

THE POWER OF BEING UNDERSTOOD

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2021 BUDGET SUMMARY

Speech by Honourable Dr Thapelo Matsheka, Minister of Finance and Economic Development, delivered to the National Assembly on 1st February 2021

3 February 2021

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Proposed Tax Changes

- Value Added Tax (VAT) will be increased from 12 percent to 14 percent with effect from 1st April 2021.
- Fuel levy will be increased by P1 per litre on 1st April 2021.
- Withholding tax rate on dividends will be increased to 10 percent.
- No Tax on the first P48, 000 per annum with effect from the 2021/2022 tax year.
- Taxpayers with outstanding tax amounts will clear the principal amount owed in exchange for write off of interests and penalties charged during the previous tax periods without fear of prosecution.
- 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.
- Plastic bag levy will become operational.
- Levy on second-hand vehicles imported into Botswana will come.
- Government continues to review the fees and levies charged for its services, to assist with revenue generation for 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 1st April 2021.

Strong Message from the Minister

- We are at a “fiscal crossroads”. Botswana’s accumulated financial buffers have now been depleted.
- At the end of November 2020, the official foreign exchange reserves amounted to P58.7 billion, a 10.0 percent decrease from P65.2 billion in December 2019. This (is)an extremely serious deterioration in our fiscal position. The trend in the overall fiscal position is not sustainable.

COVID-19

- Once-in-a-century shock to Botswana, Africa and the entire world.
- Forcing us to implement much-needed policy reforms that we might otherwise have avoided or postponed.
- Botswana economic activity in the second quarter of 2020 was 24.0 percent lower than in the same period in 2019.
- Preliminary data indicate that for the first nine months of 2020, the balance of payments recorded an overall deficit of P14.8 billion.

Our Basic Economic Problem

- Non-diamond exports have also been growing more slowly than GDP as a whole for some time. Botswana has a competitiveness challenge, which needs to be addressed as a matter of urgency.
- The unemployment rate for the quarter ending December 2020 was 24.5 percent.
- 37 percent of public expenditure on infrastructure goes to waste in Botswana.

What are the gateways to success?

- In 2021, we will also be creating opportunities for the private sector to actually deliver major investment projects.
- Growth rate of 8.8 percent projected for Botswana in 2021. But this will require a totally new approach to project implementation.
- 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.
- Allocation of resources for development projects will now be based on a more rigorous process of project appraisal or evaluation using Development Projects Monitoring System (DPMS).
- Private sector should be ready to play a more proactive role in economic development than before.

2019-20 Historic Estimated Actuals

- The overall fiscal balance for the 2019/2020 = deficit of P11.10 billion
- Under-performance of total revenues and grants, which came in at P54.30 billion.
- Total expenditure and net lending P65.40 billion.
- Development expenditure underperformed by P3.39 billion.

2020/2021 Revised Budget Estimates

- Collapse of mineral revenue dropping by P 13.46 billion.
- Total revenue and grants at P48.33 billion, P14.06 billion below the budget.
- VAT decreased from P8.55 billion to P7.1 billion
- Total expenditure and net lending = P69.36 billion; P57.20 billion for recurrent expenditure & P12.23 billion is for the Development Budget.
- This means a revised budget deficit of P21.03 billion.

2021-2022 Budget

Revenue

- Total revenues and grants are budgeted at P64.58 billion.
- Mineral revenue is estimated at P23.20 billion or 36.33 percent
- Non-Mineral Income Tax is estimated at P13.78 billion
- Customs and Excise revenue is estimated at P13.52 billion
- VAT is estimated at P10.67 billion.

Expenditure

- Total Expenditure and Net Lending P70.61 billion.
- Recurrent Expenditure P56.05 billion
- Development budget P14.75 billion (When asked about the possibility of increasing development budget, Hon'ble Minister referred to this as "balancing figure" in FNB Budget Interview on 2nd Feb 2021, because income and recurrent expenditure is more or less given.
- Statutory Expenditure 21/2022 Financial Year is P9.20 billion

Overall Balance of Budget and Management of Deficit

- **Budget deficit of P6.03 billion 2.87 percent of GDP.**
- This is based on the possibility of more rapid pace of restoring fiscal consolidation to a sustainable level in the short to medium term.
- This depends on the strong projected recovery in diamond exports.
- Should this recovery not materialise, and a larger budget deficit appear likely.
- Then it may be necessary to cut expenditure if necessary by withdrawal of warrants.

Financing Strategy

- 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.
- 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.
- Ministry is exploring external financing on the back of a guarantee from the Multilateral Investment Guarantee Agency (MIGA), an arm of the World Bank.

Annexure 1

What measures are taken or to be taken?

Public Private Partnerships (PPPs)

- 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.
- Ministry of Mineral Resources, Green Technology and Energy Security has already pre-qualified bidders for the Coal to Liquid project.
- PPP basis will be issued in the coming financial year:
 - Zambezi Agro-Commercial Development project
 - Chobe-Zambezi Water Transfer Scheme;
 - Tshele Hill Bulk Fuel Storage Facility;
 - Sepopa Prison Farm;
 - Headquarters for Botswana Prison Services;
 - Serowe Magistrate Court;
 - Offender Rehabilitation Centre in Lobatse;
 - Francistown-Nata Road;
 - Maun-Mohembo road; and
 - Mmamabula-Lephalale and Moseitse-Kazungula Railways.

Monetary Policy

- 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.

Immigration and Citizenship

- Issuance of work permits for investors and skilled employees at a faster pace.
- The development of the Visa on-line application platform has started.
- National Identification System (NIS) to enable the development of a Biometric National Identity Card.

Foreign Exchange Policy (Decision NOT to change)

- 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.

Employment

- The National Employment Policy will be finalised in the first half of 2021.

State Owned Enterprises

- The problems in the SOEs are unfortunately confirmed by the continued poor financial performance of many of them.

- Decisions will be made on rationalising, restructuring, privatisation and liquidation of SOEs in the first half of 2021.
- Subventions to State Owned Enterprises will be further reduced in future.

Local Authorities

- Local authorities will be expected, in future, to cover more of their expenditures from revenues that they generate themselves.
- To compel Local Authorities and Land Boards, a 5 percent efficiency factor was applied to reduce their subventions.

Power

- Implementation of Energy Policy and Integrated Resource Plan will see Botswana transforming from being a net importer of electricity to being a net exporter.
- The 600MW Morupule B Power Plant will be commissioned in June 2021.

Agriculture

- Import restrictions have been imposed.

Equity Injection in “alternative” investments / SME Sector

- P1.3 billion was approved in the Supplementary Budget for the Industry Support Facility (ISF) - administered through CEDA, NDB and BDC.
- Government proposed that P14.5 billion be allocated as additional fiscal resources for the ERTF, with P7 billion budgeted.

Digitisation

- 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.

Infrastructure

- Design and construction of 12 steel grain silos with storage capacity of 60,000 metric tonnes is underway at the Pandamatenga Special Economic Zone to be completed by August 2021.
- Sir Seretse Khama International Airport Special Economic Zone - construction of the 1.8km three lane Boulevard One road, which is expected to be completed in May 2021.

International Trade

- Economic Partnership Agreement (EPA) between the UK, SACU, and Mozambique (UKSACUM EPA), as well as the EU-Southern African Development Community EPA have been completed.

Cross Border Stimulated Trade

- Kazungula Bridge across the Zambezi and the Okavango Bridge in Mohebo are expected to boost the economy.

Tourism

- Tourism facilities around dams such as Gaborone and Thune Dams
- Upgrading existing dry ports in Gaborone (Gabcon), Francistown (Francon) and Palapye (Palcon). A new dry port will be established in Kasane.

Water / Pula

- 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.

Alternative Energy

- 100 MW of Solar Power Plants (currently under procurement); the tender award by March 2021.
- 12 Grid-tied Solar Photovoltaic (total 35 MW) by 2022 at Kasane, Molepolole, Tutume, Ghanzi, Tsabong, Maun, Serowe, Bobonong, Shakawe, Lobatse, Mamuno and Kang.


Fuel

- Construction of Ghanzi and Francistown Petroleum depots at 30 million and 60 million litres capacities respectively.

Annexure 2

2021-2022 Development Budget Projects

- P14.75 billion is proposed for the Development Budget
- See Annexure for the details of the Development Projects
- P10.23 billion allocated to the Economy and Employment Thematic Working Group for:
 - Social Upliftment TWG P2.04 billion (13.81 percent)
 - Governance, Peace & Security TWG P2.12 billion (14.36 percent)
 - Sustainable Environment TWG P364.35 million (2.47 percent).
 - P3.40 billion to the Ministry of Land Management, Water and Sanitation Services for water projects.
- P1.85 billion or 12.51 percent is allocated to the Ministry of Transport and Communications for:
 - Nata-Maun road, dualling of A1
 - Gaborone Eastern by-pass.
 - Francistown-Nata,
 - Maun-Mohembo,
 - Palapye Martin's Drift and
 - Mmathethe-Bray roads; and the
 - Mmamabula-Lephalale and
 - Moseitse-Kazungula railway projects.
 - Traffic Control Modernisation
 - Centralised Traffic Control for the Greater Gaborone Area
- Ministry of Basic Education (MoBE) P1.61 billion for School Digitization initiatives.
- Ministry of Local Government and Rural Development, at P1.45 billion for Primary School Backlog Eradication Programme; Tutume Internal Roads and Bus rank; and Gabane and Kang Infrastructure Development.
- Ministry of Agricultural Development and Food Security (MOA) takes P978.5 million for Livestock Management and Infrastructure Development II (LIMID) Programme

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- Remaining Ministries/Departments share the balance for:
 - staff houses and maintenance of schools;
 - Poverty Eradication Programme;
 - Housing schemes like Self Help Housing Agency (SHHA)
 - Poverty alleviation scheme and destitute housing for the low income groups.
 - 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.
 - 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.



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