Botswana

• Botswana’s growth prospects appear favourable, but downside risks emanating from the sluggish recovery of the global economy and uncertainty surrounding global trade remain elevated.

• Despite rapid growth in per capita income, unemployment and inequality remain high, while human development outcomes are far below the norms of an upper middle-income country.

• To address existing infrastructure problems, traditional funding sources will need to be supplemented by alternative sources of finance from the private sector. Among other critical measures, further reforms should be undertaken to improve the investment climate.

OVERVIEW

After recovering to 4.3% in 2016, real gross domestic product (GDP) growth is estimated to have weakened to 2.4% in 2017. Although non-mining sectors registered strong and broad-based expansion, economic growth was weighed down by the continued decline in mining activity.

However, Botswana’s growth prospects for the medium term look promising. Real GDP growth is projected to pick up, averaging about 4% in 2018-2019. Economic growth will primarily be driven by a good performance in non-mining sectors and the recovery of mining activity. Construction activity, mainly associated with planned upgrades of the water and electricity infrastructure, is also expected to boost growth. Notwithstanding, the slow recovery of the global economy and uncertainty surrounding global trade and openness, expose Botswana’s narrow export base to significant downside risks.

The fiscal situation remains volatile, swinging between deficit and surplus. Government operations resulted in a fiscal deficit in 2015/16 after three years of surpluses and returned to a modest surplus in 2016/17. A small fiscal deficit is envisaged for 2017/18 and a further deterioration of the fiscal situation is projected in the following financial year. The deficit largely reflects a decline in revenues from the Southern African Customs Union (SACU). The Government plans to return to fiscal surpluses starting in 2019/20.

Inflationary pressures remained modest in 2017. After breaching the lower end of the Bank of Botswana’s medium-term objective (a range of 3% to 6%) in 2016, annual inflation closed at 3.3% in 2017. Inflation is expected to remain within the target range in the medium term. Key factors keeping inflationary pressures in check include low domestic demand and subdued foreign prices. An accommodative monetary stance has been pursued to support economic activity, taking advantage of prevailing low inflation.
RECENT DEVELOPMENTS
AND PROSPECTS

The economy of Botswana has experienced rapid growth in per capita income as a result of effective economic management and prudent management of the country’s resource wealth. The country’s GDP per capita rose from USD 80 at the time of its independence in 1966 to USD 6,924 in 2016. However, despite efforts to diversify the economy, the economic base remains narrow and growth has not been sufficiently inclusive. Botswana’s main growth driver remains the extraction and processing of diamonds for export. It provided 88% of the country’s exports in 2016, even though the mining sector’s contribution to gross domestic product (GDP) has fallen sharply, from 47% in 1986 to about 20% in 2017. Some structural transformation of the economy has occurred, albeit limited. Agriculture’s contribution to GDP declined to 2.2% in 2017 from a peak of 3.4% in the 1990s. Manufacturing has not developed much; its share of GDP has remained between 5% and 6% since the 1990s. The fastest growing sector has been services (including Government services); their overall contribution to GDP has increased from around 45% in 1986 to 69% in 2017.

Botswana’s economy suffered a setback when economic growth dipped into negative territory in 2015, arising from weak demand for diamond exports, severe El Niño-induced drought conditions, and persistent electricity and water supply shortages. After rebounding to 4.3% in 2016, economic activity slowed again; real GDP growth was estimated to be about 2.4% in 2017. The increase in domestic output was mainly driven by expansion in non-mining activities, notably in trade, hotels and restaurants (which grew by 7.3%), finance and business services (5.0%), and transport and communication (4.7%). Growth in non-mining sectors was underpinned by improvements in downstream diamond industries and the continuation of accommodative fiscal and monetary policies. Despite their performance, overall domestic growth was weighed down by the sluggish performance of other sectors. Agricultural output contributed 2.0% to GDP in 2017 (mainly from beef exports) and remained subdued, as crop production continued to be hampered by recurrent drought, erosion, disease, traditional farming methods and inadequate infrastructure.

Though diamond prices gradually recovered, reflecting a rebound in the global diamond market, mining sector output contracted by about 11% in 2017. This was more than the decline of 3.5% in 2016 and lowered real GDP growth. The underperformance of the sector was also due to closure of the BCL and Tati Nickel mines in October 2016 and reduced soda ash production after a mine producing ore for soda ash was put under care and maintenance in the second quarter of 2017. As a result, the real value added of copper and soda ash contracted by 98.8% and 19.2%, respectively. After sustained high growth for more than 40 years, Botswana has experienced boom-bust cycles in recent years because the country is vulnerable to external shocks as a result of its heavy reliance on exports of diamonds and other mining products.

The economy is expected to recover in the medium term; real GDP growth is projected to average about 4% in 2018 and 2019. Economic activity is expected to be supported by both a good performance in non-mining sectors and recovery of mining. While mineral exports are projected to continue to rebound gradually because of slow global recovery, it is expected that growth in non-mining sectors will be driven by service-oriented sectors, supported by accommodative fiscal and monetary policies. A continued expansion of construction activity, associated with the Government’s economic stimulus programme (ESP) and planned upgrades of the water and electricity infrastructure, is expected to boost growth further. The manufacturing sector is also expected to recover moderately, benefiting from improvements in electricity generation and water supply.

<table>
<thead>
<tr>
<th>TABLE 1. Macroeconomic indicators</th>
<th>2016</th>
<th>2017(e)</th>
<th>2018(p)</th>
<th>2019(p)</th>
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</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>4.3</td>
<td>2.4</td>
<td>3.7</td>
<td>4.3</td>
</tr>
<tr>
<td>Real GDP per capita growth</td>
<td>2.4</td>
<td>0.6</td>
<td>2.0</td>
<td>2.7</td>
</tr>
<tr>
<td>CPI inflation</td>
<td>2.8</td>
<td>3.3</td>
<td>3.6</td>
<td>3.8</td>
</tr>
<tr>
<td>Budget balance (% of GDP)</td>
<td>0.7</td>
<td>-0.1</td>
<td>-0.4</td>
<td>-0.7</td>
</tr>
<tr>
<td>Current account (% of GDP)</td>
<td>11.7</td>
<td>7.1</td>
<td>2.9</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Source. Data from domestic authorities; estimates (e) and predictions (p) are based on the authors’ calculations.
Irrespective of good weather conditions, the production capacity of the agricultural sector is likely to remain limited, for the reasons mentioned above.

Downside risks to the medium-term outlook remain high. Key risks include the sluggish recovery of the global economy and uncertainty surrounding global trade and openness, which could have ramifications on the demand for diamonds and therefore lower export earnings. Sluggish economic conditions in South Africa could impact negatively on SACU receipts, and adverse weather conditions could further weaken growth in agriculture and lead to water supply challenges. Possible delays in construction projects in the electricity and water sectors add further downside risks that need close monitoring. These risks underscore the need for Botswana to accelerate the implementation of structural reforms, including reforms to reduce its skills mismatch, diversify the economy, and increase productivity. Botswana also needs to decisively resolve its energy and water crises. These reforms would help to foster economic transformation and enhance the country’s medium-term growth prospects.

**MACROECONOMIC POLICY**

**Fiscal policy**

Botswana’s fiscal balance has deteriorated in recent years. Taking advantage of the country’s sizeable fiscal buffers, fiscal policy remained accommodative to boost economic activity and create jobs following the economic downturn in 2015. In consequence, after three years of consecutive surpluses, the fiscal position swung into a deficit of 4.6% of GDP in 2015/16. It shifted back to a modest surplus of 0.7% of GDP in 2016/17, before recording a deficit of about 0.1% of GDP in 2017/18. The deterioration was due to lower mining revenues, a decline in revenues from the Southern African Customs Union (SACU), and higher fiscal spending, in part associated with the economic stimulus programme. A slightly larger fiscal deficit is envisaged in 2018/19, because revenues from the volatile SACU revenue sharing arrangement are expected to decline, due to reduced imports and weaker household consumption in the region as well as higher fiscal spending.

The deficit is essentially being financed by drawing down Government savings, taking advantage of the sizeable fiscal buffers that Botswana established during past economic booms, and, to a lesser extent, domestic and external borrowing. Borrowing will be guided by the medium-term debt management strategy.
(2017/2018-2019/2020), which allows options for financing a budget deficit. The Government remains committed to returning to a sustainable fiscal position from 2019/20 by reining in expenditure. It will achieve this objective by restricting the wage bill (about 12% of GDP), reducing transfers to State-owned enterprises, and increasing revenue collection (based on gradual recovery of the mining sector). To make tax administration more efficient, the Government plans to enact a new Tax Administration Act in FY 2018/19. It will also review the Income Tax Act and may introduce transfer pricing rules.

**Monetary policy**
The Bank of Botswana (BoB) has pursued an accommodative monetary stance in order to support economic activity, taking advantage of prevailing low inflation. Annual inflation amounted to 3.3% in 2017, within the BoB’s medium term objective range of 3% to 6%, after breaching the lower end of the target range in 2016. Inflation is expected to remain within the target range in the medium term. Key factors that have helped keep inflationary pressures in check include low domestic demand and subdued foreign price developments. Botswana’s inflation tracks that of South Africa because of the very close trade links between the two countries.

Since 2015, the BoB has gradually reduced the bank rate by a cumulative 100 basis points to 5.0% in October 2017. In spite of the loose monetary policy, credit to the private sector decelerated from 6.2% in 2016 to 5.6% in 2017. The slowdown in credit expansion was mainly due to a decline in growth of lending to businesses, from 4.2% in December 2016 to 3.2% in December 2017. Annual growth in household credit also fell, albeit marginally, from 7.6% in December 2016 to 7.2% in December 2017. Deceleration in household credit expansion was essentially due to a slowdown in mortgage lending, caused by a weak residential property market.

The real exchange rate has remained relatively stable and competitive against major currencies. Trends in bilateral nominal exchange rates show that, on an annual basis (twelve months to December 2017), the Botswana pula (BWP) depreciated by 1.8% against the South African rand but appreciated by 2.0% against the SDR (the IMF’s reserve currency). The appreciation of the pula against the SDR is explained by the stronger rand and depreciation of the US dollar in 2017. The crawling-peg exchange rate appreciated slightly by 0.35% year-on-year to December 2017, reflecting a positive inflation differential between Botswana and trading partner countries, as well as the 0.26% upward rate of crawl implemented during 2017. From January 2018, the BoB decided to adopt a downward rate of crawl for the year. This is consistent with its policy objective to maintain a stable and competitive real exchange rate of the pula in line with monetary policy developments in Botswana’s major trading partners.

**Economic co-operation, regional integration and trade**
As a landlocked country with a small domestic market, Botswana is an active advocate of regional integration and global value chains. The country is a member of the Southern African Development Community (SADC) and SACU. The latter grants Botswana free movement of goods, a common external tariff regime, and harmonized rules of origin with SACU’s

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**TABLE 3. Public finances (percentage of GDP)**

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<tbody>
<tr>
<td><strong>Total revenue and grants (a)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Tax revenue</td>
<td>40.9</td>
<td>38.3</td>
<td>31.2</td>
<td>33.3</td>
<td>32.4</td>
<td>33.1</td>
<td>32.6</td>
</tr>
<tr>
<td>Grants</td>
<td>1.0</td>
<td>0.3</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
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<tr>
<td><strong>Total expenditure and net lending (a)</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Excluding interest</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Wages and salaries</td>
<td>35.0</td>
<td>25.8</td>
<td>26.6</td>
<td>23.5</td>
<td>23.5</td>
<td>24.4</td>
<td>24.3</td>
</tr>
<tr>
<td>Interest</td>
<td>12.6</td>
<td>10.8</td>
<td>12.1</td>
<td>11.1</td>
<td>11.7</td>
<td>11.3</td>
<td>11.1</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>17.7</td>
<td>9.0</td>
<td>8.4</td>
<td>8.8</td>
<td>9.0</td>
<td>8.9</td>
<td>9.1</td>
</tr>
<tr>
<td><strong>Primary balance</strong></td>
<td>-12.4</td>
<td>4.1</td>
<td>-4.1</td>
<td>1.2</td>
<td>0.4</td>
<td>0.2</td>
<td>-0.2</td>
</tr>
<tr>
<td><strong>Overall balance</strong></td>
<td>-12.9</td>
<td>3.7</td>
<td>-4.6</td>
<td>0.7</td>
<td>-0.1</td>
<td>-0.4</td>
<td>-0.7</td>
</tr>
</tbody>
</table>

(a) Only major items are reported.

Source: Data from domestic authorities; estimates (e) and predictions (p) are based on the authors’ calculations.
other member States (Botswana, Lesotho, Namibia, South Africa and Swaziland). On 30 January 2018, Botswana became a signatory to the Tripartite Free Trade Area (TFTA) agreement, launched in June 2015 in Gaborone. However, Botswana was not among the 44 African countries that signed the Continental Free Trade Area (CFTA) agreement on 22 March 2018 in Kigali, Rwanda. This is because major policy decisions normally have to undergo an internal consultation process in Botswana.

TFTA will create a single free trade area, bringing together the 26 member States of the East African Community, SADC, and the overlapping Common Market for Eastern and Southern Africa (COMESA). It represents a combined population of 625 million people and a total GDP of USD 1.6 trillion, and offers Botswana opportunities to expand and diversify its export markets. With the right policies and investment climate, membership of regional bodies and trade agreements enables Botswana to compensate for its small domestic market and diversify export markets. Through preferential agreements such as the Economic Partnership Agreement (EPA) and the African Growth Opportunity Act, Botswana also has access to international markets of Europe and the United States of America.

Because it is located in the centre of southern Africa, Botswana can serve as the land-bridge connecting South Africa and Namibia to Zambia, Zimbabwe, Angola and eastern Africa. Reflecting its desire to become a regional transport hub, Botswana has leased part of the Walvis Bay Port in Namibia to facilitate movement of its exports and imports. In collaboration with Zambia, Botswana is also constructing the Kazungula Bridge to develop a rail and road link between the two countries.

The current balance recorded a lower surplus in 2017 compared to the previous year. The lower surplus was largely the result of a decrease in total exports of goods and an increase in total imports. The country’s exports remain highly concentrated in diamonds, which account for over three quarters of total annual exports and are mainly destined for Europe. South Africa is the main source of Botswana’s imports, accounting for over 60%. The main imports are vehicles, fuel, and consumer goods. The Africa Regional Integration Index Report for 2016 ranked Botswana the second most integrated country in the SADC region, after South Africa.

**Debt policy**

Botswana’s public debt has fallen in recent years, consistent with its prudent debt policy and fiscal benchmarks. Total public debt fell slightly, to 22.3% of GDP in 2016/17, from 22.6% in 2015/16. Debt peaked at 26.3% of GDP in 2012/13, when borrowing rose sharply to support countercyclical measures in the aftermath of the 2008 global economic crisis. Total external debt amounted to 16.1% of GDP while domestic debt and guarantees stood at 6.2% of GDP in 2016/17. In line with the country’s prudent and measured debt policy, public debt remains small and sustainable, well below the statutory ceiling of 40% of GDP (split equally between domestic and external borrowing). (It should be noted that Botswana’s national debt ceiling is far lower than the SADC convergence level of 60% of GDP.) The Government’s debt policy remains supportive of economic growth, but within binding fiscal rules. Debt management has recently been strengthened, including by the adoption of a medium term debt management strategy, covering the period 2017/18-2019/20, and capacity building.
ECONOMIC AND POLITICAL GOVERNANCE

Private sector
Botswana continues to be relatively successful among African countries at creating a business-friendly environment. The World Economic Forum’s Global Competitiveness Report (GCR) for 2017-2018 ranked Botswana 63 out of 138 countries, an improvement of eight places on the previous year. Botswana was the fourth most competitive economy in Africa. It scored high in the categories ‘sound macroeconomic environment’, ‘efficient labour market’, ‘reliable and well-functioning institutions’ and ‘developed financial market’. The World Bank’s Doing Business categorized Botswana as the fifth best performer in Africa in 2018, ranking the country 81 out of 190 economies (a fall of 10 places compared with 2017). Paying taxes and trading across borders became easier during the year, after the Botswana Unified Revenue Service established an online system for filing and paying taxes and implemented a new automated customs data management system. By contrast, it became more burdensome to register property because the efficiency of the country’s Registrar of Deeds was hampered by the computerization of manual records. Botswana’s lower score also indicates that other countries have improved their business policies and regulatory environments faster than Botswana.

The Government is acting to improve the business climate. Having established the National Doing Business Committee and the Cabinet Sub-Committee on Doing Business in 2011, it approved the Doing Business Reforms Roadmap and Action Plan in April 2015. These reforms aim to reduce Government bureaucracy, eliminate unfriendly business laws and regulations, improve service delivery, and maximize use of ICT applications. To attract domestic and foreign investors, the Government is also developing eight special economic zones (SEZs), focusing on activities that have a perceived comparative advantage, including mineral beneficiation, leather, beef, financial services and agricultural processing. The aim is to promote diversification of the economy. The Board of the SEZ Authority (SEZA) was appointed in 2016, along with a technical advisor, to implement the zones after a policy for SEZs was adopted in 2015. SEZA is currently developing the Sir Seretse Khama International Airport SEZ. Among other things, this will house the Botswana Innovation Hub, a science and technology park to help transform Botswana into a knowledge economy through research, education and innovation.

In the context of the eleventh national development plan (NDP 11), the Government has also embraced public-private partnerships (PPPs) to help finance infrastructure and related services. A PPP coordinator has been appointed and a PPP committee established. The Public Procurement and Asset Disposal (PPAD) Act is being reviewed to ensure that PPPs are covered; regulations and guidelines will follow. This said, lack of capacity across Government to implement PPPs remains a major challenge.

Financial sector
Botswana’s financial market is reasonably well developed and provides a range of financial products and services. The country’s commercial banks are well capitalized, profitable and highly liquid, and prudential indicators relevant to asset composition and portfolio quality demonstrate the financial sector’s robustness. The World Economic Forum’s Global Competitiveness Report for 2017-2018 ranked Botswana 65 out of 138 countries in financial market development (behind South Africa, Rwanda, Mauritius, Namibia and Kenya in Sub-Saharan Africa). Botswana has made progress in increasing access to financial services for its population. According to the 2014 FinScope Consumer Survey, about 68% of adults had access to formal banking in 2014, compared to 61% in 2009, while about 11% of adults relied on informal mechanisms to manage their financial needs. Botswana registered an increase in financial services between 2009 and 2014. The banked population increased by 25%. From a low base, cell phone banking rose by over 370% and Internet banking by 200% during the same period.

Although the financial system is fairly developed, a number of areas require attention. In particular: (i) the banking portfolio is highly concentrated in household borrowing (around 60%); (ii) high household indebtedness means that households may be unable to take on more debt even to increase productivity or finance housing; and (iii) lending to productive sectors such as agriculture and small and medium enterprises (SMEs) remains limited due to the perceived high risk of these sectors. The BoB has addressed these challenges by introducing new products, capping loans to individuals, and promoting venture capital funds and private sector financing for the agricultural sector, farmers, SMEs and underserved populations and sectors. Although Botswana’s capital markets are well developed, both the stock and bond markets are characterized by low liquidity, which undermines their ability to provide price signals to the market. Capital market operations are largely conducted through the Botswana Stock Exchange (BSE), which operates and regulates equities and the fixed interest securities market.

Public sector management, institutions and reforms
Botswana’s strong political, administrative and financial management accountability mechanisms have underpinned the country’s strong economic growth for the past four decades. The country continues to rank high among Sub-Saharan African
countries for its good governance. The fourth pillar of Vision 2036 is governance, peace and security. Building on this pillar, one of the six priority areas of NDP 11 is consolidation of good governance and strengthening of national security. To further improve governance, the Government has initiated wide-rang ing reforms, including public sector modernization. It has placed emphasis on reviewing legislation, business process reenginee ring, rationalization of institutions, and leveraging information and communications technology (ICT) to improve service delivery. It continues to strengthen the oversight function. The amended Corruption and Economic Crimes Act and the Whis tle Blowing Act were passed by Parliament in 2013 and 2016, respectively, to strengthen the country’s zero tolerance commit ment to fighting corruption. A national anti-corruption policy has also been completed.

Reforms to further improve Botswana’s public financial manage ment (PFM) systems include measures to strengthen the legal, regulatory and institutional framework; introduction of a medium term fiscal framework; and reinforcement of the public procure ment and internal and external audit functions. Implementation of the integrated financial management information system (IFMIS) and transition to e-procurement are well advanced.

The 2017 Mo Ibrahim Index of African Governance ranked Botswana third out of 54 African countries (a fall of one place since 2016). Botswana’s overall score dropped by an average annual rate of -0.63 during the 2012-2016 period, underpinned by slight declines in all categories except ‘human development’. According to Transparency International’s Corruption Index, Botswana has consistently remained the least corrupt country in Sub-Saharan Africa; it ranked 35 internationally in 2016.

**Natural resource management and the environment**

Botswana is a resource-rich economy. The country has prioritized natural resource management because natural resources have supported the country’s key development activities, including the exploitation of minerals, use of scarce water resources for industrial development, tourism, and development of the cattle industry and arable agriculture. Botswana is prone to drought and highly vulnerable to the impact of climate change. The community-based natural resources management programme, which has been operational for over two decades, ensures local communities participate in natural resource con servation. Further policy initiatives, legislation and regulations are being reviewed or formulated, including the Environmental Assessment Act of 2011. Following the development of the national framework for sustainable development (NFSD), which proposes priority areas for setting Botswana on a sustainable development pathway, the NFSD is being developed into a strategy and action plan. A draft national climate change policy is currently moving through the legislative process. Botswana signed the Paris Agreement on 22 April 2016 and intends to achieve an overall emissions reduction of 15% by 2030 (relative to emissions in 2010).

**Political context**

The political landscape has remained stable. A smooth transition occurred when the new Government of President Mokgweetsi Masisi was sworn in on 1 April 2018. President Masisi became Botswana’s fifth President under the automatic succession provision of the Constitution. The former Vice-President of Botswana and Vice-President of the Botswana Democratic Party (BDP) was elected by the BDP in July 2017 to succeed President Seretse Khama Ian Khama at the end of his ten-year term. The BDP saw its popular vote shrink to 46% during the 2014 election. While the country’s president is elected by the National Assembly, it has been BDP’s tradition that the vice-president automatically succeeds the outgoing president. Masisi’s adminis tration is expected to continue the previous Government’s prudent macroeconomic policies and to uphold fundamental rights and freedoms. It is therefore expected that Botswana will continue to enjoy political stability in the coming years.

**Social context and human development**

**Building human resources**

Botswana made notable progress towards the Millennium Development Goals (MDGs), meeting nine out of its 12 targets. The MDGs’ unfinished business is being addressed during implementation of the Sustainable Development Goals (SDGs) and 2030 Agenda that succeeded them. To facilitate the domestication of the SDGs, stakeholder consultations commenced in 2015 as part of SDG advocacy efforts. An SDG national roadmap has been finalized, which identifies specific actions that will be taken to implement the 2030 Agenda and sets out strategic entry points for investing resources designed to achieve the SDGs.

Life expectancy reached 64.5 years in 2015 (compared to 55.6 years in 2001) and gender parity in primary and secondary education has been achieved. In spite of this, education out comes remain low, falling far short of what might be expected in view of the Government’s large investment in the sector. The low outcomes contribute to a mismatch of skills in the economy, as well as exclusion.
Botswana’s education and training sector faces several challenges in its efforts to develop the skills required to drive the country’s transformation. Problems include lack of specialized skills, declining learner performance, weak collaboration between industry and training institutions, and high dropout rates from education and training institutions. In response, the Government is putting in place measures to reform the education and training system and review labour legislation to increase the efficiency of the labour market. Under the tenth national development plan, several initiatives were undertaken to improve the sector. They included: formulation of an education and training sector strategic plan (ETSSP 2015-2020); approval of a technical and vocational education and training (TVET) policy framework, designed to revitalize the TVET sub-sector; and formulation of a national human resources development strategy and creation of the Human Resources Development Council (HRDC) in 2013. The HRDC has formulated the country’s first five-year strategic plan to address skills mismatch and produce a globally competitive workforce. It covers the period 2016 to 2021.

In health, despite its sparsely distributed population, Botswana has one of the best health care systems in Africa. However, maternal and neonatal mortality remain a challenge; women still dying from preventable causes. Although Botswana’s HIV prevalence rate dropped from 17.6% in 2008 to 16.9% in 2013, it has the second highest rate in the world. Botswana has led the way in HIV/AIDS prevention and treatment by mounting a broad multi-sectoral response to HIV/AIDS, encompassing interventions from both health and non-health sectors. More than 94% of people in need of anti-retroviral therapy (ART) are on treatment. The country also adopted the Option B+ strategy, which enables all HIV positive women to be enrolled on ART for life, and a new strategy called ‘Treat All’ where people testing HIV positive are put on ART regardless of the level of their CD4 count.

The country is making significant progress towards containing and reversing the incidence of malaria and new tuberculosis (TB) cases. The TB notification rate per 100 000 people has declined from 511 in 2006 to 329 in 2012. Confirmed malaria cases dropped from 8 056 to 193 cases, representing a 97.6% decrease during the same period.

**Poverty reduction, social protection and labour**

Botswana has achieved an appreciable reduction in poverty. The country’s Human Development Index score in 2015 (0.698) classed it third in Sub-Saharan Africa; the score rose by 19.8% between 1990 and 2015, driven by improvements in life expectancy, mean years of schooling, and GDP per capita. However, human development outcomes are far below the norms of an upper middle income country (MIC) in spite of the Government’s sizeable investments in social sectors. Although stubborn pockets of poverty persist, according to the most recent information available in the 2009-2010 Botswana Core Welfare Indicators Survey, the proportion of the population living below the poverty line declined sharply from 30.6% in 2002-2003 to 19.3% in 2009-2010. The largest decrease in poverty incidence occurred in rural areas and was mainly due to the implementation of social safety nets and a rapid increase in GDP per capita, from USD 80 at independence to USD 6 924 in 2016. Poverty displays a geographical and gender dimension. Female-headed households are more likely to be poor than male-headed households. Though poverty has declined sharply, inequality in Botswana remains among the highest in Africa. Its national Gini coefficient (of per capita consumption) is estimated at 60.5. Despite efforts to diversify the economy, the economic base remains narrow and growth has not been sufficiently inclusive.

The Government is committed to protect vulnerable persons through a range of protection programmes. The destitute persons programme, which is guided by the revised destitution policy, provides a social safety net for destitute persons who cannot afford basic necessities of life, including the elderly, pensioners, people living with disabilities, home-based patients, and orphans and vulnerable children. The Government also operates a labour-intensive public works programme known as Ipelegeng. Set up in 2008, it has provided short-term employment to over 60 000 unemployed poor adults in urban and rural settlements. Other initiatives to fight poverty include the poverty eradication programme (PEP) introduced in 2010. PEP aims to assist its beneficiaries to graduate from extreme or abject poverty via income generation projects and employment initiatives, capacity building and skills development, and grants to promote small and micro scale entrepreneurship. The Government has allocated a significant budget to finance a comprehensive social safety net programme.

At 20%, the unemployment rate in 2013 was high. Unemployment rates are highest among young adults aged between 20 and 24. About 47.0% of young people in this age range were estimated to be unemployed in 2013. This mainly reflected the mismatch between the quality of education and the demands of the labour market. With respect to labour relations, the Government provides various services to promote industrial harmony, including labour inspections, trade disputes resolution, promotion of industrial relations, and processing of workers’ compensation and work and residence permits. Following passage of the Trade Disputes Bill in Parliament in August 2016, the Government is working with employers and workers representatives to identify gaps in the Employment Act and Trade Unions.
and Employers Act and align labour and employment laws with international best practice. Other laws that are being considered for amendment, to align them with international standards, are the Workers Compensation Act and the Factories Act.

Gender equality
Botswana has made some progress in promoting gender equality and empowering women, in accordance with the Constitution, which prohibits gender discrimination. The country has ratified major international conventions relating to gender equality and made progress in implementing MDGs relevant to gender. The proportion of women occupying decision-making executive positions stands at 44% in the public sector (above Deputy Director level), 27% in parastatal agencies, 45% in civil society, and 21% in companies. The proportion of women employed in the formal sector stands at 41% while over 70% of the owners of informal businesses are women. Despite this, women still face a number of challenges. Women’s earned income remains much lower than that of men, and women continue to depend economically on their male partners, partly because they have unequal access to and control over productive resources, such as land, property and finance. Representation of women in politics also remains low. Women hold 17% of the seats in Parliament (well below the SADC minimum threshold of 30%), 19% of seats at local authority level, and 8% of Cabinet posts. Gender based violence (GBV) also remains an area of concern. About 67% women in Botswana have experienced some form of gender violence in their lifetime, and only 1 in 24 women reported the violence they had experienced to the police. GBV partly reflects the persistence of a patriarchal ideology that at best ignores and at worst condones violence against women.

To further reduce inequalities in opportunity, in 2015 Parliament adopted a national policy on gender and development, which replaced the women in development policy of 1996. This was followed by the establishment of a National Gender Commission in September 2016 to monitor implementation of the policy. Recognizing the need to be proactive in eliminating GBV, the Government adopted the national gender based violence strategy (2014-2020) in 2015 and began piloting a GBV referral system to provide support to GBV survivors in 2014. Gender equality is one of the principles affirmed in the National Vision 2036, and gender mainstreaming is a strategy in NDP 11.

THEMATICAL ANALYSIS: INFRASTRUCTURE FINANCING

Botswana’s infrastructure is generally of good quality and reasonably maintained, though the country is sparsely populated and landlocked, which makes the provision of such services difficult and costly. The World Economic Forum’s Global Competitiveness Report (GCR) 2017-2018 ranked Botswana 90 out of 137 countries (7 in Sub-Saharan Africa) with respect to quality of infrastructure. The Government has recognized the important role that infrastructure plays in ensuring effective productive processes and facilitating trade. For this reason, NDP 11 prioritizes the provision of high quality infrastructure. More emphasis is being placed on infrastructural development in various sectors of the economy, in order to increase the economy’s production capacity and its global competitiveness.

To address current infrastructure bottlenecks, traditional funding sources will no longer suffice. They need to be supplemented by alternative sources of finance from the private sector. To promote the participation of the private sector in infrastructure financing, reform will be necessary to: improve the investment climate; strengthen public-private engagement; enable the domestic private sector to participate effectively in PPPs; develop a credible pipeline of bankable projects; and use the credit enhancement financing instruments offered by multilateral development banks.

Botswana has equipped itself with the essential strategy and policy instruments it needs to develop its infrastructure. Significant obstacles remain, nevertheless, especially with regard to the railways and access to electricity and water. In the energy sector, Botswana’s total installed generating capacity is about 927 MW, of which 445 MW is available on a reliable basis. Currently, electricity demand stands at about 681 MW; of this, the mining sector is responsible for one third. Key issues that need to be addressed include inadequate generation; the transmission and distribution infrastructure, especially in the north-western region; high connection costs due to limited infrastructure; and tariffs that do not reflect the true cost of supplying electricity. The primary electricity supply is supplemented by imports from neighbouring countries and back up diesel power plants. NDP 11 has proposed reducing reliance on ‘least cost’ imported energy sources in favour of self-sufficiency where feasible.
Regarding water and sanitation, access to sanitation increased from 62% in 1990 to about 79% in 2015 in urban areas. About 96% of the population have access to improved water sources, and 74% have connections to their houses. Despite this, the water sector suffers persistent water supply shortages, largely due to the country’s geographical location in an arid area, as well as less predictable rainfall and recurring droughts due to climate change. Water shortages are exacerbated by water infrastructure bottlenecks. Given the scarcity of water resources and the fact that the country has almost exhausted the potential for new dams, the Government recognizes the need to develop a robust water infrastructure and alternative water sources. It also appreciates the need to implement efficient demand side management of water use. Under NDP 11, the Government will initiate major water infrastructure projects, including strategic pipelines, wellfield development, and rainwater harvesting.

Botswana’s transport infrastructure is considered relatively satisfactory, but the country’s landlocked character and vast terrain raise the cost of transport, while old locomotives and rolling stock, and unintegrated relations between transport sub-sectors, undermine achievement of the country’s objective to become Southern Africa’s transport hub. NDP 11 identifies several key challenges affecting the transport sector, including ageing infrastructure, a maintenance backlog, infrastructure that is not adapted to production needs, and limited participation by the private sector. Recognizing that the country needs an efficient transport system to lower production costs and create a conducive environment for the private sector to grow the economy and create employment, the Government has committed to the construction and maintenance of an excellent transport infrastructure.

Botswana also has a reasonably developed telecommunication systems. The International Telecommunications Union’s ICT Development Index in 2017 ranked Botswana 105 out of 176 countries (7 of 38 African countries). According to the ITU, in 2016 Botswana registered 6.9 fixed telephone subscriptions and 169 mobile/cellular subscriptions per 100 inhabitants (one of the highest cell phone penetration rates in Africa), compared to 6.6 and 164.5 in South Africa and 7.7 and 109.2 in Namibia, respectively. The proportion of households with internet access stood at 43.7%, compared to 53% in South Africa and 29.5% in Namibia. The Botswana Telecommunications Corporation (BTC) is the sole provider of fixed line services and competes on cellular services with Mascom Wireless (an affiliate of South Africa’s MTN) and Orange. In 2016, the Government sold 49% of BTC to the public, as part of its privatisation commitments. Although internet is reliable, it is relatively slow and high data costs remain a business constraint.

The total infrastructure investment needs of Botswana are enormous. As a middle income country (MIC) with a prudent and conservative debt policy, traditional sources of funding, especially domestic public resources, have dominated funding for infrastructure projects in recent years; there has been very little private investment or development assistance. The priority the Government gives to infrastructure can be seen from its budget allocations for capital spending. Public investment has consistently remained high for more than two decades, averaging about 11% of GDP. Botswana’s investment budget continues to outpace peer countries, benefiting from the fiscal space Botswana enjoys as a result of its prudent macroeconomic management. Public investment, largely funded by domestic sources, continues to focus mainly on infrastructure projects to address the country’s persistent electricity and water supply problems, and the construction and maintenance of transport links. Execution of the capital budget is quite satisfactory, ranging between 75% and 95%. Although development partners play some role in funding infrastructure projects, several scaled down their activities or exited Botswana when the country graduated to MIC status in 1992. In 2017, official development assistance (loans and grants) was estimated to amount to about 0.5% of GDP.

Going forward, under NDP 11 the Government recognizes that traditional funding sources will no longer suffice and that such sources must be supplemented by alternative sources of finance from the private sector. This will be achieved, among other things, by attracting potential private investors to join PPP arrangements and encouraging domestic and international institutional investors to invest directly in infrastructure projects. Botswana has a relatively large financial sector, which is dominated by non-bank financial institutions, principally pension and insurance companies. In December 2016, the assets of pension funds amounted to BPW 73.8 billion (about 48% of GDP). Although domestic institutional investors in Botswana have not played a significant role in financing infrastructure projects, they have the potential to purchase long-term financial instruments. However, domestic institutional investors have demonstrated a low appetite for long-term investments in the domestic market. In 2016, over 60% of their assets were invested offshore, particularly in South Africa. Although the Government has embraced PPPs to help finance infrastructure and related services, PPPs are not yet significant. A PPP policy is in place, a PPP coordinator has been appointed and a PPP committee has been established. The Public Procurement and Asset Disposal (PPAD) Act is being reviewed to ensure that PPPs are properly addressed. However, lack of capacity across Government to implement PPPs remains a major challenge.
To promote the participation of the private sector in infrastructure financing, a number of areas require attention. Further reforms should be undertaken to improve the investment climate, and legal and regulatory frameworks relevant to infrastructure development should be reviewed to ensure that they are comprehensive and sufficiently transparent, as well as accessible to the public. The Government should restructure technically and financially and, where appropriate, privatize State enterprises, such as Air Botswana, that are likely to enter into partnerships with potential equity investors, or that will need to go to the financial markets for long-term funding for infrastructural projects. It should also pursue efforts to strengthen public-private engagement and enable the domestic private sector to participate effectively in PPPs. While the Government planning institution is strong, measures should be taken to strengthen project appraisal and selection. A credible pipeline of bankable projects with adequate cost recovery systems also needs to be developed, which can be shared with prospective investors. Lastly, to boost confidence in potential projects and crowd in capital from private investors, the Government should take advantage of credit enhancement financing instruments that are offered by multilateral development banks, such as the African Development Bank.