THE EFFECTS OF FISCAL POLICY ON THE LIVELIHOOD OF LOW INCOME EARNING HOUSEHOLD IN NAMIBIA, WINDHOEK

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BY

NESLA UATANAUA

STUDENT NO: 201085542

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SUPERVISOR: DR. SIMON AKPO (IUM)

Approval Page

The undersigned certify that they have read and recommend to the Department of Management Sciences for accepting this dissertation submitted by **NESLA UATANAUA** in partial fulfilment of the requirement for the DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MANGEMENT STRATEGY).

DATE:…………………………….

Dr Simon Akpo Supervisor--

Declaration

I Nesla Ngakuue Uatanaua, declare that I am the sole author of this thesis, and that is was not copied or done before.

Date……………

Signature ……………..

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Abstract

The research paper was based on how fiscal policy affects the livelihood of the low income earning households in Windhoek informal settlements in Namibia. The study's focus was on Value added Tax and Income tax. Fiscal policy is a very important economical tool for every economy as it can be used as a tool in a recession. However, government expenditure and taxation and its administration might have either a positive or negative influence on the low income earning households.

The target population for the research was be selected from Windhoek's informal settlements. Due to many informal settlements in Windhoek, Cluster sampling was used, the population was divided into groups of elements with some groups/ locations randomly selected. Five informal settlements were selected namely: Havana, Okuryongava, Ombili, Agste laan and Okahandja Park.

The study looked at the perception of the low income earning household with regards to taxation, and government expenditure. It was observed in the study that income tax does not have an effect on the livelihoods of low income earning households as most do not reach the current threshold. However, Value Added Tax tends to increase the prices of consumables, especially food, irrespective of the Zero-rate. Since low income earning households have a higher propensity to spend, they can be affected more than the high income earning households.

Since the study only looked at the impact of fiscal policy on the low income households. It's recommended that further studies be done to analyse the impact of taxation (all taxes) and the impact on the low income households. Further studies can also be done analyzing only the government expenditure and impact it has on low income earning households.

Definitions of Terms

Fiscal Policy: Means by which a government adjust its spending levels and tax rates to monitor and influence a nation’s economy

Government Expenditure: includes all government expenditures, investments and transfer payments

Taxation: this is a form of government income, its money paid as tax

Value Added Tax: Indirect tax paid at the supply side

Income Tax: Form of Direct tax paid by individuals, companies at different rates and thresholds

Pay as you earn: this is tax withheld by the employers on income payments of employees, which have to be paid to the Revenue collection body.

Abbreviations

PAYE	Pay as You Earn
ITX	Income Tax
VAT	Value Added Tax
NHIE	Namibia Housing Income and Expenditure
SADC	South African Development Community
IRD	Inland Revenue
NSA	Namibia Statistics Agency

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Chapter One: Introduction and Background

1.1 Introduction

1.2 Background and research context

Fiscal policy represents one of the key instruments by which public actions can impact on deprivation and poverty. This can happen both through its impact on growth and on distribution (McKay, 2002). Fiscal policy is one of a number of important influences on growth rates, and other things being equal, a sustained higher growth rate will translate into faster poverty reductions.

According to Redemacher, (2011) the Namibian Economy suffers from the highest income inequality in the world. This is due to the legacies of colonisation and apartheid, which made education, labour, resources and capital exclusive to the white minority of the population. On average 2% of the richest households earn N$ 300 000 per year, while the poorest 25% only have N$ 3000 (Redemacher, 2011). Even though Namibia recently ascended from a lower to an upper middle income country, 55.8% of the population lives below the poverty line, trying to survive on less than US$ 2 per day. The study seeks to explore the impact fiscal policies have on the livelihood of the low income earning households in Windhoek, Namibia (Redemacher, 2011).

As indicated above, the development challenges faced by the Namibian government are diverse and need tailor-made interventions. Namibia can boast about its political stability, well-functioning democracy, low level of crime and high degree of political commitment firm economic growth and development based on the country's long term vision, "Vision 2030", National Development Plans (NDP's) and Poverty Reduction Programmes (PRPs), all of which have been aligned to the achievement of the MDGs. Macro-Economic stability and good fiscal management are maintained through the Medium Term Expenditure Framework (MTEF).

Namibian Fiscal authorities tried to solve these problems by implementing supply side policies, expecting that the attraction of investments would finally lead to growth. Fiscal policy makers gave tax concessions to manufacturing corporations and tried to strictly keep the budget in balance. In addition, 51% of Namibian state revenues accrue from regressive indirect taxes like the Value Added Tax (VAT) and import taxes. They seem favorable, because corporations can pass the cost on to the consumer and investment decisions are not being influenced. However, indirect taxes affect the poorest in the country most and inhibit stimulation of their demand. Unfortunately, only 48% of the Namibian tax revenues accrue from progressive direct taxes, which are for instance income, profit and property taxes (Redemacher, 2011).

Thus , while maintaining the necessary balance on the fiscal policy front , the Government of the Republic of Namibia (GRN) is committed to stimulating and sustaining economic growth to reduce poverty and income inequality and ultimately reach the goal of improving the living standards of its people to the level of a developed country by 2030 (National Planning Commission, 2007).

The Namibian tax system is constructed of a more or less equal share of VAT and personal income taxes, a lower share of company taxes and no taxation on property. This again shows the supply side orientation of the previous and the current government. As endogenous growth theory would suggest, a high share of state income accrues from VAT. Endogenous growth theory would also dissuade from high income taxes, because it lessens the incentive to save and therefore to accumulate capital. However, the Namibian tax structure suppresses demand and the development of the internal market. Most of the Namibian tax stem from indirect taxes (Redemacher, 2011). The Namibian government decided to implement a zero-VAT rate on basic food, which could favor growth and development.

1.3 Statement of the Problem

Fiscal policy is one of the mechanisms by which policy impacts on distribution of income. It can achieve this by means of static redistribution, depending on the patterns of public spending and revenue raising or through dynamic redistribution, through its influence on the distributional pattern of growth (Killick, 2002). A high percent of the Namibian population still lives in poverty. Unemployment as at last count stood at 28.1 percent of the labour force. Income inequalities are wide spread and imports of food stuff are up to 70 percent (Schletwein, 2015). This causes the food prices to be very high. One could still ask, what is the impact of fiscal policy on the livelihood of low income earning households?, given that low income groups have higher marginal tendency to consume, it is likely that poor households will be affected than other sections of the population due to the fact that they spend most of their income on consumables. With the high level of gini-coefficient of 59.7, the country is faced with high income inequality level. High income inequality levels means that the richer gets richer and the poor get poorer making some inhabitants unable to afford basic commodities.

Poverty has been one of the development challenges since independence in 1990. It has many dimensions encompassing income /expenditure/consumption, low human development, social exclusion, ill being, lack of capacity and function, relative deprivation, vulnerability, including uncertain livelihoods and lack of means to meet the basic needs. Appropriate policies, strategies and plans have been designed but additional resources are required to constructively and decisively reduce poverty. Since Independence, the government of Namibia has pursued policies and programmes to reduce poverty. Of Namibia's total population of just over 2 Million people, around 35% are estimated to be living below the poverty line of US$1 a day. Most of the poor live in rural areas, as do the majority of the total population (Redemacher, 2011).

There is also a dearth of empirical research of how fiscal policy affects the low income earning households' livelihood. The available literature on fiscal policy only focuses on how fiscal policy affects the economic growth of Namibia and how fiscal policies affect poverty alleviation (Redemacher, 2011). In sum, no research was conducted before on the effects of Fiscal Policy on the livelihood of low income earning households in Namibia. Thus, this research thesis will be done to cover the gap. Previous researchers only looked at the effects on the economy growth and as a tool for poverty alleviation and did not focus on those affected the most, which this thesis proved in the low income earning households.

1.4 Objectives of the study

The primary objective of the study is to assess the effects of fiscal policy (Focus Taxation and Government Expenditure) on the livelihood of the low income earning household on the socio –economic well-being. The specific objectives of the study are:

- to determine the importance of fiscal policy (Taxation; direct and indirect tax) in Namibia.
- to determine the perception of the people on fiscal policy in Namibia.

- to determine whether government expenditure has a positive or negative impact on the low income earning households.
- to establish the effects of fiscal policies on the prices of basic consumables in Namibia.
- to examine the relative influence of fiscal policy on the low income earning households in Windhoek Namibia.

1.5 Research Questions

- What is the importance of fiscal policy in Namibia?
- Who does taxation have the most impact on?
- What is the relationship between government expenditure and low income earning households?
- What are the effects of taxation and prices for consumables?
- What is the impact of zero-rated and prices of the zero-rated items?

1.6 Significance of the study

The significance of the study is to determine the effect of Fiscal policies on the livelihood of low income earning households and why the government justifies introducing new taxes, increasing or decreasing taxes and to determine/justify if reduced rates are an effective way to alleviate the tax burden on the low income earning households as they spend more of their income on food and clothing. The study conducted by Redemacher (2011) indicates that most of Namibian revenues stems from indirect tax, while 51% of Namibian revenues are accrued by indirect tax, only 48% of revenues are collected by indirect taxes. This is problematic, because indirect taxes affect the poor the most. The study also looks at how the Namibian government allocates its revenues and if it has a negative or positive impact of the low income earning households.

1.7 Limitation of the study

The major limitations for this study was time; there was not enough time to do the research due to work commitments; questionnaires not fully completed or not returned; and, not getting hold of the officials to be interviewed Inaccessibility of sufficient information on the topic due to strict library rules regarding taking out books. The other limitation was the language barriers as some of the people to participate in the study did not understand the terminologies used and English.

1.8 Organisation of the Study

Chapter 1 - gives the introduction to the context of the topic of study, it outlines the background of fiscal policy. The chapter gives an overview of the problem at hand, why it is significant to carry out a research on the topic concerned and what objectives the study is aimed to achieve.

Chapter 2 - gives an introduction into the discussion of the theoretical concepts of fiscal policy, an overview as to how other countries, internationally especially in the Southern African Development Community (SADC) region have managed to utilize fiscal policy to benefit the low income earning households. This chapter also outline the views on other researchers on fiscal policy

Chapter 3 - describes the research methodologies and research tools used in the study. It explains the rationale for the research method used as well as why the research is focusing on a specific targeted population group.

Chapter 4 - deals with the collection of data, presentation and data analysis, with regards to the findings of the study.

Chapter 5 – outlined the conclusion as well as the recommendations of the study.

Chapter Two: Literature Review

2.1 Introduction

In this chapter the researcher will give different meanings of the concepts in order to give a clear understanding of the concept of fiscal policy. In order to give a balanced discussion of fiscal policy, issues like the objectives and role of fiscal policy and arguments for and against fiscal policy will also be discussed. The different types of fiscal policy are also discussed. The researcher will also give views on other researches on the topic and in conclusion the researches view on the topic.

2.2 Definition of Fiscal Policy

Aaron Forsythe (2012) defines fiscal policy as a type of economical intervention where the government injects its policies into an economy in order to either expand the economy's growth or contract it. By changing the levels of spending and taxation, a government can directly or indirectly affect the aggregate demand, which is the total amount of goods and services in the economy.

In addition the aforementioned author says that consumers also react to these polices positively or negatively. Most consumers would have a positive reaction per se to a policy lowers taxes, while some will have an issue with a government spending more which will increase the burden of debt on nation's citizens.

2.3 Role of Fiscal Policy

This policy is also used to increase the rate of savings in the country. In the developing countries rich class spends a lot of money on luxuries. The government can impose taxes on them and can provide the basic necessities of life to the poor class on low rate. In this way, by providing incentives, savings can be increased.

Fiscal Policy is very useful for the achievement of equal distribution of wealth. When the wealth is equally distributed among the various classes, consumers' purchasing power increases, which ensures the high level of employment and production.

Fiscal Policy is also used for controlling the rate of inflation. When the expenditure on non-productive projects is reduced or the rates of taxes are increased then the purchasing power of the people reduces (Allen, 2013).

In the less developing countries some areas are more developed while the others are less developed. Government provides the infrastructure facilities in the less developed areas. The tax holiday incentive is also provided in these areas which are very useful in increasing the per capita income.

Fiscal policy is also used to achieve desirable level of prices in the country. It means the cost and price should be at such level that production and employment may increase.

Fiscal policy's main objective is to achieve maximum welfare of the people. The quality of life must improve in the country.

In addition, fiscal policy is also used to check the rapid increase in consumption; if it is high, the rate of saving will be low and consequently rate of investment will be low. So, a country cannot improve its economic condition without increasing the investment.

The aim of fiscal Policy is to increase the rate of production and employment without inflation. So in all the countries fiscal policy major objectives is to ensure the economic stability in the country. (Allen, 2013)

2.3.1 Different types of fiscal policy

Amadeo, (2016) emphasied that there are two types of fiscal policy. The first and most widely-used is expansionary. It stimulates economic gowth. Its most critical at the contractionary phase of a business cycle. The government either spends more,cut taxes or does both if it can. The idea is to put more money into customers hands, so they spend more. That jumpstarts demand, whicg keeps business running, and hopefully adds jobs.

The second type is contractionary fiscal policy which is rarley used. That's because its goal is to slow economic growth. The reason is to stamp out inflation. That's because the long-term impact of inflation can damage the standard of livig as much as a recession.

2.4 Theoretical framework

This section reviews major theoretical arguments regarding fiscal policy and its importance to every economy. Economic theory suggests a number of approaches that can illuminate on the behavior of fiscal policy on the low income earning households.

2.4.1 Keynesian Approach

Keynesian economic theory relies on spending and aggregate demand to define the economic market place. Keynesian economist believes the aggregate demand is often influenced by public and private decisions. Keynesian theory believes that fiscal policy can be used to trigger consumption; private investments rise during a recession by raising government expenditures, as well as by lowering the tax burden on consumers. The reduction of the budget itself can lead to a recession (Redemacher, 2011).

According Keynesian theory, demand can be stimulated by increasing government expenditure in education, infrastructure, and communication systems and in other public sector investment. Thereby consumptions and growth can be triggered. The higher the transfers to the poor, the higher the growth effect, due to their larger propensity to consume. The poorest country uses the biggest share of their income for consumptions (McDermott &Wescot 1996).

Tax revenues are a key factor in Keynesian economic policy, becouse the state needs the resources for countercylical demand policy. For this reason , tax concessions for corporations are not favourable for the market. Keynesians rate direct taxes ,like corporate income, personal income or property taxes, as more favarable than indirect taxes like VAT. They are progressive, meaning that the higer the income, the bigger the proporsional share individuals or corporations have to pay to treasury. Indirect taxes on the other hand are regressive. VAT affects the poorest in the country most, because they spend the biggest share of their income on consumption and are therefore charged most (Redemacher, 2011). Therefore, Keynesians suggesst that the tax policy should base on direct taxes. Demand Increases if the income of the poorest is less burdened and the internal market can develop (McDermott &Wescot 1996)

2.4.2 Neoclassical theory

Classical economic theory is rooted in the concept of laissez-faire economic market. Laissez-faire- also known as a free-market requires little to no government intervention. It produces optimal levels of welfare, production growth, while state intervention can disturb the optimal equilibriums. An intervention by the government should only be adopted when the market produces negative externalities, for instance, environmental damage (Redemacher, 2011). For this reason the neoclassical theory also produces a non-interventional form of fiscal policy, in which the expenditures and the revenue collection are minimized. The consolidation of the budget is the key factor for achieving growth.

The reduction of the government deficit –supported by the neoclassical theory – entails the risk of inducing a recession. If wages of the public sector and transfer to the population are lowered, consumption and investments decreases. This in turn unleashes unemployment and could lead to a recession (McDermott & Wescot, 1996).

2.4.3 Empirical Literature

Several empirical studies have investigated the fiscal policy and the effects on the poor.

Aaron Forsythe (2012) defines fiscal policy as a type of economical intervention where the government injects its policies into an economy in order to either expand the economy's growth or to contrast it. By changing the levels of spending and taxation, a government can directly or indirectly affect the aggregate demand, which is the total amount of goods and services in the economy.

In addition Aaron states that consumers also react to these polices positively or negatively. Most consumers would have a positive reaction to a policy that lowers taxes, while some will have an issue with government spending more which will increase the burden of debt on nation's citizens.

According to Chand (2011), the role of fiscal policy in newly developing countries should apparently be conducive to rapid economic development. In a poor country, fiscal policy can no longer remain a compensatory fiscal policy. It has a tough role to play in a developing economy and has to face the problem of growth-cum-stability.

The aforementioned author states that the main goal of fiscal policy in developing economy is a promotion of the highest possible rate of capital formation. Underdeveloped countries are encompassed by vicious circle of poverty on account of capital deficiency; in order to break this vicious circle, a balanced growth is needed. It needs accelerated rate of capital formation.

Kim and Heshmati (2014), did a survey of the Role of Fiscal Policy in Addressing Income Inequality, Poverty Reduction and Inclusive Growth, in Asia. They said that there was a growing concern on widening income gap between the rich and the poor. In order to bridge the needs of economic growth, this is still the top of priority of policy agenda in Asian economy according to the research. Further, the research indicated that depending on their economic growth pattern and fiscal constraints, each government can intervene and promote equity with a range of economic measures, mainly tax and benefit system.

While Munongo (2012) investigated the effectiveness of fiscal policy in spurring the economic growth in Zimbabwe, he said that interventionist macroeconomic policies have been dormant; however, the growth impact of fiscal policy remains unclear to policy makers in the economy. In recent years Zimbabwe has given fiscal policy the biggest role in economic stimulus given the multi-currency regime which has limited role of monetary policy. His study focused on target variables in the period 1980-2011.

However, Roy and Weeks (2016) in their synthesis on Making Fiscal policy work for poor on UNDP's Asia-Pacific Regional Programme on macroeconomics of Poverty reduction, is based on the analytical premise that fiscal policy is a major instrument to generate a pattern of growth that maximizes poverty reduction subject to the constraining circumstances of each country.

The research also indicated that fiscal policy should foster pro-poor growth. And stressed that every government must maintain a sustainable fiscal policy which include deficit that is manageable in the short term, and the associated public debt it creates being serviceable. The study shows that "sound fiscal policy" involves more than this. The economic function of government is not merely to maintain a stable macro environment; its primary responsibility to its citizens is to foster the general welfare. The study also shows that increasing expenditure on social sectors is mostly always pro- poor. However, pro- poor expenditures switching is more complicated than a relative increase in allocations to social sectors.

Kiringi, Wandjala & Mathenge (2012) examined the link between fiscal policy and gendered poverty in Kenya. The imposition of tax translates into a reduction of real income for households. They also indicated that the imposition of tax, increases the value of consumption basket used to define the poverty line, which I agree with. Their study also expressed that unless household income increases, more households are likely to fall below the poverty line. Based on their findings however the net effect depends on the benefits that accrue to the households from government spending. In addition, their study also used computable general equilibrium approach, tracing how direct and indirect effects of fiscal policy (tax and expenditure) on household incomes disaggregated by gender of the household head, they also looked at how an increase in VAT and exercise of VAT and excisable commodities in the basic consumption basket.

Obi (2006) focused on fiscal policy and poverty alleviation in Nigeria, where he stated that fiscal policy is a potent tool for poverty alleviation; he said that transfers to the poor household, targeting of government expenditure is helpful. He observed that targeting government expenditure seems to be most effective tool for poverty eradication. He also emphasized that fiscal policy should be designed so that government expenditure is properly focused to ensure that goods required by poor households are provided through public means.

McKay (2002) in this research focused on the issue arising in trying to assess the impact of fiscal policy on poverty. He also discussed approaches to assessing the impact of fiscal policy on poverty at a country level, however he states that the relationship between fiscal policy and poverty are not well understood, and the most commonly used technique for assessing the distributional impact, benefit incidence analysis, is straight forward, in the same breath he said that if applied by itself it suffers from a number of serious limitations. McKay also emphasized that the assessment impact of fiscal policy needs to be developed in various directions, including allowing for behavioral responses and incorporating a broader range of information. In parallel with this he says careful attention needs to be paid to more effective monitoring.

Rademacher (2011) in her research however focused on whether Namibian policy makers should keep on relying on the supply side fiscal policy to raise growth, or whether redistributive fiscal policy would lead to the development of an internal market via higher disposable income in the poor. She argued that current supply side orientation of the fiscal policy did not and will not lead to growth, but that a new demand side approach must be implemented to solve Namibia's economic problems.

While maintaining the necessary balance on the fiscal front, the Government of the Republic of Namibia, is committed to stimulate and sustain economic growth to reduce poverty and income inequality and ultimately reach the goal of improving the living standards of its people to the level of developed country by 2030 (National Planning Commission, 2007). In the light of debate the question that comes to the fore is what impact of fiscal policy on the livelihood of the low income earning households.

2.4.4 Fiscal policy: International Experience, Indonesia

The characteristics of fiscal policy, economic structure and social structure in Indonesia might be different from other countries, so that the impact of fiscal policies on the low income households (poor households) might be different in patterns and effects. The impact of fiscal policy on poverty depends on how economic agents react to the policy change in which it might be influenced by a market structure, an agent's endowment, and a social economic structure. Thus, the information related to budget structure, how VAT is imposed, who pays income taxes, and what certain criteria for getting cash transfer are important and valuable in order to make a comprehensive analysis on the impact of fiscal policy incidence in Indonesia (Dartanto, n.d).

Fiscal policy, as one of the macroeconomic policies used by governments to intervene in the economy, can influence the poor through tax, income and expenditure policies. Tax function is a progressive redistributions tool. Expenditure subsidies also enable public goods to be consumed at prices below margin (Dartanto, n.d).

For alleviating poverty, the government in Indonesia has implemented several policies including macro and micro policies. In macroeconomic policy –especially in fiscal policy, there has been some improvement both in quality and quantity compared to previous years. The Indonesia tax structure changed significantly, especially after the economic crises. The role of indirect taxes, which were previously dominant, has decreased as it has been taken over by the role of direct taxes so the distortion in economy is minimized (Dartanto, n.d) .

2.4.5 Government Expenditure: Indonesia

According to the Public Expenditure Review in Indonesia (The World Bank, 2007), the public finance in Indonesia shows several facts. First, provinces and local governments now manage 36 percent of total expenditures and carry out more than 50 percent of public investment. Second, spending on subsidies and administration accounts a third of total expenditures. Subsidies still consume roughly 15 percent of the budget and remain at the 2004 level. Third, spending on education is now 17.2 percent of total spending, the highest share of any sector and comparable to that of many other low and middle-income countries.

2.4.6 Value Added Tax and Income Tax in Indonesia

Value Added Tax, known as Pajak Pertambahan Nilai (PPN) in Indonesia, with the 10 percent rate was initially introduced in 1985. This Tax is enforced based on Law No.6/1983, amended by Law no.16/2000; Value Added Tax (VAT) termed Goods and Services and Sales Tax on Luxury Goods.

The Indonesian VAT conforms in its design to the best practice in very many respects (Marks, 2003 (Dartanto, n.d)). For example, VAT on capital goods expenditures is credible against VAT obligations. This means that VAT is essentially a consumption tax. Like other countries Indonesia exempts a wider range of goods and services which are especially consumed by low income group. As a consumption tax, VAT has a disproportional impact on the poor, thus in Indonesia basic food products like rice, corn, and cassava are exempted from VAT, as is electricity for low income households.

Income tax in Indonesia, known as Pakak Penhasilan (PPh), is formed by Law No 7/1983, amended by Law No.17/2000. Income tax in Indonesia is progressive and applied to both individuals' and enterprises (Dartanto, n.d). A self –assessment method is used to calculate the tax. In July 2008, the government of Indonesia and the House of Representatives amended the income tax law, which cut taxes and other incentives to business. For individuals, the taxable income threshold for married tax payers increased. The amendments came as a relief to low-income people who have especially suffered from soaring food and commodity prices.

2.4.7 Household income and expenditure: Indonesia

Many Families in Indonesia are not benefiting from national economic growth. Fifty percent of Indonesia's population is still poor, hovering around the poverty line, living on less than US$ 2 per day (P, 2012).

According to the Central Statistics Agency, the number of Indonesia's poor is at 30.2 million and lowest income is $ 1.13.

2.4.8 Poverty line in Indonesia

The common starting point of many poverty calculations is a food intake requirement of 2,100 calories per person per day (Ravallion, 1994). A food poverty line is the expenditures necessary to achieve this caloric intake. Calories are just a proxy for an overall nutritional adequacy, which requires protein and micronutrients as well as calories.

To get the poverty line, it is added with nonfood expenditures such as health, education, transportation, etc. However, choosing the allowance made for the food expenditures is ever more difficult because there are no equivalent of nutritional standards to provide even a weak anchor to the amount. The monetary value of the food poverty line (FPL) and poverty line (PL) in Indonesia are shown in Table 1.

Table 1 Poverty line in Indonesia

Region	**1996**		**1999**		**2002**		**2004**		**2005**		**2006**	
	FPL	PL	FPL	PL	FPL	PL	FPL	PL	FPL	PL	FPL	PL

Rural	23,844	31,366	59,822	74,272	73,030	96,512	*	108,725	84,014	117,259	103,180	131,256
Urban	30,454	42,032	70,959	92,409	93,351	130499	*	143,455	103,992	150,799	126,527	175,324

Source: (Ravallion, 1994).

Table 1 shows that the poverty line changes responding to the change in economic conditions and policies. When economic crisis hit, the poverty line in 1999 jumped more than double compared to the line in 1996. The same pattern also happened in 2002 and 2006. In this period the government cut fuel subsidies in order to maintain budget sustainability (Dartanto, n.d).

2.5 East African Experience: Uganda

In between 1992 and 2012, Uganda reduced by half proportion of people living in poverty. Income inequality, however, rose sharply over the period and has remained elevated through 2015. In recognition of the social stresses induces by income inequality, the Ugandan government has committed to continue to reduce both poverty an inequality in its National Development (Jellema et all, 2016 p.1).

Uganda's personal income tax does not burden the low income households. Indirect taxes-the Value added (VAT) and Excise Taxes-were paid by nealy everyone (poor or not) , but they had an equalizing effect –that is, inequality would have been higher without VAT and Excise taxes, while net indiirect taxes did not contribute to a significant increase in poverty rate. The tax system was therefore also bdoadly supportive of Uganda's poverty and inequality reduction goals, which makes it unique among lower income countries in Africa. Fiscal policy is very important to any economy in the world for any economy. The government uses fiscal policy to promote strong and sustainable growth and reduce poverty. Governments directly and indirectly influence the way resources are used in the economy (Jellema et all, 2016 p.1).

Jellema (2016) further stated that Uganda has relied heavily on indirect taxes in revenue collection: these indirect taxes are neutral to inequality – reducing at least partially because many of the goods and services comprising the bulk of low income earning household's budget are exempt. Closing such exemptions or bringing a larger share of transactions under the formal direct tax system would place a larger burden (from increased revenue generation) on such households. Instead, lowering the personal income tax threshold and otherwise making the direct tax system more efficient could increase revenue generating capacity while protecting the low income households from further impoverishment.

2.5.1 Low income households in Uganda

The constitution of Uganda provides that all Ugandans have the right to a life in dignity and a minimum wage. According to ILO (2013) in 2005 slightly over 50 percent of the waged and salaries workers in Uganda were poor with 30 percent living in extreme poverty. The labor market survey indicated that 4.5 percent of the population (7.5 million persons) living below the poverty line, about 2.7 million (21 percent) are classified as the "working poor" these according to the survey earned a median monthly income of 50,000 Ugandan shilling (about USD 19).

2.5.2 Government Expenditure: Uganda

Bariyo (2016) suggests that Uganda's budget for 2015-16 fiscal year indicated that most of the funds will go to security, health and infrastructure sectors. The country's budget deficit is expected to widen to 8.5% percent of the GDP compared with 7.2% last year.

2.5.3 Taxation in Uganda

Taxes in Uganda are centrally assessed and collected by the Uganda Revenue Authority (URA) Headed by a Commissioner General.

Income tax: In Uganda income tax applies generally to all types of persons who derive income, whether an individual, bodies of individuals, or corporate entities. (Bariyo, 2016)

Taxes for Companies

The income tax rate for a company i.e. a body of persons corporate or incorporated is 30%. For non –resident companies, an additional 15% tax may become chargeable on repatriated branch profits (Bariyo, 2016)

Value Added Tax (VAT)

VAT (also referred to as goods and services Tax in other jurisdictions) is a consumption tax charged at a rate of 18% on all supplies made by taxable persons (Jellema et al, 2016).

2.6 SADC experience: South Africa

2.6.1 Fiscal Policy in South Africa

Since the end of apartheid, South Africa has made progress towards establishing a more equitable society (Inchauste.G , Lusting.N , Maboshe. M , Purfield. C , Woolard. I , 2015) . In particular, advances in areas such as electrification and access to education have increased equality of opportunities as quoted (World Bank, 2012). There has also been sizable reduction in the levels of poverty in recent years. Between 2006-2011, the proportion of the population living in poverty using the national poverty line fell from 57.2 to 45.5 percent. Inequality of per capita household's consumption has declined during this period. Gini coefficient fell from 0.67 to 0.65. However, in Spite of this progress, the Gini coefficient in South Africa is still higher than it was in 1993 and the country continues to be one of the most unequal in the world. South Africa also features higher poverty rates than other middle – income countries with similar per capita GDP. For example, as measured with the international poverty line of U$ 2.50 per day, South Africa's headcount is 36 percent, while it is 11 percent in Brazil and 4 percent in Costa Rica.

South Africa's government has tried to attach the inequality inertia at its roots on several fronts, including most prominently, through taxation and social spending.

Since the end of apartheid, the government has progressively expanded its fiscal programs to help address poverty and inequality while maintaining sound fiscal indicators. It broadened the tax base and built an efficient tax administration to generate the resources it needs to progressively expand the social net for the poor. However, in recent years fiscal space has become more limited. In response to the impact of the global financial crisis and the slowdown in the economic growth in

South Africa, the government pursued a countercyclical policy that preserved spending in the face of declining revenue collections.

2.6.2 Government expenditure of South Africa

Inchauste et al. (2015) , indicated that by 2013/14, total government spending amounted to 33.2 percent of GDP with more than half of it devoted to social spending.

South Africa has higher social spending than other middle-income countries. But spending does not mean that the poor always benefit from such programs. Poorly targeted or designed social programs often result in the benefit leaking to higher-income groups. This appears to be the reality when it comes to the tax component of the government budget.

2.6.3 Main features of key taxes included in the fiscal incidence analysis for South Africa

Personal Income Tax (PTI)

Personal income tax is levied on individual taxable income (Gross income less exemptions and allowable deductions). Capital gains also form part of taxable income. (Inchauste et al , (2015)

Payroll taxes

There are no social security taxes as there is no contributory social security in South Africa. There are two earmarked payroll taxes exist: First, the skills development levy 1% is contributed by the employer. Second, the Unemployment Insurance Fund (UIF): employers and employees contribute 1% of earnings towards the fund which provides income protection for up to 236 days in the event of unemployment. (Inchauste et al. (2015)

Value Added Tax

VAT was introduced in South Africa in September 1991, replacing the General Sales Tax (GST). The South African VAT system is an example of modern VAT. Most goods are subject to a standard rate of 14%, with limited zero-ratings and exemptions.

2.6.4 Households Income and expenditure patterns in South Africa

The Bureau of Market Research (BMR) of the University of South Africa (Unisa) completed a report on household income and expenditure patterns for the year 2011.

The report was released amidst the growth concerns over the country's socioeconomic tribulations characterized by high unemployment, persistent high levels of poverty, the increasing gap between the rich and the poor as well as the expenditures pressures experienced by South African households. Questions have been asked by industry regarding why a relatively affluent 'middle income' developing country like South Africa performs so badly in terms of developing its human and social capital. According to Prof Carel van Der Aardt (BMR Director of Household Wealth Division) , as quoted in the Media Release Report 2012, one of the answer lies in the extreme inequality in South Africa, one of the highest in the world. With an income Gini Coeficient of around 0.70 in 2008 and consumption Gini coefficient of 0.63 in 2009, South Africa is rated one of the most unequal countries in the world, says Van Aardt. In fact, a typical household in the highest income group earns 71 times more than a household in the lowest income group. (Delfin S.Go.et al , 2005)

A selection of the findings from the BMR research is presented below

2.6.5 Household Income in South Africa

The total number of Households in South Africa was estimated just over **14 million** in 2011.

These households had a combined income of about R trillion in 2011.

- About 22.4% of total household income accrued to the emerging middle class, namely households with an annual income that ranges between R 151 728- 363 930 per annum.
- The lowest income group (0- 54 344 per annum) earned R 196 billion in 2011, accounting for nearly 10% of total household income.
- The affluent group's total household income amounted to just over R 200 Billion. This represented just 10% of the total income in the country. (Masemola, 2012)

Figure 1 shows the distribution of household income by income group.

2.6.6 Distribution of total percentage of household income by income group

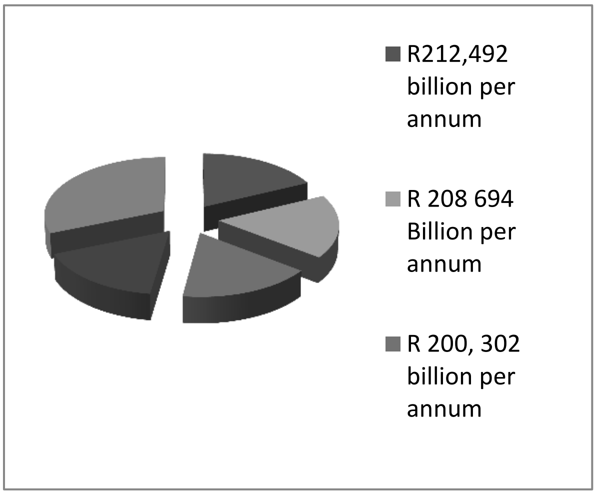

Figure 1: Total percentage of household income by income group

Source: *Household income and expenditure patterns, (Masemola, 2012)*

2.6.7 Household Expenditure

According to Mr. Masemola, Over R19 trillion was spend by households in South Africa during 2011. In percentage terms 22% of this was spend on food, 15.2% on housing and electricity and 11.4% on income tax ((Masemola, 2012)).

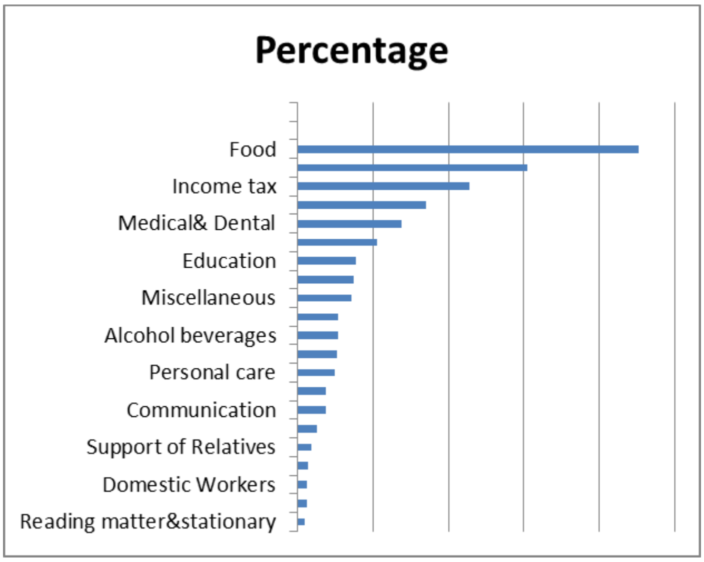

Figure 2: Percentage of household expenditure

Source: Household income and expenditure patterns, Media Release Report 2012

When analyzing the distribution of expenditure by income group, BMR research shows that households in the poorest income group spend half (47.7%) of their income on food. On the other hand, those in the affluent category only spend (7%) of the total income on similar items (food). According to Prof Crel van Aardt, this implies that there is little left for the important expenditure items such as Education, health and even savings among the poor households. This is evidenced by this group's savings rate of -21.4%, compared to 12.6% for the affluent income group The distribution of household's expenditure by expenditure group is shown in table 1 (Masemola, 2012)

2.6.8 Percentage of total household expenditure by expenditure and income group.

Table 2 Total household expenditure by expenditure and income group

Expenditure group	<R54 344	R54 345-R151727	R151 728-363 930	R363 931-R631 120	R631 120-R863 906	R863 907-R 1’329 844	R 1’329 845+
	%	%	%	%	%	%	%
Alcohol beverages	3.0	4.5	2.8	2.0	1.8	1.9	1.6
Cigarettes& tobacco	1.8	2.3	1.5	1.1	0.6	0.6	0.2
Clothing, footwear & accessories	7.6	8.4	6.1	3.9	2.8	2.6	1.6
Communication	1.0	1.6	2.2	2.3	2.3	2.1	1.4
Domestic Workers	0.2	0.2	0.7	0.9	0.7	0.8	0.9
Education	2.4	3.4	4.8	4.7	4.1	3.5	3.1
Food	47.7	35.2	21.7	14.7	11.3	9.8	6.8
Furniture	1.9	3.0	3.0	2.7	2.5	3.1	2.4

& household equipment							
Holiday/ weekend (excl transport)	0.1	0.1	0.4	0.7	1.0	1.2	1.5
Housing & Electricity	15.1	14.3	16.0	16.2	15.6	14.3	14.3
Income tax	0.8	3.3	8.7	15.2	17.7	19.8	25.4
Insurance & Funds	0.9	2.0	3.8	5.1	4.7	5.3	4.7
Medical &Dental	2.8	3.1	7.8	9.3	10.8	10.0	6.0
Miscellaneous	2.7	4.4	4.2	3.1	3.1	3.0	3.8
Personal care	4.0	3.6	2.8	2.0	1.6	1.3	1.0
Reading matter& stationary	0.2	0.5	0.6	0.6	0.4	0.6	0.3
Recreatio	0.9	0.9	1.5	2.5	2.8	3.3	2.9

n, entertainment& sports							
Savings	0.3	1.2	1.9	2.7	3.1	3.0	9.5
Support of relatives	1.0	1.9	0.8	0.3	0.4	0.4	1.2
Transport	4.1	5.1	8.0	9.6	12.2	13.1	11.0
Washing &cleaning materials	1.6	1.1	0.7	0.4	0.4	0.3	0.2

Source: (Masemola, 2012)

2.7 Local Experience: Namibia

2.7.1 Fiscal Policy in Namibia

Namibia's fiscal policy has remained expansionary over the past years with the objective of providing support to economic growth and addressing socio-economic development challenges (Finance, 2016/17-2018-/19). Expansionary fiscal policy has allowed the government to provide increasing services to more Namibians and investing in social and economic infrastructure to enhance long–term growth. However, strong growth in expenditure over the years led to a faster growth in public debt and weakening of macroeconomic accounts for which medium–term policy response is necessary.

Namibia's real GDP growth is estimated at 5.0 percent for 2015 and is projected at 5.5 percent for 2016, before rising further to 5.9 percent in 2017.

2.7.2 Definition of low income earning household

Many under employed households units are considered by the government to be low-income and may be found to be eligible for certain types of government support and assistance.

According to the United Nations Development Programme,(Namibia) Low income earning household is defined as those that have a monthly expenditures of less than N$ 262.45 per adult equivalent, and the severely poor as those households with expenditures of less than 184.56 per adult equivalent.

2.7.3 Main features of key taxes included in the fiscal incidence analysis for Namibia

Income tax: This is tax levied or charged on the earnings of individuals and business.

PAYE: Individuals are taxed on income at progressive marginal rates over a series of income brackets. Every individual that earns an income of more than N$ 50 000.00 per year is required by law to pay income tax.

Value Added Tax: Is an indirect tax. This means that the person who bears the tax is not assessed directly by Inland Revenue but indirectly through the taxation of the transaction into which he enters (Clegg, 2016).

Company Tax: Companies, other than those companies who have been awarded manufaturing status, are subjetc to normal tax rates (Clegg, 2016).

2.7.4 Government Expenditure: Namibia

Public Sector Consumption

There is relatively low growth in private consumption recorded in 2015, that is, in spite of relatively high GDP growth which necessarily implies that growth in other forms of expenditure was higher.

In fact, government expenditure posted growth of 9.9% in real terms (keeping prices constant at their 2010 level), which was the highest rate since 2008 and well above the 2011-14 average of 4.9%. This is in contrast to the nominal growth picture (using current prices), in which government spending grew by 9.0% in 2015, compared with growth of 14-28% in the preceding three years (Fig. 3).

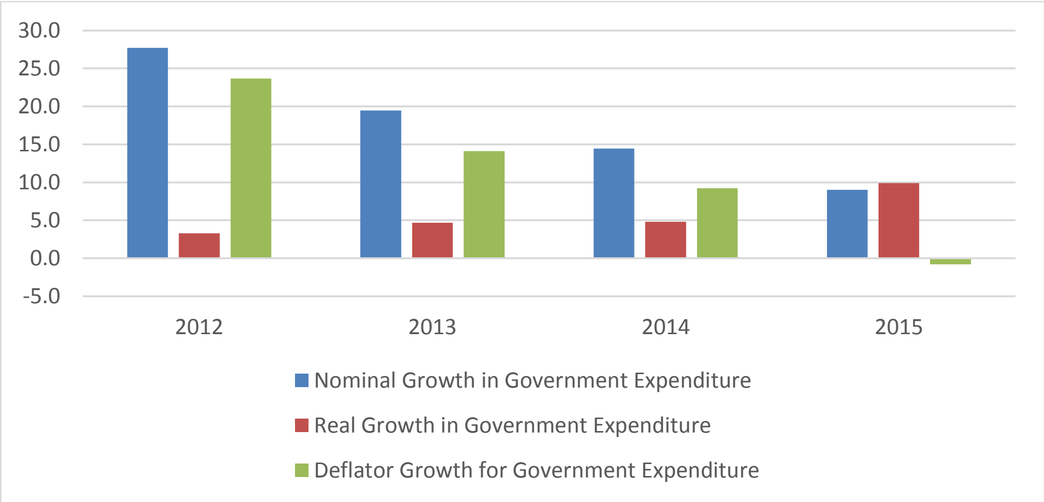

Figure 3: Public Sector Consumption

Source: National Accounts 2015

The main reason for real growth in government spending being so high in 2015 is thus that the deflator fell, suggesting that the price level for what government bought in 2015 was lower than the price level for what government bought in 2014 (all measured relative to the 2010 price level). It is difficult to see which areas of government expenditure saw relatively lower prices in 2015, except perhaps for fuel, which comes through in construction costs, transport expenditure for government vehicles, and domestic and international air fares. On the other hand, price levels seem to have risen for public sector salaries, materials and supplies and many other categories.

Analysis of the 2015/16 Budget

Overall Budget

Overall expenditure from the FY2015/16 Budget is projected to amount to 67.08 Billion, marking an increase of 11.4% from the N$ 60.20 billion listed in the FY 2014/15 budget. This represents more gradual expenditure growth than the 28.8% increase seen in FY2014/2015. The current budget is divided among operational expenditure (77.7%), development expenditure (16.5%) and the interest payments on outstanding Government debt (5.8%). As a portion of the total budget, operational expenditure has decreased slightly, from 79.9% of the total budget in FY 2014/15, while the development budget has increased from 15.9% to 16.5%. Interest payments have also increased as a proportion of the overall budget, from 4.2% last year to 5.8%.

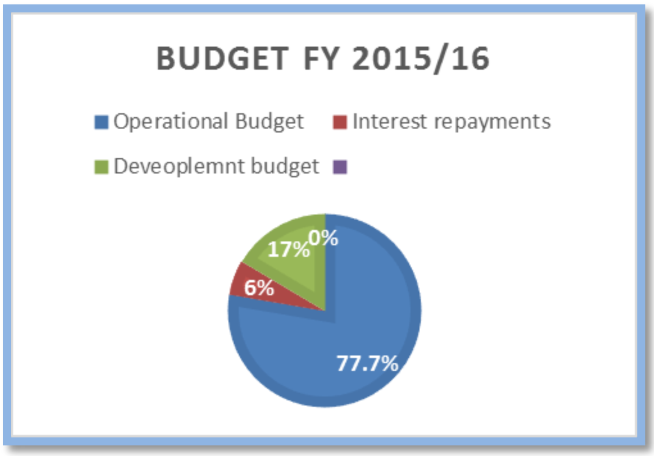

Figure 4: Budget FY 2015/16

Source: EPAS, 2016

The increase is mainly due to expenditure commitments arising from public sector remuneration corrections. (EPAS), 2016)

The development budget proposed to increase significantly. The budget deficit is projected at N$ 8.6 billion corresponding to 5.3 percent of the GDP.

Expenditure priorities include:

N$ 11, 332 million for Education;

N$ 7,229 million foe Defence; and,

N$ 6,489 million for Health and Social Services (PWC, 2015/2016).

Despite the tremendous efforts that Government has made throughout the past 25 years and the economic growth that was achieved, Namibia still faces significant challenges, such as an unemployment rate of 28.1%, high levels of poverty and high inequality. The current budget aims to address these challenges in a customized and effective manner (EPAS), 2016).

2.7.5 Studies on low income household's family budget in Namibia

In 2000, Windhoek's total population was estimated to be 235,000. A 1 995 local survey estimated that the population of the city was 182, 000 and would double within 10-12 years. According to the survey, the annual population growth rate was 5.4 percent of which 3.9 percent was the net migration gain. Thirty-two percent of the migrants settled in the informal area. The average monthly households expenditure in these areas, respectively was approximately US$ 190 and US$ 80 compared with the Primary Households subsistence Level for Windhoek of approximately US$ 140. Female headed households numbered about 26 percentages.

The survey also revealed that the housing need in the northern and north-western areas was most pressing as about 93 percentage of this low-income households. A study indicated that almost 50 percent of the poor households earned less than N$ 500 (US$ 80) per month, a further 15% approximately less than N$ 800 (US$ 130) per month and another 20 percent approximately earn less than N$ 1340 (US$ 240) per month.

According to the Labour Resource and Research Institute (LaRRI, 2013), over 60% of working Namibians -233 400.00 people to be exact- earn less than N$ 2000.00 a month , including petrol attendants, farm workers, security guards and the vast majority of the country's 70 000 domestic servants. The discrimination based on income, sees the majority of people being unable to afford even the basic necessities at supermarkets, while some are working huge amount of overtime and even turning to loan sharks to survive.

Labour Force Survey (LFS, 2012). said that from 389 000 people who are active in the labour market , 28.3 percent of the women were earning less than N$ 1000.00 per month, while 22 percent of the men earned less than N$ 1000.00. Mote further said 20.6 percent of women earned between N$ 1000 and N$ 1999.00, while 19.5 percent of men earned that amount, if these percentages are added it equals to more than 60 percent.

2.7.6 Percentage of total household's expenditure by expenditure and income group.

According to the Namibia Statistics Agency (NSA, 2004), Namibian households spend most of their income on food and housing. Around 20 % of the Namibian Households are poor while the poorest people are estimated to be about 29% of the total population. The poor are disproportionately located in the rural areas, mainly pensioners, subsistence farmers and households with lower level of education.

The Namibia Household and Expenditure Survey (2003/04 NHIES) result showed that 27.8 percent of the population are poor while 13.8 percent are severely poor, where poor households are defined as those that have a monthly expenditures of less than N$ 262.45 per adult equivalent, and the severely poor as those households with expenditures of less than N$ 184.56 per adult equivalent. The low income earning households spend substantial proportions of their total expenditures (56.7 percent) on food, compared to wealthier households who spend 13.2 percent on food .While the poor allocate only 2.7 percent of their expenditures on education and health, wealthier households allocate more than 5 percent of their expenditures on these services. The wealthier households allocate substantial portions of their incomes to saving and investment and in addition acquire more productive assets which in turn generate more income for them.

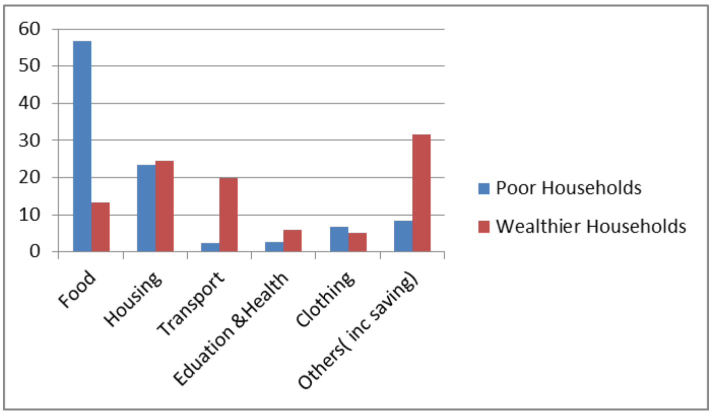

Figure 5 Composition of Household Expenditure

Source: 2003/04 NHIES

Zero-rating of VAT of Basic Commodities

The first round of zero-rating was put in place at the inception of VAT in 2000, and, zero rated commodities included mahangu, maize meal, maize, water, electricity, refuse removal and sewerage disposal. The second round of Zero-rating was put in place in 2008 and included , fresh milk, bread , cake flour and processed meat,.

Zero-rating on VAT on basic commodities consumed by the poor households should in principle, reduce poverty and inequality by reducing the regressive effects of the tax system, This is because poor households spend larger portions of their income on consumer goods and consequently larger proportions of their income on VAT (National Planning Commission, 2012).

The Namibia Consumer Trust, however conducted a survey on whether the prices after VAT did make a difference on the price of the consumables, However, the results showed that the Namibian food prices have increased , for the poor consumer in the urban area , high food prices would mean a weakening purchasing power that initially afforded the daily food needs. Thus, a poor consumer will exhaust his/her disposable income mainly on purchasing food and also deplete their meagre saved income (National Statistics Agency, 2015).

2.8 Conceptual Framework

Miles and Huberman (1995) refer to a concenptual framework as an explanation in either a graphical or narrative form of the main things explored. To be able to reach a conclusion regarding the purpose of this study, an explanation of the various variables is necessary.

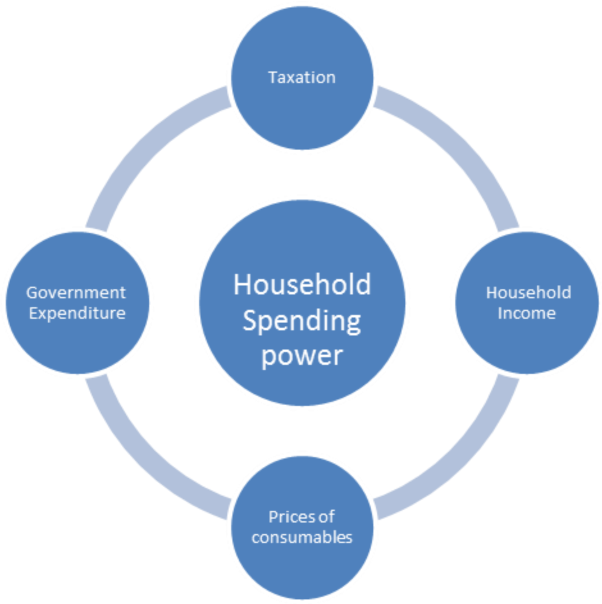

Table 3 Independent and dependent variables

Independent variables	Dependent Variables
• **Taxation (Direct and Indirect Taxes)** • **Government Expenditure**	• Household spending power • Prices of consumables • Households income

There is relationship between all the variables listed above, and the fluctuations in the independent variables will have either a positive or negative effect on the dependent variables.

2.9 Researchers view on fiscal policy on low income earning households

It is evident that fiscal policy, which entails taxation and government expenditure, does have an impact on the livelihood of the low income earning household. The impact can be positive or negative. Every government on (paper) has the nation's interest at heart, as can be seen in the budget allocation, the highest portion of the budget is for operational expenditures including mostly social benefits/grand, infrastructure and subsidies. However, it is the actual spending that matters. Taxation, on the other hand, is one of the largest contributor to government revenue, Even though the Income Tax was reduced in 2012/2013 to ease the burden on the taxpayers, in my opinion the beginning of the tax bracket is too low and should be changed. VAT increases the prices of consumables as the supply shifts the tax to consumers and Namibia being one of the countries with a high income inequality in the world, and with most people working in the semi-skilled job categories where they don't get paid more than N$ 2000.00, there is not enough disposable income for the basic needs. Even though the Namibian government has zero-rate some of the basic food (bread, milk, sugar, mahangu, cooking oil e.tc) the prices for those goods that are classified as necessary are surprisingly very high , because the suppliers are increasing production cost. I believe that the low income earning households are at the receiving end of VAT since it's charged on all the goods at production. The researcher agrees with Rademacher (2011) who indicated that the ones that feel the wrath of taxation is always the low income earning households. Depending on the government expenditure and its resource allocation, if the government spends most of it budget on projects not benefiting the low income households e.g. water, electricity, housing, sanitation, and the poor will suffer the most.

2.10 Summary

The chapter looked at the, literature review, definition of fiscal policy and its objectives. The chapter also outlined the empirical studies other researchers have done on the topic, theoretical studies on fiscal policy and the impact on the low income earning, looking at fiscal policy in Indonesia, South Africa and Namibia.

Chapter Three: Research methodology

3.1 Research design

A research design is defined as the blue print for fulfilling objectives and answering questions (Cooper & Schindler 2011). To ensure that the research reaches the desired results both qualitative and quantitative methods were be used. The qualitative method is a method which uses interviews; such interviews were conducted with the selected participants to get their views on how the changes in Fiscal Policy (Direct and Indirect Taxes) affect their livelihood. The quantitative part utilized structured questionnaires to source information from individuals. Quantitative research is defined as a "research involving the use of structured questions in which the response options have been predetermined and a large number of respondents are involved" (Burns & Bush 2005).

3.2 Population

The target population for the research was selected from Windhoek's informal settlements.

3.3 Sample

Due to many informal settlements in Windhoek, Cluster sampling was used, meaning that the population was divided into groups of elements with some groups/ locations randomly selected. Due to the many informal settlements in Windhoek, five informal settlements selected were namely: Havana, Okuryongava, Ombili, Agste laan and Okahandja Park. The different subgroups tried to secure heterogeneous and homogeneity between subgroups. Simple Random Sampling was then be used to select 30 households in each geographic cluster which means 150 individuals participated in the research. Families in the same block or geographic area, are often similar in social class, income level, although statistical efficiency in most cases is moderate, economic efficiency is often great enough to overcome this weakness (Cooper & Schindler, 2011).

Thus reasonable conclusions were drawn from the information gathered after being analyzed.

3.4 Research Instruments

The main instruments used in the study for measurement were questionnaires and interviews. Questionnaires are reliable in the sense that most questions are structured in a way that time was saved and the researcher got most of the questions answered and the respondents won't spend a lot of time. The purpose of using interview is that the researcher was able to get the precise answers because of the direct questions that were asked, and it's also fast and efficient.

3.5 Procedure

Both Secondary and primary data were used to carry out the study in order to get sufficient information, this was efficient as it made it easier and cheaper for the researcher to use secondary methods as the they are easily accessible. Subsequently, primary data were gathered by using face to face interviews and structured questionnaires which were easy to administer and for the target population to understand and the response was recorded accurately. Secondary data was obtained from the Budget for 2015/16 republic of Namibia, journals from the Ministry of Finance example; Fiscal Policy Framework and Macroeconomic Framework 2014/2015 and 2015 /2016; this was used to determine the Government expenditure and how it affects the social-economic wellbeing of the low income earning households. Before the study was conducted, permission was obtained from the participants; questionnaires were self-administered. Tables and pie charts were used to test the most research questions for completeness.

3.6 Data analysis

To ensure that the research reaches the desired results, both qualitative and quantitative methods were used; this included descriptive research design and empirical research design. The researcher tested the association between the government Revenue and the Expenditure to asses if it is designed to benefit the poorer households or not, and also to determine perception of the low income earning households on fiscal policy (taxation) and the increase of prices of commodities.

3.7 Reliability and Validity

According to Saunders,Lewis and Thornhil (2009), “Reliability refers to the extent to which your data collection techniques or analysis procedures will yield consistent findings” (p. 187). The findings can be said to be reliable if someone else repeats the research and obtains the same result (Collins and Hussey,2013). Reliability is “an indicator of a measure’s internal consistency” (Zikmund and Babi, 2007 p.210) and how precise the measure is. In other words, reliability is “the extend to which a scale produces consistent results if repeated measurements are made

Validity

Validity is concerned with whether the findings are really about what they appear to be about (Saunders, Lewis & Thornhill, 2009). In other words, it is about whether the data collected represent a true picture of what is being studied. The reason is there may be doubt regarding the problem that our questions may contain errors (perhaps they are worded ambiguously. Zigmund and Babi (2007, p.210) defines validity as the "accuracy of a measure or extent to which a score truthfully report resents a concept" Validity can be defined as the "extent to which differences in observed scale scores reflect true differences among objects on the characteristics being measured, rather than systematic error"((Malhorta & Birks, 2007). Research can assess the two types of validity namely, content validity and criterion validity. Content validity evaluates the representativeness of the content to be measured. Criterion validity measures whether the scale performs as expected in relation to other variables. Criterion variables include demographics, behavioral measures, and psychographic characteristic. Construct validity addresses the characteristics of what the scale is measuring. Moreover, if a measure is perfectly valid then it is also perfectly reliable, therefore unreliability indicates invalidity (Malhorta & Birks, 2007).

The same set of questionnaires was be given to all participating respondents. The researcher ensured that the questions asked produced the information needed to adequately answer the research questions and, or, objectives.

The research aimed at receiving at least 150 answered questionnaires from the selected participants. On the overall, the response rate was 50 compared to the 150 anticipated. Furthermore, the survey addressed each question using the five-point scale.

3.8 Pilot Study

A pilot study of the questions was carried out before the actual sampling to ensure that questions were relevant and unambiguous. In addition, the researcher ensured that the answers from the participants were accurately interpreted.

3.9 Research Ethics

The researcher took the necessary precautions to ensure that, all the information received through either interviews, observations or questionnaires was treated with utmost confidentiality, and ensured that the permission of participants was approved and their rights were protected in the event that they did not want be named in the paper.

The targeted communities were informed about the plan to conduct the research in advance through their respective community leaders. Radio announcements were made while posters were displayed in the streets of the target areas. Residents were informed that the purpose of research was not to solve their problems but that information gained might be used by the relevant authorities to address their plight. Privacy and confidentiality of all data given and the findings from this data was fully adhered to. Information gathered including questionnaires was kept safe in a locker where only the researcher had access and questionnaires will be destroyed after a period of five years.

3.10 Summary

This chapter dealt with the research methods used, which were questionnaires and interviews, and also indicated the population and sample of the study. The next chapter will deal with data analysis and presentation.

Chapter Four: Data Analysis

4.1 Introduction

The previous chapter focused on the research methodology which included how the data was collected by using methods such as questionnaires and interviews. This Chapter presents the analysis of data and findings of the study.

4.2 Demographic characteristics

4.2.1 Gender

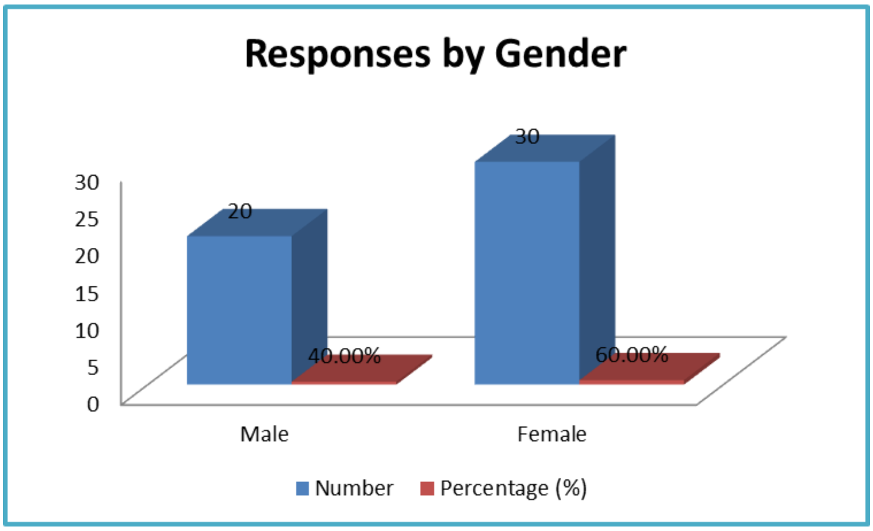

Figure 6: Responses by Gender (n=50)

From the 50 respondents who participated in the survey, 20% of the respondents were male and 30% were female as indicated in the figure above.

4.2.2 Age

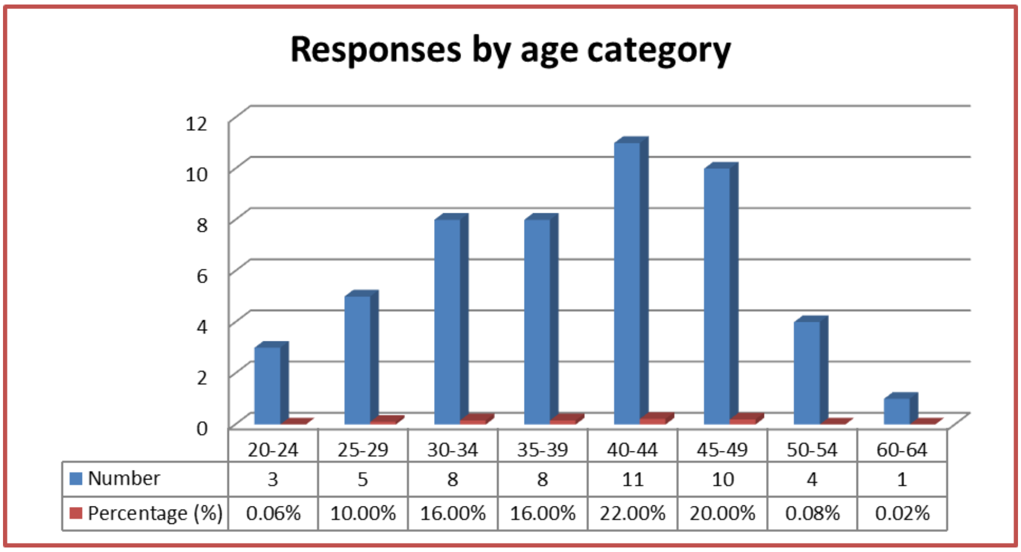

Figure 7: Responses by age categories (n=50)

The response for the age category was divided into 8 age categories, as depicted from the figure 7 above,

There were 3 respondents between the ages of 20-24; 5 from age category 25-29; for the age category between 30-34 and 35-39, there were 8 respondents per each category. The respondent's age between 40-44 were the most with 11; 10 respondents indicated that their age category was between 45-49, while 4 of the respondents indicated that their age category is between 50-54, while only one of the respondents' age category was between 60-64.

4.2.3 Educational Background

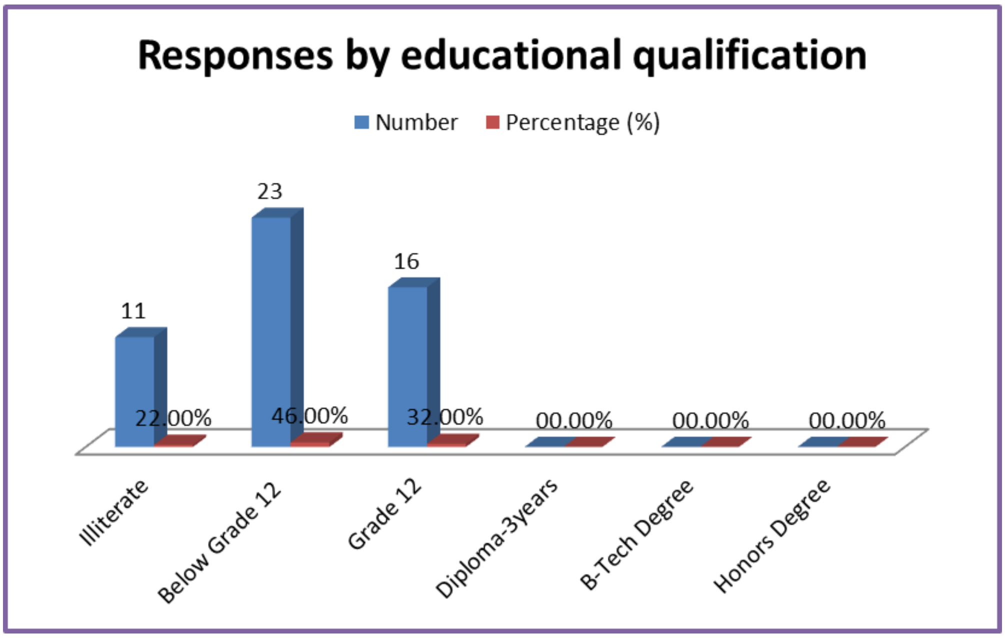

Figure 8: Responses by educational qualifications (n=50)

The respondents were asked to indicate their level of education as can be seen from graph above; 46% of the respondents indicated that they did not reach grade 12. However 22% of the respondents are illiterate meaning their reading and writing skills are minimum. 32% of the respondents however indicated that they have reached grade 12 (completed high school). This can be seen as represented in the figure 8 above.

4.2.4 Income Level

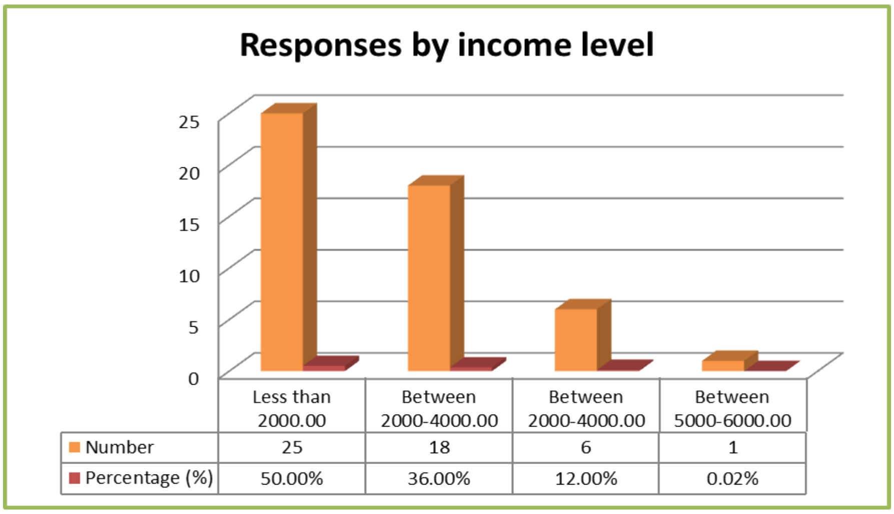

Figure 9: Responses by income level (n=50)

The response to the level of income was that out of 50 respondents, 50% indicated that their income is less than N$ 2000.00 per month and 36% of the respondents indicated that their income is between N$ 2000.00 and N$ 4000.00 per month, while 12% respondents indicated that their monthly income ranges between N$ 4000 .00-N$ 5000.00. Only 2% of the respondents indicated that they earn a salary of between N$ 5000.00 and N$ 6000.00 (See figure 9 above)

4.2.5 Number of live-in Family Members

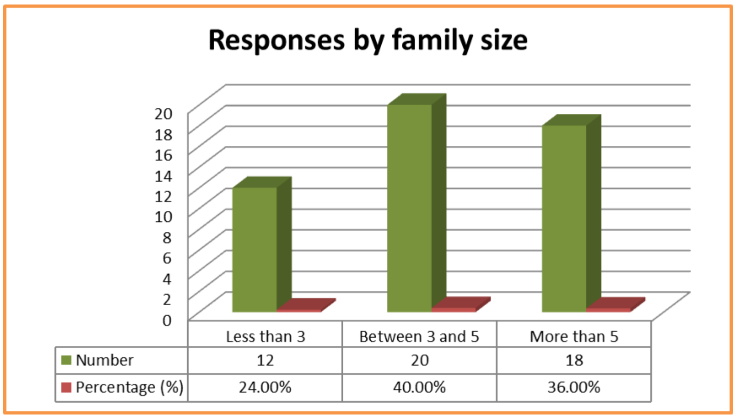

Figure 10: Responses by family members (n=50)

The respondents were asked to indicate the number of family members in their households and 40% of the respondents indicated that they have between 3-5 family members living in one house; 36% indicated that they have more than 5 family members in their households while 12% indicated they have less than three family members in their households. Figure 10 above illustrates the number of live –in family members per family of the participants.

4.3 Fiscal Policy Related questions.

4.3.1 Awareness of Fiscal policy

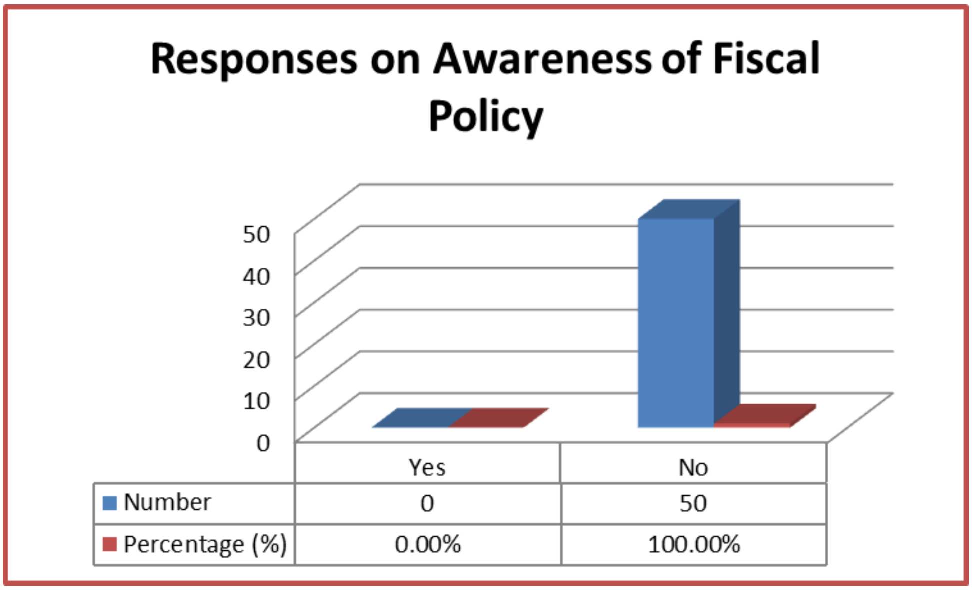

Figure 11: Responses on the awareness of Fiscal Policy (n=50)

100% of the respondents did not know what the term fiscal policy means as indicated in figure 4.3.1 above, they only understood when it was explained to them in lay-man's language by the researcher. It is evident that there is lack of information and or knowledge as it was indicted in Figure 11, that 23% of the respondent's education level is below Grade 12 and the 16% that do have Grade 12 do not know what fiscal policy.

4.3.2 Awareness of VAT and ITX

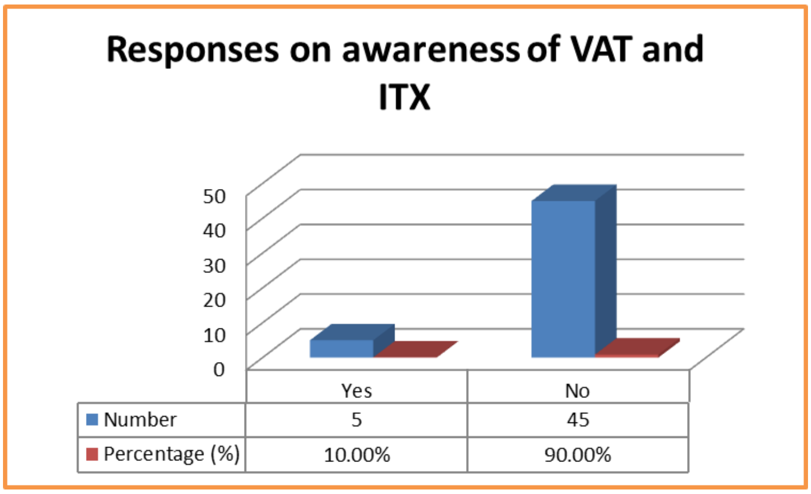

Figure 12: Responses on awareness of VAT and ITX (n=50)

The respondents were asked if they know what VAT and ITX is, and 90% of the respondents indicated they were not aware of the two taxes, however the remaining 10% knew what VAT and ITX is(See figure 12 above) . This was expected based on the response in figure 11.

4.3.3 Knowledge on Government Income Collection

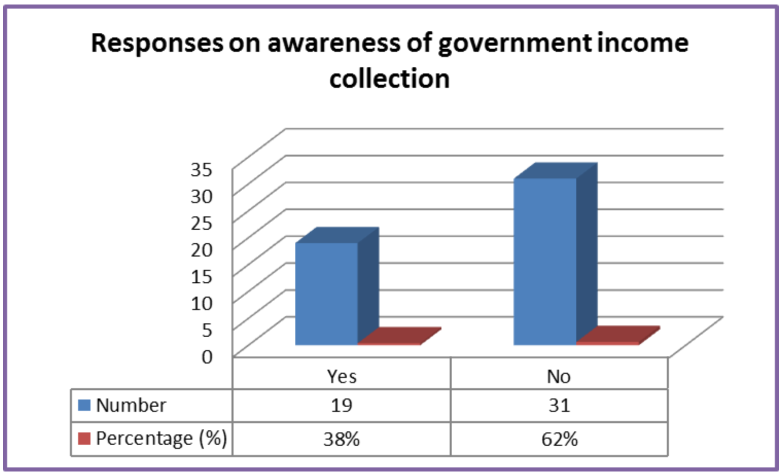

Figure 13: Responses on the awareness of government income and collection (n=50)

62% of the respondents indicated that they do not know how the government collects its income while 38% of the respondents know how the government collects its income

4.4 Perception on Taxation

The Questions on fiscal policy (Taxation & Expenditure) is presented on a 5-point Likert scale as follows: SA= Strongly Agree A= Agree, U= Undecided, DA= Disagree, SD= Strongly Disagree. Respondents were required to tick only one option per statement below.

Table 4 Perception on Taxation (n=50)

Statement	SA	A	U	DA	SD	Total
The Ministry of Finance(Inland Revenue department) is administrating taxes well	3	24	0	15	8	50 (100%)
The Government is fair in its income tax threshold	2	25	0	20	3	50(100 %)
The current VAT rate is appropriate and does not need to be changed	1	27	5	11	6	50(100 %)
Taxation is affects the poor mostly	22	13	0	11	4	50(100 %)
The Namibian government is doing its best to maximize revenue collection	1	9	4	18	18	50(100 %)

The current thresholds for income tax should be reduced to curb poverty in Namibia	4	34	2	9	2	50(100 %)
Reduction in VAT rates will increase your spending power	5	29	0	11	5	50(100 %)
The taxes collected are not benefiting the nation	13	17	0	13	7	50(100 %)
People thing that the tax they pay indirectly is too much already	13	30	0	6	1	50(100 %)

The Table above indicates the response from the 50 participants based on the Likert Scale of Strongly Agree, Agree, Unsure, Disagree and Strongly Disagree on their perception of taxation of the Namibian Government. Information was gathered through Questionnaires. The response is indicated and interpreted clearly in the tables below in Part 1 on each question raised.

4.4.1 Taxation: Good Administration of taxes by the Namibian government

Table 5: Administration of Taxes by the Namibian Government

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	3	24	0	15	8	50
Percentage	1%	49%	0%	30%	20%	100%

Source: Research Data: 2016

The respondents were asked if they agreed that government, through the Ministry of Finance IRD was administering taxes well. 3 (1%) of the respondents strongly agreed, 24 (49%) agreed with the way taxes are being administered, however 15 (30%) disagreed with the statements, and 8(20%) strongly disagreed, as indicated in Table 5 above

4.4.2 Fairness in income tax threshold

Table 6: Fairness in Income Tax threshold

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	2	25	0	20	3	50
Percentage	4%	50%	0%	40%	6%	100%

Source: Research Data: 2016

The respondents were asked if they agreed that the tax threshold was fair for everyone. After explanation, 2 (1%) strongly agreed, 24 (49%) of the respondents indicated that they agree that the tax threshold is fair while 20 (40%) disagreed with the threshold and only 6% strongly disagreed with the statement. Even if those that pay taxes in their income gets an income of N$ 4166.67, it is not fair at all since the standard of living is very low and all the basic necessities are becoming expensive by day. The suggestion was that the threshold should at least be increased to N$ 60 000.00, as depicted in Table 6 above.

4.4.3 VAT rate and the need to change

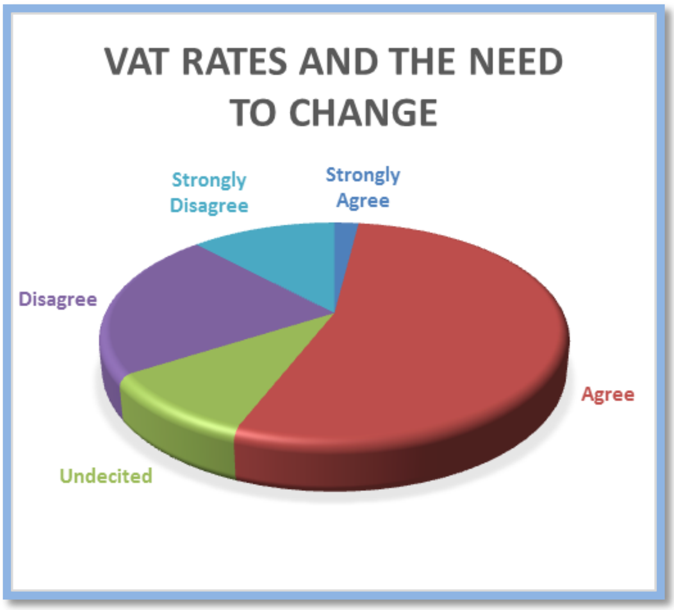

Figure 14: VAT rates and the need to change (n=50)

Respondents were asked if they agreed that the current VAT rate is appropriate and does not need to be changed. Only 1 (2%) of the respondents indicated that they strongly agree with the statement while 27 (54%) agreed; 11 (22%) respondents disagreed with the statement that the rate does not need to be changed and 6 (12%) indicated that they strongly disagree that the VAT rate should not be changed. 5 (10) % of the respondents indicated that they were undecided, see Figure 14 above for visual illustration.

4.4.4 Taxation effects the poor mostly

Table 7: Taxation affects the poor mostly

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	22	13	0	11	4	50
Percentage	44%	26%	0%	22%	8%	100%

Source: Research Data: 2016

The respondents were asked if they agreed that taxation affects low income earning households, and, the response were not surprising at all. 44% of the respondents indicated that they strongly agree that taxation affects the poor the most since they spend most of their disposable income, which is very little, on food and basic needs through which they pay taxes indirectly; 26% of the respondents indicated that they agreed that the poor suffer the most from taxation, while 22% disagreed and indicated that everyone feels the wrath of taxation and 8% strongly disagreed stating that everyone suffers equally, refer to Table 7 above for visual illustration.

4.4.5 Revenue Maximization

Table 4.4.5 Revenue Maximization

Table 8: Revenue Maximization (n=50)

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	1	9	4	18	18	50
Percentage	2%	18%	8%	36%	36%	100%

Source: Research Data: 2016

The Namibian government is doing its best to maximize revenue collection, the findings are presented in Table 8 above. About 20% of respondent indicated that they strongly agree that the government is doing well in revenue collection. However, 72% of the respondents indicated that the government is putting very little effort in revenue collection, and that they can do better by educating the taxpayers on the importance of revenue collection and the effects it can have on the government expenditure, which surely affects the nation. The remaining 8% were undecided.

4.4.6 Reduction in VAT rates equals increase in consumers buying power

Table 9: Reduction in VAT rates equals increase in consumers buying power (n=50)

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	4	34	1	9	2	50
Percentage	8%	68%	2%	18%	4%	100%

Source: Research Data: 2016

Close to 76% of the respondent agreed with the statements that the reduction in ITX rates will definitely increase their buying power since they would have more disposable income to spend. However, the remaining 22% indicated that they strongly disagree with the statement as they believe that the production process is so high that they would not be able to spend much. The remaining 2% was undecided as indicated in the Table 9 above.

4.4.7 Tax collected is not benefiting the low income households

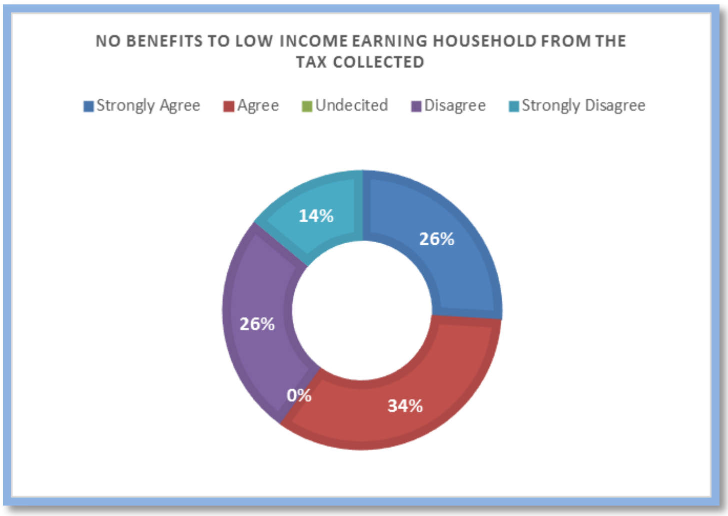

Figure 15: No benefit to low income households (n=50)

Source: Research Data: 2016

Respondents were asked to rank their level of agreement and disagreement on the tax collected by the Namibian government and whether they benefit from it, 26% indicated that they strongly agree that they do not benefit from the tax collected. While 34% agreed with the statement that there is no benefit to them from the taxes collected by the government, However, 36% of the respondents disagreed with the statement while the remaining 14% of agreed that they actually do benefit from the tax collected by the Government of the Republic of Namibia. See Figure 15 above.

4.4.8 High taxes paid indirectly

Table 10: High taxes paid indirectly (n=50)

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	13	30	0	6	1	50
Percentage	26%	60%	0%	12%	2%	100%

Source: Research Data: 2016

Respondents were asked to agree and disagree whether they pay higher taxes indirectly. Over 86% percent of the respondents as indicated in the above table definitely agree that they pay higher taxes indirectly through consumption and only 14% disagree with the statement.

4.5 Analysis on responses on Government Expenditure

Table 11: Perceptions on government expenditure (n=50)

Statement	**SA**	**A**	**U**	**DA**	**SD**	**Total**
The Government is spending less money than its collecting	7	13	0	19	11	50(100%)
The government is allocating its resourcing effectively to benefit every citizen	1	9	0	26	14	50(100%)
The government	2	7	0	22	19	50(100%)

expenditure is pro-poor						
The government is doing well in providing social welfare benefits to the low income households	0	11	0	21	18	50(100%)

Table11 above shows the 50 response on the analysis on government expenditure. The results are indicated and interpreted clearly in the tables in part two. Under this section of the questionnaire respondents were asked to indicate their perception government expenditure and its impact on their livelihood. The ranking was based on the scale of "strongly agree", "agree", "undecided", "disagree" and ""strongly disagree."

4.5.1 Government is spending less money than it is collecting

Table 12: Government is spending less money than it is collecting (n=50)

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	7	13	0	19	11	50
Percentage	14%	26%	0%	38%	22%	100%

Source: Research Data: 2016

40% of the respondents indicated that they agree that the government is spending less money than it is collects because they do not benefit from the government expenditure, since they stay in bad conditions, without proper sanitation, water or electricity. However, the remaining 60% indicated that they disagree that the government is actually spending more money than it is collecting. See Table 12

4.5.2 Government resource allocation

Table 13: Government resource allocation (n=50)

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	1	9	0	26	14	50
Percentage	2%	18%	0%	52%	28%	100%

Source: Research Data: 2016

The respondents were asked to rank their agreement or disagreement on whether government allocates resources to benefit the low income earning households. 80% of respondents disagreed with the statement and indicated that the government's resources are not assisting them, and only 20% of the respondents agreed that government's resources benefit them, (e.g. free primary and high school education, minimum hospital cost). See Table 13 above for visual illustration.

4.5.3 Government expenditure –pro poor

Table 14: Government expenditure -pro poor (n=50)

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	2	7	0	22	19	50
Percentage	4%	14%	0%	44%	38%	100%

Source: Research Data: 2016

With the Harambee prosperity plan launched by the current President, which emphasize that no one should be left behind on equal resource allocation. The respondents were asked to agree or disagree on whether the government's expenditure is for the poor. 82 % of the respondents, as depicted in Table 14, disagree with the statement and only 18% of the respondents agreed that government has their interest at heart when it comes to government expenditure.

Table 15: Government social welfare programmes are benefiting low income earning household (n=50)

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	0	11	0	21	18	50
Percentage	0%	22%	0%	42%	36%	100%

Source: Research Data: 2016

Dolgoff and Feldstein (1980) expalined social welfare as " in its narrowest sense, social welfare includes those non -profit functions of society, public or voluntary, which are cleary aimed at alleviating distress and poverty or at ameliorating the condictions of the casualities of society." Repondents were asked to either agree or agree with the statement that social welfare benefits is not adequate. 78% of the respondents disagreed with the statements indicating that the social welfare benefits is not sufficient and does not benefit them and that the government should increase the social grands. 22% of the respondents however agreed with the statement as illustrated above in Table 15.

4.6 An analysis on Household Expenditure

The ranking of the household expenditure was based on the scale of "strongly agree", "agree", "undecided", "disagree" and ""strongly disagree"

Table 16: Perceptions on household expenditures (n=50)

Statement	SA	A	U	DA	SD	Total
A big portion of household income is spend on food	6	25	0	19	0	50(100%)
Zero-rates increase households expenditure	4	26	2	11	7	50(100%)
Households save more due to the reduced tax thresholds	4	9	0	30	7	50(100%)

Table 16 above indicates how the data from the participants were recorded on the Likert Scale. The responses are clearly elaborated in the tables below.

4.6.1 Zero-rates increase households expenditure

Table 17: Zero-rates increase households expenditure (n=50)

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	4	26	2	11	7	50
Percentage	8%	52%	4%	22%	14%	100%

Source: Research Data: 2016

Respondents were asked to agree or disagree with the statement that zero-rated reduced prices of the identified food items, as shown in the table above are beneficial to people. 8% of the respondents strongly agreed and 52% agreed with the statement as they don't feel relief in food prices due to the zero-rate. However, 36% of the respondents indicated that they disagree with the statement. The remaining 4% was undecided. Respondents from the participants are affirmed by studies by the Namibia Consumer Trust (2015) in their survey on whether the prices after zero-rated did make a difference on the price of the consumables, the results showed that the Namibian food prices have increased. For the poor consumer in the urban area, high food prices would mean a weakening purchasing power that initially afforded the daily food needs. Thus a poor consumer will exhaust his/her disposable income mainly on purchasing food and also deplete their meager saved income, see data Table 17.

4.6.2 Households would save more should taxes be reduced

Table 18: Households would save more should taxes be reduced (n=50)

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	4	9	0	30	7	50
Percentage	8%	18%	0%	60%	14%	100%

Source: Research Data: 2016

As can be seen in Table 18 above, more than 70% of the respondents disagreed that just because the taxes are reduced, it does not increase their saving power but spending power; they will spend more instead of saving. 22% of the respondents indicated that they agree that reduced taxes will enable them to save more.

4.7 Taxation and consumable prices

Taxation and prices of consumables is presented on a 5-point Likert scale as follows: SA= Strongly Agree A= Agree, U= Undecided DA= Disagree, SD= Strongly Disagree. Respondents were required to tick only one option per statement below.

4.7.1 Responses on taxation and consumable prices (n=50)

Table 19: Responses on Taxation and consumable prices (n=50)

Statement	SA	A	U	DA	SD	Total
There is no relive in food prices due to zero-rate tax rate	17	24	0	8	1	50(100%)
The Food items categorized as zero-rated should be increased.	4	10	5	27	4	50(100%)
Zero-rated should also apply to other basic necessities other than food items only	3	6	5	33	3	50(100%)
Reduction in tax rates, reduces consumable prices	22	22	0	6	0	50(100%)
Taxation has a big influence on the prices on goods	23	27	0	0	0	50(100%)
The government must do away with VAT in order for the prices of consumables to reduce	2	17	17	12	2	50(100%)
Reduction in personal taxes increases the demand of consumables, thus increasing the prices.	8	21	9	12	0	50(100%)

4.7.2 No relief in food prices due to zero-rate

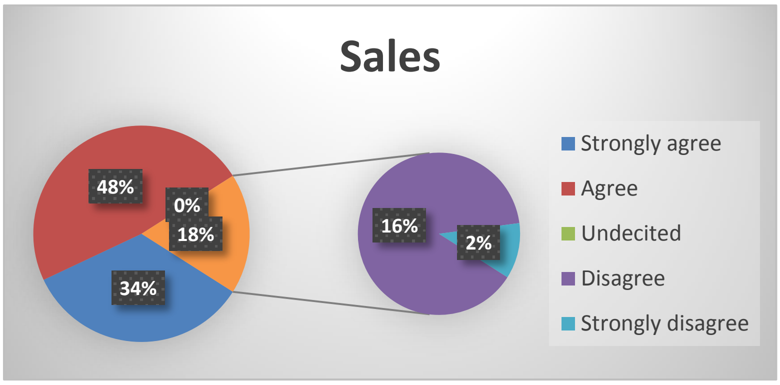

Figure 16: No relief in food prices due to zero-rate (n=50)

Source: Research Data: 2016

82% of the respondents agreed as indicated in Figure 16 above, that there is no relief in food prices due to zero-rate applied on the items as the food prices increases regularly. Only 18% of the respondents disagree with the statement, this is bound to the fact that most respondents don't know how to relate Zero-rate as an indirect tax to food prices.

4.7.3 Food Items categorized as zero- rated should increase

Table 20: Food Items categorized as zero-rated should increase (n=50)

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	4	10	5	27	4	50
Percentage	8%	20%	10%	54%	8%	100%

Source: Research Data: 2016

Since more than 82% of the respondent agreed (See Table 20) that zero-rate does not reduce prices of the selected items, it was no surprise that more than half of the respondents (54%) disagreed that the items should not be increased since the prices of those goods might also increase. 8% strongly disagreed. However, 20% of the respondents agreed that the number of items should be increased to other items as well and not only food. 8% of the respondents also agreed that the items be increased while 10% were undecided.

4.7.4 Zero-rate should apply to other necessity items other than food

Table 21:Zero-rated should apply to other necessary items other than food

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	3	6	5	33	3	50
Percentage	6%	12%	10%	66%	6%	100%

Source: Research Data: 2016

The respondents were asked to either agree or disagree to on whether zero-rate should apply to other basic necessities other than the selected food items. 72% of the respondents disagreed with the statement, and only 18% of the respondent agreed that the number of zero-rated items should be increased and mostly include items that are a necessity. See Table 21 above.

4.7.5 Reduction in tax rates reduced consumable food items

Table 22: Reduction in tax rates reduced consumable food items

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	22	22	0	6	0	50
Percentage	44%	44%	0%	%	0%	100%

Source: Research Data: 2016

100% of the respondents did agree that tax whether direct or indirect taxes do have a huge impact on the prices of goods and services as depicted in Table 22 above.

4.7.6 Government must do away with VAT to reduce consumable prices

Table 23: Government must do away with VAT to reduce consumable prices

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	2	17	17	12	2	50
Percentage	4%	34%	34%	24%	4%	100%

Source: Research Data: 2016

34% of the respondents as indicated in Table 23 above specified that they were undecided regarding whether VAT should be done away with, since it's a form of revenue collection for the government. 24% of the respondents disagreed with the statement and suggested a reduction in the VAT rate instead of doing away with it, while 4% strongly disagreed with the statement. Only 34% of the respondents indicated that they agree with the statement while the remaining 4% strongly agreed.

4.7.7 Reduction in Taxes, increases the demand for consumables thus increase prices

Table 24: Reduction in taxes, increases the demand for consumables thus increase prices

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
Number of respondents	8	21	9	12	0	50
Percentage	16%	42%	18%	24%	0%	100%

Source: Research Data: 2016

Respondents were asked to either agree or disagree with the statement that a reduction in Personal tax rates reduces consumables' prices. 58% of the respondents agreed that should personal taxes be reduced, the demand will increase thus leading to an increase in prices of goods also reduces. Only 24% disagreed with the statement. The remaining 18% remained undecided as can be seen in Table 24 above.

4.8 Family Budget

Please rate the following in order of importance 1= Most Important, 2 Important, 3= Average 4= Not important 5= No budget

4.8.1 Importance of Family Budget

Table 25: Responses on the importance of family budget (n=50)

Please rate the following in the following rank	Most Important	Important	Average	Not Important	Not Budgeted	Total
Food	27	22	1	-	-	50
Accommodation	23	26	-		-	50
Health	-	14	28	4	4	50
Education	1	6	34	6	3	50
Entertainment	-	7	29	12	2	50
Savings	-	3	23	13	11	50

The respondents were asked to rank the above listed items in range of importance. As can be seen from Table 25 above 54% of the respondents rated Food as the most important item in the family budget; accommodation comes second while the items such as health education was a third priority while entertainment and savings are either not important or not budgeted for.

4.9 Analysis and discussion of the results

a. Households income

It was observed that households which earned less than N$ 2000 per month had many dependents than those who earned more. These households fit the definition of low income earning households supported by the literature of UNDP (n$ 246 per annum) as elaborated in the literature review. Most of the respondents in the study earned less than N$ 2000.00 dollars and no respondent had a qualification higher than a grade 12 certificate.

b. Taxation

From the study conducted, it was discovered that 90% of the respondents do not have knowledge on what VAT and Income tax is. Income tax however does not affect them since they do not fall within the threshold which is N$ 50 000.00 per annum.

100% of the respondents did agree that taxation (direct or indirect) does have an impact on the prices of consumables.

The respondents however do not feel the burden of prices lifted due to the zero-rate of selected basic food. 72% of the respondents opined that the zero-rate should not apply to other items (non –consumable) and 82% stressed that the number of zero-rate items should not be increased as they do not feel any relief.

Studies done by, Malema and Sekwati (2011) indicate that VAT is likely to increase the prices consumptions of goods and services as suppliers ordinarily shift the tax to the consumers. Given that low income groups have a high marginal propensity to consume; it is highly likely that poor households will be more affected than other sections of the population. For middle to upper income classes, the effect may be negligible given that they have degrees of freedom to adjust their consumptions patterns in response to the increase of VAT.

Zero-rating on basic commodities consumed by the poor households should in principle , reduce poverty and inequality by reducing the regressive effects of the tax system, This is because poor households spend a larger portion of their income on consumer goods and consequently larger proportions of their income on VAT (National Planning Commission 2010).

c. Government expenditure

Based on the survey conducted, most of the respondents agreed that government is not administering taxes well, and they also indicated that the tax threshold in not fair and that the income tax threshold should be increased to at least N$ 60 000.00, because they feel that N$ 50 000.00 is really low. However, 54% of the respondents indicated that the current VAT rate is fit for the economy and should not be changed.

82% of respondents also indicated that taxation affects the poor most; this is supported by the Keynesian theory which state that " Indirect taxes on the other hand are regressive. VAT affects the poorest in the country most, becouse they spend the biggest share of their income on consumption and are therefore charged most" (McDermott & Wescot, 1996).

80% of the respondents also agreed that they do not benefit from the government social welfare programmes. Majority of the respondents also emphasized that the government is spending more money than it collects. This does not benefit them as they lack basic necessities such as houses, proper sanitation, water and electricity.

44% of the respondents indicated that the government expenditure is having a positive impact on their households, since they don't have to pay school fees anymore for their children and the hospital cost is subsidized to a point that they can afford health care. They also mentioned that they are thankful for the increase in pension grand. However, the majority 56% of the respondents were not happy and indicated that the government is not doing its best for such a small country to benefit all the people (mostly poor). The Majority of the respondents emphasized that the government is only allocating its resources to the rich.

d. Households expenditure and family budget

Through this research it was discovered that 94% of the respondents were not aware that some of the goods (Food) classified as basic necessities were zero-rated, because most of their income is spend on food which increases monthly. More than half of the respondents emphasized that the biggest chunk of their income is spend on food. This is supported by (Redemacher, 2011) in the literature review who stated that the poor spend the biggest share of their income on consumption and are therefore charged most. As seen in study done by Siboleka (2016) in his report (see graph below) the following price increase between August 2015 and September 2016.

Food prices increase /decrease (%) monthly (between Augusts 2016and September 2016) and Annually 2015/16

Food Type	Monthly %	Annually %	Increase/Decrease
Maize Meal	0.11 (increase)	12.1	
Milk	0.2 (decline)	10.9	
Sugar	0.8(increase)	17	
Bread	0.3 (increase)	12	

This is just an affirmation that the poor a suffering the most as they have a high propensity to spend, and they send most their disposable budget on food.

The second priority on the family budget is spend on accommodation.

4.10. Summary

This chapter presented the research findings and analysis based on the survey conducted on income levels and budget of low income earning households and the perception of the respondents on government expenditure and taxation, and the effects on prices of consumable food items. The proceeding chapter will deal with the Findings of the study, conclusions and Recommendations.

Chapter Five: Conclusions and Recommendations

5.1 Introduction

This chapter gives a brief summary of the study, followed by findings based on the analysis and interpretation of the data and the conclusions thereof. Finally the chapter gives recommendations and suggestions for further research.

5.2 Conclusions

The first objective of the study was to determine the importance of fiscal policy in Namibia. The study showed that indeed fiscal policy is very important to the Namibian economy as this policy is also used to increase the rate of savings in the country. In the developing countries rich class spends a lot of money on luxuries. The government can impose taxes on them and can provide the basic necessities of life to the poor class on low rate. In this way by providing incentives, savings can be increased.

Fiscal Policy is very useful for the achievement of equal distribution of wealth. When the wealth is equally distributed among the various classes, then their purchasing power increases, which ensures high level of employment and production.

Fiscal policy is very important to any economy in the world. The government uses fiscal policy to promote strong and sustainable growth and reduce poverty. Governments directly and indirectly influence the way resources are used in the economy (Horton & El-Ganainy, 2009).

The second objective was to determine the perception of the people on fiscal policy in Namibia, and based on the analysis, the respondents don't really have an understanding of what fiscal policy and what the objectives and importance are. 80% of the respondents perceive fiscal policy as threat to their livelihood, because they don't feel the relief in basic food items and basic needs, without realizing that taxation is the backbone of the Namibian economy.

The study further looked at government expenditure and the effects it has on the low income households. Based on the Namibian Budget allocation it can be seen that the bigger portion is allocated for developmental projects. Government priorities for the 2015/16 FY include N$ 11, 332 million for Education$ 7,229 million foe Defense, and N$ 6,489 million for Health and Social Services (PWC, 2015/2016). However, the respondents do not benefit from the huge biggest allocation as they live is poor conditions.

One of the objectives of the study was to determine the effects of fiscal policy on prices of consumables in Namibia. According to the research done by First Capital Treasury Solutions, the food price index for September 2016 increased slightly to 111 from 109 in August 2016 indicating a unit percent increase in the general prices of a food basket used to measure food prices. On the annual basis, the prices index increased by 12.4 from the 98.6 price index recorded for September 2015 to 111 in September 2016. This implies that food surged by 2.4 percent in September 2016. This is slightly lower than 13.4 percent recorded in August 2016. The 12.4 percent annual increase in the first capital food basket impacted negatively on the disposable income of consumers (especially the low income earning households) and reflects continued rise in the cost of living in Namibia (Siboleka, 2016).

There are many factors that lead to the increase in prices of consumables, e.g. inflation rate. Government expenditure and taxation does play big role in prices instabilities of consumables depending on whether there is fluctuation in government spending or taxation.

The results above indicate that there is no (direct) relationship between VAT rates and the prices of the selected basic goods. This is due to the fact that there are a lot of determinants of prices in the market. Prices for goods can be determined by the supply and demand, draught, high imports, or the inflation rate.

5.3 Important findings of the research were as under

Fiscal policy as a whole is too large component to analyse the impact on the low income earning households. However if it's broken down into taxation and expenditure, the effect can be determined. Fiscal policy through taxation (direct and indirect) does have a negative impact on the low income earning livelihoods, depending on the fluctuations, even if it does not directly affect the low income earning households, they will feel the blow when buying goods and services. It was discovered that low income earners in Namibia do spend most their income on consumables, specifically food. It was also discovered from the findings that the low income earning households hardly have enough money left from their income from savings.

From the survey conducted it was discovered that the respondents indicated that the government should focus its resources more on social welfare and subsidies.

Respondents indicated that the government is spending too much money on projects that are not benefiting them, and measures that are put in place to benefit them are not managed properly and money ends up wasted.

5.4 Recommendations

The objectives of the study were to determine the effect of fiscal policy on low income households through the family budgets, income and how it is spent. Another objective was also to determine the importance of fiscal policy in Namibia and to determine the relationship between taxation and government expenditure on prices of basic consumables.

For Fiscal policy to benefit both the government and the low income earning households, the following recommendation may be made:

For raising the state revenue, which may be utilized for the welfare of the people including the low income households the government should:

1. Introduce other taxes like the estate duty tax
2. Tax on alcohol and tobacco may be increased. Unfortunately, based on the research from the Namibia Consumer Trust, there is an increase in alcohol use which is very bad for the nation due to the fact that too much drinking results in violence. However, this can be a source of revenue collection and this will also reduce the violence besides collecting revenue.
3. Tax on gambling and shebeen licenses should be increased. This can also be a good source of revenue as gambling is not a good habit and the people actually get addicted to this and do not contribute at home,. Gambling and too many shebeens (local drinking places in townships) also affect school

children as they tend to spend most of the time at these places rather than in classes. Should the government increase this tax, it will curb this problem and have a cleaner nation.

4. The government can impose higher taxes on luxury goods in order to provide the basic necessities of life to the poor class on low rate. Through providing incentives, savings can be increased.

5. An increase in export levy will encourage local production and increase employment in the end.
6. Government should restructure Inland Revenue and Customs department to be semi- autonomous so that revenue collection can be maximized.

As a relief to low income households

7. The VAT rate must be reduced to 13.5 %. Looking at the economy of Namibia which is growing at a slow pace and the fact that the majority of the working class are in lower job categories, they can't afford basic necessities due to the high VAT rate. It is therefore imperative to reduce the VAT rate to provide relief to household.
8. The Food basket of items such as long grain rice, vegetables, butter, and eggs should be zero-rated.
9. The health care and Education (Higher Education) services should be exempt to enable the low income earning households to send their children to schools as most of the parents cannot afford to send their children to school.
10. Income Tax threshold must be reduced from N$ 50 000.00 to 60 000.00

11. Government should produce more food locally and minimize imports thereof.
12. The exempting from taxation of basic food items is needed.

5.5 Recommendation for further studies

Since the study only looked at the impact of fiscal policy on the low income households. It's recommended that further studies be done to analyse the impact of taxation (all taxes) and the impact on the low income households. Further studies can also be done analyzing only the government expenditure and impact it has on low income earning households.

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Appendices

Appendix 1 Consent Form

I am a MBA student/candidate from the University of Namibia. I am currently conducting research on “The Impact of fiscal policy on the livelihood of the low income earning households in Windhoek, Namibia”. This study is fully endorsed by the Postgraduate Committee of the University of Namibia and my supervisor is Dr S. E. Akpo. The findings would benefit both the Ministry of Finance: Department of Inland Revenue, and the public in enhancing fiscal policies that will both increase revenue collection and also benefit the minority in Namibia.

I thank you in advance for your assistance and co-operation

Yours sincerely

N.N Uatanaua (Ms)

Appendix 2: Consent Form

RESEARCH STUDY: THE EFFECTS OF FISCAL POLICY ON THE LOW INCOME EARNING HOUSEHOLD IN WINDHOEK, NAMIBIA.

CONSENT AGREEMENT FOR THE INTERVIEW

I am a MBA student from the Namibia Business School. The aim of this study is to establish whether there is a significant impact of (positive/negative) fiscal policy (Taxation and Government Expenditure) and the livelihood of the low income earning households. You can assist in this study by consenting to complete a questionnaire/ interview. Your participation in this research is completely voluntary. You may decline altogether, or leave blank any questions you don't which to answer. There is no known risk in participation beyond those encountered in everyday life. Your response will remain confidential and anonymous. Data from this research will be kept under lock and key and reported only as a collective combined total. No one other than the researcher will know your individual answers to this questionnaire.

If you agree to participate in this project, please answer the questions on the questionnaire as best you can. It should take approximately 10 -20 minutes to complete. Questionnaires will be collected after two days of distribution. Please put the questionnaire in the enclosed envelopes attached.

Name of Participant: --

Signed: -- Date: ------------------------------------

Researcher: N.N Uatanaua

Signed: ---------------------

Appendix 2: Structured Questionnaire

The questionnaire is divided into sections Demographic Characteristics and Open and close ended questions on fiscal policy

1. Demographic Characteristics

1.2 Gender

Please tick your gender in the appropriate box

Gender	**Please tick here**
Male	
Female	

1.2 Age

Please tick your age category in the appropriate box. Please tick only one option

Age Category	**Please tick Only one category**
20- 24	
25-29	
30-34	
35-39	
40-44	

45-49	
50-54	
55-59	
60-64	

1.3 Academic Qualifications

Please tick your academic qualifications in the appropriate box. You may tick more than one option

Academic qualification	**Number**
Illiterate	
Below Grade 12	
Grade 12	
Diploma-3years	
B.Tech. Degree	
Honours degree	
Higher (Please indicate)	

1.4 Income Level

Please tick your income level per household category in the appropriate box.

Please tick only one option

Income level P/M N$	**Please tick only one category here**
Less than 2000.00	
Between 2000- 4000.00	
Between 4000- 5000.00	
Between 5000.00 and 6000.00	
Above 6000.00	

1.5 Number of Family Members

Please tick the number of your family members in your houses

Number of Family live in members	**Pease tick only one option here**
Less than 3	
Between 3 and 5	
More than 5	

2. Fiscal Policy related Questions

2.1 **Do you know what fiscal policy is?**

	Please tick only one option here

Yes	
No	

2.2 Do you know what VAT and Income Tax is?

	Please tick only one option here
Yes	
No	

2.2 Are you aware of how the government collects income?

	Please tick only one option here
Yes	
No	

The Questions on fiscal policy (Taxation & Expenditure) is presented on a 5-point Likert scale as follows: SA= Strongly Agree A= Agree, U= Undecided, DA= Disagree, SD= Strongly Disagree. You are required to tick only one option per statement below

2.3 Taxation

Statement	SA	A	U	DA	SD	Total
1. The Ministry of Finance(Inland Revenue department)t is						

administrating taxes well						
2. The Government is fair in its tax threshold						
3. The current VAT rate is appropriate and does not need to changed						
4. Taxation is affects the poor mostly						
5. The Namibian government is doing its best to maximize revenue collection						
6. The current thresholds for income tax should be reduced to curb poverty in Namibia						
7. Reduction in VAT rates will increase your spending power						
8. The taxes collected are not benefiting the nation						
9. People thing that the tax they pay indirectly is too much already						

2.4. Government Expenditure

Statement	SA	A	U	DA	SD	Total
1. The Government is spending less money than its collecting						
2. The government is allocating its resourcing effectively to benefit every citizen						
3. The government expenditure is pro-poor						
4. The government is doing well in providing social welfare benefits to the low income households						

2.5 Household Expendure

Statement	SA	A	U	DA	SD	Total
1. A big portion of household income is spend on food						
2. There is no relive in food prices due to zero-rate tax rate						
3. The Food items categorized as zero-rated should be increased.						
4. Zero-rated should also apply to other basic necessities other than food items only.						
5. Zero-rates increase households expenditure						Total
6. Households save more due to the reduced tax thresholds						

2.6 Taxation and consumable prices

Taxation and consumables prices is presented on a 5-point Likert scale as follows: SA= Strongly Agree A= Agree, U= Undecided DA= Disagree, SD= Strongly Disagree. You are required to tick only one option per statement below

Statement	SA	A	U	DA	SD	Total
1. Reduction in tax rates, reduces consumable prices						
2. Taxation has a big influence on the prices on goods						

3. The government must do away with VAT in order for the prices of consumables to reduce						
4. Reduction in personal taxes increases the demand of consumables, thus increasing the prices.						

2.7 Family Budget

Please rate the following in order of importance 1= Most Important, 2 Important, 3= Average 4= Not important 5= No budget

Food	
Accommodation	
Health	
Education	
Entertainment	
Savings	