



Republic of Botswana

BUDGET SPEECH

2006

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TABLE OF CONTENTS

I. INTRODUCTION	1
II. INTERNATIONAL AND REGIONAL ECONOMIC REVIEW	2
III. DOMESTIC ECONOMIC REVIEW	3
Economic Growth.....	3
Employment	5
Exchange Rates and Balance of Payments	5
Public Enterprises.....	7
IV. SECTORAL AND POLICY REVIEWS	10
Incomes Policy	10
Rural Development and Poverty Alleviation.....	10
Financial Services.....	11
Health and HIV/AIDS	12
Trade and Investment Promotion	14
Tourism.....	14
Agriculture	15
Minerals and Energy.....	16
Water.....	17
Works and Transport	18
Information and Communications Technology	18
Education	19
Immigration and Social Services.....	20
Lands and Housing	21
Local Authorities.....	22
Law, Justice and Security	22
V. 2004/2005 BUDGET OUTTURN	23
VI. 2005/2006 REVISED BUDGET ESTIMATES	23
VII. 2006/2007 BUDGET PROPOSALS	24
Revenues and Grants	24
Recurrent Expenditure	24
Development Expenditure	25
VIII. FISCAL LEGISLATION.....	27
IX. PUBLIC SERVICE SALARIES.....	30
X. OVERALL BALANCE	31
XI. CONCLUSION	31

I. INTRODUCTION

1. Mr. Speaker, I have the honour this afternoon to present to the National Assembly budget proposals for the 2006/2007 financial year. The budget proposals are based on the Mid-Term Review of NDP 9, approved by this Honourable House in December, 2005.

2. Botswana has faced many challenges since Independence in 1966. By successfully meeting those challenges, rapid economic growth was achieved, which made Botswana better off. One of the major ambitions set out in *Vision 2016* is to continue that growth to ensure that “Botswana will be a prosperous, productive and innovative nation”. It is in keeping with this ambition that I have chosen “***Building an Innovative Economy for the 21st Century***” to be the theme for this year’s Budget Speech.

3. Mr. Speaker, a rapidly growing, productive and innovative economy is one that continues to invest in human and physical capital, and channels that investment into productive activities. The result is an economy that is employing its growing labour force, thereby reducing poverty, and is capable of withstanding adverse global shocks. Central to a more productive and innovative economy is the overall business climate, with stronger and more efficient markets, enabling the introduction of new products and services, or innovative ways of designing, producing and marketing. It follows that there will be an expansion of highly productive activities, while less productive activities may contract. In some cases, innovation comes through investment in research and technology, using Information and Communications Technology. This strategy also means selective importation of skills and technology, and adapting such to local conditions. In short, in the 21st century, emphasis on innovation will enable us to compete in the global economy, and meet the challenges set out in *Vision 2016*.

4. This theme challenges all stakeholders to take stock of their past strategies, and refine them, or devise new ones if necessary. The private sector, for instance, needs to strengthen its ability to be innovative in order to compete in world markets. This involves continuously searching for, and implementing, best global practices in business financing, marketing and production. The private sector must also set targets of where they need to be in Research and Development, as well as in terms of the share of the private sector sales attributable to new innovations. With regard to labour, there have been concerns about our workers’ unsatisfactory attitude towards work, and inadequate focus on the customer. In this connection, our labour has to strive for improved productivity and international best practice work ethics in order to further enhance Botswana’s competitiveness. On its part, Government will continue to create a conducive environment that facilitates private sector growth. A significant part of that conducive environment is the assurance that foreign investors are welcome in Botswana.

5. Mr. Speaker, building an innovative economy will assist in addressing today’s national challenges, such as poverty alleviation, economic diversification, combating

HIV/AIDS and reducing unemployment. The strategies identified in the Mid-Term Review of NDP 9 are all aimed at addressing these challenges in more innovative ways. They include, adoption of a Fiscal Rule, extending the principle of cost sharing and recovery to services that have traditionally been provided freely by Government, public sector reforms, promoting efficiency in the parastatal sector, accelerating the transition rate from junior to senior secondary schools, and increasing resources available for youth programmes.

II. INTERNATIONAL AND REGIONAL ECONOMIC REVIEW

6. Mr. Speaker, I wish to highlight the international and regional economic developments over the last year. These developments have serious implications for the budget that I will present later today.

7. According to the International Monetary Fund, the world economic outlook remains positive despite concerns about rising fuel costs. Output is forecast to continue to grow, underpinned by strong growth in productivity and demand in the United States of America. This in turn continues to stimulate investment and export growth in Japan and many of the emerging Asian economies. Overall, global output is forecast to have expanded by a lower rate of 4.3 percent in 2005, compared to 5.1 percent in 2004.

8. Output growth in the advanced economies is estimated to have declined to 2.5 percent in 2005, from 3.3 percent in 2004. Despite higher oil prices, output expansion in the emerging market economies is expected to have been 6.6 percent in 2005, from 6.4 percent in 2004, mainly due to the buoyant economic performance in China and India. China's growth, in particular, is forecast to have remained above 8 percent.

9. Mr. Speaker, inflation in the advanced economies was estimated at 2.2 percent in 2005, a slight increase from 2 percent in 2004, owing to high oil prices. For the euro area, inflation was expected to have remained at 2.1 percent in 2005, as in the previous year.

10. In sub-Saharan Africa, growth is expected to have declined from 5.3 percent in 2004 to 4.6 percent in 2005. On the other hand, inflation rose from an average of 9.3 percent in 2004 to 9.9 percent in 2005. In 2004, the Southern African Development Community (SADC) region achieved a GDP growth rate of 4.2 percent compared to 4.7 percent which was expected to have been registered in 2005. The SADC region registered higher inflation rates of 10.4 percent in 2004 and 10.3 percent in 2005. Sound macroeconomic policies and business friendly reforms continue to be implemented in the region, with the potential to put the region on a sustainable growth path. Macroeconomic convergence is seen as one of the key objectives that could lead to economic growth and poverty reduction in the region. To this end, the SADC Finance and Investment Protocol, which includes macroeconomic convergence, is now expected to be approved during 2006 after extensive consultations among the SADC Member States.

11. The recently announced G8 proposal for debt cancellation, now called the Multilateral Debt Relief Initiative, is likely to benefit a total of 40 countries, consisting of Highly Indebted Poor Countries (HIPCs) and some low-income countries. Out of the total number of countries to benefit from this Initiative, 31 countries are in Africa and 5 of these, namely; the Democratic Republic of Congo, Malawi, Mozambique, Tanzania and Zambia, are SADC Member States. The debt relief is expected to release funds for development and assist these countries in the achievement of the Millennium Development Goals. A complete list of countries, particularly those whose eligibility for the HIPC Initiative is still to be determined, as well as the modalities of implementation of the Initiative, will be finalised early this year.

12. Mr. Speaker, Botswana continues to participate in regional and multilateral trade negotiations as part of the Southern African Customs Union (SACU), SADC and the World Trade Organisation (WTO). In this connection, negotiations for a free trade agreement between SACU and the European Free Trade Association are underway. The SACU/MERCOSUR Preferential Trade Agreement negotiations have been concluded. The SACU/USA free trade area negotiations are still ongoing. Meanwhile, Trade Ministers responsible for the SADC/European Union Economic Partnership Agreement agreed in July 2005 to start negotiations during the course of 2006 on market access for agricultural and industrial products, customs, rules of origin and trade facilitation.

13. Mr. Speaker, at the sixth WTO Ministerial Conference held in Hong Kong, China, in December 2005, modest progress was achieved in key areas of the negotiations. The WTO Member States agreed that export subsidies for agricultural products would be eliminated by the year 2013. They also agreed on an aid for trade package for developing countries, though the modalities for the aid disbursement are still under discussion. There was also consensus on provision of duty and quota free market access for the least developed countries, while an agreement on tariff cutting modalities is expected to be concluded in April 2006.

III. DOMESTIC ECONOMIC REVIEW

14. Mr. Speaker, allow me to review some major developments in the domestic economy. A detailed discussion of the domestic economic developments is contained in the 2006 Annual Economic Report, which will be published as a supplement to this Speech.

Economic Growth

15. Mr. Speaker, overall, the economy continued to record a strong positive growth during 2004/2005. In real terms, GDP grew significantly by 8.3 percent in 2004/2005, compared to a growth rate of 3.4 percent recorded during the previous year. This revises the average growth rate for the first three years of NDP 9 to 5.3 percent, which is higher than the estimate of 4.7 percent in the Mid-Term Review of

NDP 9. The significant growth was due to the mining sector, which recorded a very high growth rate of 18.2 percent, compared to a growth rate of 0.2 percent in 2003/2004. The significant growth of the mining sector reflected the increased diamond production in the second half of 2004 that made up for lower production in the first half of the year. This pattern reflects the nature of mining, where unforeseen technical problems, and variation in the ore grade at the mine, often create significant month-to-month variation in mineral output.

16. Non-mining GDP, on the other hand, showed a relatively lower growth rate of 1.9 percent, representing a decline from 5.6 percent in 2003/2004. With the exception of the transport sector, which recorded the highest growth rate of 5.6 percent, followed by finance and business services with 4.1 percent, general government with 3.6 percent, agriculture and water and electricity at 3.3 percent each, all other sectors registered growth rates of less than 3 percent.

17. Mr. Speaker, in order to accelerate the rate of economic growth, some major public and private sector projects are planned to be implemented in the next five years. These projects include: increasing the capacity of Morupule Power Station at an estimated cost of US\$600 million or about P3.2 billion; construction of Mmamabula Export Power Station, costing about US\$5 billion or P26.6 billion; investment of about P6.5 billion by De Beers and Debswana on projects, such as the construction of the Diamond Trading Company (Botswana) facilities and the Orapa III plant; and the implementation of the overall Government development budget for the remaining part of NDP 9 that is estimated to cost about P21 billion in current prices. Implementation of these major investment projects, supplemented by other investments arising from the policy initiatives set out in the Mid-Term Review of NDP 9, encompassing sectors, such as tourism, services, agriculture and manufacturing, should ensure that the economy achieves significantly higher real growth rates during the remainder of NDP 9 and beyond.

18. Mr. Speaker, as mentioned in the Mid-Term Review of NDP 9, the expected outlook for the economy during the latter part of the Plan period is a growth rate of more than 6 percent per annum. This would be attributable to pursuit of growth-promoting strategies, which encompass, among others, increased development expenditure for projects with high social rates of return, eliminating administrative barriers to investment, maintaining a competitive exchange rate, and raising productivity. In addition, during 2005, Government set up the Botswana Economic Advisory Council, which will advise on further innovative ideas to grow and diversify the economy. Its recommendations are expected by September 2006.

19. Domestic inflation averaged 8.6 percent in 2005, compared to 7 percent in 2004, due mainly to the transitory effects of the new exchange rate mechanism and an increase in administered prices, particularly those of fuel and telecommunications. Inflation is expected to come down during 2006 when the once-off effects of the new exchange rate mechanism will have abated. In this regard, the parastatals are expected to exercise restraint in increasing their prices, and instead rely on raising

productivity to improve their performance. Government also hopes that other administered prices, such as fuel prices, will abate.

Employment

20.Mr. Speaker, the recent annual surveys of formal sector employment show growth rates somewhat lower than NDP 9 forecast, but higher than the population growth of 2.4 percent per annum. From March 2004 to March 2005 formal sector employment grew by 2.8 percent, down slightly from the rate of 3.1 percent the previous year. A new Labour Force Survey is currently underway, which will provide updated information later this year on total employment, including informal sector employment. In the meantime, we are all aware of a wide range of informal employment activities that have sprung up around the country, ranging from car washing to hairdressing and provision of meals, to name but a few. There are many forms of employment that enterprising individuals have created for themselves, sometimes assisted by Government with schemes such as CEDA, and at times on the basis of their own resources. Promotion of such informal sector employment will be pursued as an important part of improving our employment outlook.

21.Mr. Speaker, I wish to express a concern that some Batswana have become very selective in the jobs they are willing to accept, choosing instead to rely on relatives or the social safety nets. Employers in various sectors, particularly those requiring limited skills, have had to employ non-citizens because they have been unable to entice citizens to take up the jobs on offer. Consequently, there is a risk that Government support for social safety nets will be eroded, such that those who genuinely need support do not get enough. Such an outcome would not be in keeping with our Vision pillar of *“a just and caring nation”*.

Exchange Rates and Balance of Payments

22.Mr. Speaker, a very substantial part of our national output is either sold in foreign markets or locally in competition with foreign goods and services. Domestic producers must compete with foreign suppliers in both the international and local markets. The exchange rate regime has a key role to play in determining the competitive position of domestic producers and is thus a central component of our strategy to achieve sustained growth, job creation, and poverty reduction. The new exchange rate regime introduced in late May 2005 reversed the cumulative real appreciation of the Pula since the year 2000. Already there are indications that some sectors, such as mining, manufacturing, textiles, and tourism have started to benefit from the reversal of the real appreciation of the Pula. Going forward, it is expected that productivity improvements and restraint in upward administered price adjustments will contribute to lower and stable inflation, and a competitive real exchange rate.

23.The new exchange rate regime, called the crawling band, also entailed widening of the margins between the Bank of Botswana foreign exchange buy and sell rates.

As a result, there has been a very substantial increase in inter-bank trading, and competition among banks dealing in foreign exchange.

24. Mr. Speaker, since the end of May 2005, there has been considerable volatility of exchange rates for individual currencies. The Pula appreciated against the Euro by 3.6 percent, the British pound by 4.4 percent and the Japanese yen by 7.5 percent, while depreciating slightly against the US dollar by 0.7 percent and more against the Rand, by 5.5 percent. It should be noted that the Rand also appreciated against all major currencies during the period. Mr. Speaker, these changes of the Pula against individual currencies, which are attributable to the volatility of those currencies against each other, create uncertainty about Government revenues in the year ahead.

25. Mr. Speaker, Botswana's record of economic growth and stability, together with our secure political and legal environment, helped to deepen Pula-denominated financial markets after the introduction of the new exchange rate regime. The African Development Bank launched its first Pula-denominated bond issue in December 2005, amounting to P300 million with a maturity period of one year, to finance various projects in the region. The European Investment Bank also issued in November 2005 its first ever Pula-denominated bond of P500 million with a maturity of five years. These bond issues by international institutions demonstrate confidence in the Botswana economy and our currency, the Pula.

26. The confidence in Botswana was also illustrated by the maintenance of investment grade A sovereign credit ratings, with a stable outlook, by Moody's and Standard and Poor's. These favourable ratings, which are still the highest in Africa, first assigned in 2001, reflect the country's strong public sector balance sheet and political and macroeconomic stability. However, the rating agencies also warned that these positive attributes continue to be undermined by insufficient diversification of the economy and the challenges posed by the HIV/AIDS pandemic. They observed that faster implementation of structural reforms, such as easing of the regulatory burden on businesses, as well as speeding access to productive inputs would accelerate the diversification of the economy. Moreover, improvements in productivity of utility providers would result in competitive costs, while labour market reforms would facilitate reduction in unemployment. Mr. Speaker, Government has already identified these challenges and, in collaboration with other stakeholders, will tackle them with renewed determination, as stated in the Mid-Term Review of NDP 9.

27. Mr. Speaker, I am also pleased to report that Botswana has been rated by the Heritage Foundation, in collaboration with the Wall Street Journal, as among the top 30 countries in the world, and number one in Africa, with respect to economic freedom. The measure of economic freedom is based upon information on trade policy, fiscal burden of Government, Government intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation and informal market activity. All these should go a long way in assisting the promotional activities of BEDIA, the Tourism Board,

BDC and the International Financial Services Centre to attract more investments.

28.Mr. Speaker, turning to the balance of payments, a record surplus in the current account of P6.5 billion is forecast for 2005, mainly driven by a substantial increase in exports as compared to the smaller increase in imports. Exports of goods are estimated at P22.7 billion in 2005, which represents a 31 percent increase from P17.3 billion in 2004, mainly reflecting increased exports of diamonds, copper/nickel, soda ash, beef and textiles. The increase in exports was due to a combination of factors, including increased production, coupled with increased world market prices, and favourable exchange rate movements during the year. On the other hand, imports of goods are estimated to have increased from P13.4 billion in 2004 to P15.7 billion in 2005. In the financial account, a net outflow of P880 million is forecast, mainly attributable to increased portfolio investment abroad, much of which is associated with diversification of pension fund portfolios. The net result is an estimated surplus in the overall balance of payments of P5.2 billion in 2005, compared to a deficit of P232 million in 2004.

29.As at the end of November 2005, foreign exchange reserves were P34.7 billion, an increase from P24.2 billion at the end of December 2004. In US dollar terms, the foreign exchange reserves increased from \$5.7 billion to \$6.2 billion over the same period. These reserves were estimated to be equivalent to 27 months of imports of goods at the end of 2005, representing an increase from 22 months in 2004.

Public Enterprises

30.Mr. Speaker, the financial performance of the majority of the public enterprises was satisfactory during the financial year 2004/2005, with net profits ranging from P3 million to P175 million, except for Air Botswana which recorded a net loss of P4.6 million and the Botswana Agricultural Marketing Board, with a net loss of P0.4 million. The average return on total equity held by Government in the 12 commercially run public enterprises at the beginning of 2004/2005 was about 8.1 percent.

31.In an effort to continue to improve the efficiency of public enterprises, a number of initiatives are being pursued. These initiatives include the feasibility study of merging the National Development Bank and the Botswana Savings Bank, which has been completed and the report is being refined at the request of Government. In addition, the Government Employees Motor Vehicle and Residential Property Advance Scheme (GEMVAS) will be privatised during 2006/2007. Further, a policy review of the Motor Vehicle Accident Fund will be undertaken in 2006/2007 with a view to improving its effectiveness and coverage.

32.It is worth noting that the unprecedented rise in fuel prices in the international market during the year has contributed most to the net loss of Air Botswana, while the Botswana Agricultural Marketing Board has not been performing well over the

years on account of operating unprofitable depots as part of its social obligations.

33.Mr. Speaker, Government is committed to assisting small and medium scale citizen-owned enterprises to develop as sustainable businesses. To this end, the Citizen Entrepreneurial Development Agency (CEDA) was created in August 2001. Since its inception, CEDA has approved 1 364 loan applications valued at P753 million, while approved applications for 2005 were 169, valued at P70 million. The total of approved projects consists of 309 small scale projects and 1 055 medium scale projects. These projects are estimated to have employed 7 212 people.

34.The CEDA application form for small scale loan applications has been simplified and is available in Setswana. Nevertheless, the uptake of small scale loan applications still remains low. CEDA has, therefore, embarked on developing strategies to increase the level of access for small scale borrowers in collaboration with the Local Enterprise Agency, which is responsible for economy-wide business training and business plan development for local entrepreneurs. CEDA has cleared the backlog of applications, which is a welcome development since the Agency is now able to focus more on effectively monitoring and mentoring projects, as well as cleaning up the loan portfolio.

35.Mr. Speaker, I am concerned to learn that a number of beneficiaries of CEDA assistance are in arrears with their loan repayments. It should be noted that CEDA was created to be a revolving fund and as such all those who benefit from the scheme should pay back their loans so that the Agency can assist other Batswana.

36.Mr. Speaker, the Mid Term Review of NDP 9, endorsed by Parliament in December 2005, emphasised that attempts to promote citizen economic empowerment should not be at the expense of the quality of work or products. The task is to develop the ability of citizen companies to compete at the global level by producing high quality products in the most cost effective way. In this connection, and in keeping with the principle that any new initiative should be reviewed after a few years of experience, Government will shortly launch a comprehensive and urgent review of the CEDA programme to ensure that it is designed and implemented to achieve maximum effectiveness in a sustainable way. The review will be completed during 2006.

37.The Botswana Development Corporation (BDC) continues to support private sector development. For the Corporation's financial year ending June 2005, the BDC disbursed P58.3 million, compared with P24.5 million in the previous year, in both loan and equity financing. The Corporation financed projects in the property, food, tile manufacturing and quarrying. For 2005/2006, the Corporation has budgeted to disburse P110 million to support a number of companies or projects, including; a pasta products and biscuits producing company; Tannery Industries in Lobatse; Asphalt Botswana, which is involved in the business of bitumen road surfacing; a company repairing sewage pipes using in-pipe liner; and the Mashatu Nature

Reserve. Investments in the pipeline include in: Lead Recycling Botswana (Pty) Limited, which is involved in the manufacturing of lead ingots and polypropylene from recycling of lead scrap for industrial and domestic use; a t-shirts manufacturing company for export; Sovereign Skills (Pty) Limited, intending to manufacture china bone tableware and sanitary-ware products for domestic and foreign markets; and Thru-Glass Investments (Pty) Limited, which manufactures float glass for domestic and export markets. In addition, through continued investment and research in the financial and services sector, BDC has completed a feasibility study on factoring and invoice discounting. The recommendations of the study will be considered during the first half of 2006.

38.Mr. Speaker, with regard to the tannery project, I should add that the implementation of the project is going well with the equipment scheduled to be commissioned later this month. The BDC and CEDA Venture Capital Fund have already disbursed P16 million of the P22 million required for the total financing of the project. The tannery will be owned by Tannery Industries Botswana (Pty) Ltd (TIB), a joint venture between BDC, CEDA Venture Capital Fund and Desto Trading (Pty) Ltd. Desto is a joint venture between two Batswana and two Bulgarians. TIB has already identified hides collection points around the country in Ghanzi, Francistown, Gaborone, Hukuntsi, and Kang, with an additional site to be set up in Palapye or Mahalapye. It is intended to set up additional collection points in future depending on the expansion of the tannery. TIB is awaiting a response from the Botswana Meat Commission (BMC) on its offer to purchase the BMC tannery.

39.Mr. Speaker, BMC has completed its Strategic Review with the assistance of an outside consultancy company. Some of the measures to be undertaken arising from the review include focussing the BMC on its core business. In this regard, two of BMC's subsidiaries (Botswana Road Services and Botzam Services) have already been disposed of, realising P12 million, and P53 million is expected to be realised from the sale of the other non-core assets and land. BMC will also be expected to dispose of its unprofitable storage facilities and chilling rooms in Cape Town and London in order to reduce costs. Government, on its part, has provided P240 million as a concessional loan to BMC, which will finance repayment of commercial debt, additional working capital requirements on account of the 40 percent increase in producer prices, and the restructuring costs. In addition, Government has had to remit BMC tax amounting to about P45.5 million for the tax years 2003/2004 to 2005/2006.

40.The Botswana Railways continued to be under pressure due to insufficient freight and passenger traffic during the year. However, the organisation has managed to realise a net profit of P8 million on account of other income. I hope the efforts of the Botswana Railways management to review and restructure the operations of the national railway, through implementation of the five year Corporate Plan (2003 - 2007) will bear fruit in the coming years. The key elements in the Corporate Plan include: improving operations, overhauling wagons and locomotives, procurement of

new locomotives and wagons, and replacement of the signaling system.

41. Mr. Speaker, to conclude this discussion of public enterprises, it is pertinent to comment on the duty of boards of public enterprises and other agencies receiving public funds. A board's duty includes the usual requirements that a competent management is in charge of operations, that the accounts are properly audited in a timely manner, and that the laws of the land are observed. But more than that is required. As trustees of public funds each board that has access to public funds has a special obligation to ensure that the public interest is protected. Each has a responsibility to ensure that there is an acceptable return on the public's investment without taking undue risks; and that the remuneration of the employees of these public enterprises is consonant with their productivity. Going forward, Government will work towards improving the effectiveness of the boards of public enterprises so that they contribute optimally to *“Building an Innovative Economy for the 21st Century”*.

IV. SECTORAL AND POLICY REVIEWS

42. Mr. Speaker, I now give highlights of the sectoral developments and policy reviews during the 2005/2006 financial year. The detailed sectoral reviews will be presented by the respective Cabinet Ministers as part of their Committee of Supply statements.

Incomes Policy

43. Mr. Speaker, the draft Revised National Policy on Incomes, Employment, Prices and Profits of 2005, was tabled before Parliament in August 2005 and is awaiting discussion during the current meeting. The Policy provides for, among others: extension of the minimum wages to the domestic service and agricultural sectors; merging the work and residence permits into one document; and determining criteria for delinking parastatals and public sector remuneration packages. The objectives of the Incomes Policy include: linking wage growth to productivity as a means of enhancing international competitiveness and spreading the benefits of development as widely as possible; expanding productive employment opportunities as a means of raising incomes and alleviating poverty; improving entrepreneurial skills as a means of empowering Batswana to fully participate in the economy, thereby raising their incomes and reducing dependence on expatriate labour. The Policy also seeks to maintain macroeconomic stability as a means of maintaining a conducive economic environment needed for private sector investment.

Rural Development and Poverty Alleviation

44. Mr. Speaker, Government will implement an ambitious programme of infrastructure development in rural areas in 2006/2007, estimated to cost about P1 billion, including eradication of backlog of construction and maintenance of rural

facilities. The programme will cover, amongst others: the primary schools facilities; primary healthcare facilities; rural electrification; rural telecommunications; Village Water Supply and Sewerage; rural roads and bridges; Rural Sanitation; internal village infrastructure; Customary Courts; Land Boards; Rural Administration Centres; and Labour Intensive Public Works. This list excludes other national projects, such as in education, agriculture and health that are also implemented in rural areas.

45.Mr. Speaker, regarding poverty alleviation, whilst there is considerable scope for further improvements, the existing programmes and social safety nets continue to make the desired impacts on poverty. Recent studies suggest that the social safety nets have significantly alleviated poverty, with the under-five malnutrition having been brought down to nearly 6 percent. This is an indication that we are likely to meet the United Nations Millennium Development Goals with respect to poverty alleviation. The recently completed review of the social safety nets will introduce procedural and policy refinements, which should go a long way in improving the delivery of these services. The engagement of a fulltime Poverty Alleviation Advisor, with effect from September 2005 is also expected to provide further impetus to implementation of the poverty alleviation initiatives. Similarly, much needed employment has been created through the Labour Intensive Public Works Programme, with about 60 000 people engaged under the programme at one time or another during 2005.

46.Mr. Speaker, the 2004/2005 agricultural season was not particularly good for the rural economy due to the prevailing drought conditions, which threatened human livelihoods and tended to accentuate the poverty situation. I do observe that the rains that have been received since December 2005 are widespread and significant. Similarly, the outlook for the remainder of the season presently appears promising, signaling a possible recovery of the rural economy during 2006. I am happy to learn that many farmers have taken advantage of these rains and the free seeds provided by Government to plough, even though shortage of draught power has been a problem for some. This problem will be partially addressed by the NAMPAADD programme, whose implementation will be intensified during the remainder of NDP 9.

Financial Services

47.Mr Speaker, the financial services sector has continued to expand in terms of the asset base, product diversity, as well as the services offered, which should contribute to the building of an **innovative and robust economy**, given the central intermediary role played by the sector in economic development. For example, as at 30th September 2005, total pension fund assets amounted to P22.7 billion, compared to P15.7 billion in the previous year. These developments have increased challenges for the regulation and supervision of the non-bank financial institutions in the country. In this regard, Government is drafting a Bill for presentation later this year, whose objective is to establish supervisory and regulatory arrangements, which will effectively respond to this growth. The establishment of a non-bank financial

institutions regulatory authority would ensure fairness, efficiency and orderliness in the financial services sector.

48.Mr. Speaker, a total of 5 companies' applications were approved in 2005, bringing the number of certified companies operating under the International Financial Services Centre (IFSC) to 29, excluding 7 deregistered due to failure to start or continue their operations. Meanwhile, the IFSC is evaluating applications from: a listed Botswana-based micro-lending company that plans to expand its operations to other African countries; a regional medical insurance company; and a shared service company for a major transport and logistics group.

49.Mr Speaker, the Botswana Stock Exchange performed well during 2005, with domestic market capitalisation rising by 23.4 percent from P10.9 billion in December 2004 to P13.4 billion in December 2005. In an effort to keep abreast with the rapidly evolving and innovative financial services, as well as to create an enabling environment for domestic capital market growth and development, Government is proposing to repeal the Botswana Stock Exchange Act and replace it with a Securities Act. The new legislation will provide for trading of all types of bonds in the Stock Exchange; modernise trading through the introduction of electronic clearing, settlements and record storage; streamlining the governance of the Stock Exchange by defining the roles of different stakeholders; updating the capital requirements for members of the Exchange; and introducing provisions to deter market manipulation and inside trading. This will bring the Stock Exchange legislation in line with international best practice, as well as create an enabling environment which promotes capital market growth and development.

50.Mr. Speaker, in much the same way that a special duty falls on the boards of public enterprises and other agencies receiving public funds, boards of financial service providers have a special fiduciary obligation to protect the assets of their clients. Each has a responsibility to ensure that the return on the assets is not compromised by taking undue risks with the clients' funds. At the same time, there is an important opportunity for innovative formal sector financial institutions to expand services to those members of the public that currently do not have access to their services.

51.I wish to emphasise, Mr. Speaker, that with the introduction of the Fiscal Rule and the crawling band exchange rate mechanism, and given the Bank of Botswana's mandate of maintaining monetary stability, all three of the major macroeconomic policies are focused on providing a stable environment in which innovation can thrive.

Health and HIV/AIDS

52.Mr. Speaker, access to appropriate and quality health care for citizens remains one of the core strategies in an endeavour to realise the theme of "*Building an Innovative Economy for the 21st Century*", as well as achievement of NDP 9 and

Vision 2016 goals and objectives.

53. Government continues to find innovative ways to address the HIV/AIDS pandemic, including research, early detection, new treatment therapies, and the ongoing vaccine trials. The Sentinel Surveillance study for 2005 has shown encouraging results that HIV prevalence among pregnant women aged 15-49 years has decreased from 37.4 percent in 2003 to 33.4 percent in 2005, while HIV prevalence among the group aged 15-19 years, has decreased from 22.8 percent in 2003 to 17.8 percent in 2005.

54. The total number of patients enrolled for ARV treatment during 2005, was 54 378, compared to 32 835 patients in 2004. Meanwhile, the Prevention of Mother to Child Transmission programme, whose uptake is the highest in the Sub-Saharan Africa region, is providing drugs to 73 percent of pregnant HIV positive women. In addition, the number of people who under-went routine HIV testing during 2005 increased to 16 284, from 12 959 in 2004, while the cumulative figure went up to 174 792. The availability of routine testing is an essential element in the fight against HIV/AIDS. All of us are at risk and have an obligation to be tested and to act accordingly.

55. Mr. Speaker, the African Comprehensive HIV/AIDS Partnership (ACHAP), which is a collaboration between the Government of Botswana, Bill and Melinda Gates Foundation and the Merck Foundation, has extended its programme of assistance to Botswana to 2009. In addition, the Merck Foundation has agreed to extend donation of their two antiretroviral drugs to the Government of Botswana to 2009, and Boehringer-Ingelheim's partnership with Government continues to train personnel engaged in the war on AIDS. The Global Fund to Fight AIDS, Tuberculosis and Malaria started implementation of its activities in Botswana during 2004 under a grant agreement worth about US\$18.6 million or about P100 million to cover assistance to the Non-Governmental Organisations/Community Based Organisations, and the roll-out of the Prevention of Mother to Child Transmission Programme.

56. In order to improve delivery of health services, Government will be piloting telemedicine at Ghanzi Primary and Princess Marina Hospitals. Another innovation is the District Health Information System, which is meant to computerise and aggregate health information at district level. The project is being piloted in Gaborone, South East, Kgatleng and the Okavango regions. Some of the major ongoing projects in the health sector include the up-grading of the 5 hospitals, namely; Scottish Livingstone, Sekgoma Memorial, Maun, Mahalapye, which will be completed during 2006/2007, while the construction of the Lobatse Mental Hospital will be completed in 2007/2008. The construction of these hospitals is estimated to cost P1.6 billion.

Trade and Investment Promotion

57.Mr. Speaker, Government continues to undertake a number of comprehensive reviews and development of new policies, legislation and regulations with a view to creating a conducive business environment. During the past year, the Industrial Development Act was reviewed to simplify licensing procedures for manufacturing industries, among others. In addition, the Companies Act was reviewed with a view to simplifying registration of companies. The regulations under the Companies Act are being finalised and implementation of the Act is expected to start in 2006. The regulations for the Trade Act, which among others, clarify processes for citizens and non-citizens requirements, have been drafted and their implementation has commenced. These initiatives are designed to remove impediments to private sector development.

58.While encouraging private sector development, Government has a duty to protect consumers from unscrupulous practices of a few businesses. In this regard, Government has promulgated micro-lending regulations, whose intention is to protect borrowers by limiting interest payable and prohibiting the surrender of Automated Teller Machine and National Identity cards to lenders. These will be implemented from April 2006. In August last year, Parliament approved the Competition Policy, whose main objective is to prevent and redress any anticompetitive practices and conduct by firms; encourage competition and the efficient use of resources; promote investment; broaden choices and stabilise prices. Meanwhile, a Competition Bill, which will facilitate acceptable business conduct and practices, is being drafted.

59.Mr. Speaker, attraction of investment, including Foreign Direct Investment (FDI), continues to be one of the key strategies in promoting growth. Since 1997, 22 companies with a total investment of P150 million have set up in Botswana, employing a total of 5 540 people. During the year, 13 medium-scale garment and textile companies were licensed and are expected to start operation before the end of this financial year. They will have a combined investment in excess of P12.6 million and will generate total employment of 1 124. In an effort to further enhance FDI flows into Botswana, Government is drafting a new Foreign Investment Strategy, which is expected to be finalised in March 2006, after which an FDI Bill will be drafted. Meanwhile, Botswana Export Development and Investment Agency is conducting a fully-fledged study on the manufacturing of glass and glass related products and it is scheduled for completion in December 2006. According to the United States International Trade Centre, Botswana's duty free exports under AGOA increased to P93 million in 2005, from P72 million recorded in 2004, an increase of 31 percent.

Tourism

60.Mr Speaker, tourism offers great potential as an additional engine of growth. This potential needs to be tapped and turned into reality by finding innovative ways of

attracting investments into the sector, as well as offering an attractive environment for tourists to enjoy the flora and fauna in the country. The introduction of a competitive exchange rate mechanism in May last year will benefit the tourism sector, among others, particularly by attracting some regional tourists who would have otherwise considered Botswana an expensive destination. I expect that the recently established Tourism Board is soon to gain momentum to take the tourism sector to its great potential. There are already private sector proposals to build three new hotels in Gaborone, and at the same time, the BDC has embarked on upgrading and refurbishment of the Marakanelo hotels throughout the country in anticipation of growth of the tourism sector.

61. In keeping with the need for high quality standard in the hospitality sector, the grading and classification of tourism accommodation facilities has commenced. Phase one of this process, which covers, Gaborone, Mochudi, Molepolole, Lobatse, Kanye, Jwaneng and Khutse has been completed, with a total of 75 facilities assessed and graded, out of the 150 facilities targeted across the country. The second phase, which will focus on licensed accommodation facilities in the North East, Ngamiland and Chobe districts, will be undertaken during 2006/2007 financial year. It is planned that all licensed tourism accommodation facilities country-wide totalling 349 will be graded by the end of 2006/2007. Further, under the revised Tourism Regulations, which will be implemented in 2006/2007, citizens will have exclusive rights to the operation of several types of small and medium tourism enterprises, such as guest houses, motor boat safaris, camping and caravan sites, mekoro, mobile safaris and tourism transfers and transportation.

62. A number of initiatives are underway to improve management of wildlife resources and their habitat. These include the preparation of management plans for the Makgadikgadi and Nxai National Parks, the Central Kgalagadi/Khutse Game Reserve, the Moremi Game Reserve and the Chobe National Park, to facilitate sustainable use of these protected areas. Meanwhile, negotiations are on-going with our neighbours to develop a large trans-frontier wildlife conservation area centred on the confluence of the Shashe and Limpopo rivers. This should expand the tourism sector.

Agriculture

63. Mr. Speaker, with necessary investment and technology, agriculture can play a vital role in building an innovative economy. Investments in research and technology, and more innovative production, processing and marketing of agricultural commodities will make significant contributions towards building an innovative economy. In this regard, operations have started at all the National Master Plan for Arable Agriculture and Dairy Development Production and Training Farms of Ramatlabama, Dikabeya, Glen Valley and Sunnyside where farmers are receiving technical support and mentoring services. To augment this training, ongoing negotiations with the Rural Industries Promotions Company for the acquisition of a one-stop services centre for agriculture in Goodhope, will be concluded during

2006/2007.

64. The study on the viability and long-term development strategy for the livestock sub-sector, which is expected to help introduce innovative ideas for a more robust and rewarding beef industry, is complete and its recommendations will be considered by Government during 2006. In addition to this initiative, Government will continue to work with other stakeholders to identify options to prosper the ostrich industry. One of the specific interventions by Government last year was the conversion of Government loans amounting to P5 million owed by the Botswana Ostrich Company into equity. In addition, there are plans to establish a model ostrich multiplication farm at Dibete in order to augment the number of slaughter birds in the country.

65. The Agricultural Infrastructural Development Initiative study has been completed and recommendations are being reviewed. The objective of the study was to frame a policy to facilitate agricultural development through the provision of requisite infrastructure such as improved roads, electricity, water, and serviced land for agricultural development throughout the country.

Minerals and Energy

66. Mr. Speaker, the mining sector continued to perform well during 2005, maintaining the same level of production as in the previous year. Diamond production for 2005 was 31.9 million carats, as compared to actual production of 31.1 million carats during 2004. Employment at the four diamond cutting factories in Botswana increased from 650 in 2004 to 785 in 2005, due to expansion of capacity by the various factories. In addition, 4 new cutting factories were licensed during 2005, with potential to employ more people.

67. Nickel and copper prices remained strong during 2005 with copper prices doubling to average \$2.08/lb compared to \$1.03/lb in 2004. Nickel averaged \$6.68/lb compared to \$6.27/lb during 2004. The improved metal prices and production following the 2004 BCL smelter refurbishment, led to improved financial performance by BCL. As a result, the company has not applied for new emergency funding, and instead, Government expects to be repaid some of the past emergency funding that was provided to BCL.

68. Mr. Speaker, in order to foster private sector investment in the mining sector, Government has continued the ambitious high quality airborne geophysical data collection. The interpretation of the Central Kalahari survey was completed during 2005. Provision of a high quality geophysical data base has resulted in a significant increase in prospecting activity. During 2005, there were 848 prospecting licenses in force (574 for diamonds and 274 for various other minerals) compared to 694 in 2004 (510 for diamonds and 184 for other minerals). Two significant additional diamond prospects, in the Orapa area and the Martin's Drift area, are currently being evaluated. The increase in prospecting is a demonstration of the confidence the mining companies have in the future of the economy of Botswana.

69. In order to improve security of energy supply in the country, the Botswana Power Corporation is implementing a project on the expansion of generation capacity at the Morupule Power Station, estimated to cost US\$600 million or P3.2 billion. Implementation of this project is expected to start during 2006/2007 and be completed in 2009/2010. The project will increase generation capacity by 300 percent, from 132 MW to 532 MW. During construction phase of the project, employment is expected to reach a peak of 1000.

70. Mr. Speaker, recent studies suggest that substantial exploitable coal bed methane exists in Kodibeleng. Some pilot production wells will be operational in early 2006. Meanwhile, a feasibility study on establishing a coal-fired export power station at Mmamabula is being undertaken and an Intergovernmental Memorandum of Understanding is being negotiated with the Republic of South Africa, with a view to securing the market for the power. In the region, efforts are continuing to increase power supply, and one such initiative is the development of a power corridor through Westcor, a company owned by the electricity utilities of Angola, Botswana, the Democratic Republic of the Congo, Namibia and South Africa. This initiative will be undertaken during the next financial year.

71. There is need to bridge the gap between the urban and rural areas in order to attract investment and discourage rural to urban migration. It is in this spirit that connection of rural communities to the electricity grid will be continued. In order to improve access to energy services in rural areas and promote the use of renewable energy, Government and UNDP have signed a P34 million agreement to finance a solar-based rural electrification programme. The programme will be implemented over a 5 year period and is intended to assist households to acquire solar power systems on affordable terms.

Water

72. Mr. Speaker, in an effort to optimise the use of the country's scarce water resources, the National Water Master Plan of 1991 is being reviewed to guide the development, use and distribution of our water resources. In order to ensure that water does not become a constraint to national development, it is necessary to maintain a balance of available developed groundwater resources and demand projections in line with expected growth rates in the economy, especially population, urbanisation and industrial development. In this regard, regional groundwater resources investigation and development constitute part of Government's continuous efforts to harness water resources for development.

73. To augment the groundwater resources, Government will develop surface water resources in areas that are geographically and climatically suitable to increase the water reserves to meet the expected development goals. Major water projects, which are still ongoing include, Kanye Emergency Project and Boteti Region groundwater investigations projects. Planned projects include Masama and Bobonong wellfields

development. In addition, the construction of Ntimbale dam will be completed this year, while the construction of Thune, Lower Shashe, and Lotsane dams is scheduled to be completed between March 2007 and March 2009. Further, ground water investigation projects around Kang, Ncojane and Matlho-a-Phuduhudu areas, to provide long-term source of potable water, are ongoing, and will be completed in August 2006 at a total cost of P55 million.

Works and Transport

74.Mr. Speaker, an Integrated Transport Policy framework, is being formulated, which will encompass the entire transport sector and facilitate safe and efficient movement of people and goods. The project will start next financial year and is due for completion by December 2006.

75.The Vehicle Registration and Licensing systems will be upgraded during 2006/2007 in order to further enhance the safety and efficiency of the road transport sector. In addition, computerisation of the issuance of transport permits and roadworthiness certificates is ongoing and a review of the Road Traffic Act and the Road Transport Permits Act will be undertaken during 2006/2007. The review is intended to ensure that the legislation is in line with the changing traffic environment and technology advances.

76.Mr. Speaker, implementation of the Public Private Partnerships concept, or PPP as is commonly known, has just started, with 2 pilot projects for office accommodation underway. Tendering for construction of office blocks for the Ministries of Lands and Housing; and Environment, Wildlife and Tourism; as well as the development of Plot 21 to house the Land Tribunal and the Ombudsman offices started during the last half of 2005. It is expected that construction of these offices will start before the end of 2006.

Information and Communications Technology

77.Mr. Speaker, a reliable and high capacity international telecommunications network is essential to *building an innovative* and highly competitive economy, capable of attracting high value investors, especially in the information and knowledge management sector. To this end, the Botswana Telecommunications Corporation is involved in a project aimed at improving this country's international connectivity through undersea fibre-optic cables on the east and west coasts of Africa. The Corporation is also continuing the installation of high speed fibre-optic rings, capable of creating a more reliable telecommunications linkage within the country, and linking up to other networks in the sub-region.

78.A consultancy on the Nteletsa II Rural Telecommunications Strategy started in September 2005 and is scheduled for completion in April 2006. The study is expected to advise on best technical solutions and strategy for the implementation of the rural telecommunications programme.

79.The draft Information and Communications Technology Policy, called “Maitlamo” is to be presented to Parliament during the current meeting. The draft policy recommends appropriate changes to legislation, which are critical for the realisation of an e-business environment and e-government services. The major initiative under “Maitlamo” will be the ‘connecting communities’ project, which will involve provision of ICT access points in rural areas across the country.

80.Mr. Speaker, the Master Plan for the national Radio and Television Transmitter Network coverage has been completed to establish current coverage of both radio and television, and to propose additional facilities required to cover the remaining parts of the country. Currently, about 81 percent of the population has access to good quality Medium Wave and about 77 percent has access to Frequency Modulation radio signals; while television is accessible to about 64 percent of the population.

81.The National Research, Science and Technology Plan, which was completed in December 2005, will guide the implementation of the science and technology policy that will make Botswana a knowledge-based economy and a major participant in the global economy. In an effort to increase investment in science and technology, as well as to enhance research and development capabilities in the country, the Botswana Research Science and Technology Investment Agency will be established in 2006/07. The Agency will promote competitiveness in Government funded research in science and technology through its mandate of administration of public funds.

82.To further enhance coordinated efforts to regulate the communications market, a bill to establish a regulatory body that consolidates Postal Services, Telecommunications, Broadcasting and all other ICT sub-sectors will be presented to Parliament during 2006/2007. The objective of this exercise is to improve efficiency in service delivery. In parallel, a Postal Policy that will regulate the postal market is also planned to be developed during 2006/2007. The policy will mainly focus on defining guidelines on competition and ensure compliance with the delivery of quality services by all operators.

Education

83.Mr. Speaker, in line with this year’s theme of “*Building an Innovative Economy for the 21st Century*”, the education sector’s priorities are to ensure universal access to 10-years of basic education; increase access to senior secondary education; expand vocational and technical training and promote lifelong learning; increase tertiary education participation and attainment rates; improve access to education services by children and youth with special needs; and to improve the quality of education in the country as a whole. In this regard, the review of the Education Act of 1967 is ongoing and will be completed during 2006.

84.The design for the expansion of the University of Botswana has started and construction of the project is estimated to cost P165 million during 2006/2007. The University of Botswana is also reviewing its governance and management structures in order to respond to global and local changes in higher education. Some of the proposed changes will require amendment of the University of Botswana Act, which will be presented to Parliament during 2006/2007. Meanwhile, the establishment of a medical school has started with the Founding Head of the School of Medicine already identified and 240 Botswana medical students placed in partner medical schools throughout the world. The first 15 graduates are expected in January 2007.

85.Mr. Speaker, Honourable Members will recall that the Bill on the establishment of the Botswana International University of Science and Technology, the construction of which is estimated to cost P5 billion, was approved by Parliament in November 2005. Preparatory work for the implementation of the project has started and the first intake is expected towards the end of NDP 9. When fully operational by 2016, the University will have the capacity to admit 10 000 students. Other projects for tertiary education include; construction of the Oodi and Selebi-Phikwe Colleges of Applied Arts and Technology, each with a target enrolment of 1 200 students, which are expected to commence during 2006. The Francistown College of Technical and Vocational Education, which has a target enrollment of 1 400, is under construction and will be completed in July 2006. These major projects are expected to go a long way in building the necessary human resource required to *meet the challenges of the 21st century* and beyond.

86.Government continues to find ways of maximising training opportunities, while reducing student placement in costly institutions abroad. In particular, sponsorship in local private tertiary institutions that meet the criteria for registration and accreditation with the Botswana Training Authority and the Tertiary Education Council will commence in 2006. In addition, the development of standards, qualifications and curriculum of the vocational training system, as well as registration and accreditation with quality assurance institutions will be stepped up. The importance of a sound vocational training system is an important aspect in ensuring present and future industrial innovation for the economy of Botswana. Meanwhile, the intended takeover and revival of the Brigades by Government is expected to commence in the next financial year.

Immigration and Social Services

87.Mr. Speaker, Botswana continues to experience cross border related offences. In this regard, Government has established dialogue with neighbouring countries and other regional organisations with a view to strengthening collaboration to deal with the problem. With respect to the processing of work and resident permits, the turn around time of 12 months has now been reduced to 2 months since the introduction of the second Regional Immigrants Selection Board in Gaborone in May 2005. Other innovations to address this problem include computerisation of the labour and security functions, decentralisation of administration services to Palapye, Bobonong

and Gaborone West.

88.Mr. Speaker, the National Youth Policy is currently under review to assess its effectiveness for the development of youth against the background of challenges such as HIV/AIDS, unemployment and poverty. Meanwhile, Government is implementing a number of programmes to assist the youth as was announced in the State of the Nation Address in November 2005 and in my speech when presenting the Mid-Term Review of NDP 9 in Parliament. Work will start in April 2006 on the modalities of opening a window at CEDA to assist the youth with agricultural loans. Further, the youth grants under the Ministry of Labour and Home Affairs will be increased from P3 million to P30 million in 2006/2007, as outlined in Mid-Term Review of NDP 9. It is important to note that part of these funds will be allocated towards strengthening the administration of district youth structures in terms of increasing personnel and providing requisite equipment. In addition, as set out in the Mid Term Review of NDP 9, modalities for improved tax incentives for those who employ the youth will be worked out and implemented as part of the 2006/2007 tax year legislation amendments.

Lands and Housing

89.Mr. Speaker, as part of innovations to encourage home ownership and in order to improve efficiency and sustainability of the Self-Help Housing Agency (SHHA) programme, a SHHA revolving fund will be established in 2006/2007. The sustainability of the fund is premised on the understanding that people will repay their loans. I, therefore, implore all those who have benefited under the SHHA programme to pay back their loans in order to give other citizens a chance to benefit from the loan facility. At the same time, Councils are expected to intensify the collection of SHHA loans and employ other means of recovering the arrears. In addition, a comprehensive review of the SHHA programme will be undertaken during 2006/2007 with a view to improving its effectiveness.

90.Mr. Speaker, the 2004 study on the administrative and regulatory barriers to investment in Botswana confirmed a number of constraints to investment, including delays in land acquisition, high cost of servicing land in the market, and acute shortage of serviced land for commercial and industrial needs. Some of the issues around which the specific concerns centred include, inter alia: shortage of serviced land in both rural and urban centres; and widespread failure of plot development. While Government and other stakeholders are making an effort to address these constraints, a more aggressive approach is imperative. I therefore, urge the land administration agencies and service providers to work round the clock to ensure that significant progress is made in this regard.

91.However, it is important to note that Government is taking measures to address land related constraints. These measures include: involvement of the private sector in land servicing; and the development of the Land Management Systems. In addition, Government has embarked on a review of land related policies and activities with a

view to integrating and consolidating them to make them more investor friendly.

Local Authorities

92.Mr. Speaker, the delivery of services at the local level is to a large extent decentralised to the Local Authorities. To continually improve the capacity of Councils and other local level structures to deliver services, the recommendations of the task force on organisation and methods review for Local Authorities will be implemented during 2006/2007. These include a new organisational structure, with reorganised departments and units, which defines the operational responsibilities of the Local Authorities.

93.In order to strengthen the tribal administration, office accommodation will be increased and maintenance of facilities accelerated, more vehicles procured and staff training and development will start during 2006/2007. Meanwhile, resources are being mobilised for the establishment of the new Tonota and Moshupa Sub-districts and the Chobe District, to bring services closer to the communities.

94.Mr. Speaker, lack of appropriate skills and capacity within the Local Authorities, remains a challenge with regard to *building an innovative economy*. Therefore, investment in human resources should facilitate the building of an innovative economy. Further, with reforms and the introduction of Performance Management System (PMS), training and development will focus on skills development for the Local Authorities. So far, PMS has been rolled out to Local Authorities of Southern, Francistown, North East, Kgalagadi, Kweneng and Central, while of the rest will be covered by 2007.

95.Regarding the backlog of audited accounts, efforts continue to be made to ensure that Local Authorities keep proper books of accounts. To date, 11 Local Authorities have updated their accounts up to 2004/2005, 9 Local Authorities up to 2003/04, whereas 4 have gone up to 2002/2003 and 3 up to 2001/2002. We continue to encourage Local Authorities to intensify efforts to clear the backlog so that they remain accountable for the use of resources allocated to them.

Law, Justice and Security

96.Mr. Speaker, a number of key strategies and policies have been identified in the area of law, justice and security. These include the improvement of legal processes, decentralisation, capacity building, strengthening of human resources and the increased use of Information and Communications Technology. A two-pronged approach was adopted, to improve legal processes and reduce turnaround time in service delivery. Firstly, a programme of increasing the level of awareness of the legal processes as a whole has been adopted. Guidelines have been issued to assist Ministries prepare clearer instructions for drafting legislation and other services. Secondly, efforts to recruit lawyers for secondment to the various Ministries and Departments have been started.

97. The Information and Communications Technology strategy was also employed to address the problem of information accessibility. To this end, an electronic case management system is being piloted with a view to implementing it during 2006/2007. Government will also undertake an e-laws project through which the Laws of Botswana and Botswana Law Reports will be accessible to the public on the internet. Information Technology related legislation will be developed to cover issues on data protection, cyber-crime, computer related crime and admissibility of electronic records and transactions.

V. 2004/2005 BUDGET OUTTURN

98. Mr. Speaker, the budget outturn for the 2004/2005 financial year was an overall surplus of P574 million, compared to a projected budget deficit of P1.43 billion in the revised estimates. This favourable outturn is attributable to variations in both the revenues and expenditures. Total actual revenues and grants amounted to P17.96 billion, which was higher than the P17.29 billion in the revised estimates, representing an increase of P670 million. A significant increase was realized in mineral revenue, which was mainly due to the cumulative 19 percent increase in diamond prices in US dollar terms during the financial year.

99. On the other hand, total expenditure and net lending amounted to P17.38 billion, compared to the revised budget estimate of P18.72 billion, representing an under spending of P1.34 billion. Actual recurrent expenditure of P13.77 billion was P860 million lower than the expected P14.63 billion in the revised estimates, while development expenditure, with an under-expenditure of P420 million, recorded P3.91 billion compared to P4.33 billion in the revised estimates.

VI. 2005/2006 REVISED BUDGET ESTIMATES

100. Mr. Speaker, the original budget for 2005/2006 reflected a balanced budget with a small budget surplus of P112 million. However, the revised estimates now show an anticipated budget surplus of P1.58 billion. This improvement is mainly due to a notable increase in total revenues and grants. Mineral revenues estimated at P10.89 billion against the original estimate of P9.93 billion, represent an increase of P963 million, primarily because of diamond price increases and increases in diamond sales anticipated in the last quarter of 2005/2006, and favourable movements in the exchange rates during 2005.

101. On the other hand, the revised total expenditure for 2005/2006, estimated at P20.1 billion reflects a decrease of P331.7 million, mainly as a result of expected lower development expenditure by P407.8 million from the original estimate of P4.9 billion. Most of the under expenditure in the development budget is accounted for by capacity constraints, both within Government and the private sector. Government is concerned about this situation and some initiatives, which I will outline later, are

underway to address this problem.

VII. 2006/2007 BUDGET PROPOSALS

102. Mr. Speaker, the total proposed budget for 2006/2007 is P22.4 billion, which is a significant increase over the budget of about P16.2 billion at the beginning of the ninth National Development Plan (NDP 9) in 2003/2004. This budget is in line with the Fiscal Rule, which was approved in December 2005 by this Honourable House, as part of the Mid-Term Review of NDP 9. According to the Fiscal Rule, the total expenditure budget will be set at most equal to 40 percent of GDP to ensure sustainability. The Mid-Term Review also recommended that allocation to development expenditure should be increased from 25 percent to 30 percent by the end of the Plan period in order to implement more projects and enhance economic growth.

103. Mr. Speaker, the effectiveness of the recurrent budget will be enhanced by the reallocation from low priority to high priority activities within individual Ministries. Within the recurrent budget, emphasis will continue to be placed on maintenance of existing infrastructure in resources allocation.

Revenues and Grants

104. Mr. Speaker, for the year 2006/2007, total revenues and grants are forecast at P24.14 billion, of which mineral revenue constitutes P11.39 billion or 47 percent. The other major sources of revenue are customs and excise, expected to record P5.30 billion or 22 percent; non-mineral income taxes are estimated at P2.92 billion or 12 percent, while Value Added Tax (VAT) is expected to reach P2.12 billion, representing 9 percent of total revenues and grants. The forecast increase in revenues and grants is 11.3 percent over the revised estimate for 2005/2006. The largest single component, mineral revenue, is expected to grow by 4.6 percent. The major source of the revenue increase is customs and excise, which includes a one-off payment from the SACU Revenue Pool as a final payment under the old SACU Agreement.

Recurrent Expenditure

105. The 2006/2007 recommended recurrent budget, including statutory expenditure estimates is P16.84 billion, which is almost the same as the 2005/2006 revised budget of P16.80 billion. The fact that the recurrent budget remained almost unchanged demonstrates Government's deliberate decision to contain costs and reallocate more resources towards the development budget. With anticipated productivity increases, we should be able to do more with the same amount of resources or less. For instance, growth for both internal and external traveling votes, except for a few special cases in a particular year, has been frozen since the 2001/2002 financial year, but this has not compromised service delivery.

106. Mr. Speaker, provisions for the Ministries of Education; Local Government; and State President account for 54 percent of the total recommended recurrent budget. The Ministry of Education with P4.52 billion, represents 27 percent; Local Government with P2.42 billion, 14 percent and State President with P2.14 billion, 13 percent of the total recurrent budget. Four Ministries of Health; Finance and Development Planning; Works and Transport; and Agriculture together account for 22 percent of the total recurrent budget. The Ministry of Health at P1.39 billion, represents 8 percent, the Ministry of Works and Transport at P1.06 billion accounts for 6 percent, with the Ministries of Agriculture (at P648 million) and Finance and Development Planning (at P602 million) both representing above 4 percent each, of the total recurrent budget. The remaining fourteen Ministries and independent departments share a total of P2.77 billion or 16 percent of the recurrent budget allocations. The budget for statutory expenditure is P1.34 billion; representing 8 percent of the recurrent budget, of which Government's contributions to Public Officers' Pension Fund is P538 million, public debt servicing is P470 million, pensions and gratuities is P152 million, while the balance of P176 million is for other miscellaneous statutory expenditures.

Development Expenditure

107. Mr. Speaker the proposed development budget for 2006/2007 is P5.8 billion and is made up of 97 percent for normal Government projects, P150 million or 3 percent for parastatal organisations' projects and P55 million or 1 percent for drought relief activities under the Labour Intensive Public Works Programme. The P5.8 billion does not include a substantial amount of P235 million which will be spent under the Tertiary Education Development Fund, on the Botswana International University of Science and Technology and UB expansion projects. The amount also excludes part of the public sector investment by parastatal organisations. These are substantial development allocations, which require a collective effort from all stakeholders to ensure that they are productively and timeously used.

108. For its part, Government has taken steps to address the problem of poor project implementation. These include the Public Procurement and Asset Disposal Board (PPADB) allowing Ministries to carry out pre-contract preparations, including preparation of tender documentation on the basis of draft budget estimates and the increase of the financial limits of the Ministerial Tender Committees from the current threshold of P200 000 to P1 million, with effect from April 2006. Further, PPADB will be flexible to enable acceptance of less than 5 quotations, subject to proper justification being provided in line with PPADB guidelines. In addition, project implementation activities undertaken by the Department of Building and Engineering Services will continue to be decentralised to Ministries and Departments during 2006/07. Further, in line with PMS, all Accounting Officers will be monitoring their project planning and implementation activities regularly with a view to ensuring timely resolution of implementation bottlenecks.

109. At this point, I wish to call on the private sector also to improve implementation of Government projects. I regret to say, some of the work done by some of our contractors leaves a lot to be desired. It must be noted that while Government encourages citizen economic empowerment, the relevant stakeholders need to devise innovative ways of implementing projects to ensure timely completion of projects and efficient use of public resources.

110. Mr. Speaker, the Ministry of State President has been allocated the largest share of the development budget at P1.24 billion or 21.3 percent, mainly accounted for by the HIV/AIDS Programmes at P650 million or 52.4 percent of the total Ministry's development budget. The remainder is allocated to the BDF at P310 million, to cover mainly construction of housing and purchase of equipment; and Police Facilities at P181.1 million, which will cater mainly for construction of ongoing and new Police stations, procurement of vehicles, training for the new Police airwing and equipment. These three projects, HIV/AIDS Programmes, BDF and Police facilities account for 90 percent of the Ministry of State President's development budget.

111. The Ministry of Local Government, with a proposed development budget of P894 million or 15.4 percent, takes the second largest share. The bulk of the Ministry's development budget goes to eight major programmes implemented through Local Authorities, namely; Primary Schools Programme with P239.3 million, the Village Water Supply and Sewerage Programme with P189.8 million, Urban Land Servicing with P107.5 million, District and Urban Roads with P81.1 million, Labour Intensive Public Works with P55.2 million, Local Authorities Infrastructure Maintenance with P47 million, Village Infrastructure with P42 million and Primary Health Facilities with P 39.6 million. All these programmes account for 89.7 percent of the proposed 2006/2007 development budget of the Ministry of Local Government.

112. Mr. Speaker, the Ministry with the third largest proposed allocation is Ministry of Works and Transport at P714 million or 12.3 percent. The bulk of the proposed budget is taken by the Bitumen and Trunk Roads Improvements project at P207.2 million, Secondary Roads project at P135.2 million, Government Infrastructure Improvements at P99.5 million, Bridge Construction at P83.8 million and Air Transport Infrastructure at P82 million. These five projects account for 85 percent of the proposed development budget of the Ministry of Works and Transport.

113. The Ministry with the fourth largest proposed allocation of the development budget is Minerals, Energy and Water Resources at P622 million or 10.7 percent. Out of this amount, P542.5 million or 87 percent has been distributed among three major projects, namely; Major Villages Water Supply and Development at P282.8 million, Water Planning and Development at P159.0 million and Renewable Energy and Power Development at P100.7 million.

114. The Ministry of Health is allocated P577 million or 10 percent of the total development budget. Two projects account for P555 million or over 96 percent of the

Ministry's allocation. These are Improvements to Hospitals with P504 million and Institutes of Health Sciences with P51 million.

115. Mr. Speaker, the sixth largest share of P528 million or 9 percent of the proposed development budget is allocated to the Ministry of Education. The significant amount of P465 million or 88 percent of this Ministry's allocation is shared between two major projects, namely; Secondary Schools with P248 million and Colleges of Education with a budget of P217 million.

116. The Ministry of Lands and Housing is allocated P335 million or 6 percent of the total development budget. Four projects account for P270 million or 81 percent. These are District Housing with P100 million, Government Office Blocks with P67 million, Botswana Housing Corporation Finances with P66 million and Self Help Housing Agency Development with P37 million.

117. The remaining P894 million or 15 percent of the total development budget is shared among Ministries of Labour and Home Affairs with P197 million; Environment, Wildlife and Tourism with P172 million; Communications, Science and Technology with P154 million; Finance and Development Planning with P123 million; Agriculture with P105 million; Trade and Industry with P71 million; Foreign Affairs and International Cooperation with P25 million; as well as Administration of Justice with P35 million; Parliament with P10 million and Independent Electoral Commission with P2 million.

VIII. FISCAL LEGISLATION

118. Mr. Speaker, in the 2005 Budget Speech, I announced that Government would undertake a comprehensive review of the Income Tax Act (Cap. 52:01) and consolidate all its previous amendments with a view to simplifying it and improving tax compliance. I, therefore, propose several amendments to both the Income Tax and VAT Acts.

119. The current company tax, which is made up of 15 percent basic company tax rate, 10 percent additional tax and 15 percent withholding tax on dividends, which is offsetable against the additional tax, is unduly complicated. In this regard, I propose to simplify the tax system by adopting a single company tax rate and a withholding tax on dividends as a final charge.

120. Under the personal income tax, any income up to P25 000 is currently not subject to tax. This threshold, together, with personal income tax rates were last revised in 2001. To partially compensate for inflation, the threshold will be increased from P25 000 to P30 000. Further, the income tax brackets will be adjusted such that the maximum tax rate will become applicable above P120 000, instead of the current P100 000 per annum. The revenue loss resulting from this proposal would be about P100 million.

121. Mr. Speaker, interest received by non-residents is subjected to withholding tax, while that received by residents is not. In order to improve compliance with regard to the taxation of interest income in the hands of Botswana residents, any interest in excess of P1 000 per quarter, payable by banks and financial institutions on deposits, Bank of Botswana Certificates, bonds and securities, except in the case of entities that are exempt from payment of tax, will be subject to 10 percent withholding tax. This will not be a final tax as taxpayers will still be allowed to file their tax returns and claim credit for tax withheld, if any. However, interest received by IFSC companies, banks and financial institutions, which are supervised by the Bank of Botswana or other statutorily established agencies will continue to be exempted from withholding tax.

122. Mr. Speaker, in view of the recent developments in the domestic capital markets, there is a need to clarify the taxation of disposal gains of shares and debentures. To this end, disposal gains accruing to residents on the sale of shares of foreign companies will be liable to tax in Botswana, while disposal gains arising from the sale of public or private companies' shares by investment companies and others for the purpose of earning profits from such sale will be taxed as business income and not disposal gains. Disposal gains on bonds and debentures issued by Government, Bank of Botswana, parastatals and special purpose vehicles formed for the securitisation of public debt will be exempted from tax. Further, disposal gains arising on the sale of shares in an IFSC company will also be exempted from tax. To widen the area of operation of the IFSC companies, activities to be carried out by these companies will be extended to include; holding and administration of group companies; business processing outsourcing and call centres; and mutual funds. Also to encourage the volume of shares traded on the Botswana Stock Exchange, exemption from disposal gains under the Tenth Schedule of the Income Tax Act will be restricted to shares actually released and traded on the Stock Exchange. However, a listed company with 50 percent or more of its equity shares actually traded on the Stock Exchange will be allowed to claim exemption for its entire stock.

123. Mr. Speaker, it has become common practice for taxpayers in disposing their immovable property to transfer such property to a buyer through the transfer of shares. The law will be amended to stipulate that any sale of shares held by a taxpayer in a company, where immovable property is the dominant underlying asset, will be deemed to be a sale of the underlying immovable property and will be taxed accordingly. Further, the Tenth Schedule of the Income Tax Act, which exempts from tax, proceeds from disposal of principal private residence needs to be amended to foster the spirit of home ownership. To this end, capital gains on disposal of a residence will be exempt from tax to the extent that the proceeds from such sale are reinvested in a property used for residential purposes, within a period of twenty-four months. However, if the amount is not so reinvested, an exemption will be granted only once in the life time of the taxpayer.

124. Mr. Speaker, in 2004, when Government sold the Public Debt Service Fund loan book, a Special Purpose Vehicle (SPV) was created to execute the project. In order to encourage securitisation of public assets and privatisation, Special Purpose Vehicle companies or entities, which are formed for the securitisation of the public assets or properties held by the Government will be exempt from tax on income accruing to them during the period they hold the assets for the purpose of securitisation. Dividends paid to shareholders of such Special Purpose Vehicle companies or entities will also be exempt from withholding tax.

125. Currently, the BDC Group of companies, which includes wholly owned companies of the BDC and their subsidiaries, are allowed to set off their chargeable income against assessed losses of companies of the Group within a period of six years. This period is too long and will, therefore, be reduced to three years.

126. In addition, Mr. Speaker, self-assessment which is currently applicable to companies only, will be extended to non-corporate taxpayers on an optional basis.

127. Honourable Members will recall that when VAT was introduced in 2002, a decision was made to have a broad based tax regime with a low tax rate (at 10 percent) as against a narrow based tax regime with a high tax rate. The 10 percent tax rate compares favourably with tax rates prevailing in the region, which range from 14 percent to 17.5 percent. It is also important to note that the lower the number of goods and services exempted or zero-rated in the country, the lower will be the VAT tax rate. Therefore, for Botswana to exempt and zero-rate more goods and services, while at the same time maintaining the same level of revenues collected through VAT, the rate would have to be increased. Such an increase, however, would not be advisable at this point in time as it would adversely affect investment promotion efforts.

128. Mr. Speaker, Government has since revisited the list of goods and services exempted from VAT which, inter alia, includes financial services, residential accommodation, education services and public medical facilities. To this end, the list of exempt goods and services will be extended to include supply of passenger transportation, donations, grants and condoms. However, transportation of tourists, whether by bus, air, safari vehicles or boats will remain taxable.

129. Further, Mr. Speaker, sorghum and maize meal, except where they are served as a cooked meal, are currently zero-rated, while millet grain, millet meal, wheat grain, flour, sugar and maize cobs, which are also basic foodstuffs, are not zero-rated. The VAT Act will, therefore, be amended to zero-rate these additional items. However, the zero-rating will be limited to the food items when sold as they are, and not mixed with other products. In addition, some pesticides, fertilizers and farming tractors will be zero-rated. The revenue loss resulting from both zero-rating and exempting additional goods and services will be about P140 million.

130. Mr. Speaker, the VAT Act will be further amended to cater for specific rules regarding the Time of Supply in the case of the transfer of immovable properties; to extend the definition of “input tax” to include the tax fraction of the value of second hand goods acquired in respect of taxable supplies or imports and the transfer duty paid on the acquisition of immovable properties. In addition, new provisions will be included in the VAT Act to clarify the rules with respect of; goods acquired before the commencement of the VAT Act, deduction of the transfer duty as input tax; and to stipulate conditions for directors of companies to be liable for payment of outstanding taxes of their companies.

131. Mr. Speaker, Government is in the process of formulating a tax administration bill to consolidate common or similar provisions from the Income Tax Act, the Value Added Tax Act and the Botswana Unified Revenue Service Act, into one legislation to rationalise, strengthen and simplify the administrative provisions of these Acts. The Bill will also achieve a balance between the rights of BURS and those of taxpayers, to ensure service delivery and voluntary compliance, based on international best practice.

132. Mr. Speaker, I will be presenting bills proposing that these changes will be effective from 1st July 2006.

IX. PUBLIC SERVICE SALARIES

133. Mr. Speaker, as part of the Mid-Term Review of NDP 9 approved by Parliament in December 2005, it was agreed that adjustments of public sector salaries be effected annually at half the rate of inflation, subject to affordability, with additional increases being accomplished by productivity improvements. The available data indicates that the cost of living increased by 15.6 percent (7 percent in 2004 and 8.6 percent in 2005) since the adjustment of public service salaries in April 2004, following the DeVilliers Salaries Commission.

134. Mr. Speaker, the National Employment, Manpower and Incomes Council (NEMIC) met on the 28th January 2006. While the Council took note of issues of affordability, productivity and the past increases in the cost of living, it nevertheless felt that it was still useful to compensate more generously for the erosion of public salaries since the last adjustment in 2004. The Council accordingly recommended 10 percent adjustment, which is 2 percent higher than half of the cumulative inflation for the period.

135. However, Mr. Speaker, after consideration of NEMIC’s recommendation, and taking into account affordability and risks associated with revenue forecasts, Government has decided to award a public salaries increase of 8 percent across the board, estimated to cost P575.6 million. This cost estimate includes salary adjustments for the public service, local authorities, and the parastatals that depend on subventions from Government. The adjustment will be extended to old age and war veterans’ pensions, as well as to allowances for destitutes, village development

committee members and home-based care volunteers.

X. OVERALL BALANCE

136. Mr. Speaker, total revenues and grants for 2006/2007 are estimated at P24.14 billion and after including the cost of public sector salaries increment and allocation to the Tertiary Education Development Fund, total expenditure and net lending amounts to P23.22 billion. This expenditure budget is in keeping with the Fiscal Rule approved by Parliament as part of the Mid-Term Review of NDP 9. The net result is an anticipated budget surplus of P922.5 million.

137. It should be appreciated, Mr. Speaker, that the revenue estimates are subject to substantial risks from movement of exchange rates, diamond prices and other external and domestic shocks, which could reduce or eliminate the anticipated budget surplus.

XI. CONCLUSION

138. Mr. Speaker, allow me to take this opportunity to challenge all stakeholders to rededicate themselves to **“building an innovative economy for the 21st century”**. For the nation to continue to prosper, it is incumbent upon all stakeholders, including the private sector, non-governmental organizations, and labour, to participate fully in achieving the ambition set out in *Vision 2016* that Botswana will be a prosperous, productive and innovative nation.

139. An innovative economy flourishes in an environment where entrepreneurs search for more efficient ways of producing goods and services, and serving their customers, both domestic and international. Further, an innovative economy is the one that also welcomes foreign investors, including trans-national corporations, who bring finance and technology or know-how. Successful innovation requires the co-operation of business and labour to meet the challenges they face in adapting their business practices to the ever changing competitive environment.

140. Government, for its part, must play a supportive role. Several dimensions of this role appear in this budget. First, Government’s total expenditure must follow a path that is stabilising and sustainable. This was why the Fiscal Rule, limiting Government expenditure to 40 percent of GDP, was adopted as part of the Mid-Term Review of NDP 9, and why the expenditure budget presented here is in keeping with that rule.

141. Second, Government must be ready to deal with emergencies that may present themselves from time to time. This requires adequate financial resources that can be drawn upon without jeopardising future development.

142. Third, Government ensures that citizens are provided with opportunities to engage in the innovative economy through programmes such as CEDA, LEA,

procurement preferences, and specific assistance programmes for the youth. But, opportunity should not be construed as an absolute privilege for citizens to shirk financial responsibility or to supply goods and services that cannot compete, for such a strategy would be fundamentally unsustainable.

143. Fourth, Government must ensure that social safety nets are maintained so that those who find themselves unable to support themselves are not left behind, while those who are able to support themselves do so.

144. Fifth, to ensure that Botswana continues to be a prosperous, productive and innovative nation, Government must be ready to press on with reforms that benefit the nation as a whole, but whose immediate benefits may not necessarily be spread evenly across the population at large. The new exchange rate system introduced last May is a case in point. No nation has prospered with an overvalued currency, and many that have attempted to follow such a strategy have learned, to their sorrow, how extremely painful delayed adjustment can be.

145. Sixth, it is imperative that all state and state-related institutions meet the highest standards of accountability for their stewardship of public resources. The public service, local authorities, agencies funded in whole or in part from the public purse, and enterprises in which Government is a shareholder, must all recognise that any failure to exercise their responsibility to make the most efficient use of public funds is a violation of the trust that has been placed in their hands by the nation.

146. Mr. Speaker, the budget that I have presented today is quite substantial. The proposed development budget of P5.8 billion for 2006/2007 will challenge our implementation capacity, as it is an increase of 32 percent over the revised estimate for the current year and about P2 billion over the actual development expenditure recorded in 2004/2005. Within individual ministries, accounting officers must ensure that resources are allocated to meet the highest evolving priorities. In brief, I urge all stakeholders to ensure that this budget is put to productive use.

147. Mr. Speaker, let me express appreciation for the financial and technical assistance Botswana continues to receive from the donor community, especially those who are supporting us in dealing with the HIV/AIDS scourge.

148. Mr. Speaker, that concludes my Budget Speech for 2006/2007. I now move that the Appropriation (2006/2007) Bill, 2006 be read for the second time.

149. I thank you, Mr. Speaker.