REPUBLIC OF BOTSWANA

Draft

2017/2018

BUDGET STRATEGY PAPER

MINISTRY OF FINANCE AND DEVELOPMENT PLANNING

September 2016

MINISTRY OF FINANCE & DEVELOPMENT PLANNING BOTSWANA

LOOKING BEYOND TODAY

BOTSWANA

Our pride, your destination

TABLE OF CONTENTS

I. INTRODUCTION

1. In 2011, the Ministry of Finance and Development Planning introduced the Budget Strategy Paper (BSP) into the national annual budgeting process as an effort to improve transparency in the preparation of the national budget. To this end, the BSP serves as a consultation document to facilitate discussions of the national budget at various budget consultation forums, whose attendance includes the general public, academia, private sector, non-governmental organisations and representatives of the Local Authorities. The budget consultation forums provide an opportunity for these key stakeholders to review suggested national priorities, strategies, projects, and budget allocations for the year. The BSP also adds to the national budget documentation such as the Budget Speech, which is produced as part of the public disclosure to improve fiscal transparency. While the BSP provides a snapshot of key issues of consideration during a given year, the subsequent annual Budget Speech provides more elaborate details of these issues.

2. The preparation of the 2017/2018 BSP comes at a time when the domestic economy continues to be vulnerable to external factors such as the slow global economic recovery and volatile exchange rate movements, which have contributed to the weak domestic performance in 2015. These external factors affected the domestic economy through a decline in diamonds sales, as a result of a decrease in global demand for luxury commodities. Suffice to note that, during 2015, the domestic economy contracted by 0.3 percent in real terms, exposing the economy to even more difficult conditions for planning and budgeting going forward. The vulnerability of the economy is exacerbated by the global uncertainty emanating from the future relationship between the United Kingdom (UK) and the European Union (EU), which is likely to reduce confidence in the global market.

3. Since the 2017/2018 financial year marks the beginning of the implementation of NDP 11, the preparation of the BSP also drew from the national priorities identified in the draft NDP 11. These are*: Developing Diversified Sources of Economic Growth; Human Capital Development; Social Development; Sustainable use of Natural Resources; Consolidation of good Governance and Strengthening of National Security.* The 2017/2018 financial year will also be the second year of implementation of the Economic Stimulus Programme (ESP), an initiative aimed at promoting growth, economic diversification and employment creation.

4. The Paper consists of eight (8) sections, including this introduction. Section II reviews both the global and domestic economic performance and outlook, while Section III reviews the 2015/2016 budget outturn, including budgeting challenges for the year. Section IV gives a reflection on the 2016/2017 priority areas. The priority areas for the financial year 2017/2018 are outlined in Section V, while Section VI discusses strategies for the same financial year. Section VII contains the proposed budget for 2017/2018, with a Conclusion provided in Section VIII.

II. MACROECONOMIC DEVELOPMENTS

Global Economic Review and Outlook

5. The uncertainty associated with the future relationship between UK and EU has negatively affected the already fragile global outlook in the wake of weak consumer demand, falling commodity prices, and China's transition to a new growth model. In view of this, the World Economic Outlook (WEO) Update released by the International Monetary Fund in July 2016 revised global growth forecast downward relative to the April 2016 projections. As indicated in Table 1, global growth is estimated at 3.1 percent in 2016 and is forecast to reach 3.4 percent in 2017, representing a 0.1 percentage point revision downwards from the April 2016 WEO for the two years.

Table 1: World Economic Outlook Projections (%)

	July 2016 Projections Update		April 2016 Projections	
	2016	**2017**	**2016**	**2017**
World Output	3.1	3.4	3.2	3.5
Advanced Economies	1.8	1.8	1.9	2.0
Emerging Market Economies	4.1	4.6	4.1	4.6
Sub-Saharan Africa	1.6	3.3	3.0	4.0

Source: WEO Update, July 2016

6. The growth rate for Advanced Economies has also been revised downwards to 1.8 percent for both 2016 and 2017, lower than the projections released in April 2016. Slow growth of the Advanced Economies was attributed to the sluggish productivity growth, lower equity prices and low yields on assets. The growth in Emerging Market Economies, which account for over half of global growth, is projected to remain unchanged at 4.1 percent and 4.6 percent in 2016 and 2017, respectively. The Sub-Sahara Africa region, on the other hand, is estimated to reach 1.6 percent in 2016, decreasing by 1.4 percent from 3.0 percent, forecast in the April 2016 projections. The region is also estimated to grow by 3.3 percent in 2017, lower than the 4.0 percent initially projected for 2017 in the April 2016 World Economic Outlook.

Domestic Economic Review and Outlook

7. The growth path of the domestic economy continued to be influenced by developments in the global economy, given the country's dependence on diamonds export earnings. As indicated earlier, the domestic economy contracted by 0.3 percent in 2015, compared to a positive growth of 3.2 percent in 2014. The negative growth in 2015 was mainly due to a decline in mining productions resulting in slowdown in exports, due to weak global demand for diamonds. The weak performance of the domestic economy reflects its continued dependency on the mining sector.

8. The low performance in the economy was further exacerbated by the impact of drought, which negatively affected the Agriculture sector. In addition, the Water & Electricity sector recorded a negative growth rate of 89.3 percent in 2015, contributing to the low performance of other sectors, particularly Trade, Hotels & Restaurants and Transport & Communications sectors. Trade, Hotels & Restaurants recorded a lower growth of 6.5 percent in 2015, compared to 7.1 percent in 2014, while Transport & Communications grew by 5.3 percent, down from 7.4 percent over the same period. Hence, in an effort to enhance domestic growth, Government introduced the Economic Stimulus Programme in 2015 aimed at promoting employment creation and economic diversification by targeting sectors such as: Agriculture; Trade, Hotels & Restaurants; Manufacturing; and Construction sectors.

9. The outlook for 2016 is an estimated growth rate of 3.5 percent in the domestic economy, followed by 4.1 percent each projected for 2017 and 2018. This positive growth is underpinned by the expected improvement in the mining sector. The non-mining sector is also expected to contribute to the positive performance, with growth estimated at 4.5 percent in 2016, and a forecast of 4.6 percent each in 2017 and 2018. In the medium term, growth within the non-mining sector, as a group, is expected to be led by Trade, Hotels & Restaurants and Transport & Communications, as indicated in Table 2.

Table 2: Real GDP Growth Rates by Sector (2006 Constant Prices): 2014-2018

	Actual		***Projections***		
	2014	**2015**	**2016**	**2017**	**2018**
1. Agriculture	-0.4	0.3	0.8	1.0	1.1
2. Mining	0.5	-19.7	-3.4	0.0	0.0
3. Manufacturing	0.4	1.7	2.0	2.9	2.2
4. Water and Electricity	-55.8	-89.3	-13.3	39.2	29.3
5. Construction	2.8	3.2	4.0	4.8	4.4
6. Trade, Hotels & Restaurants	7.1	6.5	7.0	7.1	7.1
7. Transport & Communications	7.4	5.3	6.1	6.3	5.9
8.Finance & Business Service	2.4	3.8	5.0	3.7	4.2
9. General Government	4.6	3.3	3.0	2.7	2.7
10. Social and Personal Services	4.2	3.6	3.9	4.9	4.9
Total Value Added, Gross	3.0	-0.6	3.5	4.1	4.1
Adjustment items	4.9	2.2	3.5	4.1	4.1
Total GDP	**3.2**	**-0.3**	**3.5**	**4.1**	**4.1**
Non-Mining	3.7	3.5	4.5	4.6	4.6
Non-Mining Pvt Sector	3.6	3.5	4.8	5.0	5.0

Source: Statistics Botswana, MFDP

10. After recording a significant decline in 2015, the Water & Electricity sector is expected to improve from 2016 onwards, due to the anticipated completion of repairs of Morupule B Power Station, which should stabilise the power supply situation in the country. In addition, the completion of Phase 2 of the North South Water Carrier scheme that connects to

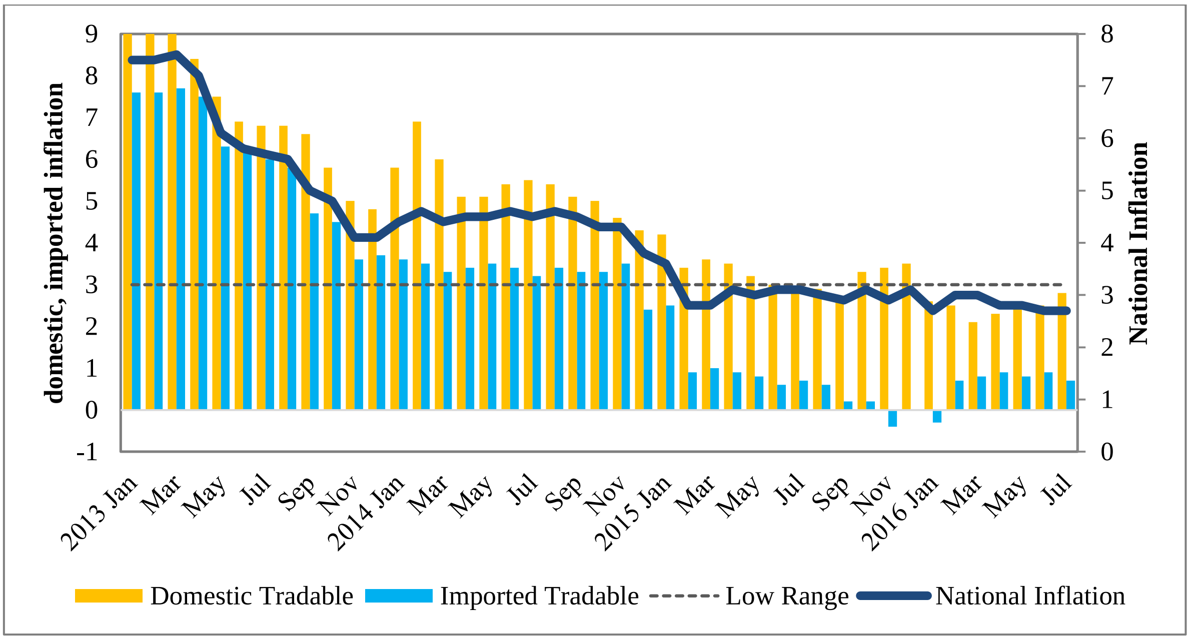
Dikgatlhong Dam and Masama wells is expected to improve the water supply, particularly in the Southern part of the country.

Inflation & Monetary Policy

11. Domestic price developments continue to be favourable, with the inflation rate remaining within the Bank of Botswana's objective range of 3-6 percent over the past two years. This was due to, low domestic demand pressures, and continued low commodity prices emanating from low global fuel prices affecting imported tradable inflation. As indicated in Figure 1, the annual average inflation rate has trended around the lower end of the Bank of Botswana's objective range of 3.0 percent throughout 2015 and well into the first half of 2016, mainly due to low inflation in imported tradables. This low inflationary environment is consistent with the monetary objective of maintaining price stability in the domestic economy. In this regard, the Bank of Botswana maintained an accommodative monetary policy stance by reducing the Bank Rate from 6.0 percent to 5.5 percent in August 2016 in order to stimulate economic activity, through lower cost of borrowing.

Figure 1: Monthly National Inflation by tradable

(January 2013–July 2016)



Source: Statistics Botswana, August 2016

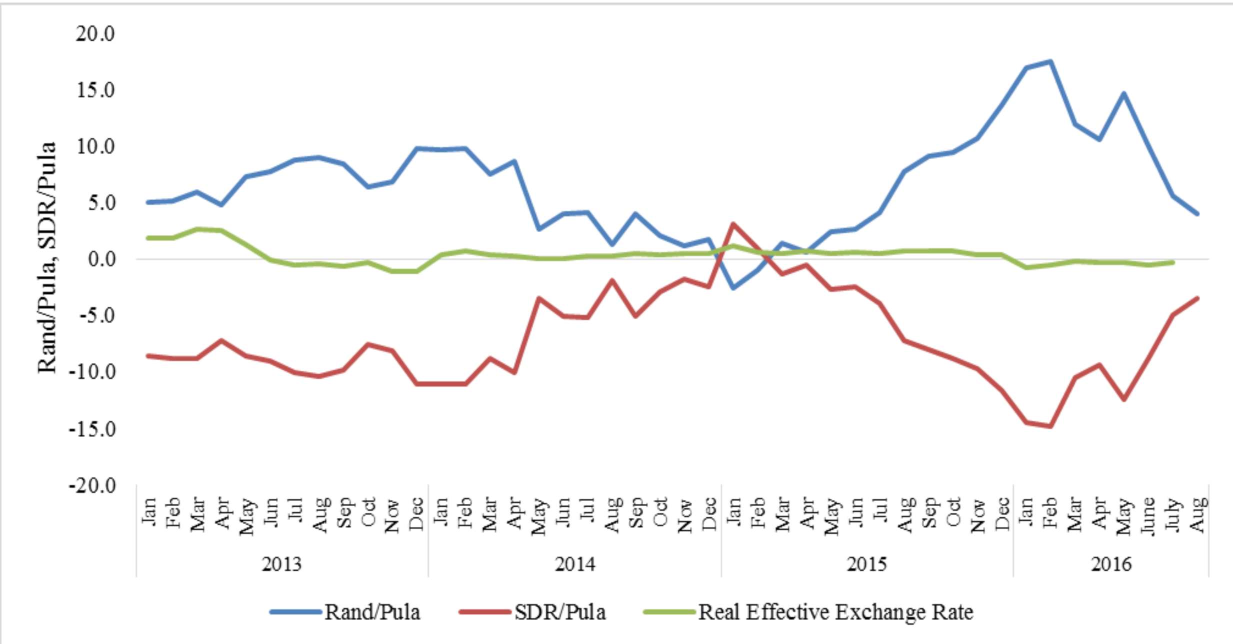
Exchange Rate Developments

12. Maintaining a stable exchange rate remains one of the policy objectives for promoting competitiveness of the domestic economy. Annually, the Pula basket is reviewed to determine the appropriate currency weights based on the trade patterns, as well as the crawl rate reflecting the inflation differentials between Botswana and its trading partners. In this regard, the Pula currency basket weights were maintained at 50 percent South African rand and 50 percent IMF's Special Drawing Rights (SDR), while a small upward crawl rate of minus 0.38 percent per annum was adopted for 2016. As at end of June 2016, the Pula appreciated by 10 percent against the South African rand, while it depreciated by 8.8 percent against the SDR (Figure 2). The appreciation of the Pula against the rand during the period under review was mainly due to the latter's volatility against some major currencies in the Pula basket. Similarly, the depreciation of the Pula against the SDR over the same period reflected the effect of the basket mechanism on the Pula exchange rate.

13. A key policy variable is the real effective exchange rate (REER), which is measured by adjusting the nominal exchange rate for the differences in inflation rates between Botswana and its trading partners. A rise in the real effective exchange rate, which could either be due to higher domestic inflation than in trading partners, or an increase in the nominal effective exchange rate, could result in a loss in the country's competitiveness. In the twelve months to June 2016, the real effective exchange rate (REER) depreciated by 0.5 percent, reflecting relatively lower Botswana inflation compared to its trading partners. Continued stability of the REER is necessary for maintaining domestic competitiveness in support of economic diversification and growth promotion efforts.

Figure 2: REER, Rand/Pula and SDR/Pula Exchange rates, Percentage Change

(January 2013 to August 2016)



Source: Bank of Botswana, June 2016

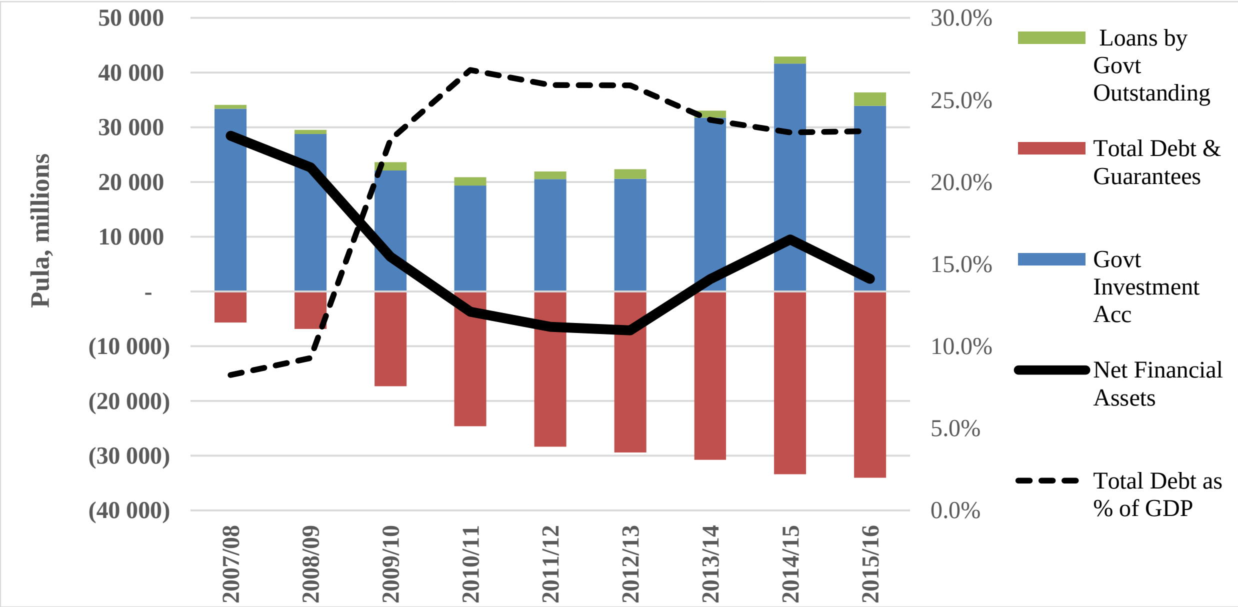
Balance of Payments

14. Performance of the domestic external sector, post the 2009 global economic downturn, continued to be subdued. Prior to 2009, Botswana maintained a trade surplus driven mainly by mineral exports, in particular diamonds, which accounts for a large share of total exports. Subsequent to 2009, the balance of payments recorded deficits, except for surpluses in 2013 and 2014, driven by significant current account surpluses in these latter years. The surpluses in 2013 and 2014 were due to increased mining exports from new mines. After recording a substantial surplus of P11.4 billion in its balance of payments in 2014, the country realised a small deficit of P0.57 billion in 2015, due to a fall in the current account as a result of the reduction in diamond exports.

15. Reflecting the depressed performance of the balance of payments, the level of the country's foreign exchange reserves declined slightly over the period under review. As at end of June 2016, foreign exchange reserves stood at P80.3 billion, a decrease of 5.0 percent from P84.5 billion recorded in June 2015. In terms of the US dollar and SDR, the reserves in June 2016 stood at US$7.4 billion and SDR5.3 billion, respectively. This represents 17.5 months of import cover of goods and services. The declining foreign exchange reserves is of concern, given that these reserves are used on a daily basis to pay for imports from abroad.

16. Of the total reserves in June 2016, Government Investment Account (GIA) amounted to P31.0 billion. As shown in Figure 3, the GIA has declined since 2007/2008, with slight recovery in the last three years to 2015/2016. GIA presents important financial buffers for Government and therefore needs to be kept at levels high enough to meet Government fiscal commitments during emergencies and fulfill unforeseeable needs of future generations.

Figure 3: Government Investment Account, Debt & Net Financial Assets
(2007/2008 – 2015/2016)



Source: MFDP, August 2016

17. One of the measures of the fiscal sustainability is the Government Net Financial Assets (NFA) position, which is the difference between Government cash balances and net debt. A positive NFA balance reflects low debt levels relative to Government cash balance. Conversely, a negative NFA balance reflects higher debt levels relative to Government cash balances. Figure 3 shows that total debt and guarantees increased since 2009/2010, during the financial and economic crisis period, resulting in the decline in the NFA. However, Government cash balances recovered between 2012 and 2015, resulting in the increase in NFA. In this regard, it is important that the country continues to strive to restore its net financial assets to levels existed prior financial and economic crisis period, while at the same time, implementing its Medium Term Debt Management Strategy in order to provide enough cushion to response to future economic shocks.

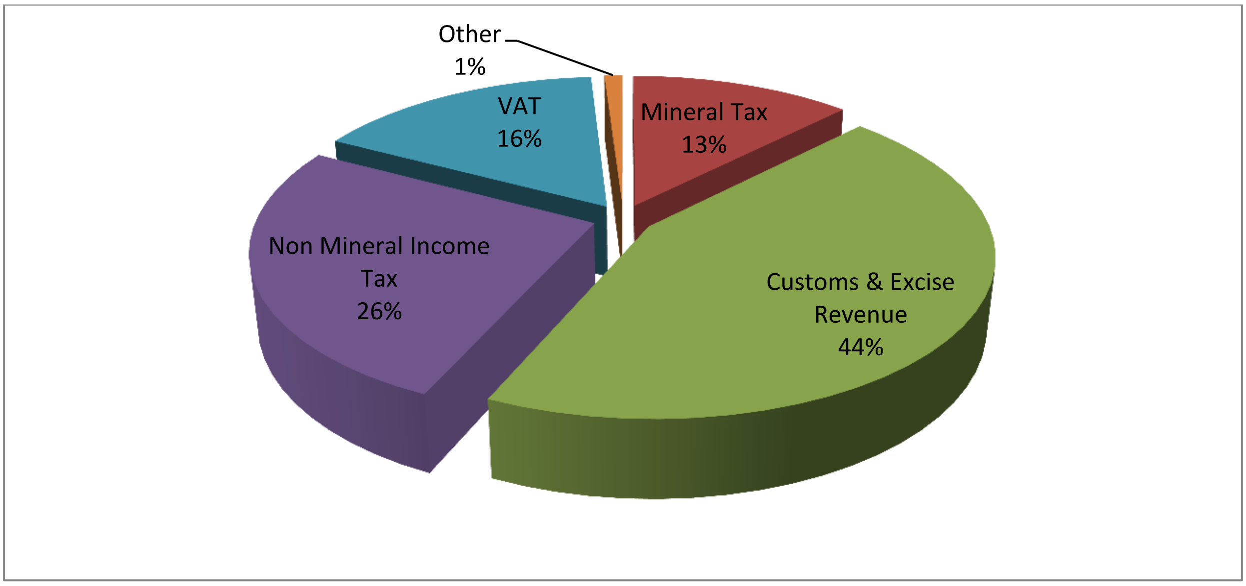
18. The NFA declined from P9.5 billion in 2014/15 to P2.3 billion in 2015/2016, reflecting in part the slight increase in debt. Total debt and guarantees slightly increased from 23.0 percent as a ratio to GDP in 2014/15 to 23.1 percent in 2015/16. The Government Investment Account significantly fell from P41.0 billion to P33.9 billion. In this regard, an increase in total debt accompanied by declining Government cash balances poses risk to domestic economic planning, growth, development and also to the ability to provide current and future financial buffers for the economy.

III. REVIEW OF THE 2015/2016 BUDGET OUTTURN

2015/2016 Budget Outturn

19. The 2015/2016 budget outturn indicates that a total of P48.29 billion was collected as revenues and grants during the year; of which P35.76 billion was tax revenue, while P12.39 billion was non-tax revenue and P0.14 billion was grants. Figure 4 shows the share of tax revenue by major items. Of the amount collected as tax revenue, Customs & Excise accounted for the largest share of 44.0 percent, while non-mineral income tax contributed 26.0 percent.

Figure 4: Percentage share of Tax Revenue items



Source: MFDP, August 2016

20. Tax revenue collected in 2015/2016 was 2.0 percent above the estimate of P35.05 billion in the revised budget. Non-tax revenue, on the other hand, was 24.0 percent lower than the revised budget estimate of P16.38 billion. This was mainly due to low mineral royalties and dividends payments, which make up over 90.0 percent of non-tax revenue. Seventy-two percent or P9.98 billion was paid as royalties and dividends during the fiscal year, compared to the revised budget estimate of P13.84 billion, due to the operational difficulties faced by several mines in the country. Grants received were also low, amounting to P0.14 billion against estimated grants of P0.34 billion, due to a decline in recurrent grants.

21. Expenditure performance during 2015/2016, on the other hand, was satisfactory, with total expenditure and net lending amounting to P54.92 billion, or 98 percent of the revised budget estimate. This comprised: P40.93 billion recurrent expenditure; P12.77 billion development expenditure; P0.76 billion lending from the Public Debt Service Fund to state owned enterprises; P0.55 billion equity injections into state owned enterprises; and P0.07 billion of loans repayment. A further analysis of the two major components of expenditures shows that, Recurrent Expenditure stood at 98.0 percent of the revised budget estimate of P41.72 billion, while Development Expenditure was 89.0 percent of the revised estimate of P14.32 billion.

22. As a result of the revenue and expenditure performance, the overall fiscal balance for the 2015/2016 financial year was a deficit of P6.63 billion, or -4.5 percent of GDP. Whereas total expenditure remained within the projected threshold in the revised budget estimates, the deficit was mainly occasioned by the revenue shortfall, which underperformed by P3.47 billion or 6 percent, compared to the revised budget estimate of P51.8 billion.

Some Budgetary Challenges in 2015/2016

23. The continued weak recovery in the global economy posed significant challenges to the 2015/2016 budget outturn. As a result, mineral revenue, especially mineral royalties and dividends payments, underperformed by more than 25 percent during the financial year, due to low diamond sales as a result of decreased global commodity prices and subdued demand for luxury goods.

24. The water and electricity supply shortages experienced during the year, which affected other non-mining sectors of the economy, also undermined growth of domestic revenues. As a result of the less than expected growth in some of the non-mining sectors, less revenues were realised.

25. On the other hand, expenditure pressures continued during 2015/2016, due to the need to finance projects related to the provision of emergency power and water supplies. To this end, there was need for: continued support to utility companies; financing of new projects such as the North South Water Carrier 2; and additional funding to alleviate the effects of drought, following its declaration in 2015/2016. In addition, supplementary budgets were required to cater for some contingencies like service charges, and augmenting salaries and allowances of public officers. Despite the high implementation rate of the Development Budget, which was 89 percent of the revised budget during the year, there were still delays experienced in completion of some mega projects such as the ICT, West African Cable System, which led to cost overruns that undermined growth prospects for the economy.

IV. A REFLECTION ON THE 2016/2017 PRIORITY AREAS

26. As at August, 2016, the implementation of the 2016/2017 Budget is hardly five months old. As such, it is not possible to provide a conclusive view of how the financial year will turn out. However, in order to give guidance to the formulation of strategies, projects and programmes for the next financial year, it is necessary to give a reflection of priorities set for 2016/2017 to date.

27. The 2016/2017 budget allocation focused on six national priorities of: *Completion of On-going Projects; Maintenance and ensuring functionality of Existing Infrastructure; Investing in High Impact Projects; Strengthening Human Capital; Improving Total Factor Productivity; and Social Protection Programmes.*

28. In order to support the implementation of the identified priority areas, total revenue and grants are estimated at P48.1 billion. Such a resource envelope reflected Government's continued commitment to improve on revenue collection and compliance initiatives to enhance the revenue streams. On the other hand, expenditure and net lending is expected to be P54.4 billion, of which recurrent expenditure is P39.7 billion, while development expenditure is P14.8 billion and net lending of P0.076 billion. The overall budget balance for 2016/2017 is a forecast deficit of P6.38 billion, which represents -4.1 percent of projected GDP.

Achievements and Challenges on Priority Areas for 2016/2017

Completion of On-going Projects, Maintenance of Existing Infrastructure and Investing in High Impact Projects

29. During 2016/2017, Government continued its commitment to completing most of the ongoing projects. In this regard, priority has been given to addressing the water and electricity challenges, since utilities are considered key inputs in economic activities. With regards to water shortages, Government embarked on a number of initiatives across the country such as the construction of a parallel pipeline to the existing line under North-South Water Carrier Scheme as well as the construction of the Mahalapye waste water reclamation plant. Significant investments were also earmarked for the energy sector to address the perennial power and energy shortage, which include the refurbishment of Morupule A power plant to increase energy production and distribution.

30. Furthermore, efforts are being made to fast-track backlog of projects through the Economic Stimulus Programme (ESP), which include: constructing classrooms, staff quarters and customary courts; upgrading of health facilities; as well as rural electrification. At the end of the three years of implementing ESP, it is expected that more Batswana would have benefited in the various job opportunities created.

31. Challenges experienced this far include the execution of the North South Carrier Water scheme, which was supposed to be completed by June 2016. To date, the contractor is still working at commissioning stage, following which the trial operation and performance test would be conducted. Other challenges include funding of the construction phase and securing of the pipeline corridor from Palapye to Mmamashia.

Strengthening Human Capital

32. The education sector to date is still faced with the challenge of a mismatch between graduates and job market requirements. In an effort to address this challenge, during 2015/2016 Government developed a six year Education and Training Sector Strategic Plan, which include; targeted improved performance in the quality of Vocational Education and Training programmes, increased access to early childhood and pre-primary education, intensifying the use of ICT in learning and development of learner retention strategies to curb the number of drop-outs in schools. To this end, Government remains committed to ensuring that the Programme continues to be implemented in the upcoming budgeting year.

Improving Total Factor Productivity

33. The major challenge to total factor productivity, in particular labour productivity, remains poor work ethic, which is also a problematic factor for doing business in Botswana. As alluded to in the draft NDP 11 document, declining total factor productivity continues to undermine the country’s ability to operate at its full potential. This is continuously being addressed through training courses run by Botswana Public Service College for Government officials. Government, as well as the private sector has also initiated various training activities on productivity across the country in an effort to educate the nation on the need to practice good work ethic and to be efficient in service delivery. In addition, Government continues to implement measures to improve factor productivity especially labour productivity by pursuing structural reforms to improve public finance management. Furthermore, Government will improve the business environment and competitiveness, in part, through technical assistance from the World Bank Reimbursable Advisory Services programme, and implementing human resource management policies that improve the efficiency of the public service. Any significant improvements in productivity in both the public and private sectors will contribute positively to the overall health and growth of the economy.

Social Protection Programmes

34. In an effort to provide basic shelter for the needy, Government continues to implement its 10 year Affirmative Action Plan. During 2016/2017, a cumulative total of 900 houses are expected to be delivered to the needy people in Remote Area Communities. In addition, 432 houses for Destitute Persons are under construction throughout the country and were expected to be delivered to the beneficiaries some time during this year.

35. In the quest to eradicate abject poverty, the main challenges identified during 2016/2017, are; prolonged drought, high dependency on support programmes, and multiple dipping, which is caused by an overlapping eligibility criteria for the relief programmes.

36. However, despite efforts to pursue the priority areas during 2016/2017, there continues to be an outcry on lack of implementation of various projects in Botswana, resulting in cost over-runs in infrastructure projects. Hence, the need to improve on quality of project planning, costing and implementation management, so that infrastructure is delivered on time, and on budget. To address this, Government departments and other arms of Government that do not spend, underspend or misspend their allocated funding will be at a risk of losing their baseline allocations. Consequently, there will be pro-active monitoring and evaluation of Government spending to ensure value for money as enshrined in the draft NDP 11.

V. PRIORITY AREAS FOR THE FINANCIAL YEAR 2017/2018

37. The above review of the global and domestic economy and reflection of the 2016/2017 priorities, provide a basis for achieving set goals and strategic direction the country needs to take going forward. An opportunity also arises from the formulation of the 2017/2018 budgeting process to be aligned with the implementation of NDP 11 and Vision 2036. To this end, the 2017/2018 budget priorities namely: *Developing Diversified Sources of Economic Growth; Human Capital Development; Social Development; Sustainable use of Natural Resources; Consolidation of good Governance and Strengthening of National Security,* will be the same as those contained in these aforementioned documents. These priorities were drawn from the four Thematic Areas of: **Economy and Employment; Governance, Safety and Security; Social Upliftment; and, Sustainable Environment** during the preparation of NDP 11. The main objective of these priorities is to guide the 2017/2018 budget and to appropriately support the implementation of projects and programmes identified in NDP 11. The identified priorities are further designed to underpin a balanced and integrated approach to put the country on a resilient and sustainable development pathway, as discussed in detail below.

Development of Diversified Sources of Economic Growth

38. The need to develop diversified sources of economic growth will continually be emphasised so long as the country remains dependent on the mining sector. It is therefore necessary to use the various resources that Botswana is endowed with to generate wealth, mainly through private sector investment. In this context, Government will maintain its key mandate of providing infrastructure to create a conducive business environment for the private sector to flourish. Adequate road networks, available and reliable water and electricity supply, as well as communication technologies make enterprises more productive and increase potential for economic growth. Therefore, investment in the development of these public goods is expected to grow the private sector and the domestic economy.

Human Capital Development

39. A productive human resource is needed to enable the economy to switch from being a natural resource-based economy to a knowledge based one. Quality education and skills development remain key inputs to competitive and productive human resources. Hence, Government will remain committed to improving access to quality education and skills training in realisation of producing a productive workforce. In addition, investment in quality research and innovation will be made to meet the needs of the economy and industry. This is in recognition of the fact that research and innovation can lead to improved high quality products and services that have potential to compete in the global markets.

Social Development

40. Social safety programmes have been recognised as one of the instruments that build resilience of the poor and those in vulnerable situations, ultimately reducing poverty. Therefore, Government will continue to provide existing social safety nets with corresponding interventions, such as vocational business skills to improve livelihoods in the long term by promoting human capital development and income generating activities.

Sustainable use of Natural Resources

41. The management of environment, natural and cultural resources should be part and parcel of a growing economy. Increased urbanisation and inappropriate environmental practices have put pressure on environmental goods through increased consumption and negative environmental outputs such as pollution, deforestation, soil degradation, green gas emissions, etc. As much as financial assets are to be saved for utilisation by future generations, the same principle should also apply to conserving the environment. Management of cultural resources has also become very vital in the society given its dynamic nature. With Botswana being dependent on a non-renewable commodity, there is need to preserve natural and cultural resources.

Consolidation of good Governance and Strengthening of National Security

42. The need to improve on national safety and security is significant in order to encourage investment, innovation, and economic growth and employment opportunities. In this regard, Government will continue to strengthen measures to improve the country's territorial integrity, public safety and protection through combating cyber-crime, formulation of a National Security Strategy, enhancing diamond security, strengthening proceeds of crime legislation and strengthening border control and security. Furthermore, strengthening accountability in public institutions, improving transparency, maintaining high levels of participatory democracy, as well as ensuring the rule of law are vital for generating sustainable economic growth through attraction of foreign direct investment.

VI. STRATEGIES FOR FINANCIAL YEAR 2017/2018

43. . As the 2017/2018 financial year marks the beginning of the implementation of two important policy documents, namely, NDP 11 and Vision 2036, it is imperative that the formulation of this budget is aligned to the goals and objectives contained in these documents. In this regard, the budget strategies for the financial year 2017/2018 are aimed at realising the national goals and objectives as espoused in NDP 11 and Vision 2036 documents.

44. Furthermore, the strategies for the 2017/2018 financial year are consistent with the existing overarching fiscal policy of value for money, which guides the budget formulation in this country. To this end, Government has committed to address the challenges of water and electricity supplies, improving ICT, rural development, productive human resources development and national safety. In this regard, a significant proportion of the development budget has consistently been allocated to Mineral, Energy and Water Resources, Transport and Communication, Local Government and Rural Development, as well as Defence, Education &

Skills Development, Justice and Security (Table 3), specifically to support initiatives aimed at addressing these challenges.

Table 3: Ministerial/Departmental Development Budget allocations - as percentage of Total Development Budget (2015/16 to 2017/18)

Ministries & Departments	**2015 / 16**	**2016 / 17**	**2017 / 18**
Education & Skills Development	8.2	7.3	4.4
Health	1.4	5.0	5.1
Local Government & Rural Development	8.4	8.2	6.3
Defence, Justice and Security	9.2	24.2	14.9
Transport and Communications	11.3	9.5	12.9
State President	7.3	4.0	4.2
Agriculture	7.6	5.5	4.8
Investment , Trade and Industry	0.1	0.5	1.2
Youth, Sports & Culture	0.8	0.4	0.1
Lands and Housing	6.2	6.1	7.7
Finance & Dev. Planning	1.3	0.8	1.0
Environ, Wildlife & Tourism	2.5	1.4	1.0
Foreign Affairs & Inter. Co-op.	0.3	0.2	0.1
Infrastructure, Sci. and Tech.	3.8	2.5	2.8
Minerals, Energy & Water Resources	30.5	23.1	31.9
Administration of Justice	0.4	0.7	0.4
Attorney General's Chambers	0.2	0.0	0.3
Independent Electoral Commission	0.1	0.1	0.8
Industrial Court	0.0	0.0	0.1
Office of the Ombudsman	0.0	0.0	0.1
Labour and Home Affairs	0.4	0.2	0.2
Total Development Budget (P' million)	**14,319**	**14,821**	**18,884**

Source: MFDP, August 2016

45. In addition, the budget strategies for the financial year 2017/2018 discussed below, take into account the prevailing global and domestic economic environment, which continues to be characterised by low commodity prices and weak domestic demand.

Development of Diversified Sources of Economic Growth

46. The objective of diversifying sources of economic growth continues to take precedence in Government's development agenda. Over the past years, notable progress has been made in this regard, though more effort is still needed to fully diversify the economy from the mining sector. Growth in the non-mining sector can be stimulated through investment in appropriate infrastructure that promotes export led growth.

47. An export-led growth strategy, which specifically seeks to promote exports of goods and services, will be supported during 2017/2018 to allow the private sector to drive economic growth. This strategy intends to promote locally manufactured products to enter regional markets and beyond. The aim is to build productive and competitive enterprises that are able to promote exports of goods and services, and generate employment opportunities. In support of these, the Economic Diversification Drive is geared towards the development of the Trade, Hotels and Restaurant, as well as the Manufacturing industry. These sectors currently contribute about 13 percent and 10.0 percent of total employment, respectively. In cognisance of this, Government has increased the allocation of the development budget to these areas by 1.2 percent, compared to 0.1 percent and 0.5 percent over the past two years.

48. The development of high quality infrastructure also facilitates provision of services in the economy, which is necessary for sustainable economic growth and employment creation. In this regard, priority will continue to be given to addressing the water and electricity supply challenges, because the two are very crucial inputs in activities of other sectors. Due to water shortages, Government embarked on a number of initiatives across the country, such as the construction of a parallel pipeline to the existing line under the North-South Water Carrier Scheme, as well as the construction of the Mahalapye waste water reclamation plant. In the medium term, Government will develop additional boreholes at Masama West well-field and construction of an associated 100km pipeline from the well-field to Gaborone. In addition, Government will fund the construction of the main pipeline which connects Thune Dam to Mathathane, Tsetsebye and Moletemene, to be completed in 2018. During 2017/2018, Governments intends to complete work on the Morupule A Refurbishment, Isang/Morupule B 400KV line, Coal Evacuation Rail Corridor and North-West Transmission Line. These will create employment opportunities in the construction sector.

49. In view of the need to: diversify the economy, promote export led growth, and addressing challenges relating to water and electricity supply, during the financial year 2017/2018, Government aims to allocate a significant share of the development budget, about 31.9 percent, of the forecast total development budget to the Ministry of Minerals, Energy & Water Resources to support efforts and deal with challenges in this regard (Table 3).

Human Capital Development

50. Over the past years, notable progress has been made in increasing access to primary education, with Primary School Net Enrolment Rate increasing from 85.6 percent in 2009 to 93.2 percent in 2014. On the other hand, the transition rate from Junior to Senior Secondary Schools increased from 54 percent in 2010 to 64 percent in 2016, as a result of the completion of new schools at Mogoditshane, Nata, Mmadinare and Shakawe. Progress has also been made through access to Technical and Vocational Education and Training (TVET) enrolment in TVET Public Institutions, which increased by 87.1 percent from 2008 to 2015, giving a utilisation rate of 67 percent of facilities.

51. In spite of these achievements, challenges such as the mismatch between graduate skills and the needs of the job market as well as declining total factor productivity persist. To address these, a number of human resource management policies will be implemented in 2017/2018 financial year, such as enhancing the performance management system to improve the efficiency of the public service. Furthermore, Government will continue to implement the following measures: conducting public service training, workshops and seminars to boost efficiency in production and service delivery to achieve the economy's full productive potential. Other strategies include; rolling-out of the National Credit and Qualification Framework, and implementation of the National Human Resource Development Strategy. To support these initiatives, during the 2017/2018 financial year, the Ministry of Education and Skills Development is estimated to receive about 4.4 percent, of the proposed total development budget.

Social Development

52. One of the development challenges facing this country is poverty eradication. To address this challenge, Government continues to implement various social protection programmes aimed at cushioning vulnerable and disadvantaged populations. These include providing social safety nets such as Ipelegeng, Orphan Care, Old Age Pension, Destitution Allowance as well as other disability and poverty eradication programmes. Further, in an effort to provide basic shelter for the needy, Government will continue to implement the 10 year Affirmative Action Plan. To avoid multiple dipping challenges alluded to earlier, Government will monitor policies and review existing eligibility criteria such as the development of a single social register.

53. Evidently, the Ipelegeng Programme has continued to relieve vulnerable groups from adverse effects of unemployment and poverty. The programme focuses on minor construction and maintenance of infrastructure including environmental cleanliness. During 2017/2018, Government aims to include 100 monuments projects under the programme through the Ministry of Environment, Wildlife and Tourism. The monthly target for the number of people engaged in the Ipelegeng Programme is set at 64,191 to provide short term employment opportunities. Furthermore, Government will continue to provide supplementary feeding to identified vulnerable groups at Primary Schools and Health Facilities through Food Relief Services.

54. In order to eradicate poverty, and improve the living standards of Batswana, during 2017/2018 financial year, Government will cumulatively allocate about 15.6 percent of the development budget to three Ministries of; Health, State President, and Local Government & Rural development, which largely deal with the Social Upliftment issues.

Sustainable use of Natural Resources

55. Another emerging development challenge is Sustainable environment. Among these include veld fire, waste burning, ozone depletion and emissions which are a threat to conservation of the natural resources. In this context, measures have been put in place to strengthen existing policies to address any threats to the environment. For instance, the Climate Change Policy was developed, which includes the Long Term Mitigation Strategy and the Adaptation Strategy. In addition, accounting for natural resources is necessary to ensure adequate utilisation of natural wealth. To this end, Government, with the assistance of the World Bank, has introduced the Wealth Accounting and Valuation of Ecosystem Services (WAVES), which compiles the overall stock and accounts of natural resources. WAVES identified areas of operation which include; water, minerals, energy, tourism, and biodiversity, culminating in a set of macroeconomic indicators for inclusion in national accounts.

56. In the medium term, Government aims to adopt environment friendly methods when undertaking infrastructure projects in order to foster sustainable economic development. Furthermore, emphasis will be on increasing expertise in the area of applied research and innovation as a way of promoting appropriate technology development. In this regard, Government proposes to allocate about 1.7 percent of the total development budget to address sustainability of natural and cultural resources in the financial year 2017/2018.

Consolidation of good Governance and Strengthening of National Security

57. With an ever evolving global security landscape, issues of national security and safety are increasingly becoming a concern. In order to address this, Government will undertake a number of strategies such as: promoting citizen participation in combating crime: promoting transparency and accountability through public sector reform; combating corruption; upholding and respecting the rule of law; protection and promotion of human rights.

58. In order to promote participation by citizens, focus will be made on inclusiveness, through full participation in the development and implementation of the aforementioned strategies, with special emphasis on those areas susceptible to crime. Specific measures will be put in place to guide and protect critical infrastructure assets from potential threats and possible breaches in the wake of cybercrime attacks. Government will enhance capacity to provide information about government business across all sectors to encourage more effective and accountable institutions as well as better outcomes for citizens.

59. Government will also implement a comprehensive Public Sector Reform Coordination Programme in order to improve service delivery within the public sector. Resources will be channeled to implementing strategies for effective protection and promotion of human rights. With the relocation of Diamond Trading Centre, Government will enhance the current legislature on diamond security in order to intensify safety and security of diamonds and their distribution network through the diamond hub.

60. To augment issues of safety and security, some of the proposed projects for 2017/2018 include construction and renovation of police stations; Forensic Laboratory and Science Equipment: expand and upgrade the Police Radio Communication network, upgrade Incident Management System; provision of staff houses; improvement of Aviation Security Systems; as well as improvement of existing airport security and safety. A substantial allocation of about 16.5 percent of the development budget is proposed to support these projects.

VII. PROJECTIONS FOR 2017/2018

61. A significant budget deficit of 4.5 percent of GDP was recorded in 2015/2016, due to weak global demand for diamonds which reduced revenues lower than was anticipated. Further budget deficits are projected in the next three financial years, including the current year, due to continued weak global economic recovery, and the implementation of the Economic Stimulus Programme (ESP). The ESP was adopted to promote growth, economic diversification and employment creation. However, despite this unfavourable budgetary outlook, the country remains committed to pursuing a sustainable fiscal path in the medium term. The overall fiscal policy remains the maintenance of macroeconomic stability and creating a pathway for attaining a balanced budget or modest surpluses over the medium term. In addition, the country will continue to observe the fiscal rule, especially the restriction of the expenditure to GDP ratio to 30 percent. Furthermore, Government intends to ensure expenditure prioritisation and pursue quality spending to derive the greatest value from its programmes and projects.

62. Based on the Medium Term Fiscal Framework (MTFF), as shown in Table 4, the 2017/2018 financial year is projected to register a budget deficit of P6.8 billion or -4.1 percent of GDP, due to the continued sluggish growth in revenues, and increased expenditure from the implementation of ESP.

Projected Total Revenues and Grants

63. The projected total revenues and grants for 2017/2018 is P52.8 billion: with Mineral Revenues accounting for P19.1 billion; Customs and Excise for P13.4 billion; Non-income tax at P10.6 billion; and Other revenues at P9.6 billion. Mineral and Customs & Excise revenues remain Botswana's major revenue source, constituting over 60 percent of total revenues. However, these two sources of revenue remain vulnerable to exchange rate fluctuations and international market swings. Thus, any shock to any or both of these sources will continue to have bearing on the projected revenues and the national budget.

Estimated Total Expenditure and Net Lending

64. Total expenditure and net lending in 2017/2018 is projected at P59.6 billion, of which, P40.8 billion is earmarked to cover the Recurrent Expenditure, while P18.9 billion is planned as Development Expenditure. The bulk of the Development Expenditure during the year will cover ongoing ESP projects.

Table 4: Government Budget (P' million), 2015/2016 to 2019/2020

	2016/17	2017/18	2018/19	2019/20
		Projections		
Total Revenue & Grants	**48,062.3**	**52,762.7**	**54,753.1**	**58,362.6**
Mineral Revenue	17,610.6	19,124.6	19,702.5	20,419.1
Customs & Excise Revenue	11,515.6	13,429.3	13,456.4	14,764.5
Non-mineral Income Tax	9,881.1	10,634.3	11,395.9	12,208.2
VAT	6,174.1	6,644.7	7,120.6	7,661.3
BOB Revenue	1,000.0	1,000.0	1,000.0	1,000.0
Other Revenue & Grants	1,880.9	1,929.8	2,077.7	2,309.5
Total Expenditures & Net Lending	**54,444.5**	**59,579.4**	**62,172.4**	**62,531.1**
Recurrent Expenditure	**39,699.3**	**40,824.4**	**42,076.8**	**43,195.3**
Personal emoluments & pensions	18,106.5	18,769.3	19,456.3	20,040.0
Other Charges	9,870.7	10,110.9	10,356.9	10,667.6
Grants & Subventions	10,985.8	11,315.4	11,654.9	11,829.7
Interest payments	736.3	628.8	608.7	657.9
Development Expenditure	**14,821.2**	**18,882.0**	**20,188.0**	**19,168.0**
Net Lending	**-76.0**	**-127.0**	**-92.4**	**167.9**
Overall surplus/ deficit (-)	**-6,382.3**	**-6,816.7**	**-7,419.3**	**-4,168.5**
as % of GDP	*-4.1%*	*-4.1%*	*-4.2%*	*-2.2%*

Source: MFDP, August 2016

Financing/Fiscal Balance & Implications

65. The projected deficit for 2017/2018 is a budget deficit of P6.8 billion, or -4.1 percent of the projected GDP. Hence, it is important that more efforts be made to increase the domestic revenue base, while controlling expenditure. In terms of financing the budget deficit for 2017/2018, Government will consider a mix of borrowing, both domestic and external, and drawdown on its cash balance, which reduces the balance of the Government Investment Account (GIA). However, it is important that the funds from the GIA should be used to finance investment on high impact projects. It should also be noted that, continued high budget deficits can lead to a decline in Government cash balances and increased debt levels resulting in the fall in the country's Net Financial Asset position. It is against this background that Government continues to be cognisant of its requirement to meet debt to GDP limits and other fiscal rule measures.

Downside Risks & Mitigating Strategies

66. The risk to the 2017/2018 budget outlook includes:

- Continued and sluggish global economic developments which impact on the domestic economy through low commodity prices translating into decreased diamond export earnings and lower revenues for Government;
- Continued reliance on diamond earnings;
- Water and Electricity shortages which pose a threat to value addition of other economic sectors;
- Public expenditure pressures, especially personnel emoluments under recurrent expenditure;
- Expansion of guarantees issued to back up parastatals loans;
- Weak monitoring, evaluation and implementation of development programmes and projects;
- Natural disasters such recurring drought and animal disease outbreak.
- Health costs arising from test and treat initiatives and increased provision of drugs to HIV/AIDS; and
- Increase in Tertiary Education Funding.

67. Given the above outlined risks to the 2017/2018 budget, prudent allocation of expenditure is necessary to obtain tangible outcomes. Hence, Government is taking determined steps to address these challenges, bolster resilience to shocks and foster sustained high and inclusive growth. Going forward, Government will, in 2017/2018, institute and strictly enforce, among others, the following measures: (a) continued rationalisation of public expenditure to identify and remove expenditure overlaps and waste; (b) strengthen programme budgeting through the public finance management reform, (c) finding other sources of revenue and facilitating private sector growth, as part of measures to strengthen revenue flows.

VIII. CONCLUSION

68. This Budget Strategy Paper is prepared under continued difficult domestic economic conditions, with moderate growth expected due to weak recovery in the global economy. Expected growth in the real GDP of 4.0 percent in 2017/2018 is insufficient in addressing the development challenges of unemployment, poverty, and income inequality. Hence, there is a need to use the 2017/2018 budget, which will be first financial year following the adoption of NDP 11 and Vision 2036, to align the implementation of the two documents, with a view to promoting growth, economic diversification, and employment creation.

69. The preparation of the 2017/2018 Budget Strategy Paper therefore drew from the national priorities identified in the draft NDP 11, while taking into account the country`s fiscal policy parameters. However, there was also need to ensure that the implementation of the ongoing

Economic Stimulus Programme (ESP) is continued during 2017/2018 financial year, despite the budgetary pressures.

70. In terms of the budget outlook, the 2017/2018 financial year is projected to result in a budget deficit of P6.8 billion or -4.1 percent of GDP. This is attributable to the projected modest growth in revenues, and continued pressures arising from the implementation of the ESP. This calls for continued efforts to expand the domestic revenue base, as well as prudent management of expenditure in 2017/2018.

71. Amongst the major downside risks to the 2017/2018 budget outlook includes the; continued slow recovery in the global economy, undiversified revenue base, and unforeseen emergency expenditures to address water and electricity supply challenges, and natural disasters like drought and outbreak of animal diseases. Despite this unfavourable 2017/2018 budget outlook, Government remains committed to maintaining fiscal sustainability in the medium term. Thus, additional measures to raise domestic revenues or trim the planned expenditure during the implementation of the NDP 11 will be considered, if necessary, to restore fiscal sustainability.