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Additional Budget 2002/03: Old Habits Die Hard

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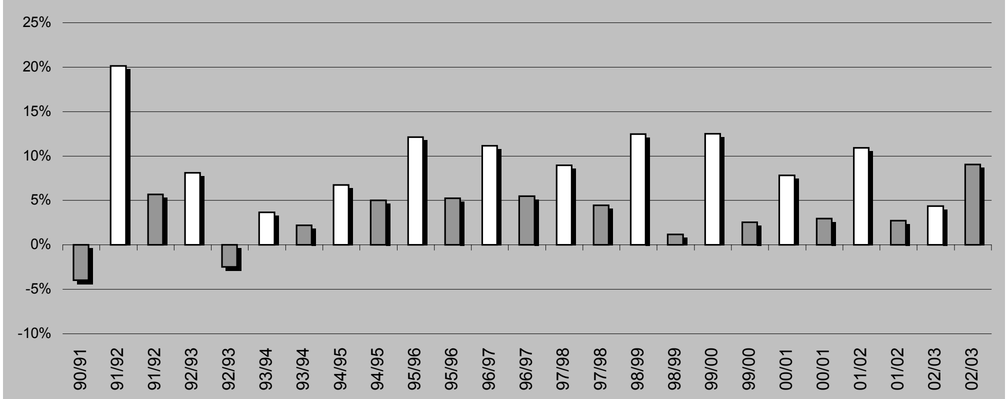
Finance Minister Nangolo Mbumba presented the additional budget to the National Assembly on Thursday 31 October 2002. As is now the norm, the budget included substantially higher revenue and expenditure estimates. The exceptionally high revisions to revenue estimates allow for a reduction in the budget deficit from 4.4% to 3.8% but expenditure moves away from the Minister's stated target of 30% to 35.8% of GDP. As expected a significant proportion of additional expenditure has been allocated to troubled state-owned enterprises and to honour guarantees given to companies that have defaulted on their loans.

Revenue estimates up by a whopping 9%…

As expected no new tax measures were announced in this additional budget. However, no mention was made of the comprehensive tax review which the Minister earlier promised would be available by the end of September. The latest additional budget conforms to the now well-established pattern in which the Minister's estimates for revenue are revised upwards. Chart 1 shows the percentage increase in each year's revenue estimate compared to the previous budget or additional budget. Light bars indicate main budgets and shaded bars additional budgets. It can be seen that this year's revisions to revenue were greater than any additional budget since Independence - a full 9%. Given this consistent pattern of underestimation, spending ministries have quite rationally come to expect additional resources later in the year.

Chart 1: Changes in revenue estimates
% change in revenue over previous budget



Source: Budget and additional budget documents

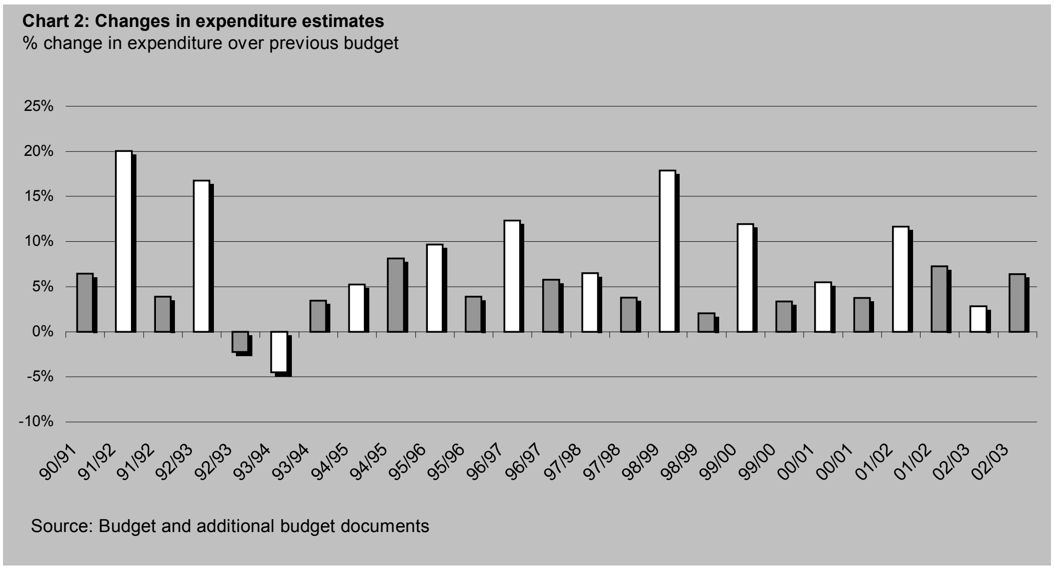
Table 1 below shows the revisions came about due to significant underestimation of several important items of revenue. During the last three years government appears to have had special difficulties forecasting diamond revenues even though it is a major shareholder in two of Namibia's largest diamond operations, Namdeb and Namco. Diamond revenues have been underestimated by hundreds of millions of dollars. Interestingly, tax revenues from non-mining companies again appear to have been overestimated in this year's main budget. The latest estimate for 2002/03 is far lower than the main budget estimate for 2000/01. Quite why non-mining corporate tax revenue is performing so badly requires further investigation. Altogether it appears that the Ministry of Finance is finding it harder to accurately forecast revenues or is becoming ever more conservative in its original estimates.

Table 1: Budget and revised budget revenue estimates compared

N$ million	00/01	00/01	change	01/02	01/02	change	02/03	02/03	change
Income tax	1,405	1,405	0	1,705	1,705	0	1,935	2,103	+168
Diamond mining	185	375	+190	475	745	+270	745	1,010	+265
Other mining	65	50	-15	55	105	+50	120	250	+130
Non-mining	625	590	-35	635	500	-135	515	460	-55
GST/ASL/VAT	1,405	1,460	+55	1,950	1,901	-49	2,085	2,150	+65
Total tax	6,935	7,115	+180	7,837	7,938	+101	8,378	9,116	+738
Use of rand	76	76	0	79	79	0	84	149	+65
Diamond royalties	240	240	0	294	420	+126	420	450	+30
Total revenue	7,686	7,912	+226	8,595	8,808	+213	9,406	10,256	+850

Source: Additional budget documents 2000/01 – 2002/03

Did you say expenditure target?



Rather than choosing to balance the budget or reduce debt, this stroke of luck on the revenue side was, as always, taken as an opportunity to raise expenditure. Chart 2 shows the percentage increases in expenditure over the previous budget for all budgets from 1990/91. This year, however, since expenditure rose by only 6.4% (2.6% less than revenues), the Minister can correctly claim he is reducing the budget deficit even as he moves away from his stated target of reducing expenditure to 30% of GDP. Instead, expenditure rises from an estimated 34.5% to 35.8% of GDP. The whole point of introducing an expenditure target is that deficit targets alone can be met at different levels of revenue and expenditure. The idea was to clearly show that government was serious about limiting the size of the public sector within the economy.

Are these really our priorities?

The additional budget shows the Minister has sprinkled more money on every ministry as shown in Table 2. Several unexplained suspensions have also been made. A printing error appears to have crept into the budget document this year so that the year 2003/04 appears instead of 2002/03 in the pages that show expenditure by main division. Foreign Affairs, Defence and Agriculture appear to be the big winners. Mission costs appear to have escalated due to the depreciating exchange rate. Defence receives a significant boost to the army as well as additional money for the air and maritime wings. Cabinet recently decided that an additional N$1 billion should be allocated to agriculture over the coming years.

Table 2: Summary of expenditure by ministry (N$'000)

Ministry (abbreviated name)	*Additional appropriation*	*Suspensions*	*Statutory*	*Revised estimates 2002/03*	*% of total spending*
Office of the President	2,218	15,339	0	215,540	1.9
Office of the Prime Minister	66,615	16,732	0	203,521	1.8
Ministry of Home Affairs	45,587	0	0	734,553	6.4
Ministry of Foreign Affairs	58,813	384	0	386,356	3.4
Ministry of Defence	78,506	0	0	935,457	8.2
Ministry of Finance	207,406	45,000	194,943	2,360,481	20.6
Ministry of Basic Education	64,402	25,660	0	2,197,919	19.1
Ministry of Women Affairs	89	0	0	100,442	0.9
Ministry of Health	27,409	0	0	1,482,890	12.9
Ministry of Labour	257	0	0	57,443	0.5
Ministry of Mines	2,706	0	0	89,473	0.8
Ministry of Justice	701	0	0	162,027	1.4
Ministry of Regional Government	87	914	0	426,497	3.7
Ministry of Environment	14,296	0	0	138,267	1.2
Ministry of Trade and Industry	9	0	0	102,726	0.9
Ministry of Agriculture	39,726	19,203	0	512,479	4.5
Ministry of Prisons	17,717	0	0	140,317	1.2
Ministry of Fisheries	1,449	0	0	116,624	1.0
Ministry of Works	16	12,813	0	577,993	5.0
Ministry of Lands	4,100	0	0	99,847	0.9
Ministry of Higher Education	150	0	0	436,644	3.8
Total	632,259	136,045	194,943	11,477,496	100.0

Table 3: Selected items of additional expenditure

Drought aid (EMU in OPM)	N$55.0 million
Peace Project (ex-combatants in police MHA)	N$34.1 million
Peace Project (ex-combatants in parks MET)	N$14.0 million
Shortfall in mission salaries (MFA)	N$13.5 million
Restructuring NBC (MFA)	N$39 million
Materials and supplies (MoD)	N$78.5 million
Additional contingency (MoF)	N$40.0 million
Banking fees (MoF)	N$13.5 million
TransNamib's PAYE (MoF)	N$78.0 million
Air Namibia (MoF)	N$75 million
Additional interest (MoF)	N$60.5 million
Defaulted guarantees (MoF)	N$100.1 million
Repayment of foreign loans (MoF)	N$33.5 million
Pensions and disability grants (MHSS)	N$12.0 million
Computerised Deeds Office (MLRR)	N$2.0 million
Irrigation projects (MAWRD)	N$20.0 million

Some of the additional expenditures highlighted by the Minister and shown in Table 3 appear fully justifiable such as drought assistance and the computerisation of the Deeds Office (which should allow progress on commercial land reform to be better monitored). Other expenditure items, however, raise uncomfortable questions about the conduct of fiscal policy and spending priorities.

It will be hard for outsiders to understand why the repayment of principal on foreign loans was not already incorporated into the main budget, or why bank charges were somehow unforeseen or why, in an environment of rising interest rates (two increases in interest rates had been announced by the time of the main budget) interest payments could not have been more accurately forecast.

Don't read my lips…

The spending priorities these highlights represent are questionable. Despite the Minister's brave words in the last budget speech ("In the future neither the Ministry of Finance nor Cabinet intend to bail out ministries or parastatals who fail to live within their ceilings." – paragraph 47), yet more money is to be spent on bailing out failed State Owned Enterprises (SOEs) – including the usual suspects Air Namibia, TransNamib and the Namibian Broadcasting Corporation. As far as we know, financial statements and the future strategies of these companies have not been made public and openly debated. Taxpayers can, therefore, only be sceptical about the future prospects of these businesses given their past track record. The critical question is whether lessons have been learned from these sad experiences.

The sums devoted to SOEs are significant in this additional budget alone. Table 3 compares spending on Air Namibia with spending on land purchases for the land reform programme. Spending N$75 million on Air Namibia in this additional budget alone exceeds the N$66.12 million actually spent on land purchases by government in the five years between 1996/97 and 2000/01.

Table 3: Budgeted and actual expenditure on land purchases and Air Namibia (N$ million)

	96/97	***97/98***	***98/99***	***99/00***	***00/01***	***01/02***	***02/03***
Land purchases							
Budgeted	18.95	20.00	20.00	20.00	20.00	20.00	20.00
Actual	18.71	12.36	11.41	3.88	19.76	N/a	N/a
Air Namibia							
Budgeted	0.0	0.0	0.0	9.5	20.0	296.0	325.0
Actual	0.0	0.0	0.0	9.5	20.0	N/a	N/a

Source: Budget documents 1996/97 – 2002/03

Money continues to be thrown at SOEs but gone is the talk of preparing brides for weddings. Government is finally acting to change the way these enterprises are governed. An amount of N$5 million has been allocated as start-up capital for the Central Governance Agency which aims to promote better management in SOEs. Government is even, albeit rather timidly, contemplating privatisation (the term "divestiture" is preferred). Unfortunately, government missed the opportunity to privatise from a position of relative strength some years ago.

Loan guarantees are not without costs…

On top of the money to ailing parastatals, N$100.1 million was allocated to the Ministry of Finance to honour loan guarantees given by government to the Windhoek Country Club, the Development Brigade Corporation and other third parties. The IPPR has highlighted in a recent briefing paper (see IPPR Briefing Paper No. 13) government's growing contingent liabilities, especially loan guarantees. Hopefully the Minister will honour the spirit of the statement he made to Parliament during the debate on the main budget earlier in the year and publish a comprehensive and up-to-date list of loan guarantees alongside next year's main budget.

Luck isn't the same as skill…

The lower projected deficit means that the Minister has managed to stabilise public debt at N$9 billion or 28% of estimated GDP for 2002/03. This is slightly lower than the main budget estimate of 29.1% of GDP but above the 25% target the Minister set for himself only last year. Strong growth next year could help the Minister reverse this trend if he is serious about the target. The Minister mentioned that the latest national accounts put GDP growth in 2001 at 2.4% in real terms. Growth in 2002 is expected to be 2.7% before rising to 4.4% in 2003 largely as a result of the commencement of full-scale production at the new Skorpion zinc mine.

The Minister stated that preliminary outturns for 2001/02 indicate a lower budget deficit than was estimated in last year's revised budget, 4.3% compared to 5.3% of GDP. A lower budget deficit is to be welcomed but it remains to be seen how it was achieved. In the past, underestimated revenue and underspending on capital projects have regularly combined to yield a much lower deficit than planned. However, government can hardly take the credit for prudent fiscal management when this happens by accident.

Does any of this really matter?

People will ask whether criticisms such as those above by economists and others really matter. Aren't these just the rantings of budget purists interested in perfecting the budget system for its own sake? The answer to this is a definite no. Government spending is undoubtedly the single most important tool for accelerating economic growth and development in Namibia. This spending has to be financed through the tax system which inevitably imposes costs on the economy. The trick of successful fiscal policy-making is to raise revenue in the least harmful way and squeeze as much development as possible out of the resources thus mobilised. If expenditures bring no return the economy will not develop. In Namibia the experience of government intervention in areas of business, as opposed to providing important public goods, has been less than successful to put it mildly. When faced with the choice between avoiding short-term political costs associated with painful spending decisions and deriving long-term economic benefits from gaining a reputation for fiscal discipline and efficiency, government invariably chooses the former. If we are to create an economic environment which encourages long-term saving, investment and risk-taking, something everyone says they want, this will have to change. Despite the evidence in Namibia and virtually everywhere else, old fiscal habits are still proving very hard to give up.

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