



Republic of Botswana



2015 BUDGET SPEECH

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I. INTRODUCTION

1. Madam Speaker, I have the honour this afternoon to present to the National Assembly budget proposals for the financial year 2015/2016.

2. Since this is the first Budget presentation after the election of a new Parliament, that is, the 11th Parliament, I wish to draw the attention of Honourable Members to the Section 5 (4) of the Public Finance Management Act of 2011, which states that: “*the Minister shall annually present to the National Assembly a report on the current and projected state of the economy, finances of Botswana, and fiscal policy of Government*”. This legal undertaking defines Botswana’s budgeting process and forms the basis for consideration of the annual budget and related policies and strategies by the National Assembly.

3. Madam Speaker, as part and parcel of our budgeting process, we have continued to undertake consultations with general stakeholders. Such consultations have enhanced the transparency of our budget preparation process and improved the understanding of the national budget by the general public. The budget consultations for the 2015/2016 financial year held in September 2014, revealed a broad consensus on the challenges facing this country such as unemployment and poverty, as well as an endorsement by the general stakeholders, of the economic priorities of promoting growth and economic diversification. This endorsement was in recognition of the importance of growth in increasing the national income, creating employment opportunities, and generating government revenues for redistribution through economic and social policies and programmes.

4. To achieve the goals of promoting economic growth and diversification, Government will continue to adopt appropriate policies and strategies and make substantial budgetary allocations to human capital and physical infrastructure development in recognition of their importance in improving factor productivity and competitiveness. However, it should be noted that the role of Government in promoting growth in the country is a facilitatory one through the provision of a conducive environment for efficient operations of the private sector; which should be the engine of growth. To this end, domestic enterprises would also need to play their part by: improving their operational efficiency; enhancing productivity; and adopting appropriate technologies, in order to enhance their access to global supply chains and networks, which is necessary for global competitiveness.

5. Madam Speaker, despite the positive domestic economic outlook for the financial year 2015/2016, there is a need to continue with prudent management of our resources, given the continued uncertainty over the recovery of the global

economy. To this end, expenditure management and control should remain a priority, if fiscal policy is to continue to be supportive of a stable macroeconomic environment, which is necessary for growth and economic diversification. This means that the implementation of the programmes and projects should be guided by the principles of efficiency, effectiveness and financial discipline. Hence, the need to continuously strive for a balance between economic and social investment decisions, to ensure that, emphasis on one does not jeopardise progress in the other. Above all, there is need to ensure *value-for-money* throughout the implementation of our projects and programmes.

6. Madam Speaker, I now turn to the review of the global and domestic performance and outlook to put into context the budget proposals that I shall be presenting to this Honourable House today.

II. GLOBAL AND REGIONAL ECONOMIC REVIEW AND OUTLOOK

Global Economic Review and Outlook

7. Madam Speaker, the performance of the global economy continues to be uneven, with recovery remaining fragile in 2014. According to the latest World Economic Outlook (WEO) report released by International Monetary Fund (IMF) in January 2015, projected world economic growth remained unchanged at 3.3 percent in 2014, the same growth achieved in 2013. Advanced economies were expected to grow by 1.8 percent in 2014, as compared to 1.3 percent in 2013. Debt accumulation by advanced economies remained high, thus affecting world output growth prospects. In the Sub-Saharan Africa region, growth is expected to be 4.8 percent in 2014, a decline of 0.4 percentage point compared to 5.2 percent recorded in 2013. Some of the downside risk factors expected to affect global output in 2014 comprise: uncertainty about future oil price path; financial markets volatility, as well as stagnation and low potential growth, especially in advanced economies and emerging markets.

8. The global economy is expected to grow by 3.5 percent in 2015, down from a previous forecast of 3.8 percent, but marginally higher than in 2014, underpinned by expected better performance of the advanced economies, which are projected to grow by 2.4 percent. Emerging and developing economies including Sub-Saharan Africa are expected to grow at a lower rate of 4.3 percent compared to 2014. The slower growth in emerging and developing economies including Sub-Saharan Africa is expected to impact negatively on the domestic economic prospects through diminished demand for the country's exports and reduced Government revenue.

Regional Economic Review and Outlook

9. Madam Speaker, real Gross Domestic Product (GDP) growth in the Southern African Development Community (SADC) region averaged 4.9 percent in 2013, slightly higher than 4.8 percent in the previous year. The moderate growth performance of the region is due to the decline in global commodity prices and slow global economic recovery. However, the region is expected to have registered a higher growth rate of 5.2 percent in 2014.

10. Despite the relatively higher growth rate that was projected for 2014, the SADC region continues to face several development challenges such as youth unemployment and high incidence of poverty. To address these challenges, in the coming years the region will need to grow faster than the 5.2 percent projected for 2015, which could be achieved through regional integration. In this regard, the revised SADC Regional Indicative Strategic Plan for the period 2015-2020 has identified industrial development and market integration as one of the key priorities to drive the regional integration agenda.

III. DOMESTIC ECONOMIC PERFORMANCE AND OUTLOOK

Economic Performance

11. Madam Speaker, over the past year, the domestic macroeconomic environment remained stable, with positive outlook, as shown by the performance of the main economic indicators such as economic growth, inflation and monetary policy, balance of payments and exchange rate movements. The performance of these variables reflects the impact of previous and current Government policies and strategies to drive the economy.

12. A positive macroeconomic environment was confirmed by the Moody's Investors Service assessment of Botswana's credit profile in terms of its economic, institutional and fiscal strength as well as susceptibility to event risks. The agency rated Botswana A2 in 2014, with a stable outlook. Among the key credit strengths for these rating was the Government's robust balance sheet, as indicated by its fiscal surplus and low debt levels. The report endorsed Government's prudent approach to fiscal policy and the effectiveness of its consolidation measures going forward. This positive domestic economic environment is favourable for private sector development, which should be the source of growth and employment creation in the country.

Economic Growth

13. Madam Speaker, real GDP registered a growth rate of 5.8 percent in 2013 compared to the 4.3 percent growth in 2012. This growth was attributable to both mining and non-mining sectors of the economy. The Mining sector registered a significant growth rate of 10.6 percent in 2013, owing to strong demand in the

global economy for our diamonds, especially in the emerging economies of China and India.

14. The non-mining sectors collectively registered a positive growth rate of 5.0 percent in 2013, with Trade, Hotels & Restaurants growing at 6.3 percent; Social and Personal Services at 6.0 percent; while General Government and Finance & Business Services grew by 5.5 percent each. However, the Water and Electricity sector recorded a negative growth rate of 27.2 percent in 2013. The continued underperformance of the Water and Electricity sector is of major concern, given the importance of water and power in the economy. To address the challenges facing this sector, Government continues to undertake regulatory reforms and has allocated the sector a substantial development budget in 2015/2016 financial year.

Inflation and Monetary Policy

15. Madam Speaker, domestic inflation rose from 4.1 percent in December 2013 to 4.6 percent in August 2014, and has since declined to 3.8 percent in December 2014, remaining within the Bank of Botswana's objective range of 3-6 percent. The projected external price developments and lower forecasts for oil prices will result in moderate pressure on domestic prices. Therefore, inflation is expected to remain within the Bank's objective range in the medium term.

16. In terms of the monetary policy, the focus remains on monetary stability, which fosters international competitiveness of the domestic industries and supports the broader national objectives of sustainable economic growth and employment creation. With the positive medium-term inflation outlook and credit developments, the Bank of Botswana continued to maintain an accommodative monetary policy stance during the year. The Bank Rate was maintained at 7.5 percent in 2014, after it was last adjusted downwards by 50 basis points in December 2013. At the same time, commercial bank credit grew by 14.0 percent from P39.4 billion in November 2013 to P44.9 billion in November 2014, which is supportive to economic growth.

Balance of Payments and Foreign Exchange Reserves

17. Madam Speaker, the balance of payments continued to record strong performance during 2014. Preliminary estimates indicate that the current account of the balance of payments registered a surplus of P13.1 billion in 2014, a moderate increase of 1.5 percent from the P12.9 billion in 2013. This is attributable to the increase in receipts from the Southern African Customs Union (SACU), which increased from P13.8 billion in 2013 to P15.0 billion in 2014. As a result of the positive current account balance, the overall balance of payments is projected to record a surplus of P10.0 billion in 2014, a significantly higher surplus from the P1.3 billion in 2013.

18. The positive overall balance of payments contributed to the increase in foreign exchange reserves. As at the end of December 2014, the reserves amounted to P79.0 billion, equivalent to 18 months of import cover of goods and services. This is an increase of 16.5 percent from P67.8 billion in December 2013. The increase in the foreign exchange reserves reflects mainly the net foreign exchange inflows and the exchange rate movements between the Pula and the major international currencies. In terms of the Special Drawing Rights (SDR) and the United States Dollar (USD), the foreign exchange reserves were SDR 5.7 billion and USD 8.3 billion, respectively, as at end of December 2014.

19. Madam Speaker, I am pleased to report that Government's net financial asset position has improved significantly. As at the end of March 2014, Government's net financial assets stood at 1.7 percent of GDP, an improvement from the negative 6.9 percent of GDP in March 2013. This was because Government's balances at the Bank of Botswana had risen from P20.61 billion to P31.75 billion over the 2013/14 financial year, while Government's net debt and guarantees had increased only marginally over the same period, from P28.33 billion to P29.52 billion. We expect our net position to continue to improve further by the end of the current and coming financial years. However, we need to decrease our net debt and increase our balances in the Government Investment Account, if we are to be in a position to absorb a major external shock of the magnitude we experienced in financial years 2008/2009 and 2009/2010.

Exchange Rate Developments

20. Madam Speaker, the exchange rate between the Pula and basket of currencies is managed through a crawling band mechanism based on the differentials between expected inflation in Botswana and in its major trading partners. Any significant divergence between the expected inflation rates in Botswana and its trading partner countries normally leads to an adjustment of the rate of crawl in order to maintain a competitive real effective exchange rate.

21. Consistent with the crawling band exchange rate mechanism, the real effective exchange rate marginally depreciated by 0.5 percent during 2014, reflecting the effect of the 0.16 percent annual downward crawl rate and the narrowing inflation differential between Botswana and trading partner countries. A competitive real effective exchange rate is necessary for export promotion as it ensures competitiveness of the domestic producers in the global market.

22. Madam Speaker, in terms of the bilateral exchange rate movements, the Pula depreciated by 2.4 percent against the SDR while it appreciated by 1.7 percent against the South African Rand by end of December 2014. Against the

individual SDR composite currencies, there was mixed performance; with the Pula weakening against the USD and British Pound by 8.3 percent and 2.9 percent, respectively, while it appreciated by 4.0 percent against the Euro and 4.5 percent against the Japanese yen.

Performance of Public Enterprises

23. Madam Speaker, as I indicated in last year's Budget Speech, there is need to closely monitor the operations of parastatal organisations, with a view of ensuring that they continue to contribute to growth and employment creation. To facilitate this, each Ministry will be required to implement the *Guidelines for the Exercise of Shareholder Oversight over Parastatals* to strengthen the governance and oversight structures of the parastatals, which should contribute to the overall improvement in their performance.

24. With respect to overall performance, the country's parastatal organisations continued to display uneven performance during the year; with some performing satisfactorily, while others recorded operational losses. Parastatals which performed satisfactorily included: the Botswana Telecommunications Corporation Limited (BTCL); National Development Bank (NDB); Botswana Communications Regulatory Authority (BOCRA); Botswana Housing Corporation (BHC); and the Botswana Meat Commission (BMC).

25. The BTCL recorded a net profit of P273.6 million in 2013, compared to a net profit of P236.9 million in 2012, due to growth in revenue as a result of increased customer base, especially in the mobile business sector. NDB registered a net profit of P45.8 million in 2013, compared to P40.6 million in 2012, due to initiatives such as *Ntlhatlosa kwa Morakeng*, which continue to attract customers. With continued demand for services due to the significant growth in the use of the mobile internet technology, particularly smart phones, BOCRA recorded a net profit of P40.6 million in 2013, compared to P31.2 million in 2012. The Botswana Housing Corporation's net profit declined to P34.9 million in 2013, from P50.4 million in 2012, due to among others, the rising finance costs. After experiencing hardships in its operations since 2008, the Botswana Meat Commission finally recorded a net profit of P25.8 million in 2013, compared to a loss of P324.1 million in 2012. This was mostly boosted by increased revenue as a result of re-admission of the Commission to the European Union market during the year.

26. The parastatal organisations that continued to experience operational and financial challenges include the Botswana Power Corporation (BPC) and Water Utilities Corporation (WUC). BPC recorded a net loss of P1.3 billion in 2013, compared to a net loss of P1.1 billion in 2012, due to increase in generation, transmission and distribution expenses. A large part of direct costs were incurred

in procuring power from external sources, part of which was subsidised by Government through an emergency power grant.

27. Water Utilities Corporation also recorded a net loss of P191.1million in 2013, compared to a loss of P541.6 million in 2012. This was due to challenges relating to the implementation of Government Water Sector Reforms Project, which include increased costs on waste water treatment and distribution, rehabilitation of infrastructure inherited from the District Councils, increased staff and training costs, amongst others.

Improving Efficiency of the Public Sector

28. Madam Speaker, as part of the strategy to improve the efficiency of the public sector, the Government adopted the Privatisation Policy of Botswana of 2000, where privatization is defined broadly to include outright sale of public assets and outsourcing the non-core public services. With regard to privatisation, the BTCL privatization process is at an advanced stage, with expected Initial Public Offering (IPO) in the first half of 2015. The IPO process will ensure that BTCL shares are offered to citizens, which should empower them through the dividend payments, as they become part owners of an important national asset. Meanwhile, the privatisation and transformation of National Development Bank (NDB) into a commercial bank is in progress, with commencement of the transition Act in June 2014. As it is the case with BTCL, Government will retain 51 percent of NDB shares. Of the remaining 49 percent, 30 percent will be offered to citizens only, 5 percent allotted to citizen employees of NDB through an Employee Share Ownership Plan, and 14 percent offered to both citizens and non-citizens.

29. As part of the Public Services Outsourcing Programme, Government continues to outsource non-core public services to private sector companies. Services currently outsourced include grounds maintenance, security guarding, and cleaning services. To support Ministries in implementing the outsourcing programme, the Public Enterprises Evaluation and Privatisation Agency (PEEPA), in collaboration with the Botswana Public Service College, has developed training programmes to build contract management capacity within Government. Furthermore, PEEPA developed an Integrated Facilities Management Strategy for the maintenance of government buildings during 2013/2014 with the participation of the private sector. To date, facilities management companies have been engaged by Government through the Ministry of Infrastructure, Science and Technology (MIST) to maintain senior secondary schools across the country.

30. Madam Speaker, the implementation of the Rationalisation Strategy adopted in 2009 resulted in merging of various parastatal organizations and the

establishment of new entities such as the Botswana Investment and Trade Centre (BITC), Botswana Institute of Technology Research and Innovation (BITRI), Human Resources Development Council (HRDC) and Botswana Qualification Authority, to mention but a few. The main objective of the Rationalisation Strategy is to align service delivery mechanisms of Government by coordinating and harmonising the use of resources. This is expected to result in operational synergy, cost savings, and promotion of efficiency in the economy.

Improving Project Implementation

31. Madam Speaker, project implementation remains one of the challenges facing the Government. During NDP 10, the development budget has been underspent by an average of 17.3 percent for the years 2011/2012 through 2013/2014, due to delayed project implementation. Even where projects are finally delivered, they are usually characterised by cost overruns and questionable quality. It is against this background that Government continues to take measures to improve on project implementation. To this end, the Public Procurement and Asset Disposal Board (PPADB), is implementing the Integrated Procurement Management System to enhance procurement management, improve transparency, and reduce lead times in public procurement. The system further provides a platform for online bidding, which includes preparation of Procurement Plans; generation of invitation to tender documents; downloading of documents by contractors; online tender submission, as well as online adjudication. The PPADB has also intensified the training of Procuring Entities, Committees of the Board, Ministerial Tender Committees, and District Administration Tender Committees to enhance their procurement skills.

Economic Outlook

32. Madam Speaker, despite continued uncertainty over the global economic recovery, the outlook for the domestic economy remains positive. Real GDP is estimated to have grown by 5.2 percent in 2014, and forecast to grow at a slower rate of 4.9 percent in 2015. Such positive growth is mainly driven by the non-mining sectors including Trade, Hotels & Restaurants, Finance and Banking, and Social & Personal Services. Furthermore, activities such as increased diamond cutting and polishing; establishment in Selebi-Phikwe of the Steel Manufacturing Plant, and the Horticulture Agro-Processing Plant which is expected to be commissioned in the first quarter of 2015/2016; and the rolling out of the postal and banking services to the rural areas are expected to contribute to the growth of the non-mining sectors in the future. These sectors in turn, are expected to contribute to growth and economic diversification, thus creating employment opportunities, and empowering citizens.

33. Madam Speaker, a positive domestic economic outlook as shown by some major economic indicators characterised by low debt levels as confirmed by external organisations such as Moody's Investors Service, provides a basis for domestic and foreign investment in the country. Similarly, a supportive monetary policy that has ensured stability of the Real Effective Exchange Rate should promote competitiveness of domestic enterprises in the global market. The prospect of low inflation, also has the potential to impact positively on the standard of living of Batswana. Given this conducive macroeconomic environment, we expect the private sector to take the lead in driving economic growth and employment creation.

IV. DEVELOPMENT AGENDA BEYOND 2016

Development of the Vision Beyond 2016

34. Madam Speaker, as the period of the current long term vision - Vision 2016 approaches the end, Government through the National Strategy Office has embarked on the preparation of the National Vision Beyond 2016. In this regard, diagnostic studies of the four thematic areas of *Economy and Employment; Social Upliftment; Sustainable Environment; and Governance, Safety and Security* have been undertaken. Furthermore, the draft vision framework was approved by the Botswana Economic Advisory Council chaired by His Excellency the President, in November 2014. This framework will guide discussion and consultations with the general public as from April, 2015.

35. A Presidential Task Team is expected to be appointed in March 2015 to lead the development of the next National Vision, and is anticipated to conclude its work by December 2015. The new vision is expected to be launched in September 2016. Considering that the development of a new vision provides an anchor for medium term plans, Government took a deliberate decision to extend the period of NDP 10 by one more year. I am happy Madam Speaker that Parliament endorsed this decision at its last meeting in December 2014. This would allow for proper alignment of NDP 11 goals and objectives with the nation's future aspirations as would be articulated in the National Vision Beyond 2016.

Millennium Development Goals

36. Madam Speaker, as the end date of the United Nations Millennium Development Goals (MDGs) of December 2015 approaches, Botswana has been among countries that in 2013 reaffirmed commitment towards the new United Nations Development Framework for the next fifteen years beyond 2015. A Common Africa Position Paper on Africa's priorities in the development of the UN Development Framework Beyond 2015, which Botswana subscribes to was prepared by the African Union and adopted at the 68th Session of the UN General Assembly in 2013. The United Nations is currently refining the sixteen broad

areas already identified as forming the foundation of the proposed “Sustainable Development Goals”, as the successor document to the MDGs framework. These broad-based areas include; “*ending poverty in all its forms everywhere, Healthy Life at all ages for all, Quality education and lifelong learning for all, water and sanitation for a sustainable world, and mitigate and adapt to climate change*”, just to mention a few.

V. KEY THEMATIC AREAS FOR 2015/2016 FINANCIAL YEAR

37. Madam Speaker, with economic growth and diversification remaining the country’s economic priorities, the Government has identified four key thematic areas which are: *Growing the economy; Promoting inclusive growth; Enhancing business environment to promote investment and foster diversification; and strengthening the judicial system and combating crime and corruption.* These thematic areas are critical in promoting growth and ensuring economic diversification, and therefore assisting in efforts to create employment and improve on the general infrastructure, health and social development and the fight against corruption and crime.

Growing the Economy

38. Madam Speaker, to address the development challenges of poverty, unemployment, and income inequality, we need economic growth. Without enlarging the size of the economy, it would be impossible to create jobs that the country desperately needs to address youth unemployment, and generate revenues to support Government’s social welfare programmes. It is for this reason that growth and economic diversification should remain our economic priorities.

39. Economic growth can also be generated through improving total factor productivity and increasing the productive human and capital inputs. Whereas, the country has performed reasonably well in increasing factor inputs, growth in factor productivity has been a challenge in the recent years. In this regard, improving productivity must remain a priority for driving economic growth and ensuring that the economy performs at its potential capacity.

Improving Productivity to Drive Economic Growth

40. Madam Speaker, a recent challenge to the promotion of growth and economic diversification has been the declining total factor productivity in the domestic economy, especially labour productivity. In this regard, Government will continue to put in place measures to promote productivity that include: reforming the country’s education and training system; improving work ethic through training the workforce; as well as reviewing labour legislation; with a view to promoting efficiency in the labour market. Such labour market reforms

will assist the economy to transit from mineral-led to a knowledge economy. To further improve on total factor productivity, Government is implementing public sector reforms, enhancing research and development, and developing appropriate human skills.

Public Sector Reforms

41. Madam Speaker, public sector reforms are critical in improving productivity and achieving efficient public service delivery. Hence, a comprehensive Public Sector Reform Coordination Programme is being developed and will be implemented during NDP 11. The Programme is expected to generate five key results, which are: improved relevance and convergence of public sector reforms and their alignment with national priorities; enhanced coordination; increased capacity of implementing agencies; improved monitoring and evaluation; and informed decision making on prioritization and funding. These results are expected to improve service delivery within the public sector and thus, have a positive bearing on labour productivity and economic growth.

42. Furthermore, a Public Finance Management Reform Programme was adopted in July 2010 as part of on-going fiscal reforms. In this connection, the last few years have seen Government gradually strengthening its macro-fiscal management and budget formulation capabilities. In the process, my Ministry has been able to develop and implement a Medium-Term Fiscal Framework which generates medium-term fiscal forecasts. In addition, Government will implement a Medium Term Expenditure Framework in 2015/2016 financial year to strengthen management of public finance spending.

Enhancing Research and Development

43. Madam Speaker, research and development are essential ingredients in driving economic growth and keeping the country abreast of emerging global competition. To this end, Government has undertaken to regularly generate indicators of Research, Science, Technology and Innovation to inform on the current status of Botswana's capability in supporting and maintaining research and innovation. The indicators generated from the 2012/2013 data show that Botswana's capability in research and development in terms of investment, private sector involvement and human resource dedicated to research, is still too low. Hence, the need for a coordinated, aggressive and concerted implementation of the Research, Science, Technology and Innovation Policy of 2011.

44. As part of implementation of targeted Research and Development, the Botswana Institute for Technology Research and Innovation (BITRI) is setting up a Centre for Material Sciences to be able to adapt material of any kind and respond to the challenges of industry in manufacturing, medicine, energy

production, environmental management, transportation and communication. The Institute has also, through private sector participation, established a Centre for Coal Studies with a view of contributing towards coal beneficiation. Furthermore, BITRI continues to sensitise Government departments on the solar driven technology and has demonstrated its use in Gaborone, Ghanzi and Southern Kgalagadi districts. All these are meant to give Botswana a competitive edge by increasing value addition to local products.

45. The Botswana Innovation Hub (BIH), for its part, continues to foster technology transfer and innovation. To this end, BIH has set up a national technology transfer office to provide local entrepreneurs and innovators with the required tools to learn the latest technology in order to absorb and adopt it in their businesses. In addition, an Innovation Fund is being established to support emerging innovators, and thus facilitate BIH's mandate of promoting innovation and technology in the country.

Developing Appropriate Human Skills

46. Madam Speaker, investment in education is a pre-requisite for a productive workforce, which is necessary for sustainable economic growth. In an effort to achieve and promote education standards, Government has initiated the development of a five year Education and Training Strategic Sector Plan. The first draft of the Plan has been produced and will be shared with stakeholders for comments before the end of the 2014/2015 financial year. The Plan is aimed at providing an overall policy and strategic framework for education and training. It is therefore expected to improve the quality and relevance of education by focusing on teacher development and professionalism, as well as strengthening skills development by restructuring the education system. Furthermore, it will increase equitable access to education by intensifying the use of ICT countrywide.

Promoting use of Information and Communication Technology

47. Madam Speaker, the use of Information, Communication and Technology (ICT) is an important tool for efficient delivery of public services to Botswana. To this end, Government has adopted the e-Government programme in order to enhance innovation in the public sector. The programme includes: application and issuance of various Government permits, licenses and certificates; providing information on legislative/administrative notices; as well as payment services such as tax refunds.

Promoting Inclusive Growth

48. Madam Speaker, despite the positive economic growth registered in the past years, the country continues to face development challenges of unemployment and poverty. To address this, Government will be promoting inclusive growth by creating a conducive environment for productive economic

opportunities while ensuring that the benefits of economic growth are equitably shared among various sections of the society. While the focus will be on productive employment, Government will continue with its efforts to eradicate abject poverty by providing social welfare programmes to the poor and most vulnerable groups in the society.

Employment Creation

49. Madam Speaker, an inclusive growth approach is premised on gainful employment of factors of production, especially labour. The current unemployment rate of 19.8 percent therefore represents underutilisation of one of the country's important resource, namely our human capital. This is a challenge for the country, especially that it affects the youth. It is for this reason that Government will continue to implement various programmes, projects and strategies geared towards assisting the youth and women to improve their livelihood. This year's development budget of P12.93 billion which will mainly be spent on infrastructure projects such as construction of new schools, new power transmission lines and water pipelines, is expected to go a long way in creating new employment opportunities. In addition, complementary laws, labour laws such as the Employment Act, Trade Disputes Act, Workers' Compensation Act and Trade Unions and Employers' Organisations Act will be reviewed to facilitate harmonious industrial relations and also to make the labour relations environment conducive for investment.

Poverty Eradication

50. Madam Speaker, to address one dimension of inclusive growth, which is, the protection of the disadvantaged and marginalised groups of the society, Government will continue to put in place measures to improve the efficacy of our social welfare programmes. These measures will ensure food security, availability of social safety nets to reduce poverty, and the promotion of opportunities for special groups such as women, the elderly and people living with disabilities.

51. It is therefore pleasing to note that the poverty eradication efforts by the Government continue to yield results, as indicated by the decline in the population living in poverty from 30.6 percent in 2002/2003 to 19.3 percent in 2009/2010. Since November 2014, 9,588 projects funded by the Poverty Eradication Programme have been fully operational, covering all districts. Beneficiaries of such projects are now earning sufficient income to graduate from extreme poverty. Government will therefore continue to fund the programme, with a view to assisting more deserving citizens.

52. Meanwhile, Government is in the process of formulating a Botswana Poverty Eradication Strategy, which is expected to be finalized by end of

September 2015. This strategy will serve to guide all efforts of Government towards poverty eradication across sectors to ensure consistency of action and results as well as fostering inclusive growth in our economic development agenda.

Financial Inclusion

53. Madam Speaker, achieving inclusive growth as a policy objective will depend on, among others, the extent to which the financial system provides basic financial services to the people. In this regard, the financial sector has intensified its efforts to promote financial inclusion, broadly defined as the delivery of financial services at affordable costs to disadvantaged and low-income segments of the society. Mobile financial services is one of those initiatives that are being used to promote financial inclusion. It includes mobile money transfer and mobile banking such as e-wallet and others which are easily accessible and convenient medium for the delivery of financial services. In addition, the Ministry of Finance and Development Planning has adopted the Making Access to Financial Services Possible Approach to Financial Inclusion. During the year 2015/2016, a Making Access to Financial Services Possible diagnostic analysis will be carried out in Botswana with the view to developing a comprehensive financial inclusion road map, which should lead to a more accessible, inclusive and robust financial system.

Citizen Economic Empowerment

54. Madam Speaker, inclusive growth cannot be achieved without empowering citizens to take an active role in economic activities. It is for this reason that Government continues to make concerted efforts to empower citizens in order to benefit from economic growth. To this end, the amended Citizen Economic Empowerment Policy makes it mandatory for sub-contracting of Government funded projects to 100 percent citizen owned companies. It further stipulates that 30 percent of each Ministry's projects budget should be reserved for 100 percent citizen owned companies to promote citizen empowerment.

55. To further advance citizen economic empowerment, the implementation of Local Procurement Scheme has been progressing at different levels across the country. All the District Administration Tender Committees have been trained on the Scheme. Effective implementation of the Scheme should translate into more empowerment of citizens in rural areas, especially through businesses owned by women, youth and People Living with Disabilities.

56. Madam Speaker, the Government is committed to creating a favourable environment for the development of the small, medium and micro enterprises (SMMEs), as part of citizen empowerment in the country. However, the success of the SMMEs will depend on various factors such as their ability to deliver

quality products to clients, delivery of goods and services on time, and reasonable pricing of such goods and services. This, in turn, requires that SMME's also invest in innovation and skills development to ensure their long term sustainability.

Enhancing the business environment to promote and foster diversification

57. Madam Speaker, economic diversification is a long-term process that, despite some achievements, is still a challenge. To address this challenge, Government continues to embark on several strategies that, of late, include cluster and value chain development, financial sector support, as well as fostering an environment that allows for complementarity between macro and micro economic policies and deregulation of domestic markets to promote competition.

Development of Cluster and Value Chain in Selected Sectors

58. Madam Speaker, the cluster and value-chain approach to development has yielded positive results in some countries. The concept of clusters refers to a group of inter-connected firms, suppliers and related industries, while a value chain is a sequence of activities that firms operating in a specific industry perform in order to deliver a valuable product or service. In this regard, Government has adopted the Cluster Development Approach as a practical strategy to achieve economic growth and diversification. The four identified clusters are Diamond, Tourism, Cattle, and Mining, comprising of coal, copper and other minerals excluding diamonds. Some work has already started on the development of the Diamond cluster. Regarding the Cattle cluster development, three districts of; Central, Kgatleng and Gantsi have been identified for the first phase of implementing the concept. The concept will include, among others, ensuring that within each district, there is development of industries such as livestock feed processing plants, abattoirs, and refrigerated transportation to support the beef industry.

59. Another sector where the cluster approach will be introduced is the tourism sector, which continues to be one of the key sectors that contribute to the diversification of the economy. During 2013, tourist arrivals were estimated at 2.4 million while receipts amounted to P6.24 billion. Government is reviewing the Tourism Policy to address local, regional, and international challenges experienced within the tourism industry. Such a review process is in its final stages and the revised Policy is expected to create a more supportive and enabling environment for local investors. Furthermore, Government is reviewing the Wildlife Conservation and National Parks Act No. 28 of 1992 and the revised Act is expected to be considered by Parliament during 2015/2016 financial year.

Financial Sector Support

60. Madam Speaker, in view of the critical role of the financial services sector in creating a conducive business environment for diversification, Government remains committed to the implementation of the Financial Sector Development Strategy of 2012, whose aim is to promote a smooth development of the financial services sector, including the development of the domestic capital market. Some of the measures pursued in this regard include development of financial regulatory framework and policies, as well as adequate resourcing of relevant regulatory institutions. Among the measures to further improve financial and business services, is a project on the electronic cheque imaging and truncation, whose objective is to reduce the cheque clearing cycle from the current four to two days. A successful implementation of the project will allow bank customers paid by cheque to have quicker access to their funds.

61. In order to improve on the level of protection of users of financial services, my Ministry has been working with the Non-Bank Financial Institutions Regulatory Authority in drafting several pieces of legislation. To this end, the Securities Act and the Retirement Funds Act were passed during the July 2014 sitting of Parliament. Furthermore, the Insurance Industry Bill is scheduled to be presented at this sitting of Parliament and we intend to present several new Bills to Parliament during the 2015/2016 financial period. The new Bills include: a revised Non-Bank Financial Institutions Regulatory Authority Bill; and a new Collective Investment Undertakings Bill.

Complementary Macro and Microeconomic Policies

62. Madam Speaker, in order to achieve the goals of economic growth and diversification, a number of policy reforms are necessary and should continue to be implemented at both the macro and the micro level. These include the implementation of macroeconomic policies such as fiscal: monetary and exchange rate, as well as micro policies such as privatization; promotion of efficient labour market; deregulation of domestic market to encourage competition; and promoting trade through participation in regional and international trade agreements such as SADC Trade Protocol, and SADC/EU Economic Partnership Agreement.

63. In terms of the macroeconomic policies, Government has maintained a stable macroeconomic environment by ensuring coordination between fiscal, monetary and exchange rate policies. The results of this coordination include: the return to positive budget balances following the 2008/2009 global recession; a monetary policy stance that balances between price stability and economic growth; and an exchange rate policy mechanism that aims for a stable real effective exchange rate to promote domestic competitiveness. In turn, it is

expected that the private sector will take advantage of the conducive macroeconomic environment to grow and create employment opportunities.

Strengthening the Judicial System and Combating Crime and Corruption

64. Madam Speaker, a secure environment is a pre-requisite for both domestic and foreign investments, which are essential ingredients for growth and economic diversification. Botswana, like other developing countries, is increasingly becoming susceptible to complex security challenges such as cybercrime, terrorism, human trafficking and drug smuggling, to mention but a few. As a result, there is need to maintain a high state of readiness to protect people and property against any form of threat. It is for this reason that Government continues to invest in security services, as part of an effort to create a conducive environment for growth and economic diversification.

65. With the successful conclusion of the Legal Aid Pilot Project in March 2013, Government has promulgated the Legal Aid Act and amended the Legal Practitioners Act in order to institutionalize the legal aid service. The pilot project demonstrated that it is possible to provide cost effective legal services to disadvantaged citizens on a wide variety of civil law issues. Since commencement of the service delivery in September 2011, the demand for legal aid service has increased with more than ten thousand applications received by the end of October 2014.

66. Madam Speaker, despite accolades received by the country on good governance by reputable institutions such as Transparency International, corruption remains a challenge in Botswana. Achieving economic and social development will therefore require continued efforts to address this scourge. In this regard, Government will be: reviewing legislation, where necessary; increasing anti-corruption education; and promoting partnerships in the fight against corruption.

67. Furthermore, the Directorate on Corruption and Economic Crime has completed drafting of the National Anti-Corruption Policy, which aims at promoting accountability and providing a framework against which anti-corruption legislation and other interventions may be undertaken. A draft policy has been circulated to various ministries and stakeholders for their input and advice, after which it will be presented to Cabinet and Parliament. It is worth noting that a successful fight against corruption is necessary for attracting investors into the country to grow the economy, and create more employment opportunities.

68. Meanwhile, during 2014/2015, Botswana made significant progress on efforts to combat the financing of terrorism and money laundering activities. This

was done by enactment of the Counter Terrorism Act, Proceeds and Instruments of Crime Act and Anti Human Trafficking Act. Further, in 2015/2016 the country will embark on a National Risk Assessment Programme in order to assess and understand the nature and level of the money laundering or terrorist financing risks that we face, and accordingly determine appropriate response to mitigate these risks.

VI. 2013/2014 BUDGET OUTTURN

69. Madam Speaker, the budget outturn for the 2013/2014 financial year was a surplus of P7.22 billion, a significantly higher amount compared to the P3.47 billion that had been projected in the revised budget. Total revenues and grants increased by 7.8 percent from P45.43 billion in the revised budget to P48.95 billion in the final budget outturn. This was attributable to the stronger than anticipated performance of mineral revenue occasioned by unforeseen high volumes of diamond sales, exchange rate gains as well as underspending in the development budget by 27 percent. Total expenditure and net lending on the other hand amounted to P41.73 billion against a revised budget of P45.04 billion.

VII. 2014/2015 REVISED BUDGET ESTIMATES

70. Madam Speaker, in the 2014/2015 financial year, total revenues and grants increased by 2.7 percent from P50.18 billion in the original budget to P51.54 billion, mainly due to an increase in mineral revenue. Mineral revenues are expected to increase by 13.1 percent, while non-mineral income tax is expected to be lower than the original estimate by 6.6 percent.

71. On the other hand, the revised total expenditure and net lending for 2014/2015 increased from the original budget of P48.86 billion to P51.26 billion. An increase in the revised expenditure is due to approval of supplementary funding of P1.17 billion for the recurrent budget and P1.41 billion for the development budget. As a result, the revised 2014/2015 budget shows a small surplus of P280.83 million, compared to the original estimate of P1.33 billion.

VIII. 2015/2016 BUDGET PROPOSALS

72. Madam Speaker, I now present the budget proposals for the 2015/2016 financial year. Through this budget, Government will address key priority areas which include: human capital development; fight against HIV/AIDS including elimination of mother-to-child transmission of HIV; poverty eradication; provision of water and power supplies; employment creation; as well as maintenance of existing infrastructure.

Revenue and Grants

73. Madam Speaker, the projected total revenues and grants for 2015/2016 amount to P55.38 billion, of which Mineral Revenue accounts for 34.4 percent, Customs and Excise for 29.5 percent, while Non-Mineral Income Tax accounts for 17.5 percent. Mineral revenues are projected to grow by 10.4 percent, from P17.24 billion in 2014/15 to P19.03 billion in 2015/16. This positive growth is however likely to be undermined by the downside risks associated with growth prospects in the global economy, resulting in reduced revenues, specifically from diamonds.

Recurrent Budget

74. Madam Speaker, the proposed Ministerial Recurrent Budget for the financial year 2015/2016 is P36.70 billion. This amount represents a growth of P2.31 billion or 6.7 percent over the current year's revised budget of P34.39 billion.

75. Six Ministries account for P29.37 billion or 80.0 percent of this budget. The Ministry of Education and Skills Development receives the biggest share of P10.31 billion or 28.1 percent, which is P512.49 million more than the current financial year's revised budget. This demonstrates Government's commitment to increase education funding with a view to supporting human capital development. The bulk of the provision goes towards student Bursaries for post-secondary education at P2.25 billion, subventions to Government supported institutions such as the University of Botswana, Botswana International University of Science and Technology and others at P1.20 billion, costs associated with Levels of Operations arrangement within the teaching staff at P644 million, food and service charges for secondary schools at P342.63 million and In-service Training at P235.83 million.

76. The second largest share of the budget goes to the Ministry of Health at P5.67 billion or 15.5 percent. This is an increase of P451.78 million or 8.7 percent over the current financial year's revised budget. The provision for health spending is mainly to address the HIV/AIDS scourge, including elimination of mother-to-child transmission at a combined total of P1.11 billion, Medical Aid requirements for both Central and Local Government employees at P261.75 million, fees for medical specialists at P255.42 million, as well as Grants and Subventions to Mission Hospitals and Non-Governmental Rehabilitation Centres at P141.59 million.

77. The third largest share is allocated to the Ministry of Local Government and Rural Development at P5.20 billion or 14.2 percent. This is an increase of P225.14 million or 4.5 percent over the current year's revised budget. The proposed budget will mainly cover revenue support grants to District/Urban

Councils at P3.11 billion; and Social Protection Programmes at P472.82 million comprising provision for Old Age Pension at P393.60 million, Destitute Allowances at P48.52 million, allowances for people with acute disabilities at P20 million, and World War Veterans at P10.70 million. The Ministry's provision also covers Food supplies for primary schools and clinics at P379.12 million; Transfers under the Orphan Care Programme at P350 million; as well as maintenance of Government facilities at P33.64 million.

78. The fourth largest share goes to the Ministry of Defence, Justice and Security at P5.04 billion or 13.7 percent. This is an increase of P464.12 million or 10.2 percent over the current financial year's revised budget. The proposed budget caters principally for maintenance of aircraft, vehicles, infrastructure and equipment for various security agencies at P375.21 million, allowances for security personnel at P771.76 million, vehicle replacement requirements for the Botswana Defence Force, the Police and Prisons Services at P204.65 million and Special Expenditure for replacement of aircraft, civil defence equipment and computers at P113.16 million.

79. The fifth largest share at P2.08 billion is allocated to the Ministry of Transport and Communications constituting 5.7 percent of the total Ministerial Recurrent Budget. This shows an increase of P172.83 million or 9.1 percent over the current year's revised budget. A major portion of the allocation will cover bulk purchase of fuel and lubricants at P345 million, P334 million for road maintenance and purchase of servers hosting Government computer systems and maintenance of computers at a sum of P224.61 million. A provision of P223.38 million has been made to cater for subventions to various parastatals under the Ministry such as the Civil Aviation Authority of Botswana (CAAB) at P159.49 million, Botswana Fibre Network (BOFINET) at P34.70 million and Central Transport Organisation at P52 million for Vehicle, and plant maintenance and sub-contracted repairs.

80. The sixth largest share goes to the Ministry of Agriculture at P1.07 billion or 2.9 percent. This is an increase of P58.02 million or 5.8 percent over the current year's revised budget. A sizeable amount of the Ministerial budget is allocated to the Botswana College of Agriculture, which is transforming into a Botswana University of Agriculture and Natural Resources at P99.41 million, vehicle replacement at P52.49 million, maintenance of Government assets at P45.10 million and subvention to Food Technology Research Services formerly National Food Technology Research Centre (NAFTRC) at P20.98 million.

81. The balance of the Ministerial Recurrent Budget amounting to P7.33 billion or about 20.0 percent is shared among the remaining Ministries and Departments mainly to cover their day to day operational costs.

Statutory Expenditure

82. The 2015/2016 budget estimates for Statutory Expenditure is P7.93 billion which is an increase of P2.39 billion or 43.1 percent over the current year's revised budget of P5.54 billion. The growth is principally due to obligations arising from the maturing of Government Bond BW003 and repayments of loan principals.

Development Budget

83. Madam Speaker, a total of P12.93 billion is proposed for the development budget for the financial year 2015/2016. The largest share of the development budget is allocated to the Ministry of Minerals, Energy and Water Resources (MMEWR) at P3.32 billion or 25.7 percent of the budget. This will allow Government to continue to address the water and power issues facing the country by putting in place appropriate infrastructure. Among the major projects to be funded under MMEWR include: North-South Water Carrier II at P500 million; Kanye and Molepolole connection to the North-South Water Carrier at P150 million; Mahalapye and Palapye Water Network extension at P100 million and Maun Water and Sanitation at P89 million. Projects aimed at improving the power situation include: Morupule A refurbishment at P100 million; electrification of villages at P100 million; North West Power Transmission Grid at P50 million; Rakola Power Substation at P50 million and ZIZABONA regional power project at P33 million. The Botswana Power Corporation has also been allocated P1.5 billion to cover tariff subsidy and some operational expenses. A total of P150 million has been allocated for construction of an Oil Storage facility at Tshele Hills in Kgatleng District to address various energy needs in the country.

84. The second largest share of P1.62 billion or 12.5 percent of the development budget is allocated to the Ministry of Transport and Communications. Some of the major projects to be undertaken by the Ministry include: upgrading of existing ICT infrastructure to optic fibre as well as broadband connectivity in strategic areas of Gaborone, Francistown, Maun and Kasane, as well as, Maun – Ngoma optic fibre link to facilitate international connectivity, at a total cost of P300 million; the construction of Kazungula, Thamalakane and Mohembo bridges at P280 million; upgrading of Kasane, Maun and Sir Seretse Khama airports at P265 million and long term maintenance contract for Mankodi-Kanye-Jwaneng and Rakhuna-Mabule roads at P190 million; upgrading of some existing road junctions and improvements of traffic signals, as well as access to Central Business District in Gaborone at P130 million.

85. The Ministry of Defence, Justice and Security gets the third largest share of the development budget at P1.32 billion or 10.2 percent of the budget, the bulk

of which goes to BDF for improving its operational readiness. The Ministry of Local Government and Rural Development gets the fourth largest share of the development budget at P1.2 billion or 9.3 percent. This amount will go towards the funding of the Ipelegeng Programme at P635.6 million, Primary School backlog eradication at P341.2 million and Village Infrastructure at P151.4 million. The fifth largest share of the development budget goes to the Ministry of Agriculture at P1.1 billion or 8.5 percent. The bulk of this amount goes towards the implementation of Agricultural Support Schemes such as ISPAAD and LIMID at P730 million, Zambezi Water Development at P200 million, and Pandamatenga Infrastructure Development Project at P100 million. The sixth largest share of the development budget amounting to P1.04 billion or 8.0 percent is allocated to Ministry of State President to finance the HIV/AIDS Programme at P194.8 million, Poverty Eradication initiatives at P160 million, e-Government at P150 million and Digital Migration at P130 million for enhancing business environment.

86. Madam Speaker, the balance of P3.33 billion or 25.8 percent of the proposed development budget is shared by the remaining Ministries and Departments. From this amount, the Ministry of Lands and Housing is allocated P893.3 million or 6.9 percent of the budget. The major projects include: Palapye and Metsimotlhabe Land Servicing at P250 million; Self Help Housing Agency (SHHA) at P214.7 million in order to promote homeownership by citizens, as well as Housing Scheme for Public Officers at salary scale of D4 and below at P30 million; and provision of infrastructure for Special Economic Zones at P82.1 million. The Ministry of Education and Skills Development gets P844.6 million or 6.5 percent of the total budget to cater for the construction of unified schools at Tsabong and Takatokwane and junior secondary schools at Maun and Francistown at P340 million. In addition, the Ministry will construct additional teachers houses and these have been budgeted at P100 million. The Ministry of Health has been allocated P203.8 million for construction of nursing staff houses at various locations and for designs of hospitals to be constructed at Mochudi and Moshupa.

87. Madam Speaker, I wish to indicate that a substantial amount of the total budget, amounting to P2.42 billion; i.e., P1.87 billion and P552.20 million under recurrent and development budgets, respectively, has been earmarked for maintenance of public assets. Of the total, P978.50 million or 40.4 percent is for maintenance of buildings, P705.59 million or 29.1 percent is for maintenance of equipment including computer systems whilst P374.59 million or 15.5 percent is for road maintenance as stated earlier under Transport and Communications. The balance of P366.13 million or 15.1 percent is for vehicles and other maintenance.

Overall Balance

88. Madam Speaker, with total revenues and grants estimated at P55.38 billion, while total expenditure and net lending forecast at P54.15 billion, the result is a projected budget surplus of P1.23 billion or 0.8 percent of GDP for the financial year 2015/2016. This modest budget surplus will contribute towards rebuilding the country's net financial assets and provide a cushion in the event of a future shock, as was the case during the recent global financial crisis of 2008/2009.

IX. PUBLIC SERVICE SALARIES

89. Madam Speaker, the Government remains fully committed to the Bargaining Council in the process of negotiating public service salaries and will continue to consult with Trade Unions. Despite the downside risks with respect to the prospects for diamond revenues, the need to repay outstanding debt and continue to restore our net financial asset position, Government has nevertheless made an offer to the Unions. Such an offer is based on projected financial resources and it is expected that the Trade Unions will appreciate the budgetary constraints facing the Government. We hope that the negotiations by the Bargaining Council will be concluded and an agreement reached, before the beginning of the next financial year, so that public servants are not disadvantaged.

X. CONCLUSION

90. Madam Speaker, in conclusion, let me reiterate the salient message in this budget speech; which is that the country continues to face development challenges such as unemployment and poverty. To address these challenges, Government will continue to undertake measures to promote economic growth and diversification. Such measures include maintaining stable macroeconomic environment for private sector development; continuous review of various pieces of legislation to improve conditions for doing business in the country, and investing in selected infrastructural projects, with potential for high impact on economic growth and employment creation.

91. Despite the modest recovery in the global economy, the domestic economy registered a real GDP growth rate of 5.8 percent in 2013, and is expected to have grown by 5.2 percent in 2014, underpinned by the performance of the non-mining sectors. Such growth contributes to job creation as well as poverty reduction.

92. Madam Speaker, an improved budgetary situation is expected for the 2015/2016 financial year, due to the positive domestic economic performance; with a moderate surplus projected for the year. Among the projects to be

implemented are high impact mega projects such as the Zambezi Integrated Agro-Commercial Development project, North-South Water Carrier II, Morupule A refurbishment and the upgrading of ICT infrastructure to optic fibre. These projects are aimed at creating a conducive environment for private sector development, which is the source of growth and employment creation in the country.

93. However, Government remains concerned about poor project implementation. To this end, Government has taken additional measures such as the establishment of an implementation unit for mega projects under the National Strategy Office. This will complement existing value-for-money measures by improving project implementation throughout the public sector. Accounting Officers will also be expected to monitor project implementation in both their ministries and in state-owned enterprises falling under their jurisdictions, with a view to improving operational efficiency

94. Madam Speaker, one of the hallmarks of this country's public finance management has been its financial discipline, which simply means exercising due care in the use of public finances, with a view to getting value-for-money for each Pula spent. This has been achieved through supportive legal instruments such as the Public Finance Management Act, which empowers various officers at different levels to take appropriate disciplinary actions on those who flout the financial management rules. Going forward, implementation of the financial regulations will be strictly enforced to ensure financial discipline in the public sector.

95. Madam Speaker, before I conclude, I wish to thank all development partners, both bilateral and multilateral, as well as private foundations for their continued support to the development of our country.

Madam Speaker, I now move that the **Appropriation (2015/2016) Bill, No. 1** of 2015 be read for th