



Republic of Botswana



2011 Budget Speech

**By Honourable O.K. Matambo
Minister of Finance and Development Planning
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I INTRODUCTION

- 1.** Madam Speaker, I have the honour this afternoon to present to the National Assembly budget proposals for the financial year 2011/2012.
- 2.** Madam Speaker, the preparation of the 2011/12 budget took a new approach with the process being guided by a Budget Strategy Paper prepared by my Ministry. This Paper was shared with stakeholders in October and November last year, including Members of Parliament, and formed the basis for discussion for the two Budget Pitso, that were the first of what we plan to be an annual consultation forum. It is my hope that the Paper enabled stakeholders to understand the broader macro-fiscal context and Government Strategy for achieving cost-effective and sustainable spending; and that this will enhance transparency and accountability. I must add that my Ministry benefited from the interactions with stakeholders. Their suggestions and advice were taken into consideration during the preparation of the 2011/12 budget and the Budget Speech itself. Further, all documents relating to the budget will be posted on the Ministry website, while stakeholders will also have the opportunity to share with us their views and suggestions by email at budgettalk@gov.bw. Going forward, we are developing a web-page dedicated to budget consultations, and we will hold radio talk shows and seminars to discuss budget issues with the nation.
- 3.** I wish to further point out that the Budget Strategy Paper which I have just referred to is only one of the components of the new Public Finance Management Reform Programme being undertaken by the Government. The Public Finance Management Reform Programme is aimed at enhancing the management and efficiency of public spending and ultimately providing better services to the public. By providing an early opportunity for input from the general public and legislators, the programme is also meant to enhance transparency and ownership of the budgeting process. Another change that we have introduced in the Budget Speech is the exclusion of sectoral reviews. The sectoral reviews will be presented by respective Ministries at the Committee of Supply stage.
- 4.** Madam Speaker, I am pleased to report that the economy and Government's finances are following very closely the path that we laid out in last year's budget. The recovery of the international economy in general, and the diamond market in particular, continue much as was anticipated, with complete recovery expected in 2012/13. The significant Government expenditure during the current financial year is helping to stabilise the economy in the face of incomplete recovery of international demand for our exports. The combined effect of economic recovery, reprioritisation, cost containment and the efficient use of resources will reduce the deficit substantially in the financial year 2011/12, and lead to attainment of a balanced budget by 2012/13. I should however emphasise that, even though the focus of this year's Budget and subsequent ones is on fiscal management and balancing the budget, this will not be done at the expense of economic growth.

5. Hence, our budget must be more than simply balanced. We must ensure that we make the most of every Pula of public expenditure if we are to achieve our goals of rapid economic growth, poverty eradication, and economic diversification. Government accomplishes this by providing services that the rest of the economy needs, which could not normally be provided by the private sector. Some of these services are financed by the recurrent budget, while others require investments that are financed through the development budget. In each case, we must adopt a high growth strategy that emphasises spending that is both cost-effective and focused on national priorities.

6. The recommended allocation of our budget across Ministries is designed to reflect agreed national priorities. To the extent that current national priorities require a reallocation across Ministries, the shares of individual Ministries in the total budget have changed. Every Ministry must have a clear sense of what its priorities are, and how those relate to the national priorities. Each Ministry must reallocate resources out of low priority activities to high priority activities. The optimal use of resources may require a rebalancing between Recurrent and Development expenditures as part of the budget exercise. If, for example, the capital stock employed in delivering a particular priority service is deteriorating, resources must be diverted from some of the planned development expenditure to recurrent expenditure to finance repairs and maintenance.

7. Madam Speaker, the proposed expenditures under the development budget should be focused on high return projects. If a proposed project could not demonstrate a large net benefit to Botswana, it has to be either postponed or scaled down, to ensure that only those projects with clear high returns are implemented. Furthermore, over the project cycle, costs and benefits will be tracked, so that adjustments can be made in time to ensure that the project continues to justify its inclusion in the constrained budget, failing which it is either re-prioritised or scaled down.

8. Central to the high growth strategy is the parastatal sector. Most parastatal outputs are inputs for the rest of the economy. Where a parastatal is providing its services cost-effectively and achieves a high real return, the rest of the economy benefits. Where that is not happening, not only does the rest of the economy not garner the promised benefits, but because the parastatal is employing capital from the public purse, the economy is deprived of the capital that would be better invested elsewhere.

9. The strategy in this budget is designed to ensure that the public and parastatal sectors together do not crowd out the private sector, because rapid growth of the private sector is equally critical to the high growth strategy. Government and parastatals are seeking ways to reduce and ultimately stop the direct provision of particular goods and services that the private sector is able to offer. The Government and parastatal sector's presence in the labour and capital markets often provides benchmarks for the private sector, but Government must be careful not to bid up the

cost of labour and capital to the private sector. Equally important is the relationship between Government and the private sector. The growth of the private sector must not be based on subsidies from the public sector, because such a strategy is fundamentally unsustainable.

10. Madam Speaker, Government has always put emphasis on the need for economic growth and eradication of poverty. As the overall economy has grown over the decades, poverty in Botswana has dropped substantially. By focusing our expenditure on genuine high return Government initiatives we can anticipate a continuation of that reduction. But, we cannot be satisfied simply with an ongoing reduction of the number of people in poverty. We must strive to ensure that no Botswana is a victim of poverty. In brief, we must do what is necessary to achieve the goal of eradicating abject poverty. This requires a blend of initiatives ranging from opening additional opportunities for employment and income generation, to ensuring that the social safety net is adequate and targeted to those who cannot support themselves, while avoiding the creation of a dependency syndrome. This budget will consolidate and create new job opportunities, both in the short to medium term when projects are being implemented and as spin-offs are being realised from the implementation of such projects.

11. Madam Speaker, there is scope for increased foreign direct investment in Botswana given that the country continues to register favourable international ratings which must be translated into tangible benefits for the nation. Despite the challenges arising from the recent economic slowdown, Botswana has maintained its investment grade credit rating. However, in February 2010, one of the rating agencies, Standard and Poor's imposed a minor downgrade while the other, Moody's Investors Service, adjusted its outlook from stable to negative. Given the concerns about deterioration of the fiscal position at the time, these relatively modest adjustments reflected continuing confidence in the Botswana authorities to maintain prudent macroeconomic management. Nonetheless, as the agencies have stressed there is a clear need to improve the resilience of the economy through more effective pursuit of economic diversification.

II INTERNATIONAL AND REGIONAL ECONOMIC REVIEW

12. Madam Speaker, I shall now review the evolution of the international and domestic economy, and make reference to some policies and initiatives which have a bearing on the budget proposals that I will present later.

International Economic Review

13. Madam Speaker, the World Economic Outlook of the International Monetary Fund, as updated in January 2011, projects that, even though downside risks still remain, especially in some advanced economies, and the financial sector is still vulnerable to shocks, economic recovery is proceeding as expected. Emerging and

developing economies are well underway to recovery and post a significantly improved medium-term growth outlook. It must be stressed though that, activity in these economies remains dependent on demand in advanced economies.

14. During the year 2010 global output is projected to have grown by 5.0 percent but may slowdown to 4.4 percent in 2011. Growth in advanced economies is projected to have increased by 3.0 percent in 2010 and will grow by 2.5 percent in 2011. Among the advanced economies, the Newly Industrialised Asian Economies are expected to have led the group with a growth rate of 8.2 percent during 2010, while they will grow by 4.7 percent in 2011. Output in the United States is projected to have grown by 2.8 percent during the year 2010 which is around its pre-crisis growth rate. This is forecast to increase to 3.0 percent in 2011. The euro area is still far below its pre-crisis growth rate at 1.8 percent during 2010 and is projected to fall to 1.5 percent in 2011.

15. Output in emerging and developing economies is projected to have grown by 7.1 percent in 2010, and to reduce to 6.5 percent in 2011. Growth in emerging economies is led by China and India where it is projected to have reached about 10.3 percent and 9.7 percent, respectively in 2010. China is expected to grow by 9.6 percent, while India will register a grow rate of 8.4 percent in 2011. Growth in sub-Saharan Africa is projected to have reached pre-crisis rates of 5 percent for 2010 and improve further to 5.5 percent in 2011.

16. Globally, inflation is projected to stay low given continued excess capacity and high unemployment. More than 210 million people across the world for example, were estimated to be unemployed in 2010, an increase of more than 30 million since 2007. However, in some emerging economies commodity prices remain high and inflation is rising. Risks to the inflation outlook may emanate from uncertainty about international oil prices and potential increases in commodity prices that would accompany global economic recovery.

Regional Economic Review

17. Madam Speaker, real GDP within the Southern African Development Community (SADC) region increased marginally by an estimated 2.8 percent in 2009 down from 4.6 percent recorded in 2008. Much of the decline in the growth rate occurred within Southern African Customs Union (SACU) Member States where real GDP declined on average by 0.7 percent compared to 3.2 percent growth in 2008. The most affected sectors were mining, tourism and manufacturing (particularly textiles, and motor vehicles).

18. During 2009 inflation pressure eased in most SADC Member States with a number of them including Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Zambia and Zimbabwe recording single digit inflation. This was as a result of stable food prices and modest increases in fuel prices, combined with improvements in food supply within the region. Overall, the

SADC region in 2009 experienced improvement in the food situation with cereal surpluses recorded in Malawi, Mozambique, South Africa and Zambia. The regional analysis indicates an overall food surplus of 2.18 million tonnes in 2010/11 compared to a deficit of 380 000 tonnes in the 2009/10 marketing year.

19. With the launch of the SADC Free Trade Area (FTA) in August 2008, Botswana producers now have access to a bigger market estimated at over 247 million people. The next step following the launch of the FTA is establishment of the SADC Customs Union which was targeted for 2010 as per the SADC Regional Indicative Strategic Development Plan. While the target date of 2010 could not be achieved, all Member States remain committed to establishing a SADC Customs Union. They have also agreed that the principle of variable geometry would be applied because of the divergence in economic conditions of Member States. This would entail each Member State joining the SADC Customs Union when it reaches the required state of readiness determined on the basis of the agreed levels of tariffs against third parties. A High Level Expert Group on the SADC Customs Union, comprising of representatives from Ministries responsible for Trade and Finance from all SADC Member States has been formed to work on modalities for a SADC Customs Union and report to the Council of Ministers before the end of 2011.

20. Madam Speaker, while the modalities of a SADC Customs Union are under discussion, the existing Southern African Customs Union (SACU), celebrated its one hundredth anniversary in 2010. During the year the SACU Member States adopted a Vision for SACU to be: “An economic community with equitable and sustainable development, dedicated to the welfare of its people for a common future”. The Member States also agreed on a review of the Revenue Sharing Arrangement, which is currently underway. A Consultant was engaged to undertake the review and a draft report was submitted in January 2011. This will be followed by a process of negotiation to reach consensus on a new revenue sharing formula.

III DOMESTIC ECONOMIC REVIEW

Economic Growth

21. Madam Speaker, since 2008, the year marking the commencement of the global financial and economic crisis, the Botswana economy performed below its potential. In real terms, the economy grew slowly at 3.1 percent in 2008 before contracting by 3.7 percent in 2009. The latest data available from the Central Statistics Office (soon to be Statistics Botswana), indicate that the economy grew by about 10.7 percent in real terms over four quarters ending September 2010. This good performance is due to the global economic recovery, especially the improvement of diamond and copper sales in the world market, with the result that the Mining sector experienced a 21.7 percent increase from a low base. The rest of the economy grew by 6.3 percent during the same period. Some of the smaller sectors showed substantial growth in the twelve months to September 2010: Agriculture at 40.3 percent; Water and Electricity at 7.3

percent; Transport and Communications at 5.7 percent; Trade, Hotels and Restaurants sector at 5.2 percent Construction at 4.1 percent; and Social and Personal Services at 4 percent.

22. As I indicated earlier, growth in our economy is in the medium to long term still largely dependent on the mining sector. The uncertainties in the external trade as well as deficits in the balance of payments, call for a much more concerted effort by both the Government and the private sector to diversify the economy. One indicator that some economic diversification has been achieved is that Botswana has become less dependent on imports, from a ratio of imports of goods and services to GDP of just under 70 percent in the 1970s to under 38 percent in recent years. Furthermore, the non-mining sectors such as tourism, manufacturing, and services have also risen gradually and now account for about 60 percent of total output. The recent global economic crisis has however demonstrated to us that this is not enough and we need to do more.

23. To facilitate economic diversification, Government continues to undertake critical infrastructure developments such as the Morupule “B” Project, Expansion of Sir Seretse Khama, Maun, Kasane and Francistown Airports, Major Dam projects, and road infrastructure. These infrastructure projects will also support economic activity and international competitiveness. However, infrastructure cannot bring any benefits if its functional worth is not maintained. To ensure that the existing infrastructure is adequately maintained and that Ministries exercise diligence in prioritising their needs between recurrent and new development expenditures, budgeting for the maintenance of facilities has now been decentralised to Ministries. To emphasise Government’s commitment to facilities maintenance, for the next financial year alone P526 million has been allocated for major maintenance with a substantial part of this amount earmarked for reconstruction of dilapidated infrastructure like schools and roads. In addition, P200 million will be devoted to development of sewerage systems countrywide.

24. To further accelerate economic diversification, Government has introduced a number of policies and programmes that among others include the introduction in April 2010 of the Economic Diversification Drive (EDD), aimed at supporting private sector growth and development, especially in the manufacturing and services sectors of the domestic economy. It is my hope that the EDD will meet its objective and build entrepreneurial capacity and business acumen, produce high quality local goods and services to create incomes and new job opportunities. Furthermore, the Botswana Integrated Transport Project has undertaken initiatives such as sector studies on Regional Integration of Road and Rail Corridors, Greater Gaborone Transport Multi-modal study which will address traffic congestion in the city and a National Intermodal Transport Master Plan. Some of these studies were completed at the end of 2010 and implementation should start during the course of financial year 2011/2012.

My hope is that all these initiatives will reduce transport costs and enhance efficient delivery of goods and services in Botswana and the region.

Balance of Payments and Exchange Rate

25. Madam Speaker, preliminary estimates of the balance of payments for 2010 indicate a slightly smaller deficit on the current account of P4.8 billion, compared to a deficit of P4.9 billion in 2009. In the 11 months to November 2010, the overall deficit for the balance of payments was P3.7 billion, compared to P4.6 billion for the whole of 2009.

26. As at end of November 2010, foreign exchange reserves stood at P54.9 billion, a decrease of 5.2 percent from P57.9 billion as at December 2009. The P54.9 billion represents about 17 months of import cover of goods and services.

27. During 2010 the Pula appreciated against the SDR, a basket of the major currencies of the world, by 4.9 percent, while it depreciated against the Rand by 7.4 percent, due largely to the appreciation of the Rand in world markets. The index of the real effective exchange rate, which takes account of the inflation differential between Botswana and its trading partners, appreciated by 1.7 percent to December, 2010.

Inflation and Monetary Policy

28. Madam Speaker, monetary policy continues to focus on achieving a sustainable, low and predictable level of inflation, which helps to maintain the international competitiveness of the domestic industry and contributes to the broader national objectives of sustainable economic development and employment creation. An environment of low and stable inflation contributes to low and positive real interest rates that encourage the mobilisation of financial savings, productive investment and international competitiveness.

29. The average year-on-year inflation was 6.9 percent in 2010 compared to 8.2 percent in 2009. Given forecasts of slower growth for the domestic and global economies in 2011 compared to 2010, it is anticipated that inflation could fall within the Bank of Botswana objective range from the second quarter of 2011. However, the recent upward pressures on international oil and food prices as well as any inflationary increase in administered prices and government levies may impact adversely on the inflation outlook.

30. With prospects of low and stable inflation in the medium term, there is scope for monetary policy to support economic growth. Hence in order to maintain price stability and influence the inflation outlook, Bank of Botswana set the Bank Rate at 10 percent as of December 2009 and was maintained at that level for most of 2010. The Bank Rate was however reduced by half a percent to 9.5 percent in December 2010. In this regard, commercial banks responded in the same manner by reducing the prime

lending rate from 11.5 percent to 11 percent as of December 2010. This should assist debt financing of investment in productive activities that could help grow the economy and contain unemployment and poverty levels.

Economic Outlook

31. Madam Speaker, with the recovery of the mining sector and a stable growth outlook in the rest of the economy, the economic prospect for our country is sound. Diamond sales in 2010 were 33 percent greater than in 2009. We expect improved diamond sales for 2011 and beyond, with recovery of the diamond market to pre-recession levels by 2013. When supported by sound macroeconomic policies, prudent financial resources management, and good governance, prospects for the medium term are positive.

32. My Ministry forecasts that in real terms, the economy will grow by 6.8 percent in 2011 and 7.1 percent in 2012 provided that the mining sector, as the largest single contributor to GDP, grows by at least 15 percent and 6.2 percent respectively, over the same period. We forecast that total GDP in current prices for the current financial year will be P101.59 billion, followed by P109.5 billion in 2011/12, and P118.1 billion in financial year 2012/13.

33. Madam Speaker, for the diversification effort to take effect, we need well-thought-out supportive policies. Hence, following the enactment of the Competition Act by Parliament in December, 2009, the Competition Commission was appointed in June 2010 and has since started developing Competition Rules and Regulations. The main objective of the Act is to enhance competition in the market place by reducing or eliminating anti-competitive and restrictive business behaviour, such as price fixing, collusion and monopoly practices which negatively affect the free operations of the markets.

34. In another effort, Government is reviewing and aligning the Trade Act, 2003 with the Industrial Development Act, 2006. This will further simplify procedures for the issuance of trade licenses by introducing among others, indefinite licenses and deregulation of small scale businesses.

Services Sector Development

35. Madam Speaker, the service sector has potential for diversifying our economy even further. To facilitate service sector development, Government is participating in a joint venture investment with the private sector in the development of undersea fibre optic cable systems and their associated terrestrial backhaul links with other countries. The project is divided into two phases.

36. The first phase, the East Africa Submarine Cable System, involves provision of undersea fibre cable connecting countries along the east coast of Africa (Sudan, Djibouti, Somalia, Kenya, Tanzania, Mozambique and South Africa). The project,

which cost Botswana Government US\$10.4 million (about P69.7 million), was completed in August 2010 and is now ready to carry commercial traffic. This will provide high quality fibre networks to interconnect these African countries among themselves and the rest of the world and in the process make business transactions faster and cheaper.

37. Madam Speaker, the second phase which requires our investment of US\$37.5 million (P250.5 million) will be the development of the West Africa Cable System undersea fibre cable connecting countries along the west coast of Africa from South Africa to the United Kingdom via Portugal. The project will be ready for commercial service in January 2012 and will provide Botswana with alternative connectivity on the west coast of Africa at reasonable cost. These initiatives will enable Botswana to have high capacity, high quality, diversified and affordable international communication services and thus open doors for growth of the service sector.

38. Further, the provision of Government services in electronic form, often referred to as e-Government, has become essential for the efficiency and effectiveness of the public service. This will require redesign of many Government processes, and will ultimately support the right sizing of the public service. In the financial year 2011/12, Government together with all stakeholders, will be completing the e-Government Strategy. That will be followed by implementation of some projects with immediate high payoffs, such as enhancing the Government internet portal and the integration of key Government applications.

Employment and Labour Issues

39. Madam Speaker, a more diversified economy has the potential to increase employment opportunities and help reduce the unemployment rate which according to the last Labour Force Survey stood at 17.5 percent. Government is particularly concerned with the issue of graduate employability, caused largely by a mismatch between what our education system provides and what the labour market requires. As a way of addressing this, institutions such as the University of Botswana are taking measures to diversify their academic programmes as well as develop programmes that will equip learners with the requisite skills. For the 2011/12 financial year, Government will continue with the implementation of a comprehensive tertiary education reform programme. Further, Government is implementing the National Human Resource Development Strategy which calls for development of a comprehensive Human Resource Development Plan underpinned by a sector-wide approach that will ensure that labour demand matches the supply of skilled and educated human resources. In this connection, plans are advanced to create a Human Resource Development Council in 2012.

40. In order to address issues of quality and relevance of primary, secondary and post secondary education, Government is, as of January 2011, undertaking several initiatives which include: developing standards and indicators for quality education for

Botswana; assessing and evaluating the Botswana Technical Education Programme; re-organising Technical and Vocational Education and Training Programmes; and developing a National Credit Qualification Framework.

41. Further, in 2010, Government established a Labour Market Observatory (LMO) within my Ministry, which is now operational. Its major functions include collection, analysis and dissemination of labour market information, while also undertaking research in this area. Key features of the LMO include, among others, generating forecasts on the supply and demand for labour and establishing the mismatches in the labour market. A website, www.botswanalmo.org.bw for disseminating labour market information as well as an employment exchange service was activated in December 2010. The employment exchange service will bring together job seekers and employers by allowing employers to post vacancies and job seekers to react and submit their credentials. I therefore take this opportunity to encourage all Ministries, parastatals and the private sector to use this service in advertising their vacancies.

Poverty Eradication

42. Madam Speaker, employment creation has the potential of reducing poverty and its effect on social life. According to the last Household Income and Expenditure Survey (HIES), poverty in our country was estimated at 30.6 percent and this is not acceptable by any standard. In an effort to address this, Government has instituted several anti-poverty programmes that among others include, Destitute Housing, Ipelegeng, Self Help Housing Agency (SHHA) programme, Integrated Support Programme for Arable Agriculture (ISPAAD), various youth programmes, support to Non-Governmental Organisations, community development programmes, Livestock Management and Infrastructure Development (LIMID) programme, and lately Backyard Gardening.

43. Government has deliberately shifted from a poverty reduction to a poverty eradication objective. To be achieved, such a bold move requires supportive policies, projects, programmes and mindset change. It will require close consultation with the poor to identify opportunities for self-reliance that are built on their interests, capabilities and micro-environment. It will also require challenging all able-bodied citizens to take pride in fending for themselves and contributing towards the development of their country. In this regard, an additional P100 million will be drawn from the Alcohol Levy Fund for financing poverty eradication initiatives during the financial year 2011/12.

44. To help in poverty eradication initiatives, it is critical to have quality socio-economic data that will inform decision making and planning activities. The results of the Botswana Core Welfare Indicator Survey, which are expected in May 2011, will give an assessment of poverty levels and assist Government in making informed decisions on poverty eradication.

Citizen Economic Empowerment

45. Madam Speaker, my Ministry drafted a Citizen Economic Empowerment Policy in 2008 which has gone through an extensive consultative process with various stakeholders including Cabinet and the private sector. My Ministry has updated the recommendations of the Policy and the revised Policy will be presented to Cabinet for approval during first quarter of 2011. Meanwhile, all the existing citizen empowerment schemes will continue to be implemented until any new arrangements are put in place.

Privatisation and Rationalisation of Parastatals

46. Madam Speaker, efficiency and effectiveness of some of our parastatals has been a subject of discussion for some time. This has prompted Government to initiate privatisation processes targeting some parastatals. Privatisation is broadly defined to include divestiture, outsourcing and other forms of rationalisation. The Government has decided to centralise the responsibility for the implementation of the privatisation programme under the Public Enterprise Evaluation and Privatisation Agency (PEEPA). PEEPA has commenced work on the review of the 2005 Privatisation Master Plan, and a report is expected before end of March 2011.

47. The oversight of Public Private Partnership (PPP) has been centralised under my Ministry where a PPP Unit is being established. The institutionalisation of the PPP approach will provide a platform for the private sector to play a role in infrastructure development. Recruitment of experts for the Unit is on-going, and it is expected that it will be operational during the second quarter of 2011.

48. In line with the Privatisation Policy of 2000, Government approved the privatisation of Botswana Telecommunications Corporation by committing to sell up to 49 percent of its shares to Batswana through an Initial Public Offering (IPO) on the Botswana Stock Exchange , while Government retains the remaining 51 percent. The process for implementing this decision is ongoing and is coordinated by the Public Enterprise Evaluation and Privatisation Agency in collaboration with the Ministry of Transport and Communications.

49. As Government has already undertaken to privatise the National Development Bank (NDB), my Ministry is currently working on a privatisation strategy for Cabinet's consideration and approval during the first quarter of 2011. Further, my Ministry will shortly be seeking Cabinet decision for the Government to embark on a mandatory Public Service Outsourcing Programme, where all Ministries will be required to outsource office cleaning, grounds maintenance and landscaping, and security services. These services are considered non-core and if outsourced, will relieve Government of the administrative burden of providing them. Data received from Ministries indicate that about 7 percent of the Ministries have outsourced cleaning services, 33 percent have outsourced garden maintenance and landscaping, and 40 percent have outsourced the provision of security services.

50. Madam Speaker, the majority of commercial public enterprises continued to perform satisfactorily during the 2009/10 financial year. These include net profits of P181.1 million recorded by Botswana Telecommunications Corporation, P171.6 million by Water Utilities Corporation and P136.8 million by Botswana Development Corporation Limited. Other public enterprises, however, recorded losses such as net losses of P133.6 million for Botswana Power Corporation, P92.5 million for Botswana Meat Commission, and P45 million for Air Botswana. It must be pointed out though that the loss recorded by Botswana Power Corporation (BPC) is mainly attributed to an increase of 40 percent in operating costs against a backdrop of tariff rates which do not yet represent cost recovery levels. Consequently, Government has provided a P500 million subsidy to BPC in the 2011/12 budget estimates.

51. To further improve the efficiency and effectiveness of parastatals, Government has approved a strategy for rationalisation of certain Public Enterprises. The rationalisation process, which includes the merging of some public enterprises such as Botswana Postal Services and Botswana Savings Bank; Botswana Technology Centre and Rural Industries Promotions Company; Botswana Export Development and Investment Authority and International Financial Services Centre; and Botswana Training Authority and Tertiary Education Council, is on-going and will continue during 2011/12 financial year.

Debt Management

52. Madam Speaker, the recent global economic crisis necessitated an increase in Government borrowing and a drawing down of Government's savings. This, in turn, has required a focus on debt and finance management, to ensure that optimal use is being made of the various potential sources of funds. To avoid being caught in a debt trap, the Stock, Bonds and Treasury Bills Act limits each of internal and external Government debt and Government guarantees to 20 percent of GDP. At the end of the 2009/10 financial year, the internal ratio stood at 6.8 percent of GDP, while the external ratio stood at 12.5 percent of GDP. By the end of the current financial year we expect the internal debt ratio to have fallen to 6.4 percent, while the external debt ratio would have risen to 19.1 percent of GDP, due largely to the drawing down of the budget support loan from African Development Bank (AfDB) and loans for major infrastructure projects. More details on the actual and anticipated debt position are available online at www.finance.gov.bw. While the external ratio is approaching the limit, there is still scope for domestic borrowing to finance the deficits we are currently running. For this reason, we will be asking Parliament to approve an expanded domestic bond issuance programme later during this meeting. Overall, the Government's debt management strategy is designed to have an efficient financing mix without breaching the legislated limits.

Enhancing Efficiency and Effectiveness

53. Madam Speaker, to ensure optimum performance from service suppliers, PEEPA has developed a Supplier Intelligence Management System that evaluates on a

monthly basis, the performance of suppliers engaged by Government. This will assist contract managers within Government institutions to identify, at an early stage, performance issues of contracted private sector service providers, and will also motivate the private sector to achieve high standards of service delivery. Further, Government through the Public Procurement and Asset Disposal Board is currently undertaking capacity building initiatives that are aimed at ensuring value for money for projects that have been prioritised in the drive to achieve high returns using fewer resources. Such initiatives include: training Government Departments as Procuring Entities, and Suppliers, through capacity building workshops as well as imposing stringent measures such as suspension and delisting of contractors that fail to perform according to agreed specifications.

54. To fast track the processing of work and residence permits, Government has established additional Regional Immigrants Selection Boards. To date eight Boards have been established with the latest being Kasane Regional Immigrants Selection Board, which was launched in October, 2010. A new Immigration Act, merging the Immigration and the Employment of Non-Citizens Acts has been published in the Government Gazette and will commence on notice. The objective of the new Act is to improve administration of non-citizens entering the country for purposes of employment. Furthermore, the processing and issuance of official documents such as passports, citizenship certificates, work and residence permits and visas are now done electronically. These innovations are meant to improve efficiency in service delivery.

IV 2009/10 BUDGET OUTTURN

55. Madam Speaker, I now proceed to a review of the Government budget starting with the outturn for the 2009/10 financial year. The budget outturn for the 2009/10 financial year was an overall deficit of P9.47 billion, compared to an estimated deficit of P13.48 billion in the revised budget. This improved budget outturn is due to a combination of more than anticipated revenue earnings and under-spending of the expenditure budget.

56. Total revenues and grants amounted to P30.0 billion in 2009/10, which is higher than the estimated P27.78 billion in the revised estimates, representing a net increase of P2.24 billion or 8.07 percent. The additional revenue can be attributed to the recovery of the diamond market, with mineral revenue accounting for the highest increase of P2.25 billion or 33 percent. This is followed by VAT with an increase of P256 million or 7 percent due to growth in the consumption of goods and services and improved collection by Botswana Unified Revenue Service.

57. Total expenditure and net lending in 2009/10 amounted to P39.49 billion compared to P41.27 billion in the revised budget, representing an under spending of P1.78 billion or about 4.3 percent. Out of this total, recurrent expenditure amounted to P25.73 billion compared to P26.38 billion in the revised estimates, representing an

under spending of P646.4 million. Development expenditure recorded P13.01 billion, which was an under spending of P1.44 billion or 10 percent below P14.4 billion in the revised estimates.

V 2010/11 REVISED BUDGET ESTIMATES

58. Madam Speaker, I now turn to the Revised Budget Estimates for financial year 2010/11. The original estimates for 2010/11 showed a deficit of P12.12 billion whilst the revised budget shows a reduced budget deficit of P10.22 billion, which is 10.1 percent of GDP of P101.59 billion. The reduction in the deficit is mainly due to a net increase in total revenue and grants of P3.2 billion due to Mineral Revenue increasing by P2.84 billion, and Customs and Excise by P893 million. On the other hand, total expenditure and net lending increased by P1.31 billion.

59. The revised total expenditure and net lending for 2010/11 is estimated at P40.51 billion, with the revised development and recurrent budgets of P13.31 billion and P27.22 billion, respectively. Total revenue and grants are estimated at P30.29 billion, with mineral revenue being the largest contributor at 31 percent due to an anticipated increase in diamond revenue during the financial year. The second largest source is customs and excise at 20 percent. However, it is recognised that this is a lower contribution compared to previous financial years.

VI 2011/12 BUDGET PROPOSALS

60. Madam Speaker, I now present the budget proposals for the 2011/12 financial year. The preparation of the 2011/12 budget was guided by the National Development Plan 10 and the Public Finance Management reforms which I mentioned earlier. The exercise was also guided by Cabinet, which defined the budget process and priority areas for the 2011/12 Budget. The priority areas include: completion of ongoing projects; poverty eradication programmes; maintenance and efficient operation of existing public infrastructure, especially health, education and sewerage systems. The objective is to follow an expenditure path that is consistent with the commitment to reach a balanced budget by 2012/13, which was made during the 2010 Budget Speech. It must be emphasised that to reach this target from an initially estimated P13.4 billion deficit in 2009/10, required serious belt-tightening, and efficient resource utilisation involving reprioritisation and allocating resources to priority areas, curtailing expenditure growth and improving revenue collection.

Revenues and Grants

61. Madam Speaker, total revenues and grants for the 2011/12 financial year are estimated at P34.10 billion, with Mineral Revenue contributing 33 percent of the total. The second largest source is Customs and Excise at 25 percent, while Non-Mineral Income Taxes and Value Added Tax come third and fourth at 18 percent and 15 percent, respectively. The proposed total expenditure and net lending for 2011/12 is

estimated at P41.03 billion, made up of P10.77 billion for the development budget and P30.35 billion for the recurrent budget.

Recurrent Budget

62. Madam Speaker, the recommended recurrent budget for the 2011/12 financial year is P30.35 billion, an increase of 11.6 percent over the 2010/11 revised budget of P27.22 billion. The bulk of this increase is explained by the 10 percent increase in the Public Service salaries resulting from the implementation of the 2008 Public Service Act. Out of the P30.35 billion budget, P28.2 billion is for Ministerial Recurrent budgets. Five Ministries of: Education and Skills Development, Local Government, Health, Defence, Justice and Security and Transport and Communications, account for 75.5 percent of the total Ministerial recurrent budget.

63. The Ministry of Education and Skills Development is allocated the largest share of 31.1 percent at P8.7 billion. In addition to the wage bill, this Ministry requested an increase in bursaries for post secondary students. Further, the Ministry's budget will cater for the opening of new senior secondary schools in Mogoditshane, Mmadinare and Nata. The Ministry of Local Government gets the second largest share of 13.5 percent at P3.8 billion. However, this represents a decline from the current financial year's allocation due to the transfer of Primary Health Services to the Ministry of Health. The Ministry of Defence, Justice and Security accounts for the third largest share of 13.1 percent at P3.68 billion due to increases in personal emoluments and running costs for the Botswana Defence Force and Directorate on Intelligence and Security. The fourth largest share of 12.6 percent at P3.5 billion goes to the Ministry of Health. This increase is attributed to the takeover of primary health services from the Ministry of Local Government, and additional provision for maintenance of health facilities. The fifth largest share of 5.4 percent at P1.5 billion is for the Ministry of Transport and Communications. The other Ministries share the remaining 24.5 percent of the Ministerial recurrent budget.

Statutory Expenditure

64. Madam Speaker, apart from individual Ministry provisions, Government must also provide for payments mandated by various statutes. The budget for Statutory Expenditure is P4.6 billion. Major items under this category of expenditure include: Public Debt service at P2.9 billion; Pensions, Gratuities and Compensation at P1.38 billion out of which P1.04 billion is Government contribution to the Public Officers Pension Fund; and Miscellaneous statutory commitments at P283 million to cater for refunds of Income Tax and the subscriptions to the IMF, the World Bank and the African Development Bank.

Development Budget

65. Madam Speaker, the recommended Development Budget for the 2011/12 financial year is P10.77 billion. This budget will be funded from the Domestic Development Fund at P9.47 billion and loans and grants from development partners at

P1.3 billion. The Ministry of Minerals, Energy and Water Resources with a budget of P2.37 billion, gets the highest share of 22 percent of the proposed overall Development Budget. Three major projects, namely Botswana Power Corporation Finances at P1.3 billion, Water Planning and Development at P924 million and Major Village Water Supply at P119 million account for 99 percent of the Ministry's budget. Under Botswana Power Corporation Finances, P800 million is for the construction of Morupule "B" Power Station while P500 million is for the Emergency Power Generation Project. The allocation under the Water Planning and Development Project is mainly to cover the construction of three dams of Thune, Lotsane and Dikgatlong, whilst the allocation under Major Village Water Supply Project is mainly to cover the North South Carrier connections to the major villages of Kanye, Serowe and Molepolole.

66. The second largest share of 19.8 percent is allocated to the Ministry of Transport and Communications at P2.13 billion for Bitumen and Trunk Roads Improvements project, Airports Infrastructure project, Botswana Railways Finances and Secondary Roads Construction project. These four projects constitute 78.6 percent of the Ministry's allocation. The major projects are: Western Bypass Circle-Metsimotlhabe, Gaborone-Tlokweng Border Post, Nata-Kazungula and Ngoma-Kachikau Roads; and Maun, Sir Seretse Khama, and Francistown Airports.

67. The Ministry with the third largest share of 13.0 percent of the proposed overall development budget is Local Government at P1.4 billion. Four projects, namely, Village Infrastructure, District and Urban Roads, Labour Intensive Public Works and Urban Land Servicing account for 88.6 percent of the total Ministry's budget.

68. The Ministry of State President, with P1.108 billion, gets the fourth largest share of 10.7 percent, mainly accounted for by the HIV/AIDS Programme at P981 million, which is 88.5 percent of the Ministry's budget. The Ministry with the fifth largest allocation of 9.5 percent is Defence, Justice and Security at P1.023 billion mainly accounted for by the Botswana Defence Force, Botswana Police Service and Directorate on Intelligence and Security. The other 17 Ministries and Departments share the remaining 25 percent of the development budget.

69. In line with Cabinet decision, priority was given to the completion of ongoing projects as well as maintenance and refurbishment of existing facilities. That notwithstanding, a special dispensation was extended to cover a few new projects which are deemed critical such as the construction of sewerage networks in Kanye, Kasane, Molepolole and Serowe, as well as reconstruction of burnt down school facilities and refurbishment of some border posts.

VII OVERALL BALANCE

70. Madam Speaker, total revenues and grants for the financial year 2011/12 are forecast at P34.10 billion, whilst proposed total expenditure and net lending are at P41.03 billion. The net result is a budget deficit amounting to P6.93 billion which is 6.3 percent of forecast GDP.

VIII PUBLIC SERVICE SALARIES

71. Madam Speaker, the Public Service Act 2008, which took effect on 1st May 2010, resulted in the Directorate of Public Service Management becoming a single employer for Government after the repeal of the Local Government Service Act, the Teaching Service Act and Part IIA – IIF of the Tribal Land Act. The new Act necessitated the adjustment of working days from 20 to 22 days for the permanent and pensionable group of employees and further recognises varying working conditions of the employees such as shift work and working over weekends. These changes resulted in costs of about P700 million which had not been budgeted for in the 2010/11 financial year. To help finance the shortfall in the current financial year, recruitment into the Public Service was temporarily frozen.

72. The new Act also resulted in the cessation of one of the mandates of the National Employment, Manpower and Incomes Council (NEMIC), which was to advise Government on the remuneration of the Public Service. It further provides for the establishment of a Bargaining Council to steer collective bargaining between the Public Service trade unions and representatives of Government, the employer, on matters that have been identified as requiring negotiation, including remuneration in the Public Service. Consequently, NEMIC did not meet to consider any salary adjustment for the Public Sector for the 2011/12 financial year, as has been customary.

73. Meanwhile, the bargaining process, which must balance the ability of the employer to pay against the aspirations of public sector employees, has started. We hope that all the negotiating partners will take into account the difficult budgetary conditions that I have just outlined in arriving at a negotiated outcome. They should also take into account the adjustment in public service salaries arising from the increase in working days for Public Service employees that was made in October 2010 but applied retrospectively from 1st May 2010. The new salaries are now part of the wage bill in the budget estimates for the 2011/12 financial year.

IX FISCAL LEGISLATION

74. Madam Speaker, amendments to the Income Tax Act, the Value Added Tax Act and Transfer Duty Act will be discussed by this Honourable House during this sitting. Madam Speaker, while extensive details will be given when I present the Bills, the proposed amendments include abolishing the two tier corporate tax system; to replace it with a corporate tax rate of 22 percent and a dividend withholding tax rate of 7.5 percent. The threshold for individual taxpayers is currently P30 000 per annum. We propose to amend the Income Tax Act to increase the threshold to P36 000 per annum with effect from 1st July, 2011.

75. The Value Added Tax (VAT) personal allowance for goods imported as accompanied baggage has been set at SACU Units of Accounts (UA) 500 since the implementation of the VAT Act on 1st July, 2002. We propose to amend the Act to increase the threshold to UA 1 200 to compensate for inflation. Finally, we are proposing an amendment to the Second Schedule of the Act to exempt farming implements, such as ploughs, planters and harvesters from VAT in order to encourage Batswana to participate in arable farming.

76. Madam Speaker, my Ministry continues to strive to improve the regulatory environment in the financial sector. This is mostly achieved through the enactment and review of national legislation. To this end, the Securities Bill will be tabled during this sitting of Parliament while the Micro-lenders Regulations are due to be gazetted. Another important development is the introduction of the Regulations which will establish the tribunal that will address complaints from the non-bank financial institutions against the Regulator. Furthermore, several pieces of legislation are currently under review. These include the Insurance Industry Act and Pensions and Provident Funds Act. The review entails a total revamp of the regulatory and supervisory system from a compliance-based to a risk-based system, in keeping with international best practice. The amendments to these Acts were to be tabled during the July 2010 sitting of Parliament. However, the exercise was delayed due to the consultation process with stakeholders and capacity constraints in drafting the legislation. These Bills are near completion and are now scheduled to be tabled during the July 2011 sitting of Parliament.

77. Further, the Public Finance Management Bill, which seeks to repeal and replace the Finance and Audit Act will be presented during this sitting of Parliament. The Bill is intended to address weaknesses identified in the past and further ensure that the new processes and procedures such as the decentralisation of certain thresholds of authorising virements by Ministries are properly regulated. In addition, the Bill will address the extent to which the current framework allocates and distributes authority amongst different officials or agencies of Government with respect to control and management of public finance such as imposing surcharges.

X CONCLUSION

78. Madam Speaker, let me conclude by noting that while the world economic recovery seems to be underway and the prospects for our public finances have improved, risks to the outlook still remain. If the economic recovery can be sustained, we will be on track to balance our budget by 2012/13, while emphasising the cost effectiveness of government spending that is focused on national priorities.

79. We are demonstrating that Government has the discipline to limit its expenditure and therefore the budget deficits. I wish to re-emphasise that the total deficit approved by Parliament for the entire NDP 10 must not be exceeded. At this time last year we projected that for the first three years of NDP 10, the deficit would average 10.6 percent of GDP. With the actual results for 2009/10 and the revised estimates for 2010/11, together with our proposed deficit of 6.3 percent of GDP for 2011/12 financial year, we now expect the deficit for those three years to average 9.0 percent of GDP. Beyond that, the updated fiscal projections for the subsequent three years of NDP 10 express our plan to restore Government reserves to serve as a cushion in the event that another crisis strikes the world economy. We thus hope to avoid, both now and in the future, the drastic adjustments that have been forced on governments elsewhere.

80. We are committed to doing more with less and proving that we can live within our means. In much the same way that a private business must prepare business plans for its ongoing operations, and bankable feasibility studies to justify new projects to its shareholders and financiers, each Government Ministry must continue to demonstrate that its spending plans are the best use of public funds provided in the recurrent and development budgets.

81. Madam Speaker, the path we have chosen for this and subsequent budgets is not only feasible, but is designed to accelerate economic growth and eradicate abject poverty, while maintaining a sustainable fiscal position.

82. Madam Speaker, I would like to take this opportunity to express my appreciation to our development partners, who continue to provide assistance towards the implementation of some of our programmes in the form of soft loans, grants and capacity building initiatives, including technical assistance and equipment. My sincere thanks to them.

83. Madam Speaker, I now move that the **Appropriation (2011/2012) Bill**, No.1 of 2011 be read for the second time.

84. I thank you, Madam Speaker.