Budget Briefing

BOTSWANA INSTITUTE FOR DEVELOPMENT POLICY ANALYSIS

2015/16 BIDPA Budget Analysis

2015/16 National Budget Analysis

1.0 OVERVIEW

Following the budget presentation of the 2nd February 2015, this budget briefing assesses the main elements of the 2015/16 national budget. Central to this budget briefing is a review of the growth and fiscal performance versus the budget strategy proposed, with emphasis on the implications, given the prevailing economic challenges. The briefing evaluates the resource allocation priorities in the development and recurrent budgets. Three main budget highlights are provided on the status and achievements focussing on the key national challenges of (i) diversification,(ii) poverty and (iii) unemployment, since they are priority areas that have attracted considerable government budget financing and support in various national budget allocations.

The briefing identifies key areas for further improvement towards a more result oriented growth path, given the current budget propositions. The briefing recommends that to enhance delivery on outcomes for budget support, more effort and rigour should be directed towards effective implementation of programmes and strategies to promote the envisaged growth prospects across sectors within reasonable time. This requires capacity for implementation, appropriate and relevant human and infrastructure resources which are fundamental for the realisation of intended results from programmes and strategies pronounced in the budget.

Often, delivery and outputs on pronounced strategies in various national budgets lag behind due to unspecified time lines, lack of accountability and ineffective oversight structures. We emphasise implementation of monitoring and evaluation frameworks to measure progress and achievements on various programmes or initiatives to assess progress towards the attainment of key strategy goals as well as budget support versus outcomes.

2.0 2015/16 NATIONAL BUDGET ASSESSMENT

2.1 Budget Strategy vs Growth & Fiscal Performance

Growth Performance

The 2015/16 national budget, like other recent national budgets following the financial and economic crisis of 2008/09, remains characterised by a lower growth trajectory, albeit on a positive note. The pronounced budget thus pursues a growth strategy that places emphasis on factors that can support the non-mining sector to generate more growth which is more inclusive, especially with respect to the challenges of poverty, unemployment, financial inclusion and citizen economic empowerment. The main elements of the growth strategy provide for budget activities and initiatives that will enhance business reforms to create a conducive business environment with the necessary microeconomic and macroeconomic policies; boosting total factor productivity and developing human skills to promote productivity and competitiveness as well as continued support for diversification initiatives.

The 2015/16 budget prioritises continued infrastructure development and its maintenance and completion of ongoing projects to support the growth momentum. These factors are deemed crucial to ensure that the growth rate projected at about 4.9% in the 2015/16 financial year can also contribute to meaningful employment generation while at the same time promoting inclusive growth. Although the growth strategy is well placed, clearly some risks exist that may limit the anticipated development path and achievements broadly. The four quadrant representation (Figure 1) of Botswana's growth performance depicts volatility in the growth rate where the mining sector largely drives the growth process, a structural

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challenge that still manifests itself in the 2015/16 budget financial year mainly as a result of a lack of a strong vibrant non-mining diversified private sector.

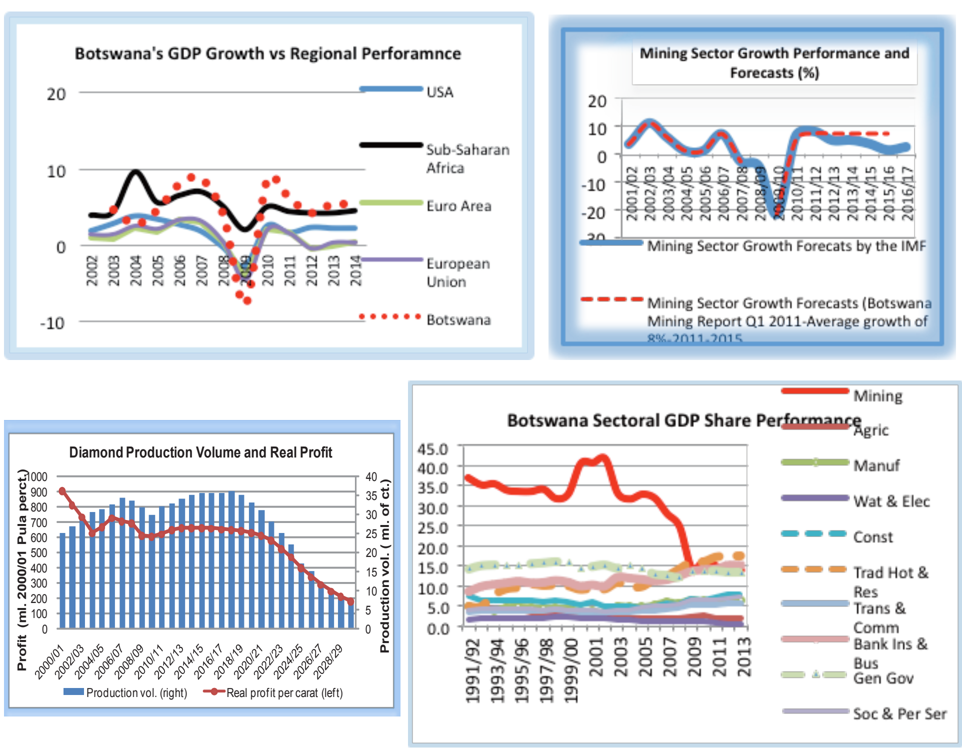
Botswana's economic growth, which averaged about 8.7 percent in the period 1996-2001, slowed down to 4.4 percent during 2002-2006 before further easing to an average of 3.9 percent during 2007-2013. In the 2015/16 financial year, growth is anticipated to slow down to 4.9 percent from 5.2 percent in 2014, with the non-mining sector expected to drive growth instead of diamonds as has been the case over the years. According to the IMF, the global economy is expected to grow by 3.5 percent in 2015, down from a previous forecast of 3.8 percent. Emerging and developing economies, including Sub-Saharan Africa, are expected to grow at a lower rate of 4.3 percent in 2015.

Despite the positive growth outlook pronounced in the 2015/16 budget, one of the major risks towards Botswana's growth performance is the lack of growth diversity, where the mining sector's share, although declining, still dominates (Figure 1). Further, the anticipated deceleration in diamond production puts into perspective the urgency towards the attainment of a diversified growth base (Figure 1). While diversification remains a policy priority, which has attracted major budget support across institutions, private sector, policy dimensions and national development plans, clearly, the other non-mining sector shares in total GDP remains a concern, particularly for sustainability of growth. The declining potential for diamond production (Figure 1 diamond production) demonstrates the urgency for delivery on priority growth factors for continued budget support across sectors to generate the requisite broad based growth momentum.

An interesting question is how budget support for many years has translated into real growth across sectors (Figure 1 sectoral share performance). One economic measure depicted below is the GDP shares across sectors to indicate the extent to which government financing and budget support to boost growth has resulted in transformation, especially in the context of Botswana where major government budget support has played a pivotal role for sector growth nationally. While some positives are emerging demonstrating that support to various sectors through initiatives, strategies, policy implementation and reforms, some progress is being achieved, the concern though, is the pace and extent to which achievements have been made. The extent of the growth momentum is an area that still requires more rigour to boost the growth process even further. The main aspect is in ensuring that strategies and initiatives for growing the economy bear results and spearhead growth across sectors.

Although the 2015/16 budget recognises prevailing global and domestic risks, growth rates may not be high enough to promote inclusive growth and contribute meaningfully to the generation of employment. The Budget Strategy Paper for 2015/16, consistently with the 2015/16 budget speech, appropriatly emphasises the need to attain sustainable growth and spearhead the growth momentum under a fiscal binding constraint. The budget proposed initiatives and priority aspects for growing

Figue 1: Evidence on Botswana's Growth Inter-Linkage with Mining Sector Performance



Source: Generated from Statistics Botswana, MFDP and IMF/WB Statistics the economy place emphasis on diversification of growth and revenue sources; supporting the business environment through business reforms to create a conducive environment and stimulating private sector growth. The other priority issues for supporting growth is to address the constraints to foreign direct investment and competitiveness through advancing human capital development, providing the requisite infrastructure and its continued maintenance, increasing total factor productivity and offering a supportive evironment for non-mining sector growth.

While the budget emphasises initiatives to enhance growth prospects and support for the non-mining sector, translation of initiatives proposed for growing the economy, business reforms and private sector development should be fast tracked to bear fruition. Turnaround to budget initiatives and delivery of the envisaged growth is an area that requires attention across the various sectors to drive the growth process sustainably. Attaining results to turn and translate budget support into outcomes across sectors remains fundamental for the achievement of the project/ initiatives/strategy objectives to ultimately move the economy to sustainable growth. This is key for Botswana's pace of development which very much depends on the delivery of the national plans, notably the NDP 10 for the current budget and future Vision and NDPs.

Since the financial and economic crises, growth rates have remained lower than the 7.5% that would have placed Botswana in a position to deliver across a number of development goals. This is mainly since Botswana still has glaring development challenges, which include unemployment, poverty and income inequality. Without enlarging the size of the economy, it would be impossible to create jobs that the country desperately needs to address youth unemployment, generate revenues to support government's social welfare programmes. Income inequality in Botswana is one of the highest in the world with the Gini coefficient having increased from 0.573 in 2002/03 to 0.645 in 2009/10. In a bid to spur growth and employment, the low growth rate for Botswana with stagnating per capita income places Botswana among countries under risks for a "middle income trap' where the IMF has recently advised that such African countries should implement momentous reforms to facilitate growth.

Fiscal Performance

The fiscal strategy pronounced in the 2015/16 budget aims to continue ensuring prudence in the utilisation of limited resources, given the low growth trajectory which has a bearing on revenue generation and its expenditure allocations. The sources of revenue still remain limited and undiversified as depicted in Table 1 and Figure 2). Further, the growth in revenue sources has been at snail pace while across sources the growth rate has been at a much slower rate in recent years, impacting negatively on the capacity and extent of expenditure flexibility and growth. The fiscal stance has thus remained tight, an element which is visible from the anticipated 2015/16 budget outcome with a very modest anticipated surplus of about 1% of GDP. The fiscal strategy aims to re-build savings and accumulation of foreign exchange reserves given the fragility of the nation. Total revenues and grants are expected to amount to P55.38 billion, of which mineral revenue will account for 34.4 percent, customs and excise 29.5 percent, while non-mineral income tax will contribute 17.5 percent.

Table 1: Tax Revenue by Source (% of Total Tax Revenue)

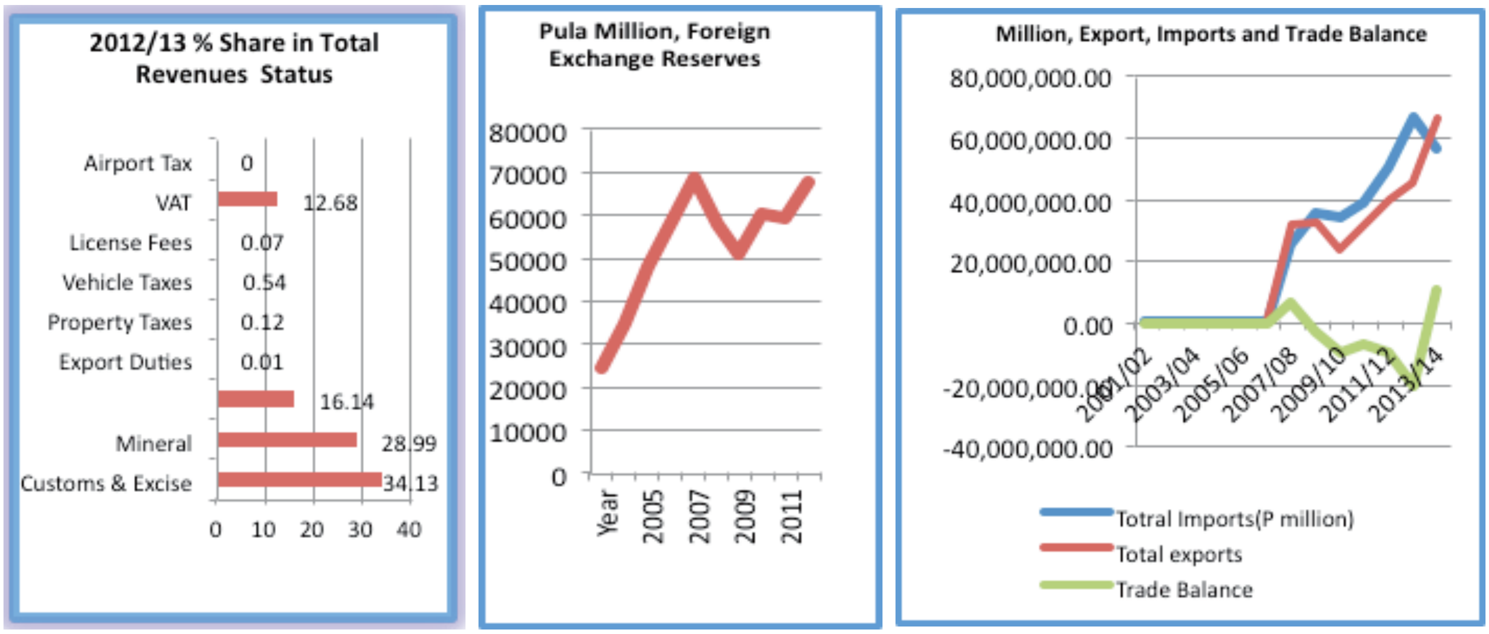
	Customs & Excise	Mineral	Non-Mineral Income Tax	Export Duties	Property Taxes	Vehicle Taxes	License Fees	VAT	Airport Tax
2005/06	17.65	49.60	13.49	0.00	0.06	0.55	0.09	8.89	0.08
2006/07	24.13	47.87	11.21	0.00	0.06	0.51	0.08	8.20	0.03
2007/08	27.37	38.46	13.60	0.00	0.11	0.55	0.09	9.96	0.08
2008/09	25.45	33.43	15.13	0.01	0.08	0.63	0.09	14.37	0.07
2009/10	26.42	30.27	18.52	0.00	0.09	0.63	0.11	13.13	0.00
2010/11	19.45	37.79	20.10	0.01	0.11	0.72	0.10	14.53	0.00
2011/12	21.89	41.11	14.96	0.00	0.17	0.54	0.10	12.90	0.00
2012/13	34.13	28.99	16.14	0.01	0.12	0.54	0.07	12.68	0.00!
2013/14	31.08	30.11	20.37	..	..	..	..	..	..
2014/15	31.8	30.4	31.2	..	..	..	..	..	..

Source: Statistics Botswana, MFDP

Revenues are key to pursue developmental objectives in NDPs, while limited fiscal flexibility impact negatively on the implementation of NDP 10 and future planning, the balance of payment position, by the mining sector. The volatility in growth is also visible in export performance with implications for overall budget resources available for revenues and expenditure.

The lack of fiscal flexibility is largely export development policies among others) to grow the business sector, the limited export profile shows that more still needs to be done, especially on the realizaion of goals.

Figure 2: Revenue Sources and Shares in Total (Percent)



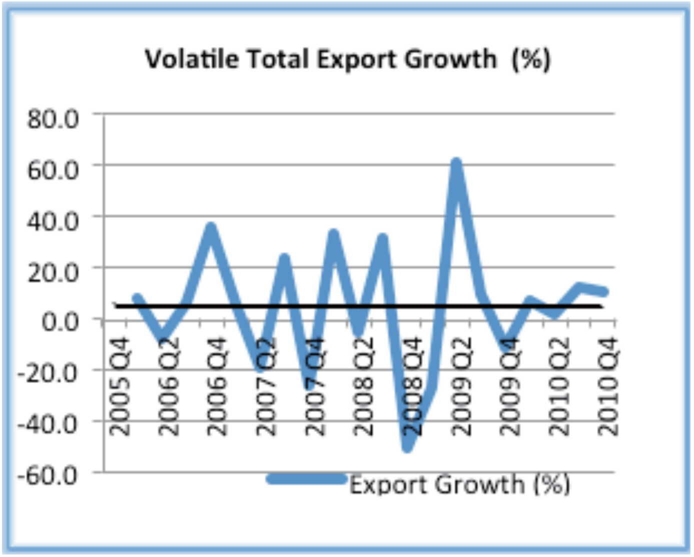
Source: Generated from Bank of Botswana Annual Reports, Statistics Botswana

the trade balance (figure 2), the rate of accumulation of forein exchange reserves (Figure 2), are factors that constitute the strength of the fiscus and play a major role in macroeconomic stability.

One of the key drivers for fiscal flexibility is having varied revenue sources from a strong export profile. Although the development of industries has featured highly as a budget priority in previous budgets and the current one for 2015/16, export growth in Botswana still remains dominated due to a lack of export diversity. An indicator of budget support versus delivery over many years can be illucidated from export growth and new export opportunities that can contribute to the availability of revenues. Clearly in the case of Botswana, although major budget support has been towards diversification of revenue sources via export promotion, industry development and support for the SMME sector through initiatives and support for institutions (such as FAP, BDC, BEDIA/BITC,CEDA, LEA and agricultural programmes,

On export potentials to diversify the revenue pool, although some positives are emerging, as indicated by some export activities of (services, textiles, vehicles); mining export dominance in total exports still prevails. This has direct impact on growth performance via the trade and revenue channels. There are still concerns with no major achievements towards a varied sustainable export profile to actualise the revenue aspirations tangibly and sustainably.

Figure 3: Botswana's Export Growth Performance (%) and the Export/Import Profile (Current, Pula Millions)



Source: Generated from Bank of Botswana Annual Reports, Statistics Botswana

Botswana's non-diamond exports remain concentrated around five major commodities: copper-nickel matte, soda ash, meat, hides and skins, and textiles even after two decades of policy initiatives seeking to boost export diversity. (Table 2 and Figure3). There is slow and minimal filtration of export activities despite identified opportunities, enhanced marketing with limited major new export activities. Although there are emerging positive achievements noted with service exports, a major concern is on sustenance of performance of new exports, the possibilities for employment generation for long term growth prospects. The textile sector, though having benefited from AGOA and government support, still remains small while vehicle exports were negatively affected by the closure of Botswana Motor Vehicle Company which relocated to RSA. The limited export sector directly impacts on revenues and fiscal position which should drive growth.

Table 2: Main Export Commodity Profile (P Millions)

	Copper Nickel	Beef	Soda Ash	Textiles	Vehicles	Gold
2004	757.5	284.0	250.8	560.8	556.1	…
2005	2 301.0	309.9	332.1	1 117.0	569.7	182.9
2006	3 822.8	363.2	462.7	916.7	183.6	206.3
2007	5 521.7	592.3	473.5	2 787.5	218.7	239.4
2008	5 923.6	530.3	505.2	1 819.3	413.6	382.4
2009	3 620.0	480.1	526.0	1 417.6	490.9	269.6
2010	4 152.8	868.8	506.4	1 118.5	275.3	460.5
2011	3 398.2	462.4	522.3	1 777.6	830.5	524.7
2012	3 393.5	522.9	644.6	614.3	989.9	618.4
2013	4 615.7	996.0	723.4	361.8	658.6	451.1

Source: Bank of Botswana Annual Report Source:

Statistics Botswana, MFDP

3.0 ECONOMIC CHALLENGES VS PRIORITISATION APPROACH

The economic challenges which should drive the prioritisation process in the budget allocations include: the prevailing poverty dynamics; high unemployment, especially among the youth; power and water shortages; infrastructure challenges; limited diversification; limited private sector development; inadequate human capital and requiste skills; competitiveness; limited investment; poor business environment and limited revenue sources. Against these varied challenges is the twin binding constraint of low growth and limited fiscal constraint discussed earlier. Further, Botswana is still on a recovery path following the financial and economic crises of 2008/09 which has led to some fiscal reforms. The budget for 2015/16 comes at a critical time for the implementation of the NDP 10, achievement of Vision 2016 objectives and the Millenium Development Goals. Priority areas in the 2015/16 budget are to some extent similar to those of the previous year (for example 2014/15 budget) which demonstrates continuation in policies towards addressing the key national challenges. This is commendable to avoid inconsitencies in both policy implementation and development attainments.

❖ Priority Areas in 2014/15 Budget Propositions 1). Growing the Economy and Employment Creation; 2). Improving Productivity and Sustaining Sovereign Rating; 3). Investing in Infrastructure Development to Support Economic Growth; 4). Investing in Human Resources to Support Sustainable Growth; 5). Enhancing People's Welfare and Livelihoods; 6). Strengthening Judicial System and Combating Crime; and 7). Strengthening Local Governance.	❖ Priority Areas in 2015/16 Budget Propositions 1). Promoting Inclusive Growth 2). Macroeconomic and Microeconomic Balance 3). Improving Productivity 4). Appropriate Skills Development 5).Development of Cluster and Value-chain in Selected Sectors 6). nnovation Research and Development

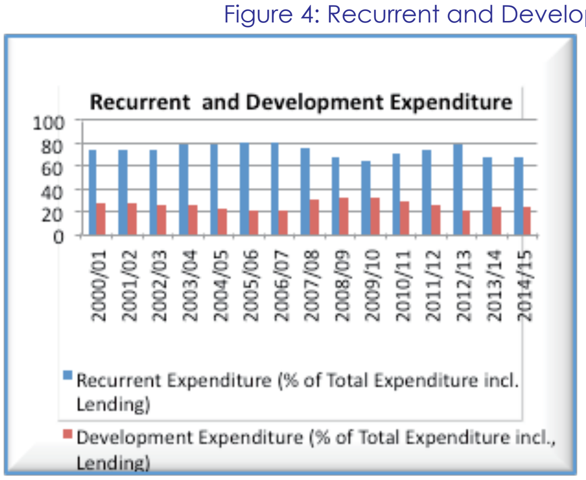
With hindsight to these challenges, the budget strategy priorities for the 2015/16 budget focus on: project implementation and maintenance of existing infrastructure, total factor productivity and enhancing the business environment. The main economic issues in 2015/16 budget strategy paper and 2015/16 budget speech focus on promoting inclusive growth, attaining both macroeconomic and microeconomic balance, improving productivity, appropriate skills development, development of cluster and value-chain in selected sectors and innovation research and development. The consistencies between the budget strategy consultative phases and the budget delivered is indicative of transparency progress to some extent and cosistent prioritisation, since the main areas for focus as budget priorities are alinged to the identifed and prevailing economic challenges together with stakeholders.

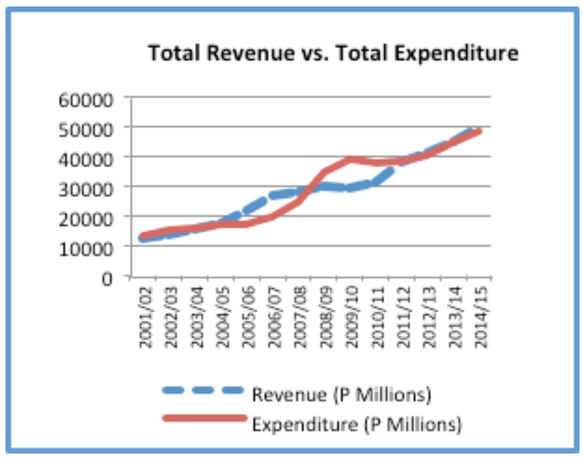
3.1 Development and Recurrent Expenditure

The assesment of the development and recurrent budget allocations shows the priority projects proposed for budget support to address challenges across ministries and initiavies to boost growth. Mineral revenues are projected to grow by 10.4 percent, from P17.24 billion to P19.03 billion in 2015/16. This positive growth is however likely to be undermined by the downside risks associated with growth prospects in the global economy, resulting in reduced revenues, specifically from diamonds.

Figure 4 shows the development and recurrent budget shares in total expenditures from 2001/02 to 2014/15 and the expenditure and revenue outlay over the years. Consistently with the fiscal position and motives for fiscal reforms towards sustainability of the fiscus, 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.

Figure 4: Recurrent and Development Expenditure…Revenue and Expenditure Outlay





Source: MFDP Budget Speeches (2002-2014)

With total revenues and grants estimated at P55.38 billion, while total expenditure and net lending forecast at P54.15 billion, the result is a projected budget surplus of P1.389 billion or 0.8 percent of GDP for the financial year 2015/2016. This modest budget surplus will contribute towards rebuilding the country's net financial assets and provide a cushion in the event of a future shock, as was the case during the recent global financial crisis of 2008/2009 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. Non-mineral revenues are projected to increase by 7.1 percent.

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 crises period. 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 required to manage Government expenditure, especially the wage bill. There is need to enforce financial discipline in order to achieve the objectives of the Fiscal Rule in the medium term. Over 70 percent of the recurrent budget is allocated to four ministries: Ministries of Education and Skills Development (MoESD), Ministry of Health (MoH), Ministry of Local Government and Rural Development (MLGRD) and Ministry of Defense, Justice and Security. The specific activities for funding are summarized in Table 3.

Table3: Proposed 2015/16 Ministerial Recurrent Budget Allocations

Ministry	***2014/15 Recurrent Budget Allocation P33.32 billion,*** *(increase of P2.79 billion or 9.1 percent increase over the 2013/14 budget*	***2015/16 Proposed l Recurrent Budget is P36.70 billion***. (represents a growth of P2.31 billion or 6.7 percent over the current year's revised budget of P34.39 billion).
Ministry of Education and Skills Development	Largest amount of P9.26 billion or 27.8 percent of the Ministerial recurrent budget • additional funds required to implement the re-grading exercise for teachers approved by Government in 2013, • as well as subventions to some parastatals such as the University of Botswana and the Botswana International University of Science and Technology	Largest share of P10.31 billion or 28.1 percent, which is P512.49 million more than the current financial year's revised budget • Student Bursaries for post-secondary education at P2.25 billion, • Subventions to Government supported institutions such as the University of Botswana, Botswana International University of Science and Technology and others at P1.20 billion, • costs associated with Levels of Operations arrangement within the teaching staff at P644 million, food and service charges for secondary schools at P342.63 million and In-service Training at P235.83 million.
Ministry of Health	Second largest share of P5.22 billion or 15.7 percent of • the costs of additional manpower requirements for new health facilities, • ARV therapy, and • maintenance of medical equipment and health facilities.	Second largest share at P5.67 billion or 15.5 percent- an increase of P451.78 million or 8.7 percent over the 2014/15 financial year's revised budget • The provision for health spending is mainly to address the HIV/AIDS scourge, including elimination of mother-to-child transmission at a combined total of P1.11 billion, • Medical Aid requirements for both Central and Local Government employees at P261.75 million, • fees for medical specialists at P255.42 million, as well as Grants and Subventions to Mission Hospitals and Non-Governmental • Rehabilitation Centres at P141.59 million.
Ministry of Local Government and Rural Development	Third largest share of P4.90 billion or 14.7 percent, mainly • to cater for terminal benefits for Councillors, • augment the maintenance vote for Local Authorities, and • the budget for Tribal Administration	Third largest share at P5.20 billion or 14.2 percent. An increase of P225.14 million or 4.5 percent over the 2014/15's revised budget • The proposed budget will mainly cover revenue support grants to District/ Urban Councils at P3.11 billion; and • Social Protection Programmes at P472.82 million comprising provision for Old Age Pension at P393.60 million, • Destitute Allowances at P48.52 million, allowances for people with acute disabilities at P20 million, • World War Veterans at P10.70 million. • The Ministry's provision also covers Food supplies for primary schools and clinics at P379.12 million; • Transfers under the Orphan Care Programme at P350 million; • maintenance of Government facilities at P33.64 million.
Ministry of Defence, Justice and Security	Fourth largest share of P4.18 billion or 12.5 percent • to cater for maintenance of equipment and vehicles for the security forces, • as well as for new positions and vehicle replacement	Fourth largest share at P5.04 billion or 13.7 percent. An increase of P464.12 million or 20 10.2 percent over the 2014/15's revised budget. • The proposed budget caters principally for maintenance of aircraft, vehicles, infrastructure and equipment for various security agencies at P375.21 million, • allowances for security personnel at P771.76 million, • vehicle replacement requirements for the Botswana Defense Force, • the Police and Prisons Services at P204.65 million and • Special Expenditure for replacement of aircraft, civil defense equipment and computers at P113.16 million.

Source: MFDP Budget Speech, 2014 and 2015

No major changes have occurred in the top four (4) ministries in terms of the allocation of the recurrent expenditure between the two most recent budget years with MoESD continuing to receive the largest budget share for many years in succession. Of concern with the MoESD is the declining education quality while major budget support has been dispensed to the Ministry to show the commitment of Government towards human skills development. However, there is a need to enhance the requisite skills and quality aspects of the education system which are found to hamper Botswana's ability to attract foreign direct investment where adequacy of skills is key. It is also crucial to hasten the implementation of the Human Resource Development Strategy and related supportive sector specifc human resource strategies to make progress and headway towards quality enhancement of the Botswana education system and outcomes.

More effort should be directed towards the implementation of appropriately targeted and defined strategies in budget support consistent with emerging education sector challenges for effective delivery and progress in human capital development. The slow pace of implementation and the lack of adequately defined and well targeted education sector initiatives impacts adversely on the performance of the education sector and the reform process. The current education reform process requires oversight structures supported by monitoring and evaluation of programmes for timely and well informed strategic interventions to consistently address sectoral challenges. Making headway on competitiveness and productivity requires continuous support of strategies and initiatives to enhance delivery and attain growth. Human capital development and infrastructure development support is central to the achievement of targets set in the National Development Plan, the Vision 2016 and the Millennium Development Goals.

With regards to the health challenges facing the economy, the allocations to the Ministry of Health reflect Government's commitment to national health in order to achieve the Millennium Development Goals and arresting the HIV/AIDS pandemic.

Rural development has been identified as a key priority for development particularly in the strive towards eradicating poverty. The budget allocations explicitly recognize the role the rural economy can play in the realisation of a number of key objectives set in the National Development Plans, Vision 2016 and those set in the MDGs. Strategies for rural development require to be specifically mapped to identify specific needs and address priority gaps and deliver consistently targeted programmes and initiatives for an efficient welfare enhancing rural development programme.

With regards to the development budget, annual revised budgets have continued to reveal under spending on the development budget over the years with the 2014/15 budget having been under spent by about 27 percent. Continued under spending in the development budget is however an issue for concern since some development projects are compromised in the process. This requires scaling up of project management as well as both budgeting and implementation capacities to enhance budget delivery. The inconsistency between budget proposals and results requires the implementation of public finance management systems to ensure effective delivery.

One area of priority in the 2015/16 budget allocations is to maintain existing, and develop requisite infrastructure; roads, airports, bridges and the support to ICT facilities. This is crucial for creating a conducive business environment and promoting efficiency with technology use. Botswana's competitiveness can gain from infrastructure development and the growth process in general. Infrastructure development will be supportive of diversification initiatives. However, there is a need to conduct an infrastructure needs assessment across sectors particularly those that can quickly and meaningfully spearhead diversification so that priority challenges can be addressed. Further, partnerships between government and the private sector and support from funding organisations should be explored to supplement government efforts in infrastructure development in order to reduce the budget burden which will give room for other development programmes to be budgeted for.

For the 2015/16 budget year, a total of P12.93 billion has been proposed for the development budget with the largest share allocated to the Ministry of Minerals, Energy and Water Resources (MMEWR) at P3.32 billion or 25.7 percent of the budget. This would provide for addressing the water and power issues facing the country by putting in place appropriate infrastructure. M ajor projects to be funded under MMEWR include North-South Water Carrier II pipeline at P500 million and connection of Kanye and Molepolole to the Water Carrier pipeline at P150 million. The 2015/16 proposed allocations to the various ministries and key projects is summarized in Table 4.

Table 4: Proposed 2015/16 Development Budget

	2014/15 Development Budget Allocation and Outlined Project Activities P12.24 billion, (marginal increase of 0.99 percent over the 2013/14 revised budget of P12.12 billion).	2015/16 Proposed Development budget of P12.93 billion and Project Activities
Ministry of Minerals, Energy and Water Resources ***(MMEWR)***	Largest share of P3.55 billion or 29.0 percent. Major projects constituting 97.4 percent of the budget are: • Botswana Power Corporation (BPC) Finances at P2.05 billion to cover BPC operational and maintenance cost at P1.5 billion, • North-West Power Transmission line at P200 million, • Emergency power supply at P140 million, • Rakola substation at P100 million, • Morupule A and B at P60 million, • ZIZABONA at P50 million, • North-South Water Carrier II from Dikgatlhong Dam to Palapye, as well as from Palapye to Gaborone at P600 million, • Completion of Dikgatlhong and Thune Dams at P200 million and P100 million, respectively, • Emergency water projects at various locations at P200 million, • Kanye-Molepolole connection to North South Water Carrier at P100 million, • Construction of sewerage systems for Kanye and Molepolole at P80 million, as well as • The Oil Storage project amounting to P50 million.	Largest share of P3.32 billion or 25.7 percent of the budget to continue to address the water and power issues facing the country by putting in place appropriate infrastructure. • Major projects to be funded under MMEWR include: North-South Water Carrier II at P500 million, • Kanye and Molepolole connection to the North-South Water Carrier at P150 million, • Mahalapye and Palapye Water Network extension at P100 million and, • Maun Water and Sanitation at P89 million. Projects aimed at improving the power situation include: • Morupule A refurbishment at P100 million, • Electrification of villages at P100 million, • North West Power Transmission Grid at P50 million, • Rakola Power Substation at P50 million and, • ZIZABONA regional power project at P33 million, • Botswana Power Corporation allocated P1.5 billion to cover tariff subsidy and some operational expenses, • P150 million allocated for construction of an Oil Storage facility at Tshele Hills in Kgatleng District to address various energy needs in the country.
Ministry of Transport and Communications	Second largest share at P1.875 billion or 15.3 percent. Major projects are: • Tonota-Francistown Road project at P150 million, • Kazungula Bridge at P100 million, • Cash injection to Air Botswana amounting to P330 million, • Air Transport Infrastructure project at P390.4 million, and • Development of ICT Facilities including broadband and backbone infrastructure at P300 million.	Second largest share of P1.62 billion or 12.5 percent. Major projects include: • Upgrading of existing ICT infrastructure to optic fibre as well as broadband connectivity in strategic areas of Gaborone, Francistown, Maun and Kasane, as well as, Maun – Ngoma optic fibre link to facilitate international connectivity, at a total cost of P300 million, • The construction of Kazungula, Thamalakane and Mohembo bridges at P280 million, • Upgrading of Kasane, Maun and Sir Seretse Khama airports at P265 million and, • Long term maintenance contract for Mankgodi-Kanye-Jwaneng and Rakhuna-Mabule roads at P190 million, • Upgrading of some existing road junctions and improvements of traffic signals, as well as access to Central Business District in Gaborone at P130 million.
Ministry of Local Government and Rural Development	Third largest development budget allocation of P1.271 billion or 10.4 percent Major programmes are: • Ipelegeng at P580.59 million, • Village Infrastructure, amounting to P220 million, • Primary School backlog eradication at P220 million, as well as, • Fire engines and equipment at P50 million, • These projects account for 82.7 percent of the Ministry's development budget.	The Ministry of Defense, Justice and Security the third largest share of the development budget at P1.32 billion or 10.2 percent of the budget . • The bulk of which goes to BDF for improving its operational readiness The Ministry of Local Government and Rural Development gets the fourth largest share of the development budget at P1.2 billion or 9.3 percent •This amount will go towards the funding of the Ipelegeng Programme at P635.6 million, Primary School backlog eradication at P341.2 million and Village Infrastructure at P151.4 million

***Other Ministries*.**	The rest of the ministries share the remaining half of the proposed development budget	Agriculture at P1.1 billion or 8.5 percent. • this amount goes towards the implementation of Agricultural Support Schemes such as ISPAAD and LIMID at P730 million, • Zambezi Water Development at P200 million, • And Pandamatenga Infrastructure Development Project at P100 million State President at P1.04 billion or 8.0 percent • To finance the HIV/AIDS Programme at P194.8 million, • Poverty Eradication initiatives at P160 million, • E-Government at P150 million and • Digital Migration at P130 million for enhancing business environment The balance of P3.33 billion or 25.8 percent of the proposed development budget is shared by the remaining Ministries and Departments.

Source: MFDP Budget Speech, 2014 and 2015

In line with the challenges in the energy and power sector, the budget has appropriately recognized the need to prioritise energy supply and power generation project activities through a significant budget allocation to the MMEWR and the Botswana Power Corporation. The allocation aims to address the power crisis that continues to negatively affect industry and business sector activities. Without doubt, poor project management of the Morupule B power plant has had a major impact on sectoral performance by limiting productivity potential of business entities and Botswana's growth potential in general. The continued financial support to the functionality of Morupule plant, though urgent, shows a clear compromise to other projects that would have utilised the funds committed, had the project been done accordingly and delivered timeously. While the government has pronounced its commitment to improving project management and delivery, there is need to ensure that there are requisite skills for project management to reap benefits of major projects with a direct bearing on growth and development. Designing and ensuring functional accountability and oversight structures should be prioritised to promote timely and quality project delivery on major national projects to avoid cost overruns and significant continuous budget support which ultimately compromises other important projects. Related are the resource allocations to the water sector which involves the development of dams and the requisite infrastructure. This is key to address the water shortages since water is a key resource for daily production and this will support business and private sector daily activities.

It is commendable that there are strategies to support some sectors that play a role in the diversification process such as the dairy sector to promote and commercialise agriculture. The initiatives to support the agricultural sector and its development are crucial to generate employment and in tackling poverty eradication.

4.0 PRIORITY BUDGET HIGHLIGHTS

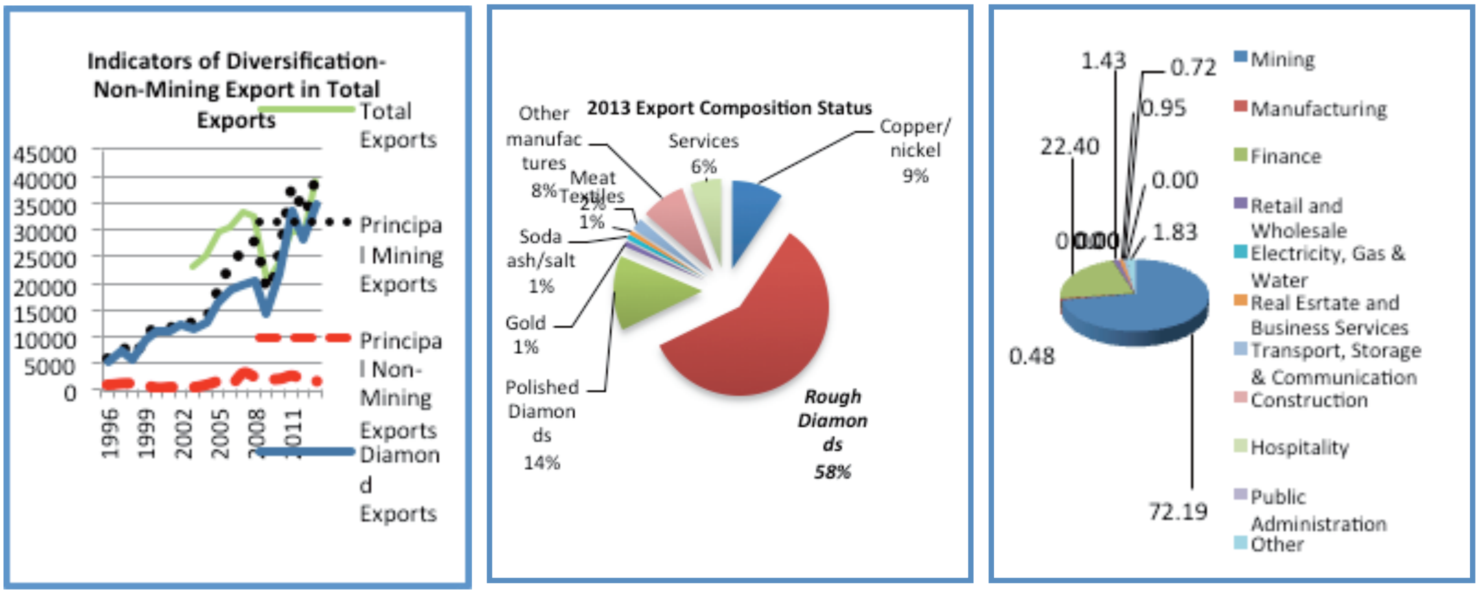
4.1 Diversification and Export Development

The budget approach aims to boost non-mining sector growth performance, thereby promoting a diversified growth base. This is an area that has also received much attention in the budget allocations across various ministries and organisations to enhance the development of industries. Even institutions and initiatives for SMME development through financial subsidy programmes (for example FAP, CEDA, LEA, NDB, BDC, BMC and many)-as well the agricultural sector programmes (for example ALDEP, ARAP, ISPAAD, LIMID) , textile industry support, empowerment programmes, export marketing and branding fall within the motives for diversifying the economy, especially developing the export sector.

Various policy initiatives have also been pronounced to diversify the economy, particularly on the support for the non-mining sectors of the economy. Various parastatals have also been prioritised in terms of budget support to develop the export sector. The assessment indicators for the realisation of results on this major budget absorber to a recognisable magnitude for many years shows that diversification still remains low, with limited non-mining export growth (Figure 5).

Exports composition still remains heavily concentrated on diamonds/mining with a slow filtration of new sustainable export activities to enhance the revenue profile authoritatively. (Figure 5) In addition, mining sector share in total FDI remains dominant

Figure 5: Diversification Indicator, Export Composition and FDI Sector Shares in Total



Source: Bank of Botswana Annual Report Source: Statistics Botswana, MFDP

despite efforts to attract FDI to other sectors of the economy (Figure 5). Diversification still remains an area that will continue to attract budget support to attain transformation, though more focus should be on how best to translate diversification goals into more tangible results of export activities and opportunities.

A major challenge is that progress to diversification still remains slow and concerns still remain with sustainability. An indicator of diversification, non-mining export growth in this budget briefing reveals that there is more that needs to be done to develop other non-mining export industries. Growth outcomes still remain largely determined by mining sector similarly as exports are dominated by mining exports. The lower growth trajectory with lower growth rates of in the 4-6 percent range in 2011, 2012,2013, 2014 projections and lately 4.9% for 2015 clearly mark the urgency for a more result oriented diversification and more export-led growth. The budget recognises the need for support to creating a conducive business environment, human capital development and competitiveness while also pursuing an appropriate micro-macro policy mix. More work should also be on the identification and the uptake of opportunities for export and investment particularly translating them to actual industries and activities to broaden the export composition status that still remains largely driven by the mining sector. This requires more rigour in programmes/initiatives for budget support to promote new growth drivers and exports.

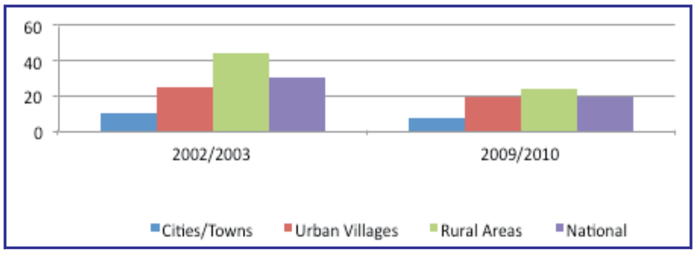
4.2 Poverty

The high poverty rates, though declining (Figure 6) as well as the high unemployment rate will remain areas needing policy and attract budget support for quite a considerable time, given their magnitudes and persistence. This budget briefing demonstrates that although significant budget support has been directed to addressing poverty, inequality and unemployment in the economy, a lot still needs to be done. This augurs well with the emphasis on inclusive growth, which is appropriately identified as a budget priority area since ultimately it impacts on the overall growth and development achievements.

There are many initiatives/ strategies that the government continues to adopt in order to address poverty and certainly progress has been achieved. However, effective programme delivery and access, sustainability of budget commitments, especially towards social safety nets and the pace towards results turnaround are issues for concern that require more rigour in their approach. The Government's decision to design a Botswana Poverty Eradication Strategy, which will serve as a guide for Government strategy towards poverty eradication across sectors is seen as key to ensure consistency of action and results as well as fostering inclusive growth in the economic development agenda-a commendable stride which should be fast tracked into implementation.

The Human Development Index (HDI), which is a composite measure of the quality of life comprising of indices of life

Figure 6: Poverty Headcount by Strata



Source BCWIS 2009/10

expectancy, education and income has increased from 0.587 in 2000 to reach 0.683 in 2013, which indicates an improvement in the country's standard of living. While quality of life has improved, challenges still remain in the eradication of abject poverty. According to the Household Income and Expenditure Survey (HIES, 2002/03), poverty in Botswana was estimated at 30.6 percent which was very high (Figure 5). In an effort to address this, the Government instituted several anti-poverty programmes that, among others, include Destitute Housing, Ipelegeng, Self Help Housing Agency (SHHA) programme, Integrated Support Programme for Arable Agriculture (ISPAAD), various youth programmes, support to Non-Governmental Organisations, Community Development Programmes, Livestock Management and Infrastructure Development (LIMID) programme, and Backyard Gardening.

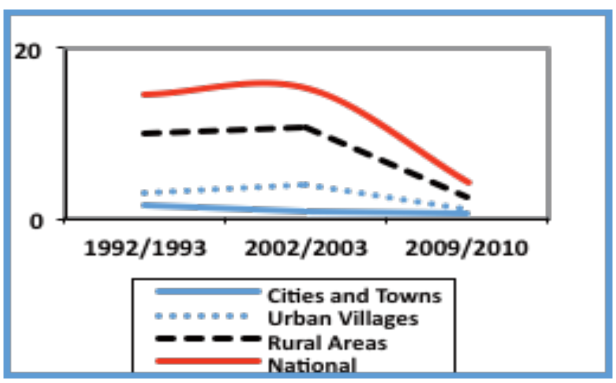
Results of the Botswana Core Welfare Indicators (Poverty) Survey of 2009/10 indicate that the number of individuals falling below the Botswana Poverty Datum Line declined from 30.6 percent of the population in 2002/03 to 19.3 percent in 2009/10. The same survey indicates that the national estimates for persons living below the internationally comparable measure of US$1.25 per day dropped from 23.4 percent to 6.5 percent over the same period (Figure 7).

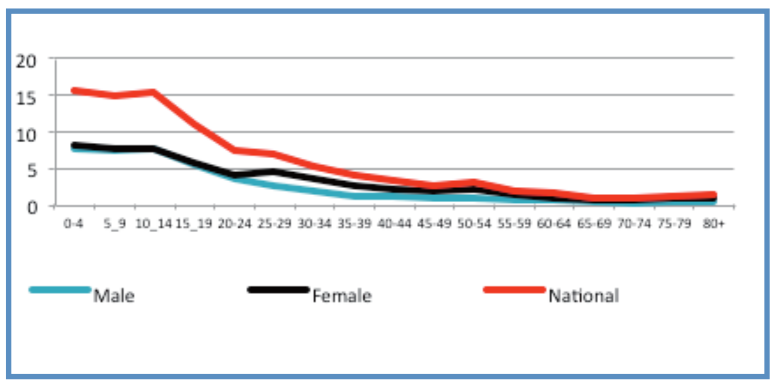
The decline in poverty is indicative of positive results from budget support. However, the pace could be enhanced with effective delivery of programmes, appropriate targeting and well encompassing outreach to the nation particularly in rural areas. The data shows that the proportion of households living below 1 dollar a day still remains relatively higher in rural areas while females tend to be more affected by poverty, demonstrating support for specifically targeted programmes to the rural areas and appropriate targeting by age and gender to target vulnerable members of society. Certain districts show a high incidence of poverty compared to others (Figure 8) and thus programmes and initiatives should be directed to where incidence is highest. The integration of these elements will enhance progress on addressing poverty and its dimensions to make mileage with the budget support towards more positive outcomes.

From the different budget speeches (2011 to present) we gather that:

- During the financial year 2011/12 an additional P100 million was drawn from the Alcohol Levy Fund for financing poverty eradication initiatives. In addition to the budget allocation for the

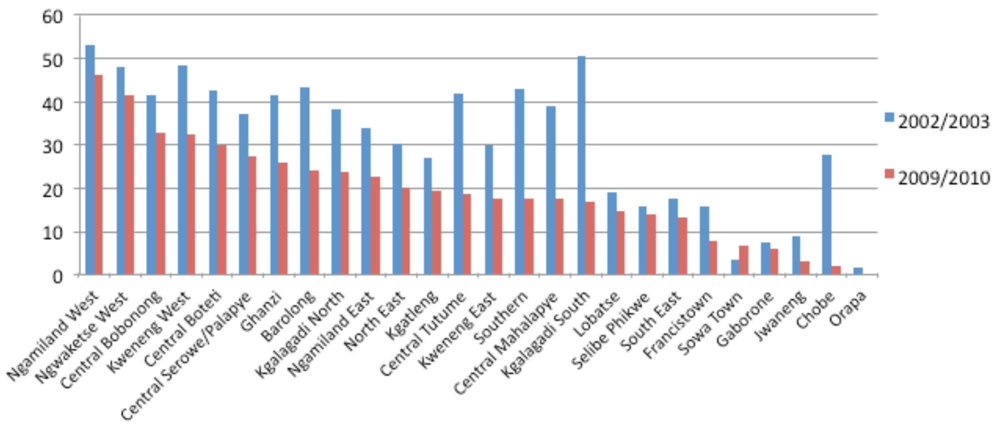
Figure 7: Percentage of Households Living below Dollar a day.. Figure Distribution of Poor Persons by Age Group and Sex





Source: Author Computed from 2009/10 BCWIS dataset

Figure 8: Poverty Incidence by Districts



Source: Author Computed from 2009/10 BCWIS dataset

broad programmes aimed at addressing poverty, during 2012/13, P155 million under the development budget and P8 million under recurrent budget was specifically allocated to the Poverty Eradication Programme (Budget Speech 2012) .

- As at October 2012 Government was supporting 93,090 old age pensioners; 2,110 World War II veterans; 30,906 destitute persons; 1,275 community home based care patients and; 40,766 orphans and vulnerable children. Further, old age pensioner's allowance has been increased from P220 to P250 per month, World War II veterans" allowance from P359 to P390 per month while destitute persons "allowance was increased from P81 to P90 per month.

- In 2012 government adopted Local Economic Development as a key strategic initiative contributing to the National Strategy for Poverty Reduction .(Budget Speech, 2013).

- In 2013 ISPAAD was streamlined in an effort to improve on the effectiveness of some poverty eradication programmes. Under the new guidelines, subsistence farmers enjoy 100 percent subsidies on fertilizers, soil testing, hybrid seeds and herbicides, provided they adopt modern ploughing methods such as row planting and harrowing.

- In August 2013 Government approved the Local Procurement Scheme, whose objective is to empower the youth, people with disabilities, women and rural suppliers and service providers, through public procurement preferential treatment (Budget Speech, 2014).

- Government also took the decision to introduce a social safety net in the financial year 2014/2015 which target People Living with Disabilities (Budget Speech, 2014).

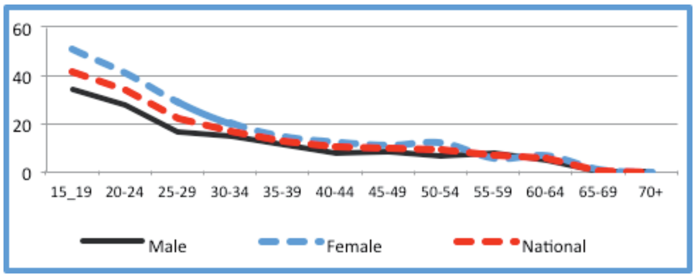
- By November 2014, 9,588 projects funded by the Poverty Eradication Programme have been fully operational, covering all districts (Budget Speech, 2014) .

- The resources committed to addressing poverty need to be fast tracked and to be evaluated in terms of their effectiveness to hasten the pace of progress towards inclusive growth. An evaluation of programmes allows for the identification of gaps and areas where shortcomings can be addressed and in curving the best solutions out of the programmes that have existed. This would have a long way in addressing sustainability concerns where there is ineffectiveness, wastage, duplication and inappropriate targeting.

4.3 Unemployment

- The budget presented places youth unemployment among the key areas for support. Regarding unemployment on the basis of the population aged 18 years and over, this was estimated at 17.6 percent in 2009/10 with youth and women over represented in the army of the unemployed. The BCWIS (09/10) shows that at the time of the survey, 126,019 persons aged 15 years and above were not employed. That is, they were available for work and actively seeking employment. This population, when taken as a proportion of the total labour force (which includes the employed and unemployed), resulted in unemployment rate of 17.9 percent nationally (BCWIS 09/10).The unemployment rate for females (21.4%) was higher than the rate for males (14.6%). Three age groups,15-19, 20-24 and 25-29 years recorded the highest unemployment rates of 41.4,46.7 and 34.0 % respectively(figure 9).The broad age group of 15 through 35 years revealed that the youth have the highest unemployment rate at 25%.Unemployment within strata indicated the highest unemployment rate to be in urban villages at 23.4%, followed by rural areas at 16.2%. Across all strata, the contribution of female unemployment towards stratum unemployment was higher than that of males (BCWIS 09/10).

Figure 9: Unemployment Rates by Age Group and Sex



Source: Author Computed from 2009/10 BCWIS dataset

Various youth programmes have been supported to integrate the youth into the employment streams. This is a major challenge since it is also linked to the skill adequacy of the youth, the needs of the private sector as well as issues of the quality of education versus concerns about the mismatch between training and job market needs. While budget support has been provided to the extent possible, a key question is on the sustainability of employment generation interventions at national level. There is evidence of decelerating government capacity to generate jobs, which requires more private sector support to generate jobs, to develop human capital to address job market vs skills mismatch. Government support is reflected in programmes and institutions such as the continued CEDA, LEA, ISPAAD, Social Welfare Programmes, Young Farmers Fund, Youth Development Fund, Youth Empowerment Scheme, and internship programmes. Some programmes aimed at generating employment that have also benefited the youth since they were not exclusive include FAP, CEDA, LEA to support business and enterprise development. However there is need for more rigour on designing more beneficial programmes for the youth to enhance delivery and their effectiveness as meaningful solutions to the prevalent youth unemployment. Another aspect that requires focus relates to efficiencies in programme implementation. The various initiatives for entrepreneurial business development and support can contribute effectively to employment generation and growth of the private sector. Unemployment can be reduced with the realisation of some key national policy objectives, notably those of diversification, private sector development and business sophistication. Table 6 below indicates the stagnant growth in employment shares by sector which shows that supporting the private sector growth could expand job opportunities to address rising unemployment.

Table 6: Estimated Number of Paid Employees by Sector and Economic Activity,(Percentage Share in Total

Economic Activity	2009	2010	2011	2012	2013
Agriculture	1.74	1.70	1.68	1.66	1.63
Mining & Quarrying	2.98	3.05	3.15	3.04	3.02
Manufacturing	10.01	9.63	9.46	9.45	9.28
Water & Electricity	0.87	1.02	1.06	1.06	1.16
Construction	6.34	6.14	6.03	6.07	5.94
Wholesale & Retail Trade	13.12	12.48	12.24	12.20	12.13
Hotels & Restaurants	4.69	4.50	4.43	4.44	4.39
Transport & Communication	3.53	3.38	3.35	3.37	3.34
Financial Intermediaries	2.28	2.25	2.21	2.26	2.22
Real Estate	5.19	4.97	4.88	4.88	4.77
Education	2.77	2.62	2.60	2.59	2.54
Health & Social work	0.78	0.75	0.75	0.76	0.76
Other Community Services	1.10	1.09	1.08	1.08	1.06
Private & Parastatal	55.37	53.58	52.90	52.87	52.24
Private	51.12	49.16	48.52	48.38	47.53
Parastatal	4.24	4.42	4.39	4.49	4.72
Central Government	27.82	27.04	26.30	26.93	26.17
Local Government	16.82	19.38	20.79	20.20	21.59
Ipelegeng Program	8.71	11.92	13.49	13.50	15.17
Local Gov. Excl. Ipelegeng	8.11	7.46	7.30	6.70	6.42
All Sectors					

Source: Statistics Botswana, figures for Dec, 2009-2013

5.0 CONCLUSION

The budget prioritisation process and allocations are consistent with the key prevailing economic challenges with synergies with NDP 10 and NDP 11 long term development objectives. The status and achievements on the key economic challenges for diversification, poverty and unemployment demonstrates the need for more rigour and focus in a result oriented diversification, effective strategies for addressing the high unemployment and appropriately defined and targeted poverty programmes. More work should be on specific programmes, projects and strategies to support the realization of objectives.

The briefing recommends that to enhance delivery on outcomes for budget support, more effort and rigour should be directed towards effective and timely implementation of programmes and strategies to promote the envisaged growth prospects across sectors. This requires capacity for implementation, appropriate and relevant human and infrastructure resources, which are fundamental for the realisation of intended results from programmes and strategies pronounced in the budget.

Often, delivery and outputs on pronounced strategies in various national budgets lag behind due to unspecified time lines, lack of accountability and effective oversight structures. We emphasise implementation of monitoring and evaluation frameworks to measure progress and achievements on various programmes or initiatives towards the attainment of key strategy goals as well as on budget support versus outcomes.

An effective result oriented budget process will benefit from:

- Targeting specific, relevant, well defined delivered initiatives to realize growth, development and sustainability
- Effective implementation and project management
- Effective performance for projects, monitoring and evaluations
- Efficiency in resource utilization
- Effective Human resource development strategy
- Defining accountability and oversight structures
- Enhanced capacity to effectively deliver
- Productivity and Efficiency Enhancement
- Review of policies, projects and proper alignment to specific challenges and gaps
- Quality of strategies, initiatives targeting to address challenges

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This edition of the budget briefing was written by Dr Grace Tabengwa and Ms Naledi Modisaatsone. We appreciate the comments from the reviewers of the document and those from BIDPA Staff.

Published by BIDPA
Private Bag Br29
Gaborone
Botswana

Tel: (+267) 397 1750
Fax: (+267) 397 1748
Email: htaye@bidpa.bw
Website: http//www.bidpa.bw

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