



**REPUBLIC OF BOTSWANA**

**BUDGET SPEECH**

2005

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## I. INTRODUCTION

1. Mr. Speaker, I have the honour this afternoon to present to the National Assembly budget proposals for the financial year, 2005/2006. Since this is the first budget that I am presenting to the Ninth Parliament, I would like to take this opportunity to congratulate Honourable Members for their victory in last year's general elections. I look forward to your fruitful and effective contribution towards maintaining and improving the record of good economic and financial management that this country has achieved thus far. This is crucial if we are to deliver development and improve the social welfare of Batswana.

2. Heads of State and Government adopted the United Nations Millennium Declaration in 2000, outlining commitment to make significant and lasting strides to *eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empowerment; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria and other diseases; ensure environmental sustainability; and develop a global partnership for development by the year 2015*. These goals, referred to as the Millennium Development Goals or MDGs for short, now guide much of the interaction between developing and developed countries, as well as between developing countries and development assistance agencies. They can help galvanise communities and countries into action to achieve greater development results. It is also clear that the MDGs resonate well with the development ideals of Vision 2016. It is for this reason that the theme for this Budget Speech is ***“Meeting the Millennium Development Goals and Vision 2016 Through a Self-Reliant Approach to Development”***.

3. Mr. Speaker, translating these goals into action requires an operational framework at the national level. This theme prompts all stakeholders; Government, the private sector, non-governmental organisations (NGOs), labour, and others, to assess the impact of their strategies as they relate to achieving the MDGs and Vision 2016. In the medium term, Government has put in place a number of strategies, to achieve these objectives in the form of the ninth National Development Plan (NDP 9). The Mid-Term Review of NDP 9, which is scheduled to start in March this year, will provide an opportunity to review our strategies. It is important to note that the Millennium Development Goals Status Report for Botswana was launched in 2004. The Report presented a generally positive picture of Botswana's efforts towards achieving the MDGs, despite the challenges that we are still faced with, such as HIV/AIDS, poverty and environmental degradation.

4. In order to achieve the MDGs it will be essential to ensure both cost effectiveness in the implementation of the Plan and improved revenue collection. The budget pressures we are experiencing call for firm control over the use of our limited resources. We need, therefore, to re-examine and re-focus our spending to ensure that we get good value for money. For example, we must ensure that the specification of each project is the most cost-effective. Government cannot continue to entertain requests for additional funds for projects designs above budget, or changes in scope or specification of projects. Living within our means and getting better value for money when investing in infrastructure, such as schools, health facilities, roads and telecommunications network, are crucial if we are to achieve Vision 2016 and the Millennium Development Goals. The current budgetary constraints challenge Government to have the courage and foresight to reshape its spending to better achieve both the immediate and future priorities.

5. Mr. Speaker, Government has managed to balance provision of social services with good economic management as evidenced by the high sovereign credit ratings awarded by both

Moody's and Standard and Poor's rating agencies in the A grade for the third year in a row. Botswana's ratings, which are the highest in Africa, are indicative of the firm commitment of Government to prudent fiscal and monetary policy, as well as continuing political and macroeconomic stability.

6. Government has emphasised cost effectiveness and sustainability in the provision of services. These included, but are not limited to, cost saving, cost sharing and cost recovery. Honourable Members will recall that the implementation of cost recovery, which was conceived during NDP 8, started in 2003, with cost recovery proposals already approved by Government for almost all Ministries. In addition, a revenue collection plan, which will guide implementation of the cost recovery, has been put in place to enhance revenue collection during 2005/2006. The plan provides for investigation of revenue collection capabilities and putting in place measures to enhance revenue collection, initially in a group of five Ministries to be followed by another group of Ministries. These measures will augment previous efforts to raise revenue, such as the introduction of Value Added Tax and subsequently the establishment of the Botswana Unified Revenue Service. Government will also continue to review and enforce tax legislation in order to ensure fairness in the application of the provisions of the tax laws.

7. The current budgetary situation, Mr. Speaker, dictates that those Botswana who can afford to, must make a contribution for the provision of services, such as education and health, to ensure both sustainability and expansion of these services to the entire country. It is for this reason that Botswana are encouraged to revive the spirit of self-reliance. This is consistent with the four national principles of democracy, development, unity and self-reliance that have guided development in Botswana since Independence. In keeping with the spirit of self-reliance, public enterprises and the private sector must strive to reduce dependence on Government. We must re-affirm the values that shaped this country in the past 38 years. Here I am reminded of traditional values like hard work, paying one's bills, and a sense of responsibility. In addition, I wish to call upon individuals to aim at creating employment for themselves and others by taking advantage of Government schemes, such as the Citizen Entrepreneurial Development Agency (CEDA) and National Agricultural Master Plan for Arable Agriculture and Dairy Development (NAMPAADD).

8. Mr. Speaker, the major challenge that lies ahead for this new Parliament is to achieve the MDGs and Vision 2016 objectives, which will further improve the quality of the lives of Botswana.

## **II. INTERNATIONAL AND REGIONAL ECONOMIC REVIEW**

9. Mr. Speaker, allow me to briefly review the international and regional economic developments. These have serious implications for Botswana, being an open economy, in this era of globalisation. In the third quarter of 2004, the International Monetary Fund (IMF) projected that the world economy would achieve a stronger recovery during 2004, mainly led by the United States and Japan, as well as emerging market and developing countries, which includes African countries like South Africa and Botswana. There is, however, concern about high and fluctuating oil prices, which could undermine this recovery. The IMF indicated a strong global economic growth of 5.0 percent in real terms during 2004, an increase of 1.1 percentage points over the growth rate recorded in 2003. A global expansion of 4.3 percent is expected in 2005.

10. The emerging and developing countries were projected by the IMF in the third quarter of 2004 to grow at an improved rate of 6.6 percent in 2004. However, their economies were expected to slow down to a growth of less than 6 percent in 2005. Within this group, Africa was forecast to have grown at 4.5 percent in 2004 and was expected to improve to a higher growth of 5.4 percent in 2005. The Sub-Saharan Africa region was projected to have performed slightly better at 4.6 percent in 2004 and to improve further to a 5.8 percent growth in 2005. Yet most of these rates of growth, though strong, fall far short of the MDG target of 7 percent growth rate required to reduce poverty by half by the year 2015.

11. The majority of SADC countries have continued with their trend of positive real economic growth, but at different rates. The region's economy grew in real terms by 3.2 percent in 2003, the same growth rate for the previous year. Individual countries achieved real growth rates ranging from negative 11.0 percent to positive 17 percent. Most growth rates are below the 7 percent target needed to significantly reduce poverty by 2015. Currently, it is estimated that 40 percent of the combined SADC population live in poverty.

12. Mr. Speaker, restructuring of the Southern African Development Community (SADC) is almost complete and the Regional Indicative Strategic Development Plan (RISDP) was launched in March 2004 in Arusha, Tanzania. Based on the SADC Vision, Mission and Common Agenda and Principles, the RISDP is a 15 year regional integration development framework, setting the priorities, policies and strategies for achieving the long-term goals of the Southern African Development Community. Targets have been set in the RISDP within the framework of the Millennium Development Goals. We hope that the implementation of the RISDP will enable the SADC region to achieve the MDGs. Meanwhile, SADC continued to show willingness to cooperate in a number of areas during 2004. In this regard, Botswana signed the Protocol on Forestry in 2004, while the Protocol on Politics, Defence and Security Cooperation came into force in March 2004, after ratification by the required majority of Member States. Work on the Finance and Investment Protocol is at an advanced stage, with the Protocol expected to be signed during 2005.

13. Mr Speaker, the new Southern African Customs Union (SACU) Agreement, which was signed in October 2002, came into force on the 15<sup>th</sup> July 2004, following ratification by all Members. The Agreement provides for the establishment of a number of institutions, including the Council of Ministers, Secretariat, the Tariff Board, the National Bodies and Tribunal. While the SACU/USA free trade area negotiations, which were launched in June 2003, are still on-going, Botswana continues to benefit under the USA Africa Growth Opportunity Act (AGOA) provisions for textiles and apparel. Exports under AGOA increased six-fold from about P37.6 million in 2003 to about P225.5 million in 2004, mainly due to expansions of existing local businesses and the extension of the least developed country beneficiary status to Botswana. In July 2004, the USA Government agreed to extend AGOA to 2015. Meanwhile, Botswana, which is classified as a middle income country, has been given a special dispensation to enjoy the benefits of least developed countries up to 2007. Under this arrangement, Botswana is permitted to source raw materials for products exported under AGOA from any country.

### **III. DOMESTIC ECONOMIC REVIEW**

14. Mr. Speaker, I now present a summary of major economic developments during the past year. As Honourable Members are aware, a detailed discussion of the economic developments is contained in the 2005 Annual Economic Report, which has been produced as a supplement to this Speech.

## **Economic Growth**

15. Mr. Speaker, the Botswana economy continued to record strong positive growth during 2003/2004, although at a slower pace than during the previous year. Gross Domestic Product (GDP) at current market prices increased to P39.9 billion in 2003/2004. In real terms, this represented a growth rate of 5.7 percent, a slower performance compared to the 2002/2003 growth rate of 7.8 percent. The slower growth rate in 2003/2004 was largely due to lower output growth in the mining sector, at 6.9 percent compared to 10.3 percent in the previous year. The non-mining sectors also recorded lower real growth of 5.1 percent in 2003/2004, compared to 6.4 percent in the previous period. The overall growth rate of 5.7 percent in 2003/2004 is slightly higher than the projected annual average real growth rate of 5.5 percent for the NDP 9 period, but, however, still short of the 7 percent required to achieve the MDGs and the Vision 2016 target growth rate of 8 percent.

16. Real GDP growth is expected to slow down to between 4 and 5 percent in both 2004/2005 and 2005/2006, due mainly to slower growth in mining and non-mining sectors. This outlook poses significant challenges for the domestic economy's development prospects. Unless there is a concerted effort to improve productivity levels, it would be difficult to meet the Millennium Development Goals and the ideals of Vision 2016. For its part, Government continues to pioneer improvement in productivity through, for example the implementation of Performance Management System (PMS), computerisation and public sector reforms. It is hoped that these efforts would encourage other participants in the economy to become more efficient and effective. To further ensure sustained growth, there is need to revive the spirit of self-reliance among Batswana to take advantage of opportunities as they present themselves.

## **Employment**

17. Mr. Speaker, according to the 2002/2003 Household, Income and Expenditure Survey (HIES), total employment, including both formal and informal sectors, was estimated to be at 462 367 people or 76 percent of the total labour force of 606 827 people. As a result of the mismatch between the increase in total labour force and the additional employment, the rate of unemployment is 23.8 percent. Turning to formal sector employment, according to the Employment Survey of 2004, employment increased by 11 005 jobs between September 2003 and September 2004, which is double the additional formal sector jobs added the previous year.

18. These statistics, Mr. Speaker, present a challenge to all of us; Government, private sector, communities and individuals. We need to create more job opportunities, if we are to achieve the MDGs and Vision 2016 objectives. It is incumbent upon each one of us to create sustainable employment. Various projects by organisations, such as the Botswana Development Corporation, International Financial Services Centre, Botswana Export Development and Investment Authority, Citizen Entrepreneurial Development Agency and Botswana Tourism Board will go a long way in creating additional job opportunities, as well as diversifying the economy. Private sector companies should strive to graduate from Government support and be more innovative and create sustainable employment. As His Excellency the President stated in his State of the Nation Address, *"Our economy can only grow and diversify on a sustained basis if we move away from an over reliance on the state in favour of a greater degree of self-reliance by our private sector"*. Individuals are also challenged to be innovative and find ways of improving their lives at the same time contributing towards the development of the economy as opposed to expecting handouts from Government. The employment situation also requires

citizens to re-examine job selectiveness. Because of picking and choosing of certain jobs by some Batswana, employment in some sectors, such as agriculture and extra heavy duty driving have been opened to non-citizens. In addition, other sectors like household services are struggling to find and retain citizen workers.

### **Exchange Rate, Balance of Payments and Monetary Issues**

19. Mr. Speaker, the pass through of the effect of the introduction of VAT on the consumer price index, as well as the catch up of a number of administered prices to reflect costs, had pushed up inflation from an average of about 6 percent before the introduction of VAT to an average of 9.2 percent in 2003. The average inflation for 2004 was 7 percent.

20. From February when the Pula was devalued by 7.5 percent, to December 2004, the Pula has appreciated by 12.8 percent against the US dollar, while depreciating by 4 percent against the Rand. Due to the higher inflation in Botswana relative to her trading partners, the competitive position of Botswana's exports and domestic producers competing with imports may have been eroded. Efforts must, therefore, be made during the year to reduce inflation, in order to improve competitiveness in global markets. It is also important that we improve productivity, especially in those parastatals and regulated sectors whose costs affect the rest of the economy.

21. Mr. Speaker, preliminary estimates of the balance of payments for 2004 indicate an overall surplus of P727 million. The current account balance indicates a surplus of P3.9 billion, representing an increase of P1.6 billion from the revised 2003 surplus of P2.5 billion. The larger surplus in 2004 was mainly a result of an increase in diamond exports (attributable to world economic recovery and a rise in the diamond prices), as well as increases in copper and nickel exports, as world prices of these metals continued to rise. The financial account registered net outflows of P3.16 billion, continuing the net outflows on the financial account of recent years. The bulk of these net outflows were in the portfolio investment category associated with the funding of the Public Officers Pension Fund.

22. At the end of December 2004, foreign exchange reserves were P24.26 billion, an increase of P0.55 billion from the December 2003 level. This is equivalent to US\$5.68 billion or SDR3.71 billion. At this level, the reserves could cover about 22 months of imports of goods. Since imports were growing faster than the reserves, the import cover was down from the 26 months I reported a year ago.

### **Public Enterprises**

23. Mr. Speaker, Government has invested a considerable portion of national savings in various public enterprises. If this country is to continue to fund new developments, we must begin to get some return on these investments. It is for this reason that Government, as a shareholder, requires that parastatals achieve a reasonable return on the capital employed. It is also important to ensure that the returns are not achieved by simply increasing tariffs, directly making consumers pay for their operational problems. Therefore, parastatals have to achieve productivity improvements. It is for this reason that in the past, Government has restructured some of these parastatals. This exercise will continue as it has yielded positive results. In addition, the issue of productivity improvement in parastatals will be addressed in the context of the implementation of the Privatisation Policy and the revised Incomes Policy.

24. The financial performance of the majority of public enterprises was relatively satisfactory for the year 2003/2004. Some public enterprises that recorded losses during 2002/2003 have now recorded net profits and positive return on capital employed. These include, the Botswana Telecommunications Corporation, the Botswana Agricultural Marketing Board, the Botswana Post and Banyana (Pty) Ltd.

25. Honourable Members are aware that most of the parastatals do not pay tax on profits. In light of this, and as a result of the good performance of most of the public enterprises, a total of P229 million was paid as dividends to Government in 2003/2004 by some parastatals. Government has also decided that all parastatals that are not liable to tax should pay dividends amounting to 25 percent of their profits to Government commencing in 2004/2005. This is estimated to yield P121 million per annum at current rates of profitability.

26. Despite the good performance of most parastatals, there has been no noticeable improvement in the performance of the Botswana Meat Commission, as it continued to make losses in 2003/2004. To assist the Commission in the short term, Government has extended P63 million guarantee to the Commission for one year until June 2005, and offered it tax remission for the 2004/2005 tax year amounting to P16.7 million. In return, BMC is expected to sell some of its non-core business and assets, including houses and land in order to raise cash. In addition, in order to find a permanent solution to its financial woes, the BMC will commission a consultancy to undertake its financial restructuring in 2005.

27. Mr. Speaker, last year I mentioned that CEDA was experiencing difficulties regarding the mentoring programme. I am pleased to inform Honourable Members that the training and mentoring programme has been revamped and efforts will continue to be made to ensure further improvements. The new approach is to identify skills gaps at the pre-appraisal stage of projects. The objective is to help potential investors to refine their ideas and assist them on business plan preparation and other matters critical to the setting up of their businesses. To date, a total of about 600 potential investors have been trained. The training is on entrepreneurial development, basic accounting and sector specific issues. Plans are underway to extend the CEDA mentoring services to the projects approved under the Credit Guarantee Scheme managed by the Botswana Export Credit Insurance during the next financial year.

28. At the end of January 2005, CEDA had approved 1 211 applications valued at P698 million. This portfolio comprised 294 small scale projects or 24 percent and 917 medium scale projects or 76 percent of total approved projects. These projects have created 7 305 jobs, which is 71 percent of the projected employment of 10 289. CEDA is currently developing strategies to increase the level of access for small scale borrowers in collaboration with the Local Enterprise Authority (LEA), that is responsible for economy wide business training and business plan development for entrepreneurs.

29. One of the citizen empowerment schemes, Mr. Speaker, which Government introduced in 2002, is the Citizen Entrepreneur Mortgage Assistance Equity Fund (CEMAEF). The Fund was established to provide temporary financial assistance on commercial terms to citizen investors in the property market, who were faced with the problem of loan foreclosures from lending institutions. The Fund operates as an equity investment fund, covering investments with a potential to turn-around and be profitable. CEMAEF was financed from the P52 million balance of the Citizen Construction Industry Fund. To date, the Fund has assisted 28 projects amounting to P51.6 million. Given the substantial amount that the Fund has invested in the commercial and residential property market, it is expected that the assets that the Fund has acquired should

generate income to finance both its administration and some projects. Consequently, there will be no further capital injection from Government into the Fund.

30. The Botswana Development Corporation (BDC) continued its good performance in the past year with a profit before tax of P65.5 million. In terms of projects, the Corporation promoted a number of new projects, including those of plastic recycling, concrete crushing and electrical cable manufacturing at a total cost of P14.5 million. Furthermore, a new hotel, at a cost of P27 million has been developed at the Grand Palm Hotel in partnership with Peermont Global Botswana (Pty) Ltd. The Corporation is also involved in a P40 million project on infrastructure development at Fairgrounds in Gaborone. In addition, an equity investment of P12 million was approved for a company specialising in the production of pasta, spaghetti and biscuits. A number of projects in the BDC pipeline include; food can manufacturing, power tools making, cement manufacturing and ceramic tableware. These projects are estimated to cost about P195 million.

31. The BDC will also undertake a leather tanning project in Lobatse, during the next financial year. A technical partner has already been identified and preparatory work is at final stage. The project will involve buying of wet blue leather from the Botswana Meat Commission (BMC), as well as leather from the local market and processing it to finished stage. In the second phase of the project, the Corporation plans to buy the BMC tannery and expand it. This project is expected to promote the utilisation of leather from the local market and formalise leather collection and trading.

32. The BDC is also refurbishing the building previously owned by the Motor Company of Botswana for some private sector companies, such as Global Holdings (a distribution company) and Trident Holdings (a warehouse and distribution company). In addition, the offices in the complex are already occupied by Zambezi Motors and Barclays Bank of Botswana.

33. These investments, Mr. Speaker, confirm the BDC's commitment to contributing to the expansion of the manufacturing, services and tourism industries, all of which are considered key sectors for economic diversification.

#### **IV. SECTORAL AND POLICY REVIEWS**

34. Mr. Speaker, I now turn to the sectoral and policy review highlights. Details on specific sectors will be presented by the respective Ministers during their presentation of the various Committee of Supply statements.

##### **Incomes Policy**

35. During 2004, Government undertook a study to review the *Revised National Policy on Incomes, Employment, Prices and Profits of 1990*, with a view to fine tuning the Policy in the light of latest developments in the economy. The report of the study is under consideration by Government and the proposed Policy is expected to be presented to Parliament during the next financial year. The report proposes strategies that provide for strengthening of the institutional framework needed for effective implementation of the Policy. It also proposes guidelines for Government in its dealings with both the private sector and public enterprises. With respect to the public enterprises, Government will become more focused on the performance of the

parastatals. Government itself will focus on how its own performance contributes to creating a more conducive environment for private sector investment and development.

### **Financial Services**

36. Mr. Speaker, the issuing of bonds by Government and local organisations, the securitisation of the Public Debt Service Fund (PDSF) loan book, and the listing of all these bonds on the Botswana Stock Exchange (BSE) have helped to further develop the local capital market. Organisations that have listed bonds on the Exchange are the Botswana Development Corporation, the Botswana Building Society, Barclays Bank and Stanbic Bank. The value of the bonds listed by these organisations range from P50 million to P125 million. Regulations to facilitate the listing of Government bonds on the Botswana Stock Exchange have been gazetted and the listing of the bonds took place in January 2005. As at January 2005, 24 bonds had been issued with a total value of P4.6 billion, of which P2.5 billion are Government bonds and another P1 billion is the result of the sale of the PDSF loan book. These developments are significant in establishing an effective capital market, which contributes to sustainable and diversified development.

37. With the issuing of three Government bonds in 2003, a representative sovereign yield curve was established to serve as a reference point for private and parastatal issuers. One of those bonds, originally issued for two years, will mature on the 1<sup>st</sup> of June this year. Government does not plan to replace that bond when it matures as we have accomplished what we set out to do. Moreover, Government encourages the private sector and parastatals to borrow from the domestic capital market. Government is also in the process of amending the Stocks, Bonds and Treasury Bills Act of 1977, which will among others, propose a different way to set the limit on Government borrowing, in line with national capacity to sustain debt.

38. In order to ensure continued stability of the financial system, regulation and supervision of banks remain critical functions of Bank of Botswana. It is, however, recognised that a well designed supervision and regulatory framework for banks is only a part of wider arrangements necessary for ensuring financial stability. As the Bank of Botswana only regulates the banking sector, it is necessary to examine the regulation of the non-banking financial sector. In this connection, Government has commissioned a study to review the non-banking regulatory framework and to examine the feasibility of establishing a non-banking financial regulatory authority to help strengthen the country's regulatory and supervisory capacity over the entire financial system.

39. Mr. Speaker, the substantial growth that has taken place in the financial sector has rendered some pieces of legislation restrictive and/or ineffective. This has led to a review of a number of pieces of legislation, including the Building Societies Act of 1961, whose bill is scheduled for presentation to Parliament during 2005/2006. The Botswana Stock Exchange Act of 1994 will also be reviewed during 2005/2006, with a view to enabling the BSE to grow and keep abreast with new developments in the financial sector, as well as creating an enabling environment for capital market growth and development.

40. Creating sustainable employment opportunities in Botswana through attraction of international financial services companies is one of the key objectives of the International Financial Services Centre (IFSC). This is in line with the Vision 2016 goal of *building a prosperous, productive and innovative nation*. After a slow start, some progress has been made

in increasing the number and range of companies accredited to the IFSC during the past year. To date, a total of 23 companies are now accredited and these are based across a range of sectors, including cross border banking, investment funds, financial advisory services, ICT services and group shared services, as well as administration. These companies have employed 244 qualified Batswana professionals in areas, such as accountancy, banking, funds administration, IT, financial analysis, human resources and administration. Currently, the IFSC management is processing applications from 15 companies that have applied to be accredited under the IFSC. The processing of the applications is scheduled to be completed in March 2005.

### **Rural Development and Poverty Alleviation**

41. Mr. Speaker, Government's commitment to the up-liftment of rural living conditions continues. On average, no less than 65 percent of the annual development budget directly benefits the rural areas. It must be acknowledged, however, that timely implementation of projects, and the creation of rural livelihood opportunities still remain major challenges. To this end, last year the Rural Development Council strengthened sectoral reporting on the implementation of the Revised National Policy for Rural Development, to at least once every quarter. This initiative will be maintained to help ensure more timely completion of projects and delivery of services in rural areas. Furthermore, my Ministry in collaboration with the Ministry of Local Government is in the process of developing a comprehensive strategy and programme to revitalise all rural development coordinating institutions, such as District Development Committees, District and Village Extension Teams.

42. Honourable Members, regarding poverty alleviation, progress continues to be made in the area of service provision and human capabilities development. According to the Household Incomes and Expenditure Survey of 2002/2003, the proportion of people living below the Poverty Datum Line, fell from 47 percent in 1993/1994 to 30 percent in 2002/2003. Government will intensify its efforts through the implementation of the National Strategy for Poverty Reduction of 2003. In this regard, my Ministry has established a position of Poverty Reduction Advisor and recruitment is ongoing, with the assistance of the UNDP, to fill the post during the first half of 2005. The Advisor will assist Ministries in sharpening anti-poverty components of their development programmes aimed at eradicating poverty.

43. Government introduced the Short Term Plan of Action for Orphans, in an effort to mitigate the impact of HIV/AIDS among children. Under this programme, Government provides a food basket, clothing, school uniforms and other necessities to orphans. The trends in the number of children registered and supported since 1999 show that the number of orphans supported under the orphan care programme has more than doubled, from 21 109 in 1999 to 47 725 in 2004. The programme is also supporting 4 713 vulnerable children, many of whom were identified through the Home Based Care Programme.

44. Mr. Speaker, a considerable amount of money is spent on social safety net schemes. For example, funds spent on food supplies for the school feeding programme and under five children in 2003/2004 stood at P138 million. This figure has grown to an estimate of P298 million in the 2005/2006 budget. The impact of such schemes could be improved through effective targeting and their efficient operation. These schemes include destitute allowances; and feeding packages for destitutes, orphans, under fives and primary school pupils. In this regard, Government will review all social safety net schemes during 2005 with a view to ensuring their cost effectiveness and efficiency through, among other measures, appropriate targeting of the beneficiaries.

## Health and HIV/AIDS

45. Mr. Speaker, Botswana was on track to reduce infant and under five mortality rate until the impact of HIV/AIDS in the mid 1990s. Between 1991 and 1996, the number of children who died in their first five years declined from 63 per 1 000 live births to 45 in 1996. During the same period, the number of babies who died before their first birthday also decreased from 48 per 1 000 live births in 1991 to 37 in 1996. Since the mid 1990s child mortality rates have started to increase as a result of the impact of HIV/AIDS scourge. It is now estimated that about 56 infants out of 1 000 born in Botswana die before they reach their first birthday. Infant deaths closely follow HIV/AIDS prevalence. On the other hand, other health indicators such as child malnutrition and immunisation coverage have been improving.

46. Botswana launched the Millennium Development Goals Status Report in September 2004, which indicates that much remains to be done in order to improve health conditions in the country, including the fight against HIV/AIDS, in line with the *MDG of combating HIV/AIDS, Malaria, and other disease*. In keeping with Government's long-standing commitment to provide comprehensive and accessible quality health care service to the nation, one of the targets is to reduce the number of infants born to HIV infected mothers who are HIV positive by half by 2006 and to zero by 2009. The Millennium Development Goals Status Report has indicated that there is a strong supportive environment in Botswana for achieving this goal by 2015.

47. The Central Statistics Office (CSO) recently completed the Botswana AIDS Impact Survey II, which is based on a representative sample of the whole population, and consequently provides a comprehensive picture. The overall incidence of the disease among those 18 months of age and older is 17.3 percent, while the incidence for the population aged 15 to 49 years is 25.3 percent. While considerably less than some of the numbers previously quoted from partial studies, this information should not be cause for complacency. Far too many people are suffering now, so we must redouble our efforts to extend the anti-retroviral programme. We must also strive for behavioural change to minimise the spread of new cases.

48. In an effort to further improve health services, Government is undertaking a number of infrastructural developments throughout the country, including construction of Institutes of Health Sciences facilities and upgrading of district and primary hospitals. These projects include, among others, the Maun, Scottish Livingstone, Sekgoma Memorial, Mahalapye and Lobatse Mental hospitals and the Institutes of Health Sciences in Molepolole and Serowe. Human resource development activities continue to be intensified in response to the challenges posed by HIV/AIDS and other diseases. To mitigate the problem of staff shortages in health facilities, Government, with the assistance of its development partners, is funding around 2 320 project posts. The increasing number of expatriates in the highly specialised health professions is a clear reflection of the shortage of locals in the health sector. More than 90 percent of doctors, 61 percent of pharmacists, and 64 percent of radiography cadre in our health facilities, are expatriates. Efforts to expand the local training capacity and increasing the number of health students abroad are being intensified to address this problem.

49. The first medical aid scheme in Botswana was introduced in 1970, and since then there has been an increase in the number of medical aid schemes to five with coverage increasing from 30 000 members in 1970 to nearly 170 000 members in 2004. Funds managed by the schemes grew from P20 million to P190 million during the same period. This growth has necessitated an appropriate legislation whose main purpose is to regulate activities of such schemes. In this

regard, Government is in the process of drafting a medical aid scheme bill before the end of next financial year.

### **Trade and Investment Promotion**

50. Mr Speaker, in line with the *Millennium Development Goal of Global Partnership*, it is crucial to support both expanded international trade and Foreign Direct Investment (FDI). To this end, Government will continue efforts aimed at improving the business climate in the country and participating in major regional groupings. These efforts will include the adoption of a Foreign Direct Investment Strategy, a Competition Policy and refining the draft Foreign Direct Investment Law. In addition, various pieces of legislation are at different stages of being reviewed and modernised. These include the Industrial Development Act, the Copyright and Neighbouring Rights Act, as well as the implementation of regulations of the new Companies Act. The finalisation of the Micro-lending Regulations is expected before the end of the current financial year.

51. On trade issues, negotiations for an Economic Partnership Agreement (EPA) between SADC and the European Union were launched during 2004. The EPA would replace the Cotonou Agreement, which is to expire in 2008, with reciprocal liberalisation of trade and trade related matters, in line with the World Trade Organisation rules. The negotiations are scheduled for completion by December 2007. The mid-term review of the SADC Trade Protocol is also ongoing and is due to be completed in June 2005. There is, however, concern that SADC Member States are not making sufficient progress with respect to elimination of non-tariff barriers to trade. We will continue to encourage Member States to expedite this process in order to enhance regional integration and trade.

52. Mr. Speaker, since its inception, the Botswana Export Development and Investment Authority (BEDIA) has attracted 20 companies with a total employment of 4 400 in various sectors of the economy. During the 2004/2005 financial year, 6 companies with a total investment of P52 million started operations. These companies are involved in garment manufacturing, milling, wire manufacturing and production of packaging material and in all they employ 810 people. As a result of the promotional activities undertaken by BEDIA, there are 5 companies which are expected to start operations in 2005/2006, with a projected employment level of 1 100. The Authority targets to promote investment to the tune of P15 million next year, with an employment level of 1 500 jobs. BEDIA is also in the process of developing a national export strategy, with a view to assisting investors to improve the value of their exports through technical training on quality management, trade and export promotion.

53. In its investment promotion efforts, BEDIA pays particular attention to potential investors with a special emphasis on resource-based industries that add value to locally available raw materials. This initiative is underpinned by research to ascertain the commercial viability of the various resources. In this regard, research on the textile and garment industries have been completed. Research on other resource-based industries, such as glass and jewellery will be concluded during 2005/2006. BEDIA will also continue to assist local manufacturers to access export markets through facilitation of participation in international trade fairs and promotional missions in target markets. The publication of the Botswana Manufacturers Directory for 2005 is also expected to complement export promotion efforts. Another initiative is the publication of information, which will provide answers to questions on trade agreements and tariffs. Meanwhile, construction of factory shells in Mogoditshane by BEDIA, which is due to start in

March 2005, will be completed in December 2005. The project will cost about P14.7 million and make available 7 000 square metres of floor space.

54. Progress has been made in establishing the Local Enterprise Authority (LEA), with its Board and Council now operational since August, 2004. The recruitment of the Chief Executive Officer of the Authority is ongoing and the appointment is targeted for June, 2005. When fully operational LEA will take over the functions of the Integrated Field Services, Small Business Promotion Agency and Enterprise Botswana. The Authority will be responsible for training, monitoring and mentoring of small businesses.

### **Environment, Wildlife and Tourism**

55. Mr. Speaker, Government has adopted various management measures to reduce human-wildlife conflict. These measures include construction of physical barriers to separate wildlife from agricultural lands. In addition, the Predator Management Strategy and the Elephant Management Plan have been finalised to address problems posed by predators and elephants. This is in line with the MDG goal of *ensuring environmental sustainability*, which is aimed at reducing conflict involving population growth, land usage and environmental degradation.

56. The Okavango Delta Management Plan has been developed and will guide future land use and other socio-economic activities in the Delta. In another development, the Botswana Tourism Board, whose mandate is to facilitate the promotion and marketing of the tourism industry, was launched on 7<sup>th</sup> October 2004. In addition, the Environmental Impact Assessment (EIA) Act and the Forest Act will be reviewed in 2005, with a view to aligning them to prevailing international standards.

57. There is need for diversification and identification of market niches beyond the traditional wildlife based tourism. As part of Government's efforts to promote the tourism industry, a standards checklist that will be used in the assessment of accommodation facilities has been developed. A pilot inspection survey was undertaken in Gaborone and surrounding areas in December 2004 and the assessment is now being rolled out to the rest of the country. As a result of some of these efforts, the number of citizen investors in the tourism industry has increased from 331 in 2000 to 542 in 2004. The Ghanzi District, in particular, has experienced a transformation from a predominantly commercial agriculture community, with one tourism facility to a tourist attraction area with twelve licensed facilities, eleven of which are citizen-owned. There has also been an increase in the number of community based tourism projects. Technical support was provided to tourism community based projects at Lepokole Hills, Moremi Gorge, Motlhabaneng, Lentswe-le-Moriti, Mathathane, Kokotsha and Inalegolo, which benefit communities through employment and income generation. Government has also joined with the National Geographic to sponsor the international showing of a film that was shot in Botswana. The film is entitled "Roar: Lions of the Kalahari" and it features aspects of Botswana's tourism wildlife resource.

58. During 2005, work will continue with respect to tourism initiatives which include: the identification of potential economic opportunities along the Trans-Kgalagadi Highway, coast-to-coast tourism route that extends from Maputo to Walvis Bay; the Shashe-Limpopo Trans-Frontier Conservation Area (that involves Botswana, South Africa and Zimbabwe) and the Okavango-Zambezi initiative (involving Angola, Botswana, Namibia, Zambia and Zimbabwe). Plans for the next financial year in the tourism sector also include the review of the Tourism Policy of 1990 and the sensitisation of the public about the tourism industry and its benefits,

through mobile education, and the use of both print and electronic media. Tourism offices will also be located in communities with the greatest tourism development potential, such as Maun, Kasane, Francistown, Selibe-Phikwe, Tsabong and Ghanzi.

### **Agriculture**

59. Mr. Speaker, the frequent unfavourable agro-climatic conditions continue to affect the performance of the agricultural sector adversely, particularly rainfed agriculture. Consequently, the contribution of the agricultural sector to GDP in real terms remained low at 2.4 percent for 2002/2003 and 2.3 percent for 2003/2004. Although the drought assessment for the current season is still ongoing, the general outlook is so far mixed, with some parts of the country likely to experience rainfall deficiency. Government will, however, be in a better position to pronounce on the situation after consideration of the drought assessment report sometime in March 2005.

60. The agricultural sector has an important role to play in *building a prosperous, productive and innovative nation, as well as in eradicating poverty and hunger*. Through the implementation of the National Master Plan for Arable Agriculture and Dairy Development (NAMPAADD), productivity in the agricultural sector is expected to increase significantly. The programme targets both traditional and commercial farming sub-sectors by encouraging them to upgrade their technologies and management levels. Like other sectors of the economy, agriculture requires appropriate infrastructure for purposes of making the farms and markets easily accessible. In this regard, a study on the development of agricultural infrastructure is ongoing, and Government is developing a model lease agreement that will facilitate leasing of larger fields so as to reap economies of scale in farming, thus reducing the cost of agricultural production.

61. As part of implementation of NAMPAADD, a demonstration farm at Ramatlabama was identified for ploughing during the 2003/2004 planting season for training farmers and extension workers. In addition, forty-seven farmers were identified to demonstrate adoption of new and improved technologies on farms in Gaborone, Francistown, Pandamatenga and the Southern District. Irrigation projects at Dikabeya and Glen Valley are being developed, with nine pilot farmers already identified for this purpose. The selection of more pilot farmers in other districts will continue during the next financial year. Meanwhile, construction of infrastructure at the Sunnyside dairy farm is due for completion during this financial year to cater for dairy development.

62. Efforts to diversify the livestock sector are bearing fruit. In August 2004, the European Union approved the Ostrich Abattoir for export of fresh and chilled ostrich meat to the European Community. The ostrich industry continues to grow with 46 registered farmers producing close to 5 000 birds annually for slaughter. Another initiative, Mr. Speaker, expected to benefit the rural economy, as well as assist our endeavours to diversify the economy is the on-going Comprehensive Study and the Viability of the Long-Term Development Strategy for the Livestock Sector. The study, which is undertaken jointly with the World Bank, is scheduled for conclusion at the end of June 2005.

## **Minerals**

63. Mr. Speaker, mineral production was satisfactory in 2004, with all the mines achieving target production, except BCL, which had to shut down operations for two and a half months to rebuild the smelter.

64. As participants in the Kimberley Process Certification Scheme, whose objective is to rid the international diamond trade of conflict diamonds, Botswana was reviewed by the Kimberley Process team in June 2004. The team named Botswana as an overall role model on how to implement the diamond certification scheme. Botswana was also elected to the position of Vice Chair of the Kimberley Process for the year 2005 and would automatically progress to the position of Chair beginning 2006. This election reflects the confidence that other member countries place on Botswana's credibility and its ability to effectively oversee the worldwide compliance with the Kimberley Process Certification Scheme.

65. The diamond market continued to strengthen during 2004, with prices in US dollars terms raised three times for a cumulative increase of about 14 percent relative to 2003 prices. Copper and nickel prices also improved significantly. Average nickel prices, also in US dollar terms, increased by over 40 percent, while copper prices went up by 60 percent between 2003 and 2004. In view of the importance of minerals in building a prosperous, productive and innovative nation, initiatives for promoting mineral investments will continue. In this regard, Government is undertaking a study aimed at drawing up a mineral investment strategy, to be concluded in early 2005. The main objective of the strategy will be to encourage diversification and investment in mineral development into non-diamond minerals. Diversification within the mining sector will also include diamond cutting and polishing. Following the licensing of Mupane Gold Mine, near Francistown, in September 2003, gold production has also started during 2004. The mine will produce approximately 100 000 ounces or 3 100 kilograms of gold per annum.

66. Mr. Speaker, negotiations between Government and De Beers on the renewal of the Jwaneng mining lease have been completed and the Heads of Agreement were signed on 20<sup>th</sup> December 2004. The detailed agreement is expected to be signed within six months from January 2005, although the agreed financial terms became operational with effect from August 2004. Major elements include the harmonisation of mining leases in all Debswana diamond mines and the establishment of a Botswana joint venture company, which will be the sorting and marketing arm for Debswana's diamonds. This augurs well for the development of the diamond manufacturing industry in Botswana, which is expected to improve with these developments. The diamond manufacturing industry, which currently comprises four diamond factories; two in Gaborone, one in Molepolole, and another one in Serowe, has expanded with a planned employment capacity of 2 350 workers in 2004, an increase from 1 230 in 2003.

## **Energy**

67. Mr. Speaker, since the development of the Botswana Energy Master Plan in 1985 and its subsequent review in 1996, a lot has evolved within the energy sector resulting in new domestic and global challenges for the sector. The energy sector is now facing challenges that require policies and strategies that can facilitate effective and efficient management of the sector. In view of this a draft National Energy Policy is being developed in order to address these challenges and provide direction for future developments in the sector. The Policy will be in place during the 2005/2006 financial year.

68. Botswana has limited energy resources and therefore relies on imports, especially petroleum products and electricity. To address this problem, the Botswana Power Corporation undertook a generation expansion study for Morupule Power Station and based on the outcome of the study, Government will decide how best to meet the local electricity demand. In addition, the possibility of establishing an export power station to take advantage of the expected power shortage in the SADC region will be explored. In this regard, there is need to embark upon new power generation within the short and medium term and ensure that such projects are completed before 2007, otherwise the region shall run out of capacity for surplus electricity generation. Government has already taken initiative to consult with regional Governments on the possibility of expanding and exporting electricity to other countries in the region. Meanwhile, a study on the method of extraction of coal bed methane at Lephephe in the Kweneng District was undertaken in 2004 and plans are underway to assess the viability of the project.

### **Water**

69. Mr. Speaker, although Botswana faces challenges of water scarcity, the proportion of the population with sustainable access to safe drinking water is currently 98 percent. We have, therefore, substantially exceeded the MDG target of reducing to 50 percent the proportion of people without sustainable access to safe drinking water by 2015. Recognising the importance of providing clean and accessible fresh water to the entire population, Government will continue efforts to increase access to sustainable water to 100 percent. In this regard, Government is undertaking a review of the National Water Master Plan, which commenced in September 2004 with completion expected in 18 months from inception. Other efforts include groundwater assessment and development in Boteti area, Kang-Phuduhudu, Matsheng villages, Maun water supply and sanitation design, sanitation projects in Mahalapye, Palapye, Serowe, Tonota, and Ghanzi Township.

70. Government is equally committed to promoting conservation and protection of natural water resources to safeguard the health of the public. Measures that are being implemented to mitigate problems associated with the ever increasing water demand include water conservation education and awareness campaigns conducted countrywide, rainwater harnessing demonstration exercise at Khawa village and wastewater treatment and effluent utilisation pilot study within the Department of Water Affairs. In addition, Government will undertake a water affordability and tariff study during 2005, with a view to ensuring that those who can afford to pay, do so.

71. Adequate *water supply* is the key for life sustenance, socio-economic development and the maintenance of a healthy environment. The availability of water resources in Botswana, like other Southern African countries, has increasingly come under threat. Government will, therefore, continue to explore new approaches and technologies for water development that will lead to sustenance of the limited water resources and new sources. New sources include the construction of Ntimbale and Dikgatlong dams and the design of Thune dam, which will start during 2005/2006. These three major projects are estimated to cost over P1 billion on completion.

### **Works and Transport**

72. Mr. Speaker, Botswana's national transport system continues to play a crucial role in strengthening the economy and improving the quality of life of all Batswana, in line with the

Millennium Declaration. In the years to come, transportation will become even more essential for Botswana to meet emerging challenges and opportunities. Moreover, globalisation and improved communications are increasing the demands on the transportation system, requiring us to create additional capacity in the light of concerns about safety, security, energy and the environment. These developments demand new tools, new competencies, and new technologies. In order to effectively meet these challenges, during the 2005/2006 financial year, an integrated transport policy framework for the entire transport sector encompassing road, rail and air transport systems will be formulated. The objective of the new policy will be to optimise investment in the transport sector.

73. As a way to improve its efficiency and productivity, the Department of Civil Aviation will be restructured into an autonomous organisation in 2005, following approval of the relevant bill by Parliament in December 2004. In addition, the Toll Roads study recommendations, expected in March 2005, will be implemented during 2005/2006. Implementation of projects using Private Public Partnerships (PPP) initiative will also start during the first half of 2005. Government has already identified two pilot projects to be implemented using the PPP concept. Other potential candidates for implementation under the PPP method are the second University, Medical School and Government office blocks projects.

74. Meanwhile, the Central Transport Organisation vehicle boarding policy and operations will also be reviewed to identify cost cutting options for management of the Government vehicle fleet during 2005/2006.

### **Information and Communications Technology (ICT)**

75. Mr Speaker, in order for Botswana to benefit from *global partnership*, which is one of the MDGs, we must as a country strive towards improving technologies, including information and communications technology. In this regard, a draft Information and Communications Technology (ICT) Policy and Action Plan will be considered during the first quarter of 2005. Under the current telecommunications infrastructure upgrading, the Botswana Telecommunications Corporation has established cable links with South Africa and Zimbabwe. Another cable link project, is planned to link Botswana and Namibia, with possible extension to Angola. The completion of the future cable link projects would complete the telecommunications network backbone of the country. On international connectivity, a tender on a feasibility study will be awarded in March 2005 to provide information on the available options to connect Botswana to the rest of the world through a cable network. The Botswana Telecommunications Authority is also evaluating the feasibility of further liberalisation of the telecommunications industry. All these activities should set the scene for attracting Foreign Direct Investment (FDI) and providing the foundation for promoting Botswana as an information and communications technology hub in the region.

76. Mr. Speaker, to further advance the objective of “taking services to the people using ICT”, a number of initiatives, such as the rural telephone service, Nteletsa II project, provision of refurbished computers to primary schools, will be undertaken. A Community User Information System project, which is being piloted by the Botswana Technology Centre in Gumare, Hukuntsi and Letlhakeng, is an example of a computer-based public information facility. Furthermore, Government will continue to improve access to radio and television throughout Botswana. In this regard, a masterplan for mapping all areas of the country with poor reception or no access to radio and television is being developed, with completion expected in April 2005.

77. Innovation through the exploitation of science and technology is one potential way to improve productivity and thereby achieve economic growth, as well as diversification. For the knowledge intensive sectors, the essential formula for success is summed up by; *ingenuity plus technology equals productivity*. This sector, therefore, seeks to build capacity to exploit emerging technological opportunities from global scientific and technological advances. In this regard, Government is commissioning the preparation of a National Research Science and Technology Plan that will be completed mid-2005. The Plan will identify national research priorities that will, in turn, suggest the direction of investment in the sector. In addition, a bill for the establishment of Botswana Research, Science and Technology Investment Agency will be presented to this Honourable House during the course of this year. The Agency will coordinate and monitor all Government funding for research. This research will be production-oriented; that is, the ideas must be brought to the market to realise their commercial value.

### **Education**

78. Mr. Speaker, pursuant to the Vision 2016's pillar of "*An Educated And Informed Nation*" and the Millennium Development Goal of "*Achieving Universal Primary Education*", Government remains committed to providing opportunities for learning at every stage of life. To be successful in the 21<sup>st</sup> century, an economy must be powered by ideas, imagination and innovation. Knowledge is the road, both to economic progress and individual opportunity, and education is the bridge to take us there. In this connection, Government will continue to invest substantial funds into human resource development with emphasis on education and training. It is as a result of the substantial investment in education that Botswana attained 100 percent access to primary education in 2000, with the transition from primary to junior secondary now about 100 percent. The remaining challenge is that of increasing access from junior to senior secondary school, from 50 percent to 100 percent. The Mid-Term Review of NDP 9 is expected to identify strategies and measures, such as upgrading of junior secondary schools to unified schools, in order to achieve this target in a faster and more cost effective way. I must add here, Mr. Speaker, that this would require us to make some sacrifices, such as re-prioritising of development projects and paying for services, in order to attain this goal in a sustainable manner.

79. We shall also continue to expand opportunities for learning at tertiary level to further the objective of an educated and informed nation. During NDP 9, the University of Botswana (UB) is committed to increasing students' enrollment to 15 000 fulltime and also to offering some programmes by distance learning. UB has already launched four bachelors' degree programmes in the areas of business, accounting and finance, and a diploma in adult education by distance learning. The expansion of UB will entail mainly construction of a multidisciplinary building and other teaching facilities. The establishment and construction of facilities for the Faculty of Medicine and Allied Health Sciences will also start in 2005. Other projects aimed at the expansion of tertiary education include construction of colleges of technical and vocational education, and a second University, whose curriculum will focus on science and technology.

80. Mr. Speaker, during 2005, the Tertiary Education Council will develop a tertiary education policy to address key issues of increased access to tertiary education, equity, relevance and quality control mechanisms based on NDP 9 and Vision 2016 goals, objectives and aspirations. In addition, in order to keep abreast with developments in the education sector and meet requirements of the international conventions, the Education Act of 1967 will be reviewed. The new law will provide for education reforms brought about by the implementation of the Revised

National Policy on Education of 1994 and integration of Vision 2016 into the education curriculum. The revised legislation will be presented to this Honourable House during 2005.

### **Labour and Immigration**

81. Mr Speaker, in line with the *Millennium Development Goals and Vision 2016*, Botswana has committed itself to promoting gender equality and empowering women in all aspects of life. In this regard, Women in Development Policy, which has been in existence since 1996, will be reviewed during the second quarter of 2005/2006 to come up with a National Gender Policy with new strategies for the promotion of gender equality.

82. To *build a prosperous, productive and innovative nation*, this country must strive to attain the highest standards in labour productivity. It is through dialogue between employers and labour organisations that issues affecting both labour and employers can be resolved. In view of this, the Trade Unions and Employers Organisation Act was amended in April 2004 in order to align it to the International Labour Organisation Conventions. The amendment to the Act empowers trade unions and employer organisations by reducing Government's involvement in labour issues, promoting collective bargaining and enhancing workplace democracy. In addition, the re-enacted Trade Disputes Act of 2003, also came into effect in April 2004. The Act provides for improvement in dispute prevention and resolution system.

83. There is need, Mr. Speaker, to reform our vocational training system to be more responsive to the needs of the emerging challenges in industry and commerce. To this end, the Madirelo Testing and Training Centre is to reform the apprenticeship and industrial training and trade testing systems to make them competency based and modularised to improve the competencies of the graduates of the Vocational Training System by 31<sup>st</sup> March 2007.

84. In order to speed up the processing of work and residence permits, a second regional Immigrants Selection Board has been established in Gaborone. The Board will start operation during the first half of 2005.

### **Land and Housing**

85. Mr. Speaker, the Housing Policy Advisory Council has been established to coordinate the activities of the various stakeholders in housing delivery, as a way of smoothing implementation of the National Policy on Housing. One of the thrusts of the National Policy on Housing is to promote housing as an instrument for economic empowerment and poverty alleviation. Pursuant to this objective, Government has piloted a poverty alleviation and housing programme for poor households who do not qualify for the Self-Help Housing Agency (SHHA) loans. This programme focuses on employment creation, skills acquisition and home ownership. Initial capital to set up projects to produce building materials is provided by Government, and subsequent to that, households venture into business to generate income, which enables them to build their own houses. This is in line with the participatory and *self-reliant approach to development*, which enhances sustainability of projects. The poverty alleviation and housing project was piloted in Ghanzi, Francistown and Mahalapye and is being replicated in Southern, Kgalagadi and North West Districts.

86. The SHHA programme will continue to be an avenue through which low income households access better quality basic shelter, with safe water, sanitation and secure tenure in order to improve living conditions and promote human dignity. In order to improve service delivery in

this programme, as I mentioned last year, Government will privatise the administration of the SHHA loans in 2005/2006. Progress has been slow, mainly due to lack of interest by financial institutions on management of low-income housing loans. In order to address this problem, Government is currently in the process of reformulating the tendering guidelines. Given the impact of the scheme in providing housing for the low income households, a decision was taken to roll-out SHHA to rural areas. Since implementation of the scheme in rural areas in 2001, a total of about P108.8 million has been spent to provide assistance to 6 026 beneficiaries.

87. Mr. Speaker, land is undeniably a very important resource for economic and social development. It, therefore, remains Government's policy to develop land use and management plans to guide land authorities in ensuring prudent and sustainable utilisation of the land resource. These plans enhance and promote both physical and economic development within the country by facilitating rational and orderly development. The National Land Policy that seeks to foster land related investment opportunities and ensure equitable distribution to all sectors of the economy and population has been reviewed. The draft policy, which is aimed at addressing the issue of access to land by all sections of the society and ensuring sustainable development, will be tabled in this Honourable House during 2005/2006.

### **Local Authorities**

88. Mr. Speaker, the Local Authorities are in the forefront in the provision of services to the people. It is, therefore, important that they conduct their business in the most effective and efficient manner. In this connection, I am pleased to report that the Local Government (District Councils) Act, the Townships Act and the Matimela Act have been amended to allow the Local Authorities to introduce the necessary cost recovery measures in 2005 and collect arrears of revenue owed to them in order to augment the grants from Government. The formula for determining Revenue Support Grants to the Local Authorities will also be reviewed in 2005, in order to improve the effectiveness of allocating resources to the Local Authorities. The Local Authorities are a major channel for the use of public resources. For example, in 2004/2005 the revised allocation for recurrent expenditure for Local Authorities is about P1.68 billion, while the allocation for development expenditure is about P344 million. It is, therefore, important for the Local Authorities to keep proper books of accounts. In this regard, the backlog of audited accounts of Local Authorities must be cleared by the end of 2005, so that we can be confident that the funds are used effectively for the intended purposes. If necessary, Local Authorities should engage private sector firms to update the books and train Local Authority Treasury personnel to build the needed capacity to ensure that, they do not fall behind again in keeping proper books of accounts and that they are able to collect and manage revenue effectively.

### **Public Sector Reforms**

89. Mr. Speaker, achieving the MDGs and Vision 2016 objectives requires high levels of efficiency to be able to compete effectively in global markets. In order to improve the performance of the public enterprise sector and ensure sustainable development, parastatal organisations must improve their operational efficiency and productivity. In this connection, Government will approve the draft Privatisation Master Plan during the first quarter of 2005, which provides a road map for the implementation of initiatives to enhance private sector participation in the economy in an orderly fashion and empower Batswana. The Plan includes action plans for sequencing the evaluation, restructuring and in some cases divestiture of public enterprises, for contracting out public services to private sector service providers, as well as for commercialisation and corporatisation. The Privatisation Master Plan is a product of the

Privatisation Policy for Botswana, whose major objective is to enhance efficiency in public enterprises.

90. Some of the privatisation initiatives already started include conclusion of a study of a possible merger of the National Development Bank and Botswana Savings Bank (BSB) or privatisation of the two banks individually, and the sale of Government shareholding in the BBS during 2005. The conclusion of the privatisation of Air Botswana was further delayed by the withdrawal of the strategic equity partner that had been identified. Government has restated its commitment to the privatisation of the airline and continues to consider alternative options for its privatisation, which include, but are not limited to, the sale of shares to institutional investors, such as Pension Funds and placing the shares on the Botswana Stock Exchange. In addition, planning for the privatisation of the Botswana Telecommunications Corporation will commence during the next financial year.

91. In line with the Millennium Development Goal of *developing global partnership for development*, strategies for human resource and productivity management practices, which are key to improving investment climate in Botswana will continue to be implemented. One of the strategies is the implementation of the Performance Management System (PMS), which has been adopted in an effort to maintain a productive labour force and cultivate a culture of effectiveness and efficiency. In this regard, Permanent Secretaries signed performance contracts at the beginning of this financial year, while officers below the level of head of department signed performance based reward system agreements. In addition, the roll-out of PMS to Local Authorities started in Kanye, which is the reference site. It is expected that the roll-out of the system to the other Local Authorities will start during the next financial year.

92. Mr. Speaker, the Public Procurement and Asset Disposal Board (PPADB) is at an advanced stage of implementing the new Contractor Registration and Information System, which is intended to provide relevant management information critical to the selection of the best bidders. Consultations with stakeholders have since been undertaken on the classification, training and grading system to be used in the registration of contractors and procuring entities. The system is currently at pilot phase, and is expected to “go live” in June 2005, when the PPADB shall embark on a comprehensive contractor re-registration exercise. In addition, as a means of further reducing procurement lead times, Ministerial Procurement and Asset Disposal Committees have now been established in all Ministries with a view to devolving evaluation and award responsibilities to Ministry level. In addition, 14 District Administration Tender Committees have been established. These committees should go a long way towards speeding up the procurement approval process.

93. Government is concerned about expenditure commitments arising from decisions taken without consultation by some autonomous organisations, which depend on Government funding, such as the University of Botswana, Botswana Technology Centre and Botswana College of Agriculture. In view of this, Government now requires these organisations to seek Government approval for additional expenditures, which cannot be accommodated within existing budgets, prior to commitment. These organisations are also required to establish contributory pension schemes for their employees. In addition, annual provisions for gratuity for contract officers working for those organisations will be placed in trust funds, which cannot be spent on any other activity, except pensions and gratuities when they are due.

## **V. 2003/2004 BUDGET OUTTURN AND 2004/2005 REVISED BUDGET ESTIMATES**

94. Mr. Speaker, the budget outturn for the 2003/2004 financial year was nearly a balanced budget with a small deficit of P73 million, which was P49 million higher than the budget deficit of P24 million in the original estimates. Total revenues and grants at P16.20 billion were close to the revised budget estimates of P16.18 billion for 2003/2004. Non-mineral Income Tax and Value Added Tax were lower than anticipated because of slow growth of business activity. On the other hand, the recurrent budget recorded under spending of P323 million, while the development budget recorded over spending of P256 million. The net amount received for the sale and repayment of Public Service Debt Fund loans in 2003/2004 amounted to P878 million as opposed to the P1.1 billion in the revised budget estimates because the process of the sale of the PDSF loan book was only partially completed within the financial year.

95. While the original budget for 2004/2005 reflected a balanced budget with a small surplus of P69 million, the revised budget forecasts a deficit budget. The combination of lower revenues and higher development expenditure has resulted in a revised budget deficit of P1.43 billion for 2004/2005. While such an outcome is highly undesirable, it would have been disruptive to drastically curtail Government's expenditure in line with the revenue shortfall as most of the programmes were already ongoing and the action would have abdicated Government's role as a stabilising influence on the domestic economy.

96. Mr. Speaker, total revenues and grants for 2004/2005 have been revised to P17.29 billion, down by P915 million from the original estimate of P18.21 billion. Among the major revenue sources, mineral revenues now estimated at P7.71 billion, constituting 45 percent of the total revenues, is now expected to be below the original estimate by P357 million due to the adverse movement of the US dollar. Non-mineral income, tax at P2.07 billion, which constitutes 12 percent of total revenues is short of the original estimate by P486 million, in part due to a relative slowing of the non-mineral sectors of the domestic economy and inadequate compliance with the tax law by some taxpayers. Customs and Excise revenue at P3.29 billion, which constitutes 19 percent of revenues, is on target.

97. Total expenditure and net lending for 2004/2005 at P18.72 billion show an increase of P580 million from the original estimate. Recurrent expenditure amounting to P14.63 billion in the revised estimate is on target. Development expenditure is now expected to be P4.33 billion, up by P717 million from P3.61 billion in the original estimate. Many development projects, which were already underway could not be quickly slowed down or terminated without breaking carefully laid plans. Net lending with a net loans repayment of P232 million includes the final payment of P109 million realised from the sale of the Public Debt Service Fund loan book.

## **VI. 2005/2006 BUDGET PROPOSALS**

98. Mr. Speaker, this budget is the third of the Ninth National Development Plan (NDP 9). The Plan includes target ceilings for recurrent, development and manpower budgets for each of the six financial years, 2003/2004 through 2008/2009, with the warning that the attainment of the Plan depends on achieving the revenues projected over the Plan period. During the first two years of the Plan, revenues were below target while total expenditures were within the NDP 9 ceilings.

## **Revenues and Grants**

99. Mr. Speaker, for 2005/2006, total revenues and grants are forecast at P20.57 billion. Mineral revenues, which consist of royalties and dividends plus mineral taxes, and take into account the revised Agreement with De Beers, contribute P9.93 billion, representing 48 percent of the total revenue. Botswana's share from the SACU Revenue Pool amounting to P3.41 billion, represents 17 percent of the total revenue. Non-mineral income taxes amount to P2.6 billion, which is 13 percent of the budget. VAT is expected to contribute P2.1 billion. However, it must be emphasised that these estimates have considerable uncertainty attached to them as they are based on assumptions about international prices, exchange rates, cost recovery, and productivity improvements.

## **Total Expenditure**

100. Mr. Speaker, total proposed expenditure amounts to P20.58 billion, consisting of the recurrent budget of P15.72 billion and development expenditure of P4.86 billion. This total is a very large share of the GDP of Botswana – in excess of 40 percent. Mobilisation of such a substantial sum is a major achievement. But that achievement will be diminished if those resources are not spent productively, efficiently providing Government services for the people of Botswana, and promoting the achievement of the Millennium Development Goals.

## **Recurrent Expenditure**

101. Mr Speaker, the proposed ministerial recurrent budget is P14.5 billion, while statutory expenditure is P2.23 billion. The Ministries of Education, with an allocation of P4.28 billion, Local Government with P2.4 billion, and State President with P1.93 billion account for 59 percent of the total ministerial recurrent budget. The provision for the Ministry of Education alone accounts for 30 percent of the total ministerial recurrent budget, yet that does not include the entire Government commitment on education, as substantial additional funds are spent on education through other Ministries, such as the Ministry of Local Government. The Ministries of Health with P1.34 billion, Works and Transport with P918 million, Agriculture with P672 million and Finance and Development Planning with P539 million account for 24 percent of the total ministerial recurrent budget, while the rest of the ministries and independent departments share the remaining 17 percent.

102. The provision for statutory expenditure is P2.23 billion, a greater proportion of which is Public Debt Servicing with P1.3 billion, representing an increase of P770 million over the P530 million in 2004/2005. This increase is for repayment of the two-year bond issued in May 2003. Government contribution to the Botswana Public Officers Pension Fund is a substantial P618 million, while the remaining P312 million is for pensions, gratuities, salaries for specified officers, refunds of income tax and other statutory miscellaneous payments.

## **Development Expenditure**

103. Mr. Speaker, I now present the development budget for 2005/2006. The proposed development budget for the year is P4.86 billion; of which P4.68 billion, or 96 percent is for Government development projects, and P175 million, for implementation of development programmes of parastatals and autonomous organisations.

104. Given financial constraints, it is Government's intention to give priority to the completion of on-going projects and maintaining existing infrastructure before embarking on new ones. In this regard, the backlog of maintenance of public facilities is addressed through two development projects, one under the Ministry of Works and Transport allocated P100 million, and the other one under the Ministry of Local Government, allocated P60 million. Since the Total Estimated Cost of these projects was increased in 2001, adequate funding has been made available to cover the backlog of maintenance of public facilities. The constraint has been implementation capacity of the relevant Ministries to clear the backlog of maintenance. Relevant departments are also urged to provide adequate resources for normal periodic maintenance of existing infrastructure under their recurrent votes.

105. The Ministry of State President with an estimate of P1.11 billion takes the largest share of the proposed development budget mainly accounted for by the HIV/AIDS Programme at P650 million, BDF at P300 million and New Police Facilities amounting to P100 million. These three projects account for over 94 percent of the Ministry's budget, whilst HIV/AIDS programme alone accounts for over 58 percent.

106. The Ministry of Local Government with a proposed development budget totalling P800 million takes the second largest share of 16 percent. Five projects namely; Primary Schools (P222.65 million), Village Water Supply and Sewerage (P222.65 million), Urban Land Servicing (P135.4 million), Local Authorities Infrastructure Maintenance (P60 million) and District and Urban Roads (P40 million), account for 85 percent of the Ministry's total budget.

107. Mr Speaker, the Ministry of Health has been allocated the third largest share of P606 million, or 12 percent of the total development budget. The Improvements to Hospitals project takes P539 million, or 89 percent, in a bid to finance the ongoing upgrading of hospitals around the country. The Institute of Health Sciences project accounts for P45 million, while Computerisation takes P16 million. These three projects together constitute 99 percent of the Ministry's overall budget.

108. The Ministry with the fourth largest proposed allocation of the development budget is Works and Transport at P579 million or 12 percent. Bitumen and Trunk Roads Improvements is the largest project with P184 million, followed by Secondary Roads Construction with an allocation of P145 million. Government Infrastructure Maintenance project is allocated P100 million. These projects account for 74 percent of the Ministry of Works and Transport's 2005/2006 proposed allocation.

109. The fifth largest share of P493 million, or 10 percent of the development budget, goes to the Ministry of Minerals, Energy and Water Resources. Out of this amount, more than half, amounting to P309 million, is allocated to one major project; namely Major Villages Water Supply and Development. Other projects with significant amounts under this Ministry are Water Planning and Development with P103 million, BCL Finances with P33 million and Ministry of Minerals, Energy and Water Resources' Facilities with P29 million.

110. The Ministry of Education is allocated P400 million, or 8 percent of the total development budget. Two projects, which account for P345 million or 86 percent, are Secondary Schools with P175 million and Colleges of Education with P170 million. Other projects, namely, Brigades Development (P25 million), Ministry of Education Consultancies (P7 million), Out of School Education (P7 Million), Special Education (P5 million) and Education Facilities (P1 million) make up the balance of the Ministry of Education's development budget.

111. The Ministry of Communications, Science and Technology has been allocated P261 million. Four projects, namely; ICT Facilities (P76 million), BTC Finances (P70 million), Development of Department of Information and Broadcasting (P69 million) and Science and Technology Research Institutions (P25 million) account for P240 million or 92 percent of the Ministry's budget.

112. The remaining P605 million, or 12 percent of the total development budget, is shared among the Ministries of Lands and Housing with P213 million; Environment, Wildlife and Tourism with P100 million; Labour and Home Affairs with P86 million; Agriculture with P74 million; Trade and Industry with P51 million; Finance and Development Planning with P41 million; Administration of Justice with P26 million; Foreign Affairs and International Cooperation with P11 million, and Independent Electoral Commission with P2 million as well as Parliament with P1.4 million.

113. Mr. Speaker, in view of the budgetary constraints and the need to exercise financial discipline, it is imperative that projects be completed within budget and on time. In this connection, Government will no longer entertain requests for additional funds for project designs above budget, as well as changes in scope or specifications of projects. Such projects will have to be redesigned and accommodated within the budget. The result of these additional requests has been the erosion of available funding, resulting in other planned projects being left with no financial provision.

114. It must be noted that the proposed development budget does not include three major projects of construction of the second University, Medical School and completion of the expansion of the University of Botswana, which are still at planning stage.

### **Overall Balance**

115. Mr. Speaker, with total revenues and grants for 2005/2006 estimated at P20.57 billion, while total expenditure and net lending are expected to be P20.45 billion, the result is a modest overall budget surplus of P112 million for contingencies. However, as I have already said, in the turbulent international environment our revenue estimates are subject to considerable uncertainty. In light of that, we will closely monitor the evolution of revenues over the course of the financial year so that if necessary, we will take timely action to align expenditure growth with actual revenue growth.

### **Public Service Salaries**

116. Mr. Speaker, in view of the tight budgetary situation and the fact that Government has just started the implementation of the new unitary pay structure at the beginning of this financial year, there will be no public service salary adjustment for the 2005/2006 financial year. The implementation of the new pay structure entailed a substantial salary increase, which averaged 15 percent. On a related matter, arrangements are being made to allow public officers and pensioners who have not opted to join the Botswana Public Officers Pension Fund, for various reasons, to do so. The affected public officers and pensioners are estimated at about 13 000. This dispensation will be made available to these officers and pensioners for four months from April to July 2005. In the meantime, an actuarial valuation will be undertaken to assess their transfer values, for which a provision has been made in the 2005/2006 budget estimates.

## VII. FISCAL LEGISLATION

117. Mr. Speaker, I am not proposing any new taxes or revision of tax rates. Rather, in light of the fact that the last major review of the Income Tax legislation was done in 1995, Government has decided to undertake a comprehensive review of the Income Tax Act, No. 12 of 1995. Since 1995, there have been several amendments to the Act, to ensure that the tax legislation remained relevant and up to date. However, after ten years, it has become necessary to consolidate all previous minor amendments to the Income Tax law, lest they create uncertainties and inconsistencies. The review of the Act will take place during 2005 with a view to presenting a consolidated Income Tax Bill to this Honourable House in 2006.

118. Meanwhile, the Botswana Unified Revenue Service (BURS) continues to be faced with the problem of poor tax compliance. Income tax compliance, Mr. Speaker, entails filing income tax returns on time, declaring the correct income, and paying the due tax on time. Although the filing of income tax returns on time has improved over the last three years, following the introduction of the self-assessment system for corporate taxpayers, there is room for improvement. Currently, about 70 per cent of income tax returns are filed on time. The target is to increase the rate of filing on time to at least 90 per cent during the next financial year.

119. As regards declaration of income, audits have revealed that incomes are being understated and expenses are overstated by some taxpayers. Similarly, some taxpayers are failing to pay taxes on due dates. In the interests of fairness to those taxpayers who comply with the law, BURS will intensify its income tax audit programme and where necessary impose penalties in accordance with the provisions of the Law, with a view to improving tax compliance significantly in 2005 and thereafter.

120. Mr. Speaker, with regard to collection of old income tax arrears, BURS was able to significantly reduce the arrears that accumulated over a number of years from P430 million as at 31 March 2002 to P180 million as at 31 December 2004. The clearance of the old income tax arrears takes time because of the need to investigate and trace the taxpayers.

121. The VAT was successfully introduced in July 2002 and has been in operation for a little over two years. The VAT Administration has been involved in an intensive programme of training its staff in auditing and other aspects of the VAT. The data accumulated over the past two years indicates varying levels of non-compliance. Of particular concern is failure by some taxpayers to submit returns on time, as the filing rate for small, medium, and large businesses were recorded as 76 percent, 72 percent and 93 percent, respectively. The less than satisfactory filing rate for the small and medium businesses, whose turnover is less than P12 million per annum, has to be increased to at least 90 percent during the next financial year. The VAT Act provides for penalties both for failure to file returns, and late payment of VAT, and these are being enforced to ensure fairness in the administration of our taxes.

122. The VAT audits conducted have revealed some cases of under reporting of output tax and over stating of input tax. Businesses must report at all times the correct VAT paid or payable to avoid additional assessments which are costly to them as they are in all instances accompanied by the collection of heavy VAT penalties and interest.

123. Mr. Speaker, stern action has to be taken against those who fail to comply with the tax law in fairness to taxpayers who comply fully. It is my hope that with the continued

improvements to the tax law and consolidation of tax administration under the Botswana Unified Revenue Service, tax compliance will approach 100 percent in the near future.

## VIII. CONCLUSION

124. Mr. Speaker, my theme this year has been “*Meeting the Millennium Development Goals and Vision 2016 Through a Self-Reliant Approach to Development*”. Since those goals are very much in keeping with our own Vision 2016, both in content and time horizon, most Batswana recognise the importance of meeting the challenges of the MDGs. Moreover, one of the central principles long articulated in our National Development Plans is *self-reliance*. Thus, this theme is congruent with an approach that has served the nation well for decades. Our task today is to set our response to the challenge of the MDGs in the context of the turbulent world of 2005.

125. The international economy continues to test us. While demand for our exports in major international markets is growing, movements of international currencies against each other continue, creating uncertainty for us about the likely outcome of reasonable plans. Adverse movement of the US dollar in international currency markets during 2004 has had a significant impact on our budget for the current financial year, and a major reason we now anticipate a budget deficit for 2004/2005. We believe the international environment will improve in the coming financial year, but I must emphasise that there is considerable uncertainty attached to this outlook.

126. In the face of the international turbulence, Government must play the important role of stabiliser in the domestic economy. We should not sharply curtail Government spending with every drop of our international earnings, nor should we accelerate Government spending with every improvement of those earnings, for we know it will not last. Rather, we should ensure that Government maintains a sustainable rate of spending. Sustainability, as we have long emphasised, implies that we live within our means. This requires a careful balancing of our budgets over the medium term; adding to Government’s balances in good years and drawing them down in the difficult years.

127. We must recognise that Government’s balances are not a limitless well that automatically recharges itself. If we exhaust those balances, then a deficit budget will require Government to borrow. Then, payment of debt service obligations becomes the first claim on Government’s revenues; before recurrent expenditures on priority items, such as education and health, and before expenditures on new development projects.

128. This is not to say that borrowing must be avoided at all costs. Rather, borrowing must be reserved to finance productive projects and programmes that directly or indirectly add to our wealth as a nation. The first claim on the extra income generated is to repay the debt. It is only if there is something left over after having repaid the debt, with interest, that the nation is better off. It is when nations fail to ensure that their borrowed funds are invested in productive uses that they fall into a debt trap. This is the trap that those who walked ahead of us fell into. We should go around it.

129. It is not just borrowed funds that should be used productively. All the resources at our disposal must be used effectively if we are to achieve the high hopes of the MDGs. It is for this reason that we must ensure an ongoing emphasis on productivity – in Government, in the

parastatals, and in the private sector; and cost recovery and saving in the public sector. Every Thebe of Government funds must be carefully targeted to achieve its objective. A few Pula wasted here and there in Government may not seem like much individually, but when added together those wasted monies can mean a patient in a hospital has to wait longer for treatment, or a junior secondary school leaver somewhere must face the prospect of no senior secondary schooling.

130. Every parastatal must focus on increasing productivity. The return on the capital employed must be commensurate with the cost of capital to the nation. But this cannot be accomplished by simply jacking up the charges that the public must pay for services rendered by parastatals. Rather the charges to the public should be declining in real terms to reflect the increased productivity.

131. The private sector achieves productivity increases mostly by innovation – finding new and more cost effective ways of meeting the public’s demands for goods and services it has to offer. Government is there to help, not with handouts, but to offer a hand up to the private sector. Ultimately it is the self-reliant entrepreneurs who create the jobs and pay the taxes that finance Government budget, not the other way round.

132. Mr. Speaker, in recalling the theme of this Speech, the question that may come to mind is; what does this emphasis on productivity and self-reliance have to do with achieving the MDGs and Vision 2016? It has everything to do with those laudable goals. If Government, parastatals, and a self-reliant private sector do not enhance their productivity, then resources will not be there to finance the projects and programmes necessary to meet these goals. At best any progress towards these goals will be temporary, but not sustainable. But if the productivity improvement is there, and if Government carefully targets its expenditures, we can, indeed we will achieve the Millennium Development Goals and Vision 2016 aspirations.

133. Before concluding, Mr. Speaker, I want to record the appreciation of all Batswana for the continued support of our development partners, both bilateral and multilateral, as well as private foundations, that are assisting in various development programmes and in particular the fight against HIV/AIDS. Their support in our endeavour to achieve the MDGs and Vision 2016 aspirations will continue to be vital.

134. Mr. Speaker, I conclude by moving that the **Appropriation (2005/2006) Bill, 2005**, be read for the second time.

135. I thank you.