

Table of Contents

I. INTRODUCTION	1
II. INTERNATIONAL ECONOMIC REVIEW	3
III. DOMESTIC ECONOMIC REVIEW.....	4
Economic Growth	4
Employment.....	4
Inflation and Monetary Issues	4
Exchange Rates and the Balance of Payments.....	4
Rural Development and Poverty Alleviation	5
Public Enterprises	6
Public Procurement and Asset Disposal	7
Domestic Economic Outlook for 2003/2004 and 2004/2005.....	8
IV. SECTORAL AND POLICY REVIEWS	8
Financial Services	8
Health and HIV/AIDS.....	9
Trade and Investment Promotion.....	10
Environment, Wildlife and Tourism.....	11
Agriculture.....	12
Minerals.....	12
Water	13
Works and Transport.....	13
Information and Communications Technology	14
Education.....	14
Lands and Housing	15
Local Authorities.....	15
Public Service Management.....	16
V. 2002/2003 BUDGET OUTTURN AND 2003/2004 BUDGET ESTIMATES...	16
VI. 2004/2005 BUDGET PROPOSALS.....	17
Revenue and Grants.....	17
Total Expenditure.....	17
Recurrent Expenditure.....	18
Development Expenditure.....	18
Overall Expenditure.....	20
Public Service Salaries.....	20
VII. FISCAL LEGISLATION.....	20
VIII. CONCLUSION.....	23

I. INTRODUCTION

1. Mr. Speaker, I have the honour this afternoon to present to this Honourable House budget proposals for the financial year 2004/2005.
2. The theme for this year's Budget Speech is "**Improving Economic Performance: A Vehicle for Sustainable and Diversified Development**," which is derived from that of the ninth National Development Plan (NDP 9). The choice of this theme is an illustration that our annual budgets are made within the context of the National Development Plans, in the medium term, and indeed, the long term planning framework of Vision 2016. One of the most critical challenges in attaining the objectives of NDP 9, Vision 2016 and the United Nations' Millennium Development Goals is simply to improve economic performance.
3. Mr. Speaker, as this is the last budget to be considered by the present Parliament, it is worth reviewing, briefly, economic progress achieved since this Parliament was elected in 1999. Real GDP growth has averaged over 6 percent per annum. Government's budget has also grown. Expenditure and net lending was P 9.1 billion or 42 percent of GDP in 1998/99 financial year, and the revised estimate for 2003/2004 is P16.20 billion, which is 44 percent of GDP. Government has been able to expand the physical and social infrastructure, such as roads, schools, water, sanitation, and health services, while maintaining social safety nets for the more vulnerable members of our society. The forthcoming Parliament will, therefore, have a solid base on which to propel the socio-economic development of Botswana to greater heights. NDP 9 envisions a continued enhancement and renewal of the facilities and services provided by Government. However, achievement of the goals of NDP 9 will be dependent on the ongoing success of the economy. It is for this reason that we must focus on **improving economic performance**.
4. NDP 9 contains financial and manpower ceilings allocated to Ministries over the Plan period, 2003/2004 to 2008/2009. These are derived from the projected revenues, which, in turn, rest on expectations about the performance of the economy over the Plan period. If the performance of the economy does not meet those expectations, then the financial and manpower allocations to Ministries in the Plan cannot be made available. It is, therefore, imperative that all stakeholders, from both the public and private sectors should contribute meaningfully towards improved performance of the economy.
5. Mr. Speaker, improved economic performance need not only come from increasing Government spending. Many improvements in productivity can come from actions as simple as removing bottlenecks that affect the day-to-day lives of Batswana and devising low cost ways to do so. Other improvements in productivity can come from a careful cost-benefit analysis of every development project in the Plan to ensure that those projects and programmes that will add value to the economy are given priority. Government continues to undertake productivity improvement measures in the public sector. The application of the Performance Management System (PMS), the introduction of decentralisation and computerisation of the personnel management system, are some of the reforms aimed at enhancing performance and improving productivity within the public service.

6. A similar focus on improving economic performance is also required for the parastatal sector. To this end, the over-riding goal of the Privatisation Policy for Botswana is efficiency enhancement of public enterprises. In addition, the review of the Revised National Policy on Incomes, Employment, Prices and Profits of 1990, which was launched in November 2003, will also contribute towards formulation of a strategy for improved performance of the parastatal sector, and hence the whole economy.
7. Mr. Speaker, another avenue for improving Botswana's economic performance is increased integration with the international economy. The renegotiated Southern African Customs Union Agreement (SACUA), and the ratification of the Southern African Development Community (SADC) Trade Protocol are intended to achieve this at the regional level. Access to major international markets enables Botswana producers to achieve economies of scale that are simply not possible in our small domestic market. The opportunities provided under international trade arrangements that are already in place are significant for the domestic exporters. These include the African Growth and Opportunities Act (AGOA) of the USA and the Cotonou Agreement between the European Union (EU) and the African, Caribbean and Pacific (ACP) countries. But, these arrangements are time limited. For this reason, Botswana is actively participating in negotiations aimed at achieving permanent access to major international markets through the proposed SACU-USA free trade agreement and a new regional Economic Partnership Agreement (EPA) with the EU.
8. Mr. Speaker, Government successfully floated a series of medium and long term domestic bonds during 2003, with a view to developing the domestic capital market. These bonds will be listed on the Botswana Stock Exchange during the first half of 2004. In addition, the Public Debt Service Fund (PDSF) loan book is being sold to the private sector, also as part of Government's effort to develop the capital market. In future, parastatals will be expected to source some of their funds from the capital market. A further major step in the development of the domestic financial market is that Government will consider, during 2004, the feasibility of establishing a financial services regulatory authority to regulate and oversee non-bank financial institutions, in view of the phenomenal growth of this sector over the past few years.
9. It is pleasing, Mr. Speaker, to note that sovereign credit ratings continue to place Botswana ahead of many developing countries, which reflect 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 ratings enhance Botswana's international stature and ability to attract foreign capital to support the process of economic development. It is, therefore, important that these ratings are maintained by improving economic performance and maintaining prudent economic management.
10. Mr. Speaker, our continued economic performance depends on the productivity of the factors of production, including labour. Yet the HIV/AIDS pandemic and the carnage on our roads do not only threaten the productivity of this important factor of production, but also its existence. It is vital, therefore, that measures continue to be implemented to ensure that the HIV/AIDS pandemic and road accidents do not compromise the country's effort to achieve improved performance. In order to ensure that Botswana of the next generation are offered the same opportunities that are open to the current generation, it is essential to focus on this fundamental challenge.

II. INTERNATIONAL ECONOMIC REVIEW

11. Mr. Speaker, according to the International Monetary Fund (IMF) projections, the world economy is expected to have grown by 3.2 percent in 2003, compared to 3.0 percent in 2002, indicating a marginal recovery. The recovery in the advanced economies will continue to be led by the United States, whose output is expected to have grown by 2.6 percent in 2003, from 2.4 percent in 2002. In Japan, output growth is expected to have grown from 0.2 percent in 2002 to 2.0 percent in 2003. The European Union is estimated to have recorded 0.5 percent growth rate in 2003, down from 0.9 percent in 2002. The growth rate in developing countries is also expected to have increased from 4.6 percent in 2002 to 5.0 percent in 2003. Africa is projected to have grown by 3.7 percent in 2003, from 3.1 percent registered in 2002. The expected positive performance on the African economy was due to improved macroeconomic policies, rising commodity prices and debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative of the World Bank and the International Monetary Fund.
12. The world economy is expected to recover further by registering 4.1 percent in 2004; with the US economy growing at 3.9 percent, the European Union at 1.9 percent, and the Japanese economy at 1.4 percent. Developing countries, on the other hand, are expected to register a growth rate of 5.6 percent in 2004, while Africa is forecast to grow at 4.8 percent, which is still below the 7 percent required for achieving the United Nations' Millennium Development Goals (MDGs) and the New Partnership for Africa's Development (NEPAD).
13. Mr. Speaker, a number of countries in the SADC region continue to undertake reforms aimed at ensuring higher economic growth in order to reduce poverty and achieve sustainable development through regional integration. A SADC Regional Indicative Strategic Development Plan (RISDP) was approved in 2003, which identifies a number of areas for intervention in the next 10 to 15 years. These include such areas as Poverty Eradication; Combating the HIV and AIDS pandemic; Gender Equality and Development; Science, Research and Technology; Information Communication and Technology. The programme will provide strategic direction to SADC activities and operationalise the Organisation's Common Agenda.
14. The regional food security situation for 2003/04 has improved compared to the previous year due to improved rainfall received in a number of SADC countries. However, the SADC region continues to suffer from low agricultural productivity, as well as continued vulnerability to drought. The number of people needing food assistance in the region is estimated to have reached 7.0 million by January 2004. Cereal supply projections show a combined all-cereals deficit of 5.42 million tonnes for the 2002/2003 marketing year, against a smaller deficit of 2.70 million tonnes estimated for 2001/2002 marketing year. To address this problem, SADC has developed a strategic plan to boost food production and promote access to food through trade and increased investment by member states for longer-term development.

III. DOMESTIC ECONOMIC REVIEW

15. Mr. Speaker, I shall now briefly outline some of the major economic developments in the domestic economy, while a detailed discussion is presented in the 2004 Annual Economic Report, which should be read together with this Budget Speech for a detailed coverage of some of the issues.

Economic Growth

16. Mr. Speaker, the Gross Domestic Product (GDP), in current prices, is estimated to have grown by 13.8 percent from P32.0 billion in 2001/02 to P36.3 billion in 2002/03. In constant 1993/94 prices, real GDP was estimated to have grown by 6.7 percent in 2002/03. This is a major improvement when compared to the growth rate of 2.5 percent, which was recorded during the previous year. Some of the factors that have contributed to this increase in real GDP include an increase in mining output by 10.4 percent, with the non-mining sectors as a whole registering a real growth rate of 4.8 percent in 2002/03. Agriculture, which had experienced a 2.5 percent fall in output during 2001/02, due to the impact of Foot and Mouth Disease, resumed growth in 2002/03, and had a positive growth in output of 1.9 percent, despite continuing drought.

Employment

17. Mr. Speaker, employment has been growing. About 15,000 formal sector jobs were added from 2001 to 2003. While this is a substantial number, representing a growth rate of 2.7% per annum, the labour force has also been growing. This places a special importance on Government's efforts to continue the diversification of the economy. Specific efforts by public enterprises, such as the Botswana Development Corporation (BDC), Botswana Export Development and Investment Agency (BEDIA), as well as the Citizen Entrepreneurship Development Agency (CEDA) are important elements of this strategy. We anticipate that the results of the 2002/2003 Household Income and Expenditure Survey will be published during the first half of this year, which will enable us to examine in detail both formal and informal sector employment, as well as progress in poverty alleviation.

Inflation and Monetary Issues

18. Mr. Speaker, inflationary pressures eased during 2003. The objective set by the Bank of Botswana of inflation in the range of 4 percent to 6 percent was very nearly achieved, as the twelve month increase in the consumer price index to December 2003 was 6.4 percent. The objective of low inflation, maintenance of positive real interest rates and international competitiveness are the means by which monetary policy contributes to the broader national objective of improving economic performance and achieving sustainable and diversified development. With the lower inflation rates recorded during the second half of 2003, the Bank Rate was reduced by a total of 1 percent during the year.

Exchange Rates and the Balance of Payments

19. Mr. Speaker, Botswana's exchange rate policy is aimed at maintaining a stable and competitive real effective exchange rate, which is necessary for achieving sustainable and diversified development. During 2003 the Pula appreciated against the major international currencies. It appreciated by 13 percent against the SDR; by 23 percent against the US

dollar and 11 percent against the British Pound. Over the same period the Pula depreciated by 6 percent against the South African Rand. The real exchange rate of the Pula appreciated against both the SDR and the US dollar, but remained unchanged against the Rand. Overall, higher inflation in Botswana compared to her trading partner countries, meant that the real effective exchange rate of the Pula appreciated by about 6 percent during 2003, which indicates some loss of competitiveness. With the prospect of relatively low inflation in 2004, it is expected that there should be no further appreciation of the real effective exchange rate.

20. Mr. Speaker, preliminary estimates for the 2003 balance of payments show an overall surplus of about P1.0 billion, compared to a revised surplus of P0.3 billion in 2002. A much higher current account surplus of P3.8 billion, up from P1.1 billion the previous year, was offset by a widening deficit on the financial account. The financial account deficit reflected the outflows of portfolio investment due to the expanding external portfolios of local pension funds.. The financial account deficit, in turn, is reflected in the foreign exchange reserves. At the end of December 2003 the foreign exchange reserves stood at US\$5.3 billion (SDR 3.6 billion), a decline of 5 percent from November 2002. In Pula terms, the reserves amounted to about P24 billion, which provided 26 months of import cover.

Rural Development and Poverty Alleviation

21. Mr. Speaker, Government's commitment to improving living conditions in rural areas remains unchanged. Through the sectoral programmes of the various Ministries, Government, not only seeks to improve social conditions in rural areas, but also to improve the performance of the rural economy for sustained development. Following the adoption of a comprehensive implementation plan for the Revised National Policy for Rural Development, Ministries have developed specific Action Plans to guide implementation of the Policy in their sectors. A consolidated action programme based on sectoral feedback and a reporting schedule has been produced, which constitutes a primary instrument for monitoring implementation of the Policy by the Rural Development Council.
22. Mr. Speaker, the National Strategy for Poverty Reduction of 2003 should help to guide, harmonise and coordinate the various sectoral and other initiatives aimed at fighting poverty. The strategy is also intended to give impetus to some of the ongoing anti-poverty initiatives with a view to translating Vision 2016 aspirations into reality. To ensure implementation of the Strategy, a multi-sectoral Committee on Poverty Reduction, with representation from both within and outside Government, has been established. The Committee is expected to develop a comprehensive action plan on the implementation of the various programmes of the Strategy during 2004 and to furnish comprehensive progress reports to Cabinet in June and December 2004.
23. Botswana remains susceptible to adverse climatic conditions which periodically result in poor harvests and grazing pastures. An inter-ministerial technical team, which started its countrywide drought assessment in the latter part of January 2004, is expected to complete its task sometime this month and to present a comprehensive report to the Rural Development Council in early March 2004. In the meantime, Government will continue with human relief components of the drought relief programme up to the end of June 2004, pending the review of the drought situation. However, I wish to urge Botswana to take

advantage of the rains we have so far received to improve their economic self-reliance rather than to look forward to the continuation of the Drought Relief Programmes, which are only meant to provide temporary relief during most difficult times.

Public Enterprises

24. Mr. Speaker, operational efficiency and productivity improvement of public enterprises are critical in order to improve economic performance and ensure sustainable development. In this connection, the Public Enterprises Evaluation and Privatisation Agency (PEEPA) has drafted a Privatisation Master Plan which will provide a concrete basis for implementation of different privatisation-related activities in an orderly fashion. The Plan is expected to be ready before the end of this financial year (2003/04). As part of the preparations for implementation of the Privatisation Master Plan, PEEPA will be carrying out extensive diagnostic reviews covering the performance of public enterprises. The Agency is also currently finalizing the terms of reference for a feasibility study for the possible merger and privatisation of the National Development Bank and the Botswana Savings Bank.
25. Mr. Speaker, financial performance of the majority of public enterprises was satisfactory for the year 2002/2003, though there is ample scope for improvement. The Botswana Telecommunications Authority (BTA), the Botswana Power Corporation (BPC), Water Utilities Corporation (WUC), the Botswana Development Corporation (BDC), National Development Bank (NDB), the Botswana Vaccine Institute (BVI), Air Botswana (AB), the Botswana Housing Corporation (BHC), the Botswana Savings Bank (BSB) and Banyana have all recorded operating, as well as net profits for the year 2002/2003. With exception of BSB and Banyana, these enterprises have also made significant returns on capital employed. The range of rates of return they have earned on average capital employed is 5.3 percent, in case of BHC to 15.8 percent in the case of the BVI. BPC and WUC have earned rates of return on capital employed of 6.71 percent and 9.82 percent, respectively, for the year. BDC and NDB, which are financial enterprises, have recorded rates of return of 6.84 percent and 13.3 percent, respectively.
26. However, the Botswana Telecommunications Corporation (BTC), the Botswana Railways (BR), the Botswana Meat Commission (BMC), Botswana Post (BP), and the Botswana Agricultural Marketing Board (BAMB) made losses in 2002/2003. Lack of sufficient sale volumes to break even is the principal reason for their losses. These enterprises have recorded net losses ranging from P1.6 million, in the case of BAMB, to P39 million in the case of BTC. Nonetheless, I am optimistic about the future of all these enterprises, as Government is determined to take all possible steps to transform them to the extent possible under the ongoing public sector reform initiatives. In this regard, it is encouraging that BTC is now turning round, recording profit amounting to P35 million for the first six months of the 2003/2004 financial year.
27. Mr. Speaker, Air Botswana's privatisation process is still not completed. Government is currently exploring options for the way forward following the withdrawal of the two strategic partners who had initially shown interest in the airline's privatisation. I wish to reiterate that the interest of the nation will be kept as top priority when taking decisions relating to the airline's privatisation.

28. Mr. Speaker, the restructuring of the Botswana Telecommunications Corporation (BTC), which started in 2002, is expected to ensure that Botswana provides an excellent national and international telecommunications service, which is vital for inward investment. To this end, BTC is pursuing an international connectivity project whereby links will be established with submarine fibre systems on the East and West coast of Africa. Provision of these links, together with the national transmission rings currently being built, will facilitate the promotion of Botswana as a telecommunications hub in the region. This initiative will mean that the demands of the International Financial Services Centre (IFSC) projects will be satisfied and will facilitate investment in areas, such as information based services, web hosting, data centres, call centres, global financial services and software research and development.
29. Mr. Speaker, the performance of the Botswana Meat Commission (BMC) was adversely affected by severe droughts and outbreak of the Foot and Mouth Disease (FMD) during 2003, which led to the temporary closure of the Francistown abattoir. Government extended tax relief to the BMC amounting to P12.3 million for the 2003/04 fiscal year on account of these losses.
30. Mr. Speaker, since its inception in 2001, the Citizen Entrepreneurial Development Agency (CEDA) approved a total of 1 053 applications, valued at about P592 million, as at end of December 2003, which were expected to create over 9000 jobs throughout the country, when fully operational. An important element of CEDA is its mentoring programme which has not performed satisfactorily due to the difficulty of identifying industry specialists to mentor projects. Needless to say, Mr. Speaker, that the success of CEDA funded projects requires the commitment of project promoters who are fully involved in the daily running of their businesses. In addition, the CEDA Venture Capital Fund was launched in September 2003. So far, applications with an estimated total value of P115 million have been received and are still being processed. Other developments under CEDA during 2003, include the taking over of the monitoring of FAP small-scale projects from Government and the review of the Credit Guarantee Scheme (CGS). The revised guidelines for the new Scheme include an increased upper loan limit of P2 million from P250 000; an increased guarantee cover to the banks of 75 percent, from 60 percent of the net loss; a reduced maximum interest rate of prime plus 2. The value of security required by the banks will be subject to negotiation between the borrower and the lender. Under the scheme funds are provided by the participating banks who will also be responsible for appraising such projects.

Public Procurement and Asset Disposal

31. Mr. Speaker, one of the key policy objectives of the Public Procurement and Asset Disposal Board (PPADB), since its inception over a year ago, has been the enhancement of operational efficiency in the public procurement system. A significant development during the year in the area of Public Procurement and Asset Disposal was the establishment of the Advisory Committee and the Independent Complaints Review Committee in accordance with the requirements of the Public Procurement and Asset Disposal Act. The primary function of the Advisory Committee is to advise my ministry on any deficiencies or shortcomings pertaining to the operations of the Board, while the Complaints Review Committee's main function is to review PPADB decisions subject to challenge by contractors, procuring entities and other stakeholders. It is my hope that aggrieved parties will make maximum use of this enhanced dispute settlement mechanism.

32. The PPADB has also established decentralised decision making institutions to enable quicker and on the spot decisions. These include Ministerial Tender Committees, and District Administration Tender Committees. About 75 percent of Ministerial Tender Committees were established by the 1st January, 2004. These have been given an operational ceiling of P200 000 per procurement transaction, within which they can evaluate, adjudicate and award tenders. It is anticipated that the District Tender Committees will be established in June, 2004. Meanwhile, the PPADB has, with effect from 1st December 2003, started publishing its decisions concerning awarded tenders, pre-qualification lists and newly registered contractors, a measure which should go a long way towards enhancing public confidence in the operations of the Board.

Domestic Economic Outlook for 2003/2004 and 2004/2005

33. Mr. Speaker, following the relatively good performance in 2002/2003, the economy is expected to follow world trends, as the global economy recovers from the economic slowdown. Real GDP growth is projected at just over 5 percent, each, in 2003/2004 and 2004/2005, which is in line with what is projected in the NDP 9. Beyond 2004/2005, growth will depend largely on our success in enhancing the performance of the non-mining sectors, which are key to our ongoing efforts to diversify the economy. If we are able to maintain competitive edge through prudent fiscal and monetary policies, coupled with efficiency enhancement in the economy, we can reasonably expect real growth of the non-mining sectors to continue, which is vital to prospects for expanding employment, as the mining sector is not labour-intensive.

IV. SECTORAL REVIEWS

34. Mr. Speaker, let me turn to the sectoral policy highlights, which will be elaborated upon by the respective Ministers when they present their Committee of Supply statements to this Honourable House.

Financial Services

35. Mr. Speaker, an efficient financial services system is critical for enhancing economic performance. Government continues to undertake initiatives in various sub-sectors of the financial sector with a view to improving the sector's overall performance. In this regard, an anti-money laundering legislation was adopted in March, 2003. Under the anti-money laundering guidelines, every financial organisation is required to put in place anti-money laundering measures and adopt such practices as are necessary for the deterrence and prevention of money laundering.
36. Steady development of the national payments system continued during 2003, with a large number of payments transferred by electronic systems, including bulk Government payments, such as salaries. This improves the timeliness and accuracy of funds transfers and reduces the risk within the national payments system. Preparations are underway for the introduction of a new system for high-value credit transfers, which will enable large payments to be made immediately instead of having to wait for the clearance of cheques. It is expected that this system will be implemented during 2004. This will facilitate Botswana's integration in the international financial marketplace in support of its growing economy.

37. Mr. Speaker, the pension industry has continued to grow with assets under management currently valued at P14.5 billion compared to P9.2 billion in 2002. This industry, along with other financial market development initiatives, provides an important opportunity for the private sector to become a significant player in achieving some of our economic diversification objectives. The Pension and Provident Funds Act of 1987 will be reviewed during 2004/05, to provide for standard practices within the industry pertaining to disclosure requirements, accountability and self-regulation. In addition, a Securities Bill will be drafted during 2004/05 to give added authority for the regulation of all the activities of the Botswana Stock Exchange, listed companies, investors and brokers in accordance with best international capital market practices.

Health and HIV/AIDS

38. Mr. Speaker, Botswana is facing a major challenge of eradicating health threats, such as HIV, malaria and tuberculosis, which continue to affect the productivity of our people adversely. Increase in labour productivity is one of the critical factors for improving long-term economic growth and, as such, a vehicle for sustainable and diversified development. Therefore, access to appropriate and quality health care remains fundamental to our development initiatives. In this regard, as part of ongoing efforts to improve service delivery and ensure appropriate and quality health care, Government has attached high priority to manpower development through training of health care personnel. Government also continues to maintain an unwavering commitment to improve health care infrastructure. In this regard, the upgrading programme of the Lobatse Mental, Maun, Scottish Livingstone, Sekgoma Memorial and Mahalapye district hospitals, on new sites, has started and is expected to be completed by the end of 2005/06 financial year. Other ongoing major projects in the health sector include the construction of the Gantsi Primary Hospital, the upgrading of the the Letlhakane Hospital Theatre and the construction of staff houses for health personnel at various locations in the country.

39. Public health problems continue to hamper efforts to provide quality health care to all Batswana in order to ensure their effective participation in the development of the country. To this end, Government has initiated the development of a number of policies and strategies, which are of key importance in strengthening public health and safety. These include the amendment of the Public Health Act of 1971 to align it with current environmental and developmental changes; drafting of the Chemical Substances and Products Bill to protect human health and the environment from the hazards presented by chemicals used in industries and households; and the amendment of the Control of Smoking Act of 1992 to provide greater public health safety protection. The National Policy on Mental Health has been formulated in order to enhance effective care and treatment. The decentralisation of mental health services from the Lobatse Mental Hospital to the districts continues in order to improve efficiency in service delivery.

40. Mr. Speaker, despite the modernisation of the health sector and advances in many areas of health care, traditional medical practice remains an important aspect of health care system for many of Botswana citizens. To ensure safe practices and maintenance of standards, it is necessary to regulate the practice of traditional medicine. In this regard, the Traditional Medical Practice Bill has been drafted and will be brought before Parliament during this year, following conclusion of the necessary consultation processes.

41. Mr. Speaker, Botswana's population is youthful; 68 percent of the population is less than 29 years of age. It is, therefore, imperative to not only invest in health and education of the youth, but also to ensure that their reproductive health is secured by curbing the spread of HIV. This will do more than any other measure to improve the economic performance of the nation.
42. The HIV/ AIDS pandemic continues to ravage our society and hence the need to redouble our efforts to fight it. Major emphasis has been put on promoting behaviour change, as well as provision of quality care and support to the infected and affected individuals and families. Information, education, communication, and counselling interventions will continue to be vital, while the main challenge is to continuously increase access to voluntary counselling and testing services. To date, 17 voluntary counselling and testing centres are operating in the country and about 100 000 people have received voluntary counselling and testing services. In addition, routine voluntary HIV testing started at the beginning of 2004, as part of efforts to address the stigma associated with HIV and AIDS. Botswana are therefore encouraged to take advantage of this dispensation so that they could receive the necessary assistance in good time.
43. Mr. Speaker, the launching of the Antiretroviral (ARV) Therapy at the beginning of 2002 in Gaborone, Serowe, Maun and Francistown was a landmark step in the nation's efforts to face the HIV/AIDS scourge head-on. Since its launch, the programme has been rolled out to seven additional sites, namely; Jwaneng, Orapa, Kanye, Tlohephatshwa BDF Camp, Mahalapye, Molepolole and Tutume. A total of over 11 450 patients are currently on ARV treatment at the eleven sites.
44. The Prevention of Mother-To-Child Transmission (PMTCT) programme, which was introduced to improve child survival and development through the reduction of HIV-related morbidity and mortality in infants is now available in all public health facilities countrywide. To date, a total of 11 329 expectant mothers have received counseling under the programme. 71 percent or about 8 000 of the mothers who received counseling were tested for HIV and 30 percent of the tested mothers were HIV positive and 1 697, as of September 2003, were receiving AZT treatment. In addition, 1 543 infants, who were found to be HIV positive after birth, were put on AZT treatment. During 2003, the target was to increase PMTCT uptake from 28 percent to 34 percent of expectant mothers who are HIV positive. It is encouraging to note that by the end of 2003, PMTCT uptake had increased to 42 percent. The target now is to increase the uptake to above 50 percent by March 2005.

Trade and Investment Promotion

45. Mr. Speaker, Government is keenly aware that for Botswana to be competitive in both regional and global markets, there is need to continue to create a conducive environment for private sector investment and growth, by both domestic businesses and foreign direct investors. In this regard, the new Companies Act will create an updated, simplified and clarified framework for incorporation of companies. In addition, Government is in the process of developing a foreign direct investment strategy, a foreign investment law, as well as build capacity for the negotiation of bilateral investment treaties. These initiatives are intended to develop national business capacity and enhance Botswana's attractiveness as a foreign direct investment destination.

46. The process of reviewing the Industrial Development Act has also started. The review is intended to provide for a decentralised and simplified industrial licensing system that will speed up issuance of licenses, as well as bring services closer to the public. The review is also intended to align the Industrial Development Act with the Trade Act of 2003 and provide for consistency in the issuance of business licenses. It is expected that an amendment bill of the Industrial Development Act will be placed before Parliament by the end of the 2004/2005 financial year. Efforts are also continuing to address the long-standing backlog of residence permit applications for investors. The use of a single application form for work and residence permits, which was started in April 2002, should further reduce processing time of applications for both resident and work permits.
47. Mr. Speaker, following the signing of the new SACU Agreement in October 2002, the SACU Secretariat started operating at the beginning of this year. The establishment of the Secretariat will play a crucial role in implementing the new SACU Agreement and improving economic performance of the Customs Union's Member States. Meanwhile, the negotiations for the SACU/USA Free Trade Area are underway, having been launched in June 2003. The aim is to conclude these negotiations in December 2004. A SACU/USA free trade area will provide increased markets for exports from the SACU countries, and thereby enhancing growth and employment opportunities. The arrangement will also bring about challenges for the countries of the region; one such challenge will be to produce good quality goods at competitive prices. Another significant development during the period under review was the initiation of negotiations for Economic Partnership Agreements (EPAs) by the SADC Member States with the European Union (EU).
48. The SADC Protocol on Trade is under review to identify impediments and provide an assessment of the balance of benefits arising from the implementation of the Protocol. Further, the review should inform individual SADC Member States on how to better position themselves within the rapidly changing agenda of regional integration. This should further increase the involvement of the SADC economies in the global economy.

Environment, Wildlife and Tourism

49. Mr. Speaker, the country's wildlife resources are the foundation on which the tourism industry has been built. To maintain and improve the economic performance of the tourism sector, it is essential to manage the country's wildlife resources on a sustainable basis. To this end, Government continues to upgrade infrastructure in wildlife protected areas. The Botswana Wildlife Training Institute facilities are being upgraded and the courses offered are diversified to meet the requirements for both conservation and an expanding tourism sector. Meanwhile, following approval of the bill establishing the Botswana Tourism Board, efforts are underway to establish such a Board during the 2004/05 financial year.
50. New challenges in the management of natural resources have necessitated the review of some of the existing policies, legislation and strategies. The Community Based Natural Resources Management, Fisheries and Tourism policies will be reviewed during 2004/05. The preparation of the Predator Management Strategy, Elephant Management Plan, National Parks Management Plan and Game Ranching Policy regulations will also be completed during the 2004/2005 financial year.

51. With regard to the environmental issues, the Agricultural Resources Conservation Act and Forestry Act will be reviewed. Two bills, one on the Environmental Impact Assessment and the other on Environmental Management will be drafted and presented to Parliament during the course of the year. The National Master plan for Wastewater and Sanitation, the Okavango Management plan and the National Biodiversity Strategy and Action Plan are some of the key policies and strategies being prepared to address environmental challenges.

Agriculture

52. Mr. Speaker, there is potential to improve the performance of the agricultural sector through improved productivity and diversification of agricultural activities. To this end, the survey and design works for production training farms under NAMPAAD have been completed. The training farms will be located at Morule farm in the Barolong area for rainfed farming; Sunnyside Farm for dairy farming; as well as at Glen Valley in Gaborone and Dikabeya in the Central District for horticulture. These production and training farms will showcase technology and management practices that can improve agricultural production and profitability of farming. Meanwhile, a study has been commissioned to guide Government in the development of improved agricultural infrastructure.
53. In addition, research has been intensified in the livestock sub-sector. Two research farms, one located in the sandveld area at Masiatilodi and the other in the hardveld area at Impala have been identified for ostrich and poultry rearing. The Impala ranch, which is located in the north-eastern part of the country is currently being developed to accommodate the conservation of indigenous animal genetic resources, in addition to being used for research purposes. The research is intended to supply breeding material for the development of highly productive animals that will meet the requirements of competitive markets. In addition, Government is undertaking a comprehensive study, which is expected to be completed by early August 2004, to investigate all major factors affecting the livestock sub-sector, its long-term viability and to draw up a development strategy for its improvement.
54. Mr. Speaker, the livestock industry continues to be threatened by animal diseases. The outbreak of the Foot and Mouth Disease in the North East District resulted in closure of the Francistown abattoir and temporary suspension of beef exports to our major markets; the European Union (EU) and the Republic of South Africa (RSA). Exports to both the EU and South African markets have since been resumed. It is also pleasing to note that the country has now attained self-sufficiency in the production of poultry meat and eggs, contributing not only to food security, but also to rural employment. In 2002, over 5000 people were employed in the poultry sub-sector, the majority of whom were women.

Minerals

55. Mr. Speaker, even as we diversify the economy, mineral development, especially diamonds, is expected to underpin our economic performance for some time. It is in this regard that we continue to emphasise to the international community that Botswana diamonds are for development. We, therefore, support all efforts to eliminate conflict diamonds from the diamond trade. To this end, Botswana is a founding and participating member of the Kimberley Process Certificate Scheme, which is aimed at certifying legitimate rough diamond trade.

56. The Damtshaa diamond mine, which was commissioned in 2003 and was expected to recover 250 000 carats during the year, has surpassed this target as it recovered 292 000 carats. Mr. Speaker, in July 2003, the Debswana Diamond Company, which holds a mining lease over the Jwaneng diamond deposits, applied for a renewal of the mining lease for a further period of twenty five years, beginning on the 1st September, 2004. In accordance with the Mines and Minerals Act, negotiations are ongoing between the Government and De-Beers on the proposed mining lease renewal of the Jwaneng mine.
57. Mr. Speaker, the overall financial performance of the BCL mine during 2003 improved. This happened despite the below budget metal production achieved and the appreciation of the Pula against the US dollar, which were offset by the effect of rising US dollar nickel prices during 2003. The Phoenix mine expansion project also assisted by raising production treated by BCL from 2 million tones in 2002 to 2.5 million tones in 2003.
58. Mr. Speaker, Government will continue to encourage new mining developments through provision of information to potential investors. In this regard, new regulations under the Mines and Minerals Act will be enacted during 2004/05 with a view to providing more clarity to investors. Furthermore, Government is undertaking a strategic review of the diamond industry, whose objective is to inform Government on new policies and strategies for the development of the industry.

Water

59. Mr. Speaker, the availability of sustainable, adequate and good quality water is necessary, not only for human sustenance, but also for improving economic performance since potential investors consider the cost and availability of potable water when undertaking investment decisions. Projects aimed at improving the supply of water and sanitation country-wide, include, the on-going Maun Water Supply and Sanitation design, Kanye/Molepolole Emergency Water supply, Tonota Emergency water supply, construction of a booster pump station for Ramotswa water supply, Ntimbale dam construction and a detailed design of the Thune dam. Work has also been started for the review of the National Water Master Plan, with tenders scheduled to be awarded during the first quarter of 2004 for the review work.
60. With regard to water management, measures are being implemented to deal with the ever-increasing water demand. These include the promotion of water conservation awareness and the introduction of water saving devices, like the pre-paid metres, which have been installed at public standpipes in Ramotswa, Tlokweng, Mogoditshane and Mochudi. These are part of the cost saving and cost recovery measures which will be continued and new ones introduced in the coming year.

Works and Transport

61. Mr. Speaker, Government will continue to facilitate planning, construction and maintenance of the road infrastructure through policies and programmes aimed at improving the movement of goods and people, therefore, contributing to economic performance. The formulation of a national integrated transport policy during NDP 9 will go a long way in defining strategies and priorities for the transport sector. In view of the heavy and long-term nature of investment required for providing and maintaining road

infrastructure, as well as resource constraints, additional transport user charges will be increased during 2004/05. Alternative methods for financing construction and maintenance of roads, such as road tolling, will be implemented during 2004/05.

62. The introduction of the computerised credit card type driving licence has commenced. This is one of the measures aimed at enhancing road safety; harmonisation of traffic standards in the SADC region, as well as enhancing efficiency in the provision of services by reducing the time for issuance of driving licenses.
63. Mr. Speaker, as a measure to facilitate the movement of goods and people in the SADC region, Government has signed a Memorandum of Understanding in 2003 with the Governments of Namibia and South Africa on the Development and Management of the Trans-Kalahari Corridor. In addition to the direct benefits to be derived from the project, the Trans-Kalahari Corridor places Botswana and the SADC region in an improved strategic position to forge and exploit business links with the rest of the world, in particular the EU.

Information and Communications Technology

64. Mr. Speaker, for services and other knowledge intensive industries, the efficient use of information and communications technology (ICT) is essential to achieve improved economic performance. The challenge is to ensure that Batswana are ICT literate and have access to affordable ICT services. In this regard, the provision of telecommunication services to rural areas will continue by completing Nteletsa I and mobilizing Nteletsa II. In addition, an ICT Policy will be drafted during 2004/05 to determine how best to harness ICT for income generation, improving productivity and economic empowerment of Botswana citizens. Legislation will be prepared to establish a new independent Regulatory Authority responsible for both telecommunications and broadcasting.

Education

65. Mr. Speaker, the development of human resource continues to be one of the major priorities of Government in view of its critical role in improving productivity and hence economic performance and development of the country. The emphasis on the qualitative improvement of the education and training system should be seen as building upon the significant achievement that has been realised with regard to increasing access to education. In this respect, the massive expansion of the education system guarantees almost all Batswana children of school going age access to 10 years of basic education and about 51 percent of junior secondary school leavers access into senior secondary schools. In this connection, Government assumed the running of all the Community Junior Secondary Schools with effect from the 1st January, 2004, in order to guarantee uniform standard of education at this level across the country. Government will endeavour to achieve 100 percent access to senior secondary education by NDP 10 pursuant to Vision 2016.
66. Another major development in the education sector during 2003 was the establishment of the Tertiary Education Council to guide the development of tertiary education in the country. During 2004/05 focus will be on expansion of tertiary education. In this regard, major projects to be implemented in 2004/2005 financial year, include expansion of the University of Botswana (UB), as well as detailed planning of the second university and the

medical school. The intention is to expand tertiary education and training opportunities locally in order to reduce the number of students sent to study outside the country at great cost.

Lands and Housing

67. Mr. Speaker, in order to harmonise efforts by different stakeholders involved in the delivery of housing in the country, and ensure smooth implementation of the National Policy on Housing, the Housing Policy Coordination Council will soon be established to advise Government in planning and executing housing development programmes in the country. In another development, consultations on the review of the Land Policy were carried out nationwide in 2003. The review of the Policy was carried out in recognition of the need to integrate and consolidate existing land related policies and activities. The proposed Land Policy will be presented to Parliament during this year and it is envisaged that if approved, it will enhance investment opportunities in areas such as tourism and further improve the allocation of land for different uses. Since inception of the Rural SHHA programme in November 2001, an amount of about P91 million has been disbursed to benefit 4 761 households as at end of December 2003. The process of engaging a private institution to manage SHHA loans, on a pilot basis, has been started with tendering for a management company for the loans. It is hoped that the privatisation of the administration of the SHHA loans will improve service delivery, as well as harness the private sector to undertake responsibilities currently undertaken by the public sector.

Local Authorities

68. Mr. Speaker, adequate infrastructure is essential for improved economic performance of the Local Authorities (LAs). To this end, Government continues to focus in the key areas of district and urban roads development; village infrastructure; urban land servicing; village water supply and sewerage; primary health facilities; primary education facilities and infrastructure maintenance. During 2004/05, emphasis will be placed on clearing the backlog of primary school classrooms, teachers' quarters and toilets, in line with the requirements of the Revised National Policy on Education (RNPE).
69. Further, Government has recently published Bills proposing amendments to the Local Government (District Councils) Act and the Townships Act in order to enhance the capacity of the Local Authorities to collect their own revenue. In this connection, during 2004/05, Government will ensure that the problems of financial management at the Local Authorities are addressed and the Local Authorities are fully accountable for the public funds. These problems entail the backlog of unaudited accounts and, in some cases, absence of management accounts. In addition, the Town Council Regulations for procurement and disposal of public assets have also been reviewed. These are expected to enhance transparency and fair competition in the award of tenders at the local level. Government remains committed to the principle of decentralisation to the Local Authorities and communities, to ensure that they have effective control over their destiny and are held accountable for their actions. To this end, the draft White Paper on the Local Government Structure Commission, with recommendations on improved administrative structure for Local Authorities, will be tabled in Parliament during the current meeting.

Public Service Management

70. Mr. Speaker, in order to improve the performance of the economy, there is need for continuous improvements in the public service performance. This is key to positioning the public sector to play its strategic catalytic role in private sector led development. The mainstreaming of Performance Management System in Central Government is expected to be completed during the course of this financial year. One of the major milestones in the institutionalisation of PMS will be the introduction of performance contracts for Permanent Secretaries and their deputies; and Performance Based Reward System for the rest of the Public Service during 2004.
71. Government will continue to build capacity and ensure implementation of fair labour practices, and good human and industrial relations in the public sector. This will be achieved by the review of the Regulations for Industrial Class Employees and the Public Service Regulations to align them with the new Employment Act, Trade Disputes Act, Trade Union and Employers Organisation Act and International Labour Organisation Conventions of which Botswana is a signatory.

V. 2002/2003 BUDGET OUTTURN AND 2003/2004 REVISED ESTIMATES

72. Mr. Speaker, final figures for the 2002/2003 budget, whose revenues had been adversely affected by the appreciation of the Pula against the US dollar, show a smaller deficit than was anticipated at the time of last year's Budget Speech. However, savings by some ministries, particularly Health; and Minerals, Energy and Water Resources, partly offset the reduced revenues. Total revenues and grants amounted to P14.31 billion against total expenditure and net lending of P15.71 billion, resulting in a final budget deficit of P1.40 billion, compared to the original estimated budget deficit of P1.6 billion for 2002/2003.
73. The 2003/2004 budget has also been adversely affected by international exchange rate developments. Since early 2002 the US dollar has weakened dramatically against the Pula and other international currencies. On the other hand, diamond prices did not increase significantly to compensate for the weakness of the US dollar. The result has been a substantial drop in mineral revenues. Over the same period, the Rand strengthened against the Pula and major industrial countries' currencies. Consequently, what we earn in the international markets for our exports has fallen in real terms, while the imports we purchase from South Africa cost us more in real terms. The net effect has been a substantial real income loss, not only to Government, but also to the nation as a whole, something which is beyond our control.
74. Mr. Speaker, the original 2003/2004 forecast revenue of P17.54 billion, which was sufficient to yield a balanced budget, has been reduced to P15.13 billion, which is P2.41 billion or 13.7 percent loss in revenue. On the expenditure side, the addition of the two supplementary estimates on the recurrent budget, while maintaining development budget at P4.43 billion would have resulted in expenditure and net lending of P17.33 billion, which would have contributed to a P2.20 billion budget deficit. Such an outcome would be unacceptable, as we cannot persistently live beyond our means. Several remedial measures have, therefore, been taken by Government in order to achieve a balanced budget as

originally planned. I have invoked Section 14(2) of the Finance and Audit Act to withdraw 5 percent of the 2003/2004 recurrent budget. The development budget has been scaled back to P4.0 billion by asking ministries to exercise strict cost controls and to prioritise their development expenditures. The sale of the PDSF loan book, which I announced in the 2002 Budget Speech, and reaffirmed, last year, is proceeding, and I expect the bulk of the loan book would be sold by the end of this financial year. While the principal reason for this sale is the broadening of domestic capital market, the proceeds of the sale will reduce “net lending” in the budget. In addition, Government as the sole shareholder in various public enterprises, will draw dividends from the profitable ones, which will contribute to Government revenues. Putting all these measures together, the revised revenue forecast is P16.18 billion, while total expenditure and net lending is P16.20 billion, resulting in a marginal overall revised budget deficit of P20 million for the 2003/2004 financial year, which is essentially a balanced budget.

VI. 2004/2005 BUDGET PROPOSALS

Revenues and Grants

75. Mr. Speaker, for the 2004/2005 Budget, the revenue picture remains uncertain. Performance of the two major revenue sources – Minerals and Customs and Excise depends crucially on what happens to the US dollar and the South African Rand in the international currency markets. Government has no control or influence over these developments. Therefore, revenue forecasts presented in the 2004/2005 budget are subject to wide margins of error. Total revenues and grants for 2004/2005 are estimated at P18.21 billion, of which major items, such as Mineral revenue of P8.07 billion constitutes 44 percent; while Customs and Excise revenue of P3.29 billion constitutes 18 percent; Non-mineral Income Tax revenue estimated at P2.55 billion represents an increase of P469 million from the 2003/2004 revised budget, and constitutes 14 percent; and Value Added Tax revenue of P2.07 billion, represents an increase of P345 million from the 2003/2004 revised estimate, and constitutes 11 percent. The Bank of Botswana revenue estimate has declined from P755 million in the 2003/2004 revised budget to P434 million because a substantial portion of Government’s investment account at the Bank has been drawn down to finance previous budget deficits and the transfers to the Botswana Public Officers’ Pension Fund.

76. Mr. Speaker, implementation of the Value Added Tax has been a learning process for both taxpayers and Government. We are now at a stage where Government reasonably expects the taxpayers to understand the system, and therefore, we intend to fully enforce the VAT law with enhanced auditing capabilities.

Total Expenditure

77. Mr. Speaker, for 2004/2005, the proposed total recurrent and development expenditure amounts to P18.18 billion, which is a modest growth of 6 percent over the revised 2003/2004 expenditures. The budget includes P600 million to cover the cost of implementing the recommendations, as amended, of the Presidential Commission on the Review of the Public Service Pay Structures for the Public Service, the Local Authorities and the Botswana Defence Force. The budget does not provide for any growth in the total

manpower establishment of the Public Service. The cost of new posts calculated at P51 million will be met from vacancies across Government Ministries and Departments. The total budget is substantial; with concerted efforts a lot can be achieved. Given continuing performance improvement initiatives, and the improvements in the pay structures, significant improvements in service delivery through greater efficiency are expected from the Public Service.

Recurrent Expenditure

78. Mr. Speaker, the proposed recurrent budget provisions for Ministries of Education at P3.98 billion, Local Government at P2.43 billion and State President at P1.73 billion account for 60 percent of ministerial recurrent expenditures. The provision for the Ministry of Education accounts for 29 percent of the total ministerial recurrent expenditure. The Ministries of Health with P1.02 billion; Finance and Development Planning with P853 million; Works and Transport with P830 million; and Agriculture with P566 million together account for 24 percent of the ministerial recurrent budget, while the rest of the ministries and independent departments share the remaining 16 percent of the ministerial recurrent allocations. In addition, the budget for statutory expenditure is P1.20 billion, of which a greater proportion is pensions and gratuities, amounting to P568 million and public debt servicing amounting to P530 million.

Development Expenditure

79. Mr. Speaker, I now present the development budget for 2004/2005 financial year. The proposed development budget for the year is P3.61 billion; of which P3.44 billion or 95 percent is for normal development projects; 4 percent is for implementation of the development programme of parastatals and autonomous organisations; and 1 percent is for completion of drought related activities, which will be carried over from the preceding year. This budget is lower than the 2003/2004 revised development budget by P390 million. Given the financial constraints arising from the unfavourable world economic situation and the cost of implementing the recommendations, as amended, of the Presidential Commission on the Review of the Public Service Pay Structures for the Public Service, the Local Authorities and the Botswana Defence Force, mainly ongoing projects, as well as those for which contracts had been awarded at the time the budget was finalised, are included in the budget. In implementing the development budget for 2004/2005, Government will insist on efficiency gains on all projects. This will require scaling down the scopes, specifications and standard of materials to the funds allocated, as well as the way tenders are specified, in order to achieve efficiency gains on consultancy charges. Government has also adopted Public Private Partnerships (PPPs) as a procurement method and this should provide further cost savings in project implementation. With extra effort on the part of implementing agencies, cost overruns should be avoided.
80. Mr. Speaker, the Ministry of State President has been allocated the largest share of P977 million or 27 percent of the total development budget. Funding in this Ministry will mainly go to three major projects, namely; HIV/AIDS Programme with P415 million, up from the original estimate of P183 million in 2003/04; the Botswana Defence Force with P391 million, down from the original estimate of P415 million in 2003/2004 and Police Facilities with P120 million. These three projects take up 95 percent of the total State President budget.

81. The second largest share of the development budget amounting to P695 million, or 19 percent, goes to the Ministry of Local Government. The two major projects that will be implemented under this Ministry are; Primary Schools Programme with P216 million and Village Water Supply and Sewerage with P199 million. These two projects together account for 60 percent of the Ministry of Local Government's allocation, as was the case last year. Other projects with significant amounts are; Local Authorities Infrastructure Maintenance with P60 million, Urban Land Servicing with P50 million, Labour Intensive Public Works Programme with P35 million, Primary Health Facilities with P33 million and District and Urban Roads with P32 million.
82. Mr. Speaker, the Ministry of Health has been allocated P412 million, or 11 percent of the total development budget. The Improvements to Hospitals project, which includes the construction of the Mahalapye, Maun, Scottish Livingstone, Lobatse Mental and Sekgoma Memorial Hospitals, takes the largest share, amounting to P398 million or 97 percent, of this ministry's budget. The Institutes of Health Sciences project is allocated P7 million, while the Primary Health Care Programme takes P3 million. The balance of P2 million goes to the Ministry of Health Computerisation project, which will mainly oversee the implementation of the integrated patient management system at Princess Marina, Nyangabgwe, Sekgoma Memorial and Maun Hospitals.
83. The Ministry of Works and Transport is allocated P345 million, the fourth largest share or 10 percent of the total development budget. Three projects account for 92 percent of this Ministry's allocation. These are; Secondary Roads Construction with P136 million, Bitumen and Trunk Roads Improvements with P134 million and Government Infrastructure Improvements with P46 million.
84. Mr. Speaker, P341 million or 9 percent of the total development budget goes to the Ministry of Minerals, Energy and Water Resources. Of this amount, more than half, amounting to P197 million, is allocated to the Major Villages Water Supply and Development programme. Other projects with significant amounts under this Ministry are; Renewable Energy and Power Development with P44 million, the Ministry of Minerals, Energy and Water Resources' Facilities with P25 million and Water Planning and Development with P19 million.
85. The Ministry of Education is allocated P315 million, or 9 percent of the total development budget. Three projects, account for P296 million, or 94 percent. These are Secondary Schools with P148 million, Colleges of Education with P106 million and Brigades Development with P42 million. Meanwhile, Mr. Speaker, consultations are ongoing with regard to the establishment of the second university. Funding for this project, together with other university education expansion projects; namely UB expansion and the development of the medical school, is still to be determined, pending finalisation of the planning process.
86. Mr. Speaker, the Ministry of Lands and Housing is allocated P147 million or 4 percent of the total development budget to implement eight projects, of which P132 million or 90 percent is required for four projects, which are Government Office Blocks with P71 million, SHHA Development with P32 million, Land Boards Development with P16 million and Botswana Housing Corporation Finances with P13 million.

87. Mr. Speaker, the remaining P379 million or 11 percent of the total development budget is shared among Ministries of Communications, Science and Technology with P75 million; Trade and Industry with P66 million; Environment, Wildlife and Tourism with P63 million; Agriculture with P55 million; Finance and Development Planning and Labour and Home Affairs with P46 million each; Foreign Affairs and International Cooperation with P2 million; as well as the Administration of Justice with P23 million and Parliament with P2 million.

Overall Balance

88. Mr. Speaker, total revenues and grants for the 2004/2005 financial year are estimated at P18.21 billion, while total expenditures and net lending are set at P18.14 billion. The net result is a small surplus of P70 million. In the light of recent series of budget deficits, the attainment of this balanced budget is crucial. This scenario presupposes prudent management of financial resources and efficient collection of Government revenue, including cost recovery charges. My Ministry will closely monitor the evolving revenue picture throughout the year. Should the revenue situation turn out to be significantly worse than forecast in the budget, it will be necessary to further restrict expenditure during the course of the fiscal year.

Public Service Salaries

89. Mr. Speaker, as Honourable Members are aware, Government has accepted the recommendations, as amended, of the Presidential Commission on the Review of the Public Service Pay Structures for the Public Service, the Local Authorities and the Botswana Defence Force. The implementation of the new Pay Structure will result in an average increase in salaries of 15 percent. As was announced during His Excellency the President's State of the Nation Address in November 2003, Government will start the implementation of the new unitary Pay Structure in April 2004. In addition, the allowances for the Old Age Pension Scheme, Destitutes, and Village Development Committees, will be increased by 10 percent and those of the Community Home Based Care Volunteers by 15 percent in recognition of the sacrifices they continue to make. In the meantime, arrangements are under way to give pensioners an option to join the Botswana Public Officers Pension Fund with effect from the 1st April, 2004.

VII. FISCAL LEGISLATION

90. Mr. Speaker, enhancing tax compliance is the most effective way to ensure that those who voluntarily comply are not unfairly disadvantaged and those who avoid payment of taxes must face the full enforcement of their obligations, including penalties as set out in the tax laws and regulations. To this end, Mr. Speaker, I wish to propose a number of amendments to the Income Tax Act in order to improve tax compliance and administration; in line with the objective of achieving sustainable and diversified development.

91. Mr. Speaker, there is a continuing and significant drain on revenue from tax payers engaged in farming and other pursuits. This arises from the current policy of allowing offsets of farming losses against other income. I wish to restrict this offset facility such that

the amount of farming losses which may be claimed against other income will be subject to a limit of 50 percent of the non-farming income. This change will reduce the revenue loss caused by the need to make refunds to those claiming farming losses against other income.

92. The current arrangement for valuing housing benefits provides a very significant subsidy to many people enjoying this privilege. The formula for calculating the value of housing benefit was adopted in 1983 and, therefore, needs to be updated. I wish to move a little towards the ideal, which is to tax these benefits at full market value as it is done internationally. For rated properties, the factor for calculating the benefit will be increased from 6 percent to 10 percent and for non-rated properties, it will be raised from 5 percent to 8 percent of the estimated value of the property.
93. Mr. Speaker, the current tax law is generous about the treatment of capital gains. The 50 percent discount allowed for gains realised on sale of shares in private companies provides an incentive to delay dividend distribution and reduces tax revenue. I propose to reduce the discount which applies for the taxation of capital gains on sale of shares in private companies from 50 percent to 25 percent. The law also allows a full exemption from capital gains tax for the sale of shares in public companies. I propose to restrict this tax benefit to Botswana resident public companies.
94. Mr. Speaker, in terms of the Income Tax Act, saloon cars and station wagons can enjoy annual allowances totalling up to P100,000, irrespective of the cost of the vehicle. With a four year write-off period, the maximum claimable on a saloon car or station wagon is therefore P25,000 per annum. However, the value of this restriction on annual allowances is effectively cancelled out because the law allows a full deduction for any loss incurred by a business on the disposal of a saloon car or station wagon. Furthermore, taxpayers can lease or rent, as an alternative to buying vehicles, and thereby can claim very generously for the costs relating to the use of these vehicles. The result is that the tax system is being used by businesses to subsidise private use of luxury vehicles. I propose to amend the Income Tax Act such that, firstly, the limit for allowances on these vehicles be raised to P175,000, to take account of vehicle price increases since the P100,000 allowance was fixed in 1990; secondly, the rules for claiming losses on the disposal of these vehicles will be changed to ensure that annual allowances denied for high-cost vehicles cannot be claimed later as a disposal loss; and thirdly, the rules for claiming deductions in respect of leasing or renting saloon cars and station wagons will be changed to ensure that the tax effects are the same, whether a company decides to lease, rent or buy a vehicle. However, companies in the business of renting or hiring vehicles will not be subject to any restrictions for the purpose of claiming annual allowances in respect of purchased vehicles. These restrictions will apply only to businesses not engaged in vehicle leasing and rental activities.
95. Mr. Speaker, the income of religious and charitable organisations, and trusts for nature conservation, scientific research or similar public purposes is exempt from tax. Similarly, the income of social and sporting clubs is tax exempt if they are pursuing or promoting social or sporting activities not involving any financial gain for individual members. I have reviewed these income tax exemptions for public benefit organisations and I have decided that they should be more precisely defined. I will, therefore, propose to amend the Act so that, firstly, business income and capital gains will be exempt from tax only if the organisation in question is able to satisfy the Commissioner of Taxes that such income is

applied for public benefit purposes. This means that, in future, public benefit organisations with business income, or realising capital gains from disposing of assets, will have to file income tax returns.

96. Mr. Speaker, the existing law requires that income tax returns must be filed within three months after the tax year ends on 30th June. However, there is also provision in the law allowing companies to have a financial year different from the tax year. The effect of these arrangements is that some companies have an exceptionally long time to file tax returns and make final tax payments, while others have as little as 3 months to do so. I, therefore, wish to introduce a standard period of not more than 4 months after the end of a company's financial year for all companies to file returns and complete their tax payments. A standard period of four months will allow companies enough time for filing tax returns and to make final tax payments. The change will ensure a more even flow of work during the year for taxpayers and the Department of Taxes.
97. Mr. Speaker, for self-employed persons with multiple income sources, such as employment, rental income, interest earnings, directors' fees, and professional fees, there is need for more prompt payment of tax due than is currently required under the law. Under existing arrangements, a high-income self-employed person can delay tax payment by up to 12 months after the end of the tax year. This represents a gross disparity compared with persons on the PAYE system, who pay their taxes on a current basis. Accordingly, I will propose an amendment to require such persons to make a first half-yearly payment of tax due within the tax year and a second half-yearly payment soon after the end of the year.
98. Mr. Speaker, there is a justification for some relaxation of the rules which restrict International Financial Services Centre companies to do business only with non-residents. I intend to relax this restriction to facilitate establishment of linkages between International Financial Services Centre companies and sister companies which have existing operations in Botswana.
99. At present, businesses can claim expenditure on construction of dwelling units for workers up to a limit of P5,000 per dwelling unit. To take account of the big increase in the cost of construction since this limit was fixed in 1979, the limit will be raised to P25,000.
100. Mr. Speaker, the term "Commercial Royalty" is defined in the Income Tax Act to include any amount payable "for the use of or the right to use industrial, commercial or scientific equipment". The Botswana Telecommunications Corporation regularly makes payments to foreign telecommunications companies under international agreements for international telephone traffic charges. I propose to amend the Second Schedule of the Income Tax Act to exempt such payments by any local telecommunications company in settlement of international telephone traffic fees.
101. The definition of "entertainment fee" in Section 2 of the Income Tax Act needs to be changed to include payments to associations and companies for the activities of non-resident entertainers. The current definition can be interpreted to mean that only payments to an individual entertainer are liable for withholding tax. I want to make it explicitly clear that all payments to non-resident entertainers, regardless of who actually receives the payments or how they are made, will be subject to the 10 percent withholding tax provided for in the law.

102. Mr. Speaker, as I mentioned earlier, the benefits of these income tax changes are more important in terms of enhancing equity and reducing opportunities for abuse of the tax system, as well as making tax administration easier. Nonetheless, they will also result in additional tax revenue, which I estimate at P50 million per annum.

VIII. CONCLUSION

103. Mr. Speaker, in concluding, I want to return to the Budget Speech theme of **“Improving Economic Performance: A Vehicle for Sustainable and Diversified Development”**. In presenting the 2004/2005 budget, I have emphasised the importance of improving economic performance in order to achieve sustainable and diversified development in the face of a volatile international economy. Just as the weather is something over which we have no influence, developments in the international economy are not something we control. But we can improve our own efficiency – in the private sector, in the parastatal sector and in the public sector.
104. Government’s policy framework is designed to provide a stable business environment where the private sector is free to pursue profitable business opportunities. Supportive institutions, such as CEDA, BDC and BEDIA, are there to help, and the low tax regime means that businesses, large or small are able to retain a large portion of their profits so that they can prosper.
105. The parastatal sector, must also focus on efficiency enhancement. Several of the parastatals provide key inputs for the rest of the economy, and the cost-effectiveness of their operations also affects the rest of the economy. All parastatals have had the benefit of substantial investment by Government over the decades, and the public as shareholder is entitled to a reasonable return on that investment, in order to finance further development of the country.
106. The Public Service is continuously being provided with efficiency enhancement tools and, from April 1 this year, will have a new unitary and improved pay structure. In return, the tax-paying public reasonably expects to see efficiency in the public sector operations, so that enhanced services are delivered with the same or less resources. We are already observing some efficiency improvements in some parts of the Public Service. What remains is for this improvement to permeate the entire public sector.
107. Mr. Speaker, the 2004/2005 budget is presented in the face of a society that is devastated by the scourge of HIV/AIDS. It, therefore, reflects a delicate balance between prudent fiscal management and maintenance of the social safety nets, especially for the most vulnerable in our society. HIV counselling and testing, ARV therapy and prevention of mother-to-child transmission are all underway and will continue to be extended to the society at large. Yet, over the longer term, unless there is a change in behaviour, the devastation by HIV/AIDS will continue. In this connection, Mr. Speaker, we are particularly grateful to our development partners, both bilateral and multilateral, as well as private foundations, such as the Merck Company Foundation and the Bill and Melinda Gates Foundation, for their unequivocal support in the fight against the HIV/AIDS scourge. Without their support, the mammoth task of mitigating the effects of HIV and AIDS would have been more difficult.

108. Mr. Speaker, another delicate balance that the 2004/2005 budget seeks to maintain is between recurrent and development expenditures. Development expenditures must be genuine investments with future payoffs. Otherwise the downstream recurrent expenditures from today's development expenditures will squeeze important public services, such as education and health. Yet carefully targeted development expenditures can serve to enhance the performance of the entire economy, leading to sustained, diversified development and the accomplishment of the aspirations articulated in Vision 2016 and the United Nations' Millennium Development Goals. That is my hope and expectation.
109. Let me again thank all our development cooperating partners for their continued assistance in the implementation of different development programmes, at a time when many have reduced or even withdrawn their assistance. Botswana will still need their support.
110. Lastly, Mr. Speaker, as this is the last budget to be considered by this Parliament, allow me to thank Honourable Members of Parliament for their cooperation during the course of their term. Their valuable inputs in shaping and informing, not only the budgets, but the formulation of major policies such as the Mid Term Review of NDP 8; the National Development Plan 9, the Privatisation Policy for Botswana, and the Revised National Policy for Rural Development are commendable. It is this spirit which underpins and defines our democratic values. It is my expectation that this spirit of cooperation will continue as part of the tradition of our Parliament.
111. Mr. Speaker, this concludes my Speech on the Budget proposals for 2004/2005. I, now, therefore, move that the **Appropriation (2004/2005) Bill, 2004** be read for the second time.