



Republic of Botswana

PEOPLE'S GUIDE TO THE 2019/2020 BUDGET

Ministry of Finance and Economic Development

Website: www.finance.gov.bw

4th February 2019

The Context of 2019/2020 Budget Speech

1. The 2019/2020 Budget is the first under the leadership of His Excellency the President, Dr. Mokgweetsi Eric Keabetswe Masisi, whose roadmap is anchored on the country's long-standing principles of good governance and respect for the rule of law. The Speech provides the country's developmental achievements, over the past years, advocating for consolidating gains achieved and mapping the way forward in transforming the country from a middle-income to a high-income status. Hence, the broad-based theme for the 2019 Budget Speech is "*Consolidating Development Gains for Further Economic Transformation*".

The Country's Developmental Transformation since 1966

2. Between 1966 and 2008, the domestic economic performance as measured by GDP growth rate, averaged 10 percent per annum, before slowing down due to the world financial crisis experienced in 2008/2009. Over time, the economy transformed from predominately agriculture to mining based, but has since diversified towards the services sector in the recent past years. Over the same period, real per capita income increased from around US\$70 to the present level of over US\$7 000. Average inflation declined from around 10 percent between 1966 and 2010 to around four (4) percent in recent years, while formal sector employment grew significantly from 29 000 persons in 1966 to 417 162 in

September 2018. On the other hand, donor aid has drastically reduced to around one (1) percent of the annual development budget, as a result of the country's graduation from lower income to middle income status.

Global and Domestic Outlook

3. The global economy is projected to grow by 3.5 percent and 3.6 percent in 2019 and 2020, respectively, while the domestic economy is forecast to grow by 4.5 percent in 2018, 4.2 percent in 2019, and 4.8 percent in 2020. The global economy continues to be characterised by sluggish economic activities, due to uncertainty in the global markets. The implication of the projected growth in the domestic economy is that less revenues will be realised, therefore, this calls for continued expenditure control in order to ensure that the country remains on a path of fiscal sustainability in the medium term.

CONSOLIDATING DEVELOPMENT GAINS FOR ECONOMIC TRANSFORMATION

4. Botswana aspires to transform to a high-income status in accordance with the country's Vision 2036. Achieving this goal will require the country to consolidate gains achieved in its economic management and address the challenges hindering further economic transformation. Government will continue to pursue a number of structural reforms during the 2019/2020 financial year aimed at promoting growth and creating the much-needed jobs, through

broad-based policy initiatives that can be grouped into three (3) areas of: *economic consolidation; social development; and maintaining governance and security.*

(i) Economic Consolidation

5. The domestic economy is currently characterised by; low debt level, stable inflation, and high gross national savings as a percentage of GDP. This is attributed to Government relentless effort in pursuing appropriate fiscal and monetary policies over the years and undertaking reforms. While the country has recorded significant achievements in most of these areas, there is need for continued consolidation in some of them in order to transform the economy from its current upper middle-income to high-income status by 2036. To facilitate this, Government, has over the years, pursued specific strategies to promote economic growth that has potential to create employment opportunities. These included; *pursuing economic diversification, promoting private sector development, and development of human capital and physical infrastructure network.*

- *Economic Diversification*

6. In an effort to diversify the domestic economy to reduce dependence on the mining sector, Government has embarked on several strategic initiatives. These include, among others the: Economic Diversification Drive; which was established in April 2010; Special Economic Zones policy adopted in 2011; SPEDU Revitalization Programme, and Cluster Development aimed at improving

business productivity, value chains and competitiveness.

- *Promoting Development of the Private Sector*

7. To promote private sector participation in the economy, Government has since come up with several initiatives that include; *Public-Private Partnerships (PPPs), Privatisation of State Owned Enterprises (SOEs), as well as reform of the business environment to facilitate the growth of the private sector.* The Public-Private Partnerships (PPP) Policy and its Implementation Framework was adopted in 2009, as an alternative means of financing public infrastructure projects to accelerate and improve infrastructure development, and create a conducive environment for stronger public and private sector partnerships. Among the major projects identified as being eligible for PPP are; Zambezi Integrated Agro-Commercial Development, Gaborone Waste Water Treatment, Chobe-Zambezi Water Transfer Scheme, and Strategic Oil Reserve at Tshele Hill.

8. With regards to privatisation of State-Owned Enterprises, the demutualisation and privatisation process of the Botswana Building Society (BBS), which included the conversion of the Society into a company registered under the Companies Act, was completed in April 2018, while efforts to restructure the National Development Bank (NDB) continue. Once fully restructured, the NDB will be commercialised, with the ultimate objective of privatising it. Another significant milestone achieved during 2018 was the demutualisation of

the Botswana Stock Exchange, which involved significant changes to its legal status, structure and governance. This transformation has positioned the Stock Exchange to play a critical role in the development of the domestic capital market.

- *Infrastructural Development*

9. Over the years, a significant amount of resources has been allocated to energy generation, water supply and road-network infrastructure. To this end, Government will continue to invest in power generation and distribution in order to support economic growth, promote employment creation and improve the living standards of the citizens. Among the major ongoing energy projects is the extension of the power transmission grid to provide power in the North West part of the country. Three (3) contracts for extension of the high voltage transmission grid from Morupule 600MW power station to Maun, Toteng, Samochima and Ghanzi were awarded at the end of 2017, and construction work is ongoing. The construction of Rakola and Gaphatshwa Power substations were completed in 2017 and 2018, respectively, and the refurbishment of Morupule A is expected to be completed in 2019. These projects are expected to impact positively on the country's security of electricity supply, which currently stands at 79 percent, against a target of 85 percent.

10. The Rural Electrification Programme continues to be implemented to address availability, access and affordability of electricity by citizens. To date, 402 villages have been electrified out of 492 gazetted villages. During

2018/2019 and 2019/2020 financial years, 43 new villages will be electrified while network extension will be done in 72 villages countrywide. This will result in an increase in household access to electricity from the current 58 percent to 65 percent. In order to reduce the burden of the cost of connecting and improving access to electricity, Government introduced the National Electricity Standard Cost (NESC) in October 2010, and standardised connection costs to P5, 000 for households.

11. Availability of water is also a critical input in various economic sectors. In this regard, Government has invested substantial resources in the water sector over the past decades in order to improve water supply throughout the country. Some of the achievements in this regard include: the four (4) multi-purpose dams; Ntimbale, Thune, Lotsane, and Dikgatlong; completion of water scheme projects such as Middlepits-Khawa, Zutshwa-Ngwatle, Lecheng-Matlhakola, Mahalapye-Bonwapitse, and Mmopane-Metsimotlhabe; and completion of groundwater project at Masama East, which augmented the water supply in the Greater Gaborone.

12. Some of the major water projects underway are the implementation of the North South Carrier 2; and Botswana Emergency Water Security and Efficiency projects. These projects will include: construction of strategic reservoirs; bulk water transfer pipelines; groundwater resource development and water supply distribution networks, including treatment facilities. Other water projects are the: Selebi Phikwe-

Serule Water Transfer Scheme; Boteti Southern and Central Cluster Villages Water Supply Scheme; North East and Tutume Sub District Water Reticulation Scheme; and Lobatse Wastewater Treatment Works.

13. Government over the years has invested a significant amount of resources in the development of transport-related infrastructure projects. To further improve access to quality and well-maintained roads, implementation of the following projects will continue: Gaborone-Boatle, which is being upgraded to dual carriageway; Dibete-Mookane-Machaneng; Mosu-Thalamabele and Charleshill-Ncojane roads, which are being upgraded to bitumen standard; and construction of Mohembo and Kazungula Bridges. In order to facilitate the North-South corridor connectivity, the Government will be undertaking the feasibility of two (2) major railway projects being the Mosetse-Kazungula rail line and Mmamabula-Lephalale rail link. Palapye-Martin's Drift and Francistown-Maun-Mohembo roads will also be constructed.

(ii) Social Development

14. One of the country's development objectives is social justice, which entails achievement of sustainable livelihoods through elimination of poverty in all its forms, and ensuring equal access to quality health care, as well as, inclusive social protection.

- *Eradication of Abject Poverty*

15. Government will be scaling-up the interventions to address poverty through cluster gardens, fish farming and egg production, as well as production of commodities such as toilet paper and liquid soap detergents in the next financial year. However, in order to improve the efficacy of the existing poverty eradication measures, the Single Social Registry system developed by the World Bank in 2015 will be implemented during the 2019/2020 financial year.

- *Equal Access to Quality Health Care*

16. Government has continued to invest in the provision of quality health services for all citizens, as it is an important element of human development. Among the major milestones achieved in 2018 was the adoption of the Treat-All Strategy in 2018. The Strategy entails enrolling everybody who tested positive for the HIV virus into the treatment programme, regardless of their CD4 counts. Another is the implementation of a Multi-Sectoral Strategy of 2017-2022 aimed at combating the Non-Communicable Diseases (NCDs) such as chronic diseases such as hypertension, cardiovascular disease, cancer, kidney diseases and diabetes. In an effort to strengthen service delivery in the country, the Government is currently implementing organisational reforms whereby health districts will have more control over their financial and human resource management. This will address supply chain management deficiencies and result

in robust service delivery at community level.

- *Inclusive Social Protection*

17. Government will continue to implement social welfare programmes to assist vulnerable persons with services and cushion them from the effects of hardships. The current suite of social welfare programmes under implementation includes; Old Age Pensioners, World War II Veterans, Destitute Persons, Community Home Based Care patients, People living with Disabilities, Orphans and Vulnerable Children, and the Supplementary Feeding to primary school children and vulnerable Groups at Health Facilities countrywide. In an effort to improve the efficacy of these social welfare programmes, the National Social Protection Framework (NSPF), which was adopted in 2017 will be implemented.

- *Inclusive Labour Relations*

18. Government aims to facilitate employment creation, provide industry-focused skills, and promote workplace health and safety, as well as improve productivity and work ethic in the economy and while managing industrial relations in an inclusive manner. The labour laws are currently being reviewed to ensure compliance to the ratified International Labour Organisation Conventions. To date, a tripartite arrangement has been put in place to spearhead the review of the laws, with the International Labour Office technical assistance. As part of the strategies going forward, the Labour Market Information

Management System is expected to be established in the financial year 2019/2020. This information system collects, analyses, monitors and captures labour market information for policy-making decisions geared towards effective human resource planning and implementation.

- (iii) **Maintaining Governance and Security**

19. Botswana's democratic governance, which involves transparency, accountability, decentralised decision-making structures, and low level of corruption, has been a critical contributor to the country's development success to date. The Mo Ibrahim index ranked Botswana the third-best governed country in Sub-Saharan Africa in 2017, based on safety and security, rule of law, transparency and corruption, and human rights development indicators.

- *Public Safety, Protection and Crime reduction*

20. In order to deal with emerging security threats, Government continues to improve national security structures and frameworks. As part of the implementation of the Anti-Human Trafficking Act, 2014, Government continues to undertake comprehensive campaigns geared towards the prohibition, prevention, combating and investigation of human trafficking.

21. The Botswana Police Service has been committed to fighting the increasing intensity of distribution and use of illicit

drugs and escalating rape, murder and robbery cases, stock theft through initiatives such as, “Safer City” and *Kgomo-Khumo*.

22. On the other hand, the Botswana Defence Force is committed to address issues related to public safety and protection. The resources will continue to be availed to the national army in the 2019/2020 financial year for capacity building, human resource development and infrastructure development, including maintenance and upgrading of existing equipment.

- *Participatory Democracy*

23. Citizen participation in the democratic process is an integral part of good governance. One of the initiatives at the National Assembly is “*taking Parliament to the people*”, which involves the Honourable Speaker of the National Assembly disseminating information on the operations of the Parliament. Government will continue to strengthen dissemination of information on Parliament and its operations to a wider audience during 2019/2020 and beyond, in an effort to promote participation in democratic processes.

24. To prepare for the national general elections expected later this year, the Independent Electoral Commission continues to engage selected sectors of the society through targeted workshops, including People with Disabilities, the Faith Sector, Women, Media, Trade Unions and others.

- *Transparency and Accountability*

25. In an effort to promote transparency and accountability, Parliamentary Committees continue to play a pivotal role in executing oversight on implementation of Government programmes and projects. On an annual basis, the Public Accounts Committee examines Government books of accounts to ensure accountability, transparency and probity of Government spending. To demonstrate commitment to the principles of transparency and accountability, reports of these parliamentary committees must be tabled and discussed in Parliament. To intensify the fight against corruption, Government plans to present the Bill on the Declaration of Assets and Liabilities to Parliament at its July/August meeting. Once adopted, the law will require certain categories of public employees to declare their assets and liabilities. This will ensure transparency as well as promote integrity in the public service.

2019/2020 Budget Proposals

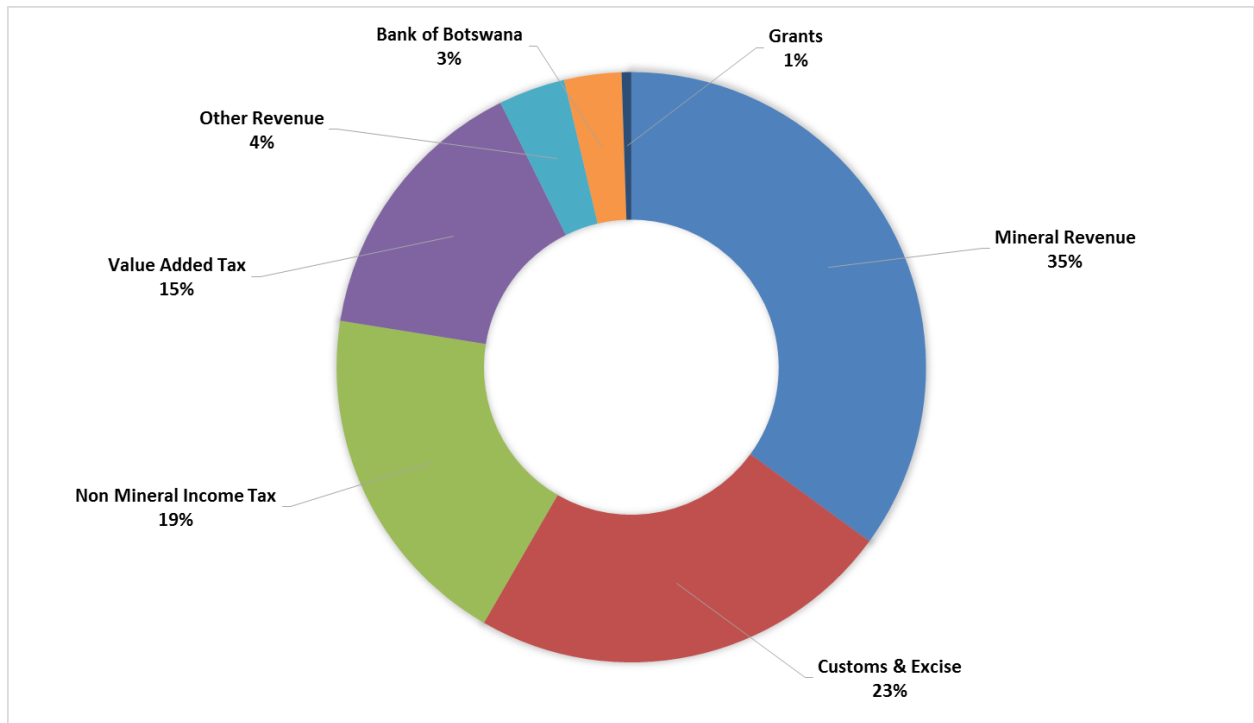
26. The 2019/2020 budget proposals are informed by the need to *consolidate the country’s gains in various areas of development and address the challenges to achieve sustained economic growth to support employment creation and poverty alleviation*.

Total Revenues and Grants

27. The total revenue and grants for 2019/2020 are estimated at P60.20 billion; with Mineral revenue being the highest contributor at P21.09 billion or 35.62 percent of total revenue and grants, while customs and excise revenue came second at an estimated P14.02 billion.

Non-mineral income tax is estimated at P11.55 billion, while VAT is expected at P9.12 billion and the remaining is made of other revenues and grants. In Figure 1 below, is a breakdown of these.

Figure 1: Total Revenues and Grants for 2019/2020 (% Share)



Source: MFED, 2019

Ministerial Recurrent Budget

28. The proposed Ministerial Recurrent Budget amounts to P46.99 billion, showing a growth of P1.85 billion or 4.1 percent over the approved budget for financial year 2018/2019.

29. Five Ministries are proposed to be allocated P33.69 billion or 71.7 percent of the total Ministerial Recurrent Budget.

These are: Ministry of Basic Education with an allocation of P8.24 billion or 17.5 percent; Ministry of Health and Wellness at P7.63 billion or 16.2 percent; Ministry of Defence, Justice and Security allocated P6.86 billion or 14.6 percent; Ministry of Local Government and Rural Development at P6.43 billion or 13.7 percent, and Ministry of Tertiary Education, Research, Science &

Technology allocated P4.54 billion or 9.7 percent. The balance of P13.30 billion or 28.3 percent goes to the remaining Ministries and Independent Departments.

Statutory Expenditure

30. The proposed budget for Statutory Expenditure for the financial year 2019/2020 is P7.19 billion, mainly for Public Debt Service requirements, Pensions, Gratuities and Compensations, as well as Salaries and Allowances for Judges and other Specified Officers.

Development Budget

31. The proposed Development Budget for 2019/2020 financial year is P17.03 billion. The Ministry of Land Management, Water and Sanitation Services, with a proposed allocation of P3.37 billion or 19.78 percent, takes the largest share, mainly to improve water supply and management in the country. The second largest share at P2.50 billion or 14.67 percent is allocated to the Ministry of Defence, Justice and Security mainly to cater for provision of various physical infrastructure such as offices and staff houses, communication equipment, vehicles and aircraft maintenance for Botswana Defence Force and Botswana Police Service. An amount of P1.97 billion or 11.57 percent, being the third largest share, is proposed for the Ministry of Mineral Resources, Green Technology and Energy Security to cater for the ongoing North–West Transmission Grid Connection, Electrification of 111 Villages under the Rural Electrification Project, Transmission Line from Morupule B to

Isang sub-station, Remedial Works at Morupule B, and Transmission Backbone for the Southern part of Gaborone, Mochudi, Ramotswa, and Tlokweng villages.

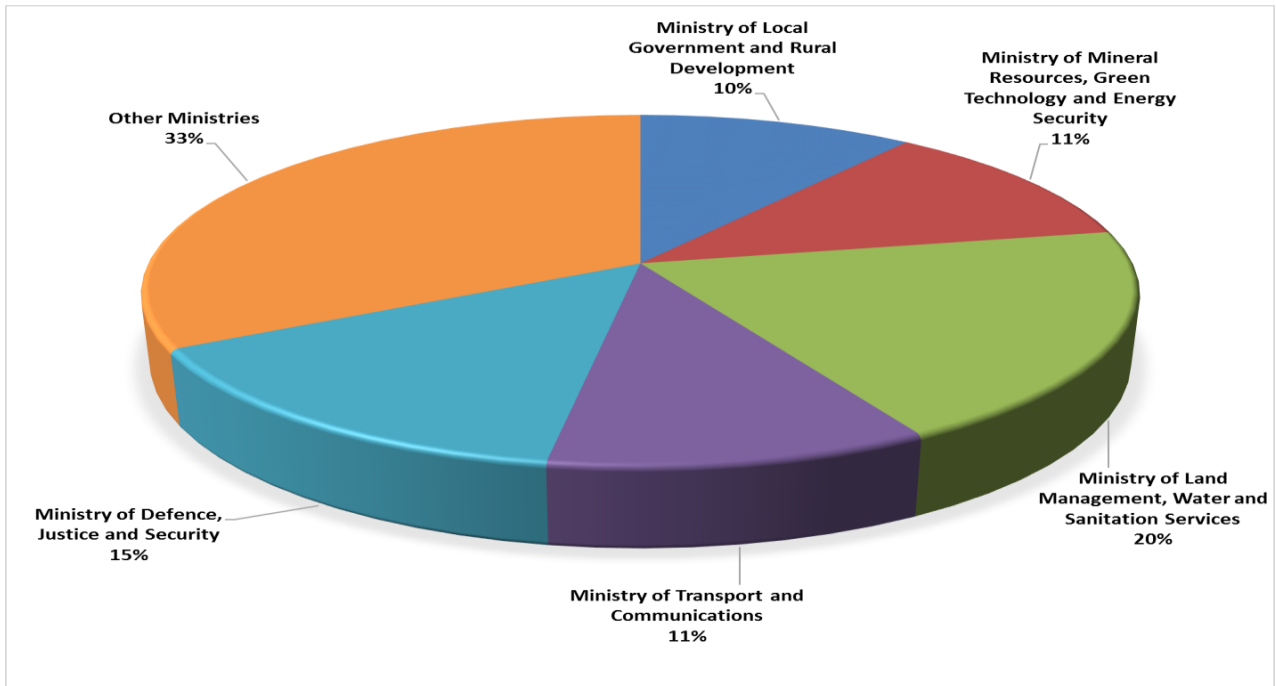
32. The Ministry of Transport and Communications is proposed to be allocated the fourth largest share of P1.85 billion or 10.86 percent, to cover the ongoing construction of roads, bridges and ICT projects. These include: construction of three (3) intersections along the KT Motsete Drive; funding of ongoing road projects of Mogoditshane–Gabane–Mmankgodi; Rakhuna–Mabule; Mmankgodi–Jwaneng; Gaborone–Boatle dualling; Mulambakwena–Tshesebe; Dibete–Mookane–Machaneng, Mmandunyane–Shashe Mooke – Chadibe – Mathangwane roads as well as Traffic Control Modernisation and Centralised Traffic Control for the Greater Gaborone Area.

33. The fifth largest share of P1.77 billion or 10.39 percent, is proposed for allocation to the Ministry of Local Government and Rural Development in order to continue implementation of social protection programmes and village infrastructure projects. The remaining balance of P5.46 billion or 32.0 percent will be shared by other Ministries and Departments. Major programmes and projects to be funded under this balance include: ISPAAD (P564 million) and LIMID (P100 million); staff houses and maintenance of secondary schools (P677 million); construction and upgrading of health facilities (P516 million); Poverty Eradication Programme (P185 million); housing schemes such as Self Help

Housing Agency (SHHA) (P77.5 million); and poverty alleviation scheme and destitute housing (P97.6 million) for

the low income groups. A breakdown of development budget allocation is given in Figure 2 below.

Figure 2: Development Budget Allocation (% Share)



Source: MFED

Overall Budget Balance

34. The overall balance for 2019/2020 financial year points to a deficit of P7.34 billion or minus 3.5 percent of GDP. This budget deficit is due to, amongst others, a slow growth in revenues and increasing expenditure pressures.

FISCAL LEGISLATION

35. A Bill seeking to amend the Transfer Duty Act will be presented to Parliament in March 2019. Efforts will continue to be made in the 2019/2020 financial year to expand the tax base

through the review of tax legislation and regulations by amending the Capital Transfer Tax Act to align it with the Transfer Duty Act, which was published in November 2018. One of the focus going forward, will be cost recovery and user fees. Government will be undertaking a comprehensive review of the fees, levies and charges, with a view to determining their potential to contribute to total Government revenues.

PUBLIC SERVICE SALARIES

36. Negotiations are ongoing between Government and Public Sector Unions to

determine the appropriate salary increase for the Civil Servants in 2019/2020. With regard to the review of Salaries, Conditions of Service and Other Entitlements of the Political Leadership, Justices and Members of Ntlo Ya Dikgosi, the Report of the Presidential Commission has been submitted to His Excellency, the President and is being considered.

CONCLUSION

37. A budget deficit of P7.34 billion or minus 3.5 percent of GDP is expected for 2019/2020 financial year. It is worth noting that Government experienced successive budget deficits in the first three years of NDP 11, as a deliberate effort to respond to the nation's needs of: increasing economic activity to create employment opportunities; eradicating extreme poverty and distributing available income equitably. Despite this, Government is committed to its objective of achieving moderate surpluses in the last three years of NDP 11. This calls for continued prudent management of expenditure by all Ministries and Departments, while scaling-up resource mobilisation efforts through enhanced collections of taxes and user charges, as well as improving on productivity at all levels.

38. Government will also continue to leverage on its purchasing power to stimulate the growth of the private sector, which, in turn, should create sustainable jobs. Of the total P67.5 billion expenditure planned for the 2019/2020 financial year, P22.4 billion, or one-third is for paying salaries and allowances for those employed in the public service, while the balance of P45.1 billion or 66 percent will be available for government procurement of goods and services from the private sector. This is a significant amount availed by government to spur growth of the economy, and create employment opportunities.