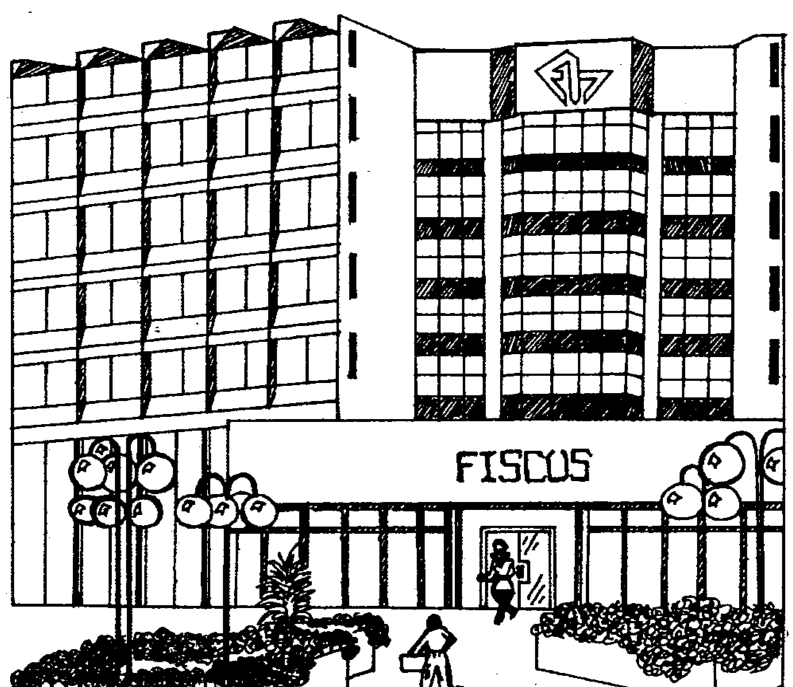
UNDERSTANDING THE NATIONAL BUDGET



This publications was made possible through a grant from the United States Agency for International Development (USAID)

UNDERSTANDING THE NATIONAL BUDGET

Windhoek, Namibia
Updated August, 1999

Namibia Chamber of Commerce and Industry

The Namibia Chamber of Commerce and Industry is a nation-wide business organisation, promoting prosperity for all Namibians by ensuring balanced private sector growth, enterprise development and global competitiveness.

National Democratic Institute for International Affairs

The National Democratic Institute for International Affairs (NDI) is a non-profit organisation working to strengthen and expand democracy worldwide. Calling on a global network of volunteer experts, NDI provides practical assistance to civic and political leaders advancing democratic values, practices and institutions. NDI works with democrats in every region of the world to build political and civic organisations, safeguard elections, and promote citizen participation, openness and accountability in government.

NDI has worked in Namibia since 1989 and conducted a variety of programmes to support the consolidation of its parliamentary democracy. NDI has been involved in voter education, electoral administration, parliamentary development, political party training, and NGO capacity building. Under a grant from the United States Agency for International Development (USAID), NDI is currently working in partnership with the elected and staff leadership of the National Assembly and National Council to strengthen the operations of Parliament.

This publication was made possible through a grant from the United States Agency for International Development (USAID)

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Forword

Hon. Minister Nangolo Mbumba, Minister of Finance

One of the highlights in the cal endar year of the Ministry of Finance is when the Minister of Finance is required by law to present the National Budget in the National Assembly. The National Budget enables citizens to make an analysis of the performance of the economy and among other things of how the Government spends the citizen's taxes.

Until the publication of this handbook, discussions concerning the National Budget always centred around economists and financial experts. The majority of the population was under the impression that the National Budget was an untouchable document that could not be understood or challenged. However, this should not have been the case. The National Budget should be seen as a barometer of the performance of the country's economy, thus, all citizens irrespective of their race, colour or creed should take ownership of this important piece of legislation. Why? Because the National Budget affects the daily lives of all the citizens either directly or indirectly. In other words the annual National Budget deals with the bread and butter issues of Namibia. The National Democratic Institute for International Affairs (NDI) in collaboration with the Namibia National Chamber of Commerce and Industry (NCCI) made a very comprehensive study and developed an excellent handbook that explains the budgetary process. Many people were consulted during this long process which took the initiators of this project to all corners of Namibia to find out exactly what the people wanted to know about the National Budget. The annual National Budget does not belong to some of the people, but to all the citizens of Namibia. It is our hope that this handbook will be published in most of Namibia's languages, I would like to urge all citizens to study and acquaint themselves with its contents.

NDI and NCCI are therefore to be highly commended for a job well done. The publication of this handbook was long overdue and I would like to see this handbook in the hands of every citizen.

ACKNOWLEDGEMENT

Mrs. Joan Guriras, President, NCCI

The Government of the Republic of Namibia has recognised the need to involve the business community in the National Budget process, through the Namibia Chamber of Commerce and Industry (NCCI) as the voice of organised business in the country. The NCCI has undertaken to raise awareness and understanding among its constituency, as a prerequisite for quality, credible and informed private sector intervention in this important process.

This booklet represents one part of the Budget Awareness Project — a joint undertaking of NCCI and the National Democratic Institute for International Affairs (NDI) through a grant from the United States Agency for International Development (USAID). On behalf of NCCI and all its affiliates I wish to express my gratitude to these two institutions for their partnership in the process.

I want to express my sincere appreciation for the most inspiration role, guidance and support extended by the Hon. Minister Nangolo Mbumba, Minister of Finance, and his staff towards this worthy course of public awareness raising. The willingness of the Hon. Minister to file the foreword to this publication is indeed clear testimony of the endorsement of the Namibian Government to this initiative.

The contribution of Dr. Johan Jones, who spearheaded not only the public discussion forums on the budget, but also the compilation of this publication, is also acknowledged as a formidable foundation for future public education and advocacy on the budget. Also, acknowledged are Richard Klein and Rosemary /Uises of NDI for the design of this publication, despite numerous alternations to both the text and illustrations during the process.

The exceptional contribution of David Kandjii, Office of the Auditor General; Jeanethe Albertyn, Namibia Agricultural Union; Olayinka Ayoade, Namibia Development Corporation; Desmond Basson and Lazarus Jacobs, Ministry of Finance; Ephriam Jane, National Council; and Martin Mwinga and Issy Tjihoreko, Bank of Namibia, are also noted. In addition, Asser Karita and Phyllis Kaguongo must be thanked for providing the illustrations for this booklet. All of you rose above the call of duty, without your critical and constructive editorial interventions this publication would not be a national pride, as it is.

Also, my word of gratitude goes to Adv. Achieng Akumu, NDI, and Phanuel Kaapama, NCCI, who had the responsibility of co-ordinating the overall implementation of this mammoth project.

INTRODUCTION

Dr. Johan Jones, NCCI & NDI Project Consultant

Everyone in Namibia has heard or read about the country's national budget. Some may have been watching TV and saw the Minister of Finance deliver his budget speech. Nobody in Namibia has actually seen a document called the "National Budget" because there is no such document. What is usually referred to as the national budget is a document called *Estimates of Revenue and Expenditure for the Financial year ending 31 March 19_*. Most people who have had a look at this document have probably decided that this had better be left to the experts, and promptly filed it where they would never find it again.

Republic of Namibia

ESTIMATE
of
REVENUE and EXPENDITURE
for the
FINANCIAL YEAR
ending
31 MARCH 1997

STATE REVENUE FUND
Presented to the Parliament

This is a pity because the *annual budget document*, as we shall refer to it even though that is not its proper name, contains a wealth of information affecting every person in the country from the President to the person who lives in a remote rural area. What is more, anybody who spends a little time and patience studying the budget document, soon discovers that its basic principles are quite simple and are in fact practised, implicitly or explicitly, by every individual, family and business enterprise.

For these reasons and because of the importance of this document, whether one looks at it from a national, a sectorial or a personal perspective, the Namibian Chamber of Commerce and Industry (NCCI), in collaboration with the National Democratic Institute for International Affairs (NDI), has decided to issue this booklet to briefly sketch the process and main features of the country's national budget. It is an attempt to make the country's budget less intimidating and more accessible to the ordinary person with an interest in the affairs of the day. It is sincerely hoped that it will serve that purpose.

WHAT IS A BUDGET?

A budget, whether for an individual, a family, a company, a non-governmental organisation, or a government, is a financial plan of action for some future period, usually a year (a calendar year or a financial or "fiscal" year — in Namibia the financial year runs from 01 April to 30 March). On the one side it shows the expected income (or "revenue" as it is frequently called in the case of the government) and on the other side the planned expenditure. If these two figures are not in balance, some indication must also be given as to how the surplus is to be utilised or how the debt is to be funded.

Functions of a Budget

There are two main reasons why a government budget as compared, for instance, to that of a household, contains so much detail (mostly in the form of figures) and consequently is so intimidating at first sight. The first and most obvious one is that governments as a rule are very large institutions and are involved in very many transactions for which funds have to be provided. Hence the large number of amounts — sometimes quite small amounts — appearing in the budget.

The second and, in some ways, more important, reason is that in countries with democratic political systems most of the funds spent by the government have been obtained from the taxpayers, and by and large the taxpayers are also the voters who have put the government in power. The government is therefore responsible and accountable to them, and its bookkeeping must be open, transparent and comprehensive so that the taxpayer/voter can satisfy himself that his money is being spent wisely. Which brings us back to our starting point that unfortunately, because of the thoroughness of the budget, the taxpayer / voter frequently finds it murky rather than transparent and it is therefore difficult for him/ her to check on how his tax money is being spent.

> The term 'government' is a general term to describe both the body that has authority in a given unit — whether national, region or local — and the whole constitutional system.
>
> David Robertson, *The Penguin Dictionary of Politics*, Penguin Books, London, 1993

Returning for a moment to an aspect touched on above, namely the functions of the government budget, these can be listed as follows:

1 **The budget is the government's financial plan of action for the year.** It is therefore a reflection of the government's priorities as regards expenditure (public programmes) and ways of financing these expenditures (mainly through tax measures and public borrowing). **It is public policy expressed in amounts of money.** As such it also provides an opportunity for the general public, directly or through parliament, to voice its agreement or disagreement with the government's priorities and is therefore an essential part of the democratic system of government.

2 **The budget can also be used by government to affect and direct the country's economy** in general through its influence on such things as economic growth, employment, distribution of income, inflation, etc.

3 **The budget provides a system of accountability and control over the actions of the government**, as well as those of government officials and agencies, setting limits on their activities and on the possibilities of corruption.

We shall return to all these aspects in later sections of this booklet.

The Budget and How it Relates to You

We start off this "user's manual" or guide book to the national budget by saying that the budget is a very important document to every person in the country, both in a private and a professional capacity, because all people are affected by it whether they know it or not. This means that within a democratic system it is not only the government that is responsible for proper budgeting. Namibian citizens also have a responsibility. Some politicians and public officials may pursue their own self-interest or go through the motions of budgeting without much attention to the real needs of the public. Voters must ensure that *their values and priorities* are reflected in the budget. In order to achieve this, four factors are of critical importance:

1 The process of budget allocation and use must be transparent, i.e. that the general public is fully informed at every stage of the process. In this regard the present situation in Namibia is not yet ideal but there is a movement towards greater openness and awareness, both from the side of Government and from the side of the general public, the media and interest groups, such as umbrella bodies in the business world. This is commendable and should be given greater momentum.

2 Interested groups and persons should on an ongoing basis keep themselves informed of where the country finds itself in the budget cycle at any particular time. Again, this applies to individuals, the media, trade unions and the business community alike because if they want to play a meaningful role in this regard correct timing is of the utmost importance.

3 Wherever possible ways must be found to strengthen the voice of individuals by organising them into interest groups and seeking the necessary publicity. No matter how interested the Government might be in hearing the public's views, it cannot listen to every separate person's complaints and opinions. Interest groups of all kinds (trade unions, business groups, civic organisations, student groups, women's societies, etc.) should make sure that they are at all times well aware of the latest developments as regards their country's finances in order to let their voices be heard when it affects them directly or indirectly.

4 Interest groups who wish to contribute to the public debate on the budget, should do their homework properly by concentrating on those aspects about which they are

most knowledgeable, making a thorough study of these before formulating any proposals, and making sure that they have at least the majority of their members behind them before going public or approaching the Government. Failing this their views will simply not carry any weight and will be dismissed outright, which in turn will mean that their members will quickly lose interest in any future efforts of this kind.

In a democracy the government's priorities should reflect the needs and wishes of the people. To ensure that this happens the people should take an active interest in the budget and use, or create the necessary channels to make the government aware of their priorities and concerns. But a final word of caution is needed. No matter how desirable and even essential it might be for the public's voice to be heard on all matters and for a continuous process of dialogue to take place between the government and all those who are financially affected by its actions, *in the final analysis it is the government's job to govern.* It cannot wait forever for everybody to come forward with his/her views, nor can it shift its decision-making responsibility on to someone else. It must of necessity work within a certain timeframe, that is at certain points in time it must make certain decisions and then stand by them and face the consequences. Thus, consultation can also go too far, but taking a bird's eye view of the whole budget process in Namibia there does not at present seem to be an imminent danger of overstepping that line.

The Budget as a Source of Information

The best way to consult the national budget will normally not be to try to read it straight through from beginning to end as though it were a novel. Apart from the fact that most people do not have the time to do this, there is simply too much information in the budget document to absorb it in this way. The result would probably be that at the end, after struggling through this voluminous document with all its figures, such a person would not even have a vague understanding of what has been read. Most people who consult the national budget do this either because they need specific information which would be of interest to them as individuals or to their businesses, or because they want to gain an overall impression of the effects of the budget on the national economy, or vice versa. This latter group would include students, journalists, politicians, civil servants and citizens, etc.

If your aim in consulting the budget is to look for specific information, either because the budget might affect you directly or because you are a member of a body, e.g. the National Assembly or the National Council, where some aspect of the budget is being discussed, you must of course, first and foremost, know exactly what you are looking for. For all such persons and organisations it is usually the classification by votes which is of prime importance and that is where we will first of all focus our attention. Let us suppose you are a farmer in need of drought relief assistance and you would like to know to what extent and in which ministries provision has been made in the budget for such assistance. When you first open up the Budget Estimates you will come to the index or the table of contents. Skip the summaries and the functional classifications for the time being and go straight to the next section of the index, the classification by votes. A quick glance through this list brings you to **Vote 20: Agriculture and Rural Development**, which seems like an obvious candidate for your purpose and that is where you should now turn.

The first page begins by telling you that the responsible Ministry for this vote is the Ministry of Agriculture, Water, and Rural Development (which is important in case you should want to contact them later on) and that the accounting officer is the Permanent Secretary for the Ministry, who is the official to whom all formal inquiries should be directed.

The first eight Main Divisions, are not likely to contain any information on the appropriation of drought assistance. **The ninth Main Division, Emergency Relief**, looks more promising and a glance at the Introduction, which sets out the Objective and the Main Operations of the functions covered in this section, will confirm this.

The next section, Staffing, will probably not interest you, but Section C Expenditure will. Go through the various headings in this section and if you have doubts about what is included under a specific heading, **it may help to turn back to the beginning of the Estimates section.** Immediately after the Index there is a section called Introduction. This contains explanations of a large number of "terms and definitions" in the document which may clarify the meaning of a specific item that you come across.

Returning now to Section C of ninth Main Division: Emergency Relief, in the Agriculture and Rural Development Vote, you should go through them carefully. The item you are looking for is 080, Subsidies and Other Current Transfers, and the Budget for 1997/98 shows that in the financial year 1995/96 an amount of N$20 243 381 was actually spent for this purpose, that for the year 1996/97 an amount of N$10 000 000 was appropriated for this purpose, but the actual amount spent cannot be given because the books for that year have not yet been closed, and that for the year 1997/98 an amount of N$10 000 000 is provided for in the estimates, which is the figure you have been looking for.

You may wonder whether this is the only place in the Budget where expenditure of this nature occurs. **Now is the time to turn to the functional classification** where expenditures on different votes are grouped together in broad categories. Category 10, Agricultural, Forestry, Fishing and Hunting Affairs and Services, shows that indeed there are other similar provisions in the Budget in Vote 20, but also in Vote 18 Environment under Main Division 03 Resource Management.

It might therefore be worth your while to page through all the different votes to see where these items crop up and in every case where they do, to ask yourself what this could entail and whether it could possibly be of interest to you.

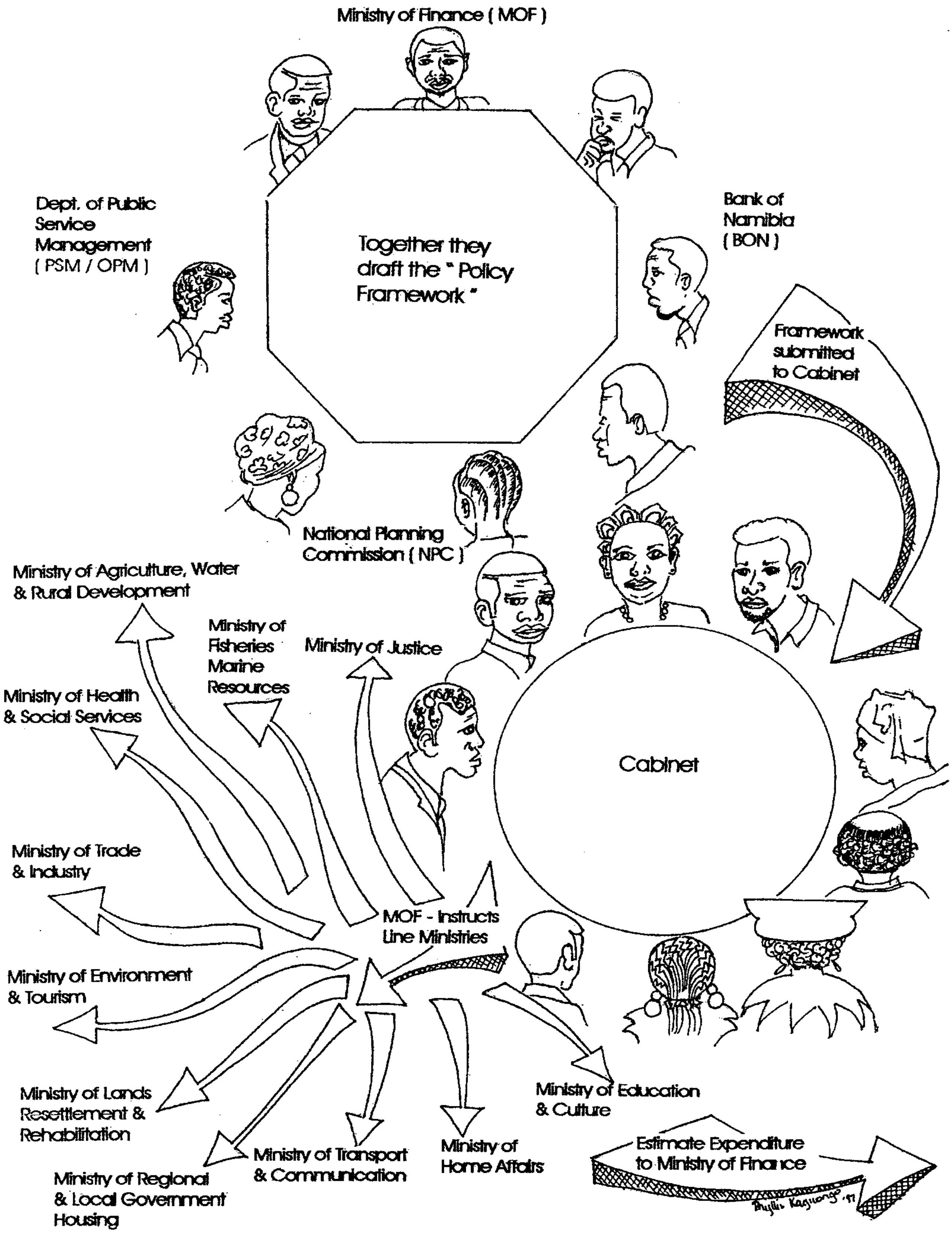
This procedure applies of course to whatever query or sphere of interest one might have.

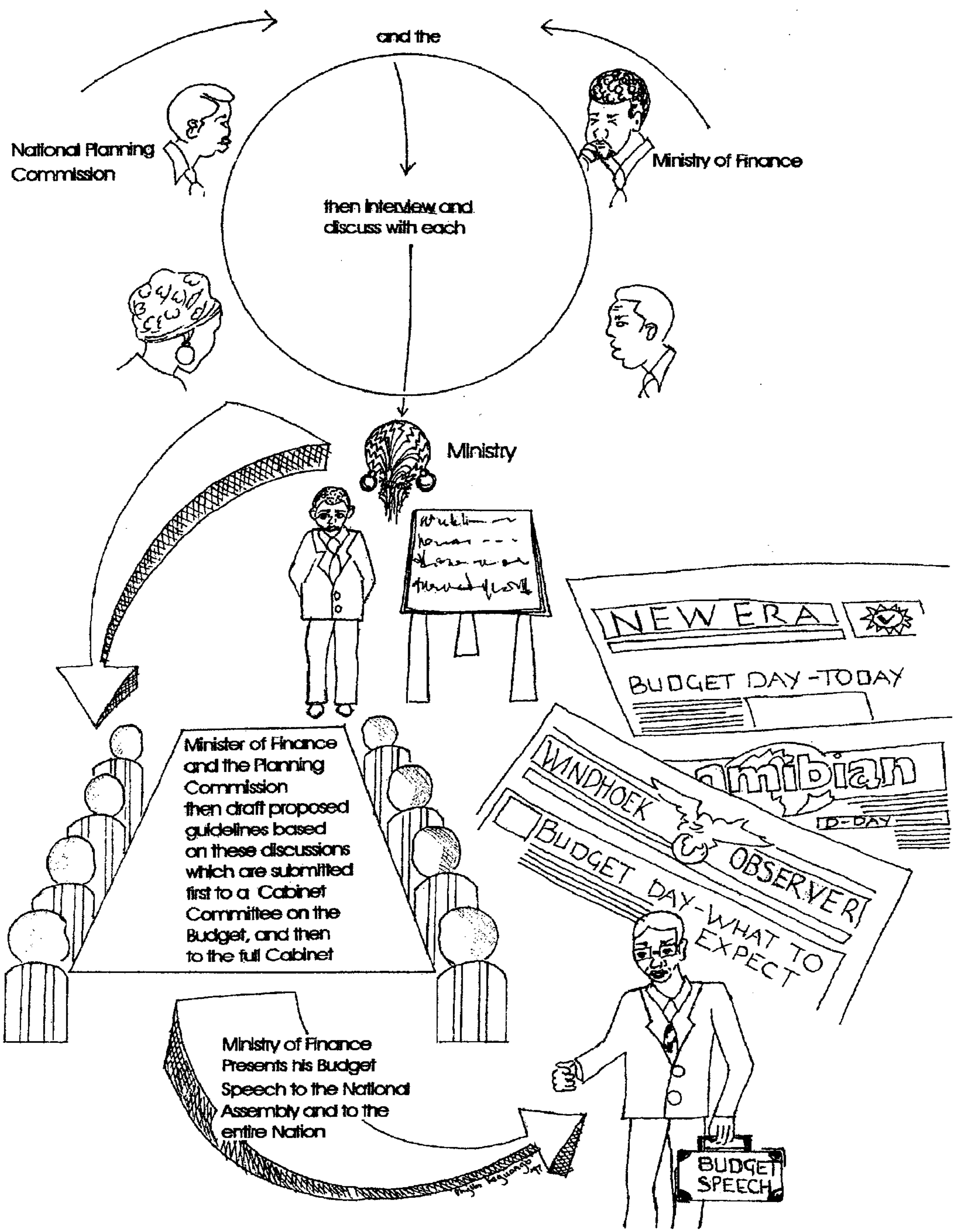
THE BUDGET CYCLE

The financial or fiscal year in Namibia runs from 01 April to 31 March and the budget for the next financial year is usually made public just before the beginning of that period, i.e. in February or March. The first steps in preparing the budget are, however, already taken towards the end of July of the previous calendar year. This consists of the drafting of a so-called "policy framework" by the Ministry of Finance (MOF) with the assistance of the National Planning Commission (NPC), the Bank of Namibia (BON) and the Department of Public Service Management in the Office of the Prime Minister. As the name implies, the policy framework sets out the broad goals and parameters for the next budget on the basis of current and expected economic conditions, as well as a forecast of the balance of payments. The expected financial resources and needs for the current and next financial year as well as any existing knowledge about Government policies and goals are also taken into account.

The draft policy framework is then submitted to the Cabinet and once it is approved by Cabinet, either in its original or in an amended form, the MOF instructs the line ministries to proceed with the preparation of their requests for funds, both for recurrent and for capital expenditure.

As can be expected, the total of these requests is always far in excess of the available resources and the MOF, together with officials from the NPC, now interview each line ministry in order to adjust and harmonize their requests with each other and with the available resources. On the basis of these discussions the MOF and the NPC draft proposed guidelines which are submitted first to a Cabinet


Ministry of Finance (MOF)
Together they draft the " Policy Framework "
Dept. of Public Service Management (PSM / OPM)
Bank of Namibia (BON)
Framework submitted to Cabinet
National Planning Commission (NPC)
Cabinet
MOF - Instructs Line Ministries
Ministry of Agriculture, Water & Rural Development
Ministry of Fisheries Marine Resources
Ministry of Justice
Ministry of Health & Social Services
Ministry of Trade & Industry
Ministry of Environment & Tourism
Ministry of Lands Resettlement & Rehabilitation
Ministry of Regional & Local Government Housing
Ministry of Transport & Communication
Ministry of Home Affairs
Ministry of Education & Culture
Estimate Expenditure to Ministry of Finance


and the
National Planning Commission
Ministry of Finance
then interview and discuss with each
Ministry
NEW ERA
BUDGET DAY -TODAY
amibian
D-DAY
WINDHOEK OBSERVER
BUDGET DAY-WHAT TO EXPECT
Minister of Finance and the Planning Commission then draft proposed guidelines based on these discussions which are submitted first to a Cabinet Committee on the Budget, and then to the full Cabinet
Ministry of Finance Presents his Budget Speech to the National Assembly and to the entire Nation
BUDGET SPEECH

Committee on the Budget, under the chairmanship of the Minister of Finance, and then to the full Cabinet. Once the guidelines have been approved by Cabinet, they are issued as instructions to the line ministries for the final preparation and submission of their budget estimates.

This stage is reached towards the end of the calendar year and the MOF can then start preparing the budget for submission to Parliament. This involves, among other things, doing a final check on the consistency of the estimates, consolidating them, drawing up the summarising tables appearing at the beginning of the budget document and preparing the budget statement for the Minister.

This process is normally concluded by late February or early March and the budget is then ready to be submitted to the National Assembly. On "budget day," which has been set long before and is eagerly awaited by the media and the general public, the Minister of Finance then submits the budget for the next financial year to the National Assembly and delivers his budget speech in which he reviews the macro-economic background and then proceeds to explain and justify all the revenue, expenditure and loan measures proposed in the budget.

After going through the legislative procedures, both in the National Assembly and in the National Council, with each minister vehemently defending his slice of the cake and usually making a case that it is too small, the budget finally becomes an act of Parliament to be implemented during the course of the year under the watchful eye of the Treasury.

Article 126 Appropriations

(1) The Minister in charge of the Department of Finance shall, at least once every year and thereafter at such interim stages as may be necessary, present for the consideration of the National Assembly estimates of revenue, expenditure and income for the prospective financial year.

(2) The National Assembly shall consider such estimates and pass pursuant thereto such Appropriation Acts as are in its opinion necessary to meet the financial requirement of the State from time to time.

The Namibian Constitution

Accounting

The State Finance Act 1991 (the Act) provides that the head of each Ministry, known as the Permanent Secretary, is appointed as the Accounting Officer, with responsibility for the establishment and maintenance of effective systems for the control of State money under his/her charge. The Act stipulates that the Accounting Officer may be held personally liable for funds within his charge which have not been used as intended by the National Assembly.

The main financial records of every Ministry are maintained centrally within the computerised financial systems operated by the Ministry of Finance. The legislation requires that the books of accounts are closed, at the latest, six months, after the end of the financial year. The Permanent Secretary of the Ministry of Finance is required to prepare and submit the account, known as the appropriation account in respect of each ministry, to the Auditor General not later than seven months after the end of the financial year. The legislation defines the form and the contents of the account.

Audit and Report

The Auditor General, appointed under article no. 127 of the Namibian Constitution, is responsible for the audit of the ministries' appropriation accounts. The Auditor General does not get involved in the budget formulating process. He/she is independent of the Government which decides the size and scope of the budget. The Auditor General's involvement in the budget cycle is by way of auditing the financial statements and records relating to budgeted funds. The duties of the Auditor General, as defined in the Act, include that he/she must :

- satisfy him/herself that the expenditure or payments in respect of which authorisation or approvals are required in terms of the Act or any other law, have been incurred or made under and in accordance with such authorisations or approvals and that there is proof and evidence to support such expenditure or payments;
- examine the adequacy systems and controls established by the Accounting Officers to safeguard the State's assets, such as cash, equipment, vehicles, stores.

The staff of the Office of the Auditor General carry out these audits at planned stages during the financial year.

The Act requires that the Auditor General shall transmit to the Minister of Finance (the Minister) the audited appropriation accounts, together with his/her certificate and report setting out the results of the audit, not later than the end of the following financial year. As required by the Act, the Auditor General's report includes references to certain occurrences, such as expenditure in excess of approved budget and irregular expenditure.

The Minister is required by the Act to table in the National Assembly the audited accounts and the Auditor General's report within thirty days after receiving the audited accounts and the associated report. If the Assembly is not in session, the Minister must table these documents within fourteen days after commencement of the ensuing session.

If the Minister does not table the audited account and the associated report of the Auditor General within the prescribed period, the Auditor General is required by the Act to transmit forthwith copies of the accounts and the report to the Speaker of the National Assembly who must present these documents immediately to the Assembly.

The PAC's recommendations would normally include actions to be taken by ministries to improve financial controls to prevent the recurrence of problems reported by the Auditor General, to recover irregular expenditures, or to collect revenue still due to the State. If necessary, the PAC could recommend invoking the personal liability of the Accounting Officer in relation to irregular expenditure. The PAC's recommendations, if accepted by the Parliament, become a legal requirement.

Standing Committee on Public Accounts

After receiving the audited accounts and the report, the National Assembly refers them to its Standing Committee on Public Accounts (PAC). The PAC is required to examine the audited account and the associated report, take evidence from the Accounting Officers of the ministries and, on the basis of their examination, make recommendations to the National Assembly.

The Auditor General and his office provide considerable support to the PAC in its work. The support is by way of advice and guidance to the Committee and acting as its Secretariat, which involves drafting the Committee's reports to the National Assembly. The ultimate responsibility for these reports rests with the PAC.

It is clear that this is a very lengthy and complicated process and that at any moment in time as many as three different budgets may be moving along at different points in the cycle.

1. **Previous Fiscal Year's Budget — being audited by the Auditor General**
2. **Current Fiscal Year's Budget — being implemented by the Ministries**
3. **Next Fiscal Year's Budget — being formulated by the Government**

The main reason for the long time it takes to complete this cycle is that the Namibian Government is a very large organisation with a multitude of functions and spending points. Mechanisms must therefore be provided all along the line to ensure transparency and accountability. The disadvantage of such a gigantic and unwieldy system is that if, in spite of all the checks and balances, irregularities still occur, it could take a long time before for they are uncovered. Needless to say it also causes a lot of "red tape" and frustrations for those who have dealings with the government.

Appendix 1 summarises the budget cycle for the financial year (1998/99), as well as the additional budget for the previous financial year (1997/98). As the table shows, they run concurrently for the most part. Although specific years are shown here they are of course only examples of the general pattern that applies to every financial year. Ideally the dates given here must be regarded as deadlines. It is clear, however, that in practice many things could happen that could make it difficult to meet specific deadlines.

Finally, it should be mentioned that although only one or a few bodies are mentioned as being involved in every step of the cycle and this is in general a true reflection of the basic structure of events, in practice there is a continuous dialogue taking place between all the different players in the process, particularly between the Treasury and the line ministries. The major reasons for this are unforeseen changes in circumstances and human error in forecasting resources and needs. All countries pay lip-service to the ideal of eliminating these factors to the extent that no additional budgets will be needed, but few ever succeed.

Where Does Government Get Its Money?

The Government has no money of its own. Apart from foreign grants, all the revenues it has or receives come from the general public. The Government collects these funds from the public in order to render services to the public which otherwise might not be available at all, such as education and protection by the police. These are known as "collective services."

Revenue From Taxes

By far the most important source of revenue for the Government are taxes — that is compulsory payments without any direct *exchange*. The Namibian Government's total revenue from all sources would, according to the budget for 1997/98, amount to N$5 199 million in that year, of which N$4 542 million (87,1 per cent) was in the form of tax receipts. The rest consisted of a large number of small amounts, such as entrepreneurial and property income (e.g. interest receipts, dividends and royalties), administrative fees and incidental sales, as well as capital repayments and external grants. Please note that in order to reflect the most recent situation, all the figures quoted in this publication are from the main budget for 1997/98, except where otherwise indicated. This means that the final figures for that year could differ somewhat from those shown here, but the differences will probably not be drastic and, in any case, for the present purpose the relationships are more important than the actual figures.

Types of Taxes

- direct tax
- indirect tax
- company tax
- individual income tax
- general sales tax (GST)
- additional sales levy (ASL)
- customs & excise duties
- progressive tax
- regressive tax
- proportional tax

Tax receipts fall mainly into two categories, namely taxes on the income of individuals and profits of companies, on the one hand, and taxes on expenditure on consumer goods and services, on the other hand. The first category is frequently referred to as:

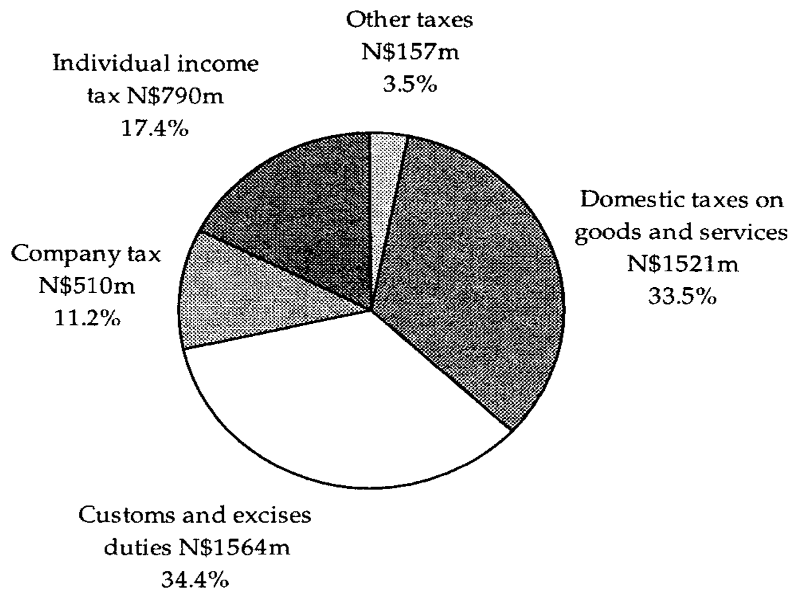
1. **Direct taxes because the tax is paid directly to the government by the individuals or companies concerned.** Taxes on expenditure, on the other hand, are called;

2. **Indirect taxes because instead of the spender paying the tax directly to the government, it is usually incorporated into the selling price of the article or service and paid over to the government by the seller.**

Direct Taxes

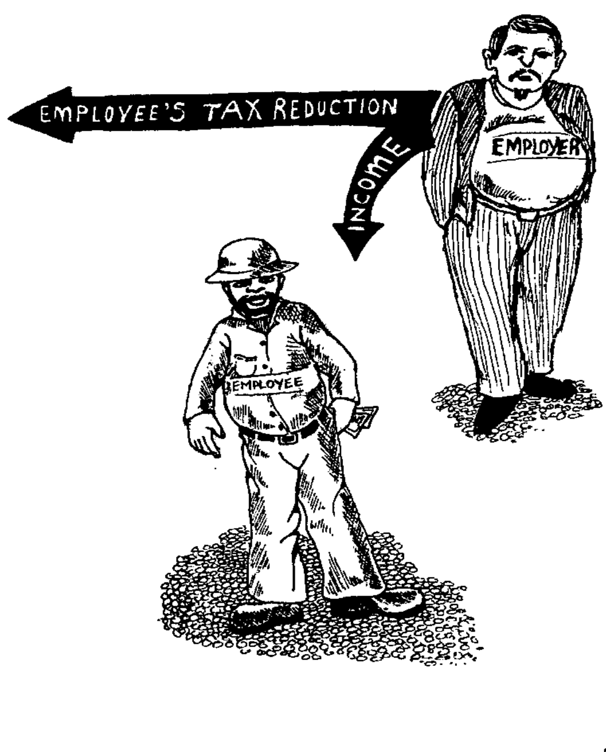
There are two major forms of taxes on income and profits in Namibia, namely the income tax on individuals and the tax on ordinary, i.e. non-mining, companies. Taken together these two forms of taxation were responsible for almost 28,6 per cent of Namibia's total tax revenue in the budget for 1997/98, income tax on individuals for 17,4 per cent and the tax on all companies for 11,2 percent.

Figure 1 Sources of Tax 1997/98



Individual Income Tax

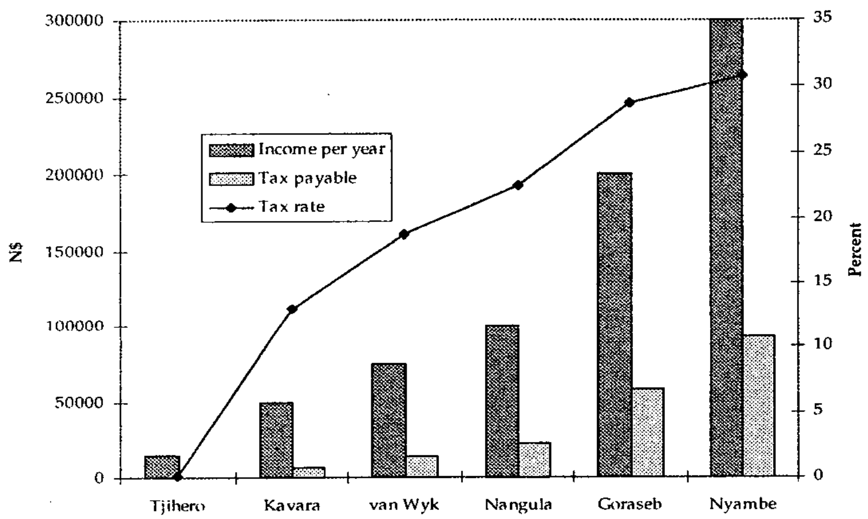
There is an important difference between these two taxes which should be briefly explained here. That is that the income tax on individuals is a so-called "progressive" tax, while the company



tax, which is actually a tax on company profits, is a "proportional" tax.

By a progressive tax is meant that as a person's income increases, his tax liability to the government will not increase in step with his income but will increase more rapidly than his income. In other words, the *rate* at which a person's income is taxed, increases as his income increases.

Figure 2 Examples of 1997 Tax Rates



The theory behind this is that the burden of tax should be heavier on those who possess greater wealth, than those with lesser or no assets/income. The essence of progressive taxes is the redistribution of wealth from the affluent members of the society to the less affluent. The more wealthy a person is, the more he/ she will benefit from some of the state's collective services, e.g. the protection of his/ her property by the police and justice system. There are other arguments as well, but this is not the place to elaborate on them. Suffice it to say that the principle of progressive income taxation is accepted and applied all over the world.

Company Tax

In the case of company tax, however, the state's approach is different. As has already been pointed out, **this is really a tax on the company's profit or net income,** after the cost of producing the income has been subtracted. In this case the tax rate is not progressive but **proportional, which means that the rate of taxation remains the same irrespective of the size of the net income.**

The reason for this is that in the case of companies a high net income will in general be a reflection of efficiency and effectiveness in the process of production, and the state would not want to discourage this by progressive tax rates. The state therefore takes a neutral stance towards business profits by taxing them at the same rate across the board.

In terms of current legislation the tax on the profits of ordinary companies in Namibia is 35 per cent, which is the same as the maximum rate of the income tax on individuals. This is no coincidence, but is a deliberate measure to discourage high income tax payers from converting part of their income from personal income to company income by channelling it through companies. The opposite could of course also happen if the company tax rate

were higher than the maximum rate of the income tax on individuals.

Indirect Taxes

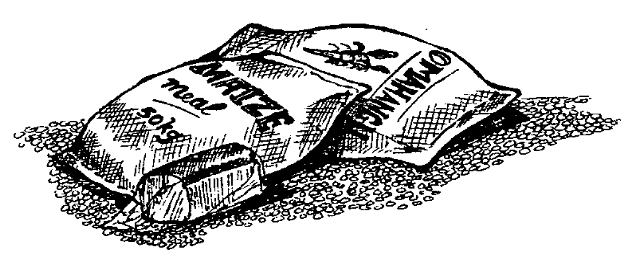
There are three major forms of indirect tax in Namibia or, as they are called in the budget document, "domestic taxes on goods and services." These are:

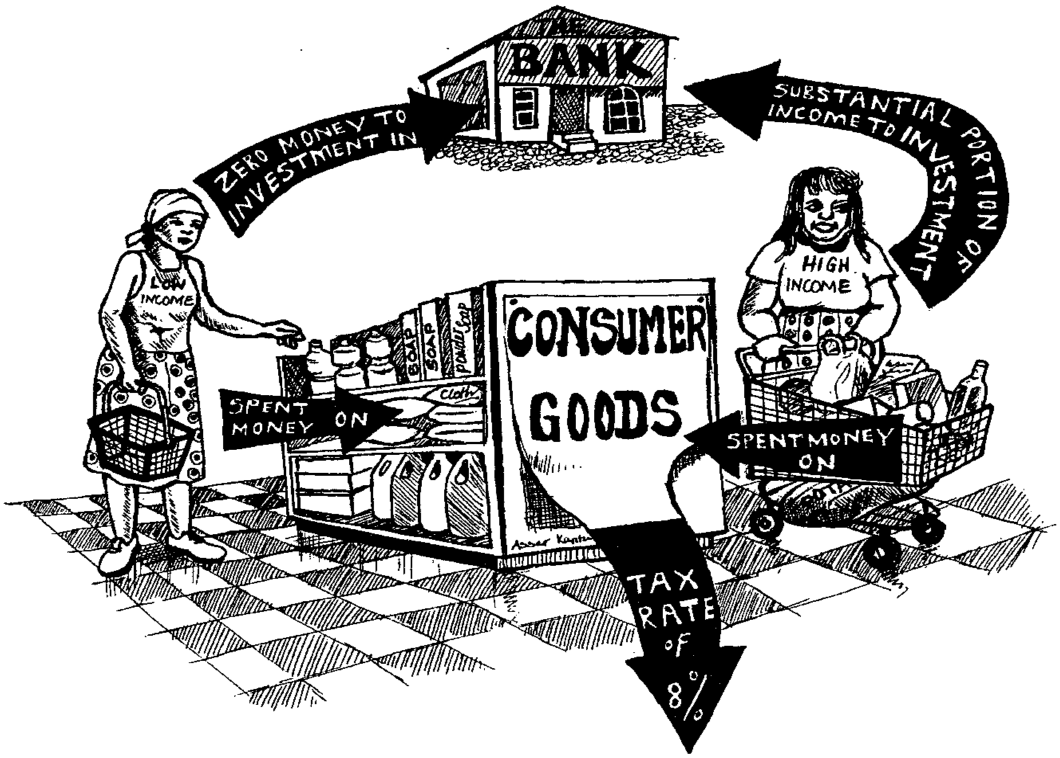
- general sales tax (GST);
- additional sales levy (ASL); and,
- the levy on fuel.

Taken together, these three taxes were expected to contribute 30,2 per cent to the Government's total tax revenue in the financial year 1997/98, when broken down the individual contribution of those three forms of indirect taxes are, GST 15,6 per cent, ASL 6,8 per cent and levy on fuel 7,7 per cent respectively

General Sales Tax

General Sales Tax is levied at a fixed rate of 8 per cent on all consumer goods (except mahangu and maize meal, etc. which are tax exempted) and 11 per cent on all services. This fixed or flat rate for GST stands in sharp contrast to the progressive rate of income tax on individuals and its effect on the taxpayers is in fact regressive which implies a higher income tax burden on low income people who spend a larger proportion of their income on consumer goods and services than those in higher income brackets —wealthy people, who can afford to save and invest part of their income. In spite of this, however, it is integral part of the fiscal system in almost all countries, mainly because it is the only way to ensure that everybody, who makes use of the collective serv-





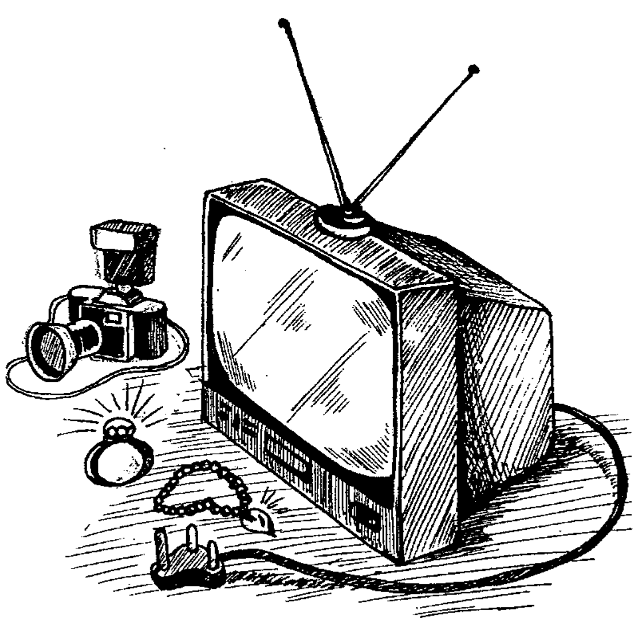
ices provided by government, contributes something towards financing them.

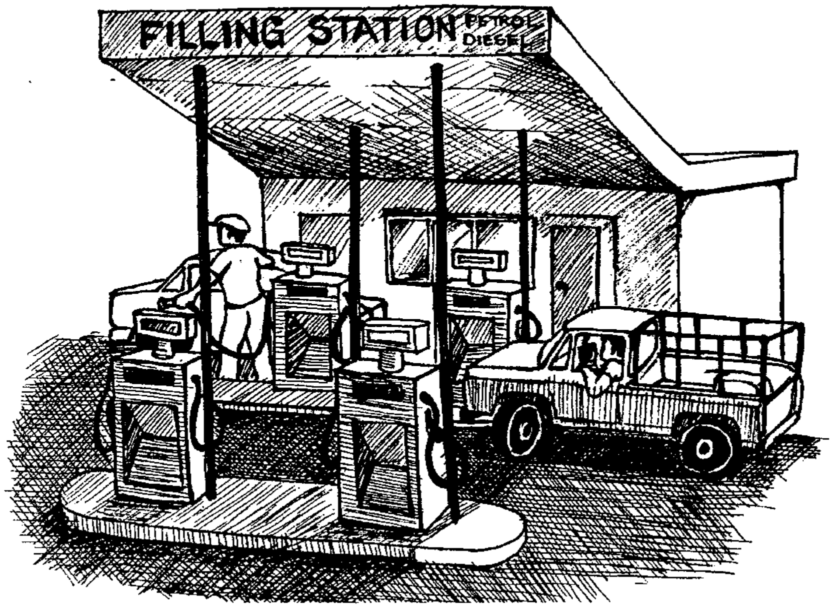
Additional Sales Levy (ASL)

Namibia has moreover found an ingenious way countering the regressive nature of the GST, and that is the additional sales levy. This tax was introduced in 1993 and, like GST, is levied on all consumer goods (not on services), but at a rate which varies from 0 to 15 per cent according to the degree of necessity or luxury of the article in question. Thus essentials, such as basic foodstuffs and medicines, are zero-rated whereas luxuries, such as jewellery and TV sets, are taxed at the maximum rate of 15 per cent.

Levy on Fuel

The third important form of indirect tax in Namibia is the levy on fuel, which at present amounts to 59,4 cents per litre petrol (leaded) and 52,4 cents per litre on diesel oil. This levy is, however, in the process of being converted into a road user's charge and will eventually be paid into a separate fund to be used solely for the construction and maintenance of roads.

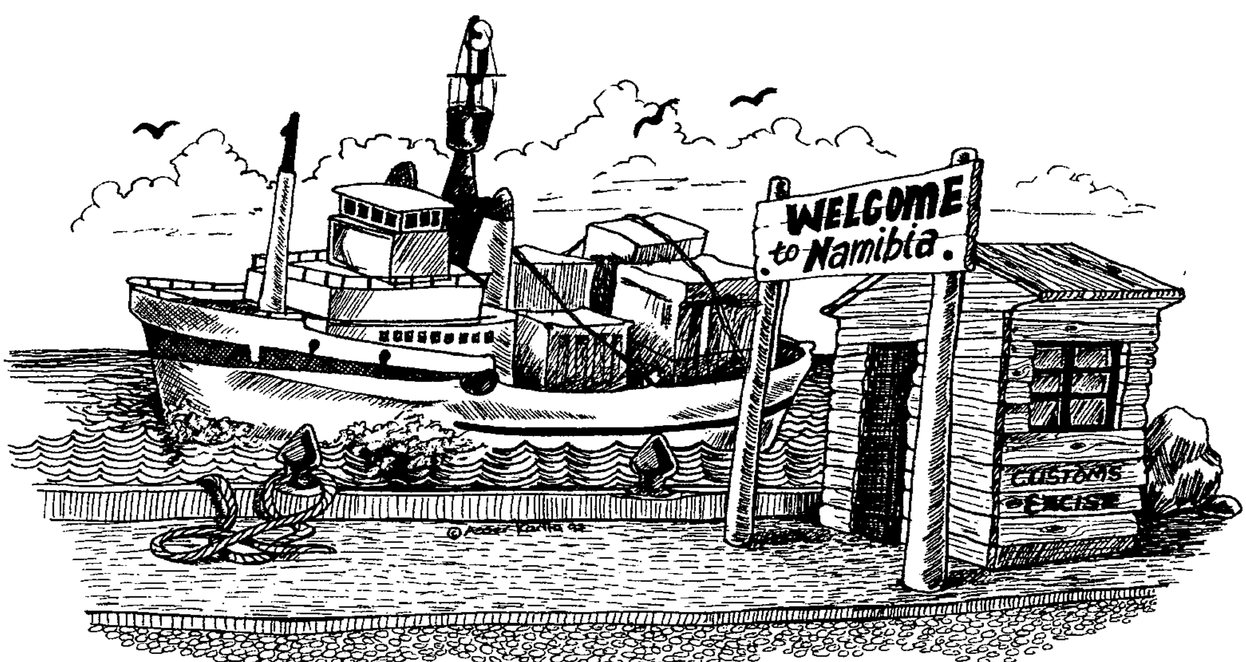




Customs and Excise Duty

Apart from the three forms of indirect taxation mentioned above, there is, however, another, very important indirect tax which falls in a category all of its own, namely customs and excise duties. Its importance appears clearly from the fact that in 1997/98 it is expected to yield an income for the Government of no less than N$1 564 million, i.e. more than one third of the total tax revenue in that year and also more than all other forms of indirect taxes combined. This was in fact the biggest single source of tax revenue.

The reason for saying that it falls in a category of its own is that Namibia itself collects only a small proportion of this large amount of tax revenue. Most of it is received from, or through, the Southern African Customs Union (SACU). This is an agreement between Botswana, Lesotho, Namibia, South Africa and Swaziland, in terms of which these five countries form a common customs area. The implication of this is that all trade within this area is completely free while



all goods entering this area from outside into any of the five countries, are liable for customs duties at rates common to all the member countries. All the income collected in this way is paid into a single so-called *customs pool* and divided between the five members according to a formula previously agreed upon.

The idea behind this, and indeed the effect that it has, is to stimulate trade between the member countries. On the other hand, all the members from time to time find it a source of irritation that they have to follow a common policy as regards imports even though in specific cases some may find it in their interest and others not. In spite of these conflicting interest, however, the customs union has so far held together.

Non Tax Revenue

As regard non-tax revenue appearing in the budget document the two major categories are Entrepreneurial and Property Income (mainly diamond royalties received from Namdeb) and Administrative Fees and Charges and Incidental Sales.

Government Borrowing and Foreign Assistance

There is one remaining source of Government income which must be mentioned here and which has important implications both for the Government's future financial obligations and for its potential effects on the national economy. This is Government borrowing. The Namibian Government, like governments everywhere, has in every year since independence made use of this source of funds, but in a very moderate and disciplined manner. The total long-term Government debt arising out of these operations amounted to N$ 3 425,9 million on 31 March 1997.

Also the Ministers of Finance of Namibia and South Africa agreed early in 1997 that all the pre-independence debt owed by Namibia to South Africa would be written off during the course of the fiscal year 1997/98, leaving a total Government debt figure of only N$ 2 321,9 million. This is only 16,7 per cent of the GDP, which is low by international standards. The aim for the long-term future should now be not to let the debt increase more rapidly than the GDP and, if possible, not more rapidly than total Government expenditure either.

Public Sector Borrowing

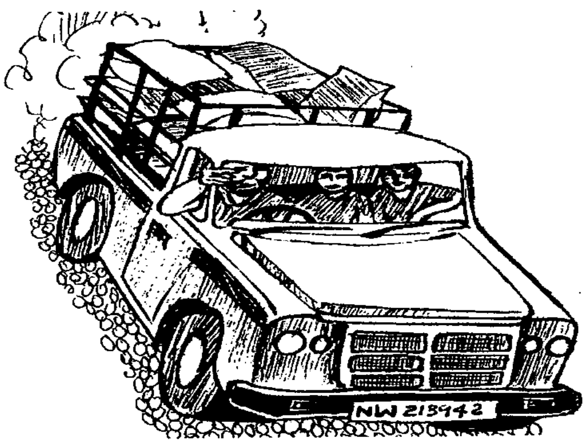
As has been said, government borrowing creates debt, which creates a burden of interest payments and debt redemption for the future. If circumstances make borrowing inevitable, an attempt should at least be made to ensure that it is kept within limits so as not to reduce the future flexibility of government spending too much. The International Monetary Fund (IMF) also requires that, if at all possible, the net borrowing of governments should not exceed 3 per cent of their GDP. Other rules of thumb are that borrowed funds should not be used to finance recurrent expenditures and that the growth in government debt should not exceed the growth in the GDP.

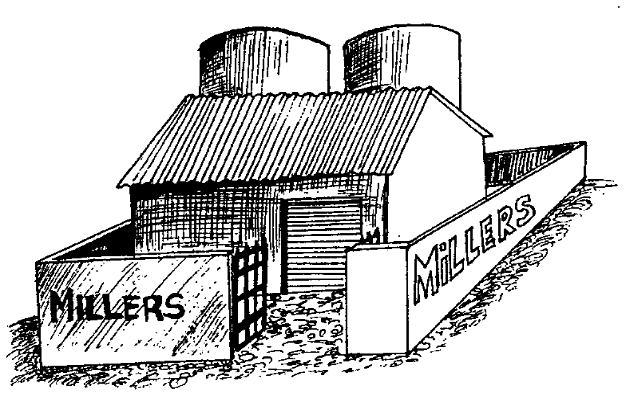
Value Added Tax (VAT)

Currently the Ministry of Finance is working on the Tax Reform Project, in which the revenue collections function is to be decentralised from Windhoek to new regional centres in Oshakati, Keetmanshoop and Walvis Bay.

Also the Tax Reform Project will also witness the replacement of the Additional Sales Levy and the General Sales Tax with the Value Added Tax (VAT) by the start of the 1998/99 fiscal year. **A value added tax is one in which a tax is collected at each stage of the production process, but the amount taxed is based only on the value added at that stage of the production process.** The accompanying illustrations describe various steps involved in the local production of bread. At each of these steps a tax would be imposed on only the value added to the commodity at that stage. Thus in stage four at the bakers a tax would be charged on only the value added by baking the flour into bread - not the value of the original wheat, nor the cost of transporting the wheat, nor the cost of milling the wheat into flour.

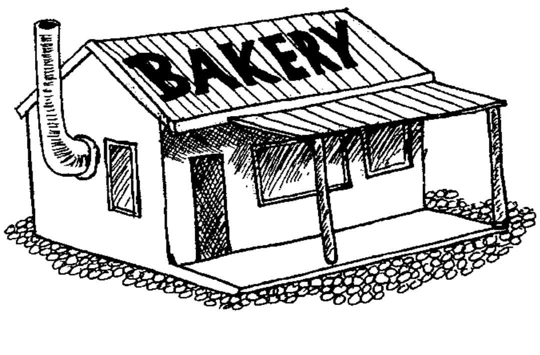
A value added tax moves the collection of taxes from the final point of sale, usually a store, to where the production actually occurs. It decentralises the process of collecting taxes. It also provides a more accurate picture of the nature of the economy in a country since





taxation is collected at every point in the production process. This means that information is being gathered not only about the end products but each stage of the process.

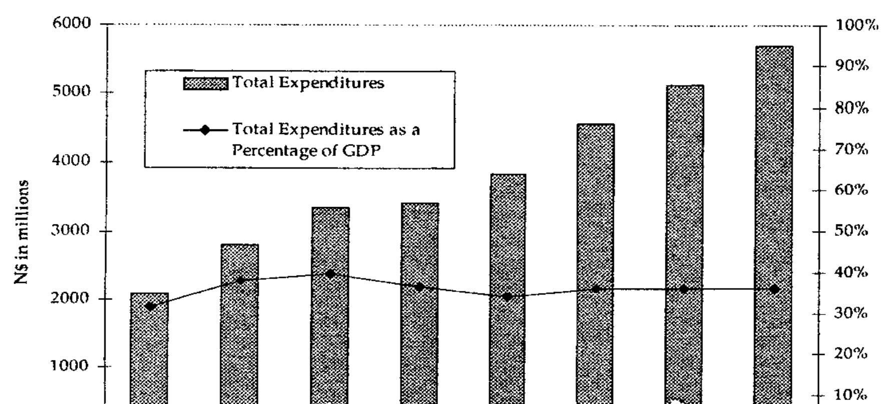
Picture one, on the preceding page shows the cultivation and harvesting of wheat. At this stage in the production of the bread with a tax would only be imposed on the value of the un-processed wheat. The second picture depicts the wheat being transported from the rural areas to towns to be processed. Again a tax would be imposed only on the value of the service being provided - in this case the transporting of the wheat. The third illustration is of a wheat where the maize is ground into flour. Similarly the fourth picture shows a bakery where the flour is baked into loaves of bread. In each case the miller and the baker would only be taxed for the value added at that stage of the process. Finally, the bread is sold to a customer who eats the bread. The store would only be taxed on the cost of making the bread available to customers.



How Government Uses Its Money

After looking at the procedure followed by the Government in collecting and spending the funds entrusted to it by the public, and at the sources of those funds, the next question is of course: **What is the money spent on?** Before answering that question, however, let's look briefly at the volume of this expenditure, both in total and in relation to the size of the economy as measured by the GDP. This is apparent from Figure 3 for the years 1990/91 to 1997/98, i.e. the post-independence period (also see Appendix 2).

Figure 3 Total Govenment Expenditures and Total Government Expenditures as a Percentage of the Gross Domestic Product (GDP)



It is clear that the total budget grew steadily throughout this period. Relative to the size of the GDP the new Government inherited a budget at independence that was already fairly high by international standards, namely 31,6 per cent in 1990/91. In the next year this increased to 37,8 per cent and to an even higher figure of 39,7 per cent in 1992/93. After that, however, it settled down at around 36 per cent and has remained more or less stable at this level up till now.

This is a fairly high level of Government spending by the standards of Industrialised nations and it is sometimes argued that it is a sign of a tendency towards socialism and that the Government is "crowding out" the private sector in the economy. In actual fact this reasoning is a bit simplistic and there are many other factors to be taken into account, such as the large backlog of socio-economic development in the country and the question of whether the private sector would in fact have taken up the slack if Government expenditure had been lower. Be that as it may, the fact remains that Government expenditure is a very important factor in the Namibian economy and should therefore at all times be closely monitored by the business sector and the general public, as well as their representatives in Parliament.

Figure 4 Current and Capital Expenditures as a Percentage of Total Government Expenditures

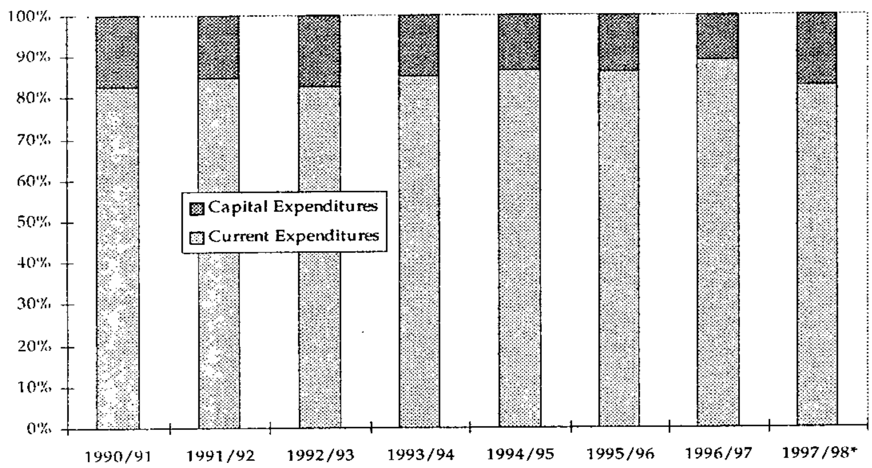
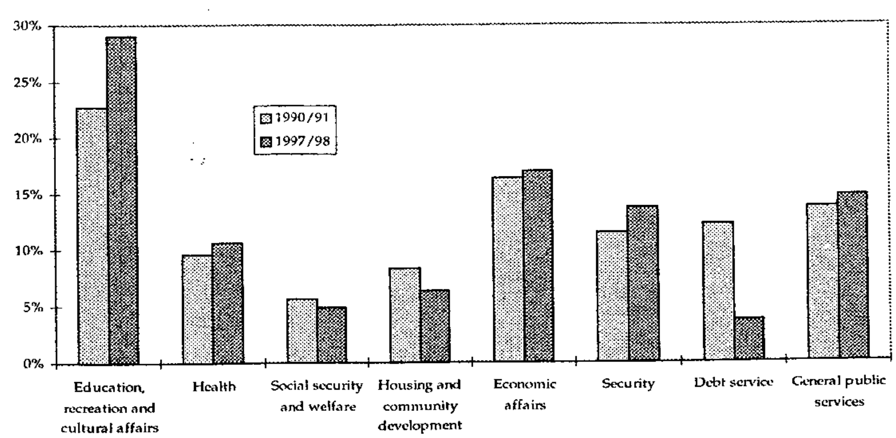


Figure 4 shows how the Government's expenditure is split up between recurrent and capital expenditure. This relationship has shown little variation over the post-independence period as a whole (again also see Appendix 2). Capital expenditure averaged 15,1 per cent of total Government expenditure over this eight-year period and stands at 17,5 per cent in the budget for 1997/98. This compares well with South Africa, for example, where less than 10,0 per cent of the annual budget goes into new capital projects. At the other end of the spectrum, however, one finds a country like Botswana where this figure is in the region of 35,0 per cent. To try to equal this would be unrealistic, but as a first target the Namibian Government could set its sights at a figure of about 20 per cent, which should be attainable over a period of a few years.

Figure 5 shows the distribution of expenditure between the various broad functions performed by Government, and also show how this distribution has changed since independence (see also Appendix 3). They reveal some very interesting trends and priorities in the government's expenditure programme.

The figures in Appendix 3 show that the broad grouping of Education, Recreation and Cultural Affairs already had a head start on all other functions at the time of independence, accounting for no less than 22,7 per cent of total expenditure. Since then the expenditure on this function has not only held its own, but has experienced dramatic growth rela-

Figure 5 Total Government Expenditures by Function

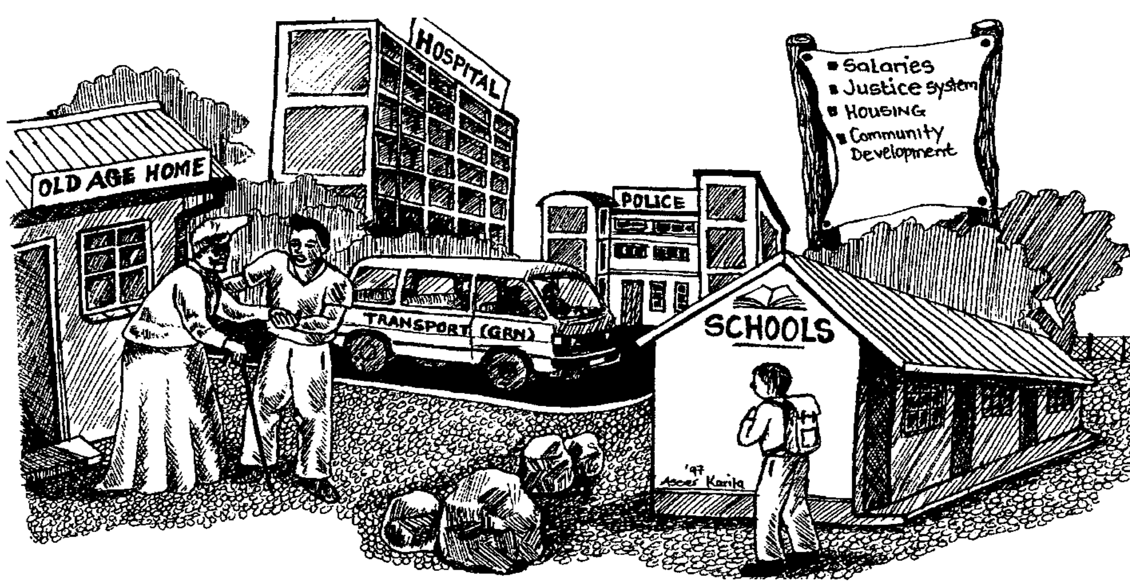


tive to the other functions. In the main budget for 1997/98 provision was made for no less than 29,1 per cent to be spent on this functional grouping in that year.

This is appropriately targeted investment in the country's human capital and will undoubtedly pay handsome dividends in the long-term future. On the other hand, it is evident that the present trend cannot continue indefinitely at the expense of other items, especially social expenditure aimed at improving the plight of the poor in the short to medium term. This latter type of expenditure, which includes the three functional groups of (1) health, (2) social security and welfare, and (3) housing and community development, amounted to 23,5 per cent in 1990/91 and has dropped to 21,9 per cent in the budget for 1997/98.

The only type of expenditure, apart from that on the education group, which showed a significant increase during the eight-year period under discussion, was that on security (defence, police, law courts and prisons), which is understandable against the background of the high crime rate in the country during that period. Of course, in this case, as in the case of education, more money does not necessarily mean improved services. A great deal of the financial problems of governments all over the world stem from poor management rather than a lack of funds.

The final interesting feature in Figure 5 is the dramatic drop in both the absolute and the relative figures for the debt service. This reflects the large amount of pre-independence debt agreed to be written off by the South African Government recently. A percentage figure of only 3,6 per cent of total Government expenditure for debt service reflects a very healthy situation compared to many countries where it is more than 20 per cent. It is not unusual for such countries to have to borrow new funds every year for the sole purpose of servicing their existing debts, which means that they can never get out of this predicament — the so-called "debt trap."



Determining Government's Priorities

It might be appropriate to pause here for a while and reflect on the reasons why budgeting, in the national context, is such a painful exercise and frequently gives rise to so much disagreement and discord between all the parties concerned.

The most difficult thing about budgeting is not the fact that it's a complicated arithmetical exercise, but the fact that it requires some very hard choices and trade-offs to be made:

- What resources are available or could be created?
- Where should the emphasis be in the allocation of resources?
- What should be done now, what later and what not at all?
- What *can* be done now? Who should benefit and who should do without?
- How can the available resources best be used to meet people's needs?

These are hard decisions because they require saying to some individuals or groups: "Your concerns are valid and important, but right now there are more urgent issues that we have to work on."

All of these questions, and many more like them, arise out of the most basic and universal law of economics: **Resources are scarce in relation to the size and the multiplicity of the needs.** Quite simply, there is not enough time and money available for the government to do everything it is expected to do and would like to do. And, in fact, it should not attempt to do everything simultaneously and immediately. Trying to do that is simply a recipe for creating chaos since crucial issues become lost in the mass of activity.

The important thing for any government is to be working according to a rational plan of action. This will ensure that at least the most important things get done and that the most urgent thing get done first. **And this is exactly what a budget is, a rational plan of action for a certain period of time in the immediate future, expressed in amounts of money, i.e. in terms of the resources available.**

Apart from the necessity of having a proper plan of action, careful budgeting is also necessary to limit the likelihood of politicians and officials using public funds to further their own interests. Having a clear plan of action reduces the scope for arbitrary exercise of discretion. **It enhances transparency and accountability in government because it clearly spells out what is to be done with the**

available funds, making it more difficult to hide unappropriated spending and irregularities. Budgeting not only identifies what needs to be done, it also identifies what should not be done, either because of its low degree of urgency and importance or because it is contrary to the real intentions of the legislature.

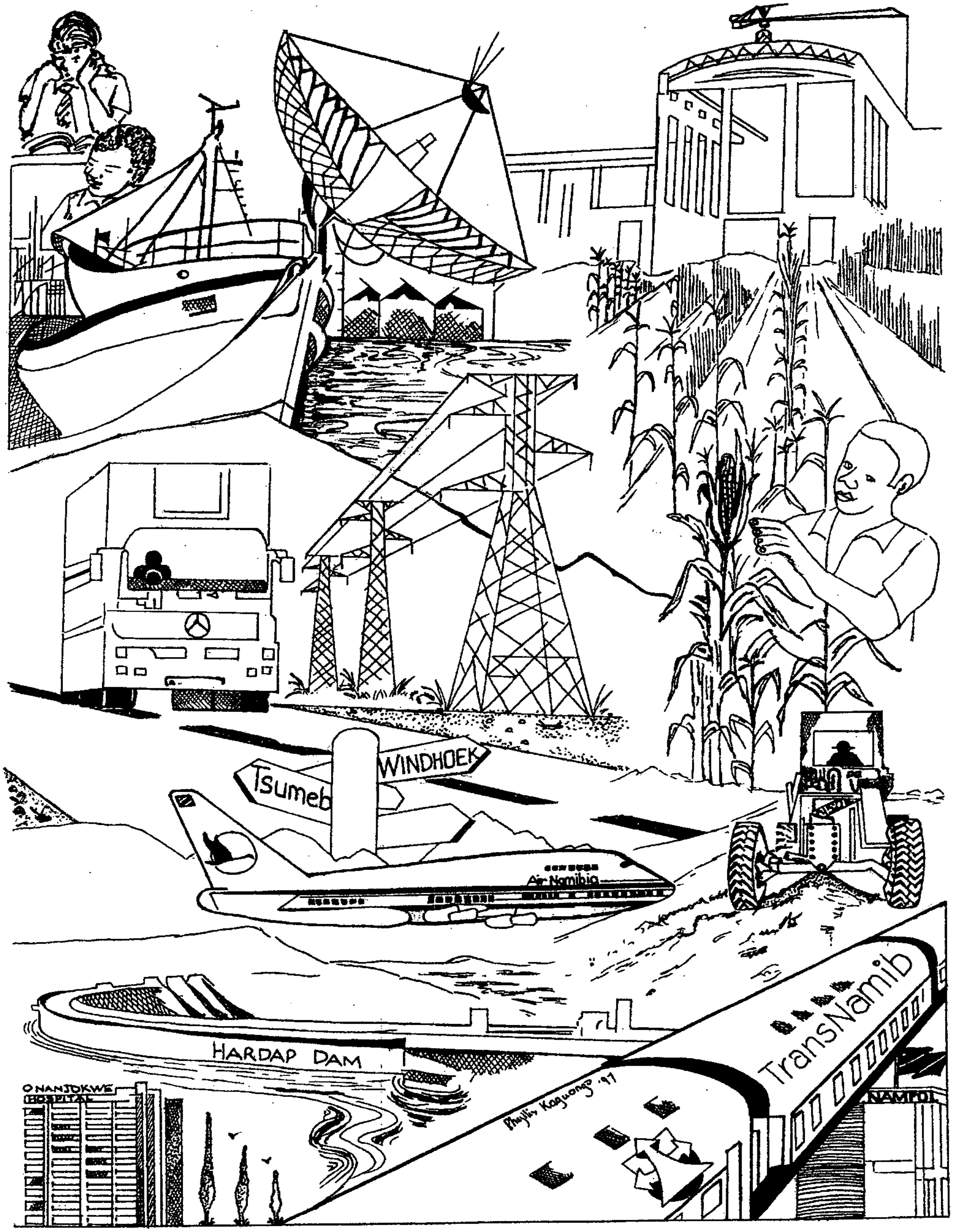
As has already been indicated, the relative scarcity of resources implies that trade-offs are inherent to the budgeting process: When one category of expenditure receives more, something else gets less, which means that their relative importance and urgency have to be weighed up against each other. When old age pensions or social security, for instance, get an increased allocation, there is that much less for schools or hospitals or low-cost housing. This applies not only between different ministries and functions, but also within ministries. Within the Ministry of Health, for instance, there will be a trade-off between primary and secondary health care; in the Ministry of Foreign Affairs there will be a trade-off between establishing new foreign missions and upgrading the existing ones, and so on right down the line.

In a way, these trade-offs, uncomfortable though they may be, are a very valuable form of discipline. They force the politicians and the officials to think carefully about the priorities and values of the community at large. Theoretically of course the ideal is that the last dollar spent on all of the various services provided by the government, should yield exactly the same value to the public, and although this cannot be measured in practice, flagrant deviations from this norm will sooner or later attract attention and bring pressure to bear on the government to change its priorities.

Another important aspect of the constraints imposed on the government by its limited resources is the fact that a large proportion of government expenditure creates future commitments. The most obvious example of this is the debt service. The interest payments and the eventual repayment of the debt are contractual obligations which have to be met before any other expenditure can even be considered. As has already been pointed out, Namibia is fortunate in this respect since the debt burden is very light at this stage.

A somewhat similar case is that of wages and salaries. Public officials who are employed by the state, have to be paid and their numbers cannot easily be decreased (or increased) drastically between one year and the next. In this respect Namibia is less fortunate in that personnel expenditure in the main budget for 1997/98 is 55,4 per cent of total expenditure. This is generally agreed to be too high, and is to some extent a legacy of the pre-independence period and constitutional protections extended to civil servants. Precisely because this element of expenditure is so inflexible the Government has so far found it very difficult to reduce it as much as it would like to.

Although debt servicing and personnel expenditure are outstanding examples, practically all Government programmes, particularly as regards the


WINDHOEK
Tsumeb
Air Namibia
HARDAP DAM
ONANJOKWE
TransNamib
NAMPOL

development or capital budget, have this tendency to create future commitments which cannot be evaded. This applies to programmes in housing, health, education, roads and transportation, research and development, defence and many others. For example, building a new hospital requires funds in the first year to construct (or start constructing) the building, but it automatically implies further expenditure in later years to complete and maintain the building, as well as funding for equipment, supplies, staffing, etc. for years to come. The same is true for the purchase of a new marine research vessel, for example.

The purchase cost may be part of this year's budget, but its ongoing costs have to be taken into account as well. Such costs are implicit and inescapable claims on future budgets, and it is therefore essential that capital and recurrent costs be closely co-ordinated.

This has serious consequences for decision making and the government's ability to change priorities. Commitment today usually also means commitment tomorrow and less flexibility and manoeuvrability in the future, since the so-called "discretionary" expenditure may in the end be a very small proportion of the total.

Trade-offs and limited flexibility are not confined to the expenditure side of the budget, however. They also appear on the revenue side. As was shown earlier beginning on page 20, Government revenue may be raised in a number of ways, but each has its own practical limitations and undesirable side effects.

For a start consideration can be given to income tax on individuals. Developing nations, like Namibia, have a characteristic income structure, i.e. there are a small number of people with relatively high incomes and a large number of people with very low incomes. Under these circumstances the government is usually under strong pressure to tax the rich very heavily in order to relieve the plight of the poor.

At first sight this seems only fair. Many economist believe that such a policy could, however, have very negative consequences. The high-income earners are frequently also the potential investors with capital investments, for them excessive taxation could act as a strong disincentive to capital investment and entrepreneurship initiative. This could in turn mean less employment for the rest of the labour force.

At the same time it would act as an incentive to the high-income earners to find ways and means to avoid paying the tax. In extreme cases some of them might even decide to emigrate, thus further reducing the country's tax base, as well as the employment opportunities and general level of economic activity. The end result might well be that as a result of an increase in tax rates the governments receipts from that source could decrease rather than increase.

Much the same reasoning applies in the case of company taxes. If these taxes are too high, companies will try to find ways of shifting the burden to their clients or their employees. Failing this their profits will decline and some companies may decide not to go ahead with planned expansions or even to discontinue operations altogether. Again, this would result in a decline in the country's tax base, a loss of jobs and a general reduction in economic activity in the country.

As regards indirect taxes, it was stated earlier that the normal types of flat-rate indirect taxes, such as general sales tax (GST) and value added tax (VAT) , have a regressive effect: they hurt the poor more than the rich. Given the widespread unemployment, poverty and sub-standard socio-economic conditions of much of Namibia's population, tax rates that press too heavily on low income groups would make matters even worse and could give rise to serious social unrest. From that point of view additional sales levy (ASL) would probably be a better candidate for increased rates should this become necessary.

It is clear that the trade-offs in selecting the best possible mix of revenue measures are just as important and difficult as in the case of expenditures. Governments provide essential public services and these have to be financed, but surely one of the major considerations in deciding on how this is to be done, must be the effect on the national economy as a whole. Many people, taxpayers as well as beneficiaries of government services, would probably prefer the cake to be sliced up differently, but the first objective must obviously be to make sure that the cake is as large as possible.

THE BUDGET IN THE NATIONAL ECONOMIC CONTEXT

Another way of analysing or assessing the budget is to look at it in the national economic or macro-economic context, and a useful framework for this purpose is the various functions performed by national governments.

The national budget is normally the most important single document on economic policy for the year. In a modern economy the influence of government on the economy as a whole is immense since government is the biggest employer, the biggest spender and the biggest single claimant on the country's resources. A government can influence the economy in numerous ways, but its own revenue, borrowing and spending is the major macro-economic factor.

Functions of the Budget

The government budget serves a number of functions, including to act as:

- the Parliament's instrument of accountability and control over government in its handling of financial matters;

- an evaluation of total government public authority receipts and expenditures within the budget sector.

Allocative Function

This function relates to both the relative size of the public sector and the allocation of resources among the various functions and programmes carried out by government. Because both government expenditures and taxation policies influence the allocation of resources in the private sector, the budget decision making process must take into account the allocation consequences. For example, a decision to spend government funds on road construction will have widespread effects on the private sector. It needs to be stressed here that all budgetary decisions have allocation consequences and these should be anticipated and assessed by policy makers. Be that as it may, from the macro-economic point of view this function raises important questions which, in the assessment of any specific budget, would call for a hard look at aspects such as:

- changes in the government's revenue and expenditure priorities;

- total taxation and expenditure relative to the GDP;

- the relationship between recurrent and capital expenditure, the budget deficit, i.e. the shortfall of recurrent revenue as against total expenditure;

- how this shortfall is to be financed, e.g. drawing down of reserves, foreign grants, public borrowing, etc.;
- if it is to be financed by public borrowing, the effect this would have on interest rates and the size and composition (e.g. local vs. foreign) of the public debt;
- the liabilities and rigidities the resulting debt service burden will create for future budgets, etc.

It is clear that there is a host of macro-economic implications arising out of the government's function of performing and financing collective services.

Distribution Function

A second function of the government, and therefore of its budget, is that of redistribution of wealth. In fact, it is generally accepted now that a degree of redistribution will automatically take place as a result of government's actions even if this is not its declared intention.

The reason for this redistribute effect is that the rich pay high taxes, while benefiting disproportionately less from the government's social expenditures, and *vice versa* in the case of poorer members of the society. This effect is of course reinforced by progressive income taxes, as was pointed out earlier.

The redistribution of wealth from rich to poor also has an inter-generational effect. The high taxpayers are normally in the middle-aged groups, while children up to a certain age and older people beyond the retirement age frequently earn little or no income and therefore pay little or no tax. The automatic result is therefore an inter-generational redistribution of income from middle-aged people to the younger and the older generation.

Finally, an inter- regional redistribution takes place from the highly developed regions of the country (e.g. Windhoek and Walvis Bay in the case of Namibia) to regions with a lower level of economic activity.

Stabilisation Function

The government uses the budget instrument for macro-economic stability through the effects of the budgetary transactions on the volume of output or GDP, the level of employment, the rate of change of the price level or inflation, and the balance of payment. The budget can be used to stimulate economic growth by giving incentives and subsidies to the private sector to expand their business and create more jobs. At the same time the government will use the budget to curtail expenditure to avoid inflation and fluctuations in exchange rates and the money supply. Stability is an important co-requisite to economic growth. Broadly speaking, the requirements for economic stability include maintenance of satisfactory levels of employment with low rates of inflation.

Advancement of Broad Policy Goals and Objectives

Apart from the "normal" functions of financing collective services and redistributing wealth, government as a rule also make's use of the budget to serve a third function, i.e. to advance certain broad goals and objectives which they regard as being entrusted to them by the electorate and which therefore form their policy platform. In the case of the Namibian Government broad national development goals were set at independence.

It is important to analyse or assess the budget within the context of the National Development Plan (NDP) as the foremost medium-term national development strategy for Namibia. The plan recognises that sustained economic growth is possible only within a sound macro-economic framework and that in such an environment government budgetary policy plays a key role.

These goals were subsequently incorporated into the First National Development Plan (NDP1) by the National Planning Commission (NPC) and have in every year since then formed the basis of the Government's budget policy.

A few of the others that were mentioned by the Minister of Finance in his most recent budget speech were fiscal prudence, improving the effectiveness of Government spending and enhancing the administrative capacity to design and implement high-quality revenue and expenditure programmes.

In assessing the success of a particular budget and its implementation the questions must be asked whether NDP1 broad policy objectives were appropriate against the background of the macroeconomic conditions and trends at the time, to what extent the necessary action was taken to implement them, and whether it was successful. In this regard it is also important to take a close look at the trends in the broad categories of

National Development Goals — Targets

1. Reviving and Sustaining Economic Growth

(a) Achieve *average* growth in real GDP per year of 5% between 1995 and 2000
(b) Reduce budget deficit to 3% of GDP by 2000
(c) Increase and sustain investment at 19% of GDP by 2000
  1. Government Investment to 6% of GDP by 2000
  2. Private Sector/Parastatals to 13% of GDP by 2000
(d) Increase Real Gross National Income *per capita* by 12 % between 1995 and 2000 (from N$ 6,930 in 1995 to N$ 7,720 in constant 1995 prices)
(e) Diversify export and import markets to reduce the share of trade with South Africa

2. Creating Employment

(a) Increase wage (formal) employment by 70,000 by 2000
(b) Increase informal employment by 40,000 of which:
  1. Subsistence Agriculture employment 30,000
  2. Other informal employment 10,000
(c) Reduce the population growth rate to below 3% by 2010

3. Reducing Inequalities in Income Distribution

(a) Reduce the proportion of households below half average income from 60% in 1994 to 50% by 2000

4. Reducing Poverty

(a) Reduce the proportion of poor households from 47% in 1994 to 40% in 2000

Source: National Planning Commission, *National Development Plan One (NDP1)* government expenditure (social, economic, justice and order, and general government) if this has not already been done.

Finally, a broad goal of economic policy, which has frequently been mentioned in budget statements in Namibia in the past, is **economic regulation or stabilisation. The budget was seen as a strong stabilising instrument, which should be utilised to combat undesirable fluctuations within the economy as a whole.** Briefly, the idea was that in times of economic recession the Government should stimulate the economy by increasing expenditure and reducing taxation. In this way additional purchasing power would therefore be injected into the economy, acting not only to balance out the reduced spending in the private sector, but hopefully also to act as a kick-start to stimulate activity in the private sector. At times of a boom in the economy the opposite policy would then be followed to restrain economic activity in the private sector in order to inhibit inflation and soften the subsequent downswing.

Attempts to achieve this in practice have, however, **led to the conclusion that fiscal policy is not a flexible enough instrument for this purpose.** The present tendency is therefore rather to use fiscal policy as an instrument for achieving long-term objectives, such as those mentioned above, and to leave the shorter-term objectives, such as macro-economic stabilisation, to **the more flexible instrument of monetary policy, e.g. interest rates, exchange rates and regulation of the amount of money in circulation the economy.** Namibia due to its membership to the common momentary areas, has relinquished its momentary autonomy and therefore follows South African momentary policy. **As a result the Government relies on fiscal policy for economic stabilisation.**

INFLUENCING THE BUDGET PROCESS

Advocacy

Advocacy broadly refers to organised efforts of people to inform or influence public policy. Like all areas of public policy, organisations and individuals can advocate for specific budget policies.

Key Questions for Budget Advocates

- What happens when in the budget cycle (know the table on page 42-43)?
- What are the needs of your group, and how should they be prioritised?
- Who can deliver the good or services identified as needed?
- Which other groups share the same or related needs?
- What groups are likely to have different views?

Answers to these questions can be used to develop an advocacy plan that should include a time table, instruments of advocacy to use, as well as what areas for advocacy will be targeted.

Instruments of Advocacy

There are many different advocacy tools, such as:

lobbying — meeting with elected and public service officials.

testifying — speaking at a public hearing held by a line ministry or a parliamentary committee.

petitioning — stating your groups ideas on paper with a list of names of all the individuals who share your views.

negotiating — working with a line ministry or parliamentary committee to develop or refine legislation.

networking — building alliances and coalitions with other like minded groups.

court action — taking the government to court to force or stop some action.

mass mobilisation — bringing people to the streets to show their support for your groups ideas.

Arenas for Advocacy

- Line Ministries
- The Cabinet
- National Assembly, National Council and their committees
- The Media

APPENDIX 1 BUDGET TIMETABLE

Stage in Budget Process	Activities	Bodies Responsible	Timetable: Main Budget FY 1998/99	Timetable: Additional Budget FY 1997/98
1. Policy framework	1. Outlines current and expected macro-economic conditions and their effect on the budget; availability of resources; budget objectives; proposed expenditures ceilings; resulting	MOF (Treasury, State Revenue, EPAS), NPC, BON, and OPM (Dept of Public Service Management)	July 1997	
	2. Presentation of policy framework to Cabinet	MOF (mainly EPAS and Minister of Finance)	July 1997	
2. Preparation of preliminary estimates	1. Circulate budget to line ministries to prepare and submit estimates of expenditures for fiscal year 1998/99	MOF (Treasury)	July 1997	June 1997
	2. Treasury makes own preliminary estimates of requests and ceilings, also of development/ capital expenditures on basis of NDP1	MOF (Treasury)	July/ Aug 1997	July 1997
	3. Individual ministries interviewed; requests and ceilings re-adjusted where necessary	MOF, NPC	Aug 1997	July 1997
	4. Presentation of guidelines to Cabinet Treasury Committee and Cabinet as a whole	Minister of Finance, MOF, NPC, OPM, GG	Aug 1997	July 1997
	5. Approval of guidelines by Cabinet	Cabinet	Aug/ Sept 1997	Aug 1997
	6. Budget circular and instructions to line ministries to prepare and submit final estimates of recurrent/ capital expenditures for FY 1998/ 99	MOF, NPC	Sept 1997	Aug 1997

Stage in Budget Process	Activities	Bodies Responsible	Timetable: Main Budget FY 1998/99	Timetable: Additional Budget FY 1997/98
3. Preparation of final estimates	1. Line ministries prepare final estimates inside guidelines and submit them to MOF	MOF	Oct 1997	Aug 1997
4. Preparation of budget for submission to Parliament	1. Check consistency of estimates; consolidate and update background information	MOF	Oct 1997	Aug 1997
	2. Final typing up of loose ends with line ministries	MOF, line ministries	Oct/ Nov 1997	Sept 1997
	3. Consolidations and summaries draw up	MOF	Nov 1997	Sept 1997
	4. Budget document sent to printer	MOF	Jan 1998	Oct 1997
	5. Preparation of budget speech for Minister of Finance	MOF	Jan/ Feb 1998	Oct 1997
5. Legislation	1. Submission of budget to the National Assembly	MOF, Minister of Finance	Feb 1998	Oct 1997
	2. Submission of budget to National Council	MOF	Mar 1998	Nov 1997
6. Implementation	1. Issue of warrants; issue of instructions where necessary	MOF, line ministries	Apr 1998 - Mar 1999	Nov 1997 - Mar 1998
7. Auditing	1. Books closed; appropriation accounts drawn up, with justification for over expenditures	MOF, line ministries	Sept 1999	Sept 1998
	2. Appropriation accounts and supporting documentation submitted to Auditor General	MOF	Sept 1999	Sept 1998
	3. Auditor General reports to National Assembly	AG	Mar 2000	Mar 1999
8. Legislative	1. AG's report referred by National Assembly to Standing Committee on Public Accounts	National Assembly		
	2. Standing Committee on Public Accounts reports back to the National Assembly	Standing Committee on Public Accounts		

Abbreviations:

MOF — Ministry of Finance
EPAS — Directorate of Economic Policy Advisory Services (MOF)
NPC — National Planning Commission
BON — Bank of Namibia
OPM — Office of the Prime Minister
GG — Government Garage
AG — Auditor General

Appendix 2 Total Government Expenditures

Current and Capital Expenditures as a Percentage of Total Government Expenditures and Total Government Expenditures as a Percentage of the Gross Domestic Product (GDP) at Current Prices 1990/91 to 1997/98

Year	Current Expenditures N$ m	Capital Expenditures N$ m	Total Expenitures N$ m	Percentage of Total Expenditures		GDP N$ m	Total Expenditures as a Percentage of GDP
				Current	Capital		
1990/91	1720.1	358.7	2078.8	82.7	17.3	6575.3	31.6
1991/92	2366.4	425.1	2791.5	84.8	15.2	7376.5	37.8
1992/93	2761.9	585.3	3342.2	82.6	17.5	8428	39.7
1993/94	2902.9	503.3	3406.2	85.2	14.8	9391.3	36.3
1994/95	3316.3	513	3829.3	86.4	13.4	11304.3	33.9
1995/96	3949.1	634.4	4583.5	86.2	13.8	12668	36.2
1996/97	4580.1	558.1	5138.2	89.1	10.9	14256.5	36
1997/98*	4703.8	1000.5	5704.3	82.5	17.5	15785.8	36.1

Source: Ministry of Finance

* Budget Figures

APPENDIX 3 GOVERNMENT EXPENDITURES BY FUNCTION

Total Governement Expenditures by Function and as a Percentage of Total Government Expenditures 1990/91 and 1997/98

Function	1990/91	1997/98*	Percentage of Total Expenditures 1990/91	Percentage of Total Expenditures 1997/98*
Education, recreation and cultural affairs	583368	1672745	22.7%	29.1%
Health	247338	611571	9.6%	10.6%
Social Security	143929	280728	5.6%	4.9%
Housing and community development	214237	366208	8.3%	6.4%
Economic affairs	421524	976575	16.4%	17.0%
Security	296590	787702	11.5%	13.7%
Debt service	315600	209614	12.3%	3.6%
General public service	352510	849602	13.7%	14.8%
TOTAL	2575096	5754745	100.0%	100.0%

Source: Ministry of Finance

* Budget Figures

Glossary

Additional sales levy (ASL) is a form of indirect tax applied in addition to the general sales tax on the sale or purchase of certain goods and services, such as luxury goods.

A **budget deficit** occurs when ever the budgeted expenditure exceeds the estimated revenue for a given financial year.

A **budget** is an estimate of revenues and expenditures for an individual, a family, a company or state, usually for a financial year.

Balance of payments refers to a country's receipts from the rest of the world and its payments to the rest of the world. Such receipts arise from the export of goods and services and the inflow of capital. Payments arise from the import of goods and services and the outflow of capital.

Capital expenditure refers to the portion of funds that are spent on the creation and maintenance of physical infrastructure, such as roads, dams, and schools.

Collective goods and services are those provided by the government for the community as a whole usually free of charge or heavily subsidised, e.g. defence, justice, police protection, etc.

Current expenditure or **recurrent expenditure** represents the amount of money spent on or earmarked for administration, e.g. salaries, electricity, and telephone service.

A **customs duty** is a tax levied on certain imports at predetermined tariffs.

A **customs union** is the creation of a group of countries who agree to create common set of customs tariffs with other countries and (usually) to have free trade with each other.

Debt service is the interest and redemption payments on debts.

Dividends are sums of money payable by a company to its shareholders; a cooperative to members; or an insolvent estate to its creditors, on which taxes are levied on a proportional basis.

Excise duty is tax levied on certain goods produced or sold within a country of origin. Goods most frequently subject to excise duty are alcoholic beverages and spirits, tobacco, petroleum products and motor vehicles.

Financial year or **fiscal year** is similar to a calendar year in that it is 12 months long, but refers to when an individual or organisation opens and closes it financial books. In Namibia the government's financial year runs from 01 April to 31 March the following calendar year.

Fiscal policy is designed to moderate economic fluctuations, i.e. in the rates of growth, inflation and employment, etc. It is initiated by the Executive branch of government by setting the level and type of taxation as well as the amount and distribution of public (government) spending.

Gross Domestic Product (GDP) is the market value of all final goods and services produced in a specific country during a given period of time (usually one financial year).

Inflation occurs when the prices of the majority of good and services significantly rise over a substantial amount of time. It is measured by the Central Statistics Office (CSO) through the Consumer Price Index (CPI).

The prefix macro is derived from the Greek word makro, meaning large. Thus a **macro economic** concept would be one that refers to a large group of people. For example, the term national income is a macro economic term because it refers to the total income of all the individuals in the nation, as opposed to the income of one person, which is sometimes referred to as a **micro economic** concept.

National Budget is a document which is presented to Parliament annually for approval. The Cabinet Minister responsible for Finance, sets out the planned expenditure of government for the coming financial year and shows how the state intends to finance these expenditures, either by means of taxes or loans.

A **non-governmental organisation (NGO)** is an organisation that is not funded by the government and that does not make a profit.

Non tax revenue, implies the income to government from sources other than taxes, such as: income from the sale of government goods and services.

A **progressive tax** is one in which the percentage of tax payable increases as the value of the good or income increases. This is usually the case with income tax.

A **proportional tax** is one in which the percentage of tax remains the same irrespective of the size of the taxable value. This is normally the case with company tax.

The amount of money that a government has borrowed in order to finance its deficits is the **public debt**. It must be repaid, with interest.

Public (government) expenditures refers to the spending process of the various ministries and other government departments, with respect to their budget allocations. They can be broken down into capital and current expenditures.

A **regressive tax** is one in which the percentage of tax payable decreases as the taxable value increases. Regressive taxes are not normally found in practice, but a proportional tax on consumer goods can have a regressive effect if poor people spend a larger share of their income on such goods than rich people.

Taxes are compulsory payments levied by government on the income and transactions of individuals and companies. Government use the generated revenue for financing its operations. Taxes can be classified into direct and indirect, the former is levied on incomes of individuals and companies, whereas the latter is levied on the sale and purchase of goods and services.

The **Treasury** is the division of the Ministry of Finance responsible for managing the government budget and the administration of government expenditures.

Value added tax (VAT) is a tax on consumer goods that is collected at each distinct stage of the production process. The general sales tax and the additional sales levy in contrast are collected only at the final point of sale of the finished good. At each stage on the valued added is tax not the total value of the finished product.

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Where Does the Government's Money Come From?

How Does the Government Use Money Collected from Taxes?

How Does Government Determine its Priorities?

How Does the Budget Relate to You?

Namibia Chamber of Commerce and Industry

National Democratic Institute for International Affairs