PUBLIC FINANCE REFORMS: MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF) AND ITS EFFICIENCY IN NAMIBIA.

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Abstract

The focus of this study was to review the performance of MTEF and notice the change that was brought about by MTEF since the commencement of its implementation. The study examined the effectiveness of the budget reform process, the current process whether the Namibian fiscal policy did achieve the micro and fiscal policy goals.

Given that Namibia has implemented a homemade MTEF in Africa, the paper examines whether Namibia MTEF's is different from those MTEF initiatives. The study analysed the effectiveness and success factors of MTEF and how the micro and macro economic goals as articulated in MTEF has been achieved. The methodology for this research is both quantitative and qualitative, interview, library research; government documents and budget reports were conducted. The study revealed that there is a need of improving the current MTEF because the goals needs to be fixed at least for three years in order for them to be better monitored and evaluated. Recommendations were made on the way to improve the MTEF budget process in Namibia.

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To all of you precious people of God, may God bless you richly for what you have done to me.

Dedication

This project is dedicated to my Heavenly Father, my Redeemer Jesus Christ and my Comforter the Holy Ghost for holding my hand and lifting me up during the painful time of life. Thank you my Lord for your grace that is sufficient for me.

Declaration

I Lovisa-Kauko Uukelo, declare hereby that this study is a true reflection of my own research, and that this work, or part thereof has not been submitted for a degree in any other institution of higher education.

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Lovisa Kauko Uukelo

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List of Acronyms

AIDS	Acquired Immune Deficiency Syndrome
BoN	Bank of Namibia
ECU	Efficiency and Charter Unit
EPAS	Economic Policy Advisory Services
FBP	Forward Budget Plan
GDP	Gross Domestic Product
GRN	Government of the Republic of Namibia
HIV	Human Immunodeficiency Virus
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
MDG	Millennium Development Goals
MoF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
NAPWU	Namibia Public Workers Union
NCCI	Namibia Chamber of Commerce and Industry
NDP	National Development Plan
NPC	National Planning Commission

NPCS	National Planning Commission Secretariat
N$	Namibian Dollars
O/M/A	Offices/ Ministries and Agencies
OPM	Office of the Prime Minister
OVC	Orphans and Vulnerable Children
PAC	Standing Committee on Public Accounts
PEM	Public Expenditure Management
PEMP	Performance and Effectiveness Management Programme
PS	Permanent Secretary
PSM	Public Service Management
SACU	Southern Africa Customs Union
SDMS	Sovereign Debt Management Strategy
TAW	Treasury Authorization Warrants
TCC	Treasury Cabinet Committee
UN	United Nations
UNDP	United Nations Development Programme
US$	United State Dollars

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Chapter 1

1. Introduction

Namibia gained independence in 1990 after more that a century of colonial rule. It inherited a dualistic economy and society. The past laid the foundation for a huge income inequality resulting in a Gini-coefficient, of 0.7, one of the world's worst figures recorded. Average growth rate at 3.6 %, recorded post-independent is not sufficient to reduce the inequality because the margin of economic growth is low and the population growth at 2.2 to 3.1 percent is high.

To change the situation at hand, the government uses the budget to redistribute the resources. Thus the budget is the fiscal policy tool, for the government to accomplish its development goals through tax collecting revenue system and government spending, i.e. spending tax revenue to influence and direct conditions of the national economy. According to Mr. Randall the budget is defined as a quantified, planned course of action over a definitive time period that seeks to provide a resource allocation system focused on achieving the country's development goals. The government is committed to good governance, sound public administration, transparency and accountability. It has been using two types of budgets to redistribute the resources, the line budgeting system since 1990 to 2001, and the rolling budgeting system started in 2001 up to the current period.

The Medium Term Expenditure Framework (MTEF), Namibia's current budgeting system is based on rolling budget framework and comprises of two funding streams, the operational budget and the development budget. Operational budget: the process starts by designing the budget calendar and it contains the exact activities. The Ministry of Finance 's Economic Policy Advisory Services (EPAS) formulates the Macroeconomic Policy Framework in consultation with Public Service Management (PSM), the National Planning Commission Secretariat (NPCS), and, the Bank of Namibia (BoN). The Development budget reflects capital expenditure and National Development Plan. It is aimed at improving the monitoring and implementation of development projects. It is formulated based on the macro economic policy framework

Medium Term Expenditure Framework is the main budget document that indicates the estimates of revenue, income and expenditure for the financial year as well as for the future projects. It also contains information on funds provided by the development partners. In 1996, the cabinet took a decision to reform the budget system, which aimed at implementing a fully-fledged performance budget system along with Performance and Efficiency s Management Programme (PEMP), a measurement indicator of the new budget system. At the beginning of 2001/02 financial year the first MTEF and PEMP documents were published.

Namibia has implemented a homemade MTEF programme, which is different from the conventional MTEF. This means that Namibia has opted not to implement the conventional MTEF in its original form, but formulated its own version of MTEF instead. Some countries are of the opinion that Namibia does not have MTEF, but a different tool, which could have been given a new name (Sherbourne 2005).

Table 1 below lists some differences between the conventional MTEF and Namibia version of MTEF.

Table 1: Conventional MTEF versus Namibia's MTEF system

Classic World Bank MTEF	**Namibia's MTEF**
Driven by Government and Donors	Driven by Government
Covers some sectors	Covers all sectors
Input focused	Outcome focused
Formulaic	Analytical
Influences the budget	MTEF is the budget

Source: Ministry of Finance (2005:28), Adopted from MTEF 2005/06 – 2007/08

The rolling budget was introduced with the view to prevent the deficiency of a narrow one-year planning horizon previously used. It covers a period of three years, but is revised every year. Hence, it is both a three-year rolling budget and also an annual budget. The main objectives as listed in MTEF (2001) are:

- To improve the balance of state finances by planning the fiscal policy in medium terms and developing a realistic resource framework:
- To improve the allocation of resources to government's priorities by extending the planning period:
- To improve financial planning in line ministries by increasing the predictability of the available resources:

- To improve the planning recurrent cost implications for capital expenditure; and
- To provide the private sector with the relevant information on budgetary policies in the medium term, thereby improving the information base for private investment decisions.

This research attempts to shed some light on the impact of MTEF and how it has performed in achieving its objectives. The success of MTEF depends on other budget components, particularly reliable collection of revenue. Currently, Namibia's revenue collection system is inconsistent due to trade liberalization and regional economic integration.

1.1. Statement of problem

Prior to the adoption of the MTEF in 2000,Namibia had been using a line item budget system whereby Ministries were requested to allocate or increase their budget based on their programme inputs, (Shilimela et al 2005:2). The budget system was not guided by development priorities and by fiscal targets set. It was highly integrated to that of South Africa, its then colonial ruler.

The previous budgeting process system had a serious weakness, leading to a necessity to curb overspending. The old budgeting system lacked flexibility and no links to priorities. Similarly, lack of institutional forum where various departments in the ministries could discuss their budget and prioritise their program was an additional factor that contributed to the authoritative budget approach. Furthermore once the budget is approved, the MoF prepared guidelines and circulated it to the line Ministries with the request to draw up their respective budgets. The budget estimates are drawn up by economic classification and by operational and development expenditure. The budget request was based on the current budget and its execution, and was increased by standard adjustment e.g. wage and salary increments based on expected outcome of negotiations with trade unions. Public Service Management plays a vital role, as it is responsible for personnel management. Besides, the estimated expenditures on new projects are added, whilst non-recurrent amounts in the budget are subtracted. Other expenses such as stores, equipment and services are increased every year by 10 percent (Schade et al 2000). The process was not conducive for a newly independent country because changes were more frequent than in an established economy. The current budget process is perceived to be more transparent than the previous.

It was therefore introduced to address the problem and aimed at improve monitoring and internal control mechanism.

The Central Question

The central question that will guide the study can be stated as follow: What changes has the MTEF brought about in Namibia's fiscal policy stance?

The sub-research questions are:

How effective is the reformed budget process?

Does Namibia fiscal policy achieve micro and macro fiscal policy goals?

Does the process ensure macro-economic stability?

Is it delivering socio-economic improvement?

1.2. Objective of the study

In 2001, the government introduced a three-year rolling budget. The program takes into account the development priorities in a medium term perspective rather than a single fiscal year as used in the past. After five years of operating this new budgetary approach, it is necessary to attempt its evaluation as concerned in this study.

The purposes of the study are as follow:

To review the performance of MTEF since commencement of its implementation

To analyse the effectiveness and success factors of MTEF;

To examine the micro and macro economic goals articulated in MTEF and how far they have been achieved.

To recommend the possible strategies aimed at improving the budget process.

1.3. Methodology

The key focus was the initiating period to the current period 2001 to 2006. Both qualitative and quantitative approaches were used to obtain information, especially from those who played key role during the preparation process of MTEF budgetary initiative. Preparation process set by the MoF and internal plan of spending agencies based on the terms of references provided by MoF was used to determine the effectiveness in achieving the objectives.

The following methods was employed to gain in-depth knowledge, and understanding of the progress made. The methods seek to uncover the interaction and the relations between the Ministry of Finance and various stakeholders regarding formulation of budget process

1.3.1 In-depth interviews

To achieve the objective of the study the researcher made use of both primary and secondary data. Different documents were compared and contrasted; and questionnaires were administered to relevant stakeholders. This allowed the interviewer to rephrase questions to elicit relevant information required, while analysing and synthesizing information drawing on the respondents' experiences, knowledge and opinions. Using an interview, each category was questioned depending on their involvement in the budgetary process. Respondents identified were: key personnel in the budget management division of the Ministry of Finance and key personnel in the National Planning Commission Secretariat.

1.3.2. Documentary analysis

This tool played a vital role in data collections as policy documents; memoranda of meetings, annual budget documents were used to ascertain participation in the process of Public Finance Control and Management. The process enabled the researcher to gain information on the level of participation of all stakeholders.

1.4. Scope and limitation

Due to time constraints, the research was limited to the central government with emphasis on the Ministry of Finance since it plays a vital role in budget preparation. In addition, financial issues have not been decentralised, so the researcher chose this area as focus point. The research was also limited by the unavailability of research data for instance some key officials were not readily available for interviews.

1.5. Chapter outline

The project report attempts to review the performance of MTEF and observe the change that was brought about by MTEF since the commencement of its implementation. It examines the effectiveness of the budget process reform, whether the Namibian fiscal policy does achieve the micro and fiscal policy goals, as articulated in MTEF and how they have been achieved. The study consists of six (6) chapters.

Chapter 1 outlines the introduction of the study giving a brief overview of the country's budget background. Furthermore, it deals with the statement of problem, objective, methodology, scope and coverage of the study.

Chapter 2 deals with literature review and theoretical framework, definitional issues and the existing process prior to the introduction of MTEF.

Chapter 3 covers the process and procedure of the Medium Term Expenditure Framework in Namibia

Chapter 4 attempts an evaluation of the Medium Term Expenditure Framework.

Chapter 5 focuses on Policy issues; problems faced in the implementation process and the prospects of Medium Term Expenditure Framework.

Chapter 6 provides summary, conclusions and recommendations of the study.

Chapter 2:

2. Literature review and Theoretical framework

2.1. Literature review

This chapter summarises available literature outlining various opinions on the importance of proper financial management systems. From the historical point of view of budget reform indicates that MTEF is a reform policy advanced to address shortcomings experienced in the previous budget reforms. During 1990, proliferation of Medium Term Expenditure Frameworks was observed through the developing world. By one account, about 25 countries in Africa, Asia, Latin America and Eastern Europe at diverse stages adopted MTEF whilst ten others considered it seriously (Houerou et al 2002). 90% of 25 existing MTEF's including Namibia was adopted during the period of 1997 to 2001. Africa may be regarded as the regional leader in MTEF implementation as most of the countries have already adopted it. The programme is receiving an improved attention in the context of the formulation of poverty reduction strategy papers, which regard it as an ideal vehicle for incorporation of them into public expenditure programmes within a coherent macroeconomic fiscal and sectoral framework (Houerou et al 2002). There is limited literature on the success or advantages of Namibia's MTEF over previous budget tools, but general impression is that the system did not do much on attaining fiscal targets or improving forecasting (Sherbourne 2005:2). Little has been produced due to the fact that it is a new programme that was introduced recently. Nevertheless, the result has shown that in operational terms MTEF has been accidentally accorded the status of black boxes. The research attempts to disclose the degree of Medium Term Expenditure Framework's achievement, efficiency and effectiveness since its inception. The paper peruses the background, budgeting process before the introduction of MTEF, the MTEF process and procedure, evaluation of MTEF, policy issues and draws the summary, conclusions and recommendations.

2.2. Framework of analysis

The study has used Chen's (1990) theory- driven model of impact evaluation. The process evaluation verifies the actual program whether it delivers as it was intended to. It is widely believe that all government policy includes some elements of process evaluation, i.e. how they can be developed and managed. Possible scenario for using process evaluation include but not limited to these:

- Check established programme performance. The performance of the programme was measured against pre-determined goals of the programme. In other words, goals were used as the main criteria in assessing programme effectiveness.
- Examine the effectiveness of that programme and if there are question surrounding it. Assessing the effectiveness of the programme based on the goals may be misleading because it makes the makes the evaluator or researcher to focus only on the goals of the programme and overlook other important elements, thereby giving a narrow view on the outcomes or effects of the programme. For example, the goals of the programme may be achieved but in reality the programme has not contribute to the well being of the beneficiaries.
- Identifying chances of further development, in case of the new programme.

The process evaluation helps the researcher to obtain information concerning the budgeting reforms. Its impact can be measured using PEMP that shows the actual outcome what line ministries with their allocated budget achieved. Process evaluation is useful in identifying the strength and weakness of the programme.

Chen's theory on Impact evaluation deals with two major issues i.e. evaluation of programs looking at official/program goals and actual or operational goals. Chen advocated that in carrying out an evaluation, the evaluator or researcher should not only be concerned with assessing whether the goals of the programme are achieved but also with discovering what actually happening as a results of the programme. Thus the research is focused on both official and operative goals and the intended and unintended outcomes of the programme.

The main difference between the official goals and operational goals is that official goals are the general purpose of the programme while operative goals are the ends sought through the actual operating policies of the programme. They tell what the programme intends to achieve.

Theory-driven model states that in assessing the effects of the programme, one should look at both the intended and unintended outcomes by examining the programme activities in order to identify these outcomes.

By applying Chen's theory impact evaluation, the study looked at the real programme goals of the rolling budget and assessing its effectiveness in achieving its objectives. It aims at judging the effects of shifting from input to output orientated results. It also facilitated getting the information on the actual situation of the newly adopted programme budget.

The main advantage of Chen's theory of impact evaluation is that it provides a conceptual framework for dealing with unintended outcomes without ignoring the intended programme goals.

2.3. Definitional issues

The Budget is defined as a quantified, planned course of action over a definitive time period. It seeks to provide a resource allocation system focussed on achieving the country's developmental goals.

Operational Budget: Expenditure allocated to recurrent expenditures and service-oriented operations of Government. Generally, operational budget is characterized by current expenditures, such as transfers, remuneration, travelling expenses, materials and supplies,

Development budget: expenditure allocated to development projects of the public investment program.

Outcome: in this study refers to quantified measure of how far the ministries and agents have achieved the objectives.

Programme: refers to a coherent grouping of activities designed to achieve a common objectives

Output: in this study it refers to a quantified measure of what the ministries and agents are producing with a view to achieve the objectives.

Line ministries: include various offices, ministries and agencies that are funded by the national budget.

Governance refers to management and deployment of public finance in a transparent, equitable and efficient manner. According to the United Nations Development Programme (UNDP) governance is defined as the exercise of political, economic and administrative authority in the management of a country's affairs at all levels.

2.4. Medium Term Expenditure Framework (MTEF) in theory

MTEF is introduced with the aim of linking policy, planning and budgeting. Therefore, it is a linking framework that allows expenditures to be driven by policy priorities and disciplined by budget realities. It is believed that developing countries governance has a common condition of disconnection between policy making, planning and budgetary processes hence they need MTEF. It is also thought that MTEF is a central element of Public Expenditure Management reform programs.

Theoretically, MTEF is consisting of top down and bottom up approaches where resources enveloped an estimation of the Current and Medium Term of the existing policy. Ultimately, the availability of resources should be provided in the annual budget process (World bank, Public Expenditure Management Handbook 1998: 47).

The top down approach is a macroeconomic model that indicates fiscal target and estimates revenues and expenditure; it includes government financial obligations and high cost government-wide programs. On the other hand the bottom up approach scrutinizes the line ministries policies and activities with an aim of optimising intra-sectoral allocations; this is similar to the zero-based budgeting approach.

Table 2 stage of comprehensive MTEF else where in the world

Stage	Characteristics
Development of Macroeconomic/Fiscal framework	Macroeconomic model that projects revenues and expenditure in the medium term (multi-year)
Development of Sectoral programs	Agreement on sector objectives, outputs and activities
Development of Sectoral Expenditure Frameworks	Analysis of inter and intra sectoral trade offs
Definitions of Sector Resource allocations	Setting medium term sector budget ceilings (cabinet approval)
Preparation of Sectoral Budgets	Medium term sectoral programs based on budget ceilings
Final Political Approval	Presentation of budget estimations to cabinet and parliament for approval

Source: MTEF, from concept to practice preliminary lessons from Africa, Africa Region working paper series No 28 Feb 2002.

Once the strategic expenditure framework is developed, the government will define the ministerial resource allocations, which are then used by the ministries to finalize their program and budget. The aim of reviewing the ministerial process is that within the broad strategic expenditure framework, that reflects resources constraints and government policy, line ministries have power to manage by making decisions that maximize technical outcomes efficiency and effectiveness. Namibia's case is little different from the above because, Namibia does not have a sectoral expenditure as it appear in table 2 above. In Namibia the MoF circulates a letter requesting the line Ministries to set up their budget needs through preparing a Medium Term Plan (MTP) together with PEMP. Ministries should state the achievements of the their Ministerial targets and provide expenditure and revenue profile. Their performance objective should be linked to their expenditure proposal.

In principle, MTEF facilitates greater macro-economic balance, improves resource allocation, improve financial planning in line ministries by increasing the predictability of the available resources, improve the recurrent cost implications planning for capital expenditure and promote efficient use of public monies. In addition it provides greater political accountability for public expenditure outcomes through greater credibility of budgetary decision-making, and provides the private sector with the relevant information on budgetary policies in the medium term, thereby improving the information base for private investment decisions. It also endeavours to make public expenditure more efficient and effective by allowing line ministries greater flexibility in planning and managing their budgets.

2.5. Budgetary process before the introduction of MTEF

The budget process allows the government to plan for the period ahead, allocate resources in line with policy priorities and seek authority from parliament in order to spend the public funds. Hence, financial management system through National budgeting assists the government to translate its strategy into action, promote informed decision-making, transparency, and accountability. Therefore, it encourages responsiveness and promoting efficiency in the public sector. All these would be achieved through proper planning, decision-making and scrutiny processes that culminate in the passing of government budget. The process should aim at efficient management of scarce resources reporting and feedback. The estimates should describe how Offices/Ministries/Agencies (O/M/A) plans fit in with governments objectives to achieve developmental goals, the resources needed and how they will be translated into outcomes. The process leads to the preparation of the Estimated Revenue and Expenditure, contained in the requests of various line ministries. Previously the budget had been prepared as follows. The budget process consists of five phases, Preparation phase, Approval, Implementation, Finalisation of Accounts and Auditing

2.5.1. Preparation phase

The government fiscal year covered the period from 01 April to 31 March of the following year whilst the National budget is tabled around March/April. Withdrawal of fund from the state revenue fund was not permissible except in the current financial year. The budget process begins with the designing of a budget calendar that was done during May/ June period, (Schade et al 2000). The calendar-contained information on exact activities, responsible institutions and persons entrusted to carry out the activities and the timetable that indicate the deadlines for each activity.

This process is complemented with the formulation of macro-economic framework that led to policy framework. These were prepared by Ministry of Finance supported by NPC and OPM. The policy framework sets out the broad goals and parameters for the budget. Two types of budget were prepared, operational budget compiled by the Ministry of Finance and development budget prepared by NPC. Each budget had different schedule, however some activities run concurrently were co-ordinated. In addition, estimated expenditure on new projects was added while non-recurrent amount in the current budget were subtracted. Other expenses were increased with

10%. Furthermore, the Permanent Secretary (PS) of each ministry consolidated the draft budget, which usually exceeded the guideline amounts. After the consolidation, the expenditure amounts was submitted to the treasury department in the Ministry of Finance, whereby the NPCS, individual ministries and PSM deliberated on it in order to reconcile the requests with what the State can afford. During the period the parties involved determined whether the activities fell within the overall macro-economic objectives of the government.

The outcomes of the meeting would be submitted to the Treasury Cabinet Committee, chaired by the Minister of Finance, who would present it to the cabinet for final ceilings approvals. From November month onward the Ministry of Finance starts to draft the final budget estimates, if the line ministries budget exceed the overall budget the MoF cut down their estimates in order for them to be in line with the overall budget. In January the MoF met the NPCS to discuss the implications of the development budgets on the recurrent expenditure, (Guideline to prepare national budget, 2000).

The macro-economic framework was based on present and future economic conditions amongst others were GDP growth rate balance of payment, resources mobilisation and exports. After the formulation the framework was forwarded to cabinet for approval. Once the cabinet approves the ceiling amount, the Ministry of Finance would then prepare the guideline, which would be distributed to the line ministries. Thereafter the line ministries would prepare their budgets estimates. Budget requests were based on the current budget's execution and were increased by standard adjustment, (Schade et al 2000). In case of wage and salary the budget was based on expected outcome negotiations with trade unions whilst the notch increments increased with certain fixed percentage. These are carried out by the Public Service Management (PSM) in the Office of the Prime Minister that is responsible for personnel management. It was also responsible for establishing organization structure and personnel ceilings.

After the completion of this stage the Ministry of Finance can then begin to prepare the budget that would be submitted to the parliament. This process involves the final checking on the consistency of the estimates, consolidating them, drawing up the summarised tables that would appear at the beginning of the document and preparing the ministers budget statement, (Understanding the national budget 1999).

2.5.2. Approval

Article 125 of the Namibian Constitution made a provision that the Minister of Finance should present the Estimate of Revenue, Expenditure and Income for the prospective financial year to the National Assembly at least once every year, (Namibian Constitution, 1990). The budget process starts with the budget preparation, which is later submitted to the National Assembly for approval

Once the process was completed around February and March the budget would then be tabled to the National Assembly usually early April. In that same day the Minister submits the budget for the financial year and delivers the budget statement. In that speech, the Minister reviews the macro-economic background, then explains and justifies all the revenue, expenditure and loan measures proposed in the estimates of revenue and expenditure for the current financial year, (Understanding the National Budget 1999).

Once the budget speech is tabled in the parliament it would be discussed in the National Assembly and National Council whereby Ministers of various ministries vehemently defended their budget and eventually approved and became an Act of Parliament, Appropriation Act. The Act was forwarded to the President for signature and normally during May/June. By end July the president signs the Appropriation Act, thereafter ready for filing. The Appropriation Act would be implemented during the year in accordance with the Treasury.

2.5.3. Implementation

Before the MoF implements the budget, line ministries were requested to draw up their Forward Budget Plans (FBP). Based on FBP, the Ministry of Finance issues Treasury Authorization Warrants (TAW) authorizing certain amounts of money ministries are allowed to spend. Before giving the authorization the Ministry of Finance consulted the Bank of Namibia on the status of the State Account, this cautionary measure has taken to prevent liquidity problem, (Sjolander 2000). The required amount to be withdrawn from the State Revenue fund were authorized directly by the Ministries whilst salaries are paid on a specific payday of the month.

Thereafter the MoF prepared the monthly general ledger, which disclosed information on budgeted funds and actual spending of a specific Ministry.

The general ledger served as a control measure that revealed the utilization of Public fund. Apart from FBP, ministries were required to draw up the quarterly report that served as a guide on how funds were managed; this meant to assist the treasury department, (Schade et al 2000). In addition, all ministries were required to open up a committed register indicating the total budgeted amount approved, total amount expended and the outstanding commitment. However some ministry has failed to open the register.

When the line ministry needed extra funds, changes priorities or suspends the funds from being used, revised budget was drafted to accommodate the needs. The revised budget was also tabled in the parliament, however this was not a legal requirement. The revised budget process started in June with a circular issued to line ministries requesting them to prepare and submit the estimates of revenue and expenditure for their ministry. They submitted it to the treasury department, which then prepares the working papers for the budget hearing by the treasury cabinet department. Around September, the Treasury Cabinet Committee (TCC) sends the answer to the Treasury department in the Ministry of Finance. After cabinet approves the guideline, the consistency of the estimates were checked and consolidated and the estimates summaries were drawn up. By the end of October the revised budget was presented to the legislative houses.

2.5.4. Finalisation of Accounts

The State Finance Act 1991 provides that, the Permanent Secretary (PS) in each Ministry is entrusted with the responsibility of establishing and maintaining the effective systems for the control of state money under his/her charge, but the system of accounts-books, account and register must first be approved by the Treasury after consultation with the Auditor General, (State Finance Act, 1991, Act 31 of 1991).

The Act further stipulated that the Permanent Secretary in each ministry be held liable for all unused funds under their control. Six months after the end of financial year the accounts books should be closed thereafter, the Permanent Secretary of MoF compiled the financial statements including all line ministry accounts in the form of Appropriate Accounts and submitted it to the Auditor General. This should be not later than seven months after the end of financial year.

Namibia used a cash based accounting system, thus all funds which were not used by the end of Financial year that is 31 March would be not available for use at the beginning of financial year 01 April. Any later payments had to be made from the new financial year's budget. The cash base system was not an appropriate one, as account does not reflect the accurate funds used in that respective year, some payments were transferred to the next financial year. In this case accrual-based accounting system would be better, however lack of skilled personnel hampered the use of this approach. Accrual based stipulates that all payment should be accounted for in the year during which the cost was incurred.

2.5.5. Auditing

Article 127 of the Namibian Constitution made a provision for the appointment of the Auditor General He/ she is responsible for auditing the ministries appropriation accounts. The Auditor General is an independent body that does not involve in the budget formulation process but decided on the size and scope of the budget.

The duties and power of Auditor General as stipulated by the State Finance Act are as follows: -, (State Finance Act, 1991 Act 31 of 1991).

To satisfy himself that expenditure/ payment recorded are authorised and there is a proof and evidence that support such expenditure or payments.

To examine the adequacy systems and controls established by the Accounting officer to ensure safeguard of State's current and fixed assets.

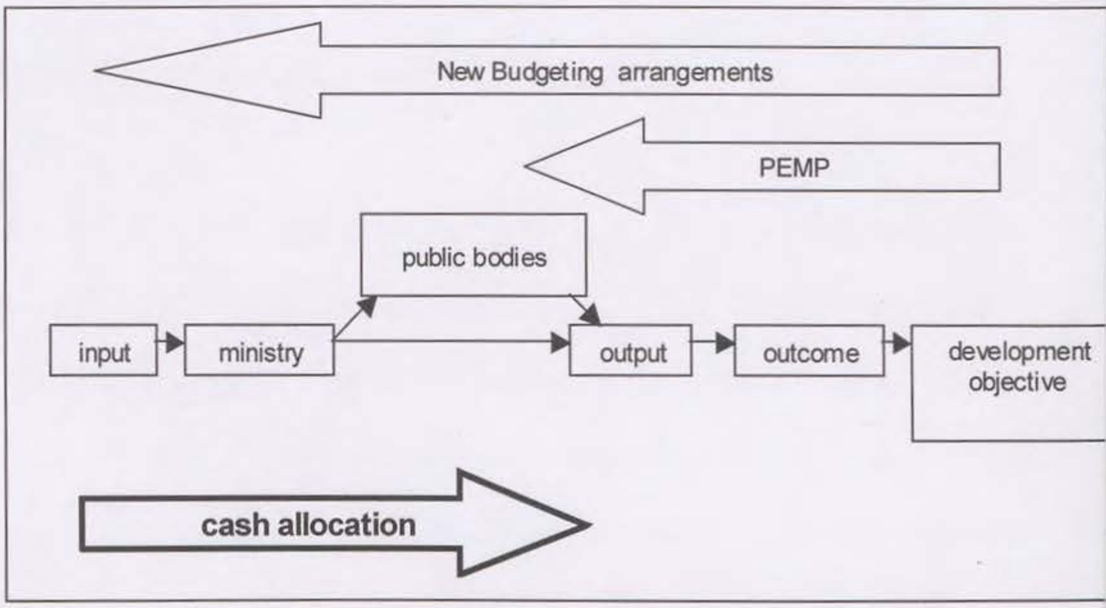
The Auditor General reports are essential and readily available for public consumption, informing them how public finance utilized during the year. The report covers 3 main sections, the introduction, this consist of the scope of the audit and a summary of main findings. The next section provides the overview of the State Account expenditure, revenue and debt whilst the last part deals with the audit of all ministries, publishing the financial statements and providing audit observation and recommendation.

The Auditor General is required to provide the MoF with the annual audited report every financial year. According to Schade (2000) the report was never submitted on time and that leads to improper planning and control due to lack of information on actual spending for that particularly year. The report was submitted to the Parliament within 30 days after its submission. It was referred then to the Standing Committee on Public Accounts (PAC) that scrutinized it and obtained evidence from the Permanent Secretaries. Based on the recommendation the Standing Committee on Public Accounts decided how the National Assembly should deal with the irregularities if there is any.

2.6 Main shortcoming of line budgeting system

The process focused on input rather then on output and it did not promote efficiency and it was ineffective, as it could not give the accurate report of how funds were utilised. The old budgeting system lacked flexibility and line ministries expenditures were not linked to priorities. Similarly, there was lack of institutional forum in various departments in the ministries. They could not discuss their budget and prioritise their program that also contributed to the authoritative budget approach. The diagram below indicates the new and the dysfunctional of old budgeting system.

The diagram2.1: illustration of the new and the dysfunctional of old budgeting system



Source: Ministry of Finance 2006

The bolded arrow refers to the old budgeting system that focused on cash allocations, and the top arrow refers to the programme budgeting process, which emphasises on objective, outcome and output rather than inputs.

The literature review revealed MTEF was introduced with the aim of linking policy where expenditure should be driven by the policy priorities and disciplined by budget realities. However the aim of this study is to review the

MTEF performance, analyse its effectiveness and success factor since the commencement of its implementation.

Chapter 3

3. MTEF process and procedures

This chapter presents the process and procedures used in Namibia to prepare the Medium Term Expenditure Framework. MTEF is the key budget document that sets out government's expenditure plans for the next three financial years. The government fiscal stance and its debt management determines the overall expenditure limits for the following three financial years. Within that expenditure limit, resource allocations to various ministries and their programmes are determined by expenditure policies and priorities. Ministries prepare and produce a copy of Medium Term Plan (MTP), outlining the total resources allocated to each programme, main activities to be undertaken and how those programmes will help in achieving the government objectives.

The budget formulation process is aimed at ensuring that budget fits macroeconomic objectives, expenditures are under control, allocation of resources and programs are in conformity with the government policy objectives and improve the operational efficiency. Each budget preparation process starts with macro economic framework and it follows the following procedure: -

The preparation of a budget circular that gives guidelines for the preparation of budget and announcement of expenditure ceilings, the preparation of the line ministries budget is based on the given guidelines. Line ministries prepare PEMP, MTP documents that outlines the total resources allocated to each programme, main activities to be undertaken and how the ministries will achieve the government objectives. These documents state the official programme goals and how they can be achieved. In August MoF sends a letter to the line ministries setting the budget need. The line ministries are required to state the achievements of the ministerial target. At this time line ministries reports their actual outcome that might be different from the intended outcome. They give an account on their expenditure profile against their plan, explain their revenue against their plan as well as produce their Medium Term Plan for the new rolling budget.

After providing the necessary document, line ministries come for the budget hearing, normally at MoF. Following the Budget hearing process, ministries are expected to produce a revised document. With the updated information the budget management staff at MoF briefs the Minister.

The Minister decides on a proposal that would be presented to Treasury Cabinet Committee (TCC) and Cabinet. Thereafter he consults the key colleagues on other political issues. Cabinet will decide what should be included in MTEF and on the ceiling of each line ministry. Once the Cabinet decides, the draft budget will be finalised.

During the budget preparation, trade offs and important programmes must be prioritised to ensure that the budget fits government policies and priorities. After that the most cost-effective variants should be selected.

During this time hard choices and trade offs have to be made such as: -(The State Finance Act, Act 31 of 1991).

- The available resources to fund the programme for the possibility of creating the resources.
- Where should the emphasis be in the allocation of resources?
- Identifying the emergency and important program that need to be executed and immediately which ones should be postponed to later stage.

- Identifying the beneficiary group from the program.
- Selecting the best programme in which resources will be utilized optimally in order to meet the people's needs

The rationale is based on the understanding that resources are scarce in relation to the size and multiplicity of the needs. There is no way that the government can do everything it is expected or would like to do simply because the time and resources would not allow it. A change would then come about if the following will be employed.

- Involving managers in the budget process using the budget process to assess cost effectiveness, and cost efficiency of the organization and activities, this is to do more with less resource.
- Moving from shopping list approach to performance budgeting by planning the costs of outputs and activities and linking them to objectives.
- Allowing managers to plan their expenditure and resources at their disposal, plan their objectives and prioritise them instead of implementing the entire intended program in one year.

Previously operational managers were forced to stick to the official goals which might not benefiting the society and this resulted in them unable to report their achievement. However with MTEF managers are given a flexible choice to carry out the programme goals.

3.1. Budget as a management tool

Before the adoption of Medium Term Expenditure Framework policy the budget process, preparation and management was administrative based. The permanent secretary together with the accounting staff prepared and managed the resources without considering the managers who involved with the operational work and have more knowledge on how resources should be utilized. Thus, introduction of MTEF implies a paradigm shift that would include the managers and make them actively involved in the budgetary process. With the introduction of MTEF, managers at all levels would be given a chance to plan and implement their activities leading to the achievement of agreed organizational objectives. Budget preparation and management is an apparent tool of budget control. Therefore involving managers would make them accept and own the program. The MoF, NPC, Public Service department and individual line ministries agrees on the sector objectives, outputs and activities. Although official goals are clear set out in the budget, the introduction of MTEF makes easier for line ministry to carry out operational goals that would make a significant contribution to the well being of the society.

The Medium Term Expenditure Framework improves on the narrow one year planning horizon in which the budget is formulated and executed. To the point of view the previous budget concentrated on official goals only thus was ineffective and had made little contribution to the development programmes. The aim of MTEF is to link the policy and budgeting for a perspective beyond the immediate future. It can be understood as a guiding tool for the three-year period where targets could be fixed constantly monitored and reviewed. MTEF should address three main objectives of public expenditure management- fiscal discipline, strategic resource allocation, and operational efficiency. It provides the basis for greater transparency and accountability by demonstrating what the government seeks to achieve.

The general trade-off is between policy relevance and certainty. The future is uncertain, thus budgeting for a short period would suffer the least uncertainty but be almost irrelevant as an instrument of policy. On the other hand budgeting for a longer period provides a broad context but carry much greater uncertainty as well. In Namibia, the rolling budget is a multiyear programme that covers a period of three years including the budget year. Practically, the feasibility of a multiyear perspective is greater when revenues are predictable and the mechanisms for controlling expenditure is well developed.

3.2 MTEF Process and Procedures

Although the National Development Plan takes five years period for its planning perspective, the government considers three years as more appropriate for a rolling budget due to uncertainties involves in forecasting over a longer period. Thus, the Development Budgets adopts a three-year horizon.

Expenditure is related to the total resource envelope likely to be available in all the three years. Therefore, it requires a realistic medium term resource forecast. Projects and programmes in years one are classified by function and economic categories. Expenditure in year two and three, are similarly recorded, e.g. if a project is of capital nature in year one, and is concluded in that year, then expenditure in two and three would be operation expenditure to implement that project. When year two is reached, its expenditure would be firmed up and the related and revised expenditure in year three and four are included in the budget.

New projects cannot be accepted in the budget if they are not fully funded over its lifetime. When year two is reached, there may be projects that are completely finished or the capital phase is ended. The total sum of all commitments are added and compared with the available resources. If there are more resources than commitments, then new projects can be added to the budget. Whilst if a project has been accepted on the budget with a capital phase over three years, once it is over, its recurrent expenditure has to be prioritised on new projects for the available resources. The key aspects are that a project should not be included in the budget if there are no available resources to fund it. These apply on both capital and recurrent costs. Therefore, projects can only be initiated and implemented when there is fund available.

3.3. Macroeconomic framework

The capacity to translate policy priorities into budget and to ensure conformity depends on soundness of macroeconomic projection and revenue forecasts.

Revenue's over estimation leads to poor budget formulation and execution. Thus, preparation of macroeconomic framework is essential element in the budget preparation process. Preparation of a macroeconomic framework is a permanent activity and is prepared at the beginning of each budget cycle. It is updated throughout the further stage of budget preparation and takes into account changes in the economic environment.

Macroeconomic projections are based on a definition of targets and instruments in areas such as Monetary Policy, fiscal policy, exchange rate and trade policy, regulation and promotion of private-sector activities and reform of public owned enterprises. Preparation of macroeconomic framework is an iterative exercise that starts with the definition of objective in order to establish a preliminary baseline scenario. However, the final framework requires a compatible of all objectives and targets.

3.4. Fiscal targets and indicators

The establishment of fiscal targets gives a framework for budget formation. It allows the government to clearly states its fiscal policy. It also enables the public to monitor the implementation of government policy and makes it politically as well as financially accountable. Fiscal targets and indicators include the current fiscal position i.e. fiscal deficit, the different between actual expenditure payments and collected revenues plus grants. Fiscal deficit is the different between actual expenditure payments and collected revenue plus grants.

Fiscal sustainability includes the ratio of debt to GDP, ratio of expenditure to GDP and ratio deficit to GDP. MTEF is one of the main fiscal policy tools Namibia uses to achieve the fiscal targets. The average MTEF official targets formulated over the MTEF period on fiscal policy enumerate that the budget deficit shall not exceed 3 percent of GDP, Public expenditure shall not exceed 30 percent of GDP and the public debt stock shall not exceed 25 percent of GDP. With these goals the government intends to improve the balance of state finance by planning the fiscal policy in medium term and developing a realistic resource framework. Fiscal framework of the overall macroeconomic framework, estimates the impact of the assumptions. It requires assessing whether the fiscal targets are realistic and sustainable and it determines the conditions requires to meet the targets.

3.5. Policies to achieve the Fiscal targets

The government has adopted some policies to free up additional resources such as outlined below.

3.5.1. Revenue Policy tools

The government requires funds to accomplish its goal thus; tax revenue is the pillar of the government resources and is directly connected to economic performance. Most of the government revenue is sourced from the country's GDP, but then its performance is influenced by internal and external economic environment. In 2003/04 the effect of exchange rate on economic performance resulted in major components of tax revenue declining. However, the tax on international trade and transaction performed otherwise with an increase of 17 percent all other tax revenue components declined. Taxes on income and profits and domestic taxes on goods and services declined by 18,5 percent in 2003 and 8,7 percent in 2004. Decrease in tax collection hamper the performance of government activities, as there won't be enough funds to implement the development programme.

During 2004/06 the government revenue outturn and receipts dropped by about 6 percent. The overall tax revenue turned out to be 4 percent below the budget. On the other hand, Tax on income and profits performed well with the collections above the budget projections by 5 percent. Similarly the non-resident shareholders tax collections exceeded the projection by 54 percent. Consequently, the positive development was offset by the decrease in VAT collection, which declines by 17 percent below the projections in the budget. The VAT shortfall was attributed to the slow down in sales of business. Further more, the decline of imports goods in nominal terms from N$18,618 billion to N$16,662 billion also affected the collection of VAT. Despite the poor collection in the same period, the country's GDP has recorded a significant growth due to the expansion of the mining industry.

In addition the administrative revenue and entrepreneurial income did not perform well because of lack of capacity in line ministries to collect and account for revenue collected properly. Furthermore, hardship in fishing industry also contributed to the decrease in revenue collection. Out of N$166 million estimated in the budget only N$104 million was collected from the fishing quota levied. During 2005/06 diamond royalties projected was N$500 million. Despite the good performance in the industry only N$385 million was collected.

In 2005 the government contracted the private sector auditors to conduct audit in public institutions. The forensic audit the exercise had led to increase in income tax and VAT. According to IMF mission (IMF 2006) this approach is not sustainable, thus MoF should develop a comprehensive reform strategy that will enhance the tax administration with commensurate increase in staffing. Measures have been put in place to strengthen and improve the effectiveness and efficiency of tax Administration. These measures aim at closing the loopholes in the existing tax legislation and also to enhance the government resources that would enable it to fund its programmes.

3.5.2. Expenditure Control Policy

Namibia's expenditure activities depend heavily on government discretionary policy. For the period of 2001 to 2004 the average current expenditure stood at 84,3 percent of total expenditure, whilst 2003/04 expenditure alone was 85,3 percent. During 2003/04 Namibia experienced the highest budget deficit as proposition to GDP. For the past three years, the number of civil servants increased by almost 6 percent per year. The government employs about 4.3 percent of Namibian population whilst other African countries recorded an average of 2.1 percent with exception of South Africa 1.6 percent. In 2004/05 Namibia spent 14.8 percent of GDP on civil servants in contrast to an average of 7.2 percent in Africa whilst South Africa has the lowest figure of 6.1 percent. Total expenditure increased by 7,4 percent compared to 18,3 percent in 2001/02 and 10,6 in 2002/03 was recorded, BoN discussion paper (BoN 2001). 2003/04 expenditure decreases was attributed to the prudent expenditure control measures that was implemented that financial year.

Thus a major share of government expenditure is allocated to current expenditure with personnel expenditure taking the great chunk. This represents 15 percent of GDP and 2/5 percent of all government spending. Such situation is unsustainable and does not give opportunity to the government to pursue policies that could foster growth and reduce poverty. As a result, the government introduced expenditure control policies to restrain overspending and unauthorised activities. The policy stipulates that if a ministry overspends in one year, its following year's ceiling will be adjusted downwards. Line ministries are expected to complete their forward year Planning statements and Treasury Authorisation Warrants on a monthly basis before the Treasury releases any funds to them. The government will continue to monitor and evaluate the spending patterns on a monthly and quarterly basis to avoid unauthorised and overspending.

The government has implemented the Integrated Financial Management System (IFMS) to monitor and timely evaluate the current spending. Introduction of IFMS signify a great achievement on expenditure control system as unauthorised expenditure could be curbed. The scarce resources should be utilised effectively. The government intends to introduce capacity building in all ministries in order to improve the budget control and comply with the State Finance Act. This includes clearing the suspense Account and accurate reconciliation of accounts to promote efficiency and effectiveness in the system.

Despite the good attempt made in the system to control the overspending, the government has still failed to reach its target. The public expenditure is still over 30% and more funds are still channelled to non-development programme. The IFMS which was introduced as an operational tool to control the overspending is inefficient as line ministries are still spending over above their allocate budgets.

3.5.3. Debt Management Policy

A large portion of government debt is consists of domestic security such as Treasury Bills and government bonds. The government is aware of the risk associated with the rollover risk of short-term securities. Therefore, for the past years the government managed to decrease the share of debt that matures within twelve months. At the beginning of 2004/05 financial year, the share of total debt maturing within twelve months stood at 59 percent. This ratio was decreased to 53 percent at the beginning of 2005/06 financial year. On 15 April 2005, GC05 bond was redeemed and this decreased the share of short-term liabilities to less than 44 percent.

In the course of 2005, the cabinet has approved the Sovereign Debt Management Strategy (SDMS) in order to improve debt management. The main intention of (SDMS) is to ensure that the public debt remains affordable and at low risk. The public debt portfolio management uses SDMS to identify risks and provide guidance for borrowing activities. The strategy is to smoothen the debt profile and offer different investment portfolio to local investors. They provide them with relevant information extending an opportunity for them to invest. It also provides the framework for strictly handling government guarantees. The SDMS provides a framework for a stricter handling of government guarantee. Loan and guarantee issued would be charged interest and this encourages responsible and efficient use of the property.

The year 2006/07 has marked a slowdown in the net issuance of government debt compared to the previous year. The MoF tool is a step of refinancing maturing short tem debt with longer-term maturities and intends to continue this way. MoF intends to give investment opportunity to Parastatals by allowing them to participate in the issuance of debt instruments; this will decrease the borrowing needs of the government.

3.6. Aggregate Expenditure Estimate

This is the macroeconomic framework that shows the aggregate level of expenditure. It contains total government wages, other goods and services, interest, total transfers and capital expenditure. It indicates the broad economic categories rather then allocation of resources among sectors. Aggregate expenditure estimate assists in assessing the sustainability of expenditure policy and therefore improve the budget preparation process. The estimates cover the forward costs of large investment projects, projections to more important entitlements and aggregate projections of other expenditure by function and broad economic category.

Despite the problem identified in the system the government has indicated its effort to ensure a perfect system in controlling the public fund. It introduces different tools to improve the efficiency of its MTEF. However it needs skilled and honest personnel to carry out the operation because the best system with incapable personnel will not yield the required outcome.

3.7. Resources Allocation and Operational Efficiency

With the implementation of MTEF, the two approaches are employed to allocate resources and promote operational efficiency. A top down approach whereby the MoF gives guidelines to spending Ministries and a bottom-up approach, with line ministries presenting requests for budget allocation to the MoF. Both approaches are used as leaving one will lead to adverse outcomes. Thus, the articulations of both approaches are essential since it determines how priorities and fiscal targets would be taken into account over the budget preparation process.

3.7.1. Top-down approach

MoF notifies the line ministries with initial budget ceilings. Line ministry i.e. are required to preparing their requests. The process last, about 2 month, allowing line ministries to translate guidelines into budget envelopes. Cabinet is responsible for deciding the line ministries ceilings. This is done to ensure that the ceiling fits the aggregate expenditure and are consistent with the macroeconomic framework.

3.7.2. Bottom-up approach

Spending Ministries are responsible for preparing their request within the spending limits provided. Depending on severity of fiscal constraint and the organization of the budget preparation process, additional requests for new program could be allowed. But MoF does not promote the tradition of additional budgeting. Thus one of the MTEF objectives is to improve financial planning in line ministries by increasing the predictability of the available resources, in other word, limiting the line ministries to request for additional fund. Moreover, the additional request for new program must clearly indicate the purpose and where appropriate an estimate of the demand for the service to be provided should be stated. These requests must be inevitable and cannot be put on hold for the main budget.

The line ministries budget request outlines the amount necessary to continue the current activities and programs, proposals and costing for new programs. In addition to that they are also expected to submit a brief policy statement spelling out their objectives, expected outcomes, realistic and relevant performance indicators including results from the previous period and expected performance for the future. A statement of how the line ministries intend to achieve the objectives, proposals for achieving savings and boosting efficiency and clear measures for implementing the proposal effectively. Budget preparation in every country should be framed within a medium term macroeconomic framework. Two approaches used by Namibia increases the responsibilities of line ministries in budget preparation. In analysing the process it shows the government has done much to put in place different tools to ensure the success of MTEF, however the study discovered there are no control measures to improve the MTEF's efficiency. Thus, close coordination in preparation of different components is essential to ensure the successful implementation and execution of the budget.

Chapter 4

4. Evaluation of MTEF

Namibia has implemented its first MTEF in 2001/02 covering the period of 2001/02-2003/04 with the aim of improving budget planning. The target set that time were the average deficit as share of GDP at 3 percent, whilst the debt ratio should be below or at 25 percent, (Macroeconomic and budgetary framework 2005/06-2007/08).

The first MTEF indicator has shown that the government could not achieve the targets set for both deficit and debt as ratio of GDP. Throughout that period the deficit stood at 4.8 percent whilst the debt were 27 percent. This is due to the effect of the exchange rate that affected the revenue outturn. Furthermore, in 2003 personnel expenditure were high and there was narrow expansion in nominal GDP. This indicates that the government has failed to reach its official programme goals on deficit, expenditure and stock debt as the actual outcome was above the target set.

For the duration of the second MTEF an improvement on deficit trend was recorded with an average of 4,2 percent, however the debt ratio deteriorated moving from 27 percent to 30 percent. Currently the government is of the opinion that deficit will improve further to have the expenditure control because of some measures that were implemented aimed at improving revenue. Equally, the debt to GDP ratio was said to remain constant at average of 30 percent over the MTEF period. During the current period, 2005/06-2007/08 debt to GDP ratio is expected to decrease from 33,4 percent to 27 percent.

Below is a MTEF table outlining the deficit trend and debt ratio as percentage of Gross Domestic Product from implementation to the current period.

Table 3 Medium Term Expenditure Framework implementation

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Deficit, %GDP	-4.2	-2.6	-7.5	-2.4	-1.1	1.2	0.8
Debt, %GDP	26	25	**31**	34	33	30	27
MTEF1							
Deficit, %GDP			**-4.8**				
Debt, %GDP			**27.3**				
MTEF2							
Deficit, %GDP				-4.2			
Debt, %GDP				30.0			
MTEF3							
Deficit, %GDP					-3.7		
Debt, %GDP					32.7		
MTEF4							
Deficit, %GDP						-0.8	
Debt, %GDP						32.3	
MTEF5							
Deficit, %GDP							0.3
Debt, %GDP							30.0

Source: Ministry of Finance (2006:39) adopted MTEF 2005/06-2007/08.

MTEF policy agreed on sector objective, output and activities, (MTEF 2001/02-2003/04). The agreement has culminated in the publication of MTEF and PEMP in 2001. Since then the MoF publishes the MTEF an annual document which is the annual budget. The document provides brief information on the macro economic outlook fiscal development over the last few years' public Finance management, fiscal policy outlook, expenditure priorities and medium term plans. Line ministries were requested to establish ministerial budget committee. The committee serve as a strategic decision-making body that will enhance participation, transparency and accountability.

4.1. Fiscal policy framework

Budgets as a plan of the Government intends to in achieve the country's economic objective, looks at fiscal policy tools to contract the economy. Fiscal tool is a policy that sets out rules and guidelines to be followed while managing matters that concern state or public treasury, thus it is a deliberate adjustment of government revenues and expenditure. The government's key objective for fiscal policy is to ensure sound public finance and the impact of spending and taxation should be fairly imposed on both current and future generation. The government should ensure that future generation would not be adversely affected by unnecessary debt. This year's, 2006 main fiscal tool for the government is the National budget itself, which is used to accomplish the development goals. In order for the government to change the micro and macro economic outcomes, it uses tax system or government expenditure fiscal instruments. So these instrument deals with the actions of the government in collecting revenue through taxation measures and spending that tax revenue to influence and direct conditions of the national economy as a whole. The government uses it to address the need as well as to draw resources from the economy through the tax system.

The above-mentioned objective determines how the fiscal rule should be judged. There are economic rules such as: -

- The golden rule, that states that the government would only borrow to invest. In 2003/04 budget the Namibian government borrowed to finance operational expenditure, that is the year in which high deficit was recorded. Thereafter the government has implemented strict measures to ensure that borrowing would be only for financing development expenditure.
- Sustainable investment rule, public sector net debt as a proportion of GDP will be held at prudent level, with the overall aim of attaining the macroeconomic stability and laying a foundation of sustainable economic development. . The Minister of Finance in her budget presentation stated that responsibility should be the guiding procedure

in fiscal policy and the government would not allow the future generation to bear the burden of debt.

The major participants in the economy such as households, firm and foreign sector determine fiscal policy development. Government economic activity constitutes of expenditure on goods and services, taxes levied on firms and household and transfer of payments of income and expenditure from the wealthy to the poor.

During the last three years marginal revenue increased moderately whilst the expenditure increased steadily. In 2003/04, the budget recorded the highest deficit of 7.2 percent of GDP. It came as a result of more spill over effects of the external shocks due to appreciation of Namibia dollars against US$ and other major currencies. Foreign trade is one of the major sources of fiscal policy in Namibia, thus negative effect on exchange rate to external oriented business resulted in high deficit because revenue was not received as expected. Because of previous experience, the government imposed strict limits on expenditure growth. These measure are directed at improving the revenue collection and it paved a way for fiscal consolidation. Currently it is estimated that the budget deficit will reach 1.1 percent of GDP. It is hoped to have expenditure under control and to improve revenue collection as well as upward the revision in GDP projection.

Regardless of the government failure to attain its official goals and poor performance in 2003/04 financial years, government fiscal policy actual outcome produced good result. The government is still able to control its debt and funding of its project without relying on donors aid. With the current promising estimate this indicates that MTEF tool did not fail the government plan hitherto.

4.2. Macro economic goals of fiscal policy

The current year's budget (2006/07) macroeconomic goals of fiscal objectives are to foster growth and to ensure long-term fiscal sustainability. The objectives are geared towards fiscal prudence and engaging in activities that enhance the country's economic growth. It also focuses on refining further the process of program budget that was introduced last year's (2005/06) budget with the emphasis placed on outcomes of these programs. The macro economic goals as stipulated in 2006/07 budgets are poverty alleviation, creating of employment opportunity through accelerating the economic growth and to ensure stability. In order to achieve these objectives the government has decided to prioritise the education, health, social welfare, infrastructure and productive sectors.

The 2006/07 budgets is categorised as a pro poor and pro growth and developing the rural areas where most of poor reside. It prompts growth through improving resource allocation on the development of infrastructure such as road railway, school, health facilities, water and electricity. It is set to ensure stability by achieving low debt level both domestic and external debt without reducing the investment. So, this will be attained through promoting the investment, productive sector and supporting intervention. The budget strikes the balance between two priorities, which is improving fiscal consolidation and increasing investment for economic growth.

It is stated that the government effort to address imbalances and keeping the public debt low is being realized. Namibia has a balance fiscal policy, which is confirmed by the recorded fiscal consolidation. Furthermore, the investment undertaken by private sector both internal and abroad is an indication that government macro economic policy has been successful. Namibia should sustain the prudent macro economic policies and tackles challenges such as prevalent HIV/AIDS, wide spread poverty and the current high unemployment which is raging at 37 percent now in order to keep medium economic outlook at balanced.

4.3. Micro economic goal of fiscal policy

Macroeconomic is mainly focused on long-run growth; however, in the short run it can adversely affects the poor or disproportionately large effect on some groups. This indicates a need of designing social safety nets to mitigate the adverse effects of economic reform measure on the affected group. Thus, the government micro economic objective is to distribute the income equitably and allow more people to share in the economic prosperity being created. The current years budget speech (2006/2007) budgets is a pro poor pro growth budget, uses transfer system and safety nets to benefits the vulnerable in the society such as orphaned children and elderly. Thus, the grant for elderly people has increased from N$300-00 to N$370-00 per month.

4.3.1. Poverty reduction

Reduction of poverty and inequality will be successful if resources are channel on the most vulnerable. During 2005/06 the government avail more resources to increase the social pension by 23 percent. The government target is to ensure that 95 percent of potential beneficiaries are able to receive payment under the scheme.

During 2000/01 the government announced that it secured fund to pay an allowance of N$500-00 per month to ex-combatant. This did not happen due to unforeseen factors, even though plans are under way that the payment will start by 2007 following demonstration by ex-combatants. This payment does not cover the whole group but only the elderly. On the other hand more than 3000 ex-combatants were reintegrated into the Namibia Defence force, Police Force and Prison Services.

4.3.2. HIV/AIDS

HIV/AIDS is the concern of the whole nation affecting every sector of society. Thus, the government decided to prioritise its spending on AIDS programmes. When supports are necessary, additional resources would be made available.

At the end of 2005,the government released resources to support antiretroviral programme in all district hospitals. It also continues to fund special HIV/AIDS programme to mitigate its effects on education of the nation's children. The government has made a provision for the impact of HIV/AIDS related treatment of its employee. In addition, it decided to channel the resources from development partners to these social programmes to provide more funds and ensure that those funds are properly utilized.

4.3.3. Orphans and Other Vulnerable Children (OVC)

The government made an allocation to the registration of orphans and vulnerable children. This will enable the government to identify them and ensure that they receive the necessary assistance. It also expanded the coverage of antiretroviral treatment.

Currently, government provides social support to over 28187 thousand Orphans and Vulnerable Children. The numbers of OVC covered by maintenance and foster care grants increased by over 70 percent in 2005, (Budget statement 2006/07). The exact number of OVC would be complemented by the national census. This will enable the government to make a better plan and enhance service delivery.

4.3.4. Economic and Social Development

Corruption reduces social and economic development by diverting resources from what it had meant for and misused or used for personal purpose. Thus the 2005 MTEF included funds to launch the Anti-Corruption Commission. The commission is working with the existing law enforcement agencies to help to reduce corruption.

4.4. Government Achievements through expenditure

It is the government plan to achieve the development goals and improve the living condition through its expenditure. Through its expenditure, the following development goals have been realised (Budget Speech 2005/06): - 273 classrooms were built and renovated in schools under the Basic Education Upgrading and Renovation of Education Facilities Programme, over 315 locations in rural are as have been electrified through Rural Electrification Programme, rural areas in different regions provided with 20 clinics, several water pipeline projects have been completed across the country, 123 kilometres of roads were built through labour intensive methods, phase I and II of the Northern Railway Extension has been completed, a new Transmitter Network for the National Broadcaster was established in Tsumkwe, HIV/AIDS awareness campaigns are yielding results an encouraging trend is that the rate of infection among pregnant women decreased from 22 percent in 2002 to 19.7 in 2004 and industrial parks at Opuwo, Omuthiya, Khorixas, Ondangwa and Ovitoto were completed and successfully launched

4.5. Macro economic Stability

Economic stability is an essential precondition for achieving the government objectives of high stable levels of growth and employment. The country's macro economic policy framework should be aimed at stability, avoiding the cycles of boom and burst to occur. If the country experiences economic instability more costs are likely to be imposed on the economy and society at large. Business and individuals would have difficulties to plan their future because of economic uncertainty that lead to low level of investments which reduces the potentials for long-term growth. Furthermore, high and volatile inflation has significant costs. Volatile inflation makes it difficult to distinguish the cause of price movement in the market that results in inefficient resources allocation.

Fiscal policy situation affects the Macro economy. Thus, there is a need to monitor the changes in economic activities, household behaviour, the rate of inflation, development in the external environment that includes the changes in exchange rate. Fiscal policy is an essential tool for an overall economic development that contributes to sustainable economic expansion. It is realised through resource allocation and mobilisation, meaning that, the government mobilise resources from the national economy and reallocate it back to the economy. The 2006/2007 budgets is a set within macroeconomic benchmarks that ensures stability. It is aimed at controlling the debt level both domestic and abroad, promoting investment in the productive sector as well as supporting interventions that would create wealth and employment.

The government Medium Term Expenditure Framework and the proposed budget, strikes the balance between two priorities. It improves fiscal consolidation and increase investment for economic growth. The government uses fiscal policy tool to accomplish the development goals. It need to address the urgent needs whilst exercise care in drawing resources from the economy through taxation system. It uses tax system to raise resources to finance public programmes. It also set, the incentive to encourage economic activity that will lead to job creation and economic growth. The government made effort to address imbalances and control over public debt by allowing private sector investment in the country and abroad. The budget's revenue projection foresees an increase in the collection of 8.1 per cent. It will be realized due to increase in domestic tax collection, which is estimated to increase by 22 percent. Part of the plan was already achieved and no major alteration was made in the tax rate. Amongst the measures of increasing domestic tax collection is clamping down the tax evaders. So far this measure has boosted the collection of income tax and Value Added Tax.

As part of attaining macroeconomic stability the government has implemented the development program such as building and renovating schools, supplied electricity and water supplier, to the rural areas etc. these yield good results. The said program does not only improve the living conditions, but also contributes to the expansion of economic activities. This shows that MTEF outcome are benefiting the public. Namibian economic and political stability continues to assure the confidence of domestic and foreign investors. Economic prospects had improved, however the country is facing major challenges ahead. Pressures for redistribution in a highly dualistic economy are likely to increase. Hence Public sector reform should encourage economic growth as well as ensuring fiscal transparency and sustainability. Fiscal transparency needs proper socio-political, legislative and economic settings. It is essential for effective participation by the legislative and civil society and it encourage better decision-making by governments and accountability. International Monetary Funds (IMF) mission (IMF 2006) predetermined that the government's macroeconomics and medium term fiscal policies have delivered exceptional results but it faces major challenges of wages of civil servants. Instead of spending, that much in wages it should channel the funds to poverty reduction and developmental programmes. It should determine the right structure, quality, and remuneration of civil service. The 2006/07 budget was tabled against the background of a stable macro economic environment. During 2004 the real GDP grew by 5,9 percent whilst inflation remained low at the annual rate of 3,9 percent per annum. However the government still have a great challenge of ensuring that all part of society benefits from economic growth.

On medium-term fiscal policy the IMF mission (IMF 2006) recommended that Namibia should keep the public debt ratio on a downward trajectory. This can be done when the country runs a surplus budget in most of the years. With the expected decline in Southern Africa Customs Union (SACU) revenue, it will be a challenge to Namibia's substantial medium term development need that require increased outlays for health, education, poverty reduction and infrastructure. The government needs to develop a clear and specific medium-term strategy to improve revenue collections in a sustainable manner and reorient spending away from wages and subsidies toward priority sectors. Such strategy would allow Namibia to reduce poverty and maintain social cohesion. It would also allow Namibia to make faster progress in achieving the Millennium Development Goals (MDG).

The country has a positive prospect for the domestic economy with a real GDP expected to grow by 3.2 percent in 2005 and by 3.9 percent in 2006. In 2007 and 2008, the forecast growth rate is 4.0 percent and 3.3 percent respectively. Even though the MTEF failed to attain its official goals, the budget has made quiet a remarket changes in the economy, the growth in GDP, and development programme that has been accomplished since the inception of MTEF. Although the economy is on a right trajectory much still needs to be done because the current economy has a narrow base and depends on exports of raw products. Efforts to diversify the economy should be pursued in order to achieve the targets in Vision 2030.

4.6. Changes of economic activities

Macroeconomic and budgetary framework (2005/06-2007/08) has indicated that the country's Gross National Disposal income has been increasing in nominal terms by 12,7 percent for the past three years. However in 2003 there has been recorded a slow down to 9,9 percent result. This year 2006 the real GDP is expected to increase to 4.5 percent due to the strong mining activities.

The IMF mission (2006) has indicated that Namibia's real GDP growth will increase to 4,5 percent this year because of the mining sector. However, he proposed that the government should double its effort to support private sector activity in order to enhance the flexibility of the labour markets, facilitating the entry of skilled foreign workers, reducing administrative obstacle to business and improving access to financial services. The effort would also be conducive in raising Namibia's external competitiveness over the medium term. The IMF had also commended the country fiscal consolidation of the last two years that reduced the deficit from 8 percent of GDP to close to balance (Namibia Economist 17-23 /11/2006). For the past three years, the final consumption expenditure has indicated a favourable trend of a continuous slow down on average this was perching at 74 percent during the past three years in contrast to the 79 percent of the previous years. There has been also an improvement in the country's saving investment gap during the past three years. To the developing country like Namibia, this is supposed to bring a positive development as it avails more resources for development. Though saving investment improved the country's high capital investment outflow to South Africa remains a problem. Thus Namibia's gross fixed capital formation has been lower relations is its to gross saving.

4.7. Domestic Credit

Domestic credit has great impacts on investment and consumption. Its performance can be charged by the lending rate prevailing at the time, (Macroeconomic and budgetary framework 2005/06-2007/08). In 2001 Namibia's domestic credit increased by 16,7 percent because of a decline in lending rate. In the course of 2004, Namibia domestic credit increased to 18,9 percent due to relaxation of the repo rate, which translated into lower lending rate.

4.8. Inflation Developments

In 2001 the, average inflation was around 9,3 percent whilst in 2002 it moved to 11,3 percent. The deteriorating trend recorded on average annual inflation rate came because of depreciation of the Namibia dollar against the major currencies coupled with climatic conditions that adversely affected agriculture. In addition foreign prices has influenced inflation in Namibia, of which 70 percent of it imported inflation from South Africa from where it imports 80 percent. Conversely, there has been an improvement on average inflation rate of about 7,3 percent in 2003 and 4,2 percent in 2004. Furthermore, BoN (2005) annual report has reported that in 2005 Namibia has experienced a lowest inflation ever since its independence in1990. The year has recorded an average of 2,3 percent much lower than 4,2 percent recorded in 2004

Right through 2005/06-2007/08, the inflation development has followed the monetary trend. In 2005 the economy has recorded moderate inflation, strong external surpluses and robust growth. The real GDP rose by 4-¼ percentages because of good performance in Agricultural sector, retail trade, telecommunication and financial services. In mid 2005 inflation has bottomed out to the average of 2-¼ percentages. In 2006 the inflation is projected to increase by 5 percent because of higher oil prices and the depreciation of Namibia dollar fed through to domestic prices. The inflation performance can be linked to measure taken by government since the inception of MTEF to reduce the deficit.

The analysis finds out that MTEF has failed to reach its target, as since its commencement the deficit and debt is over the target set, nevertheless, operational goals produced exceptional results as a lot has achieved. This has been proven by different social programme introduced other macro economic achievements. On the other hand even if the economy is stable there a danger of relying in a narrow base of sources and the dependence on exporting of raw material. Thus the government should expand it sources so that it can reach its vision 2030.

Chapter 5

5. MTEF: Policy Issues and Prospectus

5.1. Medium Term Expenditure Plans in other term known as Medium Term Plans (MTP's).

Medium Term Plans is a program, which outlines the activities of every Vote. It consists of three components: the Medium Term Plan, the PEMP Frameworks and PEMP data. These are programmes that consist of ministerial goals and objectives, performance efficiency programmes, measurement indicators of line ministry's Performance Effectiveness Management Programmes and other relevant information.

5.1.1 Medium Term Plan

It is divided into nine sections and provides information on objectives of the Vote relating to the expected outcome to be achieved, information on Ministerial Targets, total funds allocated to the Vote for the past threes years and projections for the upcoming MTEF period. This fund is allocated through the operational budget, development budget and donor budget support. The annual operational budget and development budget should correspond with the ceilings of each Vote. It provides information on the priorities that line ministries have set for themselves for the MTEF period, on the allocation of funds by programme and it also outlines a descriptive information about the programme, this includes the associated costs of each activity carried out under each programme. The indicated costs covers the whole MTEF period in its three years programme budgeting. MTP highlights the Vote's expected impact on the programme the external resources from development partners pertaining to the Vote and how it is intended to be used for each programme. It also comprises of the key financial data on Parastatals and funds that falls under the Vote.

5.1.2. Performance and Effectiveness Management Programme (PEMP)

Toward the end of 1998, the Efficiency and Charter Unit (ECU) in the Office of the Prime Minister launched a Performance and Effectiveness Management Programme (PEMP), (MTEF 2001/02-2003/04). It was aimed at achieving more effective and efficient public service. It is an essential programme as it provides a clear link between that budget and O/M/A's performance. PEMP is designed to help in the tasking and management of public organisations providing the spur to improve services delivery and efficiency.

PEMP is a fundamental underpinning the move toward programme budgeting. It enables the ministries to focus on outcome and on what is actually being achieved. PEMP contains all the indicators and all approaches used to measure performance. It provides bases that enable the line ministries to analyse the works and to optimise the outcomes using different input proposals. It makes a system more transparent especially when reporting on achievement rather than providing mere details of spending. It enables the public to hold the line ministries accountable for their result as line ministries are compelled to produce an accountability report based on outturn against PEMP.

PEMP frameworks

PEMP frameworks are based on government objectives in sector rather than Ministry's functions, whilst the government objectives are in accordance with

NDP's. The framework contains strategic decision-making, tasking and accountability, operations and administration.

The aim of PEMP framework is to derive the PEMP measures that apply to each objectives of the vote which is the same objective that appear in the ministries Medium Term Plan

The outcome base objectives and supporting measures of achievement have been developed and introduced for the first time into the budget hearings of 2001/02 financial year. The frameworks has been approved by the cabinet and applauded by both parties, the line ministries, MoF, NPCS as well as OPM.

The table 4: below illustrates the basic structure underlying the PEMP frameworks:

I **Strategic Decision Making**			II **Tasking and Accountability**		III **Operational**
1	**2**	**3**	**4**	**5**	**6**
Objectives	**NDP target**	**Other**	**Ministerial Targets**	**O/M/As and other executive units**	**Management information**
Objective 1	Measure 1	Measure 1	Measure 1	Measure 1	Measure 1
Objective 2	...	...	...	Measure 2	Measure 2
...	...	...	...		

Administration

Measure 1	Measure 1

Source: Ministry of Finance (2006:41), Adopted from MTEF 2006/07 – 2008/09

PEMP framework table consists of three major columns numbered I-III and six sub-columns number 1-6. The first column illustrates the ministry's objective as it appears in MTP's. Sub-column 2 shows the NDP targets related to the objective. While sub-column 3 lists other measures that are also useful in making the strategic decisions.

The second column Tasking and Accountability outlines the ministerial targets relating to objective, the fifth sub-column shows O/M/A's and executive units indicates the set of accountability indicators related to objectives applying to executive units apart from the Minister.

The last column operational-contains the indicators of general management purposes and monitoring information related to objectives needed for management purpose and does not necessarily represent specific targets. Finally, the administration is the section that indicates the effectiveness and efficiency of administration. It outlines the measures applying to the function. However the administrative activities operational measures applies only to the two sub-columns, 5 and 6.

5.1.3. PEMP data

Indicates the objectives of the vote in accordance to the objectives in MTP's and PEMP frameworks. Unit measurement of performance of these measures can be in dollars N$, percentage, or time period depending on the nature of what is measured and the value of the measured for the respective periods. The information is presented in actual figure, estimates or forecast. This depends also on the availability of information or perhaps when it refers to future events.

During 2005/06 MoF conducted a training course for officials from the line ministries on how to compile their MTP's. Generally, the training was successful as ministries have succeeded in improving the quality of their MTP's. However some difficulties have been experienced with the current 2006/07 PEMP framework and the PEMP measure, as some line ministries PEMP frameworks and PEMP data did not reflect the NDP's national objectives properly.

5.2. Problem faced Implementation of MTEF

Namibia has adopted the MTEF budgetary policy initiative in 2000, as an intervention strategy to address the link between policy making, planning and budgeting, strengthening fiscal policy management and facilitate as well as to actively encourage the allocation of resources to strategic policy objective in the Medium Term Framework (Cabinet resolution no.3/26/02/02/2001). The aim was to improve the narrow one-year planning horizons in which the budget was formulated and executed. MTEF was introduced as a guiding tool for the three-year period where targets could be fixed, constantly monitored and reviewed.

The policy was implemented in 2001, however it was hampered by a number of problems, (BoN discussion paper10 August 2001). The main problem that hampered the smooth running of MTEF policy was the budgetary planning process; the expenditure did not reflect the planned policies as outlined in the National Development Plan (NDP). The objective of performance and Effectiveness Management Programme (PEMP) were not logically linked to the line ministries expenditure proposal. Objectives were not measurable and unlikely to be attainable. There was lack of integration between the development and operational budget, the policy maker lacked coordination between line ministries and other bodies responsible for budget formulation and find shortage of adequate trained and skilled technical staff to undertake the budget planning in the country.

The problem did not only affect the Ministry of Finance but also affected the Bank of Namibia. As a result the responsible bodies have decided to change the approach as well as to introduce a ministerial budgeting committees. In addition, the change has encouraged the active participation of management in the budgeting process. It was also a good way of shifting from authoritative budget approach to participatory budgetary approach.

Establishment of Ministerial budgeting Committee enhanced the participation, transparency and responsibilities. This committee consists of planning, finance, human resources and secretary. The committees is responsible for reviewing the budget for MTEF period, review Performance and Effectiveness Management Programme and other strategic policy documents, monitor the progress against plans, ensure the provision of necessary training to the staff, allocate resources based on objectives and priorities, disseminate the government wide budget, as well as planning and associated materials. The formation of ministerial budget committee is a great step that would be made successful by the full support from regional budget committee in formulating the budget.

In addition to the above problem several line ministries do not comply adequately with the procedure in place and do not exert sufficient discipline in their process. Subsequently, supplementary budget would be required and it is still a large amount required, this is a poor monitoring system that derived from careless handling of the commitment register, which caused the appropriation budget to be exceeded. Despite much effort to improve the system the main problem still lies with the current practice, whereby the MTEF target is set every year making it difficult to monitor the target

5.3. MTEF Prospects

The primary objective of MTEF budgetary policy is to provide the basis for the realization of the National Development objectives. The policy seeks to enhance job creation, reduction of poverty and inequalities and promote economic growth. Namibia Medium term spending plans are guided by social, economic and development priorities. Funds are planned for capacity building. Robust growth for health services, education, welfare and social security, the African development agenda and continued improvements in the criminal justice system. There is a need for improving public sector administrative capacity for ongoing service delivery improvement and sustained growth. Effective training and skills development, well-targeted mobilisation of private sector capacity, is key to meeting growth and development goals for 2030 and beyond.

The economic growth is pursued through investment in economic infrastructures in order to enhance the country's attractiveness as an investment location of which employment opportunities are create as well. MTEF budgetary policy seeks to facilitate access to finance by consolidating the capital base on newly established development programmes, to enable them to lend financial support to variable projects that support economic growth and job creation. It seeks to invest in human capital development to ensure skilled and healthy labour force that drive national development. With the HIV/AIDS pandemic threatening the labour force, the budget is making an effort to curb further spending and provide support to those infected with the disease.

The MTEF 2006/07-2008/09 budget framework gives greater motivation to economic growth and broad-based development, through strategic economic investment, progressive improvements in social services, and continued focus on improving government administration and services delivery. Enhancing public service delivery remains the key priorities over the MTEF 2006/07-2008/09. It has been the government's consistent theme to reconstruct and develop policy framework to transform the public service institutions since 1996. Furthermore, the government wants to invest in new agriculture programmes and fisheries in order to promote the diversification of these sectors and generate export-earning opportunities for employment. The government has come upon many challenges in achieving this aim; some have been related to resource allocation whilst others are related to quality and effectiveness of spending. Medium Term Expenditure Frameworks encourages line ministries to live and spend according to their ceiling.

5.4. Additional budget

The government has established a tradition of not appropriating additional fund over and above the main Appropriation Bill. The purpose is to promote fiscal discipline as well as to encourage proper budget planning by O/M/A. According to Amadhila (2006) this year's additional budget does not deviate from the standing promise but it is aiming at redistributing the funds that was already appropriated in the main budget to re-allocate it to different Votes.

It is the government policy not to transfer funds from one vote to another; the cabinet should approve such transfer. Thus, this year's additional budget is part of the ceiling, which was already approved and allocated under the vote of the OPM. This fund does not only pertain to the OPM, it is meant for the improvement of the condition of Service for the Public Servants. Hence, should be redistributed to the rest of the votes in accordance to the State

Finance Act. Besides, some Vote in the Development Budget realized a savings whilst some Development projects fall shorts of funds. Therefore, fund has to be withdrawn from one vote to fill up the gap. In addition urgent needs that cannot be put on hold till the main Appropriation arose so some requests for new allocations was also brought forward. It is therefore against this background that this year, MoF was compelled to present an Additional budget.

In the 2006/07 MTEF made a provision for an amount of N$190.8 million for the improvement of conditions of service for the civil servants and was allocated under Vote 2 of the OPM. This provision was made following a pending negotiation between the government and the Namibia Public Workers Union (NAPWU). Now that the negotiation was concluded, the funds have to be redistributed to the various Votes through the Additional budget. However the Additional Budget has increased the appropriated amount of N$190.8 million with an amount of N$5.83 million that was not appropriated in the main budget. This amount has to be implemented in the first-phase of agreement during 2006/07 financial years. Furthermore, MTEF's appropriation for the second phase starting 2007/08 was an amount of N$171.4 million instead of the additional budget requested an amount of N$380.6 million for this phase, leading to another shortfall of N$209.2 million additional to the appropriated amount.

In addition the government is expected to announce a general salary increase of 5 percent for all civil servants. An amount of 171.4 million was provided for the current phase. But it was indicated that the whole exercise would require an amount of N$686.0, to be accomplished, which leaves again an additional amount of N$514.7 million not appropriated. More details of these spending will be explained in the up coming financial year's budget.

The Additional budget has also availed money for the construction of the UN House in Namibia. An amount of N$ 2.0 million was raised within Vote 7 of Foreign Affairs and the remaining difference of N$18.98 million is proposed to be transferred from the Development Budget of the following Votes: - vote 2 of the OPM an amount of N$5.8 million, vote 14 of Ministry of Labour an amount of N$1.08 million, vote 16 of Ministry of Justice an amount of 12.0 million, and vote 25 of Ministry of Lands an amount of 1.0 million.

Minister Amadhila has pointed out that despite the fact that there is an Additional budget, this year's requests for additional fund were relatively low compared to pervious years and hopes it continues this way. In spite of all the indicated shortfalls, 2006/07 MTEF performance has recorded a surplus of 2.2 percent of GDP.

Chapter 6

6. Summary, Conclusions and Recommendations.

6.1. Summary

The MTEF budgetary policy is the key budgetary document that sets government expenditure plan for the next three years. MTEF formulation process and procedure is embarked upon and implemented by the existing management structures, the budget government structure did not change. However, what changed is the budget process, shifted from incremental budgeting to rolling program budgeting in the Medium Term Expenditure Framework. The budget reform is crystallised by the introduction of programme budgeting, moving budget decisions away from organizational units and expenditure items toward programmes and attained results.

To this end MTEF policy is achieving its targeted objectives, improving the balance of state finance by planning the fiscal policy in medium term and developing a realistic resource framework, expanding the resources allocation to government priorities by extending the planning period, improving the financial planning in the line ministries by increasing the predictability of the available resources. It improves the recurrent cost planning implications for capital expenditure and provides the private sector with relevant information on budgetary policies that will enable them to make informed investment decision. Conversely, MTEF has served as a guiding tool for the three years period, its targets could be fixed, constantly monitored and reviewed. Currently the targets are set on a yearly basis of which it is difficult to monitor the MTEF targets.

6.2. Conclusion

The reforming of budgetary process from the line item budget to a three years rolling budget of medium term expenditure framework, allows resources allocations to be determined by expenditure policies and priorities. In the process the micro and macro economic objective, expenditure control, resources utilisation, and programmes are in conformity with the government policy objective, promoting efficiency in the public finance. Moreover the government objective and target since implementation of MTEF was to reduce the budget deficit to 3 percent, to manage public expenditure and debt stock in the range of not more than 30 and 25 percent respectively. For the first MTEF period 2001/02 to 2003/04 the government has failed to reach its target set on both deficit and debt ratio percentage of GDP. During that period deficit stood at 4,8 percent instead of 3 percent whilst debts were 27 percent instead of 25 percent. 2005/06 financial year that recorded the first half of MTEF second period, show a slightly improvement on deficit, it decreased from 4, 8 percent to 4,2 percent. However debt ratio deteriorated from 27 to 30 percent. Nevertheless, 2006/07 financial year indicates a prospect future, during the supplementary budget in October 2006 MTEF forecasted a decrease in debt ratio of 27 percent, whilst accounted a surplus of 2,2 percentage of GDP.

Despite the MTEF failure to meet its target on deficit and debt ratio percentage of GDP, the government micro and macro fiscal polices has succeeded, channelling its resources to various programmes. As part of micro fiscal policies the government has increased the social pension by 23 percent moved from N$300-00 to N$370-00 per month. During the period under review more than 3000 ex-combatants were integrated in the security forces. Further more, antiretroviral programmes has spread to all district hospital and provides maintenance and foster care grant to over 70 percent OVC countrywide. It also manages to decrease infection rate of HIV/AIDS among pregnant women to 19, 7 percent. In attempts to achieve its development goals and improve the people's living condition, the government through its medium term expenditure framework built and renovated about 273 classrooms, electrified over 315 rural areas locations, provided 20 clinics in different regions across the country, completed phase1 and 2 of northern Railway extension. It establishes the new transmitter network for the National Broadcaster in Tsumkwe, and launched industrial Parks at Opuwo, Omuthiya, Khorixas, Ondangwa and Ovitoto. 2006/07 MTEF ensures stability, promotes investment in the productive sector and supports interventions that would create wealth and employment. The MTEF strikes a balance, improving fiscal consolidation and increase investment for economic growth. The country's economy and political stability assures the confidence of domestic and foreign investors. Through assessing the MTEF budget exercise it reveals that most of the achievement has yielded from operational however it addressed the MTEF objectives enumerated in MTEF 2001.

Generally the economic prospect has improved. Conversely, pressures for redistributing economy is likely to increase, the government is still spending a lot on personnel expenditure than on development or capital programmes and these are some of the challenges the government need to address on time. The country has made a commendable progress towards a modern system of budgeting. There is quite adequate system of budgetary tools in place, but there are still some shortcomings experienced in the system. An Integrated Financial Management System was introduced to improve the operation in the Treasury Management System. Then again, Treasury's position during the budget execution process is still characterised by lack of information. Treasury advises line ministries to ensure that their accounts remains within their budget limit, but they are still not in position to match them against the budget authorizations. To perform that task efficiently, treasury needs timely and reliable information at the beginning of budget implementation, (Stein, et al 1992). Procedure to control unauthorised budget payments are specific and detailed, yet many unauthorised spending do still occur, which afterward cannot be easily reversed. This weakness in the monitoring system derives from faulty handling of commitment register. The neglect of the commitment register causes budget appropriation to be transcended.

As recognized by the IMF mission the government should position itself and channel its funds on programmes aiming at developmental programmes such as alleviating poverty and encouraging the people to be self-sufficiency in food production. For the government to improve the economic growth it should think of expanding the economy, instead of maintaining the narrow base economy, and relying on single sources. The government should diversify its economic resources by developing other fields. As indicated that Namibia's margin of economic growth is low thus it is the government's responsibility to expand it by considering of opening up the budget and creating a platform that allow the fully involvement of private sector in the economy.

The effectiveness of budgetary process can be achieved if critical elements such as: - Planning of expenditures, allocation of resources to programmes, monitoring the expenditures, controlling the levels of expenditures, evaluating of expenditures are effectively implemented.

6.2. Recommendations

The Office of the Prime Minister is pro-active in designing a roadmap toward efficient, effective and accountable Public service delivery and socio-economic transformation. However, to strengthen the link between resource allocation and results, the country should introduce a performance dimension to budgeting systems. Such planning of public expenditures is geared towards the achievement of explicit and defined results. The government strategic plan should be connected to the National planning and co-ordination processes. It should include vision 2030, the third National Development Plan or NDP3, the Medium Term Expenditure Framework (MTEF), and Public Private Partnership policy framework. Furthermore, the budget reform needs to be executed in a strategic manner thoroughly linked to other public sector reform process such as improvements to public financial management systems. The government should introduce a mechanism that combines the sector and national level policy processes together. This can be done through policy hearings, sector working groups and public expenditure review process, which cover all sectors and are institutionalised within the budget process.

Although Namibia has a commendable budget tool in place, the budget document does not provide comprehensive information. Therefore, as a public document it should provide reliable, readily understandable by the public and timely information. In this case, the MTEF document lacks quasi-fiscal activities and tax expenditure. As mentioned before that MTEF target are set every year, this also makes it difficult to have a regular in-year reports on expenditure and revenue. For the improvement of the system this should be reconsidered in order to enhance the MTEF efficiency and effectiveness.

Furthermore, the Auditor General's office as a government watchdog should provide their report on time to assist the budget committee in preparing the national budget. The Audit report should also be readily available to the public. In the absence of pre-budget statement or citizen budget as it is known in some countries, the public is not free to participate in the budget activities, Despite the fact that the government is using performance indicator as part of Performance Effectiveness and Management Programme, quality information to measure and assess the budget performance are still lacking.

The budget preparation body should do a thorough analysis of actual expenditure trends, on how various sector are financed, identifying the key sector cost driver, costing implications of policies and projecting future financing scenarios. This will enable managers to provide and use accurate information on how much resources are needed and what is available as at that point. Additionally, they will be able to link discretionary resources to policy priorities. Provision of alternative resources scenario can strengthen prioritisation. Performance monitoring and reporting system have to be streamlined. The MoF as a leading ministry should select a core set of indicators that will be used as a policy dialogue with line ministries. The report should focus on output rather than inputs in order to create greater accountability for results. Furthermore, MoF should introduce a control measure by imposing penalties when the ministry overspends or give rewards when the ministry produce efficiency savings. They should also penalise them, when they fail to produce budget submissions of sufficient quality and use performance information during the resource allocation processes.

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Appendices

Structure Interview Questions

1. What are shortcomings of the previous budget approach?
2. What are the issues that lead to the emergency of MTEF?
3. What does MTEF aiming at?
4. How effective is the reformed budget process
5. Now that Namibia has implemented a new budget system, how does its fiscal policy achieving micro and macro fiscal goals?
6. Since the introduction of MTEF is there any change in macro economic stability, how?
7. According to your view to what extent is Medium Term Expenditure Framework, is implemented?
   - o Full implemented
   - o Partly implanted

8. What is the different between the line item budget preparation process and the MTEF?
9. What are the developments brought about by MTEF?
10. If MTEF is succeeding why do the government still have additional budget?
11. PEMP was introduced in 1999 but it is regarded as part of MTEF how does it fit in?