



Budget Briefing



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Analytical and Policy Perspective

Special 2010/11

1.0 Introduction

In addition to discussing the outcomes of the 2010/11 budget, this Briefing highlights the implications of the proposed 2010/11 budget and its outcomes from an analytical and policy perspective. We highlight the challenges that the economy faces and underscore issues where the focus of policy should remain in view of those challenges. In this issue of the Briefing, we discuss the impact of the current tight fiscal position on Botswana's fiscal position, highlighting how the economy's credit ratings may be adversely affected by the budgetary limitations with implications for investment. We also give a discussion of the effects of a high public debt and deficit on future growth and why it is important for Botswana's economic policy to continue to emphasize a low debt and low deficit stance and maintain fiscal prudence in its budgeting process.

While fiscal policy has aimed to ameliorate the broader adverse economic effects on the economy through the stimulus package with no drastic cuts in both the development and recurrent budget, the sustainability of fiscal policy in that regard remains an issue of concern in view of the lack of diversity in the growth and revenue prospects. Other issues that are given attention in the budget discussion in this issue are the possible effect of the proposed VAT changes on the consumers and broader economy

as well as the proposed policy strategies. We emphasize and highlight further areas for policy focus in the transformation of the economy in line with the proposed budget theme, the prevailing economic and social challenges.

2.0 Economic Challenges vs The 2010/11 Budget

The 2010/11 budget was presented on the 8th February during one of the most challenging times in the Botswana economy. It coincides with the period in which the economy still suffers from the effects of the recent global financial and economic crisis that started in the last quarter of 2008, which has adversely affected the growth and performance of the global economy. Botswana, though with a history of good economic performance, has not escaped unscathed since its major export commodities,

mainly diamonds, beef and other manufactured products such as textiles are determined by demand patterns in the international market. The decline in demand due to declining incomes and the poor economic performance in the external export market led to a significant decline in the mineral revenues. The mineral revenues constitute a major component of total revenues at about 60%. This proportion declined by close to 50% during the crisis period to about 37% in 2008/09. Other revenue sources, except for customs and excise, only contribute, on average, less than 20%, in the total Government revenue (see Table 1 for trends in the revenue proportions). The lack of diversity in revenue sources during the budget period coincides with the financial and economic crisis. This has presented a very tight fiscal space on expenditure allocations

Table 1: Revenue by Source as a Percentage of total Government Revenue

	Custom & Excise	Mineral	Non-Mineral Income Tax	Export Duties	Property Taxes	Vehicle Taxes	License Fees	VAT	Airport Tax
2001/02	16.37	66.11	11.79	0.00	0.15	0.48	0.15	4.91	0.03
2002/03	12.80	61.20	15.00	0.00	0.15	0.45	0.15	10.23	0.01
2003/04	15.87	57.70	14.69	0.00	0.08	0.44	0.06	11.12	0.02
2004/05	19.86	53.44	12.82	0.00	0.08	0.65	0.11	13.03	0.02
2005/06	19.52	54.87	14.92	0.00	0.06	0.61	0.10	9.83	0.09
2006/07	26.20	51.98	12.18	0.00	0.07	0.55	0.09	8.91	0.03
2007/08	30.33	42.63	15.08	0.00	0.13	0.61	0.09	11.04	0.08
2008/09	28.50	37.10	17.27	0.01	0.09	0.70	0.10	16.14	0.08

Source: CSO

against the backdrop of low government revenues. Coupled with declining mineral revenues, customs revenues have also declined due to falling import duties while SACU revenues are also under threat in view of the proposals for the renegotiation of the SACU revenue sharing formula amongst the member states.

The budgeting process entails the use of funds from government revenues to finance expenditures on planned development projects and in the maintenance of existing projects through the recurrent budget. Hence, in the current budget of 2010/11, the budgeting process and outcome had to ensure that it maintains fiscal prudence and macroeconomic stability by striking a balance between expenditures for both the recurrent and development components at levels that would not excessively exceed revenues and lead to an excessive deficit. This was mainly to ensure that the deficit does not escalate from the previous proportion of 15% of GDP. The Minister's budget echoes and emphasizes the need to ensure fiscal prudence, which is critical for sustainability purposes.

There are challenges that also riddle the current 2010/11 budget. Mainly, the current budget coincides with the implementation of the National Development Plan (NDP 10), which requires resources to ensure the smooth implementation of development projects and aspirations in the plan. It is projected that in the initial years of the NDP 10 period, the budget will be tight, characterized by deficits. This has implications for its planned projects, particularly the development path of the economy. Also, the NDP 10 period will run through 2016, the period which is critical for the realization of the Vision 2016 goals, objectives and targets.

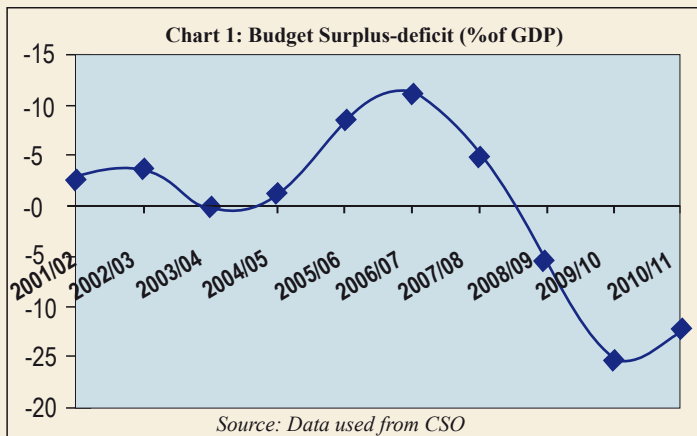
It is therefore, no doubt that the budget theme for the 2010/11 budget speech "Transforming our economy after the Crisis: 2010 and Beyond" is appropriately cast and well placed in these tough economic times since it underscores the importance of identifying alternative sources of revenue and finding sources of further growth to transform the economy. More importantly, it remains pertinent to deal with the prevailing poverty

dynamics, high unemployment and the slow pace of diversification if the economy is to realize the Vision 2016 objectives where the key is to eradicate poverty and ensure prosperity for all through a healthy, educated, productive and innovative nation. These issues remain fundamental if there is to be transformation beyond and into the future in line with the chosen budget theme. In this regard, suggested policy measures and strategies to be implemented should remain a priority not only in the 2010 budget, but in future budgets to make the transformation an achievable reality.

3.0 The 2010/11 Budget Outcome, Fiscal Policy Approach and Implications

3.1 The Deficit Outcome

The 2010/11 budget forecasts a deficit of P12.118 billion which constitutes about 12.2% of the forecast 2010 GDP. This is to be financed by drawing down some of the accumulated cash balances from reserves and borrowing from the domestic local market. This is a modest decline in the deficit from its 2009/10 level of 15% of GDP, indicating the continuing tight fiscal position in the economy in the current budget.. Compared to previous years, where the economy has had budget surpluses enabled by mineral revenue's contribution to total revenues and the accumulation of foreign exchange reserves, the recent global economic and financial crisis has put into reality and perspective how vulnerable the economy is to shocks due to the dependence on one commodity, serving as a major base for revenue, export and growth. The economy immediately went into deficit to sustain growth and experienced declining revenue and foreign reserves with limited options for revenue generation and GDP growth (*see Chart 1 for trends in the budget balance*). In the 2010/11 budget, there is a reduction in the deficit, though very marginal compared to the previous year. Policy should continue to maintain fiscal prudence in maintaining a low deficit and low debt. This is because, a high deficit has adverse effects on the future growth of the economy since it affects investment and the creditworthiness of the



country. In the section below, we highlight some of these effects but note the impact the tight fiscal position and deficit has had on the financial position of Botswana based on the recent credit ratings.

3.2 Possible Impacts of High Deficit and Public Debt

A high deficit and high public debt are detrimental to investment since they affect the fiscal stance and creditworthiness of the country. The high public debt also has the potential to crowd out resource allocation in that resources that can be used to finance development initiatives have to be tied to servicing the debt over time following its accumulation. Although the country has in the current budget implemented belt tightening measures, which were put in place since 2008/09, it is clear that the tight fiscal position which still prevails in the 2010/11 budgeting period has had adverse effects on the credit worthiness of the Botswana economy. The credit ratings have been declining since 2008. Table 2 shows that Botswana's credit worthiness which has been stable and strong due to the surpluses accumulated over the years has deteriorated and the ratings have been downgraded. The results by Moody's and Standard & Poor's as summarized in the table show a revision from stable to negative economic outlook mainly due to the tight fiscal position which is a result of the poor revenue position and prospects. Since 2001-2008, consecutively, Botswana had been awarded high credit ratings for both the foreign currency debt and domestic currency debt. In this period, the awarded ratings reflected superior repayment abilities for both long term and

Table 2: Botswana Credit ratings since 2001

	Standard and Poor's Credit Rating		Moody's Credit Rating	
	Foreign Currency Debt	Domestic Currency Debt	Foreign Currency Debt	Domestic Currency Debt
2001-2004	A (LT); A-1 (ST) A (LT)	A+ A+ (LT)	A2 (LT); Prime-1 (ST) A2 (LT);	A1
2005	A-1 (ST) A (LT);	A-1 (ST) A+ (LT);	Prime-1 (ST) A2 (LT);	A1
2006	A-1 (ST) A (LT);	A-1 (ST) A+ (LT);	Prime-1 (ST) A2 (LT);	A1
2007	A-1 (ST) A (LT);	A-1 (ST) A+ (LT);	Prime-1 (ST) A2 (LT);	A1
2008	A-1 (ST) A- (LT);	A-1 (ST) A (LT);	Prime-1 (ST) A2 (LT);	A2
2009	A-2 (ST)	A-1 (ST)	Prime-1 (ST)	A2

Source: Compiled from Moody's and Standard Poor's Annual Credit ratings

short term debt obligations, indicative of a stable outlook for the economy over the 2001-2008 period. Factors considered in the determination of the high credit ratings Botswana received included the sustained high GDP growth rates, high export revenues, expenditure flexibility, modest debt ratios and public sector external assets, which give the Government the capacity to absorb potential shocks. The high revenue from diamond resources, together with fiscal prudence, over this period enabled the country to maintain a healthy budget. Other factors that contributed to the favourable ratings included a strong and well managed mineral economy, coupled with a long record of political and macroeconomic stability. All these combined factors reflect the country's economic strength and creditworthiness.

Recently, following the 2010/11 budget presentation, the international rating agency, Standard & Poor's downgraded Botswana's credit rating from A to -A, on the back of government's decision to run budget deficits to sustain fiscal support to the economy. The credit rating agency notes that Botswana's expansionary fiscal policy and running deficits had contributed to the downgrading of its credit rating. On the other hand, Moody's, another global rating agency, rates Botswana's credit risk as A2, having revised its outlook for Botswana from positive to stable early last year.

In the recently released 2009 sovereign credit rating, Moody's left Botswana's ratings unchanged at A2 for both local and foreign currency Government bonds.

However, the outlook has been revised from stable to negative, reflecting the continued strain on the country's finances imposed by the global economic crisis. The outlook is likely to be upgraded to stable should the Government compress spending to a level more consistent with the revenue stream. Moody's based its decision on a potentially lengthy downturn in the diamond industry, which given the recent improvements, may lead to more positive growth already projected at 5% in 2010. However, Standard & Poor's downgrading could be a slight hindrance to government's ability to negotiate cheap credit on the global market. Also, government could come under pressure in the external financing of huge infrastructure projects. The downward revision in the sovereign credit ratings reflects a deterioration in Government's financial position. As an indicator of risk to the investor, the interpretation is that the risks facing investors have increased. This is because the credit rating measures the risk of the government being unable to repay its debt, and more generally it provides an assessment of the creditworthiness of the country and risks facing investors. Hence, one of the implications of the changes in the credit ratings is that the risk premium to investors will be higher, making it more expensive to invest and raise capital which may discourage investment and other projects. While Botswana's ratings have been high and exceeding those of some developed countries in East Asia and Latin America and even South Africa, the current situation has led to some loss in its comparative advantage.

These implications underscore the importance of addressing fiscal sustainability concerns in the medium-term, which is an issue that the current budget as presented by the Minister places major emphasis on. We note that the economy faces challenges that need to be addressed for it to sustain such positive ratings into the future, especially looking at factors that are considered in rating a particular country. Of particular concern is the fact that a closer look at the

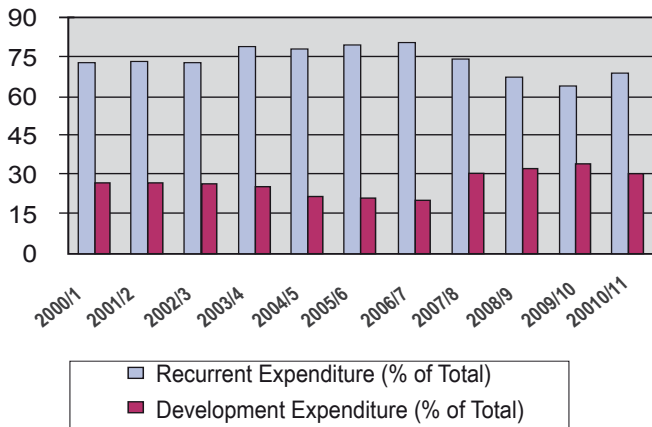
factors that have earned Botswana the high ratings shows that, besides prudent economic management, there is only one key reason for the exceptional performance that has earned Botswana the ratings awarded, i.e. diamond exports and the revenue they generate for Government. Countries such as South Africa and other developed countries in the same income class as Botswana, though rated lower than Botswana, have a broader range of exports of goods and services, which contribute to varied revenue sources and growth compared to our economy. As such, countries with more than one sector contributing to exports, revenue and GDP growth are less vulnerable to external shocks compared to Botswana, signifying the advantages of a diversified economy.

4.0 Budget Allocations and Their Impact

4.1 Development vs Recurrent Expenditure

The recommended development budget is estimated at P12.18 billion while the recurrent budget stands at P27.14 billion. The latest budget of 2010/11, is to some extent similar to the previous one of 2009/10 (2009 Budget Speech) in its intent to ensure that fiscal policy prudence and sustainability are still the core guiding principles in the budgeting process under the current economic challenges. The core issues overriding the budgeting in this period is the need to ensure that other sectors of the economy continue to grow and also to ameliorate the adverse effects that could manifest in the form of high unemployment by continuing with the stimulus package. The fiscal policy stance has been not to adopt major cuts on both the development and recurrent expenditures. *Chart 2* shows that the expenditure patterns show no major deviations from previous years despite the worsening in fiscal position. With this approach to fiscal policy, declines in the performance of the mining sector (by more than 30%), was partly compensated for by the non-mining sectors of the economy which sustained the momentum for growth (growing by 11.6%, in the last quarter of 2009) rather than experiencing a plunge together with the mining sector. This would have turned the overall growth performance to be more negative.

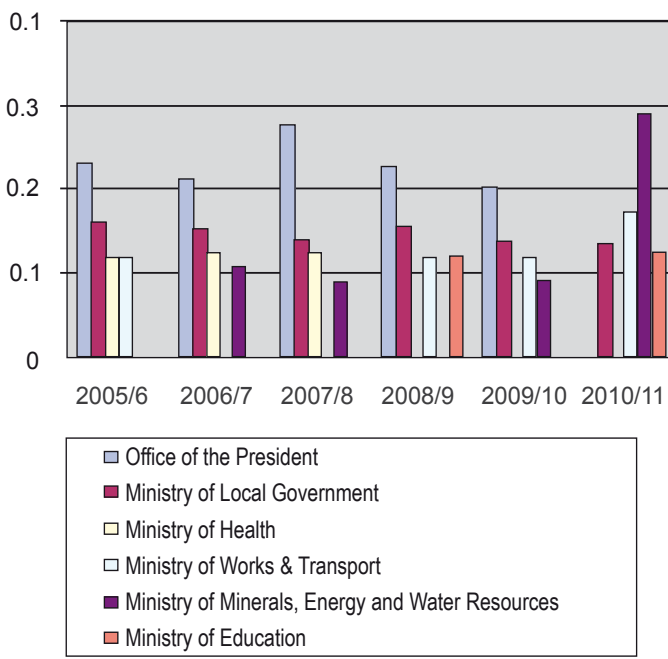
Chart 2: Recurrent vs. Development Expenditure (% of Total Expenditure)



Source: MFDP 2010/11 Budget Speech

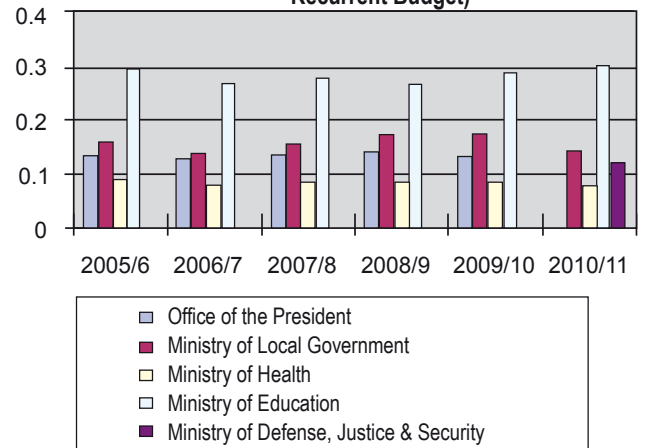
It is evident from the recent budget presented by the Minister of Finance and Development Planning that while the trend from previous budget has been to have the other Ministries such as the Office of the President dominating the budget allocations, there seems to be prioritization for expenditure allocations based on the prevailing and spelt out economic challenges. In the development budget, the Ministry of Minerals, Energy and Water Resources has the largest share and this perhaps also reflects the need to prioritize on generation of power and energy from local sources in view of the possible declines

Chart 3: Development Sectorial Allocations (% of Development Budget)



Source: MFDP 2010/11 Budget Speech

Chart 4: Top 5 Recurrent Sectoral Allocations (% of Recurrent Budget)



Source: MFDP 2010/11 Budget Speech

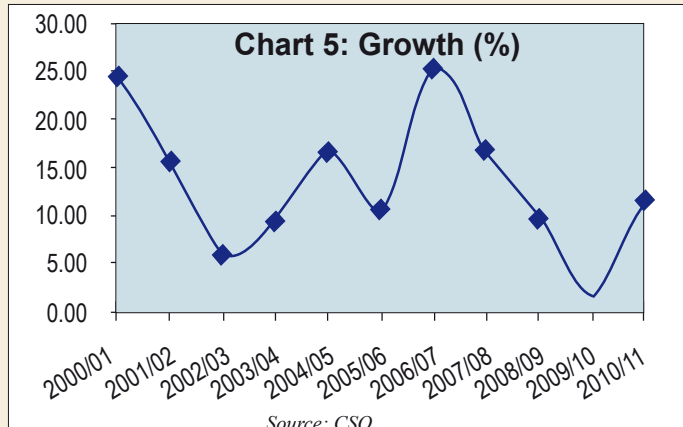
in the supply of energy Botswana has been receiving from countries such as South Africa and Mozambique.

There is continuation to prioritize education and health, which tallies with the priorities for human capital development and access to health services and continuing with efforts to address health challenges such as the HIV/AIDS pandemic. Education has taken the larger share (P8.3 billion) on the sectoral allocations, mainly in the recurrent expenditure while health took the fourth position with P2.2 billion). Similarly, in the development budget, the allocation to Ministry of Education takes fourth position with a number of projects on education and skills development across the country lined up. This can be seen to as reflect the importance of developing skills and the motives of government to invest in people and infrastructure as echoed in the 2010/11 budget speech. This should impact positively on the issues of competitiveness, efficiency, productivity, creating a conducive environment for investment and private sector led growth as well as in the realization of the Vision 2016 objectives and targets as we approach 2016.

4.2 The Budget, GDP Growth and Performance

The trend in the performance of GDP is shown in Chart 5, where the worst performance is visible from the 2008/09 o the 2009/10 period as a result of the adverse effects of the global and economic crisis on

growth. In real terms, the Q4 2009 figures show that GDP declined, overall by 4.6%, largely attributed to the decline in the mining industry by 31.4%. The rest



of economy, the non-mining sector, grew by 11.6%. This is against the contractions observed in 2008 where the overall economy contracted by 6.3% in Q4 of 2008, then 20.5% in Q1 of 2009. The stance in the 2010/11 budget of not making major cuts in spending on the development and recurrent budget which has been enabled by foreign borrowing (totaling US\$1.5 billion) from the African Development Bank (ADB) contributing to the stimulus package operational since the 2009/10 budget, has played a major role to cushion performance of non-mineral sectors of the economy and maintaining economic stability. While it is important to support growth in this way, as indicated in the budget, and run low deficit, the current dynamics serve to hazard the importance of ensuring that policies that should lay the foundation for diversification, identification of alternative sources of growth and revenue should remain a priority for government development strategy. With regard to employment, boosting non-mineral sector through government spending and maintaining development projects ensured that job losses were maintained to a minimum and retrenchments were not massive. The latest March 2008-March 2009 statistics indicate a 3% increase in employment compared to the September 2008-March 2009 with only 1% increase in employment when the recession deepened. Sectorally, the private sector was the largest employer, then Central government. The losses in employment due to recession were mainly retrenchments in the mining sectors which witnessed a fall in employment by

9.3% (as at March 2009) and manufacturing by 0.5%. While it remains important to understand and appreciate the overall budget and its outcomes in recognition of the challenges that are facing the economy, particularly when the budget is being drawn at any this particular point in time, the sustainability of fiscal policy in the short to medium term remains an issue for concern from a policy perspective. Without sustainable sources of revenue and growth besides mining, the economy still remains vulnerable to international shocks.

The current crisis underscores the need for an even more concerted effort to identifying avenues for diversification and growth that will bear positive results. It is clear from the sectoral contributions to total GDP that it is urgent for these sectors to take a more leading role in terms of generating high and sustained growth. On average, the trend shows that the mining sector continues to dominate in the contribution to GDP. In line with the Minister's presented budget, it should indeed remain a policy and development priority to find and identify other sources for rapid growth in the economy to enhance the performance of other sectors of the economy with the potential to spearhead growth in the future. The contribution to GDP by sectors such as the banks, insurance and business services and the trade, hotels and restaurants averages 10% each respectively which shows a potential for growth. The contribution by the manufacturing sector and agricultural sector still remain at less than 5% while the general government continues to dominate sectoral GDP shares after the mining sectors. Diversification efforts should thus target sectors with a potential to promote growth and also continue to find ways for making sectors such as manufacturing to be more attractive for private sector investment since they have the potential to contribute to sustained employment creation. The role of the private sector in playing a leading role on the growth and development of Botswana therefore, remains an important vehicle for sustainable growth and development where more efforts and rigor should continue to put more emphasis coupled with ongoing policy reforms to enhance private sector participation in the growth process. This necessitates removal of bottlenecks to investment such as the

Table 3: Sectoral Contributions to GDP (%)

YEAR	Agric.	Mining	Manufacturing	Water and Electricity	Construction	Trade, Hotels & Restaurants	Transport	Banks, Insurance & Business Services	General Gov't	Other Sectors
2000/01	2.17	46.65	3.87	1.98	4.49	9.18	3.04	9.21	13.14	19.40
2001/02	2.22	42.02	3.94	2.10	4.87	10.23	3.23	10.22	14.76	21.17
2002/03	2.20	37.32	3.93	2.35	5.02	11.21	3.28	10.40	16.37	24.28
2003/04	2.24	35.43	3.87	2.49	4.94	11.45	3.29	10.62	17.00	25.67
2004/05	1.81	38.71	3.56	2.44	4.50	10.18	3.34	10.38	16.27	25.09
2005/06	1.78	39.36	3.30	2.42	4.20	10.57	3.76	10.23	16.44	24.39
2006/07	1.86	41.90	3.45	2.77	4.03	10.44	3.59	9.71	15.01	22.24
2007/08	1.91	40.87	3.52	2.62	4.15	10.76	3.65	9.96	14.72	22.55
2008/09	2.03	35.62	3.68	2.70	4.31	12.07	4.03	11.30	16.45	24.26

Source: Central Statistics Office

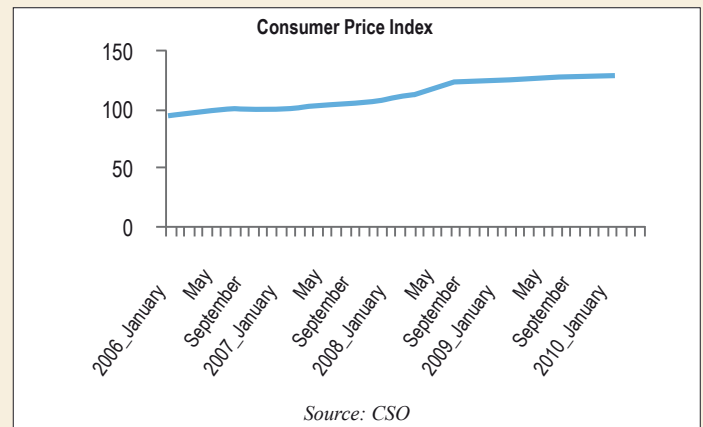
high cost of utilities, lack of skilled labour and the importance of matching skills to market demands as well as poor service delivery which raise the cost of doing business in Botswana. Promoting private sector participation requires a competitive legislation to enhance the competitiveness of the Botswana economy.

4.3 Tax Policy Changes and Possible Effects

The Minister's budget did not propose any changes to public service salaries in view of the tight budget which we find to be in order and in line with most of our expectations given the lack of flexibility in the fiscal space due to limited revenue sources. Also there is still uncertainty on the pace of the recovery which makes it essential to still ensure that the belts are not loosened drastically. The VAT will be increased from 10 to 12%, with effect from 1st April 2010 while the threshold for registration of companies for VAT will be raised from P250 000 to P500 000. However, while it is imperative to find alternative sources of revenue and that the VAT would be a likely candidate for possible revenue generation, the increase in the VAT by 2% at this time, in the 2010/11 year seems rather untimely. This is mainly against the background that prices have generally been increasing following the recent increases and volatility in oil prices which led to a general increase in prices as indicated by the CPI index.

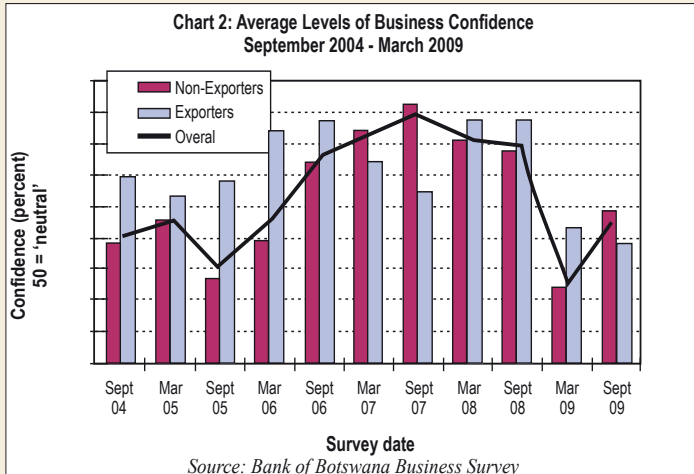
Furthermore, since 2008, real incomes have been declining without any adjustments for inflation and the

cost of living. A decline in real incomes for consumer purchases has adverse effects on the business sector since business profit and operations rely on consumer spending. From the business survey (conducted by the Bank of Botswana), the declining

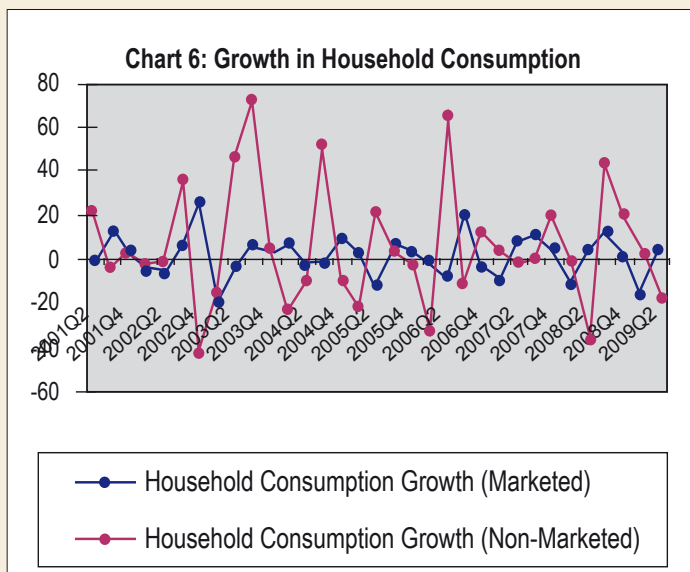


Source: CSO

real incomes have affected business confidence in both the non-exporters and exporters category with an overall decline in business confidence. The decline in real incomes for consumers and the increase in prices when the VAT becomes effective would serve to undermine the purchasing power of consumers. It is observed from Chart 6 that both the growth in household consumption has been declining since 2008, indicating the impact of declining real incomes when prices were rising as a result of high oil prices and the continued fall in real incomes when the crises deepened in 2009. Without salary adjustment for inflation and the possible increases in prices as real incomes decline further and increase in prices,



consumption may continue to fall in the short term. Consumer spending constitutes a significant proportion of GDP and its fall has negative implications for GDP growth since it is a major component of aggregate demand and total GDP. Disaggregating GDP by type of expenditure indicates that in Botswana, total household final consumption expenditure constitutes on average, 40% of total GDP. This is a major part of GDP and hence its change would affect GDP performance and growth. We do not have evidence on the multiplier effects of changes in consumer spending on aggregate demand, but however, note the possible impact of declining real incomes on consumption spending



and how they affect business operations through declining profit shares. If incomes decline further, investment in the business sector gets affected which causes investment and business sector led growth

to fall, ultimately affecting GDP growth outcomes. Also, the impact of the increase in VAT will most be felt by the poor households whom a high proportion of their income, estimated at 80%, is spent of consumer goods. There is a need to have measures to protect the poor against the effects of VAT such as having a rebate policy for the poor. Some countries zero-rate some items which are largely consumed by the poor although this may create distortions. Otherwise the increase in VAT without protecting the poor will appear to be in contradiction with poverty reduction initiatives since the poor will get poorer with low real incomes to sustain their livelihoods, going against the Vision 2016 aim of eradicating poverty.

There is also the proposal for abolishing the two tier company tax and adopting a single tax rate set at 25%, reducing the withholding tax rate on dividends from 15% to 7.5%. All these efforts on tax policy changes would gain the economy a 5% income tax revenue. From the private sector, since salaries have not been adjusted, they would gain since the wages and salaries bill would remain relatively the same with positive gains in terms of profit. The abolishment of the two tier tax will also make taxation policy simpler and easier to effect, which is a step in the right direction in making tax administration user friendly and easier to implement. The SMMEs would benefit from the raised VAT threshold and this should serve to allow small companies to grow and gain profit which they would have had to pay as VAT if the threshold remains at P250 000.

5.0 Policy Strategies in the 2010/11 Budget

A number of policy strategies are proposed for the 2010/11 budget as presented by the Honorable Minister of Finance and Development Planning. These policy strategies should serve to kick-start the transformation required in the economy in the crises period and beyond. These are discussed below where we underscore their importance from a policy perspective and highlight areas of further focus and refinement.

Finding sources for rapid growth: The budget presented by the Minister of Finance and Development

Planning emphasized the need to find sources for further rapid growth. It is critical that Botswana's growth and development path be broadened through finding strategies for rapid growth and identifying the opportunities for growth to broaden the sources of growth beyond the mineral sectors. This underscores the motives for diversification which have, unfortunately, been slow to take effect in the economy. It is however, important to recognize that diversification is a process, which takes time in view of some of the constraints of a small undiversified market economy. A number of efforts are already underway to enhance the process and in ensuring that a competitive environment is in place to promote private sector participation in a number of economic activities to promote private sector led growth. Also, a number of initiatives to promote the SMMEs and citizen empowerment through, for example the CEDA, LEA, and human resource and skill initiatives, are echoed in the budget to promote infrastructure, skills, access to health and education so that the dynamics of poverty are also taken care of in the growth and development processes within the confines of the constraints faced by government at the moment.

Finding additional sources of revenue: The speech reiterated the importance of finding sources of revenue. This is given that the economy has mainly relied on the mineral sector as the major source of revenue. Indeed, the recent developments where our revenue declined drastically as a result of the financial crises show that the economy is vulnerable without alternative sources of revenue.

There is need for a diversity in revenue. From the budget speech, VAT will be increased from 10 to 12% as one measure to raise revenue. While this appears to have a double impact on consumers, coupled with high prices following increases in the oil prices in recent time which transmitted into other prices increasing over time, and the latest developments in the budget speech of 2009 and 2010 with no adjustments in salaries and cost of living, the options to raise revenue still remain slim at the moment. Also, one can relate to the analogy that VAT still remains low in Botswana compared to

other countries such as South Africa where it has been 14% for a long time. Also, income taxes in Botswana are much lower in the region, compared to for example, South Africa, where income tax is as high as 40%. It has also been indicated in the budget speech that if the economic situation turns around, there will be consideration for cost of living and salary adjustments.

Employment creation: Another important aspect in the budget is in ways suggested to boost employment creation. One way has been through the stimulus package which has ensured the economy does not experience significant job losses and retrenchments. Some negative impact in the mining sector due to the crises led to employment falling by 9.3% as at March 2009 while in manufacturing it fell by about 1%. Of late, an increase of about 3% in employment as of March 2008-March 2009 is reported. A number of initiatives are highlighted in the budget speech including the Ipelegeng Programme, SMME support being offered, CEDA, Youth Farmers Fund, capacity building initiatives for citizen artisans, citizen participation in mega projects. An interesting aspect is also an attempt to target the low skilled people which would have suffered more in the crisis due to no incomes. Of course, there could be expectations for other better and more impacting initiatives, but under the current economic circumstances, Botswana has comparatively emerged better. In some countries retrenchments are massive and the poor are even poorer, without social safety net programmes such as the ones we have in Botswana which have been sustained up to today.

Public sector reforms and Privatization: There are a number of policy initiatives aimed at enhancing the efficiency of the public sector in terms of service delivery highlighted in the budget speech of 2010. These include the evaluation of the public sector programmes and projects to identify competitive areas. These include: Rationalization of parastatals with a number of mergers being implemented to promote service delivery and avoid duplication, institutionalizing monitoring and evaluation of the performance of government. All these are geared at promoting efficiency, productivity particularly in service

delivery. This is welcome because poor service delivery and time consuming bureaucratic procedures often placed in different offices, ministries and institutions have often been cited as deterrents to investment and raising the cost of doing business in Botswana.

In terms of promoting private sector participation, these initiatives include those of streamlining policies to enhance private sector participation, fostering strategic investments in people through skills development and infrastructure. A number of Hubs, for example for education, trade etc. are already in place working on the issues of human resource development and matching skills developed to the needs of the market, trade to identify trade opportunities and investment. These hubs are important if the economy is to diversify and the greatest potential lies in the services industries such as education, health and tourism.

On privatization, the speech notes that it is putting in place initiatives and a framework to improve the functioning and delivery of privatization. For example for entities such as National Development Bank privatization strategy is being developed. A framework for outsourcing and a Public Private Partnership framework to accelerate infrastructure provision, making use of private sector resources will be established. There is however a need to speed up the implementation of a Competition Policy legislation and setting up the required regulatory framework for the privatization process. More importantly, the requisite capacity for the regulatory agencies is also critical to ensure that the privatization process is not hindered by capacity constraints and the lack of an appropriate well functioning regulatory framework. To be effective Privatization is a process that requires a strategy, a framework, a conducive environment and a competitive market economy.

A number of countries that embarked on the privatization process without the right regulatory framework, and appropriate adequate capacities as well as the competitive policy legislation for the privatization process faced problems of white elephant projects with a failure of the privatization exercise.

This impacted negatively on the economic fabric of these countries in terms of massive job losses, poor growth prospects instead of realizing the envisaged positive benefits of privatization which no doubt are of a long term and sustainable nature once done and implemented at the right time and within an appropriate framework for the benefit of the broader economy.

6.0 Conclusions

While the performance of the mining sector may improve as the global economy recovers, policy should remain steadfast on finding future sustainable sources of growth besides mining. The recent global and financial crisis puts into reality and perspective the extent to which the economy remains vulnerable to external shocks, mainly due to its dependence on one single source of export, revenue, foreign exchange reserves and growth. It also showed the potential that the non-mining sector could play a mitigating role in times of crisis, indicating the potential role for diversification on growth. In order to address some of the challenges that the country faces and transform the economy after the crises and beyond for the realization of the Vision 2016 targets and objectives, it remains essential to transform the economy by addressing the slow pace of diversification, poverty and unemployment dynamics through continued efforts at enhancing and promoting private sector participation, which can serve as an avenue for private sector led growth, sustainable employment creation and diversification.

The importance of maintaining a low sustainable debt and deficit therefore remain crucial factors that should continue to override the Botswana budgeting process in the short to medium term while the economy adjusts from the financial and economic crisis effects to limit tying future growth and resources to debt and deficit financing. Policy in the budgeting process should thus continue to underscore the importance of maintaining belt tightening measures to avoid running a high public debt and deficit given the long term adverse growth effects. It is crucial from a macroeconomic perspective to ensure fiscal sustainability through running a low deficit while at the same time ensuring that growth of other

sectors of the economy are not hampered by significant cuts in government expenditure. However, without alternative options for growth and revenues, sustaining this pattern becomes questionable. This calls for cost cutting in budgeting to avoid over expenditures leading to increased government spending as has been the case in the past and prioritization of development projects.

Otherwise, from a policy perspective, the current 2010/11 budget has maintained prudence by maintaining a balance between the main issues of concern mainly:

- Ensuring that the debt burden does not escalate, and in fact is reduced to avoid hampering future growth and investment prospects.
- Ensuring that growth continue, more importantly in the non-mining sectors of the economy despite the mining sector's poor performance which has served to ensure macroeconomic stability and modest adverse growth implications on the broader economy.
- Made efforts to broaden the revenue to finance some of its spending from other sources such as VAT and promoting efficiency at collection of taxes etc
- Ensuring that the implementation of the NDP 10 is a smooth one at least in view of the current economic challenges where there are resource constraints.
- Continuing with efforts in making progress towards the realization of the Vision 2016 targets despite the difficult economic circumstances, particularly on developing infrastructure, human capital development and health.
- Proposing and initiating a number of ways and programmes to continue to address unemployment, skills development, health and infrastructure but also to continue to put in place strategies to facilitate the privatization process and the efficiency of service delivery in the and public sector.



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