Republic of Botswana

Draft

2016/17 Budget Strategy Paper

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MINISTRY OF FINANCE & DEVELOPMENT PLANNING
BOTSWANA

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I. INTRODUCTION

1. Since its introduction in 2011, the Budget Strategy Paper (BSP) has proved to be an important integral part of the annual budgeting process, whose main objective is to improve public understanding of economic and fiscal background informing the budget preparation, as well as Government priorities for the proposed budget for the coming financial year. In this regard, the BSP has become a valuable tool for consultations on the annual budget preparation process and provides the basis for evaluating the efficacy of existing policies. This Budget Strategy Paper, therefore, reviews the economic situation, discusses the budget priorities, as well as indicates the resource envelope for the coming financial year.

2. Botswana continues to face the twin challenges of unemployment and poverty, despite previous efforts to diversify the economy and promote growth. Addressing these challenges will require concerted efforts to promote inclusive growth and economic diversification. Continued high dependence on the mining sector poses systemic risk to the country's economy, given the volatility of diamond prices in the global market. However, the recent positive performance by the non-mining sectors such as Transport & Communications, Construction, and Trade, Hotels & Restaurants is a welcome development even though such performance is largely dependent on Government expenditure. Notwithstanding the latter, such positive performance is an indication that, with more support to the non-mining sectors, it is possible to achieve

economic diversification, which is necessary for creating employment and eradicating abject poverty. This BSP sets the tone for the 2016/17 budget, and underscores the importance of growth and economic diversification in tackling the development challenges facing the country.

3. To achieve the goal of economic diversification, Government will continue to prioritise investment in economic infrastructure and human capital development. This will involve up-scaling investment in critical economic infrastructure such as roads, water and power generation, while at the same time ensuring sufficient investment in social sectors such health and education. In addition, Government will continue to implement the social welfare programmes to cater for the vulnerable groups in our society, as well as provide short term relief for those who are unemployed.

4. This Paper is divided into six main sections, including this introduction. Section II gives an overview of economic performance and outlook, while Section III reviews the economic and fiscal policy issues. The proposed priorities for 2016/17 budget are articulated in Section IV of the paper. Section V presents the budget projections for 2016/17, while the paper concludes with Section VI.

II. ECONOMIC PERFORMANCE AND OUTLOOK

Global Economic Review and Outlook

5. The global economy recorded a modest growth of 3.4 percent in 2014, according to the World Economic Outlook released by the International Monetary Fund in July 2015. This growth rate was the same as the one registered in 2013. This modest growth was due to weak recovery in advanced economies, which grew by 1.8 percent in 2014, and is projected to increase to 2.1 percent in 2015. On the other hand, output in emerging market and developing economies stood at 4.6 percent in 2014, and is projected to increase by 4.2 percent in 2015. The sluggish growth in these economies was due the dampening impact of lower commodity prices, tighter external financial conditions, structural bottlenecks, and economic distress related to the geo-political factors.

6. Prospects for global economy remain subdued due to the continued weak consumer demand in advanced economies and the risk of a further fall in oil prices. In the event, the overall global growth is projected to grow by 3.3 percent in 2015 and 3.8 percent in 2016. Advanced economies are projected to grow by 2.4 percent in 2016, while emerging market and developing economies are projected to grow by 4.7 percent in 2016. Sub-Saharan Africa, which grew by 5.0 percent in 2014 is expected to slow down to 4.5 percent in 2015, before increasing modestly to 5.1 percent in 2016.

Domestic Economic Review and Outlook

7. According to the latest data from Statistics Botswana, domestic economy grew, in real terms, by 4.4 percent in 2014 compared to 9.3 percent in 2013. A significantly higher growth rate in 2013 was due to the revision of the national accounts data from 2010 on-wards, and the inclusion of new mines in the GDP calculations. The moderate growth recorded in 2014, on the other hand, reflected the impact of continued weak recovery in the global economy, especially in advanced economies, which are the major markets for our diamonds.

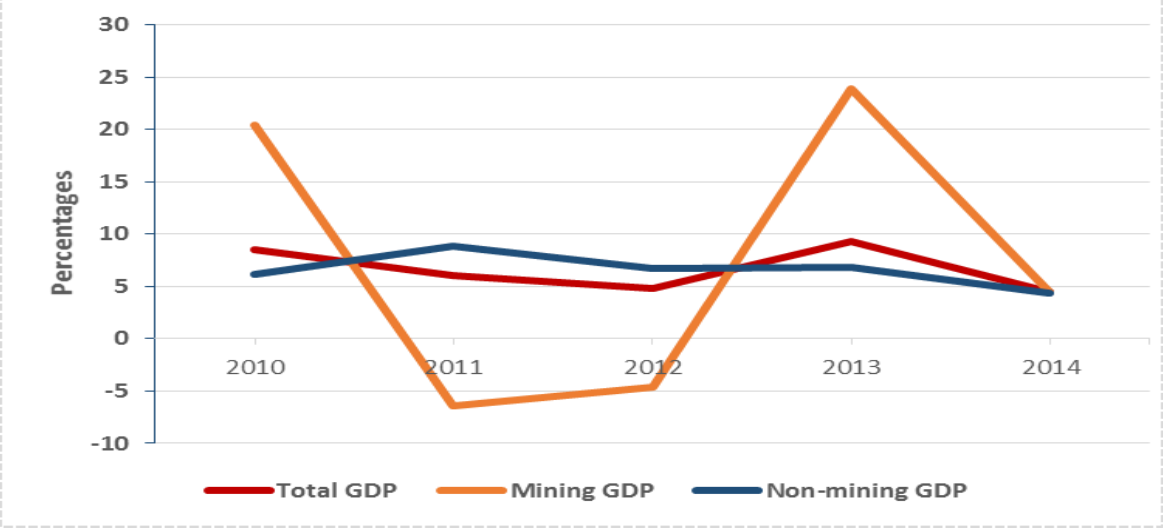
8. A positive aspect of the 2014 growth is that, it was mainly driven by non-mining sectors such as Transport & Communications and Trade, Hotels & Restaurants. These sectors recorded growth rates of 7.4 percent, and 7.1 percent, respectively in 2014. Water and Electricity sector on the other hand continued to underperform, due to the drought situation and persistent technical problems at Morupule B Power plant. The sector contracted by 18.5 percent in 2014, resulting in insufficient supply of water and electricity, and the adoption of power and water supply rationing in the country. It is clear that the challenges of power and water provision will be with us from the medium to long term; hence Government is making concerted effort to address such.

9. To this end, targeted interventions include ongoing remedial works at Morupule B Power Station and refurbishment of Morupule A Power Station. Government has also issued tender notices to Independent Power Producers for Morupule Unit 5 & 6, a greenfield plant in Kgatleng and

Solar plant in Jwaneng. These are meant to address power deficits in the medium to long term. On the Water supply side, besides additional capital expenditure on pipeline and well-field development, there are water conservation measures implemented on the demand side. In addition, Government is in negotiations for trans-boundary water supply from Orange – Senqu river basin in Lesotho highlands and ZAMCOM in Chobe – Zambezi area.

10. The Mining sector recorded a modest growth rate of 4.5 percent in 2014, compared to a significant growth of 23.9 percent in 2013. Notwithstanding the modest growth in 2014, the Mining sector continued to be a major contributor to total GDP, accounting for 22.9 percent in 2014, and 21.9 percent in 2013. The non-mining sector, on the other hand, has shown resilience over time and less volatile compared to the mining sector (Figure 1).

Figure 1: Total GDP, Mining GDP and Non mining GDP growth



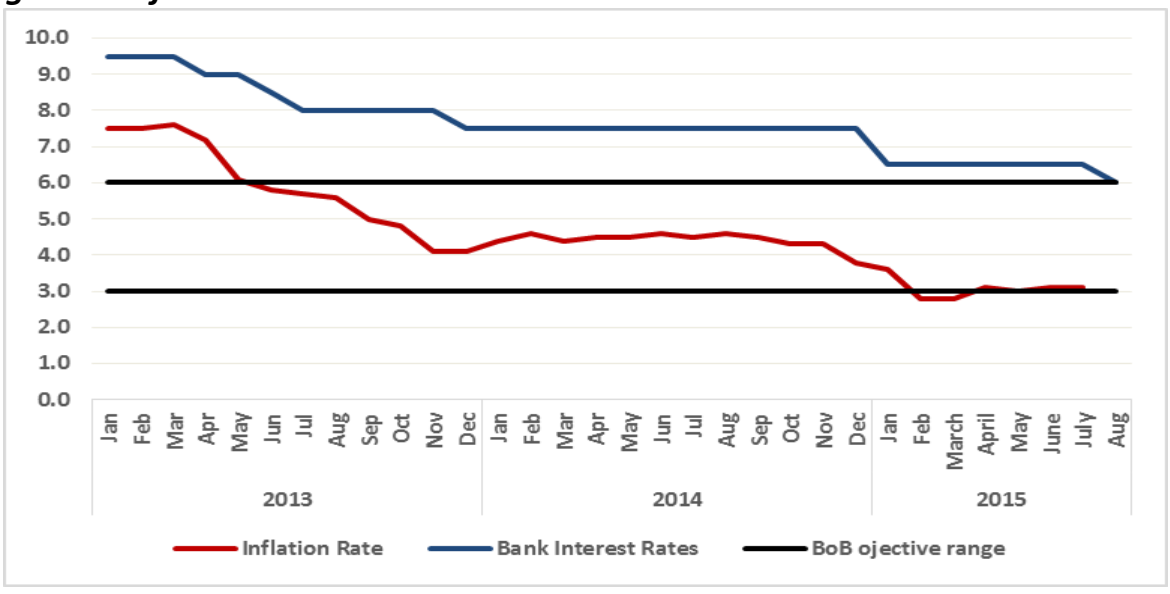
Source: Ministry of Finance and Development Planning

11. In terms of the domestic economic outlook, a growth rate of 2.6 percent is forecast for 2015, underpinned by the expected decrease in demand for diamonds in the global market. A higher growth rate of 4.9 percent is projected for 2016. However, the downside risk to these projections continues to be the country's high dependence on diamonds, whose demand and prices are subject to global fluctuations.

Inflation Trends and Monetary Policy

12. In recognition of the importance of price stability and competitiveness to achieving growth, the Bank of Botswana (BoB) continues to put emphasis on these factors in its implementation of the monetary policy. To this end, the BoB's principal policy objective is to maintain relatively low and predictable levels of inflation that falls within its objective range of 3 – 6 percent (Figure 2).

Figure 2: Inflation Rate and Bank Rate



Source: Bank of Botswana; Monetary Policy Statement & Statistics Botswana; Consumer Price Index, July 2015.

13. The price developments in the first half of 2015 have been relatively stable. Annual inflation rate stood at 3.1 percent in June 2015, lower than the 4.6 percent record of June 2014. This was mainly attributed to the decrease in prices of commodities in the component of Transport, whose index dropped by 5.6 percent. The drop in Transport group index was due to the reduction in retail pump prices of petrol and diesel by P0.60 per litre each, in December 2014. Domestic inflation outlook remains positive due to anticipated moderate domestic demand. As a result, inflation is expected to remain within the Bank of Botswana's objective range in the medium term.

14. Given the positive inflation outlook, the Bank reduced the bank rate from 7.0 percent in December 2014 to 6.5 percent in February 2015, and further to 6.0 percent in August 2015 (Figure 2). Such an accommodative monetary policy stance is expected to support growth without undermining price stability. Moreover, an accommodative monetary policy, supported by other macroeconomic policies such as fiscal and exchange rate policies, should contribute to the macroeconomic stability necessary for growth and job creation.

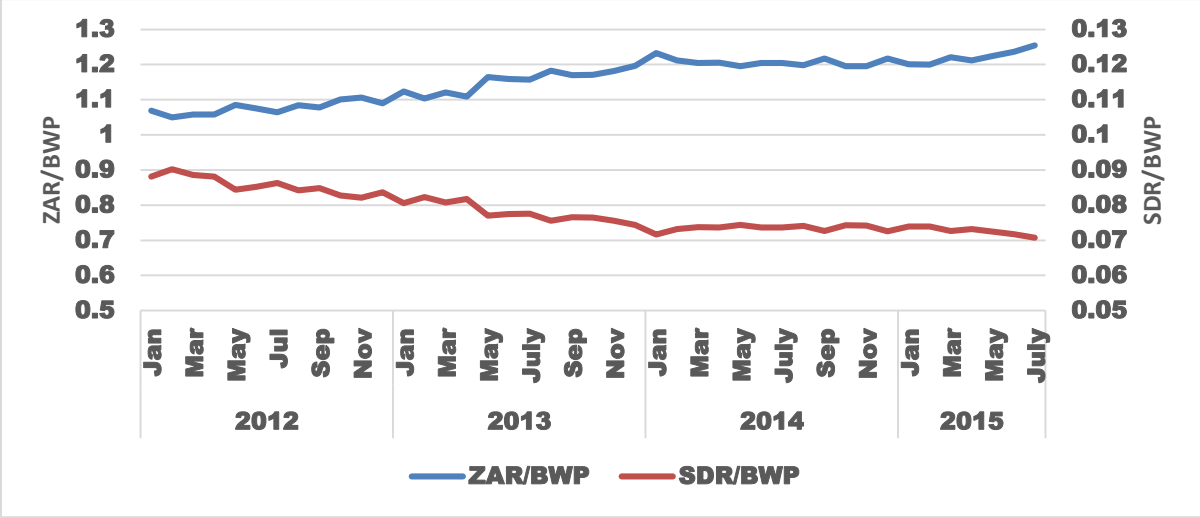
Exchange Rates

15. The maintenance of a stable and competitive real effective exchange rate of the Pula against major currencies is critical for supporting economic growth and diversification. The current crawling peg regime continues to serve the country well in maintaining domestic competitiveness. However, as part of the annual review of the exchange

rate mechanism, both the basket weights and the crawling rate were adjusted in January 2015. The Pula basket weights were changed from 55 percent South African Rand and 45 percent Special Drawing Rights (SDR) to 50 percent South African Rand and 50 percent SDR, while the crawling rate was adjusted from minus 0.16 to zero, to reflect the trade patterns and inflation expectations between Botswana and its trading partners, respectively.

16. In terms of the bilateral exchange rate movements, the Pula appreciated on an annual basis against the Euro by 6.9 percent, the Yen by 5.5 percent, and the Rand by 4.2 percent in July 2015, but depreciated against the US dollar by 12.6 percent and the British Pound by 5.3 percent. Further, the Pula depreciated by 4.0 percent against the SDR. However, the monthly exchange rate movements show that the Pula appreciated against the South African rand, while it depreciated against the SDR composite of currencies (Figure 3).

Figure 3: Rand /Pula and SDR/Pula Exchange Rates, month end



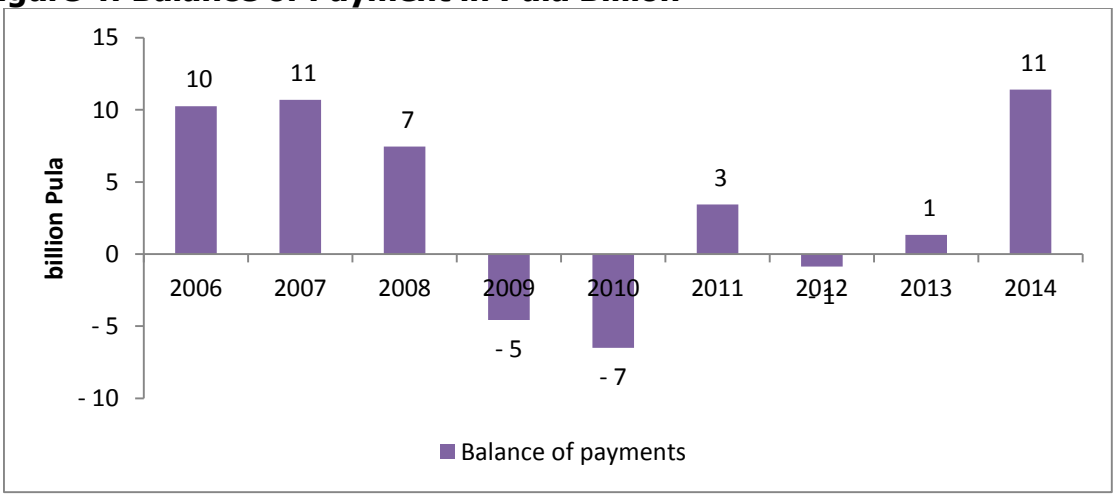
Source: Ministry of Finance and Development Planning

17. As Botswana's exports are mainly denominated in dollar terms, which is part of the SDR, and imports are mostly from South Africa, this creates a challenge in terms of balancing our policy initiatives in such a way that neither exporters nor importers are disadvantaged. Despite the mixed movements in the bilateral nominal exchange rates, the Real Effective Exchange Rate (REER), which measures the country's competitiveness remained stable around 106.7 in June 2015. In view of the stability in the REER, a decision was taken during the midyear review of the exchange rate developments in July 2015 to maintain both the basket currency weights and the rate of crawl adopted in January 2015 for the rest of the year.

Balance of Payments

18. After recording negative balances during 2009, 2010 and 2012, the external sector registered impressive results in 2013 and 2014, with the balance of payments recording a significant surplus of P1.3 billion and P11.4 billion, respectively (Figure 4).

Figure 4: Balance of Payment in Pula Billion



Source: Botswana Financial Statistics, June 2015

19. As a result, the current account recorded a surplus of P22.9 billion in 2014 compared to a surplus of P11.1 billion in 2013. This high outturn was mainly attributed to the increase in the balance of goods and services, which grew from P0.96 billion in 2013 to P9.91 billion in 2014. Total exports amounted to P76.45 billion in 2014, an increase of 14.9 percent from P66.56 billion in 2013. Imports, on the other hand, increased marginally by 3.2 percent, from P69.34 billion to P71.55 billion over the same period.

20. As at end of June 2015, foreign exchange reserves stood at P84.54 billion, an increase of 12.5 percent from P75.13 billion recorded in June 2014, representing 19 months of import cover. Of the total reserves, Government Investment Account amounted to P41.3 billion.

Government Budget

2014/2015 Preliminary Outturn

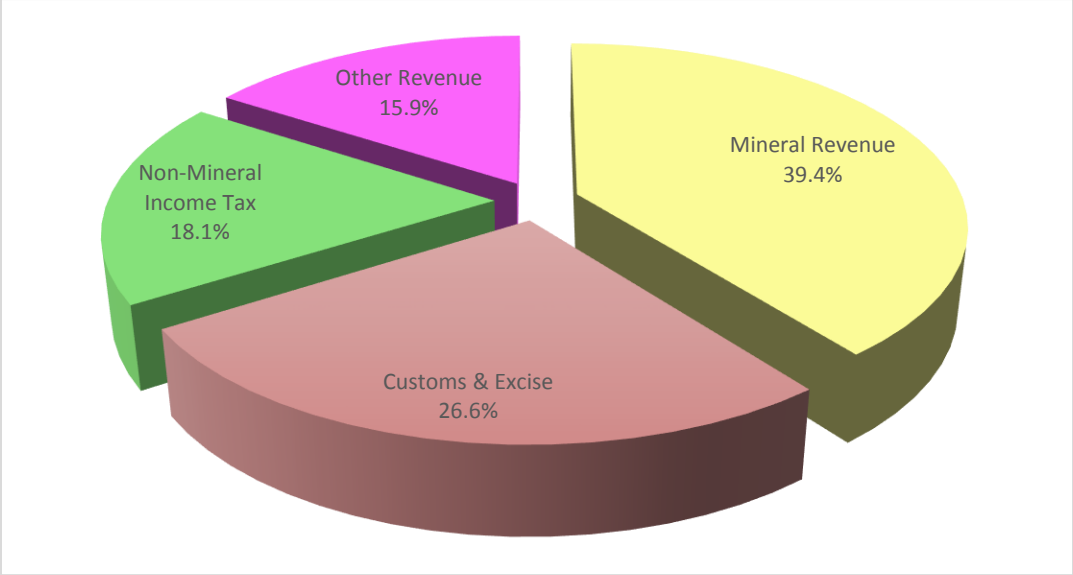
21. Total revenues and grants in 2014/2015 amounted to **P54.82** billion, an increase of **6.4** percent from the revised budget of P51.54 billion. The increase was mainly from mineral revenues, in particular mineral royalties and dividends. Furthermore, the 2014/15 preliminary outturn includes an additional amount of P1.75 billion received from Bank of Botswana (BoB) as additional dividends and residual income paid over and above the initial amount of P700 million included in the original budget. On the other hand, the expenditure and net lending declined from the revised budget of P53.22 billion to **P51.15 billion**. The improved revenue performance coupled with the underperformance in the

expenditure resulted in an overall budget surplus of P3.67 billion or 2.5 percent of GDP in 2014/15.

2015/2016 Budget Performance

22. Total revenues and grants for the revised 2015/2016 budget is estimated at **P51.69 billion**, a downward revision of **6.7 percent** from **P55.38 billion** in the original budget. Of the total revenue, Mineral revenue accounts for 39.4 percent, Customs and Excise for 26.6 percent and Non- Mineral Income Tax accounts for 18.0 percent (Figure 5).

Figure 5: Percentage Share of Revenue Components



Source: Ministry of Finance and Development Planning

23. Total expenditure and net lending is estimated at **P55.72 billion** against the original budget of **P54.15** billion. The increase in total expenditure emanates from the additional amounts required to cover public salary adjustment and drought relief measures. As a result, the

revised 2015/2016 budget is now estimated to record a budget deficit of **P4.03 billion** or minus **2.6** percent of GDP.

III. ECONOMIC AND FISCAL ISSUES

24. During the 2016/2017 financial year, Government will continue to address the economic and fiscal issues identified in the previous policy documents such as the NDP 10 and annual Budget Speeches. As there are an integral part of the country's development agenda, they will also be the main focus during the preparation of the Vision Beyond 2016 and the eleventh National Development Plan (NDP 11).

Economic Issues

25. The main economic issues facing the country are well documented in various policy documents. Nonetheless, it is important to revisit them every year to provide context to the preparation of the annual policy statements such as the Budget Speeches. The major economic issues facing the country are the need to maintain macroeconomic stability and promote competitiveness of domestic industries in the regional and global markets. Addressing these economic issues is expected to contribute to accelerating economic growth, promoting economic diversification, creating employment opportunities, and ultimately, eradicating abject poverty.

Maintaining Macroeconomic Stability

26. Achieving macroeconomic stability in Botswana has been possible through a mix of fiscal and monetary policy frameworks as well as a sound

financial system. However, the change in trading patterns between Botswana and its trading partners calls for continuous monitoring and evaluation of the country's macroeconomic policies, especially the exchange rate policy, to ensure continued macroeconomic stability and competitiveness. In this regard, exchange rate policy management will continue to aim at maintaining the competitiveness of the country's domestic industries in the global markets. Such policy is necessary for promoting growth and economic diversification.

27. Through its prudent macroeconomic management, Botswana has been able to maintain a relatively good sovereign credit rating by both Moody's Investors Service and Standard and Poor's over the past years, which augurs well for domestic and foreign investment in the country. In particular, the country has maintained sustainable public debt, which has remained below the statutory limit of 40 percent of GDP even during the global financial crisis. As a result of the prudent macroeconomic management, the country has accumulated significant foreign exchange reserves to cushion it against unforeseeable economic shocks. Government is also in the process of developing a Medium Term Debt Management Strategy to ensure that the county's debt continues to be managed sustainably. The strategy will set the objectives, management strategies, and institutional and legal framework for debt management in the country. It will also provide a framework for using domestic debt issuance programme to develop the domestic capital market.

Increasing Domestic Competitiveness

28. As regards competitiveness, the World Economic Forum Global Competitiveness Report ranked Botswana at position 74 in 2013 compared to 80 in 2012. The other competitive ranking by the World Bank through its Doing Business report ranked Botswana at position 65 in 2013 compared to 54 in 2012. However, these rankings have recently improved, albeit modestly. In its latest report of 2014, the World Bank ranked Botswana 56 out of 189 countries in Doing Business and 74 out of 144 countries in global competitiveness. Among the biggest challenges facing Botswana in its efforts to improve competitiveness, were in the areas of; starting a business, dealing with construction permits, labour related issues such as hiring and firing procedures, and cooperation in labour employer relations. These pose a challenge to Government and private sector to undertake necessary reforms to improve Botswana's global competitiveness and ease of doing business, which are necessary conditions for attracting foreign direct investment and private sector development.

29. In this regard, Government will continue to undertake measures to improve the country's global competitiveness by addressing issues of factor productivity, especially labour productivity; deregulation of domestic markets to promote efficiency, and streamlining of regulations to support the development of small, micro and medium enterprises (SMMEs). Tackling these microeconomic issues, together with maintenance of macroeconomic stability, can go a long way in supporting

growth and economic diversification, which are necessary for employment creation and poverty reduction. The recent positive performance of non-mining sectors shows that efforts towards economic diversification are yielding results. Needless to say that, economic diversification remains a key strategy for creating employment opportunities, diversifying Government revenues, and eradicating abject poverty. Achieving economic diversification is however dependent upon the implementation of an export oriented investment strategy, given the limited domestic market.

Fiscal Issues

30. Government remains concerned over the country's continued reliance on two revenue sources; namely mineral and customs, as this pose systemic risk to budget in particular, and the country's sustainable economic growth as a whole. Mineral revenues are subject to the volatility of global market of diamonds, while the ongoing SACU negotiations create uncertainties over the future of the SACU revenues.

31. The thrust of fiscal policy will therefore continue to focus on promoting fiscal stability through revenue diversification and effective expenditure management. In this regard, Government will exercise expenditure control by applying strict criteria when appraising projects, so that only viable projects are financed. Priority will be given to maintenance of existing infrastructure, funding of high impact projects that contribute to growth in the economy, and self-liquidating projects capable of generating additional revenues.

32. The Fiscal Rule will be reviewed as part of the preparation of the NDP 11, with a view to ensuring that mineral revenues from exhaustible resource are used for funding productive investment such as economic infrastructure and human capital to support growth, while part of it is reserved for future generations. The adoption of the revised Fiscal Rule, and the new Medium-Term Debt Management Strategy should go a long way in consolidating the management of fiscal policy in the country.

33. As part of the Public Finance Management Reform Programme of 2010, Government is implementing the Medium Term Fiscal Framework (MTFF), which provides a multi-year perspective by giving projections for revenues, expenditures and financing for three years based on the latest information. The adoption of the framework has improved the budget management process. Meanwhile, the implementation of the Medium Term Expenditure Framework (MTEF) has started for the medium term period 2016/2017 to 2017/2018 and beyond. Since June/July 2015, Ministries have been undergoing a baseline budgeting exercise under both the development and recurrent budgets, respectively. The Ministerial baseline budgets have been submitted for the medium term up to 2018/2019. This baseline budget exercise and the MTFF outputs are going to inform the Ministerial ceilings, which will also be issued as Medium Term Budget Framework ceilings.

34. The objective of the MTEF reform is to ensure judicious channelling of resources to the intended destination, by ensuring that the budget is deliberately allocated on the basis of policies driven by the respective

ministries. The budget will also be allocated on the basis of the long term outcome by matching costs with the results to be achieved. The medium term budgeting will also improve certainty, credibility and accountability in the budget process.

IV. PRIORITIES FOR 2016/2017 BUDGET

35. At national level, Government has identified several challenges which include: Job Creation; supply of Water and Electricity; Poverty eradication; Human Capital Development; prevention of Mother to child Transmission of HIV/AIDS and Corruption prevention. To address these national challenges, six budget priorities were identified to guide resource allocation in the 2016/17 financial year. These are:

a). Completion of On-going Projects;
b). Maintenance and ensuring functionality of Existing Infrastructure;
c). Investing in High Impact Projects;
d). Strengthening Human Capital;
e). Improving Total Factor Productivity; and
f). Social Protection Programmes.

Completion of On-going Projects

36. A number of ongoing critical economic infrastructure projects in areas of water, power generation, roads, bridges, and airport construction, as well as in Information and Communication Technology will continue from the current financial year to the next financial year of 2016/17. To complete these projects, Government will give them priority in allocating resources in the coming financial year. As such, the water, energy and transport sectors will continue to receive significant amounts

of the capital budget in next financial year. Similarly, the ongoing infrastructural backlog eradication programme in education and health sectors will be prioritised in resource allocation.

Maintenance and ensuring functionality of Existing Infrastructure

37. The second priority in resource allocation will be the provision for maintenance and functionality of existing infrastructure and facilities. It is important that Government adequately provides for maintenance of existing infrastructure and ensure that they are operational. This will improve on their efficiency and effectiveness. There is no point in investing in new capital projects, when the existing ones are underutilised due to poor maintenance. Maintaining existing infrastructure will not only extend their productivity and lifespan, but also contribute to the creation of a conducive environment for private sector development.

Investment in High Impact Projects

38. After provisions have been made for both ongoing projects and maintenance of existing infrastructure, any available balance earmarked for development projects should be invested in new capital projects. These should be high return projects that can contribute to economic growth and employment creation, especially for the youth. In particular, these projects should be self-financing, with potential to generate sufficient returns to relieve Government from future contribution to their maintenance. Selection of such high impact projects will require rigorous

project appraisal analysis that includes return on capital and/or cost/benefit analysis.

39. The application of rigorous project appraisal analysis should equally apply to the social projects. Most investments in rural areas are in rural roads that connect communities, as well as provide access to productive centres. These can create opportunities for value chain development within the agricultural sector such as abattoirs and milk collection centres, for instance. By virtue of their location, value chain development could provide job opportunities for the semi-skilled and unskilled rural populace. However, these projects should also be subjected to rigorous project appraisal to ensure that the country gets value-for-money.

Strengthening Human Capital

40. Government will continue to invest in human capital development, as this is considered critical for growth and economic diversification. Just like in previous years, Government intends to allocate substantial resources to education in the coming budget. However, the emerging situation of unemployed graduates on one hand, and demand for skilled labour by the industry, on the other hand, requires attention. This will require rationalisation of training programmes by training institutions, with the support of the industry. Programmes such as the Graduate Internship Programme and the Graduate Volunteer Scheme are all part of Government's efforts to address the skills mismatch in the economy.

41. Another challenge that will need to be addressed in the coming financial year and beyond is that of declining level of performance in schools especially that the education sector continues to get the largest share of the budget allocation every year. In order to address this problem, Government is committed to improving access to quality education at all levels, beginning with the early childhood learning up to tertiary education. It cannot be over emphasized that quality of education is a prerequisite for a competitive and productive workforce.

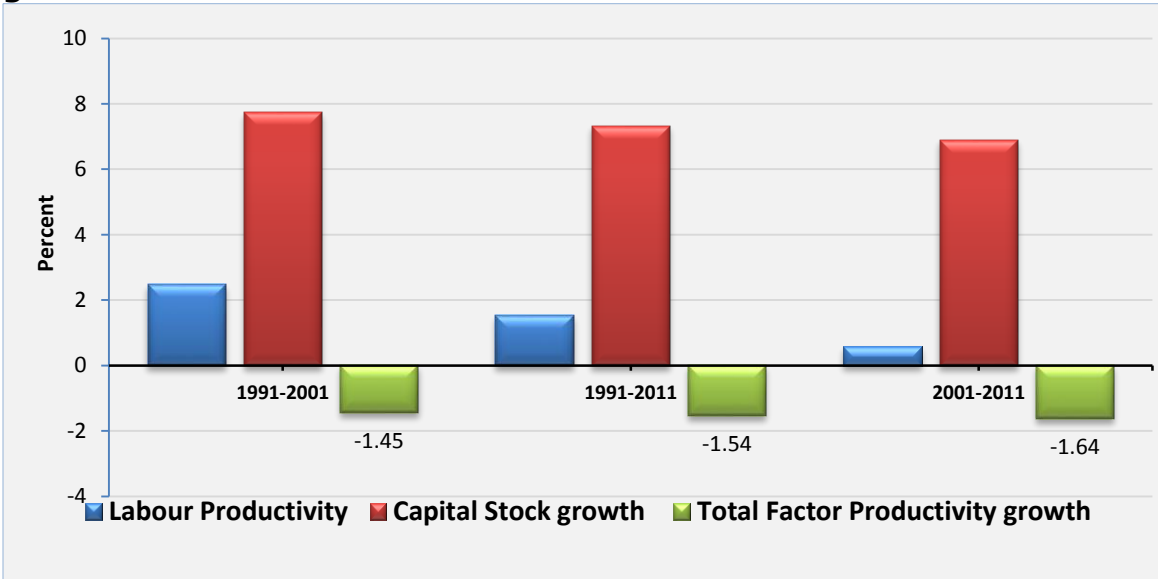
42. The issues of quality of education as well as teacher development and professionalism are the responsibility of the Human Resource Development Council (HRDC). It is therefore expected that, the HRDC will address some of these issues in the coming financial year on the implementation of the Education and Training Sector Strategic Plan (ETSSP 2015). The ETSSP 2015 is envisaged to enhance the education sector performance by improving access, quality, inclusion and equity, as well as accountability and governance in the education system. It is expected that these efforts will contribute to increase access and quality of education to all, and thus produce a competitive and productive human resource that is necessary for economic growth.

Improving Total Factor Productivity

43. While efforts to improve total factor productivity (TFP) may not be as resource intensive, it is important that it remains one of the priorities for the coming financial year. The decline in TFP (Figure 6), is major cause for concern, as it affects the competiveness of the domestic industries in

the global markets, and thus indirectly has an impact on prospects for economic diversification. Furthermore, Figure 6 shows that the economy continues to experience negative total factor productivity growth, worsened by low and declining labour productivity. Total Factor Productivity registered a growth rate of minus 1.45 percent in the period of 1999 to 2001 declining further to minus 1.64 percent in the period of 2001 to 2011. Poor work ethic and inefficient service delivery have also been cited as being major problems in contributing towards low productivity in the domestic economy.

Figure 6. Trends in Labour productivity, capital stock & Total Productivity growth.



Source: Ministry of Finance and Development Planning

44. To address this challenge, Government will continue to put measures in place to improve productivity by developing appropriate human skills, conducting productivity workshops and training to improve work ethic and review labour legislation to improve efficiency in the labour

market. Furthermore, Government has embarked on a National Work Ethic Programme and Action Plan to address impediments to TFP.

Social Protection Programmes

45. Employment creation and poverty eradication have been identified as the top most national priorities by Government. According to the Botswana AIDS Impact Survey IV, unemployment rate stood at 20.0 percent for the labour force of 15 years and above. It is especially high amongst the youth with tertiary graduates. This is despite numerous efforts to address unemployment among the youth by capacitating through skills acquisition, and providing them with opportunities to gain job experience. The high level of unemployment, especially among the educated youth, requires urgent attention before it escalates into social disharmony.

46. Government will continue to implement measures to create more employment opportunities. For instance, Government has offered part time employment as a means of curbing unemployment in the short term, while addressing the situation for a long term engagement. Furthermore, Government continues to attract Foreign Direct Investment in the country to create employment, impart skills and technology transfer through the launching of hubs and clusters in areas of agriculture, diamonds, research and technology and promote economic growth. The recently adopted ETSSP 2015 will hopefully result in the streamlining of the education to better serve the labour market. Going forward, Government will continue

to explore measures such as reserving certain opportunities for the youth to encourage them to engage in productive economic activities.

47. The Botswana Core Welfare Indicator Survey of 2009/10 revealed that 19.3 percent of the population lived below the Poverty Datum Line and 6.5 percent below US$1.25 per day. In addition, Botswana is considered one amongst unequal societies with regard to household income at 0.645; but improved equity when one looks at consumption inequality of 0.495 in 2009/10. In order to address this problem, Government is synchronizing the social welfare programmes to ensure alignment with poverty eradication objective by reducing multiple beneficiation, strengthening coordination and harmonising institutional arrangement to ensure cost effectiveness and sustainability of these social programmes. These strategies will continue to be pursued in 2016/17 in order to realise their full potential in enhancing inclusiveness in growing the economy.

48. To address poverty, Government will continue to implement measures aimed at protecting the disadvantaged and marginalised groups of the society. These will include the provision of social welfare programmes such as Ipelegeng, cash provisions for the elderly, people living with disabilities, and vulnerable groups. In addition, Government will continue to provide temporary relief measures to address natural calamities such as drought, and animal disease outbreaks. However, the implementation of social welfare programmes will continue to be reviewed to ensure their efficacy and sustainability.

V. BUDGET PROJECTIONS FOR 2016/2017

49. The proposed budget for 2016/2017 financial year projects total revenues and grants to reach **P55.69 billion**, an increase of **3.1 percent** from the 2015/16 original budget estimates of **P54.00 billion**. Mineral revenue is estimated to amount **P23.10 billion** driven by receipts from mineral royalties and dividends. Using the SACU revenue sharing formula and the South African Treasury forecasts of the total Customs as well as Excise Pool and historical average growth rates of Botswana shares, customs revenue is forecast to reach **P13.33 billion** in 2016/17 **from P13.75 billion** in the previous year. Other Non-Mineral revenue is projected to be **P19.27** billion, which is an increase of **9.8 percent** from the **P17.55** billion in 2015/2016. This significant growth rate of the other non-mineral revenue is encouraging since it reflects possible success of our diversification efforts.

50. Total expenditure and net lending is projected to reach **P57.11 billion** in 2016/17, from **P55.72 billion** in 2015/16, an increase of **2.5 percent**. Of this, recurrent expenditure is projected to account for **P43.10 billion**. Development budget is projected to be **P14.09 billion**, while net-lending is estimated at **P76.00 million**. Therefore, the proposed budget for financial year 2016/17 envisages a deficit of **P1.42 billion** or 0.8 percent of GDP.

VI. CONCLUSION

51. The 2016/2017 budget allocation will take into consideration various developmental needs from both the economic, social and environmental perspectives. This will not only require macroeconomic stability, but also policy initiatives that promotes inclusive growth premised on both current and future strategic planning of available resources some of which come from exhaustible sources.

52. Through the proposed budget for 2016/17, Government aims at addressing the development challenges facing the country. To this end, the priority will be on completing ongoing projects, providing sufficient resources for maintaining existing infrastructure, investing on high impact projects, and funding social protection programmes. While investment on high return projects is necessary to unlock economic prospects for job creation, especially for the youth, it is equally important to provide for social development programmes that directly address social needs of our communities. Moreover, human development and productivity will always remain critical for accelerating economic growth and diversification. This should be supported by development of the private sector to a level that it is competitive in the global markets, while the role of Government remains that of being a facilitator and a regulator in the economy.