



Republic of Botswana



2016 BUDGET SPEECH

**By Honourable O.K. Matambo
Minister of Finance and Development Planning
Delivered to the National Assembly on 1st February 2016**

Website: www.finance.gov.bw

Price: P10.00

Printed by the Government Printing and Publishing Services, Gaborone

TABLE OF CONTENTS

I. INTRODUCTION	1
II. ECONOMIC REVIEW AND OUTLOOK	3
Global Economic Review	3
Domestic Economic Review	4
<i>Economic Growth</i>	4
<i>Monetary Policy and Inflation</i>	4
<i>Balance of Payments and Foreign Exchange Reserves</i>	5
<i>Exchange Rate Developments</i>	5
<i>Performance of Public Enterprises</i>	6
Development of Vision 2036 and Adoption of Sustainable Development Goals	7
III. KEY THEMATIC AREAS FOR 2016/2017 FINANCIAL YEAR	7
Investing in Infrastructural Development	8
<i>Water</i>	8
<i>Energy</i>	8
Creating Employment Opportunities	9
<i>Infrastructure Backlog Eradication</i>	9
<i>Road Networks and Maintenance</i>	10
<i>Wildlife and Tourism initiatives</i>	10
<i>Economic Diversification Drive and Special Economic Zones</i>	10
<i>Regulatory reforms and improving efficiency</i>	11
Strengthening Human Capital	12
<i>Skills Development</i>	12
<i>Health</i>	12
Enhancing National Security	13
<i>Combating Crime and Corruption</i>	13
Strengthening Local Governance	13
<i>Local Economic Development</i>	13
<i>Social Welfare Programmes</i>	14
IV. 2014/2015 BUDGET OUTTURN	14
V. 2015/2016 REVISED BUDGET ESTIMATES	15
VI. 2016/2017 BUDGET PROPOSALS	15
Revenues and Grants	15
Recurrent Budget	16
Statutory Expenditure	17
Development Budget	17
Overall Balance	19
VII. PUBLIC SERVICE SALARIES	19
VIII. CONCLUSION	19

I. INTRODUCTION

- 1.** Madam Speaker, I have the honour this afternoon to present to the National Assembly budget proposals for the financial year 2016/2017.
- 2.** Madam Speaker, the 2016/2017 budget marks the end of the tenth National Development Plan (NDP 10), whose implementation was characterised by slow growth in both the global and domestic economies. It is, therefore, an opportune time to reflect on our achievements during NDP 10, as well as determine how best to address the persistent development challenges facing this country such as unemployment and poverty.
- 3.** Among the achievements by Government was the ability to support growth momentum in the domestic economy during NDP 10, despite the fact that the implementation of the Plan coincided with the global financial and economic crisis of 2008/2009. In the face of the crisis, this Government demonstrated its prudent stewardship in economic and financial management and acted decisively by adopting a proactive fiscal stance to support domestic economic activities. As a result, the average growth in the domestic economy over the Plan period is now expected to be around 4.5 percent, compared to the initial 3.3 percent forecast at the beginning of the Plan.
- 4.** Most importantly, the use of fiscal policy to support growth was done responsibly to ensure continued macroeconomic stability; with the average accumulated budget deficit during the Plan period now estimated at P4.7 billion or negative 3.1 percent of Gross Domestic Product (GDP), compared to P31.9 billion or negative 16.4 percent of GDP initially projected for the Plan. Monetary policy also remained supportive over the Plan period, with inflation decelerating towards the lower end of the Bank of Botswana's objective range of 3-6 percent, while the exchange rate policy resulted in a stable real effective exchange rate, which is a necessary condition for promoting competitiveness of domestic industries.
- 5.** Despite the achievements in the macroeconomic area, the Government's effort to address development challenges facing this country was constrained by the continued weak recovery of the global economy. The prolonged depression of commodity prices, especially of diamonds, has further weakened the domestic economic prospects. In addition, the shortage of water and electricity, which are key inputs in driving economic activities, has also undermined domestic growth prospects.

6. Madam Speaker, the constraints I have just outlined led to a significant downwards revision of the domestic growth forecast for 2015, prompting Government to adopt the Economic Stimulus Programme (ESP) as a strategy to: boost growth, promote economic diversification, and create jobs. ESP is aimed at supporting domestic economic activities in the short term, while providing foundation for a sustainable growth path for the economy in the long term through investment in infrastructural development. In this regard, a strategic approach was adopted in the selection of sectors for interventions, based on their potential for growth and job creation. The implementation of the ESP is scheduled to start in earnest in 2016/2017 financial year. With the extension of NDP 10 by an additional year to end in 2016/2017, any new projects under the ESP will therefore be approved through this budget. The intention is to use the ESP to accelerate the implementation of these programmes and projects. I will return to some of the elements of this Programme in my presentation of the 2016/2017 budget proposals.

7. Madam Speaker, the preparation of the budget proposals for the 2016/2017 financial year was guided by priorities, as presented in the 2016/2017 Budget Strategy Paper. These priorities were discussed extensively during the Budget *diPitso* held with relevant stakeholders late last year. Among the top national priorities to be addressed through the 2016/2017 budget are: *economic growth; employment creation; and poverty eradication*. Accordingly, resources are proposed for allocation to: infrastructure development to address the challenges of inadequate water and electricity supply; social infrastructure to address existing backlogs of classrooms and health facilities; and land servicing to facilitate business opportunities.

8. In many respects, the 2016/2017 budget is a transitional budget, specifically from: NDP 10 to NDP 11; Vision 2016 to Vision 2036; and the United Nations Millennium Development Goals (MDGs) to Sustainable Development Goals (SDGs). Efforts were therefore made during the preparation of the 2016/2017 budget to ensure that it lays a sound foundation and expenditure path for NDP 11, while at the same time aligning its priorities with the emerging themes of both the Vision 2036, and the Sustainable Development Goals. The preparation of the Vision 2036 is underway, while the SDGs were adopted by the United Nations General Assembly in September 2015. A full alignment of the Vision 2036 and the SDGs with the annual budgets will be achieved through implementation of NDP 11, whose preparation is at an advanced stage and I hope to present its draft to this Honourable House in July this year.

9. At this juncture, Madam Speaker, I wish to review the global and domestic economic performance and outlook, which provide the context for the 2016/2017 budget proposals.

II. ECONOMIC REVIEW AND OUTLOOK

Global Economic Review

10. Madam Speaker, owing to declining commodity prices and increasing financial market volatility, the global economic performance for 2015 was characterised by an uneven economic performance. According to the World Economic Outlook released by the International Monetary Fund in January 2016, growth in the global economy was 3.1 percent in 2015. This is lower than a growth rate of 3.4 percent achieved in 2014. World output growth is however expected to improve slightly in 2016 to reach 3.4 percent.

11. Growth in advanced economies remained modest during 2015; registering 1.9 percent, from 1.8 percent recorded in 2014, and is expected to reach 2.1 percent in 2016. The outlook for 2016 is underpinned by strengthening of growth in emerging market and developing economies, which is expected to reach 4.3 percent. The downside risks to such forecast include: the continued slowdown in the growth of the Chinese economy, weaker growth in oil exporting countries, and declines in other commodity prices. Given that economies are to a large extent integrated, the weak global economic prospects impact negatively on the performance of sub-Saharan Africa, including Botswana. In the event, growth in these economies is expected to have declined to 3.5 percent in 2015, from 5.0 percent in 2014. However, in 2016, economic growth for sub-Saharan Africa is expected to strengthen to 4.0 percent, due to an expected modest recovery in oil prices, which will benefit large oil exporting economies in the region, particularly, Nigeria and Angola, as well as an improvement in the outlook of countries which were initially affected by Ebola.

Regional Economic Review

12. Madam Speaker, the economic performance of the Southern African Development Community (SADC) region mirrors that of the global outlook. The region's real GDP growth and inflation rate are expected to be on a downward trend, because of falling commodity prices and weak demand for exports. According to the recent World Economic Outlook of January 2016, only two Member States namely, Mozambique and Democratic Republic of Congo are expected to surpass the region's real GDP growth target of 7.0 percent in 2015. Much of the decline in the growth rate occurred within the Southern African Customs Union (SACU) Member States. Consequently, growth in the SADC region is expected to average 3.9 percent during 2015, compared to 4.6 percent recorded in 2014. Inflation in most SADC Member States eased in 2015, remaining below the region's target rate of 7.0 percent, with the exception of Malawi and Zimbabwe. In general, inflation within the region is expected to be stable at 5.6 percent during 2015; the same rate recorded in 2014.

Domestic Economic Review

Economic Growth

13. Madam Speaker, the continued slowdown of growth in the global economy, particularly in the major markets for our diamonds, has had profound impact on the domestic economy. The latest estimates from Statistics Botswana indicate that, the domestic economy declined by 3.5 percent in the third quarter of 2015. As a result, the growth estimate for the 2015 has been revised downwards from 2.6 percent to 1.0 percent. This compares to the growth rate of 3.2 percent recorded in 2014. Contributing to the slow growth in the domestic economy in 2015 was the mining sector, which declined by 14.0 percent in 2015, due to the reduction of diamond production. Water and Electricity sector also registered a decline of 104 percent, due to continued water and electricity supply challenges. Growth in other non-mining sectors is also estimated to slow down during the year, reflecting the effect of the water and electricity shortages on domestic economic activities.

14. However, a modest recovery in the domestic economy is expected in 2016 and 2017, with growth rates projected to be 4.2 percent and 4.3 percent, respectively, underpinned by recovery in both the mining and non-mining sectors. Mining sector, which accounts for a quarter of the domestic output, is forecast to grow by 0.6 percent in 2016, and a further 0.7 percent in 2017, compared to the decline of 14 percent in 2015. The non-mining sector, on the other hand, is forecast to grow by 4.7 percent and 4.9 percent in 2016 and 2017, respectively, compared to 3.9 percent achieved in 2015. These growth forecasts are based on the expected moderate recovery in the global economy, as well as the impact of the domestic policy initiatives such the Economic Stimulus Programme.

Monetary Policy and Inflation

15. Madam Speaker, to support growth, an accommodative monetary policy stance was maintained during 2015, with the Bank Rate being reduced from 6.5 percent at the beginning of the year to 6.0 percent in August 2015. This reduction was consistent with the inflationary outlook and was expected to reduce the cost of borrowing for investment in the country.

16. Over the twelve months to December 2015, annual inflation rate fell from 3.8 percent in 2014 to 3.1 percent in 2015. This was driven by the decrease in fuel prices, which were adjusted downwards in February, August and December 2015, following a decrease in crude oil prices worldwide. It is anticipated that this trend will continue, thus exerting downward pressure on domestic prices; with inflation remaining within the Bank of Botswana's objective range of 3 - 6 percent.

Balance of Payments and Foreign Exchange Reserves

17. Madam Speaker, the preliminary overall balance of payments for 2015 is estimated at P3.3 billion as at November 2015, a decrease from P11.4 billion recorded in 2014. The current account surplus is estimated to fall, from P22.9 billion in 2014 to P12.9 billion in 2015. The positive contribution of net inflows of receipts from the Southern African Customs Union (SACU) to the current account balance is expected to be offset by the trade deficit. Exports of goods and services are estimated to decrease by 18.6 percent in 2015, due to weak global demand for rough diamonds, while imports are also projected to decline by 8.1 percent in 2015.

18. The level of the country's foreign exchange reserves stood at P84.9 billion in December 2015, an increase of 7.3 percent from P79.1 billion in the previous year. Expressed in US dollar and Special Drawing Rights (SDR) terms, the foreign exchange reserves were equivalent to USD7.5 billion and SDR5.5 billion, respectively. This represents an equivalent of 19 months of import cover of goods and services. The increase in foreign exchange reserves in Pula terms was mainly due to the depreciation of the Pula against major international currencies.

19. Madam Speaker, of the total amount of reserves in December 2015, Government Investment Account, which is Government savings, amounted to P35.0 billion. While this portion of the reserves is available for Government use, it is important that the use of these reserves is restricted to investment in high impact projects, with potential to bolster economic growth, and thus, contribute to future budget surpluses needed to re-build depleted reserves.

Exchange Rate Developments

20. Madam Speaker, the exchange rate policy supports our export-oriented development strategy, as it ensures stability of the real effective exchange rate (REER). As an inflation-adjusted exchange rate, REER is used to measure the country's competitiveness; a rise in the REER implies that the country's exports are more expensive and imports are cheaper, while a fall in the REER makes a country's exports cheaper and its imports expensive. It is therefore important to ensure that the domestic currency is neither over nor undervalued for the country to remain competitive in international markets.

21. The annual review of the Pula exchange rate mechanism, which took place in December 2015, resulted in maintaining the current basket weights of 50 percent South African rand and 50 percent IMF's Special Drawing Rights (SDR), while the rate of crawl was changed from zero to an upward rate of 0.38 percent per annum for 2016. This in line with expected monetary developments in the country's major trading partners. In terms of the bilateral exchange rate

movements in 2015, the Pula appreciated against the South African Rand by 13.6 percent, while it depreciated by 11.6 percent against the SDR.

22. Madam Speaker, it is important to note that while a country can achieve some competitiveness in the short term through the management of the exchange rate, a sustainable way to achieve robust international competitiveness is through growth in productivity and improved efficiency among domestic economic entities. In this regard, Government will continue to implement public sector reforms, and undertake other structural reforms to improve productivity in the economy.

Performance of Public Enterprises

23. Madam Speaker, parastatal organisations or state owned enterprises showed mixed performance in 2014 and 2015. While some State owned enterprises such as; Botswana Development Corporation, Botswana Telecommunications Corporation Limited, Botswana Communications Regulatory Authority, Botswana Housing Corporation, and Botswana Savings Bank, made profit, others, which include; Water Utilities Corporation, Air Botswana, National Development Bank, and Botswana Meat Commission, recorded operational losses. I will now give a brief overview of the performance of each of these selected parastatal organisations.

24. During 2015, BDC made a net profit of P202.2 million, after a net loss of P7.8 million in 2014. Similarly, Botswana Telecommunications Corporation Limited (BTCL) performed well, recording a net profit of P146.8 million in 2015, compared to P140 000 in 2014. The lower profit in 2014 for BTCL was attributed to the impairment charged for the significant drop in the value of the company, as a result of the transfer of some of its assets to BOFINET. Meanwhile, an Initial Public Offer (IPO) was launched in December 2015, which provided an opportunity for Batswana to own shares in BTCL. So far, the response from Batswana has been overwhelming. Eventually, the BTCL shares will be listed in the Botswana Stock Exchange to allow for their trading.

25. The Botswana Communications Regulatory Authority also recorded a net profit of P31.7 million in 2015, a decline from P48.1 million in 2014, mainly due to a fall in operating revenues owing to tariff reductions for essential services and a rise in operating expenses due to acquisition and replacement of network equipment as well as digital migration. The Botswana Housing Corporation recorded a net profit of P9.8 million in 2015, a decrease of 39.9 percent, from P16.3 million in 2014, as a result of its outreach programme that increased its staff costs and the construction of social housing projects. Botswana Savings Bank's net profit declined marginally to P12.2 million in 2015, compared to

P12.8 million in 2014, due to increased competition in the domestic banking sector.

26. Madam Speaker, the Water Utilities Corporation, recorded a net loss of P367.0 million in 2015 up from P361.0 million in 2014. The continued poor performance was due to prolonged drought spells which increased water transfer cost and provision of additional water sources. Air Botswana made a net loss of P165 million in 2015 compared to, P100 million in 2014, mainly due to high costs of maintenance of its old fleet of aircrafts.

27. The National Development Bank registered a net loss of P37.2 million in 2015 compared to a net loss of P86.3 million in 2014. The Botswana Meat Commission whose latest audited financial statements are for 2014, registered a net loss of P9.6 million in 2014, after registering a net profit of P25 million in 2013. This loss was partly due to measles outbreak during 2014, and inadequate supply of cattle to the Commission, resulting in its failure to supply beef to the lucrative European Union market.

Development of Vision 2036 and Adoption of Sustainable Development Goals

28. Madam Speaker, the year 2016 marks an important milestone in our journey as a nation; as the country will be celebrating its 50th anniversary of independence. The year also coincides with the end of Vision 2016. In this regard, the ongoing review of the Vision 2016 will provide an opportunity to assess our achievements as a country over the past five decades, as well as the challenges facing the country. Meanwhile, a process to develop the next vision – Vision 2036, has since been launched, with a Presidential Task Team appointed towards the end of 2015 to guide national consultations on the development of the new Vision. The Team is expected to conclude its task in April 2016, with the draft Vision 2036 scheduled for presentation to Parliament in June 2016. The new Vision is expected to be launched in September 2016 to coincide with celebrations for the country’s 50th anniversary of independence.

29. Madam Speaker, the United Nations family adopted the Sustainable Development Goals (SDGs) that will guide development process for the next 15 years. The SDGs cover a wide spectrum of dimensions such as poverty, hunger, health, gender equality, energy, water, economy, income inequality, climate change and governance. A number of these goals are aligned to Botswana’s national priorities and will be implemented as part of our normal planning process.

III. KEY THEMATIC AREAS FOR 2016/2017 FINANCIAL YEAR

30. Madam Speaker, as 2016/2017 is the last financial year of NDP 10, the proposed budget provides an opportunity to consolidate activities originally

planned for the Plan period; some of which were later postponed due to the global financial and economic recession of 2008/2009. The recently announced Economic Stimulus Programme also provides an opportunity to intensify backlog eradication efforts by accelerating the implementation of programmes and projects approved for NDP 10. In this respect, the proposed budget allocations for 2016/2017 cover key thematic areas of: *investing in infrastructural development; creating employment opportunities; strengthening human capital; enhancing national security; and strengthening local governance*. I shall briefly discuss the details of each of these thematic areas in turn:

Investing in Infrastructural Development

31. Madam Speaker, the importance of water and electricity, as key inputs into economic activities cannot be overemphasised. The country is currently faced with water and electricity supply shortages due to the drought situation and continued technical problems related to power supply, respectively. Shortages of such critical utilities do not only inconvenience the general public, but also undermine growth in the economy; as they adversely affect business operations. As such, all projects for water and electricity will be accorded high priority in the allocation of the budget in 2016/2017.

Water

32. Madam Speaker, to address the water situation, Government has embarked on a number of projects in various districts to ensure security of water and improved waste water management. For the Greater Gaborone area, Government intends to meet water demands by, among others, increasing water storage capacities and construction of new primary water pipelines. Phase II of the North-South Carrier Water Scheme, which involves construction of a parallel pipeline to the existing line is underway. Other initiatives include exploring the possibilities of accessing water from Lesotho and the Chobe-Zambezi area.

33. In addition, initiatives are underway to reclaim waste water, as an alternative water resource. The construction of a waste water reclamation plant in Mahalapye is underway. This Plant will produce 3.9 million Cubic Meters of water per annum, with a potential to irrigate 40 hectares of agricultural land. It is expected that the reclaimed waste water initiative will reduce pressure on usage of portable water on agricultural production. Moreover, Government through Botswana Institute for Technology Research and Innovation, has set-up a world class Centre for Material Sciences that will assist in the development of new materials in the water purification sector and air filtration, amongst others.

Energy

34. Madam Speaker, to address power challenges, efforts continue to be made to address the technical issues facing the Morupule B Power Station. The plant's

reliability has been low due to major defects arising from the construction of the project. This has resulted in a financial burden for Botswana Power Corporation, which has to source power from, among others, the Emergency Diesel Power plants and import power at high costs. To improve on the power generation situation in the country, the Morupule A Power Station is being refurbished. The project scope includes overhauling and repairing various units, which should result in an additional output of 132 MW.

35. Despite the power challenges, Government remains committed to improving access to electricity within the country, with more villages planned for electrification through the rural electrification programme. In this regard, network extension in 24 villages is currently ongoing. The solar electrification programme is also ongoing in Government schools and associated facilities that are far away from the national power grid. Furthermore, the implementation of the National Electricity Standard Cost, which was established to reduce the burden of high connection cost for domestic consumers, is ongoing. In an effort to cut on costs, Government has adopted low cost solar technology for street lighting, and sensitised Government departments on its availability. Its use has been demonstrated in Gaborone, Ghanzi and Southern Kgalagadi Districts, with possible roll-out to other areas across the country.

Creating Employment Opportunities

36. Madam Speaker, unemployment, especially among the youth, is one of the development challenges facing this country. To address this, Government has resolved to, among others, use its spending power to boost economic growth and create jobs in the country. Therefore, in addition to seeking value-for-money in spending Government budget, efforts will be made to ensure that such expenditure, whether under recurrent or development budget, contributes to job creation in the country.

37. Some of the economic activities with potential for creating employment opportunities, which Government will be undertaking during 2016/2017 include: *infrastructure backlog eradication, road networks and maintenance, wildlife and tourism initiatives, continued implementation of EDD initiatives, creation of Special Economic Zones, as well as regulatory reforms and improving efficiency.*

Infrastructure Backlog Eradication

38. Madam Speaker, the global financial and economic crisis led to a number of projects being deferred, especially in the areas of social and economic infrastructure such as in education, health, and roads. In this regard, Government, through the ESP is embarking on fast-tracking backlog eradication, which covers construction of classrooms, staff quarters, and customary courts; upgrading of health facilities; and rural electrification. The implementation of the ESP will

create jobs especially in the construction sector and rural areas. In the same vein, youth owned construction companies and individual youths with vocational skills in maintenance should be given priority in the implementation of the ESP through the Youth Empowerment Reservation Programme. Currently, the Programme reserves 15 percent of minor maintenance budget of Government facilities for youth companies and youth with vocational skills in construction.

Road Networks and Maintenance

39. Madam Speaker, another potential area for employment creation is in the area of maintenance of the road network in the country. With better project designs and proper packaging of contracts, contractors can be encouraged to use more labour than machinery in the execution of the road maintenance programmes. A study commissioned in the 2013/2014 financial year to look at the condition of our road network as well as investment needs analysis revealed that about 90 percent of our roads are in good condition, while 10 percent require urgent maintenance. It is against this background that road maintenance interventions have been given priority to eradicate existing backlogs.

40. Some major maintenance works are ongoing in the following roads; Sefophe – Martin’s Drift, Tsau – Nokaneng, Maun – Toteng, and Ghanzi (Junction 44) – Tsootsha. In addition, Notwane and Kazungula bridges are being constructed, while Platjan and Mohembo Bridges are at tendering stage. Civil works contracts for two (2) Output and Performance-based Road Contract (OPRC) packages covering a total of 335 km in the Southern region were signed in February 2014 and the rehabilitation works are underway. The implementation of these construction activities relating to road infrastructure will boost domestic economic growth and also create employment opportunities.

Wildlife and Tourism initiatives

41. Madam Speaker, the tourism sector has potential to contribute positively to growth and job creation in the country. Hence, Government will continue to create an enabling environment for tourism businesses including encouraging joint partnerships between individuals, citizen companies and non-citizens. A number of initiatives are also being undertaken which include; the Dams Tourism project, the Gaborone Precinct project, which will showcase diverse tourism products under one roof, and the Kasane-Kazungula Redevelopment project currently under preparation. With the initiatives to grow tourism in the country, Botswana was voted the best destination country to visit in 2016 by Lonely Planet Publication, a global travel and tourism publication.

Economic Diversification Drive and Special Economic Zones

42. Madam Speaker, the Economic Diversification Drive (EDD) initiative and the establishment of Special Economic Zones are considered important in

promoting both domestic and foreign direct investments, thus boosting growth and creating the much needed employment opportunities in the country. Furthermore, these initiatives are consistent with other Government policies such as the Citizen Economic Empowerment, and initiatives to develop entrepreneurial culture among Batswana, especially the young emerging business entrepreneurs. This should, in turn, develop local capacity to diversify the economy.

43. The EDD initiative continues to be one of Government's priority areas in promoting domestic production, and consumption of local products. In December 2014, Government issued a Directive to reinforce EDD by instructing all Government and parastatal organisations to prioritise procurement of locally produced goods and services, in addition to awarding price preference to local enterprises.

44. Madam Speaker, as part of creating a conducive environment for private sector development in the country, a Special Economic Zones (SEZs) legislation was promulgated in August 2015. The implementation of the SEZ programme will be in three (3) phases. Phase I will include three sites namely: (i) the mixed-use near Sir Seretse Khama International Airport, comprising international diamond activities, auto components manufacturing, agro-processing, pharmaceuticals, and general manufacturing; (ii) Gaborone Fairgrounds' financial services; and (iii) Pandamatenga Integrated farming, agro business and food processing. Activities under this phase are at various stages of implementation and form part of the 2016/2017 financial year's budget. Phase II of the SEZs is planned for Francistown, Selebi Phikwe, and Lobatse areas, while Phase III will focus on the Tuli Block and Palapye areas. Government is in the process of establishing a Special Economic Zone Authority which will oversee the implementation of the SEZ programme.

Regulatory reforms and improving efficiency

45. Madam Speaker, creating employment opportunities requires rapid and sustained economic growth, which in turn depends on among others, the overall efficiency and productivity of the economy. In this connection, Government continues to undertake various measures to deregulate the goods and labour markets, with a view to improving efficiency. Specifically, Government has intensified the implementation of the reform roadmap and action plan for Doing Business in Botswana. Some of the initiatives in the roadmap include: reviewing of various pieces of legislation, public sector reforms to streamline processes for service delivery in the country, and leveraging on the information and communications technology to improve productivity in the economy.

Strengthening Human Capital

46. Madam Speaker, human capital development remains a high priority for Government as education and training are critical for capacity building, citizen economic empowerment, as well as social and economic development. In this regard, substantial resources will continue to be channelled towards education and training with emphasis on ensuring that the skills and qualifications offered and acquired are more responsive to the needs of the labour market.

Skills Development

47. Madam Speaker, in recognition of the importance of education to achieving inclusive growth, Government has, over the years, invested substantial resources in the development of skills for the country's workforce. Besides empowering the individual to make informed choices in life, education can contribute to sustainable economic growth through improved productivity of the workforce, as well as the ability to adopt technology. Concerned with the declining education performance, Government adopted the Education and Training Sector Strategic Plan (ETSSP) in 2015, whose implementation is expected to address the quality of existing Vocational Education and Training programmes as a way of equipping the youth with appropriate skills.

48. Furthermore, the ETSSP will also increase equitable access to education by intensifying the use of Information, Communication and Technology (ICT) in learning. Under the ETSSP, an Early Childhood Policy Framework will be developed in partnership with the United Nations Children's Fund to guide the implementation of Early Childhood Care and Development in the next five years. The acceleration of backlog eradication of classrooms and other education facilities under the ESP will help achieve some of these targets.

Health

49. Madam Speaker, as the old adage goes "*a healthy nation is a productive nation*"; hence, Government is committed to investing in health not only to raise the standard of living in the country, but also to improve the productivity of the workforce. In this connection, Government will continue to pursue avenues to improve the standard of health by continuously reviewing the policies and processes of delivering health in the country. One such avenue will be the implementation, in 2016, of the Medicines and Related Products Supply Chain Strategy. The objective of the Strategy is to ensure regular availability and rational use of essential medicines, and provide quality assurance and security of health commodities throughout the supply chain.

Enhancing National Security

Combating Crime and Corruption

50. Madam Speaker, our continued ranking as the least corrupt country in Africa in the Transparency International Corruption Perception Index is commendable. However, there is no room for complacency, given the negative impact of crime and corruption in our individual lives, as well as on the economy. In this regard, Government regularly conducts audits in different areas such as: recruitment and promotions processes; acquisition and distribution of drugs; and procurement of medical equipment, with a view to identifying loopholes in the systems.

51. Efforts by Government in combating crime are yielding positive results as indicated by the recent decline in some categories of crime. However, the country continues to be susceptible to security challenges including cybercrime. In order to address these challenges, initiatives are being put in place, particularly through provision of capacity building in investigation, intelligence and forensics. In addition, the capacities of the various security agencies are being strengthened to respond to the emerging need for a secure environment. These include the recruitment of more security personnel, providing transport and logistics, and equipping them to, among others, undertake quality investigations and improve surveillance.

Strengthening Local Governance

52. Madam Speaker, with their close proximity to the communities, Local Authorities play an important role in the delivery of services to the public. It is for this reason that Government is committed to strengthening and fostering their operations in providing local services and promoting local participation, as part of the efforts to create employment opportunities and alleviating poverty.

Local Economic Development

53. Madam Speaker, in order to strengthen local governance, Government continues to put in place policies and strategies to develop districts and urban centres. In this regard, Government developed the Local Economic Development (LED) Framework in 2015 in recognition of the potential for Local Authorities to drive economic growth. The LED initiative is intended to enable communities to: identify their development challenges and needs; understand their resource endowment; mobilise resources; and take action to grow and diversify their local economies. This initiative is expected to have lasting outcomes on creating decent jobs and incomes for the communities, thereby improving livelihoods for citizens.

54. In addition, Government approved the Strategy on Private Sector Participation in Land Servicing in April 2015. Among the areas already identified

for piloting the initiative include: Gerald Estate Block 1 and Central Business District in Francistown, Kasane, Ramotswa, and Morwa/Bokaa area in Kgatleng District. Under this strategy, the private sector is expected to participate in land servicing. Meanwhile, Government will continue to undertake servicing of land in some districts by providing waterlines, storm water drainage, and de-bushing, in order to facilitate plot development.

Social Welfare Programmes

55. Madam Speaker, in an effort to enhance the living standards of the most vulnerable members of our society, Government continues to provide social welfare programmes. These programmes are intended for the vulnerable groups such as the elderly, orphans and people living with disabilities, and should not be confused with short term relief programmes such as *Ipelegeng*. This Government is committed to ensuring that, through the social welfare programmes, people who fall under the vulnerable group category live in dignity. On the other hand, those people engaged under short term relief measures such as *Ipelegeng* are expected to graduate into sustainable employment opportunities, which is a necessary condition for reducing poverty. Nonetheless, Government is committed to ensure the sustainability of these programmes through continuous evaluation of their effectiveness, and better targeting of their beneficiaries.

56. Over the years, the social welfare programmes have combined both cash transfers and income generating micro projects, mainly under the Poverty Eradication Programme. As at August 2015, a total of 207,385 beneficiaries were registered under temporary relief programmes. In addition, cash allowances were increased effective April 2015 as follows: old age pensions allowance increased from P300 to P330; world war veterans' allowance increased from P420 to P450; while destitute persons' allowance was increased from P120 to P150. The disability cash transfer of P300, targeting people with severe and profound disabilities, was also introduced in April, 2015.

IV. 2014/2015 BUDGET OUTTURN

57. Madam Speaker, total revenues and grants for the 2014/2015 financial year amounted to P55.90 billion, an increase of P4.36 billion or 8.46 percent over the revised budget of P51.54 billion. This performance was underpinned by the increase in mineral and Bank of Botswana revenues. Mineral revenues increased due to more than expected dividend receipts, while an extra amount of P1.7 billion was received from Bank of Botswana as additional dividends and residual income. Total expenditure and net lending, on the other hand, declined from the revised budget of P51.26 billion to P50.56 billion, mainly due to under-expenditure in the development budget.

58. As a result, the overall budget outturn for the 2014/2015 financial year was a surplus of P5.34 billion or 3.7 percent of GDP, which is significantly higher compared to a marginal surplus of P280.83 million projected in the revised budget for the same year.

V. 2015/2016 REVISED BUDGET ESTIMATES

59. Madam Speaker, for 2015/2016 revised budget, total revenues and grants of P51.76 billion, represents a decrease of P3.62 billion or 6.5 percent, from the original budget of P55.38 billion. The decline in total revenue is due to the fall in Mineral revenue, which is expected to decrease by P1.85 billion. In addition, Customs and Excise revenue and Value Added Tax (VAT) are also estimated to decline from their original budget by P885.41 million and P1.17 billion, respectively. The decline in the Customs and Excise revenue emanates from the appreciation of the Pula against the Rand. VAT revenue, on the other hand, declined due to unexpected substantial refund claims, especially from mining companies.

60. On the other hand, the revised total expenditure and net lending for 2015/2016 is estimated at P55.96 billion, an increase of P1.81 billion or 3.3 percent from the original budget estimate of P54.15 billion. This increase is due to supplementary funding of P423.36 million under recurrent and P1.39 billion for the development budget. As a result, the revised 2015/2016 budget shows a deficit of P4.20 billion or minus 2.8 percent of GDP compared to the original projected surplus of P1.23 billion.

VI. 2016/2017 BUDGET PROPOSALS

61. Madam Speaker, at this juncture, I would like to present the budget proposals for the 2016/2017 financial year. I must emphasise that the proposed budget allocations were informed by the need to stimulate economic growth and create job opportunities in line with the ESP objectives. The implementation of the ESP will be done prudently to ensure continued fiscal sustainability. Special emphasis will be placed on the phased implementation of Government programmes and projects, taking into account constrained fiscal space and available implementation capacity. This calls for strict discipline in utilising available public funds by Ministries and Departments. Furthermore, it means that implementation capacity and expenditure quality must improve significantly to yield the desired outcome, otherwise, less resources would be available for future economic activities.

Revenues and Grants

62. Madam Speaker, total revenues and grants for 2016/2017 are estimated at P48.40 billion, a decrease of P3.36 billion compared to the revised budget of P51.76 billion for 2015/2016; with Mineral revenue contributing 35.2 percent of

the total revenues, followed by Customs and Excise at 24.3 percent. Non-Mineral Income Tax and Value Added Tax come third and fourth at 21.2 percent and 12.4 percent, respectively. The reduction in the 2016/2017 revenues compared to 2015/2016 is a result of the projected fall of 6.9 percent in mineral revenues and 23.8 percent in customs and excise receipts.

Recurrent Budget

63. Madam Speaker, the proposed Ministerial Recurrent Budget for 2016/2017 financial year amounts to P36.99 billion, an increase of P0.29 billion or 0.8 percent compared to the current year's original budget of P36.70 billion.

64. The largest share of the Ministerial Recurrent Budget is proposed for allocation to the Ministry of Education and Skills Development, with a budget of P10.64 billion or 28.8 percent of the total. Through the implementation of the Education and Training Sector Strategic Plan, Government is committed to ensure that issues of quality of education and skills mismatch are addressed. This substantial budget caters for, among others, teaching services' wage bill, post-secondary bursaries, and subventions to University of Botswana and other Government funded tertiary institutions, increased enrolment for the Botswana International University of Science and Technology, provision for examination costs, maintenance of institutional facilities, food for secondary school students, and utility costs for the various education facilities.

65. The second largest share of the proposed Ministerial Recurrent Budget of P5.75 billion or 15.5 percent is proposed for allocation to the Ministry of Health. This budget will cover the cost of drugs, dressings and vaccines, service charges, anti-retroviral therapy, replacement of obsolete medical equipment, medical specialists' fees, running costs for the new Teaching Hospital, and the establishment of the Medicine Regulatory Authority, among others.

66. An amount of P4.99 billion or 13.5 percent of the total, being the third largest share, is proposed for allocation to the Ministry of Local Government and Rural Development. The bulk of this amount is mainly to cater for: revenue support grants to Councils, social protection programmes including the Old Age Pension scheme, Orphan Care programme, and the Destitute programme, which includes the special Okavango Destitute initiative.

67. The fourth largest share is proposed for allocation to the Ministry of Defence Justice and Security at P4.95 billion or 13.4 percent to cater for among others operational costs for; the BDF, Botswana Police, and Botswana Prison Services.

68. An amount of P2.02 billion or 5.5 percent is recommended for the Ministry of Transport and Communications which is the fifth largest share. This will cover maintenance of roads, replacement of vehicles, upgrading of the Government Data Network, subvention to the Civil Aviation Authority of Botswana and Botswana Post's Universal Service Obligation costs.

69. The sixth largest share of P1.11 billion or 3.0 percent of the total, is proposed for allocation to the Ministry of State President to cover, among others; service charges, programme development costs of the Department of Broadcasting Services, printing costs, office rent, Vision 2016 Council winding up expenses, and additional budget provision arising from the transfer of District Administration and Public Enterprise Evaluation and Privatization Agency to the Ministry.

70. Madam Speaker, the balance of P7.53 billion or 20.4 percent of the total is proposed for allocation to the remaining Ministries and Departments. Among these, the largest share of the balance is proposed for the Ministry of Agriculture at P1.09 billion, to cater for operating charges including service charges, purchase of material, foot and mouth disease, and animal identification devices. The second largest share of the balance amounting to P908.53 million is recommended for the Ministry of Trade and Industry to cover subventions for its parastatals, especially Selebi-Phikwe Economic Diversification Unit (SPEDU) and its transformation into a company limited by guarantee.

Statutory Expenditure

71. Madam Speaker, the proposed Statutory Expenditure for 2016/2017 financial year amounts to P6.91 billion, a decrease of 12.9 percent compared to P7.93 billion allocated for the 2015/2016 financial year. The reduction in this provision is due to the P1.64 billion payment of Government Bond BW003, in the 2015/2016 financial year.

Development Budget

72. Madam Speaker, a total development budget of P14.82 billion is proposed for the financial year 2016/2017. The Ministry of Defence, Justice and Security, with a proposed allocation of P3.59 billion or 24.2 percent, takes the largest share of the proposed budget, mainly to cater for provision of defence equipment, communication equipment, and infrastructure, in order to improve BDF's defence capabilities. In addition, the allocation caters for construction of police stations at Mmathubudukwane, Maitengwe and Semolale, as well as staff houses in different locations in order to improve safety and security.

73. The second largest share of P3.43 billion or 23.1 percent is proposed for the Ministry of Minerals, Energy and Water Resources. The budget caters for

energy and water infrastructure in order to address the current supply shortages which have affected the welfare of Botswana. The major energy infrastructure projects include; Morupule A Power Station rehabilitation at P135 million, North-West Electricity Transmission Grid at P225 million and Rakola sub-station at P257 million. In addition, the Botswana Power Corporation requires cash injection of P1.35 billion to cater for emergency power supply and P257 million under ESP for rural electrification. The water infrastructure projects include: the North South Carrier (NSC) II from Palapye to Mmamashia; Mahalapye and Palapye network extensions; connection of Kanye and Molepolole to NSC; Maun Water Supply and Sanitation and Kanye Sanitation; country-wide ground water investigation; as well as various water supply interconnections.

74. The Ministry of Transport and Communications, with a proposed budget of P1.41 billion or 9.5 percent, takes the third largest share to cater for construction of secondary roads, bridges, bitumen and trunk roads. The major projects under this Ministry are: Kazungula and Mohembo bridges; Output Performance Road Contract for Mankgodi-Jwaneng and Rakhuna-Mabule roads; as well as the Traffic signals improvements and centralised traffic control in Gaborone, an initiative which is aimed at improving the flow of traffic. The proposed budget includes an estimated amount of P250 million for road projects under the ESP.

75. The fourth largest share is proposed for the Ministry of Local Government and Rural Development at P1.22 billion or 8.3 percent. The budget mainly caters for *Ipelegeng* and Destitute Housing programmes. Part of the Ministry's budget is for ESP projects at P315.04 million for backlog eradication for primary school facilities, village infrastructure and construction of customary courts. The Ministry of Education and Skills Development with a proposed budget of P1.09 billion or 7.4 percent gets the fifth largest share; out of which a sum of P440.35 million is for the construction of teachers' houses, classrooms and laboratories under ESP.

76. Madam Speaker, the other Ministries and Departments share the remaining balance of the proposed Development Budget of P4.17 billion. The largest share of the balance is proposed for the Ministry of Lands and Housing at P910.37 million. The budget mainly caters for: Land Servicing at P338.38 million; Land Administration and Processes, Capacity and System (LAPCAS) at P354 million. The proposed budget also includes an amount of P272.9 million under ESP aimed at accelerating ongoing programmes. The second largest share of the balance at P813.04 million is proposed for the Ministry of Agriculture, of which, P35 million is for ESP, to cater for; grey water re-use, Lotsane irrigation project, Glenn Valley infrastructure rehabilitation, grading of roads, and Agricultural Service Centres. The third largest share of the balance amounting to P741.81

million is proposed for the Ministry Health to cater for upgrading of health facilities and construction of staff houses throughout the country. A total of P600.08 million inclusive of ESP amounting to P50 million is proposed for the Ministry of State President. This caters for additional poverty eradication packages.

Overall Balance

77. Madam Speaker, with an estimated total revenues and grants of P48.40 billion for 2016/2017 financial year, and proposed total expenditure and net lending of P54.44 billion, the net result is an estimated budget deficit of P6.05 billion or 3.8 percent of GDP. In line with the principles of our Medium Term Debt Management Strategy, this budget deficit will be financed through a combination of drawing down on Government savings, domestic borrowing and foreign borrowing, subject to the analysis of the opportunity cost of each of these financing instruments, and within the provisions of the relevant legislation such as *Public Finance Management Act of 2011 and the Stock, Bonds and Treasury Bills Act of 2005*. In any event, this deficit, and any other future budget deficits, will be restricted to a ratio up to 4 percent of GDP to avoid the country sliding into an unsustainable fiscal path.

VII. PUBLIC SERVICE SALARIES

78. Madam Speaker, negotiations on public service salaries are the prerogative of the Bargaining Council, which comprises the Government and Trade Unions. It is important, however, to consider the prevailing global and domestic economic outlook, in particular, the constrained fiscal space for 2016/2017, arising from the depressed global demand for, and prices of diamonds. We all need to take into account these unfavourable economic fundamentals to ensure the country's future fiscal sustainability.

VIII. CONCLUSION

79. Madam Speaker, as I conclude, I wish to point out that, the medium term fiscal outlook is a cause for concern, given the modest growth prospects for the domestic economy. I therefore, call upon Ministries to exercise restraint in requesting for additional funding through supplementary budgets during the course of the financial year, as this would simply worsen the fiscal situation.

80. I must also hasten to add that, the development of this country is a matter of mutual social responsibility, and not that of Government alone. While the Government has shown, and continues to show visionary leadership by adopting policies and programmes aimed at inclusive growth, it is the responsibility of both the public service and the private sector to deliver on these programmes and associated projects. I therefore, call upon those charged with project implementation in Government to avoid deficiencies in project designs; provide

accurate initial estimates of the costs of projects; reengineer the tendering and adjudication processes to ensure speedy delivery of projects; and ensure adequate supervision of contractors to avoid cost overruns and unnecessary delays in project delivery. Most importantly, such projects should deliver on intended impact anchored on sustainable inclusive growth and economic diversification.

81. The private sector plays a key role in the delivery of development programmes, in particular, through contractors who will be undertaking various projects and activities planned for the financial year. Private contractors are critical in ensuring timely delivery of planned projects and the quality of the final products. I therefore, implore upon all contractors, to demonstrate their social responsibility and ensure that projects are delivered on time; according to specifications; within budgets; and are of good quality. Furthermore, it is my hope that, given the importance of the recently introduced Economic Stimulus Programme to *economic growth and job creation*, private contractors will cooperate with Government in the delivery of the budget, rather than stalling project implementation, resulting in cost over-runs. Since most projects envisaged for 2016/2017 and beyond are in the construction area; which requires land, I would also appeal to the land authorities throughout the country to expedite the process of land allocation and servicing, as part of their social responsibility in the delivery of our development programmes and projects.

82. Madam Speaker, let me take this opportunity to thank our bilateral and multilateral development partners, as well as private foundations for their contribution to our development agenda through their technical and financial support.

83. Madam Speaker, I now move that the Appropriation (2016/2017) Bill, No. 1 of 2016 be read for the second time.