



Republic of Botswana

2010 Budget Speech

“Transforming Our Economy After the Crisis: 2010 and Beyond”

**By Honourable O.K. Matambo
Minister of Finance and Development Planning
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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 2010/11 financial year.

2. Madam Speaker, allow me to take this opportunity to express gratitude to my predecessor, Honourable Baledzi Gaolathe, for his skilful leadership, foresight, and strong sense of purpose in leading the Ministry of Finance and Development Planning for the past 10 years. We are all aware of the significant strides our economy has made in terms of economic growth, employment creation, diversification and poverty reduction, just to mention a few. Honourable Gaolathe's leadership contributed in no small way to these favourable outcomes. Our stakeholders, development partners, and staff of my Ministry, will always appreciate his years of leadership.

3. The theme I have chosen for the 2010/11 Budget Speech is "***Transforming our Economy after the Crisis: 2010 and Beyond***". This theme recognises that, due to the recent global financial and economic crisis, Botswana experienced an unprecedented loss of national income. Global demand plunged, particularly for luxury goods such as diamonds, and so did Government revenue that we use to finance development initiatives. The crisis therefore threatens to stall the hard earned progress that we have made towards achieving the aspirations of Vision 2016 as well as the Millennium Development Goals.

4. This theme challenges us to find strategies to resume rapid economic growth, while broadening the sources of growth beyond the mineral sector. It makes it imperative that we identify new opportunities for economic growth and find additional sources of Government revenue. To succeed we must foster strategic and highly productive investments in both people and infrastructure, and streamline our policies to enhance private sector participation. We should avoid embarking on new investment initiatives that are not productive, with no future outlook beyond the diamonds era. Instead, this diversification strategy requires us to be particularly rigorous in our evaluation of public sector programmes and projects and prioritise only those that strategically position Botswana to become competitive in the regional and world economy.

5. This year's budget is set within the framework of the tenth National Development Plan (NDP 10) which has been approved by Parliament and forecasts a cumulative deficit of P31.9 billion in constant prices. The deficit which I will propose for 2010/11 and that of the current financial year, will together absorb most of the approved NDP 10 deficit. It follows, therefore, that adjustments must be made to ensure that there is a net surplus for the remaining years of NDP 10. However, to achieve such surpluses immediately would place extreme strain on our public sector. I am therefore, instead, proposing to initiate changes in our NDP 10 budget forecast

which will turn the situation around, and restore sustainability in our public finances over the medium term. I shall return to this matter later on when I present the budget proposals for the next financial year.

6. I would, however, like to point out that in moving the country's development agenda forward, care needs to be taken not to overburden our future economic pathway with too much debt, which becomes the first call on future revenues. Therefore, Government must exercise caution in borrowing and in the use of accumulated cash reserves to finance development initiatives. Every project must more than pay for itself, in terms of current and future benefits, to justify the extra cost of borrowing. In addition, Government is in the process of finalising its medium-term debt management strategy. This will ensure that the financing needs of the Government are met at the lowest possible cost consistent with a prudent degree of risk, as well as taking account of the overall macroeconomic framework and market constraints.

7. Madam Speaker, given these circumstances, it is imperative that the Government, the private sector and our development partners, work together to continue to *transform this economy* into one which is globally competitive, more diversified, and resilient to external shocks, such as the recent global crisis. To do so, we need to thoroughly examine the way we have been doing our business. We need to accept that *today's challenges* require a new set of solutions and strategies and be prepared to let go of old practices that no longer yield good results. We must find innovative solutions that are consistent with the changed environment. We must also be prepared to learn the skills that we may need to use in the changed environment because we can not be sufficiently creative and productive without relevant skills. It is for this reason that my Ministry, in collaboration with the World Bank, undertook a public expenditure review last year. The review looked at areas such as social service delivery with a focus on, planning, budgeting, financial management, social protection and welfare programmes. The review notes that Botswana's economy is approaching a period of transition and structural change. It also calls for the transformation of the public sector's role in our economy, focusing more on the most efficient and effective ways of delivering public services.

8. As it is customary, I will brief the House on the international, domestic and sectoral economic reviews for the past year, as these have a bearing on the proposed budget estimates that I will present later.

II. INTERNATIONAL AND REGIONAL ECONOMIC REVIEW

9. Madam Speaker, the recent global recession has stifled investment initiatives with firms cutting back on production in the face of falling demand, leading to a general decline in gross output. According to projections of January 2010 by the

International Monetary Fund (IMF), world output is expected to have contracted by 0.8 percent in 2009, down from 3 percent growth registered during 2008. Output growth for the advanced economies is anticipated to have declined from 0.5 percent, achieved during 2008, to -3.2 percent in 2009. Among the advanced economies, France, Italy and the United Kingdom were expected to have recorded the highest output decline of around 5 percent. In emerging and developing economies, economic growth is estimated to have declined from 6 percent during 2008 to 2.0 percent in 2009.

10. Substantial stimulus packages launched in the last quarter of 2008 by the United States of America (US), China and some European countries are now paying dividends in helping to restore consumer confidence, and bolster economic growth. The IMF expects the global economy to register a strong growth of 3.9 percent during 2010, led by the Asian economies. China, a major trading partner for developing countries, is projected to register the highest growth rate of 10.0 percent. The Euro area, on the other hand, is anticipated to register modest growth of 1.0 percent, while the US is expected to grow by 2.7 percent.

11. The Southern African Development Community (SADC) faced a substantial reduction in the demand for its exports during the crisis. This resulted in a significant loss of revenues, increasing the deficit on the current account of the balance of payments for the region from 3.7 percent of GDP in 2007, to 7.8 percent in 2008. This deficit is expected to have further increased to 10.8 percent in 2009. Economic growth also slowed down in most of the SADC Member States in 2008. SADC (excluding Zimbabwe) was expected to record a marginal 0.1 percent growth in real GDP in 2009, down from an average of 5.9 percent in 2008, which in itself was less than the agreed target of 7.0 percent.

12. To bolster trade, SADC launched a Free Trade Area in 2008 involving zero tariff levels for 85 percent of all goods traded among Member States. Liberalisation of tariffs on the remaining 15 percent of goods, considered as sensitive products, is expected to be completed in 2012. Outstanding issues in the implementation of the SADC Free Trade Area such as the review of the rules of origin and elimination of non-tariff barriers are also being addressed. The launch of the SADC Customs Union that was targeted for 2010 is unlikely to be achieved. Studies to guide the development of the necessary frameworks which will form the basis for Member States' negotiations will be considered by the SADC Ministerial Taskforce on Regional Economic Integration in February 2010, and will make recommendations to the SADC Summit to be held in August 2010, which will then chart the way forward.

13. The overall SADC regional food security situation for the 2009/10 marketing year is satisfactory as a result of good rainfall, coupled with improved policies such as the expanded provision of subsidised inputs to targeted vulnerable groups. The region

estimates a cereal production surplus of 476 000 tonnes against the 2008/09 marketing year's deficit of 1.78 million tonnes. Cereal surpluses were specifically observed in Malawi (1.39 million tonnes), Mozambique (75 000 tonnes), South Africa (2.35 million tonnes) and Zambia (306 000 tonnes). As a result of the improved cereal production, the number of people requiring humanitarian assistance has decreased from 7.6 million people in 2008 to 3.3 million in 2009.

14. Madam Speaker, in 2008 the average inflation rate for the SADC region (excluding Zimbabwe), at 13.9 percent, was far above the regional target of less than 9.5 percent for the year. This was largely attributable to increase in fuel and food prices. However, three Member States of - Madagascar, Malawi and Mauritius - achieved single digit inflation in 2008. For 2009, SADC inflation is projected to have fallen below 10 percent due to the reduction in food and fuel prices.

15. This year marks the hundredth anniversary of the establishment of SACU. Over that century of existence both the economies and the nature of the SACU agreement have changed significantly. The most recent revision to the Agreement, in 2002, was an important step in the modernisation of the arrangement. However, more remains to be done, and at the SACU Council of Ministers' meeting last month we agreed to create a task team to identify areas for review. This will be done over the next few months, to be followed by detailed study of potential revisions to the Agreement. In this process it is important to recognise that all members of SACU believe that the arrangement continues to have great potential to contribute to our mutual prosperity, and that we are seeking to modernise the institution so that it will continue to generate gains from economic integration and share those gains equitably among the members.

16. Implementation of the 2002 Southern African Customs Union Agreement and the SADC Free Trade Area will continue to be pursued, including the establishment of the necessary institutions and harmonisation of industrial and trade policies. To this end, a draft Bill for the establishment of the National Body for tariff administration within SACU was approved by Cabinet in September 2008. The National Body is expected to be in place by October 2010.

III. DOMESTIC ECONOMIC REVIEW

Economic Growth

17. The latest GDP estimates by the Central Statistics Office indicate that our GDP, measured in current prices, for the four quarters through September 2009 amounted to P86.2 billion. In real terms, GDP showed a decline of 4.6 percent over the previous four quarters. The fall in real output was largely attributed to the decline in real value added by the mining industry, which recorded a decline of 31.4 percent, while the rest of the economy grew at 11.6 percent over the same period.

18. The twelve months figures however, mask the sharpness of the economic downturn. In the fourth quarter of 2008 for instance, the overall economy contracted by 6.3 percent, and then by a further 20.5 percent in the first quarter of 2009, before recovering some of the lost output in the quarter ending June 2009 with a 24.9 percent GDP growth in real terms. The economy continued to recover in the third quarter ending September 2009 with a 4.1 percent GDP growth in real terms.

19. While output is no longer declining, real GDP for the third quarter of 2009 was still less than that of the third quarter of 2008, because quarterly mineral output in real terms was still well below the levels achieved over the last 5 years. The partial recovery of the mineral sector in the second and third quarters of 2009 reflects developments in the world economy and the consequent positive impact of these on the mining sector, particularly the diamond industry. However, due to uncertainties in the global economic prospects, it is expected that output for this industry will remain below the long-term trend potential for another year or two.

20. Looking beyond the actual GDP recorded in the third quarter of 2009 calendar year, we are projecting a gradual recovery of the world diamond market. The dollar value of Debswana's diamond sales is expected to gradually return to the level achieved in the financial year 2007/08 by 2012/13. In the meantime, the rest of the economy will continue with modest real growth, in part because we have avoided a sharp reduction of Government's spending. We, therefore, project overall real GDP growth for 2009/10 financial year to be about zero, and then about 5 percent in 2010/11.

Exchange Rate and Balance of Payments

21. Madam Speaker, during the year 2009, the trade weighted nominal effective exchange rate depreciated by 2.7 percent. There was however, greater movement against individual currencies in the basket due to cross exchange rate movements. The Pula appreciated by 12.7 percent against the US dollar and 11.1 percent against the SDR, while it depreciated by 11 percent against the South African rand. The real effective exchange rate depreciated marginally by 1.5 percent, reflecting a faster rate of decline of inflation in Botswana than in trading partners. Overall the real effective exchange rate has moved very little over the past 3 years in keeping with Government's policy of a stable real exchange rate.

22. Preliminary estimates of the balance of payments current account for 2009 indicate a deficit of P6.8 billion, compared to a surplus of P5.1 billion in 2008. Imports are estimated to have decreased by 4.5 percent to P29.3 billion, reflecting the lower cost of fuel, as well as a decline in some categories of capital equipment imports. Foreign exchange reserves, as at the end of November 2009, stood at P60.9

billion, down by 11.2 percent from P68.6 billion in December 2008. At P60.9 billion, the reserves represent 20.7 months of import cover of goods and services. In SDR terms, the reserves fell by 3.4 percent to SDR5.7 billion, while in US dollars they increased by 1.1 percent to USD9.2 billion.

Inflation and Monetary Policy

23. Madam Speaker, inflation fell from a peak of 15.1 percent in August 2008, reaching the upper end of the Bank of Botswana medium term inflation objective range of 6 percent in July 2009, but subsequently rose to 6.9 percent in October 2009. It started to fall again reaching 5.8 percent in December 2009. The average year-on-year annual inflation was 8.2 percent in 2009 compared to 12.6 percent in 2008. The fall in inflation was driven mainly by the significant drop in fuel prices during the last half of 2008 and into 2009. Looking ahead, inflation may stabilise at the recent level due to the weak global and domestic economic activity. This positive outlook could, however, be undermined by the uncertainty surrounding international oil prices and the likelihood of an increase in electricity tariffs linked to the shortage in domestic energy supply. Overall, the favourable projection for inflation provides scope for maintenance of expansionary monetary policy to support domestic economic recovery, particularly in an environment in which fiscal stimulus is constrained by the fall in government revenues.

24. Bank of Botswana conducts monetary policy focusing on the medium-term inflation objective. Thus, the Bank would tighten monetary policy by raising interest rates in the case of an inflation projection that is higher than the objective and would ease monetary policy in response to an outlook for low inflation. Hence the positive outlook for inflation enabled the central bank to influence interest rate cuts through the reduction of the Bank Rate by a cumulative five percentage points from 15 percent in December 2008 to 10 percent in December 2009.

Employment

25. Madam Speaker, the 2009 Formal Employment Statistics Brief estimated a 3 percent increase in formal sector employment from 308 617 in March 2008 to 317 827 in March 2009. However, between September 2008 and March 2009 when the recession deepened, employment increased by about 1 percent from 315 791 to 317 827. In terms of the broad sectors, as from March 2008 to March 2009, the Private sector was the largest employer with over 179 000 employees followed by Central Government (96 167), Local Government (28 162) and the Parastatal sectors (14 497). The Private sector registered an increase in employment of 3 132 employees from 175 868 to about 179 000, while Central Government had an increase of 4 712 employees, Local Government (1 148), and Parastatals (217) during the same period.

26. Notwithstanding this achievement, the impact of the global recession in the Botswana labour market was evidenced by, among others, the loss of employment through retrenchments. As at March 2009, employment in mining and quarrying had declined from 11 673 to 10 592 employees, representing a decrease of 9.3 percent. Manufacturing also recorded a small decline of half a percentage point, from 35 888 to 35 704 employees.

27. Madam Speaker, the 2009 Budget Speech indicated that a Labour Market Observatory Unit which would be responsible for undertaking research, analysing and disseminating labour market information, would be established in my Ministry. I am pleased to note that negotiations for technical support to facilitate the establishment and effective functioning of the Observatory are nearing completion with the European Commission and the expectation is to complete the project during the 2010/11 financial year.

28. In an effort to create temporary employment on a rotational basis and to enhance Botswana's participation in economic development, Government introduced the Ipelegeng Programme in July 2008. This is a long term programme targeting people with no or limited sources of income. Since April 2009, the programme has cumulatively employed 234 462 people, made up of, 172 686 females and 61 776 males. During NDP 10, Government expects to spend P1.4 billion on the programme, at an annual expenditure of P200 million.

Poverty Reduction and Rural Development

29. Madam Speaker, although achievements have been made including in areas such as education, health and infrastructure development, conditions of poverty in Botswana still persist. To address this challenge, the Government has adopted a National Strategy for Poverty Reduction (NSPR). Currently Government is in the process developing a policy on poverty. The development of the policy is expected to be completed and tabled before this Honourable House during 2010. The policy will focus on economic diversification, employment creation and poverty reduction, safety nets and the environment. These are critical in *transforming our economy* to deliver the benefits of development to all Botswana.

30. To monitor progress in the achievement of Vision 2016 aspirations and the Millennium Development Goals, the 2009 Botswana Core Welfare Indicators Survey is ongoing. The results of the survey are expected by December 2010. The survey will provide a comprehensive set of indicators for monitoring progress on the National Strategy for Poverty Reduction.

31. In addition, in 2007, Government, supported by United Nations Development Programme, developed a poverty reduction initiative called the Community Resilience

Project. This project is currently being piloted in Hukuntsi and Lehututu villages in Kgalagadi District; Chobokwane and Karakubis villages in Gantsi District; Lerala and Maunatlala in Central District; as well as Old Naledi in Gaborone. By preparing Community Action Plans, these pilot communities have embraced the notion of community empowerment for self-development that could be extended to other communities in Botswana.

Citizen Economic Empowerment

32. Madam Speaker, Government continues to promote citizen economic empowerment by implementing programmes that enhance citizen participation in economic activities and business ventures. This can be evidenced by a large share of Government expenditure that goes towards education and training as well as health. Provision of education is critical for human resource development, thus enabling Botswana to participate in economic activities. Furthermore, to realise Government's goals of economic diversification, private sector development and competitiveness, the nation's human resource must be healthy. It is for this reason that Government continues to provide health services at subsidised rates to ensure health for all, and enhance productivity at the work place for both the public and the private sectors.

33. While the policy on citizen economic empowerment is still being prepared, there are ongoing efforts such as provision of student loan/grants for those qualifying for tertiary level education; reserving certain categories of business to citizens and the local preference scheme. Citizen economic empowerment is also promoted through the implementation of mega projects in the country. The process, which enables citizen contractors to participate in mega projects, entails unbundling of large projects into smaller components that are more manageable by citizen contractors. Examples of these include; Dikgathong and Lotsane Dams, expansion of Morupule Power Station, Botswana International University of Science and Technology, and the four Senior Secondary Schools in Nata, Shakawe, Mogoditshane and Mmadinare. Where projects are awarded to non-citizen contractors, such contractors are encouraged to outsource or sub-contract some activities to smaller citizen companies. Capacity building of the citizen artisans is also ongoing. This is expected to enable them to find employment as well as assist them to meaningfully participate in the projects once employment is secured.

34. Madam Speaker, Government offers funding, training and mentoring services to Botswana wishing to go into business or to expand existing businesses through Citizen Entrepreneurial Development Agency (CEDA). This was in recognition that while funding had been provided previously through the Financial Assistance Policy (FAP) and the small micro business finance programme, there was need to develop entrepreneurship in the country to meet global competitiveness challenges faced by citizens. CEDA has now developed a wide range of products that includes subsidised

loan financing, equity funding, credit guarantee scheme and the Young Farmer's Fund. Furthermore, Government established the Local Enterprise Authority (LEA) in 2004 as a one-stop-shop that provides development and support services to the needs of small, medium and micro enterprises (SMMEs). LEA's support services include facilitation of: technology adoption and diffusion; business planning, training, mentoring and advisory services; access to markets, identifying business opportunities for SMMEs; and promoting general entrepreneurship among citizens.

35. In 2007, CEDA and LEA entered into a Memorandum of Understanding (MOU) for mutual cooperation between the two organisations. Through this MOU, the organisations undertook to jointly work together to standardise the delivery of services to entrepreneurs assisted by CEDA and LEA; to design standardised processes and procedures of referral for clients for services offered by both institutions and to conduct follow-up on services provided. Furthermore, Government has decided to transfer CEDA from my Ministry to the Ministry of Trade and Industry. This will ensure focused services which should enhance our quest for "*transforming the economy*".

36. Government is also reviewing the Reservation and Price Preference Scheme, which was introduced in 2001, for Citizen Consultancies and Construction Companies. The Scheme is geared towards the empowerment of citizen companies which participate in public procurement services. The purpose of the review is to develop revised price ceilings, which would enable citizen companies to qualify for wider range of tenders that are floated by the PPADB. The revised ceilings are expected to be operational during the 2010/11 financial year.

2011 Population and Housing Census

37. Madam Speaker, in November 2009, my Ministry officially launched the 2011 Population and Housing Census Project. The Census will provide an update of our achievements over the past decade and help identify the challenges for the future. Cartographic work started in July 2009 and will be completed in March 2011. The main census enumeration will occur in August 2011. Preliminary results of the Census are expected in October 2011, while the final results are expected in August 2012.

38. In addition, Parliament approved the Statistics Bill in December 2009. The Bill provides for autonomy of the Central Statistics Office and transforms it into a corporate body to be known as 'Statistics Botswana', which will be the principal agency for carrying out statistical work. This move will improve efficiency and attract quality in terms of capacity to produce, analyse and disseminate data for decision making and evidence based development planning.

Public Enterprises

39. Madam Speaker, the majority of commercial public enterprises continued to perform satisfactorily during the 2008/09 financial year. The financial performance of these enterprises ranged from a net loss of P87 million for Air Botswana (AB) to a net profit of P158.3 million recorded by Botswana Housing Corporation (BHC).

40. Botswana Development Corporation (BDC) continues to play its role as the leading investor and lender, thereby contributing to the *transformation* and diversification of our economy. The Corporation has a diverse portfolio covering the sectors of industry, agribusiness, services, property development and management. Through its subsidiaries, affiliates and associate companies, BDC has been active in the local production of products which were previously imported.

41. Projects currently under implementation include the glass manufacturing plant in Palapye, which will utilise locally available silica and soda ash. The project is estimated to cost over P500 million and create jobs in excess of 300. Another project in Palapye is the manufacture and supply of large diameter steel pipes suitable for the transmission of water, steam, sewage, oil and gas. The total cost of this project will be over P130 million and is projected to generate at least 200 jobs once complete in July 2010. Projects in the pipeline include two pharmaceuticals, in Selebi Phikwe and Gaborone; and construction of three new hotels, in Maun, Palapye and Gaborone.

42. BDC has taken a deliberate move to continuously shed mature investments to free funds for new projects with greater national benefit. In pursuit of this objective, the Corporation reviewed its property investment portfolio for the purpose of identifying the properties that could be off loaded into a Property Fund to be established. The main objective of this special purpose investment vehicle is to create the basis for an Initial Public Offering designed to broaden the range of stocks listed on the Botswana Stock Exchange and, to provide a new class of investible assets for citizens and fund managers in Botswana. This vehicle is aimed at creating an opportunity for Botswana to partake in a wider property ownership base through shareholding.

43. In pursuit to grow its portfolio, the Corporation continued to carry out research on the development of more viable projects in various sectors with the intention of utilising locally available raw materials. Research is ongoing with respect to citizen owned businesses and their needs, with the intention of developing tailor made financing packages for them. Another area of intensive research is in deriving opportunities from the beneficiation of mineral resources.

44. As an initiative to broaden product offering, CEDA launched the Arable Seasonal Loan (Ipelege) in September 2008, which provides loans of up to P500 000

for dry land farming projects. In the first year of this product, a total of 386 applications valued at P77 million were received, out of which 77 applications valued at P11.8 million were approved. To mitigate against the risk associated with rainfed arable farming, beneficiaries are encouraged to subscribe to the Agricultural Credit Guarantee Scheme, and are also assisted with negotiating contract farming agreements for their produce. This is a pre-contract agreement between the farmer and the buyer that guarantees the farmer a certain price before production starts and is meant to avoid the risk of price escalation.

45. Madam Speaker, Botswana Railways (BR) formed a property subsidiary in 2007, called BR Properties (Pty) Ltd, whose mandate is to commercially exploit Botswana Railways' prime land to unlock its value, and find profitable uses for its existing properties. Currently subsidiary company in partnership with the private sector, is at an advanced stage of developing a multi-purpose retail centre in Gaborone scheduled for completion in March 2011. Such initiatives are meant to address some of BR's financial challenges as well as enhance economic diversification.

46. As an initiative to improve efficiency in the public sector as well as reduce duplication of effort, Government has embarked on the rationalisation of parastatals and public entities that are not yet earmarked for privatisation. The Botswana Technology Centre (BOTECH) will be merged with Rural Industries Promotion Company (RIPCO) under the Ministry of Infrastructure, Science and Technology. The National Food Technology Research Centre (NFTRC) has been transferred to the Ministry of Agriculture as its mandate is directly relevant to the role of that Ministry. Botswana Accountancy College (BAC) has been transferred from the Ministry of Finance and Development Planning to the Ministry of Education and Skills Development.

47. A decision has been taken to merge the Construction Industry Trust Fund (CITF) with Madirelo Trades Testing Centre (MTTC) under the Ministry of Labour and Home Affairs and to merge the Botswana Training Authority (BOTA) and the Tertiary Education Council (TEC) under the Ministry of Education and Skills Development. The Botswana Examinations Council (BEC) will however remain as a stand alone entity. Government has also approved the merger of the Botswana Savings Bank (BSB) with Botswana Postal Services (BPS) under the Ministry of Transport and Communications and that of the Botswana Telecommunications Authority (BTA) and the National Broadcasting Board. In addition, the Botswana Export Development and Investment Authority (BEDIA) is to be merged with the International Financial Services Centre (IFSC), under the Ministry of Trade and Industry. The Citizen Entrepreneurial Development Agency (CEDA) and Local Enterprise Authority (LEA) remain as separate but closely collaborating entities under the Ministry of Trade and Industry. The Botswana National Productivity Centre and Botswana Bureau of

Standards are required to collaborate through a Memorandum of Understanding on matters relating to productivity, quality and standards.

Privatisation

48. Madam Speaker, my Ministry is working on proposals to improve the functioning and delivery of the privatisation process in Botswana. In the meantime, progress has been made on the development of a transaction structure and implementation plan for the privatisation of the Botswana Telecommunications Corporation (BTC). Government is still consulting other stakeholders on the proposals that have been submitted and a decision on the matter is expected in March 2010. The work to develop a privatisation strategy for the National Development Bank (NDB) has also been completed and Government is considering the proposed strategy and the associated divestiture action plan. A decision was taken to defer the privatisation of Air Botswana after previous attempts or offers were not found suitable.

49. Furthermore, a decision was taken to outsource the management and administration of Government Employees Motor Vehicle Advance and Residential Property Scheme (GEMVAS). Following a tender process and as another form of citizen economic empowerment, Government selected UNI-GEM (Pty) Ltd, a private company made up of five public sector Trade Unions, as the preferred private sector investor to operate GEMVAS. The five public sector Trade Unions are Botswana Public Employees Union, Botswana Primary Teachers Union, Botswana Federation of Secondary School Teachers, Botswana Land Board and Local Authorities Worker's Union, and Botswana Secondary School Teachers Union. The outsourcing contract between the Government and UNI-GEM (Pty) Ltd was signed on the 1st December 2009. The transfer of the Scheme to UNI-GEM is expected to be finalised during the first quarter of the 2010/11 financial year.

50. The Public Private Partnership (PPP) Policy and Implementation Framework, which includes Implementation Guidelines, Standardised Contract Provisions and the Institutional structure, were approved in June 2009. Benefits envisaged from the PPP Policy include the acceleration of infrastructure provision, and making use of private sector financial resources and expertise, whilst Government focuses on providing the required regulatory oversight. This should ease implementation constraints on Government and yield sustained efficiency benefits in infrastructure service delivery. Meanwhile, a PPP Unit will be established in my Ministry during the 2010/11 financial year. The mandate of the Unit will include coordination and policy guidance, technical support to line ministries, capacity building, promotion of investment in PPPs and harmonising the roles of other players such as PEEPA and PPADB in order to avoid duplication of roles.

Public Sector Reforms

51. Madam Speaker, a common challenge for the previous National Development Plans has been implementation constraints. This is one area where we need to sustain the reform momentum as a vehicle for economic transformation. In this regard, work on the development of a National Programme Implementation Coordination Project started in January 2009. Efforts at institutionalising Monitoring and Evaluation are gradually taking root with the establishment of a National Programme Management Office in the Office of the President by the end of February 2010. The monitoring and evaluation information will assist in monitoring the performance of Government and enable implementing agencies and the leadership to fine tune policies and programmes for improved service delivery.

52. It is worth noting that some reform initiatives are already yielding results. Computerisation of births and deaths registration as well as national identity cards for example, has led to improvements in service delivery to the public. The waiting time for issuing of national identity cards has been reduced from 4 weeks in 2007/08 to 2 weeks in 2009/10.

53. During 2008/09, Government reviewed and merged legislation governing employment in the Public Service into one comprehensive Public Service Act. To complement this, an integrated Human Resources Information System that will provide government human resources information for accurate and prompt decision making has also been put in place. To date, the first phase of the project that includes the implementation of Human Resources System and Payroll System for local authorities is ongoing. The other phase which covers the migration of the current Human Resource (HR) System to a new government wide HR System and the development of Statement of User Requirement for entire Government will be carried out during the 2010/11 financial year.

54. Madam Speaker, the Public Procurement and Asset Disposal Board (PPADB) is mandated to review and appropriately increase the financial ceilings for Ministerial Tender Committees (MTCs) and District Administration Tender Committees (DATCs) biennially. Following the announcement of the last increase in the financial ceilings in April 2008, the next increases are due in April 2010. I have directed PPADB to increase the levels of financial ceilings based on a rational method where the quantum is determined by quantifiable variables such as demonstrable historical capacity of a Ministry/Department to expend a substantial portion of its allocated budget over the past three financial years and/or proof of installed capacity in the administrative structures. The PPADB will make announcements of these increases for both MTCs and DATCs through circulars before the end of the current financial year for implementation beginning first April 2010. At this point, I wish to remind all accounting officers and other stakeholders that these biennial increases are intended to

enhance effectiveness and efficiency in project and service delivery. May I urge all Accounting Officers to ensure that these Procurement Units and Committees are established and function efficiently and effectively. To improve the procurement and asset disposal system in the country, PPADB will gradually reduce most of its traditional roles of the tender adjudication and transfer them to Ministerial Tender Committees and District Administration Tender Committees.

IV. SECTORAL REVIEW

Financial Sector

55. Madam Speaker, the financial sector has potential as an alternative source of economic growth and diversification. It is encouraging to note that during the financial and economic crisis, the financial sector in Botswana has shown remarkable resilience, with no cases of bank failures. On the contrary, the number of commercial banks has increased to 11 with the addition of two new banks, ABN AMRO and Banc ABC in 2009. The Bank of Botswana will continue to apply appropriate supervisory standards over the financial institutions under its jurisdiction to pre-empt any institutional fallouts which could constrain prospects for economic growth and diversification.

56. The value of total pension fund assets continued to grow. At the end of September 2009, total pension funds assets were P30.8 billion compared to P30.4 billion as at September 2008. Over the last five years, gross premiums written in the life insurance industry have also increased by an average of 18 percent per annum.

57. Because of the growth in the pension fund assets and the insurance industry, the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) has decided to develop an appropriate regulatory and supervisory framework. Negotiations started in March 2009, between NBFIRA and the World Bank for the provision of technical expertise to enhance the regulatory framework for the insurance and pension sectors. The review of the Insurance and the Pensions legislation started in September 2009. The review is necessary to inform the expected change in the basic regulatory mechanism from a compliance-based to a risk-based supervisory system. The risk-based system is more dynamic and more relevant to today's financial environment. Both the revised Insurance Industry Act and the Pension and Provident Funds Act are scheduled to be tabled before Parliament in its July 2010 sitting.

58. Madam Speaker, the companies established under the Botswana International Financial Service Centre (IFSC), employ a total of 585 workers mainly in specialised professional level positions. However, availability of relevant and adequate skills in the domestic economy is crucial for the continued success of the IFSC. To this end, the Botswana IFSC will continue with its various initiatives such as the Career Fair,

Botsjobs, the Internship Programme, and the Call Centre Stimulation Plan, which are all aimed at building the skills base for the relevant IFSC business sectors.

59. The Botswana Stock Exchange (BSE) is working on introducing Exchange Traded Funds (ETF) in an effort to provide an investment vehicle to investors. ETFs are a pre-selected basket of shares that are structured in a way that they trade as a single security. Introducing ETFs is one way of injecting liquidity into the BSE which currently is very low because of lack of instruments to draw out liquidity in the market. Currently Botswana invests 60 to 70 percent of its savings, mainly pension funds in international capital markets, due to lack of investment opportunities in the domestic market. There is, therefore, an opportunity to continue to develop appropriate financial trading instruments in Botswana's capital markets in order to increase the amount invested locally. We will continue to look into other options of how best these savings could be invested locally.

Agriculture

60. Madam Speaker, many Batswana derive their livelihood from agriculture and agricultural related activities. Any positive improvement in productivity within this sector will inevitably enhance economic growth and alleviate poverty. It is for this reason that a comprehensive review of the Agriculture sector was undertaken and completed in April 2009. This shall inform the review of the National Policy on Agriculture. Although the policy objectives identified in 1991 are still relevant today, in an effort to *transform our economy*, attention will be given to intensified research on new crop varieties, small machinery for use by farming households, harvesting and post-harvesting activities. Emphasis will also be placed in marketing and development of commodity value chains in order to secure and sustain market access.

61. Meanwhile, the livestock industry continues to be affected by persistent outbreaks of diseases, particularly Foot and Mouth Disease (FMD). However, the successful completion of the new FMD laboratory in 2010 will enable the Botswana Vaccine Institute to increase its FMD vaccines production capacity. This will greatly assist in removing current technical barriers to trade and make it possible for beef from non-EU or vaccinated areas to be eligible for export to the EU. This move, coupled with the anticipated re-opening of the Maun abattoir in July 2010, will further result in increased throughput at our two abattoirs to a total of 250 000 cattle annually by 2011.

62. The arable sector is expected to improve following the introduction of the Integrated Support Programme for Arable Agriculture Development (ISPAAD) by Government during the 2008/09 cropping season. To facilitate the ISPAAD programme, Government has signed a Memorandum of Agreement with NDB for the latter to provide seasonal loans at prime lending rate (currently at 11.5 percent), up to

the 2010/11 cropping season. In another effort, a number of business projects are being operated by youth through the CEDA Young Farmers Fund. With these initiatives, domestic food production and employment creation within the sector are expected to grow. Total crop production for the 2008/09 cropping season was 82 756 metric tonnes compared to 55 343 metric tonnes during 2007/08. The challenge, particularly in implementing the ISPAAD programme, is to ensure that costs remain manageable while we continue to foster conditions for increased agricultural production.

63. To increase access to land by potential investors, efforts are being made to identify unutilised agricultural land for leasing to investors. Currently, about 15 000 hectares of unutilised agricultural land have been identified in the Southern District and consultations with land owners for possible leasing are ongoing. A total of 16 state farms have been leased to both local and foreign investors in an effort to commercialise agriculture.

Education and Skills Development

64. Madam Speaker, our challenge as a country is to focus on areas that will improve national productivity and accelerate growth of the economy. Of key importance in this transformation is the development of an education sector that allows for production of competitive and productive human resource. Such a strategy is necessary for *transformation*, diversification and long-term growth of the economy. To achieve this, the education sector needs to undergo a comprehensive reform programme aimed at ensuring efficiency in resource utilisation and provision of quality and competitive programmes. To this end, implementation of the National Human Resource Development Strategy and the Tertiary Education Policy started in 2009. The Strategy will guide training and facilitate matching of skills with labour market needs. This will include the revised Junior Secondary School curriculum whose implementation started this year (2010) and caters for some of the critical areas of entrepreneurial and life skills. The Internship Programme has also served us well in facilitating skills development and transfer to unemployed young Batswana graduates. This will continue during 2010/11.

65. The establishment of the Botswana International University of Science and Technology (BIUST) is a major milestone in Government's effort to transform Botswana's economy from a resource to a knowledge based economy. The first phase (the Founding Development) of the project is scheduled for completion in December 2010. To further augment these initiatives, Oodi College of Applied Arts and Technology is scheduled for opening in September 2010, with an initial intake of about 350 students enrolled into various technical and vocational education programmes.

66. To enhance human resources development especially vocation and technical skills, Madirelo Trading and Testing Centre started modernising its apprenticeship and industrial training curriculum in October 2008, by converting it into a Competency Based Modularised Training System. The modernisation process is expected to be completed in December 2012. In addition, the Centre has embarked on training people on scarce vocational areas like solar energy.

67. In order to attract, motivate and retain manpower with critical skills, on the 1st April 2008, Government introduced the Scarce Skills allowance. Currently Government is in the process of carrying out the Scarce Skills Audit to determine the impact the allowance has had in respect to filling the gaps experienced due to the shortage of skilled manpower as well as retention of experienced personnel in the affected cadres. The Audit started in April 2009 and is expected to be completed by the end the 2009/10 financial year.

68. In another development, the Construction Industry Trust Fund has embarked on skills training and development programmes aimed at reducing the reliance on imported semi-skilled and skilled construction labour force. To accelerate implementation of vocational training reforms, the combined regulations for Registration and Accreditation of training institutions are expected to be undertaken during 2010/11 financial year.

Youth, Sport and Culture

69. Madam Speaker, the Revised National Youth Policy and the Revised Action Plan for Youth will be presented to Parliament during the July 2010 sitting. This is meant to strengthen youth empowerment schemes and streamline cross cutting issues such as environmental conservation, information technology, and leadership development. A Monitoring and Evaluation System, is also being developed for effective implementation.

70. In 2008, Government started the implementation of the Constituency Tournament with football as a sole sporting activity. The scope of the tournament has since been widened to include volleyball and netball. Government has also embarked on outreach programmes such as District Sport Festivals, Re Ba Bona Ha, Active Community Clubs and Right To Play, aimed at creating awareness on the benefits of participation in sport and recreation activities.

Trade and Industry

71. Madam Speaker, promoting regional and international trade is critical in the diversification of our economic base and enhancing our ability to *transform the economy* to high income status. Hence in a drive to expand market access for our

goods and services, implementation of trade arrangements with partners such as the European Union, the Common Market of the South or MERCOSUR, the European Free Trade Association and the United States are being undertaken. The National Export Strategy, the National Trade Policy and the Investment Strategy which are aimed at facilitating trade and private sector development are also at advanced stages of completion and their implementation is expected to start during the 2010/11 financial year.

72. The review of the Industrial Development Policy of 1998 and the Industrial Development Act of 2006 is expected to be complete by June 2010, to further provide a simplified and efficient business licensing process and the registration of micro businesses. In addition, implementation of the Directive on the use of Locally Manufactured Goods and Services will be reviewed with a view to evaluate previous performance and suggest appropriate measures that will assist both local manufacturers and service providers to increase their output for the domestic and export markets. The review is expected to be concluded in October 2010.

73. Madam Speaker, the Local Enterprise Authority (LEA) embraces business incubation as a tool for enhancing entrepreneurship development process. The business incubation project which comprises three business incubators, namely the Pilane Multi-Purpose Incubator, Gaborone Leather Incubator and the Glenn Valley Horticulture Incubator, will become fully operational during the 2010/11 financial year. These incubators, when fully utilised will house 63 entrepreneurs. In addition, the Francistown Light Industrial Incubator is scheduled for completion in the third quarter of the 2010/11 financial year. When complete, it will house 23 entrepreneurs bringing the total number of entrepreneurs to 86.

74. In October 2006, Botswana Export Development and Investment Authority (BEDIA) embarked on an export development programme with a view to building the capacity of local firms to export to world markets. A total of 12 companies, from the crafts, pottery and leather industries, successfully completed training in June 2009. So far only one company, Mogomotsi Enterprise Furniture, which produces unique designer furniture specifically targeted towards high-end international consumers, has managed to export its products to the United States of America under Africa's Growth and Opportunity Act (AGOA). BEDIA has also reworked its strategy to boost performance with respect to increased investment inflows, export revenue, and the generation of sustainable employment opportunities for Botswana. In particular, focus was placed on investor targeting, motivating for conversions, expansions and reinvestments.

Minerals

75. Madam Speaker, as a result of a decline in diamond sales due to the global crisis, production at all the Debswana operations was suspended up to mid-April 2009. Consequently, diamond revenue forecasts for 2009/10 also declined to P6.9 billion compared to actual revenue of P10.8 billion for 2008/09. As at the end of September 2009, Debswana employed 5 809 people at its four mines, a reduction of 1 384 compared to December 2008, mainly because of deferment and cancellations of non-core projects. Though the future still remains unpredictable, there seems to have been positive improvements on the global demand for diamonds since April 2009. Such improvements will however, not be enough to take us back to the contribution made to GDP and economic growth, by the diamond sector, during the past 5 to 10 years. Full recovery of diamond market is expected only in 2012/13. It also means in *transforming the economy*, we have to find alternative sources of economic growth besides diamonds.

76. With regard to diamond beneficiation, all the 16 licensed diamond cutting factories are now operating. However, between November 2008 and August 2009, there was a reduction of 26 percent in employment (from 3 226 to 2 391), of the beneficiation industry, due to the global economic crisis.

77. In April 2009, Government initiated amendment of the Mines and Minerals Act, 1999 and the Mines, Quarries, Works and Machinery Act with a view to improve the regulatory framework. Areas that will be covered by the legislation include mine site rehabilitation and closure plan, regulations governing uranium operations, as well as regulations governing exploration and exploitation of Coal Bed Methane. Legislation on mine site rehabilitation and closure plan is at drafting stage while the part on Coal Bed Methane is at consideration stage. Drafting of the legislation on mine site rehabilitation and closure plan is expected to be complete by March 2010.

Energy

78. Madam Speaker, universal access to energy and water, has the potential to unlock the country's ability to engage in productive economic activities even at grass root level. Such productive economic activities are necessary to uplift our citizen's welfare, health and safety status beyond the current level. To this end, the National Energy Policy, which is being drafted advocates for increased access, reliability and affordability of energy services to all by 2016. However, the country continues to meet its demand through imports of electricity, of which more than 70 percent is from the Republic of South Africa. In order to improve the supply situation and energy security, a project to expand the existing Morupule Power Station by 600 MW (Phase I) is ongoing and is expected to be completed in 2012/13.

79. To date, access to electricity in Botswana stands at 56 percent of the population and the target is to reach 80 percent by 2016. Furthermore, to reduce connection costs and improve electricity uptake, in 2009, Government introduced the National Electricity Connection Standard Cost (NECSC) of P5 000 in both rural and urban areas. To implement this initiative, a National Electrification Fund will be established during the 2010/11 financial year. To sustain the Fund a levy of 5 thebe per kilo-watt hour will be charged on monthly electricity consumption by every consumer with effect from 1st April 2010.

80. Madam Speaker, since the amendment of the Electricity Supply Act there has been increased interest from private investors in power generation. To further create an enabling environment for private sector participation, Government will establish an Energy and Water Regulator, whose role would be to review the electricity and water tariffs, as well as issuing licenses to independent power producers.

Water

81. Madam Speaker, there are challenges associated with coordination in providing water supply services in the rural and major villages. In addressing these challenges, it is planned that within a period of 3 years, Water Utilities Corporation (WUC) should have taken over the water supply responsibility of some 543 villages that were originally supplied with water by the Department of Water Affairs and the Ministry of Local Government. Already, water supply at Tlokweng and Mogoditshane has been taken over by the Corporation.

82. In an effort to minimise the high water losses, a number of strategies and initiatives have been put in place. These include; network rehabilitation in all major villages, leakage detection, pressure monitoring and zoning of distribution networks. In this regard, a National Water Conservation Policy and its strategy, and regulations have been developed.

83. Madam Speaker, three major dams namely; Dikgatlong, Thune and Lotsane, with capacities of 400 million m³, 90 million m³ and 40 million m³, respectively, are being constructed in order to alleviate water shortage for domestic and industrial consumption. Construction of Lotsane dam is expected to be completed in October 2011, while Dikgatlong dam is expected to be completed in February 2012. Tender evaluation for Thune dam was done in 2009 and its construction is expected to be completed in March 2013. The three dams will also support economic diversification by providing water for irrigation purposes. Plans for the future include drawing out water from the Zambezi River to supply the Zambezi integrated agro-commercial project at Pandamantenga, as well as from the Lesotho Water Highlands Scheme to supply the South western part of the country. Negotiations with Zambia and Lesotho have already commenced.

Environment, Wildlife and Tourism

84. Madam Speaker, the tourism industry has been identified as an alternative source of economic growth and diversification. To facilitate further growth of this industry, the Tourism Policy and related legislation have been reviewed. The draft policy is expected to be presented to Parliament before the end of the 2010/11 financial year. To enhance participation by citizens, the industry has reserved some of the services such as provision of lodging facilities and tour guides for citizens only. Some public campsites in the protected areas have also been leased out to citizen companies and out of the 11 lodge sites awarded to 4 Botswana registered companies, 3 are already operational.

85. Evolving complexities of wildlife conservation, management and legislation, are being addressed through the revision of the Wildlife Conservation Policy (1986) and the Wildlife Conservation and National Parks Act of 1992. The revised Wildlife Conservation Policy is being finalised and is expected to be presented to Parliament during 2010/11 financial year. Also, in line with the Environmental Impact Assessment (EIA) Act of 2005, a number of improvements, such as formulation of the EIA Practitioners Association, are being initiated. This will provide fundamental measures of monitoring, controlling and regulating the administrative, financial and ethical practices within the profession.

86. Three pieces of legislation, Forest Act, Agricultural Resources Conservation Act and Herbage Preservation Act, are being merged to produce one Forest Act and will be presented to Parliament during the 2010/11 financial year. In addition, the National Wild Land Fire Management Policy and Strategy intended to provide a framework for an integrated wild fire management approach are being developed.

Transport, Communications, Science and Technology

87. Madam Speaker, work is ongoing to develop the first Botswana Road Safety Strategy, which will be finalised in March 2010. This will in turn, inform the review of both the Road Traffic Act and the Road Transport Permit Act. The Motor Vehicle Accident (MVA) Fund has also developed a Strategic Plan that gives the Fund direction for five years, from 2008 through 2012. The Strategy focuses on service excellence, healthy stakeholder relations and high performance and will introduce a Safety Community Grant Scheme during 2010/11 financial year.

88. Regarding road safety, there was a decline in both the recorded accidents and fatality rates over the last three years. For example, the number of road traffic accidents per 1 000 registered vehicles fell from 66 in 2007 to 62 in 2008 and further declined to 55 in 2009. Fatalities per 100 000 people also declined from 27 in 2007 to 24 in 2008. Fatalities, however, increased slightly to 25 per 100 000 people in 2009.

Efforts are continuing to curb the situation even further, including the enforcement of current steeper penalties on road traffic offences.

89. Madam Speaker, the current development of the e-Governance programme, which is within the National ICT Policy, will provide a platform for effective and efficient provision of services locally and internationally. The Policy also seeks to establish a Universal Service Fund that will ensure sustainable implementation of the Universal Service Obligation which will make telecommunications services accessible to all Batswana. The Universal Service and Access Policy which has been drafted will promote extended access to communication services by embracing opportunities created by emerging technologies. Both Policies will be submitted to Parliament for approval during the 2010/11 financial year.

90. Government is undertaking a study to develop Information Communications Technology (ICT), and Internal Reticulation Regulations for buildings, which will ensure that there are standards for ICT cabling and provision of wireless communications in all buildings. Work on standardising this area of service provision, started in September 2009 and is expected to be completed by the end of February 2010. By standardising this area of service provision Government will open new business opportunities for Batswana.

91. Madam Speaker, Botswana started the process of charting a strategy to transform terrestrial broadcasting from analogue to digital in November 2008. The transformation is expected to be completed by December 2013. This is in line with the International Telecommunication Union (ITU) resolution aimed at enhancing the efficient use of the radio frequency spectrum. Such a move would enable Batswana to access more and higher quality broadcasting services.

92. In this knowledge based era, our ability to take advantage of new cost-effective technologies is necessary to transform our economic base into an innovative private sector-led, diversified economy. In this regard, Botswana Development Corporation has been mandated by the Ministry of Infrastructure, Science and Technology to facilitate the physical development of the Botswana Innovation Hub. The master plan of the Hub was approved in September 2009 and the designs for the infrastructure and Hub headquarters are being prepared with construction expected to start in July 2010. The Innovation Hub, which has been incorporated as a company, will provide a platform for research and development in areas of information and communications technology, mining technologies, renewable energy and bio-technology, thus stimulating opportunities for economic transformation and diversification.

Law, Justice and Security

93. Madam Speaker, as His Excellency the President said in his 2009 State of the Nation address, crime in general had declined over time, but violent crime remains a concern. This has a negative impact on the ability to attract foreign direct investment for economic growth. The initiatives undertaken to ensure public safety, during the financial year 2009/10 included; strengthening of police crime intelligence capacity, improvement of controls along the border, and regular checks for illegal immigrants, just to mention a few. The neighbourhood watch strategies have also been put in place. This will involve recruiting volunteers to assist in combating crime. This programme will start during the 2010/11 financial year. To further address the incidences of crime in the country, Government will, with effect from April 2010, implement recommendations of the National Anti-Corruption Strategy that was approved in October 2009. The recommendations include among others, intensive training of the DCEC officers to enable them to handle major corruption cases which are also on the increase.

94. The introduction of the Court Record Management System (CRMS) in October 2004 and Judicial Case Management (JCM) in February 2008, to ensure that Courts are efficient has begun to bear fruit. The CRMS and JCM are now proving to be efficient systems for reducing the turn around time for cases in the courts. The backlog of cases reduced from 10 683 in February 2008 to under 3 000 in September 2009. In the Magistrates Courts, in addition to JCM, specialised Courts like Small Claims Courts and Stock Theft Courts have been added to the existing structures to speed up disposal of cases. Completion of the headquarters of the Judiciary and the Court of Appeal in Gaborone by 2011 will also alleviate the congestion and backlog currently experienced in the High Court in Lobatse and the Industrial Courts.

95. Following the adoption of the Financial Intelligence Act in April 2009, Government will establish a Financial Intelligence Agency under my Ministry. The primary objective of the Agency will be to receive, analyse and disseminate suspicious financial transactions to investigating authorities such as the Botswana Police Service and DCEC. Due to budgetary constraints, establishment of the Agency has been suspended until such time that resources permit.

Health

96. Madam Speaker, for us to improve productivity and *transform our economy*, a diligent workforce drawn from a healthy population remains an important factor. It is for this reason that Government continues to develop and improve health services. Let me inform this Honourable House of the Cabinet decision to transfer responsibility for Primary Health Care from the Ministry of Local Government to the Ministry of Health. The purpose of this change is to harmonise and strengthen the coordination of

health service delivery by bringing it under one authority. It is expected that this change will improve efficiency and service standards, promote equity and access to specialised services, and enhance effectiveness and quality in the provision of health care . In short Madam Speaker, this realignment is seen as a step towards establishing a comprehensive, well coordinated and sustainable health care delivery system that will result in optimum utilisation of the scarce resources. Notwithstanding these efforts, the health sector continues to face challenges of; availability of drugs, staff shortages, and increased incidences of cervical cancer and tuberculosis as well as HIV/AIDS.

97. However, Botswana continues its resolve and actions in the war against the HIV and AIDS epidemic. We have one of the best Prevention of Mother to Child Treatment (PMTCT) programme in Africa, where 96 percent of babies born under the programme are HIV negative. Of those eligible for ARV treatment, 86 percent were enrolled in the programme as at end of September 2009.

98. There is also hope for the younger generation where infection rates seem to be relatively low as shown by the Botswana AIDS Impact Survey (BAIS III) results of 2008. The Survey indicated that, the prevalence rate for the 15-24 year old reduced from 15 percent in 2004 to 8 percent in 2008. These figures give us hope and encourage us to continue the war against the epidemic.

99. Madam Speaker, a study to identify long term financing options for the response to HIV and AIDS has been commissioned and is expected to be completed by the end of May 2010. The results of the study are expected to assist in the required *transformation* of the national response and financing from 2010 and beyond. In addition, a partnership framework with the USA Government is being developed and expected to be completed by February 2010. The framework is expected to assist in channelling all the support from our various development partners to priority areas and ensure long term sustainability.

100. Government has started outsourcing some of the HIV/AIDS interventions through increased engagement of the Private Sector and Civil Society Organisations. Through the Botswana National HIV and AIDS Prevention Support Project, launched in July 2009, the capacity of Civil Society Organisations will be augmented to deliver and scale up prevention interventions, initially under Phase I districts namely Kweneng East, Goodhope, South East, Selebi Phikwe and Francistown during 2010/11 and 2011/12. Phase II will cover the whole country based on experience gained from implementing Phase I.

Social Services

101. Madam Speaker, Government continues to provide support to those who cannot afford basic necessities of life. This is in line with both Vision 2016 and His Excellency the President's notion of the '5Ds' of; Dignity, Discipline, Democracy, Development and Delivery. The first 'D' – Dignity – relates directly to provision of support for the needy and vulnerable members of society. To this end, different categories of vulnerable groups such as old age pensioners, destitute persons, orphans and vulnerable children, and home based care patients, continue to be provided with both material and psychosocial support.

102. As at the end of October 2009, there were 90 639 registered old age pensioners, 3 005 World War Veterans or their dependants, 3 557 registered Community Home Based Care patients, 42 381 registered destitute persons and 46 833 registered orphans who have access to food, education, and other basic necessities.

103. The increasing number of beneficiaries is economically unsustainable and has led Government to embark on a review of the National Policy on Destitute Persons in August 2008. Currently, an assessment is being carried out to ensure that only eligible persons benefit from the Destitution Programme. The aim of the review is to put more emphasis on rehabilitation as a people-centred development programme. To this end, Government is working hard to rehabilitate destitute persons so that they exit from the Destitute Programme. Out of the 7 540 destitute beneficiaries targeted for rehabilitation, 956 have already been enrolled in income generating projects that range from bead work, to laundry, shoe repair and basketry.

Local Authorities

104. Madam Speaker, Government continues to look for innovative ways of bringing services closer to the people through local authorities. To this end, Government is formulating a comprehensive Decentralisation Policy through a consultancy which started in March 2009 and is expected to be completed in March 2010. The Policy will provide guidance for the establishment of Sub-Districts, Service Centres and Administrative Authorities to facilitate provision of services to the public. Currently, arrangements have been made for services such as; registration of welfare beneficiaries, application for licences, application for water connections, and payment of bills to be provided at Administrative Authorities in Maun, Molepolole, Kanye and Serowe. Similar arrangements will be made in Gaborone, Francistown and major districts by April 2010.

Lands and Housing

105. Madam Speaker, land is a key factor in the transformation of business ideas into investment opportunities that lead to economic growth. The 2009 Budget Speech highlighted shortage of serviced land and speedy allocation of land as major constraints to investment in the economy. To address these challenges, land servicing is ongoing with a total of 605 plots serviced in Kasane since April 2009. A further 9 763 plots are currently being serviced in Gaborone (Tsholofelo area), Jwaneng (Unit 8), Lobatse (Airstrip plantation) and Francistown (Gerald Estates). The land servicing programme is also being extended to rural centres with the designs currently ongoing for Metsimotlhabe (Block 4) and Palapye (Extension 11). Land servicing in all these areas is expected to be completed in 2010. Extension of this programme to rural centres is expected to impact positively on investment opportunities for rural areas and also enhance the country's global competitiveness.

106. To facilitate speedy allocation of land to investors, about 270 000 hectares of land as well as eight concession areas were reserved for Ministries of Trade and Industry, Environment, Wildlife and Tourism as well as Agriculture. Acquisition of land will also continue through negotiations with owners of land around towns. Government is also in the process of acquiring 5 570 hectares of tribal land for incorporation into Gaborone.

107. To augment these initiatives through the private sector, land servicing will continue to be funded by Government only where there are no opportunities for private sector participation. The private sector will also be allowed opportunity to provide housing in areas where it has competitive advantage whilst Government will provide support in areas that are not attractive to the private sector, particularly the rural and remote areas. These initiatives are aimed at promoting citizen empowerment through local out-sourcing as well as promoting the private sector as an engine of economic growth.

V. 2008/2009 BUDGET OUTTURN

108. Madam Speaker, I now turn to matters related to the Government budget. The budget outturn for the 2008/09 financial year was an overall deficit of P4.696 billion, compared to the estimated deficit of P7.121 billion in the revised budget estimates. The recurrent budget was under spent by P107 million, while the development budget was under spent by P1.464 billion mainly due to implementation capacity constraints.

109. Total revenue and grants amounted to P30.455 billion, which is higher than the estimated P29.681 billion in the revised estimates. This represents an increase of P774 million or 2.6 percent. Mineral revenue amounted to P10.182 billion. Mineral revenue was lower than revised budget of P10.860 billion mainly due to a decline in diamond

sales occasioned by the world financial and economic crisis. However, there was a substantial increase in grants from P405 million to P623 million due to some unanticipated draw-downs during the year. Customs and Excise at P7.750 billion was 6.6 percent below the revised budget while VAT recorded P4.377 billion, which was 48.9 percent above the revised budget as a result of increased collections by Botswana Unified Revenue Service. Non-mineral income taxes at P4.609 billion were 9 percent above the revised budget.

110. Total expenditure and net lending in 2008/09 amounted to P35.151 billion compared to P36.802 billion in the revised budget, representing an under spending of P1.651 billion or about 4.5 percent. Out of this total, recurrent expenditure amounted to P23.889 billion compared to P23.997 billion in the revised estimates representing an under spending of P107 million. Development expenditure recorded P11.458 billion which was an under expenditure of 11.3 percent of the revised budget of P12.922 billion.

VI. 2009/2010 REVISED BUDGET ESTIMATES

111. Madam Speaker, because of the expected negative effects of the economic crisis, the 2009/10 budget forecast a deficit of P13.39 billion which was approximately 14 percent of forecast GDP. Under a normal budgeting environment, it would not be considered prudent to allow a deficit of this magnitude. The deficit was however, allowed as a stimulus to mitigate the effects of the economic downturn on our development objectives.

112. Besides allowing for such a substantial deficit, there was commitment by Government to continuously assess the situation and adjust Government spending accordingly. In this regard, during the course of the year, Government introduced some cost-cutting measures which included among others, cutting the development budget by 5 percent and the recurrent budget by 7 percent across the board. Additional expenditure was however, approved by Parliament in December 2009. The largest additions to the recurrent budget were for the Ministries of State President (P87.8 million), Communications, Science and Technology (P57.3 million), Lands and Housing (P44.7 million), Health (P43.3 million) and Agriculture (P40 million). These additional expenditures and the budget cuts effected during the year resulted in the 2009/10 revised recurrent expenditure budget of P26.378 billion, representing a decrease of P979 million from the original budget. In addition, a P570 million shareholder loan to De Beers is included in Net Lending.

113. As a result of the December 2009 supplementary expenditure estimates, the development budget recorded a net increase of P3.887 billion, to give a revised budget of P14.445 billion. The additions were made up of P1.61 billion for Local

Government, P1.13 billion for Works and Transport, P580 million for State President, Education and Skills Development (P438 million), Environment Wildlife and Tourism (P155 million), Minerals Energy and Water Resources (P155 million), Agriculture (P147 million), Labour and Home Affairs (P118 million), Administration of Justice (P68 million) and Ministry of Finance and Development Planning (P50 million).

114. The 2009/10 revised total expenditure and net lending is P41.265 billion representing an increase of P3.478 billion from the P37.787 billion in the original budget. The overall revised budget outturn is a deficit of P13.483 billion which is 0.7 percent higher than the original budget deficit of P13.394 billion. This revised budget deficit is 15.1 percent of the revised 2009/10 forecast GDP of P89.05 billion.

115. Madam Speaker, to partly finance the deficit, Government negotiated with development partners where favourable financing was available. In this regard, we secured a budget support loan of USD1.5 billion from the African Development Bank (ADB) out of which USD1 billion or approximately P6.6 billion has already been disbursed. Government's accumulated balances and the ongoing domestic bond issuance programme are also being used to partly finance the deficit.

116. Madam Speaker, allow me to reiterate what we said when we presented the supplementary budget estimates last year. We have observed that there was a general problem in budgeting and financial management during the 2009/10 financial year, across most Ministries. This is evidenced by factors ranging from cost-overruns caused by inadequate budgeting, award of tenders without enough funds, change of scope of projects without authority for additional funds and transferring of funds between expenditure heads without re-prioritising. My Ministry will therefore be instituting measures to deal with these. Included in the changes will be an amendment of the Guidelines under the dispensation to grant authority to Accounting Officers to approve funding for projects which cost P10 million or less, to completely exclude the approval of Project Memoranda on consultancies and computerisation. The approval of these will henceforth revert to my Ministry.

117. We will also tighten controls in the Government Accounting and Budgeting System to ensure that funds are not warranted or spent against votes with no or inadequate funds; or funds are not moved from one vote to the other without the requisite approval. In addition, Section 39 of the Finance and Audit Act calls for the surcharge of public officers who cause Government nugatory expenditure. Henceforth, any officer who violates the Act will be surcharged. At the same time, project appraisal will be tightened to make it more robust to ensure that only projects with the highest potential added value are approved under the Domestic Development Fund, and that any subsequent project changes do not change the favourable net appraisal of the project.

VII. 2010/2011 BUDGET PROPOSALS

118. Madam Speaker, I will now present the budget estimates for the 2010/11 financial year. The preparation of the 2010/11 budget was guided by the National Development Plan 10.

119. The commitment to restoring sustainability in our public finances over the medium term, is critical if Government is to maintain its credibility with those who will be asked to finance the deficit, namely domestic and international lenders, and with international investors who are considering investment in the country. If there is any hint that Government is running a cumulative deficit that cannot be financed comfortably over the medium term, then the cost of financing in the form of interest payments, which become a first call on Government's spending, would rise substantially. This, in turn, would mean that both recurrent and development budgets have to be trimmed to pay the higher interest costs. Furthermore, major infrastructure projects such as electricity, tertiary education, and water, would become prohibitively expensive to finance.

Revenues and Grants

120. The largest revenue source is Non-mineral income tax at 24.4 percent of the total. The second largest contributor is Mineral revenue at 23.9 percent, while Customs and Excise revenue is third at 18.9 percent. Forecast mineral revenue is greater than in the revised budget for the current financial year, but is considerably less than in 2008/09 due to the anticipated slow recovery of the world diamond market. Mineral revenues are not expected to return to the pre-recession levels in real terms until 2012/13. Non-mineral income taxes are expected to grow, in part because of the sustained real growth in the non-mineral sectors of the economy. The Customs revenue for 2010/11 will be significantly less than in recent years because of the decline in the Southern African Customs Union revenue pool, arising from a significant drop in high duty imports. The reduction for 2010/11 is compounded by the fact that distributions from the SACU revenue pool did not anticipate as sharp a decline in the pool, resulting in overpayments to member states, which must be repaid to the pool in the coming financial year.

121. Madam Speaker, in order to achieve the total revenues noted above, a number of adjustments will be required. Several fees and levies that have not kept up with the costs of providing the associated services will be adjusted accordingly. The requirement that commercial parastatals pay 25 percent of their profits to Government will be strictly enforced. Finally, I propose to increase the Value Added Tax rate from 10 to 12 percent, effective 1st April 2010 and to raise the threshold for VAT registration from P250 000 to P500 000.

122. I will also be tabling a proposal concerning the company taxes. The current system of a company tax rate of 15 percent plus a 10 percent additional company tax rate is unnecessarily complicated as it requires companies to keep track of two types of taxes as well as the amount of the additional company tax that has not been off-set against the 15 percent withholding tax on dividends. I propose to abolish the two-tier corporate tax system, effective 1st July 2010, to be replaced by a final company tax rate of 25 percent. Companies designated as manufacturing and IFSC registered companies will continue to be taxed at a company rate of 15 percent. I also propose that the final withholding tax on dividends paid to residents and non-residents be reduced from 15 percent to 7.5 percent. The combined effect of these proposals will be an increase in non-mineral income tax revenue of about 5 percent.

Recurrent Budget

123. Madam Speaker, the 2010/11 recommended recurrent expenditure budget is P27. 143 billion. This represents an increase of P765 million or 2.9 percent over the 2009/10 revised budget of P26.378 billion.

124. Madam Speaker, the Ministry of Education and Skills Development takes the largest share of the recurrent budget at P8.3 billion, followed by Local Government (P3.9 billion), Defence, Justice and Security (P3.3 billion) and Health (P2.2 billion). These four Ministries account for 69.5 percent of the total recommended recurrent budget. Nine Ministries of Transport and Communications (P1.5 billion), Finance and Development Planning (P831 million), Agriculture (P850 million), Lands and Housing (P701 million), Minerals, Energy and Water Resources (P464 million), Trade and Industry (P700 million), Infrastructure, Science and Technology (P430 million), State President (P462 million) and Environment, Wildlife and Tourism (P425 million) account for 25.2 percent while the remaining Ministries and Departments account for 5.3 percent.

125. Madam Speaker, two new Ministries namely, Infrastructure, Science and Technology; and Transport and Communications, have been created following the restructuring of the then Ministries of Works and Transport, and Communications, Science and Technology. The third Ministry of Defence, Justice and Security, split from the Ministry of State President and Labour and Home Affairs.

Statutory Expenditure

126. In addition to the individual Ministry budgets, Government must include provision to cover payments mandated by various statutes. The budget estimate for Statutory Expenditure is P4.98 billion. The major items under this category of expenditure are Public Debt Service at P3.48 billion (repayment of loans and interest), pensions, gratuities and compensations (P1.19 billion) of which P917

million is Government's contribution to the Public Officers Pension Fund, pensions and gratuities (P275 million) and miscellaneous, statutory commitments (P277 million).

Development Budget

127. Madam Speaker, the total recommended development budget for 2010/11 is P12.18 billion. The Ministry of Minerals, Energy and Water Resources with a budget of approximately P3.5 billion, takes the highest share at 28.7 percent of the recommended development budget. Five projects, namely, Morupule "B" Power Station at P1.4 billion, Water Planning and Development at P1.05 billion, Emergency Power at P610 million, Major Village Water Supply at P219 million and North South Carrier at P250 million account for 99 percent of the Ministry's budget. The allocation under the Water Planning and Development Project is mainly to cover the three ongoing dam projects of Thune, Lotsane and Dikgatlong.

128. The second largest recommended allocation goes to the Ministry of Transport and Communications at P2.1 billion, mainly accounted for by Air Transport Infrastructure project at P693 million, Bitumen and Trunk Road project at P707 million, Botswana Telecommunications Corporation finances at P389 million. The three projects, account for 85 percent of the Ministry of Transport and Communications budget.

129. The Ministry with the third largest recommended budget is Local Government at P1.65 billion. Six projects, namely, Village Infrastructure (P562 million), District and Urban Roads (P338 million), Ipelegeng (P200 million), Primary Schools (P178 million), Village Water Supply (P159 million) and Urban Land Servicing (P70 million), account for 91 percent of the total Ministry's budget.

130. The Ministry of Education and Skills Development with a recommended budget of P1.5 billion takes the fourth largest share. The Secondary Schools construction is the largest programme, at P1.28 billion. This project accounts for 86 percent of the Ministry's budget. In particular, the allocation for the Secondary Schools project is to cover the construction of the four new senior secondary schools at Mogoditshane, Nata, Mmadinare and Shakawe.

131. The Ministry with the fifth largest recommended allocation is Defence, Justice and Security at P989 million, mainly accounted for by the Botswana Defence Force (P574 million), Directorate of Intelligence and Security (P200 million), and Botswana Police Service (P175.8 million).

132. The other Ministries/Departments share the remaining 20.3 percent of the recommended development budget.

VIII. PUBLIC SERVICE SALARIES

133. Madam Speaker, the National Employment, Manpower and Incomes Council (NEMIC), whose mandate includes advising Government on remuneration of the Public Service, met on 1st February 2010 to consider a cost of living adjustment for the public sector. In making their recommendation, the Council took into account the tight budgetary outlook, as well as the need to maintain long term sustainability and jobs. Council has recommended that there be no Public Sector cost of living adjustment during the 2010/11 financial year. In light of the fact that Government's revenues have not yet recovered to pre-recession levels, while public sector employment is not contracting, Government has accepted that there will be no cost of living adjustment during the 2010/11 financial year.

134. The Public Service is no doubt one of the most valuable resources in driving our economy. Public servants have contributed immensely in developing this country over the years. As we continue efforts to further expand, diversify and transform this economy, the role of the public service will become more critical. To that end, Government will continually engage with the relevant public and/or other employee representatives and stakeholders in developing and putting in place ways to improve the working conditions, including salaries, of the Public Service. All these factors, as well as the budgetary outlook and affordability are taken into consideration when Government considers public sector salaries. Should the economic situation improve the adjustment of public sector salaries will be considered.

IX. FISCAL LEGISLATION

135. Madam Speaker, Honourable Members may recall that in the 2008 Budget Speech, my predecessor announced the intention to review the tax regime in the financial year 2008/09, in order to simplify it and improve tax compliance. The decision followed a recommendation of the Botswana Economic Advisory Council to simplify our tax system with a view to improving the investment climate and the competitiveness of the economy. That review was completed last year and is currently the subject of extensive consultations with the many stakeholders. I anticipate presenting detailed proposals to Parliament in the very near future.

X. OVERALL BALANCE

136. Total revenues and grants for the financial year 2010/11 are forecast at P27. 077 billion, whilst total expenditure and net lending are forecast at P39. 194 billion. The net result is a budget deficit amounting to P12.118 billion which is 12.2 percent of forecast 2010/11 GDP of P99.70 billion.

137. The deficit will be financed by a combination of drawing down on Government's cash balances which were accumulated in surplus years, and by borrowing, largely on the domestic capital market. It will be recalled that Government embarked on a programme to develop the domestic capital market which involves issuance of bonds and shorter term treasury bills. The existence of this market will now facilitate the domestic financing of a portion of the deficits for the current and coming financial years. Details of the March 2010 bond issue, in keeping with the programme already approved by Parliament, will be announced by the Bank of Botswana shortly. An updated bond issuance programme will be prepared for consideration by Parliament in the July session.

138. As I alluded to in the Introduction, the budget deficits for the current financial year and 2010/11, which are the first two years of NDP 10, will together absorb most of the approved deficit for the entire NDP 10. It follows that, in order to comply with Parliament's NDP 10 mandate, adjustments must be made to ensure that there is a balanced budget for the remaining years of NDP 10. To accomplish this, Government will require a substantial reduction of expenditure in the financial years 2011/12 and 2012/13, while revenues recover over those two years, to the point that we achieve a balanced budget in 2012/13. This will restore sustainability in our public finances over the medium term. Then, in the remaining years of NDP10 a modest surplus would be run to comply with the NDP 10 mandate.

XI. CONCLUSION

139. Madam Speaker, before concluding, let me also take this opportunity on behalf of the people and Government of Botswana, to express gratitude to our development partners for their continued support towards our development efforts. Their support in these difficult times will even be more critical than before.

140. The deepest global economic downturn in recent history caused an unprecedented loss of national income for Botswana. Government revenue to finance development initiatives was severely impaired, opening up a substantial budget deficit. This threatened to stall our hard earned progress towards achieving the aspirations of Vision 2016.

141. Our response in this budget is to lay the foundation for transformation of our economy. The transformation begins now, but will be an ongoing process. Government, for its part, is committed to a sustainable fiscal position, not burdened by excessive debt, and adhering to the macroeconomic framework of NDP 10 as approved by Parliament. The private sector will have the benefit of a stable business-friendly economic environment, with the confidence that a burgeoning Government debt will not crowd out private sector financing.

142. Government must do more than simply restore fiscal balance. The education and health of Botswana will be vital to the transformation process. Government will therefore continue with the heavy investment in those areas. The major infrastructure projects in electricity and water will serve the growing private sector demand for these important services. Privatisation and rationalisation of services provided by Government and parastatals will enhance efficiency, as well as open up new opportunities for citizen participation. Poverty reduction and taxation policies will be supportive of the transformation. Special initiatives, such as the Hubs, will focus attention on specific high return opportunities. In all of these areas, the limited resources available to Government must deliver more with less. Every Pula of Government spending must create more than a Pula worth of added value.

143. In this way, we will transform Botswana into a globally competitive high income economy that delivers development with dignity for all Botswana.

144. Madam Speaker, I conclude by moving that the **Appropriation (2010/2011) Bill**, No. 1 of 2010 be read for the second time.

145. I thank you, Madam Speaker.