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How well does the Government budget?

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This briefing paper uses publicly available information on the national budget to assess how accurately Government forecasts revenues and sticks to spending plans. It suggests that the Government has shown a consistent tendency to underestimate both revenue and expenditure in the main budget and then to revise them upwards in the additional budget later in the year. Actual revenues collected tend to be higher than even these later estimates. Actual expenditures differ from budget estimates due to a combination of overspending on the operational budget and underspending on the development budget. Furthermore, it looks as if individual ministers of finance might have influenced the quality of the budget process.

National budgets are a key instrument of economic development in rich and poor countries alike. They provide the means to finance critical public services which would otherwise go unfunded. In Namibia, the national budget is particularly important, partly because it is so large in relation to the size of the economy – the ratio of central government expenditure to Gross Domestic Product (GDP) is approximately 35% - and partly because it forms such an important element in achieving the country's development objectives of increasing growth and employment and reducing poverty and inequality. It is therefore all the more important that Namibia builds a budgeting system that works well.

Formulating the budget consists of making estimates of revenue and expenditure for the coming financial year. These estimates are presented to Parliament for approval around the beginning of the financial year in April after which money can be spent. An important aspect of successful budgeting involves making accurate estimates of revenue and expenditure and then ensuring these are adhered to. This forms an important element in creating sound public finances and what is generally referred to as fiscal discipline.

If revenues are consistently overestimated, there is a danger that they will fail to provide adequate funds for the expenditures planned. This leads either to an increase in borrowing and debt or a reduction in important expenditures. If revenues are consistently underestimated, there is a danger that spending ministries will come to expect more resources in the course of the year. This could encourage spending ministries to put less effort into planning for the main budget and sticking to their budget ceilings. It could also lead to governments borrowing more and paying more interest than they actually need to.

If expenditure is consistently overestimated it means that planned expenditures are not taking place and government policies are not being implemented. This could hold back development. If expenditure is consistently underestimated it means that more ends up being spent than was actually planned for and, again, this is likely to lead to increased borrowing and debt.

Ideally, governments should estimate both revenues and expenditures as accurately as possible at the beginning of the financial year. This reduces uncertainty, bolsters the credibility of the Ministry of Finance, and eliminates double-guessing by spending ministries forcing them to put greater effort into planning for the main budget. While there will always be a need for funds to meet emergency requirements, this should be catered for through the incorporation of a contingency fund so that expenditure limits can be maintained throughout the year. Borrowing can then be used to smooth revenues and expenditures over the year. An additional budget later in the year should only take place in emergencies.

This short paper examines the question of how well the Namibian Government budgets by looking at one measure of successful budgeting - the differences between the revenue and expenditure estimates presented in Namibia's main budget, those presented in the revised budget, and actual revenue and expenditure out-turns contained in the Reports of the Auditor General and elsewhere. This is done for the period 1990/91-2000/01 using official figures taken from budget and revised budget documents as well as the Reports of the Auditor General between 1990/91 and 1997/98.

Government consistently underestimates revenues at the beginning of the financial year...

<i>N\$m</i>	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02
Tax												
<i>Main</i>					3002.6	3371.3	3987.5	4536.4	5382.5	6252.6	6935.4	7836.8
<i>Revised</i>					2974.9	3548.0	4206.2	4663.8	5486.1	6390.8	7115.4	
<i>Actual</i>					3136.1	3610.3	4114.0	5106.1	5501.4	6597.7		
Non-tax												
<i>Main</i>					236.5	456.7	501.1	598.2	679.7	617.5	670.8	758.3
<i>Revised</i>					443.5	479.2	497.4	665.0	629.0	598.2	668.2	
<i>Actual</i>					487.0	425.5	511.6	529.5	647.6	605.7		
Other												
<i>Main</i>					44.4	38.5	35.0	64.0	45.7	82.2	80.0	179.7
<i>Revised</i>					30.0	42.5	68.2	102.4	64.6	139.4	128.7	
<i>Other</i>					38.4	44.9	50.3	54.0	37.4	68.5		
Total												
<i>Main</i>	2258.2	2605.7	2977.0	3009.2	3283.5	3866.6	4523.6	5198.6	6107.9	6952.3	7686.2	8774.7
<i>Revised</i>	2169.0	2753.8	2903.1	3075.9	3448.4	4069.7	4771.8	5431.2	6179.6	7128.4	7912.3	
<i>Actual</i>	2276.9	2860.0	3025.1	3117.0	3661.5	4080.7	4675.9	5689.6	6186.4	7271.9		

Sources: Main budget revenue estimates are taken from main budget documents from 1990/91 to 2001/02. Revised and actual revenue figures between 1990/91 and 1997/98 are taken from the Reports of the Auditor General. Revised and actual revenue figures from 1998/99 to 2000/01 are taken from main budgets and revised budgets between 1998/99 and 2000/01. Revenues were not broken down into Tax, Non-tax and Other categories before 1994/95.

Every year estimates of revenue for the financial year are presented in the main budget. These estimates are then revised later in the year and the revisions are presented in the revised budget.



Once the financial year has ended, the Government makes an assessment of how much revenue it has actually raised and this is checked independently by the Auditor General.

These three sets of numbers are presented in the table above. They show the following:

- For every year between 1990/91 and 1999/2000 the total amount of revenue actually raised has been greater than the total estimate presented in the main budget. Actual revenues for 2000/01 are not yet available. The difference between main budget estimates and actual revenue varies from as little as 0.8% in 1990/91 to as much as 11.5% in 1994/95 of the main budget estimate.
- With the exceptions of 1990/91 and 1992/93, the total revenue estimates presented in the revised budget have been higher than the estimates presented in the main budget during the same period. Revised budget estimates have exceeded main budget estimates by between 1.2% and 5.7% of the main budget estimate.
- With the single exception of 1996/97, total actual revenue has exceeded total revised estimates every year of the period 1990/91 to 1999/2000. The difference between actual revenues and revised budget estimates has varied from 0.1% to 6.5% of the main budget estimate.

Since 1994/95 revenue estimates have been divided into three categories in budget documents and the Reports of the Auditor General: *Tax Revenue*, *Non-tax Revenue*, and *Grants and Loans*. *Tax Revenue* includes all revenues derived through taxes on income and profits, property, goods and services and international trade. *Non-tax Revenue* includes entrepreneurial and property income, fines and forfeitures, administrative fees and charges, and the return on capital from lending and equity participation. *Grants and Loans* includes grants made to government and loans to government for on-lending to other organisations.

- Since 1995/96 revised budget estimates of *Tax Revenue* have exceeded main budget estimates. Actual tax revenue has exceeded main budget estimates every year and revised budget estimates every year with the single exception of 1996/97.
- Revised budget estimates of *Non-tax Revenue* have been lower than main budget estimates for four of the seven years between 1994/95 and 2000/01. Actual *Non-tax Revenue* has been lower than the main budget estimates for four and lower than the revised estimates for two of the six years between 1994/95 and 1999/2000.
- Revised budget estimates of *Grants and Loans* have been greater than main budget estimates for every year between 1995/96 and 2000/01. However, actual *Grants and Loans* have been lower than main budget estimates and revised budget estimates in four of the six years between 1994/95 and 1999/2000.

Pulling all this together a clear overall pattern emerges. At the beginning of the financial year the Government makes a consciously conservative estimate of revenue which it presents in the main budget. Later on in the year this estimate is revised upwards and this is presented in the revised

budget. However, this is still a conservative estimate and the actual revenue collected is higher still. The one exception to this pattern since 1993/94 has been 1996/97.

Differences in revenue estimates and actual revenue out-turns will always exist. It could be argued that in a small economy, such as Namibia's, estimating revenue is likely to be more difficult than in a larger more diversified economy since single events can make an enormous difference to the final outcome. Estimating revenue to within a 5% margin of error may not be considered bad. This, however, masks the fact that approximately one third of revenue comes from the Southern African Customs Union (SACU) revenue pool which is known exactly at the start of each financial year. A 5% margin of error on the total becomes a much larger 7.5% margin of error on two-thirds of the total. Furthermore, in an economy dominated by a few large companies with a limited tax base and a small informal sector, it could equally be argued that estimating revenue should be easier rather than more difficult.

The differences between estimates and out-turns are clearly due to more than just the technical difficulties in making forecasts. The clear conservative bias in estimating revenue suggests that differences between estimates and actual out-turns come about due to deliberately conservative forecasts. It appears that Government finds it particularly difficult to forecast *Non-tax Revenue* and *Grants and Loans*. Significant differences exist between main budget estimates, revised budget estimates and actual out-turns with no clear upwards or downwards bias apparent. If anything, recent years appear to suggest an upwards bias in those estimates made earlier in the year. In other words, the conservative bias in overall revenues is a reflection of a conservative bias in tax revenues rather than revenues as a whole. However, because tax revenues make up some 90% of total revenues, this conservative bias tends to determine the bias apparent in overall revenue estimates.

...and this is likely to erode fiscal discipline, reduce pressure to improve tax administration, and lead to over-borrowing.

Does it matter whether revenues are underestimated? There are several reasons why it may. First, it is likely to weaken the credibility of the Minister of Finance. The Minister may claim there is no more money available to spending ministries at the time of the budget in order to instil discipline in them. If they discover year-on-year that this is not the case they will be less inclined to believe him. Second, by setting themselves a relatively easy target to meet, the tax authorities are put under less pressure to enhance their performance by improving administration, reducing tax evasion and closing tax loopholes. Third, the underestimates may be a reflection of a genuine belief in the level of revenues Government should be raising from the economy. Underestimating what is collected would then suggest Government is collecting too much revenue and should lower the tax burden accordingly. Finally, underestimating revenue could lead to over-borrowing and the unnecessary payment of interest.

Spending discipline weakened during the mid-1990s but now seems to be improving.

A similar analysis can be conducted for the expenditure side of the budget. The total amount of money Government plans to spend every year is contained in the main budget document. This planned total is revised later in the year in the additional budget. The Report of the Auditor General

published some time after the end of the financial year then documents what monies were actually spent. A time series of actual expenditure is also traditionally presented in an annex to the main budget speech presented by the Minister of Finance each year.

All these numbers are presented in the table below. The first three rows of numbers are from the main budget. The first row is simply the total budgeted expenditure for the year. The second row consists of budgeted public debt transactions, in other words the amount budgeted to pay for public borrowings. The third row is then total expenditure minus public debt transactions. This row can be compared to total budgeted expenditure presented in the Report of the Auditor General. Additional expenditures contained in the revised budget are shown in the next row followed by reductions in estimated expenditure, so-called *Withholdings or Suspensions*. The sum of these three columns gives total authorised expenditure, the total amount of money ministries are allowed to spend. The following row then shows what was actually spent. Finally, the last three rows present actual expenditure data from the annex to the Minister's budget speech. In theory, rows 3 and 4 should be the same and rows 8 and 12 should be the same. Row 8 should not be greater than row 7 since that would mean more money was being spent than was authorised by either the Minister or Parliament.

N\$m	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02
<i>Estimated expenditure (from main budget)</i>												
1.Total main	2576.1	3120.0	3544.7	3366.7	3690.5	4340.6	5073.4	5754.1	6784.1	7751.1	8446.9	9782.0
2.Debt	315.6	231.3	43.5	98.2	131.8	121.0	150.0	209.6	441.7	495.0	535.7	650.0
3.Difference	2260.5	2888.7	3501.2	3268.5	3558.7	4219.6	4923.4	5544.5	6342.4	7256.1	7911.2	9132.0
<i>Actual expenditure (from A-G reports)</i>												
4.Total main	2259.5	2886.7	3501.2	3268.6	3558.7	4219.6	4923.4	5544.5	6342.4	7256.1	7911.2	9132.0
5.Revised	164.7	218.2	246.6	179.5	324.7	568.3	728.3	404.7	301.9	353.2	566.0	N/a
6.Reductions	19.6	105.6	324.7	67.1	35.8	403.7	444.6	194.4	203.3	115.0	261.0	N/a
7.Authorised	2404.6	2999.3	3423.1	3381.0	3847.5	4384.1	5207.1	5754.7	6441.0	7494.3	8216.2	N/a
8.Actual	2175.7	2897.5	3381.9	3386.3	3738.4	4379.9	5325.0	5778.3	N/a	N/a	N/a	N/a
9.Difference	228.9	101.8	41.2	-5.2	109.1	4.2	-117.9	-23.6	N/a	N/a	N/a	
<i>Actual expenditure (from budget speech)</i>												
10.Total	2103.4	2862.5	3379.5	3439.2	3856.7	4556.8	5566.9	6129.0	6935.6	7952.7	N/a	N/a
11.Interest	26.8	20.9	21.6	70.0	117.5	145.1	250.5	350.1	488.7	512.9	N/a	N/a
12.Actual	2076.6	2841.6	3357.9	3369.2	3739.2	4411.7	5316.4	5778.9	6446.9	7439.8	N/a	N/a

Sources: Main budgets 1990/91-2001/02, Reports of the Auditor General 1990/91-1997/98, Additional budgets 1998/99-2000/01, budget speeches 1993/94-2001/02

The following conclusions can be drawn from the numbers above:

- Revised estimates of expenditure from row 7 have been higher than original estimates in row 4 every year between 1990/91 and 2000/01 with the single exception of 1992/93. In other words, total expenditure has almost always been revised upwards in the course of the financial year.
- Actual total expenditure was lower than authorised expenditure for the first three years of Independence. Actual total expenditure exceeded authorised expenditure in 1993/94, 1996/97, 1997/98 and 1998/99. The year 1996/97 appears to have been a particularly bad year for total over-expenditure.



N\$m	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98
Operational								
<i>Personnel authorised</i>	953.4	1320.5	1514.3	1596.1	1771.4	2036.5	2467.3	2755.2
<i>Personnel actual</i>	898.5	1278.4	1520.9	1586.6	1738.0	2086.8	2652.1	2833.0
<i>Goods and services authorised</i>	754.5	1046.4	795.5	809.0	898.2	1021.5	1166.0	1181.1
<i>Goods and services actual</i>	707.9	1013.3	822.6	850.7	926.8	1075.2	1149.6	1237.5
<i>Membership fees etc authorised</i>	12.3	10.4	11.3	9.5	11.7	7.6	10.0	23.8
<i>Membership fees etc actual</i>	3.5	5.5	6.0	9.8	11.4	9.1	9.1	22.2
<i>Subsidies etc authorised</i>	518.4	370.3	460.7	403.0	556.1	626.7	753.7	811.0
<i>Subsidies etc actual</i>	448.4	363.1	433.0	431.3	537.7	599.9	777.1	818.9
<i>Acquisition of Assets authorised</i>				44.0	67.7	76.6	67.3	49.9
<i>Acquisition of Assets authorised</i>				41.4	57.4	68.9	58.7	45.5
<i>Capital transfers authorised</i>		96.9		6.0	19.3	10.4	8.8	94.3
<i>Capital transfers actual</i>		95.9		6.0	19.2	10.4	8.6	93.4
<i>Lending etc authorised</i>				7.8	15.3	5.6	9.0	101.3
<i>Lending etc actual</i>				1.4	15.4	5.5	21.7	69.4
<i>Total authorised</i>	2238.6	2844.6	2781.8	2875.5	3339.6	3784.9	4482.1	5016.6
<i>Total actual</i>	2058.3	2756.2	2782.4	2927.3	3306.0	3855.7	4677.0	5120.1
Development								
<i>Personnel authorised</i>			25.0	19.0	17.8	13.5	11.8	3.1
<i>Personnel actual</i>			24.2	16.8	18.1	15.1	10.3	2.9
<i>Goods and services authorised</i>	110.3	107.2	55.4	48.3	52.6	57.4	45.2	44.2
<i>Goods and services actual</i>	81.9	94.0	46.1	46.2	50.9	45.9	40.0	32.7
<i>Assets authorised</i>	55.7	47.5	404.6	370.1	366.9	460.9	551.2	670.6
<i>Assets actual</i>	35.5	47.3	382.8	330.9	293.3	412.8	484.6	599.1
<i>Transfers authorised</i>			108.4	43.3	40.7	37.6	32.3	5.8
<i>Transfers actual</i>			100.4	41.4	41.6	24.0	29.6	5.4
<i>Lending authorised</i>			47.8	24.8	30.0	29.7	84.5	14.3
<i>Lending actual</i>			45.9	23.7	28.6	26.4	83.6	18.1
<i>Total authorised</i>	166.0	154.7	641.3	505.5	507.9	599.2	725.0	738.1
<i>Total actual</i>	117.4	141.3	599.5	459.0	432.5	524.2	648.0	658.2
Grand total								
<i>Grand total authorised</i>	2404.6	2999.3	3423.1	3381.0	3847.5	4384.1	5207.1	5754.7
<i>Grand total actual</i>	2175.7	2897.5	3381.9	3386.3	3738.4	4379.9	5325.0	5778.3

Source: Reports of the Auditor General 1990/91-1997/98



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- Some discrepancies exist between the totals contained in the Reports of the Auditor General and those contained in the annex to budget speeches but the larger ones are mainly to be found in the early years of Independence.

Government tends to overspend on the operational budget and underspend on the development budget.

A more detailed examination of expenditure trends can be carried out using other information contained in the Reports of the Auditor General which are available for the period 1990/91 to 1997/98. In these reports total expenditure is broken down into various categories of operational and development spending.

This eight year period saw a shift from underspending to overspending on the operational budget. The year 1996/97 stands out as a year of exceptional overspending. Additional clear trends in operational expenditure are hard to identify. Overspending on *Personnel* seems to have become a regular characteristic while underspending has consistently taken place on the *Acquisition of Assets* and *Capital Transfers*.

The picture on development expenditure for the same period is more consistent and clear. On aggregate, Government underspent on development expenditure every year between 1990/91 and 1997/98. This underspending varied from a maximum of 29.2% in 1990/91 to a minimum of 6.5% in 1992/93. Underspending is visible in all categories of development expenditure but especially in the two categories of *Goods and Services* and *Acquisition of Assets* where underspending has taken place each year. Underspending on development expenditure has the effect of counteracting overexpenditure on operational expenditure.

Unauthorised expenditures seem to have become a constant feature of the budget.

A closer look can be taken at the degree to which expenditures exceed the levels authorised by either Parliament or the Ministry of Finance. In practice, Parliament does not simply approve the spending of one large sum of money by Government. Rather, total expenditure is broken down into three levels of spending and ministers are obliged to seek approval to move money between them. The highest level is the vote. A vote generally corresponds to a ministry although certain ministries consist of more than one vote. Each vote is divided into a number of main divisions. Each main division is further divided into subdivisions. If spending takes place over and above the limit agreed for each of these levels this is called unauthorised spending.

One of the obligations of the Auditor General is to calculate the amount of these unauthorised expenditures by vote, by main division and by sub-division. The possibility of underspending at each level means that the total of unauthorised expenditures will always be higher for subdivisions than main divisions and higher for main divisions than votes. The numbers in the table below indicate that higher levels of unauthorised expenditure took place from 1992/93 and that these continued until 1997/98.

<i>N\$m</i>	<i>90/91</i>	<i>91/92</i>	<i>92/93</i>	<i>93/94</i>	<i>94/95</i>	<i>95/96</i>	<i>96/97</i>	<i>97/98</i>
<i>Unauthorised expenditure by vote</i>	7.1	13.5	46.9	54.9	16.1	141.1	192.9	139.6
<i>As percentage of authorised expenditure</i>	0.3%	0.4%	1.4%	1.6%	0.4%	3.2%	3.7%	2.4%
<i>Unauthorised expenditure by main division</i>				83.4	46.5	188.9	244.4	177.2
<i>As percentage of authorised expenditure</i>				2.5%	1.2%	4.3%	4.7%	3.1%
<i>Unauthorised expenditure by subdivision</i>				191.0	122.4	325.9	355.9	300.7
<i>As percentage of authorised expenditure</i>				5.6%	3.2%	7.4%	6.8%	5.2%
<i>Total authorised expenditure</i>	2404.6	2999.3	3423.1	3381.0	3847.5	4384.1	5207.1	5754.7

Source: Reports of the Auditor General 1990/91-1997/98

Individual ministers of finance appear to have made their mark on the budget process...

Two common explanations for variations in fiscal discipline are the electoral cycle and the individual minister of finance in charge of the budget process. Interestingly, there appears to be no clear link between unauthorised expenditure and the electoral cycle. One might have expected a certain amount of indiscipline in the run up to national elections as Government tried to sweeten the electorate with unplanned for expenditures. There is no evidence that this has occurred. Elections have taken place in 1994 and 1999.

Rather more important appears to have been the individual minister of finance in charge. Otto Herrigel's spell as minister for Namibia's first two budgets was characterised by severe underspending and low levels of unauthorised expenditure. This might have been partly the result of a lack of capacity to spend in the early years of Independence, especially on development projects, and partly of a wider desire to demonstrate that fiscal discipline was not compromised by the arrival of the new Government. The arrival of Gert Hanekom in 1992/93 heralded a much looser approach to fiscal discipline although revenues continued to be underestimated. Helmut Angula's first and last budget in 1996/97 saw the only example of where actual revenues turned out to be lower than revenue estimates. The year also saw a massive increase in over-expenditure and a further steep increase in unauthorised expenditure by vote. The mid-1990s appear to have been the low point as far as budget discipline is concerned. There are signs that fiscal discipline has improved since Nangolo Mbumba took the helm in 1997/98 although this is hard to assess given that the Report of the Auditor General for 1998/99 has yet to be tabled in Parliament. However, total overspending has fallen dramatically since 1996/97 and unauthorised expenditure by vote as a percentage of authorised expenditure fell dramatically from 3.7% to 2.4% in Mbumba's first year in charge.

... which now appears to have settled into a less-than-perfect but predictable pattern.

This analysis has presented some interesting patterns in Namibia's budget process. Following a few turbulent years after Independence, Namibia's budget appears to have settled into a pattern whereby both revenues and expenditures are underestimated in the main budget only to be revised upwards in the course of the year. Government tends to end up spending more than it planned on the operational budget and less than it planned on the development budget. Much seems to depend upon the minister in charge. The hope expressed by Finance Minister Gert Hanekom in his 1994 budget speech of doing away with the additional budget altogether appears to have been abandoned. A



more detailed analysis of revenue and expenditure patterns would yield more exact and therefore more useful information about where the budget process needs to be improved. This will be the subject of a future IPPR Briefing Paper.