

Private: Information for our clients only

1.0 INTRODUCTION

The President of the Republic of Botswana, His Excellency, Lt Gen Seretse Khama Ian Khama presented the 2009 State of the Nation address to the second meeting of the first session of the tenth parliament on Friday, 13 November 2009. His Excellency emphasized the need for the private sector to take the leading role in both turning the economy around and also in the diversification process. He also indicated that the government will complement the private sector in this regard through placing more emphasis on the fifth pillar of national strategy, **DELIVERY**.

In delivering his State of the Nation Address, the President was cognizant of the fact that the global economy is currently under one of the worst recessions since the Second World War and Botswana economy has itself not been spared either from the global economic downturn as seen by the 6% and 22% drop in GDP in the 4th quarter of 2008 and the 1st quarter of 2009 respectively, placing the overall economy in recession. The decline in the country's GDP during the period was mainly as a result of a sharp decline in global demand for diamonds, which resulted in cutbacks and temporary closure of some mining operations in the country. Overall

mineral revenue is projected to drop by 37% from P10.8 billion in 2008/09 to about P6.8 billion during the current financial year.

2.0 KEY THEMES OF THE SPEECH

2.1 The fifth "D" - Delivery

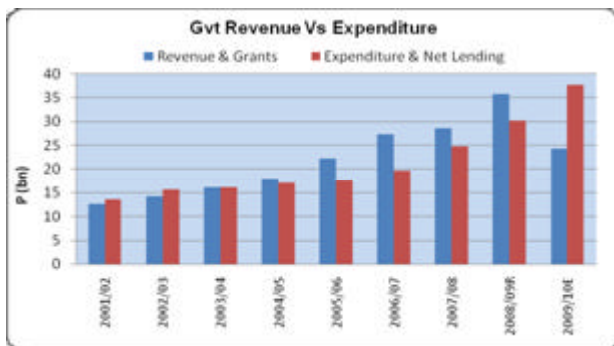
His Excellency indicated that the government is committed to achieving the overarching development goal of transforming Botswana into a **high income** economy. In order to achieve this, the government has formulated and committed itself to the "Botswana Excellence Strategy For Economic Diversification and Sustainable Growth." Its Action Plan, has therefore been incorporated into the new National Development Plan-NDP 10. To ensure the fifth "D" which is **Delivery**, implementation of the Strategy's key projects and initiatives will continue to be closely monitored from the Office of the President and that of His Honour the Vice President, with the support of the newly created Government Strategy Development Office and Botswana Economic Advisory Council.

2.2 Strategies to get the Economy back on track

• Stimulus Package

The President announced several stimulus packages and measures that the government has put in place to mitigate the negative

effects of the recession on the local economy. To grow the economy in the non-mining sector, the government took a deliberate decision to allow the already budgeted infrastructural projects to go ahead in order to contribute to economic growth and employment creation. These projects include among others the Morupule B Power Station Expansion, Zambezi Integrated Agro-Commercial Development Projects, the Botswana International University of Science and Technology (BIUST) and University of Botswana expansion. By not cutting on expenditure, the 2008/09 budget deficit stood at P3.6 billion, before rising to P13.4 billion during the current 2009/10 financial year, which is 11% of GDP.



Source: 2009/10 Budget Statement

From the graph, it can be noted that the 2009/2010 projected deficit is the highest since 2001. These shortfalls are being financed through preferential borrowing and drawdown on the country's foreign exchange reserves.

The government also introduced measures which sustain and grow employment such as stay-in business strategies in those mining

houses which the government has a stake to avoid mass retrenchments. The government also assisted a number of companies, on a case by case basis, in order to protect jobs and investments.

• Employment Creation

The President highlighted that employment creation will be driven by the following:

- The Six Hubs, which are Diamond Hub, Education Hub, Innovation Hub, Transport Hub, Agricultural Hub and Health Hub.
- Foreign Direct Investment focusing on mining, tourism, agriculture and manufacturing sectors
- Import substitution
- Broadening the tourism and agricultural base
- Local procurement preference
- Construction
- Information Technology and
- Government schemes such as Citizen Entrepreneurial Development Agency (CEDA)¹, Youth Development Fund and Young Farmers Fund which will be given additional resources.

• Mining

During the past year, the government made good progress in meeting its goal of promoting Botswana as one of the world's major diamond trading centres. The Diamond Hub has been

¹ CEDA offers funding for capital expenditure, stock or working capital in new and existing business ventures to promote entrepreneurship among citizens.

established to facilitate diamond beneficiation and support services. Another encouraging sign is the recent opening of ABN AMRO Bank in Botswana which will provide financing to employment generating downstream industries. A Strategic Review of the mining sector has also been carried out and the action plan is now being implemented.

- **Agriculture**

The government has set up the Agriculture Hub to be used as a catalysts for improved food security and greater commercialization and diversification of the agricultural sector. Among the Hub's key projects are the 3rd phase of the National Agricultural Master Plan for Arable Agriculture and Dairy Development (NAMPAADD) and the restructuring of the Botswana Meat Commission. NAMPAADD third phase is aimed at assisting farmers to become commercially viable.

2.3 Increased Visibility & Participation by the Private Sector

The President, emphasized the need for the private sector to take a leading role in the growth and diversification of the economy. He indicated that the government will complement the private sector in this regard. In addition, he stressed out that any impediments to investment must be overcome as a matter of urgency. These include;

- Complexities in the tax code. In this regard, the government is currently working on

reviewing the country's tax regime to make it more simple and relevant.

- High cost of starting up and growing a business. This will be dealt with by reducing barriers in starting up and growing businesses.
- Shortage of industry relevant skills. This is to be addressed through promoting technological innovation and skills training.
- Fight against corruption. A number of international experts to enhance the capability of the Directorate on Economic Crime will be engaged by the government.
- Maintaining law and order in the country. This will be achieved by increasing police visibility.

2.4 Social Responsibilities

The government introduced a number of projects to provide relief to the poor and the unemployed from the unfavorable economic conditions. These programmes include;

- **Ipelegeng Programmes**² which provide relief in the form of supplementary income to the poor and unemployed. This programme is being financed by using some of the proceeds from the alcohol levy and to date around P100 million has been raised from the alcohol levy. The Ipelegeng Programme has been a huge success as since inception in July 2008, the estimated monthly employment created has averaged 38,000 for the entire country. As of October 2009, the cumulative number of

² *Ipelegeng Programme- these are labor intensive public works programmes introduced by the government to reduce unemployment*

beneficiaries under the programme stood at 327,494 people. The target is to have at least 40,000 people being employed at any one time under the programme.

- **Education** - A Human Resource Advisory Council has been established and work is in progress to develop a Human Resource Development Plan in a bid to produce more industry relevant graduates through development and delivery of quality academic programmes. Focus during NDP10 will be on the implementation of the Tertiary Education Policy and development of the National Credit Qualifications Framework which will among other things ensure compliance to developed standards, facilitate comparability of qualifications and transfer credits. The government is also targeting 100% primary and junior secondary school enrolment during NDP10.

- **Electricity** - In order to make electricity/power more accessible and affordable to as many Batswana as possible, the government will make new household connections more affordable by introducing a National Electricity Connection Standard Cost of P5,000 for new household connections. To compensate for the actual cost of electricity connection by households, a National Electrification Fund will be established and is to be funded through the introduction of a 5 thebe per kilo Watt hour levy on consumption. This will be introduced in the first quarter of

2010. The aim is to have at least 70% of all villages in Botswana be electrified by September 2010. In addition, the government introduced the Rural Electrification Collective Scheme to facilitate more connections. This scheme offers relaxed repayments terms and to date 116,585 households have benefited from this scheme.

- **Housing** - It was also announced that the government will put in place a new Installment Purchase Scheme to be implemented by Botswana Housing Corporation (BHC) to make rental and purchase more affordable to Batswana.

- **Health** - The government remains committed to ensuring that all Batswana are guaranteed quality health. Among other initiatives, a National Health Service Plan is being formulated to address issues of access, equitable distribution and affordability of health services.

3.0 INTERNATIONAL RELATIONS

The President reemphasized Botswana long stated position of insisting on good governance not only in the country but in the sub region as a whole.

4.0 CONCLUSION

The 2009 State of the Nation Address is very comprehensive and managed to address most of the social and economic issues that the country is currently facing. The State of the

Nation Address took a step backwards and reflected on the areas that are still a hindrance in moving the economy forward, while at the same time managed to come out with policies on how the government, together with the private sector and all the citizens at large will work together to drive the economy forward and elevate the country into a “high income” status. Some of the measures will come at a cost to government and where possible, the government will mitigate these cost by redistributing income to those areas that are critical without exerting further strain on the fiscus. Examples are the introduction of the lpelegeng Programme, which is being funded using the proceeds from the alcohol levy. Other measures such as the introduction of the 5 thebe per Kilo Watt hour levy maybe be inflationary in the short term, but in the mid to long term the benefits will outweigh the cost.

Policies to uplift the Social Welfare of Batswana such as fighting against poverty, unemployment and citizen empowerment among others will go a long way in improving the welfare of Batswana and help the country move forward. The review of the country’s tax regime is a positive step in the right direction as this will attract not only Foreign Direct Investment into the country, but will also attract investment by local businesses into the economy.

The government should also be commended for coming up with developmental projects

such as the expansion of the Morupule Power Station, the construction of dams and roads among others as this will stimulates and expands the productive capacity of the economy.

Research

Motswedi Securities (PTY) LTD

Plot 113, Unit 30, Kgale Mews, Gaborone

P/Bag 00223, Gaborone, Botswana

Tel: +267 318 8627

Fax: +267 318 8629

Email: garry@motswedi.co.bw

Website: www.motswedi.co.bw

DEALING

Hajira Sethole hajira@motswedi.co.bw

Chibo Molatedi chibo@motswedi.co.bw

The views expressed in this document reflect the views of Motswedi Securities (Proprietary) Limited based on the information available at its disposal at the time of writing and may change without notice, and is provided for information purposes only. While Motswedi Securities (Proprietary) Limited has taken all reasonable steps in carefully preparing the document, it does not take any responsibility for any action that may be taken on the basis of the information contained herein. This document may not be reproduced, distributed or published by any recipient for any purposes without the authorization of Motswedi Securities (Proprietary) Limited.