

AFRICAN DEVELOPMENT BANK



BOTSWANA

2009-2013 COUNTRY STRATEGY PAPER

Regional Department – South Region A

May 2009

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FISCAL YEAR OF BUDGET

1 April to 31 March

CURRENCY EQUIVALENTS

(April 2009)

National Currency = Botswana Pula (BWP)

UA 1.0 = US\$ 1.49507

UA 1.0 = BWP 11.5272

US\$ 1.0 = BWP 7.71014

WEIGHTS AND MEASURES

Metric System

This report was prepared following a Country Strategy Paper preparation and dialogue mission, which visited Botswana in April 2009. It was prepared by a team comprising Mr. Andrew Mwaba (Lead Economist, ORSA), Mr. George Honde (Senior Country Economist, ORSA), Mr. Richard Walker (Senior Country Economist, OREA), Mr. Suwareh Darbo (Senior Country Economist, ORSA), Mr. Joseph Coompson (Chief Agricultural Economist, OSAN), Mr. Maurice Mubila (Chief Statistician, ESTA) and Ms. Aisha Yahaya (Intern, ORSA). Contributions were received from Mrs. K. Diallo (Director, FFMA), Mrs. M. Akin Olugbade (Manager, FTRY.4), Mr. Ram Babu (Chief Power Engineer, OINF), Mr. G. Manley (Investment Officer, MZFO) and Mr. M. Outtara (Country Risk Officer, FFMA). Questions on the report should be directed to Mr. A. Beileh (Director, ORSA).

ACRONYMS AND ABBREVIATIONS

ADF	:	African Development Fund
AfDB	:	African Development Bank
AWF	:	African Water Facility
BDP	:	Botswana Democratic Party
BIDPA	:	Botswana Institute for Development Policy Analysis
BoB	:	Bank of Botswana
BWP	:	Botswana Pula
CGP	:	Country Governance Profile
CPS	:	Country Partnership Strategy
CSO	:	Central Statistics Office
CSP	:	Country Strategy Paper
EIB	:	European Investment Bank
ESW	:	Economic and Sector Work
EC	:	European Commission
FTA	:	Free Trade Agreement
GDP	:	Gross Domestic Product
GoB	:	Government of Botswana
HDI	:	Human Development Index
HIV/AIDS	:	Human Immune Deficiency Virus/ Acquired Immune Deficiency Syndrome
IEPA	:	Interim Economic Partnership Agreement
IFIs	:	International Financial Institutions
IMF	:	International Monetary Fund
IPPs	:	Independent Power Plants
IPPF	:	Infrastructure Project Preparation Facility (IPPF)
LOC	:	Lines of Credit
MDGs	:	Millennium Development Goals
MDRF	:	Macro Development Results Framework
MFDPA	:	Ministry of Finance and Development Planning
MIC	:	Middle Income Country
M&E	:	Monitoring and Evaluation
NACA	:	National Aids Coordinating Agency
NBFIs	:	Non-Bank Financial Institutions
NDP	:	National Development Plan
NTF	:	Nigeria Trust Fund
NSPR	:	National Strategy for Poverty Reduction
NSS	:	National Statistical System
NSDS	:	National Strategy for the Development of Statistics
ODA	:	Overseas Development Assistance
PPPs	:	Private-Public Partnerships
PSDS	:	Private Sector Strategy for Poverty Reduction
SACU	:	Southern Africa Customs Union
SADC	:	Southern African Development Community
SAPP	:	Southern African Power Pool
SMEs	:	Small and Medium Enterprises
SSA	:	Sub-Saharan Africa
UNDP	:	United Nations Development Programme
U.S.	:	United States
USAID	:	United States Agency for International Development
WESTCOR	:	Western Corridor
ZIZABONA	:	Zimbabwe, Zambia, Botswana and Namibia

EXECUTIVE SUMMARY

1. This Country Strategy Paper (CSP) has been prepared following the end of the 2004-2008 CSP for Botswana. It has been informed by the CSP Progress Report and Country Economic Review Report for Botswana both of which were approved by the Board in September 2008. It assesses Botswana's development prospects and challenges, the government's strategic options, and the specific role the Bank could play, in collaboration with the government and other development partners.

2. **Political Context:** Botswana's political environment is perhaps the most stable in Africa. The country has a well functioning democracy, with a free media and an independent judicial system. An independent Electoral Commission (IEC) was established in 1996 and this has helped to consolidate Botswana's reputation for fairness in voting. Apart from its internal stability, it also enjoys good relations with its neighbours within the SADC region.

3. **Economic Context:** On the economic front, the country's decades of robust growth and huge budget surpluses are being put to the test by the global financial crisis which resulted in sluggish demand for and consequent decline in the prices of diamonds, the mainstay of the economy. As a result, real GDP growth declined from 5.3% in 2007 to 3.3% in 2008. An expected decline in diamond production will again reduce Botswana's growth rate and opportunities for employment in 2009 and beyond. The country is expected to run budget deficits for the next three years (2008/09-2010/11). The budget deficit for 2009/2010 is estimated at BWP13.4 billion (13.5% of GDP). The budget deficit will be financed by drawing down part of the reserves and by borrowing both domestically and externally.

4. **National Development Agenda:** The preparation of this CSP coincides with the launching of the tenth National Development Plan (NDP 10), (2009-2016). It seeks to translate the Vision 2016 objectives into concrete policies and actions and its main theme is "Accelerating Achievement of Vision

2016". The strategic focus of development policy in NDP 10 is to accelerate diversification of the economy while its main areas of focus include human resource development (education, health and IT); infrastructure and utilities; agriculture and environment; and governance.

5. **Challenges:** Though Botswana is on a good footing to achieve all the MDGs except those relating to health, it faces a number of challenges, including the global financial crisis, infrastructure bottlenecks, including electricity, an undiversified economy, inadequate human capacity and skills and the need to improve the investment climate.

6. **Bank Group intervention:** In response to these challenges, and within the context of NDP-10, the Bank group is proposing a Country Strategy focusing on two pillars. The first pillar seeks to promote the role of the private sector and small and medium scale enterprises (SMEs) in raising productive capacity, increasing income levels, diversifying the economy and broadening the benefits of growth. The second pillar aims at alleviating constraints on business activity and disincentives to investment by removing infrastructure constraints in energy, transport and water, thus enhancing competitiveness. In that regard, the Bank will finance operations in infrastructure that contribute towards the government's transport and energy sector programmes.

7. The proposed strategy recognizes the need to support the government's short-term financing gap as it seeks to mitigate the impact of the global financial crisis and maintain its investment programme, while laying a firm foundation for a more competitive and diversified economy over the medium and long term.

I. INTRODUCTION

1.1 The last Country Strategy Paper (CSP) for Botswana covered the period 2004-2008. This CSP is for the period 2009-2013. It assesses the country's development prospects and challenges, the Government's strategic plans and priorities, and the role that the Bank could play, in collaboration with the Government of Botswana (GoB) and other development partners, in helping the country realize its development goals. The CSP is closely aligned with Vision 2016 and the 10th National Development Plan (NDP 10). It was prepared following broad based consultations with Government and various stakeholders during a mission that visited the country in April 2009. It was also informed by the Country Economic Review and Progress Report of the CSP¹.

1.2 Towards this end, and in order to support Government's diversification efforts, the following pillars are proposed: (i) *support actions to expand private sector investment*; and (ii) *remove infrastructure bottlenecks to enhance competitiveness and growth*. These pillars recognise the need to support the GoB's short-term financing gap, as it tries to counter the impacts of the global financial crisis and maintain its programme of projects; and to remove obstacles and lay a firm foundation for more competitive and diversified growth over the medium to long-term.

1.3 This strategy aims to finance a number of projects, as well as provide appropriate knowledge and advisory services in order to best orientate the economy on a more productive and sustainable growth path. It is in line with the Bank's Strategic Framework for Enhancing Support to Middle Income Countries (MICs).

¹ Botswana: Country Economic Review – 2006/07 (ADB/BD/IF/2008/130) and Progress Report of CSP 2004-2008 (ADB/BD/IF/2008/127).

II. COUNTRY CONTEXT AND PROSPECTS

2.1 Political Context and Governance

2.1.1 Botswana's political environment is arguably the most stable in Africa. The country has a well functioning democracy that respects political rights and guarantees civil liberty and economic freedom. Elections are held every five years, with the next national assembly and local government elections scheduled for October 2009. All elections since independence in 1966, and won by the Botswana Democratic Party (BDP), have been held on schedule and freely and fairly contested². Each BDP administration has consistently shown commitment to sound macroeconomic policies. There are no compelling reasons why this track record would change after the next elections. An independent Electoral Commission was established in 1996 and has helped to consolidate Botswana's reputation for voting fairness. Besides its internal stability, Botswana also enjoys good relations with neighbouring countries.

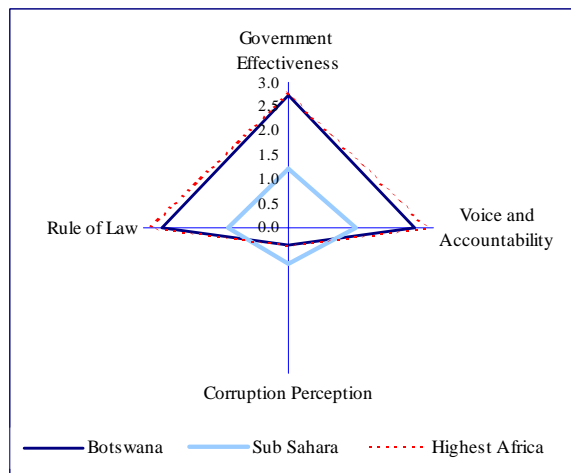
2.1.2 Botswana has repeatedly been the top sub-Saharan African (SSA) country on all governance elements (see Chart 1). The country is the least corrupt country in SSA and ranks 36 internationally, according to Transparency International's Corruption Index (2007). These impressive governance scores are also confirmed by the AfDB's Country Governance Profile (CGP) for Botswana (2008) and a report prepared by the independent Botswana Institute for Development Policy Analysis (BIDPA)³. Its main finding was that the country ranks in the top quartile of various governance indices worldwide, and in most cases, it tops in the African region. This is due to a number of factors,

² In 2004, BDP won 44 seats, Botswana National Front (the main opposition party since independence) 12 and Botswana Congress Party 1.

³ BIDPA is an independent think tank.

including: prudent economic management, effective national development planning, dedicated leadership, adequate institutional architecture, in-built checks and balances, and efficient judicial system. Indeed, Botswana's rapid transition from one of the poorest countries in the world to a middle-income country (MIC)⁴ is largely attributed to its commitment to good governance.

Chart 1: Governance



Source: AfDB Statistics Department using data from the WGI, WB, 2008

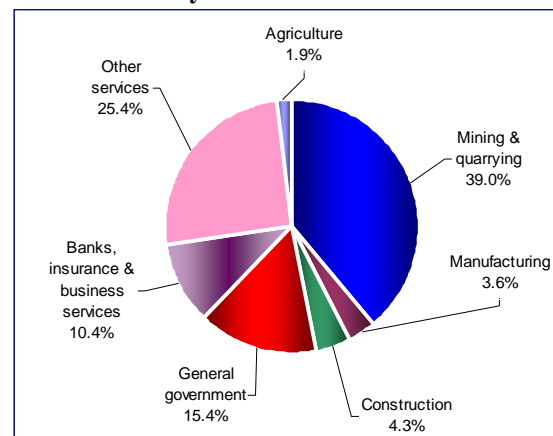
2.1.3 GoB has continued to make great strides towards enhancing governance issues by strengthening public financial management, including: improving the accounting and budgeting system; improving revenue administration; strengthening the external audit system; and establishing a new public procurement and regulatory framework. Other reform areas being pursued include: decentralisation, privatisation and restructuring of public enterprises, and investment climate improvements (paragraph 2.5.2).

2.2 Economic Performance and Prospects

2.2.1 Botswana's success in achieving and sustaining robust economic growth,

averaging nearly 9% for four decades after independence, has been influenced by the Government's sound macroeconomic policies and judicious management of diamond resources. Over this period, the structure of the Botswana economy has shifted significantly. The share of agriculture, which contributed about 43% of GDP at independence, in 1966, began to fall in favour of mining, with the discovery of diamonds in the early 1970s. From negligible mining activities, consisting essentially of small quarries, the sector facilitated movement of the economy away from beef exports and migrant labour remittances. Botswana is today the largest producer of diamonds in the world by value and volume, and the mining sector is the country's most important driver of growth (Chart 2).

Chart 2: GDP by Sector 2007/08



Source: AfDB Statistics Department, African Economic Outlook, 2008, and NDP 10

2.2.2 After decades of robust growth, Botswana's economic growth slowed in recent years (real GDP growth averaged only 4.3% for the five years up to 2007/08). During this period, the average rate of growth was highest (5.6%) in the non-mining private sector and parastatals, which is important for employment creation and economic diversification; followed by general government (3.8%) and mining (3.3%). In the wake of the current global economic downturn, the country's vulnerability to external shocks, associated with its very narrow economic

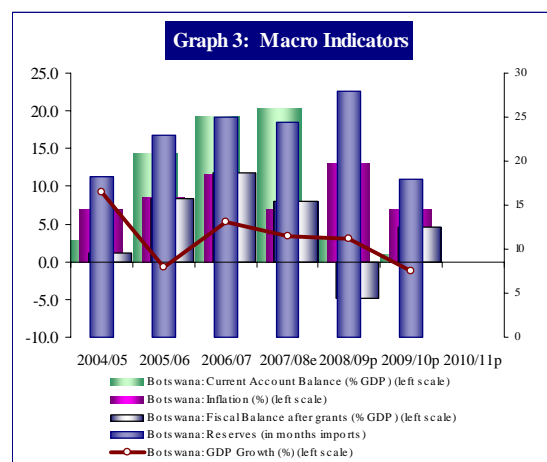
⁴ A GDP per capita increase of US\$ 70 at independence, in 1966, to US\$ 6,270 in 2006/07.

base, has become more evident (see Box 1 and Chart 3). Due to the crisis, GoB estimates real GDP to have only grown by 3% in 2008. The medium-term economic growth outlook is also not encouraging. Although GoB has not yet revised its growth and other macroeconomic projections⁵, as the consequences of the global economic downturn on the economy are still unfolding, independent sources⁶ expect real growth to remain sluggish for the period 2009-2011. Moreover, the South African economy, the main market for Botswana's non-traditional exports (i.e. manufacturing goods and tourism), is also expected to continue weakening in tandem with global economic performance. The electricity shortage in South Africa and the Southern African Power Pool (SAPP) also provides threats to Botswana's medium-term growth prospects (Section 3.2). The effects of the global economic downturn will, thus, further enforce Botswana's resolve to press on with its diversification efforts (see Box 1). Besides, diamond production is expected to decline sharply after 2020 and probably cease completely around 2030.

2.2.3 Botswana has consistently maintained a fiscal surplus in recent years, which reached a high of nearly 12% of GDP in 2006/07. These surpluses were influenced mainly by high revenues from minerals and the Southern African Customs Union (SACU), lower-than-budgeted spending attributed to inadequate capacity in the public sector, and Government's prudent management of mineral revenues⁷. GoB, however, is expecting fiscal balances to reverse to a deficit of around 7.0% of GDP (2008/09), reflecting high expenditure associated with

the commencement of major infrastructure projects. The impact of the global economic downturn on the fiscal balance is expected to be fully felt in 2009/10 (Box 1). Given the uncertainty of the duration of the global economic slowdown, Botswana already expects to run fiscal deficits for at least the three years (2008/09-2010/11). Furthermore, revenue from SACU (contributes about 10% of GDP) is expected to be adversely affected by a fall in regional imports.

Chart 3: Macro Indicators and Projections



Source: MFDP, IMF and Risk Intelligence Services (2009/10)

2.2.4 Botswana's external sector has performed well in recent years, with the current account showing a surplus of about 8% of GDP in 2008, compared to about 20% in 2007, reflecting large transfers from SACU receipts and growth in service exports. It is, however, expected to narrow and reverse to a deficit in the medium-term owing to the reduction in mineral, manufacturing and services exports (including tourism), remittances and SACU revenue, as a result of the global economic downturn. Gross international reserves were high, at almost 27 months of import cover, in 2008, emanating from Botswana's fiscal surpluses. The reserves are kept in a Pula Fund at the Bank of Botswana (BoB) to ensure a stable revenue stream for Government and to save for future generations. Botswana's external

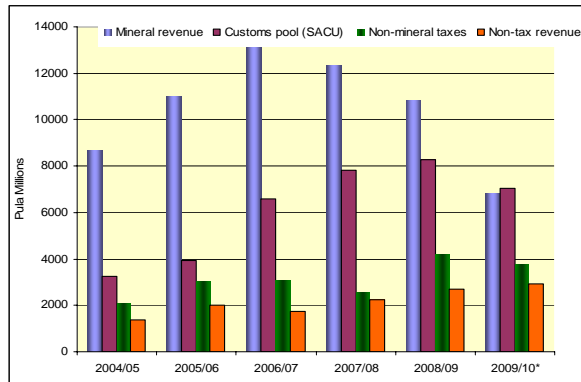
⁵ Chart 3 has used macro projections from independent sources, while 2007 IMF IV Consultation projections presented in Annex 5 are yet to be revised to take account of the impact of the crisis.

⁶ Economic Intelligent Unit, March 2009.

⁷ GoB abides by a 'fiscal rule' that allows the use of mineral revenue only on expenditure for expansion of the economy's base. The rule does not allow government expenditure to exceed 40% of GDP, and development expenditure to fall below 30% and recurrent to exceed 70% of total expenditure.

debt, at about 3% of GDP in 2008, is far below the universal critical benchmark of 50%. Both the international reserves and external debt are likely to be affected negatively in the medium-term (Box 1).

Chart 4: Government Revenue



Source: MFDP

Box 1: Impact of the Global Financial Crisis on Botswana

The Botswana economy is integrated with the world economy. Its exports represent nearly 40% of GDP, which are heavily concentrated in diamonds and other minerals. The country is, thus, heavily dependent on export revenue, which contribute about two-thirds of GoB's revenue.

Weak global demand and falling prices of minerals led to lower exports receipts and lower revenues for GoB, starting from the last quarter of 2008. While in a normal year Botswana's diamond sales are in the range of US\$200-300 million per month, in November and December 2008, the country hardly had any sales. To contain costs, Debswana (the 50-50 joint venture between GoB and De Beers) has closed Orapa 2 and Damtshaa mines for the rest of 2009, and suspended operations at Letlhakane and Orapa No. 1 mines until April 2009. Other smaller diamond exploration companies, as well as nickel and copper mines, have followed suit. The linkages of mining with other sectors imply that the whole economy has been affected directly or indirectly. So far, nearly 2,000 employees, mostly in mining and quarrying, have lost their jobs.

GoB expects diamond prices in 2009 to be 15% lower than the 2008 book price. Hence, the overall Debswana revenue is expected to fall by 50% due to reduced diamond production and exports, which will have a substantial impact on GoB revenues since the revenue from this source depends on Debswana's after tax profits. GoB estimates the revenue and grants for 2009/10 budget at BWP24.39bn compared with

BWP29.28bn realised in 2008/09. Customs and excise (SACU) contributes 28.97% of estimated total 2009/10 revenue followed by mineral revenue (28.02%). The balance is made up of non-mineral income tax revenue and non tax revenue. Mineral-related revenues are expected to fall by 37% in 2009/10 and all the other categories of revenues (with the exception of non-tax revenue) are also likely to be adversely affected by the crisis (paragraph 2.2.3 and Chart 4). The reduction in revenues, when set against GoB's expenditure plans, has resulted in a substantial budget deficit estimated at 13.5% of GDP (BWP13.4bn) in 2009/2010. GoB intends to finance the deficit by drawing down part of its reserves, and by borrowing both domestically⁸ and externally (including IFIs). The full impact of the crisis on growth is still evolving, but GoB expects Botswana's real GDP growth to be much weaker in 2009 and the medium-term than it was in recent years.

GoB's response to the crisis is broad based. To continue implementing projects already underway, and which have greatest impact on economic growth and employment, GoB has set aside a significant part of the 2009/10 budget for infrastructure development (roads, airports, major dams, health facilities and secondary schools) as a stimulus package for the economy. GoB's 'belt-tightening' measures, include downward adjustments of 7% and 5% on the original recurrent and development budgets, respectively. Line ministries are also reprioritising their spending plans for both the 2009/10 and NDP 10.

2.2.5 On the monetary front, annual average inflation rose from 7.2% in 2007 to 12.6% in 2008, mainly due to the surge in food and international oil prices. The upward trend was in line with developments in South Africa, the source of over 70% of Botswana's imports, where inflation continued to be above the target range of 3% to 6%. Inflation is expected to drop below double digits in 2009, reflecting favourable developments in food and international oil prices. By consistently maintaining a competitive real effective exchange rate, the authorities have tried to use the exchange rate as a policy tool to strike a delicate balance between: (i) maintaining international

⁸ Already, on 6 March 2009, P1.3bn of bonds and Treasury Bills were successfully auctioned, with the issues being heavily oversubscribed.

competitiveness by reducing domestic prices in international terms, and, thereby, avoiding the effects of Dutch Disease; and (ii) promoting economic diversification by targeting moderate inflation levels. The pula depreciated vis-à-vis the U.S dollar from an average of 6.2 in 2007 to 6.8 in 2008, driven essentially by inflation differentials and a weaker rand against the US dollar. The pula is expected to depreciate further in 2009 in line with the continued weakening of the rand.

2.3 Social Context

2.3.1 Social Inclusion and Equity: Botswana faces challenges in translating its impressive success in macroeconomic and governance performance into poverty and inequality reduction. The level of poverty, with about a third of the population living below the poverty line, and unemployment rate of nearly 20% contradict its MIC status. Unemployment stems, in part, from the capital intensive nature of mining, which employs less than 5% of the labour force. In addition, the country's high income inequality (Gini coefficient of 0.61) could adversely affect its long-term development prospects, despite an impressive economic record and tremendous achievements in human development.

2.3.2 In terms of the Human Development Index (HDI), Botswana has performed better than its Southern Africa neighbours. This notwithstanding, Botswana was ranked 126th (against 179 countries) in 2008, compared to 72nd (out of 130) in 1990. The drop can be attributed to Botswana's high HIV/AIDS prevalence rate. On progress in achieving the Millennium Development Goals (MDGs), Botswana is on track to meet almost all targets (see Annex 3).

2.3.3 **HIV/AIDS:** At a national average of 17.1%, Botswana's HIV prevalence rate remains one of the highest in the world.

The country has an elaborate system for combating HIV/AIDS, led by the National Aids Coordinating Agency (NACA), which falls under the Ministry of the State President. NACA is mandated among others, to coordinate and facilitate the implementation of programmes and strategies at the national, district and community levels. A new National Strategic Framework for combating HIV/AIDS is under preparation, but this is not expected to differ much from the previous framework that ended in March 2009. The key areas are: (i) prevention of HIV infections; (ii) provision of care and support; (iii) strengthened management of the response; (iv) psychosocial and economic impact mitigation; and (v) provision of a strengthened legal and ethical environment.

2.3.4 A total of BWP 1.4 billion (US \$212 million) was spent in 2007/08 on programmes to combat the disease (over 60% came from Government's resources). Other major contributors were the United States Agency for International Development (USAID), Bill and Melinda Gates Foundation, UNAIDS, and some major pharmaceutical firms who provided donations and drugs at discounted rates. The European Commission (EC) (€ 14 million grant) and the World Bank (US\$ 50 million loan) are launching their support in May 2009.

2.3.5 **Gender Equality:** Botswana has ratified most of the international conventions relating to gender equality. The Abolition of Marital Power Act (passed in 2004) is the most important piece of legislation. This Act has made women equal to men in marriage, property holding, domicile and guardianship of minor children. It removed the restrictions that had previously been placed on the legal capacity of a wife. It practically abolished the predominant position of a man as the head of the household. This

notwithstanding, women do not enjoy equitable treatment in controlling productive resources, due to cultural practices that tend to be more predominant, particularly in rural areas.

2.3.6 The adult female literacy rate is about 83% and equal to that of men. At primary school level, girls' enrolment is over 100% of the relevant age group. Of the students registered in secondary schools, 52.9% are boys and 47.1% are girls. The gender parity index is 0.98 for primary and 1.05 for secondary schools. Women constitute about 40% of senior posts in the public service, occupying such senior positions as Central Bank Governor, Attorney General and Director of Public Prosecutions. At the political representation level, more than 11% of the Members of Parliament are women. There has also been an improvement in the percentage of women employed in the non-agricultural sectors of the economy: from 38.4% in 1995 to 42.4% in 2006.

2.4 Environment and Climate Change

2.4.1 Botswana is endowed with valuable natural resources and an environment that can potentially sustain its development processes and people into the future. Over 34% of the total land area is under protection in national parks, game reserves or wildlife management areas. Some of these areas contain unique habitats of ecological importance (such as the Okavango Delta) and cultural significance (such as the Tsodilo Hills). The Kalahari Desert occupies 77% of Botswana's land mass leaving the country with limited supplies of freshwater; infrequent rain and drought are its most frequent natural disasters. The country also faces other challenges, such as land degradation and pollution.

2.4.2 Vision 2016 and NDP 10 reaffirm the importance of sustainable development

and the protection of the environment. GoB is currently implementing a number of projects in that context including: (i) Botswana Integrated Water Resource Management Project; (ii) Renewable Energy-Based Rural Electrification Programme (iii) Incorporating Non-Motorized Transport Facilities in the City of Gaborone (iv) Management of Indigenous Vegetation for the Rehabilitation of Degraded Rangelands Project; and (v) Southern Africa Biodiversity Support Programme.

2.4.3 The envisaged engagement in coal to power developments is likely to have climate change implications. GoB and independent power plants (IPPs) will need to communicate effectively the benefits of these developments vis-à-vis efforts being made to use the cleanest possible technology. GoB will also ensure the responsible development of coal in accordance with best practices and high standards for environmental and social safeguards in line with international agreements.

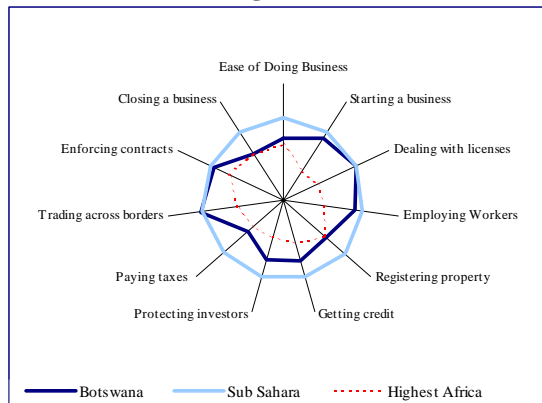
2.5 Business Environment and Competitiveness

Business Environment

2.5.1 The private sector business climate in Botswana is complemented by the country's proximity and access to South Africa's developed infrastructure and wider range of capital and financial markets. The 2009 World Bank's Doing Business report ranks Botswana 38 out of 181 economies (up from 51 in 2007), showing improvements in many respects – most notably in the indices for protection of investors (38 from 110) and ease of starting a business (80 from 102). However, there are 11 procedures, requiring 108 days, to start a business, compared with 38 days in Seychelles, 44 days in Kenya, 7 days in Mauritius, 29 days in Mozambique and 99 days in Namibia. There is, therefore, room for

improvement in this regard, as well as in a number of other areas, including trading across borders and dealing with construction permits. According to the Botswana Confederation of Commerce, Industry and Manpower, it also takes too long to issue work permits (Chart 5).

Chart 5: Ease of Doing Business (Rank)



AfDB Statistics Department using data from Doing Business, WB, 2008

2.5.2 GoB has highlighted issues relating to the business environment in NDP 10. In this regard, it is already in the process of reviewing several obsolete laws and business procedures. So far, a new Company Act and Industrial Development Act have come into force, the Botswana Stock Exchange Act is being replaced with a Botswana Securities Act and the draft Trade Policy and Competition Bill will soon be submitted to Parliament. The Financial Intelligence Bill was also recently passed by Parliament.

Competitiveness

2.5.3 The 2007 Global Competitive Report by the World Economic Forum ranked Botswana 76 (out of 131 economies), compared to South Africa (44) and Namibia (89), in terms of the Global Competitiveness Index. The World Bank, in collaboration with GoB, also undertook an Investment Climate Assessment (2007). While the report found that Botswana compares favourably to other MICs in a number of areas, it highlighted a number of impediments if

Botswana is to attain the level of high income status as enshrined in Vision 2016 (Chart 6):

- *Skills shortages* (see paragraph 3.2.6). For example, less than 40% of manufacturing firms in Botswana provide training. In comparison, over 70% of firms in Thailand, China and Chile provide training to their workers and over 60% provide training in South Africa and Mauritius.

Box 2: Six Hubs to Spearhead Diversification

During NDP 9, and currently in NDP 10, the Government has identified areas to focus on for enhanced economic growth and diversification. The following six 'hubs' were created:

- The *Education Hub* seeks to increase the quality and relevance of education at all levels and, thereby, make Botswana more competitive by attracting leading tertiary institutions, scholars, researchers and students into the country.
- The *Innovation Hub* is aimed at creating a platform for local and foreign businesses engaged in R&D and knowledge intensive activities (i.e. ICT). It will also establish an incubator for start-up companies and facilitate networking amongst businesses.
- The *Agricultural Hub* will encourage participation in farming, mentor farmers on agribusiness skills, and endeavour to commercialize the agricultural sector in an effort to make the industry more sustainable.
- The *Diamond Hub* intends to establish a diamond trade centre for rough/polished diamonds and to promote sustainable downstream diamond activities such as polishing and jewellery making.
- The *Medical Hub* hopes to identify projects and programmes that will make Botswana a centre of excellence in the provision of healthcare services. It will also outsource certain hospitals in an effort to attract specialists and optimize the quality of the health facilities.
- The *Transport Hub* seeks to re-position the country as a regional hub for rail, road and air transport, and to support a competitive transport and logistics industry in Botswana.

- *Labour productivity and total factor productivity are relatively low.* The median manufacturing firm in Botswana produces about \$8000 of value added per worker, compared to between \$14,000 and \$28,000 per worker in Malaysia, Namibia, Chile, Argentina and South Africa.
- Botswana's *export and domestic sales are heavily concentrated towards Government*, especially for domestic firms (about one-quarter of all output), than firms in comparator countries.
- Although *finance* appears relatively developed, *access* in SACU economies in general, and in Botswana in particular, is worse than in most other MIC comparators. About 38% of small, medium and large enterprises (SMLEs) and 78% of micro enterprises rated finance as a major or severe obstacle, compared to about 10% of small and medium-sized firms in South Africa and Malaysia.
- There are, in major urban areas, difficulties in *land administration* and problems associated with *land allocation*. Evidence suggests that land ownership is a problem relative to other middle-income economies. Firms are less likely to own the land and are more likely to fail in attempts at purchasing land.

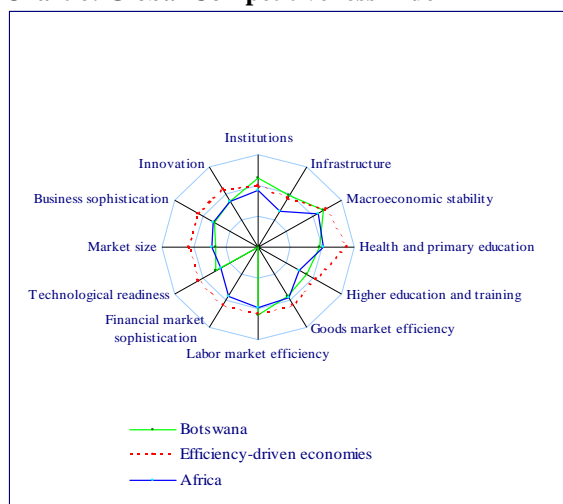
2.5.4 The Government is pursuing a number of initiatives with the aim of addressing these shortcomings, including the establishment of six hubs (Box 2). NDP 10 will continue to support these hubs as a means to diversify and grow the economy.

2.6 Regional Integration and Trade

2.6.1 Botswana is a member of the Southern African Customs Union (SACU)⁹, a single customs territory in which tariffs and barriers to trade are eliminated, while a single external tariff is applied to non-members. The SACU Trade Agreement was revised in 2002 and it aims to facilitate the cross border movement of goods, and integrate member countries into the global economy, through enhanced trade and investment. A considerable challenge for SACU is the level of uneven economic diversity and development within SACU. Thus, members need to identify common interests on regional issues and global trade, as well as priority trade links that SACU should pursue, for all SACU members to benefit. Competition for Botswana producers will become increasingly difficult, as the common external tariffs of SACU have been reduced and further reductions are planned.

2.6.2 Botswana is also an active member of the Southern African Development Community (SADC), an economic grouping which brings together fifteen countries¹⁰. The main development objectives of SADC are to: i) achieve macroeconomic convergence and market integration, and ii) enhance investment, finance and external trade, and harmonise resource management. In line with these

Chart 6: Global Competitiveness Index



AfDB Statistics Dept using data from Doing Business, WB, 2008

⁹ The five SACU members are Botswana, Lesotho, Namibia, South Africa and Swaziland.

¹⁰ SADC is comprised of the following fifteen countries: Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

objectives, a number of protocols have been developed, such as the SADC Trade Protocol, which resulted in the creation of a FTA in 2008.

Box 3: North South Corridor Initiative

The North South Corridor initiative is a trade programme that has enabled the Regional Economic Communities of COMESA, EAC and SADC, their Member States and the International Community to implement an economic corridor-based approach to reducing costs of cross-border trade in Southern and East Africa. It seeks to improve competitiveness of producers and traders, thus generating higher levels of economic growth, employment creation and a reduction in poverty. Key aims of the initiative are to improve transport infrastructure in the region and ensure that adequate power supply is made available to support the growing demand from industrial, commercial and domestic consumers.

During the April 2009 High Level Conference in Lusaka, about US \$1.2 billion of funding was committed by development partners for the upgrading of road, rail, energy and port infrastructure, as well as to support implementation of trade facilitation instruments.

Botswana can play a key role in the North South Corridor initiative, due to its geographical location in the middle of Southern Africa. As a landlocked country, faster border crossings and improved roads, railways and ports will allow the country to transport goods quickly and access regional and international markets more easily, thereby encouraging exportation and inward investment.

2.6.3 The main instrument for trade liberalisation has been the elimination of tariffs on intra-SADC trade. Botswana, like other SADC countries, is expected to benefit from economies of scale deriving from the larger market. If certain constraints to competitiveness and the business environment are attended to, Botswana could attract investors to use the country as a production base for the region. In addition, the North South Corridor Initiative (Box 4) may further encourage inward investment and exports from Botswana.

2.6.4 However, like many other SADC countries, Botswana faces several challenges in its trade with other SADC members. For example, some countries impose sanitary and phytosanitary measures to protect their domestic industry against cheaper imports from other SADC countries. The changing composition of SADC exports from primary commodities into higher value agricultural products, and manufacturing, poses a challenge as the latter are subject to a much wider range of standards than the former. Finally, the proposed 2010 SADC Customs Union is likely to reduce Government revenue for SACU members, such as Botswana, in that the SADC agreement will supplant the SACU revenue arrangements. However, opening up to SADC may have countervailing impacts that would ameliorate the revenue losses.

2.6.5 Botswana also signed an Interim Economic Partnership Agreement (IEPA) with the EC in November 2007. Under IEPA, Botswana consumers are likely to benefit through the importation of relatively cheaper agricultural (cereals) goods. However, export earnings of Botswana's beef may decline, because of stiff competition from other exporters.

III. STRATEGIC DIRECTIONS, CHALLENGES AND OPPORTUNITIES

3.1 Country Strategic Framework

3.1.1 Botswana's Vision 2016 is the country's development roadmap. National Development Plans are the main instruments for implementing the policies, programmes and actions to achieve its objectives. NDP 10, prepared through a wide consultative process, covers the period April 2009 to March 2016. Its main theme is "*Accelerating Vision 2016 through NDP10*". The strategic thrust of NDP 10 is to accelerate diversification and competitiveness through: (i) harnessing productive and knowledgeable human

resources, (ii) focusing on environmentally sustainable growth, (iii) enhancing well-being and social protection, (iv) improving safety and security, and (v) maintaining transparency and good governance. It is the first plan that emphasises results and is supported by a strengthened monitoring and evaluation system. The Vision 2016 pillars and NDP 10 goals are shown in Table 1.

3.1.2 The Government's poverty eradication efforts have been driven by the National Strategy for Poverty Reduction (NSPR) – formulated in April 2003 for an indefinite period. The NSPR seeks to reduce poverty through shared growth, enhancing human capital, creation of cost-effective pro-poor social safety nets, an

effective response to HIV/AIDS and strengthening institutions for the poor. To date, the strategy has had little impact in reducing poverty. The challenge for Government is to provide clear operational procedures and measuring indicators for NSPR, and incorporate the strategy into mainstream policies like Vision 2016 and NDP 10.

3.1.3 The focus of NDP 10 is consistent with the Government's Private Sector Development Strategy (PSDS), finalized in November 2008. The PSDS lays out a roadmap to expand and strengthen private sector participation in Botswana's economic development.

Table 1: Vision 2016 and NDP 10

VISION 2016 PILLARS	NDP 10 GOALS & SELECTED INDICATORS*
1. Educated & informed nation	1. Adequate supply of qualified, productive & competitive human resources (e.g. unemployment rate fall from 17.5% in 2007 to 9.5% in 2016) 2. Innovative & productive usage of information & technology (e.g. R&D expenses increase from 0.4% in 2004 to 2% of GDP by 2016)
2. Prosperous, productive & innovative nation	3. Sustainable rapid economic growth 4. Well developed & reliable infrastructure 5. Sustainable management of natural resources
3. Compassionate, just & caring nation	6. Eradication of absolute poverty 7. Adequate social services 8. Affordable & quality healthcare 9. Prevent new HIV/AIDS infections
4. Safe & secure nation	10. Public safety & protection 11. Territorial integrity & sovereignty
5. Open, democratic & accountable nation	12. Transparency & accountability in all public & private institutions 13. Enhanced & sustainable participatory democracy 14. Rule of law
6. Moral & tolerant nation	15. Enhanced cultural heritage & diversity
7. United & proud nation	16. Strong national identity & unity

*Each goal has numerous Key Performance Indicators

3.2 Challenges

3.2.1 Although it is classified as an upper-middle-income country, Botswana is faced with a number of weaknesses and challenges.

3.2.2 *Mitigating the impacts of the global financial crisis.* Government has already announced a fiscal deficit of P13.4bn (13.5% of GDP), for 2009/10, to stimulate the economy (see Section 2.2) and continue projects and programmes that

were already budgeted for. The Government is undertaking a prioritisation exercise to ensure that projects that continue to be funded are significantly growth enhancing. This may also involve moving projects forward in the NDP 10 pipeline to replace those with delays. Government has also proposed a number of belt-tightening measures on the expenditure side, including instructing line ministries to cut both the development and recurrent budgets by initially 5% and 7% respectively.

3.2.3 *Address infrastructure bottlenecks – particularly the electricity crisis – which affect the competitiveness of the economy.* As a land-locked country, Botswana's physical infrastructure is integral to its regional and international competitiveness. Productivity in virtually every sector of the economy is affected by the quality and performance of the country's transport, energy and water supplies. Botswana is now faced with the challenge of devising appropriate strategies to improve the provision and maintenance of infrastructure and infrastructural services in an efficient and cost-effective manner. Most urgent is the electricity crisis. Botswana has up to now relied¹¹ on the abundant and inexpensive electricity supplies from South Africa. South Africa's recent power-shortage-problems has led to a reassessment of its own needs, and to announce that it can no longer provide power exports to Botswana and will slowly reduce and finally stop all exports by 2013. As a result, Botswana needs to urgently build its own electricity supply platform as discussed in paragraph 3.3.5.

3.2.4 *Economic diversification.* Although Botswana's reliance on its mineral wealth, particularly diamonds, has allowed it to achieve significant development since independence, this development has not necessarily been equally and widely shared. Unemployment is high¹² and poverty, especially in rural areas, is a challenge – with about one-third of the population living below the poverty line. These present significant obstacles to attaining Vision 2016. Given that diamond production is likely to cease in 2030, growth in non-diamond sectors will need to accelerate significantly, in the coming years, in order to avoid a contraction of the economy. However, the share of private sector investment going into the non-

mining sector is relatively low to support significant non-diamond sector growth. As described in Box 2, the Government has recently set up a number of hubs to encourage diversification, and is changing its approach from being an 'interventionist' (e.g. giving incentives in the form of subsidies) to a 'facilitator' of economic diversification.

3.2.5 *Encouraging a more competitive and dynamic private sector.* This is critical if Botswana is to successfully diversify the economy, create jobs and reduce inequalities. Although Botswana has a stable and predictable political environment, underpinned by strong macroeconomic fundamentals, firms are not as competitive and productivity is lower than in other middle-income countries. South Africa is the industrial giant in the region and immediate competitor to Botswana. It is more competitive with its highly skilled labour force, large economy and domestic market, and cheaper utilities and transportation costs. For these reasons, certain impediments to investment and competitiveness in Botswana need to be addressed (see Section 2.5).

3.2.6 *Human capacity and skills for a diversified and productive economy.* There are two challenges. First, is to overcome the HIV/AIDs pandemic, which is a significant drain on the economy. For example, both Government and businesses have suffered increased labour costs as absenteeism, morbidity and death reduce productivity; while labour training and replacement costs rise due to high worker turnover. Poor employee health also exerts upward pressure on health and social security expenditures. Second, while education expenditure is high (about 25% of Government expenditure), there are concerns about the quality of the education provided. As a result, low productivity, lack of entrepreneurial, technical and managerial skills and a general mismatch

¹¹ In 2008, about 67% of its power requirements were imported from South Africa and 11% from other neighbouring countries.

¹² 17.6% in the 2005 (Labour Force Survey). In fact, the diamond industry employs less than 5% of the labour force.

between the supply and demand for skills hampers the competitiveness of the economy and frustrates diversification efforts. In addition, Government has recognised the need to ‘right-size’ public sector activities (see paragraph 3.2.7) and hive off some of them to the private sector; skills shortages are, however, a major impediment in this regard.

3.2.7 Effectiveness of public service delivery. Despite Botswana’s demonstrated capabilities, adequacy of institutional structures, and availability of sufficient financial resources, the country still suffers from capacity constraints in the public service¹³. The plethora of public programmes may have inadvertently led to a ‘dependency culture’ in the economy and in society, resulting in a high dependency on Government contracts, subsidies and welfare payments. This calls for an increased emphasis on efficiency and effectiveness in public service delivery¹⁴, so that limited resources are not wasted; both now, during Government’s fiscal stimulus and prioritisation process, and later when the economy has diversified further and attained a larger share of private sector activity.

3.3 Strengths and opportunities

3.3.1 Botswana may seem to have significant and mounting challenges, but given some of the underlying strengths of the economy, a number of these challenges constitute important opportunities.

3.3.2 A track record of sound economic and political governance. The Government’s budgeting, planning and procurement systems are based on sound policy and institutional foundations, and

are accompanied by solid accounting and auditing systems. Botswana’s elaborate system of planning (protected in the law and approved by parliament) means that a development project cannot be implemented if it is not in the plan, and any modification needs to be fully justified and approved by Parliament. This ensures accountability in the use of all public resources. As a result of this solid economic management and low levels of corruption (see Section 2), Botswana has earned consistently high credit ratings from rating agencies. In addition, these strong fundamentals bode well for Botswana’s mitigation measures during the financial crisis and for positive economic growth in the long-term.

3.3.3 High potential for economic diversification. Previous efforts to diversify have been slow and largely unsuccessful. The current scenario, with diamond exports plummeting, gives a glimpse of the future when Botswana will run out of diamonds. The NDP 10 has identified tourism, international financial services¹⁵, energy (including regional power exports), agriculture and manufacturing as the main potential sectors for diversification. Botswana is also endowed with other natural resources including: copper, nickel, coal, clay, crushed stones, soda ash, salt and small quantities of gold. These will provide initial avenues for diversification from diamonds to other minerals and eventually to non-minerals.

3.3.4 Regional integration will become an increasingly significant driver of growth. Membership in regional groupings (e.g. SADC and SACU), and associated trade agreements, gives Botswana the opportunity to address some of the constraints imposed by a small domestic market and, thereby, access a regional

¹³ The public sector is the third largest sector in Botswana accounting for 15.4% of GDP and 40% of the formal labour force.

¹⁴ Government has already taken a number of steps to improve public service capacity, including on-the-job training, engagement of expats and emphasising scientific and technical training.

¹⁵ Botswana has several comparative advantages to attract regional financial services, including: liberalised capital account, and stable currency, economy and political climate.

market of over 350m consumers. It offers prospects for diversifying its export markets and mitigating risks to external shocks. It also opens the door for the country to benefit from external private sector investments and expertise. Two important and recent events to note are, firstly, the progress made on the North-South Corridor Initiative (see Box 3). Botswana's location in the centre of Southern Africa puts it in a position to serve as the land-bridge connecting South Africa and Namibia to Zambia, Angola and East Africa. Secondly, with Zimbabwe coming back on line, there will likely be increased opportunities for trade and investment between the countries.

3.3.5 Botswana could become a significant provider of power to the region. Botswana has vast coal reserves, which if exploited would secure Botswana's energy needs and allow it to boost exports and contribute to regional security. In addition, this would boost economic growth and achieve some of the economic diversification goals within the natural resource sector. The financing for two landmark projects is currently being raised. The extension of Morupule Power Station¹⁶ (Morupule B, 600 MW) by the national utility Botswana Power Corporation (BPC), and a private-led effort to construct a new coal-to-power plant (Mmamabula, 1200 MW), which is expected to sell three quarters of its production to South Africa's power utility ESKOM and one quarter to BPC. Mmamabula would be the first coal-fired generation project in Botswana to use high efficiency "supercritical" coal boiler technology. There are other initiatives – including ZIZABONA (Zimbabwe, Zambia, Botswana and Namibia Interconnection) and WESTCOR (Western Corridor) – that aim to improve transmission infrastructure and, thereby, facilitate electricity trading amongst

¹⁶ The Bank is in advanced discussions with the authorities and BPC for the co-financing of the Morupule B power project.

neighbours in the region. Finally, with Botswana's vast expanses of arid and desert areas, the option of solar (renewable) energy is being considered as a complement to the coal powered sources.

IV. PARTNERSHIPS AND BANK GROUP POSITIONING

4.1 Development Partner Coordination

4.1.1 Botswana's official development assistance (ODA) per capita is one of the lowest in Southern Africa. This is because of the country's strong financial and international reserve position arising from diamond mining revenues and that, as an MIC, Botswana is ineligible for concessional resources from IFIs. Over time, most traditional bilateral donors also scaled down their support after the country attained the MIC status. In light of the global economic downturn, however, Botswana authorities have intimated that they will need additional financing, including external borrowing, to meet their investment requirements.

4.1.2 A Development Partners Coordination Forum comprising diplomatic missions, bilateral donors, United Nations agencies, multilateral organizations and government institutions was established in October 2007 to coordinate ODA. It meets twice a year and is co-chaired by the Ministry of Finance and Development Planning (MFDP) and the United Nations Development Programme (UNDP). The objective of the forum is to, among other things: share information about development policies and programmes; sensitize partners about the country's development challenges; develop a coordination database; and identify areas of common concern and potential for joint programming.

4.1.3 Botswana has no IMF programme, but the Fund conducts regular Article IV

Consultations with the country. The country's other major development partners are the World Bank and the European Commission (EC). The World Bank, like the AfDB, is in the process of defining a strategy for Botswana – the Country Partnership Strategy (CPS) – which is due for Board presentation in the second quarter of 2009. Preliminary discussions with World Bank staff indicate that the CPS will target four broad areas: (i) enhancing public sector effectiveness, (ii) HIV/AIDS and education, (iii) competitiveness of the economy through investment in infrastructure and (iv) enhancing the effectiveness of environmental programs. Opportunities exist for possible AfDB-World Bank collaboration in addressing infrastructure constraints. For example, the Bank is already engaged in discussions with the authorities and the World Bank on possible co-financing of the Morupule power project (see Table 2).

4.1.4 The EC is in the second year of its Country Strategy Paper and Indicative National Programme for the period 2008-2013, which corresponds to the EDF 10 Community Programme for the country¹⁷. The strategy provides for €73 million to cover macroeconomic support, sectoral policies, programmes and projects; and an amount of €4.3 million to cover unforeseen emergency assistance, contributions to agreed debt relief and support to mitigate adverse effects of export earnings. There are possibilities for AfDB-EC collaboration in a number of areas, including the provision of technical assistance.

4.2 Bank Positioning in Botswana

4.2.1 Since commencing lending operations in Botswana in 1973, the Bank has funded 29 operations with a total net

commitment of UA 304.1 million, focusing on: social sectors, transport and agriculture. Currently, the only ongoing project is the Pandamatenga Agriculture Infrastructure project (UA 37.3 million), which was approved in September 2008.

4.2.2 Besides lending operations, the Bank has also provided an amount of UA 2.1 million, under the MIC Trust Fund, in support of non-lending operations: (i) agriculture sector review; (ii) capacity building in the Ministry of Agriculture; (iii) fast tracking the implementation of Vision 2016; (iv) preparation of a corporate governance code; (v) institutional strengthening of local authorities for effective service delivery; and (vi) SADC (Botswana and Zambia) North-South Corridor Study (Kazungula Bridge). The Country has also received grants from the African Water Facility (AWF) and the Infrastructure Project Preparation Facility (IPPF) amounting to UA 500,000 and €1,169,000, respectively.

4.2.3 In 2005, the Bank issued a BWP 300 million bond issue, which enabled the BWP to achieve settlement status. This implies that now bonds denominated in BWP can be fully traded, settled and held. This has facilitated investor interest in Botswana and the BWP capital market.

4.3 Lessons Learned from Previous CSP

4.3.1 The previous CSP progress report, approved by the Board in September 2008, highlighted a number of lessons. The *first* lesson is the importance of ensuring, during project design, that there is enough capacity for project implementation, given the serious erosion of capacities caused by HIV/AIDS. This was also an issue documented in the mid-term review of NDP 9. Thus, future engagement should include, where feasible, capacity building components to address capacity constraints.

¹⁷ EU interventions in Botswana are through EDF grant financing, as well as through lending by the European Investment Bank (EIB).

4.3.2 The *second* lesson is that lending opportunities can arise from economic and sector work (ESW). The agriculture sector review, for example, provided sector specific information as a basis for identifying specific issues for policy dialogue and advice to the government; as well as assisting in underpinning Bank interventions in the sector. This has culminated in the Pandamatenga Agriculture Infrastructure Project. Thus, sector specialists and other staff working on Botswana should consider ESW that can inform policy and/or create relevant lending opportunities.

4.3.3 *Third*, it is important to ensure that Bank loans are competitive. The Bank's lending rates are perceived as expensive compared to those of other IFIs, such as the EIB. This is being addressed in the context of the Bank's Strategic Framework for Enhancing Support to MICs, through which the Bank has implemented a series of measures including: the introduction of new lending products (general budget support, non-sovereign guaranteed loans and local currency lending) and the establishment of the MIC Trust Fund.

V. BANK GROUP STRATEGY

5.1 Rationale for Bank Support

5.1.1 The rationale for Bank Group support to Botswana is threefold. *First*, it coincides with the launching by Government of NDP 10, which places renewed emphasis on accelerated diversification and competitiveness of the Botswana economy (see Section 3.1).

5.1.2 *Second*, this CSP comes at a time of reduced mineral revenues for the Government, owing to the adverse impact of the global economic downturn, which has given greater impetus to efforts aimed at diversifying the economy. Botswana is, therefore, looking for support from the Bank and other development partners to:

(i) help offset the fall in mineral revenues in the short to medium term, (ii) drive the competitiveness and diversification agenda forward, and (iii) provide knowledge and advisory services in order to best orientate the economy on a more productive and sustainable growth path.

5.1.3 *Third*, given Botswana's need for support, this is a unique window of opportunity for AfDB to demonstrate its responsiveness to the needs of its MICs. The CSP is, therefore, anchored on the *Strategic Framework for Enhancing Bank Group Support to Middle Income Countries (MICs)*, whose major themes include: enhancing competitiveness of MICs, deepening private sector and SME development, investing in regional integration, and capacity building and knowledge service. Other Bank policy papers¹⁸ also outline measures to deepen support to MICs, including: enhancing the quality of relationships and service through better business processes, innovation in financial services and lending products, mainstreaming delivery of advisory services, and enhancing communication activities in MICs.

5.2 Strategic Pillars and Outcomes

5.2.1 Although Botswana has experienced robust growth since independence, the economy remains highly vulnerable to external shocks due to its dependence on diamonds. The NDP 10, therefore, places emphasis on diversifying the economy in order to reduce dependence on the mining sector in general, and on diamonds in particular, and to create poverty-reducing employment. This underscores the importance of deepening reforms and addressing infrastructure constraints to enable private sector development.

¹⁸ The *Report of the Presidential Working Group on Enhancing Bank Support to Middle Income Countries*, the Bank's *Medium Term Strategy*, approved in December 2008, and the Bank's *Strategy Update for Private Sector Operations*, approved in 2007.

Towards this end, and in order to support Government's diversification efforts, as well as alleviating a number of the challenges identified in Section 3.2, the following pillars are proposed:

(1) Support actions to expand private sector investment

5.2.2 This pillar aims to promote the role of the private sector and SMEs in raising Botswana's productive capacity, increasing income levels, diversifying economic activity across various sectors of the economy, and, ultimately, broadening the benefits of economic growth. A robust and responsive private sector is critical to the success of GoB's competitiveness and diversification efforts. The Bank will pursue measures to strengthen the private sector, and mainstream private sector initiatives across sectors, using a combination of approaches in line with the Bank's Private Sector Development Strategy and Private Sector Business Plan. The Bank will also influence policy reforms (see Annex 4) that focus on financial sector deepening, strengthening the regulation of non-bank financial institutions (NBFIs), and promoting privatisation and private-public partnerships (PPPs).

(2) Remove infrastructure bottlenecks to enhance competitiveness and growth

5.2.3 This pillar aims at alleviating constraints to business activity, disincentives to investment and, thereby, enhances competitiveness and growth. The Bank will finance operations in transport infrastructure that contribute toward the Government's public sector transport programme. This will include the rehabilitation and construction of roads, railways, bridges and airports. The Bank will assist Botswana solve its energy crisis, achieve energy security and build electricity infrastructure in support of the Government's diversification programme. The Bank will also finance interventions in

the water sector to provide a clean, reliable and affordable water supply for domestic, industrial, mining and agricultural requirements. Finally, this pillar will be underpinned by a strong *regional dimension*, whereby the Bank supports appropriate infrastructure investments to better link Botswana with the region and, thereby, benefit from the regional opportunities identified in Section 3.3.

5.2.4 These pillars recognise the need to support the Government's short-term financing gap, as it tries to counter the impacts of the global financial crisis and maintain its programme of projects. In addition, these pillars recognise the need to remove obstacles and lay a firm foundation for more competitive and diversified growth over the medium to long-term. Finally, these pillars are in line with the strategic thrust of Government's NDP 10, especially the two goals: '*sustainable rapid economic growth*' and '*well developed and reliable infrastructure*'.

5.2.5 Within the context of the two pillars, the Bank will support efforts to strengthen critical capacity in the public as well as the private sector, especially SMEs with emphasis on vocational and entrepreneurship training by partnering with local and regional learning institutions (see para. 5.3.9).

5.3 Deliverables and Targets

Lending operations

5.3.1 In line with the CSP pillars, the operations listed in Table 2 are proposed for financing during the CSP period 2009 to 2013, subject to an official request for financing. The Bank may finance other projects, at the request of Government, depending on their fit with this strategy and on the annual sustainable lending limit for Botswana (see Box 4).

5.3.2 As a MIC, the lending programme will be financed from the AfDB window. The Bank will, within this, position itself to support the country through the various financing instruments available (e.g. budget support facilities, project investment loans, non-sovereign private sector investments, lines of credit and equity participation, and PPP operations). The Bank will also provide grants from MIC Trust Fund to finance non-lending activities.

5.3.3 Botswana meets the prerequisite conditions required for budget support (see Annex 4). The budget support loan will

help fill the financing gap faced by the Government, as a result of the financial crisis, in its attempt, through reprioritisation of projects and programmes, to: (i) cushion the economy by targeting the poor and most vulnerable, and (ii) continue on-going efforts to address key constraints in the economy. The loan will support an existing programme of projects, as detailed in the 2009/10 Budget. The budget support programme will support on-going reforms to improve the investment climate and encourage private sector activity (see Annex 4).

Table 2: Indicative Bank Programme for Botswana for 2009 to 2013

Project/Activity	Planned board approval	Indicative amount (UA mn)	Region covered
Lending			
1. Budget Support Operation	2009	1,020	National
2. Morupule Power Station B-1	2009	150	National
3. Kazungula Bridge	2009	50	Multinational
4. Agricultural Infrastructure	2010	TBD	National
5. North South Water Transfer II	2010	TBD	National
6. Transport Infrastructure	2010	TBD	National
7. Mmamabula IPP Project	2011	TBD	National
8. Line of Credit to National Development Bank	2012	TBD	National
Non-lending			
1. Study on the Impacts of the Global Financial Crisis	2009	TBD	National
2. Multi-sector Technical Assistance/Capacity Building	2009	TBD	National
3. Workshop & Policy Note on Economic Diversification	2010	TBD	National
4. Transport Infrastructure Feasibility Studies	2010	TBD	Multinational/National
5. Study on Vulnerability and Sources of Inequalities	2011	TBD	National

5.3.4 Bank support for infrastructure (e.g. transport and energy) will aim to encourage economic and development corridors within the SADC region. The Bank will engage the Government on the possibility of investing in operations that specifically support the North-South corridor initiative. The Kazungula Bridge is one such initiative that will better link Botswana with its neighbours. The Government is also considering AfDB involvement in its transmission infrastructure projects (e.g. ZIZABONA, WESTCOR, etc).

5.3.5 With the anticipated finalisation of the PPP guidelines in 2009, the Bank will explore the use of PPPs in infrastructure¹⁹; with the long term objective of improving the efficiency and quality of public services, and, ultimately, improving the environment for the private sector. Besides using its own resources, the Bank will continue to play a catalytic role in syndicating resources for mega-

¹⁹ GoB is in the process of developing a PPP Framework, to expand the participation of the private sector in the economy, and has embarked on several measures to promote the private sector, including, privatization of eligible public enterprises.

infrastructure projects and creating special purpose vehicles for implementation.

5.3.6 In addition to the projects listed in Table 2, opportunities will be sought for private sector activities, such as: expanded financial intermediation through the provision of lines of credit to local DFIs (e.g. National Development Bank of Botswana) for on-lending to SMEs; direct investments and equity participation to support private sector projects that create jobs and enhance the productive capacity and diversification of the economy.

Non-lending operations

5.3.7 Analytical work, policy advisory services, institutional support and capacity building will be done in conjunction with the Government, and financed through grants from the Technical Assistance Fund for MICs and other Bilateral Trust Funds managed by the Bank.

5.3.8 Within the context of supporting measures to enhance competitiveness and diversification, the activities indicated in Table 2 are planned. In particular, the financial crisis study will look at the impacts of the crisis on the economy, in order to isolate what sectors/areas are hardest hit and the effect this is having on employment, incomes and poverty levels. The study will examine medium to long-term measures for mitigating similar crises and enhancing the economy's resilience to external shocks. The activities in Table 2 are not exhaustive and the Bank will remain flexible to provide policy advisory services in a relevant and timely manner at the request of Government.

5.3.9 An important element of the non-lending operations is *capacity building*. The Bank will support, in collaboration with other partners active in this area, capacity building activities to enhance effectiveness of public service delivery and project implementation. These activities can be, firstly, related to actual

projects where increased capacity is required to support effective implementation, and, secondly, in other areas identified as constraints to the competitiveness and diversification of the economy.

5.4 Monitoring and Evaluation of Bank Strategy

5.4.1 The Government and the Bank Group will jointly monitor the outcomes of this CSP using the results-based framework in Annex 1. This framework is based on the Macro Development Results Framework (MDRF) developed by Botswana for M&E purposes at the national level. The MDRF spells out the macro priorities of the country from the NDP 10, identifies relevant national-level indicators (outcome and impact), links the key national strategies of NDP 10 with the broad national goals of Vision 2016, and would be used for measuring progress in achieving these national goals.

5.4.2 There is, however, a need for capacity to generate and manage data and information required for M&E. Critical areas that require attention are enhanced capacity of the National Statistical System (NSS), and the design and implementation of a National Strategy for the Development of Statistics (NSDS). The ongoing initiative to transform the Central Statistics Office (CSO) into a semi-autonomous agency is expected to improve the efficiency of the institution in performing its mandate. There is also a need to set up a common national database for storing, analyzing and disseminating data and information. These changes and limitations will be considered and monitored during the implementation of the CSP, to ensure that relevant data and information is available for monitoring indicators identified in the results-based matrix.

5.4.3 A comprehensive mid-term review will be undertaken in 2011 to assess progress towards the CSP outcomes. This review is particularly important in that the CSP is being prepared at a time when Botswana is facing significant immediate challenges from the global financial crisis. The review will ensure that the Bank's strategy remains relevant, as the medium to long-term impacts of the crisis on the country unfold. A CSP completion report will also be prepared.

5.5 Issues for Country Dialogue

Areas for continued dialogue with the Government include:

5.5.1 *Implementation of reforms in the context of the proposed Budget Support loan.* The Bank will continue to monitor the implementation of reforms aimed at enhancing competitiveness and achieving diversification. These include actions to promote privatisation, PPP operations and financial sector deepening. A number of actions are at an advanced stage, while others are expected to be concluded by March 2010. The Bank has agreed to a programme, with relevant evidence, to facilitate monitoring and dialogue (see Annex 4).

5.5.2 *Public sector institutional capacity.* The NDP 9 mid-term review identified capacity constraints as one of the key obstacles to implementing the plan. In order to ensure effective implementation, monitoring and evaluation of NDP 10, the Bank will continue to dialogue with Government on the need to implement capacity building measures. The Bank will encourage Government to take advantage of the Bank's Technical Assistance Fund for MICs and other grant resources to enhance capacities in relevant areas.

5.5.3 *Support for regional operations.* As discussed, Botswana stands to gain significantly from embracing regional integration measures. Financing regional

projects is, however, an issue, as Botswana does not have access to resources available from the ADF regional operations window. The Bank will engage the Botswana authorities on the need to prioritize regional projects for potential financing, and emphasise the various options for financing infrastructure projects beyond public sector loans, including: direct private sector investments and PPP operations.

5.6 Potential risks and mitigation measures

The following are some of the key risks to the implementation of the CSP, and proposed mitigation measures:

5.6.1 *Limited implementation capacity.* Unless capacity constraints are addressed at the national level, as a conscious development policy, there will be considerable delays in the implementation of programmes and policies under NDP10. These would have negative impacts for the proposed strategy and lending programme. As a mitigating measure, the Bank is proposing support to capacity building activities that enhance effectiveness of public service delivery and project implementation. In addition, the opening of the AfDB Regional Office in South Africa will bring implementation expertise and support within a short flight from Gaborone. The Office's focus on private sector activities and infrastructure, as well as its procurement and financial management expertise, will bode well for frequent supervision of the operations to be financed by the Bank in Botswana. Finally, the World Bank is planning, as one of the four areas of its CPS, to enhance 'public sector effectiveness'.

5.6.2 *Credit risk.* Botswana's overall creditworthiness is constrained by its diamond-dependent narrow economic base. This has been exposed and exacerbated recently by the global

economic downturn. As a result, the severe contraction of the diamond industry has resulted in imbalances on its fiscal and external accounts, which may significantly worsen under a potentially longer global recession. This poses risks to Bank lending to Botswana. These risks are, however, mitigated by a number of factors (see Box 4), including that Botswana has maintained its position as one of the *better rated African countries* with an average rating of 1 (very low risk class). This good rating is confirmed by Fitch, Moody's, S&P and other risk intelligence services.

Box 4: Bank exposure to Botswana and Lending Limit

The Bank's current exposure to Botswana is very low, at 1% of the total disbursed and outstanding loans. As a low risk country with large economic potential, the country limit for Botswana in terms of the share of total risk capital is 12%. The current portfolio has used only 1% of the country limit, yielding an available risk capital for use of 99%. Assuming a weighted average risk profile of 1 for the non-sovereign portfolio, the sustainable level of annual lending over the CSP period is UA 900m to UA 1000m. The incremental exposure resulting from recommending this annual lending amount is sustainable over the medium term planning horizon of the Bank. This annual incremental amount will not put any threat to the Bank's financial strength and risk bearing capacity. The lending volume can be front loaded to meet higher demand requirements for financial year 2009/10.

resources. First, however, the Government needs to ensure that fiscal stability is sustained.

6.2 This Bank Group strategy is designed to support the Government's efforts in implementing short-term mitigation measures, and to deepen economic diversification in order to ensure a more robust economy in the medium to long term. The Government proposes to achieve these goals using a combination of programmes and policy reforms, in the context of the NDP 10, with a view especially to enhancing the competitiveness of the economy.

6.3 The Board of Directors is invited to consider and approve the proposed Country Strategy Paper for Botswana for 2009–2013, based on a sustainable annual lending envelope ranging from UA 900m to UA 1000m.

VI. CONCLUSIONS AND RECOMMENDATIONS

6.1 After nearly four decades of sustained growth, boosted by prudent macro-economic management and a sound political environment, Botswana has experienced a serious downturn in its economy over the last few months. The Government has risen to the occasion, seeing the current financial crisis as an opportunity to undertake measures to address long-standing structural issues, including mineral dependence, inadequate infrastructure and paucity of human

Annex 1: CSP Results-Based Framework (2009-2013)

Country Development Goals (PRS)	Issues hindering the achievement of Country Development Goals (sector issues)	FINAL OUTCOME (expected by the end of the CSP in 2013)	FINAL OUTPUTS (expected by the end of the CSP in 2013)	MID-TERM OUTCOMES (expected at CSP Mid-Term by 2011)	MID-TERM OUTPUTS (expected at CSP Mid-Term by 2011)	AfDB Interventions expected to be ongoing during the CSP period (new and ongoing)
PILLAR I – SUPPORT ACTIONS TO EXPAND PRIVATE SECTOR INVESTMENT						
Creating the conditions for accelerated private sector growth, economic diversification and poverty reduction	Over-reliance on unsustainable mining sector and revenues	Percentage of non-mining exports increase from 17.9% in 2008 to 30% in 2013	Non-mining sector growth rate per year in real terms at 6%	Proportionate increase in non-mining private sector	Increased growth rate of the non-mining sector	Budget support programme (expected Board presentation: Q2 of 2009; AfDB)
	Private sector not as competitive as firms in many middle income comparator countries.	Proportionate increase in non-mineral government revenue	Non-mineral government revenue: 43% in 2009/2010 & 44% in 2013	Proportionate increase in non-mineral government revenue	Non-mineral government revenue at 43.5%	
	Undeveloped capital market	Percentage contribution of domestic investment to GDP increase from 18% in 2008 to 22%	Securities Act to transform the Botswana stock Exchange (BSE) revised	Percentage contribution of domestic investment to GDP increase from 18% in 2008 to 20%	Securities Act to transform the Botswana stock Exchange (BSE) revised	
	The non competitive policy hampers free trade in certain areas of commercial activity	Percentage contribution of FDI to GDP increase from 26.4% in 2008 to 35%	Percent change in BSE company index	Percentage contribution of FDI to GDP increased from 26.4% in 2008 to 32%	Competition Law enacted	
		Improved competitiveness and trade	Competition Law enacted and operation			
PILLAR II – REMOVE INFRASTRUCTURE BOTTLENECKS TO ENHANCE COMPETITIVENESS AND GROWTH						
Provide safe, secure and efficient infrastructure (energy, road, rail & water)	Inadequate and high cost of infrastructure (transport, energy and water)					
To ensure the availability of sufficient domestic generation capacity in order to (i) substitute for the fast declining electricity imports from neighboring countries and (ii) make available sufficient and reliable domestic generation	Sporadic power outages due to electricity shortages in RSA and Southern African Power Pool (SAPP)	Enhanced quality and efficiency in the delivery of energy supply Domestically generated power to substitute for imports from South Africa and the rest of the SAPP that are to be	Domestic generating capacity connected to the national grid to be increased by 600 MW by 2012 as Morupule B comes on line. Botswana to be able to meet at least [75%] and [100%] of national	Not applicable	Construction of Morupule B and transmission system underway	Mopurule B Project (expected Board presentation: Q4 of 2009; AfDB)

capacity to support future demand growth		discontinued by 2013 Load shedding and power outages eliminated by 2013 An environmentally sustainable energy system	demand from domestic generating capacity by 2012 and 2013 respectively. Load shedding and power outages eliminated by 2013			
Provide safe, secure and efficient road and rail infrastructure. Improve safety on the roads	Desert conditions makes road access difficult Rail network old and worn out	Regional road infrastructure disparities reduced and access to social services economic opportunities increased Accident rate (death per 10,000 registered vehicles fall from 17.3 in 2007 to 14.1 in 2013 A safe and efficient national road network roan safety improved Upgraded, expanded, reliable and efficient rail network	Road network in agricultural production zones needs to be developed, rehabilitation of some roads needs to be undertaken Rail feasibility study finalised	Percent of paved roads in acceptable condition increase Accident rate (death per 10,000 registered vehicles fall from 17.3 in 2007 to 15.6 in 2013	Construction of road underway Rail feasibility study underway	Kazungula Bridge Project (expected Board presentation: 2010; AfDB) Transport Infrastructure Project (expected Board presentation: 2010,; AfDB) Pandamatenga-Kazungula Border Road Project (expected Board presentation: 2011; AfDB)
Provide improved agriculture Infrastructure	Inadequate roads in farming areas Recurrent drought and flooding	Increased crop production and productivity Contribution of agriculture to GDP increase from 1.7% of GDP in 2008 to 1.9% in 2013	150 km in gravel rural roads 300 km of drainage cannels and 300 km of perimeter bunds	Contribution of agriculture to GDP on the increase	25% of agriculture infrastructure targets achieved	Pandamatenga Agricultural Infrastructure Project (approved in Sept 2008, UA 37.27m) Agriculture Infrastructure Support Project (expected Board presentation: 2011; AfDB)
Increase access to safe water services	Low allocation and utilization of surface and underground water resources Disparity in access between urban and rural areas	Water demand met increase from 45% in 2008 to 80% in 2013 Water supplied compliant to the set water quality standards increase from	Increased national availability of water to 750 m3 million. Increased national water supply to 150.4 m3 million	Not applicable	Construction of North South Water Transfer Project underway	North South Water Transfer Project (expected Board presentation:2011; AfDB)

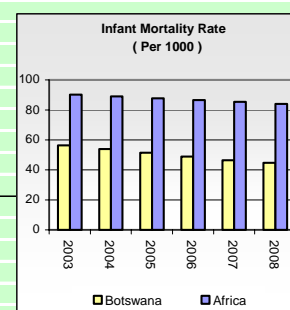
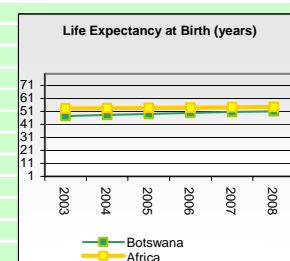
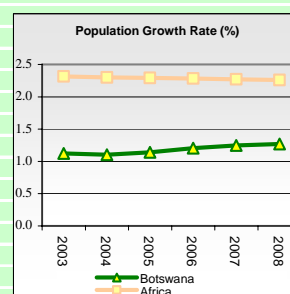
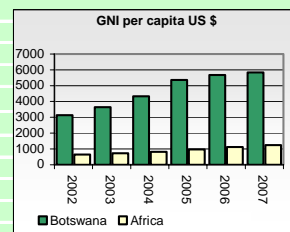
	<p>Limited capacity to desalinate ocean water</p> <p>High evaporate transpiration and runoff</p>	<p>20% in 2008 to 75%</p> <p>Water Resources Management Act, 2004, regulations, and some of the recommended institutions as well as appropriate policies are in place</p>	<p>Increased irrigation water supply to 63.5 m3 million</p> <p>Increase in potable water supplied to villages, settlements and communities for human use</p>			
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Annex 2: Comparative Socio-Economic Indicators

Botswana

COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Botswana	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		582	30 323	80 976	54 658
Total Population (millions)	2008	1.9	985.7	5 523.4	1 226.3
Urban Population (% of Total)	2008	59.7	39.2	44.0	74.4
Population Density (per Km ²)	2008	3.3	32.5	23.0	49.6
GNI per Capita (US \$)	2007	5 840	1 226	2 405	38 579
Labor Force Participation - Total (%)	2005	46.0	42.3	45.6	54.6
Labor Force Participation - Female (%)	2005	44.9	41.1	39.7	44.9
Gender -Related Development Index Value	2006	0.660	0.482	0.694	0.911
Human Develop. Index (Rank among 174 countries)	2006	126	n.a.	n.a.	n.a.
Poverty Headcount Ratio at National Line (% of Pop.)	2003	30.3	34.3	25.0	...
Demographic Indicators					
Population Growth Rate - Total (%)	2008	1.3	2.3	0.3	1.2
Population Growth Rate - Urban (%)	2008	2.5	3.3	2.5	0.5
Population < 15 years (%)	2008	34.2	40.9	16.6	27.4
Population >= 65 years (%)	2008	3.5	3.4	16.7	8.0
Dependency Ratio (%)	2008	60.7	79.5	47.7	53.9
Sex Ratio (per 100 female)	2008	99.1	99.3	94.3	101.5
Female Population 15-49 years (% of total population)	2008	26.8	24.2	24.3	25.8
Life Expectancy at Birth - Total (years)	2008	51.0	54.5	76.7	67.5
Life Expectancy at Birth - Female (years)	2008	50.9	55.6	67.5	80.3
Crude Birth Rate (per 1,000)	2008	24.7	35.7	11.0	20.1
Crude Death Rate (per 1,000)	2008	14.1	13.0	10.4	8.6
Infant Mortality Rate (per 1,000)	2008	44.7	83.9	7.1	48.5
Child Mortality Rate (per 1,000)	2008	64.4	137.4	8.8	72.3
Total Fertility Rate (per woman)	2008	2.9	4.6	1.6	2.5
Maternal Mortality Rate (per 100,000)	2005	380.0	683	450	9
Women Using Contraception (%)	2000	44.4	29.7	61.0	75.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2007	28.0	39.6	78.0	287.0
Nurses (per 100,000 people)	2007	236.5	120.4	98.0	782.0
Births attended by Trained Health Personnel (%)	2006	94.0	51.2	59.0	99.0
Access to Safe Water (% of Population)	2006	96.0	64.3	84.0	100.0
Access to Health Services (% of Population)*	2004	95.0	61.7	80.0	100.0
Access to Sanitation (% of Population)	2006	47.0	37.6	53.0	100.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2007	23.9	4.5	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2006	551.0	315.8	275.0	19.0
Child Immunization Against Tuberculosis (%)	2007	83.0	83.0	89.0	99.0
Child Immunization Against Measles (%)	2007	79.0	83.1	81.0	93.0
Underweight Children (% of children under 5 years)	2004	5.9	25.2	27.0	0.1
Daily Calorie Supply per Capita	2004	2 084	2 436	2 675	3 285
Public Expenditure on Health (as % of GDP)	2005	4.3	2.4	1.8	6.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2007	112.2	99.6	106.0	101.0
Primary School - Female	2007	112.0	92.1	103.0	101.0
Secondary School - Total	2005	76.5	43.5	60.0	101.5
Secondary School - Female	2005	77.0	40.8	58.0	101.0
Primary School Female Teaching Staff (% of Total)	2007	77.6	47.5	51.0	82.0
Adult Illiteracy Rate - Total (%)	2007	17.1	38.0	21.0	1.0
Adult Illiteracy Rate - Male (%)	2007	17.2	29.0	15.0	1.0
Adult Illiteracy Rate - Female (%)	2007	17.1	47.0	27.0	1.0
Percentage of GDP Spent on Education	2005	8.2	4.5	3.9	5.9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2005-08	0.6	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2000-08	0.9	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2000-08	...	10.9
Per Capita CO2 Emissions (metric tons)	2005-08	2.3	1.0	1.9	12.3



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators;

last update : March 2009

UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports

Note : n.a. : Not Applicable ; ... : Data Not Available.

Annex 3: Botswana Status of Millennium Development Goals

Goals	Targets	Will goal be met by 2015?	Supportive environment for achieving goal
1. Eradicate Poverty and Hunger	1. No person living below the Income Poverty Datum Line by 2016 2. Reduce by 50% the proportion of people who suffer from hunger and malnutrition by 2016	Unlikely Likely	Good Strong
2. Achieve Universal Primary Education	3. To achieve universal access to 10 years of basic education by 2016 4. To improve the relevance and quality of basic education by 2016	Achieved Likely	Strong Strong
3. Gender Equality and Empowerment	5. To reduce gender disparity in all education by 2015 6. To reduce gender disparity in access to and control productive resources by 2015 7. To reduce violence and discrimination against women, and the incidence of rape by 50% by 2011 8. To increase the participation of women in leadership, governance and decision-making by at least 60% by 2016	Achieved Likely Potentially Likely	Strong Strong Strong Strong
4. Child Mortality	9. To reduce the Infant Mortality Rate (IMR) from 48/1000 live births in 1991 to 27/1000 in 2011 10. To reduce by 2/3, the under 5 mortality rate (U5MR) from 63/1000 live births in 1991 by 2011 11. To reduce the PEM rate amongst children from 18% in 1990 to 8% by 2011 12. To increase the proportion of 1 year old children who are fully immunized from 67% in 1990 to at least 80% by 2009	Potentially Potentially Potentially Likely	Strong Strong Strong Strong
5. Maternal Health	13. To reduce maternal mortality rate from 326/100 000 live births in 1991 to 150/100 000 by 2011	Potentially	Strong
6. Combat HIV/AIDS and Other Diseases	14. To halt and reverse the incidence of HIV, particularly amongst the youth by 2016 15. To reduce the number of infants born to HIV infected mother who are HIV positive by their 18th month by half by 2006 and to zero by 2009 16. To reduce the morbidity and mortality caused by TB 17. To reduce the incidence of confirmed cases of malaria to below 20 per 1000 people	Likely Potentially Likely Potentially	Strong Strong Strong Strong
7. The Environment	18. To reduce by 50% the proportion of people without sustainable access to safe drinking water by 2016 19. Reduce conflict between population growth, land usage and environmental and natural resources degradation 20. Promote environmental education and awareness necessary to reduce contamination and achieve sustainable development	Likely Potentially Potentially	Strong Good Good
8. Global Partnerships	21. Develop further, an environment conducive for beneficial trade and foreign direct investment 22. In cooperation with the private sector, make available the benefits of new technologies	Likely Likely	Strong Strong

Source: NDP 10 and UNDP MDGs Status Report, 2004

Progress Towards Attaining the MDGs

On progress in achieving the MDGs, which to a greater extent overlap with the goals of Vision 2016, Botswana has already achieved the targets under MDG 2 (universal primary education) and MDG 3 (reduce disparity in all education). It is on track to meet all other targets with the exception of MDG 1 (nobody living below poverty line). According to the 2004 MDGs status report:

- Poverty declined from an estimated 47% in 1992 to about 30% in 2002. However, Botswana still faces significant income disparities (see paragraph 2.3.1);
- The country has achieved universal primary education. From 1995 to 2000, the estimated net school enrolment rate for children aged 7-14 was consistently above 95%, peaking at 100% in 1999 and 2000. Botswana has also eliminated gender disparities in most formal education with girls' enrolment in primary and secondary education almost at par with boys;
- Infant mortality declined from 52 per 1000 live births in 1991 to 45 per 1000 in 2008. Similarly, the mortality rate for children under five declined from 94 per 1000, in 1992, to 67 per 1000 in 2007. The maternal mortality rate was 380 per 100,000 live births in 2005 compared to 326 per 100,000 in 1991 – HIV/AIDS reversed previous progress;
- There has been some improvement with respect to HIV prevalence, with prevalence among the 15-19 year age group falling from a peak of over 30%, in 1995, to 17.5% in 2006. There has also been a recent decline in HIV prevalence among those aged 20-24, from 30.6%, in 2003, to 29.4% in 2006; and
- The country is making strides in environmental sustainability with 96% of the population having access to safe drinking water in 2006 from 77% in 1996.

Source: NDP 10 and UNDP MDGs Status Report, 2004.

Annex 4: Conditions and Reforms for Budget Support Programme

Table 1: A summary assessment of the prerequisite conditions for budget support

Prerequisite conditions	Focus	Comments on current situation
General prerequisites	Political stability	<ul style="list-style-type: none"> Overall political environment is stable and there is sound governance architecture. Botswana also has a good track record of peaceful and free and fair elections.
	Economic stability and GoB's commitment	<ul style="list-style-type: none"> Botswana has enjoyed a sustained economic stability for over a decade. However, the current global economic crisis threatens economic stability in the medium term. GoB is committed to reforms and has been undertaking reforms on its own without any donor-supported program.
Technical prerequisites	Existence of well designed PRSP or NDP and effective implementation mechanisms	<ul style="list-style-type: none"> NDP-10 (2009-2016) is results based and was prepared through a broad participatory approach involving national stakeholders. The GoB has designed innovative hubs as an implementation mechanism for the Plan.
	Viable macro-economic and financial medium term framework	<ul style="list-style-type: none"> The NDP is based on Macroeconomic Outline and Policy Framework and is the map for expenditure that is approved by the Economic Committee of Cabinet. Botswana has implemented a number of important reforms recently such as the GoB accounting and budgeting system (GABS). The 2009 PEFA concludes that Botswana scores well in the main objectives of sound PFM.
	Strong partnership between RMC and donors	<ul style="list-style-type: none"> As an MIC, aid related partnership with donors has been limited. However in 2007, the GoB established an Aid Coordination Forum thus improving partnership.
	Strong partnership among donors	<ul style="list-style-type: none"> The recently instituted Aid Coordination Forum has also improved partnership among donors.
	Satisfactory fiduciary review of the public financial management system (use of country system)	<ul style="list-style-type: none"> There is a satisfactory fiduciary review of the PFM as indicated in the 2009 PEFA assessment as Botswana scores highly in several indicators, though donors were scored lowly in terms of use of country system.

Table 2: Ongoing reforms to improve the investment climate and encourage private sector activity

i)	Public Private Partnership (PPP) Framework submitted to Cabinet in April 2009
ii)	Competition Bill approved by Cabinet in April 2009
iii)	Financial Intelligence Law enacted by Parliament in 2008
iv)	Privatization Strategy of National Development Bank approved by Cabinet end-2009
v)	Trade Policy submitted to Cabinet by end-2009
vi)	Revised Securities Act submitted to Parliament by end-2009

Annex 5: Key economic and financial indicators, 2003-2010

Indicator	2003	2004	2005	2006 Est.	2007 Proj.	2008 Proj.	2009 Proj.	2010 Proj.
(Annual percentage change, unless otherwise specified)								
National income and prices								
Real GDP	3.1	9.2	-0.8	5.8	4.3	6	3.8	5.5
Mineral	0.3	18.1	-4.4	5.7	-4.3	1.9	-2.7	2.0
Non-mineral	5.0	3.3	1.8	5.8	10.4	8.6	7.6	7.3
GNP (in billions of pula)	42.6	49.6	57.1	66.5	74.3			
Mineral	15.1	19.2	22.2	26.92	28.7	29.0	28.7	28.5
Non-mineral	27.5	30.4	35.0	39.6	45.6	53.8	61.3	71.1
Consumer prices (average)	9.2	7.0	8.6	11.6	7.0	13	7	5
Export sector								
Exports, of goods and services, f.o.b. (US\$)	29.3	20.9	20.5	-0.3	12.6	0.4	4.5	-0.7
<i>Of which: diamonds</i>	20.0	18.0	19.7	1	-1.9	-0.4	7.8	-3.8
Imports, f.o.b. (US\$)	28.9	31.2	1.3	-11.7	16.5	27.6	4.6	6.1
Exchange rate (pula per U.S. dollar, average)	4.9	4.7	5.1	5.8				
Central government finance								
Total revenue & grants	13.1	10.9	24.0	22.5	8.9	8.2	6.7	6.8
Total Expenditure & net lending	3.6	6.8	1.4	11.7	21.7	12.9	10.7	11.1
Money and credit								
Net foreign assets (net) 4/	-19.7	1.3	42.1	36.0	30.0	18.5	16.4	10.6
Net domestic assets	-53.8	-22.3	140.2	81.5	36.5	24.9	21.6	11.2
Credit to the private sector	11.9	24.1	8.8	20.7	22.0	11.5	10.0	9.7
Money & quasi money (M2)	17.6	13.9	10.6	67.4	23.6	11.5	10.0	9.7
Prime lending rate	15.8	15.8	16.0	16.5				
(In percent of GDP, unless otherwise specified)								
Investment and saving								
Gross Investment	41.8	35.8	26.2	27.4	31.6	35.3	35.8	36.8
Public	9.8	7.8	6.7	6.8	8.6	9.0	9.4	9.7
Private	32.0	28.0	19.5	20.5	23.0	26.3	26.4	27.2
Gross national savings	51.3	48.0	44.0	46.7	45.7	44.6	43.4	43.0
Public	8.2	10.4	15.6	17.2	16.1	14.9	13.9	12.8
Private	43.1	37.6	28.4	29.4	29.7	29.7	29.5	30.2
Saving-investment balance	9.5	12.2	17.8	19.3	14.2	9.2	7.6	6.2
Government budget								
Total revenue and grants	38.8	37.5	40.3	42.5	41.1	39.9	38.9	37.7
Total expenditure and net lending	39.0	36.3	31.9	30.7	33.1	33.5	33.9	34.2
Overall balance (deficit -)	-0.2	1.2	8.4	11.8	8.0	-4.8	-13.5	-9.5
External Sector								
Current account balance	5.6	2.9	14.4	19.3	20.4	3.4	0.9	3.6
Balance of payments	1.9	-0.6	13.2	16.6	17.2	12.1	11.2	7.5
External public debt	5.4	4.3	4.1	3.5	2.7	2.7	3.1	3.0
External public debt (percent of total exports)	12.1	9.5	8.1	6.9	5.1	4.6	9.1	10.3
(US\$ millions, unless otherwise indicated)								
Change in reserves (increase -)	-162	58	-1,390	-1,764	-1,953	-1,507	-1,484	-1,071
Gross official reserves (end of period)	5,339	5,653	6,278	7,954	9,907	11,414	12,898	13,968
(in months of imports of goods and services)	17.5	18.3	23.0	25.0	24.4	26.9	28.6	29.4

Source: Botswana authorities; and IMF staff estimates and projections (2007 Article IV Consultation)

Annex 6: Ongoing Bank Group Operations as at 31 March 2009

Project Title	Window	Approved Date	Signature Date	Effectiveness Date	Completion Date	Approved Amount	Cancelled Amount	Disbursed Amount	Net Commitment	Disbursement Ratio (%)
Agriculture										
Pandamatenga	ADB Loan	7-Sep-2008	Unsigned	Not yet effective		37,270,000.00	0.00	0.00	37,270,000.00	0.00
Capacity Building for MOA Improved Water Management System for Pandamatenga	MIC	27-Feb-2007	17-May-2007	17-May-2007	31-Dec-09	293,300.00	0.00	208,306.64	293,300.00	71.02
	AWF	18-Jun-2007	12-Jul-2007	12-Jul-2007	31-Dec-09	1,052,186.28	0.00	783,064.21	1,052,186.28	74.42
Agricultural Sector Review	MIC	16-Feb-2007	14-May-2007	17-May-2007	30-Apr-09	476,795.00	0.00	92,352.04	476,795.00	19.37
Sub-Total: Agriculture						39,092,281.28	0.00	1,083,722.89	39,092,281.28	2.77
Multi-Sector										
Institutional strengthening of local authorities	MIC	31-Jan-2008	11-Sep-2008	Not yet effective	31-Dec-09	283,594.67	0.00	0.00	283,594.67	0.00
Vision 2016	MIC	1-Nov-2008	1-Jun-2008	Not yet effective	1-Dec-10	245,653.32	0.00	0.00	245,653.32	0.00
Corporate Governance Code	MIC	1-Mar-2007	1-Mar-2007	2-Jul-2007	31-Dec-08	151,565.00	0.00	0.00	151,565.00	0.00
Sub-Total: Multi-Sector						680,812.99	0.00	0.00	680,812.99	0.00
Transport										
Kanzangula Bridge (multi-national)	MIC	5-Feb-2007	4-Dec-2007	4-Dec-2007	31-Dec-09	600,000.00	0.00	519,579.49	600,000.00	86.60
Kanzangula Bridge (multi-national)	IPPF	1-Dec-2006	17-May-2007	17-May-2007	31-Dec-10	1,450,000.00	0.00	402,321.74	1,450,000.00	27.75
Sub-Total: Transport						2,050,000.00	0.00	921,901.23	2,050,000.00	44.97
Grand Total						41,823,094.27	0.00	2,005,624.12	41,823,094.27	4.80
MIC Total						2,050,907.99				
ADB Total						37,270,000.00				
AWF Total						1,052,186.28				
IPPF Total						1,450,000.00				

Annex 7: The Mining Sector

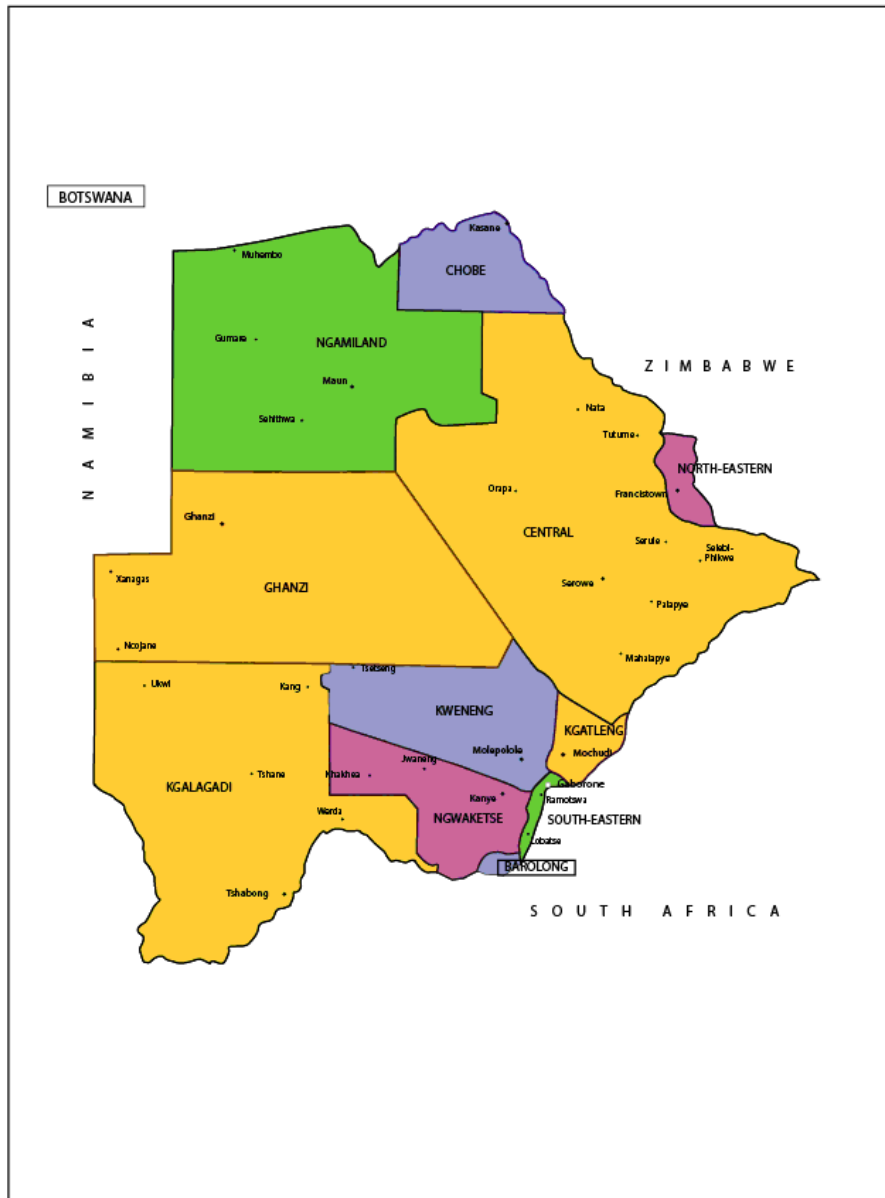
Currently, the mining sector accounts for at least 80% of total foreign exchange earnings and 39% of GDP (2007/08). So the growth process has been driven by the capital intensive mining sector. Despite its contribution to GDP and export earnings, mining in Botswana does not have strong linkages with other sectors. All output is exported and many major inputs imported. The sector is virtually an enclave which has muted the socio economic benefits that typically result from rapid growth. Therefore, the direct contribution of the mineral sector to formal employment has never been very large, the maximum being 7% due to the capital intensive nature of the sector. As a result of the overdependence on the mining sector, the economy remains vulnerable to the vagaries of the mineral sector especially diamonds. It is this dependence on a single sector that underlies the need to diversify.

There is very little development of downstream activities, the main impediment to success has been the stiff competition from well established and efficient diamond cutting centres of the world. There is little down stream processing of locally mined diamonds within the country. However the Debswana Mining Company has sought to compensate for the lack of linkages with the rest of the economy by its active involvement in community projects, large scale commercial agriculture, human resource development and provision of financial capital to local entrepreneurs.

A number of developments have taken place in the mining industry recently. The Government of Botswana has impressed upon Debswana to initiate diamond cutting. In 2005, in addition to the four companies cutting diamonds, the Government has issued licenses to 11 other companies to polish diamonds in Botswana. It is estimated that this will result in the creation of about 3000 jobs in the next five years. The biggest challenge is competition from India. In Botswana the cost of polishing 1 carat of diamonds is USD 30 while in India it is only USD12. India's advantage is that it has already amortized its investments, has the requisite skills and is therefore ahead. Botswana does not have huge industries which can allow huge power generation and therefore cannot enjoy economies of scale. However, there are plans to build a huge power station for both local consumption and export of coal thus diversifying the mining sector. Coal bed methane is also available which can be used for both power generation, fuel and heating.

Annex 8: Map of Botswana

REPUBLIC OF BOTSWANA COUNTRY MAP



This map is provided exclusively for the use of the readers of the report to which it is attached. The names used and the borders shown do not imply on the part of the African Development Bank Group any judgment concerning the legal status of a territory nor any approval or acceptance of such borders.