



Republic of Botswana



2014 BUDGET SPEECH

By

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TABLE OF CONTENTS

I. INTRODUCTION	1
II. GLOBAL AND REGIONAL ECONOMIC REVIEW AND OUTLOOK	2
Global Economic Review and Outlook	2
Regional Economic Review and Outlook	2
III. DOMESTIC ECONOMIC REVIEW AND OUTLOOK.....	3
Economic Growth and Outlook.....	3
Inflation and Monetary Policy.....	4
Balance of Payments and Foreign Exchange Reserves.....	4
Exchange Rate Movements	5
Economic Outlook.....	6
Performance of Public Enterprises	6
Improving Project Implementation	8
IV. KEY THEMATIC AREAS FOR 2014/15 FINANCIAL YEAR.....	9
Growing the Economy and Employment Creation	9
Financial and Business Services.....	9
Construction.....	11
Agriculture.....	11
Tourism Sub-Sector.....	12
Manufacturing	12
Improving Productivity and Sustaining Sovereign Rating.....	13
Investing in Infrastructural Development to Support Economic Growth	13
Energy.....	14
Water	15
Transport.....	15
Land.....	16
Information and Communication Technology	16
Investing in Human Capital to Support Sustainable Economic Growth.....	17
Health.....	17
Population Growth and Skills Development	18
Enhancing People’s Welfare and Livelihood.....	19
Strengthening the Judicial System and Combating Crime.....	20
Strengthening Local Governance	21
V. 2012/2013 BUDGET OUTTURN.....	21
VI. 2013/2014 REVISED BUDGET ESTIMATES	21
VII. 2014/2015 BUDGET PROPOSALS	22
Revenue and Grants	22
Recurrent Budget.....	22
Statutory Expenditure.....	23
Development Budget.....	24
VIII. OVERALL BALANCE	25
IX. FISCAL LEGISLATION	25
X. PUBLIC SERVICE SALARIES	25
XI. CONCLUSION	26

I. INTRODUCTION

1. Madam Speaker, I have the honour this afternoon to present to the National Assembly budget proposals for the financial year 2014/2015.

2. Madam Speaker, Honourable Members may recall that in April last year, the Mid-Term Review of NDP 10 was adopted by this House. The Review emphasised the importance of making strategic choices on revenue mobilisation and spending, while maintaining macroeconomic balance, so that we could continue building a productive economy that would provide sustained growth, employment creation, and reduce poverty. The Mid-Term Review and 2013 State of Nation Address, also underscored the importance of maintaining Government cash balances to allow for flexibility to run deficits by drawing down on accumulated balances without substantially increasing Government's debt. In this regard, it is imperative that we re-build our net financial position in the coming years, so that we are ready to respond to negative shocks to the economy, when the need arises.

3. In preparing the 2014/15 budget, we have continued the tradition of consulting widely on the budgeting strategy including consultations with non-governmental organisations. Through these consultative fora, there was wide agreement that we must optimise the allocation of public resources by ensuring that available funds are only used for implementing national priorities. Furthermore, Government was urged to address shortcomings currently inhibiting growth of private sector investment and local industry development. To this end, macroeconomic stability, with supportive monetary and exchange rate policies, remain critical. In achieving economic growth, Government must also strike a balance between development initiatives and social cohesion and stability.

4. Madam Speaker, these budget proposals have been prepared within an environment of continued uncertainties surrounding the state of the world economy and their likely effects on the local economy. These uncertainties have made it imperative to focus on expenditure priorities, while avoiding erosion of the domestic revenue base. I will elaborate on those priorities later on when I consider the key thematic areas as well as the proposed budget for the 2014/15 financial year.

5. Madam Speaker, I shall now spend a few minutes reviewing the outlook for both the global and domestic economies.

II. GLOBAL AND REGIONAL ECONOMIC REVIEW AND OUTLOOK

Global Economic Review and Outlook

6. Madam Speaker, recovery in the global economy continued to be weak during 2013, thus impacting negatively on the domestic economic performance. The world economic activity is projected to remain subdued, largely as a result of the slow pace of recovery in the euro area, as well as weaker domestic demand and slowing growth in some key emerging market economies such as China and India. According to the International Monetary Fund's latest issue of the World Economic Outlook of January 2014, world output growth declined to 3.1 percent in 2012, down from 3.9 percent in 2011. It was projected to further decline to 3.0 percent in 2013, before recovering slightly to 3.7 percent in 2014, underpinned by the recovery in emerging economies. Despite losing some growth momentum, emerging economies were projected to grow, on average, by 4.7 percent in 2013, down from 4.9 percent in 2012, with prospects to reach 5.1 percent in 2014. However, advanced economies are expected to register a growth of 2.2 percent in 2014, representing a slight recovery from the 1.3 percent for 2013.

7. In response to this modest growth environment, policy makers around the world continue to maintain accommodative monetary and fiscal policy positions, with some committed to maintaining stimulus policies until there is evidence of sustained growth. Specific measures include: balancing the budget and reducing sovereign debts, as part of fiscal consolidation; undertaking further structural reforms to foster competitiveness of their economies in the medium to long-term; and maintenance of adequate liquidity support to the financial sector. These measures underlie the expected global growth rate of 3.7 percent in 2014.

Regional Economic Review and Outlook

8. Madam Speaker, due to trade interdependence with the rest of the world, the regional economic performance continued to be influenced by slow pace of recovery in the global economy. This is because most of the countries in the region including Botswana, still largely depend on the global economy as a market for their primary products. Therefore, to the extent that global growth remained weak, these economies grew moderately by 4.9 percent in 2012, compared to 5.5 percent in 2011, and are projected to have registered a growth of 5 percent in 2013 and 6 percent in 2014.

9. The importance of the global and regional economic performance to Botswana cannot be overemphasized. As a small open economy dependent on the export of primary products, mainly diamonds, Botswana is susceptible to economic developments in the major and emerging economies. My Ministry will therefore, continue to monitor developments in the world economy, with a view of determining their likely impact on the proposed budget and suggest mitigating

measures where necessary, particularly to comply with our fiscal rule. However, I remain optimistic that the global and regional growth forecasts will be realised, thus obviating the need to adjust our proposed budget for the next financial year.

10.Madam Speaker, the overall economic performance of the SADC region was not satisfactory in 2013, largely due to a sluggish growth in the global economy that I have alluded to. Economic growth in the region averaged 5.0 percent in 2012 compared to 5.4 percent in 2011, which is much less than the regional target of 7 percent. Further, the region was projected to have slowed down to 4.9 percent in 2013. On the other hand, the average inflation rate of 7.2 percent was recorded for the region in 2012, the same rate attained in 2011. For 2013, average inflation rate was expected to have decelerated to 6.3 percent.

11.Madam Speaker, the SADC region continues to face challenges, particularly in the area of trade facilitation. To this end, the region will enhance border efficiencies by harmonising operating hours at adjacent borders where operating hours are different and to also implement the one stop border post programme at some borders. In the case of Botswana, this entails alignment of hours of operation at Kazungula border and the establishment of a One Stop Border Post at the Mamuno/Trans-Kalahari border between Botswana and Namibia.

III. DOMESTIC ECONOMIC REVIEW AND OUTLOOK

Economic Growth and Outlook

12.Madam Speaker, in real terms, growth of the domestic economy decreased from 6.1 percent in 2011 to 4.2 percent in 2012, due to reduced real output of the mining sector. The mining sector, which now accounts for 20 percent of GDP, registered real declines of 2.3 percent in 2011 and 7 percent in 2012, reflecting the continued weak demand in the advanced and emerging economies, which are the major markets for our diamonds.

13.In the Water and Electricity sector, the cost of inputs exceeded the value of sales, resulting in negative growth. This was mainly due to the challenges arising from the delay in the commissioning of Morupule B Power Station, which resulted in a shortage of domestic power supply, and increased costs of imports from South Africa.

14.However, Madam Speaker, the negative performance of the Mining, and Water & Electricity sectors during 2012, was partly offset by the high performance of some non-mining sectors, which collectively registered a positive real growth rate of 6.2 percent in 2012, compared to 7.8 percent recorded in 2011. Among the non-mining sectors that registered high growth rates were:

Construction at 14.4 percent; Social and Personal Services at 12.2 percent; and Finance and Business Services at 11.0 percent.

15. Growth in these non-mining sectors shows progress in economic diversification. It is worth noting that, unlike the mining sector, even during the 2008/09 economic down-turn, the non-mining sectors showed resilience, with most of the sub-sectors attaining positive growth rates. Targeted investment in the non-mining sectors therefore seems to have potential to sustain economic growth even during hard times. In some cases, such as in Water and Electricity, where heavy losses have been incurred, it will continue to be necessary for Government to invest in them, mainly to secure supply because these are essential inputs to other economic sectors.

Inflation and Monetary Policy

16. Madam Speaker, price stability is a necessary condition for promoting competitiveness of the domestic industry, which, in turn, contributes positively towards the broader national objectives of economic development and employment creation. I am pleased to report that domestic inflation rate declined from 7.4 percent in December 2012 to 5.8 percent in June 2013, and declined further to 4.1 percent in December 2013, which was within Bank of Botswana's objective range of 3 – 6 percent. The lower inflation reflects the base effect of the increase in some administered prices in 2012, as well as the general slowdown in price increases in 2013 for the restaurants and hotels, transport, and clothing and footwear categories.

17. As a result of the positive medium-term inflation outlook for the domestic economy, Bank of Botswana pursued an accommodative monetary policy during 2013, reducing the bank rate by a cumulative 200 basis points, from 9.5 percent in March 2013 to 7.5 percent in December 2013. Consistent with the sustainable long-term growth of the economy, and also closely aligned to inflation levels in major trading partner countries, the prospects for low inflation remain positive for 2014. Important to note is that an environment of low and predictable inflation allows for positive real interest rates which, in turn, foster mobilisation of financial savings and productive investment.

Balance of Payments and Foreign Exchange Reserves

18. Madam Speaker, preliminary estimates of the balance of payments for 2013 indicate a surplus of P7.9 billion in the current account, compared to a deficit of P4.3 billion in 2012. This is largely due to the increase in receipts from the Southern African Customs Union, and the increase in diamond exports. Total exports increased by 55.1 percent, from P47.8 billion in 2012 to P74.2 billion in 2013, reflecting growth in sales of diamonds and other minerals. Imports on the other hand rose more slowly by 20.7 percent, from P65.7 billion in 2012 to P79.2

billion in 2013. A significant increase in the import of power from South Africa to meet domestic demand following the technical challenges experienced by the Morupule B Power Station was however moderated by a decline of 26.1 percent in the imports of Machinery and Electrical Equipment. With the positive current account balance, the preliminary estimates of the overall balance of payments in 2013 show a surplus of P4.7 billion, compared to a deficit of P862 million for 2012.

19.A positive balance of payments also led to the recovery of the foreign exchange reserves in Pula terms. At the end of December 2013, the reserves amounted to P67.6 billion, equivalent to 16.5 months of import cover of goods and services, an increase of 14 percent from P59.3 billion in December 2012. The increase in foreign exchange reserves reflects mainly the net foreign exchange inflows and the depreciation of the Pula against major international currencies. In SDR terms, the foreign exchange reserves were unchanged at SDR5 billion at the end of December 2013, while in US dollars, they rose by 3 percent to USD7.8 billion. Of the total reserves, Government share, accounted for P25.7 billion or 38 percent, in December 2013, compared to P18.4 billion in December 2012.

Exchange Rate Movements

20.Madam Speaker, as one of the policy instrument available to Government, management of our exchange rate policy continues to focus on maintenance of the country's competitiveness. Of late, it has become public knowledge that the value of the Pula is determined by a basket of currencies comprising of the South African Rand with a weight of 55 percent, and the SDR with a weight of 45 percent. To maintain a competitive exchange rate, the focus is on the real effective exchange rate, which is the inflation-adjusted exchange rate of the Pula against currencies of the major trading partner countries. This means that, any significant divergence between the level of inflation in Botswana and the average inflation for trading partner countries would lead to the appreciation or depreciation of the real effective exchange rate, if it is not offset by the rate of crawl against the basket.

21.In this regard, the real effective exchange rate appreciated moderately in 2013, reflecting the higher inflation in Botswana relative to the level of inflation in our trading partner countries. However, with prospects for low domestic inflation in the medium term, I am confident that the real effective exchange rate will remain broadly stable to ensure competitiveness of domestic industries that aim to export to the regional and international market.

Economic Outlook

22.Madam Speaker, despite the subdued global environment, the outlook for the domestic economy remains positive. Real GDP is projected to grow by 5.4 percent in 2013 and by 5.1 percent in 2014 driven by the expected growth in some non-mining sectors such as Trade, Hotels and Restaurants and Finance and Business sectors. The relocation of the Diamond Trading Centre from London to Gaborone by end of 2013 is expected to contribute positively to the prospects of growth of the domestic economy, despite the weak external diamond demand. On the downside, growth in the Agriculture sector, which is a major contributor to rural livelihoods, is projected to slow down due to recurring droughts and a constrained market outlet for the sector, especially for the beef sub-sector.

23.Going forward, the continued uncertainty over the performance of the global and domestic economies, which form the basis of our revenue assumptions and forecasts, calls for caution in determining the appropriate level of expenditure that will ensure fiscal sustainability in the medium to long-term. There continues to be uncertainty over the prospects of our two major revenue items of minerals and customs and excise, due to sluggish recovery of the world market, and the on-going negotiations of the SACU revenue sharing formula. Of late, the two sources have accounted for over 60 percent of total revenue and thus, any shock to any or both of these sources would have a bearing on the level of available revenues and likely expenditure for the next financial year.

Performance of Public Enterprises

24.Madam Speaker, state owned enterprises or parastatal organisations can play a major role in promoting economic growth. Over the years, the parastatal sector has grown both in quantity and complexity, and hence, the need to revisit the strategic role they play in the development of this country.

25.The overall performance of the parastatal organisations during the past year was mixed, with some performing satisfactorily, while others incurred losses. Some of those which performed satisfactorily during the financial year 2011/12 include the Botswana Telecommunications Corporation, which recorded a net profit of P375.6 million and the Botswana Development Corporation which recorded a net profit of P143.3 million, despite the challenges with some of its projects. The National Development Bank also recorded a net profit of P45.7 million, despite the depressed economic growth and a heightened competition from new entrants in the banking sector. Similarly, the Botswana Savings Bank also achieved a net profit of P18.6 million reflecting a significant increase in interest income occasioned by the high uptake of unsecured personal loans, and the impact of cost containment measures during the period under review.

26. However, for various reasons, other parastatal organisations under-performed during the same period. The Botswana Power Corporation (BPC) was one of those that recorded a huge loss of P1.652 billion in 2011/12, following a loss of P796.6 million recorded in the previous year, due to operational challenges at Morupule B Power Station. As a result of technical problems that delayed commissioning of the Morupule B Power Station, BPC was forced to undertake emergency power supply. Such measures included the use of diesel fuelled generators and continued import of power from South Africa to complement domestic power supply. All these increased BPC operational costs thereby requiring Government funding support.

27. The Botswana Meat Commission also registered a loss of P290.9 million in 2012, following another loss of P233.5 million in 2011. The low performance for the year 2012 was attributable to the delisting of BMC from the European Union market, as well as the outbreak of foot and mouth disease in the North East District.

28. Madam Speaker, there is no doubt that state owned enterprises played a major role in the development of our economy, especially in the earlier years after Independence. However, I believe that the role of state owned enterprises in the development of this country should continue to complement that of Government, given the limited resources at the disposal of Government. In this regard, it is important that these organisations are managed efficiently and effectively for them to contribute to sustained economic growth.

29. I therefore wish to highlight some of the measures that Government will be pursuing to ensure that the parastatal sector continues to contribute to economic growth of this country. First, Government will continue implementation of the privatisation policy in order to reduce the burden on the *fiscus*. As it would be clear from the budget proposal, Government subventions to these organisations have grown substantially over the past few years most of which have gone towards payment of personal emoluments.

30. Progress has been made in merging some parastatals. The process to merge Botswana Postal Services and Botswana Savings Bank, for example, is scheduled to be concluded by March 2014. This follows the passing by Parliament in December 2013 of the Botswana Postal Service Amendment Bill and approval by Cabinet of a Holding Company, the Botswana Post and Savings Group Limited, under which the merger will operate. Parliament also passed the National Development Bank Transition Bill in December 2013 to facilitate privatisation of the National Development Bank as part of increasing its efficiency and promoting citizen economic empowerment.

31.Second, Government will be working on guidelines for the operation and management of existing organisations. The Public Enterprises Evaluation and Privatisation Agency (PEEPA) has already started drafting guidelines to be used by Government in overseeing performance of parastatals and monitoring overall implementation. The oversight responsibility of parastatals will be decentralised to line Ministries. Relevant Accounting Officers will have overall accountability for ensuring that their Ministries implement the guidelines, with regular reports submitted to the Productivity Improvement Committee (PIC Force) and Cabinet. Furthermore, Government is currently preparing the Privatisation Master Plan II. The main objective of the Plan is to identify services and Public Enterprises that are suitable for privatisation during the period 2014 to 2019 as well as to enhance guidance for the rationalisation of parastatals.

32.Madam Speaker, given the increased budgetary pressures, Government will be applying strict criteria for the creation of new parastatals, as a measure to contain growth in grant subventions to these organisations. In addition, Government will continue with its efforts to reform the governance structures of these organisations to give accountability to both their Boards and management with clear performance targets. All these measures will allow Government, as a shareholder, to contain costs and demand reasonable returns on equity invested in these organisations, as well as in terms of their contributions to economic growth and employment creation.

Improving Project Implementation

33.Madam Speaker, Government remains concerned about the poor performance by some private contractors in implementing Government projects as well as the future cost of maintaining such facilities. In addition, over the past years, the development budget has been under spent, on average by 15 – 20 percent per year, which denies Botswana the necessary services. To address some of these issues, Government has put in place stringent measures to deal with defaulting contractors who provide services to Government. In this regard, the Public Procurement and Asset Disposal Act (Suspension and De-listing of Contractors Amendment Regulations), and the Code of Conduct for Contractors, became operational in March 2013. These legal instruments give Public Procurement and Asset Disposal Board the power to suspend and delist contractors who do not honour their contractual obligations with Government.

34.Furthermore, the Ministry of Infrastructure, Science and Technology has established a Project Management Office to oversee monitoring and control of all infrastructure projects. Additional interventions include the drafting of new legislation, and amending some existing Acts for the construction industry professions, such as architects, engineers and quantity surveyors. This will

facilitate self-regulation, protect public interest and ultimately lead to improved service delivery.

IV. KEY THEMATIC AREAS FOR 2014/15 FINANCIAL YEAR

35.Madam Speaker, we are left with less than two years to the end of the Millennium Development Goals period, and about three years to reach Botswana's long term vision, Vision 2016, which also coincides with the end of the Tenth National Development Plan or NDP 10. Further, the recently approved Mid-Term Review (MTR) of NDP 10 identified some challenges, which Government promised to tackle through budgets of the remaining years of this Plan period.

36.Since this is the first budget after approval by this House of the MTR of NDP 10, I would like to discuss seven broad themes which are instrumental in addressing these challenges. These themes are: *Growing the Economy and Employment Creation; Improving Productivity and Sustaining Sovereign Rating; Investing in Infrastructure Development to Support Economic Growth; Investing in Human Resources to Support Sustainable Growth; Enhancing People's Welfare and Livelihoods; Strengthening Judicial System and Combating Crime; and Strengthening Local Governance.* These themes are by no means exhaustive in terms of what is required to address all the challenges identified in the MTR of NDP 10. However, I believe that, with clear strategies, and resource allocation to programmes and projects in some of these thematic areas, we can see progress in economic growth, employment creation and sustained development.

Growing the Economy and Employment Creation

37.Madam Speaker, we need economic growth, if we are to address some of the development challenges facing this country. Government can promote inclusive growth by adopting appropriate policies and strategies to encourage domestic and foreign direct investment, and also investing in strategic sectors that facilitate the development of the private sector. The recent positive growth rates in some non-mining sectors are welcome developments as they reflect some success in our economic diversification efforts. Moreover, these non-mining sectors have greater potential for employment creation. Government will thus, continue to devise strategies to promote inclusive growth in the non-mining sectors of; Financial and Business Services, Construction, Agriculture, Tourism, and Manufacturing.

Financial and Business Services

38.Madam Speaker, among the non-mining sectors with potential for growth and employment creation is the financial and business services sector. Over the past few years, this sector has continued to register positive growth rates, underpinned

by a stable banking sector characterised by adequate capital levels, good asset quality and sufficient liquidity. The banks' total assets, for example, stood at P60.4 billion as at end of September 2013, compared to P57.8 billion as at end of September 2012. The number of commercial banks has also increased from 11 to 13 following the licensing of two banks in 2013. Furthermore, the year 2013 was characterised by an increase in banking business distribution channels such as branch networks, automated teller machines, points of sale machines, mobile-phone and internet-based banking services. Moreover, in an effort to reach out to a wider clientele, banks continued to strengthen their strategic partnerships with mobile network operators to provide financial services to the unbanked population given the wide penetration level of mobile phones.

39.Efforts to improve on the efficiency of this sector include the expansion of electronic payments. In this respect, the relevant systems, such as the Electronic Clearing House and Botswana Interbank Settlement System, are being monitored by Bank of Botswana to ensure that they meet the important public policy objectives and attributes of safety, efficiency, stability and integrity. In addition, Government continues to promote the development of the domestic bond market. This is in recognition of the critical importance of a well-functioning capital market to promote the private sector as an engine of economic growth. In this regard, the Botswana Stock Exchange (BSE) has facilitated the registration of the Botswana Bond Market Association, which was registered in September 2013. Its mandate is to promote standardised and competitive bond market conventions as well as enhancing awareness of the importance of savings and investment.

40.The Botswana Bond Market Association will begin formal implementation of its mandate in 2014 in collaboration with Botswana Stock Exchange to resolve structural issues impeding bond market development, with a view to promoting efficiency and liquidity of the bond market. A liquid bond market provides a conducive environment where the private sector can raise capital for investment spending, and where investors can participate in economic development by investing their savings in entities such as debt instruments. It is also pleasing to note that investment by individual citizens in the banking sector through the stock exchange increased from 3 percent of overall investment in 2008 to above 10 percent in 2013.

41.Madam Speaker, despite the relative good performance by the financial services sector, there remain some challenges, as identified in the 2012 Financial Sector Development Strategy study conducted in collaboration with the World Bank. The study identified several strategic objectives that include: maintaining a robust framework for financial sector stability; promoting competitive and cost effective access to finance; promoting financial access for the underserved, low income, and non-salaried cohorts. My Ministry is working with the relevant

stakeholders to continue implementing some of the recommendations of the study which will address issues of financial inclusion and result in improved access to financial services, as well as enhanced service delivery by the banking system. Meanwhile, another financial sector reform is the recent passing of the Building Societies Amendment Bill that is expected to facilitate demutualisation of building societies.

Construction

42.Madam Speaker, the construction sector has been one of the fast growing sectors in the recent past, with potential to create employment. However, there are two limitations to the extent to which this sector can contribute to sustained economic growth and employment creation. First, the construction sector in Botswana continues to rely on Government budget for growth, which is not a sustainable situation because Government is facing uncertainties with respect to revenue prospects which are based on the continued weak external demand for diamond exports. This means that the construction sector has to find alternative ways of sustaining its growth in the medium to long term.

43.Second, the nature of employment opportunities in the sector is such that a significant number of jobs are created during the construction of some big projects, only to be reduced when the projects are completed. Therefore, an individual's job in this sector is transitory. A boom-bust cycle for the sector cannot lead to a reduction in the rate of unemployment in the economy. However, a steady stream of construction projects can serve to sustain employment. To this end, the proposed development budget for the next financial year contains a substantial construction component.

Agriculture

44.Madam Speaker, another sector with potential for growth and employment creation is Agriculture. Unfortunately, the performance of this sector has been dismal due to inadequate rainfall and recurring drought. This has presented a great challenge to growth of this sector, which by nature, is a highly labour intensive undertaking with potential to absorb a majority of the unskilled to semiskilled unemployed citizens. Despite the challenges of constrained growth associated with natural disasters such as drought and diseases, Government continues to assist the agricultural sector. The Livestock Advisory Centres, for example, continue to sell some livestock feeds at subsidised prices. In addition, Government is seeking to secure additional markets for the beef industry, with promising prospects in the Middle East and Zimbabwe. Under arable farming, different types of farmers have been identified as subsistence, emerging and commercial. Assistance to these farmers will be targeted, depending on their situation.

45.In addition, the horticulture sub-sector has also been boosted by the inclusion of irrigated farming under Integrated Support Programme for Arable Agriculture Development (ISPAAD), where farmers contribute 60 percent while Government contributes 40 percent towards the costs of installing irrigation equipment. Meanwhile, the design of the main water conveyance pipeline from Chobe/Zambezi to the Zambezi Agro-commercial Project site was completed in October 2013 and construction is expected to commence during 2014/15 financial year. Upon completion, the project will contribute significantly to irrigated agriculture particularly horticulture. Government assistance is aimed at encouraging production in the agricultural sector, but most importantly, to graduate more farmers into commercial entities capable of creating decent jobs for Batswana.

Tourism Sub-Sector

46.Madam Speaker, the tourism sub-sector of the trade, hotel and restaurant sector has potential for growth and employment creation. In this regard, efforts continue to be directed towards broadening the tourism base in terms of geographic location and product diversification such as cultural tourism. The Community Based Natural Resources Management Policy (CBNRM) has continued to bear fruit in terms of development of sizeable projects that are non-wildlife based, thereby diversifying the tourism product to include culture, heritage sites and monuments in less developed tourism destinations. Tourism projects such as Goo-Moremi Resort, Seboba Nature and Recreation Park in Kasane, Lepokole Nature Reserve, amongst others, have a community ownership dimension with potential to increase employment in rural areas.

Manufacturing

47.Madam Speaker, despite sluggish growth in the manufacturing sector in Botswana, the sector has potential to contribute towards economic growth and employment creation. Therefore, through efforts by agencies such as Botswana Investment and Trade Centre (BITC), Government will continue to promote domestic and foreign direct investment into the sector and provide targeted fiscal incentives to major manufacturing projects to enhance value addition and competitiveness of their products. To this end, development strategies for the leather, dairy, textile and clothing subsectors were completed during 2012/13 financial year as part of Economic Diversification Drive. The focal area of the leather industry strategy is the proposed development of a leather industry park, whose bankable feasibility study is being awaited. The dairy industry strategy will focus on transforming the industry into a competitive and profitable industry through investment in productive dairy support infrastructure.

Improving Productivity and Sustaining Sovereign Rating

48. Madam Speaker, to achieve growth in some of the non-mining sectors requires investment, both domestic and foreign. Such investments can only take place in a stable macroeconomic environment and improved productivity. Unfortunately, the latter has been falling in recent years. Botswana cannot compete for foreign direct investment, nor can its products compete in the international export markets without improving its productivity.

49. With regard to sovereign rating, both Moody's Investors Service and Standard and Poor's have maintained Botswana's investment grade sovereign credit ratings with a stable outlook. The ratings reflect the strong financial position of the Government attributed to prudent fiscal policies and the long record of political stability. The assessments also noted that the authorities' response to uncertainty in the recovery of the global economy was effective, and engendered confidence that the country will continue to respond appropriately to economic challenges. However, the rating agencies have noted that, the economy continues to be vulnerable to shocks, which could reduce asset buffers in the form of government savings and foreign exchange reserves. To enhance competitiveness and doing-business in Botswana, Government in collaboration with the World Bank is implementing several projects under the Economic Diversification and Competitiveness Programme that include: improvement of the business environment by streamlining business registration, licensing and issuance of permits; establishment of an e-Government policies and standards; and capacity building to support Monitoring and Evaluation of the national strategies and policies.

50. In all the sectors that I have just reviewed, the overall ease of doing business is a critical ingredient. According to the latest Doing Business Index rating by the World Bank, Botswana moved to position 56 out of 189 countries, compared to position 65 out of 185 countries in the 2013 rating. Similarly, the 2013/14 Global Competitiveness Report by the World Economic Forum shows that Botswana has improved from position 79 out of 144 countries to position 74 out of 148 countries. The improvement in the rankings was largely consistent with the macroeconomic fundamentals such as attaining a balanced budget resulting in increased national savings and national credit worthiness. Botswana is also strong in the category of having reliable and transparent institutions.

Investing in Infrastructural Development to Support Economic Growth

51. Madam Speaker, one of the necessary conditions for private investment is the availability of a well-functioning infrastructure. In this regard, Government will continue to develop key infrastructural facilities, with a view to providing service to the citizens, and also, as a strategy to promote private sector investment that is necessary for growth and employment creation. Further, Government will

continue to focus on the creation of a conducive environment for private sector investment, by investing in key projects and programmes such as serviced land, energy, water, transport and communications. These inputs are key stimulants to other sectors of the economy and will therefore continue to receive a larger share of the budgetary resources.

Energy

52.Madam Speaker, one of the critical inputs to any productive investment is power supply. In this regard, Government continues to strive to maintain adequate power supply in the country, despite the relatively high cost of providing it. Whereas the development of Morupule B Power Station was expected to transform the country from being a net energy importer to near self-sufficiency, continued technical problems have created uncertainty over the availability of power supply in the short to medium term. While the effects of the shortage of power supply on the economy have not been assessed in a systematic way, it is expected that it has had a negative impact on growth. In addition, it has slowed down the Government's village electrification programme.

53.In recognition of the importance of power supply to economic growth and ordinary lives in general, Government has taken short and medium term measures to mitigate the impact of power supply shortage on the economy. It is in this regard, that a significant allocation has been made under the proposed 2014/15 budget to BPC to enable the Corporation to not only operate and maintain its existing power infrastructure, but to also put up new transmission lines. In addition, the on-going rural electrification programme that involves expansion of the infrastructure and village network is expected to increase access to electricity from the current 68 percent to 80 percent of households by 2016.

54.In the medium to long term, measures to address the growing demand of power include the development of Brown Fields for Morupule B, which will be units 5 and 6, with an estimated power generation of 300MW; and development of the Green Field, with an estimated 300MW. In addition, a bankable feasibility study of a 100MW concentrated solar thermal power station has been completed. Furthermore, Government is working on the expansion of the national grid to provide services to villages, agribusinesses, mining and tourism facilities. To this end, Government has budgeted P300 million for the construction of the Northwest Transmission Grid and Rakola Sub-station to provide power to the Northwest region and augment power in the South eastern region. Government will continue to ensure increased access to electricity from local sources, but this comes at a high cost and as such, it is expected that electricity tariffs will be periodically adjusted accordingly, to reflect the economic cost of supplying power.

55.Madam Speaker, in order to ensure security of supply of petroleum products, a national oil company, Botswana Oil Limited, has been formed and started operation in July 2013. Government has also commenced preliminary activities to construct Tshele Hills fuel storage at an estimated cost of P750 million. Upon completion, the facility will store 150 million litres of fuel and increase the supply cover from the current 18 days to 60 days. Such an initiative has the potential to enhance security in the operations of industries such as manufacturing, agriculture and transport from disruptions of oil and petroleum supplies.

Water

56.Madam Speaker, another critical ingredient to economic growth is water. Due to recurring drought, Botswana has in recent years been experiencing water shortages countrywide for both human and agricultural use. In this regard, Government has had to undertake measures that included the development of water infrastructure such as dams and water pipelines. Furthermore, Government continues to exploit alternative water sources, such as effluent waste water utilisation, grey water recycling, rain water harvesting to name but a few.

57.Further, a comprehensive National Water and Waste Water Policy, which represents the first step in a process to ensure that water is properly positioned to meet the needs of the nation, has been developed and approved by Cabinet in 2012 and will be submitted for approval by Parliament during 2014. The Policy will allow for development of National Water Conservation Strategy, which will ensure proper utilisation of water resources. Government is also developing an Integrated Water Resource Management Plan. The Plan will facilitate the development of processes, procedures, methods and options for full integration of water resources management and development options.

Transport

58.Madam Speaker, over the years, Government has invested in transport and communication infrastructure, as this was necessary for growth and improved standard of living. Some businesses need to move their goods within the country, from places of production to the consumers, while others need to export them to outside market. A well-developed transport and communication system is therefore critical in ensuring competitiveness of our local producers in international markets. In addition, the development of the road network has opened up the country's hinterland, thus improving access to social facilities, such as hospitals. Further, the expansion of the communication network, especially the mobile cellular, has improved doing business in the country.

59.Given the strategic importance of this sector and to ensure reasonable return on private investment, Government will continue to allocate resources to the

sector and introduce new policies. In this regard, a National Integrated Transport Policy has been developed and is being processed for approval. The Policy will define the transport system in terms of the infrastructure, operations and management of all different types of transport. It will also in part drive the Integrated Transport Project (ITP) which is anticipated to improve the transport industry and provide substantial benefits to users, suppliers and operators.

Land

60.Madam Speaker, provision of serviced land is a prerequisite for many types of investment, which involve building of factories. Shortage of serviced land has been identified by investors and some external agencies as a constraint to investment. To improve delivery of serviced land, Government is in the process of developing guidelines for a Public Private Participation strategy in land servicing. The implementation of the guidelines is expected to start during 2014/15 financial year. In addition, plans are currently underway to carry out high density and high value developments in certain prime areas of Gaborone aimed at optimising the use of serviced land.

61.In the meantime, Government has embarked on the exercise of national land registration through the Land Administration, Procedures, Capacity and Systems (LAPCAS) project, whose aim is to capture data on land rights and parcels. It is expected that, apart from improving land management, this exercise will enable tribal land holders to use their land as collateral and thus enhance borrowing for investment in productive activities. Furthermore, the approval of Town and Country Planning Bill in April 2013 has led to a review of the current Land Tribunal legislation so that it caters for planning appeals. The intention is to commence implementation of both the Revised Town and Country Planning Act and the Land Tribunal Act at the beginning of the 2014/15 financial year.

Information and Communication Technology

62.Madam Speaker, to foster economic growth and for investment to flourish, necessary service facilities are required. Since its inception, the Botswana Innovation Hub remains committed to promoting science, technology and innovation to contribute positively towards economic development and diversification. To date, the Hub has registered 27 innovative businesses and institutions to its membership. These include both international and local high technology companies, academic and research institutions, start-ups and strategic leverage partners to develop the Science and Technology Park.

63.In addition, Government established the Botswana Fibre Networks Ltd (BoFiNet) as a separate organization responsible for provision of national and international telecommunication. While this is a major milestone in privatisation of Botswana Telecommunication Corporation (BTC), it will also address the

challenges with respect to internet connectivity, particularly the bandwidth. BoFiNet will focus on improving the backbone network. Further, Government is funding the optic fibre reticulation of the diamond trading park to specifically ensure that our diamond customers have access to information and communication technology for doing business in Botswana.

Investing in Human Capital to Support Sustainable Economic Growth

64.Madam Speaker, the availability of trained labour force is critical to private investment, which is necessary for economic growth. A skilled workforce contributes to the overall productivity of the economy, which is necessary for its competitiveness. It is for this reason that Government has continued to invest in human capital development as a part of its strategy for promoting sustainable economic growth.

65.Madam Speaker, over the past years, Government has allocated about a quarter of the total budget to education and skills development in recognition of the importance of human capital development to the economy of this country. This trend will continue in the next financial year, as an estimated 29 percent is proposed for allocation to this sector. However, the sector continues to face some challenges, which include the quality and relevance to the job market requirements of the skills obtained. In this regard, the Human Resource Development Council (HRDC) and Botswana Qualifications Authority (BQA) bills were passed by Parliament in August 2013 and the two agencies are to start operations during the course of this calendar year. Further, the Botswana Examination Council Act is also being reviewed to be aligned to the HRDC and BQA and its new mandate will include moderation and assessment of vocational education and training to ensure that they are responsive to the labour market needs.

Health

66.Madam Speaker, a healthy labour force is a productive workforce. In this regard, Government considers investment in health as part of human capital development necessary to support economic growth. Hence, Government has, over years, invested substantial budgetary resources in the health sector. Such investments have not only led to improvement in the country's social indicators such as life expectancy, but also contributed to the availability of a healthy workforce. Government will continue to invest in maintaining the existing stock of human capital by, among others, provision of improved health services and making available resources for treatment of conditions such as Tuberculosis and HIV/AIDS.

67.To this end, the Revised National HIV and AIDS Policy was approved by Parliament in August 2013. A major shift from the previous Policy is that the age

of consent for HIV testing is now 16 years instead of 21 years. A major threat to gains in combating HIV and AIDS is the decline in donor funding. This means that Government will be facing increasing financial responsibilities to fill in the financing gap.

68. Despite these challenges, additional measures will continue to be undertaken in order to improve on the delivery of health services on a sustainable basis. In this regard, Government has revised the National Health Policy, and the process of developing a Health Financing Strategy is underway. Such a strategy will propose alternative ways of funding the health care system in the country given the continued budgetary situation. In addition, the strategy will explore ways to contain costs in the health delivery services and promote efficiency. Some of the specific areas that will form part of the strategy will include: Public Private Partnership in Health Services; Raising Revenues for Health; and Finding Efficiencies in the Delivery of Health Services. The Public Health Act has also been revised, to make it more relevant to the current developments in health care industry in terms of strengthening regulations and guidance in the delivery of health services.

Population Growth and Skills Development

69. Madam Speaker, the 2011 Population and Housing Census pointed to two issues relevant to human capital development, which are migration and change in population structure. With regards to migration, the Census noted that the number of non-citizens in the country almost doubled from 63 000 in 2001 to 111 846 in 2011. On the positive side, the presence of non-citizens in the country augments the local skills and therefore contributes to growth. However, with prevailing high unemployment, there is need to balance the importation of such skills and the need to train locals for skills that are in short supply. In that way, Government would ensure that any employment opportunities created by private investment in different sectors of the economy contribute to the reduction of unemployment in the country.

70. The 2011 Population and Housing Census also indicated that, of the total population of 2 024 904 persons, 43 percent of the population was aged below 20 years, while 35 percent was aged between 20 to 40 years. Such a population structure poses a challenge for human capital development in terms of resources required to train the youth, but also in terms of creation of employment opportunities to absorb them in the labour market. However, as indicated in successive budgets, Government has demonstrated its commitment to the development of human capital by providing substantial resources for training and skills development, as evidenced by the annual budgetary allocation to the education sector.

71.In addition, a number of short term measures have been adopted to improve on the skills of the young people, and also provide temporary employment for them. Such measures include: entrepreneurship development and promotion; Life Skills Development; Mentorship; Behaviour Change and Character Building; and Information and Communication Technology enhancement. These initiatives are expected to prepare the youth to take advantage of any increase in gainful employment opportunities.

Enhancing People's Welfare and Livelihood

72.Madam Speaker, poverty remains a major development challenge in Botswana. This situation has continued to weigh down on the country's Human Development Index (HDI), which is a composite measure of the quality of life comprising of indices of life expectancy, education and income. On a scale of zero to one, with 1 indicating best, Botswana's HDI increased from 0.587 in 2000 to reach 0.634 in 2011, which indicates an improvement in the country's standard of living. While quality of life has improved, challenges still remain, particularly in the eradication of abject poverty.

73.Therefore, Government will continue to provide resources for social welfare programmes such as destitution allowances, school feeding programmes and other programmes aimed at the vulnerable groups in society. In addition, the Ipelegeng programme will continue to provide temporary relief to the unemployed. Similarly, the recent streamlining of the ISPAAD is an effort to improve on the effectiveness of some poverty eradication programmes. Under the new guidelines, for example, subsistence farmers are going to enjoy 100 percent subsidies on fertilizers, soil testing, hybrid seeds and herbicides, provided they adopt modern ploughing methods such as row planting and harrowing.

74.However, despite Government's commitment to the goal of poverty eradication, it is important that social welfare programmes are regularly evaluated lest they create a dependency syndrome. In this regard, Government will remain vigilant about the long term sustainability of funding of social welfare programmes to ensure that they contribute to increased economic activity and benefit the intended target groups. Therefore, it is Government's objective that people should graduate from such programmes as they are only meant to provide a basis for improving people's skills and livelihoods.

75.In addition, in August 2013 Government approved the Local Procurement Scheme, whose objective is to empower the youth, people with disabilities, women and rural suppliers and service providers, through public procurement preferential treatment. Government has also taken the decision to introduce a social safety net in the financial year 2014/2015 which will target People Living with Disabilities. The safety net will be *means-tested* so that it benefits only

People Living with Disabilities who do not have any means of survival. Furthermore, affirmative action has been adopted to employ graduates with disabilities. To date, 38 of the 63 who have applied to the Directorate of Public Service Management have been placed in permanent employment. The Revised National Policy on People Living with Disabilities will also streamline provision of services to People Living with Disabilities such as access to information, education and land.

Strengthening the Judicial System and Combating Crime

76.Madam Speaker, a well-functioning judicial system and low crime environment are some of the prerequisites for a conducive environment for private sector investment. Therefore, the courts can play a central role in market economies by providing fair, predictable and timely decisions in the disposal of cases. Government is committed to strengthen both the judiciary and the security agents to ensure that Botswana remains a safe destination for investment. Furthermore, in an effort to improve the overall efficiency of the courts and to speed up court processes across the country, digital recording of court proceedings has been installed in the new Gaborone High Court and is already operational.

77.With a view to ensuring a low crime environment, Government will continue to provide appropriate resources to the security agencies, especially the Botswana Police Service. To enhance effectiveness of the Directorate on Corruption and Economic Crime to deal with and combat corruption, the Corruption and Economic Crime (Amendment) Act No. 6 of 2013 has been put into effect as of July 2013. The amendments to the Act include new sections covering the abuse of office, expanded conflict of interest, and intimidation of informers. The successful implementation of these and other complementary legal tools such as corruption audits is expected to help reduce government funds that are lost through corruption practices such as; insider trading, dubious land allocation, acquisition and procurement irregularities, and financial fraud. Besides loss of government funds, an environment characterized by high crime tends to discourage foreign direct investment, which is necessary for economic growth and employment creation.

Strengthening Local Governance

78.Madam Speaker, Government is currently drafting regulations that will guide the operations of Village Development Committees as well as govern property ratings in major urban villages. The drafting of these regulations is expected to be completed in March 2014. The Ministry of Local Government and Rural Development is in the process of preparing the Local Economic Development Policy Framework to guide districts in developing their local economies. The policy framework is expected to be in place by June 2014. Implementation of the policy framework will commence as a pilot exercise in 4 districts of Chobe, Francistown, Kgalagadi and Sowa. The pilot exercise will undertake economic assessment of different localities and develop strategies according to their local economic comparative advantage.

V. 2012/2013 BUDGET OUTTURN

79.Madam Speaker, the budget outturn for the 2012/2013 financial year was an overall budget surplus of P922 million, compared to the estimated surplus of P835 million in the revised budget estimates. This result was mainly due to under spending in the development budget. Total revenue and grants amounted to P41.66 billion in 2012/13, representing a decrease of P253 million or 0.6 percent from P41.91 billion in the revised budget estimates. The decline in total revenues was due to the under performance of the non-mineral tax revenue which amounted to P6.73 billion, a decrease of P1.15 billion or 14.6 percent as a result of under performance of the VAT revenue.

80.Total expenditure and net lending in 2012/13 amounted to P40.74 billion compared to P41.08 billion in the revised budget, representing an under spending of P339 million or about 0.8 percent of the revised budget. Of the total amount, recurrent expenditure was P32.11 billion compared to P31.77 billion in the revised budget estimates, representing an increase of 1.1 percent. Development expenditure on the other hand stood at P8.3 billion, representing an under spending of P1.08 billion or 11.5 percent of the revised budget.

VI. 2013/2014 REVISED BUDGET ESTIMATES

81.Madam Speaker, I now turn to the Revised Budget Estimates for the financial year 2013/14. The 2013/2014 revised budget shows an estimated surplus of P386.16 million, down from the original estimate of P779.3 million. Total revenue and grants increased by 3.1 percent, from P44.02 billion in the original budget to P45.43 billion in the revised budget estimates, due to an increase in the Bank of Botswana revenue. This is as a result of capital and exchange rate gains realized during the rebalancing of the portfolio to align it with the revised investment strategy for the country's foreign exchange reserves.

82.The revised total expenditure and net lending for 2013/2014 is estimated at P45.04 billion, representing an increase of 4.1 percent over the original budget of P43.24 billion. This was due to a significant increase of over 10 percent in the development budget through supplementary budgets. Among the major beneficiaries of the increase in the budget were: Ministries of Minerals, Energy and Water Resources with P1.10 billion for support to the energy sector; and Agriculture with P105 million for drought relief.

VII. 2014/2015 BUDGET PROPOSALS

83.Madam Speaker, I now present the budget proposals for the 2014/15 financial year. Since this is the first budget following the adoption of the Mid-Term Review of NDP 10, I wish to underscore the importance of consolidating and realigning our expenditures in order to achieve the goals and aspirations of Botswana's long term vision, Vision 2016. This is particularly important as the preparation of this budget took place under an environment of uncertainty with respect to global economic outlook, which has a bearing on the domestic economic performance in general, and revenue prospects in particular.

84. In this regard, the budgetary allocation priorities for the 2014/15 financial year, as indicated in the Budget Strategy Paper, will include: maintenance and efficient operation of existing infrastructure, funding key economic infrastructure such as water, energy, and communications to support growth, completion of on-going projects, and funding of social welfare programmes such as the poverty eradication programme.

Revenue and Grants

85.Madam Speaker, the projected total revenue and grants for 2014/15 amount to P50.18 billion; comprising of Customs and Excise at P15.97 billion or 31.8 percent; Non-Mineral Revenues (Income Tax and VAT) at P15.66 billion or 31.2 percent; and Mineral Revenue at P15.24 billion or 30.4 percent. The proposed budget indicates that all the three major sources of revenues registered significant growth over the revised budget of 2013/14: Customs and Excise increased by 14.3 percent; Mineral Revenue by 13 percent; and Non-Mineral Revenue by 11.1 percent. A further breakdown of the growth in Non-Mineral Revenue reveals that Income Tax and Value Added Tax are expected to grow by 6.7 percent and 19.5 percent, respectively, over the 2013/14 revised budget estimates. The increases in the individual revenue items reflect, in part, the impact of the forecast modest recovery in the growth of the domestic and global economy.

Recurrent Budget

86.Madam Speaker, the proposed Ministerial recurrent budget for financial year 2014/2015 is P33.32 billion, which represents an increase of P2.79 billion or 9.1

percent increase over the 2013/14 revised budget of P30.53 billion. Of this proposed Ministerial recurrent budget, over 70 percent is allocated to four Ministries of Education and Skills Development, Health, Local Government and Rural Development and Defence, Justice and Security.

87.The Ministry of Education and Skills Development is allocated the largest amount of P9.26 billion or 27.8 percent of the Ministerial recurrent budget to cater for, among others, additional funds required to implement the re-grading exercise for teachers approved by Government in 2013, as well as subventions to some parastatals such as the University of Botswana and the Botswana International University of Science and Technology. The Ministry of Health gets the second largest share of P5.22 billion or 15.7 percent of the Ministerial recurrent budget to cover the costs of additional manpower requirements for new health facilities, ARV therapy, and maintenance of medical equipment and health facilities.

88.The Ministry of Local Government and Rural Development receives the third largest share of P4.90 billion or 14.7 percent, mainly to cater for terminal benefits for Councillors, augment the maintenance vote for Local Authorities, and the budget for Tribal Administration. The fourth largest share goes to the Ministry of Defence, Justice and Security with an amount of P4.18 billion or 12.5 percent to cater for maintenance of equipment and vehicles for the security forces, as well as for new positions and vehicle replacement. The fifth largest share of the Ministerial Recurrent Budget of P1.95 billion or 5.9 percent goes to the Ministry of Transport and Communications to cover, among others; increase in provision for purchase of bulk fuel and lubricants, subventions to Civil Aviation Authority of Botswana and BoFiNet.

89.The other Ministries that are allocated significant amounts of the Ministerial Recurrent budget are: Agriculture with P968.16 million or 2.9 percent; State President with P946.1 million or 2.8 percent; Trade and Industry with P871.54 million or 2.6 percent; Youth, Sports, & Culture with P757.31 million or 2.3 percent and Lands & Housing with P735.97 million or 2.2 percent. The rest of the Ministries share the remaining portion of the Ministerial recurrent budget.

Statutory Expenditure

90.Madam Speaker, in addition to the Ministerial recurrent budget, Government is obliged to make provisions for payments of Statutory Expenditure, which are mandated by various statutes. The proposed budget for Statutory Expenditure is P5.54 billion, which is an increase of P800 million or 16.9 percent over the revised budget of P4.74 billion, due to commencement of principal repayments of some of the major loans secured during the financial crisis.

Development Budget

91.Madam Speaker, the proposed development budget for the 2014/15 financial year is P12.24 billion, a marginal increase of 0.99 percent over the 2013/14 revised budget of P12.12 billion.

92.The largest share of the proposed development budget of P3.55 billion or 29.0 percent, is allocated to the Ministry of Minerals, Energy and Water Resources. The major projects that constitutes 97.4 percent of the Ministry's budget are: Botswana Power Corporation (BPC) Finances at P2.05 billion to cover BPC operational and maintenance cost at P1.5 billion, North-West Power Transmission line at P200 million, Emergency power supply at P140 million; Rakola substation at P100 million, Morupule A and B at P60 million, and ZIZABONA at P50 million; North-South Water Carrier II from Dikgatlhong Dam to Palapye, as well as from Palapye to Gaborone at P600 million; completion of Dikgatlhong and Thune Dams at P200 million and P100 million, respectively; emergency water projects at various locations at P200 million; Kanye-Molepolole connection to North South Water Carrier at P100 million; construction of sewerage systems for Kanye and Molepolole at P80 million as well as the Oil Storage project amounting to P50 million.

93.The Ministry of Transport and Communications at P1.875 billion or 15.3 percent of the development budget has the second largest share. The major projects under this Ministry are: Tonota-Francistown Road project at P150 million; Kazungula Bridge at P100 million; cash injection to Air Botswana amounting to P330 million; Air Transport Infrastructure project at P390.4 million; and development of ICT Facilities including broadband and backbone infrastructure at P300 million.

94.The third largest development budget allocation of P1.271 billion or 10.4 percent goes to the Ministry of Local Government and Rural Development. Among the major programmes under the Ministry are: Ipelegeng at P580.59 million; Village Infrastructure, amounting to P220 million; Primary School backlog eradication at P220 million; as well as fire engines and equipment at P50 million. These projects account for 82.7 percent of the Ministry's development budget. The rest of the ministries share the remaining half of the proposed development budget.

VIII. OVERALL BALANCE

95.Madam Speaker, total revenues and grants for the financial year 2014/15 are forecast at P50.183 billion, whilst total expenditure and net lending are forecast at P48.857 billion, resulting in an overall budget surplus of P1.326 billion, or 0.97 percent of forecast 2014/15 GDP.

IX. FISCAL LEGISLATION

96.Madam Speaker, achieving fiscal sustainability in the medium to long term remains one of Government's objectives to create a conducive environment for private sector development in the country. To achieve this, Government will continue to implement the fiscal strategy focusing on three areas of: expanding the revenue base; restraining overall expenditure; and focusing attention on quality investments.

97.Government continues to make efforts to expand the revenue base and further simplify the tax regime. During the financial year 2014/15, my Ministry will present to Parliament amendments to the Income Tax Act and the Value Added Tax (VAT) Act. Specifically, the VAT Act will be amended to exempt all farming equipment and all basic food staff which are currently zero rated. To encourage intake of balanced meals for families, the list of basic food items will be increased to include, among others, vegetables, rice and milk. In addition, the VAT registration threshold will be increased from P500 000 to P1 000 000 in order to relieve small tax payers on the burden of regularly filing VAT returns. These amendments are geared towards simplification of the tax laws and tax administration and to encourage compliance. We will also present to Parliament, amendments to the Transfer Duty Act, which are meant to encourage homeownership, especially by first-time home owners.

X. PUBLIC SERVICE SALARIES

98.Madam Speaker, as I mentioned in the 2011 Budget Speech, the adoption of the Public Service Act 2008 shifted advice on the determination of Public Service salaries increase from the National Employment, Manpower and Incomes Council (NEMIC), to the Public Service Bargaining Council made up of representatives of the Government as the employer, and Public Service Trade Unions representing the employees. Consequently, Government is not in a position to make an announcement on Public Service salaries at this stage. However, we encourage the Bargaining Council to proceed expeditiously with negotiations, taking into account the budgetary constraints imposed by uncertainties in the economic outlook of both the global and domestic economies as stated earlier in this Speech.

XI. CONCLUSION

99. Madam Speaker, this budget has been prepared in a context of uncertainties regarding the recovery of the global economy. Besides these uncertainties, our economic review and outlook point to the fact that Botswana was able to contain the effects of the global financial crisis reasonably well largely because we were able to drawdown on our accumulated Government balances, and borrow from domestic and international capital markets using our good credit rating. However, in the process, we ran significant deficits for the first three years since the crisis. Going forward, Government intends to run moderate surpluses which should enable us to restore those balances and repay accumulated debts.

100. Hence Madam Speaker, Government's economic strategy, in the face of the uncertain global economy, is to promote the development of private sector activities by: maintaining macroeconomic stability; investing in high return projects; and undertaking structural reforms to promote efficiency throughout the economy.

101. By extension, our fiscal strategy recognises that two of our main revenue sources, namely Mineral and SACU revenues, are volatile, and will ultimately decline as a share of GDP. These facts have two major implications. First, in any given year we must set Government expenditure at a sustainable level, and not necessarily spend every Pula of available revenues. Second, we must ensure that the fundamental revenue base is not eroded by dispensations such as special concessions and/or tax holidays unless these are to effectively result in increased job creation opportunities and revenue generation. At the same time, Government is committed to streamlining the tax system, so that as far as possible every taxpayer finds it easy and simple to comply with his/her tax obligations.

102. Madam Speaker, the key thematic areas for the coming financial year follow from the Mid Term Review of NDP 10, which was approved by this House in April 2013. In each of these thematic areas, Government has established priorities, while taking into account the multiple links across programmes and projects. Inevitably, this means that not every Ministry or thematic area was able to undertake all that they intended to do in terms of programmes and projects. Rather, every Ministry has had to focus on its core responsibilities in relation to national priorities and identify ways in which it is able to accomplish more within its budget allocation. In this way, we can look forward to sustained development that promotes economic growth and social stability. I wish to underscore the point that the development budget for 2014/15 of P12.24 billion is a significant amount to be spent in a single year. A substantial part of this amount will be spent on mega programmes such as Primary Schools Backlog Eradication, which will take place throughout the country, North-South Water Carrier Phase II and

North West Power Transmission Line. This is an effort on the part of Government to further stimulate the economy and it is indeed a great opportunity for the private sector to take advantage of this Government initiative.

103. Madam Speaker, I wish to express my appreciation on behalf of the Government for the valuable assistance offered by our bilateral and multilateral development partners, as well as private foundations. Their technical and financial support towards achieving our development initiatives will continue to be essential in enhancing the livelihoods of Batswana.

104. Madam Speaker, I now move that the **Appropriation (2014/2015) Bill, 2014**, No. 1 of 2014 be read for the second time.