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## National Budget 2004/05: Election Fever?

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Finance Minister Saara Kuugongelwa-Amadhila's first full national budget was a rather unexciting affair involving little that quickened the pulse of either the economic analyst or the ordinary voter. She wasted a golden opportunity to stamp her authority on the nation's finances and raise her personal profile as a heavy-hitter in Cabinet by failing to table Namibia's first balanced budget since independence. There is little sign that she is using the budget as an electoral weapon although she may be keeping her powder dry until the additional budget later in the year. An alternative explanation is that she is simply performing a holding operation until a new Cabinet is formed once the elections are over.

### **Economic and political cycles may be linked in other parts of the world...**

There is a theory in economics that, in market economies with democratically elected governments, the economic cycle is closely linked to the political cycle, that is to say the holding of elections. This is based on the idea that governments attempt to bribe the electorate in the run up to elections by stimulating the economy: either by lowering interest rates or increasing public spending on politically popular policies or both.

Is there any evidence that such a relationship exists in Namibia? Interest rates in Namibia are tied to South African interest rates so monetary policy is effectively out of the hands of Namibian politicians. There may be a coincidental relationship since South Africa's political cycle coincides with Namibia's – elections in 1994, 1999 and 2004. But what about public spending – something Namibian politicians have a great deal of influence over? Is there evidence to suggest the Government tries to bribe the electorate?

### **...but not in Namibia**

The answer to this appears to be an emphatic "no". On almost any measure one cares to choose, there is little or no evidence that Government systematically uses the budget as an election sweetener. If it did one would expect the budget years 1994/95, 1999/00 and 2004/05 to be significantly different to other budget years. This does not seem to be so in the case of increases in spending, the budget deficit, or unauthorised spending. In fact, election years are more often than not years of low spending increases, low budget deficits and low unauthorised spending by vote. Spending on politically high-profile policies such as the social pension does not appear to be linked to the electoral cycle. This year is the first year an increase in the pension has been announced in the budget of an election year. Even on the tax side there appears to be no attempt to reduce tax rates before elections although 1999 did see corporate tax return to 35% after briefly being pushed up to 40% the previous year. The one clear exception to this overall trend is the "Peace Project" which attempted to employ ex-fighters in the civil service and parastatals during the run-up to the 1999 elections.

### **...but this could be a bad rather than a good sign**

Government's pronounced lack of fiscal populism can be interpreted in two ways. It can be seen as clear evidence of a responsible approach to the nation's finances and doing what is in the country's best long-term interests. Or it can be seen as a manifestation of the budget's lack of importance to the mass of

ordinary people. It simply does not matter to the electorate what the Government does in the budget, the election will be decided on other grounds.

The macroeconomic debate on fiscal policy centres on the merits of rules rather than discretion. By following certain fiscal rules (such as the ones introduced by the previous Minister of Finance) agents in the economy face greater certainty and are, therefore, better able to plan and make economically optimal decisions. If the first interpretation is correct, it demonstrates that government is pursuing more of a rules-based rather than a discretionary fiscal policy and this is to be welcomed.

## A budget for technocrats

Finance Minister Saara Kuugongelwa-Amadhila's first full national budget eschewed almost any hint of economic populism. Instead the Minister preferred to focus on technocratic issues concerning the budget process, debt management and some minor tax changes as well as to hammer home the message that greater fiscal discipline is needed. Worthy sentiments maybe but hardly the sort of thing that quickens the voters' pulse. Aside from the now traditional noises that surround every new allocation to Air Namibia, increases in excise duties and the social pension were the only announcements that stirred the members of parliament listening to her speech in the National Assembly.

**Table 1: Medium Term Expenditure Framework Projections 2001/02-2006/07 in % of GDP**

	<i>01/02</i>	<i>02/03</i>	<i>03/04</i>	<i>04/05</i>	<i>05/06</i>	<i>06/07</i>
MTEF 2001/02						
Revenue	31.3%	31.0%	31.4%			
Expenditure	34.9%	33.9%	34.3%			
Deficit	3.6%	2.9%	2.9%			
MTEF 2002/03						
Revenue		30.1%	28.1%	26.5%		
Expenditure		34.5%	31.1%	29.0%		
Deficit		4.4%	3.0%	2.5%		
MTEF 2003/04						
Revenue			30.4%	28.3%	26.7%	
Expenditure			33.4%	31.6%	29.7%	
Deficit			3.0%	3.3%	3.0%	
MTEF 2004/05						
Revenue				32.3%	28.3%	27.3%
Expenditure				33.8%	29.6%	28.3%
Deficit				1.6%	1.4%	1.0%
Revenue	32.3%	33.5%	31.9%			
Expenditure	36.6%	36.2%	36.1%			
Deficit	4.3%	2.7%	4.2%			

Source: MTEF documents 2001/02-2004/05, Ministry of Finance

Note: Shaded areas denote latest available estimates as opposed to MTEF projections

This is now the fourth successive year that the Minister of Finance has presented a three-year perspective on revenue, spending and the deficit. Table 1 presents a comparison of these four three-year perspectives. It includes actual out-turns for 2001/02 and 2002/03 as well as revised budget estimates for 2003/04. The following points are worth noting:

- Actual revenues look to be higher than revenues forecast in the MTEFs.
- Actual expenditures look to be higher than expenditures forecast in the MTEFs.



- Actual budget deficits look to be higher for two of the three past years. The first MTEF in 2001/02 forecast that the budget deficit would be below 3% by 2003/04 whereas it is now forecast to be above 4%.
- The past three MTEFs (2002/03-2004/05) have all forecast declining revenue, expenditure and deficit but there is no sign that this is taking place. In spite of introducing a spending target of 30% of GDP in November 2001 spending remains stubbornly above 36% of GDP.

The budget deficits for the next three financial years announced by Minister Kuugongelwa-Amadhila are the lowest forecast deficits since the MTEF began. In doing this, the Minister has set herself even more demanding targets than her predecessor. Setting targets is a useful exercise if a serious attempt is made to meet them. If not, all that happens is that credibility is lost. The new Minister wasted a golden opportunity to stamp her authority on the nation's finances by tabling Namibia's first balanced budget since independence. We simply do not believe public spending will fall by more than 4% of GDP between the 2004/05 and 2005/06 financial year, especially if revenues hold up. Table 2 shows how Government measures up to the fiscal targets it set itself during 2001. It shows the latest available estimates for each target at the end of 2003/04. The stock of public debt excludes government loan guarantees which are forecast to reach over 10% of GDP.

**Table 2: Targets as % of GDP**

	<i>Target</i>	<i>Latest estimate (2003/04)</i>
Public expenditure	30%	36.1%
Budget deficit	3%	4.2%
Stock of public debt*	25%	30.3%

\*excludes government loan guarantees estimated at 10.2% of GDP in MTEF 2004/05-2006/07

### Revenue highlights...

As far as the revenue side of the budget is concerned, there is less to comment on than in previous years.

Individual income tax is due to fall from an estimated N\$2,705 million in 2003/04 to N\$2,556 million in 2004/05. Quite why there should be any fall in a year which sees growth forecast at a robust 3.8% and during which no new tax changes will be introduced is unclear. Our observation is that revenue forecasts are generally conservative. For example, the 2003/04 estimate was revised up from N\$2,410 million to N\$2,705 million.

Corporate tax from diamond mining companies (effectively Namdeb) falls from N\$220 million to a mere N\$52 million and dividends from Namdeb from N\$25 million to N\$13 million although diamond royalties rise from N\$450 million to N\$500 million. Namdeb puts this down to a strengthening of the exchange rate combined with the associated propitious timing for making new investments which must be paid for in US dollars. Despite strong growth and rising world prices, other mining tax falls from N\$20 million to N\$15 million and no dividends are expected from Rössing for a second consecutive year.

Receipts from SACU are estimated to total N\$4,207 million compared to N\$3,036 during 2003/04 representing a windfall of N\$1,171 million. The Minister reiterated Government's view that SACU receipts are expected to fall over time due to the new revenue sharing formula and lower import tariffs and this is reflected in the MTEF document which accompanies the budget.

Revenue from Administrative Fees and Charges contains a large revenue item under Vote 08 Defence of N\$46.6 million which is the payment by the UN for the peace-keeping operations in Liberia. The sale of government houses under Vote 23 Works is expected to bring in some N\$72 million.



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Under External Grants a total of N\$80.75 million is expected from the EU and SIDA for the education sector.

### Expenditure highlights by vote...

The following paragraphs highlight what we believe to be the issues of greatest importance in each of the expenditure votes contained in the budget document. In examining expenditure allocations, readers should bear in mind that the Minister expects overall spending to increase by 3.7% and inflation to average 6.5% during this financial year. Any activity allocated more than 3.7% is receiving more than the average. Any activity allocated more than 6.5% is receiving a real as opposed to a nominal increase in resources (in other words, an increase exceeding the rate of inflation). The Minister announced a number of across-the-board measures – reducing expenditure on overtime, goods and services, and furniture, freezing all vacancies except “essential posts” and “reducing waste and increasing productivity” – which affected almost all votes to a similar degree.

#### Vote 01 Office of the President

The largest single item of expenditure under Vote 01 has been the new state house under Main Division 02. Construction of the new State House is given as the first priority for Vote 01 in the MTEF period. Table 3 shows how this expenditure has developed since 2001/02. The budget document does not provide detailed forward estimates of expenditure but the MTEF document suggests spending will continue at high levels until 2006/07. Expenditure on construction will have totalled N\$232,552,000 by the end of 2004/05 and this excludes the N\$18 million cost of feasibility studies incurred in 2001/02 and furnishings. It is not clear from the MTEF document how much of the development budget will be devoted to State House.

**Table 3: Expenditures on new State House (N\$'000)**

N\$'000	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Total
Construction	7,400	80,279	53,649	91,224	N/a	N/a	232,552
Development Budget*		83,946	79,449	120,409	40,000	99,215	423,019

\*MTEF 2004/05-2006/07

Sources: Budget documents 2003/04 and 2004/05, MTEF document 2004/05-2006/07

The allocation to the National Intelligence Security Agency is cut slightly from N\$46.6 million to N\$45.4 million.

#### Vote 02 Office of the Prime Minister

The largest single increase of nearly N\$9 million is due to independence celebrations. For the first time the Anti-Corruption Commission and the Central Governance Agency receive allocations of N\$1.9 million and N\$8.5 million respectively. Nothing is allocated to the National Emergency Disaster Fund. The President's Economic Advisory Council continues to receive funding to the tune of just under N\$1 million despite the fact that it appears to be dormant.

#### Vote 03 National Assembly

Assistance to political parties falls slightly from N\$16.1 million to N\$15.9 million even though this year is an election year. Following the 1999 national elections it was reported that parties would receive N\$27.50 for each vote they had received giving parties guaranteed income and allowing them to plan their activities. This would have yielded allocations in Table 4. As far as is known no political party has presented a full account of what these monies have been used to finance. In the spirit of PEMP they should not therefore be entitled to further allocations.



**Table 4: Party allocations**

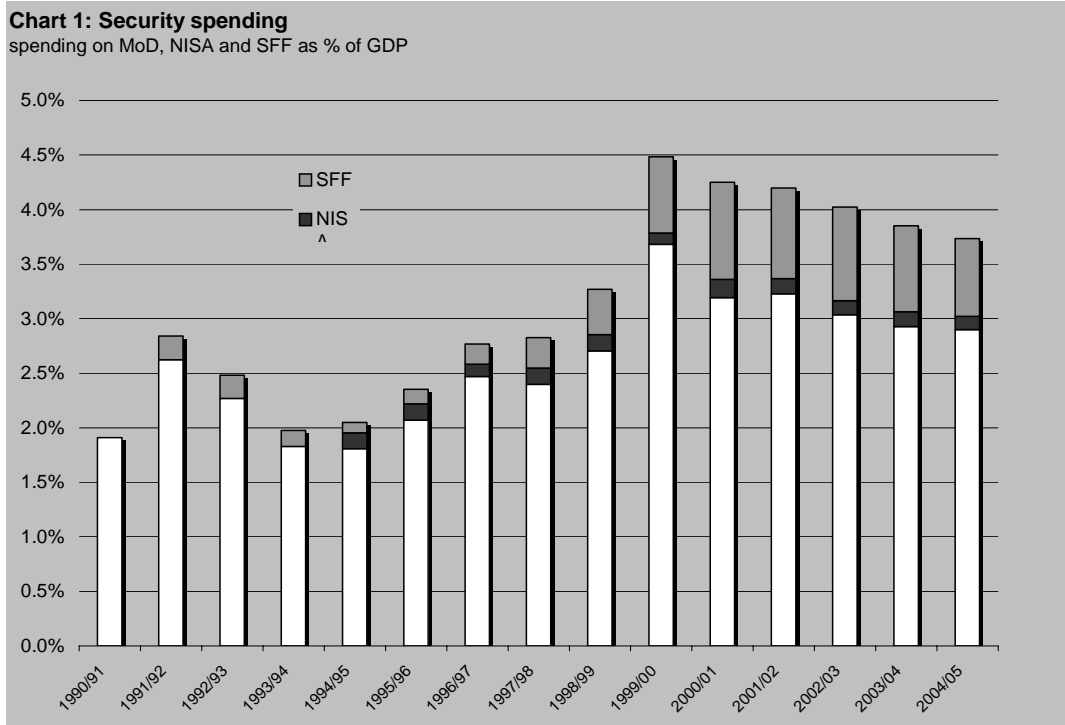
<i>Political Party</i>	<i>Votes</i>	<i>State Support from Budget</i>
SWAPO	408,174	N\$11.2 million
CoD	53,289	N\$1.4 million
DTA	50,824	N\$1.39 million
UDF	15,635	N\$429,962
MAG	3,618	N\$99,459
Total	531,540	N\$14.5 million

Source: *The Namibian* 3 June 2002

**Vote 06 Police**

The police receive an additional N\$51.3 million under Main Division 02 Combatting of Crime for the purchase of new vehicles. We pointed out in our last budget analysis that there was an imbalance between this main division and that of Main Division 07 VIP Security. In this year's budget a total of N\$361.6 million is devoted to Combating of Crime compared to N\$267.4 million for the Special Field Force and N\$34.6 million for VIP Security. The ratio of filled posts for constables is now 2,419 for Main Division 02 (Combating of Crime), 5,776 for Main Division 04 (Special Field Force) and 1,140 for Main Division 07 (VIP Security) respectively. This continues to represent an extraordinarily high ratio of constables protecting VIPs compared to ordinary citizens.

**Vote 08 Defence**



The army (Main Division 04) and the 21<sup>st</sup> Guard Battalion (Main Division 05) appear to come away as the big winners this year with spending rising from N\$700.1 million last year to N\$823.5 million and N\$50.5 million to N\$60.6 million respectively, mostly due to increases in remuneration. This, we understand, is largely due to the commitment to contribute Namibian troops to peace-keeping duties in Liberia. Past official statements indicate that Namibia can expect to be fully reimbursed for these expenditures by the United Nations. With the exception of Finance (Vote 09) which includes statutory expenditures, Defence



received the second largest absolute increase in allocation after Transport and Communication (Vote 24) which includes significant infrastructure spending. At just under 3% of GDP, spending on the Ministry of Defence is lower now than at its height in 1999 when it accounted for some 3.7%. Chart 1 shows spending on non-police security as a whole as a percentage of GDP and includes the National Intelligence Security Agency and the Special Field Force.

### Vote 09 Finance

A much lower N\$16 million under Main Division 07 is allocated for pensions to members of the National Assembly this year compared to N\$43 million last year. The contingency provision of N\$150 million under Main Division 10 is maintained into 2004/05. No further money is allocated to the new Development Bank of Namibia although the Minister stated that assets from the NDC and DFN would be transferred to the new institution later this year. Transfers to Air Namibia have been moved to Main Division 12 (Debt Management) from Main Division 11. A further N\$366 million is transferred as equity participation rather than as subsidies and other current transfers. A large proportion of this will be used to pay holders of bond AN04. Statutory payments made under Main Division 14 increase from N\$877 million to N\$1,176 million which includes N\$49 million to honour loan guarantees.

### Vote 10 Basic Education, Culture and Sport

Spending on primary education falls from N\$1,330 million to N\$1,234 million whilst spending on secondary education rises from N\$477.5 million to N\$536.9 million thanks mainly to a N\$50 million injection of donor funds for classrooms.

### Vote 12 Women's Affairs and Child Welfare

The total allocation to maintenance grants and foster parent allowances under Main Division 06 falls from N\$57.0 million to N\$53.3 million.

### Vote 13 Health and Social Services

The allocation to primary health care under Main Division 05 falls from N\$28.8 million to N\$19.2 million. Spending on the social pension rises from N\$380 million to N\$462 million as a result of an increase in the social pension from N\$250 to N\$300 a month. According to our calculations this allows the real value of the pension to catch up with the N\$92 black Namibians received in 1990 as shown in Table 5.

**Table 5: Monthly pension value under different scenarios**

	<b>1990/91</b>	<b>2003/04</b>	<b>% Increase</b>
Windhoek interim CPI	100	337	337%
Pension	N\$92	N\$310	
GDP	N\$6,545 million	N\$33,941 million	543%
Pension	N\$92	N\$499	
GDP per capita	N\$4,538	N\$19,362	395%
Pension	N\$92	N\$363	

Sources: Author's calculations

The table shows what would have happened to the value of the N\$92 pension under different assumptions. This starting value has been chosen because it is the one that applied to the majority of pensioners in 1990. If the N\$92 pension had risen with the Windhoek Interim CPI it would now be worth approximately N\$310. If it had risen in line with the size of the economy measured by nominal GDP it would now be worth approximately N\$499. If it had risen in line with average incomes as measured by GDP per capita it would now be worth approximately N\$363. In terms of what it can buy, the present N\$250 pension now buys 86% of what it could buy in 1990. Pensioners are 14% worse off than they were in 1990. Government is to be





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congratulated for vastly improving the coverage of the pension. However, we believe it would be far better to implement smaller more regular increases than to let the pension lose value for several years before a larger increase is awarded.

A new Main Division 13 Special Disease Programmes is created to tackle HIV/AIDS, tuberculosis and malaria. This will facilitate the channelling of Global Fund money over the coming years, which the Minister announced would total some N\$200 million over the MTEF period.

#### **Vote 14 Labour**

The allocation to the Employment Equity Commission falls to a mere N\$602,000 from N\$2 million last year.

#### **Vote 18 Environment and Tourism**

The Namibia Tourism Board (NTB) is allocated N\$17.9 million under Main Division 05. The NTB is supposed to be largely self-funding once the tourism levy comes into operation but its introduction has been delayed until June this year as reported in our IPPR Economic Outlook 2004.

#### **Vote 19 Trade and Industry**

Industrial incentives are cut from N\$3 million to N\$2.5 million while training reimbursements for Export Processing Zones (EPZs) are cut from N\$4 million to N\$2.5 million.

#### **Vote 20 Agriculture, Water and Rural Development**

The amount allocated to Affirmative Action Loan Scheme interest rate subsidies is doubled from N\$13.2 million to N\$26.2 million. The number of AA loans has been rising fast, especially because of loans to part-time farmers. However, the interest rate subsidy, which Government is supposed to transfer to Agribank, has failed to keep pace leading to a temporary halt on new loans towards the end of last year. The Namibian ostrich industry again receives N\$6.3 million.

#### **Vote 25 Lands Resettlement and Rehabilitation**

This year N\$50 million is allocated for land purchases under the National Resettlement Policy. Budgeted amounts will be paid into the Land Acquisition and Development Fund where they will remain if unspent at the end of the financial year. The Minister promised that the land tax would start to be collected in the second half of this year which should add to the resources available for purchasing land for redistribution.

#### **Vote 27 Higher Education, Science and Technology**

This vote is still struggling to settle on a name for itself: is it Higher Education, Science and Technology or Higher Education, Training and Employment Creation? For the first time in many years, allocations to UNAM and the Polytechnic remain almost the same as 2003/04 at N\$184.9 million and N\$79.3 million respectively. For the third year running, Ramatex receives N\$500,000 from Main Division 04 Vocational Training.

#### **Vote 30 Information and Broadcasting**

The allocation to NBC falls from N\$103.9 million in 2003/04 to N\$81.7 million but the allocation to NAMPA rises to N\$8.1 million. New Era receives the same N\$5.8 million as before. We have given up commenting on the forthcoming commercialisation of these two entities which has been in the offing since 1992. The only impact we can see is that sales of New Era are no longer recorded as a separate revenue item in the budget document. Transfers to the Film and Video Development Fund fall from N\$15.1 million to N\$10.3 million.

## Plus ça change?

The IPPR is curious about the extent to which budget priorities have changed over the years if at all. Table 6 shows how budget allocations have changed over the ten financial years since 1995/96. It presents budget allocations by vote for the three years 1995/96, 1999/00 and 2004/05 as well as the MTEF estimates presented in this latest budget for the financial year 2006/07. Statutory expenditures have been excluded. The comparison is hampered by the fact that votes have changed since 1995/96. The table has taken this into account by reallocating expenditures on main divisions to the votes they have subsequently become (Women's Affairs, Elections, National Council, Prison Service and Attorney General) while votes which have subsequently become main divisions have been included in the vote under which they are now accommodated (Youth and Sport, and Water Affairs – excluding bulk water supply which is now part of Namwater). Only budgeted expenditures have been included in the table. These can differ considerably from additional budget allocations or actual expenditures.

**Table 6: Percentage allocations by vote**

<b>Vote (abbreviated name)</b>	<b>1995/96</b>	<b>1999/00</b>	<b>2004/05</b>	<b>2006/07</b>
01 President	0.7%	0.7%	1.7%	1.6%
02 Prime Minister	4.6%	0.7%	0.7%	0.7%
03 National Assembly	0.2%	0.4%	0.5%	0.5%
04 Auditor General	0.1%	0.1%	0.1%	0.2%
05 Civic Affairs	0.5%	0.6%	0.7%	0.7%
06 Police	4.5%	6.8%	6.5%	5.9%
07 Foreign Affairs	2.2%	2.1%	1.9%	2.1%
08 Defence	5.7%	7.7%	9.4%	11.4%
09 Finance	4.2%	8.2%	10.4%	8.7%
10 Basic Education	23.7%	22.7%	20.8%	20.4%
11 National Council	0.2%	0.3%	0.2%	0.2%
12 Women's Affairs	0.1%	0.1%	0.9%	1.0%
13 Health	16.1%	15.1%	14.8%	16.6%
14 Labour	0.8%	0.5%	0.4%	0.5%
15 Mines	1.0%	1.0%	0.9%	0.8%
16 Justice	1.3%	1.0%	1.0%	1.0%
17 Regional Government	4.0%	3.6%	3.5%	4.0%
18 Environment	1.9%	1.6%	1.2%	1.4%
19 Trade and Industry	0.6%	0.9%	1.1%	0.9%
20 Agriculture	5.9%	6.0%	4.8%	4.9%
21 Prisons	0.8%	1.2%	1.3%	1.4%
22 Fisheries	0.9%	1.1%	1.0%	1.1%
23 Works	6.3%	3.8%	2.5%	2.7%
24 Transport	6.8%	6.4%	4.8%	2.5%
25 Lands	1.5%	0.9%	1.4%	1.1%
26 National Planning	0.3%	0.4%	0.5%	0.5%
27 Higher Education	3.2%	4.0%	4.9%	5.4%
28 Electoral Commission	0.0%	0.2%	0.5%	0.1%
29 Attorney General	0.3%	0.4%	0.5%	0.5%
30 Information	1.7%	1.6%	1.3%	1.3%
Total	100.0%	100.0%	100.0%	100.0%

Source: Budget documents 1995/96, 1999/00, 2004/05

There are some striking changes in proportions allocated to certain votes. The Office of the President has doubled its share of the budget. This is due to significant expenditures since 2002/03 on the new State





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House. This higher level of spending looks set to continue until at least 2006/07 according to the MTEF document. The share allocated to the Office of the Prime Minister fell after 1995/96 but this is due to the way salary increases for civil servants have since been allocated. The shares allocated to the National Assembly and the Auditor General have doubled. The shares allocated to Civic Affairs and Police have increased, the latter due mostly to greater spending on the Special Field Force. Defence has received a steadily larger share of the budget and looks set to receive more still into 2006/07. The share allocated to the Ministry of Finance has more than doubled while the share allocated to the Ministry of Basic Education has fallen considerably. The allocation to the National Council remains almost constant. The allocation to Women's Affairs increases nine-fold albeit from a very small base reflecting its transition from a Directorate to a fully-fledged Ministry. Health and Social Services, Labour, Mines and Energy, Justice, Regional and Local Government, Environment and Tourism, Agriculture, Lands, and Information and Broadcasting have received steadily smaller proportions since 1995/96. Works and Transport receive far less, partly as a result of the commercialisation process. Prisons, Higher Education, the Electoral Commission and the Attorney General receive more reflecting their new status as separate votes.

To summarise, Government priorities do not appear to have changed radically since 1995/96 if expenditure is viewed by vote. This may indicate that priorities have not changed and that the basic allocations in 1995/96 are still optimal. However, it may also indicate the continued existence of incremental budgeting whereby each vote receives a similar increase year on year. Whilst this has political advantages in that no particular ministers are favoured above others, it has economic disadvantages since resources are not allocated to programmes where returns are highest or withdrawn where returns are lowest.

The votes receiving a substantially greater proportion of the budget since 1995/96 have been the security votes (Office of the President, Police and Defence) and the Ministries of Finance and Higher Education. Those that have lost the largest share include Basic Education, Health and Social Services, and Agriculture. Some smaller votes have actually seen their budgets rise by very large amounts although they do not make a significant difference to the overall allocation of the budget. These tend to be new votes that were previously part of an existing much larger vote.

### **It's quality not quantity that counts**

In our budget opinion piece for 2003/04 we talked about Mr Mbumba's low maintenance garden and how the then Finance Minister appeared to want to squeeze more development from a smaller budget. The new Minister made no mention of gardens in her speech but appears determined to follow in his footsteps. She is setting an extremely ambitious framework for limiting the size of government in the economy. We are reluctant to believe public spending will fall by over 4% of GDP in a single year between 2004/05 and 2005/06 as this year's MTEF suggests. The real squeeze suggested in the MTEF is always comfortably a year or two away. We suspect it will not take place until revenues really start to fall. Revenue estimates for this year are again on the conservative side which will allow a further splurge of spending in the additional budget later in the year. We continue to believe that the key to improving the impact of the budget on the economy and generating greater growth is to focus on the quality of public spending. Without ongoing analysis and a reallocation of resources from initiatives that clearly do not work to those that clearly do, across-the-board measures which inflict small amounts of pain on everyone will not deliver a budget which achieves higher rates of growth over the long-term.