



REPUBLIC OF BOTSWANA

BUDGET SPEECH

2003

By

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Table of Contents

I.	INTRODUCTION.....	1
II.	ECONOMIC REVIEW....	4
	International Context.....	4
	Regional Developments.....	5
	Domestic Performance.....	6
	Economic Growth.....	6
	Employment.....	7
	Inflation and Monetary Issues.....	7
	Exchange Rates and the Balance of Payments.....	7
	Population and Development.....	8
	Rural Development and Poverty Alleviation.....	9
	Public Enterprises.....	9
III.	ECONOMIC OUTLOOK FOR 2002/2003 and 2003/2004.....	13
IV.	SECTORAL POLICY REVIEW.....	13
	Health and HIV/AIDS Issues.....	13
	Trade and Industry.....	14
	Environment, Wildlife and Tourism.....	17
	Agriculture.....	18
	Financial Services.....	19
	Mining.....	20
	Water and Energy.....	22
	Works and Transport	23
	Communications, Science and Technology.....	24
	Education.....	25
	Labour and Social Issues.....	26
	Lands and Housing Issues.....	26
	Local Government Issues.....	27
	Law, Justice and Security.....	28
V.	REVIEW OF THE 2001/2002 AND 2002/2003 BUDGETS	29
	The 2001/2002 Budget Outturn.....	29
	The 2002/2003 Revised Budget Estimates.....	29
VI.	THE 2003/2004 BUDGET PROPOSALS.....	30
	Revenues and Grants.....	30
	Recurrent Expenditure.....	30
	Development Expenditure.....	31
	Overall Balance.....	32
	Public Service Salaries.....	33
VII.	FISCAL LEGISLATION.....	33
VIII.	CONCLUSION.....	36

I. INTRODUCTION

1. Mr. Speaker, I have the honour this afternoon to present to the National Assembly budget proposals for the financial year 2003/2004.
2. As Honourable Members are aware, this is the first budget of the ninth National Development Plan (NDP 9), which was approved by this Honourable House in December last year. Therefore, the budget estimates, which I am presenting, are the first instalment in the implementation of the policies, strategies and expenditure allocations approved in the National Development Plan 9. The theme for NDP 9 is ***“Towards Realisation of Vision 2016: Sustainable and Diversified Development through Competitiveness in Global Markets”***. This theme challenges the nation to work towards the achievement of the Vision 2016 goals and objectives during the Plan period. The Plan has identified the most critical development challenges confronting the nation and outlined policies and strategies for addressing these challenges. The Plan has also presented the financial and manpower ceilings allocated to Ministries over the period, from 2003/2004 to 2008/2009. In addition to taking into account the projected revenues over the same period, the allocation of financial and manpower ceilings were based on a number of principles, including the need to avoid budget deficits and have adequate financial reserves to cushion the country against exogenous shocks such as drought, fluctuations in the diamond market, outbreak of animal diseases, and the ravages of the HIV/AIDS pandemic. These principles will be observed strictly during the budgeting processes throughout the NDP 9 period.
3. Mr. Speaker, the theme of this Budget Speech is ***“Improving Botswana’s Competitiveness in Global Markets”***. This theme is a component of the theme for NDP 9, and recognises the fact that Botswana’s economy is small and open, with little influence on the process of globalisation, which has been taking place through continuous growth in international trade and investment flows, as well as through advances in information technology. The globalisation process makes it imperative for Botswana to position itself for competing effectively in global markets by adjusting its economic structure and institutional framework to take advantage of opportunities offered by globalisation. Success in this regard can be achieved through vigorous implementation of appropriate policies, strategies and programmes, such as provision of requisite infrastructure, maintaining a conducive macroeconomic policy regime for private sector initiatives, and increasing labour productivity through human resource development, as well as development of science and technology. In this context, during 2003/2004 Government will review the *Revised National Policy on Incomes, Employment, Prices and Profits of 1990*, which is the basis for the work of the Wages Policy Committee and the tripartite Council comprising representatives of labour, employers and Government called the National Employment, Manpower and Incomes Council or NEMIC in short. The objective of the review is to align the Policy with the current level of development of the economy and with best international practices.

4. Another avenue for improving Botswana's market access and global competitiveness is through active participation in regional and international trade initiatives, such as the renegotiated Southern African Customs Union Agreement (SACUA); various Southern African Development Community protocols, in particular the SADC Trade Protocol; the African Growth and Opportunities Act (AGOA) of the USA; and the Cotonou Agreement. The Cotonou Agreement, previously known as the Lome Convention, is an agreement between the European Union (EU) and the African, Caribbean and Pacific (ACP) countries, giving preferential access for certain goods from the ACP countries into the EU. Currently, Botswana beef is benefiting from this Agreement. The national competition policy currently under preparation will also improve the environment for competition within the economy, which is a necessary adjunct of enhancing international competitiveness. Other initiatives are the promotion of industries and exports with the help of institutions like the Botswana Export Development and Investment Authority (BEDIA), the Botswana Development Corporation (BDC) and the Botswana Export Credit Insurance and Guarantee Company (BECI), while the Industrial Development Policy facilitates and guides the setting up of manufacturing industries.
5. Mr. Speaker, improvement in factor productivity, especially labour productivity, is critical for global competitiveness. It is important, therefore, to relate wage increases to increases in labour productivity in order to contain inflationary pressures. It is also imperative to maintain an environment conducive to cooperation between workers and employers, as well as speedy and amicable settlement of labour disputes. It is only through an efficient, productive and reliable workforce that the country will continue to attract foreign direct investment and improve global competitiveness. The role of the Directorate of Public Service Management (DPSM) and the Botswana National Productivity Centre (BNPC) in the implementation of productivity enhancing measures, such as organisational reforms and the Performance Management System (PMS), is also critical in achieving these objectives. I wish to raise concern regarding productivity in the private sector, particularly some of the building contractors, who have performed unsatisfactorily in the delivery of public sector projects. In a number of cases, contractors have failed to finish projects on time, resulting in unnecessary cost escalations and delays in benefits reaching the intended beneficiaries. This problem needs to be addressed effectively for Botswana to enhance international competitiveness.
6. Mr. Speaker, it is pleasing to note that after the initial assignment of high investment grade sovereign credit rating by Moody's and Standard and Poor's in 2001, both rating agencies maintained the same rating for Botswana in the A grade in 2002. This rating, which places Botswana ahead of all African countries, reflects the strong external position of the country and the pursuit of a development strategy that has successfully balanced the provision of social services with prudent fiscal and monetary management over the years. The rating

enhances Botswana's international stature and ability to attract foreign capital to support the process of economic development. However, several challenges to the maintenance of the high sovereign credit rating remain. These include the need to accelerate economic diversification, maintain and strengthen financial discipline and contain the ravages of HIV/AIDS. Mr. Speaker, I remain confident that these issues will be addressed fully and adequately during NDP 9.

7. Mr. Speaker, the implementation of the Citizen Entrepreneurial Development Agency (CEDA), which is the newest of the major special citizen empowerment schemes, has continued countrywide. As at the end of December 2002, CEDA had approved 792 applications, amounting to P421.1 million, while disbursements for approved applications stood at P247.7 million. In terms of sectoral distribution, 45 percent of approved projects were in the service sector; 25 percent in retail trade; 13 percent in agriculture; 10 percent in manufacturing; and 7 percent in property development. These projects are expected to create over 7 000 additional jobs in the country, when they are fully operational. Since January 2002, repayments amounting to P6.2 million have been received from beneficiaries of CEDA loans, while arrears stood at P3.6 million as at the end of November 2002. To address the problem of arrears, CEDA is intensifying staff recruitment, with a view to establishing a credit control unit, which will follow-up on loan repayments.
8. It is very important that CEDA assists viable businesses, if the objectives of economic diversification, developing citizen entrepreneurship, employment creation, citizen economic empowerment, and poverty alleviation are to be realised. Any business promoter, whether small, medium or large, needs to know the fundamentals of business; namely, what to produce; how to produce; where to sell; how to get products to the market place; and whether there would be sufficient profit to warrant the effort. This explains why the CEDA application form is comprehensive. Nonetheless, as a result of representations, CEDA has produced a shorter and simpler application form for small and micro businesses, which borrow up to a threshold of P150 000. The shorter form will be introduced later this month.
9. Another important component of assistance, which CEDA has begun to implement through engagement of private sector business consultants, is the training, monitoring and mentoring programme. It is expected that this type of support will equip citizens with the requisite skills for running businesses. Government believes that achieving success in this area will contribute a great deal in empowering citizens to participate meaningfully in Botswana's economic development. Meanwhile, guidelines for the operation of the CEDA Venture Capital Fund have been finalised and the process of identifying a Fund Manager has already started. It is expected that the Fund will be operational by April 2003. For the financial year 2003/2004, a provision of P300 million has been made for CEDA operations.

10. Mr. Speaker, I am glad to report that the Public Procurement and Asset Disposal Board (PPADB) commenced operations on 2nd July 2002, taking over the responsibility for the management of the public procurement functions previously performed by the Central Tender Board (CTB). However, the process of establishing the various committees required under the Act is still ongoing for completion in the coming financial year. The major challenge of the Board is to ensure higher standards in the procurement process and enable Government to deliver timeously and cost-effectively on projects envisaged for implementation under NDP 9.
11. The Public Procurement and Asset Disposal Act recognises the twin principles of reservation and preference as affirmative schemes for the promotion of citizen economic empowerment. In particular, the existing reservation and preference schemes should also be seen as the means for the progressive development of capacity in particular sectors, with the ultimate goal of achieving global competitiveness in those sectors. During 2003/2004, Government, in consultation with PPADB and other relevant stakeholders, will be embarking on an exercise to introduce targeted, time-bound reservation and/or preference schemes in identified sectors of the economy, with a view to enhancing citizen contracting capacity, particularly through joint ventures in works, supplies and services. This, in turn, should result in increased investment into Botswana and transfer of technology.

II. ECONOMIC REVIEW

International Context

12. Mr. Speaker, the world economy is expected to have grown by 2.8 percent in 2002, indicating a marginal recovery from the economic slowdown registered in 2001, when it grew by 2.2 percent. The US economy is expected to have recovered, from 0.3 percent growth in 2001 to 2.2 percent in 2002, and Canada is expected to have recovered from 1.5 percent to 3.4 percent over the same period. The growth rate in newly industrialised Asian countries is estimated to have accelerated from 0.8 percent in 2001 to 4.7 percent in 2002. At the same time, the growth rate in developing countries is also expected to have risen, from 3.9 percent in 2001 to 4.2 percent in 2002. On the other hand, countries of the former Soviet Union and other Eastern European countries in transition are among groups of countries expected to have registered economic slowdown, from 5.0 percent to 3.1 percent; while growth in the European Union is expected to have fallen from 1.6 percent to 1.1 percent, and in Africa from 3.5 percent to 3.1 percent over the same period. Among the countries and regions with negative growth rates are Japan, where output is expected to have declined by 0.5 percent, and the Latin American countries, with a decline of 0.6 percent during 2002.
13. Looking ahead, the global economy is expected to recover further by registering 3.7 percent growth in 2003, with the US economy growing by 2.6 percent, Japan by 1.1 percent, and the EU by 2.3 percent, while the newly industrialised Asian

countries are projected to grow by 4.9 percent. Developing countries are expected to consolidate their recovery with a growth rate of 5.2 percent. Countries of the former Soviet Union and other Eastern European countries in transition are also expected to reverse the declining trend by recording a growth rate of 4.5 percent in 2003. In Africa, output is forecast to grow by 4.2 percent in 2003, due to continued implementation of sound macroeconomic policies, fewer conflicts, and debt relief under the Heavily Indebted Poor Countries (HIPC) programme, aided by stronger expected commodity prices.

14. These prospects for continued recovery of the world economy are, however, fragile and subject to many political and economic risks and uncertainties. As one would expect, these risks can be minimised through the continued implementation of growth-enhancing structural reforms in the countries concerned. Although on the whole the performance of developing countries has been better than that of developed countries, sustained growth in these countries remains interlinked with growth of the advanced economies, which provide export markets for them.

Regional Developments

15. Mr. Speaker, the process of implementing the Southern African Development Community (SADC) Trade Protocol was started by a majority of Member States at the end of December 2001, with customs administrations in the region developing common procedures for transit goods and determining rules of origin. The Trade Protocol will result in a SADC-wide free trade area, with zero tariffs on over 85 percent of intra-SADC trade by 2008, extending to all intra-SADC trade by 2012. The removal of trade barriers will encourage increased intra-regional trade, which will create opportunities for new investments. Furthermore, the removal of regional trade barriers in conjunction with the lowering of external tariffs will be conducive to increasing integration of the region into the world economy. Botswana, as one of the small economies in SADC, should benefit from a wider free trade area, if she maintains competitiveness.
16. The restructuring of the SADC institutions is advanced, with all the four Directorates having been established at the SADC Secretariat. These are the Directorates on Trade, Industry, Finance and Investment; Food, Agriculture and Natural Resources; Social and Human Development and Special Programmes; and Infrastructure and Services. A team of experts from Member States completed the draft Regional Indicative Strategic Development Plan in December 2002, which will be presented to the SADC Council of Ministers for approval in February 2003. The Plan will provide strategic direction to the Organisation and operationalise the SADC Common Agenda, taking into account the relevant sectoral policies, strategies and programmes, including the broad continental framework. A total of twenty-three SADC protocols have been signed to date, nine of which have been ratified by the required number of countries and have, therefore, entered into force. The implementation of these protocols should assist in strengthening regional

integration for the benefit of Member States.

17. One of the challenges currently facing the SADC region is food shortage, following the below-average rainfall recorded last year. It is estimated that about 14.4 million people in the region are threatened by starvation. Current projections show a combined all-cereals deficit of 3.67 million tonnes for the 2001/2002 marketing year, against a surplus of 583 000 tonnes assessed for the 2000/2001 marketing year. The most affected countries in the region are Angola, the Democratic Republic of Congo, Lesotho, Malawi, Mozambique, Swaziland, Zambia and Zimbabwe. Concerted efforts by the region and the international community are ongoing to deliver food and non-food items to these countries. Botswana has also been affected by the food shortage and as a result, Government approved P18.0 million in 2002/2003 for the Botswana Agricultural Marketing Board (BAMB) to import grain to re-stock the Strategic Grain Reserve (SGR) with 10 000 metric tonnes of sorghum and 10 000 metric tonnes of white maize. It should be noted that availability of sufficient foreign exchange reserves has enabled Botswana to afford unrestricted importation of goods and services, including foodstuffs.
18. Mr. Speaker, the Southern African Customs Union (SACU) Heads of State and Government signed the renegotiated SACU Agreement in October 2002. The SACU Secretariat, to be based in Namibia, and other SACU institutions, are expected to be operational during 2003. The new Agreement, with a more democratised decision-making process, offers great opportunities to increase trade within the Common Customs Area. It will, therefore, be important for Botswana to continue policies and programmes, which enhance its competitiveness even within the region in order to take advantage of the new SACU dispensation.

Domestic Performance

19. Mr. Speaker, a detailed discussion of domestic performance is contained in the 2003 Annual Economic Report, which accompanies this Budget Speech. I shall, therefore, briefly outline some of the major developments in the economy.

Economic Growth

20. Mr. Speaker, Gross Domestic Product (GDP), in current prices, is estimated to have increased by 11.6 percent from P28.7 billion in 2000/2001 to P32.0 billion in 2001/2002. However, in constant 1993/94 prices, real GDP is estimated to have increased by 2.3 percent in 2001/2002, representing a significant drop from the 8.4 percent growth rate recorded in the previous year. The major factors responsible for this drop in economic performance included a decline in mining output by 3.1 percent, following the full year's impact of the Orapa expansion project in the previous year; and a decline in agricultural output by 2.5 percent, due to drought and the outbreak of the Foot and Mouth Disease in the country. However, the non-

mining sectors as a whole registered an improvement in real growth rate from 4.0 percent in 2000/2001 to 5.5 percent in 2001/2002.

Employment

21. Mr. Speaker, total formal sector employment increased from 270 300 people in March 2001 to 274 413 people in March 2002, resulting in an additional 4 113 jobs, or a growth rate of 1.5 percent. The majority of the jobs were concentrated in the private sector, which created 2 688 jobs, followed by Local Government with 1 079 jobs. On the other hand, formal sector employment in Central Government declined by 2.7 percent. The latest information on total employment is from the 2001 Population and Housing Census, which indicated that total employment in both formal and informal sectors was 453 385 people in 2001, compared to 379 938 people in 1991.

Inflation and Monetary Issues

22. Mr. Speaker, inflation control is a key component of Government's strategy to maintain a stable macroeconomic environment and achieve sustainable rates of growth of incomes and living standards. Inflation averaged 8.1 percent in 2002, compared to 6.6 percent in 2001. This increase largely reflects the impact of the Value Added Tax (VAT), which was introduced in July 2002, as well as the increase in food prices due to drought conditions in the region. The inflation rate is expected to come down during the course of 2003/2004, since the impact of VAT on inflation is a temporary phenomenon. It is important to maintain relatively low inflation in relation to our trading partners as it contributes to improvement in international competitiveness.

Exchange Rates and the Balance of Payments

23. Mr. Speaker, in order to maintain and enhance international competitiveness of domestic producers, we should endeavour to ensure that the real exchange rate of the Pula is relatively stable. The Pula exchange rate appreciated, in nominal terms, against the major international currencies during 2002, reflecting the recovery of the Rand, following substantial decline in its value at the end of 2001. In the twelve months to December 2002, the Pula appreciated by 27.7 percent against the US Dollar and by 18.6 percent against the SDR, but depreciated by 8.1 percent against the Rand. The real effective exchange rate, which takes into account relative prices between Botswana and the rest of the world, appreciated by 6.9 percent in the twelve months to November 2002, due to a combination of the nominal appreciation and higher inflation in Botswana compared to trading partner countries, indicating a reduction in competitiveness. Efforts must, therefore, be made during the coming year to bring down the rate of inflation, in order to improve competitiveness in global markets.

24. Mr. Speaker, the balance of payments preliminary estimates show an improvement from a surplus of P1.0 billion in 2001 to a surplus of P1.4 billion in 2002, due mainly to a lower deficit in the financial account. The deficit in the financial account was higher in 2001 because of a substantial payment made by Debswana during that year to increase its shareholding in De Beers. The current account balance is estimated to have recorded a lower surplus of about P3.0 billion, compared to a surplus of P3.7 billion recorded in 2001, which mainly reflects the decline in interest income earned on the foreign exchange reserves.
25. The foreign exchange reserves stood at P29.9 billion at the end of December 2002, representing a decrease of P11.3 billion (or 27.4 percent) from the level in December 2001. The reserves amounted to US\$5.5 billion and SDR4.1 billion, indicating a reduction of 7.2 percent in US Dollar terms and 13.8 percent in SDR terms over the same period. The decrease in reserves was mainly attributable to the appreciation of the Pula against the US Dollar and the SDR, as I mentioned earlier, as well as funding of the Botswana Public Officers Pension Fund. This is in addition to other uses of foreign exchange reserves, which include continued importation of goods and services, exacerbated by drought, and costs of sending students for training abroad. As at the end of December 2002, about P6.2 billion had already been transferred to the Fund. Also contributing to the decrease in foreign exchange reserves was the global economic slowdown, which affected equity markets negatively, yielding lower market value, as well as lower return on investment of the foreign exchange reserves.

Population and Development

26. Mr. Speaker, the results of the 2001 Population and Housing Census showed that Botswana's population grew from 1.33 million in 1991 to 1.68 million in 2001. This represented a population growth rate of 2.4 percent per annum, a marked decline from the 3.5 percent growth rate recorded during the decade to 1991. At the same time, the urban population as a share of the total population grew from 45.7 percent in 1991 to 52.1 percent in 2001. An urban area is defined as a settlement with a population of at least 5 000, with at least 75 percent of them engaged in non-agricultural activities. This rapid growth of the urban population continues to be a serious challenge facing policy makers. Of particular concern is the continuous migration of able-bodied youth to the urban areas, inclusive of major villages, in search of better lives. This does not only rob the rural areas of the much-needed skills and labour, but it also puts tremendous strain on the already overstretched resources in the urban areas.
27. Mr. Speaker, the HIV/AIDS scourge undermines Government's efforts to deliver the required services to improve the lives of Botswana. It has also been reversing the hard-earned gains of the past decades. The 2001 Population and Housing

Census revealed that the life expectancy at birth in Botswana fell from 65.2 years in 1991 to 55.7 years in 2001. The infant mortality rate also rose sharply from 48 deaths per 1 000 live births to 57 deaths per 1 000 live births over the same period. The pandemic puts tremendous strain on Government budget and the human resources needed to develop the country. In order to remain competitive in global markets, Botswana needs to arrest the HIV/AIDS scourge, which, not only causes untold human suffering, but also seriously affects labour productivity adversely, as well as savings in the economy. It is against this backdrop that Government has decided to offer the Antiretroviral (ARV) therapy in 2001 through the public health system.

Rural Development and Poverty Alleviation

28. Mr. Speaker, Government's commitment to rural development remains unchanged, as reflected by the adoption of the Revised National Policy for Rural Development by Parliament during 2002. To facilitate effective implementation and monitoring of this Policy, a comprehensive implementation plan for the Policy was adopted by the Rural Development Council in August 2002, and subsequently circulated to all concerned parties to guide implementation. In addition, the Rural Development Council, through the Rural Extension Coordinating Committee, undertook extensive consultations with Local Authorities during 2002, with a view to initiating a sustained programme of strengthening extension services, initially focusing on more readily identifiable problems, such as training of extension staff, transport, and reduction of vacancy rates for key posts in the Local Authorities. It is in the context of these initiatives that the training budget for Local Authorities for the year 2002/2003 was raised from P10 million to P24 million. Their proposed training budget for 2003/2004 is P44 million, which nearly doubles the provision for the current year.
29. Mr. Speaker, the formulation of the Poverty Reduction Strategy is at an advanced stage and its draft is currently being considered by Government. The strategy document, which is expected to address the issue of poverty as part of the implementation of the Revised National Policy for Rural Development, has identified a number of programmes to be implemented during NDP 9. The results of the ongoing Household Income and Expenditure Survey (HIES) will be used to update information on the prevalence of poverty in the country. Government has also decided to undertake mini-HIES every five years, instead of the current period of ten years, in order to be abreast of changes and avoid proliferation of guesstimates on the poverty situation.

Public Enterprises

30. Mr. Speaker, the majority of state-owned enterprises achieved positive financial results during 2001/2002, despite the fact that the combined net profit of these enterprises fell from P388 million in 2000/2001 to P375 million for the year

2001/2002. The sluggish performance and losses of a few public enterprises have offset the improved performance of others. There is scope for public enterprises to improve their efficiency further and achieve sustained profitability. Meanwhile, the Public Enterprise Evaluation and Privatisation Agency (PEEPA) is expected to complete the preparation of the Privatisation Master Plan by the first quarter of 2003/2004. The Privatisation Master Plan will be a broad strategic framework, which will set out, amongst other things, the tools and methods of privatisation implementation processes and key policy considerations, as well as a broad three-year privatisation work programme. PEEPA is also compiling a database of privatisation activities and opportunities, including the development of divestiture and contracting-out frameworks to help in the execution, management and monitoring of privatisation processes. This is expected to ensure transparency as well as efficiency and effectiveness in the implementation of the Privatisation Policy for Botswana.

31. Mr. Speaker, I would now like to briefly touch upon the performance of some of the major public enterprises during the financial year 2001/2002. The Botswana Telecommunications Corporation (BTC) performed poorly during the year, due to a combination of factors, including poor cost control and management weaknesses. The Corporation recorded a net loss of P24.2 million for the year 2001/2002, compared to net profit of P2.2 million in the previous year. Meanwhile, the implementation of the BTC Integrated Transformation Plan to return the Corporation to profitability within a period of three years, before it is privatised, commenced in May 2002, with the assistance of a team of international consultants from International Development of Ireland (IDI). The implementation of the Plan has so far led to the right-sizing of the Corporation in line with its new customer-focused organisational structure and completion of an interim network upgrade. BTC has also undertaken various measures to improve its billing process, tighten credit control, and improve debt collection. In addition, BTC has submitted proposals to Government on its financial restructuring, which entails replacement of outstanding PDSF loans with equity and fresh cash injection into the Corporation to rehabilitate the ageing network to ensure improved service delivery. Indeed, provision of efficient telecommunication services is crucial for enhancing competitiveness in global markets.

32. Mr. Speaker, the Botswana Power Corporation (BPC) achieved a net profit of P136 million for the year 2001/2002, which is 18 percent lower, compared to the previous year, due to growth in operating expenses. In order to remain financially viable, BPC revised electricity tariffs upwards by a modest 5 percent, after a period of four years without increasing tariffs, despite inflationary pressures. The Water Utilities Corporation (WUC) recorded a net profit of P59.7 million, which is lower than the net profit of P94.4 million recorded in the previous year, on account of the heavy finance charges in respect of the North South Carrier Water (NSCW) project, commissioned during the financial year. Meanwhile, plans by WUC are under way to implement the water supply infrastructure development project in Francistown and surrounding villages during 2003 at an estimated cost of P150 million. The project entails replacement of transfer pumps and upgrading of distribution pumps in Francistown;

refurbishment and extension of water treatment works at Shashe; and construction of water storage at Gerald Estates in Francistown. The Botswana Housing Corporation (BHC), on the other hand, has maintained its previous year's performance by recording a net profit of P48 million for the year 2001/2002. To address the problem of housing shortage, BHC has started construction of about 600 housing units in major centres, of which 360 will be in Gaborone, 150 in Palapye and 110 in Francistown. The Corporation has set itself a target of selling 1 000 housing units to Batswana over the one year period to the end of March 2003 and 777 houses have so far been sold.

33. Air Botswana Corporation achieved a net profit of P12 million during 2001/2002, compared to P8 million in the previous year. Meanwhile, the privatisation process of the Corporation, which was kept in abeyance last year due to unfavourable conditions in the global aviation industry, has been re-started. It is intended to sell up to 45 percent of the shares in the privatised company to a strategic partner, 10 percent to citizen employees of Air Botswana and the remainder to be retained or sold to citizens by Government. This means that effectively the majority of the shares after privatisation will be in the hands of citizens, thereby enabling the airline to remain a national flag carrier. It is expected that the privatisation process will be completed during this calendar year.
34. Mr. Speaker, both the National Development Bank (NDB) and the Botswana Savings Bank (BSB) continued to be profitable and making a contribution to the economy. BSB provides essential service to savers, especially small depositors throughout the country, using BotswanaPost facilities. Currently, it has nearly 500 000 accounts. On the other hand, NDB is essentially a lending institution and does not accept deposits from the public. It depends on Government and borrowing for its capital. During the coming financial year, Government will examine the feasibility of merging these institutions, which provide complementary services, as well as the possibility of privatising them during NDP 9, as a merged institution or separately.
35. The Botswana Meat Commission (BMC) recorded a net profit of P38 million for the year ending 30 December 2001, compared to a net loss of P21 million in the previous year. As a result, the Commission was able to distribute about P17 million as bonus to farmers. However, the year 2002 has been unfavourable to BMC on account of the outbreak of the Foot and Mouth Disease (FMD) near Matsiloje, resulting in temporary closure of both the Francistown and Lobatse abattoirs. BMC suffered a net loss of P28.3 million during 2002 as a result of loss of sales and costs incurred, including finance charges, due to the outbreak of the Foot and Mouth Disease. In 2003, BMC is likely to suffer further because of another outbreak of Foot and Mouth Disease in Matopi, along the border with Zimbabwe. As a result of these problems, Government has decided to grant BMC a tax waiver amounting to P10.7 million for the year ended 30th June 2002.

36. Mr. Speaker, the Botswana Development Corporation (BDC) has continued to position itself in the global business environment to be able to contribute effectively to economic diversification and employment creation. The Corporation recorded a profit before tax of P37.4 million during 2002, compared to P25.9 million in the previous year. For the BDC Group as a whole, the profit before tax more than doubled from P34.6 million in 2001 to P78.4 million in 2002. Employment for the BDC Group also increased by 6 percent to 5 830 jobs during the year.
37. Some of the projects completed during the year with the support of the Corporation included the Gaborone International Convention Centre, provision of shopping complexes in Gaborone and Gantsi, and refurbishment of some factory shells in Gaborone and Selebi Phikwe. New projects started during the year with BDC support include a confectionary manufacturing plant in Gaborone, and expansion of fruit juice manufacturing in Ramotswa.
38. The Corporation has also been pro-active in identifying new business opportunities in line with its new marketing strategy by undertaking feasibility studies. One such study is on the viability of establishing a food cans manufacturing plant in Botswana. Other projects under consideration for support include manufacturing and packaging of bone china tableware for export; manufacturing of domestic and commercial fridges and freezers; processing of stainless steel and mild steel; manufacturing of foam and foam related products for home, commercial and medical use; and the expansion of a local footwear company. These four projects are estimated to cost P128.9 million. In the services sector, projects under consideration include a hotel and amusement park and development of tourist accommodation at an estimated cost of P77.4 million. In the property sector, proposed projects include the development of industrial and showroom facilities in Francistown and residential development in Gaborone. The two projects are estimated to cost P39.0 million.
39. Mr. Speaker, the process of restructuring BAMB is continuing and an amendment bill to the BAMB Act will be tabled in this Honourable House during this year. The revision of the Act is aimed at removing legislative bottlenecks to allow BAMB to operate as a viable commercial enterprise. In line with the restructuring, two projects were started during 2002/2003, with a view to improving the profitability of the Board. These projects involve the pre-packing of pulses and sorghum milling. However, profitability of BAMB will continue to be affected by heavy overheads associated with its extensive specialised silo and warehouse infrastructure, the low volume of local purchases, the location of these facilities in relation to markets, and competition from imports, which significantly reduces profit margins. As a result of the continuing problems, the Board recorded a net loss of P1.1 million in 2001/2002, compared to a net loss of P0.4 million in the previous year. These problems will receive priority attention during the course of 2003/2004.

III. ECONOMIC OUTLOOK FOR 2002/2003 AND 2003/2004

40. Mr. Speaker, following the relatively lower performance in 2001/2002, the economy is forecast to recover, registering a real growth rate of around 5 percent in 2002/2003. This growth rate is expected to be maintained in 2003/2004. The growth rate of the mining sector is expected to decline from around 4.5 percent in 2002/2003 to 1.0 percent in 2003/2004 due to plateauing of output, while the growth rate of non-mining sectors is expected to be higher than that for the whole economy, at around 7 percent in 2002/2003 and 2003/2004. Higher growth rates are expected in the manufacturing, construction and finance sectors. The relatively higher projected growth in the non-mining sectors, compared to the mining sector, is in line with one of the major policy thrusts of NDP 9, relating to the diversification of the economy, of which improved competitiveness in global markets is an important element. There is, therefore, need to consolidate this trend to ensure that continued steady progress is made towards achieving economic diversification.

41. Growth in formal sector employment is expected to be around 5 percent in both 2003 and 2004, mainly driven by strong projected growth in the non-mining sectors. The average inflation rate for 2002/2003 is expected to increase to around 9 percent, compared to the average of 6.0 percent in 2001/2002. It should subside to about 6.0 percent in 2003/2004, when the influence of VAT will have been factored out. A return to lower inflation will be a welcome development in achieving global competitiveness.

IV. SECTORAL POLICY REVIEW

42. Mr. Speaker, I now turn to the sectoral policy reviews, the details of which will be provided by the respective Ministers as part of their Committee of Supply statements. I shall, therefore, focus on a few major sectoral policy issues and programmes, as well as changes in legislation.

Health and HIV/AIDS Issues

43. Mr. Speaker, Government's efforts to control the spread of HIV/AIDS and mitigate its impact continue through a number of programmes and interventions. These include the construction of the Botswana Baylor Children Clinical Centre of Excellence at Princess Marina, which started in July 2002 and is expected to be completed in April 2003. This Centre will provide training to health professionals; HIV/AIDS care and treatment and clinical research; as well as cater for the primary and special medical care needs of HIV-infected infants and children. The Centre will also provide nutritional, psychological, social and child life services.

44. Since its introduction in 2001/2002, the Antiretroviral (ARV) therapy is being implemented at four sites; namely Gaborone, Francistown, Serowe and Maun. As

at mid-January 2003, a total of 4 425 people were enrolled for the ARV therapy at the four sites: 2 800 people in Gaborone, 850 people in Francistown, 425 people in Serowe and 350 people in Maun. Of the total enrolment, 2 520 people were receiving treatment in Gaborone, 419 people in Francistown, 300 people in Serowe and 276 people in Maun. P25.4 million was allocated for this programme during 2002/2003.

45. Meanwhile, the uptake of the Prevention of Mother to Child Transmission of HIV/AIDS programme by pregnant women has been slow, due to the stigma still associated with HIV/AIDS in some communities, coupled with inadequate counselling, arising from shortage of counselling personnel. Of the estimated 41 000 pregnancies per annum, about 14 000, or 35.4 percent, are estimated to be HIV positive. The training and deployment of lay counsellors will be accelerated during the year to improve counselling and follow-up of affected mothers and children.
46. Mr. Speaker, the health sector continues to be beset by shortages of health personnel, both in terms of quantity and quality, exacerbated by a high attrition rate. Manpower training and recruitment efforts, through the continued expansion of the Institutes of Health Sciences (IHSs) and enhanced training in other institutions, will continue to be intensified in order to deal with this problem. Due to the bad state of most of the major district hospitals as a result of insufficient maintenance, which is exacerbated by overcrowding due to HIV/AIDS and related opportunistic diseases, the upgrading of Scottish Livingstone hospital, and the relocation of the Mahalapye and Gantsi hospitals, has already started. In addition, preparations are under way to start the relocation of the Lobatse Mental, Sekgoma Memorial, and Maun hospitals. These efforts are aimed at increasing hospital beds and improving equipment and overall service delivery.
47. Mr. Speaker, these efforts are in line with Government's commitment to "*improving Botswana's competitiveness in global markets*", which implies, among others, continued improvement in the quality and range of health care services offered to Botswana in order to improve labour productivity, as well as the quality of their lives. Further, in an attempt to mitigate some of the impacts of HIV/AIDS on health personnel, an emotional and psychological support programme is currently being implemented in some health facilities, such as Nyangabgwe, Princess Marina, Athlone and Maun hospitals. This programme entails counselling, emotional support, care and treatment of the concerned health personnel.

Trade and Industry

48. Mr. Speaker, domestic industries have to compete in global markets through trade. As such, the trade and industry sector is of crucial importance for the country's achievement of the objective of "*improving Botswana's competitiveness in global markets*". There is also the need to attract Foreign Direct Investment (FDI), with

established global trade links and superior technological and managerial expertise, to augment the capacity of local producers to compete effectively in global markets. In this connection, the Ministry of Trade and Industry in collaboration with the United Nations Development Programme (UNDP), has started a programme, which entails the formulation of investment and export promotion strategies, a modern investment law, as well as capacity building in the negotiation of bilateral investment treaties. Apart from this programme, Government will be undertaking a study, during 2003/04, on the review of administrative barriers to investment in Botswana.

49. Mr. Speaker, investment promotion has become increasingly competitive, with almost every country, developed and developing, competing for the available investible resources worldwide. It is against this backdrop that organisations like the BDC and BEDIA will continue to intensify their investment promotion efforts. BEDIA has selected niche industries on which to focus its investment promotion drive. These industries include manufacturing of textiles and garments, jewellery, tannery and leather products, glass and IT products, which can utilise locally available raw materials. They will be promoted vigorously, through incoming and outgoing missions, participation in trade fairs and exhibitions, as well as direct mailing campaigns in the targeted markets. BEDIA will continue to provide factory shells to accommodate potential investors. Accordingly, a provision of P21.8 million has been made in the 2003/2004 budget towards construction of additional factory shells. Through BEDIA's efforts, a total of fourteen companies are now operational, while a further seven are expected to start operations during the course of 2003. These companies are involved in the manufacture of products such as leaf springs for automobiles, IT accessories and parts, shoes, furniture, textiles and garments, batting material and steel shoe caps. The companies that have already commenced operations have created a total of about 2000 jobs.
50. A more competitive environment achieved through the maintenance of a sound macroeconomic policy regime, reduces the cost of doing business and ensures that there is fair business practice. To this end, a competition policy will be presented to Parliament during its current session. For enhancing competitiveness in global markets, it is also crucial that goods and services produced locally are of international standards. Currently, only about 158 standards have been developed and declared as Botswana standards by the Botswana Bureau of Standards. In order to expedite the development of standards, the Botswana Bureau of Standards is considering introduction of recognised fast track procedures to handle urgently needed standards.
51. Mr. Speaker, the reorganisation of the Ministry of Trade and Industry is ongoing, with the Local Enterprise Agency (LEA) becoming operational during the 2003/2004 financial year. The role of LEA will entail expediting the training and mentoring support to local enterprises nationwide, particularly in the small, medium and micro enterprise sector. The functions of LEA will encompass

coordination of the activities of Integrated Field Services, Small Business Agency and Enterprise Botswana. Other activities to be performed as part of the reorganisation of the Ministry during 2003/2004 include the establishment of the Office of the Registrar of Companies as an autonomous entity and continuation of IT networking and cabling, all these with a view to improving its operational efficiency.

52. Botswana's membership of the World Trade Organisation (WTO) will improve the country's access to global markets and her international competitiveness. Implementation of the Copyright and Neighbouring Rights Act of 2002 will also assist in attracting foreign direct investment, as investors seek to be assured of protection of their Intellectual Property Rights before they invest in a particular country. The Industrial Property Act of 1996 is also being reviewed to make it compatible with the WTO Agreement. Meanwhile, the investment code introduced last year will be withdrawn as a result of representations regarding the effect of some clauses, which are deemed to be detrimental to investment promotion. The code will be replaced by a more investor friendly one during 2003/04.
53. The Development Round of WTO Negotiations was launched in Doha, Qatar in November 2001. These negotiations are aimed at further liberalisation of trade with respect to services, agriculture, market access for industrial products, as well as at developing rules governing trade and the environment. The negotiating parties are also reviewing implementation of existing agreements with respect to anti-dumping, subsidies and countervailing measures, Trade Related Aspects of Intellectual Property Rights, regional trade arrangements, special and differential treatment and the dispute settlement mechanism. The fifth Ministerial Conference to assess progress of the negotiations is scheduled for September 2003 in Mexico.
54. Mr. Speaker, the USA Government amended the African Growth and Opportunities Act (AGOA) in August 2002 to accommodate Botswana's and Namibia's requests to be reclassified as least developed countries for purposes of accessing raw materials for textile industries from other countries, including those outside Africa. However, this dispensation will run until 2004, after which all African countries will be treated equally under AGOA, and will be allowed to source raw materials only from other African countries and the USA. I would like to urge domestic enterprises to avail themselves of this opportunity, while it still lasts. On a related matter, African countries have engaged the USA Government on the issue of the continuation of AGOA beyond the year 2008. In this regard, members of the Southern African Customs Union (SACU) have welcomed the proposal by the USA Government to negotiate a free trade area between the SACU member countries and the United States. The negotiations are aimed at securing market access for SACU products to the USA market on a more permanent basis, as well as improving the investment climate in the SACU region. It is anticipated that the negotiations on the proposed free trade area will start during 2003 and be concluded by December 2004.

55. The negotiations for economic partnerships between the African, Caribbean and Pacific (ACP) countries and the European Union (EU) were launched in Brussels on 27th September 2002. The aim of these negotiations is to conclude a series of trade agreements between the EU and the ACP States that will enter into force in 2008 to replace the current non-reciprocal trade arrangements. The Agreement will essentially be free trade arrangements, involving progressive phasing out of tariffs and non-tariff barriers to trade between the EU and ACP countries, as well as cooperation with respect to competition policy, protection of intellectual property rights, standardization and certification, trade and the environment, trade and labour standards and consumer protection policy.

Environment, Wildlife and Tourism

56. Mr. Speaker, an Environmental Impact Assessment (EIA) Bill will be submitted to Parliament later this calendar year. When approved, the EIA Legislation will require that proposed projects be subjected to environmental assessment before they are implemented. The intention is to protect the environment and discourage unsustainable exploitation of natural resources. Work is already ongoing to develop an overarching piece of legislation, namely an Environment Management Act, by which it is intended to coordinate the enforcement of the more than twenty-five pieces of legislation on environment and natural resources that are implemented by several Ministries. These reforms are necessary for improved competitiveness in the global village.
57. In order to develop the wildlife and tourism industry, Government has embarked on the upgrading of facilities in the National Parks and Game Reserves to improve their competitiveness regionally. Through the provision of up-to-date facilities, the country's protected areas will be brought to par with those in neighbouring countries and further afield. The tourism industry is one of the sectors where Botswana has natural comparative advantage to compete regionally and internationally. This sector's contribution to GDP is estimated to be less than 5 percent in 2001/2002. This level of performance is too low and must be improved. Training in hospitality will be increased to ensure that the overall quality of service in the tourism industry is improved to reach international standards. Meanwhile, a range of strategic marketing initiatives are being undertaken to strengthen the position of Botswana's tourism industry in the source markets of Europe, North America and South East Asia, as well as within the region. These initiatives include representation in strategic markets overseas; the use of IT in marketing; and publication of promotional material.
58. Government is also in the process of developing a community-based natural resources management policy, with a view to guiding community involvement and participation in resource use within protected areas. Meanwhile, the Game Ranching Policy, which is intended to facilitate growth of the game ranching

industry, was approved by Parliament in July 2002 and consultations on the Game Ranches Regulations will be concluded in the first half of this calendar year.

Agriculture

59. Mr. Speaker, it is important that the agricultural sector is transformed by raising productivity in order to enhance competitiveness in global markets, as well as to improve livelihoods of Batswana who are engaged in agricultural activities. In this context, the implementation unit established in the Ministry of Agriculture to oversee the implementation of NAMPAADD has started undertaking campaigns to disseminate information about NAMPAADD amongst agricultural field staff and other stakeholders, such as Councils, Land Board Authorities and farmers' associations. A study provided for under NAMPAADD will be undertaken, in the first quarter of 2003, to formulate a policy on the development of agricultural infrastructure such as roads, electricity, and telecommunications. A number of NAMPAADD pilot projects will be implemented during the coming financial year. These include a one-stop-service centre for agriculture at Barolong Farms, a horticultural cluster at Dikabeya, irrigation with treated wastewater at Glen Valley in Gaborone and a dairy demonstration project at Sunnyside Farm near Lobatse. Another important component of NAMPAADD, which will be addressed during 2003/2004, is a risk cover policy that will insure producers against production losses caused by unexpected extreme natural conditions.
60. A review of the Arable Lands Development Programme (ALDEP), alongside other agricultural subsidies, was completed in June 2002 and the report is currently being considered by Government, with a view to taking a decision by March 2003. Meanwhile, efforts are continuing to clear the backlog of applications for which down-payments have already been made, which currently stands at 1 047 applications. Since the suspension of ALDEP for new applications in 2000, pending the outcome of the review, a backlog of 16 831 applications has been cleared as at the end of December 2002.
61. Mr. Speaker, while the livestock sub-sector contributes 80 percent of the agriculture sector's GDP, its productivity indicators remain very low, especially in the communal sub-sector. This necessitated the fencing of designated communal areas into commercial ranches, with a view to increasing productivity, in line with the Agricultural Development Policy of 1991. The fencing of designated communal areas has now gained momentum after a period of extensive consultations. Since 2001, 586 ranches countrywide have been demarcated to date, of which 247 have been allocated. Of the total number of demarcated ranches, 440 are in the Central District; 56 in the North West District; 42 in the Gantsi District; 28 in Southern District; and 20 in the Kgalagadi District. In terms of allocated ranches, 171 are in the Central District; 23 in the North West District; 20 in the Gantsi District; 18 in the Southern District; and 15 in the Kgalagadi District.

62. Botswana recently achieved a geographical classification, which confirms that it is highly unlikely that domestic cattle will be infected with the mad cow disease. This favourable classification by the EU, which only Botswana, Namibia and Swaziland have achieved in Africa, was based on a number of factors, one of which was a credible demonstration that the country has clear strategies for controlling internal and trans-boundary diseases. With this classification, Botswana's beef can continue to be exported to any country in the world, provided hygienic conditions have been satisfied. This is critical for continued access to global beef markets such as the EU.
63. Mr. Speaker, preliminary indications point to another drought year in 2003. Although an Inter-Ministerial Drought Assessment Team is still to submit a comprehensive report on the situation to the Rural Development Council sometime in early March 2003, indications are that the drought situation may be deepening. Rainfall continued to be below normal in most parts of the country during this cropping season. It has been characterised by poor distribution, resulting in less hectareage ploughed and planted up to December 31, 2002. The overall hectareage ploughed up to December 31, 2002 was 14 105 hectares out of the national baseline area of 325 000 hectares. This means that only 4 percent of available land for cultivation has been ploughed as at the end of December 2002. The condition of livestock has also deteriorated as a result of poor grazing, arising from continuation of the dry spell. The situation was exacerbated by veld fires, which have burnt large areas of grazing land, particularly in the southern part of the country. In the north eastern part of the country, the situation was exacerbated by the outbreak of Foot and Mouth Disease (FMD) in the Matsiloje area, resulting in temporary closure of the Francistown and Lobatse abattoirs. Another outbreak of the Foot and Mouth Disease has been confirmed in Matopi last month, which will worsen the situation further. Government will be closely monitoring the situation during the remaining months of the rainy season with a view to implementing timely relief measures to mitigate the impact. In the meantime, Government has decided that all current drought relief programmes should continue until the end of June 2003.

Financial Services

64. Mr. Speaker, the domestic financial system continues to be modernised and automated, with a view to improving delivery of financial services, which is critical for enhancing global competitiveness. Progress was made in 2002 in the implementation of the National Payments System reform project and the National Clearance and Settlement Systems Bill was approved by Parliament. To improve the payments system, new standards for cheques and debit vouchers were introduced. This was an important element in the automation of cheque clearing through the Electronic Clearing House, linking the Bank of Botswana and commercial banks. As a result of these reforms, domestic cheques are now cleared within an average of four days, compared to the previous average of six days.

65. The banking system continues to be sound, with commercial banks maintaining prudential ratios in excess of statutory requirements. These banks continue to invest in up-to-date infrastructure to provide customers with a range of products and services, such as ATM connectivity across banks, Pula credit cards, telephone banking and internationally accepted Visa-badged debit cards. A policy on disclosure of bank charges was introduced in February 2001 to encourage greater transparency. The Bank of Botswana has continued to consult with the commercial banks, urging them to review their tariff structures, which are perceived to be high. In response, some banks have come up with various proposals; including a commitment not to increase charges during 2003; reducing some charges; and undertaking a thorough review of the tariff structure. I expect continuation of these consultations to yield positive results during the course of the next financial year.
66. The process of issuing a Pula-denominated bond is at an advanced stage, with an advisor having been appointed and working. The bond, which will alleviate the shortage of long-term domestic financial assets and help to develop and sustain the local capital market, will be issued before the end of this financial year. Once the Pula bond has been issued and a risk-free yield curve has been generated, Government will proceed with the sale of the Public Debt Service Fund (PDSF) loan portfolio during 2003, as I indicated last year.
67. Mr. Speaker, the development of Botswana as a location for the provision of cross-border financial services is a key component of Government policy to improve the country's competitiveness in global markets. The financial services sector is the most global of internationally traded businesses and the requirements for participation fit well with Botswana's strengths. These requirements include adherence to open market economic norms; and having good telecommunications infrastructure; a well-educated and trainable pool of people; a first class regulatory regime; as well as having a welcoming approach to inward investment, free from unnecessary bureaucratic obstacles. Government's investment in education, telecommunications and its longstanding commitment to prudent management of the economy have created the environment that allows us to compete as a regional and in time, a world class location in the cross-border financial services global marketplace. I am pleased to report that the IFSC Project has continued to make substantial progress, with three additional projects having been approved in 2002, while a further three are scheduled for approval early this year. This will bring the total number of projects approved under the IFSC to sixteen, compared to ten in 2001. The range of financial services that can be provided under the IFSC will be expanded by the introduction of legislation this year to enable the IFSC to become a location for the provision of reinsurance services.

Mining

68. Mr. Speaker, in view of the intense competition for investments in the mining sector in global markets, Botswana's mineral policy aims at striking a balance

between maximising economic benefits for the nation, while allowing investors to earn competitive returns. This approach to mineral policy has served the country well and will continue to be promoted. In order to maintain Botswana's global competitive edge in the mining sector, Government will minimise risk to prospective investors by improving the quality of existing baseline geological data to enable exploration companies to have a better perception of the risk involved. In this regard, Government will continue to undertake geophysical surveys in various parts of the country. These include the Chobe, Makgadikgadi and Deception Pan Blocks geological surveys, at an estimated cost of about P8.5 million during the 2003/2004 financial year. The results of these surveys are expected to improve availability of information, as well as provide a better geological understanding of the areas for both mineral and water potential.

69. The Kimberly Process Group of countries, which has been involved in developing an internationally acceptable system of certifying rough diamonds since May 2002, has finally concluded its work and implementation started on 1st January 2003. Botswana is fully participating in this certification system, with a view to *improving its competitiveness in global markets* on the basis of certified diamonds. We trust that this system will put to rest international concerns regarding trade in 'conflict diamonds'. As Government has always emphasised, Botswana diamonds are "diamonds for development".
70. Mr. Speaker, a technical review of the operations of the BCL mine, as reported in my 2002 Budget Speech, was completed in March 2002. The review identified a number of improvements, which, if implemented, have the potential to restore the BCL operations to viability, provided currently ongoing capital projects are completed. Some of the recommended initiatives include renegotiating better terms on refining contracts with Falconbridge International Limited of Norway, which refines about 60 percent of BCL matte, and the Centametall of Switzerland. In addition to production improvements, nickel prices are expected to improve, averaging around US\$3.00/lb in the medium term. In order to secure funding for the continuation of capital expenditure, Government will guarantee a Standard Chartered Bank loan to BCL amounting to P60 million to finance its short-term cash flow requirements in 2003, in lieu of emergency funding. Meanwhile, LionOre Mining International of Canada has taken some stake in BCL by purchasing 30 percent of shareholding in BRST from Anglo American Plc. BRST owns 85 percent of shareholding in BCL and, in addition to LionOre Mining International of Canada, its other shareholders are Botswana Government with 30 percent, and private individuals with 40 percent. Government and LionOre Mining International of Canada each has a further 7.5 percent of direct shareholding in BCL.

Water and Energy

71. Mr. Speaker, water tariffs affect the cost of doing business in the country and, therefore, *the competitiveness of local producers in global markets*. Similarly, potential investors are concerned about the availability of reliable and safe water for their activities. Therefore, availability of adequate, affordable and good quality water for industrial, commercial and household uses is a pre-requisite for attracting investments with the potential to *enhance Botswana's competitiveness in global markets*. In this regard, Government will continue to identify, develop and exploit available water resources in line with national development priorities, while conserving the existing resources.
72. In an effort to address acute water shortages in the country, Government has intensified water conservation campaigns, through the introduction of water saving technologies; and improvement in the proper water resources management by development of information on the availability and distribution of the water resources. Continuous monitoring and evaluation of performance of well fields and collection of quality surface water data has been intensified in order to complement ongoing efforts. Government will continue to play an active role in international water issues for the benefit of the country. Meanwhile, several projects are being undertaken in order to enable Government to discharge its responsibilities in the water sector. These include the National Water Master Plan Review study; the Tlokweng and Mogoditshane Water Supply and Sanitation projects; the Maun Water Supply and Sanitation design study; construction of a Booster Pump at Ramotswa; Serowe Emergency Water Supply; construction of a Reservoir at Tonota and Water Augmentation Works for Kanye and Molepolole.
73. Energy constitutes a significant input cost in various productive sectors of the economy. Therefore, efficient and reliable supply of energy resources will enhance competitiveness of local enterprises. In this regard, it is critical that the Botswana Power Corporation continues to provide improved service at various locations in terms of operational efficiency, reliability and affordability. Major projects to improve the reliability of electricity supplies at an estimated cost of P334.7 million are continuing in areas such as Thamaga, Kanye, Lobatse, Morupule, Francistown, Gantsi, Serowe, Palapye, and Fairgrounds in Gaborone. About P200 million will be spent on these projects during 2003/2004.
74. At the same time, BPC is undertaking a feasibility study for the expansion of the Morupule Power Station in anticipation of future shortages of power, given that surplus power for the region is projected to run out in the years 2007-2010, and that 57 percent of the country's power requirements are imported. The study will be completed by June 2003. The Coal Export Market Study, which was started in September 2002, was completed in December 2002 and Government is currently considering its recommendations. The report has concluded that, while the Botswana coal is generally similar to that of some neighbouring countries in terms

of quality and, as such, it would be acceptable in Europe, USA, Asia, Japan, India, China, and the Middle East, it is not likely to be competitive due to relatively high transport costs. The report has, therefore, recommended that capacity be developed to generate electricity from coal for export, rather than exporting coal itself. On the basis of these recommendations, another study will have to be undertaken to determine the feasibility of establishing an export power station to make a contribution to the regional power grid.

Works and Transport

75. Mr. Speaker, efficient and reliable works and transport services are critical ingredients for enhancing competitiveness by facilitating easy movement of goods and services from production centres to markets. It is pleasing to note that a number of studies undertaken during 2001 on the operations of the Department of Electrical and Mechanical Services and the Department of Architecture and Building Services have been concluded and their recommendations have mostly been taken into account in the merger of the two departments. The merged department, which will be called the Department of Building and Engineering Services (DBES), will embark on a strategy to improve coordination and efficiency in the delivery of services and projects. The new department is expected to be operational at the beginning of the 2003/2004 financial year. Government has also decided that the Build, Operate and Transfer (BOT) and Build, Own, Operate and Transfer (BOOT) methods should be used in the implementation of some infrastructure projects, particularly construction of office blocks. Meanwhile, a comprehensive plan to eliminate the maintenance backlog over a number of years has now been devised and the actual work of clearing the backlog will commence in mid-2003/2004. In a related matter, a project implementation unit has been re-established, with a provision of 32 professional posts, all of which are expected to be filled by February 2003, to enhance the capacity of the Department of Building and Engineering Services to implement projects.
76. In a land-locked country like Botswana, air transport plays a vital role in the strategic and socio-economic development of the nation, as well as in promoting the tourism industry. In this regard, Government is continuing with its efforts to improve and upgrade airports and airfields throughout the country. During 2003/2004, the Department of Civil Aviation will be restructured into an autonomous authority to enable it to cope with the rapidly changing environment in the civil aviation industry. The necessary legislation to this effect is expected to be submitted to Parliament during 2003. Meanwhile, as I mentioned before, the privatisation of Air Botswana, which was suspended in September 2001 due to the market downturn, has been resuscitated with effect from September 2002 and is expected to be concluded during 2003.
77. Mr. Speaker, the benefits to the country from road transport improvements are regrettably being eroded, in a large measure, by the high rate of road accidents,

which continue to pose a serious challenge to Government and the nation at large. The formulation of a national integrated transport policy during NDP 9 will go a long way in defining strategies and priorities in addressing this issue and other challenges facing the transport sector. The implementation of the new drivers' licences and new road signs will commence once the regulations have been amended. In view of the heavy and long-term nature of investment required for creating and maintaining the transport infrastructure, as well as resource constraints, transport user charges will be increased to augment the current low levels of cost recovery in the sector. In addition, alternative methods for financing construction and maintenance of roads, such as road tolling, will be pursued during 2003. A study will be undertaken during 2003/2004 to develop a toll-roads strategy, which will provide guidance on which roads to be tolled, as well as determine their priority during implementation and the institutional arrangements to be put in place. The study will be undertaken during the course of this calendar year.

78. At the regional level, Botswana has continued to enter into bilateral and multilateral transport agreements and protocols with other SACU and SADC Member States. These are aimed at increasing Botswana's opportunities to participate in the regional transport market, which is important for enhancing competitiveness in global markets. Participation in the establishment of the Trans-Kalahari Corridor is a strategy by Government to use transportation infrastructure as a policy lever for increasing the country's attractiveness to foreign investors and offers potential to improve international competitiveness. To this end, a draft memorandum of understanding involving Namibia, South Africa and Botswana is being finalised for signing by parties during 2003/2004. In addition to the direct benefits to be derived from the project, the Trans-Kalahari Corridor places Botswana and the SADC region in a strategic position to forge and exploit business links with the USA, within the framework of AGOA and other global trade initiatives.

Communications, Science and Technology

79. Mr. Speaker, the Ministry of Communications, Science and Technology was established in September 2002 with the responsibility to enhance research, science and technology; to step up the national capacity for information and communications technology; and to improve the quality of and the access to mass media services. These areas need to be developed urgently so that Botswana's competitiveness in global markets can be improved. As Honourable Members are aware, the core infrastructure for the information society is the telecommunications network, which will need to be modernised to handle advanced technologies, which involve systems that can handle voice, data and video on a single network. Further, the electronic communications facilities, which are important for the International Financial Services Centre and the tourism sector, must meet global standards.

80. The rural telecommunications project, which started during NDP 8, is ongoing to provide telecommunications services to 147 villages at an estimated cost of about P125 million. It is expected that this will result in about 120 000 people being connected, starting from March 2003. The conversion programme from 6 to 7 digit telephone numbers is nearing completion, with only Lobatse and Jwaneng still to be covered by this system.
81. Improvement in productivity and enhanced production techniques are a pre-requisite for improvement in competitiveness. Government will, therefore, accelerate the implementation of the Science and Technology Policy. As part of this effort, Government is in the process of developing a national research, science and technology plan to guide the implementation of the Science and Technology Policy to make Botswana a knowledge-based society and a major participant in the competitive world, following the establishment of the National Commission for Science and Technology in 2002. In addition, an information and communications technology policy and a national information and communications plan will be developed. Successful implementation of these policies, coupled with human resource development, should go a long way in assisting the economy to improve its competitiveness in the global village.

Education

82. Mr. Speaker, the quality of the education system is critical for the country to achieve competitiveness in the global economy. It is for this reason that Government continues to invest in the education sector to improve quality and access to education. To this end, the expansion programme for all senior secondary schools is continuing and is expected to be completed in 2003/2004. This expansion comprises additional classrooms, specialised rooms, extensions to kitchens, multi-purpose halls, additional staff houses, and refurbishment of existing structures. In the area of technical and vocational training, major activities include construction of the Francistown College of Technical and Vocational Education, Oodi College of Applied Arts and Technology, Tsabong and Kasane technical colleges and conversion of the former BRIDEC facilities to a modern e-learning education centre. Phase II of the brigades development project, consisting of upgrading of 9 brigades, started during 2002/2003 and will be completed during 2003/2004. Meanwhile, the Brigades have recently undergone a comprehensive evaluation, the report of which is now under consideration by Government.
83. Government will continue to develop special education, as part of the regular education system to ensure that children with special educational needs access education and training and receive quality education. Government will increase financial support to Non-Governmental Organisations, which provide special education. During NDP 9, P60 million is earmarked for projects in this area, which include procurement of equipment and construction of institutions for teaching

people with disabilities.

84. Mr. Speaker, implementation of cost recovery and cost sharing measures in the education sector continues to be important to sustain the provision of quality education. Following the completion of consultations with stakeholders last year, the Ministry of Education and my Ministry are currently working on proposals for cost recovery and cost saving measures in the education sector, which will be presented to Government during the first quarter of 2003/2004. Meanwhile, given the tight budgetary situation, Government has decided to set up a cost recovery unit in my Ministry to give undivided attention to the issue of cost recovery and cost saving throughout the public sector.

Labour and Social Issues

85. Mr. Speaker, the growth of Botswana's economy, our diverse heritage, culture and wildlife, as well as the emergence of investment opportunities, continue to attract potential investors and tourists into Botswana. In order to ensure that we remain internationally competitive for potential investors and tourists, services at border posts and labour offices need to be improved on a continuous basis. At the same time, the maintenance of cordial industrial relations remains a pre-requisite for enhanced productivity, and therefore, improved global competitiveness, prosperity and sustainable development. It is, therefore, imperative that an environment conducive for increased cooperation between workers and employers, and the speedy and amicable settlement of trade disputes be established. To this end, Government has approved a number of bills to be tabled in this Honourable House during its current session. These bills include the Trade Disputes Bill, the Trade Unions and Employers' Organisations (Amendment) Bill, and the Employment (Amendment) Bill.
86. In view of the proposed amendments to the employment legislation in Botswana, including the Trade Disputes Act, which would allow the public service to be unionised, plans are also under way to establish a court records management system to deal with the anticipated increase in the number of cases brought before the court. Furthermore, a study on the review of minimum wages will be carried out during 2003/2004 to address issues such as the adequacy and relevance of the current minimum wage rates, the employers' ability to pay the prescribed rates, and the appropriateness of the factors considered when determining the minimum wage rates.

Lands and Housing Issues

87. Mr. Speaker, the rolling-out of the Self-Help Housing Agency (SHHA) programme to the rural areas has started, with a total of P18.7 million disbursed to 1 097 people. A private financial institution will be engaged to manage SHHA loans, with effect from 2003/2004. Meanwhile, the integrated pilot poverty

alleviation and housing scheme, which was piloted in Francistown, Mahalapye and Gantsi, will be replicated to the rest of the country during 2003/2004. The scheme entails facilitating economic empowerment of poor households who do not qualify for SHHA loans by integrating income generation with shelter provision, as a strategy for poverty alleviation. It involves training the beneficiaries in the production and marketing of locally produced building materials to earn income and subsequently, in constructing their own houses using materials acquired from earned income. The project has, to date, generated over P2 million and the number of beneficiaries is 224, compared to the target number of 250 for NDP 8.

88. During 2002/2003, funds were approved to service 18 090 residential, commercial and industrial plots in all centres of the country over a period of five years to meet the shortage of serviced land, particularly in urban areas. However, there is need to acquire more land from private landowners in and around urban centers in order to meet this increased demand. A total of 146 hectares have so far been acquired in Lobatse and negotiations are ongoing to acquire about 834 hectares in Gaborone, 1 071 hectares in Selebi Phikwe and 569 hectares in Ledumadumane in the Kweneng District. All these efforts will also improve the investment climate of the country, as investors require serviced land for both production and residence.

Local Government Issues

89. Mr. Speaker, in order for Botswana to be competitive in global markets, the country has to develop good quality infrastructure to support industrial and commercial development, especially in rural areas where about half of the people reside. In this regard, Local Authorities continue to develop physical and social infrastructure in the whole country, which is one of the ingredients for stimulating further economic activity to sustain, and even improve, the current level of economic growth in the country.
90. Besides their traditional role of providing services such as potable water, health, education, and sanitation at the local level, Local Authorities are well placed to identify activities that can be undertaken through the Local Economic Development initiative, which is a programme aimed at identifying and harnessing resources and opportunities needed for stimulation of sustainable economic development. I expect that Local Authorities will, with effect from the next financial year, identify unique investment opportunities in their respective areas to lure domestic and foreign investors to their areas for sustainable employment creation and contribute to poverty reduction.
91. Mr. Speaker, the decentralisation process will be continued to strengthen Local Authorities' capacity and give them more authority to assume and execute existing and additional responsibilities more effectively during the coming financial year. This is in line with the idea of bringing services nearer to the people. Such decentralisation will require that the transfer of responsibilities to lower level tiers

of Government be accompanied by a commensurate transfer of resources and authority, as well as creation of the necessary revenue generating capacity in the Local Authorities to reduce their dependence on subventions from the Central Government.

92. Mr. Speaker, last year I indicated that the report of the Local Government Structure Commission, together with a draft White Paper, would be presented to Parliament for discussion during 2002. However, consultations took longer than expected and as such, it was not possible to bring it to this Honourable House. These consultations are nearing completion and the report, together with the draft White Paper will be tabled for discussion during the current session of Parliament.
93. Government will continue to implement cost recovery measures in Local Authorities, the rationale being to augment Government's financial capacity to provide various services throughout the country. It is along these lines that District and Township Acts are being reviewed to enable Local Authorities to set user and service charges without reference to the Minister of Local Government. This review will also include provisions aimed at revamping tendering processes and procedures for Local Authorities to be in conformity with the recently passed Public Procurement and Asset Disposal Act. In this way, Local Authorities will be directly accountable to their electorate.

Law, Justice and Security

94. Mr. Speaker, in order to improve competitiveness in global markets, it is essential that Botswana continues to be a safe and secure destination for doing business and as a corruption-free nation that can attract foreign direct investment. To this end, the Directorate on Corruption and Economic Crime (DCEC) has continued to position itself to tackle corruption and economic crime by adopting modern techniques. According to the 2002 International Corruption Perception Index, Botswana is ranked as the least corrupt country in Africa and rated the 24th least corrupt country in the world, having moved two steps upwards from the 26th position in 1999/2000. In addition, DCEC's capability is being significantly enhanced through an intensive programme of skills acquisition, in recognition of the need to support conventional investigation methods with technical and scientific innovations.
95. In response to both a global and certainly a potential national problem, the Proceeds of Serious Crimes Act was amended in 2000 to give DCEC an additional mandate to counter money laundering. On a related matter, Botswana has joined the Eastern and Southern Africa Anti-Money Laundering Group, whose aim is to combat the laundering of proceeds of serious crimes, as well as to ensure that Member States develop comprehensive national and regional anti-money laundering strategies.

V. REVIEW OF THE 2001/2002 AND 2002/2003 BUDGETS

96. Mr. Speaker, I now turn to a review of the 2001/2002 actual budget outturn and the 2002/2003 revised budget estimates, as a prelude to presenting the revenue and expenditure estimates for 2003/2004. However, before getting into the numbers, Mr. Speaker, I wish to draw Honourable Members' attention to the fact that in recent years, Government expenditure has been growing at a considerably faster rate than Government revenue. Over the five years from 1998/99 to 2002/2003, for instance, total revenue and grants have grown by 73.6 percent, while Government expenditure has grown by 124.7 percent. Little wonder, therefore, that we have seen sizeable budget deficits in three of these five years; that is in 1998/99, 2001/2002, and 2002/2003. While budget deficits once in a while may be unavoidable due to circumstances beyond our control, such as unanticipated global economic and financial crises and natural disasters, they should not be allowed to become endemic. Uncontrolled deficits would, among other things, exhaust foreign exchange reserves sooner or later, thereby worsening our vulnerability to natural disasters.

The 2001/2002 Budget Outturn

97. Mr. Speaker, the actual budget deficit for the year 2001/2002 was much worse than the revised budget forecast. Total revenues and grants amounted to P12.707 billion, against total expenditure and net lending of P13.671 billion, resulting in an overall deficit of P964 million, compared to a deficit of P85 million anticipated in the revised budget estimates. The main factors contributing to this deficit were lower mineral revenue by P467 million, due in turn to low international price of diamonds and the appreciation of the Pula against the US dollar during the first quarter of 2002. On the other hand, total expenditure and net lending of P13.671 billion were higher than the revised estimate of P13.433 billion, due to higher recurrent expenditure as a result of a large increase of P490 million in personal emoluments arising from the 20 percent salary increase in 2000, and the leave encashment policy introduced in September 2001.

The 2002/2003 Revised Budget Estimates

98. Mr. Speaker, the 2002/2003 revised budget estimates show a larger deficit than the initial budget estimates. The revised total revenues and grants for 2002/2003 are now estimated at P14.43 billion, which are lower than the original budget estimates by P985 million, or 6.4 percent. This decline is mainly accounted for by the fall in mineral revenue, which fell by P1.45 billion, from P8.49 billion, in the original budget estimates, due to low price of diamonds and the Pula appreciation against the US Dollar. Total expenditure and net lending are estimated at P16.64 billion; representing a decrease of about P390 million over the original budget estimate of P17.03 billion. While recurrent expenditure increased by P297 million on account of supplementary budgets during the year, the development

expenditure has been revised downwards from P5.19 billion to P4.50 billion on account of anticipated implementation capacity constraints. Overall, the expected budget outturn for 2002/2003 is now a deficit of P2.22 billion, compared to the original budget deficit of P1.62 billion.

VI.THE 2003/2004 BUDGET PROPOSALS

Revenues and Grants

99. Mr. Speaker, total revenues and grants for 2003/2004 are forecast at P17.54 billion, an increase of P3.11 billion, or 22 percent over the 2002/2003 revised budget estimate. Mineral revenue is estimated at P8.14 billion, which is an increase of P1.10 billion, or 16 percent over the 2002/2003 revised budget estimate. This higher estimate is largely based on planned growth in the production of diamonds, and some expected increase in diamond prices, following world economic recovery during 2003/2004. Non-mineral income taxes at P2.53 billion are forecast to increase by P278 million, or 12 percent from P2.26 billion in the 2002/2003 revised budget. Value Added Tax revenue is forecast at P2.31 billion, which is an increase of P1.02 billion, or 79 percent from the P1.29 billion in the revised budget, reflecting both the first full year of operation of VAT and general improvement in the collection of revenue, including VAT. Customs and Excise revenue is forecast to increase by P563 million, or 36 percent from P1.55 billion in 2002/2003 to P2.12 billion in 2003/2004, due to both growth in Botswana's imports and some depreciation of the Pula against the Rand.

Recurrent Expenditure

100. Mr. Speaker, of the total expenditure and net lending for the financial year 2003/2004 of P17.33 billion, 77 percent or P13.32 billion is recurrent expenditure for the general running of Government. Personal emoluments increased by P228 million, or 6 percent from P3.9 billion in the 2002/2003 revised budget estimate to P4.13 billion in 2003/2004 budget estimate.

101. The Ministry of Education, with a recurrent budget of P3.79 billion, continues to take the largest share, representing 30 percent of the total ministerial allocation. The Ministry of Local Government will take the second largest share with P2.29 billion, or 18 percent, followed by the Ministry of State President with the third largest share of P1.66 billion, or 13 percent. Other Ministries with significant shares are the Ministry of Health, with 7 percent; the Ministry of Works and Transport, with 6 percent; and the Ministry of Finance and Development Planning, with 5 percent. The remaining 21 percent of the recurrent budget is distributed among the remaining Ministries.

Development Expenditure

102. Mr. Speaker, I now present the development budget for 2003/2004. The proposed development budget for the year is P4.4 billion; of which P4.3 billion, or 97 percent, is for normal development projects; P107.7 million, or 2.4 percent, is for implementation of the development programme of parastatals and autonomous organisations; and P47.7 million, or 1.1 percent, is for completion of drought-related activities carried over from the preceding year. This budget is marginally lower than the 2002/2003 revised development budget of P4.5 billion. Given financial constraints arising from the unfavourable world economic situation and the already high recurrent budget, it is Government's intention to give priority to the completion of ongoing projects brought forward from NDP 8 before embarking on new ones.
103. The Ministry of State President has been allocated the largest share of P802 million, or 18.1 percent of the total development budget. Funding in this Ministry will mainly go to three major projects; namely the Botswana Defence Force with P415 million, the bulk of which is for ongoing projects on housing and replacement of equipment; the HIV/AIDS Programme with P183 million; and New Police Facilities with P145 million.
104. The second largest share of the development budget amounting to P730 million, or 16 percent, goes to the Ministry of Local Government. Two major projects that will be implemented under this Ministry are the Village Water Supply and Sewerage with P227 million, and Primary Schools with P208 million, together accounting for 60 percent of this Ministry's allocation. Other projects with significant amounts are Local Authorities Infrastructure Maintenance with P60 million, Labour Intensive Public Works with P41 million, Primary Health Facilities with P29 million, Computerisation with P27 million, Village Infrastructure with P25 million and Rural Administration Centres with P23 million.
105. Mr. Speaker, the Ministry of Works and Transport is allocated the third largest share of P548 million, or 12 percent of the total development budget. Two projects, which account for more than 74 percent of this Ministry's allocation, are Bitumen and Trunk Roads Improvements with P284 million and Secondary Roads Construction with P122 million. Some of the other projects that account for the balance are Government Infrastructure Improvements with P53 million, Bridge Construction, and Transport Control & Road Safety, with P30 million allocated to each project.
106. The fourth largest share of P450 million, or 10 percent, goes to the Ministry of Minerals, Energy and Water Resources, of which, more than half, amounting to P263 million, is allocated to one major project; namely Major Villages Water Supply and Development. Other projects with significant amounts under this

Ministry are Renewable Energy and Power Development with P64 million, the Ministry of Minerals, Energy and Water Resources' Facilities with P33 million and Water Planning and Development with P26 million.

107. The Ministry of Health has been allocated P406 million, or 9 percent of the total development budget. The Improvements to Hospitals project takes P378 million, or 93 percent, in a bid to undertake the long overdue upgrading to hospitals around the country. The Institutes of Health Sciences project is allocated P19 million. These two projects together constitute 98 percent of the Ministry's overall budget.
108. Mr. Speaker, the Ministry of Lands and Housing is allocated P360 million, or 8 percent of the total development budget to implement eight projects. An aggregate amount of P298 million, or 83 percent of this Ministry's budget, is required for three projects, which are Government Office Blocks with P188 million, SHHA Development with P60 million and District Housing with P50 million. The remaining P62 million of the Ministry's budgetary allocation will be shared among; Computerisation, Fleet Expansion, Botswana Housing Corporation Finances, Land Boards Development and Land Management projects.
109. The Ministry of Education is allocated P327 million, or 7 percent of the total development budget. Four projects, which account for P273 million, or 83 percent are Secondary Schools with P100 million, Colleges of Education with P83 million, Tertiary Institutions with P58 million and Brigades Development with P32 million.
110. The remaining P806 million, or 18 percent of the total development budget, is shared among the Ministry of Agriculture with P187 million, the Ministry of Environment, Wildlife and Tourism with P179 million, the Ministry of Communications, Science and Technology with P144 million, the Ministry of Labour and Home Affairs with P100 million, the Ministry of Trade and Industry with P74 million, Administration of Justice with P43 million, the Ministry of Finance and Development Planning with P35 million, Parliament with P34 million, and the Ministry of Foreign Affairs and International Cooperation with P10 million.

Overall Balance

111. Mr. Speaker, on the basis of the 2003/2004 budget proposals, with total revenues and grants of P17.54 billion and total expenditures and net lending of P17.33 billion, the overall balance is a forecast balanced budget, with a small contingency surplus of P206 million. This budget surplus, together with other net financing transactions, will result in a decrease in Government cash balances amounting to P4.1 billion, due mainly to the transfer of P4.0 billion to the Botswana Public Officers Pension Fund.

Public Service Salaries

112. Mr. Speaker, the National Employment, Manpower and Incomes Council (NEMIC) met on 24th January 2003 to consider the issue of public service salaries adjustment. While noting the budgetary constraints, the Council recommended that public service salaries be adjusted by 5 percent for 2003/2004 to compensate them partly for erosion by inflation. However, after careful consideration, Government has decided not to award any public service salaries adjustment because of the tight budgetary situation.

VII. FISCAL LEGISLATION

113. Mr. Speaker, I wish to indicate that the implementation of VAT, which commenced in July 2002, has been successful. We now have more than 8 300 enterprises registered for VAT, a number significantly more than was under the Sales Tax system. While the VAT system is still in its infancy, indications are that collections and compliance are progressing satisfactorily. The business community has generally adapted well to the new filing and record keeping requirements of the VAT system. Government has been giving particular attention to developing capacity in VAT auditing and investigations work to ensure full compliance with the law. Taxpayers should be fully aware that, with a much-enhanced VAT administration capacity, non-compliance cases will receive immediate attention and prescribed penalties imposed.
114. I will table an amendment to the Transfer Duty Act during the current meeting of Parliament, whose objective will be to waive or reduce the 5 percent duty where VAT is payable. Once this is enacted, anybody who has had to pay both taxes on a property transaction can apply for a refund of the transfer duty paid. This dispensation will be effective from 1st July 2002.
115. Mr. Speaker, the process of reforming the tax administration is a continuous undertaking. This process is important for enhancing the country's international competitiveness and improving revenue collection. To this end, I am glad to report that the project to establish a unified revenue service to take over the functions currently performed by the Department of Taxes and the Department of Customs & Excise has progressed to a stage of preparing draft legislation for tabling in this Honourable House later this year. In addition, I propose to table an Income Tax (Amendment) Bill, with a view to easing tax administration, improving compliance and collections, as well as closing loopholes in the current Act.
116. It is proposed that the scope of withholding taxes be extended to rental income of immovable property and interest income received by residents. Under the current arrangement, there is no withholding tax on rental income, while withholding tax on interest income is applied only to non-residents at the rate of 15 percent. Botswana residents are required to declare their rental and interest income in their regular returns for assessment purposes, but some fail to do so. According

to this proposal, all persons, other than individuals, paying rent to any person, shall be required to deduct withholding tax from the amount of the rent at a rate of 10 percent. In the case of interest income, interest receipts will be subject to 15 percent withholding tax. However, to encourage savings by small investors, the withholding tax will apply to interest payable to individuals in excess of P500 per month or P6 000 in a year, which compares to the current interest income threshold of P2 500 per year.

117. Mr. Speaker, at present, any domestic company declaring dividend to its shareholders is required by law to deduct as withholding tax, an amount equal to 15 percent of the dividend paid. An exception to this rule was made in the case of inter-corporate dividends paid to another domestic company which holds at least 20 percent of the equity shares in the dividend-paying company. Such companies are known as associated companies. An associated company is not required to withhold tax when paying dividend to another associated company. Withholding tax on dividends received by such companies is deferred until they ultimately pay out the dividend to a shareholder who is not an associated company. I now propose to amend the law to subject all dividends to the 15 percent withholding tax. Any further distribution made out of dividends that would already have suffered withholding tax will continue to be free from any further tax.

118. Currently, under the Income Tax Act, the Commissioner of Taxes can write off taxes payable by any person up to a limit of P5 000, while amounts in excess of P5 000 can only be written off by the Minister. Considering the growth of the economy, the effects of inflation and the increase in outstanding tax liabilities, it is proposed to increase the Commissioner's limit to P25 000. To ensure transparency and accountability that all amounts are written off only where taxes are uncollectable, the Commissioner will be required to seek approval of the Accounting Officer of my Ministry before remissions can be made.

119. Mr. Speaker, under the current legislation, the Commissioner of Taxes may allow deduction for bad debts actually written off in the books of accounts and at the Commissioner's discretion, any reasonable amount provided towards doubtful debts. Assets of banks and financial institutions are mostly made up of large amounts of advances, and the recovery of some of the assets may be doubtful, but cannot be written off as bad debts. These advances, referred to as non-performing assets, are a burden on such banks and financial institutions. It is, therefore, proposed that the law be amended to allow banks and financial institutions to deduct up to a prescribed percentage of these advances, for which provision has been made in the accounts towards bad and doubtful debts.

120. Under the existing law, public officers of companies are accountable for meeting all income tax obligations and are subject to the same penalties as the company itself for failure to comply. This is not sufficient to deal with situations where shareholders dispose off company assets, or companies are liquidated,

leaving little or nothing for the public officer to pay taxes due. I, therefore, propose to amend the law to make directors of companies, jointly or severally liable for taxes due, in respect of any income of any previous year when they had been directors, where they have been grossly negligent or have not made adequate arrangements to ensure that the company's tax liabilities are properly discharged. Mr. Speaker, another matter that needs amendment is that a taxpayer, who fails to file a tax return within a specified period, is liable to a penalty of only P500. To enhance the enforcement provisions and compliance with the Income Tax Act, it is proposed that the P500 penalty be increased to P2 000.

121. The Income Tax law currently requires that 3 percent be withheld on payments made for all construction-related activities. It is proposed to amend the Act to make it clear that this 3 percent withholding tax will not apply to payments made under separate contracts for construction-related services, such as design, engineering and surveying work. The 3 percent withholding tax, which I announced in the 2001 Budget Speech, was meant to apply only to construction companies and not to other construction-related activities.
122. Mr. Speaker, although the law currently allows a taxpayer to object to an assessment made by the Commissioner of Taxes, it does not consider the fact that the taxpayer who objects may have outstanding tax that is in arrears. In order to ensure that taxes due on admitted income are paid by the taxpayer before filing objection to the notice of assessment, it is proposed to provide in the law that an objection to an assessment will only be considered when taxes due on undisputed income of the taxpayer will have been paid.
123. Mr. Speaker, the Finance and Audit Act was last reviewed in 1997 to accommodate changes that had taken place in the Public Service and the economy generally since its enactment. The review was very limited in scope as it was essentially focused on the removal of those sections of the Act that were considered redundant. In this regard, Government will undertake a comprehensive review of the Finance and Audit Act during 2003/2004, primarily with a view to enacting two separate pieces of legislation; one pertaining to audit functions and the other to financial management. Another major objective of the review will be to decentralise some accounting functions to Ministries for purposes of improved service delivery, financial management and accountability. Financial Instructions and Procedures, which provide operational guidance on financial controls and management, has been reviewed from time to time, albeit on piecemeal basis. For example, the Financial Instruction Section dealing with virements of funds between different sub-heads was amended early this year to decentralise the function of virement from the Permanent Secretary, Ministry of Finance and Development Planning to other accounting officers. In pursuance of improved service delivery and accountability at Ministry level, my Ministry instituted a detailed review of Financial Instructions and Procedures at the beginning of this financial year. The exercise is scheduled for completion by the end of next month.

124. Mr. Speaker, another piece of legislation that will be reviewed in the coming financial year is the Accountants Act, which was enacted in 1988. This Act needs to be aligned with changes that have taken place in the accounting profession worldwide and to evolving ethics on corporate governance.

VIII. CONCLUSION

125. Mr. Speaker, the 2003/2004 budget is the first installment of the implementation of the Ninth Development Plan which, in turn, is the first of the national development plans to take the principles and goals of Vision 2016 as a starting point. The goals set for the nation in the Vision document are highly ambitious, as they should be; for visions are no visions if they do not approximate to what is ideally desirable. The Vision strategy calls upon Botswana to work harder and aim at the highest targets. At the same time, it stresses the need for flexibility and pragmatism to meet the changing circumstances. Above all, it stresses the need for the Vision to be embraced and promoted by all, if it is to become a reality.
126. On the economic front, the Vision document is loud and clear on the need for enhanced global competitiveness, which is the theme of this Budget statement. It states that “in the world of tomorrow, we must compete with the best”. One crucial requirement for enhanced competitiveness is higher productivity, which will call for investment in human resource development, as well as in physical capital formation, including technology and infrastructure; institutional reform such as privatisation; and the development of ‘smart partnership’ between the private and the public sectors. Another crucial requirement is holding the rate of inflation at or below the average level of inflation in trading partner countries, by maintaining macroeconomic balance and ensuring that pay increases are linked to growth in productivity. Mr. Speaker, all the macroeconomic and sectoral policies I have talked about today are focused on one or the other of these two crucial requirements for enhanced competitiveness.
127. Mr. Speaker, let me dwell for a further minute or two on the issue of macroeconomic balance. In budgetary terms, it translates into the requirement of a balanced budget, which is what I have presented today. I must hasten to add, however, that it is a precarious balance. There are uncertainties attached to the estimates of revenue. This applies to several heads of revenue; to estimates of mineral revenue, in view of the continuing uncertainty about global economic recovery; to revenue from the VAT, in view of it being a new tax; and to revenue from cost recovery, in view of possible delay in the implementation of appropriate measures. On the expenditure side, the cost of the drought relief programmes beyond June 2003 is still to be determined, which may turn out to be large. Many other unanticipated expenditure commitments may arise in the course of the year. If they do and if there are shortfalls in revenue, we shall have to adjust expenditure

on the development programme and/or look for more revenue, either by raising existing tax rates and fees, or by extending coverage of various taxes and charges, including cost saving and cost recovery.

128. Although I have been talking about limiting expenditure and raising revenue, Honourable Members must appreciate that the budget I have presented today makes substantial provisions for development, as well as recurrent expenditure, both of which exceed significantly the allocations made in the ninth National Development Plan for the financial year 2003/2004. Productive utilisation of these budget allocations will undoubtedly take the nation's development a few notches forward, underpinning sustained income and employment generation across all sectors of the economy.
129. Before concluding, I must thank all our development cooperating partners for having assisted us in the implementation of different development programmes. We still need their support and we are concerned that some of them have reduced their assistance before our economy is fully diversified and we have overcome major challenges such as the HIV/AIDS pandemic.
130. Mr. Speaker, this concludes my Speech on the Budget proposals for 2003/2004. I, therefore, move that the **Appropriation (2003/2004) Bill, 2003** be read for the second time.