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Namibian National Budget 2001/02: A Driving Force for Change?

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Finance Minister Nangolo Mbumba presented the national budget for 2001/02 to Parliament on Wednesday 14 March 2001. Rather than go through each and every statement made by the Minister, this IPPR opinion piece highlights what it believes to be the good and the bad contained in the budget confining comments to issues that have a more immediate impact on the budget.

On the positive side the rolling budget was a step forward…

This year's budget saw an admirable improvement in transparency allowing outsiders a better understanding of government's thinking. Four documents instead of the usual three were presented: the budget speech, the main budget document, the development budget, and the medium-term expenditure framework for 2001/02-2003/04.

The presentation of the ***medium-term expenditure framework (MTEF)*** meant that the Minister delivered on a promise made in last year's budget speech. By providing estimates of revenue and expenditure for the three coming financial years rather than just the immediate financial year, the Minister hopes to manage the expectations of Cabinet colleagues and others and thereby reduce the scope for arguments over resources, increase the incentive to prioritise, and reduce uncertainty. Such three year "rolling budgets" are considered international best practice and are found in many countries including South Africa and the United Kingdom.

…but it must not be used to hold back much needed policy changes.

It is premature to judge the usefulness of the MTEF. It should serve to eliminate nasty surprises in future budgets, strengthen the incentive for government to meet the targets it has set itself, and make the budgeting process more open to outsiders. However, much will depend on whether the political will exists to use this tool effectively. Government's record to date leaves much to be desired. On the other hand the MTEF could make much needed policy changes harder by freezing in the status quo. An examination of the expenditure patterns by vote over the next three years suggests that incremental budgeting remains the order of the day as far as operational expenditure is concerned. It is hard to believe that problems experienced in the delivery of crucial public services such as education and health can be adequately tackled without a more fundamental reallocation of operational expenditure.

Performance targets mean little without adequate incentives to meet them…

The budget attempted to link resources with targets, a trend that is much in fashion. The MTEF document includes work done by the ***Performance and Effectiveness Management Programme*** (PEMP) under the Office of the Prime Minister and contains tables of targets that ministries are expected to meet with the resources they have been allocated. In principle this all sounds very sensible until it becomes clear that many targets are simply not going to be measured and that no one really knows what happens if targets are missed. Are resources then cut to punish poor performance or increased to take corrective action, are ministers and permanent secretaries transferred or dismissed? In our interview with the Minister of Finance (IPPR Interview No. 1, April 2001), he makes it clear that ministerial heads will not be on the block. Namibia's First National Development Plan included a host of targets but few if any office bearers or civil servants appear to have suffered the consequences of not meeting them, or indeed enjoyed the fruits of exceeding them.

Debt and deficit targets are important…

The Minister attached considerable importance in his speech to achieving a ***deficit*** of 3% of Gross Domestic Product (GDP) and containing the stock of ***public debt*** to 25% of GDP. The Minister believes these limits represent a sustainable level of public borrowing and debt for the country. Targets such as these are very important in fostering confidence in the economy by both foreigners and citizens alike. Disappointingly, however, the Minister missed a golden opportunity to bolster his credibility by aiming to meet his own target this year. Instead he stated that "special circumstances" had meant it was not possible to comply with the target this year. Since there are always likely to be special circumstances, the target does not appear to be particularly credible. A deficit of 3.6% of GDP is estimated for 2001/02.

…but a public expenditure target is equally important.

A related point the Minister consistently fails to appreciate is that budget deficit targets can be achieved at different levels of revenue and expenditure. Equally important as the deficit and debt targets are the levels of revenue and spending, the amount of resources the government takes out of the economy. The significant upward revision to GDP made by the Central Bureau of Statistics last year (National Accounts 1993-1999, Central Bureau of Statistics) has allowed the Minister to increase spending to 35% of GDP without things looking too bad. However, Namibia remains at the higher end of the spectrum in terms of public expenditure as a percentage of GDP for a developing country. We would have liked the Minister to announce an expenditure limit to accompany the deficit and debt targets.

The credibility of the main budget remains compromised…

The reduction in size of the ***contingency fund*** from N$205 million to N$150 million should serve to enhance fiscal discipline since spending ministries will have to fight harder to receive funds for unplanned expenditure. However, the underlying message in the budget was that the ***additional budget*** is here to stay. The game whereby estimates for revenue and expenditure presented in the main budget are revised upwards later in the year appears set to continue. This reduces the credibility of the main budget considerably.

The promised tax review looks set to take place…

The announcement that the Ministry of Finance is to undertake a comprehensive review of the tax system has been made in the past two budget speeches. It now looks as if it is finally to take place with the assistance of Swedish Government and input from the Tax Advisory Committee. In his interview with the IPPR, the Minister made it very clear that his approach to taxation would be based on the assessment of whether the revenues raised would outweigh the costs of collection. We welcome this pragmatic approach although we expect there to be exceptions to this rule where political considerations come to the fore, such as with the land tax.

Government appears as confused as everyone else on liberalisation…

Interestingly, the Minister appears to favour increasing foreign investment by Namibian corporations. Limits on investments in Africa have been raised to N$750 million and outside Africa to N$500 million. Since the number of Namibian companies in a position to take advantage of such changes is limited, we do not attach much importance to this initiative in itself, especially as it follows policy within the Common Monetary Area (CMA). We do, however, find it interesting to contrast the enthusiasm with which these changes were announced with Government's existing approach to limiting the outflow of funds from pension funds and life insurance companies suggesting a differentiated view of corporate and personal savings. This reflects a widespread lack of clarity about whether it is better to force Namibian savings to be invested in Namibia or whether a freer flow of savings is desirable. The economic arguments favour the latter, especially in a small economy where the opportunities to sensibly invest institutional savings are likely to be limited and where diversification of risk is so important.

An incentive scheme for teachers is important but will not come cheap…

A further point of interest was the Minister's announcement that he intended to work with the Ministries of Education in setting up an incentive scheme to support a more equitable distribution of qualified teachers throughout the country. Ten years after Independence, the distribution of state resources to education remains highly skewed among the seven education regions. One of the main reasons for this is that state resources go where the teachers go and teachers get paid according to qualifications. So long as qualified teachers remain scarce in the north of the country, allocations per student will remain skewed. Leaving aside the question of whether better qualified teachers produce better results, we believe such an incentive scheme is necessary if the stated objective of greater equality in education is to be achieved. It will not, however, come cheap.

On the negative side growth forecasts appear overoptimistic…

We believe the Minister is far too optimistic in his assessment of growth in 2001/01. GDP is estimated at N$28 billion up from N$24.4 billion in 2000/01 in current prices. This represents an increase of almost 5% above inflation but little is offered in the way of justification for this assessment. Last year's main budget presented an estimate of 4.9% growth for 2000 which has been quietly revised down to 3%. In his interview, the Minister appeared rather hazy on where this year's growth was coming from. The IPPR's own estimate for 2001 is nearer 3% (IPPR Economic Forecast No. 1, April 2001).

Expenditure rises in real terms despite uncertainties over revenues...

Given the uncertainties associated with any growth forecast for Namibia, the highly tentative estimates of Value Added Tax (VAT) receipts, and the fact that the new Southern African Customs Union (SACU) revenue sharing formula is not yet signed and sealed, we believe the decision to increase expenditure by 15.8% over last year's main budget and 11.6% over last year's additional budget is imprudent. The Minister's own forecast of inflation for 2001 is 7.5% so projected expenditures yet again represent significant real increases as they have done since at least 1996/97.

Yet again higher education wins out over basic education…

The Minister placed special emphasis on the importance of education in his speech. Again higher education appears to have won out over basic education this year. The University of Namibia (UNAM) and the Polytechnic receive funding increases of 25% or more. Resources to both institutions continue to dwarf expenditure on vocational training. The Constitution and economic theory suggest that Government's main thrust in the education sector should be in basic education where private returns to education are lower but public returns higher. This appears to be a clear case of resources going to the more powerful rather than the more deserving constituencies.

Creating more new committees will not help address unemployment…

This is compounded by what seems to be a ministry in search of a role for itself. The Ministry of Higher Education and Employment Creation has been instructed by Cabinet to establish a National Centre for Innovation, Entrepreneurship and Technology and a Council on Employment Creation to deal with the promotion of employment creation. We are not convinced there is a sound economic case for the establishment of such entities which draw resources away from basic education where the economic arguments for further resources are clearer. What can these entities do that the National Planning Commission, Ministry of Labour, Ministry of Trade and Industry, President's Economic Advisory Council, and Vision 2030 Committee cannot? Furthermore, the National Youth Scheme is expanding its programmes to, in the Minister's words, "provide youth with valuable skills to facilitate entry into the jobs market". This only begs the question of what the rest of the education system is actually achieving.

Loss-making parastatals continue to swallow resources…

Yet again significant amounts of money were thrown at loss-making parastatals that have consistently shown themselves unable to make good use of these funds and turn themselves around. Of the total N$73 million in straight subsidies from the Ministry of Finance's vote, N$10 million goes to Air Namibia , N$43 million to TransNamib, N$10 million to the Namibia Wildlife Resorts, and N$10 million to Namwater.

…while another new parastatal will be created with no convincing economic justification.

The Minister made no attempt to justify the further proliferation of parastatals in creating a ***Namibian Development Bank*** with N$20 million of state funds. Generally speaking it is easier to establish a new institution than reform one that is not working. Although the Minister stated that the Development

Bank will absorb the Development Fund of Namibia, he did not explain how the new institution would relate to the Namibia Development Corporation or indeed the Development Capital Portfolio of the Government Institutions Pension Fund. The key question here is whether good projects in Namibia are failing to attract finance because of a lack of appropriate institutions. Given the variety of financial institutions already present in Namibia and the economy's openness to outside financial institutions, we remain unconvinced that there is a case for a Development Bank. Experiences elsewhere are generally less than positive. If we are correct, the institution is likely to end up as another loss-making parastatal making lending decisions on the basis of political rather than commercial considerations.

Important changes to business taxes and pensions failed to materialise…

As disappointing as some of the measures taken were some of the measures not taken. These include a reduction in the rate of ***corporate tax*** (Namibia remains at the higher end of the regional and international spectrum and higher than the Organisation of Economic Cooperation and Development average), a simplification of ***special tax incentives*** for business (despite the findings of the review of the 1992 White Paper on industrial development), and an increase in the ***state pension*** (which reaches many of the poorest households and now stands at N$200 a month). Mysteriously, the allocation to pensions is down from N$270 million to N$252 million with no explanation given.

In conclusion, bigger but not better government is set to continue…

This year's budget was very much a steady-as-she-goes budget containing few surprises and little in the way of radical initiatives. The MTEF suggests this is likely to continue into the foreseeable future. This budget follows a now well-established pattern where tax revenues and spending rise in real terms every year. Leaving money in people's pockets or increasing cash transfers to the poor appear to take a back seat to maintaining or expanding the bureaucracy. While the targets for deficit and debt are welcome, a target on spending would have been more appropriate. Despite talk to the contrary, the belief appears to be that bigger rather than better government can solve the country's problems. In reality this may be more a reflection that, once created, any state bureaucracy has a natural tendency to grow regardless of how effective it is. Government appears to show little appetite for tackling the really big issues such as the link between teachers' pay and performance.

…as is creeping government patronage rather than genuine business dynamism…

Long gone are the days when private sector development provided a main theme in the budget. The private sector received scant mention on this occasion although there are cases where private sector input, notably the Tax Advisory Committee, appears to have made a difference. Government involvement in the economy is gradually and more subtly being extended through the endless creation of new parastatals – the Namibian Development Bank, the Namibia Financial Institutions Supervisory Authority (NAMFISA), the National Centre for Innovation, Entrepreneurship and Technology, the Council on Employment Creation - without clear policies on pricing, profitability, dividends, and governance and without it making an appreciable difference to the size of central government. The danger is that public resources are diverted away from essential services such as primary education and health and that a host of powerful constituencies come into being which will require open-ended state assistance.

…while many expenditures remain unexplained and rather questionable

There are further questionable allocations of state funds. The N$60 million to MPs' pensions gives a strong impression of elected representatives simply feathering their own nests. New Era receives N$6.25 million despite supposed commercialisation. The Ministry of Women's Affairs and Child Welfare receives N$1.5 million for small projects when it was supposed to be pulling out of project funding and concentrating on policy. The Development Fund receives N$40 million this year despite the creation of a Development Bank. Lending to the Windhoek Municipality totals N$114 million suggesting resources continue to flow to the capital rather than the regions. Even the Pan-Afrikan Centre of Namibia (PACON) receives N$250,000.

…and the budget maintains the status quo rather than acting as a driving force for change.

There is a range of difficult issues that Government has consistently shown itself unwilling to tackle: a proper policy on public sector wages, equalising opportunities in education, letting go of failed state-owned enterprises, lowering corporate taxes, a proper policy on administered or monopolistic prices, and the distribution of state resources among the regions to name but a few. The Government's last election manifesto was entitled "The Driving Force for Change" and contained a commitment to create 50,000 jobs in five years. Unless the fundamentals are in place which create genuine business growth – fiscal discipline, a clear and credible investment climate, an attractive tax regime, quality education and health, a productive workforce, and an incentive climate that spurs risk-taking and innovation rather than rent-seeking – this target will not be achieved. While the budget brought some welcome changes, it ducked the big issues and maintained the status quo. It thereby failed to bring Namibia much further towards government's stated goals.