Institute for Public Policy Research

152 Robert Mugabe Avenue PO Box 86058 Eros Windhoek Namibia Tel: +264 61 240514/5 Fax: +264 61 240516 ippr@iway.na www.ippr.org.na

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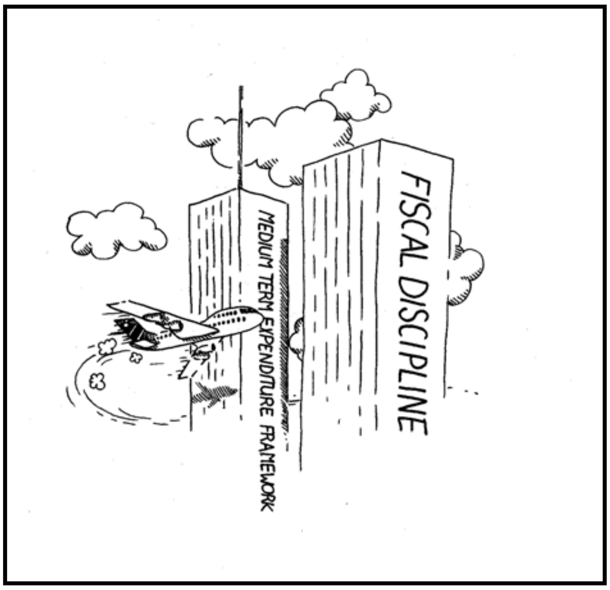
Additional Budget 2001/02: More Special Circumstances

Robin Sherbourne

Finance Minister Nangolo Mbumba presented the additional budget for 2001/02 to Parliament on Wednesday 24 October 2001. The budget contained little good news but this was hardly unexpected.



The revised budget has become a firmly established part of Namibia's fiscal cycle. This latest additional budget conforms to the pattern described in previous work (IPPR, July 2001) whereby both revenue and expenditure estimates presented in the main budget are revised upwards later in the year in the additional budget. The following piece presents a brief analysis of the additional budget 2001/02.

As usual, revenue estimates are up…

The Minister revised his estimate of total revenue up from N$8.8 billion to N$9.0 billion. As has been documented in the previous paper mentioned above, it has become common practice for the Ministry of Finance to revise revenues upwards in the additional budget. Every year since 1993/94 revised estimates of total revenue have been higher than main budget estimates. The absence of a revised estimate for Gross Domestic Product (GDP) means that the ratio of total revenue to GDP has risen from 31.3% to 32.2%, high by the standards of other developing countries (World Bank, 2000).

…and some important revenue items have been revised substantially.

Tax revenues represent the most important element of total revenues contributing some 90% of total revenue. These have been revised up by N$101.2 million which is a smaller percentage of the original estimate (1%) than in previous years where revised estimates have been as much as 5% higher.

No significant revisions were made to estimates of revenue from income tax on individuals, receipts from the Southern African Customs Union (which is known at the beginning of the year) or Value Added Tax (VAT). The lack of change in estimated VAT revenue is surprising in view of the Minister's statement about how successful its introduction has been and how revenue collection has improved.

Substantial revisions were made to all three components of company tax revenue. Diamond mining companies yielded N$270 million more than expected while other mining companies are expected to yield N$50 million more. The estimate for non-mining company tax revenue fell substantially from N$635 million to N$500 million. Receipts from fishing quota levies have been revised down from N$193 million at the beginning of the year to N$93 million. Receipts from diamond royalties on the other hand have been revised up from N$294 million to a massive N$420 million. On balance, tax revenues appear to have held up thanks largely to the mining sector. These revisions, which are all substantial, suggest that the way revenue estimates are made at the beginning of the year could be vastly improved. Although, on the whole, the Ministry appears to make deliberately conservative revenue forecasts at the beginning of each year, this does not seem to apply to each revenue item.

Expenditure estimates have increased by even more than revenue…

The revised budget proposed a higher level of expenditure than the original budget following the now well-established pattern. The latest estimates put total expenditure as a proportion of GDP at 37.4% rather than the original 34.9%. This is a high ratio by developing country standards (World Bank, 2000). The three main reasons given for this were the crisis at Air Namibia, the salary increase for civil servants, and the withdrawal of NDF troops from the Democratic Republic of Congo (DRC).

Air Namibia is likely to attract most of the attention on the expenditure side of this budget and rightly so. The Air Namibia saga has been dragging on for years now with little sign of coming to a satisfactory conclusion. The N$346 million recapitalisation exercise announced in the budget was not unexpected. The question now is where do we go from here given that post-September 11 is not a good time to be striking deals with international carriers or selling second-hand 747s. It is hard to be optimistic and hard to believe anyone will take the rap for what has happened. The economic arguments for state ownership of the airline are weak since it is neither a public good nor a natural monopoly. As for national prestige, the times are long past when people were impressed by governments throwing large quantities of taxpayers' money at national airlines. Talk of polishing up brides for weddings seems more hopelessly optimistic than ever (IPPR, April 2001).

One wonders on what grounds Government decides to bail out one company (Air Namibia) but let another go to the wall (Development Brigade Corporation). Clearly there is a need for a well thought through policy on parastatals. The Minister announced that Government was in the process of designing a new policy framework for the governance of public enterprises – the second such attempt in three years. Perhaps the latest jolt from Air Namibia will provide sufficient incentive to follow the initiative through this time.

TransNamib Holdings forms the subject of a Presidential Commission at an estimated cost of N$1.9 million (although this is given as N$1.1 million in Annex C to the budget speech). This follows the special task force that was set up in 1995/96 at a cost of N$1.95 million followed by an allocation of N$0.5 million the following year. The problems at parastatals are clearly more than a question of pay and, thankfully, this has been recognised by Government. However, the rather ad hoc nature of the present investigations suggests Government is not yet ready for really radical change. The sums of money devoted to these investigations suggests some attempt is being made at undertaking economic and financial analysis although it is still hard to imagine that even a decent study could be so expensive.

The Minister announced that the total cost for the salary increase in the public service ended up being N$185 million higher than estimated during the negotiation with the trade unions. The wording of this statement suggests Government does not first decide how much it can afford to raise pay and then negotiate how this can be distributed. Government's credibility in future negotiations is likely to be severely diminished if it can suddenly raise another 50% just like that. There is an inescapable tradeoff between numbers of public servants and the amount they can be paid. In contradiction to its many policy statements on the subject, Government has continued to opt for greater numbers of lower paid staff with the accompanying consequences for morale and productivity.

Whatever one's view of Namibia's involvement in the DRC, the return of NDF members to Namibia and the gradual progress of the peace process must be a cause for celebration. What is surprising, given that Government was talking about the possibility of peace and withdrawal at the time of the original budget, is the fact that these were not planned for and required special authorisation.

…while the risks involved in guaranteeing debt is becoming apparent.

The Minister announced statutory expenditure of N$28.3 million to pay the debts of the Windhoek Country Club and Hotels and the Development Brigade Corporation which had been guaranteed by Government. This is illustrative of the importance of *contingent* as well as actual debt. Attention tends to focus on the budget deficit but Government guarantees the debts of a range of state-owned institutions too. Although it is often argued that Government institutions can borrow at cheaper rates, it can only do so because risk is assumed by the taxpayer. This is not a cost free option and there are lessons here for the proposed Development Bank. The one positive aspect is the fact that Government has continued to honour its guarantees and thus remains creditworthy.

The Minister gave a detailed breakdown of what the N$150 million contingency fund provided for in the original budget has been used for. Rather surprisingly, several important construction projects were among the items. It is hard to believe these were "emergency and unforeseen activities" to use the Minister's words.

We can expect a less dramatic final outcome.

The modest increase in revenue and the rather more substantial increase in expenditure combined to raise the deficit by N$464 million to N$1,472 million or 5.3% of estimated GDP. This would be the highest deficit since 1996/97 and this takes Government well away from its stated target of 3% thereby reducing its credibility. Clearly the Medium-term Expenditure Framework has started on the wrong footing and enjoys less than the full commitment of ministers. We have not yet reached a stage where spenders wanting more money have to find it from savings elsewhere and budget constraints are "hard" to use the economists' jargon.

However, bearing in mind that Government generally tends to underestimate revenues even in the revised budget as well as underspend on the capital budget, the final deficit outcome is likely to be lower than the estimated deficit. The Minister himself stated that actual outturn figures for 2000/01 indicate a deficit below 2% of GDP as opposed to the revised estimate of 3.5%. The question is which does more damage to the economy: capital underspending or overshooting the deficit target? We seem to end up with the worst of both worlds: underspending on the development budget while getting none of the credit for achieving our deficit targets.

References

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