

**Namibia: Report on Observance of Standards and Codes—  
Fiscal Transparency Module**

This Report on the Observance of Standards and Codes on Fiscal Transparency for Namibia was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on September 7, 2007. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Namibia or the Executive Board of the IMF.

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NAMIBIA

**Report on The Observance of Standards and Codes (ROSC)  
Fiscal Transparency Module**

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September 7, 2007

**EXECUTIVE SUMMARY**

Namibia has the essential elements of a transparent fiscal system and meets the basic standards of the fiscal transparency code. In recent years, the Government has improved the public financial management system, particularly the budget formulation process and the accounting system. Specific initiatives include the development and presentation of the budget underpinned by a comprehensive macroeconomic framework and Medium-Term Expenditure Framework (MTEF); implementation of an Integrated Financial Management System (IFMS); formulation of a comprehensive debt strategy combined by improved reporting on debt, contingent liabilities, and on-lending; and an assessment in the budget documents of macroeconomic risks, policy initiatives, and fiscal sustainability. The Government has reduced the backlog in external audit, and begun establishing internal audit in the line ministries and addressing audit problems of the tax administration. It has established an Anti-Corruption Commission to address, *inter alia*, corruption among public officials.

The current momentum of fiscal policy and management reforms needs to be maintained. The Ministry of Finance (MOF) urgently needs to develop an appropriate budget classification structure by adopting a Program classification, and to improve the consistency of reporting on the budget to facilitate informed discussion of policies and the rationalization of spending. The Ministry should make publically available its quarterly information bulletin and should present a mid-year budget review to the Parliament. The fiscal data should cover general government, and there should be improved reporting on state-owned enterprises. Civil society should be involved more actively in the budget process and the budget calendar advanced so that the budget is presented to Parliament well in advance of the end of the fiscal year. The Government needs to significantly raise the capacity for external and internal audit of its own activities and the tax administration's ability to audit taxpayers. It must firmly address proven instances of wrongdoing and ensure a proper structure is put in place for Government procurement and supervision of state-owned enterprises, and public banks, as well as subsidized enterprises. Resource revenue provisions are clear and transparent but there is scope to clarify the treatment of royalties and reduce discretion.

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**ABBREVIATIONS**

|         |                                                      |
|---------|------------------------------------------------------|
| AG      | Auditor-General                                      |
| BON     | Bank of Namibia                                      |
| CGA     | Central Governance Agency                            |
| EPZ     | Export Processing Zones                              |
| EPAS    | Directorate of Economic Policy Advisory Services     |
| ESAAG   | Eastern and Southern African Accountants Group       |
| IFMS    | Integrated Financial Management System               |
| GFSM    | Government Finance Statistics Manual                 |
| IPPR    | Institute for Public Policy Research                 |
| IPSAS   | International Public Sector Accounting Standards     |
| IRD     | Directorate of Inland Revenue                        |
| MTEF    | Medium-Term Expenditure Framework                    |
| MTI     | Ministry of Trade and Industry                       |
| MOF     | Ministry of Finance                                  |
| MME     | Ministry of Mines and Energy                         |
| NAMFISA | Namibia Financial Institutions Supervisory Authority |
| NEPRU   | Namibian Economic Policy Research Unit               |
| NDP     | National Development Plan                            |
| NPC     | National Planning Commission                         |
| NPCF    | National Planning Commission Secretariat             |
| PAC     | Public Accounts Committee                            |
| PEMP    | Performance Effectiveness Management Program         |
| OPM     | Office of the Prime Minister                         |
| ROSC    | Reports on the Observance of Standards and Codes     |
| SIDA    | Swedish International Development Agency             |
| SOEGC   | State-Owned Enterprise Governance Council            |
| TAW     | Treasury Authorization Warrant                       |
| VAT     | Value Added Tax                                      |

## I. INTRODUCTION<sup>1</sup>

1. **This report provides an assessment of fiscal transparency practices in Namibia against the requirements of the IMF *Code of Good Practices on Fiscal Transparency*.** The assessment has two parts. The first part is a description of current practice, prepared by the IMF staff on the basis of discussions with the authorities and their responses to the fiscal transparency questionnaire, and drawing on other available information. The second part is an IMF staff commentary on fiscal transparency in Namibia. Code sections are listed in italics next to each heading.

## II. DETAILED DESCRIPTION OF PRACTICE

### A. Clarity of Roles and Responsibilities

**General government is generally well defined.**

*1.1.1*

2. **A comprehensive definition of the general government in Namibia, consistent with the definition in the Government Finance Statistics, would comprise the central government, 13 regional councils, local councils, and traditional authorities.** The central government consists of the Offices of the President, the Prime Minister, and the Auditor-General, the Parliament's two chambers, Government Ministries, and various agencies, commissions, funds, and other statutory entities that are fully or mainly funded by the budget and perform public functions. The budgetary central government consists of the Office and Ministries and the National Planning, the Electoral, and the Anti-Corruption Commissions. The broader public sector would include a range of commercially oriented public corporations and state-owned enterprises, but the distinction between these types of enterprises is not always clear.

**The roles of the executive, legislative and judicial branches are clearly defined in the Constitution.**

*1.1.2*

3. **Under the Constitution, the President is the Head of State and of the Government, and executive power rests in the President and Cabinet.** The Cabinet consists of the President, the Prime Minister and other Ministers appointed by the President from the members of the National Assembly, one of two chambers of Parliament. Legislative power rests in the National Assembly with the power to pass laws with the assent of the President, subject, where applicable, to the powers and functions of the National Council, the second chamber of Parliament, which consists of two members from each region to be

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<sup>1</sup> The mission held discussions on fiscal transparency in Windhoek during June 5–19, 2006. The staff team, comprising Ms. Stotsky and Messrs. Khemani and Shukla, met with officials from the Ministry of Finance, the Bank of Namibia, the Auditor General's Office, the Ministry of Mines and Energy, the Ministry of Regional and Local Government, Housing and Rural Development, the National Planning Commission, the National Statistics Office, the Central Governance Agency, and the Anti-Corruption Commission, as well as representatives from the private sector and nongovernmental research institutions.

elected from among the members of the Regional Council in each region. The National Assembly has 72 elected members and up to 6 members appointed by the President. The judiciary power rests in the Courts of Namibia, which consist of a Supreme Court, a High Court, and Lower Courts. The Courts are independent and subject only to the Constitution and the law.

**The responsibilities of different levels of government are clearly defined.**

*1.1.2*

4. **The central government plays an important role in the economy. Most revenue, spending, and other financial powers are allocated to the central government.** Tax revenues are derived from income taxes, the value-added tax, excises, customs duties, and other smaller taxes. Nontax revenues include dividends from state-owned enterprises and the central bank. Revenues and grants were estimated at 30.4 percent of GDP in fiscal year 2004/05. Spending covers the full range of activities normally carried out by a central government. Spending was estimated at 34.5 percent of GDP in fiscal year 2004/05.<sup>2</sup>

5. **The regional and local councils play a relatively small fiscal role, although fiscal statistics on their revenues and spending are not readily available. Regional councils have not been assigned any specific service delivery functions.** Their main role is to coordinate development planning in their territories, including rural settlement areas. Local councils are mainly responsible for the provision of utilities (including electricity, water, sewerage, cemeteries, and so on). Regional councils are mainly funded by central government appropriations, channeled through the Ministry of Regional and Local Government, Housing and Rural Development, by some small fees and charges, and by 5 percent of ratable charges on immovable property levied by local councils. Local councils finance themselves by ratable charges on immovable property, fees, and charges for utilities provision. The Local Authorities Act 1993 (section 73) authorizes the local councils to determine the rates guided by a number of factors like land type, area, location and improvements to the land and properties.<sup>3</sup> Regional and local councils have limited borrowing power, mainly bank loans, with the approval of the Minister of Finance; while there are no legal limits on their levels of debt.

6. **The Decentralization Enabling Act, 2000 (Act 33 of 2000) envisions the eventual devolution of some of social services and infrastructure development to the regional level.** However, this decentralization is taking place very gradually, starting with water provision and electricity distribution, and line ministries are still mainly responsible for the provision of public services in the regions and localities.

**The Bank of Namibia is the Central Bank of Namibia and serves as the State's principal instrument for monetary policy administration and supervision of banking institutions.**

*1.1.4*

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<sup>2</sup> The fiscal year runs from April 1 to March 31.

<sup>3</sup> A local authority council may also impose special rates in case of a deficit, with the prior approval of the Minister of Local Government and Housing.

7. **The Bank of Namibia was established by section 2 of the Bank of Namibia Act, 1990 (Act 8 of 1990) and is governed by the Bank of Namibia Act, 1997 (Act 15 of 1997).** This act lays out the main objectives of the Bank to promote and maintain a sound monetary, credit and financial system in Namibia and sustain the liquidity, solvency and functioning of that system; to promote and maintain internal and external monetary stability and an efficient payments mechanism; to foster monetary, credit and financial conditions conducive to the orderly, balanced and sustained economic development of Namibia; to serve as the Government's banker, financial advisor and fiscal agent; and to assist in the attainment of national economic goals. This act establishes a Board to be responsible for the policy and administration of the Bank, appointed by the President and headed by the Governor. The relationship between the Government and the Bank and the disposition of Bank profits are dealt with clearly in the law.

8. **With regard to the Bank's relationship with the Government, the Bank of Namibia Act stipulates that the Bank may grant loans to the Government on such terms and conditions as the Board and the Minister may agree upon, but all such loans shall be repaid to the Bank within six months of being granted.** According to a Memorandum of Agreement between the Bank and the Government, the Government may without prior notification use an overdraft facility from the Bank that should not exceed N\$200 million<sup>4</sup>. The interest rate charged on this facility is equal to the weighted average discount rate on the latest issue of 91 day treasury bills plus two percentage points. This interest differential makes it advantageous for the Government to borrow in the local financial market. Any overdraft in excess of N\$200 million requires approval from the Board of the Bank. All foreign borrowing by the Government or other public entity must be approved by the Minister of Finance and done in consultation with the Bank. The Namibian Dollar is pegged to the South African Rand.

**The legal framework for management of general government public funds is clear.** 1.2.1

9. **The Constitution, Article 126, and the State Finance Act, 1991 (Act 13 of 1991) lay out the basic legal framework for the management of public funds in Namibia.** The State Finance Act covers the central government and in particular refers to the establishment of the State Revenue Fund<sup>5</sup> as the consolidated account of the central government.<sup>6</sup> Both the Regional Councils Act, 1992 (Act 22 of 1992, amended in 2002) and the Local Authorities Act, 1992 (Act 23 of 1992 amended in 2002) provide the legal framework for management of public funds by regional and local councils.

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<sup>4</sup> The statutory limits on central bank overdrafts are observed in practice.

<sup>5</sup> In addition, the State Finance Act refers to the maintenance at the central bank an account to be known as the State Account for depositing all state moneys and making all payments. Apparently, the State Account is primarily the title of the main bank account at the central bank for state moneys.

<sup>6</sup> See Daniel Motinga, 2005, "Namibia," *Budget Transparency and Participation 2*, edited by Maritt Claassens and Albert Van Zyl (Cape Town, South Africa: IDASA), pp. 194–212.



10. **The Ministry of Finance (MOF) plays the central role in fiscal policy making and management and for supervising the preparation of the budget.** Under the Minister of Finance, there is a Deputy Minister, and a Permanent Secretary, who is reported to by a Deputy Permanent Secretary and a Director of Economic Policy Advisory Services and a Division of Internal Audit. Under the Deputy Permanent Secretary, there is a Department of State Accounts, a Department of Revenue Management, a Directorate of Administration, and a Division for Information Technology. Under the Department of State Accounts are Directorates for Expenditure and Financial Management; Budget Management and Control; and Asset, Cash, and Debt Management. Under the Department of Revenue Management, there is the Directorate of Inland Revenue and the Directorate of Customs and Excise. The term “Treasury” refers to the general financial management function of the Ministry of Finance.

11. **The State Finance Act provides the Government with the authority to regulate receipt and make payments regarding the use of public funds.** It also provides for the role of the Treasury in overseeing the use of state funds. Article 127 of the Constitution provides for establishment of the office of the Auditor-General and states that the Auditor-General shall audit the State Revenue Fund and report on this to the National Assembly. The State Finance Act further spells out these duties.

12. **The National Planning Commission Act, 1994 (Act 15 of 1994) lays out the role for the National Planning Commission, which is in the Office of the President and headed by a Director-General.** It is responsible for preparing the development budget for submission to the Ministry of Finance as part of the budget process and for coordination with external donors. The National Planning Commission (NPC) is also responsible for the production and compilation of national statistics, as well as maintenance and administration of the national statistical system.

13. **There are also a number of donor funds, given by external bilateral and multilateral institutions, which on the request of the donors are kept outside the State Revenue Fund.** However, the National Planning Commission, in conjunction with the Ministry of Finance and line ministries, is responsible for ensuring that these funds serve agreed developmental purposes and they are taken into account in the overall budget formulation. The authorities indicated that they have encouraged donors to channel external aid and loans through the State Revenue Fund to improve their ability to allocate state resources to the highest priority development purposes.

**The relationship between the central government and the state-owned enterprises and other statutory bodies varies and roles and responsibilities lack some clarity.** *1.1.4*

14. **The state-owned enterprises are supervised by the State-Owned Enterprise Governance Council (SOEGC), a committee of Cabinet.**<sup>7 8</sup> This Council works in

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<sup>7</sup> A state-owned enterprise is defined as a) a body corporate established under any Act other than the Companies Act (excluding local or regional authorities) and b) a company registered under the Companies Act; in which the government controls the composition of the board of directors, controls more than 50 percent of the votes, and controls more than 50 percent of the issued shares.

consultation with the relevant portfolio ministers, and with the advice of the Central Governance Agency (CGA), which was created by Cabinet decision for this purpose. State-owned enterprises accounts are kept off budget, but may receive budget support through lending and equity participation of subsidies. Some extra-budgetary institutions are funded directly through the budget, including educational institutions and the Namibia Broadcasting Corporation. The budget submission may include separate reporting, by relevant ministry, on some of these entities.

*Public financial corporations*

15. **The Government has a full equity share of four specialist or policy banking corporations:** (i) the Development Bank of Namibia, which extends credit at below market interest rates for specified development projects and for which the Government is seeking to expand its capital, including by tapping foreign investors; (ii) the Agricultural Bank of Namibia, which extends credit to farmers under special schemes to assist communal farmers in communal areas and to resettle communal farmers on commercial land under the government's affirmative action loan scheme; (iii) the National Housing Enterprise, which extends credit at below market interest to fund low-cost housing projects; and (iv) the NamPost Savings Bank, which is a deposit institution that is part of Namibia Post Limited. The first two banking institutions, which are the largest in capitalization of the public banks, are supervised by the Ministry of Finance and the State-Owned Enterprise Governance Council. Altogether, the equity of these four public banks is estimated to amount to less than 10 percent of banking system assets. With regard to nonbanking financial institutions, the Government has a full equity share in an insurance company, the Namibia Reinsurance Company, which is supervised by the Ministry of Finance and the Namibia Financial Institutions Supervisory Authority (NAMFISA). In view of the potential risks to the budget of lending activities by the public banks, it is important that these banks be supervised in the same manner as other banks and thus brought under the supervision of the Bank of Namibia. Already, the Agricultural Bank of Namibia has been facing financial difficulties and has had to curtail its lending activities.

*Other statutory enterprises*

16. **There are a large number of public nonfinancial corporations, in which Government has a part or full ownership share, including public utilities and Air Namibia, the national airline.** In addition, there are a number of other statutory bodies that are not incorporated, serving a range of purposes.

*Special funds*

17. **There are a number of statutorily and nonstatutorily created funds of the central government.** The statutorily created funds include the National Energy Fund, under the Ministry of Mines and Energy (MME), which derives its revenue mainly from fuel levies on

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<sup>8</sup> This Council consists of the Prime Minister, as chair, the Finance Minister, the Trade and Industry Minister, the Attorney-General, and the Director-General of the National Planning Commission.

importers. It is responsible for stabilizing the price of fuel, and pays subsidies to producers to cover their losses from below market prices. This fund has accumulated some sizable losses in the past few years because retail prices were held below market levels. Another one of the largest funds is the Road Fund Administration,<sup>9</sup> under the Ministry of Works, which mainly funds itself with a special levy on fuel and the receipt of foreign funds, for road building projects. Similarly, there are also two diamond-related funds, namely the Diamond Valuation Fund and the Diamond Port Fund.

18. **There are two important funds for social security and pensions for government employees.** The Social Security Fund, supervised by the Social Security Commission, under the Ministry of Labor and Social Welfare, finances maternity and death benefits through a 0.9 percent tax on payroll (limited to a N\$27 per month contribution per employee). The Government Institutions Pension Fund (GIPF), established in 1989, is the pension fund for public employees. It provides a defined benefit pension and insurance benefits to public employees, financed by participating parts of the Government (16 percent of pensionable salary) and employee contributions (7 percent of pensionable salary). It is believed to be the first government services pension fund to have been successfully privatized and is subject to the same laws as all private sector pension funds, though the Government retains a strong oversight role. It is controlled by a Board of Trustees, which contains representatives of the Government, employees and labor unions. It is fully funded and although the trustees are responsible for overall operation of the fund, they have appointed a number of private managers of the assets of the fund.

19. **In addition to the statutory entities, the Government owns an equity interest in a number of private sector enterprises, including NAMDEB, the largest diamond mining company (owned in partnership with DeBeers Diamonds), where it has a fifty per cent equity share and a few other mineral producers, such as Rossing Uranium.**

#### *Reform of the sector*

20. **Reforming the state-owned enterprise sector is one priority of the Government, though the progress has been slow.** A bill, the State-Owned Enterprises Bill, 2005 (Bill 17 of 2005), now awaiting the final approval of Parliament, would strengthen the existing legislative framework for control of these enterprises by requiring a performance agreement between the relevant portfolio minister and the enterprise, and by enhancing the powers of the state to investigate the activities of these enterprises. In addition, it would improve reporting from these enterprises, with the intention, to be spelled out in regulations, of requiring each enterprise to submit a quarterly statement of accounts and an annual budget plan for inclusion in the annual budget submission. It would dissolve the Central Governance Agency and shift its responsibilities to a Secretariat of the Governance Council. The bill leaves intact the predominant role of portfolio ministers in appointing members of the Boards of these enterprises and does not fully clarify the role of the various institutions of

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<sup>9</sup> The Road Fund is managed through three institutions, namely, the Road Fund Administration, the Road Construction Company, and the Road Authority.

Government in supervising the state-owned enterprises and ensure a strong enough role for the Council and Ministry of Finance. This bill should strengthen the role of the Council and Minister of Finance in determining the members of the Boards of state enterprises and ensure that the Council and Minister have the ability to effect improvements in governance and the economic performance of these enterprises.

**The legal framework for privatization is not fully developed.**

*1.1.5*

21. **Full scale privatization of any of the state owned enterprises is unlikely in the near future and at present there is no comprehensive legislative framework for privatization.** Minority stakes in state-owned enterprises may be sold. Although a few such stakes have already been sold, the policy framework governing this process is not fully developed but in principle follows the Government's tender process, discussed later.

**Public land is redistributed according to the law, though there are some concerns.**

*1.1.5*

22. **An important public asset is land.** Since the mid 1990s, the Government has relied on a "willing buyer, willing seller" program to address the inequalities in land distribution stemming from the colonial era in which much of the land was owned by a small number of farmers. The program is complemented by a concessional affirmative action loan scheme for the purchase and modernization of farms. The pace of implementation of the program of land redistribution has been slow, which has been attributed to cumbersome decision-making and bureaucratic procedures and the reluctance of farmers to sell their land at prices acceptable to the Government. Land acquisition through expropriation is envisaged under the Constitution "in the public interest" and the Government has initiated expropriations with compensation with respect to 20 farms, two of which have already taken place. There are some concerns that the criteria to identify land subject to expropriation may not be objective and transparent. The authorities feel that the existing legal framework is sufficiently transparent, noting that an independent technical land committee has authority to assess land offered for sale in terms of its value and potential usefulness to resettlement, according to transparent criteria, and that recourse to the court system would provide sufficient protection against arbitrary decisions.

**Laws and processes governing government regulation of the private sector are clear and open but concerns were expressed at times about implementation.**

*1.1.5*

23. **The private economy of Namibia is based primarily on primary mineral extraction industries (including diamonds, zinc, and uranium), farming and ranching, and financial services.** In the mission's discussions with civil society, including private individuals, representatives of industry associations, and nongovernmental think tanks, the laws and regulatory framework for private sector activity were seen as conducive to private business development and the Government as relatively transparent in its interactions with the private sector. The main concern was what a number of commentators perceived to be some slackening of the interest by public officials in recent years in soliciting the views of the private sector. Some concerns were also expressed about what was seen at times as a lack of implementation capacity in Government, cumbersome bureaucratic procedures guided too heavily by social or political rather than economic objectives, deals given on the basis of

insider relationships, and the Government's unwillingness to hold public officials accountable for proven instances of wrong doing.

**The legislative basis for taxation is clear and comprehensive but regulations for implementation of some parts of the laws are lacking.**

1.2.2

24. **Namibia does not have a consolidated tax code but has promulgated a series of tax laws on income and consumption.** The income taxes are administered according to the provisions of the Income Tax Act, 1981 (Act 24 of 1981), which has been subsequently amended several times. The Minerals Act, 1992 (Act 33 of 1992) and Diamond Act, 1999 (Act 13 of 1999) relating to the mining sector are the two other significant tax laws. The value added tax (VAT) was introduced in year 2000, under the Value Added Tax Act, 2000 (Act 10 of 2000), and amended in 2002 and 2004. The Act makes provisions for the Minister of Finance to issue regulations should they be needed. Income taxes and the VAT are administered by the Directorate of Inland Revenue under the Ministry of Finance. Customs duties and excises are administered by the Directorate of Customs and Excises.

25. **When the VAT was introduced in 2000, there was a widespread campaign to inform and educate the population** through workshops for stakeholders, press briefing, and so on. For amendments to the existing legislation, stakeholders are consulted during the process of amendment. When proposed tax legislation is submitted to Parliament, it may be referred to the Parliamentary Standing Committee on Economics. It is the normal practice for the National Council to go to the regions and hold public hearings to gain feedback from the public on specific proposals.

**Tax exemptions and zero rating are defined in the tax laws.**

1.2.2

26. **Tax exempt income has been clearly defined in the law.** Tax exempt institutions and other special entities have also been fully described. Similarly, rebates for certain type of income are outlined in detail and there is little scope of ambiguity or discretion in these cases. Substantial non-tax incentives, however, are often negotiated on a discretionary basis with individual investors. Special provisions affecting non-residents have been made in the act. Again, separate provisions have been made for taxation of mining operations including oil and gas extraction.

27. **Tax exempt items under the VAT are also clearly defined in the law and are not left to the discretion of the tax administration or Ministry of Finance.** Sometimes, particular organizations, transactions and events are given special treatment but that also has been clearly laid down in the law.

28. **Refund of VAT may result from the sale of zero-rated goods, as defined in the VAT law, and from an excess of tax on inputs relative to tax on outputs.** The refund used to be given in about a month's time. By a recent directive of the Minister of Finance, all refunds of more than N\$15,000 are subject to pre-audit, which normally takes three to four months. No interest is paid to the company for the audit period. An interest rate of 11 percent is payable from the date when a decision has been given after the completion of the audit process.

29. **Certain tax incentives are available.** Some incentives are available to specific sectors or types of producers or for exports. These are clearly laid down in the respective tax laws. The first point of application under the incentive scheme is the Ministry of Trade and Industry (MTI). Final approval is the responsibility of the Ministry of Finance, based on the recommendations of the “incentives committee” chaired by IRD. Beneficiary operations are subsequently monitored and evaluated by IRD and MTI. Three sectors that get favorable tax treatment are manufacturing, farming and mining sectors. Some enterprises qualify for Export Processing Zones (EPZs) and are granted exemption from customs duty, VAT and corporate income taxes. These enterprises are subject only to the normal personal income taxes on the employees in EPZs. The criteria for granting status in EPZs should be clear and transparent. It is important to monitor actively enterprises qualifying for this favorable treatment. A prevalence of EPZs has in many countries undermined compliance because of the difficulty in properly limiting the tax benefits to those granted under the law and monitoring compliance, hence undermining overall tax compliance.

30. **Discretionary powers for deferment of tax liability are provided for in the law and vested in the officers of Ministry of Finance and tax and customs administrations.** This type of relief is not commonly granted for domestic VAT because the trader has already collected the taxes from consumers. Such requests are generally received in case of income taxes when the taxpayer, an individual or a company, may be facing a cash flow problem. For such deferrals, different levels of officers have the power to grant relief. Most of the cases are disposed of at the regional office levels and very few cases come to the headquarters. This whole process is formal and the relief is granted through official notice/letter. Because of privacy concerns, such orders are not made public.

**Taxpayer rights are well protected in the law.**

1.2.2

31. **The Income Tax law provides for objections and appeals by taxpayers. Similar provisions have been made in the VAT.** Taxpayers have access to an independent judiciary and have the legal right to independent representation in their dealings with the administration. A taxpayer may lodge a written objection to an assessment or decision of the department within 90 days of receiving a notice. In terms of the VAT, the Commissioner may consider an objection to an assessment only if the assessed person has paid the tax due or if he or she has provided sufficient security of the unpaid tax. If the objection is rejected, the taxpayer may lodge an appeal to a Special Court within 30 days. The taxpayer has also the option to take income tax cases before a tax tribunal.

32. **A mechanism exists for requesting advance tax liability rulings on particular transactions.** Such rulings are sent to the applicant by private correspondence. Once such a ruling is issued, it offers a safe haven to the taxpayer with regard to the transaction as long as the taxpayer undertakes it in accordance with the ruling.

33. **Income tax returns are annually mailed to the taxpayers but these are not accompanied by detailed instructions for completing and submitting the forms.** These tax forms or instructions are not posted on the department’s website as well. Between the end of tax year and the date of submission of the tax return, a tax collection and taxpayer information program is launched by regional tax offices. However, the emphasis in these

campaigns is more on achieving tax collection targets. Each regional office has a customer service unit to help taxpayers if they have questions on their tax situation.

**34. Self-assessment in income taxation has not been introduced in the real sense.**

Taxpayers are expected to complete tax forms and calculate their tax liability according to the provisions of the law. Once these forms are received, the Directorate of Inland Revenue conducts a 100 percent examination of those tax returns and determines the final tax liability for each taxpayer. This naturally takes time and increases the Directorate of Inland Revenue's workload considerably. It is forced to employ the bulk of its manpower and resources to routine tax assessment, payment, and record keeping. The Directorate is also unable to focus on large taxpayers due to its preoccupation with 100 percent tax assessment.

**B. Open Budget Preparation, Execution, and Reporting**

**A statement on fiscal policy objectives is included in the budget document, and fiscal sustainability issues are discussed.**

3.1.1, 3.2.2

**35. The overall national development goals of Namibia are outlined in Vision 2030, the longer term plan of the Government to transform Namibia into a higher income country and reduce income, regional, and gender inequalities.** The national development goals are further defined in the National Development Plans (NDPs), five-year plans, which preceded but now reflect Vision 2030. The Government has completed review of its second five-year National Development Plan and anticipates starting its third five-year plan in fiscal year 2008/09. These goals guide the fiscal and other economic policies of the Government.

**36. In 2001, the Minister of Finance introduced the Medium-Term Expenditure Framework (MTEF) as a central tool for budget planning and to enhance the transparency of the budgetary process.** It covers a three-year rolling period. It is linked to the Performance Effectiveness Management Program (PEMP), which is a joint product of the Office of the Prime Minister, the Ministry of Finance, and the National Planning Commission. It contains targets the ministries are expected to meet and is designed to focus on achieving specific program results.

**37. The standard annual budget submission of the central government consists of five documents:** the Statement for the Budget, the Macro-Economic and Budgetary Framework, the MTEF, the Estimates of Revenues and Expenditures, and the Three-Year Rolling Development Budget.<sup>10</sup> The budget speech, given by the Minister of Finance, when presenting the budget to Parliament, as well as the analysis and explanations in the Macro-Economic Framework and MTEF are the main means by which the short, medium, and long-term fiscal objectives embodied in the Government's plans are presented to policy makers and the public.

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<sup>10</sup> Ministry of Finance, various years, Statement for the Budget; Ministry of Finance, various years, *Macro-Economic and Budgetary Framework*; Ministry of Finance, various years, *Medium-Term Expenditure Framework*; the Ministry of Finance, various years, *Estimates of Revenues and Expenditures*; and the National Planning Commission, various years, *Three-Year Rolling Development Budget*.

38. **Fiscal risks in the budget documents are dealt with mainly through a discussion of trends and evolution of the public debt stock and loan guarantees.** Although the documents contain medium-term projections (either two or three years), they do not present any longer term fiscal projections. Fiscal sustainability concerns are described as motivating certain fiscal policies and are discussed in the budget speech, with reference to the evolution of the debt to GDP ratio, assessments focused on the level of primary balance that is required to stay under a debt ceiling, and so on, but some additional quantitative analysis would enhance clarity.

**There are no legislated fiscal rules used in the budget process; however, the Government has three fiscal targets.**

3.1.2

39. **The Government has set a long run fiscal target of limiting the ratio of government debt to GDP to no more than 25 percent.** In recent years, the debt share has risen above this target. The Government has now put in place a medium-term fiscal plan, through the MTEF, that entails fiscal consolidation, though the public debt is projected to decline only to 32.4 percent of GDP by 2008/09. In addition, the Government has set targets, over the MTEF period, that the budget deficit should not exceed 3 percent of GDP and that public expenditure should not exceed 30 percent.

**Budget forecasts are clearly presented but the assumptions underlying the budget forecast are not clearly spelled out in the fiscal documentation.**

3.1.3

40. **The Ministry of Finance, in coordination with the Bank of Namibia (BON) and the National Planning Commission, is responsible for drawing up the macro-economic framework underlying the budget.** The National Planning Commission Secretariat (NPCS) is responsible for the detailed macroeconomic modeling of the economy. This activity is further coordinated and advanced by the Macroeconomic Working Group, a technical think tank of the MOF, NPCS and BON. The Bank of Namibia has developed two macroeconomic models of the economy, one of which (NAMMAC) forms the basis for the discussion on the macroeconomic framework, relying on relationships between such key variables as the GDP growth rate, interest rates, exchange rates, and inflation, as well as macroeconomic aggregates such as savings and investment and foreign trade.

41. **The National Planning Commission Secretariat provides the medium-term macroeconomic framework for the budget and the fiscal projections, which are presented in the MOF's annual publication, *Macro-Economic and Budgetary Framework*.** This examines trends in the economy and fiscal developments, and provides historical developments looking backward three years, and forecast for the budget for the coming and three subsequent fiscal years. The forecast is based on a no policy change scenario but expected changes are incorporated into the forecast. Since the forecast precedes the formal submission of the budget by roughly one-half year, no specific explanation of their influence on the forecast is given in this document.



**The annual budget preparation procedures are clear, but need to be enhanced in line with international best practices.**

3.1.3

42. **The annual budget process is to a large extent open and starts with the formulation of an aggregated macro-economic framework.** The approved framework is used by the Ministry of Finance to allocate resources, determine budget ceilings, and draw up budgetary guidelines to be sent to line ministries for preparing their draft budgets. An important drawback is that the budget process is fragmented into a number of different budgets—the operational (recurrent) budget, the development budget, and the budgets of a large number of special accounts, extrabudgetary funds, and other entities. This fragmentation of budget process obscures a consolidated picture of the public finances, and this could lead to sub-optimal decision making and insufficient fiscal discipline, as well as an inability to obtain information necessary to evaluate the performance of government sector as a whole.

43. **There should be consultation with the private sector and nongovernmental organizations early on in the budget process and on fiscal issues, more generally.** In the past, at the time of introduction of major tax laws or major amendments in the existing law, stakeholder representatives, research institutes, think tanks, and accounting firms were also involved, but that practice has gradually stopped. The President's office had constituted an Economic Advisory Committee for the sake of consultation on economic and public finance issues, but this committee has been dormant for the past few years. It is, however, being revised at the instance of the current President.

44. **The main steps in the annual budget preparation process are listed in Box 1 below.** The annual budget preparation process, including the budget calendar for compilation of operational and development budgets, is almost the same, though the operational budget is compiled by the Ministry of Finance and the development budget by the National Planning Commission. The final responsibility to put all budget documents together for presentation to the National Assembly rests with the Ministry of Finance. The coordination between the two budgets is achieved through the macro-economic framework, which guides the allocation of resources and determination of aggregate budgetary ceilings for both operational and development budgets. Also there is a participation of the Ministry of Finance budget officials in the development budget hearings conducted by the National Planning Commission. Although it would likely enhance the effectiveness of the budgetary process if the development budget responsibility was shifted to the Ministry of Finance, as long as there is good coordination in the achievement of the spending objectives of the government than maintaining the development budget in the National Planning Commission does not preclude effective budgeting.

**The budget is prepared and presented in the context of a three-year rolling MTEF.** 3.1.3

45. **The Government initiated a strategic budget process with fiscal year 2001/02 when it introduced the MTEF covering that fiscal year and two subsequent fiscal years.** The MTEF sets out the macro-fiscal framework for the coming three years, reviews fiscal

policy objectives, and provides expenditure ceilings for the recurrent and development budgets, classified by Vote.<sup>11</sup> To support the MTEF process, the Government introduced Medium-Term Plans (MTPs) for each Vote beginning with fiscal year 2003/04 and Accountability Reports for each vote prior to allocation announced in 2005. The MTPs establish objectives for each Vote, priorities for the MTEF period, and the categorization of the Vote's budget by Program. These MTPs are included in the MTEF document. The strategic budgeting process using the MTEF and MTPs is still in its early stages (Box 2).

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<sup>11</sup> Each ministry, office, and commission included in the State Revenue Fund is a Vote, except one ministry, which is split into two separate Votes.

### Box 1. The Budget Preparation Process

The fiscal year begins on April 1 of a year and ends on March 31 of the following year,  
according to the State Finance Act, 1991.

The main steps in the process are laid out in a circular issued  
by the Ministry of Finance every year as follows:

| Due dates                               | Activities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Legal basis             |
|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| March–June                              | <i>Macro-economic framework</i><br>Prepare macro-economic framework                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Budget circular         |
| July–August                             | <i>Determine resource envelope/obtain budget information</i><br>Presentation of macro-economic framework to the Cabinet for endorsement of fiscal targets.<br><br>Issue circular to line ministries and agencies: (i) requesting estimates of tax and non-tax revenue; and grants/donations in cash form both for the medium term and the current financial year (revised), submission by mid-August and (ii) requesting expenditure estimates in the Ministry of Finance prescribed forms for the budget year and following two years, submission by end-August.                                                                                                                                                                                                                                                 | Budget circular         |
| September–November                      | <i>Determine Budget Ceilings</i><br><br>Budget hearings-review all budget requests for the budget hearings. Analyze, review and compile additional requests from ministries and agencies. Issue invitations for budget hearings. Conduct budget hearings and develop ceilings.<br><br>Compile final budget scenario based on macro-economic framework, fiscal targets, resource envelope, statutory payments, and budget hearings.<br><br>Present summarized budgetary framework and medium-term expenditure framework to Treasury Cabinet Committee for approval.<br><br>Submit summarized budgetary framework and Medium Term Expenditure Framework to Cabinet for approval.<br><br>Issue Treasury circular to line ministries and agencies with final medium-term budget ceilings and seek adjusted documents. | Budget circular         |
| November–February of the following year | <i>Finalize budget documents</i><br>Compile budget documents, seek comments of the Bank of Namibia and the National Planning Commission, and finalize.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Budget circular         |
| Feb. –March                             | <i>Submission of budget to Parliament for approval</i><br>Print budget documents and submit budget to National Assembly and National Council<br><br>With approval of the budget by both chambers of Parliament, an Appropriations Act is passed by the legislature, and given to the President for signature.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | State Finance Act, 1991 |

## **Box 2. Medium Term Expenditure Framework and Medium-Term Plans**

In 1996, Government decided to reform the budget system in Namibia with the main aim of implementing a full fledged performance budgeting system. Since then a number of significant reforms have been introduced to the budget process. These include the PEMP introduced in 1999, and at the start of the financial year 2001/02, the MTEF. Simultaneously, the two types of budgets—the operational and development budget—continue to be prepared and published.

The MTEF has the following key characteristics:

- It sets out the macro-fiscal framework for the coming three years, reviews government fiscal policy objectives, and provides expenditure ceilings for the operational and development budgets by Vote.
- The allocation of resources and expenditure priorities are set in line with Namibia's Vision 2030, and National Development Plans.
- The MTEF is supported by MTPs prepared for each Vote. The MTPs set out, for each Vote, the total resources allocated to each Program, the main activities to be carried out under each Program, and how the Programs will help to achieve the ministries' objectives which contribute to the overall national development objectives. The expenditure plans are linked to socioeconomic variables in the PEMP.
- The MTEF covers a period of three years, but is revised every year. It thus serves the purpose of three-year rolling budget and also an annual budget. The Votes also include statements on financial operations of some special funds and state-owned enterprises falling under the respective ministry.
- The MTEF is regarded as the main budget document, and detailed information on the budget estimates is presented in the accompanying books—Estimates of Revenue and Expenditure and the Three-Year Rolling Development Budget.

The MTEF in Namibia, in principle, could offer several major advantages:

- Its medium-term perspective enables a rationalization and improvement in the sectoral and intra-sector allocation of resources in terms of Government priorities.
- The MTEF expands the budget coverage by including donor and other extra-budgetary funds.
- It integrates the operational and development budgets and relates recurrent costs to capital expenditure.
- It puts increased emphasis on performance as programs are expected to be planned and costed with a view to produce outputs that in turn should achieve objectives.

In practice, the MTEF process is still in its early stages and falls short of its potential as a tool for rational allocation of resources, review of priorities, and decision making. In particular:

- While the MTEF is presented by Vote Programs (through the MTPs), the detailed budget estimates for each Vote continue to be shown by Divisions and Sub-divisions (economic items). The expenditures are classified and recorded by Divisions and Sub-divisions alone. Thus, there is as yet no explicit link shown between the Vote-level Programs in the MTEFs and Votes, Divisions and Sub-divisions, and thus the report on the budget implementation through the Appropriation Accounts and the Audit Report. Hence it is not possible to compare what was supposed to have been spent on programs with what was actually spent.

**Box 2. Medium-Term Expenditure Framework and Medium-Term Plans (concludes)**

- The MTEF process is currently largely top-down, concentrating on the aggregate expenditure amounts. The bottom process for feeding back into the MTEF ceilings is limited; this also hampers the Government's ability to use the budget as a strategic tool for achievement of its development goals.
- Expenditure allocations still seem to follow an incremental basis; estimates for the two out years do not reflect reprioritization or genuine costing of programs, but seem to be derived by applying uniform growth factors.
- The recurrent and development budget process would benefit from some better integration, and the coverage of donor funds remains incomplete.
- The accounting system can not report on Programs, and PEMP indicators are not well integrated into the planning process. There is little scope for monitoring performance against budget targets.

**Estimates of new initiatives and ongoing costs of government policies are not clearly distinguished in the budget documents.**

3.1.4

46. **The formal budget presentation, in the MTEF, does not provide details on the costs of new initiatives on the spending side or the revenues from new initiatives on the revenue side.** One clear shortcoming of the transparency of information provided in the budget is that there is no clear connection between initiatives announced in the budget and their fiscal implications.

47. **The various aspects of major tax laws are not examined in the budget or other public documents on an annual basis.** An overall review of the tax policy objectives is, however, presented at the time of the annual budget in the context of debt situation, revenues and expenditures trends, economic growth and poverty alleviation programs. New tax laws, tax amendments for expansion of existing tax base, changes in tax rates etc. are brought in before the Parliament as separate acts of legislation as and when deemed necessary. However, there is no formal reporting on tax expenditures in budget documents.

**The sensitivity of budget estimates to changes in economic variables is assessed and fiscal risks are discussed with the budget.**

3.1.5

48. In general, the sensitivity of the budget estimates to changes in economic variables and fiscal risks is assessed in the budget speech and macroeconomic framework. The formal analysis of fiscal risks examines the effect of variation in key forecasting assumptions, the level of guarantees and trends, any litigation against the Government that could have budgetary impact, and uncertainty regarding the size of specific expenditure commitments. As with sustainability issues, some more quantification would enhance clarity. Information on government guarantees is provided in the MTEF and the quarterly bulletin and annual

reports of the Bank of Namibia<sup>12</sup> but there is no assessment of the likelihood that these guarantees will need to be assumed by the budget in the documentation.

**The MTEF program classification is not incorporated into the budget classification and chart of accounts and thus is not incorporated into budget execution reports.** 3.2.1

49. **As explained in Box 2 on the MTEF, the budget classification and chart of accounts do not include a program classification.** The budget classification structure used in the Budget Estimates document has three segments, namely Vote, Divisions and Sub-divisions (economic/line item classification), whereas the MTEF document classification has two segments, namely Vote and Programs; and below programs there is no economic classification. The Programs are not linked in any manner with the Divisions and Sub-divisions.

50. **The chart of accounts used by the accounting system, namely the Integrated Financial Management System (IFMS), includes Vote, Division, and Sub-divisions alone and does not cover Programs in any manner.** As a result, expenditures are not classified in terms of Programs and no expenditure data are available for Programs. There is an urgent need to review and revise the budget classification structure and the chart of accounts, and incorporate the program classification. Also, the economic (Sub-division) classification, which primarily follows Government Finance Statistics Manual (GFSM) 1986 standards, needs to be reviewed and improved in line with the GFSM 2001 classification.

**The overall balance of the central government is the main indicator of the fiscal position, and this balance is monitored during the year.** 3.2.3, 3.2.4

51. **The overall balance in the State Revenue Fund is the main indicator of the fiscal position and is monitored carefully over the fiscal year.** The State Revenue Fund should in principle comprise all the activities of central government, but in practice it does not include some revenues and expenditures of extrabudgetary funds and statutory enterprises that are performing government functions and are predominantly funded by the budget, and donor funds<sup>13</sup> that are channeled outside the budget. It is unclear how much of a difference the inclusion of these additional components of the central government would make in the overall balance and the Government should strive to construct this balance on a regular basis. Other fiscal indicators may be calculated for specific purposes but not on a regular basis. No attempt is made to calculate a balance which encompasses the broader public sector or general government, including subnational government.

**Basic accounting and internal control procedures are in place and the new accounting system will require some additional time to become well established.** 3.3.1

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<sup>12</sup> Bank of Namibia, various dates, *Quarterly Bulletin* and *Annual Report*.

<sup>13</sup> The Development Budget contains some (but not all) externally financed project expenditures. Non-inclusion of donor financed capital projects is of the order of 0.5 percent of GDP, and is thus a significant problem.

52. **The accounting system and internal control procedures are regulated by the State Finance Act and the Treasury Instructions issued thereunder.** In addition, the Treasury has issued several instructions to strengthen maintenance of commitment control records to control over-commitments and payment arrears. The internal control system is sound, with control established through strong centralization of the payment system. The treasury system is centralized at the Ministry of Finance, and line ministries are not allowed to hold bank accounts for their operations, so the treasury system should encompass the financial activities of the central government. The Treasury operates a single bank account called the “State Revenue Fund” with three sub-accounts at the Bank of Namibia for revenue collections, whose balances are transferred to the main account at the end of every day. Salaries are paid centrally from the Ministry of Finance through bank transfers, checks, or cash. Authority to undertake other expenditures (recurrent and development) is given to line ministries by the Treasury based on monthly Treasury Authorization Warrants (**TAWs**), with payments made by the Ministry of Finance.

53. **The recent introduction of an IFMS is expected to address the problems faced earlier, primarily the lack of real-time financial information,** and thus the timeliness and regularity of data reconciliation, and the weak capacity to use the information for active financial management. The IFMS has recently been rolled out to all ministries and departments, but it will take some time to get the system well established and to exploit its full potential (Box 3).

**The IFMS is capable of producing accurate in-year reports on the central government’s budget outturn.** 3.3.1

54. **The recently implemented IFMS can generate accurate and timely in-year reports including monthly fiscal reports and reports on outstanding payment obligations.** However, it is necessary to design the format of all these reports in the reporting functionality of the IFMS. The chart of accounts is consistent with the budget classification (divisions and sub-divisions) included in the detailed budget estimates of revenue and expenditure; however it does not include the MTEF Program classification and can not therefore produce budget outturn data in terms of Programs. As stated earlier, the chart of accounts needs to be reviewed and developed further; hopefully the IFMS would have no problem in using the revised and improved economic classification in line with the GFSM 2001.

**The Treasury’s accounting and reporting system fully accounts for all transactions pertaining to the approved budget of the State Revenue Fund.** 3.3.1, 2.1.1

55. **The Treasury’s accounting and reporting system fully accounts for all transactions of the State Revenue Fund.** However, the central accounting system does not fully capture off-budget activities, nor consolidate the revenue and expenditure data in central government with that of regional and local authorities, special funds, trading accounts, and statutory bodies to generate fiscal data on general government.

### Box 3. Integrated Financial Management System

Over the years, the financial management information system used for both managing public financial resources and decision making in Namibia has been inadequate. There were two main challenges for the Ministry of Finance in terms of accounting and reporting – the lack of real-time financial information, and the timeliness and regularity of data reconciliation. There were several different and uncoordinated systems and not sufficiently integrated. The line ministries' accounting and control systems were not linked to the General Ledger, which led to reconciliation difficulties and delays. The commitment records were maintained manually and were not effective to control expenditure. To address these problems and enhance management and accountability of public financial resources, the MOF together with the Department of Public Service Information Technology in the Office of the Prime Minister embarked upon a project for the implementation of an integrated financial management system (IFMS) to replace the fragmented and outdated existing system.

An IFMS was initially implemented on a pilot basis in October 2005 in four ministries, namely Finance, Defense, Agriculture and Forestry, and the Auditor-General's office. It has been rolled out to the remaining ministries and departments in April, 2006. Currently, the system is fully live in all central ministries and departments in Windhoek. However, the accounting procedures and guidelines for smooth operation of the system are still being developed and it will take some more time for the system to be fully operational. It is expected that monthly accounts will be closed and consolidated within five days of the end of a month and the first set of consolidated accounts were expected to be generated by end-July, 2006. The real time information for all ministries is expected to be available by end-August, 2006.

During the discussion with the IFMS project team, the mission pointed out a number of issues which need to be addressed at this stage to ensure the full functionality of the system and realize its full potential.

- The commitment control function of the system needs to be reviewed and it has to be ensured that: (i) supplies of goods and services should be regulated by the issue of a Local Payment Order generated by the system following the commitment approval procedures, and all suppliers should be informed through a public notice to comply with this requirement; (ii) all types of expenditure including running expenditures like rent and payment of utilities which does not require formal commitments need to be processed and approved as commitments before system authorizes their payments; and (iii) the system generates a report on outstanding commitments and unpaid bills to monitor payment arrears.
- The IFMS chart of accounts consists of 8 segments with a total 31 digits code. Some of these segments like Cost Centre and I.D. code still needs to be developed. In addition, there are a number of other issues with the IFMS chart of accounts, as pointed out in the MTEF box. The budget classification and chart of accounts need to be reviewed and revised to build in the MTEF program classification and improve the economic classification in line with the GFSM 2001. Also the IFMS should be able to generate reports by functional classification, which is currently being done by the Economic Policy Advisory Services with the help of spread sheets.
- The bank reconciliation functionality of the system needs to be fully tested and further developed, if necessary. It would be ideal if the system could have an interface with the Bank of Namibia payment system so that all bank accounts could be reconciled automatically, if that is not feasible, the system should facilitate the downloading of the bank statements files in a convenient manner.
- It appears that various sets of data transferred to the IFMS from previous systems were not fully verified, reconciled and validated before transfer. For example, the pay roll data should have been fully verified and updated to avoid the recurrence of errors and omissions under the new system. Similarly, the closing balance of various ledger accounts including suspense accounts needs to be verified and reconciled before these are carried forward as opening balance on the IFMS.
- The function of internal audit in the IFMS needs to be developed, as a part of internal controls and checks to be applied by the system.
- Suitable management reports and fiscal reports need to be designed and developed for generation by the system.

The budget preparation module is still being developed. It would be useful if this module could automate the entire budget process starting with development of macro-economic projections, MTEF process including development of budget ceilings and formulation of medium-term budget estimates.



**A systematic coordination between budget execution and financial management is being developed.** 3.3.1, 2.1.4

56. **The Ministry of Finance in conjunction with the Bank of Namibia has developed a sound mechanism of cash planning on an annual and a monthly basis, which guides the process of setting monthly ceilings for budget releases through Treasury Authorization Warrants.** The coordination between cash and debt management has been achieved by the creation of a Cash Flow Working Group comprising senior officials of the Ministry of Finance, including those from the Directorate of Inland Revenue, the National Planning Commission, and the Bank of Namibia. This group meets every month and reviews projections for cash inflows, outflows, and financing requirements developed by a cash planning unit, and determines cash available for issue of TAWs. In addition, a committee chaired by the Minister of Finance monitors the overall cash position of the Government including major inflows and outflows and financing of deficit. There is a very clear and well developed debt management strategy supported by a good monitoring system (see details on debt later).

**The public procurement system needs to be modernized.** 3.3.2

57. **The legal framework for the procurement system comprises the:** (i) Tender Board Act, 1996, (ii) Tender Board Regulations, 1996 (Act 16 of 1996), and (iii) Tender Board Code of Procedures, which primarily deals with the administration of the tender board. Procurement rules are considered to be open and transparent, and provide for competition built around a price preference for goods produced, manufactured, or assembled in Namibia, and small and medium enterprises to encourage local industrial and commercial interests. The central Tender Board is responsible for procurement of goods and services. The Tender Board is an independent entity<sup>14</sup> under the Ministry of Finance, and its Director reports directly to the Permanent Secretary. Request for bids are published in various media. The Board, after opening and listing all tenders, submits them to the relevant line ministry/agency for recommendation. The Permanent Secretary of the relevant ministry evaluates the bids and makes recommendations to the Board on the award of the tender. In case the lowest tender is not recommended, the permanent secretary needs to certify that the recommendation is made in the best interest of the Government and represents best value to the Government.

58. **The efficiency of the current procurement system is undermined by a number of factors:** (i) the capacity and professional skills of the tender board staff is limited, half of the established posts are vacant, and there is a heavy workload as a result of low threshold (N\$10,000) for issue of tenders; (ii) the tender board still works in a manual mode, as the processes and records are yet to be computerized; (iii) the line ministries may need strengthened guidelines and capacity building on how to screen bids and make recommendations; (iv) the performance of the awarded tenders is not being monitored on a

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<sup>14</sup> The Tender Board of Namibia has been established under the Tender Board of Namibia Act 1996, though administratively it is under the supervision of the Ministry of Finance, a common practice followed in a number of African countries.

sufficiently regular basis, and apparently there are a number of cases where a ministry chose to obtain goods and services from a supplier other than the successful bidder; (v) sanctions and penalties for non-compliance are limited; and (vi) there is some discretion in the process, since the overriding criteria of selection of the final bid is not just the least cost. For completed procurements, the Ministry of Finance could provide on their website the relevant data like the number of participants, final bids, and award of the tender. A review of the procurement system is currently being carried out in order to enhance the efficiency of the system. The review should aim at following the best practices in the procurement system by strengthening procurement rules and the legislative framework.

**Public service employment procedures are clear and well understood.** 3.3.2

59. **The Public Service Act, 1995 (Act 13 of 1995) and related regulations and staff rules clearly lay out the establishment and management of the public service.** The Public Service commission is the arbiter of transparency and fairness of recruitment in the Public Service. Namibia spent about 14.7 percent of GDP on personnel costs in 2004/05, accounting for more than half of current expenditures and about two-fifths of total spending, which is high by an international and African standard. This high level of spending reflects a high level of public sector employment, which is now stabilized and may decline over time.<sup>15</sup>

**The internal audit is weak, and this function in line ministries is still evolving.** 3.3.3

60. **Until early 2004, internal audit was conducted centrally by the Treasury through its designation of any officer or officers of the Ministry of Finance to carry out investigations at ministries, public offices, and statutory institutions relating to functions of the Treasury (Section 14 of the State Finance Act, 1991).** This was not really an internal audit, rather an inspection carried out by the Treasury officials to investigate cases of non-compliance with financial rules. In early 2004, the Government decided to adopt modern, internationally accepted standards and approaches to internal audit, and issued a letter to all Permanent Secretaries proposing that: (i) every office, ministry, and agency should have its own internal audit function, and this function may be provided by the ministry's own staff, or outsourced to another ministry or an external agency; (ii) the Ministry of Finance will set standards for internal audit, monitor compliance and provide guidance and advice, and (iii) the Ministry of Finance will identify appropriate training and in due course professional qualifications for internal auditors.

61. **Over the last two years, the implementation of these instructions has been very limited.** It appears that ministries have set up their own internal audit units with a separate establishment and a grading structure with the approval of the office of the Prime Minister. However the Ministry of Finance has neither set any standards for internal audit, nor issued any guidelines to the ministries on the role and responsibilities of internal audit function. The Ministry of Finance is also not monitoring the functioning of internal audits in any manner.

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<sup>15</sup> See Koshy Mathai, 2005, "The Namibian Civil Service and the Government Wage Bill," *Namibia: Selected Issues and Statistical Appendix*, pp. 23-40.

Also the Office of the Auditor-General has not been involved in guiding the development of this function. As a result, Ministries' internal audit units have been left to themselves to decide on what and how they should do internal audit.

**62. The development of internal audit in this manner is likely to be wasteful and result in an inefficient audit system.** The Ministry of Finance needs to take a central role in developing the internal audit function and assist the line ministries in establishing and managing this function efficiently. The Ministry of Finance needs to start by setting internal audit standards, developing and issuing guidelines and manual and training internal audit staff of line ministries. Its function would then be necessary to supervise the functioning and compliance of line ministries to those internal audit standards to ensure quality and compliance.

**The tax administration lacks effective internal monitoring and control mechanisms.**

3.3.3

**63. A system of audit exists for auditing taxpayers but presently there is no effective mechanism for the assurance of staff integrity.** There is a system of departmental supervision and a general Code of Conduct for the public service. But there is no separate Code of Conduct for the Directorate of Inland Revenue's staff about tax administration-related matters. There is, however, a plan to introduce such as code in the near future.

**64. The distinct lack of audit capacity in the Directorate of Inland Revenue remains a serious concern.** The Directorate is currently using auditors from the private audit community to conduct forensic audits on its behalf. A tender was awarded to a consortium of auditors and the appointment of the auditors was done with the cooperation of the Office of the Auditor General. A forensic tax audit on the northern regional tax office (Oshakati) started two years ago. The terms of reference include not only audits of the taxpayers but also focused on possible misconduct by officials. Apart from the normal income tax and VAT audit, considerable time was devoted to curbing "round tripping" at the border posts, which has a detrimental impact on VAT collections. A report to Parliament on the outcome will take place soon. The central regional office will also be subject to a forensic tax audit. The necessary arrangements have been completed to appoint private auditors for this exercise. It is estimated that the exercise will be roughly five times bigger than the Oshakati audit. Taxpayers for audit have been selected on the basis of region, activity, taxable income/loss, and type of taxpayer. For multinational taxpayers, there will be focus on transfer pricing. The Directorate has appreciated that outsourcing its audit is not a viable permanent solution to addressing tax evasion but considers it necessary until such time as it can develop an appropriate audit capacity of its own.

**The national tax administration is functionally organized into five divisions and operates as part of the Ministry of Finance.**

3.3.4

**65. The Directorate of Inland Revenue is part of the Ministry of Finance and hence is financed by annual appropriation under the annual budget.** Presently there is no system of sharing of fines or fees. The Directorate is consolidated under a single organization and in addition to regional offices is arranged functionally under five sub-divisions: (i)

legislation and tax policy; (ii) administration and support; (iii) operations; (iv) special investigations; and (v) training. Information on the structure of tax administration, however, is not distributed to the public, although such information is readily available. Also, no published reports are available giving the structure of tax administration.

**66. The Directorate of Inland Revenue does not provide regular reports to the Legislature and/or the public on their performance in administering the tax laws.** There are no regular publications on revenue collection during the course of a fiscal year. The information, however, is available and can be given to people on request. The Directorate realizes that this is a shortcoming and is currently seeking assistance from the U.S. Treasury in order to remedy it.

**67. No efforts have ever been made to estimate the cost of administration and the cost of compliance.** The cost of administration can be determined from the annual budget appropriation. The estimation of cost of compliance implies extra effort and time and provision of additional funding. But this information would enable the Ministry of Finance to identify ways of saving on costs to the economy and making tax administration more user-friendly to taxpayers. By not estimating the costs of administration and compliance on a regular basis, the Directorate is forgoing an opportunity of planning for and implementing a more efficient and cost effective tax administration.

**The Legislature does not receive in-year reports on budget outturn, and does not undertake a mid-year review.**

3.4.1

**68. The Ministry of Finance does not conduct a mid-year review of budget implementation. No formal mid-year reports on budget outturn are generated.** Nor does the Legislature ask the Government to present a mid-year review of budget execution. The National Assembly formally receives only the annual financial statements and the audit report prepared by the Auditor-General.

**The audited final accounts are not normally available within twelve months of the end of the fiscal year.**

3.4.2

**69. In terms of section 27 of the State Finance Act, the Auditor-General is required to submit to the Minister of Finance the audited final accounts together with his report as soon as practicable after the end of a financial year but not later than the end of the following financial year.** However, this is not being done and there is a backlog of audit reports as explained later. The Auditor-General also audits the accounts of statutory bodies, local authorities, special funds and other agencies. However their audited final accounts and reports are also not normally available within twelve months of the end of the fiscal year, there is a typical lag of 6–12 months in making audited government accounts available. The details of the delay are provided in para. 94.

**The objectives and expected results of government programs are discussed in the MTEF, however actual progress is not reported against these objects.**

3.2.2, 3.4.2

**70. Through the introduction of the MTEF and MTPs, the Government has indicated its commitment to strengthen its budget policy and planning processes and**

**improve efficiency and effectiveness of public expenditures.** The MTPs for each Vote indicate the allocation of resources by each Program and how the Programs will help to achieve the Ministries' objectives, which contribute to the overall national development objectives. The Programs' objectives are usually discussed in a general manner, and measurable performance indicators still need to be developed. Another major problem, as discussed earlier, is that there is as yet no explicit link between the MTEF and the budget classification, and the accounting system can not report on Programs. There is hence no scope for monitoring financial performance of these programs. Similarly, PEMP indicators are still being embedded into the budget planning and monitoring processes. Accountability Reports will support efforts by line ministries to measure performance, and to report and follow-up on PEMP indicators

### C. Public Availability of Information

**Fiscal information is reasonably comprehensive but its availability to the public is still limited.**

2.1.1

71. **The Government is committed to providing information to the public on fiscal objectives and the budget.** The main vehicles are the documents submitted for the budget, the Statement for the Budget, the Macro-Economic and Budgetary Framework, the MTEF, the Estimates of Revenues and Expenditures, the Appropriations Act, and the Three-Year Rolling Development Budget, all of which are published and made available to the public on the Ministry of Finance's website, [www.mof.gov.na](http://www.mof.gov.na) or the National Planning Commission's website, [www.npc.gov.na](http://www.npc.gov.na). In addition, the Government publishes the annual Appropriations Act, which provides the appropriated level of expenditure by Vote, and the reports of the Auditor-General, which are made available through the web. In addition, there may be periodic reports made available to the public, for example, the Development Co-operation Report, 2003/04, published by the National Planning Commission, which discusses donor funding and its uses.

72. **There are two main shortcomings in the provision of budgetary information: (i) the lack of data on the budget execution on the basis of current receipts and expenditures, and (ii) the lack of data on budget execution on a Program basis.** The Ministry of Finance has been developing a quarterly information release, which, when it is made public, will address the absence of execution data. It will provide current receipts and expenditures, and the budget balance on a quarter by quarter basis and cumulated for the year. It will also provide information on cash balances, net borrowing, public debt, and contingent liabilities. In addition, the ministry needs to cover a means to provide budget execution on a Program basis, consistent with the budget submission.

**The budget documents cover the State Revenue Fund's activities comprehensively, but provide relatively little coverage of other parts of the public sector.**

2.1.1

73. **The budget documents cover the State Revenue Fund's activities comprehensively but the coverage is not comprehensive,** missing out on external donor fund activities, most state-owned enterprises, and other extrabudgetary funds including the National Energy Fund, the Road Fund Administration, and the Government Institutions

Pension Fund. The defense budget has a separate Vote, included in the MTEF, with detailed estimates of revenue and expenditure.

74. **The budgets of the state-owned enterprises are only reflected in the state budget insofar as transfers and equity injections and on-lending are included in the relevant ministry's budget.** In addition, these enterprises may be taxpayers and paying dividends to the central government. The subsidies to state-owned enterprises are significant, especially to a few chronic loss-makers, such as Air Namibia. The state-enterprises' income or asset statements are shown separately in the budget documentation to the extent they provide these reports to Government (only some of these statements were presented in the fiscal year 2006/07 MTEF). The Ministry of Finance is attempting over time to improve this reporting under the provisions of the State-Owned Enterprises Bill, 2005.

**The budget documents provide the main fiscal aggregates for the past and a forecast of the fiscal data.** 2.1.2

75. **The budget documents, principally the MTEF, present the main fiscal aggregates for the three years prior to the fiscal year, the budget for the current fiscal year, and estimates for the two years beyond the fiscal year.** The MTEF currently presents only the budget estimates for the fiscal year that is concluding which means there is a lag in public availability of information on the outturn, as estimates for the fiscal year ending with the beginning of the new fiscal year are provided only in the budget document of the following fiscal year (that is, the execution of the fiscal year 2005/06 budget will only be available in the budget document for 2007/08). The Ministry of Finance's quarterly bulletin will address this problem once it becomes public.

76. **Additional information on fiscal aggregates is found in the *Macroeconomic and Budgetary Framework* and the *Estimates of Revenues and Expenditures* documents, in somewhat different formats.**

**Statements on government guarantees are available.** 2.1.3

77. **The Ministry of Finance provides information on the amount of outstanding guarantees, which are published in the MTEF.** These figures are also published in the Bank of Namibia quarterly bulletins and annual reports. Similarly, the Ministry of Finance reports on guarantees assumed by the budget in the MTEF. Government-guaranteed debt was 6.5 percent of GDP in 2005/06, down from a peak of 13 percent in 2001/02, and is split roughly evenly between foreign and domestic debt.

78. **Contingent liabilities are not estimated or presented on regular basis.** Although there may be any number of types of contingent liabilities, including those that are both explicit in nature, such as loan guarantees, and implicit in nature, such as the need to recapitalize a financial institution, it would be desirable if the budget documents would lay out the issues comprehensively and with quantification, where possible. For instance, information on guarantees is given but without any assessment of the likelihood of default. Since such information might be confidential or sensitive, these issues could be considered based on the historical experience or in general terms. On a realized basis, contingent

liabilities that have fallen to the budget could be quantified more precisely, for instance, the list of guaranteed loans or on-lent funds for which debt service was assumed by the budget.

79. **Although the Development Bank of Namibia is still gearing up, the problems in the Agricultural Bank suggest the importance of careful supervision of public banks.** Such concerns need to be addressed similarly with other state-owned enterprises that are not financially sound and for which the Government has some explicit obligations through guaranteed debt and on-lent funds and implicit obligations owing to the systemic importance of the entity.

**Statements on tax expenditures are not included in the budget documents.** 2.1.3

80. **The Directorate of Inland Revenue does not yet construct or present estimates of tax expenditures.** However, it indicated its willingness to undertake this exercise if a decision to do so is taken by the Ministry of Finance.

**Quasi-fiscal activities are neither discussed nor quantified formally.** 2.1.3

81. **As with contingent liabilities, quasi-fiscal activities are sometimes hard to define, reflecting activities with fiscal implications undertaken on behalf of the Government in an indirect manner, either by the Government or by nongovernmental entities.** Such arrangements may lead to a significant loss of transparency. These would include, for example, subsidized lending in the banking system (by public or private banks) and fuel price controls that result in below market prices at times. In a broader sense, it would also include the impact of Government laws or regulations that require among other things the provision of certain normally privately provided services or goods to employees (such as housing or food), and other mandates that serve social goals. The estimate of the expense to the budget of these activities is reflected in the budget documents mainly through the line items for subsidies or equity injections to the various entities conducting these activities and can also include forgone revenues for entities receiving tax breaks. For example, the cost of maintaining fuel prices at below market prices in the past few years led to large losses in the National Energy Fund.

**Information on gross public debt is published.** 2.1.4

82. **Government debt was 33.6 percent of GDP in fiscal year 2004/05, of which 28.2 percent of GDP was domestic debt and 5.4 percent of GDP was foreign debt.** Although this debt is moderate, it has risen from a very low level at the time of independence. The majority of external debt is concessional and matures in a fairly uniform manner over the next 20 years. The domestic debt has a short maturity, with a majority accounted for by treasury bills. Namibia received an investment grade rating from Fitch Ratings on long-term foreign currency risk of BBB- and on long-term domestic currency risk of BBB in 2005.

83. **The Ministry of Finance provides information on gross public debt, both domestic and foreign, in the MTEF.** The quarterly bulletin will enhance reporting on this debt and make it more timely. The Bank of Namibia provides in its quarterly bulletin and annual report a table on domestic debt, broken down into treasury securities and internally

registered stocks (i.e., medium and long-term bonds) by category of maturity and by holders of this debt, as issued in the primary market.

84. **The Ministry of Finance has devised a comprehensive plan for the management of debt, described in its *Sovereign Debt Management Strategy*, which has not yet been made available to the public.**<sup>16</sup> Underpinning this strategy is the intention to lengthen the maturity of Government debt to reduce rollover and liquidity risk and to diversify the portfolio. In addition, this document outlines a strategy for establishing clear and more transparent procedures for the issuance of guarantees, on-lending agreements, and borrowing by the central government and state-owned enterprises. The Ministry of Finance will also soon begin publishing a document entitled, *External Borrowing Requirement and Funding Plan*, on an annual basis.

**Information on government assets is not published nor is it readily available.** 2.1.4

85. **The Ministry of Finance does not keep any comprehensive information on its own assets or the assets of state-owned enterprises at market value.** Such information as exists on state-owned enterprises can be obtained from the balance sheet statements submitted by state-owned enterprises to the Auditor-General and other institutions of Government. The Central Governance Agency indicated they are trying to establish market values for all state-owned entities. The Ministry of Finance does keep records on paid in equity of the Government to state-owned enterprises and immovable assets (such as office equipment). The Ministry of Lands is responsible for the valuation of land, a key public asset.

**Formal commitments for regular publication of fiscal data are made only for the budget submission.** 2.2.1, 2.2.2

86. **There is no regular fiscal reporting by the Ministry of Finance except in the MTEF to Parliament each year,** which provides historical information on the budget outturn for the past three years (though the most recent fiscal year is still on the basis of the appropriated budget) and the budget proposals for the current year and forecasts for the next two years. There is no formal release calendar of fiscal data. The quarterly bulletin and annual report of the Bank of Namibia provide historical information on the budget.

87. **Namibia is participating in the General Data Dissemination System (GDDS) regional project for Anglophone African countries. Although there are improvements in fiscal data reporting, the fiscal data do not yet adhere to GDDS standards.**

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<sup>16</sup> Ministry of Finance, 2005, *Sovereign Debt Management Strategy*.



## D. Assurances of Integrity

**Budget data are generally reliable and the actual outturn of main fiscal aggregates is disclosed to the public but with a long lag.** 4.1.1

88. **The actual outturn of main fiscal aggregates is presented in the budget documents but for now with a significant lag.** The variance between budget data and actual outturn is discussed in the *Macroeconomic and Budgetary Framework*. In fiscal years 2001/02 and 2002/03, actual revenue receipts were higher than originally planned, which led to supplementary budgets to allow greater expenditures than originally budgeted.<sup>17</sup> During the last three fiscal years, there has been no supplementary budget and any additional spending requirements were met out of the Contingency Fund. In fiscal years 2003/04 and 2004/05, the realized budget deficit exceeded the budget deficit enacted in the budget, mainly as a result of revenue collections that fell below amounts in the budget.

**Statements on accounting policy are not included in the budget and final accounts documents.** 4.1.2

89. **The accounting system is based on a standard cash-based approach. In general, the basis of accounting and standards to be followed are not mentioned in any legislation.** The Ministry of Finance is responsible for maintaining the revenue and expenditure accounts on a regular basis and preparing the annual financial statements and appropriation accounts for each financial year for audit by the office of the Auditor-General. Since the current legislation contains a broad mandate, the Ministry of Finance could prepare the final accounts documents in accordance with the International Public Sector Accounting Standards (IPSAS), which is also being recommended by the Eastern and Southern African Accountants Group (ESAAG).

90. **In this context, ESAAG conducted a survey, which revealed that the current reporting is not in compliance with the minimum requirements of cash basis IPSAS.** A revision of the State Finance Act is being undertaken, and this would be an opportune time to introduce requirements for standard setting and require compliance with international standards, as well as strengthen accountability requirements.

**The process of accounts reconciliation and fiscal reporting are broadly effective.** 4.1.3

91. **The accounting system is generally considered to be robust, and major weaknesses have been addressed with the implementation of IFMS in all central ministries and departments from April 2006.** The IFMS would enhance the availability of real-time financial information, and thus the timeliness and regularity of data and bank reconciliation. In the recent months, there have been some delays in the reconciliation of main State Revenue Fund bank account with the Bank of Namibia, primarily due to delays in the submission of bank statements and relevant details arising out of introduction of new clearing house arrangements. The main bank account has been reconciled up to February

<sup>17</sup> The revised budget, which shows within-year adjustments, is known as the "Additional Budget".

2006. In the monthly accounts, budget outturns are reconciled with budget appropriations, and variances are provided. However, there is no formal process for reconciling and ensuring consistency between aggregate fiscal data for the government and the government's position based on monetary accounts. There is a considerable discrepancy between above-the-line fiscal data and below-the-line financing data. The discrepancy might be partly due to divergence in the scope and coverage of the fiscal and monetary data. For example, the fiscal data primarily relates to the central government and does not incorporate special accounts and extra-budgetary funds, while some of these might be captured in monetary accounts. The Ministry of Finance and Bank of Namibia have now reconciled debt and guarantee data.

**The external audit function and its independence from the executive branch are enshrined in the Constitution.**

4.2.1

92. **The Constitution (Article 127) provides for the appointment of the Auditor-General by the President on the recommendation of the Public Service Commission and with the approval of the National Assembly.** The duties and powers of the Auditor-General are prescribed in the State Finance Act, 1991. The Auditor-General holds office for a period of five years and is eligible for reappointment. He is not a member of public service and cannot be removed from office unless a two-third majority of all members of the National Assembly vote for such removal on the grounds of mental incapacity or gross misconduct. However, the Auditor-General's office does not enjoy full financial independence, as its budget is prepared and approved by the Ministry of Finance like any other ministry before submission to the National Assembly.<sup>18</sup> These issues are being addressed in the drafting of new audit legislation.

**The audit office's mandate is broad and extensive.**

4.2.1

93. **The Auditor-General is responsible for the audit of government accounts, statutory bodies, trading accounts, special funds and local authority institutions.**<sup>19</sup> In addition to annual financial audit, the Auditor-General is empowered to conduct special audits or any other audits required by the President. He has discretion to determine the nature of audits and is empowered to obtain information. In carrying out audits, the Auditor-General follows the International Organization of Supreme Audit Institutions Standards and the International Standards on Auditing. The Auditor-General's reports are public documents, which generally includes the scope of the audit, an overview of the State Revenue Fund Account covering revenue, expenditure and debts, audit of all ministries, financial statements along with audit observations and opinions. A periodic independent audit of tax administration is undertaken as a routine part of national external audit by the office of the Auditor-General. There is no special or separate process of auditing the tax department.

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<sup>18</sup> This issue is not unique to Namibia; it is a typical problem in Anglophone African countries.

<sup>19</sup> The audit office is involved in the audit of 31 entities and fund accounts apart from local and regional authorities and government ministries, offices, and agencies.

**There continues to be a backlog of audit reports and the audit function needs further strengthening.** 4.2.1

94. **Audits are required to be completed within twelve months after the end of a financial year, as required by section 27 (1) of the State Finance Act.** A large number of audit reports are late<sup>20</sup>. This is partly due to late submissions of accounts by the Ministry of Finance and also due to the limited staffing of the Auditor-General's office, causing further delays in the process. The current staff strength of audit office is 84; the Auditor-General has been unable to fill its approved establishment of 109 staff members due to a lack of office space. The Swedish International Development Agency (SIDA) has assisted the office since 1994 with capacity building including acquisition of computer and training equipment. The SIDA support is assisting the Auditor general to achieve compliance with international audit standards and to enhance transparency, accountability and financial discipline in the government sector. Despite these efforts, there are some gaps in the knowledge and technical skills of audit staff. Also with the ongoing implementation of IFMS, there is a need to modernize the audit and use software applications to perform audit.

**The focus of audit is narrow; a reorientation of external audit is required.** 4.2.1

95. The audit primarily focuses on compliance with financial rules and regulations, with a limited emphasis on efficiency and effectiveness of expenditures. Many countries have moved away from a narrow financial regularity audit that dominates Namibian external audit, to systems and value-for-money audits, as better informing the public on integrity of public operations. Such audits would assist the government in enhancing the effectiveness of performance budgeting, including the PEMP. The difficulties in moving to new areas are that currently it does not have qualified staff to perform these audits and its existing audit work is already constrained by its limited resources. In addition, it is unclear that there is strong support elsewhere in Government for moving in these directions.

**The Legislature discusses external audit reports, however, delays in the submission of audit reports have hindered the timely review and follow-up action.** 4.2.1

96. **The Public Accounts Committee, established in terms of Article 59 of the Constitution, has the primary responsibility to scrutinize all reports submitted by the Auditor-General to the National Assembly, through the Minister of Finance.** The Public Accounts Committee examines the audit reports to determine what issues would require further attention or, if considered serious enough, to bring those to the attention of the National Assembly for further action to be taken. The Committee's hearings are open to the public and press, and external audit reports are made available to the public on the audit office's website [www.oag.gov.na](http://www.oag.gov.na). Submissions from independent experts and public are also

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<sup>20</sup> The audit report on the accounts of the Government of Namibia for the financial year ended 31<sup>st</sup> March 2005 is yet to be submitted to National Assembly; the audit report on 2003/04 accounts was submitted on 29<sup>th</sup> November, 2005. Similarly, audit reports on the accounts of local bodies and funds are late. To address this backlog, the Auditor-General has been using private accounting firms to assist him with the auditing of local authorities and state-owned enterprises.

invited during hearing on specialized issues. Follow-up action on audit findings is left to the executive, while the Auditor-General office reviews in subsequent audit reports the corrective measures taken on the earlier audit findings. There is a considerable backlog in the scrutiny of audit reports by the Public Accounts Committee and submission of its reports to the National Assembly. Follow-up action taken by the executive is limited and weak, and penalties are seldom imposed on cases of financial misconduct including over-expenditures and non-compliance with financial rules and regulations. The mechanism for monitoring the follow-up action is also weak, primarily due to limited resources and capacity in the audit office as well as with the Public Accounts Committee.

**The Anti-Corruption Commission has yet to make an impact.**

4.2.1

97. **Although it was established in 2005, the Anti-Corruption Commission is still staffing itself and has yet to engage in any substantive investigations.** If this commission is to add meaningfully to the Government's efforts to root out corruption, it needs to be made operational.

**External scrutiny of macroeconomic models and assumptions underlying the budget is not carried out.**

4.2.2

98. **The approved macroeconomic policy framework is used to draw up budgetary guidelines and ceilings.** While there is no external scrutiny of the underlying model and assumptions as such, it appears that this work is regarded as a technical exercise without political interference. There are a number of research institutes and programs funded by donors that assess the Government budget and macroeconomic forecasts. The research institutes and the private sector more generally could be formally engaged in a dialogue with the Government in the formulation of macroeconomic projections. It would be preferable if the underlying assumptions and model were also made publicly available and the implications of macroeconomic risks more quantitatively presented in the budget documentation.

**The Central Bureau of Statistics is formally responsible for national statistics system and forms part of the National Planning Commission.**

4.2.3

99. **The Statistics Act, 1976 (Act 66 of 1976) provides for the collection, compilation, processing and publication of statistics.** Production and compilation of official statistics is decentralized, with many institutions involved in data collection and/or compilation, the main ones being: the Central Bureau of Statistics; line ministries; public sector institutions like the Bank of Namibia; and research and training institutions (e.g., University of Namibia). The Ministry of Finance is responsible for the compilation and dissemination of fiscal statistics. The national statistical system has recently been evaluated by an independent body and a new Statistical Law is being drafted to address the weaknesses identified in the evaluation. A third National Statistical Plan is expected to come into operation in 2008.

### III. IMF STAFF COMMENTARY

**In recent years, Namibia has enjoyed sustained economic growth and macroeconomic stability. Fiscal policy has generally been prudent.**

**100. Guided by its national development plans, the Government has indicated its intention to strengthen fiscal discipline, but continues to lack elements of a fiscal program to stabilize the debt ratio and redirect budgetary spending away from personnel and subsidies to state enterprises toward programs that will strengthen growth prospects and address widespread poverty and unemployment.**

**Namibia has put in place the essential elements of a transparent fiscal system and meets the basic standards of the fiscal transparency code in the four general areas. In particular:**

- The responsibilities of the different components of government are generally clearly defined, and the relationship between the central government and the central bank is clear and transparent. There is, however, some lack of clarity with regard to the relationship of the state-owned enterprises and the central government.
- A transparent legal and administrative framework for budget preparation and execution is in place.
- The annual budget of the central government is based on a comprehensive and consistent quantitative macroeconomic framework.
- The budget documentation clearly lays out the objectives of fiscal policies and the specific policies and framework of the budget; provides a fiscal forecast; and addresses issues of fiscal sustainability and risk.
- Once it is fully implemented, the IFMS will provide information on budget execution and enhance the authorities' ability to formulate fiscal policies.
- The public availability of information on the macroeconomic projections and MTEF is comprehensive and timely but timely information on the budget execution is still lacking.
- The basic legislative and procedural basis for Government's procurement of goods and services, for data integrity, and for internal and external audit is in place.

**Building upon those elements, Namibia has also been making substantial efforts in recent years to improve fiscal transparency.**

**101. The Government has taken steps to improve the public financial management system, particularly the budget formulation process and the accounting system.** Specific initiatives include the development and presentation of the budget underpinned by a comprehensive macroeconomic framework, Medium-Term Expenditure Framework and

Medium-Term Plans for each Vote; implementation of an Integrated Financial Management System, formulation of a comprehensive debt strategy combined by improved reporting on debt, contingent liabilities, and on-lending; and an assessment in the budget documents of macroeconomic risks, policy initiatives, and fiscal sustainability. It has increased reporting in the budget on state-owned enterprises and extrabudgetary funds. The Government has reduced the backlog in external audit and begun establishing internal audit in the line ministries and addressing audit problems of the tax administration. It has established an Anti-Corruption Commission to address, *inter alia*, corruption among public officials.

**However, many shortcomings in transparency remain, including in the absence of an appropriate budget classification system, fragmentation of the budget process, and the lack of an appropriate managerial framework for public procurement and internal and external audit. The current momentum of fiscal management reforms needs to be maintained to address these shortcomings.**

**102. The key recommendations to further improve fiscal transparency in Namibia and help the country achieve the standards of the fiscal transparency code in additional areas are listed below in terms of budget reporting, process, and assurances of integrity.**

### ***Budget reporting***

- The Ministry of Finance urgently needs to address the absence of an appropriate budget classification structure and improve the consistency of reporting on the budget. In particular, there needs to be coherence between the Estimates of Revenue and Expenditure and MTEF documents. The budget classification structure and chart of accounts should be revised so that it can produce a functional and economic classification, consistent with international best practice, and a classification that covers the Government's Programs. This would facilitate the reconciliation of the budget execution reports and MTEF, which could then be linked to performance indicators, via the PEMP, so that policy makers and the public can see clearly the links between the budget, budgetary execution, the programs of the Government, and the achievement of program objectives.
- The quarterly information bulletin should be made publicly available, once its format is settled on, and published according to a preannounced schedule, using a consistent dissemination format.
- The Ministry of Finance should present a mid-year budget review to Parliament.
- The fiscal data need to be expanded to cover the general government. In particular, there needs to be regular coverage of the extrabudgetary funds of the central government, including the Social Security Fund, the National Energy Fund, and the Road Administration Fund, as well as the regional and local councils. There also needs to be better reporting on the Government Institutions Pension Fund, the public

banks and the state-owned enterprises that are receiving large subsidies or are in default on obligations guaranteed or on-lent by the Government.

- The analysis and reporting in the budget documentation on fiscal risks, contingent liabilities, and guarantees should continue to be expanded. Longer-term sustainability analyses that also take into account the potential exhaustion of mineral resources should accompany budget documentation. The budget should also clearly discuss new fiscal policies and their cost or revenue implications, and provide information on tax expenditures, and tax and spending arrears.
- There should be expanded reporting on assets and liabilities of the Government and the broader public sector, in view of the predominant role state-owned enterprises play in the economy.
- Once the cash accounting and control system is firmly in place, the government should begin moving to an accrual system, and produce financial statements consistent with GFSM 2001.

#### ***Budget process***

- Civil society should be more actively engaged in the budget process early on. The Government should encourage outside scrutiny of the macroeconomic and fiscal projections, included in budget documents, by explaining the methods and assumptions underlying these projections more clearly and soliciting more input.
- The start of the budget process should be advanced and the budget presented to Parliament sufficiently early to ensure adoption of the Appropriations Bill before the beginning of the year, while allowing ample opportunity for Parliamentary debate.
- The implementation of IFMS needs to be closely monitored in its early phases to ensure that its full potential is realized. A number of recommendations in this regard are made in the report.

#### ***Assurances of integrity***

- Internal audit should be strengthened to ensure that line ministries are complying with good standards of financial management. The Ministry of Finance needs to assume its responsibility to develop a modern internal audit function by setting up standards in line with the internationally accepted standards, provide guidance and advice to line ministries, and monitor their performance on a regular basis. It should develop separate regulations on internal audit, according to international best practices.

- The capacity of the Auditor-General's office should be strengthened to allow it to move to systems and value for money auditing. There needs to be more follow-up on the Auditor-General's recommendations.
- Similarly, the Anti-Corruption Commission needs to start its full operations at the earliest opportunity and should be given the political support to carry out its investigations, with appropriate governmental follow up on proven instances of wrong-doing by public officials.
- The audit capacity of the tax administration and its reporting on its performance to the Parliament and public needs to be strengthened. The tax administration should develop a code of conduct specific to tax administration issues.
- The monetary data and fiscal data need to be reconciled on a regular and timely basis to give confidence in the accuracy of the fiscal data.

**In terms of specific legislation now being drafted or before Parliament, key recommendations are:**

- **State Finance Act:** The ongoing review and revision of the Act presents a good opportunity to draft a more modern State Finance Act, and this would entail a comprehensive review and strengthening of the entire legal framework and practices on financial management in line with the international best practices. The review process has already identified a number of areas where the Act needs to be strengthened including enhancing accountability and transparency in the roles of the Minister of Finance; Treasury; Permanent Secretary, Finance; and Permanent Secretaries/Accounting Officers of line ministries. However there is also a need to cover the budgetary and accounting reforms undertaken in recent years: (i) the implementation of Medium-Term Expenditure Framework, Medium-Term Plans, and Program budgeting in the MTEF for measuring performance; (ii) the implementation of an IFMS for budget and accounting processes; and (iii) the role of internal audit in line ministries. The draft bill could make the publication of fiscal data mandatory and an obligation of the Government, within specified timeframes and modalities. The draft bill could also add clarity to important aspects of fiscal transparency including: (i) the role of the state-owned enterprises; and (ii) the reporting of on off-budget activities and guarantees and other contingent liabilities.
- **Audit Legislation:** New audit legislation is being drafted to strengthen the independence of the Auditor-General from the executive branch, and empower him to modernize the external audit function and discharge his responsibilities in an effective and efficient manner. The Act should also move away from audit based on financial performance only toward systems and value-for-money audits. Finally, it should include provisions for an enhanced oversight by the Public Accounts Committee and



strengthen this Committee's ability to impose sanctions and penalties in cases of financial misconduct and non-compliance with financial rules.

- **Procurement Legislation:** The procurement system and the Tender Board of Namibia is currently being reviewed in order to increase the efficacy of the system and a new bill in this regard is expected to be submitted by the end of this year. It may be useful to seek assistance in bringing this bill and operating procedures up to international standards.
- **The State-Owned Enterprises Bill (Bill 17 of 2005):** This bill is now before Parliament after the National Council recommended changes to the bill passed by the National Assembly in December 2005; this bill aims at strengthening the existing legal framework for supervision and financial management of these enterprises. However, it does not go far enough in ensuring the professionalization of the members of the Board of Directors of the state-owned enterprises and strengthening the authority of the central government, through the State-Owned Enterprises Governance Council and the Ministry of Finance, to oversee the financial management of state-owned enterprises and the payment of dividends to the budget.
- **The Minerals Act:** The ongoing revision should: (i) define the rates of royalty for all types of minerals, and (ii) limit the discretionary powers of the Minister of Mines and Energy.

## Appendix I. Resource Revenue Transparency: Mining Sector

### *Clarity of Roles and Responsibilities*

#### **The legal framework for resource revenues is clearly defined.**

1.1.5/1.2.2

103. The country is presently exploiting almost all types of natural resources except oil and natural gas. This is done under the provisions of the Minerals (Prospecting and Mining) Act, 1992. This act is currently under revision and is likely to become final by the end of this year. The proposed amendments give to the Minister of Mines and Energy the power to make regulations under the act. The proposals also include provisions for regulating the rates of royalty and generally improve the interaction between the miners and the Government. Thus the act will basically remain unchanged in character.

104. The mining of rough diamonds, and their polishing and trade, are regulated by the Diamond Act, 1999. It does not replace or substitute for the provisions of the Minerals Act but creates additional classes of licenses necessary for the various activities related to diamonds.

### *Structure of mining industry*

105. The mining sector in Namibia is mostly a private sector operation where the government acts as a regulator. The exceptions are the three joint ventures – NAMDEB with 50 percent equity participation, DMN (De Beers Marine Namibia) with 30 percent equity share, and Rossing Uranium with 3.37 percent equity share. In these three companies also, the government participation is limited to management and there is no involvement at the operational level.

### *Ownership of natural resources*

106. According to the Namibian Constitution and the Minerals Act, the ownership of the natural resources vests in the state and all mining activities are prohibited except in accordance with the provisions of the Minerals Act. The license and the agreement flowing from it cannot override the provisions of the Minerals Act.

107. The owner of the land on which mining rights are awarded has only the surface rights which are limited to receiving of compensation for loss of those rights. The compensation is a matter of negotiation between the mining licensee and the landowner.

### *Mining agreements*

108. According to section 49 (b), a mining agreement may include terms and conditions relating to reconnaissance, prospecting, and mining operations along with their timetable, minimum expenditures on these activities, the processing of minerals, the basis for determining market value of the minerals, utilization of profits, formation of joint venture,

operation of production sharing arrangement, participation including the acquisition of equity share by an individual or the state, financial and insurance arrangements, application of fiscal laws, and arbitration in the event of any disputes that may arise.

*Roles of government and mining commissioner*

109. The relative roles of the Government, the Mining Commissioner who acts as the regulator, and the rights of the mining companies are well defined in the Minerals Act.<sup>21</sup>

*Mineral advisory board*

110. The Act envisages the establishment of a “Minerals Board” for advising the Minister of Mines and Energy on policy matters relating to reconnaissance, prospecting, mining and disposal of minerals and implementation of such policy decisions. The constitution of this board is supposed to be quite broad based including representatives of the chamber of mines, small-scale prospecting operators and small-scale miners and representative of the trade unions. This board was, however, never constituted.

**Licensing procedures are well established with little discretionary power.** 1.1.5/1.2.2

111. Generally licenses are awarded on a first come first serve basis and the applications are examined strictly under the provisions of the Minerals Act. All the licenses from the exploration to the mining stage follow the process prescribed under the Act and there is no scope for negotiations. The applications are made to the Mining Commissioner who makes recommendations to the Minister of Mines and Energy for orders.

112. While the processing of the applications is confidential, the outcome of the licensing process is noted in the Mineral Register, which is in the public domain. Anyone can inspect the register free of charge and get a copy of the entries on payment of nominal fees to cover the cost of photocopying. The mineral register is also available on the Ministry of Mines and Energy website. Also, a press conference is often held at the time of issuance of any major licenses. No separate reporting is made to the Parliament or the public. The licensing procedure does not vary from project to project and has not changed over time.

113. Open bids are not used in mineral licensing and there is no tendering process. In energy licensing for prospecting and potential oil and hydrocarbon discovery bids are sometimes invited but these cases are limited. Bidders are informed individually and often a press conference is held in such cases.

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<sup>21</sup> The powers of the Minister of Mines and Energy for various activities such as appointment of a mining commissioner (section 4), award and transfer of licenses and activities under provisions of a license (sections 47, 48 and 49-1, 57, 61, 63, 69, 80, 88, 92, 100, 123, 128, 129), payment of royalty and pricing of minerals (section 114, 117, 119, 137, 138, 139) are laid down in various sections of the Minerals Act. Similarly the regulatory functions of the mining commissioner are defined in sections 5, 19, 34, 40, 53, 66, and 105. The rights and obligations of the licensees in respect of mining claims, mining licenses, reconnaissance licenses, prospecting licenses, and mineral deposit retention licenses are outlined in sections 31, 32, 36-38, 41-43, 46, 47, 58, 59, 65, 67, 68, 72, 74, 75, 77, 78, 84, 86, 87, 90, 91, 98, 121, and 130.

**There are state-owned enterprises in the natural resources sector.**

1.1.5

114. There are no state-owned enterprises engaged in the mining sector. The National Petroleum Corporation of Namibia (NAMCOR) is the state-owned enterprise dealing with oil. All private sector oil companies are obliged to take fifty percent of their requirement from NAMCOR while they directly import the other fifty percent. This arrangement is part of an effort to help NAMCOR develop downstream activities in the petrochemical sector.

**Fiscal management is comprehensively covered in the law.**

1.2.2

115. The Ministry of Finance exercises fiscal authority over the mining sector so far as taxes are concerned. This is in accordance with the provisions of the State Finance Act, the various tax laws including income tax act of 1981, and the exports processing act of 1995. The Ministry of Mines and Energy on the other hand is responsible for collection of royalties under the Minerals Act. While the natural resource taxes go directly to the state revenue account, the royalty is collected by the Ministry of Mines and Energy as provided in section 114 (1) of the Minerals Act.

116. All changes in taxation and royalty are made both as part of the annual budget process if there has to be a minor change as well as through a separate legislation if there is a general policy change.

*Borrowing by natural resource companies*

117. The natural resource companies that have been awarded the right to mine in Namibia can borrow both domestically and externally. They cannot borrow on behalf of the Government unless there is a joint venture in place. When local companies borrow, the Government can sometimes extend guarantees if the company lacks sufficient collateral. But this is not a common practice. Such borrowings are approved by the Ministry of Finance and the Parliament is informed about it.

**Equity participation by Government is done in an open manner.**

1.1.5

118. The Government has equity participation in a number of joint ventures, including NAMDEB and Rossing Uranium to the extent of 50 percent and 3.37 percent respectively. The Government receives dividends as and when dividends are declared. The equity participation and receipt of dividends are reported in the annual budget.

**Quasi-fiscal activities are identified under the law but not included in the budget.**

1.1.4, 1.1.5

119. The Minerals Act provides for natural resource companies to employ Namibian workers unless the required expertise is not available locally. Also, there is a provision for giving training to the local labor. This implies training for acquiring a higher degree or additional skills over and above the opportunities for on-the-job training. However, the costs of such training programs are hard to estimate.

120. There are no requirements for companies to provide for housing or local infrastructure although many companies do that to attract better labor force and create goodwill among the local community.

**Extrabudgetary funds in mining and oil sector are not integrated with the budget. 1.1.3**

121. Three percent of the royalty amount goes to the Diamond Valuation Fund and 0.05 percent of the amount due to the producers from sales goes to the Diamond Board Fund, both of which are extra-budgetary funds. There is no system of regular reporting of activities of these funds. Thus, the total royalty from the mining sector is not reflected in the budget.

*Special oil fees*

122. A levy at the rate of 21 cents/liter is imposed on oil importing companies and the revenues go to National Energy Fund. This is an extra-budgetary fund maintained by the Ministry of Mines and Energy. These funds are used to protect to some extent the domestic consumers from severe fluctuations in the world oil market and regulate the pump prices of petrol and diesel such that the cost at the pump does not vary across regions. It amounts to subsidizing the domestic sale of petrol and diesel when world prices are high and paying for transport costs to remote areas in the country.

123. Some partial accounting for the National Energy Fund appeared in the most recent MTEF. The amendment act of 2003 provides for issuing regular reports for the information of the public and Parliament but the government has yet to appoint a regular fund manager for this fund. It is expected that with the appointment of a fund manager in the near future, this information would be given out regularly.

124. Another levy of 11 cents/liter on oil goes to fund the Motor Vehicles Accident Fund. The money from this fund is meant to compensate the victims of road accidents. A third levy at the rate of 77 cents/liter is collected as road user charges for maintenance of national roads. These funds are maintained by the Road Fund Administration.

**The fiscal regime covering the mining sector is clearly stated and comprehensively covered in the law. 1.2.2**

125. All payments to Government are made through license fees, taxes, and royalties. There are no production sharing contracts in practice. Individual contracts, including the NAMDEB contract, are not published and there is no system of informing the public about the terms of such contracts. This may not, however, be a major issue since the fiscal regime does not vary from project to project. It follows the prescriptions in the State Finance Act and the Minerals Act and there are no deviations. The only discretion with the Minister is about setting the royalty rate for specific categories of minerals within a prescribed range as provided under the law. The discretion is not about setting rates for individual license holders but for specific types of minerals so this power is also limited in scope.

*Tax provisions for the natural resource sector*

126. The main tax provisions applicable to the mining sector are as follows:
- (a) While the normal corporate income tax rate is 35 percent, it is 37.5 percent for the mining sector and 55 percent for the diamond mining.
  - (b) Taxable income from mining sector is determined in the same way as for any other business. Typically, exploration charges are expensed when the mine goes into operation, capital development expenditures are depreciated over three years from the date of incurring expenditures or starting of production whichever is later and rehabilitation expenditures deducted for tax purposes when expenditures are actually incurred. Alternatively, the mining company may establish a separate trust fund for rehabilitation work. All the future expenditures to be made on rehabilitation are assigned to this fund and deducted from current taxable income.
  - (c) There is no tax on capital gains. If, however, a business sells a capital good on which full write off has been given by the tax department, and if there is a recovery of the depreciation allowance, that income would be taxed.
  - (d) There is no tax on dividend income from the corporate sector including the mining industry if received by a taxpayer in Namibia. If dividends are declared and paid to a non-resident, there is a 10 percent withholding tax, called non-resident shareholder tax (NRST). This can, however, be reduced or refunded if there is a double taxation treaty between Namibia and the other country.
  - (e) Interest is counted as part of normal income and taxed accordingly and there is no withholding tax at the source. This also holds good for interest income accruing to the mining companies. A new policy on interest income, however, has been announced in the last budget. It is expected that a withholding tax for individual taxpayers (natural persons) will be introduced at the rate of 10 percent and this will become the final tax on interest income for those taxpayers.
  - (f) Personal income tax is imposed on individuals and varies from 17.5 percent to 35 percent with four tax brackets. This acts as a Pay As You Earn system for salaried persons.

*Royalty regime*

127. The main royalty rates on the mining sector are as follows (section 114):
- (a) On any rough and uncut mineral in the precious stone group won or mined by a license holder and sold or disposed of by the holder, a rate of 10 percent on the “arms length” market value applies.
  - (b) On any rough or unprocessed mineral of the dimension stone group won or mined by a license holder, a rate of 5 percent of the “arms length” market value applies.
  - (c) In case of any other mineral or group of minerals, royalty rate will be determined and imposed by the minister under certain conditions: (i) if its value is capable of

being increased by way of a practical and economic process available in Namibia; (ii) if the amount received in an “arms length” sale was not in conformity with international prices; and (iii) the fees, charges or levies deducted from sales value was not in conformity with international markets. The royalty will be imposed by issuing notice in writing and delivering it to the license holder but such royalty would not exceed the rate of 5 percent of the “arms length” market value.

128. It may be advisable to define the rate of royalty in precise terms for cases in category (c) above rather than leave it to the discretion of the minister.

129. Under section 116 of the Minerals Act, the Minister of Mines and Energy has the power to remit, defer or refund wholly or in part any royalty or penalty payment. It may again be advisable to limit this discretionary power only to deferral in those cases where the company faces a negative cash flow situation.

#### *Difference between resource revenue taxation and standard tax system*

130. As would become apparent from the preceding analysis, there are only a few differences between taxation of the mining sector vis-à-vis other sectors of the economy:

- (a) Rates of taxation for minerals and diamonds are higher than the normal corporate income tax rate,
- (b) Special depreciation rules are applicable to exploration and development charges and rehabilitation expenditures in case of the mining sector,
- (c) Special incentives are provided to the manufacturing sector, exporters and industries in the exports promotion zones that are exempt from payment of customs duty and VAT on their inputs as well as from corporate income tax.

#### *Tax incentives in the natural resources sector*

131. There are no special tax incentives applied to the companies or individuals in the natural resource sector. On the other hand, tax rates are higher for this sector and the treatment of exploration, development, and rehabilitation costs are similar to those extended in other resource rich economies.

#### *Indirect taxes*

132. VAT, excises and import tariffs are applied to the natural resource sector just as in any other sector.

#### *Fiscal stability clause*

133. No fiscal stability clauses are included in agreements with natural resource companies. This has been possible because of a stable tax system in the country. Since 1992 there has been only one major amendment in the tax system.

*Ring-fencing*

134. A proposal to prevent the offset of assessed losses of certain activities from the taxable income of other activities is under consideration by the Ministry of Finance.

*Transfer pricing*

135. Under the present law, transfer pricing rules apply to international transactions only and not to domestic transactions. The act is being amended to provide for thin capitalization rule to limit the debt-equity ratio both for domestic and foreign companies and also adopt Organization of Economic Cooperation and Development guidelines for transfer pricing.

***Open Budget Preparation, Execution and Reporting***

**Most mining revenues are fully reflected in the budget and accounts.** 3.1.1

136. Most of the natural resource revenues, except a small portion going to the Diamond Valuation Fund, Diamond Board Fund and National Energy Fund, are fully fungible with other resources in the State Revenue Fund and spent through the standard appropriation process. The mining revenues constitute a significant portion of Government revenues and revenues from NAMDEB alone have varied between 4.5 percent and 12 percent of the total depending upon the exchange rate volatility and its impact on exports.

**Standard collection and accounting procedures apply to mineral revenues.** 3.3.1

137. As outlined earlier, there are only minor differences between the tax regime as applied to the mining sector and the rest of the economy. The Directorate of Inland Revenue is responsible for assessment and collection of all tax revenue arrears from the mining sector and deposit the same in the State Revenue Fund.

***Public Availability of Information***

**Mining related revenues are reported and separately identified in the budget.** 2.1.1

138. The corporate income tax revenues from the diamond and other mining companies are reported as separate line items in the budget as estimates of revenue to be received on the State Revenue Fund. Royalties are reported as separate line item under non-tax revenues.

139. The dividends payment to the government are reported in the budget under the head "Dividends and Profit Share" in the category "Entrepreneurial and Property Income" under non-tax revenue. On the expenditure side, "Total Lending and Equity participation" are reported as a separate line item in the Ministry of Mines and Energy budget.

140. Thus the participation of the government in resource sectors is disclosed to the public through the budget document.



*Assurances of Integrity***Accounting and audit of mining companies is consistent with international**

141. Natural resource companies are subject to the normal internal controls and audit procedures as per the provisions of the company act. Thus they are subject to the same standards in terms of audit and accounts as the rest of the private sector. These accounting standards are consistent with International Accounting Standards.

142. A consolidated financial report covering all subsidiaries are prepared and audited and the audited accounts are normally completed within six months after the close of financial the year. These financial accounts are made available to the public annually.

**Appendix II. Summary Tables**  
**Table 1. A Summary Assessment of Practices**

| <b>Code Reference</b>                        | <b>Summary Assessment</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>Comment</b>       |
|----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| <b>Overall summary</b>                       | <p>Namibia has the essential elements of a transparent fiscal system and meets the basic standards of the fiscal transparency code. In recent years, the Government has improved the public financial management system, particularly the budget formulation process and the accounting system. Specific initiatives include the development and presentation of the budget underpinned by a comprehensive macroeconomic framework and Medium-Term Expenditure Framework; implementation of an Integrated Financial Management System; formulation of a comprehensive debt strategy combined by improved reporting on debt, contingent liabilities, and on-lending; and an assessment in the budget documents of macroeconomic risks, policy initiatives, and fiscal sustainability.</p> <p>The current momentum of fiscal policy and financial management reforms needs to be stepped up. The priority areas for improvement are:</p> <ol style="list-style-type: none"> <li>(1) The budget classification structure and chart of accounts should be revised so that it can produce data by a functional and economic classification consistent with international best practice, and a classification that covers the government's programs. This would facilitate the reconciliation of budget execution reports and MTEF.</li> <li>(2) The fiscal data need to be expanded to cover the general government, particularly the extrabudgetary funds of the central government.</li> <li>(3) The budget documents need to be expanded to include analysis and reporting on fiscal risks, contingent liabilities and guarantees.</li> <li>(4) Civil society should be involved more actively in the budget process early on and the budget calendar advanced so that the budget is presented to Parliament well in advance of the end of the fiscal year.</li> <li>(5) A mid-year review needs to be conducted and presented to the Parliament.</li> <li>(6) The Ministry of Finance should make publically available its quarterly information bulletin. The fiscal data should cover general government, and there should be improved reporting on state-owned enterprises.</li> <li>(7) The Ministry of Finance needs to enhance its capacity for external and internal audit and the tax administration's ability to audit taxpayers.</li> <li>(8) The monetary and fiscal data need to be reconciled on a regular and timely basis to give confidence in the accuracy of the fiscal data.</li> <li>(9) The ongoing review and revision of the State Finance Act and Procurement Legislation need to ensure that they will provide an adequate legislative basis to improve the functioning and accountability of the public financial management and procurement systems.</li> </ol> |                      |
| <b>Clarity of roles and responsibilities</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                      |
| 1.1.1                                        | General government is generally well defined, but is not well covered in the budget process. A move to consolidated presentation of general government fiscal data is warranted.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Medium-term priority |
| 1.1.2                                        | The roles of the executive, legislative and judicial branches are clearly defined in the Constitution.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                      |
| 1.1.2                                        | The expenditure responsibilities of different levels of government are clearly defined. The regional and local councils play a relatively small fiscal role.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                      |
| 1.1.4                                        | The Bank of Namibia is the Central Bank of Namibia and serves as the State's principal instrument for monetary policy and supervision of banking institutions.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                      |

| Code Reference                                           | Summary Assessment                                                                                                                                                  | Comment                                                                                                         |
|----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| 1.1.4                                                    | The relationship between the central government and the state-owned enterprises and other statutory bodies varies and roles and responsibilities lack some clarity. |                                                                                                                 |
| 1.1.5                                                    | The legal framework for privatization is not fully developed.                                                                                                       |                                                                                                                 |
| 1.1.5                                                    | Public land is redistributed according to the law, though there are some concerns.                                                                                  |                                                                                                                 |
| 1.1.5                                                    | Laws and processes governing government regulation of the private sector are clear and open but concerns were expressed at times about implementation.              |                                                                                                                 |
| 1.2.1                                                    | The legal framework for management of central government public funds is clear.                                                                                     |                                                                                                                 |
| 1.2.2                                                    | The legislative basis for taxation is clear and comprehensive but regulations for implementation of some parts of the laws are lacking.                             |                                                                                                                 |
| 1.2.2                                                    | Tax exemptions and zero rating are defined in the tax laws.                                                                                                         |                                                                                                                 |
| 1.2.2                                                    | Taxpayer rights are well protected in the law.                                                                                                                      |                                                                                                                 |
| <b>Public availability of information</b>                |                                                                                                                                                                     |                                                                                                                 |
| 2.1.1                                                    | Fiscal information is reasonably comprehensive but its availability to the public is still limited.                                                                 | Making available the quarterly bulletin would improve the availability of information                           |
| 2.1.1                                                    | The budget documents cover the State Revenue Fund's activities comprehensively, but provide relatively little coverage of other parts of the public sector.         |                                                                                                                 |
| 2.1.2                                                    | The budget documents provide the main fiscal aggregates for the past and a forecast of the fiscal data.                                                             |                                                                                                                 |
| 2.1.3                                                    | Statements on government guarantees are available.                                                                                                                  |                                                                                                                 |
| 2.1.3                                                    | Statements on tax expenditures are not included in the budget documents.                                                                                            |                                                                                                                 |
| 2.1.3                                                    | Quasi-fiscal activities are not discussed nor quantified formally.                                                                                                  |                                                                                                                 |
| 2.1.4                                                    | Information on gross public debt is published.                                                                                                                      |                                                                                                                 |
| 2.1.4                                                    | Information on government assets is not published nor is it readily available.                                                                                      | Given Namibia's high dependence on minerals, a statement of government assets would be useful                   |
| 2.2.1, 2.2.2                                             | Formal commitments for regular publication of fiscal data are made only for the budget submission.                                                                  |                                                                                                                 |
| <b>Open budget preparation, execution, and reporting</b> |                                                                                                                                                                     |                                                                                                                 |
| 3.1.1, 3.2.2                                             | A statement on fiscal policy objectives is included in the budget document, and fiscal sustainability issues are discussed.                                         | The treatment of sustainability could cover more areas, including the potential exhaustion of natural resources |
| 3.1.2                                                    | There are no legislated fiscal rules used in the budget process; however, the Government has three fiscal targets.                                                  |                                                                                                                 |

| Code Reference | Summary Assessment                                                                                                                                                   | Comment                                                                                                                                       |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1.3          | Budget forecasts are clearly presented but the assumptions underlying the budget forecast are not clearly spelled out in the fiscal documentation.                   |                                                                                                                                               |
| 3.1.3          | The annual budget preparation procedures are clear, but need to be enhanced in line with international best practices.                                               |                                                                                                                                               |
| 3.1.3          | The budget is prepared and presented in the context of a three-year rolling MTEF.                                                                                    |                                                                                                                                               |
| 3.1.4          | Estimates of new initiatives and ongoing costs of government policies are not clearly distinguished in the budget documents.                                         |                                                                                                                                               |
| 3.1.5          | The sensitivity of budget estimates to changes in economic variables is assessed and fiscal risks are discussed with the budget.                                     |                                                                                                                                               |
| 3.2.1          | The MTEF program classification is not incorporated into the budget classification and chart of accounts and thus is not incorporated into budget execution reports. | The advantages of the program classification are largely bypassed without its full incorporation into the budget classification and execution |
| 3.2.3, 3.2.4   | The overall balance of the central government is the main indicator of the fiscal position, and this balance is monitored during the year .                          |                                                                                                                                               |
| 3.3.1          | Basic accounting and internal control procedures are in place, and the new accounting system will require some additional time to become well established.           |                                                                                                                                               |
| 3.3.1          | The IFMS is capable of producing accurate in-year reports on the central government's budget outturn.                                                                | The IFMS has recently been rolled out successfully but its full capabilities are not yet in use                                               |
| 3.3.1, 2.1.1   | The Treasury's accounting and reporting system fully accounts for all transactions pertaining to the approved budget of the State Revenue Fund.                      |                                                                                                                                               |
| 3.3.1, 2.1.4   | A systematic coordination between budget execution and financial management is being developed.                                                                      |                                                                                                                                               |
| 3.3.2          | The public procurement system needs to be modernized.                                                                                                                |                                                                                                                                               |
| 3.3.2          | Public service employment procedures are clear and well understood.                                                                                                  |                                                                                                                                               |
| 3.3.3          | The internal audit is weak, and this function in line ministries is still evolving.                                                                                  | The lack of effective internal audit is a major weakness                                                                                      |
| 3.3.3          | The tax administration lacks effective internal monitoring and control mechanisms.                                                                                   | The lack of effective internal control is a major weakness                                                                                    |
| 3.3.4          | The national tax administration is functionally organized into five divisions and operates as part of the Ministry of Finance.                                       |                                                                                                                                               |
| 3.4.1          | The parliament does not receive in-year reports on budget outturn, and does not undertake a mid-year review.                                                         | More frequent reporting to the parliament would enhance public discourse                                                                      |

|                                |                                                                                                                                                           |                                                                                   |
|--------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| 3.4.2                          | The audited final accounts are not normally available within twelve months of the end of the fiscal year.                                                 |                                                                                   |
| 3.2.2, 3.4.2                   | The objectives and expected results of government programs are discussed in the MTEF, however actual progress is not reported against these objects.      |                                                                                   |
| <b>Assurances of integrity</b> |                                                                                                                                                           |                                                                                   |
| 4.1.1                          | Budget data are generally reliable and the actual outcome of main fiscal aggregates is disclosed to the public but with a long lag.                       |                                                                                   |
| 4.1.2                          | Statements on accounting policy are not included in the budget and final accounts documents.                                                              |                                                                                   |
| 4.1.3                          | The process of accounts reconciliation and fiscal reporting are broadly effective.                                                                        |                                                                                   |
| 4.2.1                          | The external audit function and its independence from the executive branch are enshrined in the Constitution.                                             |                                                                                   |
| 4.2.1                          | The audit office's mandate is broad and extensive.                                                                                                        |                                                                                   |
| 4.2.1                          | There continues to be a backlog of audit reports and the audit function needs further strengthening.                                                      |                                                                                   |
| 4.2.1                          | The focus of audit is narrow; a reorientation of external audit is required                                                                               |                                                                                   |
| 4.2.1                          | The Legislature discusses external audit reports, however, delays in the submission of audit reports has hindered the timely review and follow-up action. |                                                                                   |
| 4.2.1                          | The Anti-Corruption Commission is yet to make an impact.                                                                                                  | This Commission needs to demonstrate its ability to take on government corruption |
| 4.2.2                          | External scrutiny of macroeconomic models and assumptions underlying the budget is not carried out.                                                       |                                                                                   |
| 4.2.3                          | The Central Bureau of Statistics is formally responsible for national statistics system and forms part of the National Planning Commission.               |                                                                                   |

**Table 2. Public Availability of Information—A Summary**

|     | <b>Budget and fiscal report element</b>       | <b>Included in budget/report documents</b>                                           | <b>Available to the public</b>                                    | <b>Paragraph reference</b> | <b>Code reference</b> |
|-----|-----------------------------------------------|--------------------------------------------------------------------------------------|-------------------------------------------------------------------|----------------------------|-----------------------|
| 1.  | Central government (CG) budget estimates      | Yes.                                                                                 | Yes.                                                              | 37, 71                     | 2.1.1                 |
| 2.  | CG defense Expenditures                       | Yes.                                                                                 | Yes.                                                              | 37, 71                     | 2.1.1                 |
| 3.  | CG extrabudgetary funds                       | Some.                                                                                | Some.                                                             | 71                         | 2.1.1                 |
| 4.  | CG budget outturns                            | Yes. In budget documents but with long lag                                           | Yes.                                                              | 72                         | 2.1.2                 |
| 5.  | CG budget forecasts                           | Yes. In budget documents.                                                            | Yes. After submission to parliament.                              | 75                         | 2.1.2                 |
| 6.  | CG contingent liabilities                     | Partly. The budget documents include guarantees, but not all contingent liabilities. | Yes.                                                              | 77, 78                     | 2.1.3                 |
| 7.  | CG tax expenditures                           | No.                                                                                  | No.                                                               | 47, 80                     | 2.1.3                 |
| 8.  | CG quasi-fiscal activities                    | No.                                                                                  | No.                                                               | 81                         | 2.1.3                 |
| 9.  | Macroeconomic assumptions                     | Yes. In budget documents but lacking specificity.                                    | Yes.                                                              | 40                         | 3.1.3                 |
| 10. | Analysis of fiscal risks/sensitivity analysis | Yes. In budget documents but could be further developed.                             | Yes.                                                              | 38, 48                     | 3.1.5                 |
| 11. | CG debt                                       | Yes. In reports of the Ministry of Finance.                                          | Yes. In budget documents and the bulletin of the Bank of Namibia. | 83                         | 2.1.4                 |
| 12. | CG financial assets                           | Some. In reports of the Ministry of Finance.                                         | Not yet.                                                          | 85                         | 2.1.4                 |
| 13. | Sustainability analysis                       | Yes. In budget documents, but could be further developed.                            | Yes.                                                              | 48                         | 3.1.1                 |
| 14. | General government budget estimates           | No. Budgetary elements of local governments are included in the CG budget.           | No                                                                | 73                         | 2.1.5                 |

|    | <b>Budget and fiscal report element</b>                        | <b>Included in budget/report documents</b>                                                           | <b>Available to the public</b>               | <b>Paragraph reference</b> | <b>Code reference</b> |
|----|----------------------------------------------------------------|------------------------------------------------------------------------------------------------------|----------------------------------------------|----------------------------|-----------------------|
| 15 | CG monthly/quarterly reports on fiscal outturn                 | Yes. In reports of the Ministry of Finance. Central Bank produces their own and reconciles the data. | Only in the bulletin of the Bank of Namibia. | 71, 72                     | 3.4.1                 |
| 16 | General government Monthly/quarterly reports on fiscal outturn | No.                                                                                                  | No                                           | 73                         | 3.4.1                 |
| 17 | CG final accounts                                              | Yes. Budget documents include but with a long lag.                                                   | Yes.                                         | 96                         | 3.4.2                 |
| 18 | Consolidated general government final accounts                 | No.                                                                                                  |                                              |                            | 3.4.2                 |