

PEOPLE'S GUIDE TO THE BUDGET



REPUBLIC OF BOTSWANA

2015/2016



The 2015/16 Budget Speech Approach

The 2015/16 Budget Speech focuses on interventions aimed at promoting economic growth and diversification in the country as they are critical in addressing the persistent challenges of unemployment, income inequality and poverty. Therefore, in this financial year's budget, Government will continue to allocate significant budgetary resources to human capital and physical infrastructure development. This is in recognition of their importance in improving factor productivity and competitiveness, and ultimately increasing economic growth and diversification.

Important to note is that the role of Government in promoting growth in the country is a facilitatory one through the provision of a conducive environment for efficient operations of the private sector; which should be the engine of growth. Hence, the private sector is encouraged to take initiatives for increasing production and sales, both domestically and internationally.

Domestic Economic Performance Improves

The performance of the domestic economy improved slightly in 2013, due to the moderate recovery in the global economy. Real GDP registered a growth rate of 5.8 percent in 2013 compared to 4.3 percent in 2012. This growth was driven by the good performance in both the mining and non-mining sectors. The mining sector registered a significant growth rate of 10.6 percent in 2013, as a result of strong demand in the global economy for our diamonds, especially in the emerging economies of China and India.

The non-mining sectors also registered a positive growth rate of 5.0 percent in 2013, with Trade, Hotels & Restaurants growing at 6.3 percent; Social and Personal Services at 6.0 percent; while General Government and Finance & Business Services grew by 5.5 percent each. However, the Water and Electricity sector recorded a

negative growth rate of 27.2 percent in 2013. The continued underperformance of the Water and Electricity sector is of major concern, given the importance of water and power in the economy. To address the challenges facing this sector, Government continues to undertake regulatory reforms and has allocated the sector a substantial share of the development budget in this year.

The outlook for the domestic economy remains positive, with real GDP forecast estimated to have grown by 5.3 percent in 2014, and forecast to grow by 4.9 percent in 2015. This positive growth will mainly again be driven by the non-mining sectors of Trade, Hotels & Restaurants, Finance and Banking, and Social & Personal Services.

Key Thematic Areas for 2015/2016 Financial Year

This year's Budget Speech has identified four key thematic areas, which are considered critical to our development agenda. These are; *Growing the economy; Promoting inclusive growth; Enhancing business environment to promote investment and foster diversification; and Strengthening the judicial system and combating crime and corruption.*

Growing the Economy

To address challenges of poverty, and unemployment, we need economic growth. In recent years, economic growth has however been hampered by the declining total factor productivity, especially labour productivity. Therefore, Government will continue to put in place measures to promote productivity such as; reforming the country's education and training system, improving work ethics through training of the workforce, as well as reviewing labour legislation. To further improve on total factor productivity, Government is implementing public sector reforms, enhancing research and development as well as developing appropriate skills.

Promoting Inclusive Growth

To promote inclusive growth, Government will ensure that the benefits of economic growth are equitably shared among various sections of the society. Hence, Government will continue with its efforts to eradicate abject poverty by providing social welfare programmes to the poor and most vulnerable groups in the society. In addition, Government will continue to monitor the implementation of these programmes with a view to improving their effectiveness. To this end, poverty eradication efforts by Government continue to yield results, as indicated by the decline in the population living in poverty from 30.6 percent in 2002/2003 to 19.3 percent in 2009/2010. Since November 2014, 9,588 projects funded by the Poverty Eradication Programme have been fully operational, covering all districts.

The current unemployment rate of 19.8 percent is a concern for the country, especially that it affects the youth. It is for this reason that Government will continue to implement various programmes and strategies geared towards assisting the youth and women to improve their livelihood. This year's development budget of P12.93 billion which will mainly be spent on infrastructure projects such as construction of new schools, new power transmission lines and water pipelines, is expected to go a long way in creating new employment opportunities.

Inclusive growth cannot be achieved without empowering citizens to take an active role in economic activities. In this regard, the amended Citizen Economic Empowerment Policy makes it mandatory for sub-contracting of Government funded projects to 100 percent citizen-owned companies. It further stipulates that 30 percent of Ministry's projects should be reserved for 100 percent citizen-owned companies to promote citizen empowerment. Government is committed to creating a favourable environment for the development of the small, medium and micro enterprises (SMMEs), as part of citizen empowerment in the country. However, the success of the SMMEs will depend on various factors such as their ability to deliver quality products to clients, delivery of goods and services on time, and reasonable pricing of such goods and services. This, in turn, requires that SMMEs also invest in innovation and skills development to ensure their long term sustainability.

Enhancing Business Environment to Promote Investment and Foster Diversification

Economic diversification is a long-term process that, despite some achievements, is still a challenge. To address this challenge, Government continues to embark

on several strategies that, of late, include; *cluster and value chain development, financial sector support, as well as fostering an environment that allows for complementarity between macro and micro economic policies and deregulation of domestic market to promote competition.*

With regards to the cluster and value-chain approach, four clusters have been identified, namely Diamond, Tourism, Cattle, and Mining, comprising of coal, copper and other minerals excluding diamonds. Some work has already started on the development of the Diamond cluster. Regarding the Cattle cluster development, three districts of; Central, Kgatleng and Gantsi have been identified for the first phase of implementing the concept.

Another sector where the cluster approach will be introduced is the tourism sector, which continues to be one of the key sectors that contribute to the diversification of the economy. During 2013, tourist arrivals were estimated at 2.4 million, while receipts amounted to P6.24 billion. In addition, Government is reviewing the Tourism Policy to address local, regional, and international challenges experienced within the tourism industry.

In view of the critical role of the financial services sector in creating a conducive business environment for diversification, Government remains committed to the implementation of the Financial Sector Development Strategy of 2012. The strategy aims at promoting a smooth development of the financial services sector, including the development of domestic capital market.

Regarding the macro and micro economic environment, a number of policy reforms are necessary and should continue to be implemented. These include the implementation of macroeconomic policies such as fiscal, monetary and exchange rate, as well as micro policies such as privatization; promotion of efficient labour market; deregulation of domestic market to encourage competition; and promoting trade through participation in regional and international trade agreements.

Strengthening the Judicial System and Combating Crime and Corruption

A secure environment is a pre-requisite for both domestic and foreign investments, which are essential ingredients for growth and economic diversification. It is for this reason that Government continues to invest in security agencies, as part of an effort to create a

conducive environment for economic growth and diversification.

With the successful conclusion of the Legal Aid Pilot Project, Government has endorsed the Legal Aid Act and amended the Legal Practitioners Act in order to institutionalize the service. In addition, the Directorate on Corruption and Economic Crime has completed the development of the National Anti-Corruption Policy, which aims at promoting accountability and providing a framework against which anti-corruption legislation and other interventions may be undertaken.

It is worth noting that, during financial year 2014/2015, Botswana made significant progress on efforts to combat the financing of terrorism and money laundering activities. This was done by enactment of the Counter Terrorism Act, Proceeds and Instruments of Crime Act and Anti Human Trafficking Act. Further, in 2015/2016 the country will embark on a National Risk Assessment Programme in order to assess and understand the nature and level of the money laundering or terrorist financing risks that it faces, and accordingly determine appropriate response to mitigate these risks.

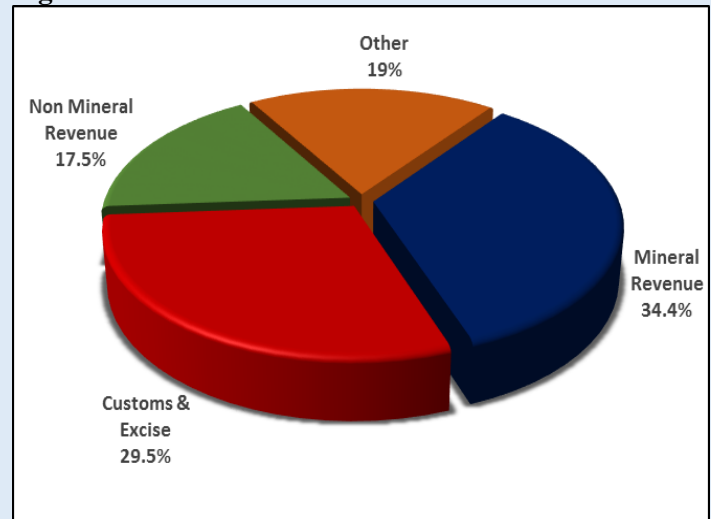
2015/2016 Budget Proposals

The 2015/2016 Budget will address key priority areas which include: human capital development; fight against HIV/AIDS including elimination of mother-to-child transmission of HIV; poverty eradication; water and power supply; employment creation; as well as maintenance of existing infrastructure.

Revenues and Grants

The projected total revenues and grants for 2015/2016 amount to P55.38 billion, of which Mineral Revenue accounts for 34.4 percent, Customs and Excise for 29.5 percent, while Non-Mineral Income Tax accounts for 17.5 percent of total revenue. A percentage breakdown of these is given in Figure 1.

Figure 1: Total Revenue and Grants Estimates



Source:MFDP

Recurrent Budget Allocation

The proposed Ministerial Recurrent Budget for the financial year 2015/2016 is P36.70 billion. This amount represents a growth of P2.31 billion or 6.7 percent over the current year’s revised budget of P34.39 billion.

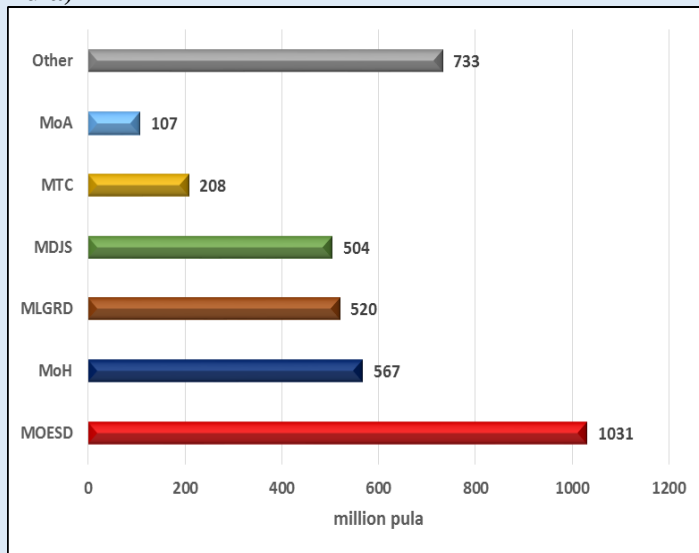
Six Ministries account for P29.37 billion or 80.0 percent of this budget as detailed below. Of this, the Ministry of Education and Skills Development receives the biggest share at P10.31 billion or 28.09 percent, which is P512.49 million more than the current financial year’s revised budget. The second largest share of the budget goes to the Ministry of Health at P5.67 billion or 15.5 percent. This is an increase of P451.78 million or 8.7 percent over the current financial year’s revised budget. The third largest share is allocated to the Ministry of Local Government and Rural Development at P5.20 billion or 14.2 percent. This is an increase of P225.14 million or 4.5 percent over the current year’s revised budget.

The fourth largest share goes to the Ministry of Defence, Justice and Security at P5.04 billion or 13.7 percent. This is an increase of P464.12 million or 10.2 percent over the current financial year’s revised budget. The fifth largest share at P2.08 billion is allocated to the Ministry of Transport and Communication constituting 5.7 percent of the total Ministerial Recurrent Budget. This shows an increase of P172.83 million or 9.1 percent over the current year’s revised budget.

The sixth largest share goes to the Ministry of Agriculture at P1.07 billion or 2.9 percent. This is an increase of P58.02 million or 5.8 percent over the current year’s revised budget. The balance of the

Ministerial recurrent budget amounting to P7.33 billion or about 20.0 percent is shared among the remaining Ministries and Departments mainly to cover their day to day operational costs. Figure 2 represent the allocation of the recurrent budget to Ministries detailed above.

Figure 2 : Recurrent Budget Allocation (million Pula)



Source: MFDP

Statutory Expenditure

The 2015/2016 budget estimates for Statutory Expenditure is P7.93 billion, which is an increase of P2.39 billion or 43.1 percent over the current year's revised budget of P5.54 billion.

Development Budget Allocation

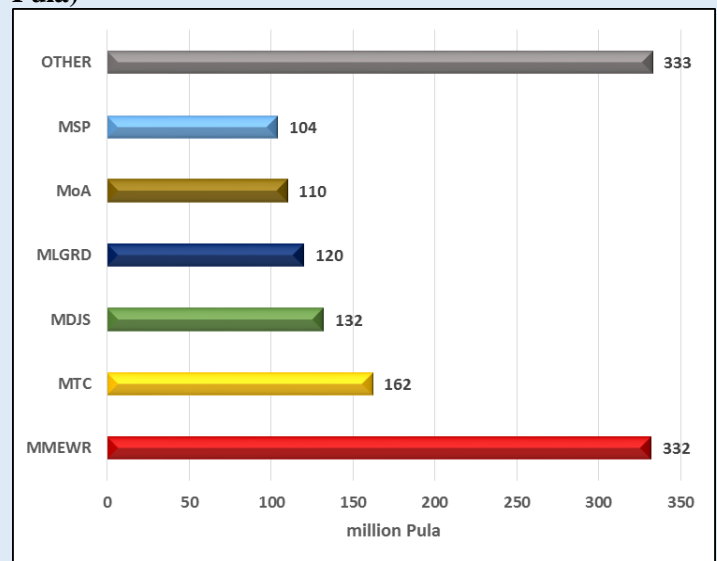
A total of P12.93 billion is proposed for the development budget for the financial year 2015/2016. The largest share of the development budget is allocated to the Ministry of Minerals, Energy and Water Resources (MEWR) at P3.32 billion or 25.7 percent of the budget. The second largest share of P1.62 billion or 12.5 percent of the development budget is allocated to the Ministry of Transport and Communications.

The Ministry of Defence, Justice and Security gets the third largest share of the development budget at P1.32 billion or 10.2 percent of the budget, of which the bulk goes to BDF for improving its operational readiness. The Ministry of Local Government and Rural Development gets the fourth largest share of the development budget at P1.20 billion or 9.3 percent. The fifth largest share of the development budget goes to the Ministry of Agriculture at P1.10 billion or 8.5 percent. The sixth largest share of the development budget amounting to P1.04 billion or 8.0

percent is allocated to Ministry of State President to finance the HIV/AIDS Programme at P194.8 million, Poverty Eradication initiatives at P160 million, e-Government at P150 million and Digital Migration at P130 million for enhancing business environment.

The balance of P3.33 billion or 25.8 percent of the proposed development budget is shared by the remaining Ministries and Departments, (Figure 3). From this amount, the Ministry of Lands and Housing is allocated P893.3 million or 6.9 percent of the budget. The Ministry of Education and Skills Development got P844.6 million or 6.5 percent of the total budget.

Figure 3: Development Budget Allocation (million Pula)



Source: MFDP

Overall 2013/14 Budget Balance

With total revenues and grants estimated at P55.38 billion, while total expenditure and net lending forecast at P54.15 billion, this result is a projected budget surplus of P1.23 billion or 0.8 percent of GDP for the financial year 2015/2016.

Conclusion

An improved budgetary situation is expected for the 2015/2016 financial year, due to the positive domestic economic performance; resulting in a moderate surplus of 0.8 percent of GDP. However, Government remains concerned about poor project implementation. To this end, Government will take additional measures such as the establishment of an implementation unit for mega projects under the National Strategy Office. This will complement existing value-for-money measures by improving project implementation throughout the public sector.

Summary of 2013 Budget Allocations

Recurrent Budget Allocation by Ministries = P36.70 billion

- Ministry of Education and Skills Development = P10.31 billion
- Ministry of Health = P5.67 billion.
- Ministry of Local Government and Rural Development = P5.20 billion
- Ministry of Defence, Justice and Security = P5.04 billion.
- Ministry of Transport and Communication = P2.08 billion
- Ministry of Agriculture = P1.07 billion
- Other Ministries = P7.33 billion .

Statutory Expenditure = P7.93 billion

Development Budget Allocation = P12.93 billion :

- Ministry of Minerals, Energy and Water Resources = P3.32 billion
- Ministry of Transport and Communications = P1.62 billion.
- The Ministry of Defence, Justice and Security = P1.32 billion.
- Ministry of Local Government and Rural Development = P1.20 billion.
- Ministry of Agriculture = P1.10 billion
- Ministry of State President= P1.04 billion.
- Other Ministries and Departments = P3.33 billion.

Maintenance of Public Facilities (Recurrent P1.87 billion + P552.20 million Development budgets) =P2.42 billion:

- P978.50 million maintenance of buildings,
- P705.59 million maintenance of equipment including computer systems,
- P374.59 million = road maintenance
- P366.13 million = vehicles and other maintenance.

Total Revenues and Grants= P55.38 billion

Total Expenditure and Net Lending = P54.15 billion

Overall Balance= surplus of P1.23 billion

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