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MINISTRY OF FINANCE & DEVELOPMENT PLANNING BOTSWANA

LOOKING BEYOND TODAY

BUDGET STRATEGY PAPER

2015/16

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I. INTRODUCTION

1. Over the years, Government's development goals have been to achieve sustainable economic growth and diversify the economy to reduce dependency on the mining sector. To some extent, these goals have been realized as evidenced by sustained rapid economic growth achieved prior to the 2008/09 global crisis, and the precipitous reduction in the contribution of the mining sector to the Gross Domestic Product (GDP), with a corresponding increase in the share of the non-mining sectors. However, the increase in the share of non-mining sectors has largely been dependent on Government expenditure, with limited domestic and/or foreign investment. Furthermore, these sectors have been characterized by low productivity, which undermine the competitiveness of their products in global markets. The issue of productivity at sectoral level brings to the fore aspects of the microeconomic environment such as work ethics, labour costs and excessive bureaucracy that may need closer scrutiny in the short to medium term.

2. Despite efforts to promote growth, the country continues to face development challenges of relatively high levels of unemployment, poverty, and income inequality, which undermine the ability to achieve its long term vision, Vision 2016, whose implementation period ends in the 2015/16 financial year. Like the previous year's strategy, the 2015/16 Budget Strategy Paper (BSP) should therefore continue to focus on measures aimed at achieving aspirations of the country's Vision 2016 as well as the global Millennium Development Goals (MDGs). In this regard, BSP provides guidance on major policy thrust and strategies to promote growth and achieve economic diversification, as prerequisites for attaining the goals and objectives of Vision 2016 and the MDGs. More emphasis will be placed on creation of a conducive micro environment, where the country continues to face challenges with its rankings on the ease of doing business and global competeviness.

3. This paper has six sections, including the introduction. Section II is a review of the global and domestic economic performance and outlook, while Section III summarizes some of the economic and fiscal issues. The national budget priorities and the proposed budget for the financial year 2015/16 are covered in Section IV and V, respectively, while the last section, Section VI, is a summary conclusion.

II. ECONOMIC PERFORMANCE AND OUTLOOK

Global Economic Review and Outlook

4. According to the latest World Economic Outlook (WEO) update report released in October 2014, global economic growth projection for 2014 has been revised downwards, from 3.4 percent in July 2014 to 3.3 percent, mainly due the subdued

first quarter growth, especially in the United States, and a less optimistic outlook for several emerging markets. However, global output was expected to improve further to 3.8 percent in 2015. Similarly, the Emerging Markets and Developing Economies growth projection has also been revised downwards from 4.6 percent to 4.4 percent for 2014, but was expected to strengthen to 5.0 percent in 2015. In sub-Saharan Africa, growth was expected to remain unchanged at 5.1 percent in 2014, but projected to increase marginally to reach 5.8 percent in 2015.

5. Even though the economic outlook for 2015 is positive, the WEO report pointed to some downside risks associated with some emerging geopolitical developments such as the possibility of oil price hikes due to recent developments in the Middle-East and those related to circumstances happening in Ukraine. Such risks have the potential to reverse prospects for growth at the global level, with impact on the domestic economy.

Domestic Economic Review and Outlook

6. The domestic economy performed relatively well in 2013, boosted by the positive developments in the global growth, especially in advanced economies. Real GDP grew by 5.8 percent in 2013, compared to a much lower rate of 4.3 percent in 2012, underpinned by both demand and supply factors. On the demand side, the continued low interest rate environment continued to spur growth in credit which contributed to domestic demand, some of which was supplied from domestic production. Among the supply side factors that contributed to growth in 2013 were the existence of production gap in the mining sector, coupled with the stable commodity prices. The most recent IMF Article IV surveillance report published after the end of the first quarter of 2014 also subscribed to the "*deteriorating underlying growth trend with prospects of lower growth rates going forward due to declining growth of total factor productivity*". Given that 2015/16 is the last financial year for NDP 10 and Vision 2016, it is important that this BSP sets the tone for addressing economic growth issues to avoid constraining development initiatives during NDP 11. Hence, the need to focus on exploring alternative sources of growth, re-looking at the current growth model, and most importantly, reviewing our fiscal rule to entrench fiscal discipline, as part of the country's overall economic management.

7. In terms of economic outlook, the domestic economy is expected to grow moderately by 5.2 percent in 2014, and further by 5.0 percent in 2015, underpinned by the expected recovery in diamond production. The main risk to this growth is the poor performance of mineral exports in the event of a slowdown in the global market, particularly in advanced economies. For instance, in the first quarter of 2014, exports, including mineral exports, experienced a substantial slowdown. This demonstrated continued vulnerability of the balance of payments with exports weakening, emphasizing the need to prioritize diversification of the country's export base. More importantly, this calls for the need for value addition and prioritizing

production entities or sectors that have a relatively higher impact as well as backward and forward linkages with other sectors.

Inflation Trends and Monetary Developments

8. Since the second half of 2013, price developments in the country have been relatively stable, with inflation rate remaining within the Bank of Botswana range of 3 – 6 percent. The decline in inflation rate was largely due to low imported tradable inflation and minor external price changes. The downward trend continued into 2014, however, the positive outlook could be adversely affected by any unanticipated large increases in administered prices and volatile international oil prices. In this regard, Bank of Botswana has mentioned that it will continue to adjust monetary policy in line with expected performance of the economy and fiscal objectives to deliver low and stable inflation, while at the same time ensuring continued stability in long-term interest rates and ensuring a safe and sound financial system. The current monetary policy stance of low market interest rate environment has increase access to domestic credit, which at the end of the quarter four to June 2014 stood at 30 percent of GDP in contrast with the pre-recession of 20 percent.

9. The Pula exchange rate has remained relatively stable in 2013. A modest downward crawl of 0.16 percent was retained for 2014, which resulted in the depreciation of the nominal effective exchange rate by the same magnitude, although at a much lower rate than inflation differential between domestic and trading partner countries. The Pula basket weights were also maintained at 55 percent for South African rand and 45 percent for the Special Drawing Rights (SDR) for 2014. This exchange rate mechanism resulted in stable and supportive Real Effective Exchange Rate, which is necessary for maintaining international competitiveness of the country's tradeable goods and services. There is however, need to be more prudent in fiscal spending to minimize the impact of appreciation of real effective exchange rate and reduce negative external balance in the long run.

10. In the twelve months to September 2014, the Pula appreciated against the South African rand by 4.05 percent and the Japanese yen by 2.4 percent, but depreciated against the British pound, Euro and the US dollar by 8.6 percent, 7.9 percent and 2.0 percent, respectively. The appreciation of the Pula against the rand resulted in lower Pula valued imports from South Africa, while exports to SDR member countries became less expensive and more competitive.

Balance of Payments

11. The performance of the external sector has improved, with the overall balance of payments recording a surplus of P1.3 billion in 2013 compared to a revised deficit of P862 million in 2012. This follows improvements in the current account occasioned by increased surplus in the goods and services account and a stronger rebound in exports earnings. Total exports amounted to P63.8 billion in 2013, an increase of 39.2 percent from P45.8 billion recorded in 2012. On the other hand, imports increased by 1.9 percent from P60.6 billion in 2012 to P61.8 billion in 2013. The level of foreign exchange reserves increased, from P65.4 billion in June 2013 to reach P75.2 billion in June 2014. Of the total reserves in June 2014, Government share (Government Investment Account) amounted to P31.9 billion.

Government Budgets

2013/14 Revised Budget

12. The 2013/14 budget was anchored on continued efforts to contain total spending and eliminating unproductive expenditures through improved public financial management. These principles also included containing growth in the public debt to a sustainable level. The revised budget for 2013/14 reflects a budget surplus of P3.5 billion, an increase from the revised projected surplus of P386 million. Total revenue and grants increased by 8.9 percent from P42.0 billion in 2012/13 to P45.4 billion in 2013/14. Total expenditure and net lending amounted to P42.0 billion in 2013/14, a slight increase from P41.0 billion in 2012/13. The increase in spending of 2.4 percent was due to the 9.1 percent increase in the development budget from P8.3 billion to P9.0 billion, as against the 2.8 percent increase registered in the recurrent budget from P32.0 billion in 2012/13 to P33.0 billion in 2013/14.

2014/15 Budget Approved Budget

13. The 2014/15 budgetary allocations focused on the priorities of maintenance and efficient operation of existing infrastructure, funding key economic infrastructure such as water and energy to support growth, and completion of on-going projects and programmes. Total revenue and grants amounted to P50.2 billion or about 36.6 percent of total GDP in 2014/15, reflecting commitment by the Government to pursue new revenue and compliance initiatives to increase revenue collection and enhance the revenue stream. On the other hand, expenditure and net lending amounted to P49.3 billion. Of this amount, recurrent expenditure amounted to P37.2 billion, while development expenditure was P12.1 billion. The increase in the overall expenditure was attributed to the increase in recurrent spending from P33.0 billion in 2013/14 to P37.2 billion in 2014/15, largely due to increase in personal

emoluments and other charges. The increase in the wage bill continued to rise steadily, despite minimal formal salary increases and restrictions on hiring and creation of new posts. The continued increase in the wage bill is largely because of: creation of new posts to cater for completed projects, formation of new parastatals, as well as catering for security services.

III. ECONOMIC AND FISCAL ISSUES

14. The economic and fiscal issues raised in the last financial year's Budget Strategy Paper remain relevant for this financial year. Efforts made during 2014/15 therefore need to be consolidated with a view to providing a foundation for the growth path of the next National Development Plan (NDP 11).

Economic Issues

15. As the 2015/16 financial year marks the end of NDP 10, it is important to reiterate the importance of maintaining broad macroeconomic stability as a prerequisite for promoting growth and economic diversification. However, as we embark on the preparation of the next Plan (NDP 11), it is important to revisit our focus of policy interventions, by emphasizing the promotion of efficiency at micro level. Hence, issues of inclusive growth, productivity, skills development, cluster and value-chain development, as well as research and development, form the core of such a growth path premised on promoting economic diversification and improvement in the microeconomic environment of key priority sectors.

Promoting Inclusive Growth

16. Despite the country's success in promoting sustainable economic growth prior to the global financial crisis of 2008/09, the three major development challenges of unemployment, poverty and income inequality remained an impediment on the development history of this country. To this end, the quest to pursue a development path that promotes inclusive growth is important, where inclusive growth means economic growth accompanied by significant employment creation. In this regard, Government will continue to review its policies and practices to explore additional sources of growth. The ultimate objective of Government is to give equitable opportunities to every section of the society. Promoting these areas in addition to the already existing employment initiatives, poverty eradication programmes and policies, will improve efficiency, increase output and promote employment creation.

17. In addition, Government will continue to pursue the policy of eradicating abject poverty in the financial year 2015/16, with emphasis on monitoring and evaluation of implemented programmes. The evaluation of poverty programmes will determine progress made in achieving the desired results of eradicating poverty, and define the way forward. Meanwhile, Government will continue to provide resources for social welfare programmes aimed at the vulnerable groups. However, in order to avoid duplication and make such programmes more efficient, social protection programmes need to be targeted and integrated. In addition, implementation of the Integrated Support Programme for Arable Agriculture (ISPAAD), which was revised in 2014/15, will continue to serve its objective of improving the arable sub sector productivity, benefiting the less privileged through supported subsistence farming.

Macroeconomic and Microeconomic Balance

18. An important element for achieving inclusive growth is the need for macroeconomic stability that engenders confidence by both domestic and foreign investors to invest in the economy. Government will therefore continue to pursue the fiscal and monetary policies aimed at encouraging growth and economic diversification by boosting production and providing an enabling environment for private sector growth. At the same time, the implemented exchange rate policy will support the fiscal and monetary policies for ensuring there is continued macro-micro balance environment. However, poor and declining industrial performance at lower levels continue to undermine the overall performance of the economy. Hence, Government is now shifting its focus to micro levels to ensure that productivity and efficiency across the economy is achieved. This could be promoted by expanding the training of the domestic workforce in relevant fields, enhancing efficiency of public administration and mobilizing investors to contribute towards creating new business services and building infrastructure. Efforts to promote macro and micro balance will continue during NDP 11, as part of the overall Government strategy to promote growth and economic diversification in the country.

Improving Productivity

19. One of the main economic challenges facing this country is the declining trends in total factor productivity, which affect the competitiveness of domestic industries. Of significance is that, a declining productivity lowers the standards of living by reducing the ability of the economy to compete effectively in international markets. Hence, Government will continue to put measures to improve factor productivity, in particular, labour productivity and the productivity of Government Capital Investment in order for the economy to obtain its full potential output. Going forward in NDP 11, there will be need to continue with structural reforms in different sectors of the economy, with a view to promoting efficiency in the economy as part of improving the business environment and competitiveness of domestic enterprises.

Among the areas that require urgent attention to be streamlined are labour relations such as work ethics, hiring, and firing procedures, as well as employer-employee relationship, and the rigorous application of project appraisal to Government Investment projects.

Appropriate Skills Development

20. In recognition of the importance of appropriate skills to growth, Government continues to invest in human capital development as a strategy for promoting sustainable economic growth. Furthermore, measures have been put in place to bridge the gap between skills provided in the education system and the needs of the labour market. In this regard, Government will take definitive action in 2015/16 to allow tertiary students who are about to graduate a chance to practice training in various industries. This practice is designed to provide experience in a professional work setting during which the student applies and acquires knowledge and skills. In addition, Government in partnership with the private sector will continue to foster the development of art, sports and culture to nurture various skills that also have the potential to contribute to economic development and diversification.

Development of Cluster and Value-chain in Selected Sectors

21. In an effort to promote growth and economic diversification, Government has adopted a cluster development approach, which provides a framework of organizing the implementation of public policies and investments directed at economic development. With the positive experience with diamond cluster portfolio, Government intends to roll out the cluster and value chain approach to other non-mining sectors such as beef, tourism, and manufacturing, with a view to promoting economic diversification and create employment opportunities in the country. To this end, the tourism cluster, which falls under the Trade, Hotels & Restaurants sector, will be reviewed during the 2015/16 financial year to improve overall positioning and marketing of the tourism industry. The main focus is to position the country to become a tourism destination. In addition, the establishment of the cattle cluster under the agricultural sector is under consideration in order to restore and accelerate the beef industry by upgrading the cattle value chain to position Botswana's beef as a high-end naturally produced product. This can be achieved by setting quality standards and guaranteed achievements for beef production obtained from naturally produced cattle.

22. However, the success of all these efforts will depend, not only on the maintenance of macroeconomic stability, but also on the operational efficiency of domestic industries. This, in turn, requires private sector and public entities to improve the

microeconomic capability of industries by upgrading existing clusters and developing sophisticated industrial operations and strategies.

Innovation Research and Development

23. As part of the development of an innovation-driven economy, Government will continue to give priority to investment in innovation and research in 2015/16 in order to improve the linkages between the community and Government in research based innovation. The implementation of targeted research and development, and establishment of partnerships between private sector firms and the Government can lead to successful commercialization of research outputs, and create high value products. In this regard, Government has established the Botswana Innovation, Technology and Research Institute and Botswana Innovation Hub to create massive applied research, innovation and technology transfer, as well as addressing the discontinuity between research and innovation. It is therefore expected that domestic industries will take advantage of these Government institutions to establish themselves, and develop technology to enhance the country's competitiveness in the regional and global markets. These initiatives should perform because if this is not case, Government will move funds to more productive uses.

Fiscal issues

24. Fiscal reforms are an important part of creating a conducive environment for promoting the growth of the private sector. It is against this backdrop that Government adopted the Medium-Term Fiscal Framework (MTFF) in the last financial year and this will be continued in 2015/16. This framework was designed to strengthen the multi-year perspective in fiscal planning and budgeting by giving projections for revenues, expenditures and financing for the medium term (3 years). This 3 year Mid-term framework is updated annually. It also incorporates Government policies as set out in the National Development Plan and other policy documents. Furthermore, as part of the process of enhancing the budgeting process, Government will undertake a phased implementation of Medium Term Expenditure Framework (MTEF) in 2015/16 in order to efficiently manage public finances and direct the economy on a sustainable path. The MTEF will assist Government to better allocate resources across Ministries by prioritizing all expenditures as well as improving line ministries' budget estimates. The implementation of both the MTFF and MTEF will provide a critical guide in policy making process, especially in the determination of annual expenditure ceilings and macroeconomic management of budget.

25. Another major fiscal development has been the review of the current Fiscal Rule, whose goal is to strike a balance in the use of revenues derived from natural

resources between the current generation and future generations. Whereas Botswana has had fiscal measures in place, the recent financial crisis had indicated the need to update and consolidate them into a comprehensive fiscal rule in order to achieve the fiscal goal of sustainable finance. The main components of the fiscal rule are *revenues, expenditure, and budget balance*. With regards to revenue, the fiscal rule envisages collection of a minimum non-mineral revenues to be set at 30 percent of non-mining GDP to ensure adequate availability of non-mineral revenues to finance recurrent expenditures. This would be achieved through continued efforts to maintain the tax base by diversifying the economy, and strengthening capacities of revenue collecting agencies such as the Botswana Unified Revenue Service.

26. The expenditure rule on the other hand aims at the sustainability of Government operations beyond the diamond era, hence the splitting of the mineral revenue, with 60 percent invested in new capital development projects, while 40 percent is saved for future generations. As a result, the share of total Government spending in GDP in NDP 11 will be contained under the 30 percent threshold, as per Government commitment in the Mid-Term Review of NDP 10. The implementation of the fiscal rule will therefore require measures to control and manage expenditure, especially the wage bill. The implementation of this fiscal rule will contribute to the rebuilding of the country's net financial assets, which dipped into negative balances due to the global financial crisis. The net financial assets recorded a deficit of P3.3 billion in 2010/11, before worsening to deficits of P7.0 billion and P7.2 billion in 2011/12 and 2012/13, respectively. In the last financial year, however, the net financial assets have shown some improvement, recording a much lower deficit of approximately P0.09 billion.

IV. **NATIONAL BUDGET PRIORITIES**

27. It is worth noting that the previous year's budget priorities focused more on the development budget and aimed at addressing some of the challenges identified in the Mid-Term Review of NDP 10. Such priorities included, among others; accelerating poverty eradication programmes, completion of on-going projects and maintenance of existing infrastructure as well as improving public service delivery. Such priorities remain relevant and since the 2015/16 financial year marks the end of NDP 10, the proposed budget priorities for the next financial year will focus more on consolidation of these in preparation for the next Plan. Among the priorities to be addressed through the 2015/16 budget are: project implementation; productivity; human capital development; and enhancing business environment. The pursuance of these national budget priorities should be guided by the regular budgeting principle. These priorities are aimed at creating a conducive and stable environment for private sector to thrive and enhancing inclusive growth.

Project Implementation and Maintenance of Existing Infrastructure

28. While Government continues to use annual budgets to implement public investment programmes aimed at facilitating growth of the private sector, there are concerns about the quality of such investment projects. Many infrastructural projects have been delivered at very low quality whereby, engineering and structural standards have been compromised and infrastructural development codes flouted at implementation stage. To address some of these concerns, Government adopted the Suspension and Delisting of Contractors Amendment Regulations and the Code of Conduct for Contracts in March 2014, as a deliberate attempt to promote quality in capital investment. In addition, Government also established a Project Management Office to oversee monitoring and control of infrastructure projects. The effects of these initiatives are expected to be realized in the short to medium-term.

29. Suffice to note that the opportunity cost of poor project implementation is that, fewer projects end up being implemented at very high cost, thus jeopardizing prospects of funding other equally deserving projects. As part of the solution to the problem of poor project implementation, Government has prioritized project monitoring and evaluation as a critical success factor. To this end, beginning financial year 2015/16 will see a rigorous monitoring and evaluation of projects reported in each financial year instead of being reported during NDP mid-term reviews. The objective is to continually assess implementation progress of projects, by taking stock of progress made, constraints and challenges encountered in each financial year, with a view to inform mid-term reviews. Enforcing such a strict monitoring and evaluation system at policy and project appraisal level will ensure value for money in the implementation of the projects and programmes. In this regard, the National Strategy Office has been tasked to develop and implement a National Monitoring and Evaluation System for Botswana. National Strategy Office in collaboration with Ministry of Finance and Development Planning will facilitate measurement and reporting of outcome results.

30. A related concern is that of the need to provide for adequate maintenance of existing infrastructure to ensure its productivity and durability. Over the past years, Government has given priority to maintenance of existing infrastructure and this has to continue to ensure that existing infrastructure is kept in good standards to support growth. It is, therefore, important to carefully make choices between critical new projects and existing ones as well as to ensure that these are adequately catered for in terms of recurrent costs and planned development expenditures. As part of the solution to getting value for money from new projects, Government will be strengthening its project selection criteria by promoting clearly defined project cost-benefit analysis at the project appraisal stage. An in-house training of planning officers in project appraisal has started within the Ministry of Finance and

Development Planning, with a view to building capacity and creating awareness on the importance of conducting a thorough cost-benefit analysis.

Total Factor Productivity

31. As indicated in the Key Policy Paper for NDP 11, the trend in total factor productivity has been declining in recent years. To the extent that total factor productivity affects the competitiveness of domestic industries in the global market, this should be one of the national priorities. In this regard, Government through the 2015/16 budget will continue to put in place measures to improve factor productivity, in particular, labour productivity. Specifically, Government will continue to train and equip the workforce, with a view to improving productivity. Furthermore, Government will promote harmonious industrial relations between the employer and employee to minimize conflicts at workplace, which results in loss of production and output. In this regard, Government will continue to streamline the industrial dispute resolutions and encourage engagement between employee and employer, rather than resort to litigation route. One of the emerging concerns among the workforce is that of poor work ethic, which tend to undermine labour productivity. To address this concern, Government has embarked on a work ethic project as part of the National Work Ethic Programme and Action Plan.

32. In addition, Government will promote innovation through research and development, as part of its effort to improve factor productivity in the country. To this end, preparations are underway to implement the revised policy on Research, Science and Technology starting from the 2015/16 financial year going into NDP 11. The implementation of this policy will focus, among others, on best practice transfer, which should contribute to improved total factor productivity.

Human Capital Development

33. Considering that development of human capital is critical element in achieving inclusive growth, Government continues to prioritize investment in education as shown by a large share of Government budget allocated to the education sector over the years. In the coming financial years, Government will adopt a set of policies to reinvigorate total factor productivity including upgrading of labour quality. However, the recent poor performance of the education sector has necessitated Government to embark on reforms of the education sector under the Education and Training Strategic Sector Plan project. The main objective is to review and transform the education sector, starting from primary to tertiary schools. Major changes anticipated in the sector include: revised curriculum, motivated and educated teachers, increased access to tertiary education and matching training with industrial needs. Furthermore, the Botswana Examination Council (BEC) Act is under review as reported in the last financial year. The BEC Act would be aligned to the HRDC and

BQA and its new mandate will include moderation and assessment of vocational education and training to ensure that they are responsive to the labour market needs.

34. Government will continue with its investment in human capital development during the 2015/16, as part of the broader strategy to build an educated and informed nation in line with Vision 2016, but also to build capability of the workforce to competently compete in the global market. Some of the specific issues to be considered in the development of human capital include skills mismatch, oversupply of unskilled workers as well as shortage of skilled workers.

Enhancing Business Environment

35. Maintenance of a stable macro/micro economic framework and enhancing a stable environment for business to flourish remains an important objective, in the midst of improving the domestic market and attracting foreign direct investment. To achieve this objective, Government will continue to promote the domestic market as well as improve the ease of doing business in Botswana, especially with licensing reforms, elimination of hurdles to business start-ups and ease of cross border trade. To this end, Government established a Cabinet Committee on Doing Business and Global Competitiveness to oversee the work of the National Doing Business and Global Competitiveness Committee. This initiative improved the 2014 ranking from 65th to 56th out of 189 countries in the Doing Business, and from 79th to 74th out of 144 countries in the Global Competitiveness reports, respectively.

36. To further address issues of competitiveness and business environment, Government has solicited assistance from the World Bank. To this end, the World Bank continues to support the completion of the Monitoring & Evaluation Framework; development of a strategy for introducing regulatory impact assessment in the legislative process; streamlining registration, licensing and permit procedures which are meant to reduce the time and cost of starting a business and obtaining a construction permit, under the Reimbursable Advisory Service loan agreement. More support is expected through Specific Lending Investment option, which will cover the cost of technical assistance provided by consultants and investment.

V. PROPOSED BUDGET FOR 2015/16

37. The proposed budget for the 2015/16 financial envisages a small surplus of P1.389 billion of 0.8 percent of GDP. Total revenue and grants are projected to reach P52.8 billion, an increase of 5.3 percent from the proposed 2014/15 estimate of P50.2 billion. Mineral and customs revenues are expected to increase modestly by 5.6

percent and 2.3 percent, respectively, over the period. On the other hand, non-mineral revenues are projected to increase by 7.1 percent. The downside risk could be an appreciating Pula against the Rand which have the effect of reducing revenues available to Botswana through SACU, however that fall will be mitigated by increase in mineral revenue arising from depreciation of Pula against USA dollar. Efforts will therefore continue to be made to expand the tax base by diversifying the economy into non-mining sectors that directly translates into income and consumption taxes.

38. Total expenditure and net lending is projected at P51.46 billion in 2015/16 from the estimated P49.3 billion recorded in 2014/15. Of the total, recurrent expenditure is expected to increase slightly to P38.995 billion, once again accounted for by the increase in personal emoluments, while development expenditure is estimated to reach P12.6 billion.

39. Despite the projected budget surplus in 2015/16, the net financial assets position remains negative, as a result of accumulated budget deficits from the financial crisis period. On the positive side, the share of the proposed budget for the 2015/16 financial year to GDP stands at 31.4 percent, which is close to the limit of 30 percent that Government committed to achieve in NDP 10. However, non-mineral revenues are insufficient to finance the recurrent spending, resulting in some mineral revenues expended to cover the recurrent budget and therefore not available for savings for future generation as envisaged in the Fiscal Rule. More effort is therefore required to manage Government expenditure, especially the wage bill. In other words, there is need to enforce financial discipline in order to achieve the objectives of the Fiscal Rule in the medium term.

VI. SUMMARY CONCLUSION

40. The 2015/16 financial year marks the end of NDP 10 and serves as a transition into the next Plan (NDP 11). It is therefore imperative to consolidate the on-going programmes and projects to minimize spillover into NDP 11. The country continues to face development challenges of relatively high levels of unemployment, poverty, and income inequality, which undermine the ability to achieve its long term vision. This is against projected modest growth rates in the domestic and global economies; with global output expected to grow by 3.8 percent, while the domestic economy grows moderately by 5.0 percent in 2015. Some of the major economic and fiscal issues to be addressed in the 2015/16 budget include: promoting inclusive growth, improving factor productivity, developing appropriate skills and cluster and value-chain in selected sectors, and implementing a Revised Fiscal Rule to achieve the fiscal goal of a sustainable budget. The objective of the Revised Fiscal Rule is to ensure that mineral revenues, which are derived from a non-renewable commodity (diamond) is invested to create future productive capacity for the economy, while a portion is saved for future generations.

41. Among the priorities for the 2015/16 budget are the need to improve on project implementation, total factor productivity, investment in human capital, and enhancing the business environment. Delayed project delivery and low quality projects continue to undermine Government's ability to provide the public services to citizens. Measures continue to be undertaken to address the problem of poor project implementation. Similarly, declining trends in factor productivity, especially labour productivity has emerged as a recent challenge facing the country. The 2015/16 budget presents yet another opportunity for the country to tackle the issue of declining factor productivity through measures to address, among others, the issues of work ethics, and industrial relations. At the same time, investment in human capital development will continue to one of the national budget priorities in recognition of its importance to promoting inclusive growth, and competitiveness in the workforce.

42. The proposed budget for 2015/16 is therefore expected to assist in consolidating on-going programmes and projects for NDP 10, as well as addressing some of the economic and fiscal issues facing the country.