



Republic of Botswana

BUDGET SPEECH 2007

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I. INTRODUCTION

1. Mr. Speaker, I have the honour this afternoon to present to this Honourable House budget proposals for the financial year 2007/2008.
2. Mr. Speaker, we face many challenges in our efforts to improve the lives of all Batswana. A central challenge is to be internationally competitive so that the goods and services we produce have a wider market and yield high incomes for Batswana. This means we must strive to increase productivity and service delivery to meet international standards in all sectors of the economy, not just those directly exposed to international competition. Some of the sectors in which we are already globally competitive are also risky, notably diamond mining, where the world market can and does change significantly from year to year. In the face of this risk, we seek to diversify by expanding less risky, but nevertheless highly productive activities. Together, these challenges point to the theme for this year's Budget Speech: ***Improved Productivity – The Key to Sustainable Economic Diversification and Global Competitiveness***. All stakeholders, including the private sector, labour, and non-governmental organisations must improve on their past performance and identify new strategies for attainment of sustainable global competitiveness. To do this, we should continue to invest in our local talents, whilst at the same time attracting global talents and skills in those areas where there are shortages. In brief, to maintain a competitive edge in the ever changing global economy we must be more productive, in other words, *producing more with less by utilising the same or less inputs more efficiently to produce more outputs than before*.
3. Mr. Speaker, much has been accomplished in the 40 years since Independence. As the International Monetary Fund stated in its latest Article IV surveillance report, Botswana has been among the world's fastest growing economies over the past 40 years, with an impressive record of prudent macroeconomic policies and good governance, which has moved the country from being one of the poorest in the world to the upper-middle income range. At the time of Independence in 1966, in terms of today's prices, per capita income was about P3 000 compared to about P33 000 in 2005/06. Real GDP growth averaged 9 percent between 1965/66 and 2005/06. In 1965/66, Government expenditure was about P10 million, while in 2006/07 total Government expenditure had grown to P22.4 billion. Financing of the Government budget from foreign grants declined from 51 percent in 1965/66 to less than 2 percent in 2006/07. Poverty rates have declined, from 46.6 percent in 1985/86 to 30.2 percent in 2002/03, and the NDP 9 Mid-Term Review, under the Base Case scenario, projects a further decline in poverty rates to 23 percent by the end of the Plan period.
4. Mr. Speaker, considerably more detail could be given about our development path from the humble beginning in 1966. However, of paramount importance today is to set the economy on a sustainable path for Botswana's future prosperity, and thereby ensure that the Vision 2016 objectives and the United Nations Millennium Development Goals are achieved. To this end, as was mentioned in His Excellency's State of the Nation Address in November 2006, the Business and Economic Advisory Council submitted its report to Government at the end of September 2006. The report highlights the need

for more openness of the Botswana economy and increased international competitiveness, as well as the critical need to attract and retain significant levels of foreign direct investment by further improving the investment climate and adopting more business friendly and supportive processes and procedures in the public sector. The report also makes proposals for Government to examine the feasibility of implementing and fast tracking some identified projects. Government is currently working on a plan to facilitate implementation of the proposals made. I expect my Ministerial colleagues to elaborate on such plans in their sectoral Committee of Supply Statements.

II. INTERNATIONAL AND REGIONAL ECONOMIC REVIEW

5. Mr. Speaker, the global economic environment was positive during 2006, despite rising oil prices. The latest International Monetary Fund (IMF) report, the World Economic Outlook, forecast global real GDP growth of 5.1 percent in 2006, with a slight decline to 4.9 percent in 2007. The IMF expected the global expansion, to be spearheaded by growth in the Emerging and Developing Countries, at over 7 percent, especially Developing Asia, which includes countries such as, China, Malaysia and India, at over 8 percent. Meanwhile, the IMF expected the Advanced Economies such as, the United States, Western Europe and Japan to show a relatively lower growth rate of just over 3 percent in 2006, slowing down slightly to 2.7 percent in 2007. The inflation outlook for Advanced Economies was 2.6 percent for 2006, and dropping slightly in 2007 to 2.3 percent. Emerging and Developing Countries were forecast to have had an average inflation rate of 5.2 percent in 2006, and also declining slightly in 2007 to 5 percent. More recently, the Organisation for Economic Co-operation and Development issued semi-annual projections for its members, with a slightly less optimistic economic outlook of the global economy than that of the IMF, due largely to the slowing down of the US economy.
6. Mr. Speaker, in the IMF projection, the Africa region was expected to have grown by 5.4 percent during 2006, Sub-Saharan Africa by 5.2 percent, while the Southern African Development Community (SADC) would record a growth of 4.8 percent. The prospects for 2007 are even better, with the whole of Africa expected to grow at nearly six percent, whilst Sub-Saharan Africa in general, and the SADC region, would expand at over 6 percent. The average annual inflation for 2006 for Africa was expected to have been 10 percent, while that for Sub-Saharan Africa (excluding Zimbabwe) was nearly 7 percent.

III. DOMESTIC ECONOMIC REVIEW

7. Mr. Speaker, I shall now briefly outline some of the major economic developments in the domestic economy.

Economic Growth

8. Mr. Speaker, according to the Central Statistics Office's preliminary estimates of GDP measured at current prices, the overall size of the economy increased by 15.2 percent

from P49.6 billion in 2004/05 to P57.1 billion in 2005/06. The preliminary estimates of GDP measured at constant prices for 2005/06 show little change from 2004/05, after the very rapid real growth of 9.2 percent in 2004/05, revised from the preliminary real growth rate of 8.3 percent for 2004/05 I reported last year. The preliminary 2005/06 data shows a 4.4 percent decline in the mining sector real GDP, and declines in the non-mining sectors of agriculture, manufacturing, and construction, which all showed reductions of a little over 3 percent from 2004/05 to 2005/06. The remaining non-mining sectors grew at an average of 3.0 percent. Diamond mining, which is the largest part of the mining sector, continues to experience uneven growth. In 2003/04 output in terms of carats was 28.7 million carats, and then in 2004/05 had grown dramatically by 19.5 per cent to 34.3 million carats, only to fall back to 32.8 million carats in 2005/06. This is the principal reason why, the real mining sector output declined in 2005/06.

9. Mr. Speaker, while the 2005/06 overall GDP performance was modest compared to the previous year, the return to more rapid growth has already begun. We are on the threshold of major new projects. The construction of the facility for Diamond Trading Company (Botswana) is already visible along the road to Sir Seretse Khama International Airport. Two weeks ago, His Excellency, the President officiated at the groundbreaking for a major new refinery at the Tati Nickel Mine, which is a good sign of processing our raw material to add value. The refinery is expected to cost about P4 billion, and employ 3500 people during construction and 500 on a permanent basis. Last year, I mentioned the Mmamabula Export Power Station. Its transition from concept to agreement has been fast tracked, with all agreements scheduled to be concluded by April 2007, and implementation scheduled to start immediately thereafter, at an estimated cost of P42 billion. Preparatory work for Morupule Power Station expansion is ongoing, with construction expected to start in November, 2007 at an estimated cost of up to P7 billion.
10. Mr. Speaker, many major Government projects are to start in the coming financial year, following the resolution of land availability, environmental impact assessment and design problems. These include construction of dams at Dikgatlong, Thune, Mosetse and Lotsane, that will cost about P2 billion; expansion of the University of Botswana at a cost of P702 million; building of a Medical School at a cost of P573 million; and Teaching Hospital at a cost of at least P500 million; construction of the Botswana International University of Science and Technology costing P5.3 billion; and design and construction of 5 senior secondary schools in Goodhope, Nata, Shakawe, Mogoditshane and Mmadinare, which will cost at least P1.5 billion. Further, Government will speed-up implementation of the rural electrification programme, which will cover the electrification of additional 100 villages, at an estimated cost of P544 million and the rural telecommunication programme which will cover 197 villages over three years at a cost of P265 million. Care will be taken to phase all these construction activities to ensure cost-effective and timely completion.
11. While these are large investments being made by both the private sector and the public sector, there are many smaller investments being made by the private sector, which together reveal considerable confidence in the Botswana economy. This optimism is reflected in the latest Business Expectations Survey carried out by the Bank of

Botswana in September 2006, where 78 per cent of the respondents expressed optimism about business conditions in twelve months' time.

12. Mr. Speaker, I mentioned in last year's Budget Speech the flexibility provided to line Ministries and other implementing agencies in carrying out pre-contract activities before the commencement of the financial year, and I will announce further liberalisation in other procedures when discussing the Budget later. If implementation by departments, like the Department of Building and Electrical Services (DBES) in the Ministry of Works and Transport, the Boipelego Education Project Unit in the Ministry of Education, and the Technical Services Unit in the Ministry of Local Government, are strengthened, and all Accounting Officers and Heads of Department focus closely on project implementation, there is no reason why all the projects in the Mid-Term Review of NDP 9 cannot be implemented during the current Plan period. To accomplish this we must also be prepared to augment local contracting capacity by employing highly rated international construction companies, along with skilled and experienced manpower to help implement such projects. In that way, we would be able to achieve improved productivity, sustainable economic diversification and global competitiveness by benchmarking citizens against institutions that produce quality goods at the right time and cost. Failure to do this could result in stagnation, slow implementation of projects and poor service delivery to our people.

Inflation

13. Mr. Speaker, Botswana's monetary policy aims at attaining a sustainable, low and predictable level of inflation that, amongst others, ensures improvement in global competitiveness. The objectives of low inflation, maintenance of positive real interest rates and global competitiveness are the means by which monetary policy contributes to the broader national objective of achieving diversified and sustainable economic growth. Inflation averaged 11.6 percent in 2006, compared to 8.6 percent in 2005. The higher inflation in 2006 was due to the combination of higher world prices for petroleum and the one-off transitory effect of the May 2005 introduction of the new exchange rate regime. Inflation maintained a downward trend during 2006, with the rate declining to 8.5 percent for the twelve months to December 2006.

Exchange Rates and the Balance of Payments

14. Mr. Speaker, since the introduction of the new exchange rate regime, the real effective exchange rate of the Pula has remained stable, implying maintenance of overall competitiveness in the global markets. However, some amount of variation has been observed in the exchange rates between the currencies which make up the Pula basket (the South African Rand, the US Dollar, the Euro, the Japanese Yen and the British Pound). The basket arrangement moderates the Pula exchange rate volatility across individual currencies. Thus, during 2006, while the Pula gradually depreciated against the basket, it appreciated by 0.5 percent against the Rand.
15. Mr. Speaker, many non-traditional exports are growing rapidly. From 2003 to 2006, non-diamond exports as a whole, measured in terms of US dollars, grew at an average

compound rate of over 20 percent per annum. This success is based on the efforts of entrepreneurs in a wide range of industries from producers of biscuits to chewing gum to textiles who are taking advantage of the stable real effective exchange rate.

16. Mr. Speaker, the preliminary estimates of the balance of international payments on current account show a surplus for 2006 of about P10 billion, which is a significant improvement over 2005. Current account earnings, which include exports of goods and services, were valued at P37.1 billion, which represents an increase of 9.6 percent from 2005. On the other hand, the value of current account spending, including imports of goods and services, increased by 3.2 percent to P27.1 billion in 2006. After taking into account the capital and financial accounts, the overall balance of international payments is expected to show a surplus of P9.3 billion in 2006, compared to a surplus of P7.1 billion in 2005.
17. As at the end of November, 2006, the foreign exchange reserves amounted to P48.8 billion, an increase of P14.1 billion on a year earlier. In US dollar terms, the foreign exchange reserves increased from \$6.3 billion to \$7.9 billion, over the same period. These reserves would cover 30 months of import of goods and services as against 22 months at the same time last year. However, the major upcoming projects, some of which I mentioned earlier, will reduce the import cover, given the high element of imported inputs.

Credit Rating and Other Performance Indices

18. Mr. Speaker, Botswana's sovereign credit rating remains high. The investment grade ratings, with stable outlook, first assigned in 2001 by Moody's Investors Service and Standard and Poor's, were reaffirmed in 2006. According to these agencies, the ratings reflect the country's "relative wealth, low debt and the Government's ongoing commitment to sustainable macroeconomic, financial and social policies". Notwithstanding the favourable economic circumstances, the rating agencies have noted that Botswana's rating is constrained by the "narrow economic base, with fiscal dependence on the mining sector, which limits opportunities for gainful employment and causes output to be more volatile... At the same time, Government's budget" continues to be stretched by "the heavy costs imposed by the HIV/AIDS" epidemic.
19. With regard to other performance indices, Botswana has continued to perform relatively well. Transparency International ranked Botswana least corrupt in Africa and 37th in the world, in their Corruption Perceptions Index. In the World Bank's ease of doing business report our rank in 2006 was 48 out of 175 countries, a drop of 4 places below the 2005 ranking, which was mainly due to changes in methodology and an addition of 20 new countries. According to the World Economic Forum's 2006 Global Competitiveness report, out of 125 countries Botswana ranked 81st, against 72nd in 2005, which makes us the third best performer in Sub-Saharan Africa after South Africa and Mauritius. The drop in the rankings on global competitiveness, and ease of doing business, means that we must redouble our efforts to improve our international competitiveness, hence the theme *Improved Productivity – The Key to Global Competitiveness*.

Employment

20. Mr. Speaker, preliminary results of the 2005/2006 Labour Force Survey indicate that from 1995/96 to 2005/06, the total labour force grew by 48 percent to 651 465, while total employment went up by 59 percent, to 548 594. This translates to 203 189 jobs created during the period, representing an annual average employment growth rate of 4.7 percent. During the 10-year period, since employment grew faster than the labour force, the unemployment rate dropped from 21.5 percent to 17.6 percent. While these statistics show that there has been some improvement with regard to employment, unemployment remains one of the big challenges. Government will continue to implement policies and projects designed to increase productive employment. The major projects I mentioned earlier, as well as initiatives such as agricultural support schemes, including Arable Land Development Programme and empowerment schemes, such as the Citizen Entrepreneurship Development Agency (CEDA) Young Farmers Fund, will create new employment opportunities, and contribute to achieving the United Nations Millenium Development Goals of *Eradicating Poverty and Hunger, Achieving Gender Equality, and Creating a Global Partnership for Development*; and at the same time meeting the Vision 2016 pillar of *A Prosperous, Productive and Innovative Nation*.

IV. SECTORAL AND POLICY REVIEWS

21. Mr. Speaker, let me highlight some key sectoral and policy issues, which will be elaborated upon by the respective Ministers when they present their Committee of Supply statements to this Honourable House.

Rural Development and Poverty Alleviation

22. Mr. Speaker, Government has established the Multi-Sectoral Committee on Poverty Reduction, as a Sub-Committee of the Rural Development Council, with the responsibility to coordinate the implementation of the National Poverty Reduction Strategy and to carry out the relevant monitoring and evaluation of the poverty alleviation programmes. It also: monitors the social safety nets and other social security interventions; links district and community level initiatives aimed at poverty reduction with national level initiatives; and analyses options that can provide employment opportunities to address the needs of the poor and enable them to engage in sustainable livelihoods.

23. The ultimate goal is that all citizens will share in the fruits of our economic growth. To this end, Government provides a number of social safety nets, which include; the destitutes' allowance, the orphan care programme, and the old age pension scheme. A review of social safety nets was completed last year and all the recommendations of the Review were accepted, save for the introduction of a means test for the Old Age Pension Scheme. The major recommendations of the review accepted by Government

include to: create a risk and vulnerability data base; accelerate out-sourcing in the provision and distribution of food commodities; develop a coupon based system; develop a comprehensive database on beneficiaries; and rationalise assistance packages within an overall household context. The introduction of these changes will start in the coming financial year, and are expected to go a long way in enhancing the poverty alleviation focus of our programmes, not only in their design and implementation, but also in terms of direct impact.

24. Mr. Speaker, despite the insignificant amounts of rainfall in most districts during the last quarter of 2006, the overall water situation remained stable, and the condition of livestock and rangelands is fair to good countrywide. Preliminary data indicates that ploughing and planting for the 2006/07 crop season started late in most areas and that only about 10 000 hectares had been ploughed and planted by January 2007, compared to 21 000 hectares ploughed and planted at the same time last season. The drought recovery programme for 2005/2006 was extended to December 2006 to allow for completion of projects. Funds spent in this period by the districts to the end of November 2006 amounted to P153.9 million and the cumulative number of people employed at different times during this period was 106,833 for a total of 913 projects.

Public Enterprises

25. Mr. Speaker, the performance of most commercial parastatals continued to be satisfactory during the financial year 2005/06. The average net return on the shareholder equity held by Government (including reserves) at the beginning of the 2005/06 financial year in the 12 commercially run public enterprises was 7.1 percent, against 8.1 percent for the previous year. This lower average net return was due to a decline in the net profits of the Botswana Power Corporation (BPC), the Water Utilities Corporation (WUC), and a net loss by Air Botswana. Following increases in the cost of fuel, coal, imported spares and power, BPC's net profit declined from P162 million to P121 million. Similarly, WUC's net profit declined from P175 million to P93 million on account of restrictions on water sales and increased costs of operations. However, all of the public enterprises are working on strategies to improve productivity and profitability. With the exception of Air Botswana, which recorded a net loss of P17 million against the P3 million loss for the previous year, most other commercially run public enterprises continued to show good performance, with net profits ranging from P1 million, for the Botswana Agricultural Marketing Board, to P139 million for the Botswana Telecommunications Corporation.
26. Mr. Speaker, the Botswana Development Corporation (BDC) continues to play an important role in sustainable economic diversification and employment creation. During the financial year 2005/06, BDC disbursed about P76 million to various projects by way of equity and loans, compared with P58 million disbursed in the previous year. The tannery and can manufacturing projects are two major projects which were assisted by BDC during the current financial year. A tannery consisting of factories in Lobatse and Gaborone (Phakalane) which started operating in December 2006, was set-up at a cost of P28 million. A can manufacturing facility, also constructed in Lobatse, at a cost of P43 million, is to start operating in February 2007.

At full production these two projects are expected to employ a total of 160 people (40 in the can manufacturing and 120 in the tannery) and also contribute to the development of a number of related downstream projects in future. The Corporation has also established an invoice discounting unit which will commence trading in the first quarter of 2007, to meet the short-term working capital requirements of the business community.

27. Mr. Speaker, in order to achieve higher productivity and efficiency in public sector operations, the privatisation process for a number of public enterprises has commenced. Privatisation of Air Botswana is advanced, with Government currently negotiating with a company which has been identified as the prospective strategic partner. With regard to the previously proposed merger of the National Development Bank (NDB) and the Botswana Savings Bank (BSB), a detailed review of their operations indicated that there would not be sufficient benefits derived from their merger. Government has, therefore, instructed the Public Enterprises Evaluation and Privatisation Agency to proceed with the privatisation process of NDB. BSB will be the subject of an in-depth study as part of *Rationalisation of Parastatals* before any decision is taken on its privatisation. As far as the Botswana Telecommunications Corporation is concerned, the re-tendering process for appointment of a privatisation transaction advisor has commenced, and will be finalised in March 2007.
28. Other significant privatisation transactions that are about to commence include the outsourcing of the Government Employees Motor Vehicle and Residential Property Advance Schemes, and the disposal of the Guaranteed Loans Insurance Fund. Under these schemes, Public Officers are entitled to loans guaranteed by Government for the purposes of purchasing motor vehicles and residential property. The value of the benefit to Government's employees will be maintained after the privatisation of these schemes. All stakeholders, including the Botswana Civil Servants Association were consulted at an early stage of this project and will continue to be consulted to ensure that their views are fully taken into account. These transactions are expected to be concluded by the end of 2007.
29. With respect to the Botswana Vaccine Institute (BVI), Government has approved the involvement of the private sector to upgrade and expand the vaccine plant to meet the increasing demand for vaccines within the region. The private sector participation involves issuing of convertible preference shares by the Institute. Government's total ownership of the BVI will be diluted when the preference shares are converted into equity. However, Government will retain majority shareholding in the BVI on account of the strategic nature of the vaccine production to the Botswana livestock industry. The upgrading and expansion entails doubling the production capacity of the vaccine plant and improving the quality of the vaccines, at an estimated cost of P90 million. The project is expected to be completed by October 2008.
30. Mr. Speaker, Government is a shareholder in the Botswana Building Society, and still intends to divest its shares in line with the privatisation policy. Government's intention to divest during 2006/07 financial year was, however, delayed due to legal interventions, which have since been resolved. In this regard, during 2007/08 we will

be working with the Botswana Building Society to find the best way of selling Government's stake in the Society.

31. During 2006 policy reviews of the Motor Vehicle Accident Fund (MVAF) and the relevant legislation were carried out. As a result, a bill to revise the Motor Vehicle Accident Fund Act is being drafted. It is expected that the bill will be ready for consideration by mid year. The proposed changes would result in improved responsiveness to stakeholder interests, while maintaining sustainable financial performance of the Fund. Mr. Speaker, the review of the MVAF recommended a major policy change, to remove proof of negligence as a requirement for compensation of accident victims. Issues surrounding the determination of negligence have resulted in denial of compensation to many victims of motor vehicle accidents. With the high level of motor vehicle accidents in Botswana, this has adversely affected national productivity and resulted in many hardships and loss of life not compensated for, unless negligence is proven. The scope of the revised MVAF Act will also be broadened to include victims of accidents caused by Government vehicles, a feature that is currently not included in the legislation.
32. Mr. Speaker, to enhance efficiency and transparency in the procurement system, the Public Procurement and Asset Disposal Board (PPADB) adopted the Standardised Bidding Packages for services and supplies. These packages provide guidelines on the selection and compilation of bid documents, so that bidders can submit responsive bids. The packages will be used from the beginning of the 2007/08 financial year, and thereby enhance timely completion of projects and provision of services to Botswana.
33. The PPADB is also undertaking a pilot computerization project for the registration of contractors in the works, services and supplies disciplines, for the Government and the Local Authorities. The objective of computerisation is to, among other things, establish Management Performance Publication reporting formats. In addition, the PPADB has also developed a Code of Conduct for contractors, which highlights the standard of business practice that registered contractors are expected to adhere to, with a view of deterring professional misconduct. The Code of Conduct, which is already in use, helps to streamline the relations between the main contractors and sub-contractors.
34. Mr. Speaker, the Botswana Meat Commission (BMC) has continued its restructuring. The ECCO Cold Store in the UK has been disposed of. The disposal of the BMC Tannery is awaiting the completion of the ongoing Environmental Impact Assessment study, which will be done in 2007. BMC trimmed its workforce during the year by reducing its Botswana based staff by 247 and its overseas staff by 75. The staff reduction is estimated to result in a cost saving of about P2.5 million during the 2007/08 financial year. With respect to its performance, the Commission achieved a throughput of 137 336 cattle for 2006 as compared to 117 962 for the previous year. This was in spite of the closure of the Lobatse abattoir for two months and the Francistown abattoir for three months following the outbreak of Foot and Mouth disease in April 2006. Pending finalisation of its audited accounts for the year 2006, the Commission is estimated to earn an operating surplus of P28 million compared to P40 million for the previous year.

35. Since its inception in 2001, CEDA has approved 1 491 applications valued at P897 million up to December 2006. The total amount disbursed stood at P839.6 million as at December 2006. Two hundred and eighty projects, with a total exposure of P143 million, have been foreclosed, representing a failure rate of about 19 percent of the approved applications.
36. Mr. Speaker, the CEDA scheme is under review to assess both the extent to which it has achieved its objectives, and the terms and conditions of its loans. The result of the review, which will be completed in the first half of the 2007/08 financial year, will help to redesign the scheme to suit the current needs and meet the challenges for, not only entrepreneurship development, but also economic diversification and private sector development. In addition, Government has commissioned a study to review the current citizen economic empowerment programmes with a view to enhancing the success rate of our empowerment initiatives. The terms of reference of the study include, among others, ways to encourage credible joint ventures between citizen and foreign investors in all sectors of the economy. The study will be completed in the first quarter of 2007/08.
37. Another important recent empowerment initiative is the CEDA Young Farmers Fund, which is designed to encourage young people wishing to venture into agricultural projects. The youth, particularly those who have studied agriculture, will have improved access to finance at concessional rates, and entrepreneurial training, to ensure that they are well resourced and better equipped for running agricultural businesses.

Financial Services

38. Mr. Speaker, the financial services sector continues to perform satisfactorily and have a positive impact on the sustainability and diversification of the economy. However, there are several new growth areas of the sector that need to be appropriately supervised. In December of last year, Parliament approved the Non-Bank Financial Institutions Regulatory Authority Bill, which would bring the supervision of all non-bank financial institutions and services such as, insurance and asset management, under one umbrella Regulatory Authority. The Authority's purview will include all non-bank financial institutions and services, including those which offer their services outside Botswana, such as those registered under the Botswana International Financial Services Centre. In addition, the Regulatory Authority will have powers to institute representative legal action on behalf of claimants, such as insurance claimants, who suffer losses; as well as place any non-deposit-taking financial company under statutory management, as a consequence of contravention of the law. The Authority is expected to be in place by the end of the 2007/08 financial year.
39. Mr. Speaker, the pensions industry has continued to show significant growth in terms of assets, which grew from P22.1 billion as at 30th November 2005 to P28.6 billion as at 30th November 2006. The main contributor to the pension assets growth continues to be the Botswana Public Officers Pension Fund (BPOPF), which commenced its operations in 2001/2002, and now constitutes about 81% of the total pension assets.

While the pensions industry continues to meet the requirements of the Pensions and Provident Funds Act, under the new Non-bank Financial Institutions Regulatory Authority Act, there will be additional compliance requirements that all pension funds will have to meet. This will ensure improved sustainability and global competitiveness of the pensions industry and that way enhance sustainable economic diversification. Meanwhile, total assets of the insurance industry also continue to grow, amounting to approximately P12.4 billion at the end of December 2006, compared to P9.3 billion a year earlier.

40. Mr. Speaker, trading on the Botswana Stock Exchange (BSE) continues to play a key role in the development of the financial sector. The value of shares traded on the BSE in 2006 was P414.7 million, exceeding the value of P238.6 million traded in 2005 by about 74 percent. The number of shares traded in 2006, which was 87.2 million, also significantly exceeded 44.2 million shares traded in 2005 by about 97 percent. The domestic companies share price index grew by 74 percent in 2006 compared to 22 percent in 2005. In a related development, the review of the Botswana Stock Exchange Act started in February 2006 and will be completed in July 2007. The review is being done to align the Act to regional and international best practices. Meanwhile, the installation of the Central Securities Depository for electronic registration of share certificates will be completed in 2007.
41. Mr. Speaker, to revamp Botswana's efforts to curb money laundering and prevent the financing of terrorism, Government is in the process of drafting an anti-money laundering legislation to address deficiencies in the current regulatory regime and extend its scope to cover transactions of businesses, such as casinos, accountancy firms, law firms, real estate agencies, as well as dealers in precious stones and metals, that are not covered by the current anti-money laundering guidelines.
42. Mr. Speaker, to get a bird's-eye view, of the financial sector, the International Monetary Fund and the World Bank are assisting Government in conducting an overall assessment of the sector. This is being done to benchmark our regulatory and supervisory systems against international standards and add credibility to the ongoing financial sector reforms. The results of the assessment, which are expected by mid 2007, will also assist Government to maintain an overall perspective on the wide range of ongoing financial sector initiatives, which are critical for sustained economic growth and development.

Trade and Investment Promotion

43. Mr. Speaker, Government remains fully committed to providing an enabling business environment for the economy to thrive. A number of initiatives have been undertaken, among them, the review and enactment of new laws, regulations and policies with a view to promoting investment, employment generation and wealth creation. To this end, the Industrial Development Bill, which was approved by Parliament in November 2006, will reduce the industrial licenses registration time from the current one month to about one week. In the meantime, computerisation of the Office of the Registrar of Companies is nearing completion, which will facilitate implementation of the

Companies Act regulations in April 2007.

44. Mr. Speaker, attracting foreign direct investment is an important component of our strategy to achieve *sustainable economic diversification and global competitiveness*. The Botswana Export Development and Investment Authority (BEDIA) continues to promote investment in export oriented activities which will result in sustained employment opportunities. For example, in 2005, four companies started operations in Botswana, with the level of investment amounting to P64.1 million and employing about 1735 persons. During 2006, BEDIA started coordinating the development of a brand strategy for Botswana, that will promote the country at both local and international levels. The Strategy is to be formally launched early in 2007. In addition, the Ministry of Trade and Industry will complete the drafting of a Foreign Direct Investment Strategy in 2007, to enhance, in a systematic and targeted manner, Botswana's attractiveness as an investment location.
45. Mr. Speaker, the Local Enterprise Authority (LEA) was set up last year to spearhead the development and growth of the small, medium and micro enterprises (SMME) sector in a more effective manner. The Authority has completed the formulation of its strategic plan, for implementation during 2007/08 financial year. Through this plan, LEA will target SMMEs in agricultural, manufacturing, tourism and services sectors in pursuit of Government's overall economic diversification strategy, which has also identified these sectors for priority focus. As part of its support and advisory service package, LEA will open one-stop service centres in different locations in the country, through which standardized service to SMME businesses will be provided.
46. In order to further enhance our efforts for *sustainable economic diversification and global competitiveness*, Government has signed a number of bilateral investment treaties, which protect the investment of citizens and/or companies originating in the contracting state parties. During the past year, two bilateral agreements were signed, one with Belgium-Luxemburg and the other with Mauritius, bringing to six the total number of bilateral investment agreements signed so far. Further, in July 2006, a SACU-European Free Trade Area (EFTA) Agreement was signed, which will result in free trade between SACU and EFTA (Iceland, Liechtenstein, Norway and Switzerland). In addition, in August 2006, SADC Member States signed the Protocol on Finance and Investment, to foster harmonisation of financial and investment policies. The Protocol will facilitate regional integration, cooperation and coordination in finance and investment areas, with the aim of diversifying and expanding the productive sectors of the economy. It will also enhance trade in the SADC region to achieve sustainable economic development and growth, and eradication of poverty. These arrangements should strengthen Botswana's position to compete regionally and globally.

Wildlife and Tourism

47. Mr. Speaker, our wildlife resources are important for growth and economic diversification and various strategies are necessary for their management and sustainable utilisation. The elephant and predator management strategies have been developed mainly to address the problem of wildlife and human conflict by both

fencing and allowing open wildlife corridors. In addition, emphasis is being placed on conservation of wildlife resources through community based natural resource management projects. Other conservation initiatives include the use of transboundary conservation areas. As a result, the Shashe–Limpopo Transfrontier Conservation Area Memorandum of Understanding (MOU) was signed by the Governments of Botswana, South Africa and Zimbabwe in June 2006, while the Kavango/Zambezi Transfrontier Conservation Area MOU was signed in December 2006 by the Governments of Angola, Botswana, Namibia, Zambia and Zimbabwe.

48. Mr. Speaker, the Botswana Tourism Board, which is now in place, will be crucial in achieving the objective of a globally competitive tourism sector. While Government retains the regulatory functions, such as, licensing and policy formulation of the tourism industry, the Botswana Tourism Board is responsible for all operational functions of the tourism sector, such as marketing, investment promotion and grading of the tourism facilities. In this connection, the grading of licensed tourist accommodation facilities, which is aimed at bringing Botswana to international standards of tourism products and services, started in October 2005. To date, 224 of the 350 licensed tourism accommodation facilities have been graded. The Board has also started to market and promote Botswana's tourism products and services locally, regionally and internationally, through participation in major tourism fairs, exhibitions and other events in key international tourism markets.
49. Government continues to involve communities in resource conservation and development of various eco-tourism activities that articulate Botswana's culture, heritage and traditional values. Community projects contribute to employment generation, skills development and entrepreneurship training for members. There has been a steady increase in the number of citizen-owned tourism enterprises over time, most recently increasing from 223 in 2005 to 247 in 2006. This has been achieved, in part, through the reservation of some tourism activities, such as camping sites, caravan sites, guesthouses, mekoro operations, mobile safaris, motorboat safaris and tourist transportation for citizens.

Agriculture

50. Mr. Speaker, agriculture plays a vital role in the lives of Botswana and remains critical for Government's economic diversification efforts. A number of projects are being implemented under the NAMPAADD programme, including the Glen Valley Irrigation Scheme, which is intended to provide serviced agricultural land to farmers interested in undertaking commercial horticulture and fodder production. So far, the Glen Valley irrigation system has been installed and it is envisaged that for the 2007/08 financial year further developments, which include reticulation of electricity and potable water, construction of internal roads, and provision of sewer lines, will be completed. Still under the NAMPAADD Programme, the Dikabeya Production Training Farm has been allocated an eight hectare plot, seven of which are already under cultivation, while the other hectare is reserved for the establishment of green houses. Crops so far produced and sold by the Dikabeya Farm are tomatoes, green mealies, butternuts, green pepper, carrots and onions. In addition, the construction of the Sunnyside dairy training farm

has been completed. The farm is currently stocked with 50 dairy heifers, and 50 more cows will be procured in 2006/07.

51. With regard to dryland farming, the Ramatlabama Production Training Farm has been fully established on a 610 hectare area and production has been ongoing for the past three planting seasons at the farm. A total area of 235 hectares was planted in 2003/2004; 359 hectares in 2004/2005; 435 hectares in 2005/2006; and 283 hectares in 2006/2007, cropping seasons. A variety of stock feed products, such as silage and hay have been produced at the farm, over and above the traditional products, such as maize, sorghum, sunflower and water melons. In addition, 312 farmers have been trained at the farm since its inception three years ago.
52. The study on the *Viability and Long Term Development Strategy for the Livestock (Beef) Sub-Sector in Botswana* has been completed, and Government is considering its recommendations. The major finding of the study is that concerted reform is needed in order to; strengthen efficiency in processing and marketing, improve incentives and land tenure arrangements, liberalise markets, and restructure public expenditure, in the sub-sector. The study further indicates that key strategic elements of the reform of the livestock sub-sector should include; reducing the excess regulatory burden, restructuring the Botswana Meat Commission, and strengthening production support systems. Government will decide on the recommendations of the study during the first half of 2007/08 financial year.
53. Mr. Speaker, the review of the agricultural support schemes, namely; Arable Land Development Programme, the Emergency Plant Protection Programme, Services to Livestock Owners in Communal Areas and the Livestock Water Development Programme, has been completed. The review indicated that the programmes had a positive socio-economic impact on the beneficiaries. As a result of this finding, Government has decided to re-introduce the schemes with an estimated total cost of P135 million and an annual allocation of P50 million for 2007/2008.
54. Meanwhile, a total of 140 326 hectares was ploughed during the 2005/06 cropping season, resulting in total crop production of 46 026 tonnes, out of which 26 008 tonnes was from the communal sub-sector, while 20 018 tonnes was from the Pandamatenga commercial farms. Cereal crop production, which constituted about 79 percent of total production, represented only 18 percent of total national cereal requirement, which was estimated at 200 133 tonnes for 2005/06. The low crop production was largely as a result of several factors that include: leaching of nutrients due to continuous rainfall; pest damage, especially by quelea birds and rats; and frost damage in Pandamatenga and the Southern region.

Minerals and Energy

55. Mr. Speaker, diamond production has returned to a more normal path, following the exceptionally high output achieved in the second half of 2004. Production for the calendar year 2006 was 33.0 million carats, compared to the 32.8 million carats produced in the twelve months through June 2006, and the 31.9 million carats produced

in 2005. The increase was attributable to improvements in operational efficiency and productivity of the Debswana mines. However, the diamond market has been sluggish, and as a result the Diamond Trading Company rough diamond price went down by about 4 percent in 2006. Meanwhile, DiamonEx (Pty) Ltd (Botswana) was issued a licence to mine diamonds near Lerala in the Central District and production is expected to commence at the end of 2007. Further, additional 11 new licences have been issued for diamond cutting and polishing factories, bringing the total number of licensed diamond operators to 16. These developments will help to consolidate our efforts towards sustained diversified growth and global competitiveness.

56. Soda ash production for 2006 was about 300 000 tonnes, compared to 276 218 tonnes in 2005, while the estimated production of salt was 217 014 tonnes in 2006, higher than the 2005 production of 196 443 tonnes. Botswana Ash (Pty) Ltd intends to increase production of soda ash and salt to maintain its market share, as it faces stiff competition from other producers selling in the region.
57. Mr. Speaker, output of copper nickel and cobalt in 2006 was slightly less than the 2005 output of 68 637 tonnes. However, base metal prices on international markets continued to do exceptionally well. In 2005 the average price for nickel was \$6.18 per pound, while during 2006 the nickel price rose from about \$6.80 per pound to over \$15.00 per pound. The copper price, which averaged \$1.84 per pound in 2005, rose to over \$3.63 per pound, before declining to about \$2.75 per pound at the end of 2006.
58. Coal production in 2006, at 983 833 tonnes, was about the same level as that of 2005 as a result of low customer demand. Construction of a coal washing plant to improve the calorific value and demand for the coal has been approved by the Morupule Colliery Board. The project is expected to start in 2007 at an estimated cost of P87 million. Meanwhile, production at Mupane Gold Mine increased marginally to 2 800 kg by the end of 2006, compared to 2 705 kg in 2005.
59. Mr. Speaker, electrification of our rural areas is important for achieving the objectives of economic diversification and citizen economic empowerment. Therefore, Government will speed-up the implementation of the rural electrification programme, with some additional 100 villages planned to be connected to the national grid by the end of 2008/09, at an estimated cost of P544 million. In addition, some villages will be supplied with photovoltaic stand-alone systems. At the same time, Government will ensure connection of all public facilities, such as schools and clinics in all the villages, to the national grid. This will include those villages that were connected to the national grid in the past. The Ministry of Local Government and the District Councils will start immediately to plan, and commence implementation of this programme at the beginning of the financial year 2007/08. Meanwhile, Mr. Speaker, diversified electricity supply sources, aimed at addressing energy security, continue to be identified. Construction of the expansion of the Morupule Power Station is scheduled to start in November 2007, with electricity generation expected in 2010, whilst the proposed Mmamabula Export Power Station is expected to start operations in 2011.

Water

60. Mr. Speaker, to improve water supply resources country-wide a number of additional dams are required as guided by the National Water Master Plan. Construction of Ntimbale Dam is complete, with construction of some major components of the project still ongoing, to be completed in June 2007. Meanwhile, preparations are ongoing to start the construction programme of Dikgathong, Thune, Lotsane and Mosetse dams during the 2007/08 financial year at an estimated total cost of P2 billion.
61. To complement surface water, various groundwater projects are on-going in Kang/Phuduhudu, Matsheng, Masama and Bobonong. These will be completed by the end of 2007/2008, at an estimated cost of about P100 million. Further, the Bokspits water level monitoring will be fully automated during 2006/07, while the implementation of the Okavango Delta Airborne Electromagnetic Survey project will start in 2007 and be completed during 2008. The objective of this project is to identify and delineate fault systems and shallow geology in order to determine the groundwater potential of the area.

Works and Transport

62. Mr. Speaker, Honourable Members, the slow pace of the implementation of Government projects remains a major concern to the Nation. As a result, Ministries will be allowed to set up Ministerial Technical Units to speed up project implementation. The Department of Building and Engineering Services of the Ministry of Works and Transport will provide guidelines and coordination of these Units.
63. In order to *improve productivity* and enhance *global competitiveness* of the transportation system, a study has been commissioned for the development of an Integrated Transport Policy. The major objectives of the Policy will be to: secure a sustainable transport system; support all sectors of the economy with adequate transport; enhance integration and improve connections among transport modes; and ensure that as far as practical, users pay the full costs of transport. The study commenced in October, 2006 and is expected to be completed in July, 2007. At the same time, a substantial exercise of expanding and upgrading the major airports of Sir Seretse Khama International, Maun, Francistown and Kasane will begin during the course of the next financial year. These projects are intended to improve our domestic and international connections, as well as enhance global competitiveness of the tourism sector.

Information and Communications Technology

64. Mr. Speaker, Government is determined to improve public service *productivity* through the implementation of well conceived information and communications technology strategies. In this regard, the e-government project is aimed at making available, on-line, all Government publications for ease of access by the public, including investors. This project will be completed during 2007/2008. In addition, community access to information through the internet has been successfully piloted at Kitsong Centres in

Gumare, Hukunsi and Letlhakeng, and it will be rolled out to other localities during the 2007/2008 financial year.

65. In an effort to further improve service delivery and bring related socio-economic benefits to the rural communities, provision of telecommunication services has been completed in seven villages in the Tswapong area. Further, the Rural Telecommunication project, *Nteletsa II*, will provide telecommunications services to 197 more villages country-wide over the next three years, starting in 2007/08 financial year at an estimated total cost of P265 million. For effective service delivery, Government will undertake to connect all public facilities in villages where the Botswana Telecommunications Corporation (BTC) has provided backbone telecommunication infrastructure. This will include backlog connections in villages that were connected by the BTC in the past.
66. As mentioned in last year's Budget Speech, BTC is also involved in the international connectivity project, aimed at improving the country's connectivity through undersea fibre-optic cables on the east and west coastal corridors of Africa. These projects are both making progress. A protocol on the regulatory framework which would govern the East African submarine cable was signed in October 2006. On the west coast of Africa, Angola recently announced willingness to participate in the project, which provides a critical link in the system. The responsible Ministers for Angola, Botswana and Namibia are, therefore, going to meet in the first quarter of 2007 to chart the way forward.
67. Mr. Speaker, the establishment of an innovation hub in Gaborone is scheduled to start during 2007. The major objectives of the hub are, amongst others: to attract foreign direct investment in high technology businesses, such as information and communications technology and biotechnology; encourage and support the start-up of innovative technology based businesses with a focus on exports; accelerate growth of existing businesses by creating an environment of innovation, and helping businesses to commercialize innovative products, processes and services; and attract research and development activities of leading multinational corporations to Botswana. The hub is expected to improve Botswana's ability to compete in the global market as a result of a productive labour force with technical skills and training provided by the hub.

Education

68. Mr. Speaker, major developments earmarked for implementation in 2007/08 financial year, include the expansion of the University of Botswana, construction of the Botswana International University of Science and Technology and the Medical School. The Interim Head of the Medical School was recently appointed, while the recruitment of core staff, and development of an internship programme for the medical students, who will start internship in 2007, are on schedule. Meanwhile, the construction of Oodi College of Applied Arts and Technology commenced at the end of 2006 and will be completed in the last quarter of 2008/09. In addition, other projects to be undertaken in 2007/08 financial year include the expansion of the Gaborone Technical College and Auto Trades Training Centre, as well as the design of Selebi-Phikwe College of

Applied Arts and Technology.

69. Mr. Speaker, following the decision to take over the brigades and convert them into technical colleges, the Ministry of Education is currently undertaking preparatory activities, including financial, human resource and equipment audits. These audits will provide a clearer picture of the financial implications of the take-over. Therefore, the full budgetary requirements for the take-over will be determined and considered by May, 2007. The conversion of brigades into Government technical colleges will enable them to offer new qualifications and contribute to poverty alleviation and promote brigades engagement in *economic diversification*.
70. Further, five new senior secondary schools will be constructed in Goodhope, Nata, Shakawe, Mogoditshane and Mmadinare in 2007/08. With completion of these schools and some technical colleges, in March 2009, the post junior secondary target transition rate of 83 percent should be achieved. In order to improve productivity and enhance project implementation, the Boipelego Education Project Unit of the Ministry of Education will be strengthened with the view to tackling the maintenance backlog in community junior secondary schools and senior secondary schools, as well as the construction of new facilities. For 2007/08 financial year, a provision of P45 million has been made to clear the maintenance backlog of 22 schools. Overall, 71 community junior secondary schools have benefited from the maintenance backlog programme since 2003, leaving 134 schools still to covered.

Lands and Housing

71. Mr. Speaker, in order to improve its operational efficiency and sustainability, the Self Help Housing Agency (SHHA) is being reviewed. In this regard, a consultancy for the review of the programme was awarded in September 2006, and will be completed in March 2007. The review is investigating the feasibility of involving both the private sector and non-governmental organisations in the funding and management of the programme. The turnkey approach, where houses are designed and built for occupation by SHHA beneficiaries, will continue to be pursued to address housing needs for the low income groups. Furthermore, the Poverty Alleviation and Housing scheme, which was piloted in Mahalapye, Francistown and Ghanzi will have been rolled out to five districts by the end of 2006/2007. The scheme focuses on creating employment opportunities and empowering the poor households with capital to produce building materials, mainly bricks, to build houses for themselves.
72. Mr. Speaker, as I mentioned in the 2006 Budget Speech, a review of all land related laws and policies is underway to formulate a comprehensive policy which will promote equitable land distribution and address land use conflicts, land pricing and land rights, as well as strengthen land management. The new policy will establish a conducive environment for both domestic and foreign direct investment, thus contributing to economic diversification and global competitiveness. In addition, a number of land Acts will be reviewed, including: the Town and Country Planning Act, the Deeds Registry Act, the Tribal Land Act, the State Land Act and the Land Survey Act. These Acts will be aligned with the Land Policy and other relevant pieces of legislation. At

the same time, the roll out of the computerised Tribal and State Land Integrated Management Systems is progressing well, and it will be completed by the end of NDP 9 in 2008/09 financial year. These systems will facilitate easy access to land information that is vital for informed decision making by the land authorities.

73. Mr. Speaker, to help alleviate a serious shortage of both serviced and unserviced land in some parts of the country, there has been progress in the last two years in land acquisition; with about 3 000 hectares acquired for village expansions, 500 hectares for Lobatse Township, and 15 000 hectares for conversion to tribal land. In addition, the transfer of the land servicing project from the Ministry of Local Government to the Ministry of Lands and Housing will facilitate direct supervision of the project, which should improve its effectiveness.

Health and HIV/AIDS

74. Mr. Speaker, in the field of health, the country continues to face a number of challenges, such as the HIV/AIDS epidemic and shortage of human resources for healthcare. Despite these challenges, significant progress has been made in a number of important areas to improve service delivery in the health sector. As of October 2006, the total number of patients enrolled for Anti-Retroviral Therapy (ART) was 75 785 compared to 54 378 in 2005. This was a significant improvement of about 39 percent, but short of the target of 85 000 people on treatment by the end of 2006. The major focus now is to continue the roll out of ART services at the clinic level, thereby bringing services closer to the people. Meanwhile, the Prevention of Mother to Child Transmission (PMTCT) programme continues to experience high uptake, as 92 percent of women who are known to be HIV positive receive treatment at the time of delivery, while 91 percent of HIV exposed babies receive the infant formula and drug therapy. Coupled with these innovations is the introduction of early infant testing, which is currently being rolled out to the districts to improve coverage.

75. Mr. Speaker, prevention of new HIV infections remains the cornerstone of the HIV/AIDS control in Botswana. Yet the challenge of treatment for those already infected is a major test for our health care system. According to the 2004 Botswana AIDS Impact Survey, the national HIV prevalence rate for the age groups of 18 months and above was 17.1 percent. Recent studies show that HIV prevalence rates are declining in the country, especially among the youth. The 2005 Sentinel Surveillance, which tests pregnant women, aged between 15 and 49 and attending Government clinics, showed that HIV prevalence had decreased from 37.4% in 2003 to 33.4% in 2005. The preliminary 2006 Sentinel Surveillance shows that HIV prevalence decreased to 32.4% in 2006, again the highest reduction being among the youth. The reduced prevalence rate suggests that the rate of new infections is declining.

Local Government Services

76. Mr. Speaker, given the need to *improve productivity* and enhance service delivery, Government established the Department of Local Government Technical Services in 2006 to improve project implementation and accountability by the Local Authorities.

To this end, a budget allocation of P39 million has been made for the next three years to engage consultants to assist the Department in project implementation and management. Once fully operational, the Department will also attend to the backlog of maintenance of public facilities under the Local Authorities, such as schools and clinics, for which funds have been allocated. In addition, Government has drafted a Local Authorities Procurement and Asset Disposal Bill to further enhance service delivery in the Local Authorities. Consultations on the Bill are currently ongoing with Local Authorities.

77. Since its introduction in 2004, the Primary School maintenance backlog eradication programme has been rolled out to 220 schools around the country, covering 566 classrooms, 2 925 toilets and 1 280 teachers' quarters. Most of these projects will be completed by the end of the 2007/08 financial year, with the remaining projects completed before the end of 2008/09. Meanwhile progress has also been made with regard to clearing the backlog of audited annual accounts of the Local Authorities, with nine Local Authorities now up to date and seven in arrears by one year. Government will continue to ensure that all Local Authorities are accountable for the use of public resources.

V. 2005/2006 BUDGET OUTTURN

78. Mr. Speaker, the budget outturn for the 2005/2006 financial year was an overall surplus of P4.63 billion, compared to the anticipated budget surplus of P1.58 billion in the revised budget estimates presented at this time last year. This change in the final position is attributable to both the higher revenue earnings and lower expenditure than was expected.

79. Total actual revenues and grants amounted to P22.27 billion, which was higher than the projected P21.70 billion in the revised budget estimate, representing an increase of P570 million or 2.6 percent. Customs revenue accounted for the highest increase of P434.20 million or 12.4 percent, followed by mineral revenue with an increase of P155.77 million or 1.4 percent. The increase in Customs revenue arose primarily from payment due to Botswana under the old 1969 SACU Agreement. With regard to mineral revenue, the increase was attributable to greater than forecast movement in the exchange rate of the Pula against the US dollar, resulting in increased mineral revenue in Pula terms.

80. Mr. Speaker, the total actual expenditure and net lending amounted to P17.63 billion compared to P20.12 billion in the revised budget, representing an under spending of P2.49 billion or about 12.4 percent. Out of this total actual expenditure, recurrent expenditure accounted for P14.15 billion, which was P1.65 billion below the projected P15.80 billion in the revised budget. Ministries with the highest under-expenditures under the recurrent budget include: Education with P636 million; Health with P328 million; and Minerals, Energy and Water Resources with P151 million. For the Ministry of Education, the under-expenditure was partly due to the fact that some of the expenditures relating to payment for students outside the country came after the close of the financial year. With regard to most of the Ministries, the high level of vacancies due to delays in recruitment of officers with specialized training, and delays in procurement

of goods and services are some of the factors that accounted for the under-expenditure. Mr. Speaker, under-expenditure of the recurrent budget also reflects the benefits of cost control, cost saving and productivity improvement measures which Government introduced in the past.

81. Mr. Speaker, development expenditure in 2005/06 financial year recorded an under expenditure of P667 million, which is about 15% of the P4.45 billion total revised development budget. Most of the under-expenditures are accounted for by the Ministries of: State President with P173 million; Works and Transport with P153 million; Education with P81 million; Lands and Housing with P67 million; Communications, Science and Technology with P66 million. The majority of the Ministries cite the requirements for an Environmental Impact Assessment, slow land allocation, poor performance of some contractors and service providers, as well as slow project design and tendering procedures as the principal contributory factors to the delayed implementation of projects, hence the under-expenditures.

VI. 2006/2007 REVISED ESTIMATES

82. Mr. Speaker, the original estimates for 2006/2007 was a budget surplus of P1.73 billion. The revised budget, however, shows a larger budget surplus of P4.39 billion mainly due to the P2.06 billion increase in Customs revenue from P5.30 billion to P7.40 billion. In December 2005, when the SACU Council of Ministers met, they approved payments to Member States in 2006/07 on the basis of estimates of the SACU revenue pool for 2005/06. However, the actual collections were much higher than the estimates. Thus the final shares to be paid to Member States in 2006/07 take into account the SACU revenue pool surplus. The SACU Council of Ministers decided that the surplus revenue shares would be paid in 2006/07 financial year, rather than be spread over more than one year. Mr. Speaker, I should emphasise to Honourable Members that additional SACU revenue of this magnitude is unlikely to accrue in the future.
83. Another notable increase is in non-mineral tax revenue, which increased from P2.92 billion to P3.32 billion, representing an increase of P395 million, was as a result of improved tax collection efforts by the Botswana Unified Revenue Service (BURS). Honourable Members will recall that BURS was established in 2004, with the main objective to improve productivity in collection of tax revenue. Therefore, we are reaping some of the fruits of Government's productivity drive.
84. On the expenditure side, the revised total expenditure and net lending for 2006/07 is estimated at P22.41 billion, which is very close to the original estimate. The revised development expenditure of P5.60 billion is about P200 million below the original approved development budget allocation of P5.80 billion. Mr. Speaker, this serves to emphasise the fact that there is need to give more attention to implementation capacity problems and these are receiving urgent attention within Government, as I shall elaborate later on. With regard to the recurrent expenditure, the original estimate was P16.66 billion. As at the end of December 2006, P11.44 billion had been spent, which was about 68 percent of the revised recurrent budget estimate of P16.86 billion.

VII. 2007/2008 BUDGET ESTIMATES

85. Mr Speaker, Honourable Members will recall that in order to maintain a sustainable fiscal position and in light of Government's stabilising function in the economy, the Mid Term Review (MTR) of NDP 9 adopted the Fiscal Rule, which is to be followed in preparation of annual budgets. The Rule requires Government expenditure not to exceed 40 percent of GDP. As I will make clear later, the expenditure budget is in keeping with the Fiscal Rule.
86. The MTR of NDP 9 also set out the plan to divide Government expenditure between the recurrent and development budgets, initially with not more than 75 percent allocated to the recurrent budget, and at least 25 percent allocated to the development budget. The intention is to reach the 70:30 apportionment ratio between recurrent and development by the end of NDP 9, in financial year 2008/09. The allocation of more resources to development expenditure is critical for sustainable economic diversification. The proposed budget for 2007/2008 is in keeping with both the Fiscal Rule and the allocation between recurrent and development budgets set out in the MTR of NDP 9.

Revenues and Grants

87. Mr Speaker, total revenues and grants for 2007/2008 financial year are estimated at P27.18 billion. This amount is accounted for by: mineral revenues at P10.89 billion or about 40 percent; customs revenue at P7.40 billion or 27 percent; non-mineral income tax revenue at P3.55 billion or 13 percent; VAT revenue at P2.52 billion or 9 percent; Bank of Botswana revenue at P907 million or 3 percent; while the balance of P1.91 billion or 7 percent is income from various fees and charges, which include cost recovery, property and interest incomes.
88. Mr. Speaker, I should add a word of caution with respect to this revenue outlook. It is important to recognise two features of the revenue picture for 2007/08. First, a substantial portion of our revenues are denominated in foreign exchange. In drawing up the budget it was assumed that there would be no significant movements of currencies within the basket. However, because of the possible movement between the currencies of the basket, there is considerable uncertainty underlying the revenue forecast. What is presented here is the most likely outcome, but it must be recognised that the out-turn may be considerably different. Second, the unusually high level of the SACU revenue is unlikely to be sustained in future years. The SACU revenue pool for 2007/08 is larger because of rapid growth of expenditure on imports and excisable goods in the SACU members, largely fuelled by rising international commodity prices, but which will stop rising or even fall if the world economy stops growing as rapidly as it has in recent quarters. Further, in the years ahead, the SACU common external tariff will continue to decline as the average tariff falls under the terms of the WTO, thus also reducing the pool.

Recurrent Expenditure

89. Mr. Speaker, the 2007/2008 recommended recurrent budget, including statutory expenditure estimates, amount to P19.82 billion, which is P2.76 billion or 16.2 percent higher than the 2006/2007 revised budget estimate of P17.06 billion. Honourable Members will be aware that in addition to the normal growth of Government, the increase in the recurrent budget estimate is as a result of the take-over by Government of Community Junior Secondary Schools and increases in operating costs and establishment of autonomous organizations, such as the proposed Non-Banking Regulatory Authority and the Local Enterprise Authority, as well as the establishment of the new Local Authorities in Chobe, Moshupa and Tonota.
90. Mr. Speaker, the total ministerial recurrent budget is shared by the Ministries of: Education with P5.0 billion or 28.2 percent; Local Government with P2.8 billion or 15.9 percent; State President with P2.4 billion or 13.7 percent; Health with P1.57 billion or 8.9 percent; Works and Transport with P1.33 billion or 7.5 percent; Agriculture with P695 million or 3.9 percent; Finance and Development Planning with P665 million or 3.8 percent; Labour and Home Affairs with P550 million or 3.1 percent; Minerals, Energy and Water Resources with P541 million or 3.1 percent; Communications, Science and Technology with P482 million or 2.7 percent; Lands and Housing with P444 million or 2.5 percent; Environment, Wildlife and Tourism with P330 million or 1.9 percent; Trade and Industry with P311 million or 1.8 percent; and Foreign Affairs and International Cooperation with P219 million or 1.2 percent. The remaining six Independent Departments share P308 million or 1.8 percent of the total recommended ministerial recurrent budget.
91. The budget for the Statutory Expenditure is P2.13 billion. The largest item under this category of expenditure is Public Debt Servicing (i.e. repayment of loans and interest payments), at P1.27 billion. Of this amount, P850 million is for redemption of the five year domestic bond issued in 2003, which is due in March 2008. Government will re-issue the bond as this is an important contributor to the development of the domestic capital market. The proceeds will add to the Tertiary Education Development Fund, which needs large sums of funds for financing of the construction of the Botswana International University of Science and Technology, the University of Botswana expansion and the Medical School. Other Statutory Expenditure items included are: Government's 15 percent contribution to the Botswana Public Officers Pension Fund (BPOPF) at P538 million; Pensions and Gratuities for the retired public officers who have not transferred to the BPOPF and gratuities for Industrial Class employees at P167 million; and miscellaneous statutory commitments, such as Salaries and Allowances for specified officers at P13 million, refunds of income tax and annual subscriptions to international organizations, such as the International Monetary Fund, the African Development Bank and the International Bank for Reconstruction and Development at P205 million.
92. Mr. Speaker, in line with this Budget Speech theme, *Improved Productivity – The Key to Sustainable Economic Diversification and Global Competitiveness*, there will be further

decentralization of virements to ministries effective the 1st April, 2007. This will include hitherto restricted votes, such as Travelling, Add Back items, and Personal Emoluments. The move will further allow Accounting Officers to fully manage their budgets, with flexibility to move funds from low to high priority activities. In addition, the Compensation (General Expenses) vote will be decentralized from the Ministry of Finance and Development Planning to the Attorney General's Chambers to facilitate timely payment and better informed budget forecast for the vote. Further, there will be decentralisation of the payment of air travel costs, which is currently centralized at the Accountant General's Department. This will allow Accounting Officers to closely monitor and control their external travelling costs and commitments in order to avoid over expenditures.

Development Expenditure

93. I recommend a Development Budget of P7.26 billion. This budget will be funded from the Domestic Development Fund to the tune of P6.75 billion and donor grants and loans of P502 million. Mr. Speaker, as I said earlier, this allocation reflects Government's desire to allocate more of the national resources for investment purposes in pursuit of sustainable growth and economic diversification. However, public investment will be much more than the P7.26 billion, if we take into account capital expenditure by all the parastatals, as well as the amount to be spent under the Tertiary Education Development Fund, estimated at P305 million for the 2007/2008 financial year.
94. Turning to the allocations, Mr. Speaker, the Ministry of State President with an allocation of P1.93 billion takes the highest share or 27 percent of the proposed development budget, mainly accounted for by the HIV/AIDS Programme at P896 million, BDF at P488 million, the new Presidential Jet project at P215 million and Police Facilities at P152 million. These four projects' allocations account for 91 percent of the Ministry of State President's development budget, whilst the HIV/AIDS Programme alone accounts for 46 percent of the Ministry's total development budget allocation. The bulk of the proposed amount for the BDF will go towards the maintenance of equipment; and construction and improvement of facilities, such as housing. As Honourable Members may be aware, more housing and other facilities will be required to reduce shortages and cater for the recruitment of women into the army.
95. Mr. Speaker, the Ministry of Local Government with the proposed development budget allocation of P990 million takes the second largest share of 14 percent. Five projects, namely; Primary Schools with P222 million, Village Water Supply and Sewerage with P120 million, Urban Land Servicing with P90 million, Local Authorities Infrastructure Maintenance with P100 million, and District and Urban Roads with P129 million, account for 67 percent of the Ministry's total development budget. It is noteworthy, Mr. Speaker, that the Local Authorities will be expected to give priority to maintenance and connection of utilities to public facilities, with the P100 million allocated to alleviate the backlog of maintenance.
96. The Ministry with the third largest proposed allocation is Works and Transport at P786 million or 11 percent of the total development budget. Within this Ministry, the Air

Transport Infrastructure project is allocated P188 million, followed by Secondary Roads Construction at P182 million and Bitumen and Trunk Roads Improvements at P179 million. These four projects account for 70 percent of the Ministry's total development budget estimate. The project to clear the backlog of maintenance of central Government infrastructure is allocated P57 million. This amount excludes the allocation to the Ministry of Education, which will have a separate maintenance backlog vote of P45 million in 2007/08 financial year.

97. The Ministry of Minerals, Energy and Water Resources is allocated P637 million, which is 9 percent of the proposed total development budget. Major Villages Water Supply and Development project takes the largest share of P230 million, followed by Water Planning and Development with P183 million, and Renewable Energy and Power Development with an allocation of P120 million. These three projects constitute 84 percent of the Ministry's total development budget estimate.
98. The Ministry of Health with an allocation of P636 million, represents 9 percent of the total development budget. Improvements to Hospitals project takes the largest share of the Ministry's development budget allocation with P474 million, followed by the Institutes of Health Sciences with P105 million. These two projects account for 91 percent of the Ministry's development budget estimate. Expenditures on health are also found in development budgets of other Ministries. Hence, on a functional classification basis, overall development expenditure under the health sector, including HIV/AIDS and primary health care accounts for 20 percent of total development expenditure.
99. The Ministry of Education is allocated P584 million, which is 8 percent of the proposed total development budget. The Secondary Schools project takes the major share with P305 million, followed by Colleges of Education with P176 million. These two projects account for 82 percent of the Ministry's total development budget estimate. I should add, Mr. Speaker, that this large development allocation under the Ministry of Education does not include the amount to be spent under the Tertiary Education Development Fund. Further, as I have noted, the Ministry of Education has been allocated an amount of P45 million for maintenance backlog of junior and senior secondary school facilities, which is included in the proposed development budget.
100. The Ministry of Lands and Housing with P363 million accounts for 5 percent of the proposed total development budget. District Housing takes the largest share at P128 million, followed by the Botswana Housing Corporation Finances with P70 million and Land Boards Development with P59 million. These three projects constitute 71 percent of the Ministry's total development budget. The Botswana Housing Corporation Finances project is mainly on-lending of the Chinese loans for the development of houses at various locations in the country.
101. The Ministry of Communications, Science and Technology with a share of P347 million accounts for nearly 5 percent of the total development budget. The Botswana Telecommunications Corporations (BTC) Finances project has the largest share of the proposed Ministry's development budget at P214 million, which includes P193 million for conversion of Public Debt Service Fund and Domestic Development Fund loans to

BTC into equity. The other components of the BTC Finances project are *Nteletsa II*, which is allocated P15 million and the Rural Operation Subsidy, with an allocation of P5 million. The other major project allocations within the Ministry of Communications, Science and Technology are for the Development of the Department of Information and Broadcasting at P53 million, and the Science and Technology Research Institutions at P32 million. These three projects account for 86 percent of the Ministry's total development budget.

102. Mr. Speaker, the Ministry of Labour and Home Affairs is allocated P274 million, which is nearly 4 percent of the total development budget. Within this Ministry, the Prison Facilities project takes the largest share at P73 million, followed by the Ministry of Labour and Home Affairs Facilities with P64 million, and Sports and Recreation with P45 million. The three projects account for 66 percent of the Ministry's total allocation under the development budget.

103. The Ministry of Environment, Wildlife and Tourism has a share of P189 million, which is 2.6 percent of the total development budget. Within the Ministry, the largest share is taken by Urban Sewerage with P58 million, followed by National Rural Sanitation Programme at P50 million, Development of Meteorological Services at P31 million, and Development of the Department of Wildlife and National Parks at P29 million. The four projects account for 89 percent of the Ministry's share of the proposed development budget.

104. The Ministry of Agriculture with P162 million accounts for 2.2 percent of the proposed total development budget. The Agricultural Support Schemes take the largest share of the Ministry's allocation with P50 million, followed by the Botswana College of Agriculture at P25 million, Improvement to Disease Control with P21 million and NAMPAADD Implementation with P13 million. These projects constitute 67 percent of the Ministry's share of the total development budget.

105. The Ministry of Finance and Development Planning is allocated P135 million which is under 2 percent of the proposed total development budget. Within this Ministry, the Ministry of Finance and Development Planning Facilities project takes the largest share at P44 million, followed by Consultancies and Research with P36 million, Customs and Immigration Facilities with P26 million and the Ministry of Finance and Development Planning Computerisation with P23 million. These projects constitute 96 percent of the Ministry's development budget allocation.

106. The Ministry of Trade and Industry with an allocation of P93 million takes 1.3 percent of the proposed total development budget. Within the Ministry, the largest share goes to the Ministry of Trade and Industry Infrastructural Facilities project with P31 million, followed by the Development of BEDIA with P27 million and Cooperative Development at P12 million. These projects constitute 75 percent of the Ministry's development budget allocation.

107. Mr. Speaker, the remaining four Ministries and Independent Departments share P130 million or 1.8 percent of the total proposed development budget.

108. Mr. Speaker, in an effort to address the problem of slow implementation of projects and following on this year's theme, of *Improved Productivity – The Key to Sustainable Economic Diversification and Global Competitiveness*, Ministries will be given responsibility to approve their Project Memoranda up to a threshold of P10 million. My Ministry will formulate guidelines as to how this will be implemented, given that ministerial approvals will still have to be included in the Domestic Development Fund Tranche for the issue of warrants in accordance with the provisions of the Finance and Audit Act. Ministries will be expected to request movement of funds from slow spending to fast spending projects, before requesting supplementary funds. However, ministries should not use this option to concentrate on easy to implement projects at the expense of priority projects, for the sake of showing high expenditure patterns. Furthermore, the requirement for Environmental Impact Assessments is being waived on a case by case basis. Ministries have been urged to seek land immediately projects are included in the Plan to avoid delays when funds are released. Technical implementing departments such as the Department of Building and Electrical Services, Boipelego Education Project Unit and similar ones in the Local Authorities are being strengthened with additional resources to improve their implementation capacity. In addition, procurement processes of the PPADB will continue to be reviewed in an effort to speed up project implementation. In this regard, a bill to amend the PPADB Act will be tabled in Parliament in 2007/08 financial year.

109. Honourable Members may recall that, last year, I advised Ministries and other implementing agencies to take advantage of the decentralisation of decision making, such as undertaking pre-contract services after the draft Estimates had been approved by Cabinet. However, the majority of ministries did not take advantage of this dispensation. I wish to emphasise again that ministries should undertake pre-contract services as directed last year in order to improve on project implementation. Those Ministries who show progress in implementing projects included in the 2007/08 development budget will be allowed to start pre-contract activities during 2007/08 for the remaining NDP 9 projects.

VIII. PUBLIC SERVICE SALARIES

110. Mr. Speaker, as part of the Mid Term Review of NDP 9, approved by Parliament in 2005, it was agreed that adjustments to public sector salaries be effected annually at half the rate of inflation, subject to affordability, with additional increases being accomplished by productivity improvements. The Consumer Price Index shows that the average cost of living in 2006 had increased by 11.6 percent over 2005.

111. Mr. Speaker, following the meeting of the National Employment, Manpower and Incomes Council on the 29th January, 2007 recognition was given to ensuring improved productivity and sustainable economic diversification and global competitiveness, in line with the theme. In this regard, considering affordability, the need to promote productivity within the economy, and the risk associated with the revenue forecast, Government has decided to award a public sector salary increase of 6 percent across the board. This will include: salary adjustments for the Public Service, the Local Authorities

and Parastatals that depend on subventions from Government; the pensions for the Old Age, War Veterans and Public Service pensioners who have not joined the Botswana Public Officers Pension Fund; as well as allowances for destitutes, Village Development Committees, Home Based Care volunteers, and all other community based organisations paid for by Government or the Local Authorities.

112. Mr. Speaker, it should be noted that the 6 percent salary increase that I have just announced is in addition to the annual performance pay increment that members of the Public Service receive, except the few who are at the top notches of their pay bands.

IX. OVERALL BALANCE

113. Mr. Speaker, on the basis of the 2007/08 budget proposals, with total revenues and grants estimated at P27.18 billion, and total expenditure and net lending at P25.91 billion (net of amortisation and some small transactions, which are excluded in calculating a budget balance), a budget surplus of P738 million is forecast after including the cost of the public sector salaries increase estimated at P529 million.

114. Mr. Speaker, the Expenditure Estimates for both the Recurrent and Development Budgets had been compiled before the recent new Ministerial appointments were announced by His Excellency the President. I would like to assure Honourable Members that, while we will need to reclassify some budget lines to reflect the new Ministerial portfolios, it will be possible to accommodate most of the expenditures within the total expenditure budget I have just tabled, as most of the expenditures are already included under the existing departments.

115. The GDP forecast for the 2007/08 financial year is P66.67 billion in current prices. The proposed total expenditure budget is 39.75 percent of the forecast GDP and is, therefore, in conformity with the Mid-Term Review of NDP 9 Fiscal Rule for sustainable economic diversification. The share allocated to the recurrent budget for 2007/08 is 72.6 percent, compared with 75.1 percent in the revised budget for the current year. This leaves 27.4 percent for the proposed development budget, and shows that we are moving towards the 70:30 apportionment by the end of NDP 9, which is the 2008/09 financial year.

X. FISCAL LEGISLATION

116. Mr. Speaker, in the 2006 Budget Speech, I announced several changes in the Income Tax and Value Added Tax Acts. Most of these proposals have been implemented, with exception of the Tax Administration Bill, which took longer than anticipated to draft as a result of capacity constraints and complexity of issues to be tackled. I do not wish to introduce any new tax proposals at this stage and prefer to consolidate the implementation of last year's proposals and complete the drafting of the Tax Administration Bill, which will be coming before Parliament later this year. The Bill will ensure that the various tax procedures under the revenue laws are simplified and harmonized for the benefit of taxpayers and further enhancing productivity of the Botswana Unified Revenue Service.

117. Mr. Speaker, the amendment to the Income Tax (Training) Regulations mentioned by His Excellency the President in the State of the Nation Address in November 2006 have been gazetted. This is to empower the youth and create employment for them, as well as to encourage employers to employ and train the youth, who, in many instances are inexperienced. The amended Regulations include: (a) allowing businesses that offer unemployed youth any form of approved training by way of formal institutional training or on-the-job-training to benefit from the tax deduction provisions; (b) making training expenses for part-time employees eligible for 200 percent deduction; (c) allowing apprenticeship to be conducted at the employer's place of business; and (d) removing the requirement that work done by the employee or apprenticeship should not add value to goods and services provided by the employer. Mr. Speaker, may I request Honourable Members to publicise the scheme as they have been doing with others. The Botswana Unified Revenue Service has been instructed to carry out a wider publicity on these regulations to make businesses aware of the benefits.

XI. CONCLUSION

118. Mr. Speaker, while Botswana has grown rapidly over the past 40 years, the major challenge now is to sustain that high growth with attendant diversification beyond the predominant diamond mining sector. With diamond production reaching its plateau, unless other larger and more profitable pipes are discovered, the major objective is to increase the contribution of other minerals, as well as the economic value of high productivity non-mining sectors. It is in this light that we must achieve a higher growth path through *Improved Productivity and Sustainable Economic Diversification*, which will ensure *Global Competitiveness* and thereby a higher living standard for all Batswana.

119. The major vexing issue confronting the public sector, as I mentioned at the beginning, has been implementation of existing projects which are massive when compared to the past. With the implementation of such projects, we should significantly accelerate the growth of the economy. Last year, Government allocated a record P5.8 billion of funds to development expenditure, and this year, that figure has been increased by a further 25.9% to reach P7.26 billion. I hope with the flexibility in project management and strengthening of some technical departments I mentioned earlier, implementation performance should improve for the economy to absorb increasing numbers of the labour force and reduce poverty significantly. If we focus fully on implementing various projects and programmes as Ministries, the private sector, labour and NGOs, we can succeed, as we must, since failure to do so is not an option.

120. Mr. Speaker, I also believe that as a society we should change our mindset towards self improvement and independence. Gone are the days when our individual successes depended on Government largesse, subsidies and preferences. As we discuss issues of citizen economic empowerment, we should be mindful of the trade-offs and costs associated with reservation schemes and price preferences. We should clearly and objectively differentiate what the society, through Government, can do for an individual and what individuals ought to achieve through their own efforts. It is the quality and

energy we put into our endeavours that will yield sustainable productivity growth and global competitiveness.

121. Mr. Speaker, before closing, on behalf of the Government of Botswana I wish to express the Nation's gratitude to our Developmental Partners – multilateral agencies, individual Governments, NGOs and private companies and foundations, who have assisted us over the years since Independence. Without their support, we would not have been able to achieve many of the successes of the last 40 years. Their support is highly valued and we look forward to its continuation in future.

122. Mr. Speaker, that concludes my Budget Speech for 2007/2008. I now move that the Appropriation (2007/2008) Bill, 2007 be read for the second time.

123. I thank you, Mr. Speaker.