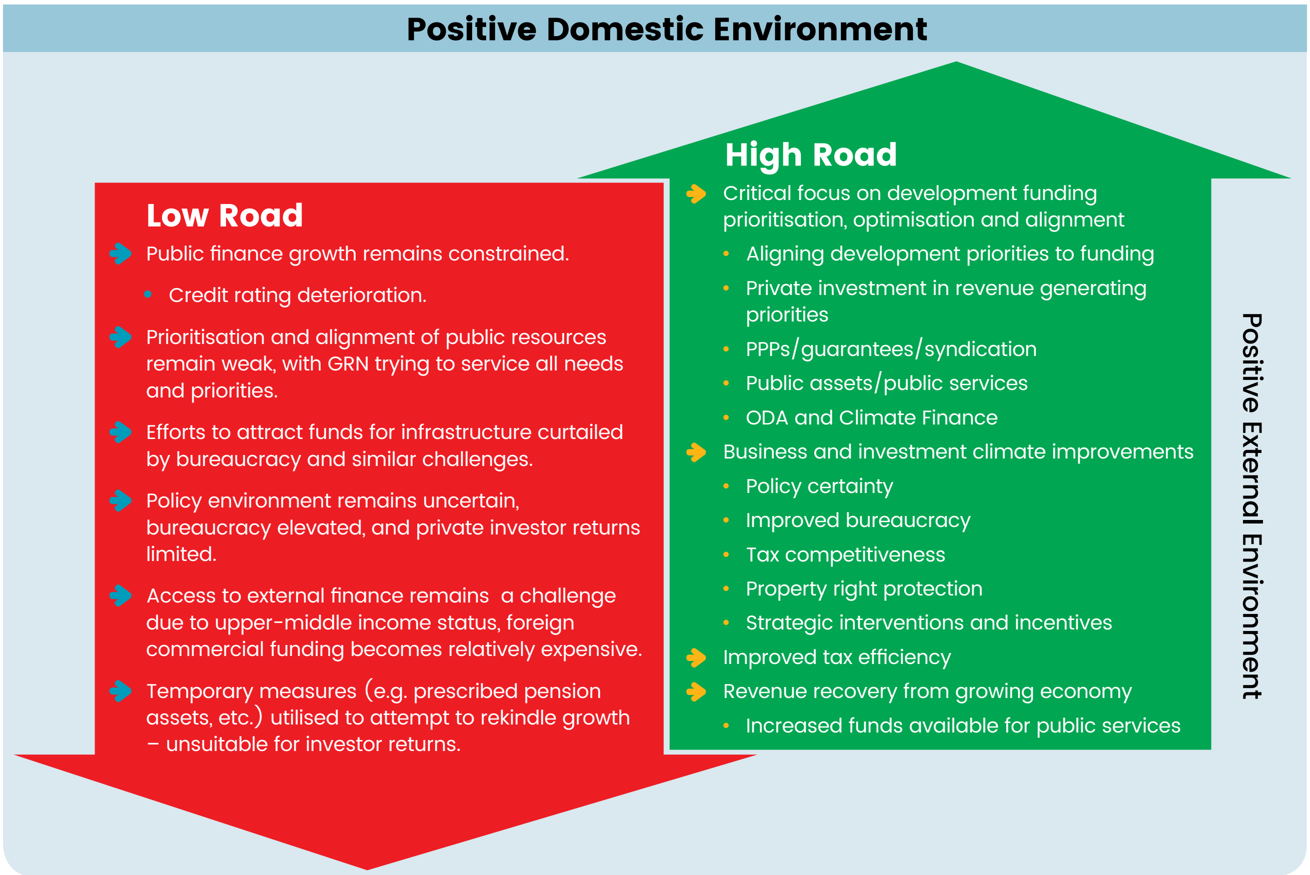
Without investment, the economy can be expected to continue to languish with high levels of unemployment, stagnating public revenue and negative net-exports.

Accordingly, two scenarios are considered in projecting financial flows for the next five years[3]

In order to achieve improved developmental outcomes from growth, Namibia needs to ensure that growth in job creating and net positive for public finances. In regard to the above, the scenarios focus on two distinct considerations: Firstly, the manner in which the country can go about creating growth and employment; and secondly, the allocation of public resources towards development priorities.

In order to encourage a growth resurgence in Namibia, focus must be given to quality investment. While investment tends to represent less than 15% of GDP directly, it is a vital catalyst for increased employment creation, public revenue and growth in net-exports. Without investment, the economy can be expected to continue to languish with high levels of unemployment, stagnating public revenue and negative net-exports.

Furthermore, an improved business climate is required to make it easier for investors to generate a favourable risk-weighted return on the capital that they deploy in the country and indeed their ability to grow that capital and expand their operations through its use. According to the Global Competitiveness Report, the Doing Business Report and the Index of Economic Freedom, barriers to entry, general bureaucracy such as licensing, registration, regulation and taxation processes, access to skills, ease of hiring foreigners, labour market rigidity and regulation mean that Namibia is a relatively uncompetitive jurisdiction. As a result, the Government should accelerate sweeping business climate reforms in order to attract investors by making it cheaper and easier to do business in the country.



[3] Initially, the Business As Usual (BAU) scenario was considered, but dropped later on due to the fact that this scenario assumes a situation of no policy interventions. However, the GRN has already embarked on a series of policy reforms in multiple fronts and these reduce the utility and feasibility of the BAU scenario.

High-Road scenario (S-1)

In the high growth scenario, sweeping reforms are implemented through the establishment of a high-level task force, a Technical Committee and a Doing Business Department to fully co-ordinate the different aspects of the reform initiative, while at the same time pursuing outward-looking, skills and capital seeking policies, and encouraging investment into Namibia as "the Gateway to Africa". Improved ability to generate profit and fewer bureaucratic hurdles to starting and operating a business can be expected to result in increased investment, especially small scale and investment by Namibians (keeping profits in country). This in turn will result in increased job creation in the country (thus increased personal income tax) as well as greater consumer spending (thus increase VAT). At the same time, the upswing in business activity results in improved corporate tax takes. The increase in investment and resultant job creation and entrepreneurial self-employment ensures that the demands on the State for basic services are somewhat reduced. This will result in increased employment and entrepreneurial opportunities, and household incomes growth, which allows more households to attend to their basic needs as well as their aspirations and wants.

At the same time, the fiscus works to actively align development priorities with budget through improved alignment in the budget period and process with the development plan cycles. This may include increasing the development budget cycle period to six years and aligning two three-year budgets to this process. The reduced budget duration with minimal scope for adjustment through the budget period, means that greater focus goes into the three-year budgets and that greater budget and project certainty is achieved. Moreover, the mid-term period allows for better assessment as to the progress and challenges of the development plan and a well-thought-through readjustment thereof. Added to efforts to align public spending with development priorities, the fiscus - either directly or through the impending Namibia Revenue Agency, looks to close frequently abused tax loopholes as well as improve tax administration and efficiency.

In addition to the afore-mentioned process, a task of funding optimisation is undertaken by the fiscus whereby the various development needs of the country are split into areas that require no direct public involvement - areas that can only be funded by the public sector and those that lie somewhere in-between such as those requiring guarantees, PPPs or similar. In addition, the country seeks to take maximum advantage of development and climate funding opportunities. In this regard, public resource use is optimised and space is created for investors to partake in revenue and return generating portions of the economy.

Finally, specific tax incentives are introduced in specific development areas, including for the private provision of low-cost housing, sanitation, electricity, water, education, healthcare and youth employment.

Critical Factors for Success

- Absolute protection of property rights.
- Globally competitive/attractive corporate tax rates.
- Exchange control regulation relaxation and optimisation.
- Access to skills/radically reformed work permit processes and availability for foreign investors.
- Policy certainty.
- Radical reductions in bureaucracy, particularly:
    - Reduction of the number of days to open a business.
    - Simplification of licensing processes for business.
    - Radical reform of tax payment process, particularly:
        - Dramatically enhanced VAT payment and repayment process.
        - Improved e-filling system for tax.
    - Digitisation of all licensing.
- Operationalisation of an SME development strategy focusing on:
    - Reduced regulation and bureaucracy for SMEs.
    - Skills transfer and training programmes.
    - Access to finance for SMEs.
    - Tax cuts/rebates for SMEs.

In the high-road scenario, investment inflows drive strong growth in the economy, which results in increased government revenue (Table 3). Overall, the tax burden is little changed as a per cent of GDP. However, a larger economy brings about increased revenue for government. Furthermore, marginal improvement is forecast in personal income tax due to improved tax administration and efforts to attract high-skilled, high-wage workers from elsewhere in the world.

Table 3: High Road Scenario

Components of domestic revenue	Actual	Forecast					Assumptions
	2017/18	2018/19	2019/2020	2020/21	2021/22	2022/23	-
GDP (Nominal)	183,489	194,540	208,050	235,020	268,393	306,875	-
GDP Growth (Nominal)	8.2%	6.0%	6.9%	13.0%	14.2%	14.3%	Investment-led growth recovery
GDP (Real)	108,918	108,857	110,218	116,157	123,707	131,910	
GDP Growth (Real)	-0.7%	-0.1%	1.3%	5.4%	6.5%	6.6%	Investment-led growth recovery
Total tax revenue	**53,116**	**62,253**	**66,576**	**75,207**	**85,886**	**98,200**	**Fix**
Personal income tax	13,267	14,007	14,980	16,921	19,324	22,095	Fixed at 7.2% of GDP
Company taxes	7,860	7,782	8,322	9,401	10,736	12,275	Fixed at 4% of GDP
VAT	12,392	12,645	13,523	15,276	17,446	19,947	Fixed at 6.5% of GDP
SACU	19,597	17,375	18,917	19,295	19,681	21,236	In line with MoF forecasts
Non-tax revenue	3,670	3,891	4,161	4,700	5,368	6,138	Fixed at 2% of GDP
Total tax and non-tax revenue	**57,364**	**66,144**	**70,737**	**79,907**	**91,254**	**104,338**	-
Other domestic finance flows	**22,654**	**13,365**	**12,754**	**14,873**	**22,755**	**27,617**	-
Pension fund (flows)	17,543	8,016	6,977	8,402	15,313	19,059	45% of growth in pension fund assets
Commercial Bank Funding	5,111	5,350	5,778	6,471	7,442	8,558	Increasing to 15% growth by 2022
Total domestic finance flows	**80,018**	**79,509**	**83,491**	**94,780**	**114,009**	**131,955**	
ODA grants	2,503	2,619	2,741	2,868	3,001	3,133	Slow increase over historical levels
ODA loans	484	536	594	658	729	800	Slow increase over historical levels
Technical Assistance	504	533	565	598	633	669	In-line with historical levels
Other official flows	395	417	440	464	490	515	Slow increase over historical levels
Climate finance	1,026	1,463	2,086	2,973	4,239	5,505	More aggressive ramp up
FDI	5,535	5836	8,322	11,751	14,762	18,413	Increasing to 6% of GDP by 2022
Portfolio investment (flows)	2	2	2	2	2	2	In-line with historical levels
Remittances	547	550	553	556	560	563	In-line with historical levels
International Philanthropy & Foundations	6	6	6	6	6	6	In-line with historical levels
Total external finance flows	**11,001**	**11,963**	**15,308**	**19,877**	**24,422**	**29,606**	-
Grand Total	**91,020**	**91,472**	**98,799**	**114,657**	**138,430**	**161,561**	-

Low-Road scenario (S-2):

In the low growth scenario, Namibia experiences little or no growth as was witnessed between 2016 and 2019. This low-growth environment is characterised by constrained public finances, resulting in little public investment and spending in the economy. At the same time, policy remains relatively investor-unfriendly, with the country staying stagnant or deteriorating across various competitiveness indicators and metrics. This would ultimately result in relatively negligible foreign direct investment inflows, which means that limited private investment and spending in the economy would occur as well.

> **Job loses makes much of the country's people vulnerable to regular drought, reducing household incomes, thus increasing the burden on the state for basic services and requirements.**

Due to historic injustice in the country, concerted efforts should be made to restructure the economy. Restructuring should focus on reducing inequality, poverty and change the demographics of the private sector. In an effort to grow fiscal revenues, the fiscus endeavours to increase revenue through the addition of new corporate and individual taxes. An increase in taxes would ultimately make it more challenging for local and foreign investors to generate profit on their investment. Thus, investor confidence in the country would fail to reach its potential.

The lack of investor confidence, coupled with stretched public finances means government continues to run large budget deficits. In the meantime, the economy continues to stagnate, with formal sector jobs continuing to fall. Job loses makes much of the country's people vulnerable to regular drought, reducing household incomes, thus increasing the burden on the state for basic services and requirements. Youth unemployment remains high and expectations continue to mount. The impact of economic nationalism on foreign investment ought to be mitigated.

In this scenario, the negative investor sentiment and resultant lack of meaningful foreign investment inflows is initially offset through contractual savings. In this instance, contractual savings regulations drive funds to be invested in the domestic economy in ever-greater volume, thus helping to fund the budget deficit and some domestic investment. However, these inflows do not result in dramatic growth and employment as such and remain finite in nature.

Table 5 presents the forecasted financial flows pursuant to the low-road scenario. In this scenario, investment in-flows stagnate and little growth is seen. Marginal increases in ODA loans and grants are seen. However, these are relatively minimal in the context of public revenues.

Table 4: Low Road Scenario

Components of domestic revenue	**Actual**	**Forecast**					**Assumption**
	2017/18	2018/19	2019/2020	2020/21	2021/22	2022/23	-
GDP (Nominal)	183,489	194,540	204,808	217,852	233,999	253,249	-
GDP Growth (Nominal)	8.2%	6.0%	5.3%	6.4%	7.4%	8.2%	Slow growth recovery
GDP (Real)	108,918	108,857	108,740	108,530	109,290	110,952	
GDP Growth (Real)	-0.7%	-0.1%	-0.1%	-0.2%	0.7%	1.5%	Slow growth recovery
Total tax revenue	**53,116**	**62,253**	**65,539**	**69,713**	**74,880**	**81,040**	Fixed at 32% of GDP
Personal income tax	13,267	14,007	14,337	15,250	16,380	17,727	Fixed at 7% of GDP
Company taxes	7,860	7,782	8,192	8,714	9,360	10,130	Fixed at 4% of GDP
VAT	12,392	12,645	13,313	14,160	15,210	16,461	Fixed at 6.5% of GDP
SACU	19,597	17,375	18,917	19,295	19,681	21,236	In line with MOF forecasts
Non-tax revenue	3,670	3,891	4,096	4,357	4,680	5,065	Fixed at 2% of GDP
Total tax and non-tax revenue	**57,364**	**66,144**	**69,635**	**74,070**	**79,560**	**86,105**	**-**
Other domestic finance flows	**22,654**	**13,365**	**12,646**	**12,849**	**14,805**	**17,032**	**-**
Pension fund (flows)	17,543	8,016	6,976	6,838	8,434	10,278	45% of growth in pension fund assets
Commercial Bank Funding	5,111	5,350	5,671	6,011	6,372	6,754	Fixed at 6%PA growth
Total domestic finance flows	**80,018**	**79,509**	**82,281**	**86,918**	**94,365**	**103,137**	
ODA grants	2,503	2,619	2,526	2,537	2,549	2,561	In-line with historical levels
ODA loans	484	536	559	601	645	690	In-line with historical levels
Technical Assistance	504	533	563	595	630	664	In-line with historical levels
Other Official Flows	395	417	411	420	428	437	In-line with historical levels
Climate Finance	1,026	1,463	1,994	2,779	3,873	4,968	Slow ramp-up
FDI	5,535	5836	3,072	3,268	3,510	3,799	Fixed at 1.5% of GDP, as per 2018 level
Portfolio investment (flows)	2	2	2	2	2	2	In-line with historical levels
Remittances	547	550	553	556	560	563	In-line with historical levels
International Philanthropy & Foundations	6	6	6	6	6	6	In-line with historical levels
Total external finance flows	**11,001**	**11,963**	**9,686**	**10,764**	**12,203**	**13,689**	-
Grand Total	**91,020**	**91,472**	**91,967**	**97,683**	**106,568**	**116,826**	-

- **Strengthening domestic resource mobilisation**: Given the uncertainty of external financial flows, improving domestic resource mobilisation needs to be a priority for the country. Improving domestic tax revenue includes tax optimisation, resulting from an over-arching tax study, focusing on the potential for widening and deepening the tax base and improving tax policy and tax administration. Among the domestic focus areas include co-ordinating pension funds, developing the domestic capital market and rationalising incentive schemes. In particular, there are opportunities to incentivise the sustainable use of pension fund assets such as the GIPF and SSC for financing national development priorities. It is noted that achieving sustainable development will depend not just on the expansion of domestic finance but also on the achievement of substantial improvements in the efficiency of public expenditures. This involves strategic resource allocation and results-orientation of the budget, rebalance operational and development budgets, and rationalise subsidies such as PEs.

- **A more strategic and innovative use and management of ODA is a priority. It is likely that traditional ODA** financing is declining in importance making it necessary to use ODA to leverage other flows such as deepening domestic resource mobilisation. ODA can be used to develop national capacity in key areas that would have multiplier effects on the impact of all the development resources available. There are opportunities to use ODA to improve the fairness, transparency, efficiency and effectiveness of the tax system by broadening the tax base. Other opportunities include using ODA to develop better protection systems to reduce the volume of illicit flows leaving the country and support the development of PPPs to leverage additional finance for development. For example, it may be more strategic for Namibia to apply the available ODA to finance the full development of PPPs that would bring together the much-needed financing for development priorities.

- **Expedite establishment of Public-Private Partnerships (PPPs)**. If properly and effectively managed, PPPs would help to the resolve Namibia's social and economic infrastructure challenges while freeing up government resources that could be used for other development initiatives. The strategic focus for PPPs should be to support the implementation of high-priority areas of infrastructure development while ensuring that risks and contingent liabilities are well-managed from a public sector perspective. Current efforts by the MoF, with technical support from GIZ, are focused on establishing PPPs. However, it may take some time before PPPs contribute to development finance.

- **Expand and enhance South-South Co-operation (SSC).** Development finance which flows from non-traditional development partners such as SSC, have become an important source of development financing, principally with the continuous growth of co-operation with China. Given Government's positive stance on SSC, volume, sources and modality (especially technical cooperation) could be increased as SSC is currently sourced from very few countries.

- **Exploit climate finance opportunities**. External climate finance has become an important source of development finance. Access to climate finance (e.g. from GCF and other institutions) depends on a number of factors, notably country readiness (institutions, policy, investment directions, plans, etc.), institutional capacity, political commitments, national ownership and drive. A mixture of different sources of funding instruments, and combination of loan/grant also play a crucial factor. There is a need to capacitate and benchmark national entities such as DBN and EIF to access large-scale climate finance. Local private banks will also need to take a proactive role and diversify access to international climate funds. The establishment of the Environmental Investment Fund (EIF) is an important step. Oversight can be further improved through institutional strengthening to track and monitor climate finance flows, especially through integration into budgeting system, as well as ensure alignment with national development priorities. The EIF technical support to other institutions in the preparation of quality bankable project proposals is an asset that Namibia can capitalise on in order to guide institutions that are not necessarily created/structured to access climate funding. Promoting and monitoring private climate finance is also an important opportunity that needs to be tapped into, and the country could benefit from the NDC Partnership created after the Paris Agreement. The government should therefore develop an Infrastructure Financing Strategy that incorporates a mix of tools and models.

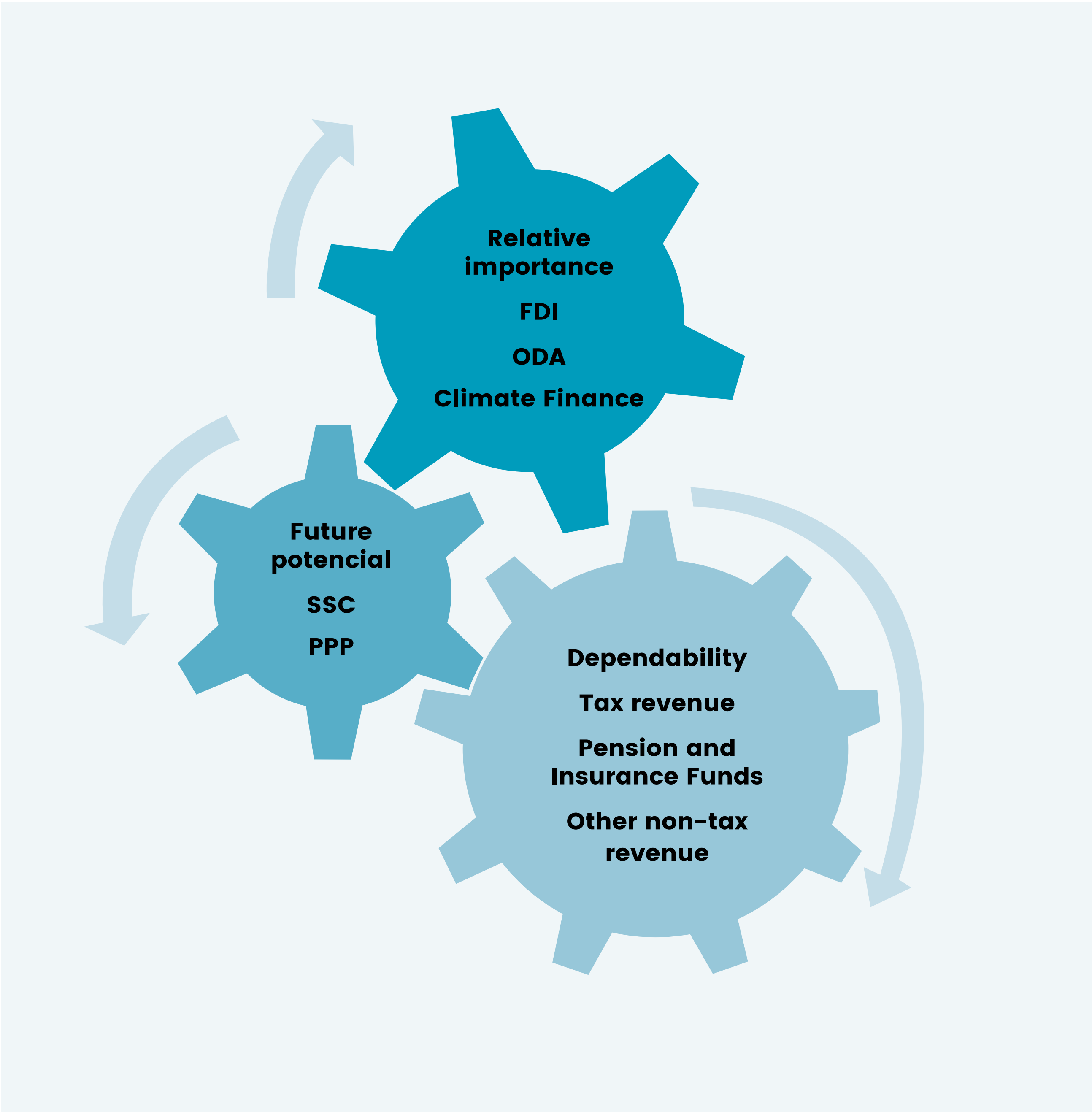
- **Foreign Direct Investment (FDI).** FDIs have been instrumental in Namibia's development finance landscape. However, the effort in attracting more FDI crucially depends on improvements in investment climate, policy reforms and mitigating negative impact of low skills and/or productivity.

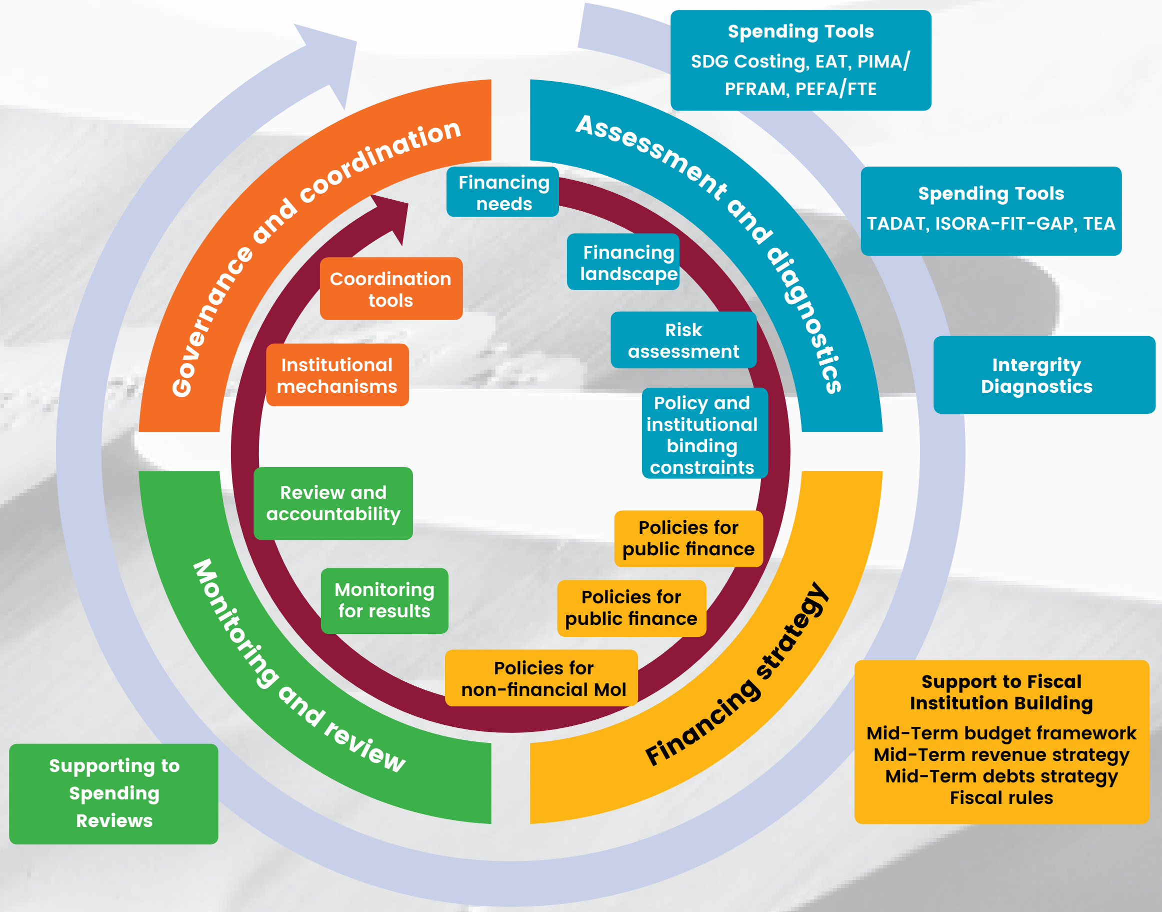
3.5 Priorities for Selected Development Finance Flows

The Addis Ababa Action Agenda (AAAA) encourages countries to strengthening domestic resource mobilisation, continuing international co-operation on tax, improving domestic tax policies administration systems and better collection of revenues and statistics, and combating illicit financial flows (SDG 17; AAAA paras 22, 23). The development finance flows analysed in this report are instrumental for the achievement of national development priorities. However, not all of these flows are equally important for financing national development. In addition, some of these flows are not under direct government control, hence it being difficult to align them with national development priorities directly.

From a strategic point of view, it is useful to identify development finance flows based on dependability (sustainability), relative importance in the current financial mix and potential in the future. It is also important to highlight the inter-linkages between these flows and the potential synergies that can be achieved by promoting and influencing them with an integrated strategic approach.

Figure 28: Priorities for Selected Development Finance Flows





Spending Tools
SDG Costing, EAT, PIMA/ PFRAM, PEFA/FTE
Spending Tools
TADAT, ISORA-FIT-GAP, TEA
Intergrity Diagnostics
Governance and coordination
Assessment and diagnostics
Financing strategy
Monitoring and review
Financing needs
Financing landscape
Risk assessment
Policy and institutional binding constraints
Policies for public finance
Policies for public finance
Policies for non-financial MoI
Monitoring for results
Review and accountability
Institutional mechanisms
Coordination tools
Support to Fiscal Institution Building
Mid-Term budget framework
Mid-Term revenue strategy
Mid-Term debts strategy
Fiscal rules
Supporting to Spending Reviews

4

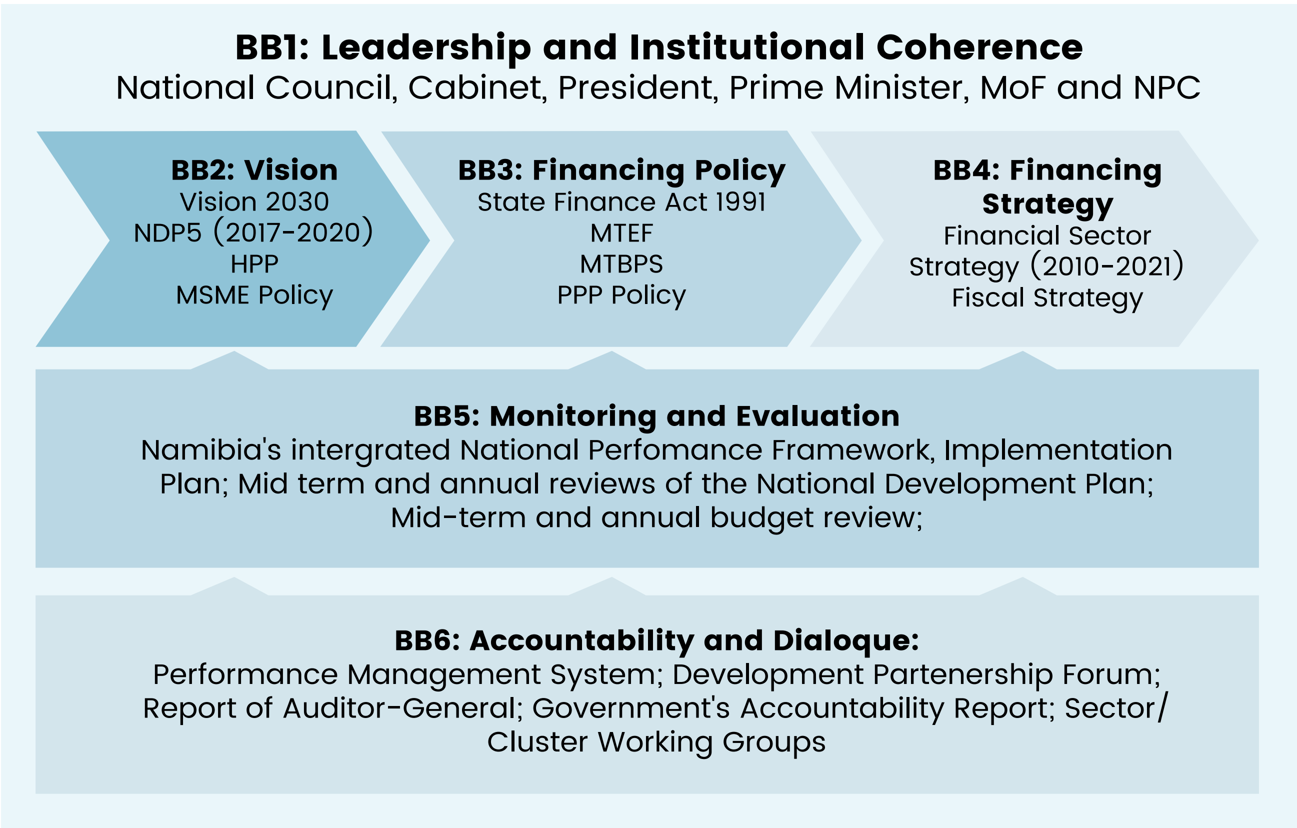
Integrated Planning and Financing

4.1 Introduction

This chapter examines the overall financing landscape in Namibia - both domestic and international. It also identifies several challenges such as low revenue growth and high levels of public debt, weak macro-economic conditions and a poor business/investment environment. It is crucial for the Government of the Republic of Namibia to assess its policies and institutional structures that enable integration of different financing flows alongside development planning, and monitoring and evaluation. Taking a holistic approach towards planning and financing can guide the GRN in managing and mobilising different resources to achieve national development needs and priorities. This is also in line with the Addis Ababa Action Agenda, which calls for development of an Integrated National Financing Framework (INFF). The INFF provides a holistic perspective for strengthening financing policies and institutions, thereby linking finance with results and facilitate nationally-led implementation of the SDGs and African Agenda 2063.

The INFF concept covers six building blocks. Figure 29 presents the current status of Integrated National Financing framework (INFF) building blocks in Namibia.

Figure 29: **Components of an Integrated National Framework for Planning and Financing**



Notes: BB: Building Block; HPP: Harambee Prosperity Plan; MoF: Ministry of Finance; NDP: National Development Plan; NPC: National Planning Commission; MSME: Micro, Small and Medium Enterprises; MTBPS: Medium Term Budget Policy Statement; MTEF: Medium Term Expenditure Framework; PPP: Public–Private Partnership.

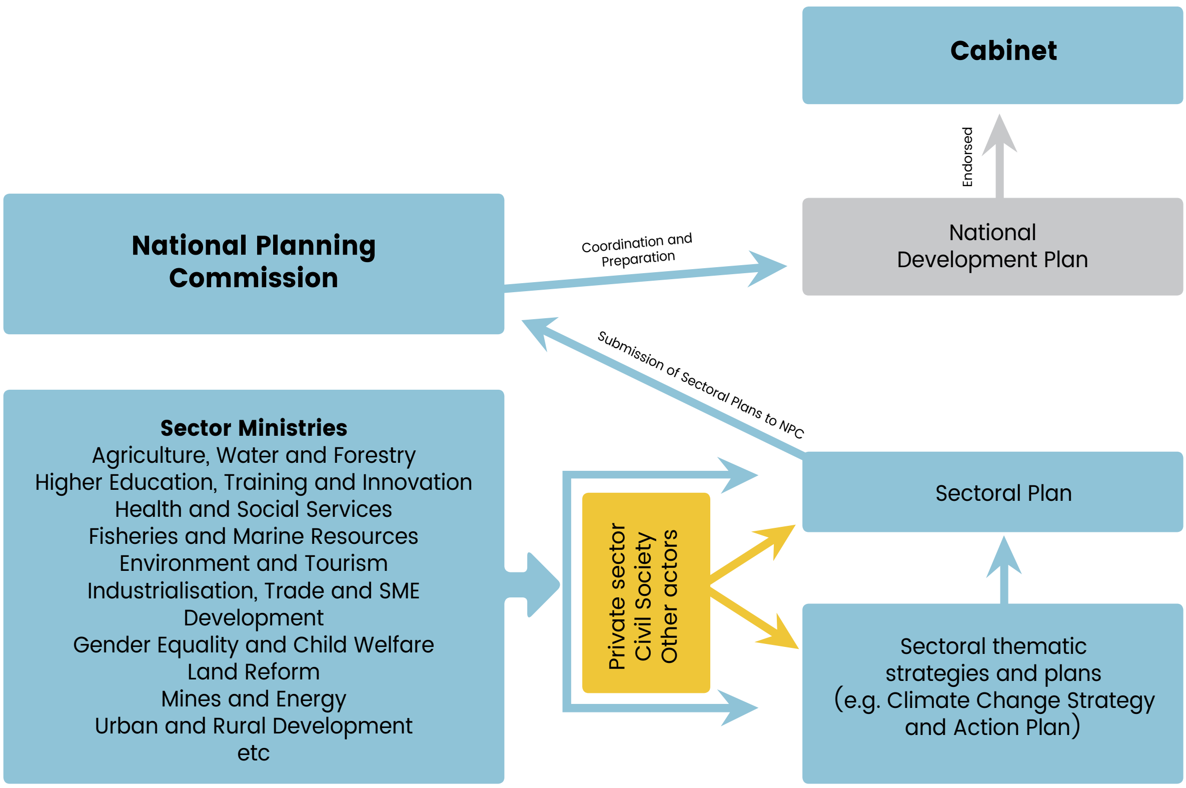
Source: Based on UNDP (2018)

4.2 Leadership and Institutional Coherence (INFF-BB1)

In Namibia, the National Planning Commission (NPC) and the Ministry of Finance (MoF) lead the development process of guiding national development planning and financing. The National Planning Commission is responsible for setting the vision and priorities and for co-ordinating the contributions of different actors toward development outcomes. The Ministry of Finance is responsible for establishing the level of financial resources available and the budget ceiling in the context of the government's deficit target.

The Constitution of the Republic of Namibia (Article 129) provides for the establishment of the National Planning Commission in the Office of the President. The NPC operates according to the National Planning Commission Act (2 of 2013) and is in charge of setting national development priorities. In developing the national development plan, NPC leads and co-ordinates the consultation process with different stakeholders and subsequent finalisation and approval of the plan by Cabinet (Figure). As one of its core functions, the NPC is responsible for undertaking, designing, implementing and monitoring of development plans, projects and programmes in order to ensure sustainable economic growth, equity, social harmony and balanced development.

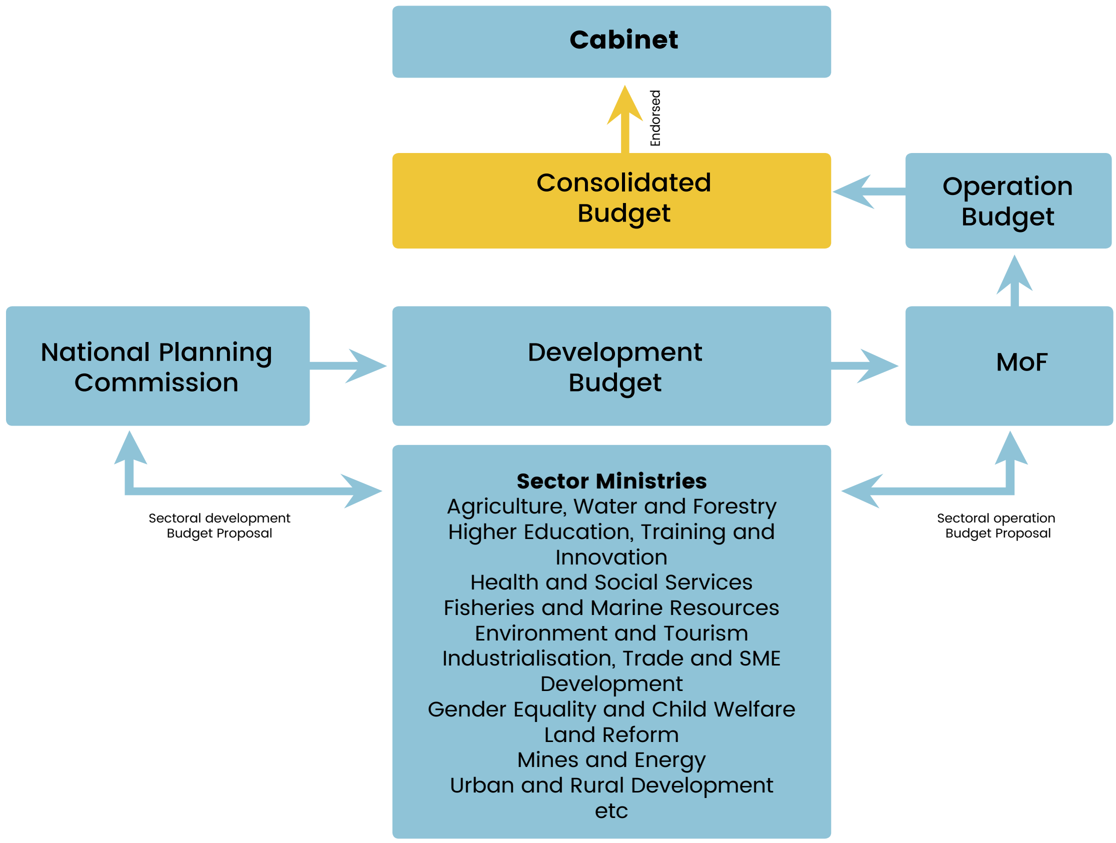
Figure 30: Planning Process



The preparation of national budget is based on the national development goals which are articulated in the medium-term national development plan. The MoF is responsible for the preparation of operational (recurrent) budget, while development (capital) budget is handled by the NPC. The powers of the MoF are set out in the Constitution and the State Finance Act (1991).

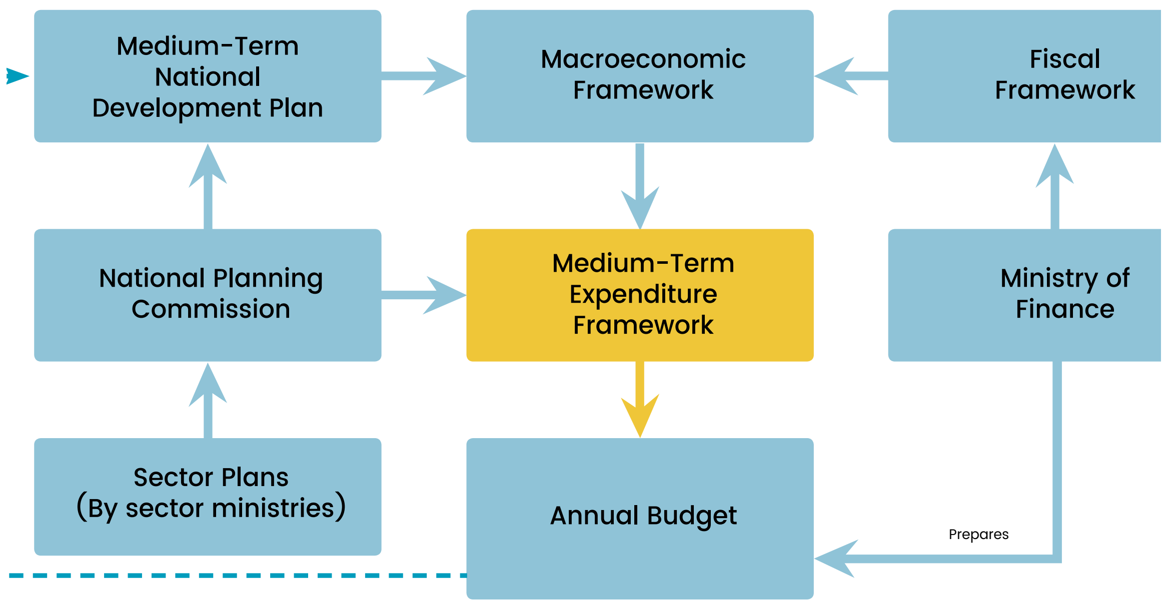
After having prepared both development and operational budget, the MoF prepares a consolidated budget which is tabled for discussion in Parliament leading to eventual approval by the Parliament and signing into law by the President. After approval and being signed into law, the budget is ready for implementation at the beginning of the fiscal year. Budgetary agencies submit disbursement request to the MoF. These agencies are expected to periodically report expenditures to the MoF, which compiles a consolidated annual budget report for the government (Figure 31).

Figure 31: Budgeting process



Although there is some degree of integration between planning and budgeting through the macro-economic framework, macro-economic expenditure framework and budget financial strategy, the alignment of operational expenditure to planning frameworks is weaker than that of the development budget. Despite the good intentions to constrain the growth in operational expenditure and increase capital spending, this has proved to be a challenge. The lack of an Integrated Infrastructure Plan as a stand-alone or as component of NDPs, constrains the adequate costing of the plan and limits the impact of infrastructure on development outcomes.

Figure 32: Linking Medium-Term Development Planning and Budgetingon for results (INFF-BB2)



4.3 Vision for results (INFF-BB2)

> **Both the long and medium-term development plans need to be supported by a responsive and costed financing modality as well as monitoring and evaluation mechanism.**

It bears repetition that Namibia's long-term development plan, Vision 2030, sets out in very broad terms the country's ambition of becoming a prosperous and industrialised nation by 2030. It is supported by short and medium-term plans, such as NDP5 and the Harambee Prosperity Plan (HPP). NDP5, which runs until 2022, sets out a clear direction to achieve sustainable development through rapid industrialisation and focuses on four integrated pillars: Economic Progression, Social Transformation, Environmental Sustainability and Good Governance (GRN, 2017). This latest medium-term national development plan, incorporates the three dimensions of sustainable development. It is for that reason that plan is aligned with the sustainable development goals (SDGs). The Harambee Prosperity Plan aims to enhance inclusiveness in economic development and social services such as decent shelter, access to safe potable water, access to quality schooling and adequate health services (GRN, 2016b).

Both the long and medium-term development plans need to be supported by a responsive and costed financing modality as well as monitoring and evaluation mechanism. Accordingly, NDP5 is supported by a costed implementation plan, with targets and indicators and is thus linked to the financing strategy (BB3), monitoring and evaluation (BB5) and dialogue (BB6) of the integrated planning and financing framework. Although there is some degree of integration between medium-term development plan and budget, there is a lack of horizontal integration between the long-term plan (Vision 2030) and financing. This is to say that the vision has not been supported by a long-term costed estimates of financing. In addition, both the long- and medium-term development plans have not been supported by a well-crafted resource mobilisation strategy. While the medium term plan, in particular NDP5, has a costed Public Sector Investment Programme, the programme is not inclusive of required and potential private sector projects. Additionally, more fully-elaborated financing estimates by financing sources, including targets and indicators, would improve integration with other INFF building blocks.

4.4 Financing Policies (INFF-BB3)

Namibia's medium-term development plan (NDP5) calls for a significant increase in resource mobilisation from both domestic and international sources (public and private).

As discussed above, there is no clear designation of roles for different types of financing policies which articulate the comparative advantages of each financing flow as well as synergies and trade-offs between different types of financing modalities. In the main, financing policies only cover a short-term period, leaving a gap between the time-frame for the vision for results for mobilising finance. As indicated above, responsibilities for mobilising and managing domestic and external financial resources in Namibia are shared between the NPC and the MoF. The NPC is in charge of mobilising and co-ordinating external resources, mainly grants and technical assistance. The 2011 ODA Policy is used to mobilise and co-ordinate grants and technical assistance from development partners.

> **Sustainable development crucially depends on the expansion of domestic finance and on the achievement of substantial improvements in the efficiency of public expenditures.**

Sustainable development crucially depends on the expansion of domestic finance and on the achievement of substantial improvements in the efficiency of public expenditures. The Ministry of Finance is responsible not only for mobilising loans from external sources, but also mobilising and managing domestic revenues through fiscal policy. It is also in charge of managing and monitoring government expenditure. The Government of Namibia currently favours more domestic than foreign borrowing to finance the deficit. As indicated in the Government's 2018/19 Mid-year Budget Policy Statement (MBPS), the approach is to gradually reduce the budget deficit as a lever for stabilisation and eventual reduction of public debt - relative to GDP, over time. Thus, increasing domestic resources such as tax revenue has become a key issue as it relates to the mandate of the Addis Ababa Action Agenda, with respect to access to external grants. It follows therefore that concessional borrowing has reduced as the country becomes more developed.

It is concerning that there are no specific policies for the use of non-state resources such as foundations and philanthropic organisations due to lack of an over-arching long-term financing strategy and monitoring framework containing financing targets and indicators.

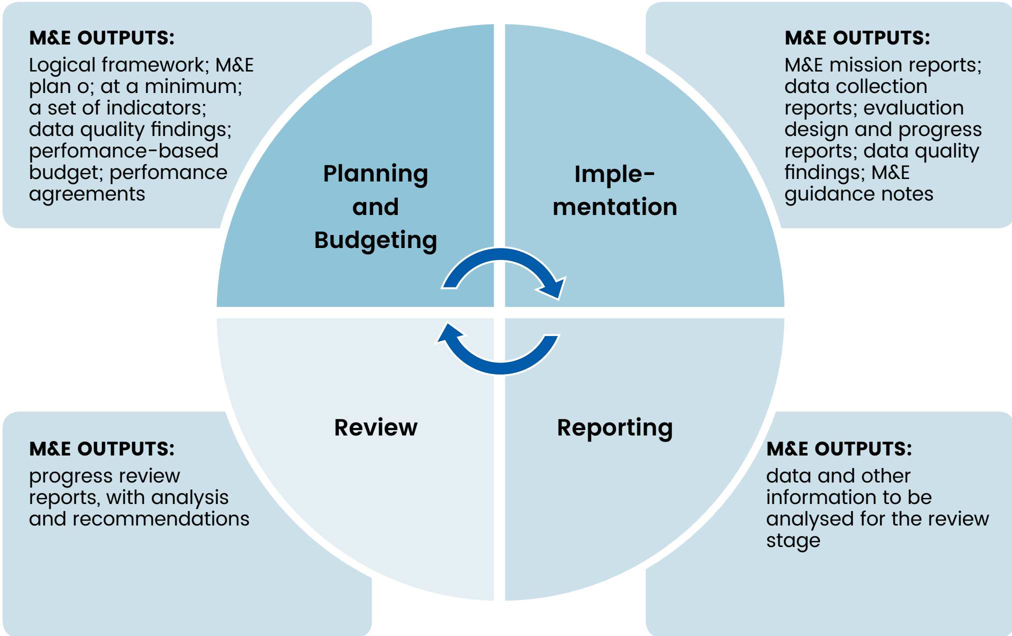
4.5 Financing Strategy (INFF-BB4)

Apart from the indicative public capital costing outlined in the NDP5, the total development cost, i.e. from public (domestic and international) and private (domestic and internal) is not quantified. This in turn limits the full mobilisation of resources required to achieve intended outcomes by 2022. While the national development plan and the Harambee Prosperity Plan are intended to help to achieve Vision 2030 and lay out the goals of sustainable development that the country is striving toward, there is no clear and comprehensive plan for mobilising the required investments to realise that vision. The lack of an overall financing strategy about the public and private investments that are needed means that there is no clear foundation on which to base the financing policies that aim to mobilise investments in practice. In the absent of this, the risk of duplication, misalignment or lack of clarity is heightened. Added to that, high-level priorities which require the mobilisation of a range of different resources may be poorly co-ordinated. Establishing an overall financing strategy can provide not only a clear guidance for agencies involved in delivering the different financing instruments but also a sense of their long-term responsibilities and the types of partnerships and collaboration they should develop.
4.6 Monitoring and Evaluation (INFF-BB5)

4.6 Monitoring and Evaluation (INFF-BB5)

In terms of institutional arrangement, the National Planning Commission is in charge of the monitoring and evaluation system in Namibia. The Office of the Prime Minister (OPM) is responsible for monitoring public service delivery. The OPM thus plays an oversight role for public service delivery. Given these mandates, both the NPC and OPM support Offices/Ministries/Agencies (OMAs), Regional Councils (RCs) and Local Authorities (LAs) to strengthen the planning, implementation, monitoring and evaluation of government's efforts, with each reporting to the President (NPC, 2016). In particular, since the Office of the President is the responsible institution for overall government action in Namibia, it is the custodian of this Framework and its application.

Figure 33: M&E in the Government Programme Cycle



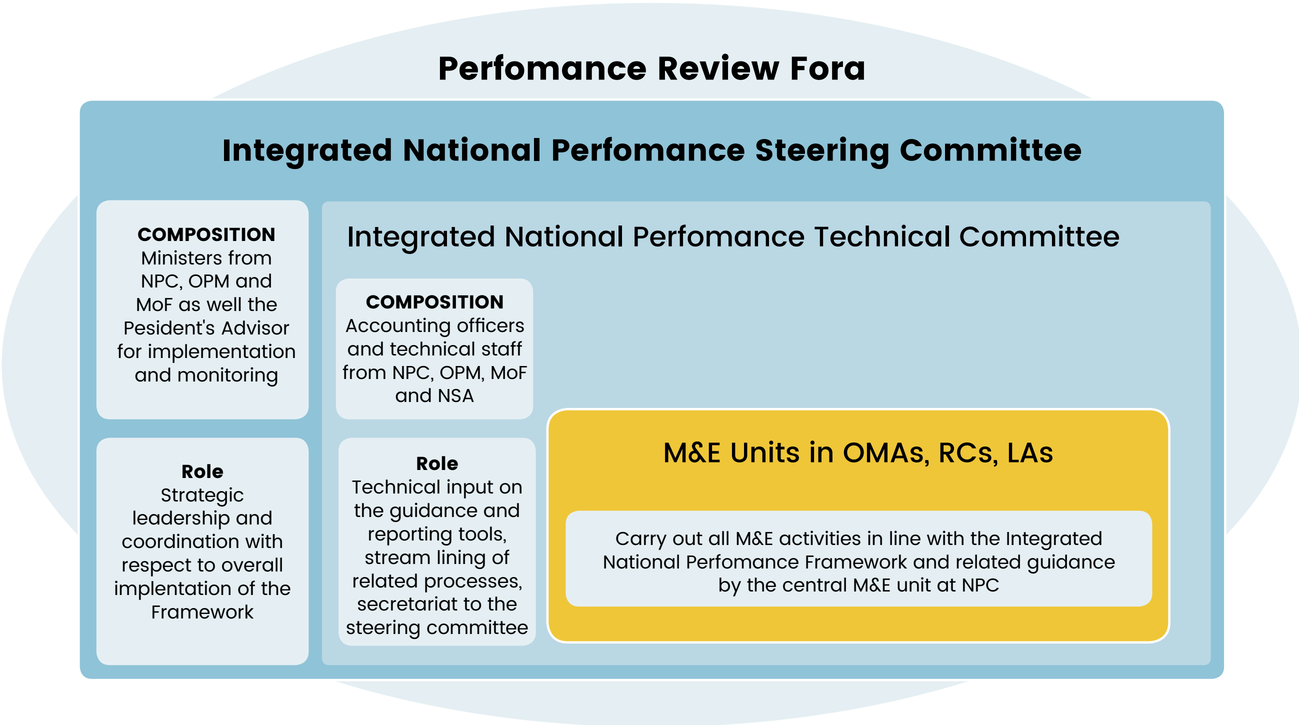
Source: NPC (2016)

There are two key outputs that publicly communicate progress captured through this M&E system: an NDP performance report and an annual budget implementation report. The NPC conducts mid-term reviews of the government's medium-term plans and reviews the top-line progress of each five-year national development plan such as the multi-dimensional goals of NDP5.

> **A number of challenges with data collection hinder the coverage and depth of financing data that the monitoring framework should capture.**

Given that the MoF provides financial resources for implementing NDP and Vision 2030, it monitors budget execution. All three entities (i.e. NPC, OPM and MoF) play key roles in measuring and influencing government performance and they must co-ordinate with each other, as well as with other relevant parties (such as the NSA). The Integrated M&E framework provides provisions for establishing committees to ensure proper co-ordination across different institutions (see NPC, 2016). The Integrated National Performance Steering Committee (INPSC) and the Integrated National Performance Technical Committee (INPTC) play the co-ordination role (Figure 34). Members of the committee are drawn from the Office of the President, NPC, OPM, MoF and NSA. The Technical Committee is chaired by the NPC, while the Steering Committee is chaired by the OPM.

Figure 34: Institutional Arrangements for Results



Source: NPC (2016)

A number of challenges with data collection hinder the coverage and depth of financing data that the monitoring framework should capture. The financing information captured by the NDP M&E framework focuses on public finance and ODA. It does not currently incorporate data on other finance flows. Even within this focus, there are certain difficulties in collecting information from pertinent institutions – chief among them being the low capacity with limited resources for M&E activities in ministries and in the national statistics office. This hinders the collection, processing and sharing of data. It bears mention that a standardised framework of indicators that is linked at the sector and macro levels is not yet in place.

Information on sub-national financing has been challenging to aggregate given a lack of centralised reporting and the fragmentation of financing streams through a number of different mechanisms. There have also been challenges in establishing mechanisms for sharing information between development partners and the government. However, there are opportunities to incorporate existing data on financing from other actors within the M&E framework. Closer dialogue and collaboration with actors such as private sector representatives, NGOs and churches can be used to improve data coverage and data sharing.

4.7 Accountability and Dialogue (INFF-BB6)

The Constitution gives provisions to accountability of government functions. Specifically, Article 41 of the Constitution indicates that Ministers both individually (for the administration of their own ministries) or collectively (for the administration of the work of the Cabinet) shall be accountable to the President and to Parliament. Accordingly, all budgetary government institutions and agencies should provide information annually through the Accountability Report on the utilisation of funds and results.

The GRN produces accountability reports (annually and quarterly) aimed at informing Parliamentarians and the public on how OMAs have performed against the appropriated budget (MoF, 2010). The Ministry of Finance continues to monitor the budget execution and initiate policy measures to ensure full accountability by all votes. Apart from the accountability reports, there is also a mid-year budget review which was introduced in 2015 as a monitoring tool to ensure that appropriated funds are used efficiently and enhance quality of spending, as well as improve transparency around budget allocations.

> **The Office of the Auditor-General and Ministry of Finance are responsible for ensuring that government entities are held accountable by means of audited accounts and inspection procedures.**

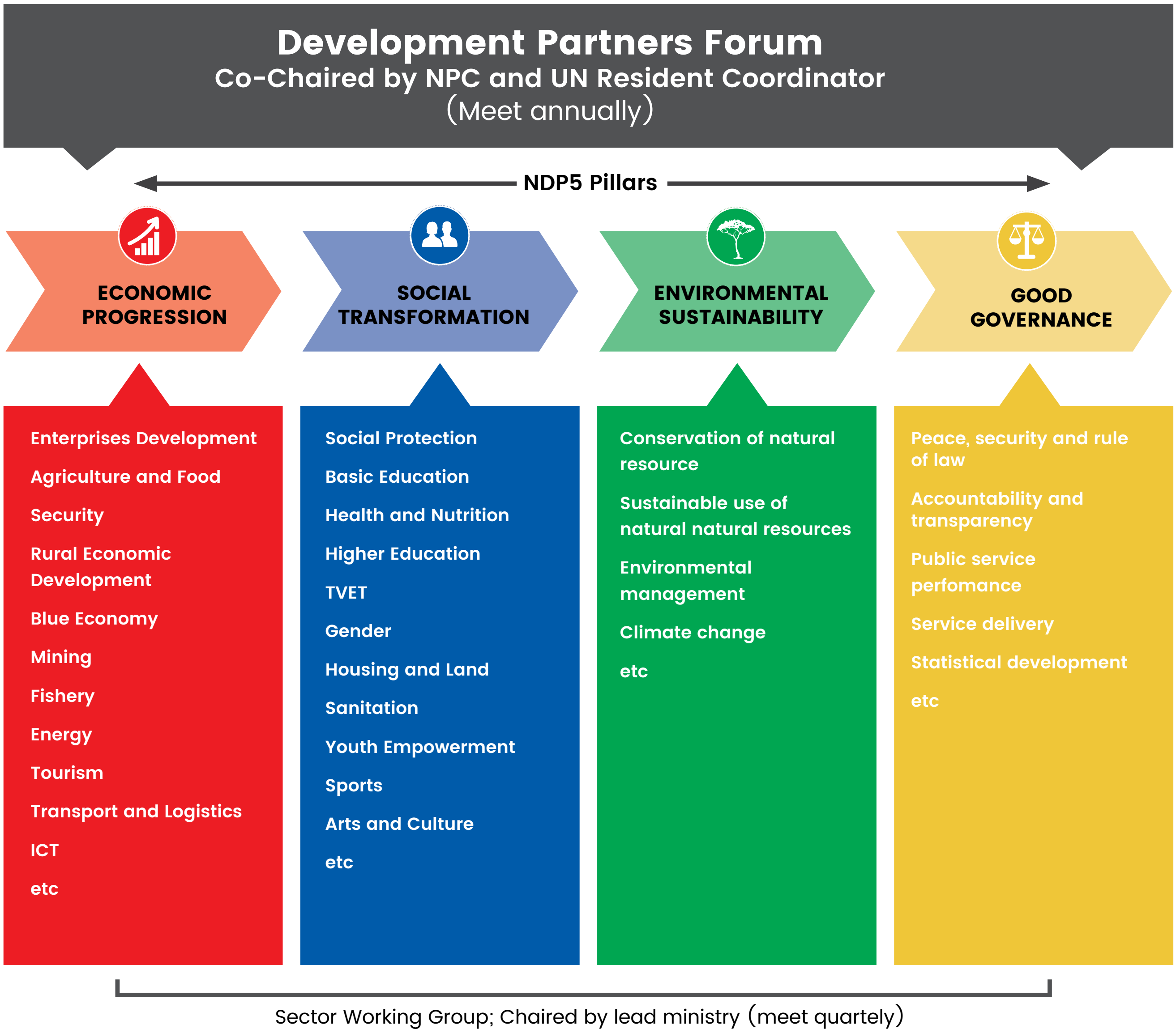
The Office of the Auditor-General and Ministry of Finance are responsible for ensuring that government entities are held accountable by means of audited accounts and inspection procedures. According to Article 127 of the Constitution, the Office of the Auditor-General has responsibility for auditing the public accounts of all ministries, regional and local authorities, PEs and statutory bodies. In addition, Section 26 (1) (b) (iv) of the State Finance Act (31 of 1991) empowers the Auditor-General to investigate and report on the efficiency and effectiveness of the use of State's resources.[1] The Office of the Auditor-General produces both financial and performance audit reports for all budgetary institutions, including for Regional and Local Government and Statutory Bodies. Audit reports have highlighted challenges with un-authorised expenditure by some government OMAs and the absence of a functional audit committee and risk management policy (Auditor-General, 2018). The absence of an active audit committee means that it is difficult to monitor the activities of internal auditor and implement audit recommendations.

The Parliamentary Committees also scrutinises the use of public funds. In particular, the Standing Committee on Public Accounts takes an active role in scrutinising the annual budget. It can call ministries and any public body funded with State resources to appear before the Committee for questioning and produces an annual report that is tabled and discussed in Parliament. Its recommendations can be taken forward. Government also tries to ensure accountability and transparency through the Anti-Corruption Commission (established through the Anti-Corruption Act 8 of 2003, as amended in Anti-Corruption Amendment Act 10 of 2016). The annual reports of the Commission are submitted to the Prime Minister, which reports are tabled for discussion at a National Assembly meeting. The central dialogue mechanism between the GRN and development partners is the Development Partners Forum (DPF) which is a platform to discuss national development policy priorities, present new policies and procedures, and to solve bottlenecks that might have occurred in the planning or implementation of development cooperation (Figure 35). It serves as an important platform for overseeing development co-operation, facilitating policy dialogue on development priorities and how development co-operation can contribute to the attainment of these priorities in Namibia.

The Sector Working Groups (SWGs) serve as a dialogue forum to ensure ownership and accountability of development agenda by relevant actors at sector level. The main focus of SWGs are co-ordinating and harmonising development co-operation, standardising procedures, aligning external co-operation to national development priorities, managing for development results, identifying opportunities and challenges at sector level. However, the existing dialogue forums and mechanisms do not include other stakeholders such as representatives from the private sector, civil society, development finance institutions (DFIs), etc. It would be useful to include lead development partners as a co-chair of SWGs together with the lead ministry. It is also not clear how the existing dialogue structure accommodates regions though there are Regional Development Co-ordinating Committees (RDCCs).

[1] See http://www.oag.gov.na/regional-local-government-financial-audit-reports-

Figure 35: Current dialogue structure



5

Conclusions

5.1 Introduction

Namibia demonstrates its desire to achieve national and international developmental ambitions through the effective implementation of its national medium and long term plans and regional and global commitment in terms of SADC Regional Integrated Strategic Plan (RISDP), African Agenda 2063 and Sustainable Development Goals(SDGs).

5.2 Headline Conclusions

- **Since her independence, Namibia has shown steady socio-economic progress** as reflected by rising income per capita, declining poverty, improved human development outcomes, improved service delivery and enhanced access to socio-economic infrastructure services. These past successes, which have informed policy to a large degree, have contributed to bold aspirations for the future.
- **Despite many notable successes, challenges remain**. Namibia continues to exhibit some of the highest levels of inequality and unemployment – especially among the youth. Moreover, under-investment in core service infrastructure in the water, energy and rail sectors threatens productive capacity in the future, if not addressed. Other challenges include but are not limited to, financing gaps, limited access to bulk and retail infrastructure services, persistent/recurrent drought, trade imbalance and skills deficit.
- **The GRN is guided by a long-term vision**. Looking forward, the GRN is committed to making meaningful strides toward ensuring that Namibia becomes a prosperous and industrialised country. The country's long-term development framework (Vision 2030) is implemented through a series of medium-term development plans. The Fifth National Development Plan (NDP5) for the years 2017/18-2020/21, consists of four interconnected pillars: Economic Progression, Social Transformation, Environmental Sustainability and Good Governance. Development of policies/plans and budgets is subject to a senior-level review (e.g. Cabinet and Parliament). It is notable that the long-term plan has not been supported by a holistic financing strategy. That is to say, there is a disconnect between long-term planning and financing, which indicates an absence of a horizontal integration. Not only is there a lack of resource mobilisation strategy, it follows that there is no articulation of the roles and comparative advantages of different types of financing to support the long-term plan.
- **Inadequate effort in linking financing with outcomes and results** as the existing Monitoring and Evaluation (M&E) framework is limited to monitoring physical activities only. Despite the importance of M&E to ensure accountability, there is inadequate attention given to M&E as reflected by absence of M&E Units in many government institutions. In addition, there is a lack of M&E expertise in government institutions. Furthermore, the effort of building M&E capacity is constrained by absence of institutions providing M&E training in the country.
- **Accountability has remained a concern** due to weak implementation of the performance management system as it has not been supported by a robust incentive mechanism (i.e. absence of reward and penalty instruments) to ensure results-based accountability. There are no instruments to instil a sense of accountability at different layers of government institutions in the existing performance management system.
- **The existing dialogue architecture is not inclusive**. Despite the importance of the private sector and other stakeholders in Namibia's development, these development partners are not main-streamed in the existing dialogue structure. In particular, the participation of the private sector in the policy debate has remained inadequate.

- **The scale of effort required to achieve the transformative goals is huge**, which necessitates a substantial investment push from multiple fronts. NDP5 identifies a number of investment areas including infrastructure development, agriculture, human development (e.g. technical skills) and industrial development. Financing these investment areas and achieving future ambitions will require considerable efforts to diversify funding and service provision sources.
- **The GRN faces increasing funding difficulty to finance the country's various social and economic needs** as reflected by large fiscal deficits. In recent years, revenue growth has slowed. The economy has slowed down and the outlook for revenue growth, much like and correlated to the outlook for GDP growth, has deteriorated. Revenue collection has not kept pace with increased government spending.
- **Tax revenue accounts for a large proportion of total revenue**, making up approximately 93% of total public sector revenue. Amongst the various tax revenue sources, Southern African Custom Union (SACU) receipts represent the largest proportion of total tax revenue - approximately a third of total revenue. Personal income tax and value added tax (VAT) receipts tend to be fairly similar, representing approximately 25% of total revenue each. The country is also challenged by its narrow tax base, and combined with monetary losses from exemptions and tax holidays, this has also further impeded the amount of tax which could be collected.
- **Government guarantees have been utilised as an off-balance sheet funding method, particularly for Public Enterprises**. A move by Government to fund infrastructure development off-balance sheet via public-private partnerships and through direct and indirect support of PEs has seen significant increases in Government guarantees. The recent change in strategy by the GRN has seen the growth forecasts for contingent liabilities revised significantly downwards and to remain contained. There are no plans in the pipeline for the issuance of new guarantees, except for potential public-private partnership projects.
- **Beyond public funds, the contractual savings pool remains the largest single source of domestic development finance**, primarily made up of pension and life insurance assets. In 2017, the total assets of Namibian pension funds were valued at N$152.9 billion, some 86.6% of GDP. At the same time, life insurance fund assets totaled N$53.9 billion (30.6% of GDP). This indicates that substantial funds are available for alternative investments. Recent initiatives by the Government Institutions Pension Fund have initiated a number of investment vehicles and the issuance of a number of infrastructure investment mandates.
- **External finance played a significant role in Namibia's development.** Although Namibia has received fairly significant volumes of Official Development Assistance, access to this finance - especially grants, has declined following the country's leap to an upper-middle-income status in 2009. Other official flows have increasingly become an important of source of financing for development priorities in Namibia, reflecting Government's reliance on other official flows to adjust for declining levels of grants. OOFs are, however, highly dependent on the investment and business climate of the country, and further mobilisation of OOFs depends on improvements in the investment climate of the country.
- **Although there are climate funds available at global level**, challenges remain in accessing these funds at large-scale. Namibia has succeeded in having two national institutions accredited. The Desert Research Foundation of Namibia is accredited to access funding from the Adaptation Fund (AF). In addition, the Environmental Investment Fund (EIF) is accredited by the Green Climate Fund (GCF) at micro level. The EIF was able to mobilise climate finance worth US$40 million from the GCF. There are opportunities for Namibia to strategically diversify and scale-up access to international climate financing by diversifying the number and portfolio of national direct access entities with a strong focus on climate financing. Such increase and diversification could look at the new entities with potential to be accredited to access large scale funding, which can be used to fund mega projects, such as the desalination plan or Windhoek Managed Aquifer Recharge System.
- **Namibia has mobilised and received significant international private resources,** mainly from foreign direct investment, portfolio equity and remittances. International private resources have increased significantly in both relative and absolute terms. Further mobilisation of international private finance - especially Foreign Direct Investment, depends on country's investment climate which appears to be uncertain in recent years.

- **The investment climate for Namibia does not appear to be highly attractive.** The country performs poorly in ease of doing business indicators and lags behind compared to other countries in the region. The country ranks very poorly in starting businesses and registering property. Recent years have seen policy uncertainty relating to private investment, particularly around the Namibia Investment Promotion Act and the New Equitable Economic Empowerment Bill.
- **Leveraging additional resources through partnership with the private sector serves as an opportunity for the government to narrow the gaps caused by resource constraints**. There are ongoing efforts to establish a fully functioning PPP Unit within the Ministry of Finance. However, the unit requires further technical support to become fully functional.
- **The domestic resource mobilisation effort is also hampered by illicit financial outflows**. In 2015, illicit financial outflows through trade mis-invoicing amounted to US$867 million (N$10.6 billion).
- **There are significant gaps in data management for both external development finance and climate finance**. Information on the amount, sources and uses of external development finance is difficult to get, including disaggregated information by sector. In addition, the National Planning Commission and Ministry of Finance manage external development finance. However, a consolidated database that shows the amount, sources and uses of external development finance - especially ODA, is lacking.
- **Overall, the achievement of the SDGs and NDP5 goals calls for mobilising a combination of multiple financing sources and instruments.** Considering the revenue trends and the increasingly uncertain outlook for external resource inflows, there is a need to look for the availability of potential 'non-traditional' financial resources that will help Namibia sustainably finance its development interventions. Additional financial resources can be tapped from climate funds (e.g. Green Climate Fund and Adaptation Fund), social impact bonds, pension and insurance funds, public-private partnerships and South-South Cooperation.

6

Recommendations

6.1 Introduction

The report has identified a number of headline recommendations that represent the most pressing issues for financing national development priorities and respond to particular opportunities for reform in the short and medium term.

6.2 Headline Recommendations

6.2.1 Establish a holistic financing strategy

There is a need to develop a longer-term financing strategy that builds on Vision 2030 and existing NDP5 and the envisaged NDP6 which could benefit the country by bringing together actors from across government and partners to mobilise public and private flows and effectively invest in priority areas. In addition, a well-articulated financing strategy can improve horizontal integration and alignment of planning and financing to strengthen the effectiveness of public spending by facilitating the prioritisation of government spending in areas that would not be attractive for financing by other actors.

6.2.2 Deepen domestic resource mobilisation

There is a need to develop, deepen and optimise the multitude of local taxes, and to reform these where required to safeguard fiscal space as well as to enhance efficiency through introduction of smarter technology and improved tax administration. Tax policy reforms focus on increasing tax compliance through improved tax administration, increasing the tax base through introducing new taxes, elimination or restructuring of tax incentives and curtailing tax evasion and illicit flows.

> **PPPs have the potential to mobilise additional sources of financing for investments in critical areas of the national development plan.**

- **Despite a large contractual savings pool, the nation has yet to optimise the investment of such for safe and stable returns that support the development of the local economy and society.** Efforts need to be made to co-ordinate and mobilise these funds through designing a strategy to mobilise and deploy pension and insurance funds for optimising development financing. However, care should be taken to protect professional capital allocation for good risk-weighted returns for investors. Precaution needs to be taken to minimise potential risks related to the use of these funds or the use of prescribed assets for risky projects or sub-optimal PEs, which can put the fund's returns at risk.
- **PPPs have the potential to mobilise additional sources of financing** for investments in critical areas of the national development plan in order to spread risk between the public sector and private partners, and to stimulate greater private sector investment into priority socio-economic areas of the economy. Given that PPPs are complex instruments, there is a need for strong monitoring systems to monitor and evaluate the effectiveness of PPP arrangements. To ensure that the potential role of PPPs is realised, it is recommended that sufficient legal, financial and technical expertise is developed and strong processes are put in place to determine when to use these instruments and effectively manage the risks and complexity that they entail.

6.2.3 Strengthen and promote private sector development

Both Vision 2030 and NDP5 count on private investment as a central driver of inclusive growth and transformation. However, the business environment and funding challenges remain. Given the centrality of private-led growth in Namibia's transformative goal, mobilising greater volumes of sustainable and inclusive private sector investment is perhaps the most significant financing challenge for the country to address.

- **Strengthen the investment promotion centre**. From a strategic point of view, it is recommended to capacitate the investment promotion centre through hard and soft infrastructure to effectively co-ordinate and attract private investment (both domestic and foreign) in key sectors, including the manufacturing sector. The Government of Namibia should consider enacting regulations on industrialisation, which provides for institutional structures, industrial regulations and co-ordination within and across industries, and monitoring and evaluation (M&E) mechanism.
- **Improve the business and investment environment** to improve the global competitiveness of the country and spur transformation. This would include reducing the tax burden (especially corporate tax), less burden-some and more straight-forward business regulation and bureaucracy, expedite the introduction of 'one stop shop/portal', ensure certainty in the policy space and direction, with transparent and stable rules and standards. In addition there is a need to reduce the cost of input especially with regard to energy and water. To achieve these, there is a need to establish a high-level task force to lead the doing business reform agenda (e.g. Doing Business Task Force).

> **Given the centrality of private-led growth in Namibia's transformative goal, mobilising greater volumes of sustainable and inclusive private sector investment is perhaps the most significant financing challenge for the country to address.**

> **The project development facility would support the identification, conceptualisation, and preparation of potential investment programmes and projects.**

- **Provide co-ordinated support to SMEs** through minimising duplication of efforts by different institutions (e.g. MITSMED and Social Security Commission), establish a dedicated institution for SMEs (e.g. SMEs Agency) to provide hand-holding support and services to SMEs, and develop a SME financing strategy to encourage self-employment and create appropriate jobs in the economy.
- **Establish a Project Development Facility (PDF).** The project development facility would support line ministries, local and regional authorities or other government institutions in the identification, conceptualisation, and preparation of potential investment programmes and projects that are aligned with national development priorities and investment policy. The Facility could provide technical support to government entities to develop profiles of quality investment proposals which will then be presented to potential partners, including the DPs, DFIs and the private sector in order to mobilise resources. It should be noted that some of the projects identified by the PDF will be of interest to the private sector. If entrepreneurs are willing to invest in the promising projects, then they will be asked to pay back some of the project preparation costs when a given project reaches a financial close. Alternatively, other modalities of financing the PDF can be designed, such as grants or pool funding. By so doing, PDF would seek to recover some of the project preparation costs. This would create a revolving fund, which would put the Facility on sustainability path.

6.2.4 Strategic use of ODA and new sources of financing

There is a new strategic use for ODA funds in attracting private capital to finance certain public goods in a crowd-in type model. This can be done by focusing on loan guarantees for projects to entice private capital, building institutional capacities (e.g. establishing PPP, enhancing the M&E capacity of PPP projects, etc.), and investing in social public goods such as climate change measures, health pandemics, etc. Furthermore, Namibia would need to champion the adoption of GDP Plus for mobilising and targeting ODA on the international and local stage.

- **Enhance South-South Cooperatio**n to mobilise a significant amount of resources through developing an SSC engagement strategy, broadening the base of SSC partners and strengthening the existing ones. The impact of SSC support can be improved by creating better information systems to record, disseminate, scale-up and replicate the results of South-South initiatives.
- **Other innovative forms of finance** have increasingly become important and integral elements of development finance. There is a need to continue to promote and use innovative financing models to enhance investments through identifying and attracting new sources of funding, such as venture capital funds (e.g. to support the most promising local start-ups and SMEs), municipal bonds (to raise financing for urbanisation projects in secondary cities), green bonds (e.g. to fast-track the implementation of the green growth strategy), and other modalities such as blended finance, social impact and crowd funding.

6.2.5 Strengthen monitoring and evaluation

While both Vision 2030 and NDP5 articulate the case for private sector-led growth, the components of the performance framework that look at financing focus on public finance and ODA. A comprehensive performance framework will include financial implementation indicators. There are several other areas (e.g. INGOs) where key data is not systematically collected and organised. There is a need to establish M&E Units across government institutions and design a capacity development programme in M&E to enhance collection, processing and sharing of data.

> **"A comprehensive performance framework will include financial implementation indicators."**

- **Improve monitoring of financing and outcomes**. The national M&E performance framework needs to be broadened to include monitoring trends in various types of public and private financing and capture the available information on the outcomes that these flows generate. Both domestic and external climate finance also needs to be tracked across ministries and private institutions.
- **Improve national data, information and knowledge availability.** While the availability of data has improved, there is still scope to build and improve the quality of existing statistical and Management Information Systems. Lack of systematic analysis and data collection for external finance flows (e.g. ODA) makes it difficult to manage these funds properly.[2] Information is stored by some agencies and not adequately shared or used to produce relevant knowledge that the government could benefit from. There are several other areas (e.g. INGOs) where key data is not systematically collected.

[2] It is not possible, for example, for the government to estimate ex-ante if there are duplications of budget expenditure allocations with current or forecasted INGO expenditures in key sectors or regions.

6.2.6 Improve accountability and enforcement mechanism

There is a need to strengthen accountability through institutionalising performance contracts in government institutions. These may include implementing a local government planning system, establishing a National Accountability Team (NAT) and introducing a reward and penalty system.

6.2.7 Making the existing dialogue architecture more inclusive

The GRN recognises the importance of social dialogue in building trust that informs business strategy within the over-arching framework of national, regional and global sustainable development objectives.There is a need to establish a comprehensive and systematic collaboration and dialogue mechanism among the nation's development partners. This also requires revising and updating the existing dialogue mechanism to make it more inclusive with strong representation of the private sector and other actors at different levels by including representatives of regional governments.

The DFA report provides detailed recommendations on specific development flows. These recommendations propose a roadmap towards a more integrated finance strategy for the achievement of national development priorities.

When it comes to financing for sustainable development, Namibia faces high capital investment needs, narrow revenue base, an under-developed domestic private sector and dependence on shared regional revenue receipts. With the assistance of its development partners, the GRN should identify areas of reform that can strengthen public and private financing for national development priorities. The DFA provides a comprehensive set of recommendations which would serve as the basis for developing a roadmap to be considered for implementation. The DFA roadmap also aims to serve as a tool for managing and monitoring implementation of actions to address the recommendations emanating from the DFA exercise. This roadmap will serve as a "rolling plan" to be expanded and updated as and when required, reflecting progress in implementation.

"The DFA provides a comprehensive set of recommendations which would serve as the basis for developing a roadmap to be considered for implementation."

The roadmap presents an integrated set of deliberate and sequenced actions based on the recommendations from the DFA exercise (Table 8). To aid interpretation of the details:

- Timelines have been stipulated in terms of the project year and quarter in which the activity is expected to start. This approach enables estimation of timelines irrespective of when implementation commences;
- Cells containing information relevant to work that is expected to be completed in the short-term (that is, within the first six months of implementation) have been shaded in green; and
- Red text has been used to highlight work that should be prioritised as quick-impact initiatives, designed to create vital momentum in the early stages of implementation.

Namibia Roadmap for the establishment of INFF

Table 5: DFA Roadmap

Thematic area		Activities	Institutional Responsibility*	Timeline	
				Year 1	Year2
1. Develop a holistic financing strategy	1.1	Initiate consultations with stakeholders about developing a long-term holistic financing strategy and its links to development goals and results.	MoF, NPC	Q1	
	1.2	Establish a Steering Committee to oversee and guide the design of the financing strategy.		Q1	
	1.3	Establish a Technical Team to develop the strategy.		Q1	
	1.4	Based on perspective plan, identify sector-specific priority areas		Q2	
	1.5	Estimate costs and types of resources needed for all identified priority interventions (i.e. estimate the financing gap for each sector and the whole economy).	MoF, NPC	Q3-Q4	
	1.6	Design a holistic financing strategy linked to the long-term plan to ensure horizontal alignment, including quantified financing targets and institutional responsibilities.			Q1
2. Improve domestic resource mobiliza-tion	2.1	Increase the tax compliance through improved tax administration.	MoF, NamRA	Q1	
	2.2	Fast track the establishment of NamRA and ITAS roll-out to improve efficiency gains.	MoF		Q3-Q4
	2.3	Develop a strategy to mobilise and deploy pension and insurance funds for financing critical development activities in a sustainable manner with good risk-weighted returns for investors.	BON, MoF, NPC, GIPF, SSC, NAM-FISA		Q2-Q3
	2.4	Capacitate MoF and NamRA through hard and soft infrastructure.	MoF	Q1-Q2	
	2.5	Study cost-benefit aspects of tax incentives/tax expenditure.	MoF, MITSMED	Q1	
	2.6	Equip revenue authorities with transfer pricing expertise and technical sector knowledge to identify and evaluate transfer pricing risks.	MoF and NamRA		Q3
	2.7	Establish administrative structures that promote trained and highly-skilled officials sufficiently empowered to implement transfer pricing rules effectively.	MoF and NamRA		Q4

Namibia Roadmap for the establishment of INFF *(Cont...)*

3. Private sector Development	3.1	Strengthen the national investment promotion centre with both soft and hard infrastructure.	MITSMED,NIDA	Q1-Q2	
	3.2	Design a robust and forward looking a national investment policy and strategy.	MITSMED, NIDA	Q1-Q2	
	3.3	Develop a strategy and action plan targeting the domestic private sector to actively participate in the economy.	MITSMED, NIDA	Q1	
	3.4	Establish a high level task force to lead the doing business reform agenda-Doing Business Task Force	Prime Minister, MoF, NPC, MITSMED	Q1	
	3.5	Establish a Technical Committee composed of different working groups on different aspects of doing business indicators.	Prime Minister, MoF, NPC, MITSMED	Q1	
	3.6	Establish a Doing Business Department to fully co-ordinate the different aspects of the reform initiative.	Prime Minister, MoF, NPC, MITSMED	Q1	
	3.7	To make Namibia competitive, attractive for investors and overcome the small market size challenge, conduct detailed analysis of activities and sectors where Namibia has a potential to act as suppliers and partners to foreign firms, and of the bottlenecks or constraints in particular locations.	MITSMED, NIDA, NPC		Q1-Q2
	3.7	Provide co-ordinated support to private sector development, especially SMEs through minimising duplication of efforts by different institutions (e.g. MITSMED and Social Security Commission). This requires establishment of a dedicated institution for SMEs (e.g. SMEs Agency) to provide a handholding support and services to SMEs.	MITSMED, NIDA	Q4	Q1-Q2
	3.8	Develop a SME financing strategy to encourage self-employment and create appropriate jobs in the economy.	MITSMED, DBN	Q2	
	3.9	Explore the options of introducing a separate tax regime for SMEs	MITSMED, MoF	Q1	
4. Public-Private Partnership (PPP)	4.1	Given that PPPs are complex instruments to manage, develop a monitoring system to evaluate the effectiveness of PPP arrangements.	MoF, NPC, Sector Ministries		Q3
	4.2	To ensure that the potential role of PPPs is realised, sufficient legal, financial and technical expertise must be developed and strong processes put in place to determine when to use PPPs and effectively manage the risks.			Q1-Q2
	4.3	Design a capacity development programme to develop expertise capable of accelerating and managing PPPs.		Q2	
	4.4	Develop a risk assessment strategy and incentive mechanisms to stimulate private PPPs when social rates of return are high and private returns are low.			Q1
	4.5	Align and strengthen the current infrastructure plan with PPPs modality.	NPC, MoF	Q4	
	4.6	Strategically identify and prioritise PPP projects that could be attractive for FDI and are aligned with national development priorities.	EIF, MoF, MITSMED		Q4
		Exploit opportunities to engage the private sector in climate resilience PPPs (e.g. energy, water, etc) and expand the market for small and medium scale PPP development in services such as urban waste collection, water supply, energy provision and infrastructure.			Q3

Namibia Roadmap for the establishment of INFF *(Cont...)*

5. Project Devel-opment Facility (PDF)	5.1	Design and establish a Project Development Facility (PDF) to support line ministries, regional authorities or other government institutions in the identification, conceptualization, and preparation of potential investment programmes and projects that are aligned with national priorities and investment policy.	NPC, MoF, MITSMED	Q1	
	5.2	Capacitate PDF with both soft and hard infrastructure	NPC, MoF, MITSMED	Q4	Q1
	5.3	Initiate project development, appraisal, monitoring and reporting guidelines			Q1
	5.4	Develop a communication mechanism to present the Facility's project pipelines to potential partners, including development partners, DFIs and the private sector, in order to mobilise resources.			Q4
6. Foreign Direct In-vestment	6.1	Based on national investment policy, design a strategy to attract FDI in key strategic areas where domestic capabil-ity is lacking.	MITSMED, NDA	Q2	
	6.2	Use FDI selectively to tap into dynamic and high technolo-gy value chains. This could involve identifying activities that require large capital investment, and are knowledge and skill-intensive where the domestic private sector could not engage in.		Q2	
	6.3	To improve the development return from FDI, create more opportunities for local companies to work with quality foreign-owned companies within international value chains through (i) packaging linked activities relevant to the needs of specific sectors and locations, and (ii) designing incentive schemes to encourage and foster linkages between foreign and local firms.	MITSMED, NIDA, NPC	Q4	Q1
7.ODA	7.1	Assess the options of using ODA in a catalytic role to raise additional finance such as using ODA for economic sectors with high potential return. This also requires tracking and mapping the contribution of ODA partnerships along development priorities.	NPC, MoF	Q4	
	7.2	Develop a comprehensive development cooperation poli-cy to provide guidance on the initiation and mobilization of ODA flows in the country.	NPC, MoF	Q1	
	7.3	Align national development priorities with regional and global initiatives for mobilising development finance. For example, programmes to support and enhance regional integration with support from multilateral organizations (e.g. AfDB).	NPC, MoF	Q2	
	7.4	Design a mechanism of linking ODA for capacity building of GRN agencies in strategic areas such as policy making, planning, monitoring systems, design and negotiation of PPPs.	NPC, MoF	Q2	
	7.5	Establish a comprehensive Data Management System to record external resource flows, especially ODA flows.	NPC, MoF	Q1-Q2	

Namibia Roadmap for the establishment of INFF *(Cont...)*

8. South-South Co-operation (SSC)	8.1	Design an SSC engagement strategy to proactively mobilise resources from SSC		Q2	
	8.2	Establish a dedicated SSC Unit to coordinate and monitor the central and sector based partnerships. The Unit is also expected to track such partnerships (both as a recipient and provider) to position Namibia in the region and globally.	NPC, MoF	Q2	
	8.3	Improve value-for-money and data availability of SSC through mainstreaming information on SSC into the overall development cooperation database.	NPC, MoF	Q2	
	8.4	Participate and actively engage in the regional SSC reporting process to formalize and support data collection.	NPC, MoF	Q2	
9. Climate Finance	9.1	Enhance institutional capacities at national and regional levels to mobilise and manage climate finance through designing tailored capacity development programmes. In particular, drive accreditation of suitable institutions and support EIF to mobilise and manage large scale climate finance.	MET, EIF		Q1-Q2
	9.2	Improve the quality of climate-related bankable project proposals (with support from PDF)	EIF	Q2	
	9.3	Establish a strong climate finance database to support policy interventions and project packaging.		Q1-Q2	
	9.4	Developing an innovative funding mechanisms to finance pro-poor climate projects (e.g. Result-Based Finance (RBF)).	EIF, NPC		Q4
10. Illicit financial flows	10.1	Capacitate technical and legal staff of tax administrations offices (MoF and NamRA) in Transfer Pricing rules and auditing.	MoF, NamRA	Q3	Q1
	10.2	Explore support from the Tax Inspectors Without Borders (TIWB) to strengthen domestic capacity to manage complex tax avoidance schemes, especially by multinational corporations and large tax payers.			Q2
	10.3	Strengthen the audit preparation capacity of tax administrations offices to make information requests to taxpayers more reliable and explicit, and enforce reporting and disclosure obligations.		Q1	
	10.4	Address base erosion and profit shifting (BEPS) challenges through collaborating with the BEPS project or become a member of the Inclusive Framework on BEPS.			Q2
11. Remit-tances	11.1	Design a Diaspora engagement strategy	BoN, MoF, MoIR		Q2
	11.2	Develop appropriate financial products in order to attract investment by Diaspora, such as Diaspora bond, trust funds, etc.			Q3
	11.3	Promote a service for cross-border remittance using blockchain-based systems to ensure a fast, safe and affordable cross-border money transfer.	BoN, MoF		Q4
	11.4	Encourage and incentivise Diaspora to invest in national priority projects, such as through crowd-funding platforms.	BON, MoF, MoIR		Q3

Namibia Roadmap for the establishment of INFF *(Cont...)*

12. Strengthen monitoring and Evaluation	12.1	Strengthen monitoring of public and private financing and subnational financing through a standardised framework of indicators that can be linked to sector and macro levels.	NPC, NSA, MoF	Q4	Q1
	12.2	Design a capacity development programme in M&E across government institutions to enhance data collection, processing and sharing.	NPC, NSA	Q1-Q2	
	12.3	Establish M&E Units across government institutions.	NSA, NPC, Sector Ministries		Q2-Q4
	12.4	Identify mechanisms of financing critical surveys for monitoring national development priorities and SDGs.	NSA, NPC, MoF		Q2-Q3
	12.5	Design a strategy to improve the quality and comprehensiveness of data production of the NSA.[1] Additionally, the strategy should address capacity-building across all elements of the national statistical system, improve coordination and minimise duplication of data.	NSA, NPC, Sector Ministries		Q1-Q2
13. Enhance Accountability	13.1	Establish a National Accountability Team (NAT) whose task is to evaluate whether services are delivered as planned to enforce accountability.	NPC, MoF	Q1	
	13.2	Institutionalising performance contracts in the local government planning system.	President Office	Q2	
	13.3	Establish a system of enforcing accountability through introducing rewards and penalties	President Office	Q1	
14. Improve the dialogue architecture	14.1	Revise and update the dialogue mechanism to make it more inclusive with strong representation of the private sector, line ministries, regional governments, industry representatives, development partners, DFIs, INGOs.	NPC, MITSMED, DPs	Q3	
	14.2	Promote effective and productive engagement, strengthen dialogue platforms at subnational and district levels by including relevant development actors.	NPC, MITSMED, DPs		Q2
	14.3	Revisit the structure of Sector Working Groups (SWGs) to ensure adequate representation of development actors. Additionally, the modality of SWGs leadership needs to be revisited to include lead development partners as co-chair of SWGs.	NPC, Sector Ministries, DPs		Q2

* Activities that involve more than one institution, the first institution in the list will take the lead role in the implementation of those activities.

Annexures

Annexure A: **References**

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Annexure B: **Foreign exchange rates**

Table A.1: Foreign exchange rates

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EURO	9.8	12.2	12.0	10.0	10.2	10.7	12.8	13.0	16.5	16.2	15.0
UK Pound	14.4	15.4	13.4	11.7	11.8	13.2	15.1	17.7	22.6	19.7	17.1
US Dollars	7.2	8.4	8.6	7.6	7.4	8.3	9.7	11.9	12.2	14.7	13.3
South African Rand	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Annexure B: **List of consulted institutions**

Table A.2: List of consulted institutions

	Name	Institution	Position	Email Address
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