The capabilities of ministries of finance and planning to coordinate capital and recurrent expenditure

Country case study

Namibia

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Contents

Context setting

Question one

How integrated or separate is the management of capital expenditure and recurrent expenditure in the legal, institutional and presentational dimensions (the capital expenditure context frame)? To what degree are expenditure management responsibilities decentralised?

Institutional separation

Discussion

In the Namibian system, the Ministry of Finance (MoF) is responsible for the recurrent, or operational, budget and the National Planning Commission (NPC) is in charge of the development budget. Capital expenditure – as defined for the paper – is split between these two budgets, with minor capital items such as computers being allocated and managed under the recurrent budget, and capital projects allocated and managed under the capital budget. The type of capital expenditure that forms the focus of this study, however, is managed in terms of development budget processes. Therefore, for the purposes of this matrix, instead of referring to capital expenditure, reference will be made to development expenditure (outlays to ensure that service delivery infrastructure is in place to build schools, clinics and courts, for example) to discuss how it is integrated with recurrent or operational expenditure.

The separation of development and recurrent expenditure is largely institutional and presentational, but not legislative. In terms of the State Finance Act, the Appropriation Act is linked to the Estimates of Revenue and Expenditure, a budget document. The two budgets are integrated in this document. However, there is also a separate development budget presentational document.

The NPC is a constitutional body that is managed in accordance with the National Planning Commission Act (2013). The powers of the MoF are set out in the Constitution and the State Finance Act (1991).

What are the specific responsibilities of the MoF and the NPC then throughout the budget cycle for recurrent versus development expenditure?

Budget preparation

Early central-level processes: The MoF, the NPC and the Central Bank of Namibia jointly undertake macro-fiscal projections and determine fiscal policy to develop a medium-term fiscal framework. This framework is then split into two component ceilings, the development budget ceiling and the recurrent budget ceiling. From this point on – until the MoF reintegrates them for presentation to Cabinet before submitting to Parliament – recurrent and development expenditures are managed separately, even though there are points of joint consideration by the two institutions at the central level, and within offices, ministries and departments (OMDs) at the line-spending level.

The main budgeting instruments of the MoF and the line ministries are the medium-term expenditure framework (MTEF) submissions and the budget estimate submissions (Estimates of Expenditure). While the MTEFs are within an administrative/programme/main economic categories structure, the Estimates are on an administrative/broad functional/line-item basis (although not strictly based on the classification of government functions). The Ministry of Education (MoE) is one of the pilot ministries using a programme structure across both documents to improve alignment and continuity. The MTEF is submitted well before the Estimates.

The NPC's main budgeting instrument is the project identification form, a standard form filled out online each year for each project. It is also used to update a project's budget information from year to year.

At the start of the expenditure budget process (mid-July), once the preliminary ceilings have been determined, the MoF issues a joint budget circular that specifies the ministry's recurrent and capital ceiling for the next two years, allowing an open request for the third year. In principle, budget requests must be submitted within the ceilings for year one and two. The recurrent ceiling is prepared by the MoF and the capital ceiling by the NPC.

Line ministry processes: This institutional separation continues at the line ministry level, although not consistently (some ministries have merged the finance and planning directorates). The MoE is of particular interest because it provides institutional separation of the finance and planning processes. As stated above, it uses a programme structure across both the development and finance documents – aligning recurrent and development expenditures in a comparable manner. In the MoE, the Directorate of Planning and Development prepares and manages development budget submissions, while the Directorate of Finance develops the recurrent budget submissions. A complication of this separation is that the Directorate of Planning and Development prepares the MTEF submission for the ministry (integrating the recurrent and development budgets) early in the budget process, whereas the Directorate of Finance can prepare the final Estimates submission only once final allocations are made at the end of the year (November and December) for integration across government by the MoF and for submission to Parliament. There may not be continuity between the MTEF and Estimates submissions because the Directorate of Planning and Development submits proposals to the NPC and the Directorate of Finance presents proposals for operational expenditure to the MoF.

Development and recurrent expenditures for education are only planned in a fully integrated manner at a regional level. However, because different directorates and central ministries review and approve submissions from the regions, the two budgets are separated from this point on.

Regional education administrations engage with the Directorate of Planning and Development and the Directorate of Finance on the financial side as well as with substantial "policy" directorates at headquarters, such as the early childhood or the performance and quality directorate (responsible for primary and secondary education policy, monitoring, evaluation and review). These directorates have medium- to long-term planning functions (which are executed in coordination with the planning and finance directorates). The functions find form in the education sector plan, a medium-term static plan that is the basis for a sector-wide approach (even if development partner inputs are relatively small) and which should inform both development budget and recurrent budget requests.

The MoE has a budget committee that consists of senior management. The committee reviews both the development and operational budget requests from the regions and headquarters, and negotiates submissions on each. This is a key point of reintegration at sector level.

The ministry submits its recurrent expenditure budget to the MoF and its development budget to the NPC.

Central-ministry allocation processes: The MoF assesses recurrent expenditure submissions for affordability and efficiency, while the NPC looks at project requests in terms of the National Development Plan (NDP 4). A key criterion for the NPC is whether a project is in line with the NDP. The Harambee Plan, submitted to Cabinet in 2016, was prepared by the government as a supplement to the NDP. It aims to be more focused and targeted, while remaining flexible to changes in the environment. The understanding is that unless the basis for a recurrent request is in line with this plan, it will not be approved.

The NPC, which is responsible for the development budget, is organised into sectors. Each sector team assesses submissions from its relevant sector against NDP criteria, feasibility and affordability before making recommendations as to whether a project should proceed. At this level, recommended requests from all sectors are considered and traded off against one another within the development budget ceiling. The main guiding document is the NDP. The sector strategic plans receive less, if any, attention.

The recurrent budget division in the MoF is also organised into sectors. Sector teams assess recurrent budget proposals for affordability and efficiency.

Key points of integration occur from this point until the ministry is informed of the final allocations for the recurrent and development budgets. These points of integration are:

- The NPC and MoF sector teams meet regularly to discuss the submissions.
- A joint hearing where proposals are discussed is held at the technical (permanent secretary) level, which involves the NPC, MoF and the line ministry. The next hearing is at ministerial level.
- While each central institution runs its own internal process, the NPC submits its recommendations on the development budget to the MoF, which integrates the recurrent and development budgets for a joint budget recommendation to be submitted to the Ministers' Committee on the Budget, a Cabinet committee.
- The Ministers' Committee on the Budget considers the overall integrated budget and agrees to the final recommendations on capital and recurrent funding for each of the OMDs. Once these are approved by Cabinet, the line ministries are informed of the allocations, and they prepare their final line-item based estimates.

Project and budget cycle integration: NPC processes work according to a project cycle. When a development budget project is first identified – notwithstanding its size – a project identification form needs to be completed. The first stage in the cycle is the NDP granting permission for the project to be developed further through a feasibility study. The cost of the feasibility study is approved as part of the budget process.

At this point, the Ministry of Works and Transport (MoWT) procures and manages the feasibility study. It is also responsible for managing the procurement and implementation of all projects.

In the next budget round, the feasibility study – which includes a full costing of the project – is submitted in an updated project identification form. If the project is approved (after competing with other projects at the NDP level across sectors within the overall development budget ceiling), the MoF is informed at the end of the relevant budget cycle, for funding and implementation in the subsequent budget year. This means a project that is requested in 2016, and is part of the 2017 budget preparation process, will be approved for financing (after the feasibility study) in the 2019 budget and will go to tender in 2019. It is therefore commonplace for a request in 2016 for an extra classroom or two at a school, for example, to be fulfilled only in 2020.

The MoF, on the other hand, works with an annual budget cycle, with a medium-term horizon of three years. This means that when a request for an extra classroom with its recurrent budget implications is first raised, budgeting for these costs is not yet relevant in the recurrent budget. For the most part, maintenance costs for capital projects are budgeted for by the MoWT rather than the MoE. Only minor "preventative" maintenance is budgeted for by the MoE (such as fixing small leaks, replacing windows and repairing minor electrical faults). The MoWT budgets for, manages, and pays for major maintenance (such as periodic painting, cracks in walls or roofing problems).

Implementation

Parliamentary submission and approval processes are discussed in the section on presentational and legal separation. Implementation (or budget execution) is discussed in terms of its sub-steps.

Major capital expenditure (the type of expenditure that is the focus of this study) is allocated to the line ministry under which the project falls (for example, the MoE for schools), so the line ministry is responsible for forecasting the cash requirements for the capital project. In the MoE, this is done by the Directorate of Finance (as the directorate responsible for the financial management of the integrated budget). The MoF releases the funding to the MoE.

The MoE then makes a formal written request for the support of the MoWT to implement the project. The MoWT, which is the custodian of all government capital assets in Namibia, then issues a tender (either for a feasibility study or for project managers and service providers for the project itself). The tender bids are evaluated by the MoWT in coordination with the MoE and recommendations are submitted to the central State Tender Board. Capital project staff in the MoE (from the Directorate of Planning and Development) and MoWT staff jointly defend their recommendations to the board. Once approved by the State Tender Board, the MoWT contracts the service provider, and manages and monitors the project. If the project has been completed and the MoWT is satisfied with the work, it informs the MoE, which then transfers the funds to the MoWT for payment.

The planning process to furnish a school or classroom, for example, should be undertaken by the MoE on time and within budget. This is the responsibility of the regions, via the Directorate of Planning and Development. Tenders for this are managed through the development budget, but via the Directorate of Finance in the MoE.[1]

Accounting

Development and recurrent expenditures are fully integrated in the integrated financial management system, given that they are appropriated through the Appropriation Act, even if separately. The revenue code on the chart of accounts signals whether a payment is made against the development or recurrent budget ceiling. In the MoE, this is managed by the Directorate of Finance.

Reporting, reviewing and evaluating

Performance and financial reports are written for the NPC and the MoF. Progress on projects and expenditure against approved development budget allocations are reported to the NPC. Recurrent expenditure is reported monthly to the MoF. However, the MoF also conducts a mid-year budget review process and a public accountability reporting process, which integrates development and recurrent expenditures. The MoF and NPC collaborate on the mid-year budget review process, but reallocations are rarely made between the development and recurrent budgets. If a development budget project stalls, the MoE has to indicate another project to which the funding should shift. Unused funding against cash flow projections can shift out of the sector to cover urgent new expenditure objectives elsewhere.

The accountability report, which is submitted to Parliament at the end of the fiscal year, covers recurrent and development expenditures, end-of-year information for the previous year and a mid-year review for the current year.

1 There is a complication around cash forecasting and management on account of Parliament approving the budget only after the start of the fiscal year. Ministries can spend on account up to a limit – cash flow therefore is not necessarily calculated from the allocated budget but from the previous year's budget first, then from the allocated budget.

Presentational and legal separation

Discussion

Budget presentation: In the budget preparation cycle, the MoF submits two documents to Parliament with details on the distribution of expenditure:

- An MTEF document, which is submitted as a pre-budget statement. This document is set out according to ministry and Government Finance Statistics categories of expenditure. It provides information on the different activities of the ministry and breaks expenditure down by programme for both the development and recurrent budget. It reflects both development and recurrent expenditures (by recurrent and capital economic categories), but does so separately (see Appendix 1).
- The Estimates of Expenditure, which is a detailed book of estimates by economic line items, is set out by votes (mainly OMDs) and within votes by main divisions, which are broad functional categories (unique to Namibia) within each ministry – these sometimes correspond to administrative divisions within the OMD. While the Estimates of Expenditure integrates development and recurrent budget allocations in the same book, it reports them separately (see Appendix 1).

The Estimates of Expenditure underpins the Appropriation Act in accordance with the State Finance Act. The Appropriation Act approves amounts per vote by main division and subdivision (between development and recurrent, and economic categories of expenditure). The State Finance Act allows for money to be shifted within a vote between main and subdivisions.

The NPC submits a separate development budget to Parliament that is purely presentational. It sets out in more detail information by vote and project that make up the totals reported by line item in the Estimates. An example is provided in Appendix 1 (separate presentation of the development budget by project).

Budget reporting: The main document is the Accountability Report submitted to Parliament in November or December. It reports on the previous year (financial year ending on 31 March) and the first six months of the current year. The document presents a consolidated table according to main economic categories for the recurrent and development budgets (separate, then totalled). Information is presented for the recurrent budget by programme, then by activity – a form that is never presented in the budget approval stage. Actual performance against targets is also reported, with a narrative by target.

Degree of public finance management decentralisation

Discussion

The State Finance Act charges the permanent secretary of the MoF with accountability for undertaking expenditure from the state revenue fund and accounting for it. It also gives the permanent secretary the authority to delegate responsibilities, via Treasury instructions, related to expenditure and financial management to accounting officers. Therefore, the Namibian system works with the Treasury, warranting expenditure by ministries against their appropriations in the Appropriation Act. Accounting officers (the chief executive officers of OMDs) are held to account for planning and executing their budgets, requesting warrants, and keeping records of payments submitted. The MoF undertakes centralised payments and keeps accounts. At the end of the year, the permanent secretary provides a set of accounts based on payments to accounting officers, which is signed off for submission to the Auditor General. It is therefore a semi-decentralised system.

Research findings

Question two

What do the results of public financial management suggest about the integration of capital and recurrent expenditure?

Part A: Under-integration

Key evidence	DIscussion
Development expenditure is under-integrated, despite coordination efforts by the MoF and the NPC to assimilate processes by integrating their central-level engagement with line ministries. One reason for this is that separate ceilings are issued, which cannot be breached by the line ministries, except for the second outer year. While central-level processes integrate discussions between the MoF, NPC and line ministries, the MoF and the NPC each has its own internal process that ultimately makes the trade-offs within development and recurrent expenditures. Development expenditure trade-offs are routinely made based on the policy objectives they contribute to in an integrated manner at line ministry level – at least for the MoE – but only occasionally, even rarely, at central level. Given sector policy, trade-offs between development and recurrent expenditure priorities are not possible because ceilings are issued separately. The line ministry makes the first prioritisation between capital projects within the development ceiling, and the final trade-off is made by the NPC, which is driven by national priorities rather than sector priorities. The recurrent costs of capital projects are rarely factored into capital project assessment and selection, and into recurrent budgets only after the capital project has been approved and is being executed. Recurrent cost estimates may well be realistic and reliable once they are made, but the point is that they are made after a project has been approved. This is because of the long project cycle.	Recurrent costs of capital projects are taken into account in budget submissions, budget allocations and projections. The length of the Namibian project cycle means recurrent costs of capital expenditure are not routinely and substantively taken into account when allocating expenditure to capital projects. The project identification form of the NPC originally included a section in which recurrent costs needed to be set out, but according to respondents this section was dropped because ministries routinely failed to complete this when submitting project identification forms. Thoroughness/effectiveness of mechanisms to estimate the recurrent costs of capital projects. The recurrent cost of major capital investment in education depends on long-term planning and costing of the sector. For example, the cost of staffing new schools being constructed needs to be taken into account. According to the Public Expenditure Review of Education done in 2011, this type of long-term costing was weak. A project was established to develop the capacity of the ministry to cost in this manner, but a 2012 functional review of the Directorate of Planning and Development found that costing was still weak at that point. Information gathered during fieldwork did not suggest that it has been developed further since then. **Evidence that sector policy objectives drive development expenditure.** Development expenditure requests from the MoE are driven by sector policy objectives. Requests originate at regional level, where service delivery is managed. The budget and expenditure committee looks at these requests holistically and prioritises them for the NPC. Two factors, however, counterbalance this. Firstly, the MoE cannot plan for development versus recurrent expenditure within a single ceiling. Instead, it is locked into budgeting for recurrent expenditure within a recurrent ceiling (which is incrementally driven by historical expenditure) and a development ceiling from the NPC driven by the NDP 4 and existing projects. Respondents from the ministry expressed that this places them in a difficult position and makes it almost impossible to shift the balance, although it is crucial to do so for quality improvements in the sector. Secondly, at central level, decisions made about development expenditure are largely based on policy imperatives, driven by the NDP 4. Decisions as to whether to fund a capital

Key evidence	DIscussion
	project are therefore not necessarily about its importance in terms of sector objectives (rather than another capital project in education or recurrent expenditure) but its importance in relation to other government development projects within the framework of the NDP 4. Maintenance of capital assets. Respondents from different ministries pointed out that maintenance is an issue. Maintenance expenditure on public assets is allocated outside of the asset's sector. In the way that capital projects are traded off with other capital projects, maintenance of schools is also being traded off – but with maintenance of assets such as clinics rather than with other expenditure in education. Moreover, the total allocation for maintenance to the MoWT appears to be low against government's capital stock. Use of assets. Respondents remarked that while an asset (such as a clinic or hospital) is occasionally underused for a period after being handed over due to a lack of recurrent funding, the internal systems of ministries generally ensure that new buildings are furnished as soon as possible after completion and are ready to be used.

Part B: Integration

Key evidence	DIscussion
Capital expenditure, specifically development expenditure, is not overly integrated. This is because expenditure on projects does not form part of the ministry baseline but is allocated for specific projects and is in line with the funding requirements of those projects for each of the years budgeted. Budget processes for development expenditure are almost entirely separate (see discussion in question 1) and are driven by proposals for the cost of and allocations to individual projects.	Use of capital expenditure budgets. In 2013/14, overall utilisation was 93 percent. In education, 98.6 percent of the development budget was used. In 2014/15, 95 percent of the overall budget was used, with education using 98.3 percent. This suggests that either the planning for capital expenditure projects are realistic about implementation or the mechanisms to reallocate funding that is not used during the spending year in the development budget are effective.
Rigorous feasibility assessments look at, for example, the cost of projects, specifically for the type of expenditure that is the focus of this study. The project cycle is fully developed and captured in a set of guidelines administered by the MoWT. These guidelines are largely adhered to.	Delays in project design and completion. Respondents indicated that delays occur both in the design and implementation of development projects. The impact of the long project cycle has been discussed – but this would not show up as underutilisation of capital expenditure allocations as the allocations themselves are in line with the cycle. The cycle has an inbuilt delay in that the budget is approved only after the start of the fiscal year and, by law, funding allocated for new expenditure cannot be warranted until it is approved. A delay of two to three months is therefore expected.
This means approved projects are almost never underfunded. Delays may occur, but this is due to a weakness in the cycle at project identification, when all the risks may not be fully identified, and a capacity bottleneck at the MoWT. There is pressure on capacity in the MoWT because capital expenditure is treated separately, not because it is not treated according to the appropriate requirements. There are very few incomplete or stalled projects.	However, respondents reported delays in addition to the slow cycle. The key factors are: (i) delays in the start of a project occur as a result of incomplete early project design. When a project is initially identified and submitted to the NPC, the MoE may not be aware of all the factors that will determine whether the project can go ahead or not. Negotiating land titles/zoning for new schools, for example, may take a long time. The MoWT pointed out that even though it has the expertise to assess and plan for such events, it is brought into the process only after the NPC has approved a project. Also, the MoWT does not have the information upfront to plan how best to make use of the capacity of a service provider. For example, it might contract a key service provider for a feasibility study for a project, and soon after be presented with another project, which is larger and more urgent. It would

Key evidence	DIscussion
	then struggle to find capacity. The MoWT does, however, have a panel of approved service providers to which it can contract feasibility studies; (ii) the MoWT is responsible for the execution of all development budget projects (of the kind investigated), which causes a bottleneck. It has recently brought in additional capacity by contracting almost 100 additional officials from another Southern African country. This has eased the constraints, particularly in recent years of year-on-year budget growth and large investments in administrative and service delivery infrastructure. Underfunding and cost overruns. Underfunding – beginning a project without the full budget or the reallocation of funding for projects – does not occur. Cost overruns do not often occur after feasibility studies because the rigour required to conduct the study is significant: It includes a full quantity survey on standard designs for schools, for example, executed by qualified surveyors. On big "top-down" projects that are more political, however, there can be cost overruns. Open and stalled projects. These are not a common feature of the Namibian capital expenditure landscape. Mechanisms to separate capital expenditure out of OMD baselines. Full mechanisms exist in that development budget expenditure is allocated for specific projects and cease once the project is completed. It is not part of the baseline of OMDs. Small capital expenditure items – part of the recurrent budget – are more at risk of not being separated out, but this is a minor concern.

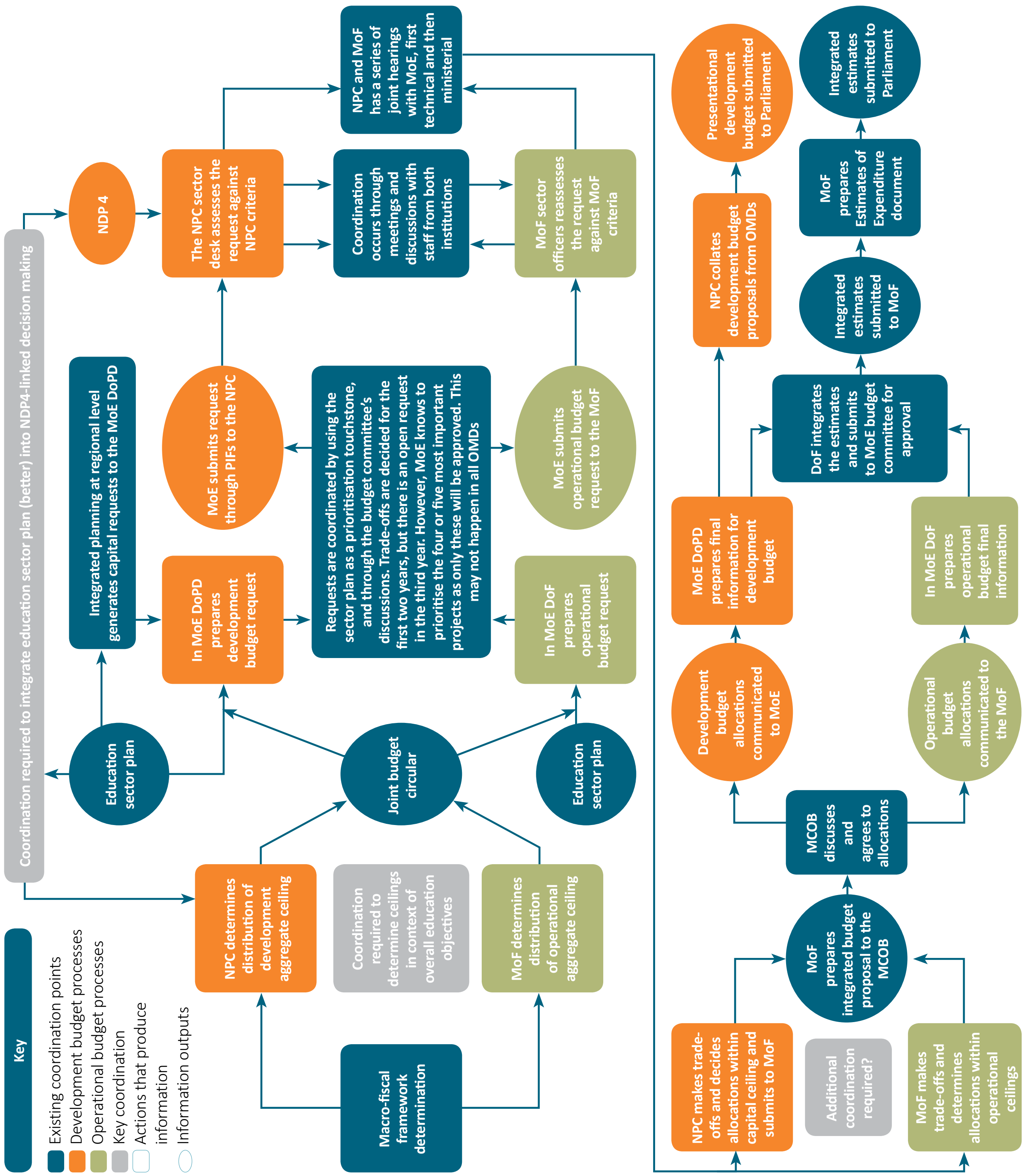
Question three

What evidence is there of the Ministry of Finance's coordinative capabilities, and what contribution can be made to the integration outcomes observed?

Assessment dimensions

Discussion

Step 1: Identify the need for coordination to integrate capital and recurrent expenditures



Determine the need for coordination

Given the constitutionally based split between development and recurrent expenditures, the diagram above outlines the development budget (with key capital expenditure) and operational budget (with all recurrent expenditure) process, identifying existing points for coordination and points at which it is required. The blue boxes (for actions) and circles (for information outputs) indicate existing coordination/integration points. The grey boxes indicate three points where the integration of capital and recurrent expenditures should be improved to better support the achievements of the education sector's objectives and performance (to which they both contribute). These three areas are:

1. The initial separation of the overall expenditure aggregate into a development and a recurrent ceiling. This enforces separate budget processes and the trade-off of development projects in education with development projects in health, for example, rather than trade-offs within the education sector between projects and development and recurrent expenditures in order to achieve objectives. This is a key point that leads to the under-integration of expenditure and potentially insufficient investment in the education sector. It is a fit or common-object dependency – two activities producing information for what should be an integrated joint decision on budget ceilings.
2. Crucial information that the NPC should have in making decisions on the funding of projects in the development budget is not used. This is the education sector plan that places requests for capital expenditure within the context of overall education performance and objectives. The NPC draws predominantly on NDP 4, which has sector determinations (which in turn informs the sector plan), but is not adjusted for developments in the sector. This is a multiple-information resource dependency, where decisions by the NPC should use different sets of information, including sector plans and priorities.
3. A third integration point is after the joint budget hearings, when the NPC makes final allocations, which are submitted to the MoF for integration as a budget proposal (and final allocations in the operational budget). These decisions should be made jointly, be each sector, within an overall determination of sector needs (operational and development) relative to the needs of other sectors. Again, this is a fit or common-object dependency: the joint budget proposal should not be an amalgamation of proposals by the two institutions but rather the integration of proposals by both.

Step 2: Gather evidence of the MoF's capability to coordinate

Has the MoF set a common goal of integration that is achievable?

The Minister of Finance has the power to determine the budget process, and sign off on budget allocations and the format of budget submissions. With regard to the development budget, the NPC is legally permitted to make only recommendations on proposed projects and the subsequent expenditure (see Article 12 of the NPC Act of 2013) to the Minister of Finance, who is mandated to propose allocations to Parliament after Cabinet agreement.

However, in practice, the NPC's recommendations have the status of decided allocations. Previously, the NPC sent out its own budget circular and ran a process that was totally separate, demonstrating that decisions on development budget distribution is its domain.

Yet the MoF has been successful in arguing the need for integration. For example, it has succeeded in setting out the central budget process in a much more integrated way, with joint circulars and hearings.

But it can also be argued that it has not been entirely successful in setting a common goal around the shared objectives of capital and recurrent expenditures. The MoF arguably introduced both the MTEF and programme budgeting to improve the coherence of budgeting, aimed at integrating recurrent and capital expenditures as a framework for the budget, but neither of these frameworks has been entirely effective in practice. This is because at the central level, the MTEF does not play a determining role in setting budget allocations. Rather, it is an early, presentational and preliminary determination of priorities, plans and targets by programmes that are then not carried forward in the budget process and in the documentation that is the legal basis for the budget. The real budget is then determined by the process set out above. In reality, the MoF's key budgeting processes are more focused on time invested and concentration of effort. They are not centred on the MTEF phase but on the detailed Estimates phase, which is driven by the separation of capital and recurrent expenditures and a focus on line-item inputs.

It is therefore unclear whether all the relevant players, even in the MoF, agree that integration is important or more important than maintaining the status quo – there is still strong support for the well-established practice of separate planning and monitoring of the development budget as the key instrument to implement the NDPs.

What mechanisms has the MoF put in place to manage the dependencies between activities?

Please refer to the section above where programme budgeting and an MTEF as integrating mechanisms to determine how development and operational activities will jointly contribute to objectives, including sector objectives, is discussed. This can be seen as an effort to use standardisation of information and decision-making/negotiating rules in the budget process to overcome the key common-object dependencies of the dual budget system, in which different sets of activities by different players result in a set of decisions that should be coherent and integrated. However, the success of these efforts is unclear, as they were superimposed on the existing system of decision-making, by subdivision and line item. They did not replace or override this system, which is rooted in the legal framework for budgeting. If these efforts were successful, then the decision-making rules based on the internal workings of the subdivision (operational and development) as well as affordability and trend dynamics of the line item (such as personnel costs or rental) would have been replaced or at least effectively modified. Programme budgeting and an MTEF provide the framework within which the objectives of programmes and sectors allow for different subdivisions and line items to be considered – in terms of how they affect the objectives of the programme or sector rather than simply in terms of their own dynamics.

For the past three budget processes, the MoF has worked with the NPC to review and discuss development and recurrent budget proposals of OMDs. In practice this means:

- Issuing a joint rather than separate circular
- Engagement between MoF and NPC staff working on a sector while reviewing the budget proposals submitted by OMDs
- Joint hearings, first at the technical or permanent secretary level, then at ministerial level.

MoF and NPC respondents indicated that these changes have made significant improvements to integration in the budget preparation process, which affects their separate decision-making. This synchronisation is the MoF's effort to override a shared-resource dependency (with both sets of decisions needing to be integrated with joint information) as well as the arising fit or common-object dependency, where their individual decisions should result in a coherent set of decisions on the consolidated budget of the MoE where there are interdependencies between development and operational expenditures.

Despite this integration of the central process, the system still depends largely on integration to occur at line ministry level, so even if budget requests are submitted to separate institutions for consideration, these requests should already have been integrated by the line ministry. There are four issues that render integration at this level either unlikely or ineffective:

- In the past, line ministries have set up separate processes or institutions, when the system was entirely dual, that echo the duality of the central system.
- Line ministries do not have strong capacity to estimate costs in order to ensure the affordability or sustainability of capital projects, nor do they have the analytical capacity to ensure optimal integration for long-term service delivery.
- The incentives that play out with separate ceilings mean that integration that occurs through an MTEF process is overridden once separate proposals are prepared. It is in the line ministry's interest to maximise its share in resources within each ceiling so its decisions over time will reinforce skewed distribution of development versus operational resources, for example, rather than simply addressing it.
- Even if line ministries integrate and prioritise, in the way the MoE does in order to submit its most important new projects, the NPC's decisions may result in a different set of priorities because it makes decisions with a different set of information and criteria.

Step 3: Argue contribution

Can evidence of successful or unsuccessful integration be partly attributed to MoF's attempts at coordination?

The changes in the system (joint central processes) can be attributed to the MoF, as is the effort to adjust decision-making and negotiating rules to an MTEF or programme budgeting system. The contribution of these two sets of coordination attempts by the MoF to the outcomes of the system, discussed in the previous two questions, are potentially significant for joint central processes but limited in the case of introducing medium-term programme-based budgeting.

Question four

Which factors – internal or external, technical, or political/institutional incentive factors – determine the Finance Ministry's ability to coordinate the integration of capital and recurrent expenditure?

What coordinative contribution – the ability to resolve dependencies in integrating capital and recurrent expenditures – has the MoF made in terms of regulatory, analytical and delivery capacities?

Discussion

The formal regulatory capability of the MoF to determine the budget process is well recognised and is set out in the State Finance Act. This formal capability means the rules it sets are observed. For example, if it requests an MTEF to be prepared for each OMD, it is done. Players across the system recognise the authority of the MoF and quote its legal basis.

However, the MoF's effective regulatory capability – the ability to engineer a budget process and formulate a set of rules that will allow integration – is perhaps more limited. Firstly, the dual budgeting system is a given, having been the outcome of a constitutional decision to put in a place a planning commission that is responsible for setting out national development plans. The MoF can set rules only within this duality. Similarly, the State Finance Act limits whether innovations such as medium-term integrated programme budgeting can be effective, as it outlines the legal foundation of the budget in the Estimates. Secondly, even though the State Finance Act gives the Minister of Finance the mandate to decide on the form in which the Estimates are prepared, there is a question as to why this form was not entirely overhauled to support medium-term budgeting by programme and integrated throughout the process rather than simply adding a medium-term programme budget to the start of the old process, using old forms. A well-developed regulatory capability might have seen the reforms of the past decade or so – to move procedures or decisions away from inputs and due process to decisions that aim to improve service delivery – looking somewhat different.

The **delivery capability** of the MoF – to run key public finance management processes such as payments and administer the State Tender Board – is strong and an indirect factor because it supports perceptions of the authority of the MoF.

The **analytical capability** of the MoF is a key factor in why its innovations to enforce better integration have limited impact on the outcomes. It is unclear whether the joint central processes have meant that either the MoF or the NPC ask different questions in the hearings – there has not been a shift in questions about the affordability and efficiency of line items to ones about the contribution of operational and development expenditures in terms of the priorities of the MoE and service delivery. The analytical capability of the NPC to undertake policy analysis and review, appraise spending proposals for contribution to objectives, and understand the policy dynamics of each sector (rather than how line items behave) appears to be more recognised. This limits the ability of the MoF to engage the NPC (and line ministries) and drive joint decisions that are more holistic and integrated for better service delivery.

How does the MoF's capacity (inputs over which it has control) contribute to or detract from its coordinative capability?

Discussion

Human resource capacity: The Budget Office of the MoF is set up by sector, with desk officers for education who are familiar with the operational budget of the MoE. Traditionally, however, these desk officers have not had to assess the MoE budget more holistically because the development budget was the NPC's responsibility. Budget analysis was largely by line item and for subcomponents of the budget. Desk officers are also often from an accounting rather than an economic and policy analysis background. The MoF has recognised this as a shortcoming. Two developments are expected to contribute to improving the MoF's capability to integrate and coordinate operational and development expenditures. One is the expenditure analysis that is being undertaken with the support of the World Bank Boost programme and within its frameworks, the information from which is expected to help assess budget proposals more holistically. The second development is the creation of an Economist unit that is intended to support Budget Office staff in assessing budget proposals in terms of their impact on the effectiveness and efficiency of expenditure against policy priorities and outcomes. But both these developments have had limited time to have an impact on the coherence of operational and development budget decisions.

IT systems: The MoF has an integrated financial management information system that ensures that recurrent versus development expenditures is captured and that reporting can be done. This system integrates recurrent and development expenditure. Also, the budget preparation system has been upgraded with online budget submissions, both for the project identification forms and for the recurrent budget. This means the information for making more integrated decisions for both the MoF and the NPC is available to both.

The budget system, however, does not require information on the future cost of capital projects to be made available, which could effectively influence the decision to go ahead with a project. An earlier requirement for this information was dropped. This is understandable because in practice there are no good frameworks for assessing what the future impact would be beyond the budget horizon at the time when projects are approved. Even if the information is made available by the line ministry, the MoF does not have the means to use it effectively.

Internal political institutional factors

Discussion

While the formal mandate of the MoF fully supports integration (in that the NPC makes only recommendations), in practice this mandate is weakened because decisions on development projects are seen to rest fully with the NPC, with the MoF being responsible only for collating the information into one budget proposal.

Another possible factor is that the culture of the MoF is more oriented towards maintaining fiscal discipline and less towards allocative efficiency. Some respondents have pointed out that the MoF has not had to manage significant resource constraints for quite some time – the macro-economic context was such that demands from new policies could be accommodated within a growing budget. Difficult trade-offs were therefore not needed. A system by which the affordability of development projects is made certain by imposing a capital expenditure/development budget ceiling on the NPC, largely leaving decisions within the ceiling to the NPC, worked well enough. In a changing context, with resource constraints emerging as economic growth stalls, the MoF does not have the capacity or systems to manage trade-offs across development and operational expenditures for allocative efficiency. It was unclear whether top management thought the system of first dividing up the overall ceiling then imposing separate ceilings on ministries was problematic for effective integration for allocative efficiency.

Another factor that detracts from effective integration is that the MoF is still oriented towards line-item incremental budgeting and for the operational budget only, rather than substantive engagement with the effectiveness and efficiency of overall spending, for service delivery. Some respondents have also pointed out that the culture in the ministry tends towards a relatively short, focused budget process. The budget circular goes out in mid-July and ministry submissions come back by the end of August. Hearings take place within a month, which leaves little time for full engagement with proposals and engagement with line ministries at the level of the desk officers. In fact, out of the 22 countries that responded to the relevant questions in the CABRI BPP 2015 survey, Namibia has the third shortest budget processes, from the first step to submitting the executive budget to Parliament.

It is unclear whether the rules around decision-making that would support integration – in which allocative efficiency is balanced with a focus on fiscal discipline – are in place and are effectively followed, nor that this is a telling concern of the MoF (to the point of fundamentally changing the system).

External technical factors

Discussion

Key factors affecting the capacity of line ministries to integrate capital and recurrent expenditures are:

- Lack of capacity to accurately assess the future cost of the ministries and service delivery, and cost the recurrent implications of capital projects.
- Not all ODMs have fully qualified or capacitated financial managers and not all have centralised planning functions. The role of financial and planning managers in line ministries is important to ensure that development and operational expenditures are appropriately integrated at line ministry level. As in the MoE, planning managers and financial managers often work in silos, with insufficient integration of their work. This means development projects and operational expenditure at line ministry level is not necessarily integrated, both in terms of the affordability of capital project proposals to ensure the financial sustainability of projects and in terms of ensuring allocative efficiency related to sector objectives and service delivery across these two sets of expenditure.

External political factors

Discussion

The constitutional separation of the institutions for development and recurrent expenditures is a key factor. The integration of these expenditures in Namibia starts from a formalised platform of separation of planning for the objectives of each.

The status of the MoF and that of the Minister of Finance is also significant. The minister holds an especially senior position in Cabinet and has considerable political power. Respondents thought that, for the most part, the minister (and by extension, the ministry) is able to reject unaffordable policies/development projects. This power is supported by the regulatory and delivery capability of the MoF. A few respondents indicated that some projects will always be politically driven and it would be difficult, if not impossible, for the minister to reject these. But this situation is the exception rather than the rule.

The power of the NPC is also well recognised. It does not have a minister because it falls under the Office of the President. This political power is backed by a strong analytical capability and the power, in practice, to make decisions on how the development budget should be used across ministries and sectors.

Conclusion and lessons learnt

Question five

How has the Ministry of Finance adjusted factors within its control to boost its ability to coordinate capital and recurrent expenditures under different circumstances? What are the lessons? What policy advice can be derived from the study?

Discussion

Over time, constitutional decisions have resulted in a fully separated or dual budgeting system in Namibia. The MoF, together with the NPC and the Central Bank, sets an overall expenditure limit, which is then divided into a development budget and an operational budget, driven by bottom-up cost factors. Within each of these ceilings, the NPC and the MoF takes responsibility for determining distribution across ministries of the development (largely capital) and operational (largely recurrent) budgets respectively. There is no system of determining how available funding should be distributed across and within sectors across policy priorities, notwithstanding whether activities are developmental or operational in nature. Therefore, the incentives to assess development or recurrent expenditures in terms of how they contribute to policy objectives and service delivery at the sector level are weakened.

The MoF has recognised the allocative efficiency cost of the dual system and issues of allocative efficiency of expenditure overall. It has instituted two overarching sets of reforms to address this. Firstly, it introduced a medium-term programme budget more than a decade ago to change the decision-rules on expenditure and change the budget process. But this programme-based budget was appended to the existing budget process and formats, and has had limited impact on the integration of capital and recurrent expenditures. Secondly, and more recently, the ministry has changed the central budget process so the MoF and the NPC can work together at key points to integrate development and operational expenditures during processes to decide on budget allocations. This has had greater, although still limited, impact, as each institution ultimately decides on the allocation of available expenditure within the relevant ceiling. These decisions are driven by its priorities and decision-making rules at the time.

It has been argued that one reason for the limited impact of both sets of innovations has been that the MoF has not sufficiently strengthened its analytical capability to negotiate the integration of capital and recurrent expenditures, both with the NPC and line ministries. The MoF has also recognised this and is improving this capacity, particularly with the establishment of an Economist unit, which undertakes a holistic review and analysis of public expenditure. The ministry also sees its membership with the World Bank Boost programme as contributing to developing its capacity.

It is unclear whether the culture of the MoF fully supports its efforts to shift the system towards effective integration as it remains more oriented towards fiscal discipline. In terms of processes, it is still preoccupied with line-item incremental budgeting, focusing on the operational budget only. This was seen as a key barrier to effective integration. If alternative public finance values were stronger – focused on allocative efficiency and economic and policy-oriented analysis of expenditure – the MoF might have taken further steps, such as forcing the division of available expenditure according to government's policy priorities between sectors and ministries first. This would impel both the NPC and the MoF to look more closely at how different expenditure types and objectives contribute to the achievement of joint objectives, and line ministries to make better trade-offs. It would support stronger sector plans, with sector plans and strategies playing a key role in capital and recurrent expenditure integration. The role of sector plans in terms of the NDPs is weak, with the NDP taking precedence in setting the development budget. The ministry may then also have looked at completely replacing the existing budgeting system with a medium-term, programme-based system, which would have helped integration even more. But there does appear to be progress, with pilots bringing programmes into the estimates process.

There is also evidence that successful integration – which is largely dependent on integration at the line ministry level – is hampered by cultures, systems and capacities at line ministry level, which is reinforced by the upfront split in budgeting and different institutions dealing with different components of the budget centrally.

Annex

Extracts from budget documentation

a: Integration of capital and recurrent expenditures across operational and development budgets in an MTEF

The three tables below are from the education chapter in the MTEF document. It shows the three ways in which the budget for the vote is presented: first by listing all sources (operational, development and contributions from development partners), then by programme, and finally by main economic category (operational and development). The chapter also includes common performance indicators and narratives by programme.

	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019
Year	Actual	Estimate	Estimate	Estimate	Estimate
Operational budget	10 057 250 452	10 830 503 000	11 956 248 000	12 298 040 00	13 429 624 000
Development budget	616 650 030	591 893 000	838 634 000	1 062 786 000	1 203 780 000
Development partners	0	0	119 038 000	119 038 000	119 038 000
Total	**10 673 900 482**	**11 422 396 000**	**12 913 920 000**	**13 479 864 000**	**14 752 442 000**

*P-number	Programme name	*A-number (MD-number)	Activity name (main division)	MTEF Projections		
				2016–2017	2017–2018	2018–2019
01	Policy coordination and support services	01–01	Policy coordination	5 389 000	5 551 000	5 718 000
		01–02	Planning and support services	700 864 000	517 014 000	744 784 000
		01–03	Quality control management	68 100 000	214 307 000	192 043 000
		01–04	Infrastructure development and maintenance	83 259 000	95 360 000	90 000 000
Subtotal				**857 612 000**	**832 232 000**	**1 032 454 000**
02	Pre primary education	02–01	Pre primary eduction development	188 077 000	195 271 000	200 722 00
Sub total				**188 077 000**	**195 271 000**	**200 722 00**
03	Primary education	03–01	Primary eduction development	7 358 502 000	7 637 756 000	8 141 760 000
Sub total				**7 358 502 000**	**7 637 756 000**	**8 141 760 000**
04	Secondary education	04–01	Secondary eduction development	3 749 926 000	4 058 163 000	4 570 064 000
Sub total				**3 749 926 000**	**4 058 163 000**	**4 570 064 000**
05	Information, adult and life long learning	05–01	Community library and information services	152 563 000	155 085 000	167 939 000
		05–02	Adult education	320 140 000	333 695 000	342 671 000
		05–03	Art	66 290 000	68 194 000	70 238 000
		05–04	National heritage and culture	93 635 000	71 967 000	98 750 000
Sub total				**632 547 000**	**628 941 000**	**679 598 000**
06	HAMU	06–01	Prevention and awareness	8 218 000	8 463 000	8 715 000
Subtotal				**8 218 000**	**8 463 000**	**8 715 000**
Vote total				**12 794 882 000**	**13 360 826 000**	**14 633 404 000**

Year	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019
	Actual	Actual	Estimate	Estimate	Estimate	Estimate
Personnel experience	7 145 200 384	8 103 897 213	8 240 564 000	9 100 528 000	9 211 424 000	10 019 761 000
Goods and other services	254 536 085	309 606 000	601 279 000	548 616 000	581 224 000	695 819 000
Subsidies and other current transfers	1 384 738 881	1 640 931 821	1 982 939 000	2 307 101 000	2 505 389 000	2 714 041 000
Acquisition of capital assets (operational)	933 560	2 815 418	5 721 000	3 000	3 000	3 000
Operational budget	**8 785 408 910**	**10 057 250 452**	**10 830 503 000**	**11 956 248 000**	**12 298 040 000**	**13 429 624 000**
Acquisition of capital assets (operational)	265 693 529	427 733 560	403 378 000	490 470 000	828 836 000	971 725 000
Capital transfers (development)	261 291 000	188 916 470	188 515 000	348 164 000	233 950 000	232 055 000
Development budget	**526 984 529**	**616 650 030**	**591 893 000**	**838 634 000**	**1 062 786 000**	**1 203 780 000**
Total state revenue fund appropriation	9 312 393 439	10 673 900 482	11 422 396 000	12 794 882 000	13 360 826 000	14 633 404 000
Grand total	**9 312 393 439**	**10 673 900 482**	**11 422 396 000**	**12 794 882 000**	**13 360 826 000**	**14 633 404 000**

b: Integration of capital and recurrent expenditures across operational and development budgets in the Estimates of Expenditure

The tables below are examples of how total operational expenditure – including both current and minor capital expenditures over five years (one past, one current, the budget year and two outer years) – is first calculated for the pre-primary education main division of the education vote, then by setting out the development budget based on inputs purchased. (The allocation for construction is designated as "capital transfers to government organisations", the MoWT, for execution.)

004–2	Support to N.P.O					
	[044] Total	**30 000**				
045	Public and departmental enterprises and private industries					
080	**Subsidies and other current transfers – sub total**	**53 913 000**	**60 075 000**	**56 029 000**	**58 829 000**	**60 299 000**
100	**Total current expenditure [010 + 030 + 080 + 090]**	**142 676 354**	**202 276 000**	**188 077 000**	**195 271 000**	**200 722 000**
101	Furniture and office equipment	7 100	57 000			
102	Vehicles					
103	Operational equipment, machinery and plants					
110	**Acquisition of capital assets – sub total**	**7 100**	**57 000**			
160	**Total capital expenditure [110 + 130]**	**7 100**	**57 000**			
300	**Grand total – operational**	**142 683 454**	**202 333 000**	**188 077 000**	**195 271 000**	**200 722 000**

111	Furniture and office equipment					
112	Vehicles					
113	Operational equipment, machinery and plants					
114	Purchase of buildings					
115	Feasibility studies, design and supervision		3 001 000			
116	Purchase of land and intangible assets					
117	Construction, renovation and improvement	2 781 002	17 006 000			
120	**Acquisition of capital assets – sub total**	**2 781 002**	**20 007 000**			
131	Government organisations	26 887 000	16 051 000			
132	Individuals and non-profit organisations					
133	Public and departmental enterprises and private industries					
134	Abroad					
150	**Capital transfers – sub total**	**26 887 000**	**16 051 000**			
170	**Total capital expenditure**	**29 668 002**	**36 058 000**			
200	**Total – development**	**29 668 002**	**36 058 000**			
400	**Grand Total**	**172 351 456**	**238 391 000**	**168 077 000**	**195 271 000**	**200 722 000**

c. Separate presentation of the development budget by project

The tables below provide the format of the development budget, setting out how programmes and projects are reflected. The development budget is structured by programme and project.

i. Summary table extract

Programme: Pre-primary education								
NPC code	**Project**	**Total cost**	**Actual to 2013–2014**	**Estimated to 2014–2015**	**MTEF Projections**			**Balance**
					2015–2016	**2016–2017**	**2017–2018**	
18724	10/14/1 – Construction of teachers houses – Pre-primary	715 646	0	2 800	20 007	25 000	25 000	642 839
19011	10/14/1 – Pre-primary basic education facilities upgrading	907 078	0	26 887	16 051	20 000	30 000	814 140
Programme Sub total		**1 622 724**	**0**	**29 687**	**36 058**	**45 000**	**55 000**	**1 456 979**

ii. Project detail

PROJECT IDENTIFICATION, FUNDING AND COMPOSITION OF EXPENDITURE, DESCRIPTION, IMPACT AND ACTIVITIES

I. PROJECT IDENTIFICATION
PROJECT NAME: 10/14/2 – Pre-Primary Basic Education Facilities Upgrading
NPC CODE: 19011 **STARTING DATE:** 01-APR-200 **CONCLUDING DATE:** 31-MAR-2025

VOTE: 10 – Education Arts and Culture
MAIN DIVISION: 14 – Pre-Primary Education
EXECUTIVE AGENCY: Works
NDP 4 GOALS: High and Sustainable Economic Growth
STRATEGICAL AREAS: Education and Skills
DESIRED OUTCOME: Integrated, competitive education system
STRATEGIC INITIATIVE: Improve quality at all levels in education through learning standards and circular development, teacher development, availability of textbooks and materials, and stringent learner assessment
PROGRAMME NAME: Pre-Primary Education
TARGET REGIONS FOR THIS MTEF: //Kara. Omusati, Oshana, Oshikoto, Otjozondjupa, Zambezi, Erongo, Hardap, Kavango East, Karvango West, Khomas, Kunene, Ohangwena, Omaheke
TARGET CONSTITUENCIES FOR THIS MTEF: All //Kara. All Omusati, All Oshana, All Oshikoto, All Otjozondjupa, All Zambezi, All Erongo, All Hardap, All Kavango East, All Karvango West, All Khomas, All Kunene, All Ohangwena, All Omaheke

II. PROJECT FUNDING EXPENDITURE (N$'000)

A. SOURCE OF FUNDING				**Total Cost**	**Actual till 2013–2014**	**Estimate 2014–2015**	**Estimate for 2015–2016**	**Estimate for 2016–2017**	**Estimate for 2015–2016**
A-1 INTERNAL FUNDING									
Government				907 078	0	26 887	16 051	20 000	30 000
Other Dev't Funds				0	0	0	0	0	0
Total Internal Funding				**907 078**	**0**	**26 887**	**16 051**	**20 000**	**30 000**
A-2 INTERNAL FUNDING									
Inside SRF:	(a) Grants			0	0	0	0	0	0
	(b) Loans			0	0	0	0	0	0
Outside SRF:	(a) Grants			0	0	0	0	0	0
	(b) Loans			0	0	0	0	0	0
Total External Funding				**907 078**	**0**	**26 887**	**16 051**	**20 000**	**30 000**
TOTAL PROJECT FUNDING				**907 078**	**0**	**26 887**	**16 051**	**20 000**	**30 000**
B. COMPOSITION OF EXPENDITURE		**SOURCE**	**I/O SRF**						
131	Government Organisation	GRN	Inside	**907 078**	**0**	**26 887**	**16 051**	**20 000**	**30 000**
Total External Funding				**907 078**	**0**	**26 887**	**16 051**	**20 000**	**30 000**

III. PROJECT ACTIVITIES

A. ACTIVITIES COMPLETED DURING 2014–2015 FINANCIAL YEAR: The following facilities were constructed: 275 classrooms; 1 Computer laboratory; 1 Library; 2 Science laboratory; 7 Ablution Blocks; 16 Pit latrines; 4 Teachers houses; 9 Septic tanks; 3 Water tanks and shanks; 3 Freezer rooms; 1 Circuit office and 6 Offices.

B. ACTIVITIES PLANNED FOR FIRST FINANCIAL YEAR (2015–2016) OF THIS MTEF: Construction and upgrading of school infrastructure in all regions as when needed/requested.

C. ACTIVITIES PLANNED FOR SUBSEQUENT FINANCIAL YEARS OF THIS MTEF: Construction and upgrading of school infrastructure in all regions as when needed/requested.