The Question is: Does this lead to development?

Budget Implications

Macroeconomic impact
- Large injection into economy
- Mainly wages and construction activities
- Positive for construction sector
- Positive for wholesale and retail trade
- Positive for short term growth
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- Ecologies to bear in mind
- BOP concerns
- Debt sustainability
- PRO-CYCLICAL

Priorities and opportunity cost

Underlying issues
- Political priorities
- Checks and balances
- General budgeting process
- "MTEP"
- Incremental budgeting
- Project appraisal
- Audited requests vs. requirements
- Timing
- Execution goals
- Aligning with NDPs
- Prioritisation
- M&E

Thank you
IPPR Budget Review -2014-

Rowland Brown

EAN Chairperson
IPPR Associate Researcher

Institute for Public Policy Research
Budgeting is a balancing act
Revenue

- Revenue is projected to grow by 31% between 2013/14 and 2014/15, to N$52.5bn.
- Driven by tax and non-tax revenue growth.
- However, tax revenue represents 94% of total revenue.
- Tax revenue growth stemming from increased personal income tax.
- Growth of 72%, from N$7.9bn to N$13.6bn, between 2013/14 and 2014/15
Tax Revenue Breakdown 2014/15

- SACU payments, 17,305
- SACU adjustments, 812
- Non-mining Companies, 5,284
- Income tax on individuals, 13,570
- VAT, 8,599
- Others taxes, 2,111
- Diamond mining companies, 1,533
Non-tax revenue

- Non-tax revenue made up of royalties from mining companies (+-N$1.6bn), dividends and profit share from SOE's (+-N$800m) and other government fines, fees and forfeitures (+-N$1bn)
- Of the 90 odd SOE's, 8 make dividend and profit share payments to Government (40 receive funds from Government)
Dividends & profit share 2014/15

Namdeb, 565

Namibia Diamond Trading Company, 98

Bank of Namibia, 90

Others, 37
Tax Developments

- An environmental tax to be implemented on the purchase of new vehicles, incandescent light bulbs and motor vehicle tires.
- Non-mining corporate income tax rate will be reduced by and additional 1 percent, following the 1 percent reduction seen in 2013/14.
- Taxes to promote domestic value-addition in the primary commodity and natural resources sectors are to be introduced.
- VAT threshold to be raised from N$200,000 to N$500,000.
Expenditure:

- To increase by 21% between 2013/14 and 2014/15
- 28% increase in operational expenditure
- 18% increase in development expenditure
- Majority of operational increase due to increase wages, particularly in Education and Defence
- Large increases also seen in transfers to SOE's and vehicle purchases
S&T and Vehicle Purchases

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Travel and Subsistence Allowance</th>
<th>Actual Purchase of Vehicles</th>
<th>Estimate Travel and Subsistence Allowance</th>
<th>Estimate Purchase of Vehicles</th>
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<tr>
<td>2011/12</td>
<td>400</td>
<td>300</td>
<td>500</td>
<td></td>
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<td>2012/13</td>
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<td>600</td>
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<td>400</td>
<td>700</td>
<td></td>
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<tr>
<td>2014/15</td>
<td>800</td>
<td>1000</td>
<td>900</td>
<td></td>
</tr>
<tr>
<td>2015/16</td>
<td>900</td>
<td>800</td>
<td>1000</td>
<td></td>
</tr>
<tr>
<td>2016/17</td>
<td>1000</td>
<td>900</td>
<td>1100</td>
<td></td>
</tr>
</tbody>
</table>
Vote 1: President
  • Construction of Residence: N$35.7m
  • State Security Infrastructure: T.C. N$1.3bn; 2014/15: N$180m

Vote 2: Prime Minister
  • Construction of the Second Office of the Prime Minister: N$106m
  • Renovation of Old State House Residence: N$16m

Vote 3: National Assembly
  • Construction of a New Parliament Building: T.C.: N$638m; 2014/15: N$25m

Vote 5: Home Affairs and Immigration
  • N$63m for construction of regional offices and border posts

Vote 6: Police
  • N$277m for the purchase of vehicles (up from N$47m in the previous financial year
  • N$568m for the construction and upgrading of regional offices

Vote 8: Defence
  • Second largest vote by total budget allocation
  • Over the MTEF the vote will receive N$21.4bn
  • N$6.6bn for the 2014/15 financial year
  • N$610m is designated for development activities
  • Shrouded in secrecy
  • More than 50 percent of the development allocation is targeted at the “Research and Development” project: 2014/15: N$377m; T.C.: N$6.7bn.

Vote 9: Finance
  • Transfers to State Owned Enterprises: N$2.5bn
  • Foreign and domestic interest rate payments: N$2.5bn

Vote 10: Education:
  • Largest share of the budget: N$42.1bn over MTEF; N$13.1bn in 2014/15
  • N$7.7bn (up N$1.2bn from the previous financial year as a result of salary regrading) covers personnel costs
• 46% of expenditure goes to primary education; 25% to secondary; and 18% to tertiary
• N$770m for school construction, upgrading and renovation.

**Vote 13: Health and Social Services**
• Third largest allocation
• N$6.1bn in the 2014/15 financial year

**Vote 14: Labour and Welfare**
• N$1.4bn for social pensions

**Vote 15: Mines and Energy**
• N$4.3bn over the MTEF for Kudu Gas-to-Power project
• N$145m for rural electrification

**Vote 17: Regional and Local Government, Housing and Rural Development**
• N$2.6bn in the 2014/15 financial year
• The bulk of this allocation is transferred to SOEs for the mass housing scheme
• N$964m to a large number of small projects for the construction of in various villages, towns and cities

**Vote 20: Agriculture, Water and Forestry**
• Construction of Large Dams, Desalination and Provision of Water to larger Settlements: N$581m
• Green Scheme: N$217m
• Rural Water Supply Coverage (Rural Secondary Pipeline Construction): N$143m

**Vote 24: Transport**
• Transfers to SOEs: N$1.3bn
• Expenditure on vehicles: N$345m

**Vote 25: Lands and Resettlement**
• Land Purchase Programme: N$370m in 2014/15; N$1.6bn over the MTEF

**Vote 31: Veterans Affairs**
• Veteran Subvention Fund: N$1.5bn in 2014/15; N$2.8bn over the MTEF.
Budget Balance:

- Projected deficit for 2014/15 of 5.4% of GDP
- Growth in revenue and expenditure
- Debt financing for 2014/15 is expected to be fairly moderate: N$7.7bn
- Funded through: N$2bn of cash reserves, N$4.9bn of local debt, N$1.5bn of foreign debt
- Contingent liabilities totaling N$5.9bn (4.5% of GDP)
  o Euro 6.07 million guarantee to Namport
  o N$2.89 billion guarantee for the expansion of the Port of Walvis Bay
  o Two guarantees for aircraft leases for Air Namibia.
The Question is: Does this lead to development?
Budget Implications

Macroeconomic impact

- Large injection into economy
- Mainly wages and construction activities
- Positive for construction sector
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- BOP concerns
- Debt sustainability
- PRO-CYCLICAL

Underlying issues

- Political priorities
  - Checks and balances
- General budgeting process
  - "MTEF"
  - Incremental budgeting
  - Project appraisal
  - Audited requests v. requirements
  - Timing
  - Execution goals
- Aligning with NDP's
  - Prioritization
  - M&E

Priorities and opportunity cost

Housing for the masses vs the political elite

<table>
<thead>
<tr>
<th></th>
<th>2014/15</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presidnet Resid</td>
<td>$220</td>
<td>$220</td>
</tr>
<tr>
<td>Regional Resid</td>
<td>$160</td>
<td>$1,360</td>
</tr>
<tr>
<td>PM Office</td>
<td>$108</td>
<td>$911</td>
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<tr>
<td>New Parliament</td>
<td>$25</td>
<td>$1,383</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$314</td>
<td>$2,505</td>
</tr>
</tbody>
</table>

Health vs Defence

- N$6.1bn
- N$6.6bn

School construction vs vehicle purchases

- N$771m
- N$984m

Veterans vs. pensioners

- N$1.5bn
- N$1.4bn

Personnel expenditure vs. Other
Macroeconomic impact

- Large injection into economy
- Mainly wages and construction activities
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Priorities and opportunity cost

**Housing for the masses vs the political elite**

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</thead>
<tbody>
<tr>
<td>Presidents Residence</td>
<td>$33</td>
<td>$36</td>
</tr>
<tr>
<td>Regional Residences</td>
<td>$180</td>
<td>$1,300</td>
</tr>
<tr>
<td>PM Office</td>
<td>$106</td>
<td>$611</td>
</tr>
<tr>
<td>New Parliament</td>
<td>$25</td>
<td>$638</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$344</td>
<td><strong>$2,585</strong></td>
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</table>

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<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>NHE</td>
<td>$220</td>
<td>$440</td>
</tr>
<tr>
<td>Build Together</td>
<td>$264</td>
<td>$1,274</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$484</td>
<td><strong>$1,714</strong></td>
</tr>
</tbody>
</table>

**Health vs Defence**

- N$6.1bn
- N$6.6bn
Military Spending (% of GDP)

- No data
- Less than 1%
- 1 to 2%
- 2 to 3%
- 3 to 4%
- 4 to 5%
- over 5%

World Bank + MOF Documents
School construction vs vehicle purchases

N$771m

Veterans vs. pensioners

N$1.5bn

N$984m

Personnel expenditure vs. Other
Personnel Funded by O/M/A

Education: 39,507
Defence: 23,525
Police: 18,475
Health: 10,835
Agriculture: 3,907

Fisheries: 614  Home Affairs: 736  Transport: 881  Youth: 949
Justice: 1,082  Environment: 1,228  Correctional Services: 2,039
Works: 2,087  Finance: 2,287

Gender: 588  Lands: 514  Prime Minister: 473  Labour: 472
RLGHRD: 396  Foreign Affairs: 360  Mines: 350  President: 311
Underlying issues

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Recommendations

Complete overhaul of the budget and budget process

- Introduce genuine 3-year MTEF budgets
- Ground up budgeting every 3 or 6 years
- Minimise additional budgets (5%)
- Introduce regular audits of vehicle, furniture and other assets
- Ensure proper analysis and appraisal of projects and programmes
- Ensure project & programme alignment to NDP priorities
- Align budget cycles with development plan cycles
- Align budget expenditure with NDP priorities
- Review the roll of MOF in budgeting
- Focus on returns on expenditure
- Develop watertight indicators
- Introduce M&E on results (not just expenditure)
Final Thoughts

The budget needs to become the powerful development tool that it can, and should be, not for us, the economic and political commentators, but for the man on the street, in the village and on the farm. We need to ask whether the priorities appearing in the budget are in line with the development plans of the country, the priorities and wishes of the masses, and whether the allocations are acceptable to the moral conscious of the country. And if not, we need to affect suitable change.

"Dissent is the highest form of patriotism"
Thomas Jefferson, Founding Father and 3rd President of the USA

“May we never confuse honest dissent with disloyal subversion.”
Dwight Eisenhower, 34th President of the United States
Thank you
The Question is: Does this lead to development?

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Priorities and opportunity cost
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- Health vs. Defence
- NS6.1bn vs. NS6.6bn
- School construction vs. vehicle purchases
- NS771m vs. NS984m
- Veterans vs. pensioners
- NS1.5bn vs. NS1.4bn

Underlying issues
- Political priorities
- Checks and balances
- General budgeting process
  - "MTFP"
  - Incremental budgeting
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  - Audited requests vs. requirements
  - Transparency
  - Execution goals
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- M&E

Final Thoughts
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"Evolve is the highest form of patriotism."
Thomas Jefferson, Founding Father and 4th President of the USA
"Play are more conducive to development with all the adults in the community."
Douglass Bowers, 55th President of the United States

Recommendations
- Complete overhaul of the budget and budget process
- Introduce genuine 3-year MTEF budgets
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