



**Republic of Botswana**

**2021 BUDGET SPEECH**

**By Honourable Dr Thapelo Matsheka  
Minister of Finance and Economic Development  
Delivered to the National Assembly on 1<sup>st</sup> February 2021**

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## I. INTRODUCTION

1. **Mr. Speaker**, I have the honour this afternoon to present to the National Assembly, the Budget Proposals for the 2021/2022 Financial Year.

2. **Mr. Speaker**, when I stood before this House last year at around this time to present the 2020 Budget Speech, I was upbeat about the economic and financial prospects for the 2020/2021 Financial Year. Such confidence, **Mr. Speaker**, was based on the positive global and domestic economic outlook at the time. This positive outlook came against the backdrop of a fresh political mandate and presented a golden opportunity to embark in earnest on a pragmatic agenda to transform this country to high income status. Hence, my bold commitment to use the 2020/2021 Budget as a platform for implementing the national priority areas of *promoting export led growth, ensuring more efficient government spending and financing, building human capital, and provision of appropriate infrastructure*. These national priority areas have not changed, and are clearly laid out in the Mid-Term Review of NDP 11 recently passed by this House for implementation from 2020 to 2023.

3. However, **Mr. Speaker**, the advent of COVID-19 pandemic in March 2020 threw everything into disarray as countries the world over, including Botswana, moved into survival mode. Both human and financial resources were channelled towards the fight and containment of COVID-19.

4. **Mr. Speaker**, as part of the preamble for this Budget Speech presentation, let me share a few insights on the impact of the COVID-19 pandemic on the domestic economy. I will also touch on some key underlying factors that underpin the 2021/2022 Budget.

○ *COVID-19 and the Economy*

5. **Mr. Speaker**, COVID-19 has brought a once-in-a-century shock to Botswana, Africa and the entire world. Not only is it the largest health and economic challenge in living memory, but it is also the first pandemic to hit the world indiscriminately. The reality is that the speed and extent of the transmission of the COVID-19 shock has been unprecedented, and no nation has been spared.

6. **Mr. Speaker**, the impact of the pandemic on economies around the world has also been devastating, with a range of negative impacts, including, reduced or even negative economic growth, increased rates of unemployment and poverty, and balance of payments pressures. There have been particular pressures on public finance throughout the world. These will undoubtedly pose challenges for policymakers in the months and years to come. Notwithstanding the negative

impact of this pandemic, there are also opportunities that we could take advantage of. Hence, the pandemic is forcing us to implement much-needed policy reforms that we might otherwise have avoided or postponed as being too difficult, risky or uncomfortable to undertake.

**7. Mr. Speaker,** Botswana has experienced a large negative economic shock as a result of the pandemic. Our economy contracted by nearly one quarter in the period from March to June 2020, and over the year as a whole will experience a deep recession. Our national income has been reduced, and as a nation we have become poorer than we were before COVID-19. This has inevitably caused serious stresses and strains that we have had to manage. Besides slower growth, the economic impact has been manifested in balance of payments and fiscal deficits, and the drawdown of the foreign exchange reserves and Government savings. Fortunately, our past record of prudent macroeconomic management meant that we had accumulated financial buffers that enabled us to quickly respond to, and mitigate the negative economic impact of the pandemic. But these have now been depleted, and need to be rebuilt, so that we are well-placed to deal with potential future shocks.

**8. Mr. Speaker,** it is common knowledge that many sectors of the economy have been severely impacted by public health restrictions that had to be instituted to fight the spread of the disease. Indeed, some sectors such as tourism, the entertainment and arts sectors, including bars and liquor outlets were closed right from the onset of the pandemic, and activities such as meetings and conferences, which are key for the hotel industry have not been taking place as regularly as would have been the case under normal circumstances. The mining and transportation sectors, and some personal services, also suffered a major blow.

**9.** In recognition of these unprecedented challenges, Government acted decisively and launched a series of fiscal and financial packages to address the health emergency needs, to ease liquidity pressures on businesses, and to safeguard jobs and household incomes. Ultimately, Government launched a comprehensive Economic Recovery and Transformation Plan (ERTP) to fast track recovery and transformation, as well as enhance medium to long-term economic resilience.

**10. Mr. Speaker,** while the pandemic has reinforced the need to transform our economy, it has also reduced the amount of time available to do so. On a positive note, it has reinforced the importance of the five national priorities laid out in the Mid-Term Review (MTR) of National Development Plan (NDP) 11 and the ERTP, adding “*strengthening resilience*” to the four priorities I mentioned earlier.

**11.** The pandemic has also shown us that “*business as usual*”, is not a sustainable strategy going forward. We have to change and transform the way we have been running our economic affairs. In the past, we have perhaps been slow to implement the changes required. But, COVID-19 has dramatically shortened the period available to us and made the challenge of transformation much more urgent, which means confronting some tough challenges.

○ ***Background to the 2021/2022 Budget***

**12. Mr. Speaker,** the 2021/2022 Budget was prepared under extraordinary circumstances, amidst an extraordinarily challenging global and domestic environment brought about by the pandemic.

**13.** A Budget Speech, **Mr. Speaker,** is fundamentally about public finance and the Government’s intentions regarding public spending, generating the revenues to pay for that spending, and financing any deficit that results. Currently, the public finance challenges facing most countries, including Botswana, are more acute than ever before. Revenues are down as economic activity and incomes have fallen and tax payments have been deferred to ease cash flow pressures on firms. On the other hand, expenditures are up as Government spends on controlling the disease and supporting firms and households. The resultant budget deficits need to be financed, whether from domestic or external sources, while guarding against the risks of excessive debt accumulation.

**14.** As a result, **Mr. Speaker,** we need to improve the effectiveness and efficiency of our public finance systems. We need to modernize our tax collection systems and make them more efficient; raise some tax rates; and explore new sources of tax revenue. I will present more detailed proposals on these later in this Speech.

**15.** We also need to review our public service delivery model to ensure that taxpayers and citizens are getting value-for-money. To this end, it is essential that we address issues relating to wastage and inefficiency, poor productivity in the public sector, and inefficient procurement processes. We also need to improve the selection and management of public investment projects; in doing so, we intend to open up for the private sector to play a much stronger role. We can improve public sector project management by utilising private sector skills and techniques, to ensure that projects are implemented on-time and within budget. In the coming year, we will also be creating opportunities for the private sector to actually deliver major investment projects. Ministries, Departments and Agencies (MDAs) will be expected to deliver on their commitments in the future without expecting additional resources each year. Instead, MDAs must address

clearly-identified inefficiencies and, across the whole of the public sector, do more with less.

**16. Mr. Speaker,** let me reiterate the fact that there will continue to be much uncertainty about many issues relating to our economic pathway. However, this Government's key objective is to ensure that economic policy does not compound these uncertainties, but rather, helps to manage and mitigate the impact of the economic downturn on households and businesses throughout the country.

**17.** Nevertheless, **Mr. Speaker,** I would like to reassure the nation that as a responsible Government, we are tackling these challenges with great determination and zeal, to ensure that this situation does not turn into a catastrophe. This will be made possible by our good record of prudent macroeconomic management, the support and solidarity of the nation, and, more than anything else, the hard work, dedication, and resilience of Batswana.

## **II. MACROECONOMIC REVIEW AND OUTLOOK**

### **Global, Regional and Domestic Economic Review**

**18. Mr. Speaker,** the International Monetary Fund (IMF)'s January 2021 World Economic Outlook estimated that global output contracted by 3.5 percent in 2020. However, the global economy is projected to recover and grow by 5.5 percent in 2021, underpinned by a gradual recovery in consumption and investment. Output in advanced economies is estimated to have declined by 4.9 percent in 2020, but is now projected to grow by 4.3 percent in 2021. Emerging markets and developing economies are estimated to have contracted by 2.4 percent in 2020, while a recovery of 6.3 percent is expected in 2021. In China, growth is estimated at 2.3 percent in 2020, following the contraction experienced in the first quarter of 2020.

**19.** The IMF estimates that output in Sub-Saharan Africa contracted by 2.6 percent in 2020, compared to growth of 3.2 percent in 2019. Many countries have experienced disruptions to consumption, investment and trade. Commodity exporters, in particular, have suffered huge deterioration in their current accounts, arising from weak global demand and lower commodity prices. Moreover, fiscal deficits worsened in 2020. As a result, debt levels for most countries are forecast to increase. In line with these developments, the general standard of living in many countries was expected to deteriorate, with a lower per capita GDP in 2020 than in 2019.

**20.** However, **Mr. Speaker,** growth in Sub-Saharan Africa is anticipated to recover modestly to 3.2 percent in 2021. Key drivers of this growth range from

an improvement in exports and commodity prices as the world economy recovers, alongside a recovery in both consumption and investment. Implementation of the African Continental Free Trade Area Agreement (AfCFTA), which became operational in January 2021, could reduce the region's vulnerability to global disruptions, as well as deepen trade and economic integration, while also boosting competition and productivity. Successful implementation of the AfCFTA will, of necessity, require Member States to eliminate both tariffs and non-tariff barriers, and generally make it easier to do business and invest across borders.

**21. Mr. Speaker**, the Southern African Customs Union (SACU) recognises the need to prioritise the key processes required for the implementation of the AfCFTA. The revised SACU Tariff Offer, which comprises 5,988 product lines with agreed Rules of Origin, representing 77 percent of the SACU Tariff Book, was submitted to the African Union Commission (AUC) in November 2020. The Government is in the process of evaluating the tariff offers of other AfCFTA members prior to ratification, following which Botswana's participation in the AfCFTA will come into effect.

**22.** On the domestic front, **Mr. Speaker**, economic activity in the second quarter of 2020 was 24.0 percent lower than in the same period in 2019. Most sectors experienced negative growth as a result of the stringent but necessary containment measures implemented during the April/May 2020 lockdown, combined with a sharp fall in international economic activity. Amongst the hardest-hit sectors were Mining, Trade, Hotels & Restaurants, Construction, and Manufacturing. On a more positive note, several sectors experienced a subsequent recovery, such that GDP was only 6.0 percent smaller in the third quarter of 2020 than in the same period in 2019. Overall, the domestic economy is projected to contract by 7.7 percent in 2020 as a whole, mainly due to significant contraction in the tourism and mining sectors.

**23.** Despite tourism slowly returning in some destinations, the United Nations World Tourism Organisation Confidence Index is reported to have dropped to record lows, with international tourism expected to recover only by the second half of 2021, and this is highly dependent on the widespread availability of vaccines against COVID-19. In the meantime, travel and border restrictions still in place in many other countries could delay our recovery, reinforcing the need to promote domestic tourism. Within the mining sector, trade conditions are showing some improvement, as shown by an increase in demand for rough diamonds in the third and fourth quarters of 2020, amid easing of COVID-19 restrictions and ahead of the holiday season.

**24. Mr. Speaker**, the outlook for the domestic economy is, however, positive, with a growth rate of 8.8 percent projected for Botswana in 2021. Achieving this

positive growth will depend on the trajectory of the recovery of the global economy and the successful implementation of policies, programmes and projects outlined in the MTR of NDP 11. With the implementation of the Economic Recovery and Transformation Plan (ERTP) and other Government initiatives, we should achieve a robust recovery in 2021. This, **Mr. Speaker**, will require a totally new approach to project implementation.

## **Monetary and Exchange Rate Policy Developments**

### *Inflation and Monetary Policy*

**25. Mr. Speaker**, it is in time of crisis such as this one that we must uphold our commitment to maintaining a stable macroeconomic environment. In this regard, we will continue to pursue fiscal and structural reforms aimed at restoring the economy to a higher growth path. In managing monetary policy, the Bank of Botswana strives to maintain inflation within the objective range of 3 – 6 percent. In December 2020, headline inflation was 2.2 percent, and has been below the lower end of the BoB objective for more than a year. The low inflation rate is mainly a reflection of reduced domestic fuel prices, following a fall in international oil prices, combined with subdued domestic demand and sluggish economic activity. In the medium term, inflation is expected to remain within the Bank of Botswana's objective range, despite some upward pressure from fuel prices, the increase in Value Added Tax and administered prices, as well as the anticipated increase in domestic demand in response to the implementation of the ERTP.

**26.** Since the advent of the pandemic in the first quarter of 2020, the Bank Rate has been reduced twice in an effort to boost economic activity as the cost of borrowing is lowered. In April 2020, the Bank Rate was reduced from 4.75 to 4.25 percent, and a further reduction to 3.75 percent was effected in October 2020. The decision came as a result of the current state of the economy, and the outlook for both the domestic and global economies.

### *Balance of Payments and Foreign Exchange Reserves*

**27. Mr. Speaker**, the balance of payments records inflows and outflows of goods, services, income and financial transactions. Preliminary data indicate that for the first nine months of 2020, the balance of payments recorded an overall deficit of P14.8 billion, compared to a deficit of P5.8 billion in the same period in 2019. The significant deterioration of the overall balance of payments was largely driven by a fall in the level of exports of goods and services, which were valued at P35.21 billion over this period, compared to P50.83 billion in the first nine months of 2019.



**28. Mr. Speaker,** the fall in the level of exports reflects the slowdown in global diamond sales, as well as a fall in global and regional economic activity more generally, resulting from COVID-19 containment measures that affected trade in goods and services significantly. Non-diamond exports have also been growing more slowly than GDP as a whole for some time. This, in turn, indicates that Botswana has a competitiveness challenge, which needs to be addressed as a matter of urgency. Despite this challenge, government remains resolute in pursuing the policy priority of export-led growth, as it continues to be critically important.

**29.** In support of export-led growth, Government has made key commitments for both international and domestic firms, including improving the issuance of work permits for investors and skilled employees, to reflect business needs and provide firms with the certainty required to support investment, production and trade. The issuance of visas for short-term visitors will also be improved through the implementation of online visa issuance system (e-Visas) that is currently being developed.

**30. Mr. Speaker,** I should also indicate that, the promotion of export-led growth requires improved competitiveness and productivity, with a focus on reducing the costs of domestic production and removing other barriers to trade. Hence, competitiveness will be the overriding criteria to gauge all Government policies and measures. For export-led growth to be achieved, it is necessary that this criteria be applied systematically to the review of all Government decisions, and all major policy frameworks, systems and procedures in the economic, labour and social areas.

**31. Mr. Speaker,** as at the end of November 2020, the official foreign exchange reserves amounted to P58.7 billion, equivalent to 10.9 months of import cover. This represented a 10.0 percent decrease from P65.2 billion in December 2019. The substantial decline was largely a result of a drawdown on the foreign exchange reserves attributable to payments for imports, Government external obligations and net capital flows. Measured in terms of IMF Special Drawing Rights (SDR), the foreign exchange reserves decreased by 16.9 percent to SDR 3.7 billion, while in US dollars, they amounted to USD 5.3 billion, representing a decline of 14.4 percent. This decline in the foreign exchange reserves is of great concern, as it reflects the running down of one of the two critical financial buffers that have enabled us as a country to withstand economic shocks in the past. Restoring balance of payments sustainability and rebuilding the foreign exchange reserves is therefore of critical importance. As at November 2020, the Government Investment Account portion of the reserves was valued at only P5.6 billion, compared to P17.8 billion at the end of 2019.

### *Exchange Rate Movements*

**32. Mr. Speaker,** the objective of our exchange rate policy is to support the competitiveness of domestic firms in both domestic and international markets, as well as to provide an adjustment mechanism to shocks and long-term structural economic changes. Consistent with this objective, Government adjusted the downward rate of crawl of the Pula exchange from 1.51 percent to 2.87 percent per annum, in May 2020. The Pula basket weights were maintained at 45 percent for the South African Rand and 55 percent for the IMF's Special Drawing Right for the duration of 2020. After a review of these exchange rate parameters, a decision was taken to maintain them for 2021.

**33. Mr. Speaker,** the combination of the rate of crawl and Botswana's lower inflation rate compared to the average of trading partners' inflation during the year meant that the Real Effective Exchange Rate (REER) depreciated by 1.5 percent in the twelve months to November 2020. The depreciation of the REER suggests that some gains could be made in Botswana's export competitiveness, which may contribute to economic growth and employment creation. Nevertheless, concerns remain over the competitiveness and low productivity of Botswana firms, given the slow growth of non-diamond exports. The focus on the production of non-tradable goods targeted on the domestic market by local firms has resulted in lack of export diversification.

### **Employment and Human Resources**

**34. Mr. Speaker,** one of the major developmental challenges facing this country is the high level of unemployment, especially among the youth. The Youth Empowerment Drive continues through investment in education and the implementation of a number of national schemes targeting this group. The sizeable investments in this category, amounting to approximately P2.6 billion in total during the coming Financial Year, demonstrates Government's unending commitment to investing in the future of the youth of this country. These include Tertiary Education Financing at P2.26 billion, National Service Scheme at P135.72 million, Youth Development Fund at P104 million, and Internship Programme at P98.83 million, to mention a few.

**35. Mr. Speaker,** according to the Quarterly Multi-Topic Household Survey, the unemployment rate for the quarter ending December 2020 was 24.5 percent. This is slightly higher than the 23.2 percent unemployment rate recorded in the first quarter of the year. Hence unemployment has only risen slightly as a result of the lockdown periods and other disruptions experienced during the course of 2020.

**36. Mr. Speaker,** I had mentioned in my previous Budget Speech that my Ministry was developing a National Employment Policy (NEP) in order to deal

with this developmental challenge. The draft Policy has been undergoing intense interrogation within my Ministry to assess its adequacy in promoting productive, gainful and decent employment for Botswana based on its five strategic focus areas, namely: strengthening the growth of employment in the private sector; reforming the education and training system; improving the flow of information between job seekers and job openings; strengthening of programmes such as the Young Farmers Fund, and the implementation of a systematic monitoring and evaluation framework. The National Employment Policy will be finalised in the first half of 2021.

### **Population and Development**

**37. Mr. Speaker,** the national Population and Housing Census planned for August 2021 has been postponed to next year, due to the movement restrictions in place to control the pandemic. However, I would like to assure the nation that given the importance of the Census to our development planning and democracy, Government will strive to undertake the exercise mid-next year and provide the results by the end of the year.

**38. Mr. Speaker,** our country has experienced a significant decline in fertility and mortality in the last five decades. This resulted in the country's age-structure shifting from having many children, to one with up to 60 per cent of the population in the *age group 15-64*, also called the working-age population. This high proportion of the working-age population is a unique '*window of opportunity*', often termed the Demographic Dividend which, if seized, could propel our economic growth and prosperity.

**39. Mr. Speaker,** following the Demographic Dividend study carried out in 2018, my Ministry is developing a Demographic Dividend Roadmap, which will identify priority projects to help Botswana harness the demographic dividend. The study recognises four focus areas being; *Employment and Entrepreneurship; Education and Skills Development; Health and Wellbeing; as well as Human Rights, Governance and Youth Empowerment*. Appropriate interventions will be critical in enabling us to harness the benefits of a bulging working-age population, and to unleash the potential of the youth. The Roadmap will be completed during 2021.

### **Performance of State-Owned Enterprises**

**40. Mr. Speaker,** last year, I mentioned that Government would undertake a comprehensive review of parastatals and State-Owned Enterprises (SOEs), with a view to addressing some of the shortcomings in their governance and performance. I am pleased to report that a comprehensive Rationalisation Strategy covering all parastatals has been developed. Implementation of the

Strategy will address issues such as duplication of activities and overlapping mandates. Some parastatals have also been identified for privatisation, while others could be closed. This will reduce Government spending on these entities. The review will also make proposals for improvements in SOE corporate governance. This will involve review of mandates as well as founding statutes, and will align them to the transformation agenda. It is my intention that decisions will be made on rationalising, restructuring, privatisation and liquidation of SOEs in the first half of 2021.

**41.** The problems in the SOEs are unfortunately confirmed by the continued poor financial performance of many of them. Even though some SOEs registered profits in the 2019/2020 Financial Year, these were in most cases lower than in the previous year, the exceptions being the Botswana Housing Corporation and the Botswana Communication Regulatory Authority. Botswana Telecommunications Corporation Limited registered a net profit of P106.4 million in 2019/2020, compared to P162.1 million recorded in 2018/19, a decrease of 34.4 percent. Net profit for the Water Utilities Corporation also declined, by 60.4 percent to P75.6 million, compared to P190.9 million in 2018/19, largely due to increases in expenditure to cover water treatment and distribution as well as an impairment loss on development expenditure. Botswana Housing Corporation recorded an increased profit of P49.3 million, compared to P16.7 million in the previous year. This is a result of increased revenue and rental income.

**42.** Some State-owned Enterprises continued to register unsustainable losses. These include Botswana Power Corporation, with a net loss of P1.4 billion in 2019/2020, compared to the prior year net profit of P201.9 million; BotswanaPost with a net loss of P45.0 million, compared to a net loss of P0.95 million in 2018/2019; and Botswana Agricultural Marketing Board (BAMB) with a net loss of P40.7 million, compared to a net profit of P70.8 million in 2018/2019. BPC's loss reflected increased power imports due to the poor performance of Morupule B power station. BotswanaPost's loss was due to a rise in other operating expenses, and comes even after government paid substantial grants to BotswanaPost to support the post office network nationwide. BAMB's loss was attributable to an impairment loss and substantial increase in cost of sales.

**43. Mr. Speaker,** these results indeed illustrate the critical importance of restructuring the SOEs sector, including potentially closing down perennial loss-makers, as we cannot continue bailing out these companies from our scarce tax revenues. In future, SOEs will be required to follow the best principles of corporate governance, for instance by providing audited accounts on time. Management will be held accountable, while the shareholder will allow Boards

and Management to do their jobs, in line with best practice in the private sector. SOEs will also be required to raise a greater portion of their own revenues.

### III. REVIEW OF THE 2020 BUDGET IMPLEMENTATION

**44. Mr. Speaker,** the COVID-19 pandemic has had a major impact on the implementation of the 2020/21 budget. Inevitably, it forced us to adjust our spending plans, and re-think our priorities going forward. Nevertheless, despite this and the difficulties posed for the implementation of development projects, there have been considerable achievements in terms of implementation of the 2020 budget.

**45.** Amongst these achievements, Information, Communication and Technology (ICT) infrastructure has been expanded, with an additional 2,202 Fibre-to-the-Premises connections achieved nation-wide, bringing the total number of connections to 5,953. The National Cyber-Security Strategy was approved in October 2020. A Computer Incident Response Team (CIRT), which is responsible for responding to Cyber-Security breaches, viruses and other potentially catastrophic incidents, was also established in September 2020. Furthermore, there has been a substantial reduction in the price of mobile broadband in 2020. Operators reduced mobile broadband prices by **55 percent** and increased volumes of data bundles by up to **200 percent**. The price for the entry-level prepaid 2GB data package of 30-day validity offered by a 3G or 4G network provider with the largest market share was reduced from USD8.16 in 2019 to USD5.93 in 2020, making Botswana one of the most competitive countries in Africa in terms of mobile data pricing.

**46. Mr. Speaker,** the reduction of mobile broadband prices is consistent with the aspirations of the Broadband Commission for Sustainable Development, making Botswana one of the most competitive countries in Africa in terms of mobile broadband internet. Hence, given the recent price reductions, the price of a 2 GB data package in Botswana is recorded at 0.92 percent of monthly GNI per capita, easily surpassing the maximum target of 2 percent.

**47. Mr. Speaker,** these initiatives will enhance our ability to harness and take full advantage of ICT in the era of COVID-19. They will not only support our priority of enhancing efficient Government spending, but will also promote efficiency in the provision of Government services.

**48.** In order to improve access to, and ensure reliability in the power supply, Government has completed some key transmission and distribution infrastructure projects. These include the extension of the high voltage transmission grid to the North West of the country, as well as transmission reinforcement works in

Ramotswa and Gaborone. The North West project will unlock mining investments that have been suppressed due to lack of access to grid power, in addition to reducing dependency on power imports from the neighbouring countries.

**49. Mr. Speaker,** a draft National Energy Policy has been prepared and is ready for submission to Parliament for adoption. In addition, an Integrated Resource Plan (IRP) for electricity sector development has been developed and was launched in December 2020. The IRP provides a roadmap for achieving a reliable, safe and affordable electricity supply, with a target of achieving a 15 percent contribution of renewable energy by 2030, from the current 2 percent. Implementation of the two documents will ensure energy security of supply to support economic growth, and will also see Botswana transforming from being a net importer of electricity to being a net exporter.

**50. Mr. Speaker,** the 600MW Morupule B Power Plant is currently undergoing comprehensive remedial works to address deficiencies, which are scheduled for completion by 2023. As per the agreed schedule for the remedial works, the first unit should have been handed over to Botswana Power Corporation in September 2020. However, the process suffered delays on account of travel restrictions which affected the movement of contractors from China. However, the work is largely complete and will be commissioned in June 2021.

**51. Mr. Speaker,** in facilitating expansion of private radio broadcast coverage throughout the country, shared transmitters were installed in Sojwe, providing access to commercial radio broadcast signal of Duma FM, Gabz FM and Yarona FM to the surrounding villages of Lephepe, Boatlaname, Sojwe, Shadishadi and Loologane and their catchment areas.

**52. Mr. Speaker,** in the agricultural sector, Government continued to finance various activities and programmes. However, results have been mixed, and high levels of agricultural spending have not yielded the anticipated results in terms of increased output and efficiency. Therefore, there is an ongoing review and evaluation of agricultural subsidy schemes such as ISPAAD and the LIMID Programme. It is anticipated that going forward, subsidies and support will be tied to the achievement of output rather than simply subsidising inputs, and support for commercially-focused agriculture.

**53. Meanwhile, Mr. Speaker,** in order to promote agribusiness and food self-sufficiency, import restrictions have been imposed. These are facilitated through border closures and regulation of imports of grains and cereals through local purchase requirements thresholds. The coverage and threshold of these

regulations are reviewed from time to time, considering the production capabilities of local producers.

**54. Mr. Speaker,** this Government is committed to continue its quest to provide employment opportunities, especially for the youth. To this end, several initiatives have been put in place to create employment. As stated in the 2020 SONA, 1,954 jobs were created through the youth development fund, and an additional 1,918 jobs were created through other youth funding programmes, while Citizen Entrepreneurial Development Agency (CEDA) and Botswana Investment and Trade Centre (BITC) created 3,883 and 4,382 jobs, respectively. Government continues to provide a platform for graduates to acquire work skills to enhance their marketability and employability, through the National Internship Programme and National Service Scheme (Tirelo Sechaba) by placing them in various organisations in the public sector, parastatals and Non-Governmental Organisations (NGOs).

**55. Mr. Speaker,** by September 2020, enrolment in the National Internship Programme was 3,070, out of which 2,460 were in the Public Sector, 474 in Parastatals and 136 in Non-Governmental Organisations, whilst Tirelo Sechaba had enrolled 12,534 against the target of 15,000. Although placement was adversely affected by COVID-19, youth enrolment is continuing. Both programmes are currently being revamped to make them more responsive to the ever-changing needs of the youth, in collaboration with the United Nations Development Programme. The review is expected to be completed next Financial Year; once completed, it will inform the way forward on the administration of these programmes.

**56. Mr. Speaker,** an amount of P1.3 billion was approved in the Supplementary Budget for the Industry Support Facility (ISF), which provides soft loans for existing businesses across the economy. The loans are administered through Citizen Entrepreneurial Development Agency (CEDA), National Development Bank (NDB) and Botswana Development Corporation (BDC), depending on the size and sector of the borrowing enterprises. Of the total, P900 million is provided for general industry, while there are dedicated sums of P200 million for tourism enterprises and P100 million for agricultural enterprises. An additional P100 million has been made available to provide small grants to informal sector and micro enterprises registered with the Local Enterprise Authority (LEA).

**57. To date, Mr. Speaker,** a total of P450 million from the P1.3 billion approved for the ISF, has been disbursed. Of this total, P350 million was disbursed to the Ministry of Investment, Trade and Industry, while P100 million was equally shared between the Ministry of Agricultural Development and Food

Security and the Ministry of Environment, Natural Resources Conservation and Tourism. From the P450 million disbursed, NDB, CEDA and BDC received P100 million each to be used as loans for the general industry. In addition, NDB was allocated P100 million to cater for agriculture and tourism businesses, while the remaining P50 million was given to LEA for the disbursement of grants to the informal sector. Updates on the implementation of the ISF by the relevant organisations will be provided as part of the Committee of Supply presentations by the respective Ministries.

#### **IV. STRATEGIC INITIATIVES FOR THE 2021/2022 FINANCIAL YEAR**

**58. Mr. Speaker,** 2020 has been a difficult year, because of the unprecedented pressures from increased expenditure against declining revenues. The 2021/2022 budget is prepared against a backdrop of continued uncertainties over the recovery of the global and domestic economies. There is, therefore, need for a new line of thinking, borrowing largely from key deliverables of the Mid-Term Review of NDP 11 and E RTP. Specifically, I would like to focus on what is achievable during this coming Financial Year. I will give particular attention to policy measures and growth strategies that will support the restoration of economic activity and incomes, as well as economic transformation.

**59. Mr. Speaker,** the problem of “*poor value-for-money*” associated with some Ministries has featured prominently in previous Budget Speeches, and is worth repeating here. Public Expenditure Reviews are useful ways of identifying means of improving spending efficiency, and will be acted upon. Coupled with this, is the issue of poor expenditure outcomes; for example, an assessment of Public Investment Management by the IMF in 2017 revealed that 37 percent of public expenditure on infrastructure goes to waste in Botswana.

**60. Mr. Speaker,** as a way of enhancing the efficiency of Government spending, my Ministry introduced the *Zero-Based-Budgeting (ZBB)* approach during the preparation of the 2021/2022 budget. This has provided a framework to assist Thematic Working Groups (TWGs) and Ministries, Departments and Agencies (MDAs) to work out their funding needs from scratch, and thus, enabling them to determine the full cost of their budgetary requirements. This will also assist in appropriately prioritizing spending plans by directing resources to where their greatest areas of need are, guided by what Government can afford.

**61.** The implementation of Zero-Based Budgeting, which emphasises the importance of starting a budget on a clean slate, including removal of apparent “fat” in all expenditure categories, continues. MDAs have adopted this approach to budgeting as part of Government’s fiscal consolidation measures aimed at,



among others, efficient allocation of resources, enhancing expenditure quality, reducing and ultimately eliminating wastage and entrenching cost containment. Since this reform only begun in the preparation of the budget for the Financial Year 2021/2022 in June 2020, its full benefits are yet to be realised.

**62.** Further, **Mr. Speaker**, in responding decisively to the adverse economic impact of COVID-19, Government proposed that P14.5 billion be allocated as additional fiscal resources for the ERTP, with P7 billion budgeted for the 2021/2022 Financial Year. To ensure that our efforts are focused and aligned to the identified priorities, spending will be channelled towards the development of economic clusters, such as agriculture, tourism, creative industry, and manufacturing. Furthermore, projects have been identified to expedite the digital transition, SME development, improve health and education outcomes, develop productive infrastructure, as well as enable a conducive environment for businesses.

**63.** **Mr. Speaker**, in an attempt to expedite digital transition and creating a smart Botswana, Government has started the upgrading of the National Identification System (NIS), a process that will lead to the development of a Biometric National Identity Card (Omang) to support timely service delivery and business facilitation. The project is currently at procurement stage.

**64.** In addition, through the Ministry of Nationality, Immigration and Gender Affairs, Government will develop a new system that will integrate all Ministry systems which deal with gender issues so that they communicate with each other. This interface will facilitate verification of person identification and help reduce incidences of fraud.

**65.** **Mr. Speaker**, the development of the Visa on-line application platform has started, and is expected to be completed by May 2021. In addition, Government will develop the platform for on-line applications for Botswana passports in the new Financial Year. The computerisation of borders is ongoing. To this end, Government is currently carrying out computerisation of six Border Posts (Two Rivers, Bokspits, Makopong, Paarshalt, Zanzibar and Mabolwe), which will be completed this Financial Year. Procurement of equipment for the six border posts has been done, and installation of the Passport and Border Control System (PBCS) will be carried out during the current Financial Year. The automation of all border posts in Botswana will ensure compliance with the requirements of the Public Key Directory (PKD) with the International Civil Aviation Organisation (ICAO) and validate the authenticity and integrity of e-passports of other PKD member states.

**66. Mr. Speaker,** digitalisation will also be carried out in schools, through procurement of ICT learning devices for all learners and teachers from Standard 5 to Form 5 level, connectivity to all schools, developing e-learning material, and training teachers and school managers on basic ICT skills.

**67. Mr. Speaker,** the experience of the last year with restrictions on cross-border trade has demonstrated the need for improved domestic food production to achieve a higher degree of self-sufficiency in selected products. To this end, the design and construction of 12 steel grain silos with an overall storage capacity of 60,000 metric tonnes is underway at the Pandamatenga Special Economic Zone and will be completed by August 2021. Once completed, the grain silos will enhance the capacity of grain management and storage to meet domestic demand.

**68.** Pandamatenga is one of the Special Economic Zone projects that are expected to attract both domestic and foreign investment and diversify the economic and export base beyond mining, thereby creating job opportunities. In Gaborone, the development of the Sir Seretse Khama International Airport Special Economic Zone has commenced, with the construction of the 1.8km three lane Boulevard One road, which is expected to be completed in May 2021.

**69. Mr. Speaker,** in an effort to facilitate an export-led economy, Botswana continues to negotiate and secure global markets for locally produced goods and services. In this respect, the Economic Partnership Agreement (EPA) between the United Kingdom - Southern African Customs Union and Mozambique (UK-SACUM EPA), as well as the EU-Southern African Development Community EPA have been completed and implementation is expected to start in the coming Financial Year.

**70. Mr. Speaker,** concerning road infrastructure development, the completion of the Kazungula Bridge across the Zambezi and the Okavango Bridge in Molembo are expected to boost the economy by facilitating both transit trade and domestic trade. A number of new projects will be implemented in the 2021/2022 Financial Year, on which I will provide more details under the relevant Ministry's Development Budget. Plans are also underway for developing tourism facilities around dams such as Gaborone and Thune Dams, as well as, upgrading existing dry ports in Gaborone (Gabcon), Francistown (Francon) and Palapye (Palcon). A new dry port will be established in Kasane. In addition, Government will continue to provide infrastructure in the form of internal roads, street lighting and storm water drainage in major villages, towns and cities, with a view to creating a conducive and enabling environment for investment, as well as creating opportunities for employment, which consequently improves the standard of living of people.

**71.** In the health sector, **Mr. Speaker**, efforts that are geared towards addressing current challenges include, among others, upgrading or installing more robust port health infrastructure at six points of entry (Mamuno, Martins Drift, Ramatlabama, Ramokgwebana, Kazungula and Pioneer Gate). This is to facilitate testing, sample storage and the temporary holding of suspect cases.

**72.** **Mr. Speaker**, in terms of water supply, the following large scale water and sanitation projects will be executed in the next Financial Year, with the largest share (22 percent), of the Development Budget allocated to water and sanitation. Among the major projects include: Lobatse Water Supply Master Plan, Masama–Mmamashia 100km Water Pipeline; Connection of Tswapong Villages to Mahalapye (Phase 2); Moshupa Sanitation and the North South Carrier 2.3 (NSC 2.3), which consists of a water transfer scheme from Mmamashia to Gaborone; as well as the upgrading of the existing Gaborone Water Supply Network.

**73.** **Mr. Speaker**, in order to meet our national electricity demand at least cost and in an environmentally responsible manner, Government through the newly approved Integrated Resource Plan, will implement the following green technology projects:

- 100 MW of Solar Power Plants (currently under procurement); the tender award to the successful bidder(s) is expected in the first quarter of 2021, and commercial operation is scheduled for third quarter of 2022. The two 50MW power plant sites are located in Selebi-Phikwe and Jwaneng.
- 12 Grid-tied Solar Photovoltaic (total 35 MW) by 2022; tender awards are scheduled for the first and second quarters of 2021, and commercial operation is scheduled to commence in the first quarter of 2022. These projects will be at Kasane, Molepolole, Tutume, Ghanzi, Tsabong, Maun, Serowe, Bobonong, Shakawe, Lobatse, Mamuno and Kang.

**74.** To ensure national security of fuel supply, construction of Ghanzi and Francistown Petroleum depots at 30 million and 60 million litres capacities respectively, will be undertaken in the coming the Financial Year, 2021/2022.

## **V. BUDGET REVIEWS**

**75.** **Mr. Speaker**, both the global and domestic economies are likely to have contracted in 2020, to be followed by an expected recovery in 2021, even though this will be from a lower base. This is the economic background against which the 2021/2022 Budget Proposals that I am presenting here today were prepared.

**76.** **Mr. Speaker**, before I continue, I find it critical to touch on the issue of the “*Unsustainable Fiscal Trajectory*” as reflected in the huge budget deficit which I will be referring to shortly. While the budget deficit reflects the

exceptional fiscal circumstances of 2020, it is not just a short-term phenomenon; rather, it reflects a structural problem in that public spending is simply too high, and unaffordable. In a nutshell, **Mr. Speaker**, we are at a “*fiscal crossroads*”.

### **2019/2020 Budget Outturn**

**77. Mr. Speaker**, the overall fiscal balance for the 2019/2020 Financial Year was a deficit of P11.10 billion, or 5.6 percent of GDP, compared to a projected deficit of P7.93 billion in the revised budget. The deterioration in the budget balance is mainly attributed to under-performance of total revenues and grants, which came in at P54.30 billion, 10.56 percent below the revised budget figure of P60.71 billion. Total expenditure and net lending for the period ending 31<sup>st</sup> March 2020, on the other hand, amounted to P65.40 billion, or 95 percent of the revised budget estimate. While recurrent expenditure was largely in line with the revised budget, development expenditure underperformed by P3.39 billion. However, the underperformance of the development budget was outweighed by that of revenues, resulting in a significantly larger deficit than originally budgeted.

### **2020/2021 Revised Budget Estimates**

**78. Mr. Speaker**, in the current fiscal year, 2020/2021, total revenue and grants are projected to be P48.33 billion in the revised budget, which is P14.06 billion below the original budget of P62.39 billion. The decrease is largely due to the near collapse of mineral revenues, which dropped by P13.46 billion, or 67.2 percent, from P20.02 billion in the original budget to P6.56 billion. The revised budget for Customs and Excise, on the other hand, showed an increase of P1.12 billion, from P15.38 billion to P16.50 billion. VAT decreased from P8.55 billion to P7.1 billion, given reduced consumption primarily due to lockdown measures implemented during the year.

**79.** Projected non-mineral income tax revenue has also been revised downwards, by P2.37 billion, reflecting tax deferment concessions granted to alleviate the impact of COVID-19. Revenue from the Bank of Botswana, on the other hand, increased by P2.96 billion, from P1.16 billion to P4.12 billion, due to an increase in the Bank’s distributable net income in 2019. This was, however, a once-off event, rather than indicating a sustained increase.

**80. Mr. Speaker**, Total expenditure and net lending for 2020/2021 is projected at P69.36 billion, against the original budget of P67.62 billion. This includes P57.20 billion for recurrent expenditure (both Ministerial and Statutory), while P12.23 billion is for the Development Budget. This is expected to result in a revised budget deficit of P21.03 billion, or 11.61 percent of GDP, in 2020/2021. This represents an extremely serious deterioration in our fiscal position, and has resulted in a rapid depletion of Government accumulated savings’ in the

Government Investment Account, and an increase in borrowing through the Bond Issuance Programme. The trend in the overall fiscal position is not sustainable, and it is essential that it is reversed in the 2021/2022 Financial Year.

## **VI. 2021/2022 BUDGET PROPOSALS**

**81. Mr. Speaker**, for the Financial Year 2021/2022, another deficit is anticipated. In that regard, financing measures need to be specified in advance. It is anticipated that this budget deficit will be financed through the issuance of domestic Government securities and external borrowing. Given the reliance on debt funding, going forward, there should be a conscious effort to gradually reduce recurrent spending and allocate more resources to development spending, while improving the quality and impact of that development spending.

### **Total Revenues and Grants**

**82. Mr. Speaker**, in 2021/2022, total revenues and grants are budgeted at P64.58 billion. Mineral revenue is estimated at P23.20 billion or 36.33 percent of total revenues, which is significantly higher than the revised budget of 2020/2021 of P6.56 billion. Non-Mineral Income Tax is estimated at P13.78 billion, which is the second major source of revenue. Customs and Excise revenue is estimated at P13.52 billion, while VAT is estimated at P10.67 billion.

### **Total Expenditure and Net Lending**

**83.** The Total Expenditure and Net Lending for 2021/2022 is projected at P70.61 billion. This includes P56.05 billion proposed for recurrent expenditure (both Ministerial and Statutory), while P14.75 billion is proposed for the development budget.

### **Statutory Expenditure**

**84.** The recommended budget for Statutory Expenditure for the 2021/2022 Financial Year is P9.20 billion, which is a reduction of P1.40 billion or -13.2 percent from the current year's budget. The decrease is because no Government bonds are due to mature in 2021/2022, unlike in the previous Financial Year. The recommended budget is intended to fund normal public debt servicing obligations, Government's pension contribution for civil servants to the Botswana Public Officers' Pension Fund (BPOPF), and other statutory commitments such as Specified Officer's remuneration.

### **Ministerial Recurrent Budget**

**85. Mr. Speaker**, the proposed total Ministerial Recurrent Expenditure for the Financial Year 2021/2022 is P50.66 billion, which is an overall decline of

P714.74 million or -1.4 percent over the current year's approved budget. This is shared among Ministries and Departments as follows.

**86. Mr. Speaker,** the **Ministry of Basic Education** has been allocated the largest share of 18.8 percent of the proposed ministerial recurrent budget amounting to P9.52 billion. The amount represents a growth of P510.84 million or 5.7 percent over the current year's approved budget. The growth mainly comprise the budgetary provision for creation of a total of 1,751 positions of teachers to align with COVID-19 protocols in terms of reducing class size and social distancing in schools across the country. The proposed budget is mainly driven by personal emoluments for teachers and service charges, especially water and electricity in schools. Other costs associated with schools include provision of food, text books, material for practical subjects as well as stationery. Having said that, **Mr. Speaker,** I must emphasise that, in line with the findings of the Basic Education Sector Public Expenditure Review, the Ministry will be expected to deliver on its commitments in the future without expecting additional resources each year; instead, it must address the clearly-identified inefficiencies and, like the whole of the public sector, do more with less.

**87. Mr. Speaker,** the proposed budget for the **Ministry of Defence, Justice and Security** is P8.39 billion, or 16.6 percent of the total, making it the second largest recommended Ministerial Recurrent Budget allocation. This represents a decline of P172.81 million or -2.0 percent over the 2020/2021 approved budget. The recommended budget mainly comprises spending commitments for the Botswana Defence Force, Botswana Police Service and Prisons and Rehabilitation Services. The substantial allocation demonstrates Government's continued commitment to ensuring adequate national security and maintaining the rule of law as the necessary elements for national development as well as being supportive of the business environment. Other major cost drivers are service charges, aviation fuel, maintenance of aircraft, food rations, maintenance of facilities and equipment, as well as other operational costs for the security forces.

**88.** The third largest share of the proposed Ministerial Recurrent Budget of P7.90 billion or 15.6 percent, is recommended for allocation to the **Ministry of Health and Wellness**. The Ministry has recorded a growth of P165.32 million or 2.1 percent over the 2020/2021 approved budget. The proposed budget mainly covers the cost of the provision for drugs, dressings and vaccines, including anti-retroviral therapy programme and laboratory supplies. Other substantial budget items include medical specialist fees, budgetary provision for the Public Officers' Medical Aid Scheme and service charges as well as maintenance of health facilities. **Mr. Speaker,** additional funding has been included to further support Government's response and interventions to contain the pandemic and to mitigate

the risks of new infections, spread or resurgence of the disease. The funding comprises personal protective equipment for public health personnel and other support frontline workers, medicines for the fight against the pandemic, quarantine costs and acquisition of vaccines in line with the agreement with the World Health Organization (WHO).

**89. Mr. Speaker,** the proposed budget for **Ministry of Local Government and Rural Development** is P7.14 billion, which represents the fourth largest share of 14.1 percent of the proposed Ministerial Recurrent Budget. This represents a decline of P12.34 million, or -0.2 percent, over the 2020/2021 approved budget. The recommended budgetary provision is to support among others, initiatives to improve local governance, strengthen social development and promote local economic development. The main cost driver for the recommended budget is Revenue Support Grants (RSG) to District and Urban Councils, which accounts for 57.6 percent of this Ministry's proposed Recurrent Budget. The proposed budget also includes interventions such as preventative measures at Primary Schools and the provision of psycho-social support services to the general public in response to the effects of COVID-19, such as the rising number of Gender Based Violence incidents against women and children. The recommended budgetary provision for Old Age Pension scheme has registered a growth arising from the increase in the number of beneficiaries by 11.2 percent from 124,078 in 2020/2021 to 137,981 projected for Financial Year 2021/2022.

**90. Mr. Speaker,** with regard to subventions to local authorities, it is important to acknowledge that there has been insufficient attention paid to maximising potential revenue collection. For example, urban councils should exercise due diligence in collecting the property rates due to them, instead of relying on subventions from central Government to bail them out. This is not sustainable, and local authorities will be expected, in future, to cover more of their expenditures from revenues that they generate themselves. This Ministry has also engaged the Ministry of Local Government and Rural Development on revenue maximization initiatives by Councils. Follow-ups are being made to ensure that the local authorities are intensifying their revenue collection efforts, including property rates, SHHA loan repayments, and fees from recreational or other facilities. The Ministry will undertake a valuation exercise for eligible properties outside of towns and cities, which will assist the effort to extend the rateable property base and collect appropriate rates.

**91. Mr. Speaker,** in order to compel Local Authorities and Land Boards to play their part in budget sustainability, a 5 percent efficiency factor was applied to reduce their subventions for the Financial Year 2021/2022. This will incentivise them to prioritize their internal revenue generation efforts and reduce costs.

**92. Mr. Speaker, the Ministry of Tertiary Education, Research, Science & Technology's** budget allocation for the Financial Year 2021/2022 is P4.60 billion. The recommended budget represents the fifth largest share or 9.1 percent of the proposed Ministerial Recurrent Budget. It is driven by the tertiary students' sponsorship programme which entails allowances, tuition fees and medical expenses for Government-sponsored students enrolled in both public and private tertiary institutions. The proposed budget also includes staff and operational costs of tertiary institutions and parastatals under the Ministry. The proposed budget allocation is geared towards providing appropriate education and training to students so that upon completion of their studies they could become active players in the transition of the country to a Knowledge Based Economy.

**93. The Ministry of Transport and Communications** recommended budget of P1.82 billion includes fuel and lubricants, road maintenance, computer systems consumables and maintenance, postal charges and agency fees, office equipment maintenance and sub-contracted repairs. The funding will mainly cover the operational costs of the Ministry in order to drive the development and utilization of ICT and integrated transport services in Botswana. The budget also includes subventions to Civil Aviation Authority of Botswana (CAAB), and to meet the Universal Service Programme obligations, which entail Government support for loss making post offices under Botswana Post. I must add, **Mr. Speaker**, that the CAAB also needs to become less dependent on Government subventions and should devise means to generate more revenues and reduce costs.

**94. Mr. Speaker, the Ministry of Presidential Affairs, Governance and Public Administration** has been allocated a proposed Ministerial Recurrent Budget of P1.58 billion. The budget allocation is aimed at supporting the Ministry in its quest to safeguard and promote good governance as well as to guide sustainable socio-economic growth and development for the benefit of all citizens. The budget will mainly cover operational costs for Office of the President, and it has been slightly augmented to cater for the envisaged Constitutional Review exercise. Included in the proposed allocation is the budgetary provision for Directorate on Intelligence and Security (DIS). Other costs include subscription costs for access to the television satellite and maintenance of transmitter contracts, as well as subventions to the Botswana Red Cross, 2036 Vision Council and Public Enterprises Evaluation and Privatization Agency (PEEPA).

**95. The proposed amount of the Ministerial Recurrent Budget for the Ministry of Agricultural Development and Food Security** is P1.39 billion, which is intended to support the agriculture sector in pursuit of improved domestic food production to achieve a higher degree of self-sufficiency in agricultural products.



The proposed budget mainly comprise subventions to Botswana University of Agriculture and Natural Resources (BUAN) and National Agricultural Research and Development Institute (NARDI). The latter includes the former Department of Agricultural Research (DAR), National Veterinary Laboratory (NVL), and National Food Technology Research Centre (NFTRC), following the merger of the three institutions. The recommended budget also covers costs of Foot and Mouth Disease vaccinations, operational costs for BMC Maun and maintenance of existing facilities, including camps, plant and equipment and computer systems such as the Botswana Animal Information and Traceability System (BAITS).

**96. The Ministry of Investment, Trade and Industry, Mr. Speaker,** has been allocated an amount of P975.03 million. The recommended budget comprises mainly transfers to parastatals under the Ministry, which accounts for 76.8 percent of its recurrent budget. This includes funding of the Citizen Entrepreneurial Development Agency (CEDA) in the implementation of the revised guidelines, and improved support for citizen economic empowerment under the Local Enterprise Authority (LEA).

**97. Mr. Speaker,** the recommended budget for the **Ministry of Finance and Economic Development** amounts to P966.92 million, which includes operational costs for the Ministry as well as grants, subventions, other transfers to parastatal and other organisations under this Ministry, which accounts for 33.5 percent of its recurrent budget.

**98. Mr. Speaker,** the **Ministry of Land Management, Water and Sanitation Services** is allocated a Ministerial Recurrent Budget of P963.95 million. The budget mainly covers transfers to Land Boards across the country, which accounts for 57.8 percent, covering mainly the wage bill and other running costs. This supports Government's commitment to ensure access and availability of land through demarcation and allocation of plots to support economic development and growth.

**99. Mr. Speaker,** the remaining P5.41 billion is to be shared among the rest of the Ministries and Extra-Ministerial Departments.

### **Development Budget**

**100. Mr. Speaker,** I now turn to the Development Budget. A sum of P14.75 billion is proposed for the Development Budget in the 2021/2022 Financial Year. The proposed budget will finance programmes and projects crucial for restoration of economic growth. My Ministry has ensured that the proposed programmes and projects are aligned to the Mid-Term Review of the NDP 11 and the Economic Recovery and Transformation Plan (ERTP), as well as the approved Strategic Thrusts.

**101. Mr. Speaker**, to alleviate pressure on the Government budget in the short to medium term, other forms of project delivery, such as Public Private Partnerships (PPPs), continue to be pursued to deliver on planned projects. With respect to engagement of the private sector in the implementation of projects using the PPP method, several Ministries have already identified suitable projects. The Ministry of Land Management, Water and Sanitation Services has invited the private sector to undertake the Reclamation and Treatment of the Wastewater project at Glen Valley, while the Ministry of Mineral Resources, Green Technology and Energy Security has already pre-qualified bidders for the Coal to Liquid project. Private sector partners will be contracted, in the coming Financial Year, to finance, construct and operate these projects.

**102. Mr. Speaker**, in addition, requests for expressions of interest to build, finance and operate the following projects on a PPP basis will be issued in the coming financial year: the Zambezi Agro-Commercial Development project and the Chobe-Zambezi Water Transfer Scheme; Tshele Hill Bulk Fuel Storage Facility; Sepopa Prison Farm; Headquarters for Botswana Prison Services; Serowe Magistrate Court; the Offender Rehabilitation Centre in Lobatse; the Francistown-Nata Road; Maun-Mohembo road; and the Mmamabula-Lephalale and Moseitse-Kazungula Railways.

**103.** However, I would like to touch on a few issues of concern before I delve into the detailed proposals. There are continuing concerns about the slow implementation of projects under the Development Budget. Whilst the low level of expenditure in the current Financial Year may have been exacerbated by COVID-19 restrictions, it is evident that there are deep-seated project execution problems that existed before COVID-19. Bottlenecks in the implementation of the development programme, and the resultant underspending, points to capacity challenges in areas such as project design, contracting processes, project implementation, project monitoring and evaluation. This will be addressed by handing over the responsibility for implementation of selected projects to the private sector, however, with robust contract supervision structures in place.

**104. Mr. Speaker**, in line with the NDP 11 Mid-Term Review policy priority of improving the effectiveness of Government spending, the allocation of resources for development projects will now be based on a more rigorous process of project appraisal or evaluation. TWGs and MDAs have adopted a three phase appraisal process comprising: (i) Confirmation of concept; (ii) Pre-feasibility study; and (iii) Full Feasibility study. Stages (ii) and (iii) will be subject to Independent Reviews. At each stage, only projects that meet the required selection criteria will proceed to the next stage, and hence, weaker projects will

be weeded out. This applies to large projects (of P250 million and above) proposed for inclusion in NDP 12.

**105. Mr. Speaker,** my Ministry is also concerned by high construction costs, which are mainly due to failure to thoroughly interrogate the cost of projects by implementing agencies, and the frequency and magnitude of claims from contractors. This state of affairs cannot be allowed to continue, as it is a major drain on scarce resources. The above-mentioned enhanced project selection process will help to ensure that projects that are finally approved for implementation will have been properly costed. Further, in order to enhance efficiency in Government spending, social protection programmes such as LIMID and Poverty Eradication are currently being evaluated. The review is expected to be completed by the second quarter of the coming Financial Year, and Government will be advised on the appropriate measures to implement the recommendations given that the programmes are ongoing.

**106.** In the meantime, it is imperative to upscale the level of monitoring and evaluation, which is a key stage in the project cycle, particularly under the current strained fiscal conditions. In this regard, my Ministry has undertaken to upgrade the Development Projects Monitoring System (DPMS) into a more versatile and comprehensive tool which will also provide a high-level executive dashboard. The contract has been awarded and work is expected to be completed by the beginning of the next Financial Year.

**107. Mr. Speaker,** in terms of the distribution of the Development Budget by Thematic Working Groups (TWGs), the largest share of the proposed budget, amounting to **P10.23 billion** (69.35 percent), has been allocated to the Economy and Employment TWG. Social Upliftment takes the second largest share of the proposed budget at **P2.04 billion (13.81 percent)**, Governance, Peace & Security is allocated **P2.12 billion (14.36 percent)** and Sustainable Environment gets **P364.35 million (2.47 percent)**. The Economy and Employment TWG includes mega water, agriculture and transport projects, which are geared towards the transformation of the economy as they will support economic growth.

**108. Mr. Speaker,** consistent with the commitments made by Government to improve supply and management of water in the country, the largest share of the proposed Development Budget, at P3.40 billion or 23.06 percent, has been allocated to the **Ministry of Land Management, Water and Sanitation Services**. Water projects account for P2.93 billion or 85.0 percent of the Ministry's allocation. Major investment in water and sanitation infrastructure includes the ongoing construction of the Maun Water Supply and Sanitation Scheme, which will provide potable water and sanitation networks to benefit the localities of Sexaxa, Matsaudi, Sekampane and Shorobe. In the southern part of the country, the construction of the Masama – Mmamashia 100 kilometre pipeline

has commenced. The project will inject an additional sixty-four million cubic litres of water per day (64Ml/day) into the Greater Gaborone, Lobatse, Kanye, Ramotswa, Molepolole and Borolong areas. The project is expected to be completed by May 2021.

**109. Mr. Speaker,** other significant water projects include the next phase of North South Carrier project under the NSC 2.2 Palapye – Mmamashia Water Pipeline, including the Mmamashia Water Treatment Plant expansion; NSC 2.3 Mmamashia – Gaborone Pipeline and implementation of Gaborone Water Master Plan; implementation of Lobatse Water Master Plan; Moshupa Sanitation project; connection of Tswapong South villages to the North South Carrier. The Mahalapye and Palapye Water Treatment works are ongoing and are scheduled for completion in December 2021. Government is also constructing a Water Treatment Plant in Kasane, which is scheduled to be completed in March 2023.

**110.** Apart from projects that will be financed under the Ministry, there will be additional financial support for projects under the World Bank supported programme, which include the North East/Tutume Water Supply project, which entails upgrading and remedial works in 52 villages in the two districts.

**111. Mr. Speaker,** as part of the implementation of the Economic Recovery and Transformation Plan initiatives, a budget provision has been made for major transport infrastructure projects. To this end, the second largest share at P1.85 billion or 12.51 percent is allocated to the **Ministry of Transport and Communications**. All the roads in the ERTP will be done on an expression of interest in the coming Financial Year, including the Nata-Maun road, dualling of A1 and Gaborone Eastern by-pass. Other transport projects to be implemented in the coming year include the Francistown-Nata, Maun-Mohembo, Palapye-Martin's Drift and Mmathethe-Bray roads; and the Mmamabula-Lephalale and Moseitse-Kazungula railway projects. Other infrastructure projects being implemented by the Ministry are the Traffic Control Modernisation and Centralised Traffic Control for the Greater Gaborone Area. The budget also caters for Information Communication Technology (ICT) projects, being Government Data Network upgrading, National Backbone networks, Government Data Centre and Local Access Network.

**112. Mr. Speaker,** the third largest share of the proposed Development Budget is allocated to the Ministry of Defence, Justice and Security's at P1.65 billion, or 11.15 percent. This allocation is for the Botswana Defence Force, Botswana Police Service, Department of Prisons and Rehabilitation Services, for the provision of infrastructure and procurement of air assets, vehicles, and defence and communication equipment.

**113. Mr. Speaker, the Ministry of Basic Education (MoBE)** takes the fourth largest share of the proposed Development Budget at P1.61 billion or 10.91 percent in order to drive the transformation of Botswana into a Knowledge Based Economy and deliver on the promise of the 21st century learner. To cater for School Digitization initiatives, MoBE still has to procure devices for ICT based learning for all learners and teachers from standard 5 to Form 5 level; roll out functional connectivity to all schools; develop and source e-Content for schools; train teachers and school managers on basic ICT skills and use of technology on teaching and learning; and outsource educational broadcasting programmes.

**114. Mr. Speaker, the fifth-largest allocation goes to the Ministry of Local Government and Rural Development,** at P1.45 billion or 9.85 percent, is to continue implementation of social protection programmes and village infrastructure projects. The projects under the Ministry include the Primary School Backlog Eradication Programme; Tutume Internal Roads and Bus rank; and Gabane and Kang Infrastructure Development.

**115. Mr. Speaker, the Ministry of Agricultural Development and Food Security (MOA)** takes the sixth largest share of the proposed Development Budget at P978.5 million or 6.63 percent. The proposed budget caters for the stepping up of projects under the Livestock Management and Infrastructure Development II (LIMID) Programme. These projects include Small Stock, Piggery and Poultry Production, Dairy Production, Apiculture /Bee Production, Horticultural Farming and Aquaculture/Fish Production. The funds will also be used to provide essential services, including basic infrastructure in selected agricultural production areas. The infrastructure development earmarked for production areas include roads, telecommunications, electricity and water reticulation. The approach is to adopt a phased implementation plan for the provision of essential services, starting with areas showing the highest potential in agricultural production and productivity. The intention is to reinvigorate the agricultural sector and achieve self-sufficiency in agricultural products where possible. One of the lessons of the pandemic and associated lockdowns is that it is important to build resilience in food supply chains, including a larger role for domestic production. This will help achieve improved food security and self-sufficiency, in line with the objectives laid down in the ERTTP and the Mid-Term Review of NDP 11.

**116. Mr. Speaker, Government is reviewing the Integrated Support Programme for Arable Agriculture Development (ISPAAD)** with the intention of creating an efficient and sustainable programme to replace it. The new programme will be launched during the course of 2021. Among its key elements, the subsidy will be weighted more towards outputs, rather than the current input-based subsidy, and realignment of fields to enable critical infrastructure developments such as

digitization, roads and water among others. In addition, parts of the Botswana University of Agriculture and Natural Resources (BUAN), will be refurbished.

**117. Mr. Speaker,** the remaining Ministries/Departments share the balance of the proposed Development Budget of P5.46 billion or 37 percent. The major projects are staff houses and maintenance of schools; the Poverty Eradication Programme; housing schemes like Self Help Housing Agency (SHHA) poverty alleviation scheme and destitute housing for the low income groups. The budget also caters for refurbishment of brigades, which is part of the youth empowerment initiative. Some of the projects include construction of mini-health centres at Sir Seretse Khama International Airport, Maun Airport and Kasane Airport as well as upgrading health care facilities in Maun and Kasane, redevelopment and repair of Lobatse Athlone Hospital, and further development of Mahalapye and Sekgoma Hospitals.

**118. Mr. Speaker,** the budget also includes upgrading the National Identification System (NIS) to enable the development of a Biometric National Identity Card, which has been identified as one of the initiatives in the ERTP that could fast-track digital transition and effectively facilitate timely service delivery and effective business facilitation. Other ongoing projects include North–West Transmission Grid Connection; Rural Electrification; and Transmission Backbone for Mochudi, Government Enclave and Gaborone Central. The budget will also cater for the Innovation Fund; Research Fund; and Research Capacity Building.

### **Overall Balance**

**119. Mr. Speaker,** the proposed revenues and expenditure for 2021/2022 result in a budget deficit of P6.03 billion 2.87 percent of GDP. This comes after successive budget deficits experienced since the beginning of NDP 11 and a very large deficit in 2020/2021, which have resulted in the depletion of the Government Investment Account. A more rapid pace of restoring fiscal consolidation is therefore required in order that the budget is restored to a sustainable level in the short to medium term. The smaller deficit proposed for 2021/2022 is consistent with this objective. It is, however, dependent on the strong projected recovery in diamond exports. Should this recovery not materialise, and a larger budget deficit appear likely, it may be necessary to introduce adjustments in the form of cutting expenditure during the Financial Year, if necessary by withdrawal of warrants.

### **Government Financing Strategy**

**120. Mr. Speaker,** as I have indicated earlier, we are facing large budget deficits during the second half of NDP 11. These need to be financed, in order

that spending on government activities can continue despite the shortfall in revenues. In the past, budget deficits have been largely financed by drawing down on accumulated savings held in the Government Investment Account (GIA), which is the Government's portion of the foreign exchange reserves held at the Bank of Botswana. This option is no longer available, as the GIA has been depleted by past drawdowns and the revenue shortfall in the 2020/2021 fiscal year. The level of the GIA has drastically declined from an opening balance of P18.5 billion at the end of 2019/20 Financial Year to P5.6 billion as at November 2020, a decline of 72 percent.

**121. Mr. Speaker**, in the coming Financial Year, the entire budget deficit will need to be financed by borrowing. Some of this will be sourced from the domestic capital market, following the increase in the bond issuance limit already approved by this Honourable House. Besides financing Government activities, this will also help to develop the domestic capital market, and address the shortage of domestic financial assets that investors and financial institutions have been concerned about for some time. However, I must point out that increasing domestic borrowing may put pressure on domestic interest rates, which increases debt servicing costs. It is, therefore, essential that we minimise the possibility of Government borrowing "crowding out" borrowing by the private sector, which will slow down the pace of recovery.

**122. Mr. Speaker**, it will also be necessary to borrow from external sources. My Ministry is currently in negotiations with development finance partners for possible loans to finance budget deficits. Furthermore, the Ministry is exploring external financing on the back of a guarantee from the Multilateral Investment Guarantee Agency (MIGA), an arm of the World Bank.

**123. Mr. Speaker**, overall, it is projected that additional borrowing from domestic bond issuance along with borrowing from external lenders will be sufficient to finance the projected budget deficit. Nevertheless, it is important to point out that despite the anticipated additional borrowing, public debt will remain within the statutory limit of 40 percent of GDP. All proposed loans will be brought to this House for approval, as per the relevant legislation.

**124. Mr. Speaker**, it is of critical importance to note that fiscal sustainability involves accepting that Government cannot finance all of the demands and expectations that are placed on it; it means prioritising expenditures and saying no, in some circumstances. Ministries must be aware that spending requests for projects and programmes that are not substantiated by proper and convincing demonstrations of their cost-effectiveness will not be approved; and evidence-based policymaking will be an absolute requirement. In addition, Local authorities will have their subventions reduced in future, and will be required to

raise a greater portion of their revenues locally, for instance by generating significantly more income from property taxes. Similarly, subventions to State-Owned Enterprises will be further reduced in future.

## **VII. MEASURES TO RESTORE FISCAL BALANCE**

**125. Mr. Speaker**, in view of the expected budget deficit, it is imperative that, going forward, recurrent spending is reduced and revenues increased to bring them back into balance. Achieving fiscal sustainability requires a range of actions, such as: improving domestic revenue mobilisation; trimming Government spending to align it with the new, lower level of Government revenues; making sure that Government spending is productive and efficient; rebuilding the financial buffers that have been largely depleted; and ensuring that the borrowing necessary to finance budget deficits is kept to modest levels.

**126. Mr. Speaker**, a major challenge facing Government is the unsustainable level of personal emoluments - wages, salaries and pension contributions - which currently stands at 15 percent of GDP. This is way above the sustainable level, which is estimated at less than 10 percent of GDP. In order to address this challenge, Government needs to right-size the public service. Meanwhile, as an effort to reduce the wage bill, Government will abolish 50 percent of vacant positions, in value, as of 1<sup>st</sup> April, 2021. In this regard, the Directorate of Public Service Management (DPSM) will be expected to review the size of the public service and, during the 2020/21 Financial Year, recommend measures to right-size it as part of over-arching public sector reforms.

**127. Mr. Speaker**, the E RTP identifies the rapid rollout of public services on digital platforms as a priority, with the potential to reduce the number of personnel required in the workplace and hence the future wage bill. This can facilitate the digital transition more broadly, including transfer of services, processes and transactions to digital platforms throughout the economy, and thus reduce the use of physical or manual processes.

### **Proposed Tax Changes**

**128. Mr. Speaker**, the current Financial Year has shown how vulnerable we are to unanticipated reductions in fiscal revenues. Although, we have benefitted from high revenues in the past, we still have a situation whereby the majority of Government revenues are derived from external sources, notably mineral revenues and the Southern African Customs Union (SACU) receipts. Domestic revenue generation is relatively low, and needs to be increased to support our goal of fiscal sustainability. This, in turn, requires both increased efficiency through improved tax administration, as well as new taxes or increased tax rates.



**129.** In order to broaden the domestic revenue base, the rate of Value Added Tax (VAT) will be increased from 12 percent to 14 percent with effect from 1<sup>st</sup> April 2021. Currently, Botswana has one of the lowest VAT rates in the world. Even with this increase, the VAT rate will remain amongst the lowest in the SADC region.

**130. Mr. Speaker,** it is also necessary to increase the rate of the fuel levy. This tax was introduced at the same time as VAT, and compensates for the fact that fuel is zero-rated for VAT purposes. In principle, the fuel levy should approximate the VAT rate. However, this rate has not been adjusted to reflect the rising cost of fuel or rising VAT rates. Therefore, the fuel levy will be increased by P1 per litre on 1<sup>st</sup> April 2021.

**131.** Company owners and shareholders currently pay a withholding tax on dividend income at the relatively low rate of 7.5 percent. In order to raise more revenue for Government, and to equalise this rate with that on interest income, the withholding tax rate on dividends will be increased to 10 percent. I should note, **Mr. Speaker,** that this is a final tax, and no further tax is payable on income derived from this source.

**132. Mr. Speaker,** in order to alleviate the burden on taxpayers, and reflect the impact of inflation over time, the threshold at which income earners become liable for income tax will be raised to P48, 000 per annum with effect from the 2021/2022 tax year. This threshold has been unchanged at P36, 000 per annum since 2011, and the change will reduce the income tax obligations of all taxpayers.

**133.** In an effort to further ease the burden on taxpayers, Government has taken a decision, **Mr. Speaker,** to offer a tax amnesty during the coming tax year. In this regard, taxpayers with outstanding tax amounts will be granted an opportunity to clear the principal amount owed in exchange for write off of interests and penalties charged during the previous tax periods without fear of prosecution. I wish to encourage companies and individuals to take advantage of this dispensation to clear their arrears to be in good standing. In addition, by clearing their tax arrears, companies will be in a position to participate in public procurement, which requires tax clearance from the Botswana Unified Revenue Service.

**134. Mr. Speaker,** we have a health problem in Botswana with many people consuming too much sugar, leading to problems of obesity and diseases such as diabetes. In order to address this health challenge and at the same time raise revenues, Government will introduce a levy on sweetened beverages related to their sugar content, at a rate of 2 thebe per gram of sugar above a content of 4g of sugar per 100 millilitres. While this will raise the price of those drinks moderately, it is expected that this will provide an incentive for consumers to switch to drinks with a lower sugar content, and for manufacturers to do the same.

**135. Mr. Speaker,** in the past, Government announced an intention to introduce a levy on plastic bags, to reduce pollution. However, this was never actually implemented. During the coming Financial Year, the necessary statutory instrument will be introduced to ensure that the plastic bag levy becomes operational.

**136. Mr. Speaker,** Government is working on the modalities of imposing a levy on second-hand vehicles imported into Botswana, with the dual objectives of raising revenue and addressing environmental concerns regarding pollution.

**137. Mr. Speaker,** Government continues to review the fees and levies charged for its services, to assist with revenue generation. The first group of Ministries had their user charges and fees adjusted during the current financial year. The next group of six Ministries are at advanced stages of finalizing the revision of their fees and user charges. These are Ministries of Transport and Communications; Tertiary Education, Research, Science and Technology; Infrastructure and Housing Development; Mineral Resources, Green Technology and Energy Security; Investment, Trade and Industry and Employment, Labour Productivity and Skills Development. The aim is to have the revised fees/user charges approved to take effect on the 1<sup>st</sup> April 2021.

## VIII. CONCLUSION

**138. Mr. Speaker,** while we are expecting economic recovery during the coming fiscal year, this does not mean our fiscal challenges will disappear anytime soon. As the Mid-Term Review of NDP 11 pointed out, the decline in fiscal revenues is a long-term structural trend not just a short-term problem; in a sense, therefore, the pandemic has simply accelerated an ongoing trend. We now have one or two years to respond and adjust to achieve fiscal sustainability, rather than the five to ten years that we might have had otherwise.

**139. Mr. Speaker,** let me emphasise that restoring fiscal sustainability remains our major challenge, but it has now become a matter of urgency. In doing so, I must also add that the “new normal” really is new, and that many of the habits, expectations and practices of the “old normal” are no longer feasible or desirable. The budget deficit must be reduced, through a combination of improved domestic revenue mobilisation and cutting expenditure. Financing the budget through borrowing, however, should be undertaken with due care, as it creates future payments obligations on the nation. This also takes us into uncharted territory of managing the debt burden as, in the past, Botswana has always depended on having large financial reserves, which have now been significantly reduced.

**140. Mr. Speaker,** the year 2020 will arguably be remembered as the most challenging one we have ever faced. However, I wish to reassure the nation and urge Botswana to remain confident that we will come out of this crisis, even

though I am not in a position to say for certain how long the journey will take. We all have roles to play, either collectively and/or as individuals, for the benefit of our country and ourselves. Government will also do its part to combat and defeat this disease, while managing its impact on the economy. The stronger and more effective our response, the sooner we will complete this journey.

**141. Mr. Speaker,** to this end the private sector should be ready to play a more proactive role in economic development than before. This is because the challenges we are facing today also offer business opportunities in areas that would otherwise have not been available. Hence, I would like to urge the private sector to rise to the occasion in providing good quality services and products that are not only competitive within the domestic market, but in both the regional and international arena. This will not only assist in diversifying our exports, but also in creating long-term sustainable jobs as well as reducing the country's vulnerability to external shocks by being self-sufficient in certain key commodities that can be produced locally.

**142.** Lastly **Mr. Speaker,** let me extend my profound gratitude to our development partners, and the multitude of individuals, companies and the financial sector for their relentless effort in contributing towards the fight against the COVID 19 pandemic and its impact on the economy and the society at large.

**143. Mr. Speaker,** I now move that the Appropriation Bill (2021/2022), Bill 2021, No 1 of 2021 be read for the second time.

**144.** I thank you, **Mr. Speaker.**