DEMOCRACY REPORT

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By Rowland Brown

THE NATIONAL BUDGET 2014/15: PRO-CYCLICAL BUT COUNTER-DEVELOPMENT?


Caroline de Meersseman

Overview

On the 19th of February 2014, the Minister of Finance tabled her National Budget to Parliament under the somewhat misleading heading of *"Fiscal Sustainability and Job-Creating Growth – Doing More with Less"*.

Far from "doing more with less", the current budget sees the largest expenditure expansion since 2011 and the second largest growth in expenditure since independence. This major increase in expenditure is on account of increases in personnel expenditure, transfers to state-owned enterprises (SOEs), acquisition of capital assets (primarily vehicles), and development activities, and no doubt is also largely due to the stage of the political cycle in which Namibia currently finds itself. However, the large increases in expenditure are coupled with projected large increases in revenue collection, primarily under the line of "Income tax on individuals", on account of improved tax administration. As such, the budget deficit is projected to be N$7.6bn for the 2014/15 financial year or 5.4 percent of projected GDP.

Following a number of years of increased spending on account of the TIPEEG public works programme, this year's budget speech was generally silent on the subject of the counter-cyclical intervention. This notwithstanding, the Development Budget sees yet another increase in the current budget allocations but continues to represent a smaller and smaller percentage of overall expenditure, falling well below the targeted 20 percent of total expenditure target.

The current budget, as with many that went before, suffers a number of sizable problems, many of which are administrative in nature, rather than specific to funding allocations. Among these administrative failings is the failure to synchronise the Budget with the National Development Plan (NDP4). In addition, given that the final budget figures often differ by more than 40 percent from the first estimate for a financial year, it is clear that the three-year budgeting programme envisaged in the Medium-Term Expenditure Framework is not functioning as it should. The yearly revision of previous budget estimates tends to create uncertainty. As such, it is of critical importance that longer-term budgeting is not only implemented, but stuck to.

Every year, the budget also suffers a number of last minute changes, which result in documents showing significantly different numbers, often in critical aspects of the budget. This can be confusing and tends to undermine the credibility of some figures. The budgeting process often appears to be more about allocat-

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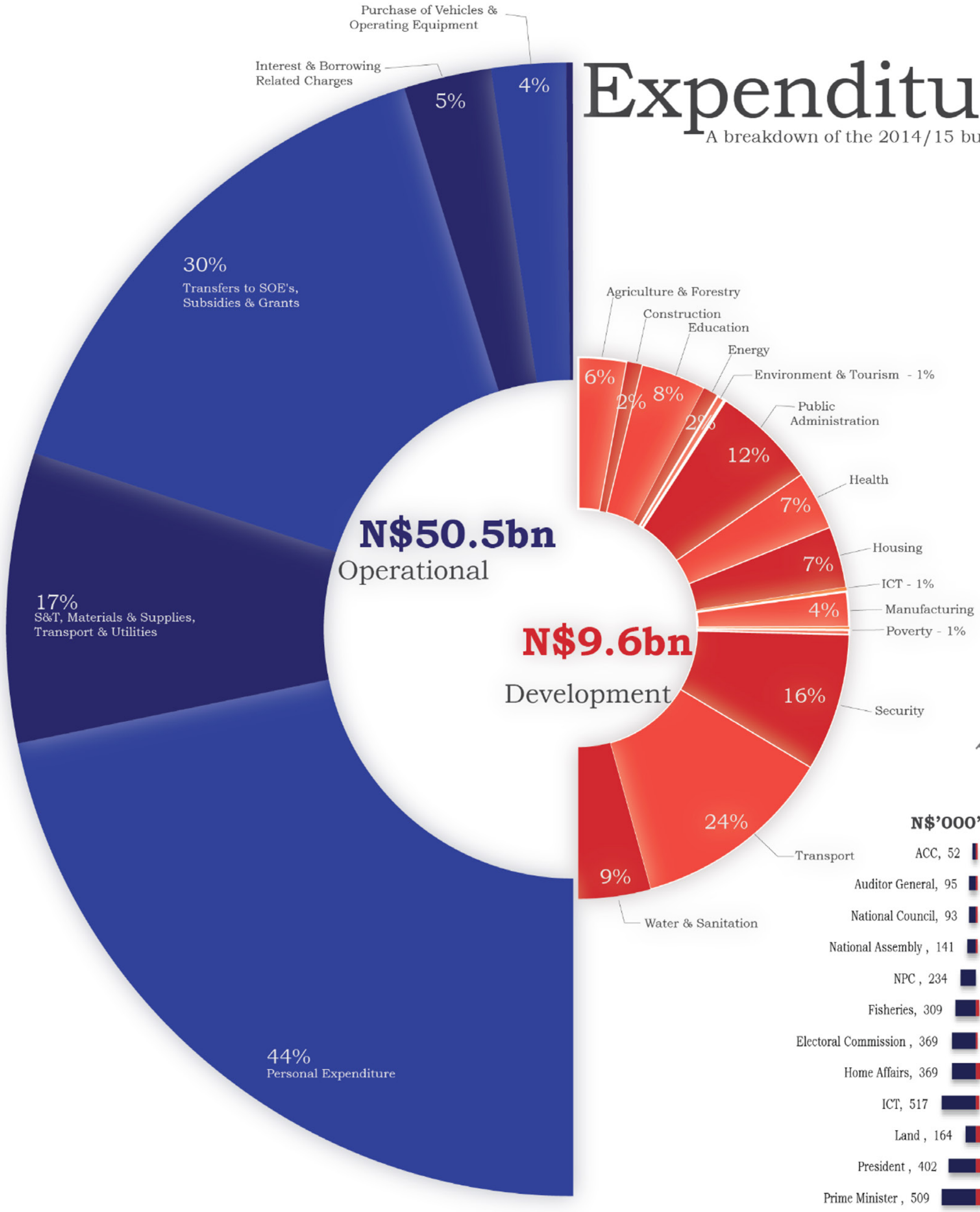
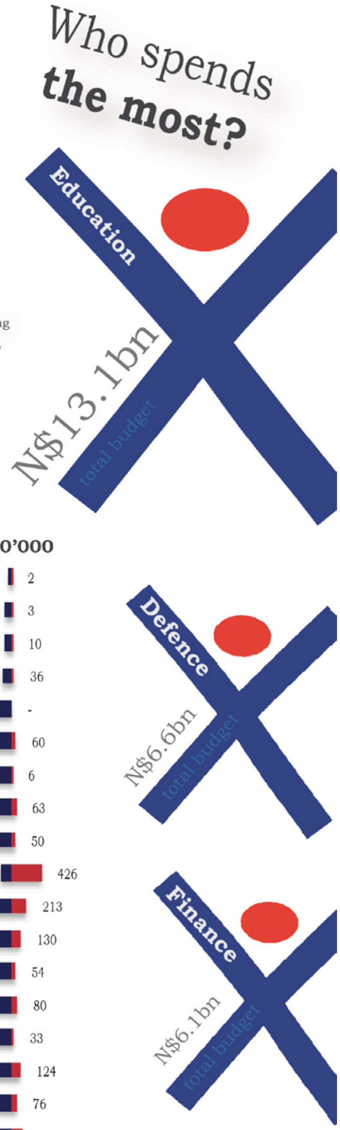
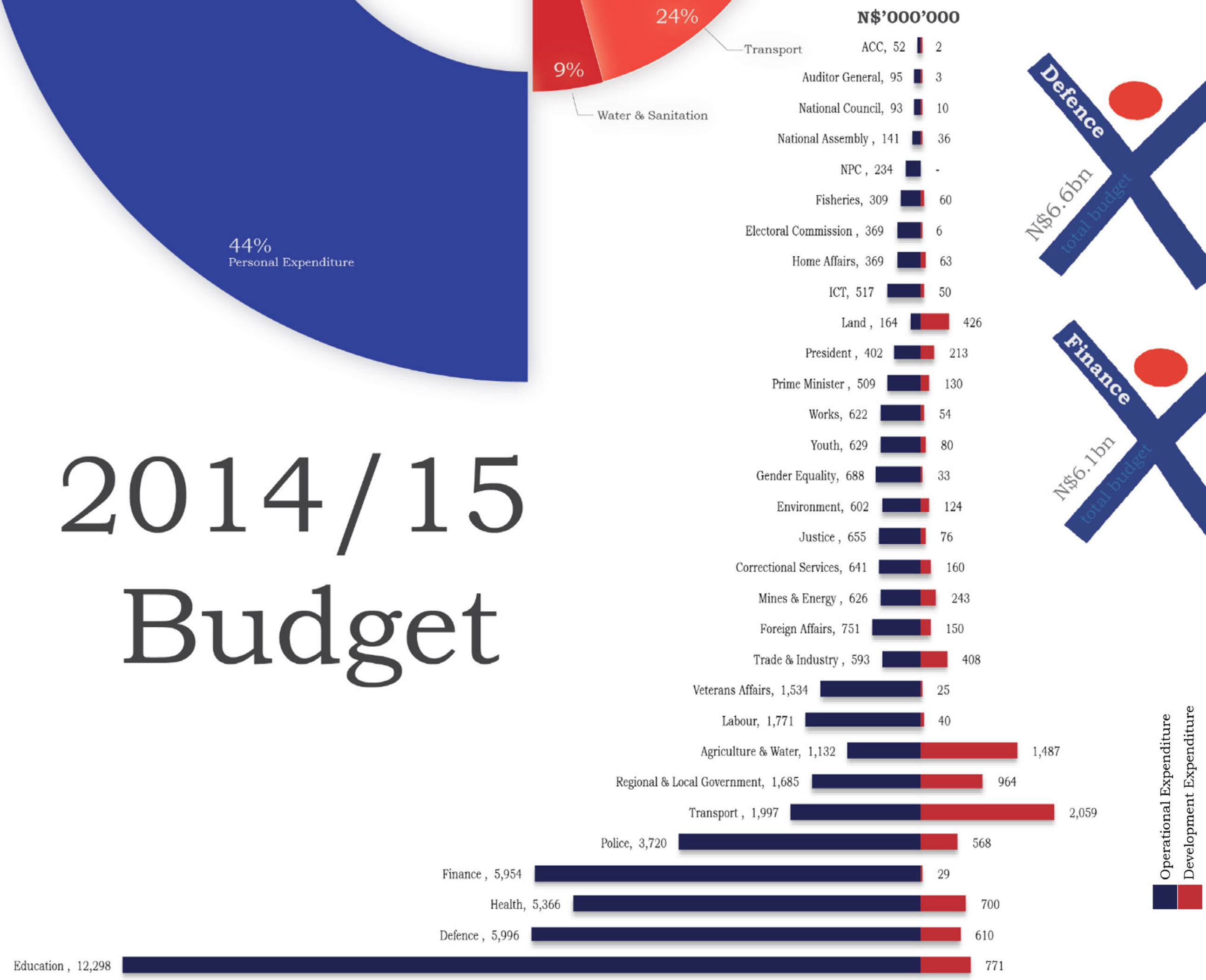
Expenditure:

A breakdown of the 2014/15 budget





2014/15 Budget



By: Stephie Mendelsohn & Rowland Brown

ing money than assuring its optimal use for the development of the country. Few projects are properly reviewed and appraised as a matter of course before receiving funding.

Macroeconomic environment

The current macroeconomic environment is, generally speaking, a positive one. Following a number of challenging years from a global perspective, 2014 is looking set to see a strong recovery from recession in Europe and an ever-improving growth outlook is being witnessed from the US economy. While some slowdown is being seen in a number of emerging market economies, this largely hinges around the performance of advanced economies; so as negative contagion drove the current economic softness, so can positive contagion bring about its recovery.

The improving global economy bodes well for the economies of the region, largely on account of strengthening demand for local commodity and manufactured exports. When coupled with a recovery in global commodity prices and a weak Rand exchange rate, nominal export growth shows promise for regional growth in general. Nevertheless, home-grown and structural challenges within the South African economy will continue act as a growth drag within the country, and may present some contagion risks to other economies of sub-Saharan Africa, particularly the Common Monetary Area (CMA) economies.

That said, from a Namibian point of view, the current growth outlook is amongst the most positive in the independent history of the country, as an on-going construction boom bodes positively for short-term growth, but also serves as a leading indicator of longer-term growth to come. Thus, after a number of years of "economic stagnation" with growth hovering between 4 and 5 percent per year, the on-going construction of three mines (a first for Namibia), large private sector retail construction projects, and a number of government and parastatal projects, highlight the coming of strong growth in the mining, retail and logistics sectors of the economy over the next few years.

On the price stability front, inflation has been stable in the country since independence, and despite a depreciating exchange rate for the best part of the last three years, has been on the decline in Namibia over recent times. While some risks of a currency depreciation pass-through remain, it is unlikely that a ballooning in inflation will be witnessed, although 2014 is expected to see a change in inflation trends on account of cost-push and demand-pull factors.

Unemployment remains elevated in Namibia, particularly youth unemployment. However, data inconsistencies make it all but impossible to assess whether or not efforts to address this pervasive challenge for the country are being met with any success. Nevertheless, what is know is that unemployment remains high, upward of 25 percent, and a large percentage of those classified as employed are involved in subsistence farming or low income jobs, and thus efforts to bolster employment in the country are required to remain in place, irrespective of the absolute unemployment figure.

Monetary policy has remained accommodative in Namibia, as in much of the world, over the past half decade. However as the interest rate hiking cycle starts in South Africa, Namibia will be forced to follow in order to protect the currency peg with the Rand.

From a macroeconomic perspective, the area of greatest concern to the economic outlook is undoubtedly the Namibian balance of payments, which has registered sizable deficits over the past year. As a result of strong demand for imports for mining, logistics and retail construction activities, as well as strong demand for consumer imports, particularly consumer electronics and vehicles, due to accommodative monetary and fiscal policy, the current account balance has been very much in the red. On the other hand, the capital and financial account, which has been positive due to foreign direct investment, has been unable to offset the negatives of the current account, and thus the balance of payments remains negative, resulting in a significant decline in reserves in absolute terms. Going forward, this trend is undoubtedly going to continue, as construction activities are set to remain on-going for a number of years before exports as a result of such will increase, and expansive fiscal policy is very much set to remain in place for now. Thus, 2014/15 may prove a severely challenging year for Namibia's balance of payments, and may require some intervention from the Bank of Namibia to stem the outflow and preserve the already precarious international reserve position.

The Medium-Term Expenditure Framework[1]

The current budget is expansive in every sense of the word and in just about every aspect of the budget. From a revenue and expenditure point of view, the current budget shows dramatic increases, coming off an already high base as a result of a strong and on-going counter-cyclical budget introduced in 2011.

It should be noted that while the previous expansionary and counter-cyclical fiscal policy has undoubtedly helped Namibia through tough prevailing headwinds stemming from advanced economies, given the developments in the local and global economies and the large increases in Government expenditure in 2014/15, what was a counter-cyclical fiscal policy is quick becoming pro-cyclical.

[1] From the outset it should be noted that the Medium-Term Expenditure Framework (MTEF) is not so much a medium-term framework, as a single year budget, with a vague indication of allocations for years two and three so as to allow for some planning by Offices, Ministries and Agencies (O/M/As). Given that year 2 and 3 allocations to O/M/As, programmes and projects can vary from initial estimates by as much as 40 percent, the focus of analysis shall be the 2014/15 allocations, more than the MTEF as a whole.

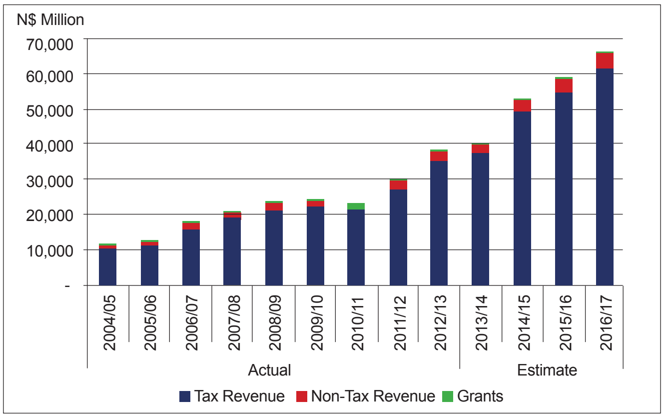
Revenue

Table 1: Revenue

N$'000'000	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
2008 Budget	17,593	18,387	20,873	21,753	22,640						
2009 Budget		20,689	21,973	21,778	21,147	22,688					
2010 Budget			23,447	23,568	22,536	20,940	26,214				
2011 Budget				24,047	22,699	28,012	31,875	37,154			
2012 Budget					23,244	26,853	35,420	35,257	39,672		
2013 Budget					29,922	37,108	40,141	42,950	45,630		
2014 Budget						37,987	40,141	52,473	58,698	66,074	

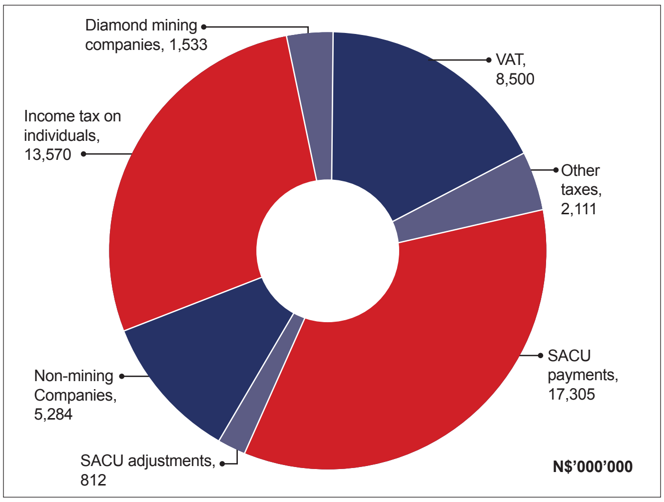
Source: Ministry of Finance

Chart 1: Revenue



Source: Ministry of Finance

Chart 2: Tax revenue breakdown



Source: Ministry of Finance

Overall, MTEF revenue projections have increased dramatically between the 2013/14 budget and the 2014/15 budget, none more so than the projections for the 2014/15 financial year, which went up by 31 percent when compared to the 2013/14 revenue expectations, and up 22 percent when compared to the previous year's projections for the 2014/15 financial year. As such, projected revenue increases from N$50.1bn in 2013/14, to N$52.5bn in 2014/15 and then rising to N$66.1bn two years later in 2016/17. These significant increases are poorly explained in the budget books and budget speech, and as such many are questioning their credibility. From the projected breakdown of revenue, it appears that significant increases in revenue will be sourced from increased tax revenue from individuals, largely on account of improved tax administration, and outstanding tax payments from Namibian tenderers.

Tax revenue:

As is usually the case, tax revenue makes up approximately 94 percent of total revenue in the 2014/15 financial year, with SACU receipts, VAT payments, income tax on individuals and non-mining company taxes making up around 90 percent of total tax income. Unlike previous years, incomes on taxes and profits are projected to overtake SACU as the main source of revenue to government, which if achieved, is an extremely positive development. For too long, the Ministry has been far too reliant on SACU receipts as a source of revenue, and with pervasive rhetoric from SACU surrounding a re-calculation of the revenue sharing formula, diversification of revenue sources is critical.

Between 2013/14 and 2014/15, income tax from individuals is expected to increase from N$7.9bn to N$13.6bn, and as such this form of taxation will go from representing 20 percent of total revenue to 26 percent of total revenue. While this increase is dramatic, it is not altogether impossible. Generally, the Ministry of Finance tends to underestimate revenue collection figures, and so if this has been corrected in these forecasts, some of the increase may be explained. Additionally, recent efforts to improve revenue collection in the Inland Revenue section of the Ministry of Finance have been met with notable success. However, going forward a number of the quick-wins that were experienced over the last year can be expected to see diminishing marginal returns. That said, anecdotal evidence suggests that there is still a great deal of tax avoidance and evasion in the county, and even off the now higher base, Inland Revenue should be able to increase tax revenues inline with projections.

Nevertheless, while this is possible, and while recently witnessed significant improvements in the Receiver of Revenue may result in increased collection, the scale of the increase projected will remain at the forefront of concerns for the sceptics. Should revenue collection be lower, particularly significantly lower, than forecast, debt issuance and the deficit may be significantly above the already high 7.7bn and 5.4 percent, respectively.

Tax Developments:

Following a fleet of notable tax changes announced in the

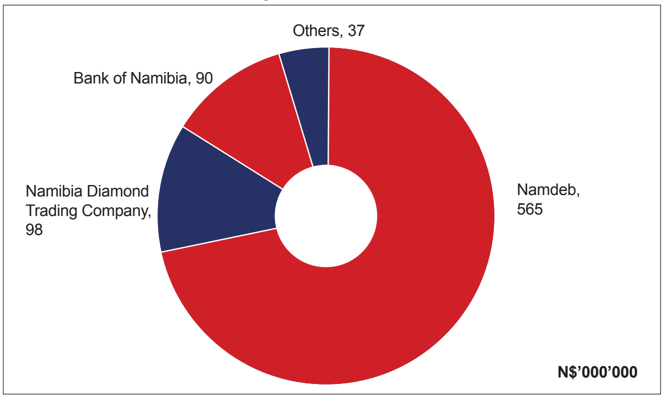
2013/14 budget, the current budget was relatively quiet on amendments of this nature. Nevertheless, a handful of changes are to be implemented over the coming financial year, as follows:

- Firstly, an environmental tax, originally announced in 2013, will be implemented on the purchase of new vehicles, incandescent light bulbs and motor vehicle tyres. The concern surrounding this initiative is that the tax is likely to simply serve a punitive purpose, rather than altering behaviour in any meaningful manner, and the proceeds of the initiative will not be ring-fenced for environmental purposes, but rather will just form part of the overall fiscal pot.
- Secondly, as announced in the 2013/14 budget, the non-mining corporate income tax rate will be reduced by an additional 1 percent, following the 1 percent reduction seen in 2013/14.
- Thirdly, the much spoken about taxes to promote domestic value-addition in the primary commodity and natural resources sectors are to be introduced despite opposition to such, particularly from the mining industry. Nevertheless, the Ministry of Finance, in consultation with the various industries has settled on significantly lower rates of taxation on exports than was originally proposed, and as such most minerals exports will be paying between 0 and 1 percent tax on export values, with the odd exception paying between 1 and 2 percent.
- Finally, in a highly welcome and overdue development, the VAT threshold will be raised from N$200,000 to N$500,000.

Non-tax revenue:

Non-tax revenue makes up a minute percentage of total revenue to Government, and of the approximately N$3bn received from non-tax sources, around one quarter is made up of dividend and profit shares from Government's shareholdings (predominantly in state-owned-enterprises). Of the 90 odd SOEs, 40 are receiving funding from Government over the MTEF period, while just eight are contributing positively to government coffers. Moreover, the total combined gross dividends and profit share from the 90 odd SOEs is just N$790m, of which more than 75 percent comes from Namdeb and the Namibia Diamond Trading Company. Other contributors in 2014/15 are Afreximbank (N$300k), Bank of Namibia (N$90m), Namibia Post and Telecommunications (N$17m), Namport (N15m), Rossing Uranium (N$4m) and Namibia Re-insurance Corporation (N$1m). What is most notable with regards to the aforementioned list of companies is the fact that all of the above are run and managed as private-sector companies with Government shareholding, rather than Government run and managed. Thus, this once again suggests that the conversation about privatisation, or at least the reduction of government involvement in the day-to-day running and management of SOEs, needs to once again take place.

Chart 3: Dividends and profit share breakdown



Source: Ministry of Finance

The other major source of non-tax revenue to Government are royalty payments from mining companies, with diamond royalties contributing some N$1.2bn in 2014/15, and non-diamond royalties contributing some N$385m.

Other non-tax revenue sources yield such minute contributions to Government coffers that they are barely worth discussing on an individual level. Nevertheless, the multitude of fines, fees and payments received by the various O/M/As add an additional billion odd dollars to government coffers all told.

Expenditure

As with revenue, expenditure projections have seen sizable upgrades between 2013/14 and 2014/15, with the 2014/15 projected revenue up 26 percent on the 2013/14 financial year, and up 25 percent on the previous projections for the 2014/15 financial year. As such, total expenditure for the 2014/15 financial year is budgeted at N$60.1bn, up from N$47.6bn in the previous financial year, and increasing to N$69.5bn by the end of the MTEF.

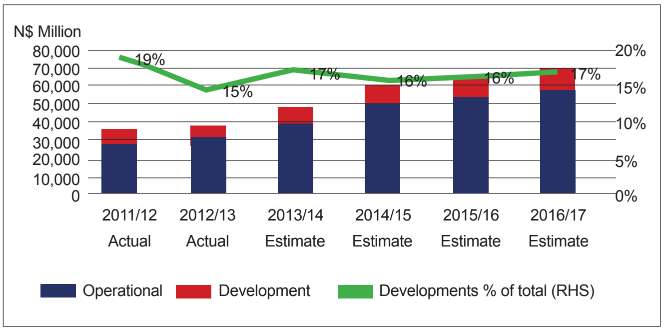
As has been the case for a number of years, the breakdown of expenditure between operational and developmental activities weighs heavily in favour of recurrent activities within the operational budget. As such, the overall breakdown misses the targeted 80:20 split between operational expenditure and developmental expenditure for the MTEF period. In total, over the MTEF period, and for the first two years of the MTEF, the breakdown is 84:16 in favour of operational expenses, and by the time the 2016/17 budget is realised, it is highly likely that it too will move more in favour of operational expenditure.

Table 2: Expenditure

N$'000'000	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
2008 Budget	15,279	17,827	22,464	21,749	21,871						
2009 Budget		17,383	22,469	25,420	26,394	26,309					
2010 Budget			21,945	24,875	28,891	29,055	31,113				
2011 Budget				24,909	27,744	37,688	37,543	44,666			
2012 Budget					27,553	37,166	40,157	41,001	40,190		
2013 Budget						36,743	40,073	47,576	48,215	50,488	
2014 Budget							37,695	47,586	60,092	64,092	69,504

Source: Ministry of Finance

Chart 4: Budget Breakdown



Source: Ministry of Finance

Operational expenditure:

Operational expenditure breaks down into seven major categories. However of these seven categories, three make up 75 percent of total expenditure, namely personnel expenditure (37%), S&T, Materials and Supplies, Transport & Utilities (14%) and transfers to SOE's and social payments and grants (26%). Additional to these major expenditure lines is the ever increasing interest rate and borrowing charges, which now represent over 4 percent of total expenditure.

Table 3: Expenditure Breakdown

N$'000'000	Estimate 2014/15	Percent of Total
Total – Operational	**50,513**	**84.1%**
Personnel Expenditure	21,999	36.6%
S&T, Materials and Supplies, Transport & Utilities	8,349	13.9%
Transfers to SOE's, Subsidies & Grants	15,315	25.5%
Interest & Borrowing Related Charges	2,517	4.2%
Purchase of Vehicles & Operating Equipment	2,145	3.6%
Capital Transfers	184	0.3%
Total Lending & Equity Participation	14	0.0%
Total Development	**9,578**	**15.9%**
Grand Total	**60,092**	**100.0%**

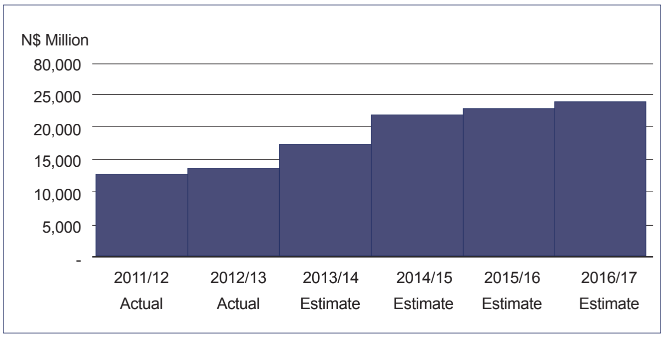
Source: Ministry of Finance

Personnel

In the 2014/15 budget, the largest single increase in expenditure was personnel expenditure, which ramped up from N$17.5bn in 2013/14, to a whopping N$22.0bn in 2014/15. This increase was ascribed to civil service salary regrading and large wage increases. However in assessing the numbers, it seems the vast majority of the increase has gone to two Ministries primarily, namely the Ministry of Education and Ministry of Defence. As such, personnel expenditure now represents 37 percent of total expenditure, by far the single largest expenditure line in the budget.

The concerns with excessive budget expenditure on personnel are multi-fold. However broadly they revolve around whether the large staffing contingent in many O/M/As add value or are simply an employment creation scheme for those that are not employed or employable elsewhere. Should the latter be the case, the question becomes whether using vast amounts of finite funding on a relatively small percent of the population is optimal, even from a wealth distribution perspective, or whether it would be more useful to have a significantly smaller and more efficient wage bill, and effectively allocate the saved funds to the whole population through Government services.

Chart 5: Personnel Expenditure



Source: Ministry of Finance

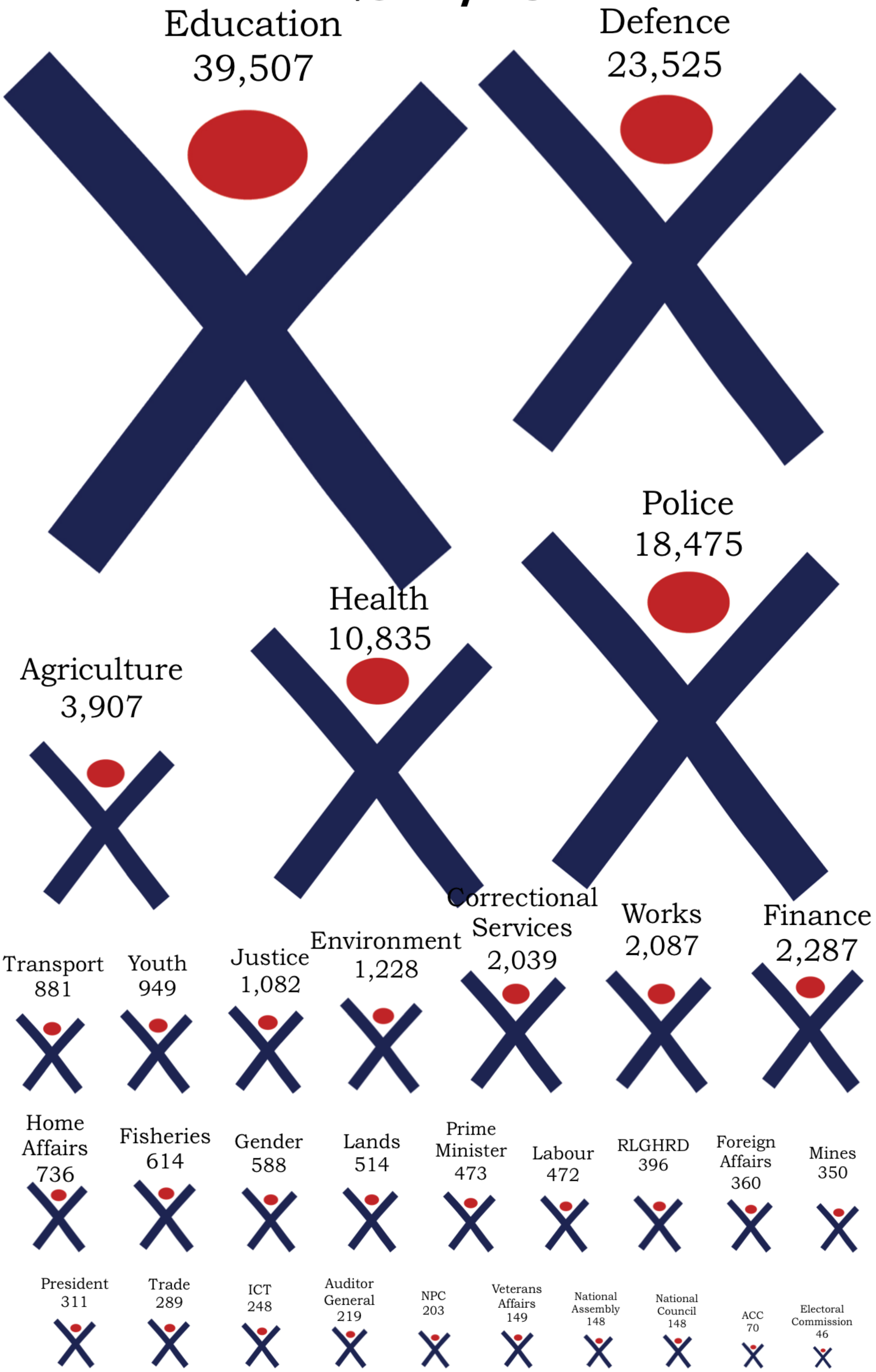
Transfers to SOEs

As with most budgets, the current budget sees significant allocations to state-owned enterprises (SOEs), and while the second and third years of the MTEF are generally quite a moving target in terms of the budget, SOE allocations tend to be even more so. As such there is little point in looking beyond the 2014/15 allocations, which are not only 46 percent larger than the 2013/14 allocation to SOE's, but about 95 percent larger than the previous budgeted allocation for the current (2014/15) financial year[2]. Of the total N$8.35bn allocated to SOEs in 2014/15, five allocations represent approximately 50 percent of the transfers. From largest to smallest, these are, the Veterans Subvention Fund (N$1.45bn), UNAM (N$870m), Namibian Students Financial Assistance Fund (N$836m), Nampower (N$500m) and National Housing Enterprise and Build Together (N$484m).

The payments to veterans are, in theory, funding for "veteran projects, medical assistance and counselling" as well as "subversions" (presumably meant to be subventions) and see a dramatic doubling for the budgeted amount in 2013/14. In essence this transfer is effectively nothing more than a social transfer to those that served the country during the country's independence war, and, however unpopular with political and economic commentators and however inefficient a use of finite resources, are likely to remain in place. Moreover, the effect of this form of social grant on the economy is probably understated by the aforementioned commentators, as similar such transfers have been shown to have large multiplier effects within economies, particularly when distributed to less wealthy sectors of society.

[2] While there is a great deal of discrepancy in the numbers across the various budget documents, the exact numbers for allocations to SOEs appear to be particularly hazy. However, a simple calculation of all of the allocations for the 2014/15 financial year comes in at N$8.35bn, while the calculation in the budget estimates is a significantly larger N$9.52bn. Nevertheless, in the interest of granting Finance the benefit of the N$1.17bn dollar doubt, and in the interest of consistency, we use the N$8.35bn figure in our calculations and assessments.

Personnel Funded by O/M/A 2014/15



The large transfers to UNAM are for the expansion of the UNAM Oshakati campus, a capital injection that is most likely required for the upgrading of the said campus. Nevertheless, the scale of the project, currently estimated at N$3.1bn over the MTEF (but likely to be more) seems excessive, and is, in itself, not guaranteed to yield any improvement in results per se.

The NSFAF funding is simply for the provision of loans and financial assistance to students. While in theory this is a positive and required initiative within the country so as to provide financially disadvantaged students with educational opportunities. Nevertheless, historically the fund has faced a number of challenges in administration, particularly with recuperating the loans extended when their holders graduate and are in earning positions. As such, rather than being a revolving fund, it requires regular recapitalisation by Government.

The extension to Nampower goes to fund some of the initial costs of the Kudu Gas-to-Power plant that appears to finally be gathering some steam towards development. Over the MTEF, the current allocation stands at N$1.6bn, which is expected to be increased, and coupled with various government guarantees, funding of Nampower's balance sheet and funding from equity (and potentially debt) partners, to bring the multi-billion US dollar project to fruition.

The N$484m allocation to the NHE and Build-Together Programme is somewhat smaller than expected in the current year, given the current phase of the political cycle, as well as the generally large costs associated with the much publicised "Mass Housing Scheme" that has seen much talk but little detail over the past year. Whatever the reason for the lower than expected allocation, the circumspect approach to the project is a positive, as while the initiative to "house the nation" is a good one, a project of this scale requires significantly more groundwork before vast funds are levelled at it.

While the aforementioned make up around half of the total transfers to SOEs, one would be remiss to not highlight a handful of additional allocations. Firstly, and of most interest, is a N$472m allocation to Air Namibia. While this is approximately half the allocation of 2013/14, it remains sizable, and is excruciatingly poorly justified within budget documentation, which simply claims that this almost half billion dollars goes to "business plan updates and payment of outstanding debt", the same, word for word, rhetoric seen in the 2013/14 budget. As with all Air Namibia transfers over the past 20 plus years, the question is whether these transfers represent an optimal use of funds in a country at Namibia's level of development. This question has never been openly answered, as no detailed studies of the costs and benefits of Air Namibia, and her multipliers to the economy, have been released.

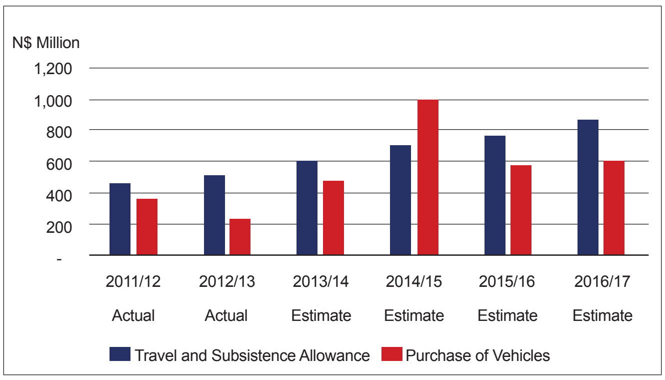
Two additional transfers worth noting are the N$190m transfer to the SME Bank for the purpose of recapitalisation, and the N$125.9m transfer to the recently formed Namibia Statistics Agency (NSA). The latter transfer, particularly, is critical for the further development of the NSA, which has seen a number of large improvements since inception, but remains with a lot to do to improve statistics and access to statistics in Namibia.

While some specifics of state-owned enterprise allocations are highlighted above, the general questions that must be broached with regards to state-owned enterprises remain. Firstly, issues of accountability for funding received from the State (i.e. the taxpayer) remain front and centre. A great number of SOEs have not released financial statements for a number of years and as such there is little to no accountability for the use of funding. Secondly, the general management of many SOEs is far from efficient, with allegations of corruption and nepotism surrounding many SOEs and their senior officials and boards. Finally, whether allocating large volumes of funds to these enterprises is really the best use of finite development funds is a question that must be broached. After all, it is not the political and economic commentators who stand to lose or gain from a more efficient SOE base so much as the person on the street, for whose wellbeing any squandered funds may be better used.

Vehicles:

In 2014/15, the purchase of vehicles more than doubles from the previous year, going from N$466m to N$984m. This is somewhat concerning as it is not justified or explained in any of the documentation of the budget. While it can be seen that the majority of this expenditure is aimed at the Ministry of Defence and the Police, no further information is readily available. Given a widely-held perception, strongly supported by anecdotal evidence, that the Government currently owns a large number of vehicles, many of which are unused and many of which are misused for personal purposes, the question must be asked as to whether the large increase in budget allocation for the purchase of new vehicles is the optimum use of Government's limited funds. Moreover, given that no passenger vehicles and few commercial vehicles are manufactured in Namibia, the balance of payments effect of these sizable vehicle purchases simply cannot be ignored.

Chart 6: Vehicles and S&T



Source: Ministry of Finance

Development budget

On the development budget side, total expenditure increased from N$8.1bn to N$9.6bn between 2013/14 and 2014/15, and is expected to continue to increase over the MTEF, reaching

Table 4: Major Development Projects

PROJECT	Estimated Expenditure (N$'000'000)			MTEF Total
	2014/15	2015/16	2016/17	
Construction of Dams, Desalination & Provision of Water to settlements	581	206	350	1,137
Military Research and Development	377	380	437	1,194
Land Purchase Programme	370	807	462	1,639
Railway Network Upgrading	287	455	600	1,343
Sites and Premises Development Programme	234	198	180	612
Gobabis - Otjinene Road Upgrading	222	114	2	338
Green Scheme	217	130	300	647
Omakange - Ruacana Upgrading	195	90	140	425
State Security Infrastructure	180	153	183	516
Purchase of Diplomatic Premises Abroad	149	149	199	497
Rural Electrification	145	52	80	277
Rural Water Supply Coverage	143	98	100	341
Upgrading of Civil Aviation Infrastructure	140	100	30	270
Linyanti - Singalamwe – Kongola Road Upgrading	130	103	0	233
Construction of the Second Office of the PM	106	72	85	263
Primary Health Care Clinic Upgrading	105	81	81	267
Construction of Services –Swakopmund	105	108	30	242
Basic Education Facilities Upgrading	102	27	94	223
Northern Railway Line Extension	100	64	150	314
Omafo - Ongenga - Outapi Road Upgrading	100	200	2	302
Construction of Police Accommodation	91	69	70	231
Police Stations Upgrading	91	70	80	241
Gobabis - Aminius - Aranos Road Upgrading	91	180	250	521
Primary Health Care Centre Upgrading	85	106	106	297
Construction of Teachers Houses	84	93	40	217
Construction of Head Office for Civil Aviation	80	8	30	118
Integrated Forest Resource Management	74	78	80	232
Construction of MAWF Regional Offices	65	49	40	154
Construction of Veterinary Clinics, Offices & Accom	62	59	86	207
Renovations of Schools Nation Wide	60	30	70	160
Upgrading and Extension of Oshikunde SS	53	23	5	82
Leopards Valley Military Base	53	150	75	278
Building and Maintenance	52	30	25	107
Animal & Plant Health Inspection Centers at Border Points	51	50	41	142
Construction of Services: Walvis Bay (Phase 3)	51	51	45	147
ATC: New Area Control for the Windhoek FIR	51	51	55	157
Implementation of the Master Plan for Oshakati	50	251	291	593
Maintenance of Paved and None Paved Roads	50	130	250	430
Ondangwa Remand Prison Construction	45	60	60	165
Feasibility Studies for Railway Infrastructure Commuter Train Services - Windhoek to Rehoboth	45	20	10	75
Feasibility Studies for Railway Infrastructure Commuter Train Services - Windhoek Central to Katutura	45	10	10	65
Establishment of Hostels at Schools Nationwide	41	26	80	147
Extension of the Central Veterinary Laboratory	41	61	0	102
Upgrading to bitumen standards of MR118:Oranjemund-Rosh Pinah	40	96	107	243
Minor Capital Works - Maintenance and Repairs	40	53	53	145
Katutura Hospital Renovation (Phases 7 & 8)	40	41	41	122
Fencing of Conservation Areas	40	20	30	90
Construction of Offices within the National Police Headquarters	40	29	20	89
Construction of Secondary School at Onawa	40	5	1	46
Other Projects	4,271	5,336	6,342	15,949

Source: National Planning Commission

N$11.7bn by 2016/17. Within the Development Budget, the majority of projects revolve around the construction, upgrading and development of government buildings around the country, however the bulk of expenditure is focused at a handful of large projects as outlined in table 4.

Selected Allocation by Vote

Vote 1: President

In total, the Office of the President has been allocated some N$1.7bn over the MTEF period, of which N$615m is allocated for the 2014/15 financial year. This breaks down to an approximate split of one-third development and two-thirds operational.

Two development projects feature for this vote, namely "Construction of Residence" and "State Security Infrastructure". The former project is a new addition to the Development Budget, and has a total cost of N$35.7m. The latter project is a long-running project in the Budget, and a highly costly one. In total the project costs N$1.3bn, of which N$180m is allocated for the 2014/15 financial year.

Vote 2: Prime Minister

The Office of the Prime Minister has a total allocation of N$1.6bn for the MTEF period, of which N$639m is allocated to the 2014/15 financial year. 80 percent of this is operational expenditure and the remaining 20 percent is for development.

The major development projects for the 2014/15 financial year are the Construction of the Second Office of the Prime Minister (N$106m) and the Renovation of Old State House Residence (N$16m).

Vote 3: National Assembly

The National Assembly has a total allocation of N$480m for the MTEF, of which N$177m is allocated to the 2014/15 financial year. Development expenditure makes up a fairly minor 20 percent of total expenditure. The main developmental project is the controversial Construction of a New Parliament Building. In total the project is budgeted to cost N$638m, with N$25m allocated to the 2014/15 financial year.

Vote 5: Home Affairs and Immigration

The Ministry of Home Affairs and Immigration has been allocated a total budget of N$1.4bn over the MTEF period, of which just 16 percent is allocated to development activities. The total allocation for the 2014/15 financial year is N$543m, just under half of which represents personnel expenditure. Only N$63m is allocated to development activities, almost 100 percent of which is for the construction of regional offices and border posts.

Vote 6: Police

The Police receive an allocation of N$13.5bn over the MTEF, with N$4.3bn being assigned to the 2014/15 financial year. Of the 2014/15 allocation, 63 percent (N$2.7bn) goes to fund personnel expenses, and N$277m is allocated to the purchase of vehicles (up from N$47m in the pervious financial year). A relatively small N$568m is allocated to development activities, and is almost 100 percent for the construction and upgrading of regional offices.

Vote 7: Foreign Affairs

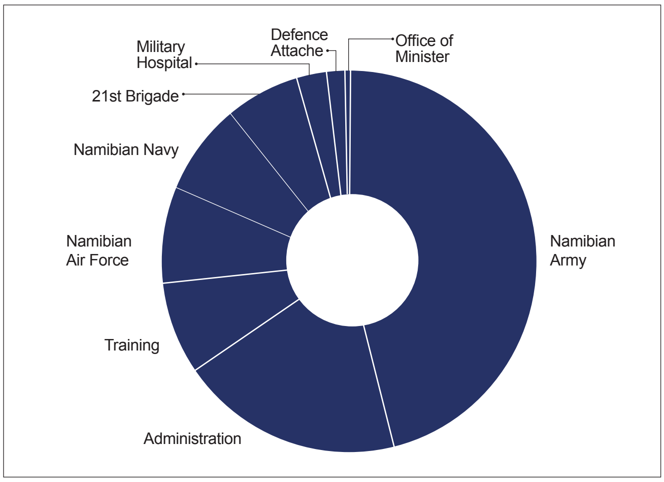
Foreign Affairs receives an allocation of N$2.8bn over the MTEF, with N$901m allocated for the 2014/15 financial year. With the largest employment cost per person of all the Offices, Ministries and Agencies of Government (N$1.29m per employee per year on average), personnel expenditure makes up more than 50 percent of total expenditure for this vote.

Development expenditure represents a relatively small percent of the total allocation, at just N$150m for the 2014/15 financial year, for the purchase of diplomatic premises abroad, predominantly.

Vote 8: Defence

In the current MTEF, the Ministry of Defence once again overtakes the Ministry of Health as the second largest vote by total budget allocation. Over the MTEF the vote will receive N$21.4bn, of which N$6.6bn is allocated to the 2014/15 financial year. Following a regrading of salaries in the Ministry, the 23,525 funded positions will now receive N$4.1bn of the total N$6.6bn allocation for the 2014/15 financial year, some 63 percent of the total allocation. Of the total allocation, N$610m is designated for development activities, many of which are shrouded in secrecy. More than 50 percent of the development allocation is targeted at the "Research and Development" project, which receives an allocation of N$377m for the 2014/15 financial year, out of the total project cost of N$6.7bn.

Chart 7: Defence Spending (Operational)



Source: Ministry of Finance

Vote 9: Finance

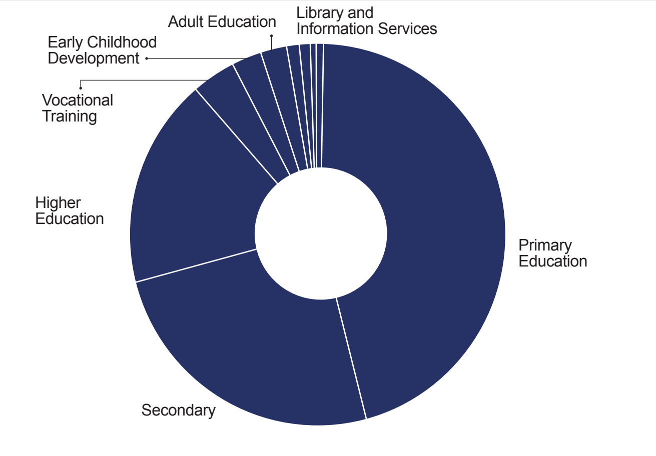
The vast majority of the nearly N$6.0bn allocated to the Ministry of Finance in the 2014/15 financial year represents transfers to State Owned Enterprises (N$2.5bn) and foreign and domestic interest rate payments (N$2.5bn). The latter allocation is an illustration of the ever-increasing borrowing cost for government as nominal debt levels increase on account of the budget deficit.

Moreover, the allocation does not reflect any effort to hedge the Euro-Bond that was issued in 2011, the repayment cost of which has increased over 75 percent subsequently due to currency depreciation. On the Development Budget side, only N$29m is allocated to development activities for the financial year in question.

Vote 10: Education:

Education receives the largest share of the budget over the MTEF (N$42.1bn) and the 2014/15 financial year (N$13.1bn). Of this, approximately N$7.7bn (up N$1.2bn from the previous financial year as a result of a much-needed salary regrading) covers personnel costs, while transfers to SOEs represents some N$2.8bn. From an operational expenditure point of view, approximately 46 percent of expenditure goes to primary education, with secondary receiving some 25 percent and tertiary, 18 percent. Early childhood development and vocational education expenditure has increased over recent years, in line with the educational priorities of NDP4, and free primary education for all should soon be coupled with free secondary education for all, however at present this does not appear to be adequately budgeted for. From a development point of view, Education receives the 4th largest overall allocation in the 2014/15 financial year, of N$770m. The bulk of this expenditure is allocated to primary and senior secondary activities, predominantly school construction, upgrading and renovation.

Chart 8: Education Expenditure (Operational)



Source: Ministry of Finance

Vote 13: Health and Social Services

The Ministry of Health and Social Services receives one of the larger allocations in the budget, of N$18.9bn over the MTEF, and NN6.1bn in the 2014/15 financial year. This expenditure is fairly heavily weighted to personnel expenditure, which makes up N$2.3bn of the total allocation. Additionally, a significant N$1.1bn is allocated to materials and supplies, while development expenditure totals N$700m. The majority of the Development Budget allocation is targeted at the renovation, upgrading and construction of hospitals and clinics around the country.

Vote 14: Labour and Social Welfare

The Ministry of Labour and Social Welfare receives relatively large allocations - N$5.8bn over MTEF, N$1.8bn in 2014/15. However this is mainly on account of social pensions being routed through the Ministry. For 2014/15, social pensions make up N$1.4bn, or some 78 percent of the votes total allocation.

Vote 15: Mines and Energy

Generally, speaking, the Ministry of Mines and Energy receives fairly minor allocations from the budget. However in the current MTEF, this Ministry is to receive N$5.3bn. The reason for this sizable allocation is the transfer of funds to Nampower to contribute to the construction of the Kudu Gas-to-Power projects. In total, transfers to SOEs from Mines and Energy total N$4.3bn over the MTEF, over 80 percent of the Ministry's total allocation. As well as this, on the Development Budget side, the largest project funded is the rural electrification project, for which N$145m is set-aside in 2014/15, out of a total project cost of N$741m.

Vote 17: Regional and Local Government, Housing and Rural Development

The Ministry of Regional and Local Government, Housing and Rural Development is set to receive a total of N$8.3bn over the MTEF period, and N$2.6bn in the 2014/15 financial year. The bulk of this allocation is either transferred to SOEs (National Housing Enterprise and Build Together Programme), and development activities. In total, the Development Budget allocation for 2014/15 is N$964m, most of which goes to a large number of small projects for the construction of services (water and sewerage) in various villages, towns and cities across the country.

Vote 20: Agriculture, Water and Forestry

The Ministry of Agriculture, Water and Forestry has been allocated a total of just under N$8bn, of which N$2.6bn is assigned to the 2014/15 financial year. Unlike most of the other ministries, development spending makes up more than 50 percent of the total budget. This is largely on account of a handful of sizable development projects, which make up a large percentage of the total N$1.5bn allocated to development activities. Three projects, namely, the "Construction of Large Dams, Desalination and Provision of Water to Larger Settlements" (N$581m), the "Green Scheme" project (N$217m) and "Rural Water Supply Coverage (Rural Secondary Pipeline Construction) (N$143m), represent more than 60 percent of the total development expenditure for 2014/15.

Vote 24: Transport

Over the MTEF, Transport has been allocated N$14.3bn, of which N$4.1bn is allotted for the 2014/15 financial year. This expenditure breaks down approximately 50:50 between development and operational items. On the operational side, the major expenses include transfers to SOEs (N$1.3bn), as well as expenditure on vehicles (N$345m), which has almost doubled since 2013/14. On the Development Budget side, six major project represent the bulk of expenditure, namely "Railway Network Upgrading", "TR 14/2: Gobabis – Otjinene Road Upgrading to Bitumen", "Upgrading of Civil Aviation Infrastructure", "Road Upgrading to Bitumen Standard MR 125: Liselo

- TR8/6 Linyanti - Singalamwe – Kongola" and "Northern Railway Line Extension".

Vote 25: Lands and Resettlement
Lands and Resettlement has a budget allocation of N$2.4bn over the MTEF, and N$590m in the 2014/15 financial year. In total, approximately 70 percent of this allocation goes to the Development Budget's "Land Purchase Programme", which is set to receive N$370m in 2014/15, and N$1.6bn over the MTEF.

Vote 31: Veterans Affairs
Veterans Affairs receives a relatively small allocation each year, bar the transfer to the Veteran Subvention Fund, which is set to receive N$1.5bn in the 2014/15 financial year, and just under N$2.8bn over the MTEF.

Budget Balance:

The projected deficit for 2014/15 is 5.4 percent, despite the highly expansionary position taken by the Ministry of Finance, particularly with regard to operational expenditure. The reason for this is the projected huge growth in revenue, along-side growth in expenditure. As such, debt financing for 2014/15 is expected to be fairly moderate at just N$7.7bn for the year.[3] Nevertheless, given the redemption of the GC14 (N$1.53bn) and GC15 (N$1.647bn) bonds during the fiscal year, the gross shortfall will be more like N$9.7bn all told.

This shortfall is expected to be funded through N$2bn of cash reserves, N$4.9bn of local debt issuance and N$1.5bn of foreign debt issuance. However, given that Government's cash reserves are likely to be well below N$2bn by the end of the current financial year, should spending be on track through 2014/15, debt issuance may be higher than planned.

Additionally, over the period in question, Government expects to carry contingent liabilities totalling N$5.9bn, or some 4.5 percent of GDP, well below the 10 percent of GDP limit. These guarantees include, but are not limited to a Euro 6.1 million guarantee to Nampost, a N$2.9 billion guarantee for the expansion of the Port of Walvis Bay (Namport project) and two guarantees for aircraft leases for Air Namibia.

Broad short-fallings

The current budget, as with many that went before, suffers a number of major problems, many of which are administrative in nature, rather than specific to funding allocations. Nevertheless, these administrative shortcomings negatively impact upon the optimality of the budget allocation and the budget process in general, and thus do ultimately impact on funding allocations, and the optimality thereof.

Thus, in order to address the root of the problem, a number of these shortcomings are highlighted below:

"MTEF Budgeting"
To start with, the Ministry of Finance terms the budget a Medium-Term Expenditure Framework, where in reality, it is more of a single year budget, with a broad indication of minimum allocations over the following two years so as to allow for some longer-term planning by Government Offices, Ministries and Agencies. However, given that the final budget figures often differ by more than 40 percent from their first estimate for a financial year, it simply cannot be said that the Ministry of Finance practices MTEF, or three-year budgeting. Moreover, rather than facilitating the long-term planning of government, this annual revision of budgets rather sows uncertainty. As such, it is of critical importance that longer-term budgeting is not only implemented, but stuck to.

The supposed three-year budgeting process contains another significant downfall, namely that budgeting focuses primarily on the upcoming financial year, rather than years two and three of the budget. As such, years two and three of the budget do not receive the scrutiny they should. They do however go on to form the base from which the year two and three budgets are crafted at the point at which they become the current year's budget. As such, large numbers of improperly and inadequately appraised projects find their way into the budget through the combination of actual single year budgeting, and feigned MTEF budgeting.

Budget cycles vs development plan cycles
An additional challenge pertaining to the supposed MTEF structure of budgeting is that there is a disconnect between the country's development plans (NDPs), which run in five-year cycles, and the MTEF's, which run in three-year cycles[4]. As such, for at least the first two years of the three-year plans, the MTEF fails to deliver on and prioritise the issues and priorities highlighted in the said development plan. As a result, many years of the development plan are effectively lost from a budgeting point of view, and given the size of the budget relative to GDP, it is a development tool with a potential that is second to none.

Incremental budgeting
For a number of years, the Ministry of Finance has been practising incremental budgeting, whereby new projects are tagged onto old projects and old methods of budgeting. As such, the current budget, as with many previous budgets, appears to create a significant disconnect between the development goals of the country, and the funding priorities of Government. Rather than breaking down the budget and rebuilding it each year (or

[3] As with many other calculations in the budget, a number of possible figures are mentioned for debt requirements, however given a simple calculation of the budget deficit (revenue-expenditure), the figure of N$7.7bn appears to be correct, rather than the figure stated in the Estimates of Revenue and Expenditure, of N$8.9bn.

[4] Interestingly, from a mathematical point of view, the intervals of the three year MTEF and the five year development plan, both running in prime number cycles, mean that only every 15 years would the two cycles meet, as opposed to a non-prime cycle which would coincide far more regularly.

three years, as should be done with an MTEF) with top priorities first in line for the finite funding available, new projects, however important, are only funded if funds are available after all of the older projects and systems have been catered for. The detrimental impact this has on the development process and the ability of Government to reach and meet development goals and targets cannot be overstated.

Evidence and audited budgeting

Every year expenditure on goods and services, (including subsistance and travel, material and supplies, utilities, maintenance and transport) and acquisition of capital assets (furniture, vehicles and operational equipment) sees sizable increases. However, the requirements for these items is often not supported through audits or assessments by the Ministry of Finance. As such, many O/M/As sit with vast fleets of unused or misused vehicles, purchase new office equipment rather than repairing and recycling older requirement, and misuse travel and subsistence allowances and other such trespasses.

General administration

Every year, the budget suffers a number of last minute changes, which result in documents showing innumerable and significantly different numbers for critical aspects of the budget (for example there are at least three funding shortfall numbers between the Medium Term Expenditure Framework, Estimates of Revenue and Expenditure and the Budget Speech). As well as this, more often than not, there is a general failure by the Ministry of Finance to produce all of the budget documentation in time for the budget tabling at parliament and to produce sufficient copies of the budget for the media, analysts and public. Moreover, the Ministry fails to release all of the budget documentation on their website for an extended period after the launch of the budget, further undermining access for the public, and general budget transparency. All of these problems are completely avoidable. A last minute scramble in the Ministry, rather than consistent full-year budgeting, means that every year these discrepancies arise. Moreover, this last-minute budgeting no doubt results in less than perfect allocation of funding, and thus less than optimal outcomes.

Results orientations

Finally, and most importantly, the budgeting process often appears to be more about allocating money than assuring its optimal use. Few projects are properly reviewed and appraised as a matter of course before receiving funding, and as such the allocations are often far from ideal to assure the best development outcomes. Thereafter, there is usually very little follow-up on the budgets to assess the success of allocation in terms of development and stated outcomes for programmes and projects. As such, few lessons are learned from failed projects and few failing projects are salvaged.

Recommendations:

Given the above, it is highly recommended that the Ministry of Finance move towards a genuine Medium-Term Expenditure Framework that will set three-year funding plans based on well-assessed projects and priorities, and then strictly adhered to such (an example of such a system can be seen in neighbouring Botswana). This process of budgeting will require that a ground-up budgeting process is set in place, and it is recommended that this ground-up budget construction is carried out every three years. Moreover, this process should be on-going, and the budget teams within the Ministry of Finance and National Planning Commission should use the three years between budgets to properly design and appraise projects best suited to achieve the country's development plans, in hand with the O/M/A's, and perform forensic autopsies on previous budgets, noting successes and failures and the reasoning behind such.

Additionally, it makes sense to change the duration of the National Development Plans from 5 years to 6 years so as to coincide with two full MTEF periods, so as to allow budgeting to align with development plan cycles.

Budgeting should be a full-time activity in the Ministry of Finance, and now that the 2014/15 budget has been tabled, the Ministry should start to work on some of the aforementioned issues for the 2015/16 budget. As such, the mad scramble towards the 2015 budget tabling could be avoided, expenditures could be more comprehensively appraised (for the past and future budgets) and audits could be carried out with regards to the previously mentioned expenditure categories of "Goods and Other Services" and "Acquisition of Capital Assets".

Should the aforementioned advice be followed, a number of the issues pertaining to the actual allocation of funds would naturally fall away, and the Budget would move towards performing the critical development role of which it is undoubtedly capable.

Notes

Notes

About the Author

Rowland Brown was born and raised in Namibia, before studying in Scotland, where he received a Masters degree in Economics at the University of Aberdeen. Upon completion of his studies, he returned to Namibia and subsequently worked in the National Planning Commission and Capricorn Investment Holdings, the Bank of Namibia and IJG Securities as an Economist. He is also the Founding Chairperson of the Economic Association of Namibia, and a regular contributor to local publications and discussions. His interests lie in the areas of Financial and Development Economics and he worked extensively on Namibia's Industrial Policy and the country's Fourth National Development Plan.

About Democracy Report

Democracy Report is a project of the IPPR which analyses and disseminates information relating to the legislative agenda of Namibia's Parliament. The project aims to promote public participation in debates concerning the work of Parliament by publishing regular analyses of legislation and other issues before the National Assembly and the National Council.

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