



Budget Briefing

BOTSWANA INSTITUTE FOR DEVELOPMENT POLICY ANALYSIS

2014 BIDPA Budget Analysis

2014/15 Botswana Government Budget: Briefing Note

1.0 OVERVIEW

This budget briefing note provides an assessment of the key elements of the 2014/15 national budget allocations presented to Parliament on the 3rd February 2014. The main features are discussed with emphasis on the implications for the fiscal and growth strategy given the developmental challenges in the context of Botswana. An evaluation of the resource allocation process in the development and recurrent budget versus the prioritisation process against growth and development priorities across sectors is conducted.

The brief provides key areas for improvement and focus to attain a more result oriented growth process given the current budget propositions. From a policy perspective, given the current budget propositions, we conclude that greater focus should be on effective and timely implementation of programmes and strategies to promote the envisaged growth prospects across sectors within a reasonable period of time. Also, the capacity for implementation and the requisite human and infrastructure resources are fundamental to optimise

positive results from programmes and strategies pronounced in the budget.

Delivery in the goals set on a number of pronounced strategies in various national budgets in Botswana tends to lag behind since time frames are not set and accountable frameworks and oversight structures are either not defined, non-existent or weak which is a major constraint to the growth and development process generally. We therefore underscore the need for the design and implementation of monitoring and evaluation frameworks to monitor and evaluate progress and achievements on various programmes or initiatives to assess progress towards the attainment of key strategy goals as well as assessing budget support versus outcomes. Further, the implementation of public finance management systems would broadly enhance delivery and efficiency in the budgeting process.

2.0 MAIN FEATURES OF THE 2014/15 BUDGET

Balancing the Growth and Fiscal Strategy

The budget process follows a consultative approach through

delivery of the Budget Strategy Paper (BSP) to adapt to the principles of transparency in the allocation of resources and to embrace stakeholder priorities in the development process. The budgetary allocation priorities for the 2014/15 financial year as per the BSP include: *maintenance and efficient operation of existing infrastructure, funding key economic infrastructure such as water, energy, and communications to support growth, completion of on-going projects, and funding of social welfare programmes such as the poverty eradication programme.* An appraisal of the 2014 budget allocations shows that they coincide with key national challenges. This is key for policy consistency, its predictability and some form of accountability on the part of budget authorities with regards to ensuring a transparent budgeting process.

Following the 2007/08 financial and economic crisis, Botswana embarked on a budgeting reform process which also underpins the 2014/15 budget, mainly to attain fiscal prudence and efficiency in budgeting. The key features of the fiscal strategy since the crisis and as emphasized in the current 2014/15 budget centre on attaining efficiency in government spending to do more

with less and attain value for money while also undertaking projects with notable returns to enhance cost recovery. The current budget is, therefore, deemed a continuum on the development path echoed in previous budget priority goals and principles. Growth still remains fragile though a positive turnaround is noted in the United States of America (USA) and European Union (EU) (*see figure 1*). World output growth declined to 3.1 percent in 2012, down from 3.9 percent in 2011. It was projected to further decline to 3.0 percent in 2013, before recovering slightly to 3.7 percent in 2014. Sustainability of the growth momentum is key particularly in view of the high public debt in the USA and EU countries since changes in their growth performance directly impacts on Botswana’s realizable revenue prospects and the fiscal stance. Botswana’s growth performance is projected at 5.4% in the current budget year. While the outlook is positive, it is clear that growth rates will take time to return to the pre-crisis levels.

Output growth slowed from about 6.1 percent in 2011 to 4.7 percent in 2012 and 5.4 percent in 2013 with projections for a 5.1 percent growth rate in 2014. This is a concern since the attainment of key objectives set out in the Vision 2016, Millennium Development Goals (MDGs) and

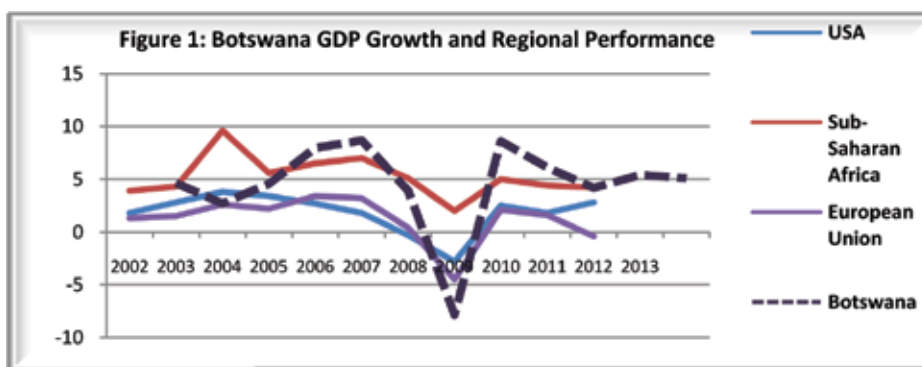
National Development Plan (NDP) 10 require higher growth rates so that Botswana can make progress in the creation of employment opportunities, make significant strides in eradicating poverty and building a solid diversified enterprising competitive economy with broad based growth. Clearly, the current growth rates and fiscal challenges indicate that the attainment of some goals espoused in the Vision 2016 and NDP 10 would be realized in a longer time horizon with continuity into the NDP 11 plan period and beyond Vision 2016 time frame.

We recognize and commend the budget approach particularly on its strength on policy commitment and consistency while aiming to spearhead growth with a binding constraint on the fiscal resources available to back government expenditure. With global risks and the ongoing renegotiation of the SACU revenue sharing formula, the fiscal stance remains fragile. Revenue sources still remain undiversified as seen from the continued dominance of the mining sector revenue in total revenues (table 1). Prospects for revenue generation from the export of beef, meat and related products were affected by the closure of the EU market, and limited market opportunities that could be exploited. Further, the operational

challenges of the Botswana Meat Commission (BMC) in recent time, as well as the drought that impacted on the agricultural sector, also had a bearing on the potential for revenue from beef exports.

VAT growth performance has not been very significant as shown by its declining share in total revenue while there has been an improvement in non-mineral income tax revenue which is key for revenue diversification. The limited revenue prospects limit fiscal flexibility. With the poor revenue profile in the economy, largely driven by diamond export sales, ongoing reforms to promote efficiency in tax collection, compliance and administration should lead to positive improvements in revenue from other sources such as income tax, VAT and fees.

The analysis on available revenue sources is linked with sectoral share performance across the economy, where there is a need for supportive policies and requisite regulatory frameworks to enhance export and the growth performance and across sectors. A number of sectors are earmarked for continued support in the 2014/15 budget allocations to diversify the economy in order to support revenue generation and growth prospects in line with the theme for growing the economy. The sectors include agriculture, manufacturing, financial and business services, trade, hotels and restaurants, and tourism. These sectors have actually played a key role in maintaining the momentum for growth when mining sector performance was declining and volatile as a result of the financial and economic crises of 2007/08. While the resilience in the non-mining sector is key for diversification, continued reforms to



Source: Generated from Statistics Botswana, MFDP and IMF/WB Statistic

	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, Bank of Botswana and MFDP Data

address factors that limit Botswana's competitiveness should be given prominence.

The prioritisation of sectors that can enhance non-mining sector performance is in line with the diversification needs of the economy and those that have shown growth potential. However, it remains fundamental to identify opportunities for investment and

key for generating employment. The growth strategy in supporting these sectors would address some of the national challenges of unemployment and poverty eradication since they have a potential to create sustainable growth and employment while financial sector development is key for service delivery and access to finance. Although the current budget outlines a number of reforms to promote the potential

support the diversification process, implementation tends to be slow and some strategies do not lead to desired results with adverse implications for the pace of diversification. The development of diversification indicators is a requisite to track and monitor the diversification process across sectors. Such indicators are also key to assess the role of government budget support through various initiatives and strategies on economic development in the context of Botswana, and to also ensure that well informed strategic interventions are timeously put in place.

Various initiatives and strategies as well as policies have been announced to address prevailing challenges that thwart progressive growth in the 2014/15 budget speech. In pursuit of efficiency in the public sector, a number of reforms have been targeted to enhance the performance of public enterprises. These include facilitating the implementation of privatisation policy as well as preparations of the Privatisation Master Plan II to identify services and Public Enterprises that are suitable for privatisation during the period 2014 to 2019. The process for merging and rationalizing some public enterprises such as Botswana Postal Services and Botswana Savings Bank will be concluded by March 2014. Also in order to promote accountability, the decentralization of oversight responsibility of parastatals to line Ministries will be initiated.

YEAR	Agric.	Mining	Manufacturing	Water and Electricity	Construction	Trade, Hotels & Restaurants	Transport	Banks, Insurance & Business Services	General Gov't	Other Sectors
2003	2.147	33.381	5.040	1.705	4.936	11.061	3.399	12.180	14.737	11.41
2004	2.100	32.022	4.898	1.700	4.751	10.201	3.326	12.025	15.492	13.49
2005	1.959	33.161	4.771	1.397	4.489	10.122	3.627	11.663	14.655	14.15
2006	2.048	32.298	5.172	1.333	4.781	11.845	3.786	11.292	13.277	14.17
2007	2.123	28.303	6.134	1.166	5.464	12.663	4.059	11.603	12.900	15.58
2008	2.084	25.055	5.752	1.196	5.300	14.378	4.304	12.472	12.447	17.01
2009	2.405	14.631	6.554	1.230	6.460	16.203	5.361	13.731	13.887	19.54
2010	2.585	16.537	6.271	1.248	6.163	16.307	5.171	14.094	13.868	17.76
2011	1.879	15.232	6.506	1.013	7.148	17.514	5.300	14.301	13.986	17.12
2012	1.986	13.595	6.355	0.610	7.851	17.742	5.568	15.231	13.709	17.35

Source: Statistics Botswana

export development in these sectors and create the requisite business environment for these sectors so that there can be investment inflow and business development to build the growth momentum. The manufacturing, tourism, trade, hotels, and restaurant sectors are

of sectors that can lead non-mining sector growth and diversification, it is imperative to appropriately define implementable sector specific strategies to support the growth process. An issue of concern is that while a number of strategies are usually pronounced yearly to

Poor project implementation has been given prominence as an area that requires continued support to ensure effective project delivery which is key for positive project returns and cost effectiveness. This is attributed to poor performance

by some private contractors in implementing Government projects. Measures for addressing poor project implementation that have been highlighted include devising stringent measures to deal with defaulting contractors. A Project Management Office to oversee monitoring and control of all infrastructure projects has also been established. Further strategies include reforming the governance structures of organizations to give accountability to both their Boards and management with clear performance targets. While these are noble intentions, the effective functionality and positive delivery of the project management structures would augur well, given the recent impact of the Morupule B project on power supply; which ultimately impacted adversely on productivity and business sector operations. The significant loss on the part of government can be ameliorated with having oversight and accountability structures that oversee project implementation and delivery. Cost effectiveness will positively benefit the fiscus and allow for other development projects to be pursued with saved funds usually directed to poorly managed projects and parastatals.

Overall, the budgeting principles have therefore targeted reforms and initiatives that promote efficiency and channeling resource allocations to the priority areas in line with key developmental challenges. While some effort is noted in promoting accountability and privatisation, the pace of implementation and results remain slow. Effective implementation and appropriately targeted strategies are areas that should be given focus to unlock the growth potential with sector specific strategies.

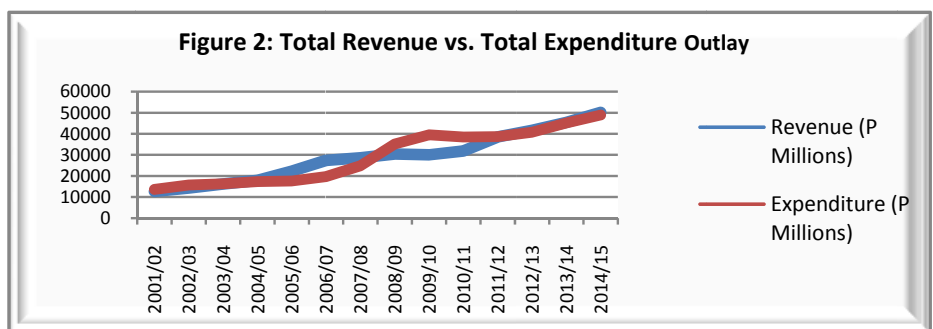
3.0 2014/15 BUDGET ASSESSMENT AND IMPACTS

3.1 Budget Outturn

Balancing the budget (attained in 2012/13 budget) and returning the economy to modest surpluses is one policy that was pursued in the fiscal strategy to build a buffer, given the vulnerability of the economy to external shocks, limited growth and revenue prospects. Total expenditure and net lending in 2012/13 amounted to P40.74 billion compared to P41.08 billion in the revised budget, representing an under spending of P339 million or about 0.8 percent of the revised budget. Of the total amount, recurrent expenditure

2012/13, representing a decrease of P253 million or 0.6 percent from P41.91 billion in the revised budget estimates.

Continued under spending in the development budget is however an issue for concern since some projects for development 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. The expenditure and revenue outlay over the years are summarized in *figure 2*.



Source: Statistics Botswana and MFDP Budget Speeches (2002-2013)

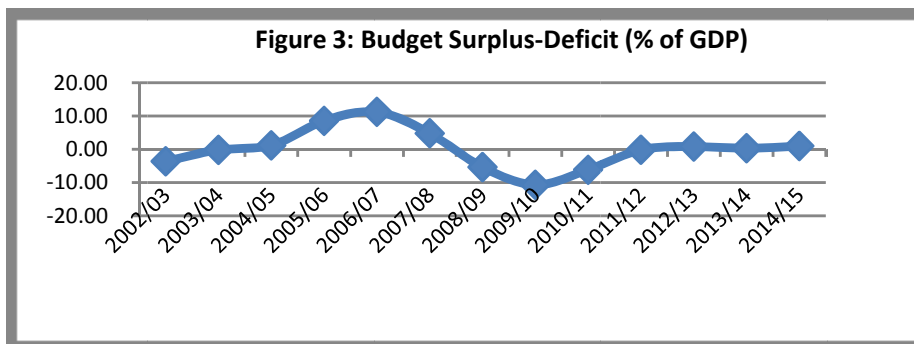
was P32.11 billion compared to P31.77 billion in the revised budget estimates, representing an increase of 1.1 percent. Development expenditure on the other hand stood at P8.3 billion, representing an under spending of P1.08 billion or 11.5 percent of the revised budget. The budget outturn for the 2012/2013 financial year was an overall budget surplus of P922 million, compared to the estimated surplus of P835 million in the revised budget estimates. This result was mainly due to under spending in the development budget. Total revenue and grants amounted to P41.66 billion in

The projected total revenue and grants for 2014/15 amount to P50.18 billion; comprising of Customs and Excise at P15.97 billion or 31.8 percent, non-mineral revenues (Income Tax and VAT) at P15.66 billion or 31.2 percent; and mineral revenue at P15.24 billion or 30.4 percent. The proposed budget indicates that all the three major sources of revenues registered significant growth over the revised budget of 2013/14: Customs and Excise increased by 14.3 percent; Mineral Revenue by 13 percent; and non-mineral revenue by 11.1 percent. A further breakdown of the growth in Non-Mineral Revenue reveals that

income tax and value added tax are expected to grow by 6.7 percent and 19.5 percent, respectively, over the 2013/14 revised budget estimates. The increases in the individual revenue items reflect, in part, the impact of the forecasted modest recovery in the growth of the domestic and global economy. The 2014/15 budget predictions show a moderate budget surplus of P1.326 billion, or 0.97 percent of forecast 2014/15 GDP following the allocations to both the recurrent and development budget (*see figure 3*).

the prioritisation process in the 2014 budget is a strategic element that backs consistency and a tractable approach to the allocation process. The 2014 budget approach rests on seven (7) key thematic areas which identify priority areas for financial support to enhance growth and development.

- o *Growing the Economy and Employment Creation;*
- o *Improving Productivity and Sustaining Sovereign Rating;*
- o *Investing in Infrastructure*



Source: Generated from various MFDP Budget Speeches (2002/2014).

This is a noble objective to ensure that fiscal policy aims to create savings and a buffer. As a vulnerable economy, depended on a non-renewable resource whose demand pattern is largely driven by external forces, there is need for caution in resource utilization due to uncertainty in revenue generation prospects. While the vulnerability of the economy and the need to build a credit rating status are appropriate, a balance should always be struck on ensuring that the policy objective for maintaining a surplus budget does not compromise key priority developmental project undertakings at any point in time.

3.2 Prioritisation vs Challenges

A thematic approach to articulate the key economic challenges to inform

- o *Development to Support Economic Growth;*
- o *Investing in Human Resources to Support Sustainable Growth;*
- o *Enhancing People's Welfare and Livelihoods;*
- o *Strengthening Judicial System and Combating Crime; and*
- o *Strengthening Local Governance.*

The initiatives and strategies pronounced for implementation in the various thematic areas are focused on a rigorous approach to delivery on the diversification process in a number of sectors, and supporting initiatives for institutions. The key sectors identified to grow and create employment in the economy include the financial and business services,

manufacturing, agriculture, tourism and construction. The requisite policy reform to promote financial sector development covers strategies for strengthening strategic partnerships with mobile network operators to provide financial services to the unbanked population, given the wide penetration level of mobile phones, developing the bond market and implementing reforms to promote access to financial services. The agricultural sector is to be supported with a number of programmes such as Integrated Support Programme for Arable Agriculture Development (ISPAAD), securing markets and commercialization. The consideration for exemptions of farming equipment from VAT will boost the performance of the sector.

Given the potential of the agricultural sector in the development process for the rural economy and its role in poverty eradication, more focus should be channeled towards well targeted programmes that specifically address the sector challenges of poor skills and low technology adoption rates for effective utilization of farming equipment to improve productivity. Supportive farmer training and courses for entrepreneurship could enhance the growth and performance of the sector. Close monitoring and encouragement of farming clusters should be given prominence to solidify aspects that can develop the agricultural sector and the rural economy base. Together with the strategies that are ongoing to support the dairy sector, the textile sector and the agricultural sector, these aspects can contribute to efforts for diversification and non-mining sector growth.

The 2014/15 budget makes a commitment to a number

of strategies to support the tourism sector, particularly the development of a supportive policy environment. There is a need for extensive focus on marketing of Botswana as a tourist destination so that the economy can reap the benefits. The sector has a potential to generate employment and contribute to revenue and foreign exchange. The other key benefits include business growth potential and entrepreneurship as well as the development of locations/areas. Clearly articulated strategies for the development of the sector to meet customer needs are key since it is a customer based industry. Skills development and empowerment of Botswana could ensure that they can exploit opportunities availed by the sector more meaningfully.

The other initiatives given focus in the 2014/15 budget are mainly on transforming the economy through enhancing productivity and its competitiveness with reforms for the doing business environment and supportive initiatives for technology and ICT advances. The development of human capital and infrastructure initiatives will support the diversification process and attraction of foreign direct investment. A number of strategies are highlighted for addressing welfare and livelihoods which is consistent with national changes of poverty. Welfare programmes require appropriate targeting so that they are well placed in line with population needs. Further, having well defined screening techniques is key to allow for those in need to be assisted while also balancing government burden of the fiscus if there is no graduation from programmes and effective delivery. Monitoring and evaluation frameworks would go a long way in assisting government to measure

performance against targets on welfare improvement and properly targeting programmes.

There are a number of areas across sector specific strategies for improvement particularly on addressing gaps that strategies should address for a result oriented budget outcome in as far as growth is concerned. Hence, it remains key to ensure that implementation of the proposed strategies is effectively carried out to unravel the growth process. Given the tight fiscal position and the fact that Botswana is still on a recovery path with a fragile fiscal position, the 2014/15 budget follows on a path for fiscal management and attaining growth sustainability echoed in previous budget speeches. Hence, an evaluation of the current resources allocations should not retract from that policy stance given still prevalent global risks, limited revenue prospects and diversified growth base.

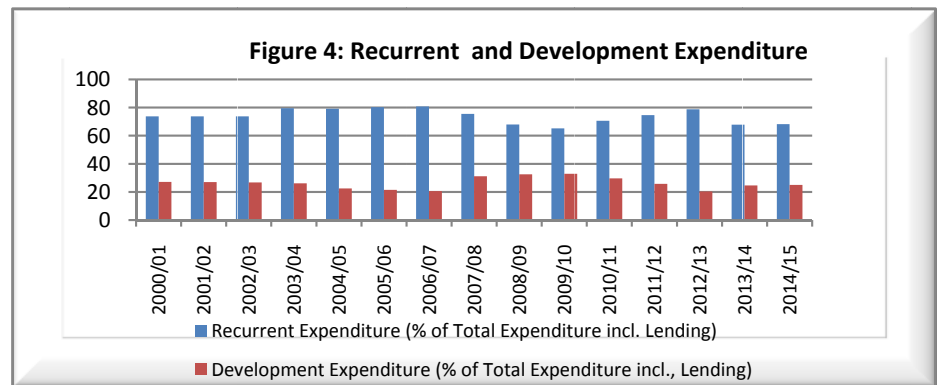
3.3 Recurrent and Development Budget Allocations

Figure 4 indicates the development and recurrent budget shares in total expenditures since 2002-2014. The proposed Ministerial recurrent budget for financial year 2014/2015 is P33.32 billion, represents an increase of P2.79 billion or 9.1

percent increase over the 2013/14 revised budget of P30.53 billion.

Over 70 percent of the recurrent budget is allocated to four Ministries of Education and Skills Development, Health, Local Government and Rural Development and Defense, Justice and Security. The specific activities for funding are summarized in table 4.

The proposed development budget for the 2014/15 financial year is P12.24 billion, which is a marginal increase of 0.99 percent over the 2013/14 revised budget of P12.12 billion. The allocations to the various Ministries and key projects is summarized in table 5. 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 is deemed fundamental to address the power crisis that continues to affect industry and business sector activities. Related are the resource allocations to the water sector which involves the development of dams and the requisite infrastructure. This is in line with efforts to address the water challenges as water is also a key resource to support business and private sector daily activities. While



Source: MFDP Budget Speeches (2002-2014)

Table 4: Proposed 2014/15 Ministerial Recurrent Budget Allocations

	Recurrent Budget Allocation P33.32 billion, (increase of P2.79 billion or 9.1 percent increase over the 2013/14 budget)
Ministry of Education and Skills Development (MoESD)	Largest amount of P9.26 billion or 27.8 percent of the Ministerial recurrent budget <ul style="list-style-type: none"> · 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
Ministry of Health	Second largest share of P5.22 billion or 15.7 percent of <ul style="list-style-type: none"> · the costs of additional manpower requirements for new health facilities, · ARV therapy, and · maintenance of medical equipment and health facilities.
Ministry of Local Government and Rural Development	Third largest share of P4.90 billion or 14.7 percent, mainly <ul style="list-style-type: none"> · to cater for terminal benefits for Councillors, · augment the maintenance vote for Local Authorities, and · the budget for Tribal Administration
Ministry of Defence, Justice and Security	Fourth largest share of P4.18 billion or 12.5 percent <ul style="list-style-type: none"> · to cater for maintenance of equipment and vehicles for the security forces, · as well as for new positions and vehicle replacement
Ministry of Transport and Communications	P1.95 billion or 5.9 percent <ul style="list-style-type: none"> · increase in provision for purchase of bulk fuel and lubricants, subventions to Civil Aviation Authority of Botswana and BoFiNet.
Other Ministries: Agriculture State President Trade and Industry Youth, Sports, & Culture Lands & Housing	<ul style="list-style-type: none"> · P968.16 million or 2.9 percent; · P946.1 million or 2.8 percent · P871.54 million or 2.6 percent · P757.31 million or 2.3 percent · P735.97 million or 2.2 percent

Source: MFDP Budget Speech, 2014.

the current allocation to MMEWER is appropriate, it is no doubt that poor project management of the Morupule B power plant has had a major impact on sectoral performance through limiting productivity potential by business entities and Botswana's growth potential in general. 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 which could have exploited the budgeted funds.

The allocations to the Ministry of Education and Skills Development are also well placed where the Ministry attracts a significant share of the total budget allocation. According human capital and

skills development the priority is consistent with the need to enhance the requisite skills and quality aspects which are found to hamper Botswana's ability to attract foreign direct investment where adequacy of skills is key. The allocations, specifically, will also be focused on addressing the current capacity gaps so that education delivery can be enhanced in schools. However, it is of critical importance to hasten the implementation of the Human Resource Development Strategy and related supportive strategies to make progress and headway towards quality enhancement of the Botswana education system and outcomes. Although for many years, a significant share of the budget is usually allocated to the MoESD, there is a need for more rigour and effort to ensure implementation of appropriately targeted and defined strategies in budget support consistently with emerging education sector challenges for effective delivery and progress on human capital development.

The slow pace of implementation of adequately well defined targeted education sector initiatives impacts adversely on quality performance of the education sector and the reform process. The current education reform process requires oversight structures supported with monitoring and evaluation of programmes for timely and well informed strategic interventions to consistently address the education sector challenges of quality. Making headway on competitiveness and productivity requires continuous support of strategies and initiatives to enhance delivery and attaining growth. Human capital development and infrastructure development support are central to the achievement of aspects of the National Development

Plan, the Vision 2016 and the Millennium Development Goals.

Given the health challenges facing the economy, well prioritised in the allocations is the Ministry of Health where government continues with commitments to ensuring that the health needs of the nation are

catered for as a pressing area. This is also in sync with the Millennium Development Goals where health features among the goals set to be attained in 2015. Further, the Vision goals also feature health as an area that is important to attain “Prosperity for All”.

Rural development is key as a national developmental priority that should be given greater focus particularly in the strive towards eradicating poverty. The budget allocations explicitly recognize the role the development of the rural economy can play in the realization 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.

One area of priority in the 2014/15 budget allocations is on infrastructure development where there are allocations to maintain existing infrastructure and build the requisite infrastructure; roads, airport infrastructure, bridges and the support to ICT facilities. This is consistent with efforts to create 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 would also be key for the DTCB relocation and supporting 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 the government sector and the private sector and support from funding organisations should be explored to support government efforts in infrastructure development and to reduce the budget burden, while giving room for other development programmes to be budgeted for.

Table 5: Proposed 2014/15 Development Budget

	<i>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).</i>
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: <ul style="list-style-type: none"> • 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 Dikgatlong Dam to Palapye, as well as from Palapye to Gaborone at P600 million; • completion of Dikgatlong 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.
Ministry of Transport and Communications	Second largest share at P1.875 billion or 15.3 percent. Major projects are: <ul style="list-style-type: none"> • 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.
Ministry of Local Government and Rural Development	Third largest development budget allocation of P1.271 billion or 10.4 percent Major programmes are: <ul style="list-style-type: none"> • 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.
Other Ministries.	The rest of the ministries share the remaining half of the proposed development budget

Source: MFDP 2014/15 Budget Speech

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. Support for welfare schemes and programmes would promote standard of living and maintaining decent life. Also, the initiatives to support agricultural sector development, which is a key sector to generate employment and in addressing other economic challenges of poverty eradication and unemployment contribute directly to welfare improvement.

3.4 Tax Policy Changes and Effects

Further simplification of tax laws and administration will be continued to encourage compliance, simplify the tax regime and expand the revenue base. The income tax act as well as the value added tax act will be reviewed. The VAT Act will be amended to exempt all farming equipment and all basic food staff which are currently zero rated. This will benefit the agricultural sector positively and contribute to enhancing the sector's performance. To encourage intake of balanced meals for families, the list of basic food items will be increased to include, among others, vegetables, rice and milk. This strategy is key in supporting initiatives for addressing poverty dimensions and supporting welfare and livelihoods. It is also crucial in addressing malnutrition and a progressive step in the attainment of some MDG targets and goals.

It is proposed in the 2014/15 budget pronouncements that the VAT registration threshold will be increased from P500 000 to P1 000 000 in order to relieve small tax payers the burden of regularly filing VAT returns. The SME sector will

benefit from the broadening of the VAT threshold, once implemented, and this is supportive of non-mining sector growth and private sector development. In line with the objectives of promoting home ownership particularly to first time home owners, amendments to the Transfer Duty Act will be carried out in the financial year 2014/15. This is a key development, particularly given the high cost of property, since this will allow more Batswana an opportunity to purchase houses.

4.0 CONCLUSION AND POLICY MESSAGE

The 2014/15 budget recognizes the importance of fiscal restraint and remains disciplined to attain fiscal sustainability. The 2014/15 budget allocations are underpinned by the need to strike a balance in the fiscal strategy for fiscal prudence as well as the economic growth strategy, ultimately attaining macroeconomic stability. The prioritisation process is a strategic element that links the allocation process with national economic challenges, with a number of strategies to support the growth process. A number of initiatives to stimulate the economy through massive investment in public and social services have been prioritised considering the three allocations under development budget for the Ministry of Minerals, Energy and Water Affairs, Ministry of Transport and Communications and the Ministry of Local Government and Rural Development. The project activities consistently reflect the national challenges in water, power, infrastructure and education bottlenecks which remain fundamental in making progress on diversification, competitiveness and

attracting foreign direct investment, while providing a conducive business environment. We underscore the need to ensure functionality of project management and oversight accountable structures to enhance project delivery and alleviating the budget burden as a result of the continued financial support to projects that are not well managed and poorly implemented.

Although the Ministry of Education and Skills Development has attracted a significant share of the budget allocations for many years, we recommend that more emphasis in the education sector should embrace quality as a priority element to transform the human capital and skill profile of Botswana. There is a need to ensure that quality aspects in the education system take prominence in the budget allocation as well as in the utilization of resources to the MoESD with appropriate and requisite project activities and initiatives to address the slow pace towards education reform to upgrade deteriorating quality and education outcomes. A key aspect is to fast track the alignment of the education system at tertiary level with the changing dynamic private sector investor needs and global sphere. We underscore the need to hasten the implementation of the Human Resource Development Strategy and those supportive strategies to make progress and headway towards quality enhancement of the Botswana education system and outcomes.

We note that although a significant share of the budget is usually to the MoESD, there is a need for more rigour and effort to implementation of appropriately targeted and defined strategies in budget support consistently with emerging

education sector challenges for effective delivery and progress on human capital development. The slow pace of implementation and lack of clearly well defined targeted education sector initiatives impacts adversely on quality performance of the sector, and the reform process requires oversight structures supported with monitoring and evaluation of programmes for timely and well informed strategic interventions.

The budget allocations remain committed to the principles of supporting the business and private sector as well as the government sector. This is clear in pronouncements to support reforms for the doing business environment, technology and innovation and infrastructure development across a number of sectors. The construction of roads, bridges, airport infrastructure, directly enhance the business environment. The consideration for broadening the VAT threshold will benefit the SME sector and promote business development and contribute to non-mining sector growth in the long term. The 2014/15 budget shows some commitment to addressing unemployment and poverty, welfare and social protection, in view of the top three allocations in recurrent spending being education, health and local government and rural development. The reforms to the VAT with exemptions for all farming equipment and all basic food staff which are currently zero rated will also contribute to welfare, agricultural sector development and progress on poverty eradication and generating employment. The review of the transfer duty act will contribute meaningfully to home ownership among citizens and welfare broadly.

The implementation process is an area that requires more focus to ensure that the resources allocated can transform the economy through realisable results. We underscore that while the budgeting process is on track in its approach to prioritising key national challenges and awarding resources, slow pace of implementation constrains the growth process since a number of pronouncements takes too long to take effect.

From the policy perspective, greater focus following the budget delivered should be effective and timely implementation of programmes and strategies to promote the envisaged growth prospects and development across sectors within reasonable time. Capacity for implementation and requisite human and infrastructure resources are fundamental to attain positive result oriented programmes and strategies pronounced in the budget. Delivery in the goals set on a number of pronounced strategies in various national budgets in Botswana tend to lag behind since time frames are not set.

Further, accountable frameworks and oversight structures are either not defined, non-existent or weak, which is a major constraint to the growth and development process generally. Therefore, there is need to design and implement monitoring and evaluation frameworks to monitor and evaluate progress and achievements on various programmes or initiatives to assess progress towards the attainment of key strategy goals. The implementation of public finance management systems would enhance delivery and efficiency in the budgeting process mechanism. We note areas that require further focus and improvement for effective budget allocation and delivery on

the priority issues for growth and development:

- **Implementation:**
To further the growth of the non-mining sector and making progress in the various developmental goals given budget support, implementation remains key. While a number of pronouncements for initiatives/strategies/programmes have been made in the current speech, they have to be given utmost effective implementation to bear fruition. Effective implementation would provide impetus for realisable goals. Fast tracking implementation and ensuring that there is monitoring and evaluation is what remains fundamental to unlock the growth potential of a number of reforms and initiatives supported by the 2014/15 budget and many others where the current budget carries forward.
- **Budget Outcome Performance:**
Under-budgeting in the development budget limits the growth potential since it compromises other projects which could have been awarded resources timeously. Promoting efficiency in budgeting at all levels and ministries and ensuring that project delivery is effectively carried out enhances budget outcomes versus target goals.
- **Capacity for Strategy Delivery:**
Capacity to implement strategies and initiatives is an area that often limits realization of goals for strategy objectives defined and supported with budget allocations.
- **Accountability Frameworks:**
While a number of well intended and appropriate initiatives are

pronounced in the budget, the lack of clearly defined structures to support effective implementation delivery limits the potential to realization of developmental goals prioritised in the budget.

- ***Monitoring and Evaluation Frameworks:***

There is need to shift to designing of the monitoring and evaluation frameworks. A number of activities that require M & E are usually pronounced but the operationalisation process mostly does not take effect (across projects/initiatives/strategies). Capacity for monitoring and evaluation and development of requisite indicators is an area that requires attention.

- ***Rigour and Approach to Strategy/Initiatives:***

There is need to ensure that at the time strategies/initiatives are pronounced they are well placed, consistent and could be implemented within reasonable time with requisite capacity mapping. Often, strategies are announced and their implementation takes a very long time due to capacity constraints, technical challenges and lack of requisite expertise. In some cases, consistency, targeting of strategies and how they work out is not adequately done with implications for delivery and effectiveness.




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