



Republic of Botswana



2013 BUDGET SPEECH

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I INTRODUCTION

1. Mr Speaker, I have the honour this afternoon to present to this Honourable House, budget proposals for the financial year 2013/14.

2. Mr Speaker, the preparation of these budget proposals coincided with the Mid-Term Review of NDP 10. Therefore some of the issues that I shall report on today have been covered in the Plan Review document, which has been discussed at length during my Ministry's consultative processes through National Stakeholder Conferences, briefing of Ntlo ya Dikgosi and Members of Parliament, in October and November 2012.

3. As in previous years, my Ministry developed a Budget Strategy Paper whose aim was to inform the content and context of the budget proposals for the financial year 2013/14. The Paper was shared extensively during consultative processes that I have already alluded to and is readily accessible on my Ministry's website. The Paper was prepared amidst uncertainties regarding prospects of both the global and domestic economy. Such uncertainties led to constrained demand for, and a decline in prices of diamonds in the global market. Hence revenues available to Government are expected to decline in the medium to long-term. This puts pressure on Government to be more cautious in determining its expenditure profile in the short to medium term.

4. Mr Speaker, the Government still upholds the objective stated in NDP 10, that for the second half of the Plan we should strive to achieve budget surpluses. Hence, the strategy for both the Mid-Term Review and the budget, is to return to high growth through increased productivity and competitiveness, while constraining Government expenditure levels. This will require Government Ministries to focus on their priority tasks within a limited budget, so that every unit of Government expenditure in the coming year is more productive than before. All Ministries and Departments should strive to ensure continued improvement of their respective identified priority areas. Despite a constrained budget, we should continue to build a vibrant economy capable of providing the citizenry with a decent quality of life, creating sustainable employment opportunities, and eradicating abject poverty.

II INTERNATIONAL AND REGIONAL REVIEW

International Economic Review

5. Mr Speaker, according to the World Economic Outlook released in October 2012 by the International Monetary Fund, global economic growth forecasts have been revised downwards. The Outlook indicated that the global economy was

forecast to grow by 3.3 percent in 2012 down from 3.8 percent recorded in 2011. For advanced economies, output growth was forecast to be 1.3 percent in 2012 compared to 1.6 percent achieved in 2011. Growth in Emerging Markets was projected to slow down significantly to 5.3 percent in 2012 from 6.2 percent achieved in 2011. The latest IMF World Economic Outlook of January 2013 moderately reduced the projected growth rates for 2013 and 2014, and warned that downside risks in major Advanced Economies remain significant.

6. Growth of world trade volume was anticipated to substantially slow down to 5.8 percent in 2012 compared to 12.6 percent in 2011. This was expected to result in reduced revenues particularly for Sub-Saharan countries as imports by Advanced Economies were expected to slow down to a growth rate of 1.7 percent in 2012 compared to 4.4 percent growth recorded in 2011.

7. Given this subdued prospect of economic growth in the global economy and the threat of a possible Euro crisis, many economies are reducing their fiscal deficits as a precautionary measure. For Botswana, it remains crucial to exercise restraint in Government spending, focusing only on national priority areas and replenishing our reserves to levels that can sustain unforeseeable future shocks.

8. Mr Speaker, one of the developments worth noting is that given increasing growth of some emerging economies in the past five years, especially China, India and Brazil, new growth poles are redefining the global economic landscape. The pace and strength of growth for emerging economies places them at the centre of the global economy. It is very critical that Botswana positions itself to take advantage of opportunities presented by the changing global economic structure, both in terms of market access and foreign direct investment.

Regional Economic Review

9. Mr Speaker, during 2012, economic growth in the SADC region averaged 4.5 percent while average inflation rate for the region stood at 7.8 percent. During the same year, overall fiscal balance amounted to a deficit of 2.6 percent of GDP, while public debt stood at 36.4 percent of GDP.

10. Major risks that the region is currently facing include: increasing inflation pressures as a result of rising commodity prices particularly of food and oil; depreciating exchange rates in the face of constrained foreign exchange reserves; and a narrow fiscal policy space due to low revenues and declining aid flows. Further, the region remains predominantly un-diversified with primary production sectors based mainly on mining and agriculture.

11. Since launching of the SADC Free Trade Area (FTA) in 2008, focus has been on consolidation of the FTA to ensure that it is effective in promoting

intra-SADC trade. To this end, a comprehensive audit for 2012 on the FTA is underway. The audit will look at all aspects of the Trade Protocol implementation; assess progress made; and identify weaknesses and opportunities, as the region strives to advance its integration process.

12. Further, following the launch of a number of initiatives aimed at improving the SADC Investment Climate and promoting SADC as an investment destination, a SADC Investment Portal has been developed and is serving as an information database on the SADC investment climate and available opportunities. The SADC Regional Infrastructure Development Master Plan has finally been completed. The Plan is a key Strategic Framework to guide the implementation of trans-boundary infrastructure networks in an integrated and coordinated manner. The Framework also identifies priority projects in the six sectors of Energy, Transport, Water, ICT, Tourism and Meteorology.

III DOMESTIC ECONOMIC REVIEW

Economic Growth

13. Mr Speaker, in order to keep up with the changing structure of Botswana's economy, during 2012 Statistics Botswana carried out a comprehensive revision and rebasing of the country's National Income Accounts. This resulted in revision of the Gross Domestic Product (GDP) estimates from 2000 to 2011 which consequently changed the size of the GDP, its growth rates, sectoral contributions, and all related indicators.

14. The latest available data show that in real terms GDP grew by 8.0 percent in 2011, which was slightly slower than the 8.1 percent growth achieved in 2010. The fastest growing sectors in 2011 were Construction, General Government, and Trade, Hotels and Restaurants, which grew in real terms by more than 10 percent. Preliminary data for the four quarters through September 2012 indicate that in real terms GDP grew by 7.7 percent, compared to 7.3 percent over the same period in 2011. The mining sector declined by 12.5 percent, while the rest of the economy grew at a rate of 11.6 percent. Given uncertainties surrounding the mining sector, particularly the diamond industry, and the fact that there has been growth in the non-mining sector, it is important that the potential of the non-mining sector be developed.

Inflation and Monetary Policy

15. Mr Speaker, inflation was lower in 2012 than in the previous year. The national year-on-year inflation rate was 7.4 percent in December 2012 compared to 9.2 percent in December 2011. What is particularly notable is that the Core Inflation Rate, which excludes administered prices, such as those of petrol, water and electricity, persistently remained below the overall Consumer Price inflation

rate for 2010, 2011 and 2012, running near the upper end of the Bank of Botswana's medium term objective inflation range of 3-6 percent. In light of this, the Bank has maintained the bank rate at 9.5 percent since December 2010 to foster economic growth and enhance competitiveness.

Balance of Payments and Foreign Exchange Reserves

16. Mr Speaker, the overall balance of international payments was a surplus of P3.4 billion in 2011, following substantial deficits of P4.6 billion and P6.5 billion in 2009 and 2010, respectively. The surplus for 2011 is partially attributed to the recovery in the world diamond market prices and higher SACU receipts, which included an additional P2.5 billion adjustment for an earlier SACU underpayment. However, preliminary estimates of the overall balance of payments indicate a deficit of P1.5 billion for 2012.

17. At the end of December 2012, foreign exchange reserves amounted to P57.7 billion which is equivalent to 13 months of import cover of goods and services, down by 4.3 percent from P60.3 billion at the end of December 2011. The marginal decrease in foreign exchange reserves is mainly a result of a reduction in diamond exports receipts, which declined by 21.9 percent during the same period. In US dollar terms, the reserves declined by 8.6 percent to USD7.4 billion, while in SDR they fell by 9.4 percent to SDR4.8 billion.

Exchange Rate Movements

18. Mr Speaker, under the crawling peg exchange rate mechanism, the exchange rate of the Pula against a basket of international and regional currencies is adjusted gradually, based on the expected inflation differential with our trading partners, consistent with the Bank of Botswana's monetary policy. Given a higher expected inflation in Botswana than in trading partner countries, the Pula has been crawling downwards to prevent a loss in competitiveness of the Pula.

19. To foster transparency of Botswana's exchange rate mechanism, Government has taken a deliberate decision to disclose both the rate of crawl of the Pula, and the weights of the currencies in the basket. The current rate of crawl is minus 0.16 percent per annum, which is intended to minimise the impact of the exchange rate adjustment on inflation. The weights of the currencies in the basket are 55 percent South African Rand, and 45 percent for the currencies that make up the IMF's Special Drawing Rights. The rate of crawl and the weights of the currencies in the basket will be adjusted when the underlying conditions change. Such changes will be announced at the time they are made.

20. It is important to emphasise that, while exchange rate adjustment is a short-term measure, the best way for domestic producers to achieve sustainable international competitiveness is through gains in productivity. To achieve

efficiency in the use of available resources is critical and must be an issue of concern for both the Government and the private sector.

Economic Outlook

21. Mr Speaker, the domestic economy has undoubtedly experienced some depressing developments during 2012 ranging from declining output of the diamond sector, to a country-wide drought and damage caused by the recent floods, among others. Further, there were some delays in completing some mega projects such as Morupule B and the connection of additional power supply to the national grid. Given these challenges, prospects of the domestic economy therefore remain fragile as it faces global economic volatilities, particularly diamond exports which are destined for developed countries.

22. Mr Speaker, overall, my Ministry estimates a real GDP growth rate of 6.1 percent for 2012 and 5.9 percent for 2013. It is however unlikely that in the next few years the economy will reach the pre-financial and economic crisis real growth rates of nearly 9 percent. Nominal GDP is anticipated to reach about P120 billion in 2012 and P130 billion in 2013.

Employment and Human Resource Development

23. Mr Speaker, a wide range of policies and programmes, such as the Internship Programme, Youth Development Fund, LIMID, Youth Empowerment Scheme, Diamond Hub, Innovation Hub and Economic Diversification Drive, have been established to address issues of unemployment and job creation. Efforts will be continued to ensure that the economy generates job opportunities for those seeking employment by according priority to those projects with high job creation potential and ability to stimulate economic growth. Diversification of the tourism industry also provides opportunities for employment creation.

24. The youth form a major constituency of our population and a majority of the unemployed. In recognition of this, Government will continue to empower them through various programmes such as the Skills Development Programme aimed at identifying skills gaps and service providers with relevant programmes to bridge those gaps. Through the Ministry of Youth, Sports and Culture, Government is also in the process of establishing a Multi-Sectoral Committee which among others will ensure full integration of youth matters into policies and programmes formulated by Ministries. These initiatives will assist in preparing the youth for the ever evolving job market requirements.

25. Mr Speaker, it remains critical that adequately skilled human resources be provided if the country is to achieve enhanced economic growth and diversification. To facilitate this, the Botswana Qualification Authority is being established, to address issues of relevance, quality, accreditation, articulation,

coordination and management of skills development programmes. Further, the preparation of a comprehensive Education and Training Strategic Sector Plan, which was officially launched in August 2012, is expected to be completed during 2014/15. The Plan will provide a wide policy and strategic framework, guide the prioritisation and resource allocation processes, and ensure delivery of improved education and skills development.

Poverty Eradication

26. Mr Speaker, Government continues to address problems of poverty and destitution by targeting the vulnerable and less fortunate members of the society through provision of cash transfers, food baskets, feeding schemes, shelter, labour based public works programmes. In addition, poverty reduction packages are provided under the poverty eradication scheme, the affirmative action under the Remote Area Development Programme and the Women's Economic Empowerment Programme under the Ministry of Labour and Home Affairs. As at October 2012 Government was supporting 93,090 old age pensioners; 2,110 World War II veterans; 30,906 destitute persons; 1,275 community home based care patients and; 40,766 orphans and vulnerable children. Further, old age pensioner's allowance has been increased from P220 to P250 per month, World War II veterans' allowance from P359 to P390 per month while destitute persons' allowance was increased from P81 to P90 per month. These increases range from 9 percent for World War II veterans allowance to 14 percent for old age pensioners allowance. This is a clear demonstration that Government is serious in ensuring that available resources are shared with those who are worse-off in our society.

27. Government also considers the provision of decent basic shelter as key to eradicating poverty among citizens. Through a low income housing programme, loans repayable over 20 years with zero interest have been channelled into a revolving fund under the Self Help Housing Agency. The fund now stands at P133 million. I wish to remind the beneficiaries that for the revolving fund to be able to finance additional loans there must be timely repayment of outstanding loans. To increase housing delivery, in April 2012, Government also established Botswana Housing Corporation as the Single Housing Authority for the purpose of implementing a public housing programme.

28. Furthermore, Government has adopted Local Economic Development as a key strategic initiative contributing to the National Strategy for Poverty Reduction. To this end, a Local Economic Development Policy is being prepared and will be completed shortly. To prepare districts for implementation of the Policy, once developed, capacity building is on-going.

Improving Investment and Competitiveness

29. Mr Speaker, the implementation of the Economic Diversification Drive (EDD) Strategy is beginning to bear fruit. A total of 570 companies have been issued with EDD Certificates. Government purchases from local manufacturers and service providers are expected to reach P2.5 billion by the end of the 2012/13 financial year, as compared to P1.9 billion in 2011/12. Further, several initiatives are currently being developed under EDD. They include Enterprise Graduation Framework, Outward Investment, and the adoption of both the Solicited and the Unsolicited Bidding Processes within the Government Procurement Framework.

30. In order to promote investment and trade, the Botswana Investment and Trade Centre (BITC) has set out to create operational synergies with other organizations such as the Local Enterprise Authority, Citizen Entrepreneurial Development Agency, Botswana Development Corporation, the Botswana Tourism Organisation, the Hubs, District Development Committees as well as Botswana Embassies. Similarly, the Competition Authority has signed memoranda of understanding with the Directorate on Corruption and Economic Crime, Public Procurement and Asset Disposal Board, and Civil Aviation Authority of Botswana to promote fairer business competition and prevent businesses from engaging in price-fixing, market allocation and bid-rigging.

Financial Services

31. Mr Speaker, the performance of the non-banking financial sector continues to improve. The investment of pension fund assets increased by 15 percent from P39.6 billion as at 30th September 2011 to P45.7 billion as at 30th September 2012. The insurance industry generated a combined gross premium of P3.1 billion, for the period ending December 2011, of which life insurers accounted for P2.1 billion, an increase of 11 percent from P1.9 billion in 2010. Introduction of the supervisory levies and licensing fee structure in February 2012, has significantly enhanced the capacity of the Non-Bank Financial Institutions Regulatory Authority to carry out its functions, and this is expected to further improve the sector's performance.

32. Mr Speaker, the development of the capital market is a critical factor in making the private sector the engine of economic growth. To this end, Government continues to develop initiatives such as issuance of more treasury bills and Government bonds to promote growth of the capital market and reduce reliance on Bank of Botswana Certificates. I would therefore like to encourage the private sector and Botswana at large, to take advantage of these opportunities.

33. To enhance effectiveness in the coordination of financial sector reforms, a financial sector development strategy has been developed with the assistance of the World Bank. The strategy, which will run up to 2016, outlines available

opportunities as well as legal, regulatory, institutional, and product related reforms to address financial sector challenges.

Privatisation, Outsourcing and Rationalisation

34. Mr Speaker, considerable progress has been achieved on the privatisation of Botswana Telecommunications Corporation (BTC). The first phase which involved the registration of “Botswana Fibre Networks”, the new infrastructure company, and BTC Limited, the service provider, was completed in October and November 2012, respectively. The second phase which involves the actual separation and transfer of the infrastructure to Botswana Fibre Networks is on-going. In August 2012, Cabinet approved the BTC separation model that is being used to guide the separation of the BTC assets. Cabinet further approved that citizens will be allowed to trade shares amongst themselves. Up to 5 percent of the BTC shares will be set aside for citizen employees of BTC through an employee share ownership plan. In addition, Botswana Privatisation Asset Holdings Limited has been appointed as a market maker to facilitate trading of shares amongst citizens. Due to the amount of work required for the separation exercise, which will take 24 months from September 2012, issuing of allotted shares to citizens will follow thereafter.

35. Concerning the privatisation of National Development Bank (NDB), the Bank must first be transformed into a company limited by shares under the Companies Act. To this end, the draft NDB Transition Bill has been approved by Cabinet and is being processed for submission to Parliament.

36. Mr Speaker, the rationalisation of certain parastatals and public entities is continuing. For example, the services that were previously offered by Botswana Export Development and Investment Authority and Botswana International Financial Services Centre have since April 2012 been offered by Botswana Investment and Trade Centre. Similarly, progress has been made on the merger of Botswana Postal Services and Botswana Savings Bank. To this end, the relevant Bills expected to complete this merger, namely the Botswana Savings Bank Transition Bill, the Botswana Communications Regulatory Bill, and the Botswana Post Amendment Bill, were passed by Parliament in August 2012. The name of the new holding company has been approved by Government and this will facilitate the registering of the holding company which will oversee the operations of the merged entities.

37. Work on the merging of Botswana Technology Centre and Rural Industries Promotions Company has resulted in the formation of a new company known as Botswana Institute for Technology Research and Innovation. Completion of the merger was delayed by the negotiation process with staff of the two organisations but is expected to be finalised before the end of financial year 2012/13. Strategies

such as business process re-engineering continue to be undertaken to cut red tape and reduce duplication of functions in order to enhance operational efficiency.

38. Mr Speaker, a revised Privatisation Master Plan II covering the period 2013 to 2018 is being discussed within Government. The Plan outlines a programme for the implementation of identified outsourcing, restructuring, divestiture and performance monitoring initiatives going forward. Further, Ministries have been advised to identify additional programmes that can be outsourced to the private sector starting at the beginning of the 2013/14 financial year. This move will address issues of a bloated public service that has resulted in increased Government wage bill.

Public Sector Reforms

39. Mr Speaker, the efficiency and effectiveness of the Public Sector remains vital to the success of our national development initiatives. It is in this regard that the implementation of key reforms in areas such as Public Finance Management, Public Service Management and Administrative Policy and transparent Public Service operations, is continuing. The use of Thematic Working Groups in the planning process should assist improve resource allocation and synergies in Project Management. In addition, process re-engineering and simplification of Procedures and Regulations and moving to e-government in various areas should add to improving service delivery.

40. Further, a Medium Term Fiscal Framework has been developed to forecast Government revenue and expenditure over a three-year period instead of just one year as has previously been the case. This framework serves as a foundation for the development of a Medium Term Expenditure Framework by the end of 2016. The Medium Term Expenditure Framework is a three-year rolling budget which will give Government a medium term perspective for resource allocation and expenditure management. As a step towards accrual accounting Government is also establishing a digital database for Government assets.

41. To instil fiscal discipline in public spending, the Public Procurement and Asset Disposal Board (PPADB) is implementing two projects, namely the Integrated Procurement Management System, and the Quality Management System. These systems will lead to improvement in procurement and set standards and processes leading to systematic flow of information, and reduction of costs. Since August 2012, the PPADB has continued to register all works, supplies and service providers, creating a database which will ultimately assist Government to deal with good contractors only. To further improve service delivery, the Board has embarked on training procuring entities at both central and local Government levels, started monitoring the compliance to procurement plans, and undertaken site visits to projects under implementation.

42. My Ministry has decentralized the services offered by storekeepers and supplies officers and procurement of goods and warehousing to line Ministries. This redeployment will further strengthen the capacity of line Ministries' and improve their management of public assets as well as ensure that they assume full accountability for both procurement and custody of Government supplies. Consequently, some of the warehouses initially used by my Ministry will be handed over to the Ministry of Lands and Housing for use by other Government institutions.

43. To facilitate service delivery on land information and management, several processes have been re-engineered and standardised across Land Boards in the country. The initiatives include among others: building permanent tracking stations country wide; and the proposed amendment of the Town and Country Planning Act of 1977 to transform Councils into Planning Authorities.

44. Mr Speaker, the National Water Master Plan Review of 2006 recommended separation of water resource management functions from service delivery activities. To date a total of 454 out of 540 villages (84 percent) have been transferred from the Department of Water Affairs and Local Authorities to Water Utilities Corporation from May 2009 to April 2012. The remaining villages in the North West District will be taken over by April 2013.

Strengthening Local Governance

45. Mr Speaker, the Government is committed to promoting local governance and taking services closer to the people. In view of this, the Local Government Bill of 2012, which merged the District Councils and Township Acts, was approved by Parliament during the July 2012 sitting. This Act creates a legal basis for Local Authorities to make choices and utilise available opportunities in running local affairs, thereby facilitating decentralisation and enhancing local governance. Of note in the new Act is the fact that, collection of property rates will now be extended to rural areas on a selective basis, which will enhance the revenue base of Local Authorities.

46. As announced in the 2012 State of the Nation Address, in order to give rural development more focus, a decision was made last year to transfer the Rural Development Council from the Ministry of Finance and Development Planning to the Ministry of Local Government and Rural Development. Furthermore, the chairmanship of the Council was elevated to His Honour the Vice President.

Combating Crime and corruption

47. Mr Speaker, in 2012 Transparency International ranked Botswana at 6.5, assessed on a scale of 0 to 10, an improvement from 6.1 in 2011. This kind of result needs to be nurtured and sustained by robust anti-corruption policies and

strategies. To this end, the amendment to the Corruption and Economic Crime Act 1994, which was tabled in Parliament in November 2012, is a step in the right direction. The review will strengthen and empower the Directorate on Corruption and Economic Crime to investigate and deal with all forms of corruption. Also, the development of Botswana Anti-Corruption Policy is ongoing, and is expected to be completed by the third quarter 2013.

48. The fight against corruption and economic crime relies on transparency and accountability, and has a direct and positive impact on economic growth and quality of life for all Batswana. A successful fight against corruption encourages more investment and employment, and thus positively feeds into accelerating economic growth and prosperity for all. Consequently, all Batswana have a stake in the fight against corruption.

Projects Development

49. Mr Speaker, in the 2012 Budget Speech, I mentioned that Government would undertake mega projects that included Kazungula Bridge, Integrated Transport Project, Morupule B project and the Tonota-Francistown dual carriage way road project. In this connection, I am happy to indicate that the design of the Kazungula Bridge has been completed and a loan has been secured from the Japanese International Cooperation Agency as Botswana's contribution towards the construction of the bridge. On the integrated transport project, the Draft National Integrated Transport Policy was completed in June 2012. The policy is focused on enhancing and integrating infrastructural development within the road (including bridges), air, and rail transport sub-sectors that are critical for sustainable growth of other sectors of the economy. The other major components are improvements of traffic lights in Gaborone through establishment of a Centralised Traffic Command Centre and construction of three traffic junctions in the city. The design of these projects will be undertaken during the financial year 2013/2014. A tender has been awarded for the construction of the Tonota/Francistown road project.

50. To address national water security challenges, Mr Speaker, the water sector continues to implement water resource development projects and construction of strategic water resource infrastructure. Both Dikgatlong and Lotsane Dams were completed on schedule in February 2012 and March 2012, respectively, with only reticulation pipelines costing P1.13 billion for Dikgatlong and P128 million for Lotsane still under implementation. Construction of the P543 million Thune Dam is expected to be completed in April 2013. In identifying other additional water resources, the Government is making efforts to source water from neighbouring countries. The following projects are at feasibility study stage, and these include drawing about 495 million cubic meters of water per annum from the Chobe/Zambezi River system for the planned Zambezi Integrated Agro-

Commercial Development Project at Pandamatenga. Another project is a cross border water supply system, to augment water supply in some parts of Kgalagadi region and Southern Botswana.

51. Due to scarce financial resources, and the need to complete on-going projects Government will only be able to include in the 2013/14 budget, a few more projects. Examples of these are: staff housing, construction of additional classrooms, building magistrate courts and electrification of primary schools. I should point out that deferred projects will continue to be considered as and when the financial situation improves.

Improving Project Implementation

52. Mr Speaker, priorities for the remainder of NDP 10 continue to focus on maintenance of existing infrastructure because of the need to preserve such assets. Project implementation, management and overall cost control continue to be a challenge for Government. This is largely due to delays in start and completion of projects, and changes in scope which result in cost overruns. To address these problems and improve on project implementation, a number of initiatives have been put in place. These include: verifying designs produced; ensuring completion of projects on time and to specified requirements. Government has also put in place stringent measures to deal with defaulting contractors which include delisting, contract termination and payment of damages to Government by contractors.

IV 2011/12 BUDGET OUTTURN

53. The budget outturn for the 2011/12 financial year was an overall budget deficit of P181 million, compared to the estimated budget deficit of P3.76 billion in the revised budget estimates. The reduction in the deficit was due to a combination of more than anticipated revenue earnings and under-spending of the total budget. Total revenue and grants amounted to P38.49 billion, which was higher than the estimated revenue of P37.99 billion in the revised budget estimates, by P492 million. However, non-Mineral Income Tax collected was lower than the revised budget by P1.03 billion or 14.36 percent. Customs and Excise revenue remained largely unchanged as compared to the revised budget.

54. Total expenditure and net lending amounted to P38.67 billion compared to P41.75 billion in the revised budget representing an under spending of P3.09 billion or 7.39 percent. Out of this total, recurrent expenditure amounted to P28.84 billion compared to P30.52 billion in the revised budget estimates an under spending of P1.69 billion. Development expenditure recorded P9.96 billion which was an under expenditure of P1.38 billion or 12.17 percent below the P11.34 billion in the revised estimates.

V 2012/13 REVISED BUDGET ESTIMATES

55. Mr Speaker, for the current financial year the revised total revenue and grants showed a decline from P42.91 billion to P41.91 billion. This is mainly attributable to the decline in the VAT estimate from P5.99 billion to P4.77 billion and Fees, Charges and Sundry from P1.87 billion to P1.49 billion.

56. The revised total expenditure and net lending for 2012/13 shows a slight decline from P41.76 billion to P41.08 billion. This is due to under-spending of P21 million and P701 million in the recurrent and development budgets, respectively. The preliminary 2012/13 revised budget shows a budget surplus of P835 million compared to the P1.15 billion in the original budget proposals.

VI 2013/14 BUDGET PROPOSALS

Revenue and Grants

57. Mr Speaker, turning to the budget proposals for the financial year 2013/14, the total revenue and grants are estimated at P44.02 billion. Customs and Excise at P13.68 billion or 31.08 percent is the largest contributor to revenue followed by Mineral Revenue at P13.25 billion or 30.11 percent. The third largest contributor is Non Mineral Income Tax at P8.97 billion (20.37 percent).

Recurrent Budget

58. The total recommended expenditures from the consolidated Fund for financial year 2013/14 is P34.48 billion. This represents P240 million or 0.70 percent growth over the revised budget of P34.03 billion for 2012/13. Out of this, Ministerial Recurrent Budget accounts for P29.74 billion or 86.26 percent, while Statutory expenditure accounts for P4.74 billion or 13.74 percent. The Ministry of Education and Skills Development at P7.93 billion or 22.98 percent takes the largest share of the recurrent budget, followed by Ministry of Local Government and Rural Development at P4.44 billion or 12.88 percent. The third largest share is allocated to the Ministry of Health at P4.42 billion or 12.81 percent while the Ministry of Defence, Justice and Security takes the fourth allocation of P3.73 billion or 10.82 percent. The remaining budget of P13.98 billion or 26.69 percent is shared amongst other Ministries.

Development Budget

59. Mr Speaker, the total recommended development budget is P11.10 billion. The Ministry of Minerals, Energy and Water Resources with a budget of P2.98 billion, takes the highest share at 26.82 percent of the proposed development budget. Four major projects account for 99.51 percent of the Ministry's budget. These are: Water Planning and Development at P1.38 billion; Sewerage Systems for Kanye and Molepolole at P469 million; Major Village Water Supply at P225

million (mainly to cover the North South Carrier connections to the Major villages of Kanye and Serowe); BPC Finances to cover Emergency Power at P300 million, Morupule “A” and Morupule “B” Power Stations at P160 million and P200 million respectively. The allocation under the Water Planning & Development Project is mainly to cover the completion of Thune and Lotsane Dams.

60. The second largest allocation of P1.85 billion (16.62 percent) goes to the Ministry of Transport and Communications of which 88.42 percent is accounted for by Bitumen and Trunk Road improvement projects at P728.50 million, Air Transport Infrastructure projects at P636.50 million, and Development of ICT Facilities at P274 million.

61. The Ministry of Education and Skills Development is allocated the third largest share of P1.18 billion (10.59 percent). The Secondary Schools project constitutes the largest share of the Ministry’s budget, at P997 million which is approximately 82 percent of the total Ministry development budget to cover staff housing, expansion of Junior Secondary Schools and refurbishment of Junior and Senior Secondary Schools, construction of computer laboratories as well as provision of electricity in schools throughout the country.

62. The Ministry of Local Government and Rural Development with a proposed budget of P1.06 billion takes the fourth largest share at 9.52 percent. Four projects namely: Ipelegeng (P581 million); Village Infrastructure (P188 million); Village Water Supply and Sewerage (P166 million) and Municipal Services (P60 million); account for 94 percent of the total Ministry’s development budget. The rest of the Ministries and Departments share the remainder of the development budget.

Maintenance and Refurbishment of Government Assets

63. Mr Speaker, as I mentioned in the 2012 Budget Speech, maintenance and repair of existing Government assets is a priority, and continues to be. Hence, for the 2013/14 budget, about P1.77 billion has been allocated to maintenance and refurbishment of: Government buildings (P798 million), equipment (P548 million), roads (P388 million) and others (P32 million).

Statutory Expenditure

64. The proposed budget for Statutory Expenditure is P4.74 billion, representing a decline of 14.12 percent from the current year’s provision of P5.52 billion. This allocation comprises of re-payment of loans, payment of pensions and gratuities, and payment of personal emoluments for specified officers.

VII OVERALL BALANCE

65. Mr Speaker, total revenues and grants for the financial year 2013/14 are forecast at P44.02 billion whilst total expenditure and net lending are forecast at P43.24 billion. The projected outturn is a budget surplus of P779 million which is about 0.6 percent of forecast GDP.

VIII FISCAL LEGISLATION

66. Mr Speaker, in a bid to make our tax system simpler, in a more investment friendly environment, we continue to regularly review our tax laws. Against this background, a number of amendments to the tax legislation have been made.

67. In line with international standards on transparency and exchange of information for tax purposes, the Income Tax Act was amended to enable Botswana to effectively exchange tax information with other tax jurisdictions. In the same vein, the banking secrecy provisions in the Banking Act will be amended, to allow for disclosure of banking information by a relevant bank or person upon request by the Botswana Unified Revenue Service.

68. Other amendments included broadening the requirement to keep accounts and records to include every person liable to pay or collect taxes or other amounts under the Income Tax Act. The interest rate charged for non-compliance with any provision of the tax laws has also been standardised at 1.5 percent per month compounded monthly.

69. In order to foster the spirit of saving by Botswana, a 10 percent withholding tax will be charged on interest income paid by banks on savings by resident individuals. This tax which will be charged on amounts paid annually in excess of P7 800 will be a final tax. This means that interest income from savings by resident individuals is now taxed at a reduced rate of 10 percent. The Income Tax Act was amended to eliminate the 2020 Sunset Clause under the International Financial Services Centre framework in order to improve the attractiveness of Botswana as an investment destination.

70. Since the inception of Value Added Tax Act in 2002, individuals were exempted from paying VAT on imported accompanied baggage to the value of 500 Southern African Customs Union Units of Account (UA) which is equivalent to R500. To adjust for price level changes over time, this amount has been increased to UA1200. The Value Added Tax Act has also been amended by extending the definition of capital goods to include mining capital expenditures. Still under the same Act, failure to file a nil return will now attract a penalty of up to P5000. This will curb the excessive penalties that were previously imposed on

such instances thereby reducing the burden on taxpayers while at the same time also encouraging compliance with the Value Added Tax Act.

71. Government has also decided to zero-rate water supplies for households consuming up to 5000 litres of water per month or 25 drums of 200 litres. This initiative will ease the burden on domestic water consumers, especially the poor, since water is a basic need.

72. Mr Speaker, the amendments to our fiscal legislation which I have just cited, are not only meant to create a conducive environment for attracting both domestic and foreign direct investment but, are also critical to protect the integrity of Botswana's financial system as well as benefit individuals and the public at large. I intend to table additional amendments during this meeting of Parliament. The One Stop Border Post Bill is another Bill that is ready to be presented to Parliament.

IX CONCLUSION

73. Mr Speaker, this year's budget is prepared within the context of considerable uncertainty in the world economy. This uncertainty impacts negatively on our projections for the domestic economy and Government's revenues in particular. Thus, we must remain ready to respond should another shock occur, even as we continue to rebuild Government's reserves and reduce our total debt level which currently stands at P28.737 billion or approximately 23.5 percent of the 2012/13 GDP.

74. As I have emphasised today, our strategy is to return to sustained high growth for the benefit of all Batswana, while ensuring that we are positioned to deal with unforeseeable shocks. This requires that all our policies should be focussed on productivity, competitiveness, and diversification, complemented by well-structured social safety nets.

75. In these circumstances, prioritisation must form part and parcel of every dimension of our planning, with the ultimate goal of getting the most from each Pula of expenditure to achieve these priorities. This means that we need to ensure efficiency and effectiveness in all Government and parastatal operations. And for the private sector, an improved business climate must set the pace for future competitiveness and economic growth. Government for its part must focus on provision of those goods and services that the private sector would not normally provide to society as a whole, such as better roads, health facilities, water supplies, sanitation, education, law enforcement and policy formulation.

76. Overall, we expect the economy to continue its recovery in the final three years of NDP 10. Real GDP is expected to grow at an average rate of 5.7 percent,

during this period, and the share of non-mineral private and parastatal sectors in the economy to reach 70 per cent. Unfortunately, it is unlikely that we will be able to achieve the aspiration of Vision 2016 that real GDP per capita in 2016 would triple that of 1996. This makes it even more urgent to put effort on the reforms necessary to achieve our ambitions.

77. Mr Speaker, on behalf of the Government and Batswana, I wish to recognise and acknowledge the technical assistance and financial support we received from our development partners. Without their continued support, it would be difficult to accomplish our development goals given these trying times.

78. Mr Speaker, I now move that the **Appropriation (2013/14) Bill**, No. 1 of 2013 be read for the second time.