



**Republic of Botswana**

**2017 BUDGET SPEECH**

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Minister of Finance and Economic Development  
Delivered to the National Assembly on 6<sup>th</sup> February 2017**

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## TABLE OF CONTENTS

|  |    |
|--|----|
| INTRODUCTION .....   | 1  |
| ECONOMIC REVIEW AND OUTLOOK.....   | 2  |
| Global Performance and Outlook .....   | 2  |
| Regional Review and Outlook .....  | 2  |
| Domestic Performance and Outlook .....   | 2  |
| <i>Economic Growth and Outlook</i> .....   | 2  |
| <i>Monetary Policy and Inflation</i> .....   | 3  |
| <i>Balance of Payments and Foreign Exchange Reserves</i> .....                       | 3  |
| <i>Exchange Rate Developments</i> .....  | 4  |
| PRIORITY AREAS FOR 2017/2018 FINANCIAL YEAR .....                                    | 4  |
| (i) Developing Diversified Sources of Economic Growth and Revenue.....               | 5  |
| <i>Diversified Sources of Economic Growth</i> .....                                  | 5  |
| <i>Diversified Sources of Revenue</i> .....  | 7  |
| (ii) Human Capital Development.....  | 8  |
| (iii) Social Development .....   | 8  |
| (iv) Sustainable Use of Natural Resources .....                                      | 9  |
| (v) Consolidation of Good Governance and Strengthening of National<br>Security ..... | 9  |
| (vi) Monitoring and Evaluation .....   | 9  |
| BUDGET REVIEWS AND PROPOSALS .....   | 9  |
| 2015/2016 Budget Outturn.....  | 10 |
| 2016/2017 Revised Budget Estimates .....   | 10 |
| 2017/2018 Budget Proposals .....   | 11 |
| Revenues and Grants.....   | 11 |
| Recurrent Budget .....   | 11 |
| Statutory Expenditure.....   | 12 |
| Development Budget.....  | 12 |
| Overall Balance .....  | 15 |
| FISCAL LEGISLATION.....  | 15 |
| CONCLUSION .....   | 15 |

## INTRODUCTION

- 1. Madam Speaker,** I have the honour this afternoon to present to the National Assembly budget proposals for the financial year 2017/2018.
- 2. Madam Speaker,** Honourable Members may recall that the eleventh National Development Plan (NDP 11) was approved by this House in December 2016. Hence, these 2017/2018 budget proposals are the first instalment out of six budgetary outlays for implementing NDP 11, whose theme is “**Inclusive Growth for Realisation of Employment Creation and Poverty Eradication**”. I wish at this point, **Madam Speaker,** to reaffirm the Government’s commitment to the principle of national development planning, and to state that this principle has never been violated, contrary to the perception from certain quarters that NDP 10 was at one point suspended. NDP 10 was instead extended by one year to 31<sup>st</sup> March 2017, with the approval of this House.
- 3.** The approval of the NDP 11 by Parliament followed extensive consultations with various national stakeholders, which resulted in the identification of several national priorities that have to be pursued in the medium term to address the development challenges of unemployment, poverty and income inequality. In this regard, a significant amount of the financial year 2017/2018 budget, will be allocated to these priorities as they are key in promoting inclusive economic growth, which is a necessary condition to address these development challenges.
- 4. Madam Speaker,** these development challenges should be considered in an environment of persistently subdued economic growth worldwide characterised by; continued uncertainties over global economic performance, weak global demand for commodities, and the associated weak commodity prices. These, in turn, affect the expected performance of the domestic economy, reflecting its dependence on the global economy, particularly for the sale of diamonds. Hence, continued prudent financial management during this and subsequent financial years, is essential.
- 5. Honourable Members,** to set the context for these budget proposals, I shall briefly review the global, regional and domestic economic situation. The outcome of such a review forms the basis for estimating available resources, and thus, the ability for Government to undertake planned programmes and projects for the financial year.

## **ECONOMIC REVIEW AND OUTLOOK**

### **Global Performance and Outlook**

**6. Madam Speaker**, the global economic performance continues to be subdued, largely driven by; Britain's exit from the European Union, the risk associated with the rebalancing in the Chinese economy, slow recovery of commodity prices, and declining volumes of trade. As a result, the International Monetary Fund's outlook of January 2017 projected a modest global growth of 3.1 percent in 2016, from 3.2 percent recorded during 2015. Growth in emerging market and developing economies was expected to reach 4.1 percent in 2016, the same rate recorded in 2015. On the other hand, growth in advanced economies was forecast to decline from 2.1 percent in 2015 to 1.6 percent in 2016, due to; weak productivity growth, low investment, and subdued demand. In the meantime, the sub-Saharan Africa was anticipated to record a lower growth of 1.6 percent in 2016, down from 3.4 percent in 2015, as a result of weak performance of major economies of Nigeria, South Africa and Angola.

**7.** The global economic outlook for 2017 is however positive, with global growth rate expected to reach 3.4 percent, underpinned by continued positive growth of 4.5 percent in emerging market and developing economies during the same year. Growth in advanced economies is also expected to improve slightly from 1.6 percent in 2016 to 1.9 percent in 2017, while the sub-Saharan Africa economies are expected to recover from 1.6 percent in 2016 and reach 2.8 percent in 2017.

### **Regional Review and Outlook**

**8. Madam Speaker**, the Southern African Development Community (SADC) region is expected to record a lower average real GDP growth rate of 3.1 percent in 2016 compared to 3.5 percent achieved in 2015. Moreover, inflation pressures in the region have also increased since January 2016, largely due to food shortages and strengthening of the USA dollar against most currencies of the region. Average inflation rose from 7.0 percent in September 2015 to 12.0 percent in September 2016. Performance of the external sector is also expected to be weak in 2016, mainly due to the declining terms of trade. The external current account for the region is projected to deteriorate from a deficit of 8.2 percent of GDP in 2015 to a deficit of 8.4 percent of GDP in 2016.

### **Domestic Performance and Outlook**

#### *Economic Growth and Outlook*

**9. Madam Speaker**, the latest data released by Statistics Botswana based on audited accounts of companies, indicate that the domestic economy contracted by 1.7 percent in 2015, compared to a positive growth rate of 4.1 percent recorded in 2014. This negative growth was mainly due to weak performance of the mining

sector, as a result of the reduction in diamond and copper production by 15.6 percent and 35 percent, respectively, during the year. The non-mining sectors also registered a lower growth of 1.7 percent in 2015 compared to 4.9 percent in 2014, reflecting the impact of water and electricity disruptions on the rest of the economy. The outlook for 2016 is however positive, with the domestic economy expected to recover and record a growth rate of 2.9 percent for the year, and forecast to reach 4.2 percent in 2017. The optimistic outlook is based on the anticipated slight improvement in the mining sector, and positive growth prospects for the non-mining sectors. However, there are downside risks to 2016 and 2017 growth prospects, such as the slow recovery of the global economy, and falling commodity prices.

#### *Monetary Policy and Inflation*

**10. Madam Speaker,** price stability is one of the important elements for macroeconomic stability, the latter being a necessary condition for growth and job creation in the country. It is therefore pleasing to note that the domestic annual rate of inflation has remained slightly below the Bank of Botswana objective range of 3-6 percent during 2016. The rate of inflation actually declined from 3.1 percent in December 2015 to 3.0 percent in December 2016. In the medium term, the domestic inflation outlook remains positive, due to low domestic demand and continued stability in the global oil prices.

**11.** As a result of the positive inflationary outlook, the Bank of Botswana has again maintained an accommodative monetary policy stance over the past year, reducing the Bank Rate from 6.0 percent in July 2016 to 5.5 percent in August 2016. This policy stance is expected to encourage borrowing for investment purposes. The low inflation environment, on the other hand, is necessary for fostering international competitiveness of domestic industries, and support economic development necessary for creating employment.

#### *Balance of Payments and Foreign Exchange Reserves*

**12. Madam Speaker,** the preliminary balance of payments projections for 2016 point to a surplus of P5 billion, compared to a deficit of P57 million recorded in 2015. The significantly larger surplus in 2016 is mainly due to a positive current account balance. The current account balance is projected to record a larger surplus of P25.7 billion in 2016, compared to P10.5 billion in 2015, underpinned by the anticipated trade balance surplus. Exports are expected to have grown by 21 percent, while imports are expected to decrease by 9 percent in 2016, mainly as a result of the slight recovery in the diamond market and continued depression of the domestic demand for imports.

**13.** As at the end of December 2016, foreign exchange reserves stood at P76.8 billion, compared to P84.9 billion in December 2015, representing a decline of

9.5 percent. In terms of the US dollar and the Special Drawing Rights (SDR), these reserves stood at US\$7.2 billion and SDR5.3 billion, respectively. A fall in reserves is primarily as a result of an increase in demand for foreign exchange to pay for imports, notably for imported electricity by Botswana Power Corporation. These levels of reserves are equivalent to 17 months of import cover of goods and services.

**14.** The Government Investment Account (GIA) portion of the foreign exchange reserves also declined from P35.5 billion in December 2015 to P33.3 billion in November 2016, due to increased payments for imports relative to exports receipts during the period.

#### *Exchange Rate Developments*

**15. Madam Speaker,** management of our exchange rate continues to be focused on ensuring competitiveness of the domestic industries in both regional and international markets. The objective of management of the Pula exchange rate mechanism is to maintain a stable real effective exchange rate through regular adjustments of the basket weights in line with the country's trade patterns, and the rate of crawl based on the inflation differentials between Botswana and its trading partners. In this regard, in January 2017 the current basket weights were adjusted to 45 percent South African rand and 55 percent SDR and the upward rate of crawl reduced from 0.38 percent to 0.26 percent. In terms of bilateral exchange rates, the Pula depreciated against the South African rand by 7.5 percent, while appreciating by 8.9 percent against the SDR in the twelve months to December 2016.

**16.** Furthermore, in October 2016, the Chinese renminbi (RMB) was included in the SDR basket, inevitably becoming part of the Pula basket. This change followed the regular 5-year review of the composition of the SDR basket by the International Monetary Fund. Thus, the Bank of Botswana now publishes RMB/Pula and RMB/USD with other traded exchange rates.

### **PRIORITY AREAS FOR 2017/2018 FINANCIAL YEAR**

**17. Madam Speaker,** NDP 11 contains six priority areas that have to be addressed in the medium term. These are: (i) *Development of Diversified Sources of Economic Growth and Revenues*; (ii) *Human Capital Development*; (iii) *Social Development*; (iv) *Sustainable Use of Natural Resources*; (v) *Consolidation of Good Governance and Strengthening of National Security*; and (vi) *Monitoring and Evaluation*. These priority areas will be guiding the process of budget formulation during the Plan period, starting with the budget proposals for the 2017/2018 financial year, which is the first year of NDP 11. Details of some of the programmes and projects proposed for the 2017/2018 financial year, to address these national priorities are provided later in this Speech under the sub-

section dealing with development budget. I shall now address each of these national priorities in turn.

**(i) Developing Diversified Sources of Economic Growth and Revenue**

***Diversified Sources of Economic Growth***

**18. Madam Speaker,** between financial years 1988/1989 and 2014/2015, there has been a notable change in the composition of Botswana's gross domestic product. This period is characterised by growth in various non-mining sectors such as: Finance, Business & Services; Trade, Hotels & Restaurants; and Transport & Communications. These sectors are currently contributing significantly to value addition, while the contribution by the Mining sector has declined from over 50 percent in 1988/1989 to around 20 percent in 2014/2015.

**19.** Despite this structural transformation in the value addition, the country continues to be heavily dependent on exports and revenues from diamonds. As at end of 2015, diamond exports accounted for 83.1 percent of total exports with mineral revenue accounting for 30.4 percent share of total Government revenue. There is need to diversify our exports, which have remained the same and largely dominated by diamonds. It is for this reason that, *the development of diversified sources of economic growth and revenue* was identified as one of the priority areas to be pursued during NDP 11. Hence, besides consolidating on achievement made on structural economic transformation, export diversification should be the main objective going forward.

**20. Madam Speaker,** as a general principle, economic development and employment creation require rapid economic growth. However, over NDP 10, which ends in March 2017, our economy grew on average by about 3.8 percent. The economy is also forecast to grow at an average of about 4.4 percent per annum over the entire NDP 11. These growth rates are lower than the early 1980s rates of 7 to 9 percent and SADC regional target of 5 percent. Such rates are not sufficient to adequately address development challenges of; unemployment, poverty eradication, and income inequality. With regard to employment creation, it is important to clarify that the principal role of the Government is not to create jobs directly, but to provide a conducive macroeconomic environment to facilitate the development of the private sector. The private sector, in turn, is expected to take advantage of such an environment to undertake investments, which would contribute to the growth of the economy and creation of sustainable employment opportunities.

**21.** Among the strategies to be pursued during the 2017/2018 financial year to promote diversified and export led growth, should include the provision of basic infrastructure such as; ICT, electricity, and water supply, which are critical enablers for setting up a business. Other critical inputs such as land servicing as

well as residence and work permits have of late received attention as basic requirements for business operation.

*Information and Communication Technology (ICT)*

**22. Madam Speaker**, in order to deliver on the priority of developing diversified sources of growth, an efficient Information and Communications Technology (ICT) infrastructure is needed as a pre-requisite for research and business mainstreaming within and outside Botswana. To this end, progress has been made in enhancing the national broadband connectivity through installation of major fibre backbone network around the country. The Ministry of Transport and Communications will also subsidise telecommunication operators to connect primary schools with Broadband internet at rural and underserved areas, as a way of enhancing universal access to ICT.

*Electricity Supply*

**23. Madam Speaker**, besides extending Morupule B with units 5 and 6 and Refurbishment of Morupule A Power Plant as additional power sources, the use of solar energy has been identified as a potential alternative source of electricity supply in the country. It is against this background that a comprehensive renewable energy strategy which is aimed at attracting domestic and foreign investments is being developed, and will be completed by February, 2017. Further, Government, in collaboration with the German Agency for International Cooperation is undertaking a Green Energy Feasibility Study aimed at providing alternative sources of electricity.

*Water Supply*

**24. Madam Speaker**, following the construction of a parallel pipeline to the existing line under the North-South Water Carrier Scheme, Government will fund the construction of various pipelines such as the ones connecting Thune Dam to Mathathane, Tsetsebye and Moletemane, which is expected to be completed in 2018, and the other connecting Kanye and Molepolole to the North South Carrier. Besides the implementation of emergency water projects throughout the country, other major water projects planned for 2017/2018 financial year include the rehabilitation of Shakawe Water Treatment Plant and its connection to Seronga, Gunotsoga, Beetsha and Gudigwa villages. All these projects are expected to provide adequate water supply to these villages.

*Land Policy and Servicing*

**25. Madam Speaker**, to facilitate better land management, the Botswana Land Policy was approved by Parliament in July 2015. The objectives of this Policy are to protect land and promote its allocation through establishment of an up-to-date land information management system and to protect land rights of all landholders as well as ensure sustainable human settlements. To this end,



implementation of the policy is ongoing, with stakeholders being engaged in order to create a common understanding of the policy. The preparation of the “National Spatial Plan” which is replacing the Botswana National Spatial Development Framework, commenced in January 2016 and is expected to be completed in June 2018. The Plan’s objective is to create a balance between economic development and the environment.

**26.** In order to address the challenge of lack of serviced land, the Ministry of Land Management, Water and Sanitation Services will prioritise 37, 000 plots under ESP with particular emphasis on design and building of waterlines and storm water drainage, upgrading of sewerage and water schemes, debushing and grubbing, gravelling and/or paving. The Ministry in collaboration with the Public Private Partnership Unit in my Ministry will also engage the private sector to augment and accelerate land servicing.

#### *Local Economic Development*

**27. Madam Speaker,** lack of employment opportunities in rural areas results in migration to urban areas. One way of curbing this migration is through the promotion of developments in rural and peri-urban areas. The Local Economic Development programme, which started in 2015, will be intensified with a view to creating sustainable employment using resources available within local communities. In addition, a pilot project to extend property rates to rural areas in order to generate revenues for Local Authorities is ongoing. The Ministry of Local Government and Rural Development is drafting regulations on extending property rates to rural areas, and these are expected to be implemented during the 2017/2018 financial year. Furthermore, following the provisional closure of the BCL mine in October 2016, Government has developed a strategy to revitalise Selebi Phikwe region, whose main elements are: agricultural production and related value chains; tourism and related services; and establishing the region as a Special Economic Zone, focusing on renewable energy generation, green technology, and ICT. Meanwhile, short term interventions have been put in place that are already being implemented, which include the establishment of a SPEDU land bank for potential investors. To this end, efforts are being made through the Ministry of Investment, Trade and Industry to attract new investors into Selebi Phikwe.

#### *Diversified Sources of Revenue*

**28. Madam Speaker,** our relatively narrow revenue base largely confined to mineral and Customs and Excise, also provides a challenge about the extent to which we can expand the scope of our economic diversification and export-led growth. Customs and Excise revenues, specifically SACU revenues have for a

long time been our second largest source of revenue after diamonds, but these have of late been fluctuating due to performance of imports within the SACU region. With mineral revenues declining and those from SACU being volatile, there is therefore an urgent need to diversify our revenue base towards more sustainable and reliable sources. To this end, my Ministry is considering proposals by the Taxation Review Committee of how to diversify the Government revenue base. These proposals include; adjusting various taxes, levies, permits and licences and reviewing some tax expenditures such as VAT exemptions.

## **(ii) Human Capital Development**

**29. Madam Speaker**, the budget proposals for 2017/2018 financial year also cater for *human capital development* which is another priority area for NDP 11. To facilitate efficiency and effectiveness of the education system which is instrumental in driving human capital development, there has been a separation of ministerial portfolios, with the creation of two Ministries of: Basic Education; and Tertiary Education, Research, Science and Technology.

**30.** Provision of basic education for Botswana will continue to be guided by the 2015 Education and Training Sector Strategic Plan. In the area of tertiary education, priority during the 2017/2018 financial year will be on ensuring that there is a direct link between skills development and the needs of the domestic job market. To this end, the Human Resource Development Council has been working on sector plans for agriculture, tourism, mining, and health.

## **(iii) Social Development**

**31. Madam Speaker**, in the priority area of *social development*, the 2017/2018 budget provides for achieving the Government's objective of eradicating abject poverty by December 2017. Hence, additional packages have been added to the menu of social protection measures, which include; the Layers Project, Fisheries and Aquaculture projects, and the Kgalagadi Sand Building Blocks. Furthermore, efforts are being made to support People Living with Disabilities through various programmes and schemes, such as specific assistance to graduates living with disabilities to find employment within Government, and revision of the National Policy on Disability.

**32.** Affirmative action is also applied in assisting people living with disabilities when they apply for poverty eradication projects and alternative packages. Implementation of the Disability Cash transfer which targets people with severe disabilities is also ongoing. To augment Government efforts, the United Nations Development Programme is running a programme to empower People Living with Disabilities economically and help accelerate accessibility to government programmes and services.

**(iv) Sustainable Use of Natural Resources**

**33. Madam Speaker,** as one of the national priorities, *sustainable use of national resources* is part of a broader principle of sustainable development, which has been the hallmark of this country's development strategy. To achieve sustainable development, which entails expanding the economic base without sacrificing the environment, the country has been focusing on two broad areas of *environmental protection and sustainable management of natural resources*. A number of initiatives in these areas were undertaken during NDP 10 and will continue going forward. A notable initiative is the Wealth Accounting and Valuation of Ecosystems Services (WAVES) programme whose main objective is to take stock of available natural resources and provide economic indicators for their use or depletion.

**(v) Consolidation of Good Governance and Strengthening of National Security**

**34. Madam Speaker,** good governance and observance of the rule of law are prerequisites for development, hence the need to continuously reform, invest and improve on national safety and security of the country. In this regard, Government will continue to nurture our participatory democracy by encouraging dialogue among citizens, and promoting transparency and accountability in the operations of the public sector. In addition, measures will be undertaken to capacitate the safety and security agencies in order to address the emerging crimes associated with the development of the economy. To this end, details of programmes and projects proposed for the 2017/2018 financial year to address the national priority on good governance and national security are provided under the section on development budget.

**(vi) Monitoring and Evaluation**

**35. Madam Speaker,** Government, in collaboration with the World Bank, is developing a National Monitoring and Evaluation System. The System which will be implemented during the 2017/2018 financial year, is expected to assist Government to: strengthen the implementation processes of programmes and policies; track achievement of national development goals; and facilitate evidence-based decision-making in resource allocations.

**BUDGET REVIEWS AND PROPOSALS**

**36. Madam Speaker,** the country's fiscal situation has recently been characterised by slow growth in government revenues and increased pressure on expenditures, as a result of the implementation of programmes such as the Economic Stimulus Programme. Despite the projected budget deficit for the

2017/2018 financial year, the Government is committed to fiscal sustainability in the medium term. In this regard, Government continues to implement measures to curb increase of the wage bill and reduce wastage. In addition, Government will tighten controls by prohibiting, among others; awarding of tenders or contracts without proof of availability of funds, signing of lease agreements without budgetary provision, and virements or re-allocations of funds to cover over-expenditure, overtime allowances or any expenditure without approval of the Ministry of Finance and Economic Development.

### **2015/2016 Budget Outturn**

**37. Madam Speaker,** a significant budget deficit of P6.99 billion or -4.7 percent of GDP was recorded in 2015/2016, compared to a surplus of P5.34 billion or 3.7 percent of GDP in 2014/2015. Total revenues and grants amounted to P47.42 billion, which comprised mainly of P34.88 billion in tax revenue and P12.40 billion in non-tax revenue. As a result of the weak global diamond market conditions during the year, non-tax revenue underperformed by 24.3 percent, due to a low performance in Mineral Royalties and Dividends. On the other hand, total expenditure and net lending during the same period stood at P54.41 billion; of which P40.41 billion was Recurrent Expenditure, while P12.77 billion was Development Expenditure. The balance of P1.23 billion was accounted for by equity injection and net lending to State Owned Enterprises.

### **2016/2017 Revised Budget Estimates**

**38. Madam Speaker,** the 2016/2017 revised budget shows that total revenues and grants are projected to increase by P7.53 billion or 15.6 percent from P48.40 billion in the original budget to P55.93 billion. This is mainly due to an increase in Mineral revenue of P3.82 billion on account of sale of inventory and anticipated improved profitability. Non mineral income tax and Value Added Tax (VAT) are also projected to increase by P1.20 billion and P1.55 billion, respectively, from their original estimates due to continued revenue collection efforts. The Customs and Excise revenue estimate has been reduced as a result of the downward revision of the 2016/17 Southern African Customs Union (SACU) forecasts by the South African Treasury and changes in the exchange rate.

**39.** On the other hand, the projected total expenditure and net lending for 2016/2017 shows an increase by P2.59 billion, from the original budget of P54.44 billion to P57.03 billion. This is due to supplementary funding to replenish the Agricultural Credit Guarantee Scheme (ACGS), and purchase of food for Secondary Schools students under recurrent budget, as well as provision of additional funding for water and energy projects under the development budget. Net lending is also anticipated to reach P1.09 billion, due to the BCL liquidation expenses amounting to P1.02 billion, as well as P300 million as a loan and P100 million as equity to National Development Bank. In the meantime, the repayment of funds initially disbursed for underwriting of shares in the BTC IPO process

amounting to P250 million was received. As a result, the revised budget balance for financial year 2016/2017 shows a deficit of P1.11 billion, or 0.7 percent of GDP.

### **2017/2018 Budget Proposals**

**40. Madam Speaker,** before I present the budget proposals, let me re-emphasise that the 2017/2018 budget marks the beginning of NDP 11 implementation. In this connection, this year's budget seeks to address strategies and priorities identified in NDP 11.

### **Revenues and Grants**

**41. Madam Speaker,** the 2017/2018 total revenues and grants estimate amounts to P57.19 billion, of which the largest share amounting to P17.06 billion or 29.83 percent will come from the Customs and Excise revenue. Mineral revenue is estimated at P16.33 billion or 28.6 percent, while Non-mineral income tax is estimated at P12.35 billion or 21.59 percent of total revenues and grants. VAT collection is expected to reach P8.11 billion or 14.18 percent, while the remaining balance of P3.34 billion or 5.8 percent will be made up of other revenues and grants.

### **Recurrent Budget**

**42. Madam Speaker,** the proposed Ministerial Recurrent Budget for the 2017/2018 financial year amounts to P39.66 billion, which represents an increase of P2.32 billion or 6.2 percent over the 2016/2017 revised budget. Of this Ministerial Recurrent Budget, 71.3 percent is proposed to be allocated to five Ministries of; Basic Education, Health and Wellness, Local Government and Rural Development, Defence, Justice and Security and Tertiary Education Research, Science and Technology.

**43.** It is proposed that the Ministry of Basic Education be allocated the largest amount of P6.80 billion or 17.2 percent of the total Ministerial Recurrent Budget. This is in line with the commitment made by Government to improve education through the implementation of the Education and Training Sector Strategic Plan (ETSSP). The ETSSP seeks to refocus education and training towards fulfilment of a more diversified and knowledge-based economy, through strengthening the match between qualifications and labour market requirements, thereby ensuring that education outputs are more closely aligned to future employment needs. The strategy covers both basic and tertiary education initiatives.

**44.** The second largest share amounting to P6.59 billion or 16.6 percent of the total Ministerial Recurrent Budget, is proposed for allocation to the Ministry of Health and Wellness. This will mainly cater for provision of; drugs, dressings vaccines, anti-retroviral therapy, replacement of obsolete medical equipment, and the implementation of the Treat All Strategy for HIV/AIDS.

**45. Madam Speaker**, the third largest share of P5.62 billion or 14.2 percent, mainly to cater for; provision for Revenue Support Grants to Urban and District Councils, maintenance of the existing infrastructure, provision for food supplies and the Old Age Pension Scheme, is proposed for allocation to the Ministry of Local Government and Rural Development.

**46.** The fourth largest share of the Ministerial Recurrent Budget of P5.01 billion or 12.6 percent is proposed for allocation to the Ministry of Defence, Justice and Security to cover operational costs including maintenance of assets which comprise aircraft, vehicles, buildings, and fuel costs.

**47.** An amount of P4.25 billion or 10.7 percent, being the fifth largest share is proposed for allocation to the Ministry of Tertiary Education, Research, Science and Technology. This allocation covers provision for student financing in both public and private tertiary institutions and subventions to parastatals under this Ministry, such as the University of Botswana, Botswana International University of Science and Technology, Botswana Accountancy College, Botswana College of Distance and Open Learning, and Botswana Institute of Technology, Research and Innovation.

**48. Madam Speaker**, the remaining balance of P11.39 billion is proposed to be shared among the rest of the Ministries and Independent Departments. Among those expected to receive a significant share are: Ministry of Transport and Communications (P1.97 billion or 5.0 percent of total recurrent budget); Ministry of Presidential Affairs, Governance and Public Administration (P1.21 billion or 3.0 percent); Ministry of Agricultural Development and Food Security (P1.10 billion or 2.8 percent); Ministry of Investment, Trade and Industry (P936.85 million or 2.4 percent); and Ministry of Land Management, Water and Sanitation Services (P855.33 million or 2.2 percent).

### **Statutory Expenditure**

**49. Madam Speaker**, in addition to the Ministerial Recurrent Budget, Government must include provision to cover payments mandated by various statutes. The proposed budget for Statutory Expenditure for the financial year 2017/2018 is P6.98 billion. The amount will mainly cover: the servicing of debt obligations; pensions and gratuities, of which the largest share is Government contribution to Botswana Public Officers' Pension Fund; gratuities for non-pensionable officers; as well as Salaries for Specified Officers.

### **Development Budget**

**50. Madam Speaker**, the proposed Development Budget for the 2017/2018 financial year is P16.52 billion. The largest share of the budget is proposed for allocation to the Ministry of Mineral Resources, Green Technology and Energy

Security at P2.94 billion or 17.8 percent. This is in recognition that, reliable and efficient sources of energy are a prerequisite for achieving NDP 11 priority area of *Development of Diversified Sources of Economic Growth*. The major projects under this Ministry comprise the; North West Transmission grid, Morupule A Power Plant Rehabilitation, and construction of Rakola substation. Furthermore, it is proposed that the Botswana Power Corporation be allocated an amount of P1.46 billion to cover operational costs.

**51.** The second largest share of P2.80 billion, or 17.0 percent is proposed for allocation to the Ministry of Land Management, Water and Sanitation Services. This amount will be used for implementation of water projects inclusive of the North-South Carrier II to supply water to the Southern part of the country and reticulation of water from the Thune Dam to nearby villages. This allocation will also cater for, among others; implementation of the Land Administration, Procedure, Capacity and Systems (LAPCAS) to improve land management, and land servicing, which is expected to enhance investment and employment opportunities.

**52.** To address the NDP 11 priority area of *Strengthening of National Safety and Security*, it is proposed that the Ministry of Defence, Justice and Security gets the third largest share of the Development Budget at P2.76 billion or 16.7 percent. This amount will be used to complete ongoing construction of new Police stations and housing, refurbishment of prison facilities and improvements to infrastructure, construction of houses for army personnel, purchase of vehicles and upgrading of equipment for the BDF to enhance security capabilities.

**53. Madam Speaker,** efficient transport systems are essential for moving goods and services, linking people to economic opportunities and enabling access to healthcare or education. Similarly, Information and Communication Technologies (ICT) have emerged as a major driving force behind economic growth and job creation. To this end, the fourth largest share of P1.74 billion or 10.5 percent of the Development Budget is proposed for allocation to the Ministry of Transport and Communications to cater for; Government Data Networks Phase III, Schools Connectivity project, Kazungula Bridge construction, Mohembo Bridge construction, rehabilitation of Mmankodi to Jwaneng road and Rakhuna to Mabule road, among others.

**54. Madam Speaker,** the proposed budget allocation for the Ministry of Local Government and Rural Development of P1.74 billion or 10.5 percent, is also the fourth largest and equal to that of the Ministry of Transport and Communications. This budget is expected to address requirements for social protection, construction of additional facilities for primary schools and village infrastructure in different locations around the country. The major projects are village

infrastructure for Kang, Tutume and Gabane, primary school facilities backlog eradication countrywide, Ipelegeng and destitute housing which will address the NDP 11 priority area of Poverty Eradication. The proposed budget allocation to the Ministry also includes an amount of P570 million for Community development projects. These projects which are a Government initiative to empower local communities will be implemented along Parliamentary Constituency lines, with each of the fifty seven (57) constituencies allocated P10 million. It is intended that an annual budget provision be maintained for the rest of NDP 11.

**55. Madam Speaker,** it is proposed that the Ministry of Agricultural Development and Food Security be allocated the fifth largest budget of P983.71 million or 5.9 percent to cater for the continuation of major projects that are geared towards improving food security. These include; Integrated Support Programme for Arable Development (ISPAAD), Livestock Management and Infrastructure Development (LIMID), Agriculture Service Support Programme and Pandamatenga Agricultural Infrastructure Development. Improving food security enables the citizens to become more resilient and ensures that they participate in economic activities that improve their livelihood.

**56.** The sixth largest share of the budget amounting to P844.94 million or 5.1 percent is proposed for allocation to the Ministry of Basic Education. The bulk of these funds amounting to P731.95 million is for Secondary Schools Programme to cater for among others, provision of additional ICT facilities in secondary schools as well as construction of staff houses. The other major projects include the development of outcome based curriculum and career paths, which are expected to address the NDP 11 priority area of *Human Capital Development*.

**57. Madam Speaker,** the remaining balance of P2.70 billion of the proposed Development Budget will be shared among the rest of the Ministries and Independent Departments. The programmes and projects to be funded with this balance include: construction and upgrading of health facilities as well as staff houses for health personnel; extension of Magistrate Courts; enhancing security at Parliament; construction of Revenue Offices; development of a Leather Park; refurbishment of Botswana Missions in different countries; procurement of electronic voting machines.

**58. Madam Speaker,** besides budget proposals for the various Ministries, a sum of P1.16 billion or 7 percent of the proposed total Development Budget is earmarked for maintenance of facilities throughout the country to extend their economic life.



## **Overall Balance**

**59. Madam Speaker,** total revenues and grants are estimated at P57.19 billion, while total expenditure and net lending is estimated at P59.54 billion, resulting in a projected budget deficit of P2.35 billion or 1.43 percent of GDP for the financial year 2017/2018. This deficit is mainly due to the budgetary provision for power and water projects as well as the implementation of the Economic Stimulus Programme that includes education and health care services.

## **FISCAL LEGISLATION**

**60. Madam Speaker,** in the wake of the current financial challenges that the Government is experiencing and also given the volatility of the Custom and Excise revenues, it is paramount that Government continues to exercise prudence in the management of its financial resources and also devise new ways of widening its revenue base. In this regard, my Ministry will undertake a holistic simplification of both the Income Tax Act and the Value Added Tax Act with a view to developing a Tax Administration Act. This is intended to improve tax administration efficiency, resulting in optimal revenue collection. This project is envisaged to be completed in the next financial year.

**61.** Meanwhile, the Ministry is considering proposals from the Taxation Review Committee which include: introduction of Transfer Pricing rules in the Income Tax Act that would curb any undesirable tax avoidance as well as underscore the alignment of this country's tax system to international best practice; amending the Income Tax Act, among others, to impose a penalty for non-filers irrespective of whether there is any tax to pay or not; and amending the Value Added Tax Act to include sale of property by a Deputy Sheriff as a taxable transaction.

## **CONCLUSION**

**62. Madam Speaker,** in conclusion, I need to underscore the fact that this budget proposals point to a budget deficit of about P2.35 billion or 1.43 percent of GDP, as well as the need to undertake critical priority projects for diversifying the domestic economy. Despite this moderate deficit, the country remains committed to restoring positive budget balances in the medium to long term, as part of its standing principle of maintaining fiscal sustainability. It is our expectation that attaining fiscal sustainability should result in enhanced economic growth which is necessary to provide for; employment opportunities, eradication of abject poverty, and promotion of equitable distribution of the country's wealth.

**63.** In this regard, it is imperative that, the country broadens its domestic revenue base and reduce its reliance on diamond revenues, which are susceptible to global economic shocks. Concerted efforts will therefore continue during 2017/2018 financial year to implement policies, strategies and programmes

aimed at developing diversified sources of economic growth, broaden the revenue base and contain expenditure. Furthermore, complementary efforts to strengthen public finance management will continue to be pursued to ensure efficiency and effectiveness of public spending. All these efforts are expected to contribute towards ensuring fiscal sustainability now and in the medium to long term.

**64. Madam Speaker**, as I conclude, I wish to thank our development partners, both bilateral and multilateral, for their continued support of our country's development agenda, through the provision of concessional loans, grants and technical assistance. We are indeed grateful for their support.

**65. Madam Speaker**, I now move that the **Appropriation (2017/2018) Bill, No. 2 of 2017** be read for the second time.