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National Budget 2006/07: Continuity Tinged with Change

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Last year in her first budget of the new government, Finance Minister Saara Kuugongelwa-Amadhila promised to reduce the budget deficit in 2005/06 and generate a budget surplus in 2006/07 for the very first time since independence. She has proved as good as her word. This year's budget envisages a small surplus for the coming financial year. However, a closer look at her proposals shows she has achieved this surplus thanks to a significant and unexpected windfall in SACU receipts which has allowed her both to balance the budget <u>and</u> significantly increase spending without raising taxes. The fiscal rectitude displayed in 2005/06 looks like being short-lived. Contrary to last year's three year outlook, she now expects spending to return to its historical level of around 35% of GDP and the budget to switch back into deficit going forward. After a two year absence, the revised budget is also set to make a return. As expected, the new government has eschewed radical change in tax policy and budgetary allocations. There are, however, signs that genuine improvements in revenue collection are taking place. Despite the absence of radical changes in spending patterns, it is possible to detect less dramatic shifts in emphasis and perhaps a hardening of attitudes towards poor budgetary practices and wasteful spending.

Minister of Finance Saara Kuugongelwa-Amadhila presented the national budget to the National Assembly on 16 March 2006. Since last year's budget was tabled slightly more than a month after the coming into office of the newly elected Swapo Party government, it was hardly likely that it was to reflect any new thinking and priorities of the new President, Prime Minister and Cabinet. The government has now had a year in which to settle in and it seems reasonable to expect to start to detect the impact of this change on the nation's primary tool for shaping national development. President Pohamba presented himself as the continuity candidate in the run-off to succeed former President Nujoma. It would therefore not be too surprising if change were to prove hard to identify.

More information and more transparency

Last year the IPPR commented on the ever more extensive documentation provided in the budget: the budget speech, the estimate of revenue and expenditure, the macroeconomic framework and the medium-term expenditure framework (MTEF). Although there is a danger that too much information can complicate and confuse, by and large the addition of further information is to be welcomed. This year the Ministry of Finance has taken a further step forward by incorporating all three years of the MTEF fully into the estimate of revenue and expenditure document. The MTEF document includes welcome information about many State Owned Enterprises and arms-length government agencies. Another major new improvement in the MTEF document has been the inclusion of a detailed list of government guarantees (on page 15) which includes both new guarantees extended, guarantees that have been cancelled and guarantees that are currently in default. A further improvement has been the inclusion of "switches" in expenditures under each vote which shows how resources are being reallocated between programmes. This is useful in that it shows how resources are being reallocated as priorities become better defined. Finally, it was encouraging to see that all four budget documents were placed on the Ministry's website www.mof.gov.na shortly after the Minister's finished her speech in Parliament.

Table 1: Medium Term Expenditure Framework Projections 2001/02-2008/09 in % of GDP

	01/02	*02/03*	*03/04*	*04/05*	*05/06*	*06/07*	*07/08*	*08/09*
MTEF 2001/02								
Revenue	31.3%	31.0%	31.4%					
Expenditure	34.9%	33.9%	34.3%					
Deficit	3.6%	2.9%	2.9%					
MTEF 2002/03								
Revenue		30.1%	28.1%	26.5%				
Expenditure		34.5%	31.1%	29.0%				
Deficit		4.4%	3.0%	2.5%				
MTEF 2003/04								
Revenue			30.4%	28.3%	26.7%			
Expenditure			33.4%	31.6%	29.7%			
Deficit			3.0%	3.3%	3.0%			
MTEF 2004/05								
Revenue				32.3%	28.3%	27.3%		
Expenditure				33.8%	29.6%	28.3%		
Deficit				1.6%	1.4%	1.0%		
MTEF 2005/06								
Revenue					31.7%	31.6%	28.6%	
Expenditure					32.9%	30.4%	27.7%	
Deficit					1.2%	(1.2%)	(0.8%)	
MTEF 2006/07								
Revenue						35.9%	30.5%	28.9%
Expenditure						35.6%	32.1%	31.3%
Deficit						(0.3%)	1.7%	2.3%
Revenue	31.8%	31.9%	28.2%	30.6%	31.3%			
Expenditure	36.0%	34.4%	35.4%	34.2%	32.4%			
Deficit	4.2%	2.5%	7.2%	3.6%	1.1%			

Source: MTEF documents 2001/02-2006/07, Ministry of Finance
Note: Shaded areas denote latest available estimates as opposed to MTEF projections

This is now the sixth successive year that the Minister of Finance has presented a three-year perspective on revenue, spending and the deficit which is called the Medium Term Expenditure Framework or MTEF. Table 1 presents an updated version of the comparison of these six three-year perspectives presented in last year's IPPR opinion piece. It includes actual out-turns for 2001/02, 2002/03, 2003/04, 2005/05 as well as revised budget estimates for 2005/06 in the shaded boxes. The following points are worth noting:

- Every year the Minister predicts that total revenue is expected to decline over the three year MTEF period but such a fall has consistently failed to materialise. This year revenue is expected to reach 35.9% of GDP – its highest level since 1991/92 – thanks largely to a substantial windfall.

- This year expenditure is set to rise to 35.6%, as far away from the Minister's 30% spending target and the highest level since the MTEF was introduced.

- Actual budget deficits look to be higher than forecast for 2001/02, lower than forecast for 2002/03, far higher than forecast for 2003/04 and 2004/05 but lower for 2005/06.

- The previous four MTEFs (2002/03-2005/06) had all forecast declining revenue, expenditure and deficit. The latest MTEF is unusual because it forecasts declining revenue and expenditure but an increasing deficit.

- It may turn out that the last budget year 2005/06 shows that the Minister has made progress towards moving towards her spending target of 30% of GDP set out in November 2001 but this year will see a sharp reversal of this trend.

This analysis of past MTEFs and actual outturns suggests little has changed in the Minister's approach to managing aggregate revenue, expenditure and the deficit. Despite making a commitment to reduce government spending as a proportion of GDP, and despite going some way towards achieving this in 2005/06, the evidence suggests that government will continue to spend at historic levels of approximately 35% of GDP provided the revenue is there to enable it to maintain a manageable deficit. In other words, it is not deliberately choosing to reduce the size of government within the economy as the adoption of the expenditure target would have led one to expect. When revenue unexpectedly rises (as it has done this year) the decision as always has been to spend it. It is only that this year the windfall is so large, the Minister can spend it and make good her promise of achieving a surplus. This is not expected to recur. Whereas last year she was promising to maintain a surplus for at least two years (and balance the budget thereafter), this year she expects the budget to return to deficit in the following two years.

Table 2 shows how government measures up to the fiscal targets it set itself during 2001. It shows the latest available actuals and estimates for each target. The stock of public debt excludes government loan guarantees which, according to the Minister, has already declined to 7.9% of GDP in 2005/06 from a high of 11.8% of GDP in 2001/02. The 2006/07 budget takes government further away from its spending and public debt targets even as it more than meets its deficit target.

Table 2: Government's fiscal targets as % of GDP

	Target	***Latest actual (2004/05)***	***Estimate (2005/06)***	***Estimate (2006/07)***
Public expenditure	30%	34.2	32.4%	35.6%
Budget deficit	3%	3.6%	1.1%	-0.3%
Stock of public debt*	25%	33.8%	32.3%	33.7%

*excludes government loan guarantees estimated at 7.9% of GDP in MTEF 2006/07-2008/09

Encouragingly, the Minister stated that the investment grade credit rating received by Namibia from Fitch last December had already made an impact in the bond market and that consequently government was paying less for debt. Government, however, says it will continue to refrain from tapping international capital markets that such a credit rating allows and continue to finance deficits from the domestic market through longer-dated instruments.

Revenue highlights…

The following paragraphs examine revenue highlights contained in the main budget document. Whereas in previous years it was possible to compare budget estimates with the more accurate estimates presented in the revised budget a few months earlier, it is now no longer possible since the Minister has not tabled a revised budget for two years.

While there is nothing very dramatic to report on individual income tax or company profit taxes on mining companies, revenue from company profits tax on non-mining companies is set to rise from just over N$1 billion in 2005/06 to N$1.25 billion in 2006/07. This indicates the confidence the Ministry has in its forensic audits supported by private auditing firms. So far the Ministry has concentrated on the northern regions. Forensic tax audits are due to commence in the Khomas region this April while regional offices are due to open in Keetmanshoop and Otjiwarongo later this year.

Transfer duties on property transactions are set to rise substantially too from N$100 million to N$122 million showing the Ministry expects the property boom currently being experienced in some parts of the country to continue during the coming year and beyond.

The massive almost N$1 billion rise in VAT receipts between 2004/05 and 2005/06 is not expected to be repeated this year. However, receipts from the levy on fuel is expected to rise by more than 50% to N$97 million. Despite the poor tax performance of the mining sector, revenues from prospecting licences and claims is set to rise by a third to N$2.5 million.

By far the biggest boost on the revenue side has been the windfall from the Southern African Customs Union (SACU). Revenues are expected to rise from N$3.7 billion to a whopping N$6.1 billion including formula adjustments of N$761 million. Overall tax revenue is expected to rise from N$11.4 billion to N$14.3 billion, most of which is down to this SACU payment.

In past analysis, the IPPR has commented on the poor performance of non-tax revenues. Many of these revenue streams are fees and charges collected by line ministries for the services they deliver. This is an issue which has been identified by the Ministry of Finance as one that requires attention. The Ministry states it will introduce a system of rewards and penalties for line ministries to encourage them to make greater efforts to collect revenues that are due. This year, already, non-tax revenues are set to rise by a more healthy 10%.

The Bank of Namibia and NamPower together account for most of the rise in revenue from parastatal dividends from N$33 million to N$41 million. Namibia Post and Telecommunications provides a mere N$3.5 million compared to last year's N$15 million. The MTEF document states very clearly that "the dividend contributions from SOEs are not satisfactory" but this is an issue that has been doing the rounds for many years.

Although revenue from diamond corporate tax or dividends is by the standards of other years low (N$45 million and N$10,000 respectively), diamond export royalty revenue grows from N$242 million to N$316 million in line with expectations that diamond prices are again likely to rise this year.

Under administrative charges and fees, there is little to report. The N$121 million under Defence last year accounted by the peace keeping operation in Liberia falls to N$71 million. Under Education hostel fees rise to N$13.5 million, a figure which must be seen in the context of the N$265 million consumed by Main Division 11 Hostels under the Education Vote 10. Mines and Energy includes an item of N$30 million which is the result of the new royalty tax on turnover for non-diamond mining companies. Revenue from park entrance fees under Environment and Tourism doubles from N$15 million to N$30 million. Under Works, the leasing of state property, sales of government houses and sale of old equipment boosts revenue to N$23 million while under Transport the fall in Directorate of Civil Aviation (DCA) fees by more than N$26 million reduces revenue to N$1.6 million. Under Lands and Resettlement, deeds fees more than double to over N$4 million.

Overall revenue from own sources rises from N$12.2 billion to N$15.2 billion. External grants through the budget fall from N$153.2 to N$72 million. These are now exclusively from the EU and destined for rural water investments and rural roads. All in all total revenue is due to rise 24%, a substantial real increase given inflation is currently under 4%.

Finally it should be noted that historically a number of foreign loans used to finance specific projects have not featured under a particular vote and have therefore not been incorporated in the budget or the budget deficit. For transparency purposes, the Ministry of Finance presents a detailed breakdown of these loans on page 13 of this year's MTEF document. The estimated value of these loans in 2005/06 is N$281.1 million.

Expenditure highlights by vote…

The following paragraphs highlight what are believed to be the issues of greatest importance in each of the expenditure votes contained in the budget document. The focus is primarily but not exclusively on significant changes from the previous financial year 2005/06. While the 2005/06 budget saw aggregate spending frozen, the substantial rise in revenue this year has encouraged the Minister to raise overall spending by 18%. With the exception of a N$65 million allocation to medical aid in 2004/05, government has now gone two years without an additional mid-year spending round or “additional budget”. According to the MTEF, however, this year will see a return to a revised budget although the Ministry is adamant that “the revised budget is not to be seen as an opportunity to reopen negotiations on rejected bids”. It is to be hoped that efforts to instil fiscal discipline during the past two years will prove to be more than a passing phase.

Vote 01 Office of the President

For some years now, the largest single item of expenditure under Vote 01 has been the new state house under Main Division 02 and this year is no exception with a further N$100 million being devoted to the project (or N$120 million according to the MTEF document). The MTEF states the aim is to complete 90% of its construction by 2008/09. It is worth noting that none of the Chinese assistance to this project has ever shown up in the MTEF.

As flagged in last year’s MTEF, the National Security Intelligence Service receives an allocation of N$54.7 million compared to last year’s N$46.2 million. The Main Division 03 Office of the Founding President created last year receives N$5.1 million, slightly less than last year. The revamped President’s Economic Advisory Council, which was moved to Vote 01 Main Division 05 from Vote 02 last year, has now been incorporated into Main Division 01.

Vote 02 Office of the Prime Minister

Main Division 02 was renamed Governance of State-Owned Enterprises, Anti-Corruption and Disaster Management last year. This year, however, there is no allocation to the Central Governance Agency and again only N$150,000 for the National Emergency Disaster Fund, this after government recently committed N$10 million to the Mariental flood. In total N$190.8 million is allocated under this vote to improve the remuneration structure.

Vote 03 National Assembly

Assistance to political parties rises from N$16.3 million to N$17.0 million.

Vote 05 Home Affairs and Immigration

This vote appears to have recognised some of the problems highlighted regularly in the press and elsewhere. The MTEF document states that this vote has ministerial targets to reduce the waiting time for ID documents from 24 months to 1 month maximum and issue permits within 60 days by 2009.

Vote 06 Police

Of the N$784 million allocated to Vote 06 Police, less than a half (N$349 million) goes to Main Division 02 Combating of Crime and N$228 million goes to Main Division 04 Special Field Force (SFF). The allocation to VIP Security Main Division 05 rises from N$38.7 million to N$107.8 million. According to the budget document, some 1,078 constables are employed protecting VIPs compared to 2,288 under Combatting of Crime. A total of 5,580 constables are employed by the SFF. None of the numbers for posts filled have changed since last year giving rise to suspicions regarding their accuracy.

Vote 08 Defence

Defence continues to receive substantial additional resources in the budget with the overall allocation rising from last year's record N$1.2 billion to N$1.3 billion or 8.8% of total spending and the fourth largest vote after education, finance and health. The main cause of the rise has been the N$185 million allocated to new equipment for the army.

The Ministry of Defence is the shareholding ministry of only one company August 26 Holding Company (Pty) Ltd. The MTEF, however, provides no financial information on August 26.

Vote 09 Finance

The budget speech this year testified to the fact that the Ministry of Finance is putting more effort into tax collection than before and this is reflected in the steep rise in the allocation to Main Division 04 State Revenue which receives N$80 million compared to last year's N$53 million, N$10.5 million of which goes into new buildings (new tax offices in Keetmanshoop and Otjiwarongo). Main Division 08 Medical Aid receives N$486 million only slightly up from last year's N$470 million. A contingency provision of N$150 million is made under Main Division 10 Budget Management and Control.

Under Main Division 12 Asset, Cash and Debt Management Air Namibia receives N$153.4 million. The Minister's view of Air Namibia appears to be changing. Last year she stated that "reform efforts at Air Namibia are generating positive results". This year she believes "Air Namibia needs to enter into strategic alliances to benefit from economies of scale". Under the same Main Division the Development Bank of Namibia receives N$91.5 million to further boost its capitalisation. NamPower receives the first of three tranches of N$250 million aimed at strengthening its balance sheet and enabling it to become "a major stakeholder in projects designed to meet Namibia's future energy needs", a reference to the more than N$7 billion Kudu gas to power project. At the same time N$156 million is transferred into the National Energy Fund (NEF) to "ensure it remains viable in times of extreme price or supply volatility". Under Main Division 14 Public Debt Transactions N$165.4 million is set aside for honouring debt guarantees. It is worth noting that government has not stopped giving debt guarantees to private sector companies. Ongopolo Mining and Processing received a guarantee of N$70 million in September last year which is due to expire in October this year.

Vote 10 Education

The new unified Ministry of Education is now by far the largest vote receiving an allocation of N$3.2 billion. Of this sizeable total some N$1.4 billion goes to primary education, and N$572 million to secondary education. The effects of the recently agreed salary increases for teachers is clearly seen in these allocations. Personnel expenditure in this vote accounts for N$2.2 billion out of the N$3.2 billion and that takes no account of the personnel expenses included in transfers to other institutions of education such as Unam or the Polytechnic. According to the MTEF document, the vote has received N$100 million under the Education Training Sector Improvement Plan (ETSIP), a programme designed to improve Namibia's lamentable learner outcomes. Under Main Division 08 Unam and the Polytechnic receive almost exactly the same allocations as last year, N$185.8 million and N$79.8 million respectively, suggesting that any move to basing allocations on an agreed formula is as far away as ever. Under Vocational Education and Training Main Division 10 the Windhoek Vocational Training Centre and the Namibia Institute of Mining and Technology receive N$6 million and N$6.6 million respectively. Ramatex receives no allocation for training. Hostels under Main Division 12 receives N$265 million, still a significant proportion of education spending.

Vote 12 Gender Equality and Child Welfare

The total allocation to maintenance grants and foster parent allowances under Main Division 06 rises further from N$89.7 million to N$99.6 million. It is still unclear from the MTEF document how many people these grants are now reaching. The last figure provided is for 2004/05 when 18% of OVC had access to grants but it is not clear how this has been measured. The target is that 70% of OVC will have access to social grants by 2009.

Vote 13 Health, Social Services and Rehabilitation

The allocation to primary health care under Main Division 05 rises from N$18.6 to N$28.4 million after several years of decline. Interestingly, the Minister stated that government is now making provision for the employment of foreign nurses.

Vote 14 Labour and Social Welfare

Social pensions now fall clearly under Vote 14 Labour and Social Welfare. The Minister announced an increase of the pension from N$300 a month to N$370 a month. The total allocation rises from N$455 million in 2005/06 to N$589.9 million in 2006/07 while the MTEF states that the aim is to achieve coverage of 95%. Although N$70 a month represents an increase of 23%, the real purchasing power of the pension has been falling for some time. The latest increase represents more than just an adjustment for inflation. By our calculations the new pension makes pensioners better off in real terms than black pensioners were in 1990. Nonetheless, pensions have risen far slower than nominal GDP since independence.

Vote 15 Mines and Energy

N$50 million is allocated to the National Energy Fund (NEF) under Main Division 05 Energy and this accounts largely for the steep allocation to the vote as a whole. This is in addition to the N$156 million under the Finance vote and is designed to eliminate the NEF's N$206 million accumulated losses. The MTEF document shows that expenditures have exceeded receipts since 2004/05 and that the balance on the NEF is expected to reach just N$8.7 million at the end of March this year.

Interestingly, a major MTEF ministerial target is to achieve "22% Namibian equity in mineral/energy businesses by 2009" despite there being no clear Black Economic Empowerment Policy in place at either national or sectoral level. However, the Minerals Development Fund (MDF) which provides the financial ability to see this happen will dwindle to a mere N$5.5 million by 2009.

Vote 16 Justice

The Office of the Ombudsman Main Division 06 receives a slightly lower allocation of N$4.4 million than last year's N$4.5 million.

Vote 18 Environment and Tourism

The Namibia Tourism Board (NTB) is allocated N$24.8 million under Main Division 05, an increase on last year's allocation. The intention was that this transfer from government supplements income from the tourism levy which was set to be the NTB's main source of income. However, the MTEF document makes clear that only N$10 million is expected to materialise from licensing, levies and grants. The NTB made a loss of N$13.1 million in the year to 31 March 2005 on a turnover of N$25.9 million.

An MTEF ministerial target worthy of note is the Namibia Wildlife Resorts (NWR) turnaround strategy which is due to be implemented in 2006/07. Government issued a N$27 million guarantee to NWR in December 2005 valid for one year. NWR made a loss of N$13.8 million in the year to 31 March 2005 on a turnover of N$92 million.

Vote 19 Trade and Industry

Industrial incentives rise to N$2.6 million and training reimbursements for Export Processing Zones (EPZs) stay at N$2.6 million. It has been clear for some time that the Ministry of Finance has not been happy with a number of tax incentives. The Minister reiterated in her budget speech that "the existing incentive schemes are currently under review". Vote 19 failed to provide financial statements for the MTEF document for both the Namibia Development Corporation (NDC) and the Offshore Development Company (ODC).

Vote 20 Agriculture, Water and Forestry

Agriculture, Water and Forestry is the vote that has suffered from the largest reduction in resources – N$34.2 million less than in 2005/06. A large part of this reduction can be explained by a dramatic reduction in Main Division 02 Administration which has come about due to the transfer of the Ogongo and Neudamm Agricultural Colleges to the Ministry of Education under Higher Education. As in 2005/06 an allocation is made for the payment of arrears arising from the Affirmative Action Loans Scheme (AALS). This year, however, N$15.6 million is allocated compared to the N$37.5 million last year. In total some N$68 million is transferred to Agribank, N$50 million of which is targeted at the National Agricultural Credit Programme, the AALS and labourers' housing.

Vote 21 Prisons and Correctional Services

Some N$6.5 million is allocated to agricultural activities under Main Division 05 Agricultural Development in an effort to rehabilitate prisoners.

Vote 24 Transport

An allocation of N$361.4 million is made under Main Division 03 Railway Infrastructure Management for the northern railway line extension, phase 1 (the link between Tsumeb and Ondangwa) of which is due to be completed this year.

Interestingly, the Walvis Bay Corridor Group, a not-for-profit organisation established to promote the Trans Kalahari transport route, receives allocations under this vote (N$600,000) as well as under Main Division 05 Investment Centre within the vote of Trade and Industry (a further N$524,000).

Vote 25 Lands and Resettlement

Vote 25 appears to have been rationalised from a sprawling hotch-potch of 13 different main divisions to eight. This year a further N$50 million is allocated for land purchases under the National Resettlement Policy but this time under a new Main Division 05 Land Reform. Budgeted amounts will continue to be paid into the Land Acquisition and Development Fund (LADF) where they will remain if unspent at the end of the financial year. Last year the budget document shows that in 2003/04 only N$3.9 million was actually spent out of the budgeted N$50 million. This year the actual spending figures show the full N$50 million for 2004/05 reflecting the fact that the money goes to the LADF and does not return to the State Revenue Fund if unspent. According to the MTEF document, a mere 27 families are due to be resettled each year during the coming three years although 44 farms are due to be purchased using LADF money. The unit cost of resettlement is set to rise to an unbelievable N$500,000.

Vote 27 Youth, National Service, Sport and Culture

Youth Training and Employment receives N$31 million compared to last year's N$19.5 million while Main Division 07 Arts and Culture receives N$39.4 million compared to N$31.6 million.

Vote 29 Information and Broadcasting

Vote 29 is also one of the votes to be severely cut receiving N$157.4 million this year compared to N$184.8 million last year. While subsidies to the loss-making NBC, Nampa, New Era remain much the same as last year, a new transfer of N$3.3 million is made to NAMZIM, publisher of the Southern Times newspaper. Commercialisation and restructuring appear to have made little difference to any of these operations. The Film and Video Development Fund receives N$15.6 million after last year's bumper N$53 million. Of this amount, N$15 million is allocated to one film "Where Others Wavered".

Vote 30 Anti-Corruption Commission

A new vote is added this year for the newly created Anti-Corruption Commission which receives N$6.5 million, a level of funding which, according to the MTEF, is set to be maintained over the coming three years and is substantially higher than the Office of the Ombudsman.

Continuity tinged with change

Although this year's budget will probably hit the headlines for targeting a budget surplus for the very first time since independence, a more detailed look at the numbers shows this was largely achieved through the good fortune of a massive windfall in SACU payments. Although the Minister had already done a lot of the hard work in reducing expenditure towards her target of 30% of GDP, she demonstrated this year that she could not follow this through and fell back on the old approach: "if we've got the revenue let's spend it." A large portion of the increase in spending will go to raise personnel expenditure which rises from N$5.5 billion to N$6.1 billion but a substantial portion of the increase in spending will also go to capital projects, which rises from N$1.3 billion to N$1.7 billion, and paying off debt and statutory payments, which rises from N$1.1 billion to N$1.5 billion. Thanks to the windfall the Minister can boost spending and meet her deficit target.

Last year there was little opportunity for the new government to make any fundamental impression on the budget before it was tabled late in Parliament in May. A year later it should be possible to detect the fingerprints of the new President, Prime Minister and ministers much more clearly on the budget. Is there much of a difference?

There are signs that the new government is serious about tackling corruption and cutting waste. The Anti-Corruption Commission has its own vote and a substantial allocation of resources. The Office of the President, the Office of the Prime Minister and certain other ministries, such as the Ministry of Lands and Resettlement, appear to have undergone a certain amount of sensible reorganisation. There are some signs that the emphasis of spending is shifting towards priorities such as the Prime Minister's "knowledge economy" and reducing poverty. The social pension has finally been raised to a level which more than makes up for the rise in prices over the past few years.

Yet it is also clear that the new government prefers caution and continuity to radical change, however necessary. Minister Kuugongelwa-Amadhila had precious little to announce on the revenue side of the budget: no tax adjustments, no attempt to take lower income tax-payers out of the tax net and no change in tax rates. She did state that tax incentives are being reviewed and that she expected some of the announcement she made last year – such as ring-fencing of losses and withholding taxes on interest – to be concluded this year. Overall, however, the impression given is very much one of piecemeal and opportunistic reform rather than change according to a well thought out long-term plan.

On the expenditure side of the budget, the massively expensive new State House continues to swallow up hundreds of millions of dollars with little end in sight. Defence, security and the protection of VIPs take precedence over other pressing priorities with no clear explanation. Substantial transfers to Air Namibia continue unabated despite vague statements that "strategic partners" are required – an argument many have been putting forward for the best part of a decade. Other long-standing loss-makers such as NWR and state-owned media continue much as before. Private companies continue to receive loan guarantees and new subsidies are generously awarded to initiatives which stand little chance of success though these are relatively small amounts of money. Land reform continues unchanged despite the worrying lack of evidence that the National Resettlement Policy is delivering results and that resettled families are succeeding in making a go of becoming fully fledged commercial farmers.

It was never likely that the new government would move fast and implement radical change, even if it was convinced such change was necessary. However, there is no shortage of nettles to be grasped if the budget is to become a more effective tool at promoting higher growth and reducing poverty and income inequality. Grasping them earlier will improve the chances of this being a successful government which can point to solid achievements and not just one of transition.