



REPUBLIC OF BOTSWANA

BUDGET SPEECH

2002

By

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I. INTRODUCTION

1. Mr Speaker, I have the honour this afternoon to present to the National Assembly budget proposals for the financial year 2002/2003. The financial year 2002/2003 is the last year of the six-year period covered by the National Development Plan 8 (NDP 8). The preparation process for the next Plan, NDP 9, is under way and a briefing was given to Honourable Members on the Draft Macroeconomic Outline and Policy Framework for it in December 2001.
2. Mr Speaker, revised forecasts, prepared as part of NDP 9 preparations, indicate that during the NDP 8 period the economy will perform better than originally projected, with an average growth of 6.7% per year, compared to 5.2% projected in the Plan. This better performance is due to higher average output growth in the mining sector of 6.8% per year, compared to 3.0% forecast in the Plan, as well as the better average non-mining sectors' performance, which is expected to be 6.6% per year, compared to 6.2% projected in the Plan. Improved non-mining sectors' performance indicates progress towards the NDP 8 objective of sustainable economic diversification. We must build on this improvement during NDP 9.
3. However, notwithstanding the progress made so far, economic diversification will remain the overriding objective of our planning and policy formulation for the foreseeable future. The production of diamonds has reached a plateau, following the completion of the Orapa mine expansion in 2000, and no significant growth impetus is expected to originate from this sector in the near future. The new Damtshaa mine, which is on schedule to start production in October 2002, is too small to make any noticeable impact on total diamond production in the country. The international market for diamonds has also become weak and uncertain in recent months, due mainly to the slowdown in economic growth worldwide. These poor prospects on the diamond front, together with problems of unemployment, poverty and HIV/AIDS, underline the need for continued thrust on economic diversification as a strategy for development.
4. Mr Speaker, the **Theme** of this Budget Speech is '*Implementing Public Sector Reforms: a way forward for sustainable economic diversification*'. The role of Government is to provide a conducive environment for growth and prosperity by providing basic services like maintenance of national security, and law and order. The public sector also has the responsibility of ensuring timely, effective and efficient implementation of regulations and procedures relating to orderly participation of the private sector in the economy, including enforcement of contracts and promotion of competition and fair play. In a developing country such as Botswana, the public sector is also largely responsible for building and maintaining basic infrastructural facilities for services like health, education, training and research, and transport and communication. Therefore, increased efficiency of the public sector will be a crucial requirement for the creation of a conducive environment for high rates of investment and sustained development.

5. Mr Speaker, Government has, in the recent past, introduced a number of reforms, aimed at enhancing efficiency in the delivery of services by the public sector. These include decentralisation and computerisation of the personnel management system and adoption of the Performance Management System. Under decentralisation, personnel management functions, such as the authority to recruit, promote and discipline officers up to the D1 grade, have been devolved from the Ministry of State President to other Ministries. Departments of Ministry Management have also been established in most Ministries in order to further enhance the decentralisation process. Computerisation of the Personnel Management System promotes efficient management of human resources through timely availability of personnel information. The roll out phase of the computerisation project to all Ministries was completed in June 2001. The next phase, which entails the installation of additional modules such as leave tracking, benefits administration, training administration, and recruitment administration, will commence in April 2002 and will take 18 months to complete. These reforms are expected to speed up decision-making, enhance management of personnel and improve performance in the public service.
6. The Performance Management System, or PMS for short, which is expected to be fully integrated into the public service by 2004, requires all Ministries and Departments to develop Strategic Plans, containing statements of their vision, mission and values. These Plans indicate key result areas, which constitute a clear programme of action and a basis for monitoring performance. The implementation of PMS has now completed its second year, with all Ministries and most Departments having produced their Strategic Plans. During 2002/2003, PMS implementation will entail a review of the staff performance appraisal system and development of a performance-based pay system for the public service. These reforms are aimed at boosting morale and enhancing productivity in the public sector, with the aim of developing a public service, which will act as an effective promoter of a diversified and thriving economy. PMS is an important reform that must succeed and is being monitored closely by the Economic Committee of Cabinet through quarterly reviews.
7. Mr Speaker, in addition to the PMS process, Government is continuing to reorganise and restructure some Ministries and Departments, with the same objective of improving efficiency and effectiveness of service delivery. It is in this connection that His Excellency the President in his last year's State of the Nation address, announced the intention to establish a Ministry of Communications, Science and Technology and a Ministry of Environment, Wildlife and Tourism. Relevant legislation will be submitted later during this meeting seeking Parliamentary authority to establish these Ministries during the coming financial year. Part of the reform process has required Government to establish autonomous authorities or boards, working largely on commercial principles. Examples are the Public Enterprise Evaluation and Privatisation Agency (PEEPA), the Public Procurement and Asset Disposal Board (PPADB), the Botswana Export

Development and Investment Authority (BEDIA), as well as proposed institutions like the Botswana Tourism Board, the Civil Aviation Authority and the Local Enterprise Agency (LEA).

8. Following the recruitment of its Chief Executive Officer, the Public Enterprise Evaluation and Privatisation Agency (PEEPA), which has been established to oversee the implementation of the Privatisation Policy, is currently engaged in preparing the privatisation master plan and consulting with Ministries to identify activities that could be privatised. The master plan will provide the basis for implementation of the Policy and outline the specific methods and appropriate measures to be adopted in the privatisation process, including the timeframe for implementation.
9. Mr Speaker, I am pleased to report that Botswana was assigned sovereign ratings in the “A” grades by Moody’s rating agency in March 2001 and by Standard and Poor’s rating agency in April of the same year. These ratings are, by far, the most favourable awarded to any country in Africa, being comparable to ratings for countries such as Greece, Malta and Slovenia, and higher than ratings for many of the strong countries in Central Europe, Latin America and Asia. These high investment grade ratings should be of assistance in attracting both portfolio and direct foreign investment. Subsequent to the publication of these ratings, a strong positive sentiment has been generated in financial markets in the region and abroad about Botswana. Accordingly, Government has decided to take advantage of the ratings and proceed to establish a marker in financial markets by implementing one or more bond issues during the current calendar year. These bond issues, in particular, the issue of a Pula-denominated bond, will alleviate a shortage of long-term domestic financial assets and help in further development of the local capital market. In this regard, a Committee of senior officials from the Bank of Botswana and the Ministry of Finance and Development Planning has been established to examine the details of implementing this decision.
10. Mr Speaker, the high investment grade ratings and the benchmarks to be established by Government bond issues should enable parastatals and private sector investors to borrow funds from abroad at more favourable terms than before. However, identification of viable and sustainable investment projects continues to be a problem in this country. Therefore, there is need for us to take advantage of the favourable ratings and work even harder to attract a greater flow of foreign direct investment. To this end, Government produced a Foreign Investment Code in April 2001, which describes the conducive investment climate that exists in Botswana, covering all relevant aspects such as the political situation, macroeconomic and policy environment, legislation, financial and business services, infrastructure, international trade agreements, licensing, as well as listing useful contacts for further information.
11. Mr Speaker, Government remains committed to implementing citizen

empowerment programmes across all sectors. These have, in the past, included universal free education, Financial Assistance Policy (FAP), the policy on Small Medium and Micro Enterprises (SMME), remote area dwellers programme, and indeed many other programmes and policies in the agricultural, health and other sectors of the economy. As I outlined in my 2001 Budget Speech, Government has recently introduced a number of new initiatives as part of the continued drive towards citizen economic empowerment. These include schemes such as the Citizen Entrepreneurial Development Agency (CEDA), and the system of reservation and price preference for citizen consultants.

12. I wish to report that as at end of December 2001, 1 045 CEDA applications had been received, of which 126 applications, valued at about P74 million, were approved, and 163 applications, valued at P51.1 million, were rejected. Due to the high interest shown in the Scheme, CEDA was receiving, on average, 52 applications per week compared to the average processing rate of 16 applications a week, resulting in a backlog of 36 applications per week. To address the backlog, the CEDA Board recently adopted a number of measures, which include; delegating of approval for loans below P150 000 to the CEDA Management, engaging part-time experienced officers to assist in the processing of loan applications, utilising some of the CEDA accredited mentors to assist with the loan processing, and intensifying recruitment of full time Business Development Officers to augment the internal capacity to process loan applications. I should add that some of these measures were adopted in December 2001 and their impact on the backlog should be felt in the near future. Some of the reasons for rejection of applications are; insufficient market, which renders projects not viable, CEDA assistance requested to refinance existing loans from other financiers, and proposed businesses being based on overtraded markets, which render them unviable. Following a study on how the Venture Capital Fund should be established and how its management should be carried out, Government has decided that it will be set up and made operational during the first half of 2002.

13. Mr Speaker, with regard to the reservation and price preference scheme for citizen contractors, including Information Technology (IT) service providers and consultancy services in other sectors, initial indications are that this scheme has been well received and reasonable progress is being made in its implementation.

II. ECONOMIC REVIEW

International Context

14. Mr Speaker, the decade of the 1990s marked the longest stretch of uninterrupted growth experienced by the world economy. However, according to the World Economic Outlook published in December 2001 by the International Monetary Fund (IMF), the world economy is forecast to have grown at a slower rate of 2.4% in 2001, compared to 4.7% recorded in 2000. The US economy is estimated to have slowed down, from 4.1% in 2000 to 1.0% in 2001. The Japanese economy is

expected to have contracted by 0.4% in 2001, compared to the 2.2% growth recorded in 2000. Growth in the Euro area is also expected to have slowed down, from 3.4% in 2000 to 1.5% in 2001. Similarly, the growth forecast for developing economies for 2001 is 4.0%, down from 5.8% recorded in 2000. A worrying feature of the world economic situation in 2001 was that nearly all industrialised countries were expected to have suffered a slowdown in growth along with most developing regions. This synchronisation of the world economic developments is a natural consequence of the ongoing globalisation, which has strengthened linkages between countries in the areas of trade, investment and international financial flows.

15. Mr Speaker, there is currently no international consensus on how long the present world economic slowdown will last. However, I am hopeful that the recovery will be quick, mainly because the authorities in the world's major economies and elsewhere have undertaken strong fiscal and monetary measures to arrest the slowdown and bring about a speedy recovery. This has been supported by the continuing low inflation rates worldwide and the prospect of continuing low price of oil. While there are reasons to expect a recovery in the global economy in 2002, the forecasts show no increase in the world economic growth rate, which is estimated to be 2.4% in 2002, the same rate as in 2001. The growth of the US economy is expected to slow down further from 1.0% in 2001 to 0.7% in 2002, Japan from negative 0.4% to negative 1.0%, the Euro area from 1.5% to 1.2%, while the performance of developing economies is expected to improve from 4.0% to 4.4% over the same period.
16. In apparent contrast to other regions of the world, the growth rate for Africa during 2001 is expected to have been higher in 2001 at 3.5%, compared to 2.8% recorded in 2000. This improvement is due to (1) higher oil prices enjoyed during the early part of the year by oil exporting countries in Africa and (2) sound macroeconomic and structural adjustment policies, being implemented in many countries in the continent, which have begun to bear fruit in terms of higher investment, economic diversification and growth.
17. Mr Speaker, African countries have developed a vision document for Africa's economic recovery programme, which was approved by the OAU Heads of State in Lusaka, Zambia in 2001. The vision document, called ***New Partnership for Africa's Development (NEPAD)***, emphasises the principles of African ownership, leadership and accountability in eliminating obstacles to sustained growth. This initiative is likely to contribute towards raising the overall growth rate in Africa in the future. A NEPAD Implementation Committee was established, comprising 15 Member States to represent the 5 African regions. Botswana, Mozambique and South Africa have been selected to represent the SADC region in that Committee. The SADC Secretariat is currently working on projects and programmes to be submitted to NEPAD, once the Regional Indicative Strategic Development Plan and restructuring process of SADC have been finalised. This will ensure that such

projects and programmes are consistent with the revised SADC priorities.

18. Mr Speaker, the Fourth World Trade Organisation (WTO) Ministerial Conference held in Doha, Qatar in 2001 launched a new round of multilateral trade negotiations. The Ministerial Declaration for launching the round covered, among others, issues of intellectual property, public health, agriculture, industrial tariffs, trade in services and environment. The Conference also granted a waiver to the Cotonou Agreement between the EU and ACP countries, which means that ACP countries will continue to enjoy preferential access to the EU market until 2008, when a new WTO-compatible agreement will come into force. Another major development is that the People's Republic of China has finally joined the WTO in 2001. This was indeed a historic moment in international economic cooperation. China is currently one of the fastest growing economies in the world and has a very big domestic market. The Chinese economy will now be subjected to the rules-based system of the WTO, which should enhance global economic cooperation. The WTO process offers great opportunity for developing countries such as Botswana to diversify their economies by enhancing their access to important markets like China, Europe and the USA.

Regional Developments

19. Mr Speaker, member countries of the Southern African Development Community (SADC) experienced an aggregate GDP growth rate of 3.4% in 2000, compared to 1.8% in 1999. Although this growth rate was slightly higher than that for the whole of Africa, it was still below the 6.5% growth rate required to reduce poverty by half by the year 2015. There were, however, significant differences in economic growth among SADC countries, with the performance of Botswana and Mozambique exceeding the 6.5% growth rate mark. Botswana recorded a growth rate of 8.1%, while Mozambique registered 8.0%. The rest of the SADC countries recorded lower but positive growth rates, except Zimbabwe, where the growth rate was negative. The rate of inflation was less than 10% in the five SACU member countries, and in Mauritius, Seychelles and Tanzania, while Malawi, Zambia and Mozambique recorded rates above 10%. However, the level of inflation remained very high in three SADC countries; at close to 400% in the DRC, 268% in Angola and 56% in Zimbabwe.
20. Mr Speaker, the problem of external debt continues to affect a number of SADC Member States, with the total debt for SADC amounting to US \$80 billion at the end of 1999. In the region, Angola, the DRC, Malawi, Mozambique, Tanzania and Zambia are classified as severely indebted low-income countries and are eligible for assistance under the Highly Indebted Poor Countries (HIPC) debt relief programme of the World Bank and the IMF. In this context, debt relief assistance to Mozambique, Tanzania and Malawi has been approved, although only Mozambique and Tanzania have already received the assistance, while Malawi is yet to receive it. One of the major challenges for these countries is to remain on

track with their economic reform and poverty reduction programmes. Zambia is currently under consideration for the debt relief assistance, while efforts are being undertaken by the World Bank and IMF to bring Angola to a stage where it can be considered for assistance. The DRC has been continuously in arrears to the IMF since November 1990. It is encouraging that since assuming office, President Joseph Kabila has moved quickly to reactivate the Lusaka peace accord, restore relations with the Bretton Woods institutions and take steps to open up the DRC economy.

21. Mr Speaker, the restructuring of the SADC institutions is now complete and the implementation of the new structure, which is currently ongoing, is expected to be completed by March 2003. This restructuring entails a shift from twenty-one sectoral coordinating units allocated to individual Member States to the establishment of four Directorates at the SADC Secretariat. The four Directorates are on: (i) Trade, Industry, Finance and Investment; (ii) Food, Agriculture and Natural Resources; (iii) Infrastructure and Services; and (iv) Social and Human Resource Development and Special Programmes. The Directorates on; Trade, Industry, Finance and Investment and that on Food, Agriculture and Natural Resources have already been established, while the other two Directorates will be established during the 2002/2003 financial year. This organisational restructuring process is expected to improve the efficiency of SADC in the delivery of its programmes and projects, and most importantly, in enhancing the investment climate in the region for sustainable economic growth and socio-economic development.
22. Five more protocols were signed at the SADC Summit in August 2001 in Malawi, taking the total number of concluded protocols to twenty. The protocols signed in Malawi are on: (a) Politics, Defence and Security; (b) Fisheries; (c) Firearms, Ammunition and Related Materials; (d) Culture, Information and Sports; and (e) Corruption. Botswana has ratified all the twenty SADC protocols.
23. Mr Speaker, the renegotiation of the Southern African Customs Union Agreement, which had been ongoing since 1994, has now been concluded. The main provisions of the new Agreement include: a representative institutional structure for the administration of the Agreement; a democratic decision-making process, involving all Member States; a dependable dispute resolution mechanism; an equitable revenue sharing formula; and the development of common policies and instruments to address unfair trade practices between Member States. The new Agreement is currently under consideration by the respective Governments of Member States of the Common Customs Area. Botswana has already approved the new Customs Union Agreement.

Domestic Performance

24. Mr Speaker, a detailed discussion of domestic performance is presented in the

2002 Annual Economic Report, which accompanies this Budget Speech. I shall, therefore, briefly highlight some of the major developments in the domestic economy.

Economic Growth

25. The latest estimates indicate that, during 2000/2001, Gross Domestic Product (GDP) increased by 13.8%, in nominal terms, from P25.4 billion during 1999/2000 to P28.9 billion. In real terms, that is in 1993/94 constant prices, GDP grew by 9.1% in 2000/2001, compared to a growth rate of 8.1% during 1999/2000. The improved performance of the economy during 2000/2001 is a consequence of a very high real growth rate of 19.6% in the mining sector, compared to 12.1% in 1999/2000, due mainly to realisation of the first full year effect of the Orapa expansion project. The non-mining sectors, on the other hand, experienced a slowdown from a real growth rate of 6.2% in 1999/2000 to 3.9% in 2000/2001. This was due to slower growth rates recorded by major non-mining sectors such as manufacturing, construction, finance and business services, and social and personal services.

Inflation and Monetary Issues

26. Mr Speaker, relatively low inflation is important for sustained competitiveness of our exports in the international markets and for attracting foreign investment. In this regard, it is pleasing to note that the annual inflation rate has declined from an average of 8.5% in 2000 to 6.6% in 2001, due to a downward trend in all categories of inflation; non-tradable, domestic tradable and imported tradable commodities. This was partly a result of lower oil prices in the international markets towards the end of 2001, and an easing of domestic demand pressures resulting from slower rates of growth of domestic credit and Government spending.
27. Mr Speaker, monetary policy has remained relatively tight during 2001, with a view to achieving low and stable inflation. The bank rate has remained high at 14.25%, while the nominal interest rate on 3-month BoBCs fluctuated between 12.5% and 13.0% throughout the year.

Exchange Rates and the Balance of Payments

28. Mr Speaker, the 12-month period ending in December 2001 was characterised by significant changes in the exchange rate of the Pula against currencies of Botswana's major trading partners. During this period, the Pula appreciated by 23.5% against the Rand and depreciated by 22.7% against the SDR, 25.3% against the US Dollar, 23.3% against the Euro and 23.0% against the British Pound. These movements were a reflection of the Rand weakening against major currencies, rather than of changes in domestic economic fundamentals. The Pula is linked to a

basket of currencies which include the Rand, based on Botswana's international trade and financial relationships. The objective of Botswana's exchange rate policy is to maintain and enhance international competitiveness of domestic producers by ensuring that the real exchange rate of the Pula remains relatively stable, in particular that it does not appreciate or depreciate out of line. An appreciation of the real exchange rate worsens the competitive position of domestic producers by making imports cheaper, compared to domestic products, and exports relatively more expensive. This would impair the profitability of domestic producers and thus go against the objective of sustainable economic diversification.

29. Mr Speaker, according to preliminary estimates of the balance of payments, a somewhat lower current account surplus of P2.6 billion is anticipated for 2001, compared to a surplus of P2.8 billion realised in 2000. This is mainly a result of a fall in diamond exports due to the global economic slowdown, coupled with a decrease in copper and nickel prices. The merchandise trade component of the current account is estimated to have recorded a surplus of P4.1 billion in 2001, as opposed to P4.6 billion recorded in 2000. The services account is also anticipated to have registered a slightly larger deficit in 2001 than in the previous year due to, among others, increased expenditure on Botswana students abroad, particularly in South Africa. The capital and financial accounts are also anticipated to have deteriorated in 2001 over the previous year. The overall balance of payments is expected to have reduced from a surplus of P1.9 billion in 2000 to a lower surplus of P1 billion in 2001, which is still a relatively healthy situation for the country.
30. As at the end of December 2001, foreign exchange reserves were estimated at P41.2 billion compared to P33.9 billion in 2000, representing about 39 months cover of imports of goods and services. In SDR and US Dollar terms, the reserves were more or less unchanged over this period at SDR4.7 billion and US\$5.9 billion, which means that there has been no increase in Botswana's purchasing power in hard currency markets.

Population and Development

31. Mr Speaker, the preliminary results of the 2001 Population and Housing Census estimate the population growth rate during the inter-censal period at 2.4% per annum, resulting in a total population of 1 678 891 people in 2001, compared to 1 326 796 people in 1991. The estimated population growth rate of 2.4% is significantly lower than the growth rate of 3.5% for the period 1981 to 1991. Within this lower national population growth rate, there are significant differences in the growth rates experienced in different districts, villages, towns and cities, partly due to movement of people. For example, the annual growth rates ranged from the lowest rate of 0.46% in Orapa to the highest rate of 4.03% in the Chobe district. There has also been a significant decline in the national average household size from 4.7 in 1991 to 3.9 in 2001.

32. As would be expected, the national population density has increased from 2 to 3 persons per square kilometre during the inter-censal period. However, the population densities for Gaborone, Francistown and Selibe/Phikwe have increased to more than 1 000 persons per square kilometre. This is a clear indication of the fast increasing population pressure in these centres, generating corresponding social and economic demands.
33. Mr Speaker, the spread of HIV/AIDS is frustrating our social and economic development efforts, causing deterioration in most social indicators. For instance, the 2000 Multiple Indicators Survey estimated that the *infant mortality rate* has now increased to 57 per 1000 live births from around 37 per 1000, while the *under-five mortality rate* rose to 77 per 1000 live births in 2000, from around 48 per 1000 live births in the previous decade. There has also been an increase in the number of orphans. As at the end of December 2001, the number of registered orphans throughout the country was 30 855, representing an increase of about 27% from 24 341 registered orphans in December 2000. I am presenting these figures here to stress the importance of intensifying the anti-HIV/AIDS campaign, which is being waged under the committed leadership of His Excellency the President.

Rural Development and Poverty Alleviation

34. Mr Speaker, the review of the 1973 Rural Development Policy is complete and the report of the review, together with a draft White Paper on the Revised National Policy for Rural Development, have been tabled for consideration by this Honourable House during the current meeting of Parliament. Some of the major conclusions from the review of the 1973 policy centre around the key issues of *livelihoods; land and natural resources; social protection; institutional framework and development; capacity building; gender; HIV/AIDS; poverty; and environment*. I shall touch briefly on these key issues.
35. The review has concluded that current livelihoods in rural Botswana are less dependent on arable and livestock-based subsistence agriculture, which is now dominated by the rural elderly and shunned by the youth. On land and natural resources, the underlying problem identified by the review is unclear property rights in rural areas, which need to be clarified, strengthened and their transfers made easier. The review recommends, among others, that multiple or integrative use of land for enterprises should be allowed as opposed to the current approach, which favours a separate piece of land for each and every business undertaking pursued.
36. Mr Speaker, given the vulnerability of certain groups in rural areas, the review calls for strengthening of social protection programmes for the poor by improving their coverage, targeting, adequacy, efficiency and effectiveness. Regarding institutional framework for rural development, the review has noted the pressing need for effective supervision and coordination of programmes. With respect to capacity building, it was revealed that rural development has been constrained by the

inadequate capacity of both development agents and stakeholders to design and implement area specific policies and plans.

37. The social and economic transformation Botswana has experienced so far has had a differential impact on the various social groups in the rural areas, in particular, on women and men. Access to productive resources, employment and other opportunities in rural areas was found to be unequally distributed and skewed in favour of men. Regarding HIV/AIDS, the review has reiterated the need for Government and other concerned stakeholders to intensify implementation of effective strategies for prevention, to remove the stigma and step up public education on the scourge and its management.
38. On poverty, the review has revealed that communal rain-fed agriculture, based on current practices, will not assist the rural poor to get out of poverty. Two major concerns emerge from this. First, that poverty reduction should be one of the central elements of the revised rural development policy and second, that there should be greater emphasis on a livelihood system focusing on a variety of rural economic pursuits in addition to communal arable agriculture. In this regard, the National Poverty Reduction Strategy, which is being formulated, is expected to make a major contribution on the practical way forward.
39. Regarding the issue of environment, the review has noted an emerging concern about inadequate attention given to the linkages between rural development and natural resources management. It was also noted that many of the measures announced in the 1990 Government White Paper on National Policy for Natural Resources Conservation and Development were not implemented. Implementation must be improved, since the natural resource use and management and environmental conservation are a priority in our development policy.
40. Mr Speaker, Honourable Members will have an opportunity to deliberate on these and other issues when considering the draft White Paper on the Revised National Policy on Rural Development. I should add that removing constraints on rural development through appropriate policies and reforms will be crucial in developing rural communities and achieving the objective of sustainable economic diversification in rural areas, which should help to curb the flow of people to urban areas.
41. Mr Speaker, work on the formulation of the National Poverty Reduction Strategy, which I have referred to, started in the latter part of 2001 and is scheduled for completion in April 2002. The objective of the National Poverty Reduction Strategy is to design a cohesive national action-oriented framework to guide national anti-poverty initiatives. Meanwhile, preparations for a new Household Income and Expenditure Survey (HIES) are currently ongoing, following the completion of the 2001 National Housing and Population Census. The HIES results will assist in the review of the Poverty Datum Line (PDL) basket, which is

used to assess the prevalence of poverty. The Survey will be completed by the end of 2002/2003. Statistics on unemployment, which contributes to the problem of poverty, will be updated by the Labour Force Survey, which will be conducted following the completion of the HIES. However, formal sector employment in all sectors of the economy was estimated at 270 331 people in March 2001, representing an increase of 4% from the previous year.

Public Enterprises

42. Mr Speaker, overall, the public enterprise sector performed well during 2001. Among the profitable enterprises were the National Development Bank, Botswana Development Corporation, Botswana Building Society, Botswana Power Corporation, Water Utilities Corporation, Botswana Housing Corporation, Botswana Post and Botswana Vaccine Institute, while those which did not perform well included the Botswana Meat Commission, Botswana Telecommunications Corporation, Air Botswana, Botswana Railways and Botswana Agricultural Marketing Board. Although some of the enterprises which did not do well have recorded overall net profits, their performance in terms of operational profitability has not been satisfactory. The fall in the operational and financial performance of these public enterprises is a major concern to Government, which calls for implementation of corrective reforms, including financial and operational restructuring, aimed at enhancing their efficiency and enabling them to offer world-class services. It is only through this increased efficiency that the country can expect to achieve global competitiveness and sustainable diversification of the economy.
43. For the year ending 31st December 2000, the Botswana Meat Commission (BMC) suffered an operating deficit of P21.6 million against a deficit of P7.1 million in the previous year. BMC could procure only 160 412 cattle and 442 small stock during the year, which was the fifth lowest throughput since 1966. However, the cattle throughput improved significantly during 2001 due to efforts by BMC to induce farmers to sell cattle by offering better prices and the cattle purchase and feeding programme. A total of 168 753 cattle were slaughtered in 2001, which is the highest kill since the 1992/93 kill of 181 235 cattle, with capacity utilisation at 88% for the Francistown abattoir and 54% at the Lobatse abattoir. Meanwhile, a strategic review of BMC, undertaken as part of public enterprise reforms, has been completed and the report is being considered by Government for decisions to be taken by July 2002.
44. Mr Speaker, the net profit of the Botswana Telecommunications Corporation (BTC) for the year ending March 2001 has fallen sharply to P2 million from P40 million in the previous year. The problems faced by the Corporation due to its

billing system affected the Corporation during 2001. As a reform measure, the Corporation has recently appointed a team of consultants to assist in its financial and operational restructuring, with a view to restoring its profitability and improving its operational efficiency and market position in a highly competitive telecommunications industry. The consultancy started in November 2001 and it will take twelve months to complete its task.

45. Mr Speaker, the privatisation of Air Botswana has experienced a setback on account of the depressed global economic environment, particularly in the airline industry. The majority of the world's airline companies are presently reeling under a threat of closure. Government has, therefore, decided to wait until the international aviation business environment becomes conducive for proceeding with the privatisation of Air Botswana. Meanwhile, work on the legal and regulatory reforms for the privatisation of the Corporation is ongoing. These reforms, which include the development of an Air Transport Policy and revision of relevant pieces of legislation such as the Companies Act and the Civil Aviation Act, will be completed during 2002/2003.
46. Mr Speaker, Botswana Railways (BR) continues to operate in an adverse business environment, characterised by uneconomical traffic volumes. BR recorded a net profit of P12.8 million for the year 2000/2001 due to realisation of P37 million of non-operating income mainly from interest on bank deposits, profit on sale of fixed assets and foreign exchange gains. In order to address its future business prospects, BR has appointed a marketing strategist, for a period of six months from November 2001, to help formulate future marketing plans and necessary organisational reforms. BR has also commissioned a feasibility study for the construction of a railway line from Mosetse to Kazungula to link with the Zambian railway system. If the conclusions of the feasibility study are positive, BR will be expected to take advantage of transit traffic from the South to the African markets north of the Zambezi.
47. Mr Speaker, following the financial and operational restructuring of the Botswana Agricultural Marketing Board (BAMB), which started in 1998, its losses were controlled to a considerable extent. BAMB's current loss is P0.38 million, as against a loss of P1.8 million in 1999/2000 and P1.93 million in 1998/1999. With further progress in the implementation of the ongoing reforms, BAMB should become profitable, and be able to provide effective service to the nation in the coming years. In this connection, Government will, as part of public enterprise reforms, review the BAMB Act, with a view to tabling a revised legislation before the end of 2002.
48. Mr Speaker, the Botswana Development Corporation (BDC) is among public enterprises that improved profitability during the year under review, with a profit of P25.09 million, compared to a profit of P19.5 million in the previous year.

BDC's business strategy emphasises a commercially viable investment and lending portfolio. Major projects implemented with participation of the Corporation during 2001 included the commissioning of the Lobatse Tile project, construction of Riverwalk Shopping Centre in Gaborone, expansion of the Lobatse Clay Works factory, development of airport hangar facilities in Maun, construction of residential property at Phakalane, and the Lobatse Industrial Estates factory shells. Other major projects included the acquisition of the premises of Motor Company of Botswana, by one of BDC's subsidiary companies.

49. In 2002, BDC is expected to participate in 14 more projects, out of which 6 valued at P22.7 million are industrial projects, while the remaining 8 costing P62.5 million, are in the property sector. These projects have already been approved by the BDC Board. The industrial projects are expected to generate 464 jobs in the areas of beverages, electrical, welding, auto ancillaries, bakery and office furniture manufacturing. In addition, there are a number of projects in the BDC pipeline, valued at P68.5 million, which have not yet been approved. These projects are in the property and service sectors.

III. ECONOMIC OUTLOOK FOR 2001/2002 AND 2002/03

50. Mr Speaker, the real GDP growth rate is expected to be around 5% during 2001/2002 and 2002/2003. The main reason for this decline from the 9.1% growth registered in 2000/2001 is the expected fall in the mining sector growth from 19.6% in 2000/2001 to around 2% in 2001/2002 and 2002/2003. This indicates that, despite some progress made in diversification of the economy in the past, the need remains to push the diversification process further and accelerate the growth rates of non-mining sectors, if we are to achieve the Vision 2016 goals. During 2001/2002 and 2002/2003, growth in non-mining sectors of the economy is expected to recover from their relatively weak performance in 2000/2001, with major sectors like manufacturing, construction, trade, transport and services attaining growth rates in the range of between 5% and 8% and the finance sector attaining double-digit growth rates. Overall, the non-mining sectors are expected to register average growth rates of between 6% and 7% during 2001/2002 and 2002/2003, compared to 3.9% in 2000/2001.

51. During the year ending March 2001, formal sector employment grew by 4%. However, the growth rate is expected to increase to around 5% in the following two years, mainly underpinned by the expected good performance of the non-mining sectors such as trade, hotels and restaurants, and manufacturing.

52. The economic outlook shows the expected average inflation rate to be between 6.5% and 7.0% in both 2001/2002 and 2002/2003, down from an average of 8.0% recorded in 2000/2001. This is due to the continuing low inflation in the industrialised economies, coupled with expected decline in the inflation rate in South Africa. Mr Speaker, Honourable Members are well aware that it is important

that relatively low inflation is maintained through sound fiscal and monetary policies in order to ensure competitiveness of our exports vis-à-vis our trading partners.

IV. SECTORAL POLICY REVIEW

Health and HIV/AIDS Issues

53. Mr Speaker, Government remains committed to improving the quality of health care services offered to Botswana because of the conviction that a healthier nation is a pre-requisite to the process of sustainable economic diversification. In this regard, Government will continue to improve the infrastructure, while continuously developing performance standards, as well as procedures and guidelines to enhance effective health care service delivery in the country. A framework for health sector's response to the HIV/AIDS pandemic has been developed, which will be used to prepare the health sector strategic plan for HIV/AIDS. At the same time, the AIDS/STD Unit in the Ministry of Health is being restructured to enable it to meet the challenges of the health sector's response to HIV/AIDS.
54. Mr Speaker, one of the significant developments in this country's fight against HIV/AIDS was the expansion of the Botswana-Harvard HIV Reference Laboratory at Princess Marina Hospital in 2001, with the objective of monitoring, among others, the Blood Donation programme, treatment of HIV/AIDS-related opportunistic infections, Anti-Retroviral Therapy programme and the Prevention of Mother-To-Child Transmission (PMTCT) programme, as well as conducting HIV/AIDS-related research, including research on a vaccine. In addition, the old Jubilee Hospital in Francistown will be renovated and part of it will be turned into an HIV research laboratory during the next financial year.
55. The demand for health manpower has increased following the introduction of new programmes that are geared towards curbing HIV/AIDS, such as the PMTCT programme and the Anti-Retroviral (ARV) programme. The expansion of the Institutes of Health Sciences (IHSs) has been identified as an appropriate long-term strategy to address the health manpower shortages. So far, the Francistown, Gaborone and Lobatse IHSs have been upgraded and plans are under way to upgrade the Molepolole and Serowe IHSs in 2002/2003. The IHSs expansion programme, coupled with the newly introduced medical programme at the University of Botswana (UB), will increase training of health manpower and alleviate the current staffing problems in health facilities.
56. Mr Speaker, in my Budget Speech last year, I informed this Honourable House that Government was considering the possibility of making Anti-Retroviral (ARV) therapy drugs available to Botswana during the course of 2001. Following the signing of an agreement between Government and the African Comprehensive HIV/AIDS Partnerships Incorporated (ACHAP) in October 2001, the programme

has started in Gaborone and will gradually be spread to other pilot areas during 2002/03. ACHAP is a joint arrangement between Merck Company Foundation and the Bill and Melinda Gates Foundation, whose main objectives include, among others, (i) improving access to comprehensive HIV prevention, care and support; (ii) prevention and treatment of opportunistic infections and (iii) implementation of Anti-Retroviral (ARV) therapy in the public sector. Initially, the programme will be piloted in Gaborone, Francistown, Serowe and Maun with the intention to roll it out to all parts of the country over a period of five years. However, I wish to reiterate that the ARV therapy drugs are not a cure for HIV/AIDS, but a relief measure aimed at prolonging life. It is encouraging that the private sector, for example Debswana, has also made tremendous strides to complement Government's efforts in cushioning the impact of the HIV/AIDS pandemic. One such step is that of assisting employees who are already infected, as well as ensuring that awareness in the workplace is accorded urgent attention. These efforts are commendable. Government, on its part, has developed a code of conduct on HIV/AIDS in the workplace for the public service, which was issued in July 2001.

57. In terms of infrastructural development, the upgrading of the Scottish Livingstone, Lobatse Mental, Sekgoma Memorial, Maun and Mahalapye district hospitals is expected to start during the financial year 2002/2003. Preparations for upgrading primary hospitals at Gantsi, Kasane, Palapye, Gumare and construction of new hospitals at Tonota, Shakawe and Moshupa are ongoing. Construction of health staff houses is at different stages in Maun, Selibe/Phikwe, Molepolole, Lobatse, Mahalapye, Serowe, Francistown, Tsabong, Letlhakane, Bobonong, Mmadinare, Tutume, Rakops and Thamaga.

Trade and Industry

58. Mr Speaker, in order to strengthen the role of industry in contributing towards sustainable economic diversification and development, Government continues to introduce additional reforms aimed at providing a conducive environment for industrial development. In this regard, following the re-organisation of the Ministry of Trade, Industry, Wildlife and Tourism (MTIWAT), the policy formulation and monitoring role will be retained within the Ministry, while the policy and programme implementation will be devolved to autonomous implementation agencies such as the Local Enterprise Agency (LEA) and the Botswana Tourism Board. LEA, which will be operational by mid-2002, will amalgamate institutions dealing with entrepreneurship development in the areas of training, marketing, food technology, business extension services, research and project monitoring.
59. Following the review of the Copyright Act of 1965, a new piece of legislation named Copyright and Neighbouring Rights Act was enacted in 2000, with a view to protecting creative artists in their artistic and literary works. The ongoing

preparation of regulations, provided for under the Act, will be completed during 2002. It will also be necessary to establish a Copyright Office and a Collecting Society, with the role of collecting and distributing royalties to the right holders. This new institutional framework will be put in place during the financial year 2002/2003.

60. Mr Speaker, a Companies Bill will be tabled during the course of this year. The objective of the Bill is to address some inadequacies in the current Companies Act. The new law will provide a simple, efficient and cost effective framework for conducting business in Botswana. In addition, Government has decided to split the Trade and Liquor Act into two separate Acts. These reforms were considered necessary in order to reduce delays in licensing, to introduce a liberalised trade system and to promote competition in the marketplace, which are important for attaining international competitiveness. The relevant Bills will be presented to Parliament during the financial year 2002/2003.
61. Mr Speaker, in an effort to improve service delivery to investors, a “one-stop-service-centre” has been established at the Botswana Export Development and Investment Authority (BEDIA). The centre is aimed at assisting local and foreign investors in obtaining necessary clearances such as residence permits, work permits, customs, land, licences, water and electricity timeously. In addition, a library has been opened at the centre, which is already being accessed by investors. BEDIA is currently working on an IT investment guide and a customized access database, which will address all the requirements of individual departments, with linkages to the one-stop-service-centre representatives. At the same time, BEDIA undertook outward missions to India, France, China, Namibia and South Africa, and participated in two inward missions from India, in order to attract investment and promote exports. As a result of these efforts, twelve manufacturing companies have already started operations in the country, while fifteen others are at an advanced stage of implementation. The already operating companies have created about 1 600 additional jobs. For the year 2002, BEDIA will undertake further outward missions to both developed and developing countries and organise inward missions. Two factory shells are also planned for construction during 2002/2003, at an estimated cost of P12 million each in Gaborone.
62. Mr Speaker, greater opportunities lie ahead for Botswana’s textiles, clothing and apparel sector, as a result of the Africa Growth and Opportunity Act (AGOA), which provides for duty-free and quota-free entry of garments produced in Botswana from yarn or fabric, either of African origin, or made with a combination of yarn or fabric from Africa and the United States of America. To benefit from this dispensation, countries need to have special legislation, called Visa Systems, in order to prevent trans-shipment of textile and related products to the United States. Botswana has already amended the Customs and Excise Act in order to comply with this requirement. In addition, a Committee has been formed with membership from Ministries of Trade, Industry, Wildlife and Tourism

(MTIWAT), Finance and Development Planning (MFDP), Agriculture; the American Embassy; BEDIA and Botswana Exporters Association to oversee AGOA activities in the country. To date, five companies have been issued with Visas, enabling them to export to the US under the provisions of AGOA. The second phase of AGOA, under which Botswana will be allowed to use yarn or fabric imported not only from Africa or the United States, but from anywhere in the world, is currently being considered by the US Government.

Wildlife and Tourism

63. Mr Speaker, during 2001, as part of **public sector reforms**, Government undertook a review of some regulations and policies, geared towards **sustainable** management and utilisation of wildlife resources. The review resulted in the revision of hunting and licensing regulations, to accommodate increased fees for hunting and utilisation of various wildlife species. These reform measures were in recognition of the fact that the costs of protecting, monitoring and generally looking after these resources have escalated over the years, requiring some form of cost recovery, if the country is to compete on a **sustainable** basis with the rest of the world in providing world-class services in this sector. Negotiations are also continuing on the establishment of a new trans-frontier park, the Limpopo/Shashe Transfrontier Conservation Area, transcending the borders of Botswana, South Africa and Zimbabwe. This follows the successful establishment of the Kgalagadi Transfrontier Park (KTP) between Botswana and South Africa.

64. The Bill establishing the Botswana Tourism Board has been tabled in Parliament and it is hoped that it will be passed during the current meeting of Parliament. This Bill seeks to establish, in collaboration with the private sector and other stakeholders, an autonomous organisation, which will be commercially oriented for the promotion and marketing of tourism in Botswana. The establishment of the Botswana Tourism Board, which is expected to be operational before the end of 2002, will go a long way in reforming the management of the tourism sector and assisting to tap the potential offered by the sector to achieve the objective of sustainable economic diversification. Meanwhile, Government is developing a national tourism marketing and promotion strategy, aimed at promoting both domestic and international tourism aggressively. Other activities being pursued include the engagement of overseas tourism representatives in the USA, UK and Germany, establishment of a new website, and the erection of billboards throughout the country. Furthermore, tourism brochures are now available for travellers at all border posts and airports.

Agriculture

65. Mr Speaker, despite the shortcomings of the agricultural sector, such as low levels of income and high risks, ageing farming community, and inadequate marketing

facilities, the National Master Plan for Agricultural Development (NAMPAD) offers great potential for agricultural reform to diversify the economy by improving productivity in the sector and ensuring sustainable use of the country's natural resources. NAMPAD proposes major changes in the traditional farming methods in order to reduce uncertainty associated with natural conditions in Botswana through; the adoption of more modern cultivation techniques, which can ensure higher productivity even under unfavourable conditions, diversification of agricultural products and development of markets for agricultural production.

66. Rain-fed crop production will be made more economically viable through the introduction of shared facilities and mechanisation, combined with improved farm management practices. Small horticulturists will be organised in clusters of production units with 20 to 40 hectares in order to enable small vegetable producers to respond to market demands more effectively and reliably, enjoy better terms in acquiring production inputs and transportation services, and in introducing improved cultivation and post-harvest technologies. Dairy farmers will also be encouraged to increase the size of their herds and the concentrated feed component in the feeding of milk cows.
67. To reduce farmers' risk caused by the high annual and in-season climatic variability and by other extreme natural occurrences, as well as to increase confidence in investments in the agricultural sector, private insurance companies will be encouraged to establish a comprehensive insurance scheme to cover agricultural losses in general. It will be important that the new scheme is self-financing, in line with the principle of sustainability. In this connection, the current Agricultural Credit Guarantee Scheme, which covers only those who borrow money from participating financial institutions, will be reviewed to determine its continued relevance.
68. The adoption of NAMPAD will bring about a major transformation of the agricultural sector in terms of creating investment opportunities and institutional reform. The Master Plan is expected to provide several economically viable business opportunities for the private sector, while Government, on its part, will create the necessary enabling environment by ensuring, *inter alia*, the availability and access to land for investors, the supply of agricultural inputs, post-harvesting services and facilities and professional services to farmers.
69. Mr Speaker, a draft White Paper on NAMPAD, which was tabled in Parliament in November 2001, will be considered by the House during its current meeting. The intention is to start the implementation of NAMPAD during 2002/2003, once the Policy is approved by this Honourable House.
70. Mr Speaker, improved productivity in the livestock sub-sector will require the speedy implementation of management reforms, including the implementation of the fencing policy, which has been outstanding since 1991. In this regard, the

demarcation and allocation of ranches throughout the country will be accelerated during the coming financial year. Meanwhile, the implementation of the Livestock Identification and Trace Back System (LITS), which is aimed at maintaining access to the European Union (EU) beef market, is ongoing. Phase I of the project, which included development and installation of computer base infrastructure and bolus insertion in cattle in the pilot districts of Kgatleng and Kweneng, was completed in August 2001 at a cost of P29.5 million. About 247 000 cattle have bolus insertions, representing about 82% of the cattle population in these two districts. Phase II of the project, which is a roll out phase to other districts, commenced in November 2001 and is anticipated to be completed in 2003. At the present rate, the project will cost Government over P300 million to cover the entire cattle population. This is a high cost and, therefore, the project will be reviewed with a view to considering whether some cost cutting and recovery measures can be introduced in the livestock sub-sector.

Financial Services

71. Mr Speaker, the pensions industry in Botswana, as a whole, has exhibited considerable growth. A total of 159 funds, covering 52 509 members, are now registered under the Pension and Provident Funds Act, with total pension assets of P4.4 billion. As part of **public service reforms**, Government established a contributory funded pension scheme for the public service in April 2001. I wish to report that as at the 25th of January 2002, 12 787 Government employees had opted to join the scheme and there are indications that many more will be joining as a result of the ongoing campaigns to explain the details of the scheme.
72. Mr Speaker, the new public procurement and asset disposal system is another major **public sector reform** to be implemented during the year, following the enactment, in July 2001, of the Public Procurement and Asset Disposal Act. The aim of the Act is first, to put in place a new system to govern all public procurement and asset disposal business of Government, and second, to empower the Public Procurement and Asset Disposal Board (PPADB) to conduct all public procurement and asset disposal business of Government, within the framework of the Act. The new public procurement and asset disposal system is expected to become fully operational in June 2002, following the appointment of staff and members of the Board in March 2002. Furthermore, a consultancy is ongoing to revise tendering procedures, design an appropriate organisational structure for PPADB, and introduce standardised bidding packages and a new computerised contractors' registration system embracing all providers of works, services and supplies. These tasks will go a long way in enhancing the prudent, efficient and accountable management of public expenditures.
73. Mr Speaker, the banking sector has embarked on the modernisation of the national payment system, in order to speed up the payments transmission process and reduce risk in the delivery of value to transacting parties. This entails undertaking

strategic and policy reviews, as well as legislative amendments, on the one hand, and procedural improvements in the handling of payments, on the other. In this regard, Government is in the process of drafting appropriate legislation for the payments system. The new legislation will render the writing of cheques against insufficient funds an offence punishable by law. The effect of these reforms is to make Botswana's payments system as risk-free as possible and compatible with best international practices. This will enhance confidence in the banking system and facilitate a smooth process of conducting business in the country.

74. Further progress has been made in expanding the International Financial Services Centre (IFSC), with ten (10) projects now operational, compared to five approvals last year. These include African Alliance, Metcash Africa and Barclays Africa. Some of the IFSC projects have already made their first tax contributions, after completion of the first year of operation. The marketing programme of the IFSC project is being implemented fully and enquiries and applications from South Africa, UK, France, USA and Zimbabwe, which are being processed, are encouraging. Four new proposals, including two from major international banks, are expected to be approved by June this year. In addition, there are thirty-one enquiries being processed.
75. Legislation is being drafted relating specifically to International Financial Services Centre (IFSC) insurance business and will be presented to this Honourable House at its next meeting. This legislation will serve to define Botswana as a viable centre for the conduct of international insurance business, with implications for integration of other services, such as telecommunications and information technology.
76. Mr Speaker, Government established the Public Debt Service Fund (PDSF) in 1973 to meet future payments of Government debt charges. In the past, Government has been quite liberal in extending PDSF loans to parastatals at subsidised rates since private sources of finance were not readily available and there was an urgent need to develop the country's infrastructure. However, the situation has since changed given the growth in the country's infrastructure and private financial institutions. It is now felt that in the interest of efficiency and further healthy development of the country's financial sector, parastatals and Local Authorities should be weaned away from Government PDSF loans. With this in view, the interest rate on PDSF loans has since been raised to near market levels and the administrative procedures for application and drawing down of these loans tightened. As a consequence, new lending from PDSF has fallen considerably, with outstanding loans as at end of March 2001 being P1.522 billion, down from P2.168 billion as at end of March 1994.
77. Mr Speaker, Government now intends to proceed a step further and stop using balances in the PDSF to make loans to parastatals and Local Authorities. Any loans Government may wish to extend to these institutions in future will be made

from the Domestic Development Fund. The balance in the PDSF will be used as originally envisaged to finance public debt service payments, as and when necessary. The balance in the Fund will be maintained at a level commensurate with the size of the country's annual debt service liability.

78. Mr Speaker, as a further element of the ongoing public sector reform, the existing PDSF loan book, consisting of outstanding loans to parastatals, will be sold to private financial institutions at a market-determined price through an open international tender. Government will consider guaranteeing the debt service payments on the loans in the PDSF loan book in order to secure the best market price. It is our expectation that the private financial institutions buying the loan book will then proceed to convert the loans into marketable securities, which will be sold to other investors through the stock exchange. This process will, among others, assist in further development of the country's capital market, as well as raising national savings by making new types of financial assets available in the market for investment.

Mining

79. Mr Speaker, the recent slowdown in the global economy is expected to have a serious impact on diamond sales. The world sales of the Diamond Trading Company (DTC) are expected to have been US\$4.5 billion in 2001, compared to US\$5.7 billion in 2000. The sales are expected to decline further to some US\$4 billion during 2002. However, Botswana's diamond production has remained steady during the year 2001, amounting to 25.945 million carats at the end of the year, compared to 24.635 million carats produced in 2000. Meanwhile, efforts to develop an International Certification System that seeks to exclude 'conflict diamonds' from the market continued during 2001, with several meetings of the enlarged Kimberley Process group held in Brussels, Moscow, Windhoek, London, Luanda and Gaborone, with the objective of having a fully specified International Certification System for the world trade in rough diamonds broadly acceptable to all Kimberley Process participants. The proposed diamond certification system is expected to be presented to the United Nations General Assembly during the first half of 2002 for adoption. The proposed system is acceptable to Botswana and preparations are under way for its implementation.
80. Mr Speaker, copper and nickel exports registered a decline of 29%, from P450 million during the first three quarters of 2000 to P318 million during the same period in 2001. The nickel price had dropped to an average of \$2.19/lb by October 2001, from a relatively higher average of \$3.12/lb in January 2001. This drop in price coincided with a period of high capital expenditure to access additional ore, leading to the deterioration in the financial position of BCL. This has necessitated an emergency funding (EF) of BCL by Government amounting to P145 million in May 2001, and another P150 million in November 2001. The deteriorating financial position of BCL calls for a strategic review of the continued existence of

the mine. To this end, Government commissioned a comprehensive review of the operations of BCL in December 2001, to be completed in March 2002, in order to advise the shareholders on the future of the company. The consultancy will investigate, analyse and assess the viability of BCL with specific reference to profitability, efficiency and competitiveness, the operational performance of the mine, developments in the industry and future plans regarding major business partners such as Tati Nickel Mining Company. It will also review the management structure and assess its suitability to the company and impact on the overall performance of the mine.

81. The expansion of the Phoenix mine, which includes the construction of a concentrator, commenced during the first quarter of 2001. This will enable production from the mine to be increased from 1.7 million tonnes per annum to some 3.2 million tonnes per annum. Construction work is on schedule for commissioning of the plant during the first half of 2002. Meanwhile, Botswana Ash (Botash) continues to perform well, with sales volume for 2001 increasing over that of the previous year. Increased demand has led to an increase in exports of soda ash from P173 million in 2000 to P187 million in 2001, and salt exports from P37 million to P39 million over the same period. In 2002, exports of soda ash are expected to increase further to P196.5 million, while salt exports are estimated to reach P52.9 million.

Water and Energy

82. Mr Speaker, it is encouraging that water supply situation in the urban and major villages has been generally satisfactory. The North South Carrier Water Project is now operational, except for minor failures, which are being attended to by the Water Utilities Corporation (WUC). In addition, a number of urgent activities that will enhance better distribution of water supplies are being undertaken in Serowe, Tonota, Boteti, Ramotswa, Tsabong and a number of villages in the North East district. The National Water Master Plan, which covers a period of 30 years (1990-2020), is due for review and the draft Terms of Reference (TOR) for the review have been finalised. The review will be undertaken during the financial year 2002/2003. Efforts are also ongoing to upgrade sanitation facilities in Maun, Tlokweng, Mogoditshane, Mochudi, Gaborone, and Glen Valley. All the upgrading will be completed during 2002, except for Mochudi, which is expected to spill over into NDP 9. The designs for Serowe, Gantsi, Palapye, Tonota-Shashe and Mahalapye sanitation projects have started and construction will be in NDP 9.
83. Government's efforts to provide electricity in the rural areas are under way as a means of improving the general living standards of the rural populace. The electrification of 72 villages project was completed in December 2001, bringing the total number of villages electrified to 196. During the coming financial year, the electrification programme of 14 villages per year will be resumed.

84. Mr Speaker, the customer base of Botswana Power Corporation (BPC) increased by 12.1% between December 2000 and December 2001, with increases of 6.5% for urban customers and 18.7% for rural customers. This growth is attributed to Government's continued efforts to extend the grid to more rural areas and the existence of the Rural Electrification Collective Scheme, initiated in 1988. In order to meet the increased demand for electricity, Government will undertake a feasibility study during the 2002/2003 financial year on the expansion of the Morupule Power Plant. Meanwhile, the planning phase for construction of the 220 kV power line from Morupule to Thamaga to reinforce supplies in the southern part of the country is in progress. The project is estimated to cost P150 million and will be completed in 2003.
85. Mr Speaker, Government's efforts to promote coal utilisation and other forms of energy are continuing. The upgrading of two coal depots in Francistown and Gaborone will be completed by March 2002. Government envisages the establishment of more coal depots in the future, in addition to undertaking a coal export market feasibility study to assess the potential of exporting Botswana coal to international markets.

Works, Transport and Communications

86. Mr Speaker, the transport and communications infrastructure is critical for sustainable economic diversification by facilitating conveyance of freight, passengers and communications. Improvements in this sector continue to be made to provide an efficient and safe service, while promoting sustainability by implementing some public sector reforms such as cost recovery. Implementation of cost recovery is important to ensure that the quality of service is either maintained or enhanced.
87. The Botswana Telecommunications Authority (BTA) continued to pursue a liberal regulatory framework for telecommunications, which emphasises competition in the market. The market segments already opened for competition include; mobile telephones, data communications, payphones, sale of telecommunication equipment and satellite services such as Internet services. BTA has since February 2001 granted four private network telecommunications licences and six data licences to provide national and international data services. As a result, the telecommunications industry has shown tremendous growth during the 2000/2001 financial year, emanating mainly from the expansion of the mobile telephone service market which strengthened its customer base from 195 000 as at the end of December 2000 to 314 915 as at the end of December 2001.
88. The customer base of the fixed network operator, Botswana Telecommunications Corporation (BTC), has grown marginally, from 132 866 as at end of December 2000 to 138 242 customers as at end of December 2001. BTC has adopted a new seven-digit numbering system to replace the current six-digit numbering system

countrywide, with a view to addressing the telephone number shortages experienced in the major centres. The implementation of the new system started in July 2001, with number changes in Ramotswa, followed by Kasane in September 2001. The roll out programme of the new system is expected to be completed in 2003.

89. Mr Speaker, the safety of flights in our airspace and aviation security at our airports are paramount to instill confidence in the airlines and the travelling public. To this end, state-of-the-art radars were commissioned in August 2001 at two strategic locations in Gaborone and Maun to further enhance the safety of flights across Botswana. In addition, action has been initiated to bolster aviation security at the airports on the basis of guidelines provided by the International Civil Aviation Organisation (ICAO). In a related development, Government has decided to restructure the Department of Civil Aviation and transform it into a parastatal to be named the Civil Aviation Authority. This transformation has been necessitated by the civil aviation environment changing too rapidly for the Department of Civil Aviation to cope with the mandate of providing safe, secure, regular, efficient and economical air transport services in the country. Appropriate legislation is currently being drafted to enable the restructuring to take place. The draft legislation will be tabled in Parliament in June or July 2002. Following approval of the draft legislation, the Civil Aviation Authority will start operation in April 2003.
90. Mr Speaker, a total of P1.2 billion was budgeted for roads construction during NDP 8 based on a cost per kilometre of P400 000. Since then, the cost per kilometre of tarring a road has escalated to about P1 million, resulting in the revision of the total estimated cost of the road projects to P2.6 billion. In order to ensure sustainability in the use of resources, it is crucial that in future more emphasis is placed on maintaining existing roads rather than continuing to expand the network. In this regard, Government will introduce additional cost recovery measures that can assist in the maintenance of the roads infrastructure, such as road user charges, including the tolling of some of the heavily trafficked roads. Toll gates on some roads will be established during 2002/2003. These measures will also take account of the burden that transit traffic is putting on some of the major roads, which serve the region.
91. In view of the traffic congestion on trunk roads, a number of roads are being improved around Gaborone and other towns, while road construction continues throughout the country. In the face of high traffic rules violations, Government is currently undertaking a major review of the Road Traffic Act to attune it to the demands of the prevailing traffic conditions. Further, Government will continue its road safety education campaign to educate drivers and the public about road safety.
92. Mr Speaker, recent acceleration in infrastructural development has resulted in a commensurate growth in maintenance requirement of Government facilities. In an

effort to clear the backlog of maintenance requirements, Government has committed funds to the tune of P300 million under the Ministry of Works, Transport and Communications for central Government facilities and P370 million under the Ministry of Local Government for maintenance of Local Authorities' facilities. This would require the relevant Departments to put in place well-structured maintenance practices with a systematic approach. To this end, a consultancy on the maintenance of Government facilities will be undertaken before a comprehensive maintenance programme is embarked upon during 2002/2003.

Education

93. Mr Speaker, the ongoing implementation of the Revised National Policy on Education has brought to the forefront issues of environmental education, HIV/AIDS, and population/family life education, being areas that need improvement in the education system. The schools curricula have been revised to incorporate some of these emerging issues.
94. Government is currently developing Early Childhood Care and Education policy, which will go a long way in further improving the quality of education and child development in this country. Through this policy, effectiveness and monitoring of pre-schools in the country shall be improved. With respect to special education, an Inter-Ministerial Committee has already been set up to address issues of vocational training, care and employment of people with disabilities. In addition, Government continues to support NGOs financially so that they could expand and intensify their efforts to assist in capacity building and empowerment of people with disabilities to become active participants in the economic diversification process.
95. Mr Speaker, the rolling out of the computer awareness programme to all Community Junior Secondary Schools (CJSSs) and Senior Secondary Schools is continuing, in line with the Revised National Policy on Education. To date, 36 out of 205 CJSSs have been fully equipped and have started teaching the programme, while preparations are at an advanced stage to equip the remaining schools during 2002. Twelve (12) Senior Secondary Schools are offering computer studies as an examinable subject, while the remaining schools will be offering the course during 2002.
96. Over the NDP 8 period all senior secondary schools, except seven, were upgraded. The upgrading programme will be completed by 2003, after which the transition rate from junior secondary to senior secondary education will increase to over fifty percent (50%), in line with the objective of the Revised National Policy on Education.
97. In view of the shortage of technical skills in the economy, Government launched the Botswana Technical Education Programme in 2000, with the aim of enhancing

technical training opportunities in the country. The Department of Vocational Education has already introduced foundation and certificate levels in seven vocational areas, which will increase to nine vocational areas by the year 2002. These programmes will be developed and implemented as advanced certificate and diploma levels over the period between 2002 and 2004. In developing these programmes, substantial input from the industry was taken on board to meet the interests of the market, while at the same time preparing the beneficiaries for the possibility of self-employment. Meanwhile, construction work is ongoing at the University of Botswana to cater for the existing backlog of facilities such as hostels, academic buildings and sports facilities. Preparations for the expansion of the University of Botswana from the current enrolment of 10 000 to 15 000 and the establishment of the second university will be undertaken during 2002/2003 for implementation to start during the first year of NDP 9.

98. Mr Speaker, to ensure sustained provision of education services, Government will introduce limited cost sharing and cost recovery measures in the education sector during 2002/2003. This means that preparations, including consultations, would have to be concluded early during the financial year. In all Government and Government Aided Secondary Schools, a decision was taken to introduce school fees for foreign students with effect from January 2001. During the 2002/2003 financial year, Government, through the involvement of the private sector, will augment efforts by the Loan Recovery Unit, which has recently been established in the Department of Student Placement and Welfare, to collect repayments from beneficiaries under the Grant/Loan Scheme. It will be important, in this regard, that all employers, including the private sector, cooperate in the implementation of this initiative. On the other hand, the rent for institutional houses at secondary schools has been standardised throughout the country and rent collection improved.

Labour and Social Issues

99. Mr Speaker, Government will continue to **implement reforms** in the provision of labour and social services with a view to improving efficiency in their delivery. In this regard, measures are being undertaken to improve the current system, which include merging work and residence permits into one application form, computerisation of border posts and passport-issuing centres, as well as the introduction of machine-readable passports.
100. Mr Speaker, preparations are currently ongoing to establish a Multi-Sectoral Coordinating Committee to oversee the implementation of the National Youth Policy, which will address the critical areas of education and training, unemployment, health and poverty. These problems present a challenge not only to Government, but also to the youth, parents, and community leaders at different levels. One of the programmes that will benefit the youth is the ongoing

construction of integrated sports facilities throughout the country. It is, however, important to ensure timely maintenance of public facilities, such as sports stadia. In this regard, a consultancy was undertaken to advise on best ways of management and maintenance of integrated sports facilities throughout the country. Government is currently considering the consultancy report, with a view to implementing approved recommendations during 2002/2003.

Lands, Housing and Environment Issues

101. Mr Speaker, Self-Help Housing Agency (SHHA) remains an important instrument through which low-income groups gain access to affordable plots and housing finance. I reported to this Honourable House last year that the SHHA Programme will be rolled out to rural areas. The initiative has started and the logistics for implementation have been put in place. So far, funds have been disbursed to the three districts of Kgatleng, North East and Kgalagadi. SHHA committees have already been established in the majority of districts to assist in the identification of beneficiaries. Arrangements are also under way to engage private financial institutions to assist Local Authorities in administering SHHA loans. This arrangement should go a long way in ensuring full cost recovery under the SHHA programme. At the same time, efforts by the Botswana Housing Corporation to address housing shortages through selling and renting out their housing stock are continuing. During the financial year 2002/2003, BHC intends to build 600 housing units countrywide.
102. Mr Speaker, pressure for more land continues in the country, particularly in urban centres such as in Gaborone. Government is giving this matter priority and has initiated consultations with land owners to acquire land in the surrounding areas. Government is, however, concerned by failure on the part of the public to honour their obligations, once serviced land is allocated under the accelerated land-servicing programme. This situation, where people do not develop or pay for their plots within the agreed timeframe, is not acceptable as it hampers Government's efforts to promote home ownership. In the interest of orderly development, Government will have no option but to strictly enforce compliance with conditions of land allocation.
103. Mr Speaker, Botswana's key environmental issues include depletion of water resources, rangeland degradation and desertification, overuse of woodland resources and veld products, declining wildlife species and populations, sanitation and waste management, pollution of land, water and air, and the impact of global climate change. In recognition of the severity of these problems, Government, in collaboration with Danish Cooperation for Environment and Development (DANCED), implemented the Environmental Planning Programme, which entailed increasing awareness on environmental issues among planners at both District and Central Government levels, as well as revising the Planners' Manual and the District Planning Handbook. The objective of this programme was to ensure that

environmental issues are effectively integrated into development policies, programmes and projects. This integration is expected to gain momentum during NDP 9, supported by appropriate legislative and institutional framework. The National Conservation Strategy Coordinating Agency will be reformed and upgraded to a full Department during 2002 to strengthen its monitoring and coordinating capacity, as well as quality assurance and its ability to enforce relevant legislation.

Local Government Issues

104. Mr Speaker, Government places priority on the rolling out of **public sector reforms** such as performance management system (PMS) and cost recovery to Local Authorities. With regard to PMS, the Ministry of Local Government has already initiated consultations with DPSM and other stakeholders to determine the best way of cascading PMS to the Local Authorities. On cost recovery, Mr Speaker, some of the fees charged by the Local Authorities for providing services have been eroded by inflation and are totally out of line with the cost of providing such services. These fees will be revised during the course of the year to enhance cost recovery.
105. Meanwhile, the Local Government Structure Commission, which was appointed last year to review Local Government structures, in an effort to improve service delivery by the Local Authorities, has submitted a report to Government. The report of the Commission, together with a draft White Paper, will be tabled for Parliamentary discussion later this year. Some of the broad issues raised in the report include the need to strengthen Councils' capacity to carry out functions expected of them by law effectively. Local government structures would need to be reformed, *inter alia*, to clarify and remove overlapping mandates and responsibilities of various local institutions.
106. Mr Speaker, the Ministry of Finance and Development Planning compiles and disseminates central Government finance statistics on a monthly basis as and when computerised accounts are produced. However, Local Authorities' finance statistics are currently compiled with a 3-year lag due to non-availability of up-to-date accounts. To address this problem, and in line with the theme of Public Sector Reform for efficient service delivery, Government is in the process of strengthening accounting processes by installing a computerised accounting system that will consolidate and produce up-to-date Local Government Authorities accounts. It is intended to clear the backlog of final accounts for Local Authorities by 31st March 2003.

V. REVIEW OF THE 2000/2001 AND 2001/2002 BUDGETS

The 2000/2001 Budget Outturn

107. Mr Speaker, the actual outturn of the 2000/2001 budget was substantially more favourable than the revised budget forecast, with total revenues and grants of P14.12 billion and total expenditures and net lending of P11.54 billion, resulting in an overall budget surplus of P2.58 billion. This represented an improvement of P1.50 billion, compared to the surplus of P1.08 billion estimated in the revised budget for the year. The main factors contributing to the higher than anticipated surplus were lower expenditures by 3% and higher revenues by 9%. The increase in revenues was mainly due to better than anticipated performance of mineral revenue by 11% and Bank of Botswana revenue by 36%.
108. The under-expenditure of P340 million, or 3% from the revised budget estimate of P11.88 billion, was mainly on account of the development budget. Development expenditure was P3.13 billion, compared to the revised budget estimate of P3.63 billion, while recurrent expenditure was P8.50 billion, compared to the revised budget estimate of P8.40 billion. The shortfall in development expenditure was due mainly to implementation capacity constraints, while the increase in recurrent expenditure was mainly on account of increase in personal emoluments, which included raising the salaries of the industrial class employees.

The 2001/2002 Revised Budget Estimates

109. Mr Speaker, the revised total revenues and grants for 2001/2002 are estimated at P13.347 billion, and are lower by P210 million, or 1.5%, than the P13.557 billion in the original budget estimates. This decrease is mainly accounted for by the expected fall in mineral revenue by P490 million from P7.953 billion in the original budget estimates to P7.463 billion in the revised estimates. Total expenditure and net lending are estimated at P13.433 billion, representing a decrease of P651 million over the original budget estimate of P14.084 billion. While recurrent expenditure increased by P245 million on account of first and second supplementaries, the net decrease is due to the downward revision of development expenditure by P947 million on account of implementation capacity constraints as well as cost containment efforts. The expected outturn is a lower overall budget deficit of only P85 million, or about 0.2% of the projected GDP, compared to the original budget deficit of P527 million, which was about 1.5% of GDP. At this very low level of projected deficit, the revised budget for 2001/2002 may be characterised as a balanced one.

VI. THE 2002/2003 BUDGET PROPOSALS

Revenues and Grants

110. Mr Speaker, total revenues and grants for 2002/2003 are forecast at P15.41 billion, representing an increase of P2.06 billion, or 15.4% over the 2001/2002 revised budget estimate of P13.35 billion. Mineral revenue amounting to P8.49

billion represents an increase of P1.03 billion, or 13.8% over the 2001/2002 revised budget estimate. This growth in estimated mineral revenue is due entirely to the recent sharp depreciation of the Pula vis-à-vis the US Dollar. Non-mineral income taxes at P1.90 billion are forecast to increase by P450 million, or 31%, from P1.45 billion in the 2001/2002 revised budget. This high growth is anticipated as a result of improvement in tax collection through the introduction of self-assessment, with associated heavy penalties for non-compliance. Further, an allowance has been made for a one-off reduction in tax arrears during 2002/2003 through the mounting of an intensive tax arrear collection drive. Revenue from Sales Tax and Value Added Tax (VAT) is forecast to increase from P616 million in the 2001/2002 revised budget to P1.01 billion in the 2002/2003 budget estimates, which is an increase of P390 million, or 63% over the previous year's level, mainly on account of the introduction of VAT in July 2002, with its extended coverage. Bank of Botswana revenue is expected to increase by about 6%, due mainly to the depreciation of the Pula against the SDR. On the other hand, customs and excise revenue is forecast to decrease by P190 million, or 11%, from P1.73 billion in the 2001/2002 revised budget estimates to P1.54 billion in the 2002/2003 budget, due to the recent appreciation of the Pula against the Rand. Finally, new cost recovery measures to be introduced in several areas, including charges by Local authorities, are expected to yield an additional revenue of P300 million during the financial year 2002/2003.

Recurrent Expenditure

111. Total expenditure inclusive of development expenditure and net lending for the financial year 2002/2003 are forecast at P17.03 billion, of which 69%, or P11.8 billion, is recurrent expenditure, including a provision of P154 million for winding up FAP activities. Personal emoluments increased by P918 million, or 31%, from P2.97 billion in the 2001/2002 revised budget to P3.88 billion in the 2002/2003 budget, due mainly to the salary increase awarded to civil servants during 2001/2002.
112. The Ministry of Education, with a recurrent budget of P3.19 billion has the largest share, representing 28% of the total ministerial allocation. The Ministry of Local Government takes the second largest share of P2.01 billion, or 18%, followed by State President with the third largest share of recurrent expenditure of P1.72 billion, or 15%. Other shares of the recurrent budget are; 8% for the Ministry of Finance and Development Planning, and 7% each for the Ministries of Health and Works, Transport and Communications, while the remaining 17% of the recurrent budget is distributed among other Ministries/Departments.

Development Expenditure

113. Mr Speaker, I now present the development budget for 2002/2003, which marks the end of the NDP 8 period. The proposed budget for the year is P5.187

billion, of which P4.87 billion, or 94%, is intended for normal development projects, P225 million, or 4%, for implementation of the development programme of parastatals and autonomous organisations, and P95 million, or 2%, for completion of drought-related activities carried over from the preceding year. This budget is substantially higher by P1.425 billion, or 38%, compared to the 2001/2002 revised development expenditure of P3.762 billion. Such a high growth is required to enable Ministries to consolidate and complete, as much as possible, their NDP 8 development programmes so as to minimize the spill-over to NDP 9.

114. Mr Speaker, I am aware that implementation capacity constraints, which I have already mentioned more than once, may make the realisation of this large development budget target difficult. To address this concern, some studies have been undertaken to identify ways of reorganising and rationalising the service Departments of Architectural and Building Services (DABS) and Electrical and Mechanical Services (DEMS) and streamlining their work processes. Recommendations from these studies will be implemented during the course of the coming financial year. Also, during the year, a Project Implementation Unit will be re-established and staffed within DABS to assist in expediting project implementation.

115. The Ministry of Local Government has been allocated the largest share of P1.202 billion, or 23% of the total development budget. Some of the major projects planned to be implemented by this Ministry include Primary Schools construction - P225 million, District Councils Water and Sewerage - P160 million, Village Infrastructure - P111 million, Maintenance of Local Authorities' Buildings - P104 million, District Roads - P99 million, Labour Intensive Public Works - P96 million, Township Services - P85 million, and Urban Sewerage Programme - P61 million. The provision of P104 million under the Local Authorities Buildings Maintenance project is to be utilised for ameliorating the maintenance backlog of properties under Districts and Urban Authorities.

116. The second largest share of the development budget amounting to P840 million, or 16%, goes to the Ministry of State President. The HIV/AIDS Project, which consolidates all HIV/AIDS related activities, including the introduction of anti-retroviral drugs, has been allocated P200 million.

117. Mr Speaker, the Ministry of Works, Transport and Communications is allocated the third largest share of P759 million, or 15% of the total development budget. More than 77% of this Ministry's allocation is earmarked for five projects. These are Secondary Roads Construction - P192 million, Bitumen Road Improvements - P191 million, Trunk Roads in Urban Areas - P90 million, BTC Finances - P60 million, and Government Buildings Improvements - P51 million. The latter project provides for the maintenance backlog of Government properties.

118. The fourth largest share of P578 million, or 11%, goes to the Ministry of

Minerals, Energy and Water Affairs, of which, more than half, amounting to P300 million, is allocated to one major project, namely, Major Village Water/Sanitation Development. Other projects with significant amounts under this Ministry, which together require P164 million, or 28% of the Ministry's development budget, are: Rural Power Supplies with P78 million, BCL Finances - P58 million and Village Water Supplies and Technology - P28 million.

119. The Ministry of Education is allocated P440 million, or 9% of the total development budget. Four projects which account for P341 million, or 78%, are: Vocational Training Institutions with P128 million, Senior Secondary Schools - P101 million, Junior Secondary Schools - P56 million and University of Botswana - P56 million. Other projects with significant spending under this Ministry are Brigades Development - P27 million, Examination, Research and Testing - P22 million, and Out of School Education - P16 million.

120. The Ministry of Health has been allocated P380 million, or 7% of the total development budget. The Improvements to District Hospitals require P212 million, while Primary Hospitals project is allocated P60 million, which together constitute 72% of the Ministry's overall budget. Two other big projects in the Ministry are Institutes of Health Sciences with P60 million, and Referral Hospitals with P27 million.

121. Mr Speaker, the Ministry of Lands, Housing and Environment gets P348 million, or 7% of the total development budget to implement nine ongoing projects. An aggregate amount of P304 million, or 87% of this Ministry's budget, is required for four projects, which are: Government Office Blocks - P103 million, District Housing - P138 million, SHHA Development - P40 million, and Land Boards Development - P23 million. The remaining P44 million of the Ministry's budgetary allocation will be shared among Environment Management Activities, Computerisation, Botswana Housing Corporation Finances, Surveys and Mapping, and Land Use Planning.

122. The remaining P640 million, or 12% of the total development budget, is distributed among the Ministries of Finance and Development Planning, Labour and Home Affairs, Agriculture, Trade, Industry, Wildlife and Tourism, Foreign Affairs, Parliament and Administration of Justice.

123. Mr Speaker, as I have already mentioned, the 2002/2003 development budget is primarily aimed at consolidating and completing the NDP 8 development programme with a view to minimising the spill over of projects to the next Plan, NDP 9. To achieve this objective, additional resources amounting to P671 million are required to augment the Total Estimated Cost of NDP 8. This increase will raise the overall cost of NDP 8 from the currently approved figure of P25.263 billion to P25.934 billion. Of the revised NDP 8 TEC of P25.934 billion, 47% was spent in the first four years of the Plan, 1997/98 - 2000/2001. A further 35% is

expected to be spent in the remaining two financial years, 2001/2002 – 2002/2003, leaving 18% or P4.770 billion as carryover to NDP 9.

Overall Balance

124. On the basis of the 2002/2003 budget proposals, with revenues and grants at P15.41 billion and expenditures and net lending amounting to P17.03 billion, the overall balance is a forecast deficit of P1.62 billion, or 4.2% of GDP. This deficit, together with other financing, including transfer to the Botswana Public Officers' Pension Fund, will result in a decrease in Government cash balances amounting to P6.88 billion.
125. Mr Speaker, forecasting Government revenue, expenditure and the budget balance is always fraught with uncertainties and is particularly so in the volatile world economic setting we are witnessing at this time. An improvement in the exchange rate of the Pula vis-à-vis the US Dollar and the SDR will lead to a shortfall in Government revenue in Pula terms. On the other hand, the actual level of development expenditure may fall short of the target if the actual improvement in implementation capacity is not in line with our expectation. Given these possibilities, pulling the budget balance in opposite directions, it is our view that the actual outcome of the 2002/2003 budget will be a deficit of the order of P1.62 billion which I have indicated.

Public Service Salaries

126. Mr Speaker, the National Employment, Manpower and Incomes Council (NEMIC) met to consider a cost of living adjustment (COLA) for the public service. Despite the unfavourable budgetary outlook for the 2002/2003 financial year, NEMIC recommended an across the board salary adjustment of 6% for the public service with effect from 1st April 2002. In making this recommendation, NEMIC considered other factors beyond the financial costs of the adjustment. These factors included; the need to improve labour productivity through enhanced remuneration, and the need to compensate civil servants for erosion of their purchasing power by inflation during the past year and avoid having to make a high salary adjustment in future as has been the case in the past. Such large increases of wages and salaries tend to create inflationary pressures in the economy and, therefore, counter the objectives of accelerated sustainable diversification, private sector development, employment creation and poverty alleviation. Yet another consideration was the need to avoid the further widening of the gap between the private sector and Government salaries, in line with the decision of Government last year of endeavouring to benchmark public service salaries on the Botswana salary market.
127. Government has accepted the recommendations of NEMIC based on the strength of the reasons that the Council has advanced. It is hoped that this

additional cost will be financed by savings from vacancies and cost containment measures, as well as additional cost recovery measures to be introduced and implemented during 2002/2003.

VII. FISCAL LEGISLATION

128. Mr Speaker, extensive changes have been introduced in the tax legislation in recent years, with a view to streamlining and strengthening the tax system. Some of the recent changes were aimed at increasing the disposable income of individual taxpayers; enhancing the country's competitiveness in attracting both direct and portfolio investment; strengthening the anti-avoidance provisions; and above all; broadening the revenue base of the economy through the replacement of the Sales Tax by the Value Added Tax (VAT). These reforms need some time for their impact to be felt in the economy.
129. The introduction of Value Added Tax (VAT) in July 2002 is on schedule. Initially, VAT will be introduced at a uniform rate of 10%, applied to a wide range of goods and services, with few exemptions. Some of the main advantages of VAT are that the system is fairer and more effective than the sales tax, and will lead to a more stable revenue base for the country. As part of the preparation for the introduction of the new tax system, a VAT Guide has been produced and distributed to the public, while registration of taxpayers is scheduled to commence in April 2002. All businesses with annual turnover of more than P250 000 will be required to register for VAT in accordance with the legislation.
130. Mr Speaker, as a result of representations made by taxpayers, I will table later during this meeting a few amendments to the Value Added Tax Act. The Value Added Tax Act makes no provision for allowing input tax credit for second hand goods. This would cause double taxation of many used goods. I propose to correct this anomaly.
131. Section 20 of the Act denies an input tax credit for all passenger vehicles with a seating capacity of less than 10 people. One effect of this is that input tax credits would be disallowed to tour operators for the smaller safari vehicles. I propose that the Act be amended to address this concern. Further, the Act requires that a seller must always issue a tax invoice to a buyer. This means that a buyer cannot invoice himself or herself for goods he or she has purchased. It is not always possible for a seller to provide a tax invoice to the buyer. The provision of a self-invoicing facility is especially important for slaughter houses, which decide on the price to be paid to the farmer for the animals they buy. The amendment to facilitate self-invoicing will also apply to other businesses such as hotels and restaurants.
132. Section 23 of the VAT Act requires the issue of a tax invoice and a non-tax invoice for VAT purposes. While there are concerns about possible abuse of invoices, it is also important to acknowledge that there could be practical problems

for businesses to implement the dual-invoicing system. I, therefore, propose that the Act be amended to require all VAT registered enterprises to issue only one kind of invoice, which will be known as a tax invoice.

133. Mr Speaker, I am aware that there have been suggestions for other changes to be made to the VAT Act. However, my preference is that other matters should be considered later, after VAT has been implemented and we would have a clearer picture of all the changes which need to be made to the VAT legislation.

134. Mr Speaker, as part of the public service reforms, Government will consider establishing a unified revenue service during the course of the next financial year. This would involve merging some of the existing revenue collecting departments into an autonomous authority, charged with the responsibility of domestic revenue collection. The advantages of an autonomous revenue authority will include improved services to the taxpayers and increased efficiency in revenue collection.

VIII. CONCLUSION

135. Mr Speaker, the budget I have presented anticipates a deficit of P1.62 billion, or 4.2% of GDP, compared with an anticipated deficit of P85 million in 2001/2002, which is effectively a balanced budget. While presenting a budget with a large deficit, I must stress that this is a temporary departure from the norm, and in no way a decision to jettison our time-tested principle of sustainable budgeting. The temporary departure is a result of a combination of factors, chief among which are the current weakness of the international market for diamonds, following the world economic slowdown, the need to make substantial provisions for fighting the scourge of HIV/AIDS and the desire to consolidate and complete, as much as possible, the NDP 8 development programme during the upcoming year.

136. I must **emphasise** that, while Botswana, owing to fiscal discipline, is fortunate to have Government cash balances and foreign exchange reserves to cushion the severity of such a budgetary outlook, the financing of a deficit through drawing down of cash balances, which amounts to liquidating income-earning assets for meeting expenditure needs and generates inflationary pressures, **can only** be a temporary solution. The continuing aim of our fiscal policy and administration is to avoid recurring budgetary deficits and unsustainable indebtedness, which has plagued many countries in our continent. The effective way of dealing with a deficit is to eliminate it through increased productivity, cost containment and revenue raising measures, which are, *inter alia*, the main objectives of the *public sector reforms* currently under way. The main challenges, therefore, are to ensure that past and prospective reforms lead to cost efficiency in public sector service delivery through timely implementation of projects within budgets; avoidance of wastages in projects and programmes implementation; increased cost recovery; legislative reforms, which support private sector development; and above all; the need for securing better “*value for money*” for all Government activities. The

establishment of autonomous authorities or boards operating largely on commercial lines, which I have mentioned, and outright privatisation of some public enterprises, as envisaged under the public sector reforms, should serve to deepen the economic diversification process and lead to higher long-term growth of both economic activities and public revenues.

137. Mr Speaker, I wish to point out that public sector reform is a necessary but not a sufficient condition for economic growth. Equally important is the role of the private sector, which should be the prime mover of a vibrant market economy in today's globalised world setting. It is, therefore, important that the private sector complements reform initiatives undertaken by Government, and takes advantage of the conducive environment to grow and prosper, thus creating wealth and jobs for citizens. In particular, I call upon the private sector to take advantage of the opportunities created under AGOA. This should improve prospects for growth in the manufacturing sector, and ultimately the whole economy. Needless to say that, it is only through the achievement of high levels of economic growth that jobs can be created on a sustainable basis and revenue prospects improved to enable us to tackle some of the major development challenges such as the HIV/AIDS scourge.
138. Before I conclude my address, Mr Speaker, I wish to take this opportunity to, once again, express appreciation to our development cooperating partners, both bilateral and multilateral, for their continued support of our development endeavours, despite the decline in global official development assistance (ODA) in recent years. As we start the implementation of the ninth National Development Plan (NDP 9) early next year, we will continue to count on their support to provide assistance, both financial and human, and in particular, supplement our efforts in the fight against the HIV/AIDS pandemic.
139. Mr Speaker, this concludes my address on the Budget proposals for 2002/2003. I, therefore, move that the **Appropriation (2002/2003) Bill, 2002** be read for the second time.