



Republic of Botswana



2012 BUDGET SPEECH

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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 2012/2013.
2. Madam Speaker, in keeping with the principle of transparency in the preparation of the Budget, each year my Ministry prepares a Budget Strategy Paper whose aim is to set out the context of the budget for the coming financial year. The Budget Strategy Paper for 2012/13 was shared widely through the fora of Budget Dipitso in July and August 2011. Besides the Budget Dipitso for Members of Parliament and general stakeholders, which included amongst others, trade unions, private sector, academia, and news media, the 2011 consultation was extended to Local Authorities and Ntlo Ya Dikgosi, specifically because of their roles as representatives of various groups of Batswana in both the rural and urban areas.
3. The economic situation in which we currently find ourselves dictates that we must operate within a severely constrained budget to satisfy the diverse needs of our society. Wide consultation is important for creating a common understanding of the issues. Every part of Government must ensure that available resources are allocated and used efficiently and effectively. To further facilitate this common understanding, the 2012/13 Budget Strategy Paper gave an overview of the performance of key economic variables, the fiscal strategy and budget priorities. A webpage is available on my Ministry's website (www.finance.gov.bw). The Strategy Paper and all related documents are freely accessible to the general public with an option for online interaction with my Ministry staff.
4. Government's priorities for the 2012/13 budget continue to focus on service delivery and maintenance of existing infrastructure, while completing on-going projects such as energy generation, dams, roads and self-liquidating projects with high rates of return. These priority areas are expected to improve efficiency, create employment opportunities and foster private sector growth. I need to point out that all this is to be achieved against the backdrop of a constrained external trade and global competitiveness, prospects of declining revenues from current sources, the need to contain debt within sustainable levels, and the overall objective of balancing the budget for the 2012/13 financial year.
5. Madam Speaker, central to Government's fiscal strategy is our long-standing commitment to balance the budget in 2012/13, and return to modest surpluses thereafter. In order to achieve this, total expenditure in the coming financial year should not exceed revenues. Government must focus spending on high priority and high return activities, scale down spending on low return activities or programmes, and increase productivity in the delivery of Government services. Over the coming

years, as revenue from traditional sources declines, an efficient revenue collection system that sustains Government expenditure in line with overall Government revenue will be critical.

6. The reform of the company tax system introduced last year is expected to enhance compliance and have a positive effect on total revenue. Further, as a way of soliciting ideas on how to enhance our revenue base, in December 2011, my Ministry ran two Revenue Dipitso, one for Members of Parliament, and another for all Ministries and other key stakeholders which among others included, Botswana Confederation of Commerce, Industry and Manpower; Botswana Council of Non - Governmental Organisations; and University of Botswana. Suggestions obtained from this consultation are an important part of the development of Government's strategy for broadening the revenue base. In doing so, we need to be careful that any additional tax reforms and incentives do not adversely affect fiscal sustainability.
7. Madam Speaker, lately, there has been growing concern that the United States of America (USA) and some countries in Europe, which are facing unsustainable debt levels, may lead the world economy into a double-dip recession. Should this occur, global demand particularly for luxury commodities like diamonds would fall. As a result of our high dependence on international markets, Botswana is vulnerable to any slow-down in global demand. Prudent policy choices that promote efficiency in the use of available resources as well as those that enhance development of alternative sources of revenue are therefore necessary.
8. There are several alternatives from which we can obtain additional funds for development spending. Some of these include: increasing taxes; borrowing from both domestic and external financial markets; sale of public assets; and depletion of Government savings or reserves. Increasing taxes has the effect of eroding disposable income, and thus making the taxpayers and investors worse off. Borrowing beyond a sustainable limit, and sale of assets, have the potential of leading the country towards insolvency and loss of credit worthiness, as has been the case lately in some parts of the Euro area. Similarly, depletion of savings would leave the country vulnerable to future shocks without the ability to cushion the impact as was possible in the past recession. Hence as a nation, we need to live within our available means, undertaking only those additional development initiatives which enhance economic growth. To this end, let me take this opportunity to inform this Honourable House that, we are almost half-way through the NDP 10 plan period, and the Mid-Term Review is scheduled to start in April 2012. This review will give us an opportunity to revise the priorities and budget allocations in light of current and future needs of our society. It is therefore vital that we all take a keen interest in the review process in order to guide development initiatives in our economy.

II. INTERNATIONAL AND REGIONAL ECONOMIC REVIEW

International Economic Review

9. Madam Speaker, the global economy, which at the beginning of 2011 was on a path towards recovery, is now increasingly faced with uncertainties due to substantial sovereign debt in a number of advanced economies, especially the USA and parts of the Euro area. What is happening in these countries has profound implications for our economy because most of our revenue comes directly or indirectly from international trade. Any slowdown in the economic activity in advanced economies will affect us negatively as well. Already we are beginning to experience the negative effects of this slow down, particularly with the sale of diamonds, and I will come back to this issue later.
10. In the International Monetary Fund's World Economic Outlook of September 2011 the projection of real economic growth for the global economy have been revised downwards to 4 percent for both 2011 and 2012, from earlier projections in the range of 4.3 percent to 4.5 percent. For the major advanced economies the projection for 2011 issued in September was 1.6 percent, considerably down from the rate of 3.1 percent achieved in 2010. Consequently, prospects for emerging and developing economies that depend on exports to the major advanced economies have now become less certain.
11. For Sub-Saharan Africa, growth for 2011 was projected to decline marginally from 5.4 percent in 2010 to 5.2 percent in 2011, and to increase to 5.8 percent in 2012. However, the IMF has noted that the debt overhang in the Euro area was threatening to slow down global growth even further.
12. The IMF announced last week that the last year's growth projections for 2012 have been reduced in the case of the Euro area from 1.1 percent to -0.5 percent, and from 2.3 percent to 1.7 percent for Japan, while the expected US growth rate is unchanged at a subdued 1.8 percent. The IMF's update also warned of the possibility of even greater reductions. With such low or negative growth rates in the major industrial countries, which are the principal international markets for our exports, the downside risks for our own growth have increased substantially. It is evident that we must adjust our own spending plans accordingly.
13. The volume of world trade in goods and services, which in 2010 had started reversing the sharp drop of 2009, was projected last September to grow by 5.8 percent in 2012. Consumer price inflation for advanced economies is expected to decline to 1.4 percent during 2012. The good news is that while growth prospects may be constrained as we

move into 2012, pressure from imported inflation into the domestic economy is expected to be minimal.

Regional Economic Review

14. Madam Speaker, regional integration, market liberalisation and overall economic growth, particularly within the Southern African Development Community (SADC) are critical for enhancing Botswana's effort towards moving from "factor driven" growth, based on mineral exports, towards a more diversified and "efficiency driven" growth. It is, therefore, encouraging to note that generally SADC Member States experienced satisfactory economic performance in 2010 and 2011. Further, the medium term prospects indicate that the region is expected to register economic growth of 5.6 percent in 2012. Such positive growth increases prospects for regional trade and opens up a window of opportunity for Botswana to invest more in export-oriented goods and services.
15. Meanwhile, efforts are continuing to consolidate the SADC Free Trade Area in order to move towards a Customs Union. The immediate focus of SADC is a review of the rules of origin; completion of tariff reductions for selected products; removal of Non-Tariff Barriers; and developing a mechanism to assist Member States that are not yet in the Free Trade Area to participate therein. Other areas to be addressed include the issue of overlapping memberships where some countries are members of more than one regional organisation. Progress achieved in these areas would determine when negotiations towards the establishment of a SADC Customs Union would commence.

III. DOMESTIC ECONOMIC REVIEW

Economic Growth

16. Madam Speaker, the latest data available from Statistics Botswana indicate that through the third quarter of 2011 most sectors contributed positively to the overall GDP growth. In real terms, GDP growth in the third quarter of 2011 was 7.8 percent compared to a growth rate of 12.5 percent recorded during the same period in 2010. The Construction sector, which had benefitted from the stimulus response to the recession, recorded a real growth rate of 24.3 percent while manufacturing, which had declined slightly during the recession, recorded strong real growth of 13.8 percent. Over the same period real GDP in the mining sector grew by 9.7 percent.
17. Agriculture, which had been adversely affected by the outbreak of Foot and Mouth Disease (FMD) during the first half of 2011, recorded a year-on-year growth rate of 10.1 percent in the third quarter of 2011. As a measure to reduce persistent outbreaks of FMD, Government has entered into joint cooperation initiatives with neighbouring

countries to control trans-boundary animal diseases along our common borders. Such arrangements are expected to bolster trade within this sector particularly by allowing for continued beef export to the European market.

18. Overall growth in the non-mining sectors excluding government remained strong, reaching 8.9 percent in the 12 months to September 2011. Since we have very little control over international markets for our minerals, sustained growth in the non-mining sectors is critical in driving overall economic growth and diversification going forward. There is need, therefore, to create a conducive environment that enhances efficiency and effectiveness of these sectors.

Inflation and Monetary Policy

19. Madam Speaker, domestic inflation rose from 7.4 percent in December 2010 to 9.2 percent in December 2011, remaining above the Bank of Botswana's objective range of 3 to 6 percent. The higher inflation was mostly due to the impact of the increase in some administered prices, namely public transport fares, electricity tariffs and fuel prices.
20. In contrast, the influence of domestic demand for goods and services on prices was modest. In the circumstances, and given the forecast decline in inflation in 2012, monetary policy was unchanged in 2011 and the Bank Rate was maintained at 9.5 percent.

Exchange Rate Movement

21. Madam Speaker, the crawling peg exchange rate mechanism introduced in May 2005 continues to ensure a stable real effective exchange rate of the Pula against a basket of currencies of major trading partners, comprising the IMF's Special Drawing Rights and the South African Rand. Prior to 2005, the response to exchange rate misalignment was undertaken after a long time and involved large adjustments. Such periodic adjustments undermined predictability of macroeconomic policies. The crawling peg arrangement is therefore an improvement over the less transparent discrete adjustment used before. Under this arrangement, prospective changes in competitiveness are anticipated, and the exchange rate is set to adjust gradually to forestall the potential loss in competitiveness.
22. Consistent with the crawling peg exchange rate arrangement, the Pula depreciated in 2011. As a result, the trade-weighted exchange rate depreciated by 2.5 percent in the 12 months to December 2011, contributing to relative stability of the inflation-adjusted exchange rate, which appreciated by just under one percent over the same period.

23. Further, in the 12 months to December 2011, the Pula depreciated against major international currencies while it appreciated by 5.8 percent against the South African Rand. Overall depreciation of the Pula against the SDR was 13.8 percent.

Balance of Payments and Foreign Exchange Reserves

24. Madam Speaker, preliminary estimates of the current account of the balance of international payments for 2011 indicate a deficit of P2 billion, compared to a deficit of P5.1 billion in 2010. The smaller deficit for 2011 is largely due to recovery in the world diamond market and revenues from SACU. Preliminary estimates for the overall balance of international payments in 2011 show a positive balance of P4.3 billion, compared to a deficit of P6.5 billion for 2010.
25. As at the end of November 2011, the foreign exchange reserves stood at P61.7 billion, up by 20.4 percent from P50.8 billion in December 2010. The current reserves are equivalent to US\$8.3 billion and are enough to finance 18 months of imports of goods and services. The Government Investment Account, which represents that part of foreign reserves that belongs to Government, was P22.7 billion in November 2011 compared to P15.6 billion in the same month in the previous year, representing an increase of 45.5 percent. It is important that we continue building these reserves to provide for future uncertainties.

Trade and Investment Climate

26. Madam Speaker, the World Bank “Doing Business Report” investigates the practices that enhance business activity and those that constrain it. The latest report of 2011, rated Botswana third in Africa and 52nd out of 183 countries surveyed. It reports challenges in the categories of: starting a business which still takes 10 procedures and 61 days; dealing with construction permits, with numerous procedures and taking 167 days to complete; and trading across borders, which is associated with high import and export costs. While Botswana is still rated the least corrupt country in Africa, these results pose a substantial challenge for all of us to devise strategies to improve the environment necessary for enhancing investment, competitiveness and economic diversification.
27. Further, trade and investment are very much a function of the prevailing domestic business environment. For 2011, Standard & Poor’s and Moody’s Investors Service have maintained the country’s investment grade credit ratings, and in November 2011 Moody’s changed the outlook on Botswana’s sovereign ratings from negative to stable. The ratings reflect the continued confidence in the capacity and resolve of the Botswana authorities to maintain the good track record of efficient and prudent macroeconomic management and this should be sustained. Nevertheless, the agencies

continue to stress the importance of fiscal consolidation and implementation of economic diversification strategies within the shortest possible time and we need to take note of these observations as we make plans for our development initiatives.

Economic Outlook

28. Madam Speaker, 2011 started as a promising year with prospects of economic recovery led by the mining sector. However, the same year ended with mixed and uncertain prospects for 2012, centred once again around the mining sector particularly diamond sales. With sovereign debt rising and consumer confidence falling in some developed countries, the demand for diamonds has also taken a downturn. Between July and December 2011, for example, diamond sales fell by over 70 percent from US\$594.3 million to US\$160.3 million and there is no guarantee that this trend will be reversed in the near future unless the situation improves in the USA and the Euro area.
29. Current projections indicate that the volume of diamond sales in 2012 will be almost equal to those for 2011. Should this forecast come true, we will be forced to reprioritise our planned expenditure options both at national and individual household levels in light of a constrained budget and economic outlook. Further, should the global economy experience a double-dip recession, and given that the country is still in debt, quick and full recovery in the domestic economy might prove difficult, in which case, we all have to be prepared to make sacrifices.
30. Taking these factors into account the overall economy is expected to have grown in real terms by 5.1 percent in 2011, and led by the coming on stream of the Morupule “B” Power project is, projected to grow by 4.4 percent in 2012. Nominal GDP is expected to reach about P126 billion for financial year 2012/13 from P115 billion in 2011/12.
31. Even though the Botswana’s economy has been showing signs of recovery, I need to point out that such a recovery is very fragile, with risks on both the global and domestic fronts. We should therefore continue to be efficient and effective with our spending in order to sustain the current level of expenditure and economic growth.

Population Growth

32. Preliminary results of the *2011 Population and Housing Census* indicate that our population has realised a growth rate of 1.9 percent between 2001 and 2011 from 1 680 863 to 2 038 228. Although this points to a population increasing at a diminishing growth rate, we still need to ensure that real income growth is sufficient to ensure a rising standard of living for the nation. Hence, as we make plans now and for the near

future, population size, composition and distribution, will underpin decisions made on the type, level and distribution of economic activities within the country.

33. Further, the same *Census* indicates that, population density has risen between the 2001 and the 2011 Censuses, from 3 persons per square kilometre in 2001 to 3.5 persons per square kilometre in 2011. Notable is the increase in densities of districts with villages close to cities such as South East, Kgatleng, Kweneng and North East. This is possibly due to accommodation needs in cities and towns which cause people to turn to nearby villages. It also implies an increase in the demand for utilities and other services within these areas to cater for the increased population.

Employment Issues

34. Madam Speaker, with a growing population and a slowdown in economic growth in recent years, unemployment continues to be stubbornly high. According to the results of the *Botswana Core Welfare Indicators (Poverty) Survey of 2009/10*, which were released in December 2011, the overall unemployment rate was estimated at 17.8 percent of the total labour force compared to 17.5 percent as indicated in the 2005/06 Labour Force Survey. Generally unemployment rate decreases with age, as those aged from 15 to 19 have the highest unemployment rate at 41.4 percent followed by those aged from 20 to 24 years at 34.0 percent.
35. At 17.8 percent, unemployment remains a substantial challenge for all. The fact that youth between the ages of 15 and 24 years are the most affected is even more worrisome. We must therefore continue to take measures to ensure that young people can look forward to being engaged in productive and sustainable economic activities. In this regard, let me reiterate the vision stated by His Excellency the President, in his State of the Nation Address in November 2011, that Government is committed to growing the economy and expanding job opportunities. As His Excellency stated, "Government has no greater priority than empowering our future by empowering the youth". This is the more reason why various programmes such as Youth Development Fund; Construction Industry Trust Fund; and Young Farmers Fund under CEDA, have been introduced to assist in creating more job opportunities, especially for the youth.
36. Madam Speaker, there has always been a concern that youth unemployment is fuelled by a mismatch between skills development and job market requirements. To facilitate employment opportunities there is need to ensure that the education system produces graduates of the right calibre for the domestic as well as the global job market. To this end, Government has made a budgetary provision to cater for practical skills and knowledge enhancing facilities such as computer laboratories and related equipment in secondary schools. The graduates' internship programme also provides skills and on-the-job learning experience for the youth. The Human Resource Development

Council, which will be operational in 2012, will also assist in laying down a foundation for enhancing skills development and improvement in the education and training system.

Poverty Eradication

37. Madam Speaker, Botswana has made commendable strides towards reducing abject poverty. Results of the *Botswana Core Welfare Indicators (Poverty) Survey of 2009/10* indicate that the number of individuals falling below the Botswana Poverty Datum Line declined from 30.6 percent of the population in 2002/03 to 20.7 percent in 2009/10. The same Survey indicates that the national estimates for persons living below the internationally comparable measure of US\$1.25 per day dropped from 23.4 percent to 6.5 percent over the same period. This is a result of the combination of sustaining economic growth together with specific programmes and projects such as, Integrated Support Programme for Arable Agriculture Development (ISPAAD), Livestock Management and Infrastructure Development (LIMID), Ipelegeng and other poverty eradication programmes.
38. While Government does not encourage dependency, it will continue to support the poor and devise strategies for graduating them into various income generating activities. To be considered a truly compassionate and caring nation, we must be concerned that all citizens live a dignified life. It is in pursuit of this objective that Government has launched a robust poverty eradication programme which has placed food security at the top of the agenda. It is for the same reason that Government continues to spend a substantial amount of money on some of these programmes. Since 2010/11 to date for example, a total of P19.7 million has been spent on LIMID and over the past four years, P660 million has been spent on ISPAAD, while P278 million was spent on Ipelegeng during the 2010/11 financial year.
39. In addition to the budget allocation for the broad programmes aimed at addressing poverty, during 2012/13, P155 million under the development budget and P8 million under recurrent budget have specifically been allocated to the Poverty Eradication Programme. However, I need to point out that, for poverty eradication programmes to remain relevant and sustainable in the medium to long-term, continued effort to clearly target and periodically review them is critical. Efforts aimed at economic diversification and competitiveness also need to be intensified as these have the potential to create jobs and raise the standard of living for Botswana.

Economic Diversification and Competitiveness

40. Madam Speaker, our National Development Plans have always emphasised the critical need to diversify the economy. Since independence, there has been rapid economic

growth and some achievement in terms of economic diversification accomplished largely by reinvesting the proceeds of high returns from the mineral sector into other sectors such as tourism, manufacturing and agriculture. However, we are increasingly becoming aware of the reality that, minerals are by nature an exhaustible commodity and thus cannot sustain current levels of economic growth for ever. Hence as we move forward, rather than simply pursue diversification as a goal in itself, the private sector, the parastatal sector, and Government must exercise the discipline of focusing expenditure on high return activities particularly in the non-mineral sector, as this is what is needed to sustain economic growth in future. The challenge today is to maintain that discipline as we search for new avenues for diversification.

41. The diversification of the economy will require increased productivity and support of non-diamond exports of goods and services in moving forward. The recently approved Economic Diversification Drive (EDD) Medium to Long-Term Strategy affirms Government's continued efforts to grow and diversify the economy. The EDD promotes production and consumption of local goods and services in order to develop local production capacity for future expansion into export markets. As part of the key institutional arrangements for the implementation of EDD, a National Economic Diversification Council was launched in September 2011. The mandate of the Council is to give strategic guidance and direction to EDD implementation.
42. In addition, Government continues to support individual sectors by promoting value addition and improving marketing arrangements, all of which are aimed at enhancing economic diversification. To reduce heavy reliance on the European market in the agricultural sector for example, efforts are being made to diversify and identify alternative markets. In this regard, the Botswana Meat Commission has started an initiative to help Botswana who want to sell their cattle outside the country.
43. While Botswana has had a positive rating in terms of economic freedom, there has been a decline in competitiveness as indicated by the rating of Botswana's business climate carried out by the World Economic Forum in its "Global Competitiveness Report" of 2011. In the latest ranking by the World Economic Forum, Botswana is 80th out of 142 countries rated, compared with 76th out of 139 countries rated in the previous year. The indicators on which Botswana is relatively weak from the business point of view include: starting a business, staff hiring, redundancy costs, and internet access. These are matters that are high on Government's agenda as evidenced by the setting up of a Subcommittee of Cabinet to investigate ways of addressing these concerns. We therefore look forward to a considerable improvement on these indicators in the coming years.

Services Sector Development

44. Madam Speaker, as already mentioned, the World Economic Forum's "Global Competitiveness Report" of 2011 cites internet access as an issue that negatively affects Botswana's competitiveness. Through a robust ICT programme, Botswana is making efforts towards improving the services sector such that it becomes efficient, effective and sustainable from both economic and social points of view. Although connection to the eastern coast of Africa through the East African Submarine Cable System has been completed, internet service is still slow due to low carrying capacity of our domestic cable bandwidth. This is the reason why for the 2012/13 financial year, Government has allocated P50 million to upgrade the local bandwidth which will improve internet speed.
45. Similarly, to strengthen the country's transportation connectivity both internally and externally, Government is in the process of establishing an Integrated Transport Policy. Government is also developing a Dry Port Facility at Walvis Bay in Namibia. Upon completion, the facility will serve as an alternative gateway for Botswana to and from Europe, America and other destinations, thereby reducing the costs of trade between Botswana and the rest of the world. The facility is expected to be operational by the end of 2012/13 financial year.

Financial Services

46. Madam Speaker, during 2011 the banking sector continued to be stable and sound with adequate capital and liquidity levels, and good asset quality. The development of the capital market is a critical factor in making the private sector the engine of growth largely because the capital market provides access to long term capital which the banking sector is not able to supply due to the mismatch in the duration between sources of funding and lending for development purposes.
47. Of late, Botswana has seen a rapid development of the non-banking financial sector, and this is commendable as part of the country's economic diversification strategy. The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) is the agency responsible for the supervision of financial institutions other than banks, including insurance companies, pension fund operations, capital markets, and micro-lenders. As of September 30, 2011, the financial institutions under NBFIRA's supervision held P70.1 billion in financial assets. The Authority's responsibility is to ensure that the non-bank financial institutions do not engage in unsound or unprofessional practices, which might put their obligations to clients at risk. It is therefore critical to ensure that this Authority has the capacity to be effective in regulating the industry.

48. To further facilitate the functions of NBFIRA, my Ministry is currently reviewing several pieces of legislation and drafting amendments to several laws which among others include a review of the Insurance Industry Act and the Retirement Funds Act and drafting amendment of the Collective Investment Undertakings Act. Such reviews and amendments are meant to increase the level of protection availed to customers and to create a more stable and certain environment in which service providers can offer their products.

Private Sector Development

49. Madam Speaker, Botswana's future growth can only be sustained through more rapid expansion of the private sector that is internationally competitive and integrated into the global economy. It has also been recognised that the continued dominance by Government in the economy is not consistent with sustainable economic growth. In this connection, a Privatisation Master Plan adopted in 2005 and aimed at identifying all public enterprises suitable for privatisation is being revised to among others, identify services and Public Enterprises that are suitable for outsourcing and divestiture during the period 2012 to 2017. The new Master Plan will be submitted for Cabinet approval in the first quarter of 2012/13.
50. NDP 10 set out a prudent strategy for ensuring fiscal sustainability while supporting private sector development. A central feature of the strategy is for Government to reduce its dominance by cutting Government expenditure as a share of GDP from 40 to 30 percent. The same view has been emphasised as an action item by the Botswana Business and Economic Advisory Council with the aim of reducing Government dominance in the economy. In this regard, Government expenditure and net lending has been reduced substantially from 45 percent of GDP in the 2008/09 financial year to 36.4 percent in 2011/12. This is expected to fall even further, to 33.2 percent in 2012/13. Continuing in this direction will reduce dominance by Government in the economy and at the same time create space for private sector investment and growth.
51. Government is also concerned that due to its dominance in economic activities, the public sector wage bill has escalated over time and is high compared to that of other comparable middle income countries and that it needs to be reduced. This can be achieved by reducing the size of the public sector, with functions and activities which are better carried out in a commercial environment being provided by the private sector. This is the reason why, Government has taken a deliberate decision to reduce each Ministry's wage bill by 5 percent each year for the next 3 years. In addition, the freeze on the creation of new posts will be maintained during 2012/13 financial year.

Rationalisation and Performance of Parastatals

52. To further enhance growth of the private sector, maximise efficiencies and reduce overlaps, Government continues to privatise as well as merge some of its public enterprises. The merging of Botswana Technology Centre and Rural Industries Promotions Company for example is expected to make an annual saving of P9 million compared to the cost of current operations. This will be achieved mainly as a result of elimination of duplication of functions such as those relating to administration and management. Such savings are also expected with the merger of other institutions.
53. Madam Speaker, during the 2010/11 financial year, the majority of commercial public enterprises continued to perform satisfactorily. The total dividend paid to Government amounted to P107 million compared to P103 million in the previous financial year. The highest dividend was from Botswana Telecommunications Corporation amounting to P57 million, which is 20 percent higher than the dividend paid the previous year. Other public enterprises that were able to pay dividends include: Botswana Development Corporation which paid P28.7 million; National Development Bank which paid P12.3 million; Botswana Telecommunications Authority which paid P5.9 million; and Botswana Savings Bank which paid P3.2 million.

Debt Management

54. Madam Speaker, over the years Government has financed major development projects by a combination of current revenues and debt, while recognising that total government spending, including debt servicing, must be kept in line with the long-term revenue prospects. As long as such Government investments generate sufficient income growth to permit servicing of the debt, the strategy will remain sustainable. The challenge is to maintain a level of fiscal discipline that neither restricts growth nor exposes the country to unsustainable debt.
55. Recent experience from some developed countries has shown us that if debt is not managed properly, it can escalate and lead to economic and political turmoil. Fortunately for us, the statutory cap on debt, set at 40 percent of GDP, 20 percent external and 20 percent domestic borrowing has assisted the country in maintaining low and sustainable debt levels. However, following the full drawdown of the budget support loan secured from the African Development Bank, the external debt to GDP ratio increased substantially from 3 percent at the end of financial year 2008/09 to 16.5 percent at the end of the 2011/12 financial year. The external debt to GDP ratio for 2012/13 is anticipated to be 15.9 percent.
56. The domestic debt to GDP ratio, as at the end of 2010/11, stood at 7.0 percent and it is estimated to increase to 7.4 percent by the end of 2012/13. As we are approaching the

20 percent limit for external debt, in the future domestic borrowing and guarantees are expected to play a more important role than external borrowing, in financing major capital projects that cannot be financed out of the current revenues.

IV. 2010/2011 BUDGET OUTTURN

57. Madam Speaker, though we continued to experience budget deficits, the budget outturn for the 2010/11 financial year was a lower overall deficit of P6.51 billion, compared to the estimated deficit of P10.22 billion in the revised budget estimates for that year. This was due to a combination of more than anticipated revenue earnings and significant under-spending of the total budget.
58. Total revenues and grants amounted to P31.91 billion, which was higher than the estimated P30.29 billion in the revised budget estimates, by P1.62 billion. The additional revenue is mainly accounted for by Mineral revenue with an increase of P2.74 billion, followed by Non Mineral Income Tax revenue with an increase of P608 million. Customs and Excise revenue increased by P203 million over the revised budget due to the appreciation of the Rand against the Pula. The magnitude of increases was however reduced by decreases in: VAT revenue by P30.69 million; Other Property Income revenue by P105.95 million; Fees and Charges revenue by P557 million; and Sale of Property revenue by P1.1 billion.
59. Total expenditure and net lending amounted to P38.42 billion compared to P40.51 billion in the revised budget representing an under spending of P2.09 billion or about 5.2 percent. Out of this total, recurrent expenditure amounted to P27.09 billion compared to P27.22 billion in the revised estimates, representing an under spending of P134 million. Development expenditure recorded P11.37 billion which was an under expenditure of P1.94 billion or 14.6 percent of P13.31 billion in the revised estimates.

2011/2012 REVISED BUDGET ESTIMATES

60. Madam Speaker, I now turn to the revised budget estimates for financial year 2011/12. The original estimates for 2011/12 showed a deficit of P6.93 billion whilst the revised budget shows a lower deficit of P3.76 billion. The decrease in the deficit is mainly due to an increase of P3.9 billion in total revenue and grants.
61. The revised total expenditure and net lending for 2011/12 is estimated at P41.75 billion compared to P41.03 billion in the original budget. Total revenue and grants are estimated at P37.99 billion, compared to P34.10 billion in the original budget, with Mineral revenue being the largest share at 34.1 percent and the second largest source being customs and excise revenue at 22.2 percent.

V. 2012/2013 BUDGET PROPOSALS

62. Madam Speaker, to ensure that each year's Budget conveys a true picture of our fiscal stance and national priorities, it is important that all Government revenues, regardless of their source, be taken into account during the budgeting process and that expenditures should reflect national as opposed to sectoral or individual Ministerial priorities. To this end, during the 2012/13 budgeting process, my Ministry considered all balances and funds available under Government Special Funds and cash reserves of those Parastatals dependent on Government subventions, to ensure that these are used on national priority areas. Further, the various levies for government services such as water, power, education, agriculture which are subsidised should also be kept in line with costs of providing them. Similarly the commercial parastatals should continue paying dividends to Government as the shareholder.

Revenues and Grants

63. Madam Speaker, total revenues and grants for 2012/13 financial year are estimated at P42.91 billion with Customs and Excise revenue contributing the largest share of 33.0 percent. It should be noted here that a substantial portion of the Customs and Excise revenue expected in 2012/13, approximately P2.48 billion, is on account of a once-off payment reflecting an under estimate of the amount owing to Botswana for 2010/11 financial year, and which may not be repeated again in subsequent years. Over the years since the initiation of the current funding formula, the simplified system of collecting duties and tax revenues within Southern African Customs Union has kept the collection costs under control and facilitated the movement of goods to the benefit of both producers and consumers within Member countries. Currently each country collects and shares customs revenue according to an agreed formula. Of late, Member States have entered into discussions about whether or not changes in the revenue-sharing formula are warranted. I trust that any new agreements reached will not disadvantage any of the Member States.
64. The second largest source of total revenue and grants is Mineral revenue at 28.1 percent. Non-Mineral Income Taxes comes third at 18.1 percent while Value Added Tax comes fourth at 14 percent. The proposed total expenditure and net lending for 2012/13 is P41.76 billion representing a slight increase from P41.75 billion in the revised budget of 2011/12.

Recurrent Budget

65. Madam Speaker, an amount of P34.01 billion is recommended to be appropriated from the Consolidated Fund to finance total Ministerial Recurrent, Constitutional and Statutory expenditures during the 2012/13 financial year. This represents an increase

of 3.15 percent over the revised budget of P32.97 billion for 2011/12 financial year. The increase is explained by the transfer of HIV/AIDS activities from the development budget of the National Aids Coordinating Agency to the recurrent budgets of the Ministries of Health and Local Government as well as the 3 percent salary adjustment effected in September, 2011. It is also explained by the 3 percent annual increment for Public Officers which will amount to an estimated P427.6 million during 2012/13 financial year. Out of the P34.01 billion, P28.49 billion is for Ministerial Recurrent budgets, while P5.52 billion is for statutory expenditure.

66. The Ministry of Education and Skills Development is allocated the largest share of 27.3 percent at P7.77 billion. This represents a reduction of the Ministry's budget from P8.75 billion in 2011/2012 due to the reduction in the provision for bursaries for post-secondary education, resulting from savings realized from the decrease in the number of students placed in foreign institutions. The Ministry of Local Government is allocated the second largest share of 15 percent at P4.27 billion, representing an increase of 12.5 percent as a result of the transfer of HIV/AIDS activities from NACA to this Ministry.
67. The Ministry of Health accounts for the third largest share of 14.6 percent at P4.17 billion also due to the transfer of HIV/AIDS activities from NACA to this Ministry. The fourth largest share of 14.0 percent at P3.99 billion is for the Ministry of Defence, Justice and Security. These four ministries account for 71 percent of the total ministerial recurrent budget, while the other ministries and departments share the remaining 29 percent.

Statutory Expenditure

68. Madam Speaker, apart from individual Ministry provisions, Government must also provide for payments mandated by various statutes. The budget for Statutory Expenditure is P5.52 billion, an increase of 19.8 percent over the current year's provision of P4.61 billion. The major items under this category of expenditure is Public Debt service at P3.77 billion while other statutory expenditure items share the remaining P1.75 billion.

Development Budget

69. Madam Speaker, as indicated in the Budget Strategy Paper for 2012/13, priority has been given to on-going projects, refurbishment of existing infrastructure, poverty eradication initiatives and projects aimed at reducing unemployment. The recommended development budget for the 2012/13 financial year is P10.06 billion.

70. The largest share of the proposed development budget at P2.69 billion or 26.7 percent is allocated to the Ministry of Minerals, Energy and Water Resources. The major projects that constitute 93 percent of the Ministry's development budget include: BPC Finances at P800 million to cover Morupule "B" Power Station and Emergency Power; Renewable Energy at P94 million to finance rural electrification; Water Planning and Development at P1.24 billion; and Major Villages Water Supply at P380 million. The allocation under the Water Planning and Development Project is mainly to cover construction works at the three dams of Thune, Lotsane and Dikgatlong as well as the North South Carrier II project. The Major Villages Water Supply project is mainly for connections of the villages of Kanye and Molepolole to the North South Carrier.
71. The second largest allocation of 20.9 percent goes to the Ministry of Transport and Communications at P2.10 billion to cover on-going and new projects that include the Kasane Airport, Charleshill to Ncojane road and Tonota to Francistown road as well as associated bridges of Shashe, Tholodi and Tati. The allocation also covers the cost of construction of the new Kazungula and Thamalakane bridges. In addition, an allocation of P100 million has been made towards the e-government programme.
72. The Ministry of Local Government at P1.18 billion takes the third largest share. Prominent among the Ministry's development initiatives are the Ipelegeng and Village Infrastructure projects. These take a major share of the budget at P530 million and P272.2 million, respectively and account for 68 percent of the total Ministry's development budget. In addition, an allocation of P44.6 million has been made towards provision of destitute housing. The remaining Ministries/Departments share the remainder of the development budget.

Maintenance of Government Assets

73. Madam Speaker, Government is cognisant of the fact that as new projects are being implemented and new plant and equipment is being procured, there is need to maintain and repair existing facilities and assets. It is in this regard that an amount of P1.84 billion has been set aside in the 2012/2013 budget to cater for maintenance, repairs and refurbishments of Government assets.
74. Project implementation, management and overall cost, continue to be a challenge in Government. This is largely due to delays in start and completion of projects, over-specification of designs, and change in scope of on-going projects which result in cost-overruns. To address this problem, the Department of Buildings and Engineering Services has instituted audit and inspection teams to review and audit all project designs and monitor implementation of projects with a view to introducing stringent controls to avert over specification of designs, change in scope of on-going projects as

well as contain costs within budget. Furthermore, the Public Finance Management Reforms Programme introduced in my Ministry will also assist in addressing the issue of timely implementation of projects through the introduction of procurement plans; adoption by 2016 of a three year estimate of fiscal aggregates; and having three year rolling estimates for the budget instead of discrete annual budgets as is the case now. These initiatives will allow for better planning and implementation of programmes and projects.

VI. OVERALL BALANCE

75. Madam Speaker, total revenues and grants for the financial year 2012/13 are forecast at P42.91 billion whilst total expenditure and net lending is forecast at P41.76 billion which is about 33.2 percent of forecast 2012/13 GDP of about P126 billion. The net result is a budget surplus of P1.15 billion which is about 0.9 percent of forecast GDP.

VII. FISCAL LEGISLATION

76. Madam Speaker, Honourable Members may recall that in July 2011 we introduced amendments to the Income Tax Act which were meant to simplify the Act and, among others, to repeal the two-tier corporate tax system with a view to improving the investment climate and the competitiveness of the economy.
77. In the 2011 Budget Speech, I mentioned the need to review the Insurance Industry Bill and the Retirement Funds Bill. Whereas the work on these Bills is underway, the consultation process is taking time. On the other hand, amendment of the Collective Investment Undertakings Act, has started. Amendments have also been made to the Value Added Tax which among others included exemptions from VAT of farm implements such as ploughs, planters and harvesters. The Government is also reviewing the tax and banking laws to be in line with international standards on transparency and exchange of information for tax purposes.

VIII. CONCLUSION

78. Madam Speaker, this year's budget is prepared under conditions of considerable uncertainty, with a possibility of yet another recession looming. It also comes at a time when our debt level has increased and our future revenues are projected to fall substantially. Yet we need to sustain economic growth as much as we can from available resources without incurring unsustainable debt or jeopardising current and future economic growth prospects. I am therefore pleased to say that while Government had promised a balanced budget this financial year, instead a modest surplus is projected. This, Madam Speaker, has already required considerable belt-tightening in Government. It is a demonstration to the rest of the world that Botswana

is indeed committed to maintaining fiscal sustainability as an important part of macro-economic management. More belt-tightening may be required if the world economy enters into another recession.

79. I must however further indicate that surpluses realised now or in the immediate future, should be used to pay our debt, replenish our reserves and where necessary be invested in high return, self-liquidating projects and programmes. This is in recognition of the fact that our economy is still fragile and subject to risks posed by international economic and financial shocks.
80. Allow me Madam Speaker, to take this opportunity to express my appreciation on behalf of the Government and Botswana for the technical and financial support we received from our development partners, bilateral and multilateral, as well as private foundations. Without their continued support, it would be difficult to attain what we have achieved and intend to accomplish in terms of economic growth and development.
81. Madam Speaker this concludes my presentation of the 2012 /13 Budget Speech. I now move that the **Appropriation (2012/2013) Bill**, No.1 of 2012 be read for the second time.
82. I thank you Madam Speaker.