

AFRICAN DEVELOPMENT BANK



BOTSWANA

COUNTRY STRATEGY PAPER 2015-2019

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SOUTHERN AFRICA RESOURCE CENTRE (SARC)

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CURRENCY EQUIVALENTS

(October 2014)

Currency	=	Botswana pula (BWP)
UA 1.00	=	USD 1.5341
UA 1.00	=	BWP 13.7716
USD1.00	=	BWP 9.29

WEIGHTS AND MEASURES

Metric System

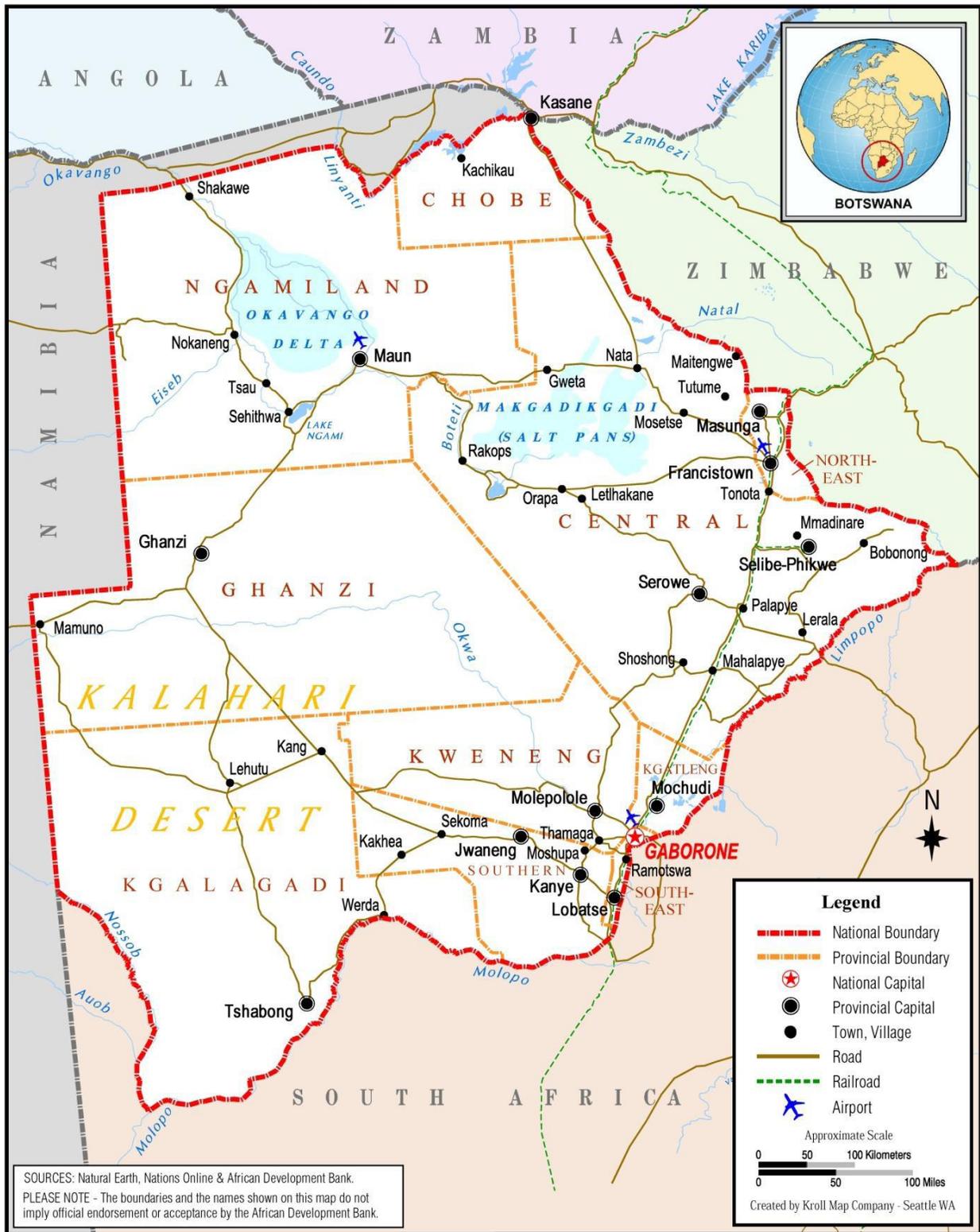
GOVERNMENT FISCAL YEAR

April 1 - March 31

ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
BDP	Botswana Democratic Party
BWP	Botswana pula
CPIP	Country Portfolio Implementation Plan
CPPR	Country Portfolio Performance Review
CSP	Country Strategy Paper
GDP	Gross Domestic Product
GoB	Government of Botswana
HIV/AIDS	Human Immunodeficiency Virus / Acquired Immunodeficiency Syndrome
ICT	Information and Communications Technology
IPP(s)	Independent Power Producer(s)
MDGs	Millennium Development Goals
MIC(s)	Middle Income Country/Countries
MTR	Mid-term Review
MW	Megawatt
NDP	National Development Plan
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PPP	Public Private Partnership
SACU	Southern African Customs Union
SADC	Southern African Development Community
SMEs	Small and Medium enterprises
TYS	Ten Year Strategy
UA	Unit of Account
USD	United States Dollar

GENERAL MAP OF BOTSWANA



EXECUTIVE SUMMARY

- 1. The Country Strategy Paper (CSP) provides a framework for the Bank Group support to Botswana for the period 2014-2019.** The CSP was developed within the context of the Government's medium term-development framework, the 10th National Development Plan (NDP10) for the period 2009-2016. It has taken into account the Bank's strategic priorities as outlined in the Bank's Ten Year Strategy (TYS) for the period 2013-2022. The CSP will support Botswana achieve high, inclusive, and sustainable growth, which is the shared goal of the TYS and the NDP10.
- 2. Botswana is a resource-rich middle-income country which is praised for its prudent economic management.** The country has made huge strides in socioeconomic development over the past four decades transforming itself from an underdeveloped country into a middle-income country. A striking feature of the Botswana economy is the rather limited economic transformation. The structure of production has changed very little since 1990. The country is highly dependent on the diamond mining industry and a large Government sector. However, the mining sector offers limited employment opportunities. In addition, labour-intensive manufacturing, which normally absorbs unskilled labour exiting traditional agriculture, has not developed. As a result, the economy has high levels of unemployment and inequality.
- 3. Botswana is at a critical juncture in its development. The global financial crisis of 2009 exposed the country's vulnerability to external shocks due to its reliance on one commodity.** Real Gross Domestic Product contracted by 7.8 percent from an annual average growth of 10 percent experienced over the previous four decades. In addition, Botswana's economy will face a difficult challenge in the medium term with the depletion of its diamond resources. This has led to a rethinking of the country's development strategy. Botswana needs to accelerate economic transformation from the primary sector to advanced manufacturing and services in order to reduce its vulnerability to shocks in the diamond trade. The country needs to revive the growth of private sector investments and increase the productivity of economic investments. To achieve this, the government needs to invest in high impact infrastructure to improve competitiveness, provide a sound regulatory environment that is friendly to business, and further enhance skills development. As a result, the CSP will focus on two complementary pillars: (i) *Infrastructure Development to Increase Productivity*; and, (ii) *Private Sector Development*.
- 4. The CSP will support the country's efforts to enhance private sector orientation so as to achieve higher sustained and equitable growth.** Infrastructure projects supporting productivity can provide opportunities for Botswana's private sector development. This will be complemented by promoting private sector participation in public service provision through public-private partnerships (PPPs), and enabling policy and regulatory reforms. The CSP will also emphasize knowledge solutions to inform policy formulation. While the proposed areas of engagement cannot support all of the Government's development objectives, the interventions will have a catalytic impact and a clear demonstration of the Bank's value-added engagement.
- 5. As an upper middle-income country, Botswana's borrowing preferences change depending on the available fiscal space.** As a result, the Bank will be flexible and responsive to the country's changing needs for lending and advisory services. The Bank will develop a rolling 3 year pipeline of potential operations with confirmation done on an annual basis. This will be followed by the development of annual operations business plans aligned to the Government's financing priorities. The Bank will creatively use its range of financial products, in addition to PPPs, to implement the CSP. It will continue to coordinate closely with development partners to improve development effectiveness and enhance operational collaboration.

I. INTRODUCTION

1. **The paper presents a new Country Strategy Paper (CSP) for the Republic of Botswana for the period 2015-2019.** The previous CSP for the period 2009-2013 (ADB/BD/WP/2009/27) was developed at the time of the global financial crisis and it played a significant role in supporting the Government's counter-cyclical policy measures. It focused on two areas: (i) private sector investment; and, (ii) infrastructure. A mid-term review undertaken in November 2011 confirmed that the challenges confronting the Government with respect to economic diversification and transformation remained relevant and the pillars were retained.

2. **Botswana has made huge strides in socioeconomic development over the past four decades, transforming itself from an underdeveloped country into a middle-income country.** However, a striking feature of the Botswana economy is the rather limited economic transformation. The structure of production has changed very little since the 1990s. Minerals still dominate the economy while labour-intensive manufacturing, which normally absorbs unskilled labourers who exit traditional agriculture, has not developed. As a result, the economy has high levels of unemployment and inequality. The 2009 global economic downturn exposed the country's vulnerability to external shocks due to reliance on one commodity. Gross Domestic Product (GDP) contracted by 7.8 percent from an annual average of 10 percent over the previous four decades. At the same time, growth in the non-mining sector softened.

3. **To reduce unemployment and inequality, the country will need to accelerate growth of private sector investments and increase the productivity of economic investments.** The CSP, which is anchored on the Bank's Ten Year Strategy (TYS) covering the period 2013-2022, responds to the need to transform the Botswana economy in accordance with its national development agenda outlined in the Government's 10th National Development Plan (NDP10) covering the period 2009-2016. The CSP is aligned with the priorities of the NDP10 that intersect with those of the YYS and focuses on the Bank's core areas of competence. It is organised around two strategic and complementary pillars: (i) *Infrastructure Development to Increase Productivity*; and, (ii) *Private Sector Development*. The CSP will contribute to increasing productivity and achieving high, inclusive, and sustainable growth in Botswana, which is the shared goal of the YYS and the NDP10.

4. **The CSP reflects close consultations with the Government and other key stakeholders, including development partners and private sector representatives and has benefitted from lessons from the Bank's previous interventions.** In addition, preparation of the CSP has been informed by: (i) initial findings of the Bank-funded 'Botswana Economic Diversification Study'; (ii) the Bank's Private Sector Development Strategy; and, (iii) the Botswana Country Assistance Evaluation, 2004-2013.

5. The rest of the document is organized as follows: Section II discusses the country context and prospects; Section III provides the strategic options; Section III details the Bank's strategy for 2015-2019; and, Section V concludes.

II. COUNTRY CONTEXT AND PROSPECTS

6. **Botswana is a landlocked country sharing borders with Namibia, South Africa, Zambia and Zimbabwe.** The Kalahari Desert occupies 77 percent of the land and less than 1 percent of the total land mass is arable. Most of Botswana's two million people are concentrated in the eastern part of the country, but the country's vast size and thinly spread and small population frustrate Government's commendable efforts aimed at addressing pockets of poverty and high levels of unemployment and inequality in the country. Exploitation of diamonds, which began in 1971, changed the country's economic landscape.

7. **A stable political environment and the prudent management of revenue from diamonds has underpinned strong economic growth for the past four decades.** The country continues to set an

example in the good management of revenue from abundant mineral resources. Botswana's successful partnership with De Beers, the world's largest diamond mining company, has contributed to the development of the mining sector. Diamond mining earns revenue through corporate taxes, royalties, and profits from Botswana's 50 percent share in Debswana (which is a joint venture with DeBeers) and its 15 percent stake in DeBeers itself. Standard and Poor's and Moody's have both rated Botswana's sovereign credit at A (the highest in Africa). Annual real GDP, supported by increased mining production, grew by nearly 10 percent annually from 1960 to 2008, thereby enabling Botswana to graduate from the list of least developed countries in 1992. The country's GDP per capita income has risen from USD 80 at the time of its independence in 1966 to over USD 7,000 in 2013.

2.1 Political Context

8. **Botswana is a parliamentary republic which boasts a mature democracy.** The Constitution vests legislative power in a parliament comprising the National Assembly, the President, a Speaker, the Attorney General and four specially elected members nominated by the President. Botswana continues to enjoy political stability as a multiparty constitutional democracy. The Botswana Democratic Party is the dominant political party and has been in power since independence. Elections are held every five years; the next elections are scheduled for October 2019. The political maturity exhibited in past elections is expected to prevail.

2.2 Economic Context

2.2.1 Economic Structure

9. **The structure of production of the Botswana economy has changed very little since the 1990s.** The economic base remains narrow and the economy is still dominated by mining and Government. The mining sector constitutes between 30 and 35 percent of GDP (Figure 1a) and Government contributes around 16 percent of GDP. These percentages have not changed significantly over the last decade. The fastest growing sector has been services and its overall contribution (including Government services) to GDP has increased from around 50 percent in the early 1990s to 71 percent in 2013 mainly due to the slowdown in mining as a result of the global economic slowdown. Within the sector, the fastest growing subsectors such as Government services, banking, insurance and business services, and construction, are all linked to revenue from the mining sector.

10. **The Government plays a large role in Botswana's economy with General Government accounting for more than 25 percent of non-mining GDP.** In particular, Government development spending has given impetus to sectors such as construction. The Government is also a major player in the domestic financial sector with budget surpluses being a major source of savings in the economy. The Government is also the largest formal employer, responsible for about 40 percent of total formal sector employment.

11. **Agriculture, especially cattle farming, is the dominant source of livelihood.** More than half of Botswana's population live in rural areas and are dependent on subsistence farming. However, domestic agriculture production meets only a small proportion of the nation's food needs. The contribution of the agriculture sector to GDP has continued to decline and is now under 2.5 percent from a peak of 3.4 percent in the 1990s. The limited contribution of agriculture to GDP is mainly due to the severe water shortage and inadequate rain.

12. **The share of the manufacturing sector in GDP has remained limited in the range of 5 to 6 percent since the 1990s.** Unlike in many MICs, non-mining manufacturing has not been a dynamic absorber of labour. Rather, its share in GDP has been declining. Some attempts were made in the past to boost the textile industry and take advantage of access to the United States market under the African

Growth and Opportunity Act (AGOA), but this has now become difficult due to strong competition from other developing countries.

2.2.2 Recent Economic Developments

13. **Botswana's economy is rebounding after a significant setback following the 2009 global recession.** After several years of robust growth, the economy contracted by 7.8 percent in 2009 due to a reduced demand for diamonds in the wake of the global financial crisis (Figure 1b). Timely countercyclical policies and sound fundamentals supported by a loan from the African Development Bank (ADB) helped cushion the impact of the crisis on the rest of the economy; and the non-mining sector (led by large public construction) exhibited strong growth of 4.9 percent in 2009. Growth recovered to 8 percent in 2010 and 2011, led by a rebound in diamond exports and supported by solid growth in the non-mining sector. Reflecting the weak performance of the diamond sector and the slowdown in the construction sector, growth moderated to 4.2 percent in 2012. The economy recovered strongly with real GDP growth estimated at 5.9 percent in 2013, underpinned by buoyant activity in the mining sector, particularly diamond production, in spite of bottlenecks in the power and water sectors.

14. **Inflationary pressures have eased significantly since 2008 due to lower oil and food prices.** Headline inflation declined steadily from a high of 12.6 percent in 2008 to 7.5 percent in 2012 and further to 4.1 percent in December 2013 (Figure 1b). Core inflation has also declined and both rates are now within Botswana's medium-term objective range of 3-6 percent. With inflationary pressures easing, monetary policy has been accommodating with a view to stimulate economic activity. In April 2013, the Bank of Botswana reduced its policy rate by 200 basis points, to 7.5 percent, and has maintained this policy rate to date.

15. **Fiscal revenues depend heavily on diamonds (Figure 1c).** The significant decline in diamond exports in 2009 led to a drastic fall in Government revenue. A fiscal deficit of 12.3 percent of GDP was recorded in 2009/10, from an average surplus of about 4.7 percent over the previous five years (Figure 1d). To ensure fiscal sustainability, the Government has been undertaking fiscal consolidation measures focusing on both expenditure prioritisation and revenue collection. Consequently, the budget outturn improved from a deficit of 6.8 percent of GDP in 2010/11 to a deficit of 0.2 percent of GDP in 2011/12, and turned around to a modest surplus of 0.8 percent in 2012/13. The revised estimates for 2013/14 show a small budget surplus of 0.3 percent of GDP and a surplus of 1.0 percent of GDP is projected for 2014/15.

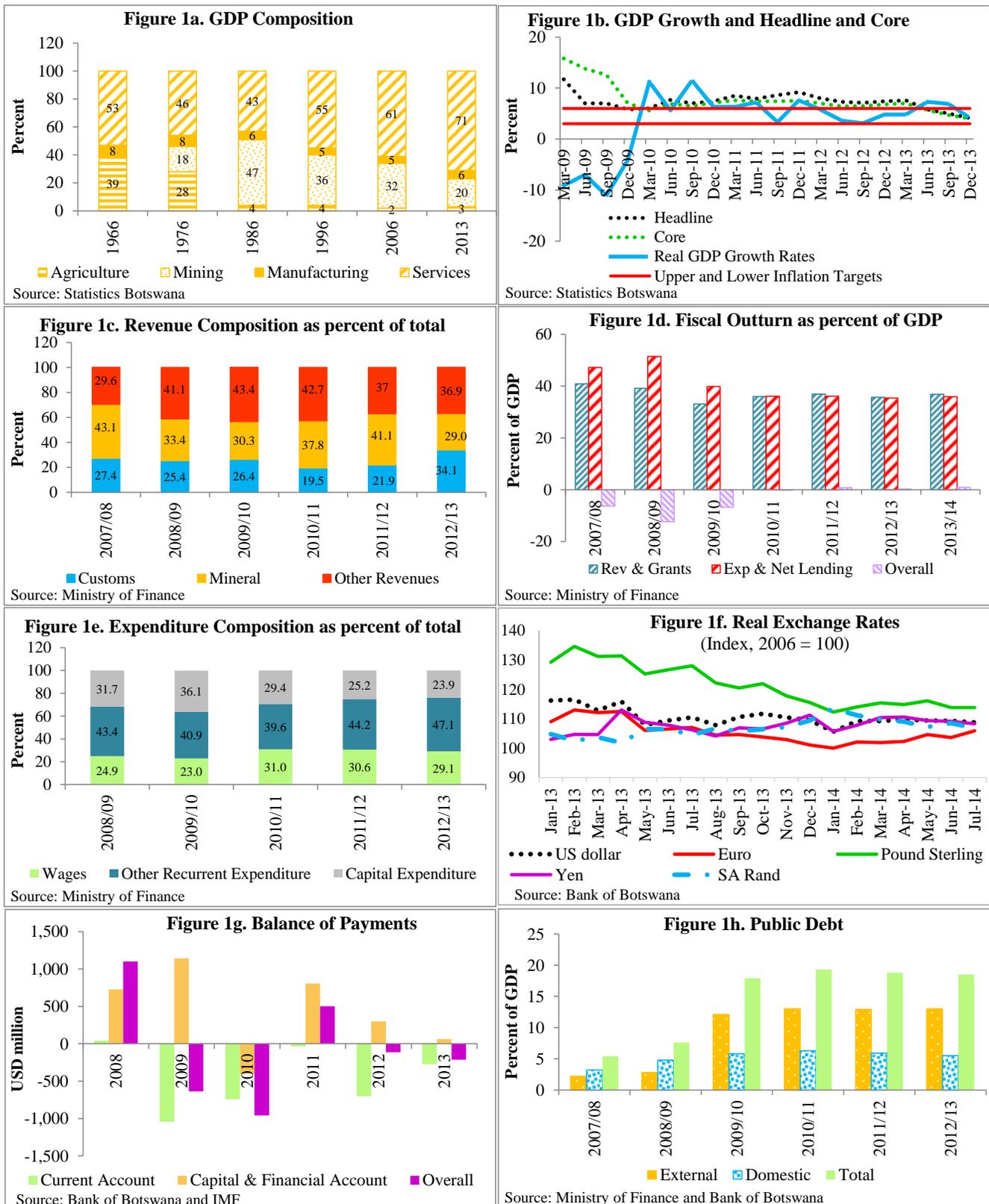
16. **The proportion of capital expenditure has declined consistently while the share of recurrent expenditure (particularly wages, which account for 30 percent of total expenditure) is increasing (Figure 1e).** Further fiscal consolidation is critical given the likely plateau of diamond revenues in the next few years. The Government is working on a fiscal rule aimed at enhancing expenditure prioritisation towards productive investments. While reducing the size of the wage bill as a share of total expenditure would be the appropriate response, this has a potential risk of social tensions in an environment of relatively low private sector growth and high unemployment. Reforms would therefore need to be implemented gradually while the private sector must be grown to absorb the workforce.

17. **The real effective exchange rate is stable and broadly in line with fundamentals (Figure 1f).** The crawling peg exchange rate regime has served the economy well, balancing it between stability and flexibility.¹ Trends in bilateral nominal exchange rates show that on an annual basis (twelve months to

¹ The pula is pegged to a basket of the rand and the SDR in an attempt to maintain exchange rate stability. Since 2005, the authorities have pursued a crawling peg regime with the aim of preserving external competitiveness. The rate of crawl is determined on the basis of the differential between Botswana's inflation objective and forecast inflation for trading partner countries. The focus has been to maintain orderly foreign exchange market conditions in the short term while ensuring that the pula is not misaligned against the country's fundamentals over the medium to longer term.

December 2014), the pula depreciated against the major currencies (the euro by 16.1 percent, the pound sterling by 13.7 percent and the US dollar by 12.2 percent) while it appreciated against the South African rand (the currency of its main source of imports and manufactured exports) by 9.3 percent.

Figure 1: Selected Macroeconomic Indicators



18. **Diamond exports have ensured adequate flows of foreign exchange.** However, the current account remained in deficit from the onset of the financial crisis in 2009 until 2013, when a surplus was achieved (Figure 1g). The decline in diamond exports due to the global financial crisis led to a contraction in the current account, recording a deficit of 10.2 percent in 2009, relative to an average surplus of 15.6 percent of GDP in the period 2005 to 2007. Official transfers, mainly Southern Africa Customs Union (SACU) revenues, have contributed to the turnaround in the current account balance to a surplus of 6.4 percent of GDP in 2013. As a result, the overall external position continues to be relatively strong with official reserves coverage standing at 16.5 months of import cover in December 2013, up from 14 months in December 2012.

19. **The authorities implement a measured debt policy limiting public debt to 40 percent of GDP (20 percent external and 20 percent domestic).** The composition of public debt was balanced between external and internal sources until 2009/2010 when external debt reached 70 percent of total debt due to increased borrowing to address the shock arising from the global financial crisis. Public external debt rose sharply from 2.8 percent of GDP in 2008/09 to 13.0 percent in 2012/13 (Figure 1h). Domestic debt has been low although it increased from 3.2 percent of GDP in 2007/08 to 5.5 percent of GDP to 2012/13. Bonds account for the bulk of domestic debt, reflecting the role played by the Government in the capital market.

20. **Growth Outlook: Prospects for the near term are good, as the global economy continues to recover.** Real GDP is expected to grow by an average of just over 5.0 percent during 2014-2016 while non-mineral GDP growth is expected to moderate somewhat in the medium term. The current account balance is set to improve gradually as recovery in the diamond market boosts export receipts. However, the fragility of the global recovery exposes Botswana's narrow export base to significant downside risks. A growth failure in South Africa would have outward spillovers to Botswana as the strength of South Africa's recovery will largely determine demand for Botswana's manufactured exports. The main domestic risk is the shortage of electricity and water which could further delay private investment. Over the medium term, potential growth remains constrained by supply side factors.

21. **Inflation Outlook: In the absence of further revisions in administered prices, inflation will remain contained.** Given lingering uncertainties surrounding the future path of the global economy, the overall stance of monetary policy will remain accommodative to provide support to domestic economic activity. On the demand side, output is still below optimal levels. Thus, monetary policy will focus on promoting the sustainability of economic recovery and ensuring that financing continues to be available to the private sector at reasonable cost.

22. **Botswana's main near-term policy challenge is managing successfully the transition to a more sustainable growth path.** The key to sustained growth is the "structural transformation" of the economy from traditional sectors to tradable sectors (including services trade) that could pave the way for Botswana to become a high income country. Boosting productivity remains the key long-term challenge.

2.3 Governance

23. **Botswana is praised for its institutional transparency and low corruption.** An independent judiciary enforces contracts effectively and protects property rights. The major corruption investigation body, the Directorate on Corruption and Economic Crime (DCEC), is well regarded. The country ranks at the top of African countries in governance and transparency indices. It is ranked among the top 25 percent (and highest in Africa) in Transparency International's Corruption Perception Index, and second out of 52 African countries (behind Mauritius) in the 2013 Mo Ibrahim Index of African Governance.

24. **The 2013 Public Expenditure and Financial Accountability (PEFA) assessment affirms that Government efforts to reform the Public Finance Management (PFM) environment has yielded**

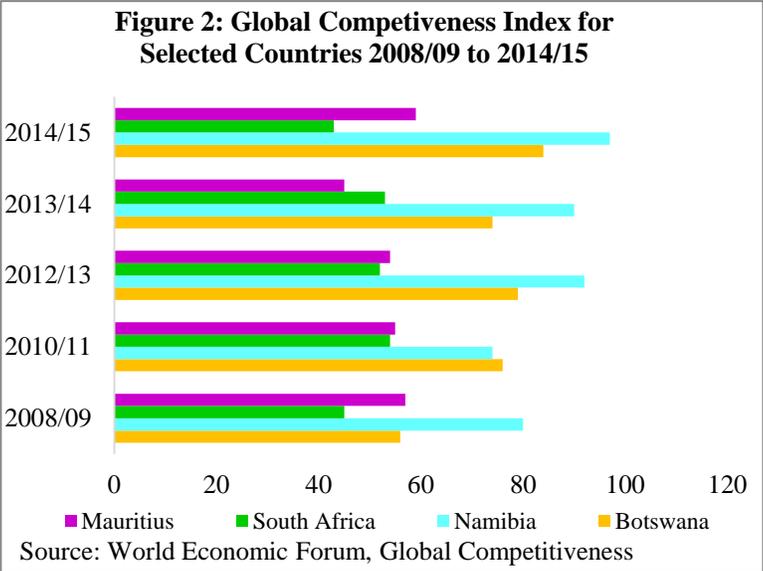
remarkable results. This is evident in the comprehensive, transparent and controlled budgetary processes, improved internal controls on salary and non-salary expenditures, and timely preparation of national accounts for audit and external scrutiny (see Annex XI). The passing of the new Public Finance Management Act (2013) is expected to help sustain gains made, and to further strengthen a number of key areas including: (i) the Medium Term Expenditure Framework implementation process; (ii) the Internal Audit function; (iii) anti-corruption institutions; (iv) debt management; and, (v) coordination of on-going PFM initiatives. Enhancing the capacity of the PFM Reform Secretariat remains critical to the success of the reforms.

25. **Botswana’s national procurement procedures are generally consistent with the Bank’s procurement rules and procedures.** The Bank’s 2011 evaluation of National Competitive Bidding procedures affirmed that Botswana has put in place a robust public procurement system (see Annex XII). The Public Procurement and Asset Disposal Act, and the Regulations and the Procurement Manual constitute a very sound legal and regulatory system for public procurement. The system complies with principles of fairness, transparency, competitiveness and cost-effectiveness and the framework safeguards against discretionary procurement processing and decision-making that would lead to poor procurement performance, loss of value for money and corruption. An action plan was formulated to address the few deviations that were noted with respect to compliance with the Bank’s fiduciary obligations and with internationally accepted best practice.

2.4 Business Environment and Competitiveness

26. **Botswana continues to rank low with regard to important determinants of private investment.** Non-price competitiveness indicators suggest that Botswana has been moving steadily downwards in global rankings. Between 2008 and 2013, the country slipped 18 positions (from 56 to 74) in the *Global Competitiveness Index* (Figure 2) and 21 positions (from 38th to 59th) in the World Bank’s *Doing Business* ranking. The decline is explained largely by the absence of improvements rather than worsening policies. According to the *2014/15 Global Competitiveness Index*, Botswana’s primary weaknesses continue to include technological readiness, small market size and efficiency, as well as inadequate basic health and education. The country is rated highly in macroeconomic environment, reliable and legitimate institutions, and a well-developed financial market. In the World Bank’s *Doing Business* indicators Botswana ranks poorly in trading across borders, dealing with construction permits and starting a business. Protection of intellectual property rights has improved and the legal system is sufficient to ensure secure commercial dealings. While access to credit has not emerged as a major concern, available evidence points to the need to improve access to credit by small and medium enterprises (SMEs) as they play a critical role towards the actualisation of economic diversification.

27. **The Government recognizes the significance of private sector growth for economic development, although achieving this in the prevailing regulatory environment (see paragraph 24) will be challenging.** In line with the NDP10, the Government is pursuing an active policy to foster private sector



development as part of the drive towards economic diversification. The Government has set up a National Doing Business Committee to address constraints to doing business. It is also working toward implementing the 2010 Public Private Partnership (PPP) policy. To fast-track identification and implementation of PPP projects, the Government is in the process of establishing a PPP Unit.

2.5 Financial Sector

28. **The domestic banking system has remained profitable, liquid and well capitalized, although recently there have been increases in nonperforming loans to households.** The robustness of the financial sector is demonstrated by a number of prudential indicators pertaining to asset composition and portfolio quality. Access to financial services remains low and it is estimated that about 33 percent of adults do not have access to such services. Non-bank Financial Institutions (NBFIs) have been growing rapidly in recent years resulting in closer linkages with commercial banks. This has increased the probability of contagion with implications to the financial system and the economy. However, there has been notable progress on supervision of the non-banking financial sector, including the establishment of a Non-Bank Financial Institutions Regulatory Authority (NBFIRA). NBFIRA has benefited from efforts to enhance its capacity and to develop a legal and regulatory infrastructure. Greater challenges are coming from the high concentration of bank loans to households and the rapid growth of unsecured lending. The growth of household indebtedness has the potential of creating stress in the financial sector, and is a liability to the macroeconomic environment. Striking an appropriate balance between financial inclusion and stability is therefore emerging as a policy challenge for Botswana.

29. **The country's capital markets have developed over the past two decades, but both the stock and bond markets are characterised 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 fixed interest securities market. While market capitalisation is reasonably high (at about 28 percent of GDP), there is a dearth of long tenured assets. The Government is the main issuer, however, the issuance is limited to only twice a year and currently the longest issuance has a 17-year tenor. To address the shortcomings in the financial sector, the Government launched a Financial Sector Development Strategy aimed at: (i) maintaining a robust framework for financial sector stability; (ii) promoting competitive and cost-effective access to finance; (iii) promoting financial access for the underserved; and (iv) deepening financial markets and supporting intermediation of long-term financing, mainly by strengthening key institutions such as the BSE and the Botswana Development Corporation (BDC).

2.6 Trade and Regional Integration

30. **Botswana's trade flows are highly concentrated.** South Africa is the main source of Botswana imports, accounting for over 60 percent of its imports, and a major market for its manufactured goods. Exports are concentrated in diamonds which account for about 75 percent of total annual exports and are destined to Europe (mostly the United Kingdom), exposing the economy to volatile commodity prices and economic spillovers. In September 2013, Botswana launched its own diamond trading company, Diamond Trading Company Botswana (DTCB), in a move to boost local business and create jobs. DTCB is a joint venture between De Beers and the Botswana Government, and replaces De Beers' London-based main Diamond Trading Company in the sorting and marketing of rough diamonds mined in Botswana. This will result in reduced value of exports to the United Kingdom.

31. **As a landlocked country with a small population Botswana has much to gain from regional cooperation and integration.** The country has taken many initiatives to foster bilateral and regional economic integration. Botswana is a member of SACU and the Southern Africa Development Community (SADC). As a member of SACU, Botswana's exports enter other SACU markets (including South Africa, its main regional trading partner) duty free. However, the country is not well integrated with the rest of the

countries in the SADC region. Botswana is yet to take advantage of fast growing economies of Angola, Zambia and Mozambique. The lack of integration is mainly due to the region's slow pace of implementing measures to improve and harmonise transit systems which increase the cost of transporting goods across the region. Botswana also benefits from regional initiatives such as the Zambezi Watercourse Commission², and is an operating member of the Southern Africa Power Pool (SAPP).³ Sustainable access to water is important for Botswana's long term water security, and the development of high value-added agriculture. As a member of SAPP, Botswana is able to buy electricity from the interconnected power grid. In addition, Botswana is participating in the development of ZIZABONA Power Project aimed at enhancing electricity trade among four SAPP member countries (Zambia, Zimbabwe, Botswana and Namibia).

2.7 Poverty, Social Inclusion and Equity

32. **Poverty has declined substantially mainly due to the implementation of social safety nets.** The proportion of the population living below the poverty line declined from 30.6 percent in 2002/03 to 19.3 percent in 2009/10 while the share in extreme poverty fell from 23.4 percent to 6.5 percent during the same period. Poverty profiles display a geographical and gender dimension: rural households are generally poorer than urban households and female headed households are more likely to be poor than their male-headed counterparts.

33. **Inequality in Botswana is among the highest in the world despite the sharp decline in poverty.** Income inequality as measured by the Gini coefficient is in excess of 0.55. This reflects the disparities in the quality of economic opportunities and services and underlines the need to ensure a more inclusive development. The persistent high inequality level mainly emanates from the limited economic diversification and the dominance of mineral (diamond) extraction in the country's GDP and exports. Because mining absorbs only a small proportion of the workforce, long-term policies for poverty reduction have not been complemented by effective absorption of the poor into the productive economy. Inequality also stems from the fact that Botswana's vast size and thinly spread and small population make the provision of economic infrastructure and social services extremely expensive and present daunting challenges for the Government. As a result, public support programmes have not generated significant growth in employment, and hence poverty reduction.

34. **Botswana continues to face persistent and high levels of unemployment.** The unemployment rate was estimated to be 17.8 percent in 2009/10. Slow growth in the non-mining private sector has meant that growth in employment has not been sufficient to absorb the rising labour force. Moreover, in cases where employment opportunities have occurred, constraints have been noted due to lack of relevant skills and shunning of blue collar jobs. Unemployment is highest among unskilled workers (at 20.8 percent) and lowest among university graduates. Yet significant shortages persist in skilled occupations. Tackling the high level of unemployment will require faster as well as more inclusive economic growth and addressing distortions in the labour market such as the skills mismatch. The establishment of the National Human Resources Development Council in 2013 is a step in the right direction.

35. **Botswana has made significant progress towards achieving the Millennium Development Goals (MDGs).** Notable achievements include continued reduction in poverty levels, gender parity in primary and secondary education, and combating HIV/AIDS. However, the net primary enrolment rate is

² The purpose of ZAMCOM is to promote the equitable and sustainable utilization of the water resources of the Zambezi Watercourse. Eight Zambezi Basin riparian states participate in ZAMCOM: Angola, Botswana, Malawi, Mozambique, Namibia, Tanzania, Zambia, and Zimbabwe. ZAMCOM operates in line with the revised SADC Protocol on Shared Watercourses.

³ The Southern African Power Pool (SAPP) is a cooperation of the national electricity companies in Southern Africa under the auspices of SADC. The operating members of SAPP have interconnected their power grids and can participate in electricity trade on the common market for electricity.

85 percent, falling short of MDG 2 of universal primary education. Gender balance in the workforce is commendable, with women leading in professional and technical skills, reflecting the relatively higher female-to-male ratio in all levels of school enrolment. Nonetheless, the overall labour market participation rate is lower for females at 45 percent compared to 61 percent for males. While the country has enjoyed progress in improving health in a number of areas, it has made less progress in improving maternal health and is not on track to achieve MDGs 4 and 5 (to reducing maternal and child mortality). Maternal mortality ratio, at 160 deaths per 100,000 live births is high for a middle income country, even though it is much lower than that of its neighbours South Africa (at 300) and Namibia (at 200).

2.8 Gender

36. **Botswana has made significant progress in improving the status of women including gender parity in primary and secondary education, and gender balance in the workforce (Paragraph 32).** In addition, women are leading in professional and technical skills. Botswana also has a high ratio of female civil servants, with the proportion of women in economic decision-making positions in the public service at 42 percent. Although there has been an increase in the proportion of economically active women, their earned income is much less than that of men. In addition, women continue to have low access to property ownership and financial credit. Women's representation in the political and business spheres remains lower than that of men. The participation rate of women in the political arena, for example, is only 7 percent of the members of the current Parliament; well below the SADC threshold of 30 percent. Notably, the proportion of women at the local level is significant at 20 percent.

37. **Despite an improved policy environment, concerted efforts are required to improve the legal status of women and ensure access to economic resources.** Botswana has updated national policies and action plans and has also ratified international conventions relating to gender equality such as the United Nations Convention on the Elimination of All Forms of Discrimination Against Women. The convention emphasizes the importance of public human rights, education, gender sensitization and the provision of legal services to assist women whose human rights have been violated. The Government has put in place a National Gender Programme Framework, as the main document to guide gender-mainstreaming activities, and to translate national gender priorities into programmes for all sectors. In addition, the Gender Affairs Department is mandated to facilitate gender-mainstreaming in the development planning processes and provides guidance on gender and development to Government departments, non-governmental organisations and the private sector. A Family Law that made women equal to men in marriage, property holding, domicile, and guardianship of minor children was enacted in 2004. In 2012, in a landmark case, the High Court ruled that the customary inheritance law that discriminated against women was unconstitutional. However, discriminatory institutions and structures, and social norms still exist. In implementing the new CSP, gender equity will be actively pursued to maximise the development impacts.

2.9 Environment and Climate Change

38. **The Kalahari Desert occupies 77 percent of Botswana's land mass, leaving the country with limited supplies of arable land and fresh water.** Erratic rain and drought are the country's most frequent natural disasters. The country is also faced with land degradation due to overgrazing and desertification. Climate change is expected to adversely impact agricultural production and water resources. The Government has put in place a national environmental policy framework that covers all the relevant sectors. Conservation and sustainable management of natural resources are fully integrated in the development planning process. Over a third of the country's total land area is under some form of conservation, with 17 percent designated as national parks and game reserves, 20 percent as wildlife management areas and 1 percent as forest reserves. Participation of communities in natural resource conservation is ensured through a Community-Based Natural Resources Management programme. The Bank will continue to ensure that all Bank funded infrastructure operations undergo environmental impact

assessment to ensure long-term sustainability and will support appropriate natural resource management and the adoption of clean technology in the development of infrastructure.

III. COUNTRY STRATEGIC OPTIONS

3.1 Country Strategic Framework

39. **The Government has developed an elaborate system of planning and produces seven-year National Development Plans to articulate its policies and development priorities.** These plans are enshrined in law and approved by Parliament. As a result, a development project cannot be implemented if it is not in the Plan, and any periodic modifications, which have to be fully justified, also have to be approved by Parliament. Botswana's current medium-term development strategy, the NDP10 covering the period 2009 - 2016, is guided by its long-term strategic Vision 2016 that focuses on prosperity for all. The main goal of the NDP10 programme is to create jobs, and reduce poverty and income inequality by accelerating economic diversification and improving competitiveness. This will be done by promoting four priority areas: (i) maintaining and developing productive infrastructure, especially that needed by the private sector; (ii) improving the regulatory environment to encourage private sector investment; (iii) investing in education and skills training to meet the needs of the private sector; (iv) promoting exports to the region and support export of services.

40. **Inclusive Growth and Transition to Green Growth:** The Government aims to achieve inclusive growth by promoting greater access to opportunities through: (i) improved infrastructure to enhance connectivity; (ii) expanding human capital development through investments in education and vocational training; (iii) an enhanced business environment; (iv) improved micro and small enterprise access to finance; and, (v) reformed social assistance programs. Processes for greener growth are fostered through: (i) improved environment and natural resources management by strengthening institutions and community participation in rehabilitation and conservation; and, (ii) climate change mitigation by promoting renewable energy and energy efficiency, and the associated transitional issues.

41. **Intersection with Bank's TYS:** The Bank's TYS and the NDP10 share the common goals of inclusive and sustainable growth. In particular, the Bank's focus on infrastructure and skills development is consistent with the NDP10's approach to development. The NDP10 priority areas of infrastructure, private sector development and skills development are shared with the TYS. In addition, better infrastructure is expected to enhance regional integration. An improved regulatory environment will advance the investment climate and enhance private sector participation in the economy. Similar to the TYS, the Government gives special emphasis to gender and food security.

Implementation of NDP10

42. **The NDP10 mid-term review (MTR) which was conducted in 2013 acknowledges that the programme has had mixed success.** The 2009 global financial crisis affected the performance of the first half of the Plan. The average economic growth for the first half of the Plan was 2.8 percent, some 3.2 percentage points below the target. A number of targets are unlikely to be met by the end of the scheduled period of the Plan, including reducing the percentage of the population living below the poverty line, the unemployment rate, infant mortality and the maternal mortality rate. However, progress has been made in increasing the participation rate in tertiary education, access to clean water, access to electricity and in reducing the HIV/AIDS prevalence rate.

43. The NDP10 MTR identified four priority focus areas: (i) enhancing Government's efficiency and effectiveness; (ii) tackling the high level of unemployment; (iii) enhancing inclusive growth; and, (iv) boosting prospects for greater economic diversification. The role of the Government over the medium term has been clearly spelt out as that of an enabler and facilitator for private sector activities. To move the economic diversification agenda forward, the Government has established six economic hubs; diamond, innovation, transport, agriculture, education and medical (Annex VI). These are areas in which the country is believed to

enjoy some comparative advantage as far as attracting foreign direct investment and stimulating economic growth is concerned.

3.2 Strengths and Opportunities

44. In line with the findings and recommendations of the NDP10 MTR, the Government should have a multi-pronged approach to diversification that leverages Botswana's areas of comparative advantage. The country is well endowed with mineral resources and wildlife and has easy access to developed infrastructure and regional markets. In addition, Botswana has a stable political environment and implements prudent macroeconomic management.

45. **Immense natural resources:** The country is well endowed with mineral resources and wildlife.

- Revenue from diamonds has enabled the Government to provide physical and social infrastructure to the people and accumulate large amount of foreign reserves. For a long time Botswana exported all its diamonds in rough form to London. This restricted the number of jobs that could be created from the sector as no value was added. The launching of the Diamond Trading Company Botswana in 2013, which led to the relocation of the diamond trading activities from London to Gaborone, will ensure value addition to diamond mining and create more jobs.
- Botswana has large deposits of coal which can be used to produce electricity for domestic use (which is currently in short supply) and for export. An enabling regulatory environment to attract private sector participation in the mining of the coal and energy generation and in the construction of supportive rail transport network for export will be critical.
- The country teems with abundant wildlife, and is home to one of the largest herds of free-ranging elephants in the world. Air transport is key to connecting tourists to wildlife places of interest which are located in remote areas. However, Botswana has the most expensive air travel per mile thereby making tourism less competitive compared to neighbouring South Africa where wildlife areas are either within easy driving distance or air connection is not as expensive.

46. **Political stability and prudent macroeconomic management:** Botswana is widely credited for political stability and the prudent management of revenue from natural resources. The environment should naturally be attractive to foreign investors. However, the dominance of Government in economic activities and a burdensome regulatory environment, particularly in getting construction permits and procedures in starting a business, discourage major private sector operators. Reducing the dominance of Government in economic activities and regulatory reforms are therefore required to attract private sector investment.

47. **Access to developed infrastructure and regional markets:** Botswana has developed strong institutions and financial markets, and is well positioned to leverage South Africa's advanced technology and investment resources to its own advantage. In addition, the country's membership in regional groupings, particularly SADC and SACU, provides it with the opportunity to address some of the constraints imposed by a small domestic market. As a member of SADC and SACU, the country has duty-free access to South Africa (Africa's largest economy) and is geographically close to the fast-growing economies of Angola, Mozambique and Zambia which offer potential for exports. To fully exploit the market access opportunities in the region, Botswana should advocate deeper regional integration especially cross border transport infrastructure and the removal of non-tariff barriers and other measures that restrict faster movement of goods across borders.

3.3 Challenges and Weaknesses

48. Despite the country's impressive economic performance, growth has not been inclusive. In particular, the high unemployment and inequality if unattended, has the potential of creating social unrest. To ensure inclusive growth, Botswana needs to address two main challenges: (i) limited economic diversification; and (ii) inadequate infrastructure.

49. **Limited economic diversification:** This has led to an increased dominance of Government in economic activities which is constraining private sector participation.

- Low private sector investment inhibits the progress of economic diversification, and in turn hinders overall manufacturing productivity, creating a vicious cycle of headwinds to growth. Public sector dominance (financed mainly from revenue from diamonds) has distorted the labour market and softened growth of the private sector. Large flows of diamond revenues allow the Government to be the largest and a generous employer thereby inadvertently influencing the workers' preference for the limited job opportunities in the Government. This has created skills shortages in the private sector and also increased the reservation wage resulting in higher cost of production and low productivity.
- The large public sector has become a growing source of inefficiency, weak competitiveness, and a constraint to private enterprise development. The special privileges extended to state-owned enterprises make it more difficult for the private sector, large enterprises and SMEs alike, to participate in certain key areas of the economy, thus inhibiting competition and associated gains in productivity and efficiency. Reforms are needed to remove inefficiencies, and promote productivity of the state-owned enterprises. In addition, Botswana needs to improve the business environment to become more competitive particularly with respect to South Africa.

50. **Skills shortage:** Capacity constraints and skills shortages have been persistent despite significant public investments in educational facilities. The situation is further aggravated by the high incidence of HIV/AIDS. The shortage of skilled workers has hindered knowledge transfer and innovation. A sustained investment in human capital will ensure that long-term growth is more firmly based, as well as more inclusive, and will grow in importance as the economy diversifies and climbs up the value chain of both the manufacturing and the service sectors.

51. **Inadequate infrastructure:** The quality of some components of basic infrastructure at present is lagging behind many of its peers. A concerted effort to improve the quality of infrastructure holds the key to transforming the economy and sustaining high growth.

- **Electricity:** Electricity supply is inadequate and unreliable, with the available capacity of 322 Megawatts (MW) falling far short of its demand of about 580 MW, which in the past has been partly met through imports. The stabilization of Morupule-B power station, with a potential output of 600 MW, is expected to ease the situation in the short term. In the medium to long term, it is envisaged that new generating capacity, Morupule C 2 X 150 MW brownfield project and another 2 X 150 MW greenfield project, will be developed by the private sector under the framework of independent power producers (IPPs). Low tariffs could pose constraints to attracting private sector participation in the electricity subsector. Electricity tariffs need to be adjusted to improve the viability of the sector. It is also important to establish the legal and regulatory framework that is conducive to private sector participation, including a regulatory agency with adequate authority and capacity to regulate the sector.
- **Transport:** While Botswana's internal transport infrastructure network is considered adequate, its landlocked status and vast terrain significantly increases trading costs. The provision of reliable transport services between the main population and production centres, and to neighbouring countries remains one of Government's top priorities in order to encourage foreign investments in key sectors of the economy, such as mining, construction, manufacturing and tourism. For example, the exportation of coal will require a rail network to the ports. A well-developed transport system would assist this land-locked country to position itself gainfully so that it becomes a preferred transit route.
- **ICT:** Botswana has very high mobile penetration rates, but internet access and fixed broadband subscription is low for a middle income country (see Table 1). Historically, Botswana has depended on satellites for its international bandwidth, and on other countries for transit capacity to landing points of international submarine fibre-optic cable systems. The virtual monopoly of the Botswana

Telecommunications Corporation (BTC) has resulted in high wholesale costs. The landing of additional cables in the region in 2011 and 2012 has improved the competitiveness in this regard. Transformation of the economy to advanced manufacturing and services will require faster and affordable broadband. To address this, the Government is in the process of finalising the National Broadband Strategy to roll out a high-speed and reliable network.

Table 1: Access to ICT (2013)		
	Fixed broadband subscription per 100 inhabitants	Percentage of people using internet
Botswana	0.94	11.5
Chile	12.41	61.42
Malaysia	8.41	65.80
Mauritius	11.21	41.39
South Africa	2.11	41
Source: International Telecommunications Union		

- **Water shortage:** Botswana is a drought-prone country and suffers from water shortages especially in the southern part of the country, which makes food security challenging. Over 60 percent of domestic food demand is met through imports, underscoring the need for increased investment in irrigation infrastructure. The increasing rate of urbanisation has also put significant pressure on its water resources for human consumption and industrial use. Inadequate and irregular water supply also constrains the growth of the manufacturing sector. To address the inefficiencies and long term sustainability of the sector, implementation of the Water Reform Programme (2009) is ongoing.

3.4 Aid Coordination and Harmonisation

52. **Botswana is not an aid dependent country, but has used the little ODA it receives effectively in support of development.** When Botswana graduated to middle income country status, several development partners scaled down their activities or exited the country. Despite this, Botswana has made significant progress in aid coordination and harmonization. The Government launched the Development Partners Coordination Forum in September 2007, which meets twice year. The Forum comprises of Government representatives, heads of diplomatic missions and, bilateral and multilateral organisations including the Bank which always participates in scheduled meetings, benefiting from the proximity of the Bank’s Southern Africa Resource Centre (SARC) to the country. The Forum provides a two-way platform for information sharing on Government policies, aid modalities and aid coordination in general. Nonetheless, the alignment and harmonisation of donor support is low. There are very few joint missions and analytical work, and routine sector working groups rarely meet. Consistent with the Paris Declaration and the Accra Agenda for Action, country systems for public financial management and procurement are continuously assessed and strengthened throughout Bank-funded operations.

3.5 Key Development Partners and Areas of Focus

53. **Botswana benefits from support from a number of development partners** (Annex II). The European Union is the lead donor providing, among other forms of assistance, sector budget support to the education sector. The World Bank supports the public financial management reform process and energy generation, while the Bank’s focus is mainly on energy transmission and agricultural infrastructure. United Nations agencies spearhead capacity building initiatives while the United States leads support to the health sector, focusing on preventive measures on HIV/AIDS. Nonetheless, there are numerous donor supported operations, numbering about 140 in 2012.

3.6 Bank Group’s Positioning

54. **Bank Portfolio:** As at 31st August 2014, there were seven ongoing operations. Agriculture dominates, accounting for 94.1 percent of the total portfolio, followed by multi-sector (4.6 percent) and social sector (1.4 percent). Following the completion of the Morupule Power Transmission Project (UA 136.93 million) in 2014, the Pandamatenga Agriculture Infrastructure Project (UA 39 million) is the only major intervention. The ongoing portfolio had commitments totalling UA 42.13 million, of which UA 18.38 million was disbursed, representing a disbursement rate of 43.6 percent.

55. **Portfolio Performance:** A Country Portfolio Performance Review (CPPR) undertaken in 2013 revealed that the general performance of the ongoing portfolio is satisfactory. Benefiting from the close proximity of SARC to Botswana, which is also already translating into improved portfolio quality, better project supervision, and faster procurement, there were no problematic or potentially problematic operations. Six operations have been completed since the beginning of 2014. However, portfolio performance continues to be adversely affected by various challenges, including delays in implementation arising from procurement and disbursement due to lack of familiarity with Bank procedures. To address these difficulties, the Bank and the Government agreed on a Country Portfolio Improvement Plan articulating measures to enhance portfolio performance (see Annex VIII).

3.7 Lessons from the Implementation of the 2009-2013 CSP

56. **The 2009-2013 CSP Completion Report and the CPPR provide important lessons that have informed the formulation of the CSP (see Box 1 and Annex V).** In addition, a Country Assistance Evaluation of the Bank's previous assistance for Botswana conducted by the Bank's Operations Evaluation Department covering the period 2004-2013 provided further lessons (Box 1).

Box 1: Lessons from the 2009-2013 CSP Completion Report and the 2013 Country Assistance Evaluation

Lessons from the CSP Completion Report

- Adopt flexibility in the Bank's interventions. The approach would resonate with the Government's approach of identifying financing requirements on an annual basis.
- Ensure a succinct and realistic Results Framework in order to facilitate assessment of the envisaged deliverables.
- Rationalize the use of MIC grants. More specifically, MIC grants should be linked to operational interventions or technical assistance or analytical work to inform policy formulation or implementation.
- Timely follow-up of all operations so that problems can be addressed expeditiously.

Lessons from the Country Assistance Evaluation

- Need for enhanced opportunism and selectivity in the design of CSPs to reduce the rather highly diffused scope of activities and the tendency to have a substantial disparity between planned and actual programs of intervention.
- Address weaknesses in portfolio management expeditiously to ensure timely realization of the expected economic benefits.
- Work closely with Government to identify appropriate measures for dealing with the inadequate vertical and horizontal linkages within the economy to facilitate economic diversification.
- Infrastructure development should be complemented by policy and structural reforms.
- Adopt a flexible approach to dealing with Botswana as an MIC instead of the traditional form of development assistance.

IV. BANK GROUP STRATEGY FOR BOTSWANA

4.1 Rationale for Bank Group Intervention

57. **Botswana's mineral-driven and public-sector led growth model provided four decades of strong performance but maintaining strong growth has been a challenge in recent years.** In addition, growth has been less inclusive. The declining trend in growth may exacerbate Botswana's already high income inequality and persistent unemployment. Tackling the high level of structural unemployment is important to improve the quality of economic growth. Private sector led growth is essential if Botswana is to unleash its growth potential and sustain it. This will require a decisive reforms and innovative policies to reinvigorate productivity.

58. **Botswana is at a crossroad with the global downturn leading to a rethinking of the country's development strategy.** The MTR of the NDP10 recognizes that a new economic model is required. Old policies need to be reviewed to make the case for a national transformation to avoid a middle-income trap. The need to transform the country has long been recognized but the sense of urgency seems higher now than in the past. An ambitious agenda for new sources of economic growth and employment needs to be set.

59. **Ensuring inclusive growth is a key priority for the Government.** High and sustainable growth would require a productivity-driven economy. This approach will reduce the crowding out of the private sector, while seeking to support private-sector activity through investment in high impact infrastructure, and regulatory and other structural reforms. The focus should be mainly on cross-cutting structural reforms that can benefit the

whole economy. Investments in productive infrastructure will address key bottlenecks to growth. With appropriate safeguards, the greater use of PPPs, as well as the rationalisation of commercial services could be mobilised to enhance private sector participation in the economy.

60. **While the Bank cannot address all facets of Botswana’s middle-income trap, it can provide support in priority areas related to the Bank’s experience and knowledge at both the sector and thematic levels.** The Bank’s experience as an honest broker in facilitating national and regional projects, combined with expertise in the various sectors and an understanding of the country’s knowledge requirements could be brought to bear. In addition, the Bank’s engagement should ultimately provide a setting for a more active and diversified engagement in the future. The CSP provides a sound link between the Government’s development agenda for the remaining period of the NDP10 (2014-2016) and the next medium-term development framework for the period 2017-2024. The mid-term review of the CSP will be undertaken in 2017 at the time the Government will be finalizing its 11th NDP, and will ensure that Bank support remains well-aligned to the Government’s development agenda.

4.2 Pillars for Bank Group Support

61. **Reducing poverty and inequality and eliminating the vulnerabilities of large sections of the population remain the principal challenges.** Sustained high economic growth will be the overarching response to these challenges. In view of the persistence of high levels of unemployment, the quality of growth deserves greater attention in addressing inequality in Botswana. To achieve this, the Government needs to invest in high impact infrastructure to improve competitiveness, provide a sound regulatory environment that is friendly to business, and further enhance skills development. The Government is already addressing effectively the skills issue. The Bank will therefore assist in the areas of Infrastructure and Business Environment, while ensuring consistency with initiatives taken elsewhere.

62. **Bank support will be organised around two pillars:** (i) *infrastructure development to increase productivity*; and (ii) *private sector development*. The proposed pillars are consistent with two of the four core operating priorities of the TYS (infrastructure development and private sector development) and the priority actions of NDP10. The interventions under the two pillars are expected to contribute to inclusive and sustainable growth, which are the shared goals of the Bank’s Strategy and the NDP10.

Pillar 1: Infrastructure Development to Increase Productivity

63. **Infrastructure investment is key to crowding-in more private investment.** Bank support will emphasise investments in publicly provided infrastructure such as in water supply and energy where investment will be directed to removing key bottlenecks. The Bank will support projects that catalyse private sector participation, including public–private partnerships (PPPs), to finance infrastructure, with demonstrable effects and lessons that can be replicated where successful. The Bank’s focus on enhancing connectivity, and supply of energy and water will improve the investment climate and will facilitate the entry of private investments in other sectors, such as tourism and agro-industries. Physical investments will also be combined with policy reforms and capacity building, which are as important as physical investment in improving infrastructure. To foster the sustainability of the infrastructure to be developed, sector skills shortages will be identified and skills development components integrated into investment programmes.

- **Energy:** The unreliable and inadequate power supply is the most severe infrastructure constraint on economic growth. Responding to the acute shortage of power supply in the country and in the region, the CSP will support the Government’s priority of ensuring the availability of sufficient and affordable energy supply with a view to enhancing competitiveness and efficiency in economic activities. Reliable energy supply will lead to increased manufacturing that will in turn lead to increased employment and reduction in inequality. Increased energy supply will also lead to a reduction in Botswana’s reliance on energy imports and create opportunities for energy export, at same time creating the fiscal space necessary to expand provision of social services.

- **Water and sanitation:** The Bank will support development of the infrastructure to increase water supply and sanitation. It will also support institutional and capacity development in agencies responsible for water supply and sanitation. Support is expected to contribute to inclusive growth by increasing sustainable access to safe water supply and improved sanitation, reduce pollution, and improve public health. In addition, the support will reduce walking distance for women to collect water thereby creating time for economically productive activities.
- **Policy reform and capacity building:** At present, the public sector is both a regulator and a provider of services. The CSP will support a reorientation of the public sector toward regulatory and supervision functions, as well as greater involvement by the private sector in the delivery of efficient and innovative services. To this end, Bank support will focus on addressing regulatory and oversight issues. The Bank will support the restructuring of the water supply and power sectors with particular attention to regulatory reforms and the facilitation of private investments.

Pillar II: Private Sector Development

64. **Economic rebalancing would benefit from greater private sector participation in the economy.** In addition to providing adequate basic infrastructure, the Government needs to create a sound regulatory environment that is friendly to business, and partner with the private sector to develop the requisite skills to meet the demands of the private sector. This calls for policies and strategies geared towards enhancing Botswana's competitiveness as an investment destination and ensuring that favourable conditions are in place for private sector development. Since the private sector has to play a leading role in achieving growth targets, the CSP will focus on (i) policy reforms to remove impediments to private investment and facilitate public-private partnerships; and, (ii) facilitating access to finance and investments in private sector projects. Given the untapped potential for PPPs in many sectors, particularly in energy, the Bank will support the introduction of the required facilitating policy, legal, and institutional regimes, while concurrently improving the Government's technical capacity. By promoting a commercial orientation, the Bank will enhance the ability of local private enterprises to take advantage of regional market opportunities thereby supporting economic diversification.

4.3 Deliverables and Targets

65. **As an upper middle-income country, Botswana's borrowing preferences change depending on the fiscal space.** Therefore borrowing will depend on the available fiscal space. While the Government agreed on the pillars for the new CSP, an indicative pipeline will only be submitted annually after the budget is prepared and it will depend on the Government's financing requirements. Given the Government's borrowing strategy, a rolling three-year pipeline of potential operations will be developed from the list of projects in the NDP but confirmation will only be done on an annual basis. The Bank will develop annual operations business plans to align with the Government's financing priorities. The Bank will therefore be flexible and responsive to changing needs for lending and advisory services. Thus, the lending programme will be retained as an issue for dialogue throughout the CSP period while ensuring that the Bank strategy is selective and not opportunistic by emphasising alignment of Bank interventions with the strategic orientations of the CSP during the course of its implementation. Based on the analysis of the challenges constraining Botswana's economic development and the recommendations from the NDP10 MTR, a number of interventions were identified from a list of projects in the NDP10 that may emerge for possible Bank funding:

- **Energy:** Assistance will focus on reform and market development to meet electricity demand. For investment projects, the Bank will support energy efficiency and generation, as well as the expansion of the power transmission network across the country to improve access to energy within Botswana. The Bank will also facilitate the development of regional energy trade in southern Africa by facilitating transit of energy through the country. The operational and financial viability of the Botswana Power Corporation will be assessed in consultation with other development partners. PPPs for energy generation and distribution will be explored in order to supplement scarce public resources.

- **Water and Sanitation:** The Government recognises the importance of ensuring adequate, secure and efficient water supply and improved sanitation services. Support is expected to increase sustainable access to safe water supply and improved sanitation, reduce pollution, and improve public health. The support will also contribute to industrial development, in turn generating employment opportunities. Potential area of support include: (i) completion of the North South Carrier 2 pipeline; and, (ii) institutional development support for the Water Utility Corporation to ensure commercial viability. The Bank's private sector and non-sovereign operations will seek opportunities to provide support for water supply and sanitation infrastructure and services.
- **Private sector operations.** These are integral to the CSP and important in promoting private sector engagement in the development process and its potential to finance Botswana's significant development needs, including infrastructure. Support for private sector development will be ramped up by enhancing the collaboration between the Bank's public and private sector operations; through improvements in the business enabling environment; and through capacity building to promote bankable PPP projects. The envisaged operations will be responsive to the needs of the private sector and oriented to Government priorities, with a focus on catalytic initiatives. The Bank will accelerate efforts to finance infrastructure projects with private sector participation. It will also mobilise commercial co-financing and credit enhancement support. Private sector operations will support financial sector development and broad economic growth through a range of activities, including support for trade finance, as well as credit lines to financial intermediaries for on-lending to SMEs.

4.4 Non-Lending Operations

66. **The Bank will provide capacity development and policy advisory technical assistance in collaboration with other development partners.** Technical assistance will help the Government prepare projects, support project implementation, implement reforms, and strengthen institutional capacity in line with the CSP sector and thematic priorities.

67. **Knowledge and capacity support:** Botswana's status as a MIC means that Bank financing will be modest compared to public spending and private investment requirements. The Bank will seek to enhance the knowledge value of its lending support by incorporating analytical, advisory, and capacity development support. Greater emphasis will be given to linking knowledge and finance by generating, capturing, and communicating lessons and solutions from the Bank's operations; and to sharing global and regional good practices through lending and non-lending support. The Bank will draw on its staff and advisory resources to respond rapidly to requests for timely policy advice.

68. **Technical support:** The Bank will finance country-specific technical assistance (TA) operations that will support policy reforms and operational activities. The TA support has three main components:

- Evidence-based analytical work to inform policy for economic transformation (including investment promotion and employment generation). This will be informed by the Mining and Diversification Study, which is scheduled to be completed by the end of 2014 with support from the Bank;
- Institutional support to establishing PPP Unit; and,
- Assessment of PPP environment to help identify key constraints to identifying projects, and analysis of Botswana's PPP market (including its regulatory framework).

69. **Operationalizing gender:** Mainstreaming gender is an essential aspect of quality-at-entry. Project-specific gender action plans with gender design features, targets, and indicators will support women's participation and access to benefits in Bank-funded projects. The Bank will target gender equity at all stages of CSP support by: (i) institutionalizing the use of gender action plans; (ii) collecting, analysing, and reporting more systematically on gender-disaggregated data in sectors of Bank engagement; (iii) raising gender awareness and building capacity in key executing and implementing agencies for gender mainstreaming; and,

(iv) coordinating with other partners and stakeholders on gender issues. Annex IV provides the gender output and outcome results chain.

4.5 Financing Instruments

70. **The Bank will draw on a mix of financing instruments, including budget support, to provide longer-term financing predictability, and integrate reforms and capacity development into investment operations.** The annual allocation will be used to leverage official and commercial co-financing. The Bank will explore how it can creatively use its range of financial products to assist in meeting the country's critical needs without exerting a significant impact on the country's debt ceiling. The use of credit enhancement products including guarantees and guarantee syndication, and of loan syndication products, which can mobilise private sector capital, will be explored when considering commercial co-financing options. The Bank's ability to provide long-term local currency financing and long-term fixed interest rates, for example, can help mitigate significant market risks for long-life infrastructure assets. The Bank will also explore the possibility of issuing pula denominated bonds to supporting deepening of the financial market (Box 2).

Box 2: Pula denominated bonds

In line with the Bank's policy framework for lending in local currencies of regional member countries, the Bank is currently considering designating the pula as a lending currency of the Bank to meet the demand for pula loans that has been expressed by private sector borrowers. In order to lend in local currencies, the Bank would have to issue local currency bonds in the domestic market; do a cross currency swap; or extend a synthetic local currency loan. The Bank has a mandate to develop African capital markets, and considers issuing bonds in these markets as a way to achieving this goal; by providing a new asset class (supranational), introducing innovative structures (e.g. amortising bonds), introducing best practices in terms of documentation, extending the yield curve and establishing a non-government benchmark. Typically, the Bank looks to issue at longer tenors to match the typical financing requests it receives i.e. 7 – 15 years. This would help to somewhat address the needs of institutional investors in Botswana, who are not only looking for more pula assets but also longer dated investments. Preliminary discussions with institutional investors have indicated that they would welcome a potential issuance by the Bank.

4.6 Monitoring and Evaluation

71. The CSP results framework will be updated annually to reflect annual business plans agreed with the Government. The results framework will serve as a management tool for the Bank and the Government. The progress of CSP implementation will be monitored primarily through a review of sector-level output and outcome indicators. Sector-level findings and recommendations will be discussed with the Government at country programming and portfolio review missions. A flexible approach will be adopted to incorporate any feedback received during the course of CSP implementation. Progress towards the attainment of the development objectives will be tracked by conducting annual CPPRs. A mid-term review of the CSP will be undertaken in 2017 to assess progress towards achieving the expected outcomes.

4.7 Potential Risks and Mitigation Measures

72. The key risks that could pose a threat to the implementation of the CSP and the plausible mitigation measures include:

- **Poor PPP environment.** Delivering investments in infrastructure and services in ways that leverage private participation is central to the CSP. Key risks include Government's failure to address issues in tariff setting and state-owned enterprise reform that are needed to encourage PPPs in infrastructure. The Bank will support the Government in creating an enabling environment for PPPs and develop a pipeline of feasible PPP projects. The Bank will focus its policy dialogue and capacity development support in areas with sound prospects for advancing private sector participation in infrastructure provision.

- **Lack of familiarity with Bank procedures.** SARC will continue to ensure close follow-up on project implementation, including the provision of training to project coordinators.
- **Changes in borrowing preferences.** Government borrowing preferences could change and demand for policy-based lending, in particular, is linked to the fiscal gap. The Bank will be flexible and responsive to the changing needs. Annual business plans will be used to adjust the programme, and any changes to the results framework, to ensure that the Bank's support remains aligned with Government preferences.

4.8 Country Dialogue Issues

73. Dialogue with the authorities will focus on the following:

- **Lending pipeline:** SARC will continue to enhance dialogue with the authorities to develop a robust lending pipeline (see Box 3). During the CSP preparation mission the Bank organised a workshop on Bank products and services and on procurement. The workshop facilitated sharing of critical information that would facilitate the expansion of interventions in the private sector and state-owned enterprises. Such information sharing sessions will continue to be routinely carried out during the CSP period.

Box 3: Role of the Southern Africa Resource Centre (SARC)

The opening of SARC in January 2012 has facilitated fast-tracking of the implementation of Bank operations and has improved the Bank's responsiveness to requests from the Government. The close proximity of SARC to Botswana has increased the frequency of engagement with other stakeholders, thereby boosting the Bank's profile. Key deliverables include timely supervision of projects, and participation in the Development Partners' Coordination Forum. The Bank will continue to strengthen portfolio management by focusing more attention on: (i) strengthening the capacity of both Government and Bank staff to manage projects; (ii) improving quality at entry, monitoring systems and management for results; (iii) enhancing results-based management; and (iv) institutionalising portfolio review so that they become a major platform for discussing achievements, issues, and challenges of project implementation. The Bank is more vigorously ensuring quality-at-entry, addressing systemic obstacles in processing and implementing projects, and pushing the regional integration agenda forward. In order to enhance business and pipeline development in Botswana, SARC has stepped up its efforts to sensitise Government and key stakeholders (including state-owned enterprises and the private sector) to acquaint them with the competitiveness of the Bank's financial products and services. SARC organised seminars on Bank products and services, and on procurement during the CSP preparation mission. This will continue to be emphasised during the CSP period.

- **Portfolio performance:** Good management and performance of the portfolio remain crucial in ensuring that project resources are effectively utilised so that the intended benefits can be achieved.
- **Economic diversification:** Robust dialogue with the authorities will focus on policy and structural reforms to improve the business climate and facilitate economic transformation. This will *inter alia* be informed by the Mining and Diversification Study, which is scheduled to be completed by the end of 2014 with support from the Bank.
- **Enhancing gender equality:** The CSP will place emphasis on country dialogue to ensure that gender equality remains an ongoing theme at the highest level.

V. CONCLUSION AND RECOMMENDATION

74. **Botswana is a resource-rich middle-income country which is praised for its prudent economic management.** The country has made huge strides in socioeconomic development over the past four decades. However, limited economic transformation, high levels of unemployment and inequality remain key challenges. The country needs to increase the productivity of key factors, and enhance competitiveness in strategic areas to unleash its growth potential and sustain it. To achieve this, the Government needs to provide adequate productive infrastructure and a sound regulatory environment that is friendly to business. The new CSP aims to support this process.

75. The Board of Directors is invited to consider and approve the CSP for Botswana for the period 2015–2019.

Annex I: Indicative Bank Lending and Non-Lending Programme for 2015-2019

A. Lending Programme			Potential Co-Financiers
Year	Loan (UAm)	Projects/ Programmes	
2015	TBD	Extension of Morupule B Energy Project	JICA, World Bank
2016	TBD	North South Carrier II Water Project	World Bank
2017	TBD	Line of Credit to Botswana Development Corporation	
B. Non Lending Programme			
	Grant (UA)		
2015	600,000	Institutional support to PPP Unit	
	500,000	Botswana Stock Exchange Capacity Building	
	300,000	Assessment of the PPP environment	
2016	800,000	Technical assistance and support for regulatory reforms in energy and water sectors	
	800,000	Analytical studies to support preparation of NDP11	
2017		TBD	
2018		TBD	

Annex II: Development Partners and Areas of Focus

	Education	Health (incl. HIV/AIDS)	Governance	Economic Reforms	Water Supply and Sanitation	Transport	Energy Generation and	Agriculture	Cross Cutting Areas
Australia									
Austria									
Belgium									
Canada									
China									
European Union									
Japan									
Sweden									
United Kingdom									
USA									
ADB									
United Nations									
World Bank									
Others									

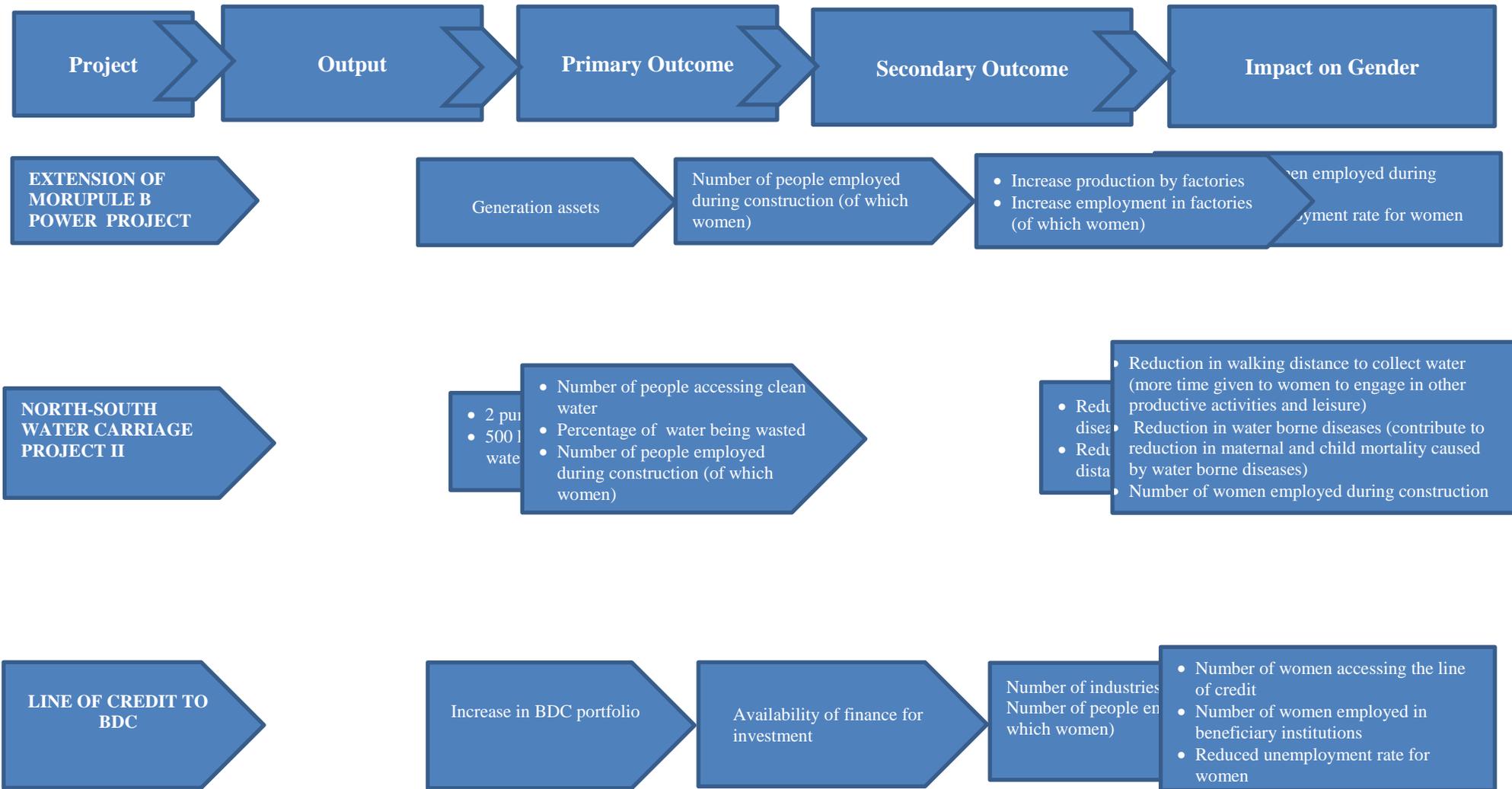
Notes: Main/lead development partner

Annex III: Indicative Results Monitoring Framework for 2015-2019 CSP

Country Development Goals (NDP10)	Issues and Constraints	Final Outcome Indicators (2019)	Final Output Indicators (2019)	Mid-term Outcome Indicators (2017)	Mid-term Output Indicators (2017)	Bank Interventions Ongoing and Proposed under the new CSP
Pillar 1: Infrastructure Development to Increase Productivity						
Transport						
Provide safe, secure and efficient transport infrastructure	High border transit-time	Reduction in border transit time between Botswana and Zambia from 30 hours in 2009 to 6 hours in 2019 Increased intra-regional trade [Gender indicator: Reduced unemployment for women]	Construction of 930m long bridge at Kazungula	Reduction in border transit from 30 hours in 2009 to 15 hours in 2017 [Gender indicator: Number of women employed during construction]	Construction of One Stop Border Post Facility at Kazungula	<u>Ongoing</u> • Kazungula Bridge
Water						
Integrated water resource management and comprehensive water demand management Provide clean, and reliable water and sanitation services within the set quality standards	Inefficient use and management of water, resulting in high water losses Inadequate access to safe drinking water Inefficient use and management of water, resulting in high water losses Old and dilapidated infrastructure with high level of unaccounted for water	Increase of proportion of population with safe water to 100% Unaccounted for water reduced to 10% from 34% in 2012 Increase percentage of quality of water meeting set standards to 100% from 54% in 2012 [Gender indicators: Reduced walking distance to water spots; Reduced water borne diseases]	Construction of 500 kms of piped water systems	[Gender indicator: Number of women employed during construction]	Construction of two new pumping stations	<u>Proposed</u> • North-South Water Carriage Project II

Country Development Goals (NDP10)	Issues and Constraints	Final Outcome Indicators (2019)	Final Output Indicators (2019)	Mid-term Outcome Indicators (2017)	Mid-term Output Indicators (2017)	Bank Interventions Ongoing and Proposed under the new CSP
Energy						
Increasing electricity generation and transmission infrastructure	<p>Limited availability of electricity generation and transmission infrastructure especially for the north western region of the country</p> <p>Deterioration of existing power plants and delays in construction of new ones</p>	<p>National access to electricity increased to 83%</p> <p>Increased manufacturing and employment</p> <p>Increased local generation to meet 100% of demand</p> <p>Reduced electricity rationing</p> <p>Increased manufacturing and therefore employment</p> <p>[Gender indicator: Reduced unemployment rate for women]</p>	<p>Increase in electricity generation by 800 MW</p>	<p>National access to electricity increased from 68% in 2013 to 80%</p> <p>[Gender indicator: Number of women employed]</p>	<p>Construction of generation assets in progress</p>	<p><u>Ongoing</u></p> <ul style="list-style-type: none"> • Morupule B Project <p><u>Proposed</u></p> <ul style="list-style-type: none"> • Extension of Morupule B Project
Pillar II: Supporting Private Sector Development						
Promote Private Public Partnerships		<p>100% increase in infrastructure investments through PPPs</p> <p>Private sector participation in infrastructure projects</p> <p>Improved access to long term capital</p> <p>[Gender indicator: Number of women benefitting directly]</p>	<p>16 staff of the PPP Unit and PEEPA trained</p> <p>Increase in BDC portfolio from BWP 5.8 bn to 8.3 bn (2019)</p>	<p>50% increase in infrastructure investments through PPPs</p> <p>PPP projects identified</p> <p>Improved access to long term capital</p> <p>[Gender indicator: Number of women benefitting directly]</p>	<p>8 staff of the PPP Unit and PEEPA trained</p> <p>Study on PPP assessment conducted</p> <p>Increase in BDC portfolio from BWP 2.3 bn (2011) to 5.8 bn (2017)</p>	<p><u>Proposed</u></p> <ul style="list-style-type: none"> • Technical Assistance to Establishment of PPP Unit • Assessment of PPP Environment • Line of Credit to Botswana Development Corporation (BDC)

ANNEX IV: Gender Output and Outcome Results Chain



Annex V: Key Messages from the 2009-2013 CSP Completion Report/2013 CPPR

The Botswana CSP for the period 2009–2013 was approved by the Board of Directors in June 2009. The Strategy was developed at the time of the global financial crisis and it played a significant role in supporting the Government’s counter-cyclical policy measures. The CSP focused on two strategic pillars: (i) actions to expand private sector investments; and (ii) removal of infrastructure bottlenecks to enhance competitiveness and growth.

The CSP was designed to contribute to support a broad range of Government objectives, including (i) increased contribution of non-mineral sector to exports and Government revenue (ii) increased domestic investment and contribution of FDI to GDP; (iii) enhanced quality and delivery of energy supply; (iv) improved transport infrastructure; (v) improved food sufficiency and (v) increased access to safe water services.

Outcomes and Outputs: An assessment of the CSP completion validates the findings of a mid-term review (MTR) undertaken in October 2011. Performance towards the achievement of outcome indicators is commendable in most of the areas despite the impact of the global economic and financial crisis. The review also notes that there had been significant progress in terms of outputs. To date, the Bank has approved seven operations, comprising five MIC Grants, one Budget Support loan and one project loan, amounting to UA1.1 billion. The operations are aimed at contributing to Government initiatives for economic diversification and enhanced competitiveness of private sector investments.

Lessons Learnt: The following key lessons provided useful in formulation of the new CSP:

- (i) *Need to adopt flexibility in the Bank’s interventions:* The relationship with Botswana was particularly boosted by the provision of the general budget loan in 2010 that helped to raise the Bank’s profile as a key development partner in the country. More generally, the loan showed that the Bank can be relied upon in terms of its responsiveness to address emerging needs.
- (ii) *Realism and adequacy of CSP Results Based Framework (RBF):* The original RBF contained 18 outcomes and 16 outputs. This number was rather ambitious thereby warranting a reduction during MTR to 6 outcomes and 5 outputs. Moreover, the initial RBF was inadequate as it did not provide baseline data and targets for various outcomes and outputs. The MTR review addressed this shortcoming and provided a more succinct RBF with baseline targets.
- (iii) *The high number of MIC Grant operations imposes significant transaction costs for the country and for the Bank.* To this end, SARC is enforcing a rigorous programmatic approach to rationalise the use of MIC grants.
- (iv) *Most MIC Grant operations have experienced significant delays, mainly due lack of familiarity with Bank Group project implementation procedures* (especially in procurement and disbursement, as well as fulfilment of conditions for first disbursement), and high turnover of Bank Task Managers. To address this, SARC is making efforts to fast-track the implementation of ongoing operations, through inter alia, strengthening in terms of appropriate skill-mix and frequent supervision of projects.

Annex VI: Economic Hubs - Objectives and Achievements

Hub	Objective	Status
Diamond Hub	Establish a diamond trade centre for rough and polished diamonds and to promote sustainable downstream diamond activities such as polishing and jewellery making.	De Beers moved its rough stone sorting operation, which had been based in London for nearly 80 years, to Botswana in 2013.
Innovation Hub	Provide a perfect environment for innovative businesses offer business support programs, networking events and training programs that facilitate the development and application of new technologies	The Botswana Innovation Hub is under development at a strategic location in Gaborone near the Sir Seretse Khama International Airport. The key priority areas of focus have been identified as ICT, Mining Technology, Bio-Technology, and Energy/Environment.
Transport Hub	Identify and coordinate key projects and policy interventions required in the transport sector in order to develop the country as a transport hub within the SADC region so as to transform the transport and logistics industry into a major growth sector.	Ten key projects and policy interventions have been identified: (i) The Transport Hub Business Plan, (ii) Development of an Integrated Transport Policy, (iii) Regional Integration of Botswana's Transport Sector; (iv) Development of a Dry Port at Walvis Bay; (v) Construction of a bridge over the Zambezi river at Kazungula; (vi) Pre-feasibility studies for Trans-Kalahari railway; (vii) Moseitse-Kazungula and Mmamabula-Ellisras rail links; (viii) Open Skies policy to attract international carriers; (ix) Development of A Multi-Modal Air Cargo Hub; and (x) Heavy Haul Railway Line between Botswana and Mozambique.
Agricultural Hub	Enhance commercialisation and diversification of the agricultural sector by developing an environment that will foster, facilitate and support viable and an economically sustainable interventions	The following projects and programmes have been identified: (i) National Agricultural Master Plan for Arable Agriculture and Dairy Development; (ii) Proposed Zambezi Integrated Agro-Commercial Development Project; (iii) Agricultural Infrastructural Development Initiative); (iv) Establishment of Agricultural Service Centres; (v) Facilitation of the establishment of the Contributory Agricultural Insurance Scheme in Botswana; (vi) Facilitation of the establishment of State Farms around dams and sewage ponds (arable and horticultural); (vii) Restructuring of Botswana Meat Commission; and (viii) Restructuring of Banyana Ranch and other state owned ranches (cattle sector)
Education Hub	Enhance the quality and relevance of education at all levels thereby making Botswana more competitive by attracting leading tertiary institutions, scholars, researchers and students into the country	A top achievers' scholarship programme was introduced in 2010/11 under which 91 and 44 secondary school leavers had been placed in international and local tertiary institutions by 2012. In addition, the following niche areas have been identified: (i) Business and Management;(ii) Hospitality and Tourism;(iii) Medical Science and Research;(iv) Mining and Energy;(v) Agriculture and Livestock Management; (vi) Veterinary Science; (vii) Conservation and Environment; (viii) Peace and Justice; and (ix) Democracy, Governance and Economic Management.
Medical Hub	Identify projects and programs that will make Botswana a centre of excellence in the provision of health care services.	The following indicative priority areas have been identified: (i) Centre of excellence for cancer treatment;(ii) High quality facility for orthopaedic services;(iii) Modern treatment facilities including surgery for cardio-vascular diseases;(iv) Organ transplant services;(v) Neurological treatment facilities;(vi) Pharmaceutical industry ;and (vi) High quality diagnostic facilities (imaging and laboratory).

ANNEX VII. Selected Macroeconomic, Social and Climate Change Indicators

Indicators	Unit	Actual				Projections		
		2009	2010	2011	2012	2013	2014	2015
Economic Indicators								
Real GDP Growth Rate	Percent	-7.8	8.6	6.1	4.2	5.9	5.2	5.0
Real GDP Growth Excluding Mining	Percent	5.0	6.2	7.9	6.3	5.2	5.7	5.9
Inflation (CPI) (Annual Average)	Percent	8.2	6.9	8.5	7.5	5.9*	5.5	5.5
Exchange Rate (Annual Average)	BWP/USD	5.8	7.4	6.8	7.6	8.4*
Total Revenue and Grants	percent of GDP (fiscal year)	37.4	32.7	36.3	35.9	36.9	35.3	36.9
Total Expenditure	percent of GDP (fiscal year)	50.9	39.9	36.5	35.7	36.1	35.0	35.9
Overall Deficit (-) / Surplus (+)	percent of GDP (fiscal year)	-13.5	-7.5	-0.2	0.2	0.8	0.3	1.0
Current Account Balance	percent of GDP	-10.2	-5.4	-0.2	-4.6	6.4	5.7	4.1
Domestic Debt	percent of GDP	2.9	7.6	4.5	3.6	3.5	3.1	2.8
External Debt	percent of GDP	14.9	11.8	14.9	14.5	12.4	10.7	9.1
Social Indicators								
Indicators	Unit	1990 ¹	2000 ²	2012 ³				
Population	million	2.0	2.0	2.1				
Employment to population ratio	15+, percent of total	58.1	58.8	63.3				
Mortality rate, infant	per 1,000 live births	54.4	48.1	32.2				
Maternal mortality ratio	national estimate, per 100,000 live births	210.0	350.0	160.0				
Total enrolment, primary	percent net	76.9	84.9	87.1				
Prevalence of HIV, total	percent population (15-49)	16.6	25.8	23.4				
Environment and Climate Change Indicators								
Indicators	Unit	1990 ¹	2000 ²	2012 ³				
CO2 emissions	kg per PPP USD of GDP	0.9	0.6	0.4				
Improved sanitation facilities	percent of population with access	45.9	56.8	63.6				
Improved water source	percent of population with access	93.6	95.7	96.8				

Source: Bank of Botswana, Ministry of Finance and Development Planning, ADB Statistics Department, ADB Statistics Department Databases;

IMF: World Economic Outlook; and International Financial Statistics; and Country Reports

World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports.

Notes: ... Data Not Available

*Actual figures

¹ Latest year available in the period 1990-1995

² Latest year available in the period 2000-2004

³ Latest year available in the period 2005-2012

Annex VIII: Country Portfolio Improvement Plan (2013)

Issues	Action Required	Measurable Indicators Framework	Responsible	Timeframe
Project management and Effectiveness				
Project Launch for MIC grant operations	Introduce the launching of MIC grant funded operations. to create the forum for the relevant government officials and project managers to understand <i>ex ante</i> , the Bank's fiduciary policies and guidelines	Smooth and timely take off of the operations	AfDB and GoB	Continuous
Insufficient institutional capacity in Project implementing entities, Government and the Bank due, in some cases, to staff turnover.	Take steps to minimize this risk by pursuing initiatives to improve the incentive structure for attracting and retaining high calibre personnel in the relevant ministries and implementing entities.	Increased number of staff retained	AfDB and GoB	Continuous
High Staff Turnover	Ensure stability of task managers to avoid disruption in project implementation like the case of the Technical Assistance to the Botswana Public Enterprise Evaluation and Privatization Agency (PEEPA); the Support to Non-Financial Institutions Regulatory Authority (NBFIRA).	Measured stability in project management	AfDB	Continuous
Project Management delays and Slippages	Introduce the supervision of MIC grant funded operations and closer monitoring of implementation of agreed actions.	Number of new projects	AfDB and GoB	Continuous
	Timely engagement of external auditors.	Timely submission of audit reports	GoB	Continuous
Communication	Periodic (possibly quarterly) consultations with the implementing entities to conduct portfolio performance reviews	Clean/Healthy Portfolio	AfDB and GoB	Continuous
(Fiduciary Management (procurement, disbursement and audit))				
Limited Knowledge of Bank rules and procedure	Organise periodic fiduciary clinics for the staff of implementing entities as well as the GoB officials directly involved in the implementation of Bank financed projects.	Smooth procurement processes; and disbursement requests and audit reports are submitted in the right format	AfDB and GoB	Continuous
Delays in procurement process	Respond promptly to requests for non-objection	Real time responses	AfDB	Continuous

ANNEX IX: Bank Group Portfolio 2009 – 2013 (as of 31 August 2014)

Sector Name	Long Name	Approval Date	Effective Date	Closing Date	Approved Amount (UAm)	Disb. Rate (%)	Age (years since approval)	Implementation Progress (IP)	Development Outcome Indicator(DO)
AGRICULTURE									
	Pandamatenga Agriculture Infrastructure Project	09-Sep-08	16-Oct-09	31-Dec-15	40.02	46.4	6.0		
	Waste Water Reuse and Water Harvesting for Irrigation Study	04-Oct-11	15-May-12	31-May-14	0.600	33.9	2.9		
MULTI-SECTOR									
	Support to PEEPA in Improving Private Sector Participation in the Delivery of Public Infrastructure and Services-MIC	14-Oct-10	06-Dec-12	30-Jun-14	0.600	67.9	3.9		
	Support to NBFIRA in Implementing a Risk Based Regulatory Framework- MIC	22-Sep-10	20-Jan-12	02-Aug-14	0.600	46.7	3.9		
	Mining and Diversification Study	08-Jun-10	29-Sep-10	31-Dec-14	0.275	96.1	4.3		
	Statistical Capacity Building II	07-Jul-11	06-Sep-12	31-Dec-13	0.49	100.0	3.2		
SOCIAL									
	Support to Education Quality and Technical Vocational Education	19-Mar-10	13-01-11	31-Dec-13	0.600	52.7	4.5		
Total/ Average Age					42.13	43.6	4.1		



Satisfactory
Highly Satisfactory

ANNEX X: Portfolio Monitoring and Performance Indicators of Rated Projects

Project	Project Implementation	Procurement Performance	Financial Performance	Activities and works	Impact on Development	IP	DO	PFI Status
Pandamatenga Agriculture Infrastructure Project								NON PP /NON PPP
Waste Water Reuse and Water Harvesting for Irrigation Study								NON PP /NON PPP
Mining and Diversification Study								NO SUPERVISION**
Statistical Capacity Building II								NO SUPERVISION**
MIC Technical Assistance to the Public Enterprise Evaluation and Privatization Agency (PEEPA)								NON PP /NON PPP
Capacity Building NABIFIRA-								NON PP /NON PPP
Support to Education Quality and Technical Vocational Education (SEQTVET)								NO SUPERVISION**



Highly Satisfactory

Satisfactory

Unsatisfactory

Note: PP: Problematic Project; PPP = Potentially Problematic Project; IP = Implementation Performance; DO = Development Outcome; PFI = Project Performance Indicators (in SAP)

** These projects have been supervised but are not rated in the system.

ANNEX XI: Public Financial Management Systems

As part of the preparation of the Bank's Country Strategy Paper for Botswana for the period 2014-2019, the Bank's Procurement and Fiduciary Services Department conducted an evaluation of the fiduciary framework and risks in Botswana, in line with the Bank's Fiduciary Risk Management Framework for Policy Based Operations (May 2011). This assessment was based on the latest diagnostics and existing laws in Botswana such as the 2009 and 2013 PEFA assessments, the Public Finance Management (PFM) Reform Secretariat Progress Reports, Public Finance Management Act (PFMA) 2013, Public Audit Act (2012), Public Procurement and Asset Disposal (PPAD) Act and Public Procurement Regulations (PPR), Anti-Corruption Bill 2012. The assessment team also had interviews with key public finance management institutions including; the Ministry of Finance and Development Planning (MFDP), the Accountant General (AG), Internal Audit Directorate, the Office of the Auditor General (OAG), Public Procurement and Asset Disposal Board (PPAB), the Directorate of Corruption and Economic Crime (DCEC) and other development partners including the World Bank and the European Union.

Overview of Fiduciary Risks and Mitigation

Public Financial Management: PFM reform has been on-going in Botswana for many years as part of the Government of Botswana's overall public service reform programme with a strong emphasis on performance improvement and results-based management. However, a more coordinated approach (even though still in its infancy stages) to PFM reform started in 2010 following the 2009 PEFA report which highlighted major areas needing reform. The Government has, therefore, committed itself to a comprehensive reform agenda captured in the PFM Reform Programme (PFMRP). The PFMRP covers the full spectrum of PFM issues and comprises five components (Legal and Institutional Framework, Budget Planning and Formulation, Budget Execution, Budget Control and Oversight, and Revenue Management) with varying number of sub-components. This led to the setting up of the PFM Reform Secretariat in 2010 to spearhead, coordinate and monitor reform process and interventions. Steady progress has been made (as highlighted in the PEFA 2013) since the last PEFA assessment in 2009. This is evident in comprehensive, transparent, predictable and controlled budgetary process, improved internal controls on salary and non-salary expenditures, timely preparation of national accounts for audit and external scrutiny, and thereby providing a strong final link in the public financial accountability chain. In spite of this progress however, the 2013 PEFA report revealed some areas of weaknesses needing further reforms; highlighting particularly, the need to strengthen: (i) MTEF implementation process; (ii) Internal Audit function; (iii) anti-corruption institutions; (iv) Debt management system; and (v) Public procurement. The Bank commends Government ownership and high-level political commitment so far demonstrated, and would urge Government to continue to provide further resources (both financial and personnel) and partner with the Bank and other DPs towards the implementation of the on-going reform interventions.

Overall, the fiduciary risk is deemed moderate. The PFM environment in Botswana therefore requires continued support from DPs, including the Bank. Future public investment projects/programs and policy-based operations could use existing PFM systems and procedures to the maximum extent possible. However, appropriate financial management arrangements and technical assistance would be provided where necessary to help mitigate any fiduciary risk identified.

ANNEX XII: Fiduciary Environment – Procurement

Legislative and Regulatory Framework

The legal framework for public procurement is established in Botswana by the Public Procurement and Asset Disposal (PPAD) Act of 2001 (the Act). The Legal framework consist of five documents, i.e. PPAD Act of 2001, Public Procurement & Asset Disposal Regulations of 2006, Procurement Policy & Guidelines, Operations Manual of 2008- Standard Operating Policies and Procedures for Public Procurement, and SBPs (including the User’s Guide).

Institutional Framework and Management Capacity

The Act sets out the membership and functions of the Public Procurement and Asset Disposal Board (PPADB). PPADB is responsible for establishing procurement policy, procedures, ensuring compliance with the legislation, adjudicating tender award recommendations submitted by procuring entities, and supplier and contractor registration and capacity building. It also adjudicates on large contracts and deals with complaints and appeals in addition to its oversight role. There is a conflict of interest in it having the responsibility for conducting procurement operations and for oversight functions.

The Act establishes Ministerial Committees for the management of aspects of the public procurement and the assets disposal process regarding each ministry. The Act allows for procurement processing and management by Procuring Entities, Evaluation Committees to evaluate bids and Tender Committees to approve proposed contract awards. This separation of roles is a great asset in internal controls. The legal framework provides for an Advisory Committee which is positioned to detect any fiduciary risk and propose mitigation measures.

Procurement Operations and Market Practices

Procurement is seen as a professional function in Botswana. There are specific cadres for procurement in the public service, with job description related to procurement roles and responsibilities and requirement regarding procurement education or training. A sufficient number of tenders are received in most cases, justifying that the public procurement market in Botswana is well functioning and competitive, including for participation of Small & Medium Enterprises. All contracts’ awards are systematically publicly advertised in the local newspapers.

Integrity and Transparency

In its monitoring function, PPADB have an established Unit responsible for monitoring procurement performance of procuring entities and prepare annual procurement audit reports. The Office of the Auditor General (OAG) carries out external audit function of public funds. There are clear and elaborate procedures detailed in the Operations Manual that provide adequate guidance for the conduct of public procurement and leaves little to interpretation, reducing thus the risk for corruption. A major risk arises from the dual role of the PPADB in procurement process and oversight functions.

Ethics and Anti-Corruption

Public financial management, including public procurement system, is strong. The Act requires that participants in public procurement observe the Code of Ethics and sets the penalties for breach of the Code. Comprehensive standard bidding documents for all major categories of goods and works procurement also render the procurement system robust. The accompanying User’s Guide and the training that is available at the Advisory Centre contribute to ensuring that public procurement is conducted in a consistent manner.