REPUBLIC OF BOTSWANA

2019 BUDGET STRATEGY PAPER

DRAFT

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

August 2018

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I. INTRODUCTION

1. The 2019 Budget Strategy Paper (BSP) is part of the annual planning process, which facilitates the preparation of the 2019/2020 budget. The BSP reviews: global and domestic macroeconomic developments; fiscal developments; implementation of the national priorities, as contained in NDP 11; and presents revenue and expenditure projections for 2019/2020, and the resultant fiscal balance. Such reviews are critical in assessing the capacity of the domestic economy to support the proposed budget, as well as identify the fiscal risks envisaged during implementation of the proposed budget. The document forms the basis for discussions of the proposed national policies, strategies and budgetary allocations for the next financial year by various stakeholders at the annual Budget Pitso.

2. Since the 2019 Budget Strategy Paper is the first following the ascension of His Excellency the President, Mr Mokgweetsi E. K. Masisi to the presidency in April 2018, the document takes into account the elements of his roadmap, as outlined in his inauguration speech. Among the critical areas highlighted by His Excellency, President Masisi was the need to "*build a Botswana in which sustained development is underpinned by economic diversification*". He also emphasised the need to "e*radicate poverty and social exclusion in order to build a society that provides opportunity and dignity for all*". These are noble national goals, which are consistent with the priority areas identified in both the Vision 2036 and NDP 11. Thus, Government intends to use its spending power during the coming financial year to intensify efforts towards accelerating economic diversification, create employment opportunities for Batswana, especially the youth, and thus, eliminate abject poverty.

3. This BSP consists of six (6) sections, including this introduction. Section II reviews macroeconomic developments in both the global and domestic economy, while fiscal developments, focusing on the budget outturn for 2017/2018 and the revised budget for 2018/2019, are discussed in Section III. A review of the implementation of the national priorities, as contained in NDP 11, is presented in Section IV. These priorities form the basis of budget allocations for the next financial year. Section V presents the Medium Term Fiscal Framework (MTFF), which provides broad revenue and expenditures projections for the next financial year, plus two outer years, based on the current and medium term economic outlook. These fiscal forecasts, in turn, determine the financial ceilings, as well as the financing basis for the 2019/2020 budget. Section VI concludes the paper.

II. MACROECONOMIC DEVELOPMENTS

Global Economic Review and Outlook

4. The International Monetary Fund's World Economic Outlook (WEO) update released in July 2018 maintained the April 2018 forecasts, where global growth is projected to reach 3.9 percent in 2018 and 2019, from a growth estimate of 3.7 percent in 2017 (Table 1). Of note is that, global recovery is still underway, driven mostly by investment and favourable financial conditions, although gradually tightening.

Table 1: World Economic Outlook Projections (%)

	Estimates	*Projections*	
	2017	***2018***	***2019***
World output	*3.7*	*3.9*	*3.9*
Advanced Economies	*2.4*	*2.4*	*2.2*
Emerging Market and Developing Economies	*4.7*	*4.9*	*5.1*
Sub-Saharan Africa	*2.8*	*3.4*	*3.8*

Source: WEO Update, July 2018

5. Advanced economies, on the other hand, are projected to grow slower at 2.4 percent in 2018, and 2.2 percent in 2019. Modest growth expected in 2019 is due to restrained economic activity in the euro area and Japan. Accordingly, the euro area is projected to slow down from 2.2 percent in 2018 to 1.9 percent in 2019, primarily due to tighter financial conditions. Growth forecasts for emerging market and developing economies is expected to remain unchanged from the April 2018 forecast at 4.9 percent and 5.1 percent for 2018 and 2019, respectively. Economic recovery for the region is expected to be supported by favourable financial conditions and improved commodity prices.

6. According to the same July 2018 WEO report, economic recovery in the Sub-Saharan Africa (SSA) continued, supported by the rise in commodity prices. As a result, the region is anticipated to register a growth rate of 3.4 percent in 2018, and a further rise to 3.8 percent in 2019. These are significant increases compared to 2.8 percent recorded in 2017, reflecting improved outlook for the Nigerian and South African economies, which are the largest in the SSA region.

7. Despite strengthening of the global recovery, downside risks remain in the medium term, as evidenced by outturn in the first quarter of 2018. Chief among these risks include the escalating trade tensions between the United States of America and its traditional trading partners[1], tightening global financial conditions and slower implementation of reforms in some major economies. To mitigate these risks, economies will need to advance policies and reforms that extend the current growth and strengthen resilience.

[1] On the 6th July, 2018 the United Sates announced tariffs on Chinese imports, a measure that is expected to cause trade tensions between the two large economies. However, these measures are anticipated to have a small bearing on current global growth forecasts, given that they affect only a small share of global trade.

Domestic Economic Review and Outlook

8. Domestic economic performance has been mixed over the recent past years; contracting by 1.7 percent in 2015, recovering to reach 4.3 percent in 2016, before declining to 2.4 percent in 2017. The contraction by 1.7 percent in 2015 was due to weak demand for diamond exports and persistent power and water supply shortages. In 2017, the performance of Water & Electricity and Mining sectors remained weak, recording a decrease of 19.5 percent and 11.2 percent, respectively, thus, contributing to the lower domestic growth rate of 2.4 percent. On the positive side, Trade, Hotels & Restaurants registered the highest growth rate of 7.3 percent in 2017, although this was lower compared to 13.5 percent recorded in 2016. The impact of relocation of the Diamond Trading Company from London to Gaborone in 2012 continues to make a positive contribution to the Trade, Hotels & Restaurants sector through wholesale sub-sector, resulting in the sector recording a growth rate of 7.3 percent in 2017. The other sectors which continue to contribute significantly to growth are Finance & Business Services and Transport & Communications, recording positive growth rates of 5.0 percent and 4.7 percent, respectively, in 2017.

Table 2: Real GDP Growth Rates by Sector (2006 constant prices): 2016-2020

	2016	2017	2018	2019	2020
Percent change					
1. Agriculture	0,5	2,1	1,3	1,7	1,5
2. Mining	-3,5	-11,2	3,1	3,1	2,5
3. Manufacturing	1,6	1,9	2,2	1,9	2,0
4. Water and Electricity	95,2	-19,5	14,2	11,8	3,5
5. Construction	4,2	3,5	3,9	4,3	4,7
6. Trade, Hotels & Restaurants	13,5	7,3	6,9	5,9	8,4
7. Transport & Communication	6,6	4,7	5,4	4,4	4,5
8. Finance & Business Service	3,3	5,0	4,8	4,9	4,9
9. General Government	2,4	2,2	3,0	3,0	3,0
10. Social and Personal Services	3,5	2,8	3,3	3,2	3,1
Total Value Added, Gross	4,9	2,2	4,5	4,2	4,8
Adjustments items (Taxes less subsidies)	0,0	3,8	4,3	4,0	4,5
Total GDP	**4,3**	**2,4**	**4,5**	**4,2**	**4,8**
GDP excluding Mining Value added	**5,5**	**4,2**	**4,6**	**4,4**	**5,0**

Source: Statistics Botswana Actuals & MFED Projections

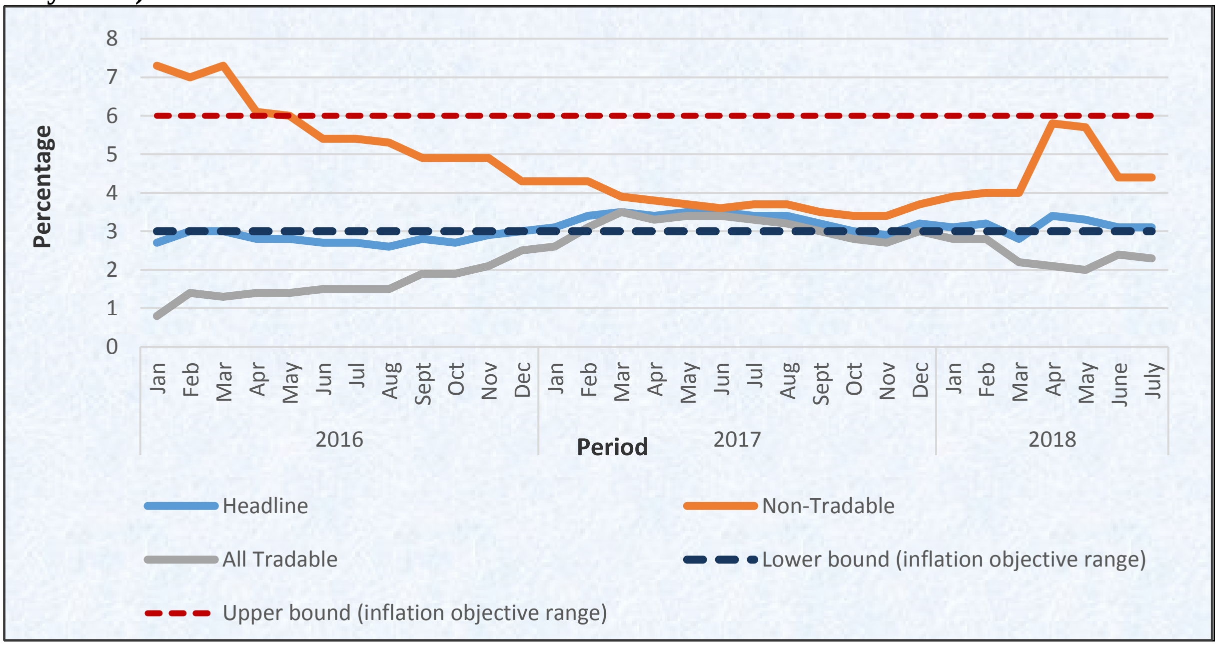
9. The medium-term domestic outlook remains optimistic, with growth forecasts expected to rise moderately to 4.5 percent in 2018 and 4.2 percent in 2019. Mining and Water & Electricity sectors are expected to register positive growth rates, after contracting in 2017; with growth forecasts of 3.1 percent and 14.2 percent, respectively, expected in 2018. However, the anticipated recovery will depend on; a continuous rebound in the global diamond market, Government's continued supportive fiscal policy, stability in the supply and reliability of power and water supplies, as well as reforms to further improve the business environment.

Inflation and Monetary Policy

10. According to the latest inflation data released by Statistics Botswana, domestic inflation continued to be moderate, with average headline inflation rate at 3.3 percent in the second quarter of 2018 (April to June), slightly up from 3.0 percent in the first quarter of 2018 (January to March).

11. In July 2018, inflation stood at 3.1 percent. However, in terms of regions, inflation rates for Rural Villages declined to 2.1 percent in July 2018, from 2.3 percent registered in June 2018, while Cities and Towns also registered a decline of 0.1 percentage point for the same period, recording inflation rate of 3.9 percent. On the other hand, inflation rates for Urban Villages remained unchanged at 2.7 percent. In terms of group indices, they were generally stable between June and July 2018, recording changes of less than 1.0 percent. Notable changes were observed on the Restaurant & Hotels and Transport group indices, which recorded a rise of 0.4 percent and 0.2 percent, respectively. The Food & Non-Alcoholic Beverages group index dropped by 0.2 percent, mainly due to a decrease in the vegetables and bread & cereals sub-indices. All-Tradable inflation rate was 2.3 percent in July 2018, a decline of 0.1 percentage point from June 2018. In contrast, Non-Tradable inflation remained unchanged at 4.4 percent for the period under review.

Figure 1: All Items, Non-Tradeable and Imported Tradeable Inflation, (January 2016 to July 2018)



Source: Statistics Botswana, July 2018

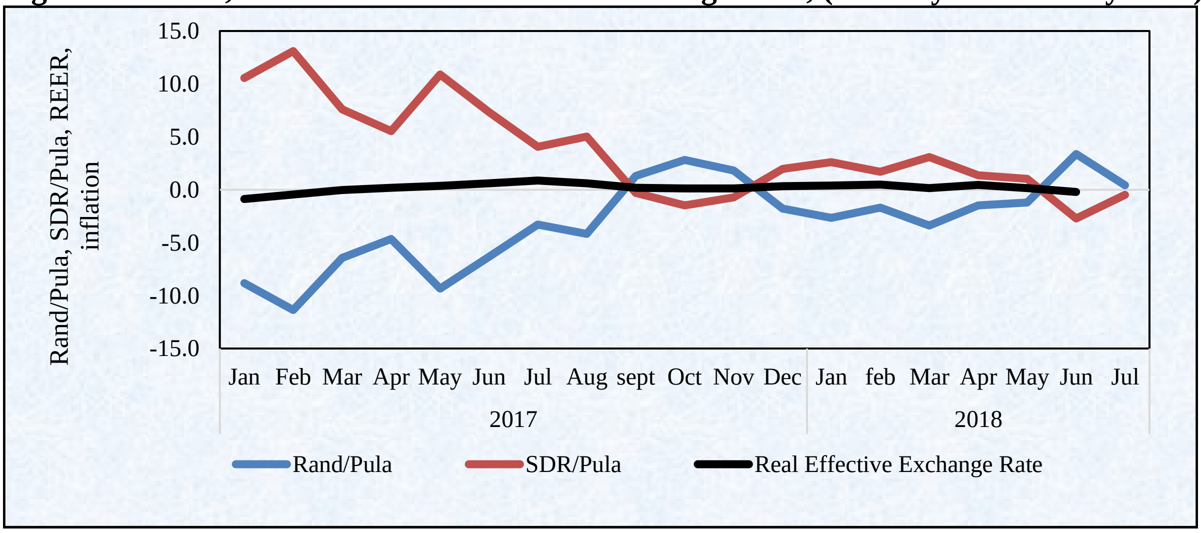
12. According to the latest Bank of Botswana Monetary Policy Committee‘s press release, inflation rate is forecast to be within its objective range of 3-6 percent in the medium term. The positive outlook is however subject to upside risks such as administered prices, commodity prices, government levies and taxes beyond current projections. Further, the inflation outlook is subject to the downside risks such as the sluggish technological progress, productivity and global economic activity. To this end, the Bank has maintained the Bank Rate at 5 percent during the Monetary Policy Committee Meeting held in June, 2018.

Exchange Rate Developments

13. Government remains committed to maintaining a stable and competitive real effective exchange rate of the Pula, as part of the policy to promote economic diversification and employment creation. This policy objective is to be achieved through regular review of the Pula basket of currencies. The currency basket weight is currently comprised of 45 percent South African rand and 55 percent SDR, reflecting trading patterns of Botswana with its major trading partner countries. These basket weights, which were adopted for 2017, were maintained for 2018, following an annual review in December 2017 of the country's exchange rate developments in general, and its trading patterns, in particular. However, the rate of crawl was changed from an upward rate of 0.26 percent to a downward rate of crawl of 0.30 percent per annum, effective from 1st January, 2018, reflecting the expected inflation differentials between Botswana and its trading partner countries.

14. Partly reflecting the effect of the downward rate of crawl implemented effective January 2018, the real effective exchange rate (REER) depreciated modestly by 0.2 percent in the twelve months to June 2018 (Figure 2). The REER measures the value of the country's local currency relative to a basket of currencies of its trading partners. Therefore, a modest depreciation of the REER should contribute to the competitiveness of domestic producers of tradable goods and services.

Figure 2: REER, Rand/Pula and SDR/Pula Exchange rates, (January 2017 to July 2018)



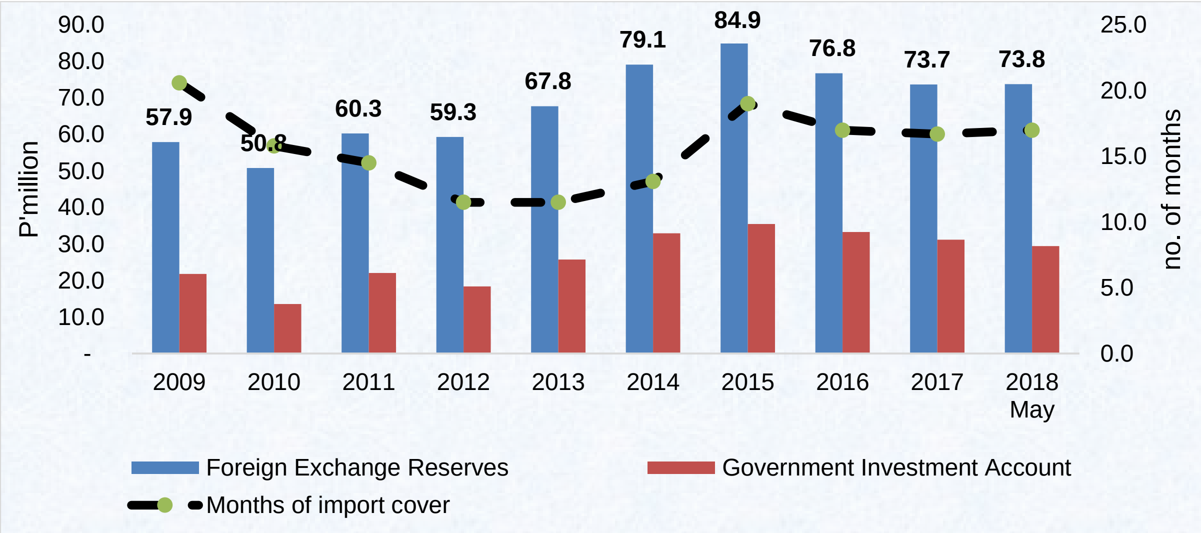
Source: Bank of Botswana & MFED

15. In terms of the bilateral exchange rate movements, the Pula depreciated against the Chinese renminbi (2.3 percent), rand (1.2 percent), euro (0.8 percent) and the Pound sterling (0.4 percent), during the twelve months to May 2018, while appreciating against the US dollar by 3.7 percent and the Japanese Yen by 1.5 percent, over the same period.

Foreign Exchange Reserves

16. As at end of December 2017, foreign exchange reserves amounted to P73.7 billion, a decline of 4.0 percent from P76.8 billion recorded in December 2016. In US dollar terms, the level of reserves increased by 4.2 percent from USD7.2 billion to USD7.5 billion, while the SDR amount remained unchanged at SDR5.3 billion, during the same period. The decrease in foreign exchange reserves, in Pula terms, reflected the net foreign exchange outflows and net foreign currency revaluation losses, mainly arising from appreciation of the Pula against the US dollar. As at end of May 2018, foreign exchange reserves stood at P73.8 billion, representing 17 months of import of goods and services. Of this amount, Government Investment Account amounted to P29.4 billion, which represented 39.9 percent of the country's total foreign exchange reserves. Figure 3 summarises the performance of the country's foreign exchange reserves over the past ten years. Of significance to note is that, the country's level of months of imports cover has remained below the pre-financial crisis level of 2009/2010, despite the recovery in the domestic economy.

Figure 3: Foreign Exchange Reserves and Government Investment Account: 2009-May 2018



Source: Bank of Botswana, June 2018

III. FISCAL DEVELOPMENTS

2017/2018 Budget Outturn

17. The preliminary budget outturn for the 2017/2018 financial year, as summarised in Table 3, was better than anticipated, due to improved performance of some main revenue items such as Mineral revenue, Customs and Excise and the BoB revenue. As a result, the fiscal outturn for 2017/2018 was a small surplus of P0.22 billion, compared to a deficit of P4.07 billion projected in the revised budget. The outturn was in line with Government's objective of maintaining, either a balanced budget, or modest surpluses consistent with the goal of fiscal sustainability. Such policy goal is necessary for maintaining fiscal space to allow Government to respond to domestic and external economic shocks, without the risk of the country sliding into unsustainable debt levels.

Total Revenues and Grants

18. In 2017/2018, total revenue and grants amounted to P58.15 billion, a slight increase of 1.7 percent, from P57.19 billion in the revised budget. Of this amount, Mineral revenue accounted for 32 percent, while Customs and Excise receipts accounted for 31 percent. Together, these two sources of revenue accounted for 63 percent of the total revenues collected during

2017/2018, which reflects the extent to which the country's *fiscus* continues to be characterised by a narrow revenue base. Hence, the need for Government's continued efforts to diversify the domestic revenue base through the identification of alternative sources of revenue.

Total Expenditure and Net Lending

19. Total expenditure and net lending during 2017/2018, on the other hand, amounted to P57.93 billion; comprising P43.64 billion, as Recurrent Expenditure and P14.2 billion, as Development Expenditure. The performance of the Recurrent Budget was broadly in line with the revised projections, while the Development Budget continued to underperform, mainly due to the low project implementation, which has been a major concern for Government.

Table 3: Budget Outturn for 2017/2018 (P million)

	Revised Budget 2017/2018	Actual March 2017/18	% of Budget
Total Revenues & Grants	**57,187.11**	**58,154.19**	**102**
Mineral Revenue of which:	16,334.25	18,686.34	**114**
Mineral Tax	3,690.00	5,578.49	**151**
Mineral Royalties & Dividends	12,644.25	13,107.85	**104**
Customs & Excise	17,059.79	17,864.37	**105**
Non Mineral Income Tax	12,348.20	11,189.76	**91**
VAT	8,106.36	6,629.89	**82**
BOB Revenue	708.00	1,573.20	**222**
Other Revenue	2,308.92	1,901.45	**82**
Grants	321.59	309.17	**96**
Total Exp. & Net Lending	**61,258.87**	**57,933.90**	**95**
Recurrent Expenditure	44,207.70	43,641.72	**99**
Development Expenditure	17,098.63	14,207.22	**83**
Government Equity	0.00	0.00	
PDSF/DF Loans	28.54	148.26	**519**
Repayment of DF/PDSF loans	-76.00	-63.30	**83**
Overall Surplus/Deficit(-)	**-4,071.76**	**220.28**	**-5**

Source: MFED, August 2018

2018/2019 Revised Budget

Total Revenues and Grants

20. The revised budget for the 2018/2019 financial year shows that total revenue and grants amounts to P58.11 billion, representing 10.5 percent decrease from the figure in the original budget of P64.94 billion. The downward revision in total revenue is due to the fall in the expected Mineral revenue from P24.59 billion to P20.29 billion, over the same period, as a result of the decision by the Debswana to commence the implementation of some major projects during this financial year. The decision by Debswana to commence the implementation of Cut 9 project at Jwaneng and Cut 3 project at Orapa during 2018/2019, funded through shareholders' share of profits, necessitated the downward revision of the amount of Mineral revenue due to Government.

Total Expenditure and Net Lending

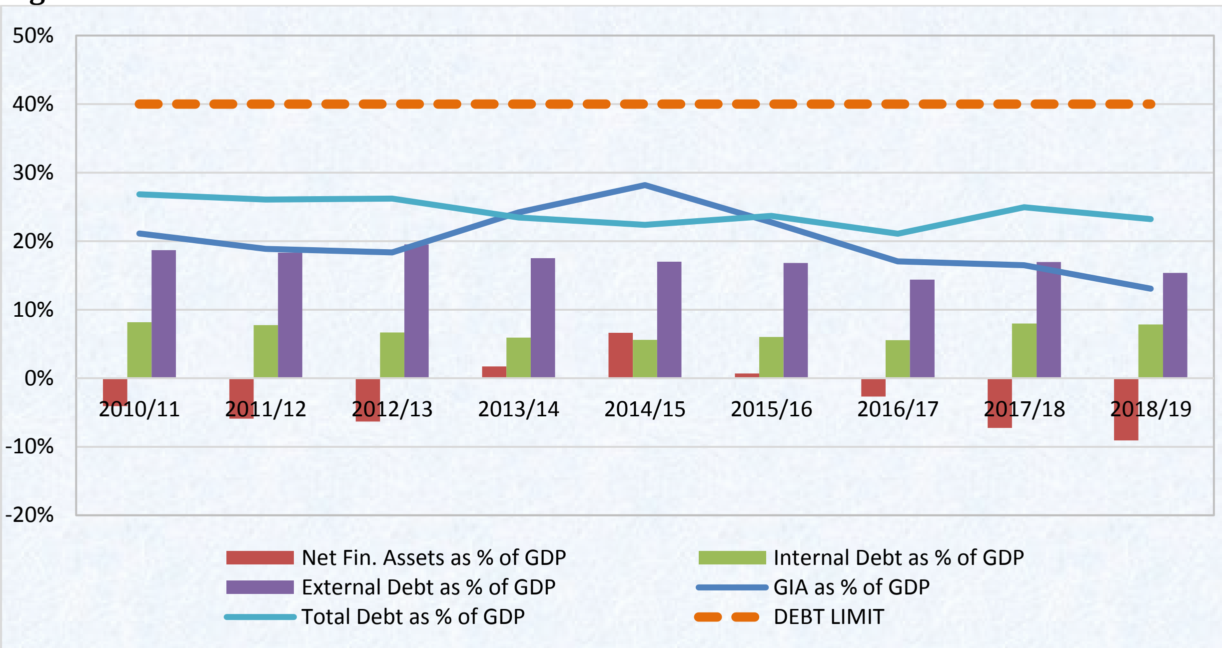
21. The revised total expenditure and net lending for 2018/2019 budget, on the other hand, shows a lower expenditure profile of P62.69 billion, a decrease of 7.6 percent from the figure of P67.87 billion in the original budget. Revised recurrent expenditure is now estimated at P46.14 billion, while development expenditure is estimated at P16.63 billion, even after accommodating the approved supplementary budget requests of around P1.03 billion. As a result, the revised budget deficit for 2018/2019 now stands at -P4.57 billion, or - 2.3 percent of GDP, compared to - P2.36 billion in the original budget.

Net Financial Position

22. One of the indicators of fiscal sustainability is the country's net financial position, as measured by the level of government cash balances minus net debt, as a percentage of the gross domestic product (GDP). Government cash balances held with Bank of Botswana have been stable around P30 billion, after falling from over P40 billion prior to the 2009 financial crisis. On the other hand, public debt, both domestic and external, has also remained modest, and within the statutory limit of 40 percent of GDP. Maintaining sustainable levels of debt in the medium term is part of the implementation of the Medium Term Debt Management Strategy (MTDMS) of 2016/17-2018/19, whose objective is to ensure that the country does not slide into the debt trap, which can undermine future growth of the economy.

23. A summary of the performance of the net financial position of the country is reflected in Figure 4. As indicated in the Figure, the Net Financial Position, as a percentage of GDP (represented by the dark blue bar) of the country, deteriorated significantly between 2010/2011 and 2012/2013, before recovering slightly in 2014/2015. Since then, the general trend of this indicator has been very low, which is worrisome. The continued low level of this indicator reflects, mainly the slow growth in government cash balances, as total debt remained stable.

Figure 4: Net Financial Position as % of GDP



Source: MFED, 2018

24. The emerging scenario of net financial position calls for renewed efforts for fiscal consolidation in the medium term, which would be in line with the objectives of NDP 11.

IV. NATIONAL PRIORITIES FOR THE FINANCIAL YEAR 2019/2020

25. The strategic thrust for the next financial year 2019/2020 continues to be centred around the broad national priorities identified in NDP 11, which are: *Developing Diversified Sources of Economic Growth; Human Capital Development; Social Development; Sustainable Use of Natural Resources, Good Governance and Strengthening of National Security, as well as monitoring and evaluation.* As announced by His Excellency, the President, in his inaugural speech, sustainable job creation, abject poverty eradication, and economic diversification continue to be the central theme for Government policy interventions. The expected outcomes of His Excellency's roadmap are consistent with the broad national priorities, as contained in NDP 11. To this end, Government, through the 2019/2020 budget, will streamline policies and regulations to improve on the business climate for private sector development within the country by continuing to invest in: infrastructural development; education and training, especially technical and vocational education; and national ICT backbone, to achieve sustained economic growth and employment creation. In addition, Government will continue to implement social welfare programmes, as part of its efforts to address poverty among the most vulnerable groups of the society. The strategic priorities to be pursued in the coming financial year are discussed in turn below:

Developing Diversified Sources of Economic Growth

26. This priority area remains core and crucial, as diversified sources of economic growth plays a pivotal role to growing the economy. This will further tackle the main economic challenges of high unemployment and poverty levels, income inequality, as well as, the limited revenue base.

Infrastructure development

27. Achieving national priorities such as Developing Diversified Sources of Growth and Human Capital Development requires continued investment in infrastructure. Government will, therefore, continue with the construction of infrastructure such as health and education facilities during 2019/2020. In order to achieve this, preparatory work, including land servicing and environmental impact assessment needs to be undertaken before resources can be allocated for the actual implementation of specific projects. In addition, during the coming financial year, priority will continue to be given to the development of ICT infrastructure and enhancing ICT connectivity. Noting the limitations of the national budget in addressing the infrastructure gaps in the country, Government will leverage on private funding towards development of critical enablers such as energy, ICT, water and sanitation and transport, among others, through the Public Private Partnership (PPP). To date, sixteen (16) projects that have the potential for implementation using the PPP approach have been identified. Activities to carry out feasibility studies in ten (10) of these projects have already commenced.

Conducive Business Environment

28. Another priority area that was also emphasised by His Excellency, the President concerns intensifying measures to improve the ease of doing business in the country. In order to promote a conducive environment for businesses to flourish and attract foreign direct investment, Government will intensify the implementation of the Doing Business Roadmap Reforms and Action Plan. Furthermore, during 2019/2020, efforts will also be intensified for domestic entities to achieve free and reliable access to markets for their exports of goods and services, while also facilitating access to a wide choice of imported inputs and services.

Diversified Industries

29. During 2019/2020, Government will continue with the implementation of cluster based strategy, focusing on sectors which have comparative advantage such as diamonds, beef, tourism, financial services, mining and emerging areas of education and health services. Furthermore, Government will continue to address challenges related to fragmented structures for promotion and facilitation of investment by embarking upon, among others, accelerating land servicing programme, and consolidation of investment promotion efforts.

Human Capital Development

Improve Access to Tertiary Education

30. The country will continue to place investment in human capital development amongst the national priorities in 2019/2020. One of the key objectives under this area will be facilitated by providing funding for tertiary education to improve on access, as well as development of infrastructure for public tertiary institutions. In an effort to implement the Education Sector Strategic Plan, the quality and relevance of education and training will be enhanced through maintenance of facilities, provision of the necessary equipment in public institutions, as well as implementation of various initiatives under the national human resource development strategy and the national credit qualification framework. Therefore, the 2019/2020 budget will be used to finance programmes and projects related to these initiatives.

Promote Sustainable Jobs

31. Government will continue to promote domestic and foreign direct investment and develop entrepreneurship culture in an effort to create sustainable jobs for Batswana. This will be achieved through implementation of policies and strategies such as: National Entrepreneurship Policy; Co-operative Transformation Strategy; Citizen Economic Empowerment Policy; National Export Strategy; Industrial Development Policy; EDD Strategy; Cluster development; and establishment of Special Economic Zones. In addition, during the coming financial year, Government will continue with empowering the youth by funding various programmes and projects under the Youth Development Fund. The programme is aimed at supporting young people with capital to set up their own businesses, with an estimated annual allocation of P120 million.

Labour Productivity and Competitiveness

32. Botswana continues to record low levels of productivity and competitiveness. According to the 2017/18 World Economic Forum Global Competitiveness Report, Botswana scores badly in work ethic in the labour force, which stood at 19 percent, with inefficient Government bureaucracy at 12.7 percent, and restrictive labour regulations at 11.9 percent, among others. In an effort to address these challenges, the Botswana National Productivity Centre has embarked on programmes aimed at improving efficiency, customer service, enterprise productivity and competitiveness through various consultancy and capacity building initiatives. In addition, productivity indicators are being developed for both local and central Government at large, in order to resuscitate work ethic for high impact roll-out in the Public Service.

Social Development

Eradication of Abject Poverty

33. Poverty remains one of the greatest challenges facing the country. Hence, during 2019/2020, Government will continue its commitment to eradicate abject poverty through the implementation of the following programmes: Social protection; Supplementary feeding programme; Vulnerable groups feeding and under five supplementary feeding programmes; Destitution; Ipelegeng; Home-Based Care; Orphan and Vulnerable Children programmes; World War II Veterans; and Remote Area Development Programme.

Sustainable Use of Natural Resources

34. Sustainable management of the environment is necessary to conserve natural resources for future generations. A number of programmes that are prioritised for the coming financial year include: Climate Change Resilience; Sustainable Land Management; Chemicals and Waste Management; Clean Water and Sanitation; Animal Diseases Control Emergency Programme; Species Management Programmes; Clean Air Programme; and, Water Resource Management. Therefore, during the financial year 2019/2020, Government will continue implementing the Integrated Water and Energy Resource Management strategy, which seeks to promote efficient and optimal utilization of energy and water resources, as well as the National Spatial Plan (NSP), which guides in terms of the future population dynamics and developments in general. The NSP ensures that developments are directed to where they will have the maximum benefit for the nation. Currently, Government is considering developing Strategic Environmental Assessments (SEA) for different development zones which will guide projects that may or may not need a detailed Environmental Impact Assessment. Projects such as the Special Economic Zones will benefit from these initiatives.

Good Governance and Strengthening of National Security

35. Good Governance and Strengthening of National Security is one of the priorities identified during NDP 11. In this regard, the Government of Botswana continues to enhance citizen participation in the development and implementation of national policies and programmes. Government also recognises the need to strengthen measures geared towards crime reduction, public safety and protection. The main security challenges facing the country relates to the global security threats such as cybercrime, terrorism, human trafficking, drug trafficking, money laundering, poaching, corruption, among others. To this end, during 2019/2020, Government will continue to implement stringent measures to combat and prevent such crimes.

Monitoring and Evaluation

36. Government has developed the National Monitoring and Evaluation System (NMES) aimed at ensuring effective implementation of NDP11. The general objective of NMES is therefore to keep track of the implementation of projects, programmes and policies as outlined in the National Development Plans (NDPs), which are consistent with aspirations of the National Vision. The System aims to strengthen implementation efficiency, effectiveness, accountability and transparency across Government to support the achievement of national development priorities. To this end, the System is administered through two structures, the Steering Committee and the Project Team. The Steering Committee is the decision making body that oversee and monitor the implementation of NMES, while the Project Team is the technical body that implements M&E projects. The Project Team operates through four (4) Project Implementation Streams being: (i) Capacity Building; (ii) Data Management; (iii) Planning and Budgeting, and (iv) Change Management and Communications.

37. The NMES, which is a performance based (output, outcomes and impact) approach, will enable the country to measure what matters most throughout the project and programme cycle using performance frameworks. The Framework utilises a mix of indicators, ranging from national to high level ministerial outcomes and outputs, which are aligned to; national Vision 2036, United Nations Sustainable Development Goals and the African Union Agenda 2063. The development of this Framework was done through collective efforts of different stakeholders from Government, Private Sector, Civil Society Organisations and Development Partners.

V. MEDIUM TERM FISCAL FRAMEWORK AND BUDGET PROJECTIONS FOR 2019/2020

Fiscal Policy Objectives

38. The 2019/2020 financial year marks the third year of implementing NDP 11. As such, during 2019/2020 financial year, Government will continue to strive to live within its means by producing a budget that is affordable and sustainable, yet responsive to people's needs. It is critical that by the end of the Plan period, all planned programmes are achieved in order to take the country forward. However, to achieve this will require adoption of measures to increase the country's implementation capacity.

39. Taking account of the fiscal outlook, the following principles will underpin and guide the 2019/2020 budget preparation process:

- Achieve fiscal sustainability in the medium to long-term, as part of the creation of a conducive environment for private sector development in the country;
- Achieve efficiency, effectiveness and value for money in public expenditure;
- Adopt a budget that is affordable, sustainable, and yet responsive to the needs of the country over the medium term;
- Increase domestic revenue mobilisation to finance Government programmes, while gradually reducing the dependence on mineral revenue;
- Restrict the growth of Government's recurrent expenditure to the extent possible, with a view to creating fiscal space for productive investment by maintaining more development oriented spending in line with 70:30 rule of recurrent to development expenditure;
- Minimise the cost of public debt, maintaining an acceptable degree of market risk, and supporting the development of the domestic capital market. Over the medium term, Government's borrowings shall continue to be used only for the purpose of financing development expenditure, and not for recurrent expenditure;
- Manage the fiscal risks in a prudent manner;
- Ensure fiscal consolidation through expenditure prioritisation that will result in quality spending;
- Improve monitoring, transparency and accountability mechanisms to ensure expenditure efficiency;
- Ensure that the financing needs and payment obligations of Government are met at the lowest possible cost consistent with a prudent degree of risk, and in coordination with fiscal and monetary policies; and
- Expand the sources of public debt financing to enable the Government to restructure its public debt portfolio and to better facilitate the financing of the deficit, e.g., through expanding the Bond Issuance Programme and/or reverse the current ratio of total debt composition.

Budget Projections for 2019/2020

40. The Medium Term Fiscal Framework (MTFF), as presented in Table 4, provides revenue and expenditure projections over the multi-year perspective, including actual revenue received and expenditures incurred in 2017/2018. These projections were based on the prevailing macroeconomic environment, information on current Government policies, as well as new policy initiatives that may have significant impact on Government receipts and expenditures. Thus, the MTFF provides the provisional resource envelope over the medium term.

41. As indicated in Table 4, budget deficits are forecast in the medium-term, mainly as a result of lower revenue collections, resulting from the expected sluggish mineral revenue receipts and volatility of the Customs and Excise revenue. On the other hand, emerging expenditure pressures, from both development and recurrent expenditure sides, should continue to be managed in order to ensure fiscal sustainability.

Table 4: Government Budget (P' million), 2017/2018 to 2021/2022[2]

	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Revised	Projections		
Total Revenue and Grants	**58,154.2**	**58,113.4**	**61,284.7**	**68,796.3**	**70,542.2**
Mineral Revenue	18,686.3	20,286.6	21,091.7	23,283.5	25,097.5
Customs & Excise Revenue	17,864.4	14,208.2	14,968.0	16,202.6	16,202.6
Non-mineral Income Tax	11,189.8	12,164.5	13,129.3	15,386.7	15,346.6
VAT	6,629.9	7,207.4	7,779.1	9,116.6	9,092.8
BOB Revenue	1,573.2	1,999.2	1,886.8	2,075.3	1,883.6
Other Revenue & Grants	2,210.6	2,247.5	2,429.9	2,731.6	2,919.1
Total Expenditures and Net Lending	**57,933.9**	**62,687.9**	**66,400.2**	**67,182.2**	**68,887.2**
Recurrent Expenditure	**43,641.7**	**46,136.5**	**49,004.2**	**50,561.5**	**51,988.5**
Personal emoluments & pensions	21,068.8	21,168.4	22,438.5	23,111.6	23,805.0
Other Charges	9,381.1	10,634.5	10,993.6	11,370.1	11,770.9
Grants & Subventions	12,203.3	13,364.4	14,565.3	15,002.2	15,452.3
Interest payments	988.5	969.3	1,006.9	1,077.6	960.3
Development Expenditure	**14,207.2**	**16,627.4**	**17,472.0**	**16,696.7**	**16,974.7**
Net Lending	**85.0**	**-76.0**	**-76.0**	**-76.0**	**-76.0**
Overall surplus/ deficit (-)	**220.3**	**-4,574.5**	**-5,115.5**	**-284.7**	**1,655.0**
as % of GDP	*0.1%*	*-2.3%*	*-2.4%*	*-0.1%*	*0.6%*

Source: MFED, August 2018

2019/2020 Revenue Forecasts

42. The projected total revenue and grants for the 2019/2020 financial year is estimated at P61.28 billion, with Mineral revenue contributing the largest share of 34.4 percent (or P21.09 billion**)**,

[2] Macro-economic and Budget Framework projections are indicative and will continue to be updated based on latest data and other inputs from on-going consultations.

followed by Customs & Excise at 24.4 percent (or P14.97 billion**).** At 21.3 percent (or P13.13 billion), the Non-mineral income tax is the third largest revenue contributor, while the Value-Added Tax and BoB revenue are expected to contribute about 12.7 percent and 3.1 percent, respectively. It is worth noting that, despite previous efforts to diversify domestic revenue base, the projected revenues for 2019/2020 continues to be dominated by the traditional sources of mineral revenue and customs and excise receipts. Further, the estimated revenues for 2019/2020 shows a modest growth of 5.5 percent over the revised budget for 2018/2019. It is against this backdrop that developing diversified sources of revenue will continue to be one of the national priorities pursued during NDP 11.

2019/2020 Expenditure Projections

43. The proposed 2019/2020 total expenditure budget allocations amount to P66.40 billion, representing an increase of 5.9 percent from the current year's revised budget of P62.69 billion. Of this amount, the share of the proposed Recurrent Expenditure is P49.00 billion, to cater for personal emoluments & pensions, other charges and grants and subventions to state-owned enterprises and local authorities. On the other hand, a Development Budget of P17.47 billion is proposed to finance on-going and new programmes and infrastructural projects being implemented throughout the country. However, the implementation of the development budget is likely to continue to be undermined by implementation capacity, which characterises both the public and private sectors.

Expected Overall Balance and Financing

44. With total revenue and grants estimated at P61.28 billion, which is lower than the projected total expenditure of P66.40 billion, the budget deficit is estimated at P5.11 billion, or 2.4 percent of GDP. To finance this budget deficit, Government will borrow, both domestically and externally. Domestic borrowing will entail issuance of Government debt securities such as Treasury Bills and long-term Government bonds, while external borrowing will be restricted to concessional borrowing from both bilateral and multilateral development partners to finance productive investment in order to avoid excessive debt burden, with its consequences on future fiscal sustainability. Government will also consider additional measures to increase domestic revenue sources by strengthening collections of existing taxes, as well as adjustment of user fees, where necessary.

VI. SUMMARY CONCLUSION

45. Despite the positive global and domestic outlook, the 2019/2020 budget still faces a constricted fiscal space, as a result of the low expected growth in revenues and increased expenditure pressures. Hence, Government will intensify its efforts to increase collections of revenues from existing sources, as well as identify new sources of revenues during the 2019/2020 financial year, while at the same time, stepping up measures to manage and control expenditures.

46. The preparation of this 2019 Budget Strategy Paper, and the subsequent Budget Speech, continues to be informed by the broad national priority areas identified in the National Development Plan 11. The design and implementation of programmes and initiatives to achieve these priorities during the financial year will be informed by the roadmap provided by His Excellency, the President Mr Mokgweetsi E.K. Masisi at his inauguration address in April 2018.

47. In terms of the budget outlook, total revenues are forecast to be lower than projected total expenditures, resulting in a budget deficit of P5.11 billion, or 2.4 percent of GDP. This budget deficit will be financed through a combination of borrowing, both domestically and externally, and drawing down on government cash balances. Government remains committed to pursuing fiscal sustainability and thus, additional measures to raise domestic revenues or trim the planned expenditure during the implementation of the Plan will be considered, if necessary, to restore the fiscal balance to sustainable levels.