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BOTSWANA

Systematic Country Diagnostic

UPDATE

AT A CROSSROADS

Reigniting Efficient and Inclusive Growth



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Reigniting Efficient and Inclusive Growth

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Abbreviations and Acronyms

BCWIS	Botswana Core Welfare Indicators Survey
BMC	Botswana Meat Commission
BMTHS	Botswana Multi-Topic Household Survey
FIES	Food Insecurity Experience Scale
GDP	gross domestic product
GNI	gross national income
HIES	Household Income and Expenditure Survey
ICT	information and communication technology
ICLS	International Conference of Labour Statisticians
IFC	International Finance Corporation
MIGA	Multilateral Investment Guarantee Agency
MSMEs	micro-, small, and medium enterprises
MW	megawatt
PEFA	Public Expenditure and Financial Accountability
PPP	purchasing power parity
QMTS	Quarterly Multi-Topic Household Survey
SACU	Southern African Customs Union
SCD	Systematic Country Diagnostic
SOE	state-owned enterprise
SWIFT	Survey of Well-being via Instant and Frequent Tracking
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNICEF	United Nations Children's Fund
WHO	World Health Organization

All dollar amounts are US dollars unless otherwise indicated.

The cutoff date for the data used in this report was December 2022, unless otherwise indicated.

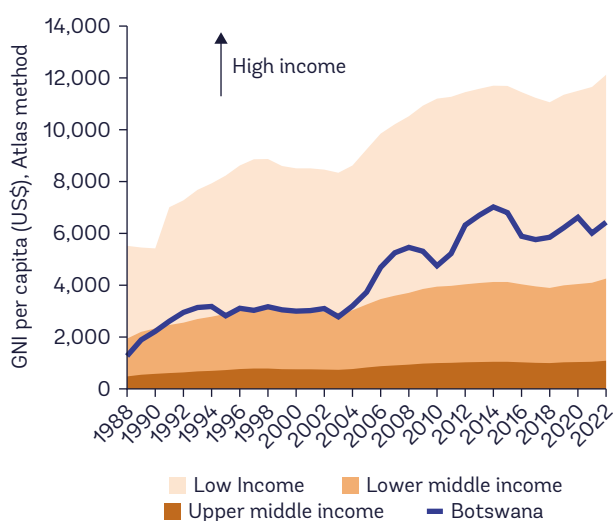
EXECUTIVE SUMMARY

A growth success story: natural resource wealth and strong institutions transformed Botswana into a stable upper-middle-income country, raising living conditions ...

Botswana's track record of strong growth and economic and political stability converted it from among the world's poorest countries into a stable upper-middle-income country. The discovery of one of the world's largest diamond deposits turned Botswana into one of the fastest-growing economies. Its gross national income (GNI) per capita grew five times faster than the global average after independence in 1966, and growth in its gross domestic product (GDP) averaged over 7 percent until the late 1990s (Figure E.1). The diamond export boom was both well managed and accompanied by policies that supported political stability, prudent macroeconomic and fiscal frameworks, and strong overall institutional quality. The country consistently ranked among the top African performers on many governance indicators and soon became an aspirational benchmark for others on the continent.

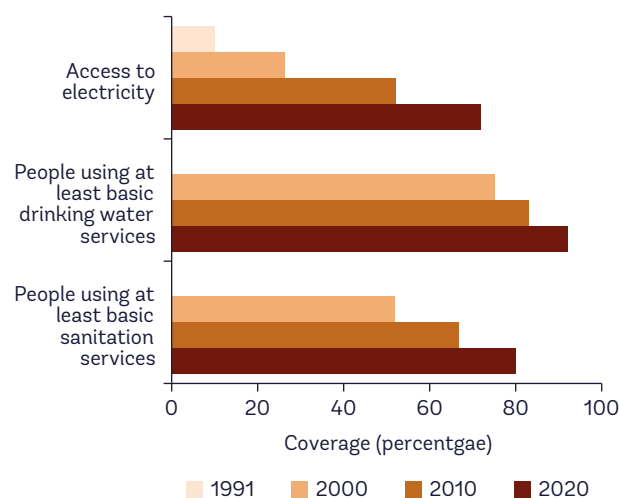
The wealth from diamonds was used to lay the foundations of development, from investments in infrastructure and human development to the construction of the institutional framework. The proceeds were used to fill many of the gaps in physical infrastructure, human capital, and public institutions that prevailed at the time of independence. The provision of these public goods was not easy, as Botswana is a large, sparsely populated, land-locked country with a relatively small population (2.3 million in 2022). Significant progress was made on many fronts. The road network was expanded from under 10 kilometers at independence to 32,564 kilometers in 2021. Basic services, such as electricity, water, and sanitation, were rolled out to a much larger share of the population. Coverage rates in water and electricity reached 92 percent and 72 percent in 2020, respectively, from about 68 percent and under 10 percent in the 1980s (Figure E.2).¹ Universal enrollment in primary education was achieved around 1997, much earlier than in most African countries. Investments in health drove remarkable improvements in health outcomes, including life

FIGURE E.1 Botswana reached upper-middle-income status in the early 1990s ...



Source: World Bank calculations.

FIGURE E.2 ... and improved the living standards of its population



Source: World Development Indicators (database), World Bank, Washington, DC.

1. All WDI data were drawn from <https://databank.worldbank.org/source/world-development-indicators>

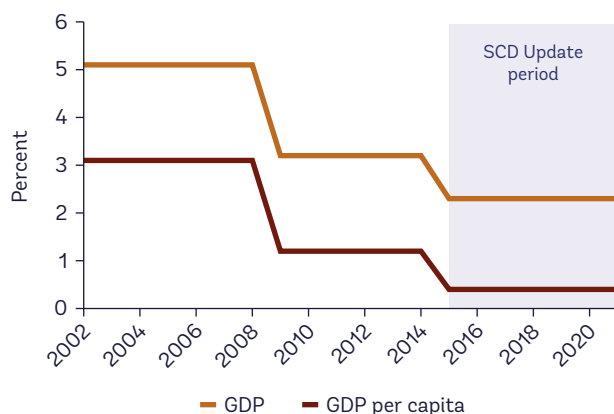
expectancy, mortality rates, and nutrition. Finally, efforts to strengthen the government’s technical capacity, combined with the adoption of appropriate policies and regulations, helped the country build an effective public administration.

From success to challenge: ... but the continued heavy reliance on diamonds and the large public sector make it increasingly difficult to deliver strong and inclusive growth.

The current growth model, based on the extractive industries and an extensive public sector, is not structurally inclusive and is fast reaching the limit of its ability to sustain robust growth. Economic growth has been on a downward trend since 2010 and has become more volatile in recent years: GDP grew at an annual average rate of 3.2 percent in 2009–14 but slowed to 2.4 percent in 2015–21. GDP per capita growth similarly slowed from 1.2 percent to 0.4 percent. This is in stark contrast with 2002–08, when GDP growth averaged 5.1 percent and per capita growth 3.1 percent (Figure E.3). In fact, Botswana’s growth potential

FIGURE E.3 Economic growth is trending down

Average annual GDP and GDP per capita growth by period



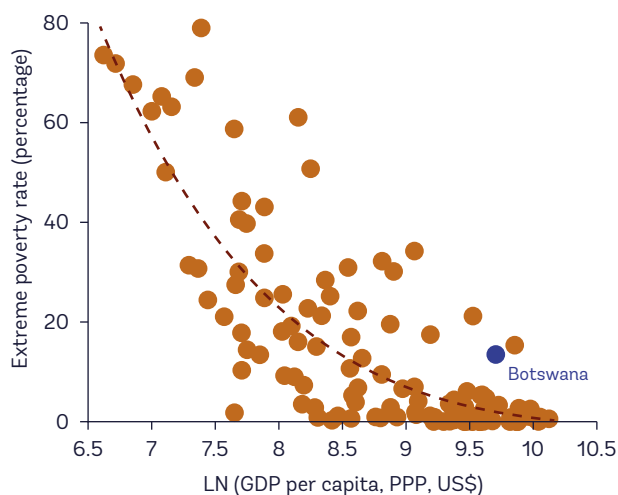
Source: World Bank calculations.

decreased by around a percentage point between the 2000s and the 2010s, from 4.5 to 3.6 percent. The economic slowdown was due in part to a combination of economic shocks (including a recession in 2015, droughts in 2015 and 2019, damaging floods in 2017, the 2020 COVID-19 pandemic, and higher food and energy prices in 2022), sluggish productivity growth, and a systematic economic decline in South Africa, Botswana’s main trade partner. Although the causes of these shocks were mostly external, beyond the control of the Botswana authorities, the country’s heavy reliance on minerals, the inability to create a broad economic base, a public sector with a large footprint, and increasing vulnerability to adverse climate events have exacerbated its fiscal and external vulnerabilities and weakened its drivers of growth.²

Poverty and inequality rates remain extremely high relative to Botswana’s income level. The rapid economic growth after independence lifted many Botswana out of poverty and helped them achieve higher income levels. However, the share of the population still in poverty is stubbornly high, well above the norm for an upper-middle-income country. At 13.5 percent, the estimated extreme poverty rate for 2019 (as per the international poverty line of \$2.15, in purchasing power parity (PPP) terms) is over four times higher than predicted by Botswana’s GDP per capita (Figure E.4). The pace of poverty reduction slowed between 2010 and 2016, and estimates suggest it stagnated even further in recent years (Figure E.5). Botswana has one of the highest rates of inequality in the world, with a Gini coefficient (a standard measure of income or expenditure distribution) of 0.53 (Figure E.6). Human development indicators, including the Human Capital Index, are not consistent with the country’s level of development (Figure E.7). Although Botswana’s growth model has served the country well for decades, it is not structurally inclusive. The diamond industry, the backbone of the economy, contributes little to job creation, and its links to the broader economy are weak. The public sector is large and operates in sectors traditionally led by private actors, which stymies competition, diversification, and job creation. Resources are increasingly shifting to nontradable services, where productivity is low.

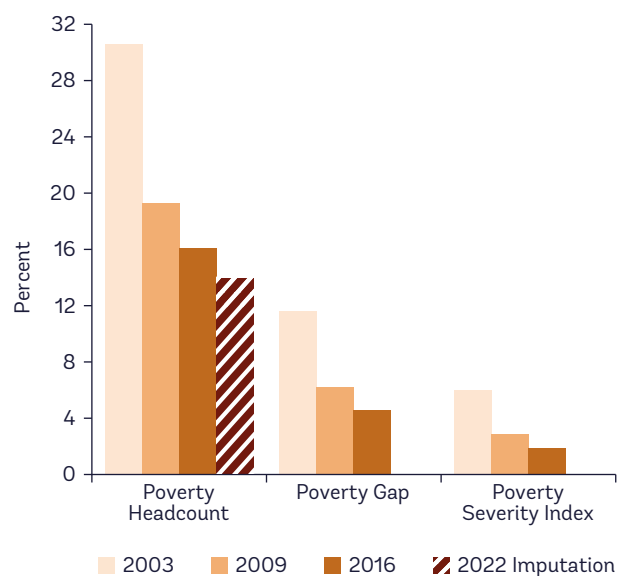
2. Botswana is deemed highly vulnerable to climate variability and change, given its heavy reliance on rain-fed agriculture and natural resources, high levels of (especially rural) poverty, and a low adaptive capacity to deal with these expected changes.

FIGURE E.4 The poverty rate is too high for the country's level of development ...



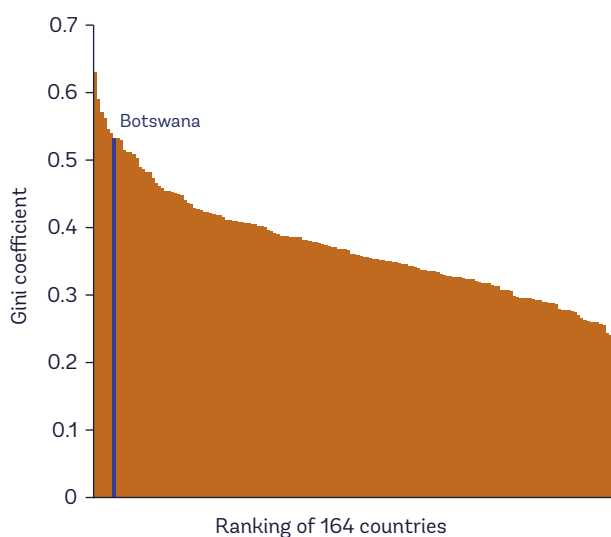
Source: World Bank calculations using World Development Indicators (database), World Bank, Washington, DC.
 Note: The chart only shows countries with PPP GDP per capita of less than \$25,000.

FIGURE E.5 ... but poverty reduction has slowed and is likely to have stagnated recently



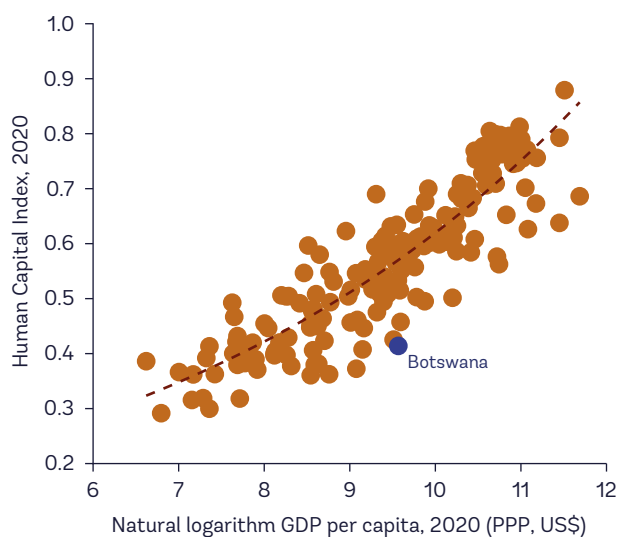
Source: World Bank calculations.

FIGURE E.6 Inequality levels are among the highest in the world ...



Source: World Bank calculations using pip.worldbank.org

FIGURE E.7 ... and the Human Capital Index is low relative to the income level

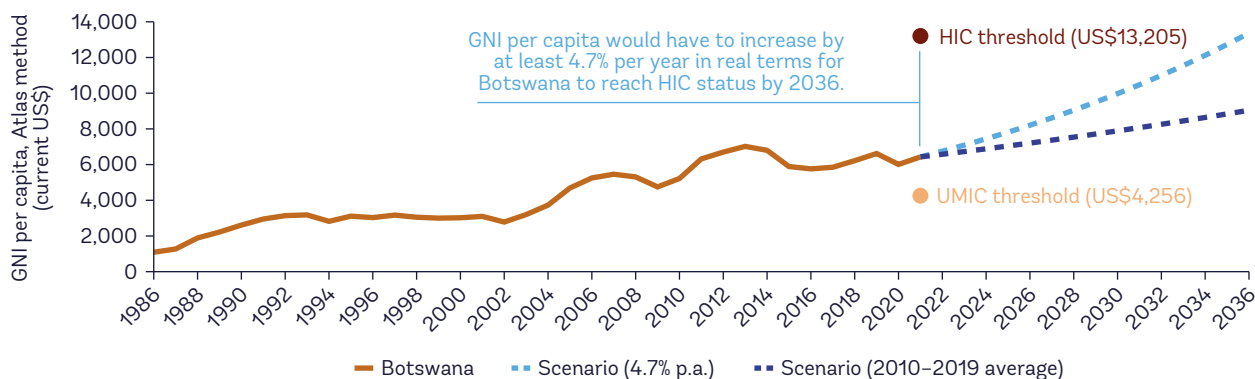


Source: World Bank calculations.

Botswana will need a significant and sustained boost to achieve its goal of reaching high-income country status by 2036. With a GNI per capita of \$6,940, Botswana is an upper-middle-income country.³ Assuming the threshold for high-income country status remains the same, Botswana's GNI per capita would have to grow by 4.7 percent a year over the next 14 years (or GNI by 6.1 percent a year at current population growth rates⁴) for the country to reach high-income status by 2036 (Figure E.8). However, even before COVID, GNI per capita grew by only 3.1 percent between 2011 and 2019. Botswana would have to significantly increase this rate to join the high-income country club in the next 15 years.

3. For fiscal 2023, upper-middle-income economies are defined as those with a GNI per capita of between \$4,256 and \$13,205, calculated using the World Bank Atlas method; high-income economies are those with a GNI per capita of \$13,205 or more.

4. The 2022 census shows the population growing at an annualized rate of 1.4% (Statistics Botswana 2022b).

FIGURE E.8 Botswana's goal of reaching high-income status remains distant

Source: World Bank calculations.

Note: HIC = high-income country; UMIC = upper-middle-income country.

Time for a course correction: growing challenges, old and new, increase the need for Botswana to review its development agenda.

Long-standing challenges, already diagnosed in the first Systematic Country Diagnostic (SCD) for Botswana, still constrain the country's ability to maintain strong, stable, and inclusive growth. The first SCD, published in 2015, argued for shifting the current growth model to one progressively based on a competitive and outward-oriented private sector, supported by a slimmer and more efficient public sector, greater inclusion, and more effective management of natural resources. The 2015 SCD identified the following *six broad priority areas* to address the issues of low participation, low productivity, and low job creation in the private sector; weak individual and community assets; and unsustainable use of valuable, scarce natural resources:

- Facilitating a competitive, export-oriented private sector by aligning incentives and improving connectivity
- Increasing the returns to self-employment by raising the productivity of smallholders and microenterprises
- Improving health and education outcomes by reducing the burden of disease and building and aligning skills
- Increasing access to water and sanitation
- Reforming social protection to reduce fragmentation and improve targeting, efficiency, and linkages
- Modernizing the public sector through improved technology, management, and systems of accountability.

This SCD Update finds that although most issues raised in the 2015 SCD remain broadly relevant, new challenges have emerged, and some old ones have become more pressing. The SCD Update builds on the 2015 SCD and should be read in conjunction with it. Substantive analytical work since 2015 has deepened but not materially modified many findings of the 2015 SCD. In the interim, however, Botswana's internal economic environment has become more challenging, and new global and local trends (see below) have further exposed the country's intrinsic vulnerabilities and hampered broad-based development. The SCD Update suggests the following five dimensions to define priority interventions for Botswana to change course and boost its increasingly modest performance:

- Important new challenges, such as Botswana's high exposure and vulnerability to climate risks, underline the need to strengthen its resilience—to help it protect and deepen its development gains.
- Chronic gaps between policy formulation and implementation, along with weaker accountability, increasingly undermine reforms; stymie progress across most economic, social, and governance sectors; and

hamper the achievement of the twin goals of ending extreme poverty and increasing shared prosperity in a sustainable manner.

- Raising productivity requires spatially efficient and inclusive urbanization and better regional connectivity, for both people and markets, to enable economies of scale and agglomeration. This is critical for a country with a small population—only 2.3 million—dispersed over a large area (582,000 square kilometers). Botswana is larger than France, for example, which had a population of 68 million in 2021.
- A stronger, inclusive, and sustainable growth path needs to be anchored in the new global realities, such as green energy, the digital transformation, shifting global value chains, and financial innovation. These new realities bring new challenges but also offer novel opportunities.
- This SCD Update provides additional and more granular analysis of (1) the priority actions needed for inclusive growth to gain traction, and (2) opportunities to create a more dynamic private sector by building on comparative advantages, many of which are strongly linked to the green economy (such as ecotourism, abundant renewable energy resources, and the extraction and processing of minerals used in green technologies).

To steer away from the turbulence and generate inclusive growth, Botswana will have to tackle long-standing and emerging challenges across five priority intervention areas ...

Based on new developments and evidence, this SCD Update reassesses the key constraints identified in the 2015 SCD. It reformulates these into five broad areas and one cross-cutting theme, which are anchored to four longer-run, country-specific, high-level outcomes and, ultimately, the twin goals. The SCD Update finds that progress in addressing the most binding constraints identified in 2015 has generally been limited and uneven, in terms of both reforms and outcomes (Table E.1).⁵ It argues that to improve the well-being of its people, ensure higher standards of living, and ultimately eradicate extreme poverty, Botswana needs to attain four high-level outcomes over the next decade: (1) faster private sector job creation (through more robust and stable growth); (2) stronger human capital formation (to increase productivity and inclusion); (3) higher resilience to shocks; and (4) better public service delivery (by closing gaps between policy aspiration and implementation). It finds that the most binding constraints to achieving these outcomes can be addressed through six priority areas of intervention. Five of these are self-standing; the sixth is cross-cutting to reflect its economy-wide implications (Figure E.9).

TABLE E.1 Summary of progress on priority intervention areas articulated in the 2015 SCD

Pathway	Priority area articulated in the 2015 SCD	Progress on outcomes since 2015	Progress on implementing reforms since 2015
Private sector-led, job-intensive growth	Facilitating a competitive, export-oriented private sector by aligning incentives and improving connectivity	Limited progress since 2015 SCD	Limited progress on reforms since 2015 SCD
	Increasing the returns to self-employment by raising the productivity of smallholders and microenterprises	Limited progress on outcomes and a reversal in poverty	Limited progress on reforms

5. It is important to recognize the structural nature of many of these constraints: changes will only become evident in the long run.

Pathway	Priority area articulated in the 2015 SCD	Progress on outcomes since 2015	Progress on implementing reforms since 2015
Strengthened individual and community assets and aligning skills	Improving health and education outcomes by reducing the disease burden and raising and aligning skills	Some progress on outcomes in health and education	Limited progress on reforms in health and education
	Ensuring improved access to water and sanitation	Some progress on outcomes in water and sanitation	Some progress on reforms in water and sanitation
	Reforming social protection to reduce fragmentation and improve targeting, efficiency, and linkages	Some progress on outcomes in social protection	Some progress on reforms in social protection
Effective resource management	Modernizing the public sector through improved technology, management, and systems of accountability	Limited progress on outcomes in modernizing the public sector, and limited progress on implementation	Some progress on reforms
	Mainstreaming the management of scarce natural resources	Limited progress on management of scarce natural resources. New challenges gained urgency, such as energy and climate shocks.	Some progress on reforms

Source: World Bank analysis.

FIGURE E.9 Reformulation of policy priority intervention areas to achieve the twin goals in Botswana

WBG Twin Goals	End Extreme Poverty and Boost Shared Prosperity in a Sustainable Way				
High-Level Outcomes	HLO1: Accelerated private-sector job creation	HLO2: Strengthened human capital formation	HLO3: Higher resilience to shocks	HLO4: Improved public service delivery	
Priority Intervention Areas	Develop a competitive, export-oriented private sector, leveraging regional integration	Raise productivity of small-holders and microenterprises	Increase human capital for employment, productivity, and inclusion	Improve resilience and adaptation to shocks and climate impacts	Sustainably manage scarce natural resources and build on key comparative advantages
Cross-Cutting Priority Intervention Area					

Source: World Bank.

Note: HLO = high-level outcome.

The first priority intervention area is to **“Develop a competitive, export-oriented private sector, leveraging regional integration”**. The economy’s heavy dependence on diamonds and the public sector has entrenched inefficiencies, stymied private investment and competitiveness, and become fiscally unsustainable. It also hampers job creation and weakens equity and inclusion. Employment growth is insufficient to absorb the young and growing labor force, and the unemployment rate rose from 17.6 percent in 2015

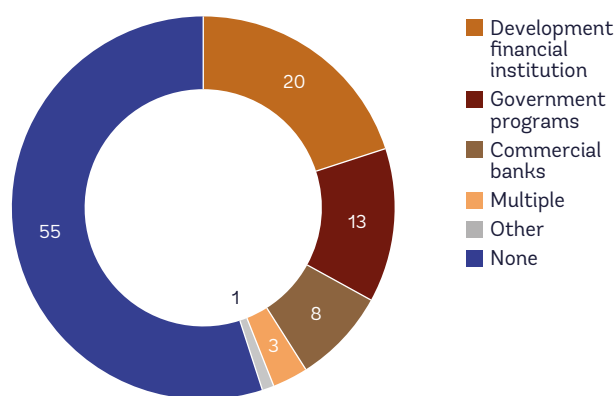
to 22.7⁶ percent by 2022. Botswana needs to shift to a private sector-led growth model and reform state-owned enterprises, which will in turn enhance resource allocation, boost productivity, generate jobs, free up public resources, and ultimately stimulate growth. Given the small size of the economy, the private sector needs to become more dynamic and outward-oriented to exploit regional or global comparative advantages in the export markets. Instead, many local firms focus inward, providing nontradable services and undertaking government contracts.

The second priority intervention area, “Raise the productivity of smallholders and microenterprises”, is critical for creating jobs for the large number of people with limited skills. Developing an outward-oriented competitive sector will take time. In the interim, the economy will continue to rely on the traditional sectors, such as farming, agricultural value chains, and nontradable services, to create jobs. However, many smallholders, micro- and small enterprises, and self-employed people in urban areas struggle to develop their businesses, create jobs, and enhance productivity, often because they lack access to finance and markets or do not have the right skills (Figure E.10).

The third priority intervention area, “Increase human capital for employment, productivity, and inclusion” seeks to ensure that the population, especially disadvantaged groups, have the health and skills they need both to help grow the economy and to benefit from it. Botswana has invested heavily in education, health, water, and sanitation, significantly expanding access to these services to build the human capital of its people. But its human development outcomes remain well below what would be expected of a country with its income and characteristics, let alone one that aspires to high-income status. The Human Capital Index, for instance, shows that children born in Botswana are likely to achieve only 41 percent of their potential productivity by adulthood. This is low relative to the country’s peers; in fact, it approaches the average for low-income countries (Figure E.11). The interlinked challenges of water scarcity, limited wastewater treatment, the underprovision of sanitation services, and malnutrition continue to undermine people’s health, limit the development of their skills, and hinder their productive participation in the labor force.

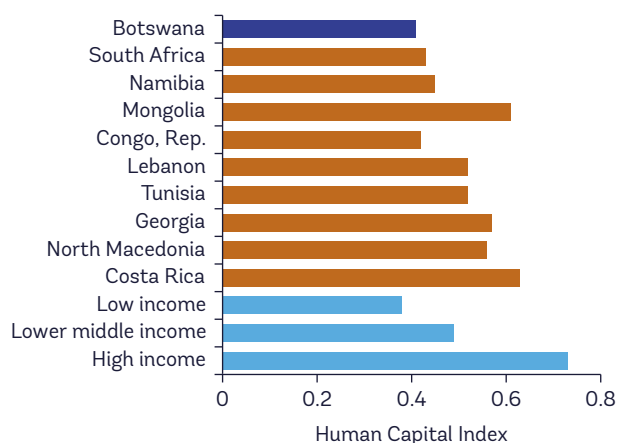
FIGURE E.10 Most small and medium enterprises lack access to funding from outside sources

Access to funding by small and medium enterprises



Source: ITC 2019.

FIGURE E.11 The expected productivity in adulthood of a child born today remains low



Source: Human Capital Project (database), World Bank, Washington, DC. <https://www.worldbank.org/en/publication/human-capital>.

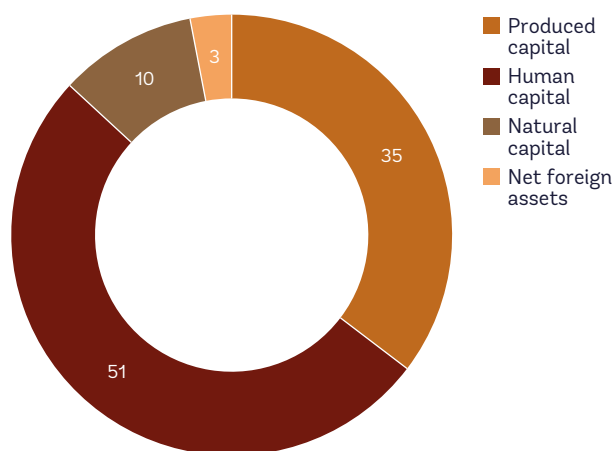
6. The official unemployment rate for Botswana in the fourth quarter of 2022 is 25.4 percent, applying the standard of the Nineteenth International Conference of Labour Statisticians (ICLS) to the 2019 – 22 Quarterly Multi-Topic Surveys (QMTS). This standard introduced a new classification for “forms of work”: own-use production work (e.g, subsistence farming) is now a separate indicator and no longer counts towards employment or labor force participation. This change means that labor force statistics are no longer comparable with those of earlier years. To maintain comparability with official unemployment rates from 2002 to 2016, the previous ICLS standards were applied here, giving an unemployment rate of 22.7 percent in 2022.

Considering Botswana’s growing economic and social vulnerabilities, the fourth priority intervention area aims to **“Improve resilience and adaptation to shocks and climate impacts”**. The prevailing global uncertainty and instability, combined with the increasing frequency and severity of natural shocks, hamper growth and poverty reduction in Botswana. Agriculture employs almost 18 percent of the labor force,⁷ but the sector is highly dependent on rainfed agriculture and has limited adaptive capacity. This makes it more vulnerable to climate shocks, which threaten people’s livelihoods and increase the risk of poverty, as happened during the droughts of 2015/16. Addressing this challenge requires increasing the resilience of both the people and the economic system, which in turn means improving the efficiency of the social protection system and adopting policies to mitigate the impact of climate change.

With natural wealth possibly being the country’s main asset, the fifth priority area aims to **“Sustainably manage scarce natural resources and build on key comparative advantages”** (Figure E.12). Botswana’s long success has been based on the effective management and use of revenue from natural resources. However, the sustainable use of natural assets has become more challenging since the 2015 SCD. Resources such as water are highly constrained by weak pricing policies and competing demands from sectors such as tourism, agriculture, and mining (Figure E.13). Tourism is also overwhelmingly dependent on nature-based and biodiversity-driven activities, making it particularly vulnerable to environmental degradation. Also, despite Botswana’s significant solar and wind resources, it is yet to exploit its potential comparative advantages in reliable, cost-effective renewable energy.

FIGURE E.12 Natural wealth represents 10 percent of the country’s total capital ...

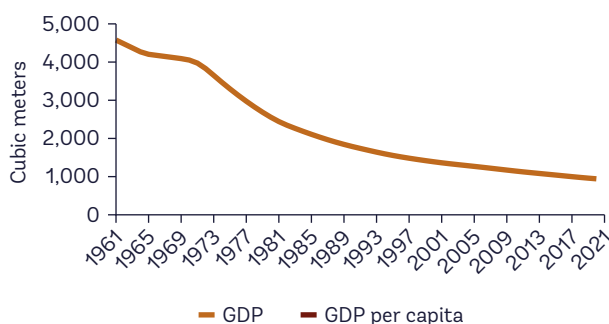
Share of total wealth, 2018



Source: World Bank 2021.

FIGURE E.13 ... but valuable natural resources, including water, are increasingly under stress

Renewable internal freshwater resources per capita per year



Source: World Development Indicators (database), World Bank, Washington, DC. Based on AQUASTAT (database), FAO (Food and Agriculture Organization of the United Nations), Washington, DC, <https://www.fao.org/land-water/databases-and-software/aquastat/en/>.

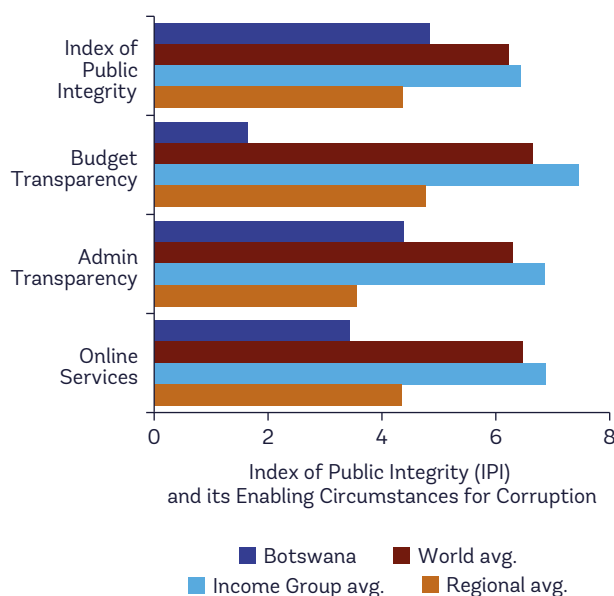
And addressing the cross-cutting challenge of deteriorating public sector effectiveness and efficiency.

The gradual but steady decline in the quality of public policy formulation, implementation, monitoring, and accountability undermines the effectiveness and efficiency of the public sector, which affects all other priority intervention areas. The SCD Update argues for addressing public sector weaknesses as a cross-cutting priority intervention, to improve growth, enhance the quality of services, and reduce income inequality. To understand the reasons for the limited progress in dealing with the constraints identified in the

7. Employment figures for 2022 cited here are adjusted to include subsistence farmers (Eighteenth ICLS standard).

2015 SCD (Table E.1 above), an assessment, including in-country consultations, was conducted. The findings systematically point to weaknesses in the public sector: policy design is often not aligned with policy objectives; spending is high, even by global standards, but returns are lower than expected; and there is little accountability for poor performance.⁸ This is compounded by weak incentives to implement policy changes and correct course when needed, a lack of data to guide policy making, and vested interests. From 2016 to 2022 Botswana's score on the Bertelsman Transformation Index gradually worsened, with its Governance Index and Governance Performance scores declining by 0.23 and 0.21 points, respectively.⁹ Moreover, although Botswana has long been a leader among African nations on most global governance indicators, on measures of transparency and public integrity it lags well behind its global and income group peers (Figure E.14). Questions about public sector management continue to grow, especially about the efficiency of public investment and the quality of public procurement.

FIGURE E.14 Public integrity indicators lag global and income group peers



Source: Botswana Corruption Forecast (database), CorruptionRisk.org, <http://www.corruptionrisk.org/country/?country=BWA#forecast>.

But how? Seizing emerging opportunities

The fast-changing local and global context and Botswana's existing comparative advantages create new opportunities for growth. However, it would not be straightforward to both stimulate private sector-led growth and help more people contribute to and benefit from growing prosperity. Botswana is a large, land-locked country with a small population and many skill gaps. Although the extractive industries and the large public sector have allowed it to make significant progress, many people have been left behind. These challenges are compounded by multidimensional global and regional shifts, including increasing uncertainty, volatile commodity prices, high inflation and interest rates, changing global value chains, geopolitical transformation, and sustained low growth in South Africa. But other mega trends, such as the shift towards greener sources of growth, the digital revolution, financial innovation, and advances in biomedicine and the pharmaceutical industry, offer fresh opportunities, including for regional and global markets. The country has mostly exhausted the productivity gains stemming from the reallocation of resources across sectors and needs to enable more spatially efficient growth, especially in tradable services. Against this backdrop, this SCD identifies the following potential opportunities:¹⁰

- Natural attractions and wildlife can bring more visitors and strengthen forward and backward links with the broader economy, without overexploiting natural resources.
- The country has large endowments of minerals such as copper, nickel, cobalt, and manganese, which are critical for green technologies and are in high demand (Figure E.15 and Figure E.16).

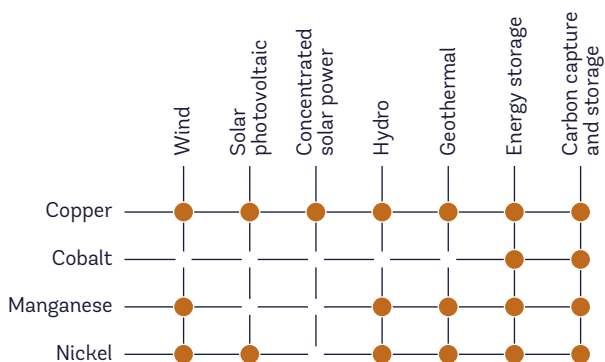
8. IMF (2022)

9. Data are drawn from the BTI Transformation Index: Botswana (database), BTI, <https://bti-project.org/en/reports/country-dashboard/BWA>.

10. For details on these opportunities: tourism: IFC (2022); minerals for green technology: World Bank (2023b); beef: Syed and others (2022); and renewable energy: World Bank (2022a). A deeper analysis of the opportunities for and constraints on new drivers of growth will be provided in an upcoming World Bank Country Economic Memorandum.

- Botswana has comparative advantages in niche value chains, such as beef and livestock, which create potential export opportunities. Beef, for example, is primarily grazed on natural pastures without the use of artificial growth stimulants or hormones; this value chain is largely untapped.
- Renewable energy resources are abundant and can provide affordable, reliable, and green electricity. Southwestern Botswana has one of the highest solar irradiation levels in the world, and the northeast of the country has good wind resources.

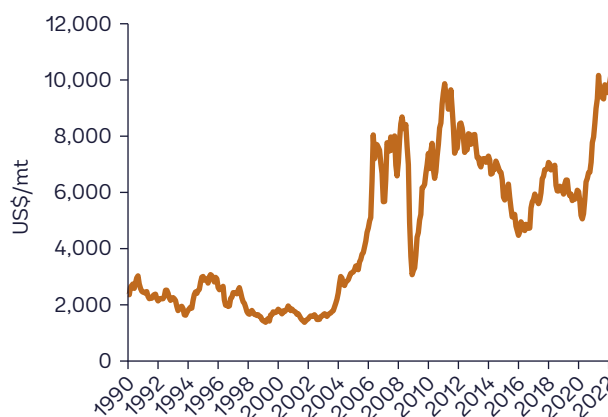
FIGURE E.15 Botswana is rich in minerals that are critical in renewable energy technology ...



Source: World Bank 2020a.

Note: Criticality of four minerals used in renewable technologies.

FIGURE E.16 ... and whose demand, and prices, are rising



Source: World Bank 2020a.

Harnessing these opportunities requires attracting and supporting private players (investors and skills), including—but not exclusively—those with an outward orientation toward regional and eventually global value chains. Botswana needs investor-friendly policies to attract foreign direct investment to expand its economic base, along with policies that create a more favorable business environment.

CHAPTER 1

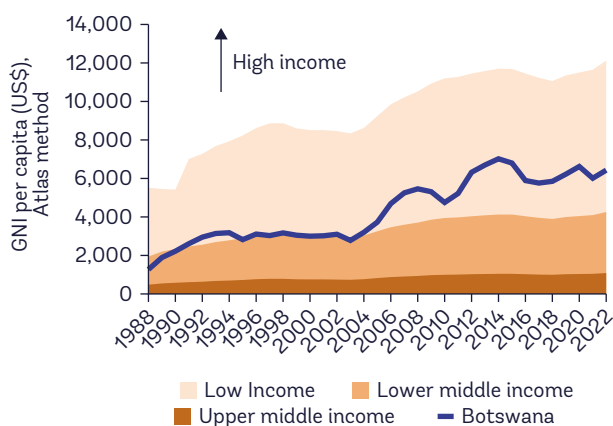
COUNTRY CONTEXT — WHAT HAS CHANGED SINCE 2015?



BOTSWANA'S GROWTH SUCCESS STORY

Botswana's track record of strong growth and economic and political stability converted it from among the world's poorest countries into a stable upper-middle-income country. The discovery of one of the world's largest diamond deposits turned Botswana into one of the world's fastest-growing economies. Its gross national income (GNI) per capita grew five times faster than the global average after independence in 1966, and growth in its gross domestic product (GDP) averaged over 7 percent until the late 1990s (Figure 1.1). The diamond export boom was both well managed and accompanied by policies that supported political stability,

FIGURE 1.1 Strong growth allowed Botswana to reach upper-middle-income status in the early 1990s ...



Source: World Bank calculations.

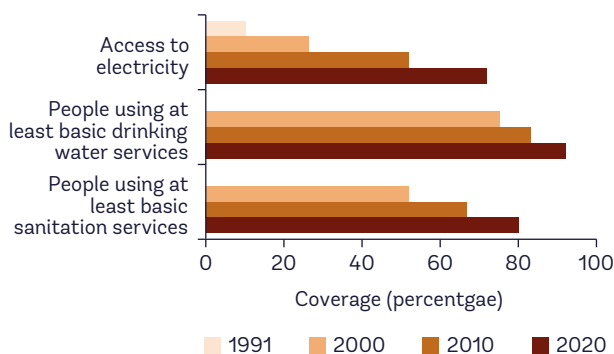
prudent macroeconomic and fiscal frameworks, and strong overall institutional quality. The country consistently ranked among the top African performers on many governance indicators and soon became an aspirational benchmark for others on the continent.

The wealth from diamonds was used to lay the foundations of development, from investments in infrastructure and human development to the construction of a public institutional framework. The proceeds were used to fill many of the gaps in physical infrastructure, human capital, and public institutions that prevailed at the time of independence. The provision of these public goods was not easy, as Botswana is a large, sparsely populated, land-locked country with a relatively small population (2.3 million in 2022). Significant progress was made on many fronts. The road network was expanded from under 10 kilo-

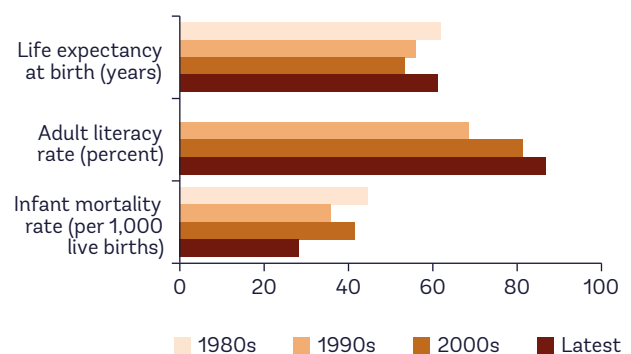
meters at independence to 32,564 kilometers in 2021. Basic services, such as electricity, water, and sanitation, were rolled out to a much larger share of the population. Coverage rates in water and electricity reached 92 percent and 72 percent in 2020, respectively, from about 68 percent and under 10 percent in the 1980s (Figure 1.2). Universal enrollment in primary education was achieved around 1997, much earlier than in most African countries. Investments in health drove remarkable improvements in health outcomes, including life expectancy, mortality rates, and nutrition. Finally, efforts to strengthen the government's technical capacity, combined with the adoption of appropriate policies and regulations, helped the country build an effective public administration.

FIGURE 1.2 ... and to improve the standards of living of its population

a. Access to basic services



b. Health and education outcomes



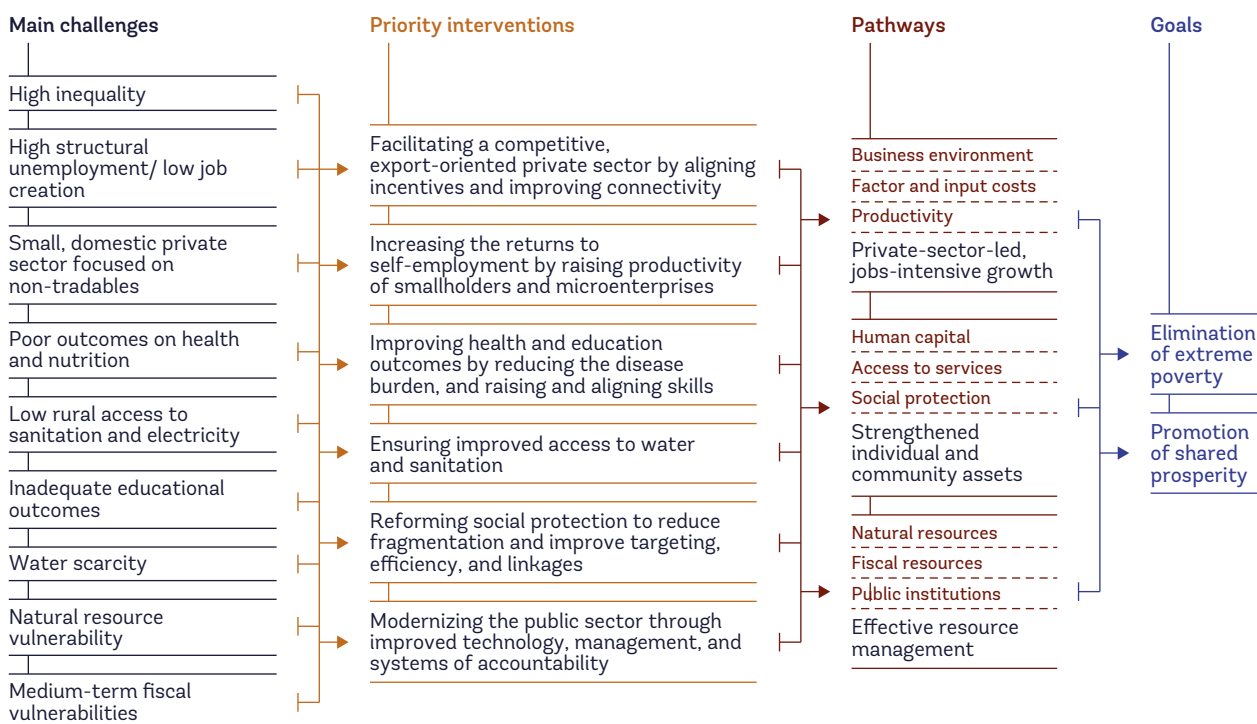
Sources: World Development Indicators 2023 (database), World Bank, Washington, DC., using data from the WHO/UNICEF Joint Monitoring Programme for Water Supply, Sanitation and Hygiene (database), New York: WHO (World Health Organization) and UNICEF (United Nations Children's Fund), <https://washdata.org/>; the UN Population Division, UNESCO, and the UN IGME (Inter-agency Group for Child Mortality Estimation) (database), UNICEF, WHO, and World Bank, Washington, DC, <https://childmortality.org/about>.

THE 2015 SYSTEMATIC COUNTRY DIAGNOSTIC IN A NUTSHELL

The 2015 Systematic Country Diagnostic (SCD) argued that although the existing model had served Botswana well for decades, it has significant drawbacks, especially for sustaining broad-based growth. Despite stellar growth after independence, both poverty and inequality remained extremely high for a country of Botswana’s income level. The SCD attributed this to its reliance on the massive public sector and the extractive industries (especially diamonds). The diamond industry contributes little to job creation, and its links to the broader economy are weak. The SCD proposed shifting to a growth model with higher employment intensity, driven by a competitive and outward-oriented private sector, and supported by a slimmer and more efficient public sector. Given the small size of the economy, the private sector needs to become more dynamic and outward-oriented to exploit regional and global comparative advantages in the export markets. Instead, many local firms focus inward, providing nontradable services and securing government contracts. The analysis also showed that deficiencies in service delivery (coverage and quality), particularly in sectors vital to the formation of human capital (such as sanitation, electricity, and education), in the management of natural resources (for example, water and biodiversity), and in the efficiency and accountability of the public sector pose critical bottlenecks to sustainable growth.

The 2015 SCD identified a set of priority challenges and interventions for faster progress in eliminating poverty and boosting shared prosperity. It initially identified 30 broad development challenges, organized around three pathways: (1) establishing an environment for private sector-led, job-creating growth; (2) ensuring inclusion by strengthening individual and community assets; and (3) ensuring the sustainability of growth and inclusion through the effective management of resources. These challenges were reviewed and prioritized to identify the nine most binding constraints,¹¹ for which six broad priority intervention areas were identified (Figure 1.3). The SCD noted three important considerations for these in-

FIGURE 1.3 Priority challenges and intervention areas identified in the 2015 SCD



Source: World Bank 2015.

11. The following criteria were used for the prioritization exercise: (1) impact on the goal of eliminating extreme poverty; (2) impact on the goal of delivering sustainable welfare improvements to poorer people; (3) time horizon of impacts; (4) complementarities; and (5) the evidence base.

terventions: first, achieving a new growth model takes time (10–20 years), and productivity in farming and informal off-farm activities will also have to grow to support livelihoods in rural and urban areas in the interim. Second, addressing constraints such as poor-quality education, skills mismatches, the high disease burden, and connectivity gaps, among others, are vital for raising the productivity and competitiveness of local firms. Finally, reforming the social protection system is key to ensuring that the Botswana who are unable to participate in the structural change are not left behind.

MACRO PERFORMANCE AFTER THE 2015 SCD

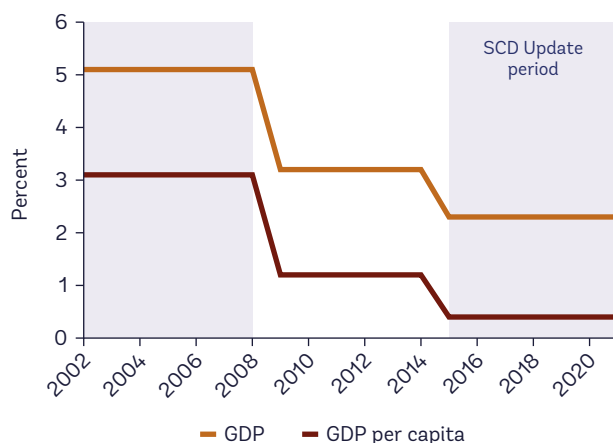
Low growth and large shocks have weakened the economy

Economic growth has been on a downward trend since 2010 and has become more volatile in recent years. GDP grew at an annual average rate of 3.2 percent in 2009–14 but slowed to 2.4 percent in 2015–21. Growth in GDP per capita similarly slowed from 1.2 percent to 0.4 percent. This is in stark contrast with 2002–08, when GDP growth averaged 5.1 percent and per capita growth 3.1 percent (Figure 1.4). Long-standing structural challenges have become increasingly binding, and Botswana’s growth potential decreased by around a percentage point between the 2000s and the 2010s, from 4.5 to 3.6 percent.¹²

Sluggish productivity growth is a significant factor in the economic slowdown. The capital stock, driven mainly by public spending, was the largest contributor to GDP growth (60.4 percent) in 2015–19 (Figure 1.5), followed by labor utilization (29 percent). Total factor productivity growth made a modest contribution (10.6 percent), only a third of its contribution in 2010–14. This means Botswana is increasingly seeing lower returns on public and private investments; in contrast, its structural peers, Namibia, Georgia, or Costa Rica, have seen much faster productivity growth.

FIGURE 1.4 Economic growth is trending down ...

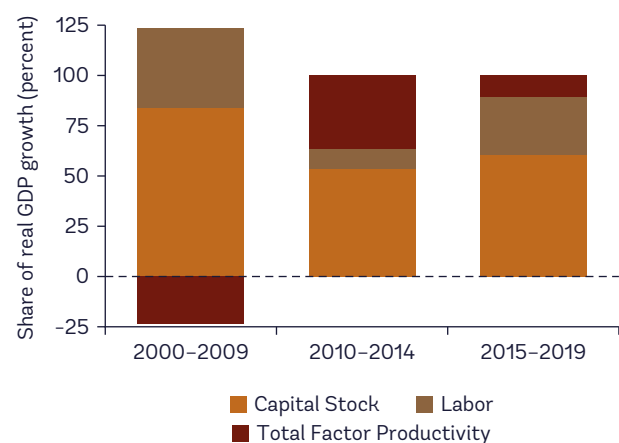
Average annual GDP and GDP per capita growth by period



Source: World Bank calculations.

FIGURE 1.5 ... in part because productivity growth has stagnated

Contributions to growth



Source: World Bank calculations.

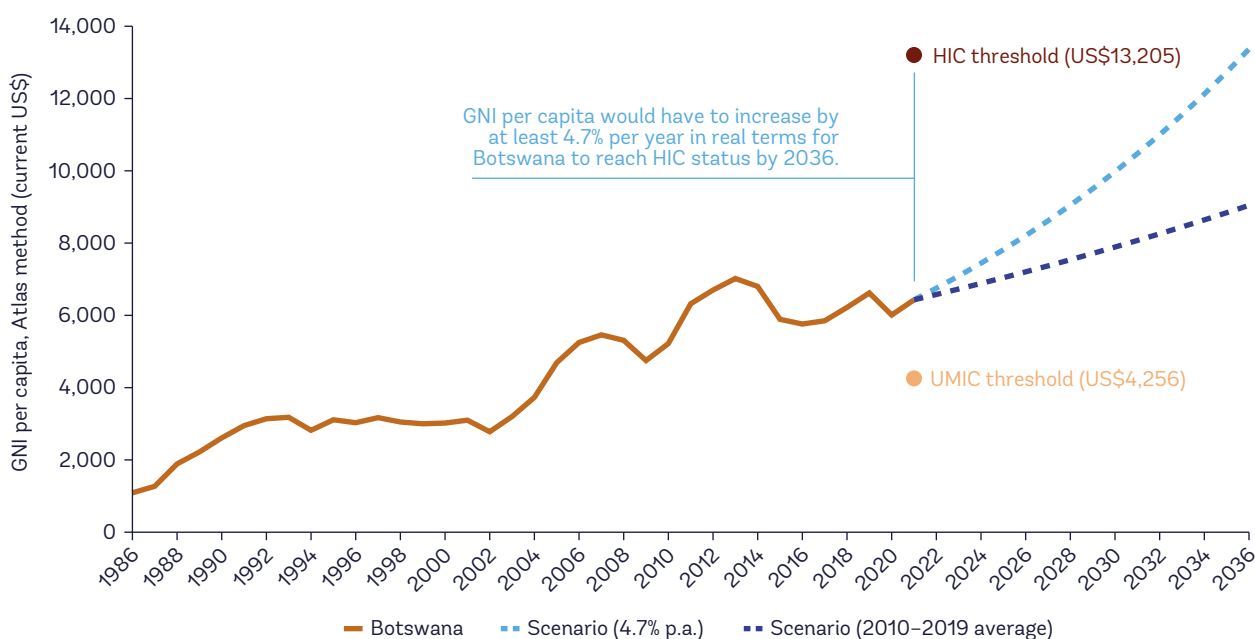
The increasingly challenging internal and external environment since 2015 has exposed Botswana’s economic vulnerabilities. External shocks include a decline in the global demand for diamonds since late 2014, linked to the slowdown in China; this contributed to lower real prices for rough diamond exports,

12. Based on an analysis of long-term growth that uses Hodrick-Prescott statistical techniques to filter out short-term fluctuations.

along with declining production.¹³ Exports of other minerals also collapsed because of lower international prices and the closure of the largest copper-nickel mine in 2016. These challenges were exacerbated by two major droughts, in 2015 and 2019, followed swiftly by the COVID-19 pandemic in 2020. The restrictions imposed during the pandemic weakened both tourism and the external demand for diamonds, and GDP fell by 8.7 percent and GDP per capita by 10.6 percent. This series of shocks clearly exposed the overall vulnerability of the economy stemming from the lack of economic diversification and rising vulnerability to climate shocks.¹⁴ Growth bounced back by the end of 2021 and in 2022, aided by reopening of the economy, a recovery in diamond production, favorable terms of trade, and higher receipts from the Southern African Customs Union (SACU). On the financing side, foreign direct investment has remained stable but limited over the past few years, at about 0.7 percent of GDP.

Botswana will need a significant and sustained boost to achieve its goal of reaching high-income country status by 2036. With a GNI per capita of \$6,940, Botswana is an upper-middle-income country.¹⁵ Assuming the threshold for high-income country status remains the same, Botswana’s GNI per capita would have to grow at 4.7 percent a year over the next 14 years (or GNI at 6.1 percent a year at current population growth rates¹⁶) for the country to reach high-income status by 2036 (Figure 1.6). However, even before COVID, GNI per capita grew by only 3.1 percent between 2011 and 2019. Botswana would have to significantly increase this rate to join the high-income country club in the next 15 years.

FIGURE 1.6 Botswana’s goal of reaching high-income status remains distant



Source: World Bank calculations.

Note: HIC = high-income country; UMIC = upper-middle-income country.

13. Since the global financial crisis, diamond proceeds have remained significantly below precrisis levels, as global demand weakened. These pressures intensified in 2014, reflecting increased competition from synthetic diamonds and higher production costs (as diamond mines become ever deeper).

14. Botswana is considered highly vulnerable to climate variability and change, given its heavy reliance on rain-fed agriculture and natural resources, high levels of (especially rural) poverty, and a low adaptive capacity to deal with these expected changes.

15. For fiscal 2023, upper-middle-income economies are defined as those with a GNI per capita between \$4,256 and \$13,205, calculated using the World Bank Atlas method; high-income economies are those with a GNI per capita of \$13,205 or more.

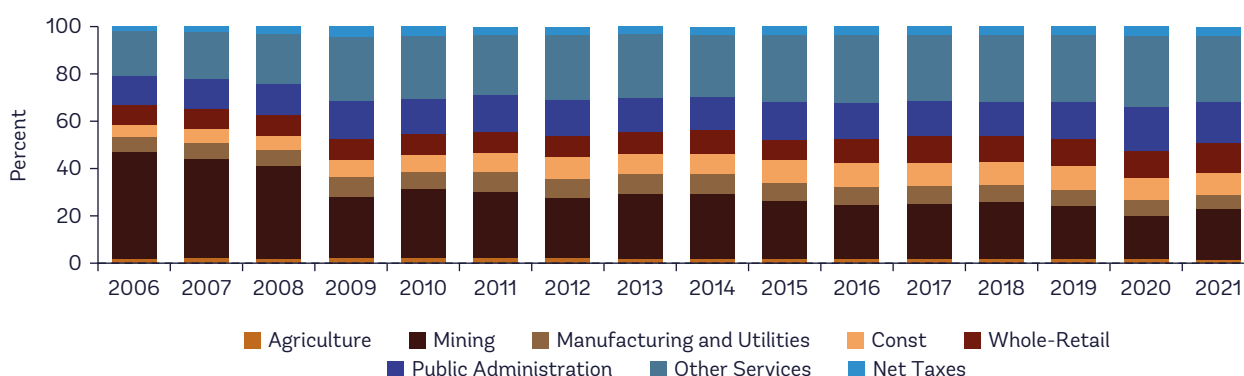
16. The 2022 census shows the population growing at an annualized rate of 1.4% (Statistics Botswana 2022b).

Structural factors and policies hinder diversification and productivity growth

Botswana's ongoing structural transformation is not conducive to productivity growth and innovation. In rural areas, agriculture is dominated by subsistence farming, and productivity in this sector is low. The urban population has been growing steadily, accounting for 68.7 percent of the total population by 2021. However, cities are relatively small, with low economic diversification and density, which means they cannot achieve economies of agglomeration and scale.¹⁷ The capital, Gaborone, has 210,000 inhabitants; as the economic hub of the country, it is home to government offices, ministries, and institutions, as well as diamond cutting and polishing operations and sorting and trading centers. Francistown, the second-largest city (90,000 inhabitants), is also dominated by the mining industry. The contribution of the mining sector to the economy of Botswana has been declining, with its share of value added falling from 39 to 21 percent between 2008 and 2021 (Figure 1.7). This space has largely been filled by micro- and small firms providing nontradable services to the small domestic market. Their productivity is low, and they cannot benefit from the potential competitiveness and innovation stimulated by external trade. The latest Global Competitiveness Index shows that relative to its structural peers, Botswana faces large competitiveness gaps in skills, the adoption of information and communication technology (ICT), product markets, business dynamism, and infrastructure.¹⁸

FIGURE 1.7 The economy is slowly diversifying into services, away from the mining sector

Value added by sector at constant prices, 2006–21



Source: World Bank calculations using Statistics Botswana (2023).

Most employment is in services while employment growth is insufficient to absorb the young and growing labor force. Unemployment, which has long been high, is on an upward trend: the unemployment rate increased from about 17.6¹⁹ percent in 2015 to 22.7²⁰ percent by the end of 2022 (using comparable unemployment measures). Young and educated people were most affected by higher unemployment. Employment in agriculture rebounded after the 2015/16 drought, and more workers were absorbed into low-productivity subsistence farming (Figure 1.8). But services remain the country's largest employer, accounting for 535,000 of the 805,000 jobs in the economy in 2021 (66 percent, when subsistence farmers are included in total jobs).

17. Botswana has two cities with more than 100,000 people, four with 50,000 or more, and 11 with 20,000 or more; it also has six towns with more than 10,000 people.

18. For more details, see World Economic Forum (2019).

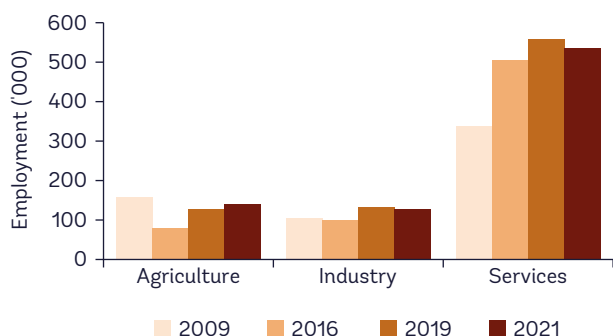
19. The 2015/16 unemployment rate was revised to 17.6 in December 2018, down from the 17.7 percent reported in Statistics Botswana (2017).

20. The official unemployment rate for Botswana in the fourth quarter of 2022 is 25.4 percent, applying the standard of the Nineteenth International Conference of Labour Statisticians (ICLS) to the 2019–22 Quarterly Multi-Topic Surveys (QMTS). This standard introduced a new classification for "forms of work": own-use production work (e.g., subsistence farming) is now a separate indicator and no longer counts towards employment or labor force participation. This change means that labor force statistics are no longer comparable with those of earlier years. To maintain comparability with official unemployment rates from 2002 to 2016, the previous ICLS standards were applied, giving an unemployment rate of 22.7 percent in 2022.

Industry has the highest labor productivity levels (proxied by value added per worker, Figure 1.9), but this is mainly in mining, where employment numbers are negligible.²¹

FIGURE 1.8 Services are the main source of employment and job creation ...

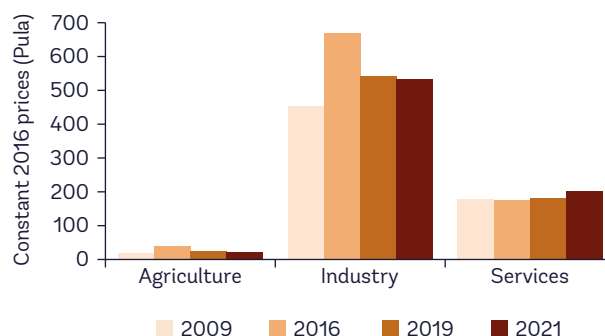
Employment by Sector by Year



Source: World Bank calculations.

FIGURE 1.9 ... but labor productivity in the services sector is stagnating

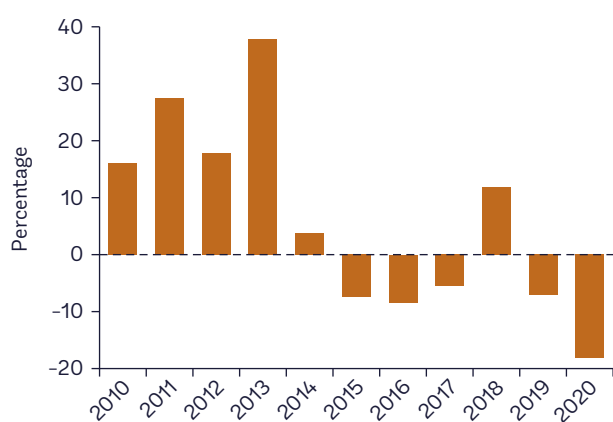
Value Added per Worker by Sector



Source: World Bank calculations.

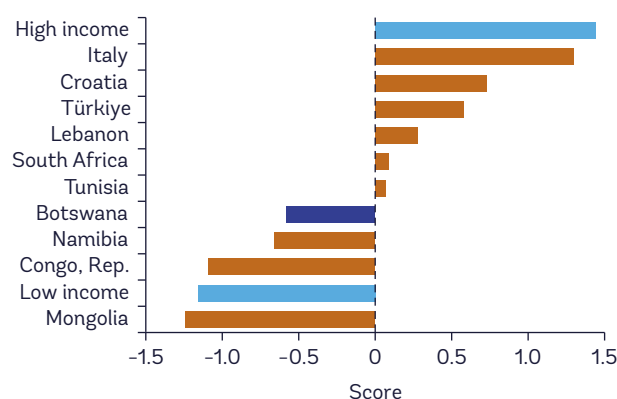
Apart from diamonds, Botswana is not capitalizing on opportunities in external markets, and the export basket remains undiversified. Diamonds account for about 90 percent of goods exports. In the services sector, nature-based luxury tourism attracted more than 330,000 international visitors in 2019 (21.3 percent of the total). Relative to other middle-income countries, such as Mauritius, Botswana’s exports are less able to penetrate foreign markets, and new exports struggle to survive in these markets despite preferential trade treatments (such as the African Growth and Opportunity Act). Moreover, the value of exports has largely been on a downward trend since 2015 (Figure 1.10). Part of the reason is the lack of diversification and complexity (economic sophistication) of the export basket, which also implies that exports do not generate productivity gains and spillovers to the tradable sector. According to the Harvard Economic Complexity Index,²² Botswana ranks at the bottom (115th) of 133 countries in terms of the complexity of its exports, sliding 34 positions down the ranking in recent years (Figure 1.11). In general, the nonmining private sector lacks the levels of professionalism, skills development, and productivity seen in the diamond sector.

FIGURE 1.10 Export growth has faltered since 2015 ...



Source: World Bank calculations.

FIGURE 1.11 ... and the export basket lacks diversification and economic sophistication



Source: OEC (Observatory of Economic Complexity) (database), OEC, <https://oec.world/>.

21. When the mining sector is excluded from the calculation, productivity in industry approaches that of the service sector.

22. Data are drawn from The Atlas of Economic Complexity (database), Harvard Kennedy School Growth Lab, Cambridge, MA, <https://atlas.cid.harvard.edu/countries/37/export-basket>.

Many current policies are not aligned with the country's urgent need to enhance private sector growth and competitiveness. Five main policy aspects contribute to its disappointing performance outside diamonds:

- *The state participates in markets in which other countries tend to promote competition.* The Country Private Sector Diagnostic²³ demonstrates that competition in sectors such as energy, beef, and transport is dampened by the large public sector footprint and the preferential treatment of some state-owned enterprises (SOEs).
- *Some industrial policies create distortions that discourage competitiveness and diversification.* Subsidies to SOEs in water, electricity, and air transport create barriers for private sector firms attempting to enter these sectors, entrench inefficiencies, and hinder the reliable supply of these services. Similarly, tax concessions and import substitution policies to support declining activities have been costly but largely unsuccessful in attracting investment. More recently, the 2022 Public Procurement Act and the 2022 Economic Inclusion law included some anticompetitive provisions that favor specific firms and stifle export orientation.²⁴
- *Botswana's trade policies within SACU strongly disincentivize exports.* The trade policy regime aims to protect sectors such as poultry and dairy, but this results in higher prices for consumers, with low-income groups often disproportionately affected. Regional tariffs on key intermediate inputs are high; this not only reduces the competitiveness of local firms but also incentivizes them to sell their goods in the small domestic market rather than exporting them. Trade in the subregion is further hampered by unilateral nontariff barriers at the borders and excessive red tape.
- *Backbone services, which are vital for producing other goods and services, are costly.* The high cost of intermediate services, such as finance, ICT, trucking, air and ground transport, and electricity, impose a heavy burden on firms, hinder efficiency, and discourage the entry of new firms. State monopolies, a lack of competition, and regulatory restrictions drive up prices and undermine the quality of services. The ICT sector is largely underdeveloped, prices and quality are uncompetitive, and its contribution to growth as a driver of innovation is limited. Similarly, poor air and ground connectivity hurts important sectors, especially tourism.
- *Policy implementation is sluggish and ineffective.* The high reliance on—and remarkable success of—the diamond industry has entrenched a lack of urgency in the implementation of new policies. Moreover, there is no political consensus about the future growth path, and policy makers are divided about whether to embrace protectionist or liberalization policies. Policies that could help drive private sector growth and productivity (including efforts to enhance the competitiveness of backbone services) have stalled, as have reform plans for several SOEs.

Botswana's many assets and opportunities offer a potential future growth path.²⁵ First, the country's natural beauty and wildlife can attract many more visitors, provided that the natural resources are not over-exploited. The high-end, luxury tourism sector is based on personal service and could be employment-intensive and generate broader economic links. Second, Botswana has large endowments of minerals such as

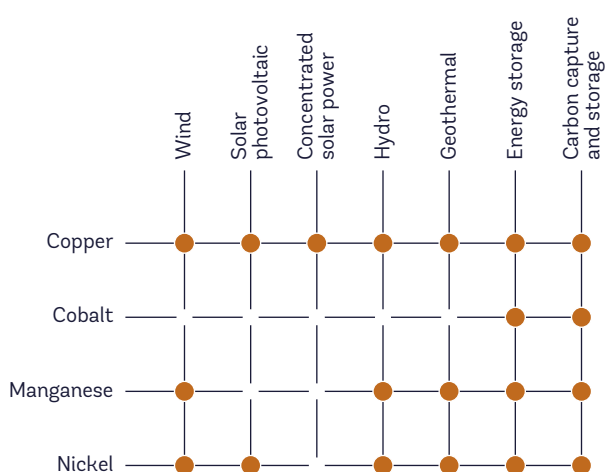
23. The Country Private Sector Diagnostic (IFC 2022) outlines the negative impacts of Botswana's state footprint on competition in key sectors.

24. By law, about 35 service sectors are restricted to citizens of Botswana; such protectionism undermines the potential of international trade to improve domestic economic activity.

25. For details on these opportunities: tourism: IFC (2022); minerals for green technology: World Bank (2023b) and Mapolelo and others (2023); beef: Syed and others (2022); and renewable energy: World Bank (2022a). A deeper analysis of the opportunities for and constraints on new drivers of growth will be provided in an upcoming World Bank Country Economic Memorandum.

copper, nickel, cobalt, and manganese, which are critical for green technologies (such as for batteries) and are in high demand (Figure 1.12 and Figure 1.13); these could potentially be refined locally before export. Third, it has comparative advantages in niche value chains, such as beef and livestock, which create potential export opportunities. Beef, for example, is primarily grazed in natural pastures without the use of artificial growth stimulants or hormones; this value chain remains largely untapped. Finally, the abundant renewable energy resources can be harnessed to provide affordable, reliable, and green electricity for both domestic use and neighboring countries. Southwestern Botswana has one of the highest solar irradiation levels in the world, and the northeast of the country has strong wind resources. Harnessing these opportunities requires attracting and supporting private players (investors and skills), including—but not exclusively—those with an outward orientation toward regional and eventually global value chains. Botswana needs investor-friendly policies to attract foreign direct investment to expand its economic base, along with policies that create a more favorable business environment.

FIGURE 1.12 Botswana is rich in minerals that are critical in renewable energy technology ...

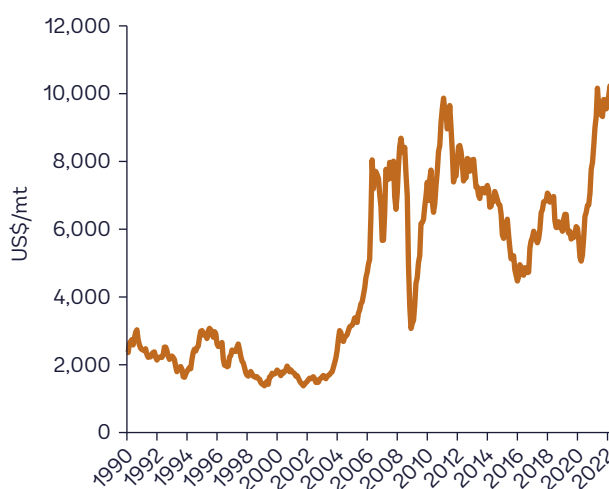


Source: World Bank 2020a.

Note: Criticality of four minerals shown for use in renewable technologies.

FIGURE 1.13 ... and whose demand, and prices, are rising

Copper price, 1990-2022



Source: World Bank 2020a.

Prudent policies ensured a suitable macro framework, but downside risks loom large

Botswana's long record of prudent economic management has helped stabilize the economy in volatile times. The authorities used countercyclical policies successfully, maintaining fiscal responsibility and ensuring the sustainability of public debt. They also managed the COVID-19 pandemic well from the start, and Botswana was relatively less affected than others in the region by its economic and health impacts. Key pandemic response measures included implementing mitigating actions in the education sector to provide for social distancing; establishing the COVID-19 Relief Fund to support workers, stabilize businesses, ensure the availability of strategic supplies, and restructure financial services; approving the Economic Recovery and Transformation Plan as an addendum of the Eleventh National Development Plan²⁶ to support a short-term relief package; and creating the Industry Support Fund to provide soft loans to businesses to cushion the impact of the downturn. The government also rolled out an effective COVID-19 vaccination program.²⁷

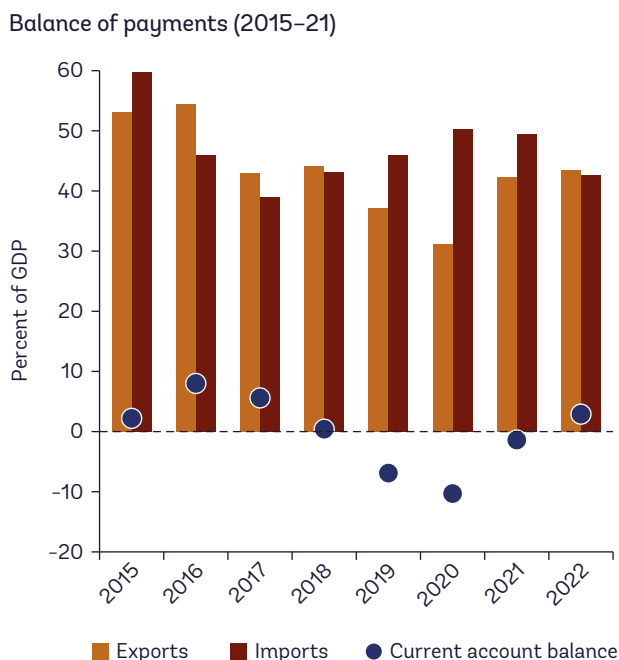
26. For more details on the National Development Plans, see Government of Botswana (2017, 2020a, 2020b, 2023).

27. Botswana faced supply-side constraints early in its vaccination program, but once these had been solved, the rate of vaccination picked up. Immunization rates soon exceeded those of its neighbors. See also IMF (2022).

However, fiscal vulnerabilities and weak diversification hamper the much-needed fiscal consolidation in the medium term. The COVID-19 crisis highlighted the fragility of relying on public investment as the main driver of growth, along with a volatile and limited revenue base, and rigid spending. It also exposed the country’s vulnerability to fluctuating global commodity prices. COVID-19 widened both the current account and fiscal deficits, shrinking external reserves, and almost depleting the Government Investment Account.²⁸ The balance of payments deteriorated, reflecting the country’s inability to diversify into competitive nonmining sectors (Figure 1.14). The nondiamond trade deficit is massive, with nondiamond exports of goods of only P8.0 billion (USD 680 million) in 2021, as against nondiamond goods imports of P56.4 billion (USD 4.8 billion). This underscores the urgency of boosting nondiamond exports to reduce Botswana’s extreme dependence on diamonds for foreign exchange.

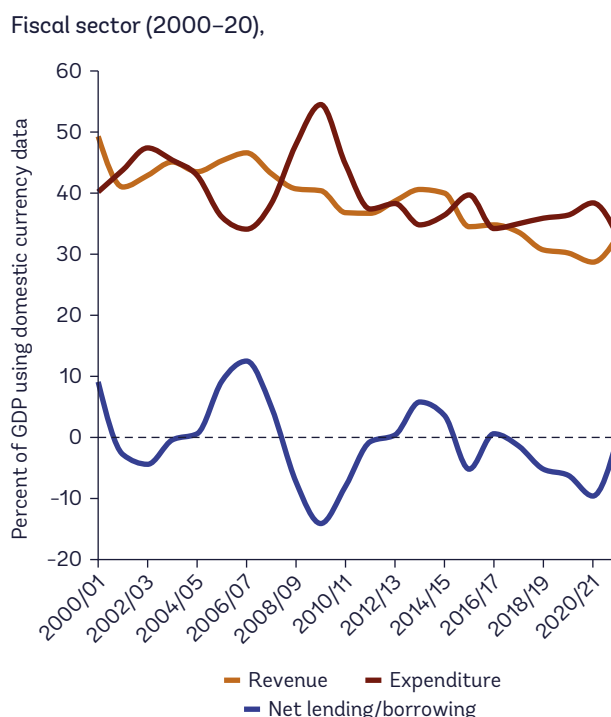
The fluctuating diamond revenue and growing expenditure needs have resulted in consecutive budget deficits, underscoring the need for urgent reforms to ensure fiscal sustainability. The government’s ongoing efforts to stimulate growth and employment through fiscal expansion (higher public sector wages, employment and social spending, and investments) have led to large fiscal deficits and a persistent draw-down in buffers. This undermined fiscal consolidation efforts and had kept spending high even before the COVID-19 pandemic. Fiscal savings have come under significant pressure, with budget deficits since fiscal 2016; in fiscal 2021, the budget deficit reached 9.5 percent of GDP (Figure 1.15). The budget was (almost) balanced in fiscal 2022, but the 2023 budget again envisages a deficit, given the high public sector wage bill. Overall, domestic resource mobilization has been weak and inefficient, and thus unable to finance the country’s developmental and transformative agenda in full.

FIGURE 1.14 External trade balances deteriorated ...



Source: World Bank calculation using Ministry of Finance data.

FIGURE 1.15 ... as did fiscal balances



Source: World Bank calculation using Central Bank data.

28. The fiscal position started to improve in 2022, buoyed by the rebound in Botswana diamond exports as countries banned Russian diamonds following the Russia’s invasion of Ukraine.

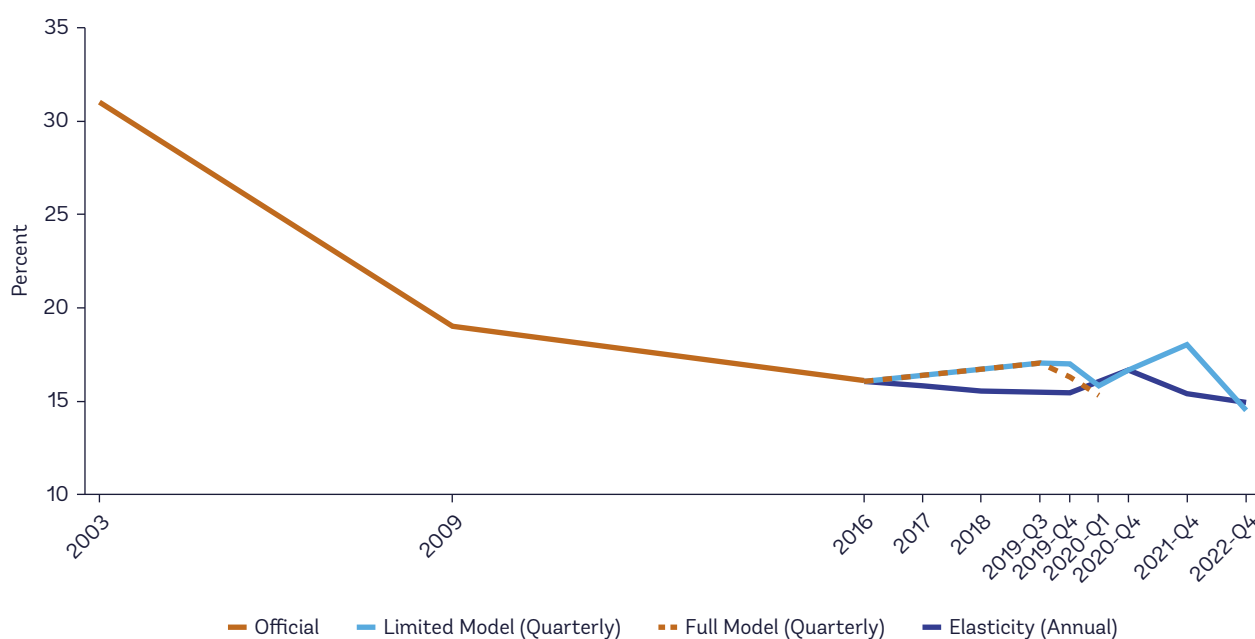
POVERTY AND EQUITY AFTER THE 2015 SCD

Progress has slowed, and inclusion remains limited

Poverty reduction has been slower and only weakly linked to economic growth. The 2015 SCD showed that the share of the population living below the official poverty line fell rapidly from 30.6 to 19.3 percent between 2003 and 2009 (Figure 1.16). Progress has slowed since then, in line with the economic slowdown and increasing volatility. Still, the poverty rate declined to 16.1 percent in 2016, representing over 330,000 Botswana living in poverty.^{29,30} The depth and severity of poverty also declined, implying that the poorest among the poor were slightly better off in 2016; however, the rate of this decline was also slower than in the past.³¹ Worryingly, the ability of economic growth to lead to poverty reduction declined by 84 percent in the last available survey, as the elasticity of GDP to poverty fell from -3.8 in 2003–09 to -0.6 in 2009–16. Projections up to 2022, using different methodologies, suggest that the pace of poverty reduction has slowed even further due to the weaker labor market (Figure 1.16).

FIGURE 1.16 Poverty reduction has slowed and is likely to have stagnated recently

Poverty trends and projections



Sources: 2003 HIES (Central Statistics Office 2004), 2009 BCWIS, and 2016 BMTHS (Statistics Botswana 2013, 2018); 2017–22 projections based on QMTS and national accounts data.

Note: Projection methodologies include “limited” and “full” quarterly models using survey-to-survey imputations and annualized elasticity projections. See appendix C for details.

By 2016 Botswana had lost its position as one of Africa’s top performers on the shared prosperity indicator, and its poverty rate remains high relative to its peers. Consumption per capita among the poorest 40 percent of the population grew by only 1.2 percent annualized in 2009–16, down from 5 percent in

29. An update to Botswana’s official poverty measurement methodology (undertaken jointly by Statistics Botswana and the World Bank) yields a poverty rate of 16.1 instead of 16.3 percent for 2015/16.

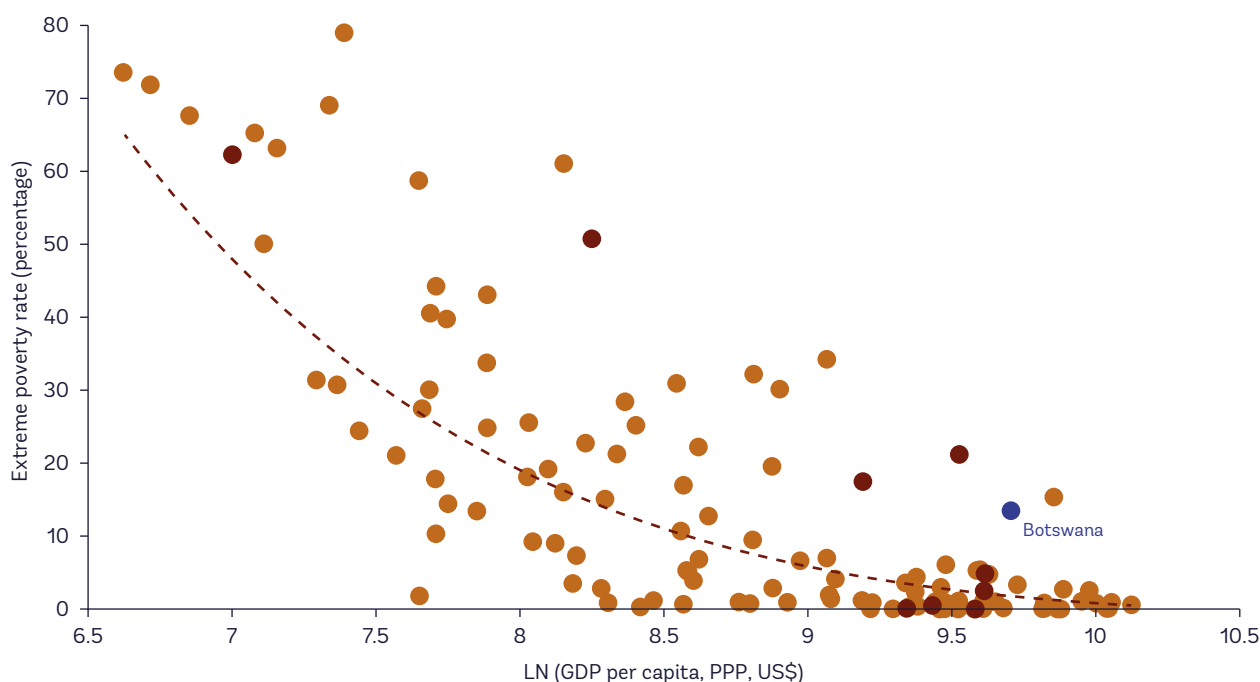
30. The poverty analytics are based on the 2002/03 Household Income and Expenditure Survey (HIES) (June 2002–August 2003; Central Statistics Office 2004), the 2009/10 Botswana Core Welfare Indicators Survey (BCWIS) (April 2009–March 2010; Statistics Botswana 2013), and the 2015/16 Botswana Multi-Topic Household Survey (BMTHS) (November 2015–December 2016; Statistics Botswana 2018). For ease of reference, this document uses the year in which a survey covered the most months as its date; hence, the 2003 HIES, the 2009 BCWIS, and the 2016 BMTHS.

31. These measures correspond to the poverty gap and the Poverty Severity Index (the square of the poverty gap).

2003–09. Even among the top 60 percent of the population, real consumption per capita declined.^{52,53} In terms of the global poverty line for upper-middle-income countries (\$6.85 per day, 2017 PPP), poverty increased by 3.1 percentage points in this period, to reach 63.5 percent in 2016. Botswana's estimated figure for 2019 in terms of the international poverty line (\$2.15 PPP) is more than four times higher than its GDP per capita would predict (Figure 1.17). Among its structural peers, its rate of poverty at the international line far exceeds those of Gabon, Georgia, Lebanon, Mongolia, and Tunisia and approaches rates in South Africa and Namibia; only the Republic of Congo is significantly poorer.⁵⁴

FIGURE 1.17 Botswana is poorer than most of its structural peers

\$2.15 per day poverty line, 2017 PPP



Source: World Bank calculations, using World Development Indicators (database), World Bank, Washington, DC.

Note: The chart only shows countries with PPP GDP per capita of less than \$25,000.

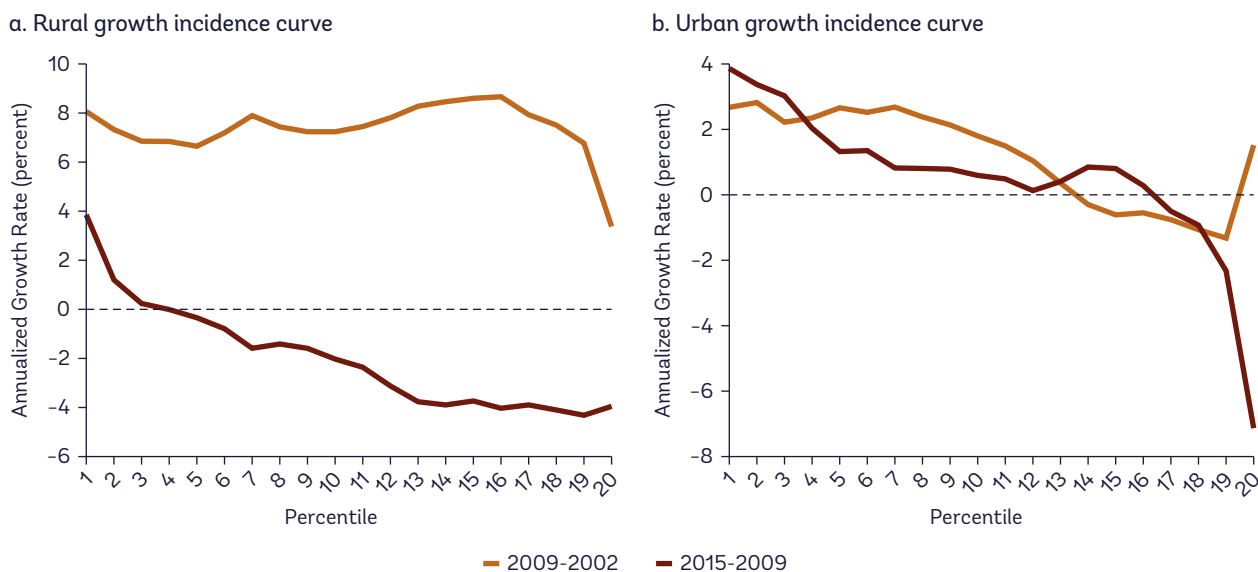
Between 2009 and 2016 average consumption in rural areas declined, rural poverty increased, and the urban-rural gap widened. In this period, poverty in *cities and towns* decreased from 8.0 to 3.3 percent and in *urban villages* from 19.9 to 13.7 percent. However, poverty in *rural villages* increased from 24.4 to 26.8 percent, leaving rural poverty rates two and a half times higher than in urban areas. Whereas 2009 had seen consumption growth in rural areas across all income deciles, and faster than in urban areas, output volatility and drought in 2016 led to lower consumption for all but the poorest 15 percent of the population in rural areas (Figure 1.18). In contrast, urban areas saw higher consumption per capita for all but the top 20 percent of the urban population.

52. Shared prosperity, which measures the extent to which economic growth is inclusive, is expressed as the annualized growth rate in the average consumption per capita of the poorest 40 percent of the population.

53. Real consumption by the top 60 percent of the population fell between 2009 and 2016, resulting in a 1.8 percent annualized consumption per capita decline for the country overall. These results use the official welfare aggregate and differ slightly from the World Bank's Global Database of Shared Prosperity, which has estimates of 0.42 and 3.3 percent for the poorest 40 percent of people and the country overall, respectively.

54. An exercise to determine Botswana's structural peers (see appendix B) used 20 different indicators from the World Development Indicators database. Eight countries proved robust to different combinations of indicators: Gabon, Georgia, Lebanon, Mongolia, Namibia, the Republic of Congo, South Africa, and Tunisia.

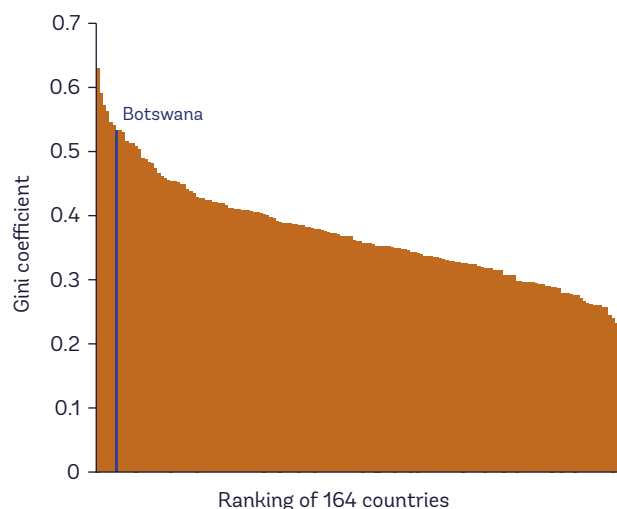
FIGURE 1.18 Rural households fared worse than urban households across the income distribution



Sources: 2003 HIES (Central Statistics Office 2004), 2009 BCWIS, and 2016 BMTHS (Statistics Botswana 2013, 2018).

Although inequality also decreased, Botswana is still exceptionally unequal by international standards, which dampens its growth potential. Consumption inequality, measured by the Gini coefficient, declined from 60.5 percent in 2009 to 54.9 percent in 2016 (using official figures). This primarily reflected pro-poor growth in urban areas, especially *cities and towns*, where the coefficient declined from 59.9 to 48.7 percent. Inequality remains high in rural areas, at 53.3 percent in 2016, with *urban villages* at 51.1 percent. Also, the decline in inequality reflects significantly lower consumption among richer households rather than higher consumption among poorer ones. Botswana remains among the top 10 most unequal countries in the world (Figure 1.19). Among its structural and regional peers, only South Africa and Namibia have higher rates of inequality. International experience suggests that Botswana would find it hard to reach an inclusive growth path and high-income status without addressing these levels of inequality and poverty.

FIGURE 1.19 Inequality is among the highest in the world



Source: Poverty and Inequality Platform (database), World Bank, Washington, DC, <https://pip.worldbank.org/home>.

A broader multidimensional measure of poverty suggests faster improvements between 2009 and 2016, but rural-urban gaps remain. The World Bank’s Multidimensional Poverty Measure³⁵ for Botswana declined from 31.8 percent in 2009 to 21.1 percent in 2016, more than for monetary poverty alone (Figure 1.20).

Deprivation rates are highest for sanitation and electricity, but access to electricity improved significantly in this period. Education also showed improvements, although starting from better levels. Access to water was high in both 2009 and 2016, with very low deprivation rates of 4.3 and 3.7 percent, respectively. Despite

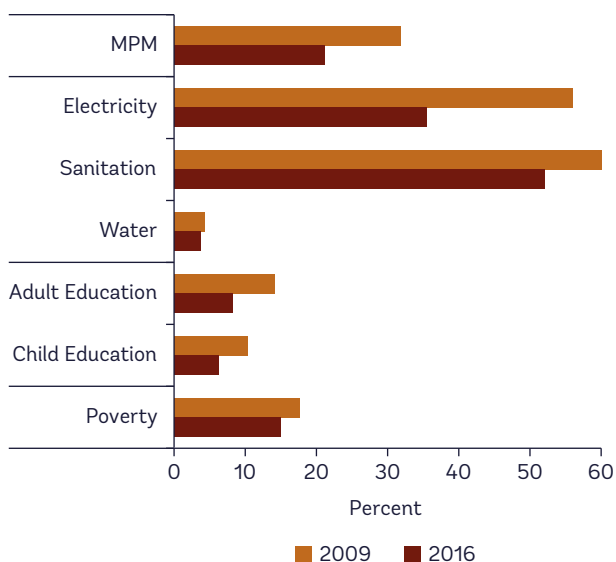
35. The World Bank’s Multidimensional Poverty Measure is an index that reflects the percentage of households deprived along three dimensions of well-being: monetary poverty, education, and basic infrastructure services. By seeking to understand poverty beyond monetary deprivations, the index provides a more complete picture of well-being.

such improvements, rural deprivation rates are high overall, especially relative to urban areas. For example, in 2016, 64.8 percent of rural households had no access to electricity, more than three times the share of urban households (20 percent) without such access (see section 2.1). Likewise, 65 percent of rural households could not access improved sanitation, as against only 45 percent of urban households. In terms of education outcomes, 16 percent of rural households had at least one adult with less than complete primary education, as had only 3.8 percent of urban households.

Despite Botswana’s considerable progress, its Human Development outcomes remain well below the levels expected for a country of its income and characteristics. Botswana’s maternal and under-five mortality rates are not commensurate with its level of investment in the health sector and its classification as an upper-middle-income country. Malnutrition rates approach those of much poorer African countries. In terms of education, many students drop out at the end of their junior secondary education, and the gross enrollment rate at senior secondary level is only 62 percent. Moreover, despite generous public spending, the quality of education is low. Botswana performs poorly in regional and international assessments, with children from the poorest households faring worse than those from wealthier ones. The Human Capital Index, which measures the expected productivity in adulthood of a child born today, stood at 0.41 in 2020 (Figure 2.1 below), unchanged since 2018, although it had increased from 0.37 in 2010.³⁶ Children in Botswana can expect only 8.1 years of schooling, corresponding to 5.1 years of schooling after adjusting for the quality of education; this nears the average for low-income countries (Figure 1.21).^{37,38}

FIGURE 1.20 Multidimensional poverty improved more than monetary poverty alone

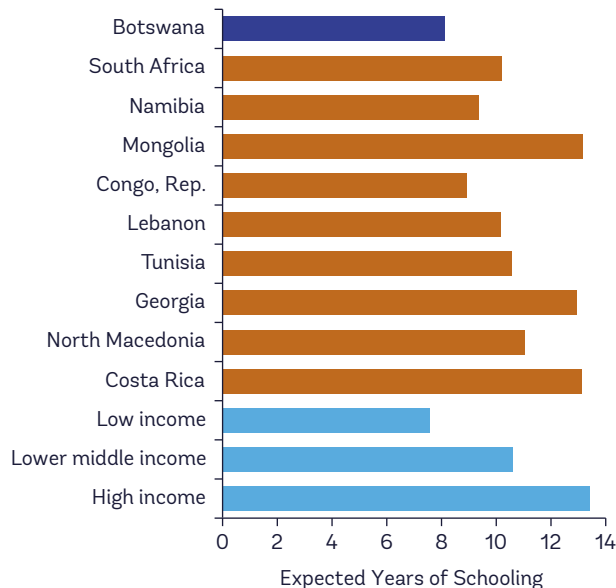
Multidimensional Poverty Measure 2009 – 16 and deprivation by dimension



Source: Multidimensional Poverty Measure: World Bank calculation, using 2009 BCWIS and 2016 BMTHS (Statistics Botswana 2013, 2018).

FIGURE 1.21 Expected years of schooling are fewer than in its structural peers

Expected years of schooling



Sources: World Bank calculations and Human Capital Project (database), World Bank, Washington, DC. <https://www.worldbank.org/en/publication/human-capital>.

36. The Human Capital Index is a function of education and health, which are important for people’s productivity. It ranges between 0 and 1, where 1 indicates the benchmark of complete education and full health.

37. Expected years of schooling are calculated as the sum of age-specific enrollment rates between ages four and seventeen. Age-specific enrollment rates are approximated using enrollment rates at different levels: preprimary enrollment rates approximate the age-specific enrollment rates for four- and five-year-olds; the primary rate those for six- to eleven-year-olds; the lower-secondary rate those for twelve- to fourteen-year-olds; and the upper-secondary rate those for fifteen- to seventeen-year-olds.

38. For more information on learning deprivation in Botswana, see also World Bank and UNESCO Institute for Statistics (2022).

Poverty became more concentrated in rural areas, but education levels improved

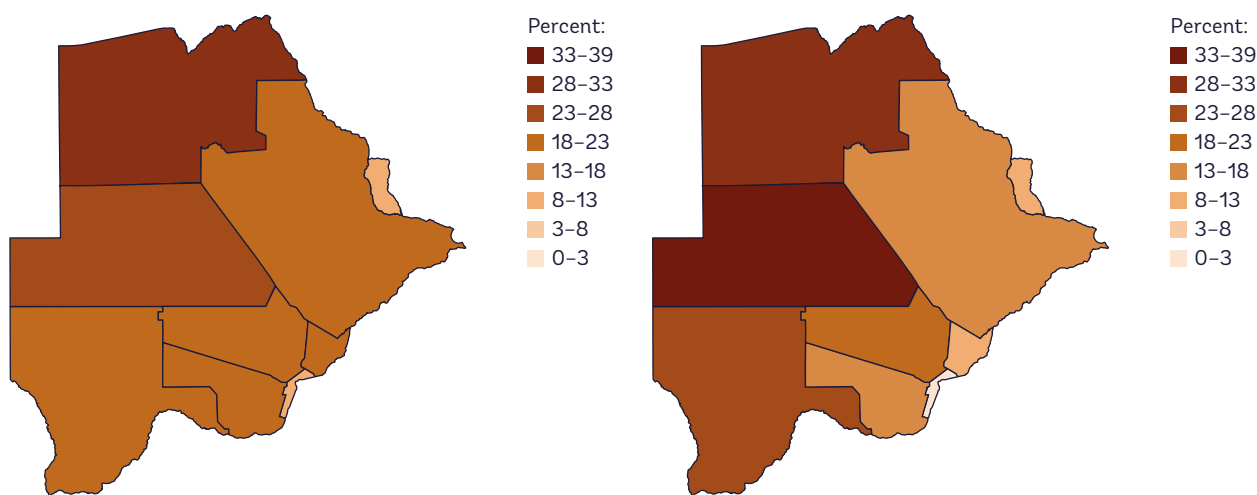
Who are the poor?

Poverty is increasingly more concentrated in rural areas and continues to be highest among children, large families, female-headed households, and people with lower levels of education. Although the share of Botswana living in rural areas declined from 43.0 to 34.9 percent between 2009 and 2016, the share of poor people living in rural areas increased from 56.2 to 58.2 percent. Poverty increased in the remote North-West, Ghanzi, and Kgalagadi districts but fell in and around cities to the south- and northeast (Figure 1.22). The share of poor people living in female-headed households declined from 58.1 to 56.8 percent, whereas the share with secondary or higher education increased from 14.6 to 20.4 percent as education improved for both the poor and non-poor. Households with low levels of education faced poverty rates of 21 percent on average, down from 24 percent in 2009, whereas those with secondary or tertiary education had much lower rates of poverty (13 and 2 percent, respectively). The poverty rate for under-five-year-olds remained the highest at 24 percent, albeit down from 27 percent in 2009; people of working age had the lowest poverty rate (12 percent). The poverty rate also increased with household size, from 8 percent for households of four people to 34 percent for households with seven or more people.

FIGURE 1.22 Regional poverty is diverging, increasing in the west and decreasing in the east

a. Poverty 2009/10 (official line)

b. Poverty 2015/16 (official line)



Source: World Bank calculations, using 2009 BCWIS and 2016 BMTHS (Statistics Botswana 2013, 2018).

What drives poverty and inequality?

The main driver of higher rural poverty between 2009 and 2016 was the significant decline in the share of employed adults in rural households. This outweighed the beneficial impacts of factors such as lower inequality, higher labor and nonlabor incomes, and demographic changes (that led to a lower share of children and elderly people in the household). Among urban households, in contrast, lower inequality had a stronger (but still opposite) impact on poverty than the decline in mean consumption. In addition, among the components of household income, labor income was the main driver (at 80 percent) of poverty reduction, with non-labor income and a higher share of adults in the household also contributing.³⁹

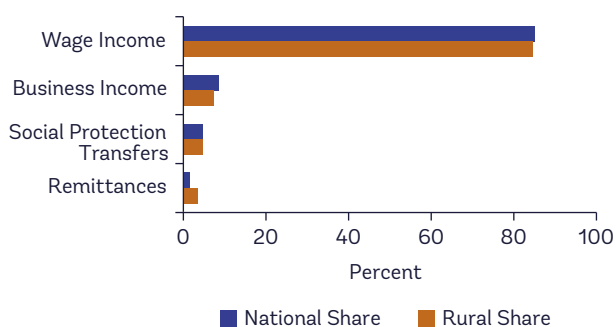
39. See the 2023 Botswana Poverty Assessment (World Bank 2023 forthcoming) for more details.

Although income from employment is central to reducing poverty and inequality, social protection programs play a vital role. Botswana has 29 social protection programs across nine ministries. Without transfers from these programs, the poverty rate of 16 percent in 2016 would have been almost 24 percent, and the poverty gap would have increased from 4.6 to 9.5 percent.⁴⁰ Removing just the 13 social assistance programs would increase the poverty headcount from 16 to 22.8 percent (almost 30 percent higher). Key among these are the old-age pension, which reaches more than 126,000 people (about 5.5 percent of the population in fiscal 2020), and the primary school feeding program, which reaches about 269,000 children.⁴¹

Labor market factors were the largest contributors to inequality in 2016, whereas demographics and education had been the largest contributors in 2009. Labor market indicators contributed 35.6 percent to inequality in 2016, up from 20.3 percent in 2009, followed by demographics (27.9 percent in 2016), education (25.9 percent), and location (10.6 percent).⁴² In other SACU countries differences in educational attainment were the most important driver of overall inequality. For Botswana, the large contribution of labor market indicators to inequality reflects differences in occupation type (such as senior managers, professionals, and clerks, suggesting differences in skills and abilities) and to some extent, labor force participation.⁴³ An increase in tertiary education among adults in Botswana may have helped reduce the contribution of tertiary education to inequality relative to that of the labor market. Demographic factors contributed less to inequality, suggesting the “demographic dividend” (more household members of working age and fewer dependents) became more even across households. Lastly, unlike in other SACU countries, location increased in importance as a source of inequality in 2016, driven by the divergence in inequality across regions in Botswana.

Among the sources of income, wage inequality is the main driver of inequality in Botswana, more so than in the rest of SACU. Wage income contributed 85 percent to inequality (as against the 72.3 percent average for SACU), even in rural areas, with business income (8.7 percent), social protection transfers (4.7 percent), and remittances (1.5 percent) all having a much

FIGURE 1.23 Wage income is the main contributor to inequality



Source: World Bank calculations based on Sulla and others (2022)

smaller role (Figure 1.23).⁴⁴ A marginal increase in existing social transfers and remittances, and to some extent also business income, has an equalizing effect on overall incomes.⁴⁵ Wage income, on the other hand, has the largest marginal effect on inequality (changing the Gini coefficient by 5.2 percent) and increases inequality particularly in rural areas (8.3 percent). These results suggest that beyond continued improvements in educational attainment and dependency ratios, reducing inequality will require policies that reduce differences in wage incomes, for example, by strengthening skills and abilities and by reducing wage differences between the public and private sectors.

40. For more detail on Botswana’s social protection programs, see World Bank (2022c).

41. In contrast, the tertiary sponsorships program attracts the highest expenditure (1.13 percent of GDP), far more than the primary school feeding program (0.38 percent); however, its impact on poverty is limited because students from poor households are less likely to reach tertiary education.

42. See Sulla and others (2022). This decomposition of inequality is based on a technique proposed by Fields (2003).

43. Occupational differences accounted for the largest share of total inequality (29 percent) and exacerbated the inequality-inducing effects of high returns to tertiary education (a 24 percent share of total inequality).

44. See Sulla and others (2022). This decomposition of inequality by income sources follows Lerman and Yitzhaki (1985) and Stark and others (1986). For Botswana, four income sources were considered: wage or labor incomes, business income (profits and agricultural income), social transfers, and remittances. These estimates differ slightly from those reported in the regional report, because the methodology used here considers survey weights.

45. In the case of rural households, the effect of a marginal increase in remittances on inequality is 3.6 times larger than the effect of social protection transfers, despite its relatively smaller share of total rural inequality.

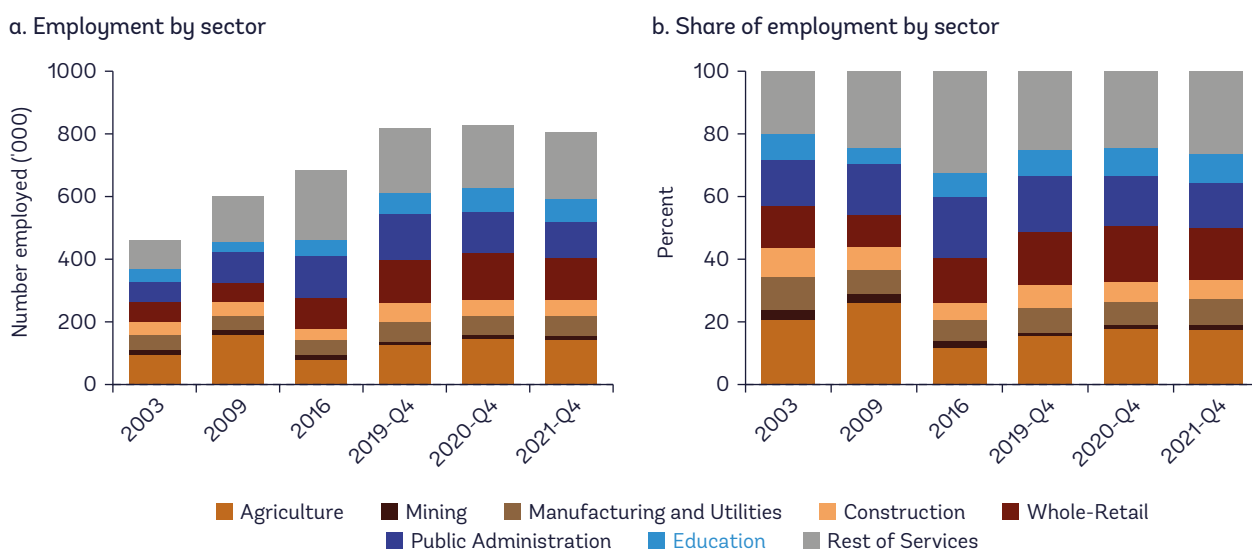
Employment remains key for reducing poverty and inequality

Reducing poverty and inequality requires much higher rates of formal and informal employment.

The economy needs to create jobs at least as quickly as the labor force grows, but this remains a challenge. In 2003–09, when poverty fell rapidly, employment grew faster than the labor force (3.9 percent against 2.7 percent, respectively). In 2009–16, the growth of both employment and the labor force slowed, but the slowdown in employment growth was relatively faster (annualized 1.8 percent, as against 2 percent for the labor force). This meant that the pace of job creation did not match the growing supply of labor; unsurprisingly, the pace of poverty reduction also slowed. Data for 2016–21 show that this trend has continued. With the economy unable to absorb the growing labor force for the last decade, unemployment increased steadily from 17.1 percent in 2009 to 17.6 percent in 2016, and then to 22.7 percent in the last quarter of 2022. This rate is higher than in all other upper-middle-income countries, except for South Africa. In parts of Botswana where relatively fewer people found work, such as rural areas, poverty worsened. But *cities and towns* also saw higher unemployment, as more people entered the labor force while employment rates remained flat.

Botswana ranks in the bottom 30 percent of countries worldwide in terms of employment, leaving many people unemployed and discouraged. Job creation is limited by bottlenecks in the demand for labor, and labor supply constraints result in skills mismatches. It is also difficult for people to start their own businesses and become self-employed. Among employed people in 2021, 15.4 percent were classified as nonfarm self-employed, 12.2 percent as farm self-employed, 18.9 percent as wage workers in central or local government, 38.6 percent as private wage workers (including private households), 2.6 percent as parastatal workers, and 6.4 percent as Ipelegeng public workers.⁴⁶ Over the last 20 years people do not seem to have transitioned out of agriculture into private wage work; instead, almost 18 percent remain employed in agriculture (Figure 1.24). In fact, data for 2021 suggest strong increases in nonsubsistence agricultural farming since 2016. One reason could be the import substitution policies for food implemented in 2021, which helped increase the demand for domestic agricultural output and reallocated resources towards the sector with the lowest productivity in the economy.

FIGURE 1.24 Lack of transition out of agriculture while employment in services has grown



Source: World Bank calculations, using 2009 BCWIS and 2016 BMTHS (Statistics Botswana 2013, 2018), and QMTS (Statistics Botswana 2019a, 2019b; 2020a, 2020b; 2021; 2022c). Note: QMTS employment figures are adjusted to include subsistence farmers (Eighteenth ICLS standard).

46. The rest include nongovernmental organizations (0.6 percent) and other unknown wage employees (5.3 percent). Ipelegeng is a workfare program for adults 18 years or older and is limited to only one-month employment.

Gender inequality

Women do not have equal access to economic opportunities and productive resources. In 2021 only 59 percent of women participated in the labor force, as against 69 percent of men (using labor market definitions comparable over time); the unemployment rate for women is 25.3 percent, as against only 19.7 percent for men. This is compounded by gender bias, which segregates women into less-profitable economic activities; even in the same sectors as men, women are paid less. Female-headed households were disproportionately poor – in 2016 they represented 51.6 percent of households but 56.8 percent of poor households. Women account for about 39 percent of the agricultural workforce, but they are more likely to have only informal agricultural businesses. Men dominate the livestock sector (which provides 60 percent of agricultural value added, mainly beef) and own more cattle, sheep, and goats, whereas women own more chickens. Similarly, despite owning more arable land, women harvest less than their male counterparts, largely because they lack access to inputs. In terms of wage employment, men are 40 percent more likely to be wage workers. Women are also 58 percent more likely to be unpaid family workers.⁴⁷ Overall, women continue to face significant challenges in the business environment, including a lack of access to finance, assets, skills, training, and networks.⁴⁸

The COVID-19 pandemic and lockdowns had a particularly negative effect on women. Of the 67,000 people who lost jobs or businesses in 2020, 58 percent were women. Among the only 4 percent of these newly unemployed people who had found other jobs by the last quarter 2020, 70 percent were male. Overall, around 19,000 people found some form of employment during the pandemic, of which close to 77 percent were women; 72 percent were in public administration or education. About 17,000 of these were employees (rather than self-employed people), of whom over 35 percent were hired by Ipelegeng, a short-term unemployment relief program.

HIGH EXPOSURE AND VULNERABILITY TO NATURAL SHOCKS

Growing global uncertainty and instability, combined with the increasing frequency and severity of natural shocks, expose significant macro- and socioeconomic vulnerabilities in Botswana, an issue acknowledged but not stressed enough in the 2015 SCD. The 2015 recession, for instance, showed that the economy's heavy reliance on minerals and the public sector makes it more vulnerable to external shocks, generating large macro and fiscal imbalances. Global and national mobility restrictions imposed during the COVID-19 pandemic weakened the demand for diamonds and created havoc in the tourism sector. The country is also highly vulnerable to climate variability and related events, given its high dependence on rainfed agriculture and natural resources. Botswana ranked 94th out of 181 countries in terms of climate risks on the 2020 Notre Dame Global Adaptation Initiative Index, which assesses a country's vulnerability to climate change and its readiness to improve resilience.⁴⁹ The higher frequency and intensity of extreme droughts and floods threaten crops, livestock, and food security, and burden urban infrastructure (including through higher rural-to-urban migration), capital assets, and people.

Floods are the most frequent natural disaster in Botswana, comprising 55 percent of all recorded events since 1965 (Figure 1.25). The number and severity of floods have increased dramatically in the last two decades, possibly because of climate change. The Central District, the most populous part of the country, faces the highest risk of floods. Ngamiland, the popular tourist destination that houses the Okavango Delta,

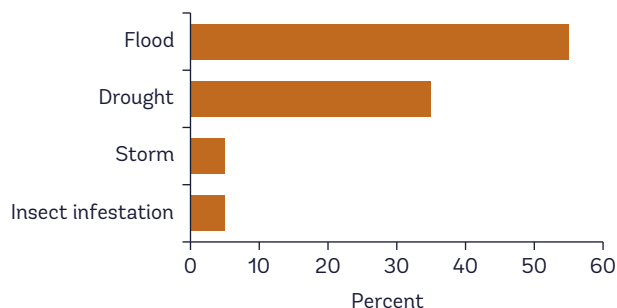
47. In addition, in their traditional role as primary caregivers, women are responsible for caring for ill family members, often at the expense of taking advantage of economic, education, or training opportunities.

48. See, for example, the Botswana Gender Landscape (World Bank 2023a).

49. Data are drawn from the Country Index (database), ND-GAIN (Notre Dame Global Adaptation Initiative), Notre Dame, IN, <https://gain.nd.edu/our-work/country-index/>.

is also prone to floods. Estimates from the United Nations Office for Disaster Risk Reduction show that, on average, about \$50 million of Botswana’s GDP (nearly 0.3 percent) is potentially affected by floods every year.⁵⁰ The total built-up area exposed to flooding has increased steadily since 1990, suggesting that urban expansion has continued without regard for flood exposure, above all in Francistown. Floods are also the leading cause of recorded deaths attributed to natural disasters. In terms of asset and economic losses, the sectors most vulnerable to floods are agriculture, transportation, and housing.

FIGURE 1.25 Droughts are the second most frequent climate risk ...

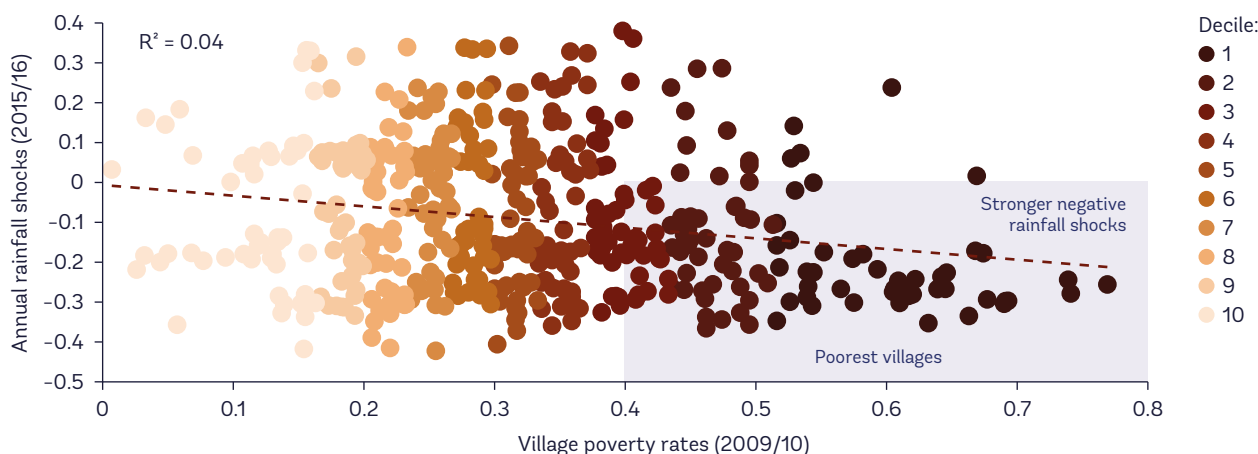


Source: World Bank calculations.

Some parts of the country, particularly the southern and eastern regions, face high and increasing exposure to droughts. Droughts are the second most common natural disaster in Botswana, and about 37 percent of the population live in areas with low levels of effective precipitation. The probability of droughts occurring is projected to increase by 45 percent, and expected changes in the climate are likely to more than double the share of the population affected by droughts, to about 78 percent. Rising temperatures are likely to mean more intense heatwaves and higher rates of evapotranspiration. The agricultural sector is the most vulnerable to droughts, with about 40 percent of livestock and all crops (except for maize and sorghum) affected.⁵¹

Natural disasters impede and may even reverse the reduction in poverty and inequality, as they are more likely to affect the poorest villages. For example, the severe drought of 2015/16 affected most villages, but it was more intense in the poorer villages where subsistence farmers live. This may help explain why the number of people working in small-scale agriculture declined steeply in that period. With both subsistence and nonsubsistence farmers unable to make up the lost consumption via other sources of income, poverty in rural areas increased. More broadly, an analysis of rainfall shocks—defined as positive or negative deviations from village-specific historical patterns—for various years in 2009–19 show that poorer villages are systematically more likely to experience excessive or deficient rainfall (Figure 1.26). The effects of droughts go beyond the vulnerability of subsistence farmers, however; for example, Botswana’s vital tourism sector depends on water-based wildlife.

FIGURE 1.26 ... and, like floods, they disproportionately affect poor people



Sources: World Bank calculations; World Bank 2023 (forthcoming).

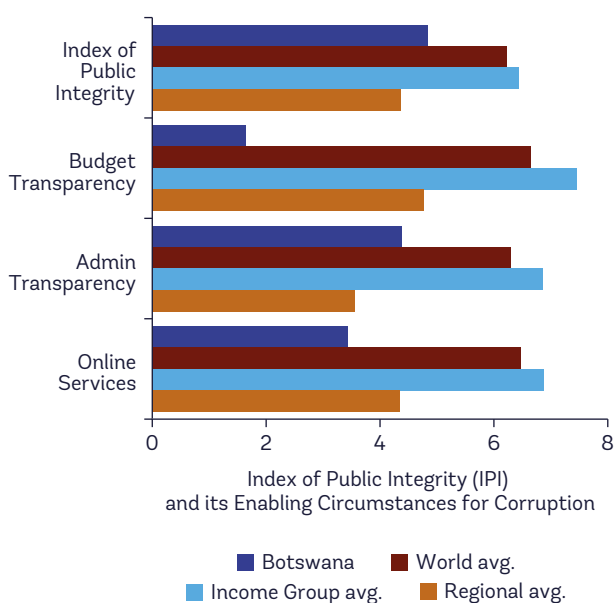
50. For details on Botswana’s disaster risks, see UNDRR and CIMA (2019).

51. See UNDRR and CIMA (2019) and World Bank (2021a) for the climate risk assessment.

DETERIORATING PUBLIC SECTOR EFFECTIVENESS AND EFFICIENCY

A gradual but steady decline in the quality of public policy formulation, implementation, monitoring, and accountability is undermining the effectiveness and efficiency of the public sector, which affects both the quality of services and standards of living. Botswana's impressive economic performance in the past was attributed in part to the quality of its public sector. More recently, however, the gap between policy formulation and implementation has widened. Spending is high, even by global standards, but returns are lower than expected, and there is little accountability for poor performance.⁵² This is compounded by weak incentives to implement policy changes and correct course when needed, a lack of data to guide policy making, and vested interests. From 2016 to 2022 Botswana's score on the Bertelsman Transformation Index gradually worsened, with its Governance Index and Governance Performance scores declining by 0.23 and 0.21 points, respectively.⁵³ Botswana remains a leader among its regional peers on most global governance indicators, but on measures of the enabling circumstances for corruption, including administrative transparency, online services, and budget transparency, it lags well behind its global and income group peers

FIGURE 1.27 Public integrity indicators lag global and income group peers



Source: Botswana Corruption Forecast (database), CorruptionRisk.org, <http://www.corruptionrisk.org/country/?country=BWA#forecast>

(Figure 1.27).⁵⁴ There is a clear intent to move forward: Vision 2036⁵⁵ promised that the public sector would offer first-class services (effectiveness) and do more with less (efficiency). However, this ambitious goal is far from being realized. The Public Procurement and Asset Disposal Board, long seen as a credible institution, has endured allegations of corruption, with losing bidders lodging lawsuits accusing the Board of collusion. Recent procurement reforms offer an opportunity for transformation, if implemented fully. A lack of implementation capacity in the public service and most of the SOEs has been a major challenge. Due to procurement delays and weak project management capacity, ministries consistently underspend funding allocated per year, requiring a new appropriation process to be able to continue with capital projects the following year. This undermines project completion timelines and overall quality of public investment, while increasing overall costs.⁵⁶ Significant inefficiencies in infrastructure spending require improvements in project appraisal, management, and monitoring.

52. IMF 2022

53. Data are drawn from the BTI Transformation Index: Botswana (database), BTI, <https://bti-project.org/en/reports/country-dashboard/BWA>.

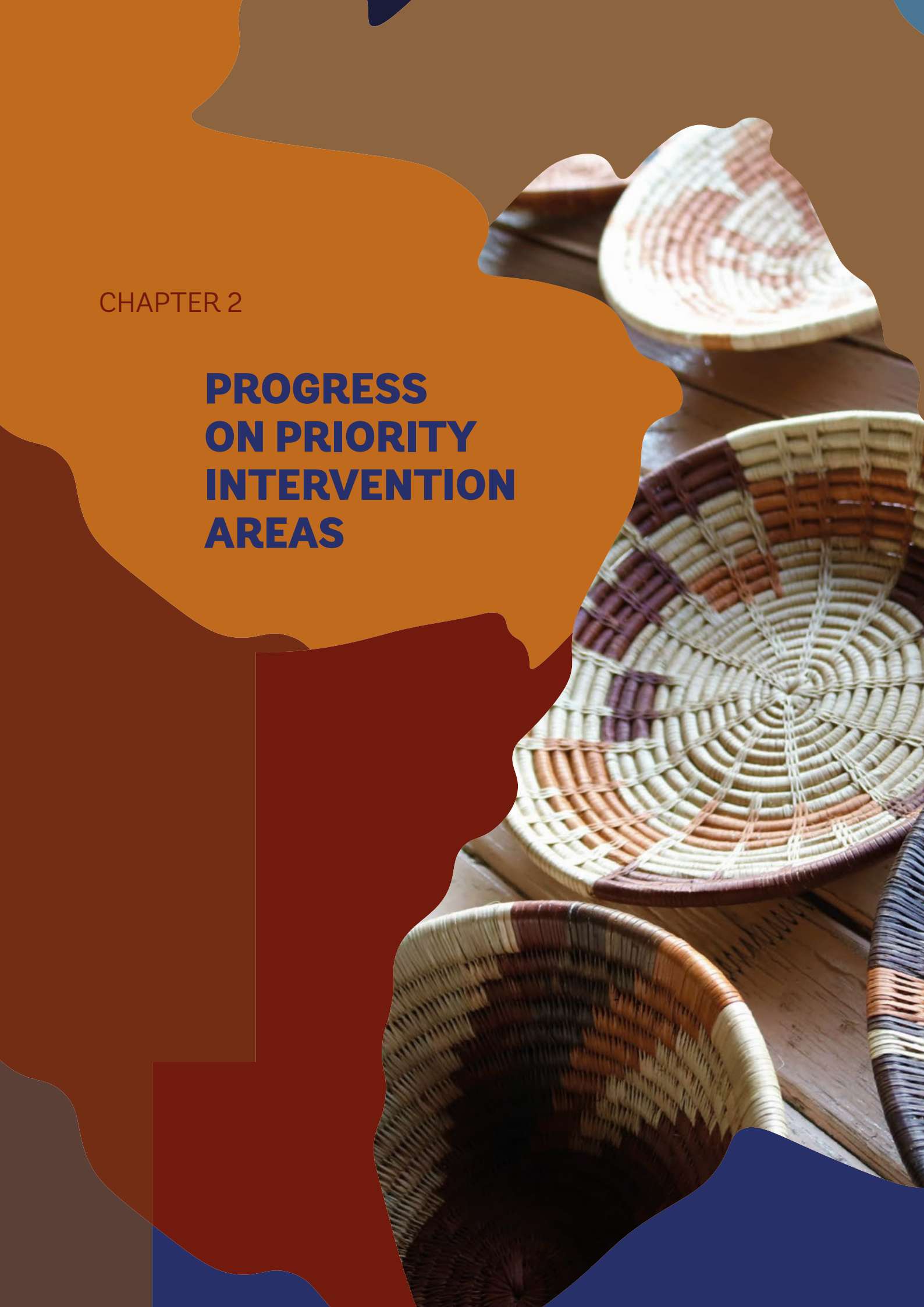
54. For example, on the Index of Public Integrity, Botswana ranks sixth in Africa but 85th out of 114 globally and 27th out of 29 upper-middle-income countries.

55. Vision 2036 was launched in 2016; see Government of Botswana (2016).

56. Government of Botswana (2023) and PEFA (2020).

CHAPTER 2

**PROGRESS
ON PRIORITY
INTERVENTION
AREAS**



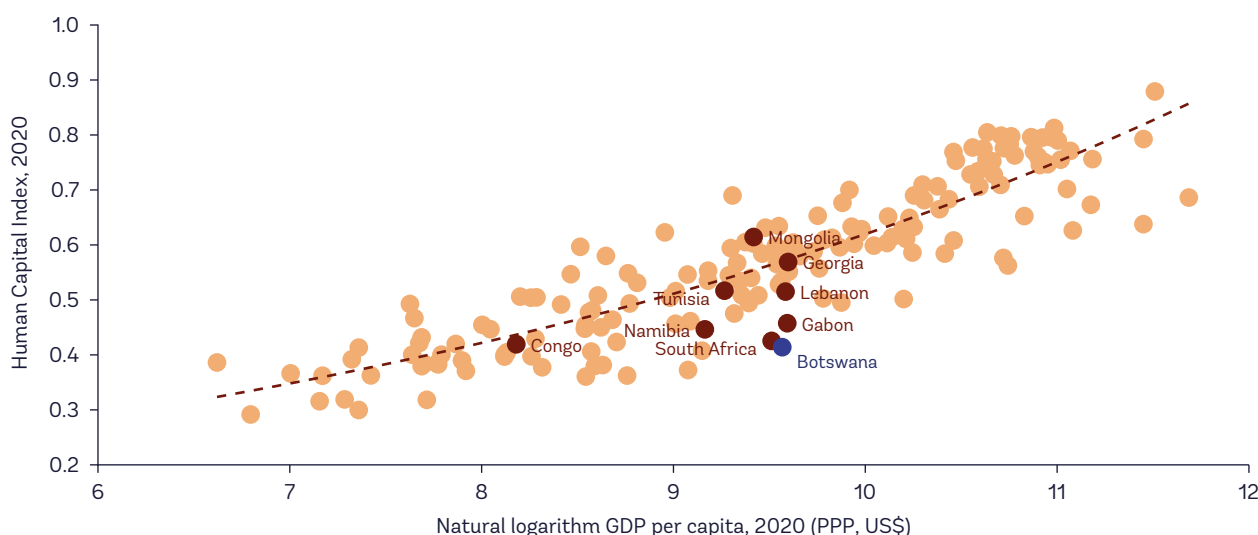
The Botswana 2015 SCD identified seven broad priority areas for intervention to address the goals of sustainable poverty elimination and shared prosperity (Figure 1.3). Since then, progress on these priority intervention areas has been mixed, with some areas seeing partial progress and others limited or no progress. This SCD Update assesses progress both on outcomes and on the underlying reforms, especially for priority areas with a long-term outlook. It concludes that although many priority areas identified in the 2015 SCD remain valid, some challenges have become more pressing, including energy security and climate shocks. Botswana needs to review its priorities to address its increasingly modest performance and the chronic public sector implementation gaps.⁵⁷

PARTIAL PROGRESS ON HUMAN CAPITAL, WATER AND SANITATION, AND SOCIAL PROTECTION

Improving health and education outcomes

Botswana has made partial progress on the priority intervention on *improving health and education outcomes by reducing the disease burden and raising and aligning skills*. Developing a new growth model requires substantial improvements in human capital, through education and health, to increase the productivity of the labor force. The 2015 SCD highlighted the need to reduce child malnutrition and the impact of disease (especially HIV) on skills acquisition, and to increase women's participation in income-earning activities. It also emphasized improving the quality of education and aligning skills with labor market needs, especially for young people. Overall, Botswana's human development outcomes remain low relative to its level of income and development (Figure 2.1).

FIGURE 2.1 The Human Capital Index is low relative to the income level



Sources: World Bank calculations and Human Capital Project (database), World Bank, Washington, DC. <https://www.worldbank.org/en/publication/human-capital>.

Partial and mixed progress on health outcomes: Botswana has made some progress in addressing key causes of morbidity and mortality. Child survival rates (to age five) rose from 95 to 96.4 percent, and adult survival rates (from age 15 to 60) rose from 63.5 to 79.9 percent between 2010 and 2020. Botswana was also

57. For a discussion on the prioritization process, see chapter 3.

the first high-burden country to bring mother-to-child transmission of HIV below 5 percent, and it has achieved an HIV case rate of fewer than 500 per 100,000 live births.⁵⁸ As of 2022, Botswana has reached the UNAIDS 95-95-95 targets.⁵⁹ Despite such progress, serious challenges persist. The incidence of tuberculosis remains one of the highest globally, and maternal and under-five mortality rates are relatively high for Botswana's level of development and health spending.⁶⁰ Modelled data suggest that levels of stunting (22 percent among children under five in 2020) have been relatively unchanged over the last two decades.⁶¹ Lastly, the burden of noncommunicable diseases is significant. Estimated death rates from cancers and cardiovascular disease remain above 100 and 250 per 100,000 of the population, respectively.

Limited progress on health reforms: Total current expenditure on health was about 6 percent of GDP in 2019, with total spending increasing in real terms by 8.6 percent between fiscal 2014 and 2019. Around 83 percent of recurrent health expenditure is allocated to clinical services, despite the policy intent of the Ministry of Health and Wellness to focus more on prevention and primary health care. The proposed (predominantly tax-funded) national health fund is yet to be created. Botswana also needs to implement strategic purchasing of health services to help it transition to a health financing system that optimizes efficiency, quality, and equity and better reflects its pluralistic delivery model (including public, private for-profit, private nonprofit, and traditional medicine practices).

Partial progress on education outcomes: Botswana has made considerable progress in increasing access to early childhood care and education services, with 43 percent of five-year-old children enrolled in preprimary schools in 2018, up from 20 percent in 2013. In 2016, household data showed that about 30 percent of three- to five-year-olds were enrolled in community-based preschool centers run by private providers. Most children complete primary and junior secondary education; however, many drop out after junior secondary education, and the gross enrollment rate at senior secondary level is only 62 percent. Moreover, the quality of education remains low. The country's students are among the worst performers on the three rounds of the international assessment program carried out by the Southern and Eastern Africa Consortium for Monitoring Educational Quality.⁶² Children from low-income households perform particularly poorly. The difference in score between the average and the poorest quartile of students was only 17 points in Swaziland, 19 in Lesotho, and 39 in Namibia, yet it was a high 68 points in Botswana, not far behind the 72 points in South Africa. Although no international assessment has been conducted since 2015, student performance on national examinations (the Primary School Leaving Examination, the Junior Certificate Examination, and the Botswana General Certificate of Secondary Education) has been unchanged in recent years.

Limited progress on education reforms: Public spending on education is relatively high (at 7.1 percent of GDP or 22.2 percent of the government budget), but much of this is allocated to tertiary education. Spending per student in tertiary education is six times as much as spending at the primary level and primarily benefits students from the top two income quintiles. At the secondary level, there is a shortage of classrooms and learning materials, and teachers receive very limited in-service training. The technical and vocational education and training system is fragmented and suffers from a lack of coordination and limited organizational capacities. The quality and relevance of training are a source of concern, and there is often a mismatch between the skills trainees acquire and the demands of the labor market. An important cause of these

58. For more detail on Botswana's progress in terms of health and HIV, see World Bank (2020) and UNAIDS (2021).

59. The 95-95-95 targets stand for 95 percent of all people living with HIV to be aware of their status, 95 percent of those aware of their status to be on antiretroviral treatment (ART), and 95 percent of those on ART to achieve viral load suppression.

60. Although the ongoing census and strengthened vital statistics systems will support better measurement of maternal and under-five mortality rates, examining the drivers of these outcomes would benefit from dedicated assessments, including an update of the demographic and health survey of 2017.

61. World Bank, using April 2021 country-level models from UNICEF, WHO, and World Bank (2021).

62. For more information, see <http://www.sacmeq.org/?q=sacmeq-members/botswana/sacmeq-reports>.

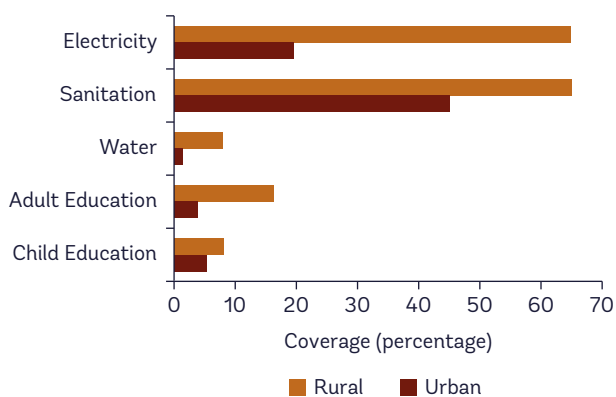
challenges is the 2017 reorganization of Botswana’s education system, which resulted in a complex and fragmented organizational structure.⁶³ The reorganization was reverted in 2022 with now a single Ministry of Education and Skills Development.

Improving access to water and sanitation

Partial progress has been made on ensuring improved access to water and sanitation. A semi-arid country, Botswana is one of four Southern African nations expected to be highly water-stressed by 2040.⁶⁴ Vital industries like agriculture, mining, and tourism all depend on an adequate water supply,⁶⁵ but ground-

FIGURE 2.2 Rural households have limited access to services

Deprivation in access to services: Rural vs urban, 2016



Source: World Bank calculations, using 2016 BMTHS (Statistics Botswana 2018).

water is overexploited, and saline intrusion is a recurrent problem in many regions of the country. The 2015 SCD highlighted the need for substantial investments to increase access to water to meet the (possibly faster) growth in water demand.⁶⁶ Increasing climate variability adds to the challenge, as shown by the 2015 drought, in which cereal crop production declined by 70 percent and livestock mortality rose by 20 percent. The 2015 SCD also emphasized the importance of addressing major disparities in access to sanitation to improve people’s livelihoods and lower the incidence of disease and malnutrition. Access to sanitation increased significantly (from 34 to 48 percent) between 2009 and 2016. Nevertheless, these levels are well below the average for upper-middle-income countries, and access in rural areas remains very low (Figure 2.2). In contrast, access to improved drinking water was high,

at 96.3 percent in 2016, although it did not quite reach the government’s commitment to “universal access by 2016”. Around 91 percent of households receive water from a piped network, in line with the country’s structural peers. However, in many areas, water supply is limited to eight hours per day, three days a week; thus, many households with a piped connection revert to alternative sources, such as mobile water tanks.

Some progress was made on reforms. The National Water Master Plan Update of 2018 aims to enhance the utilization of internal surface and groundwater resources and optimize existing infrastructure, including through a significant increase in treated wastewater reuse, groundwater recharge, demand management, and loss reductions, along with the proposed large-scale transboundary water transfer schemes (the Chobe-Zambezi transfer and the Lesotho-Botswana transfer). The Water Utilities Corporation performs relatively well, but it could be more efficient with better cost recovery and investments in resilience.⁶⁷ Mobilizing pri-

63. The functions of the Ministry of Education and Skills Development were rearranged, with two new ministries—the Ministry of Basic Education and the Ministry of Tertiary Education, Research and Technology—assuming most of the functions of the former ministry. Skills development, however, was moved to the Ministry of Employment, Labour Productivity and Skills Development. For more detail on the basic education system, see World Bank (2019a).

64. The Water Resources Institute suggests that water stress levels for Botswana, Namibia, South Africa, and Lesotho could reach 40–80 percent by 2040. See Maddocks and others (2015).

65. The livestock subsector accounts for 66 percent of agricultural water use. Mining’s water consumption share ranks third, after agriculture and domestic consumption.

66. The annual water supply-demand gap is estimated at 20 million cubic meters in 2020 and could potentially increase to 114 million cubic meters per year by 2035 unless immediate action is taken (National Water Master Plan Update of 2018, Government of Botswana, 2018).

67. In 2017, nonrevenue water was 39 percent and the collection rate stood at 79 percent (Government of Botswana, 2018).

vate capital and expertise could help Botswana tackle many challenges in the water and sanitation sector. Promising areas for private investment include wastewater treatment and water recycling services, performance-based contracts for the reduction of nonrevenue water, improved collections, energy efficiency, groundwater exploitation and management, and water savings performance contracts for large users.

Reforming social protection

Partial but noteworthy progress has been made in *Reforming social protection to reduce fragmentation and improve targeting, efficiency, and linkages*. The 2015 SCD highlighted that although Botswana's social protection systems have been effective in reducing the level and depth of poverty, they could be much more efficient and better targeted to poor households. In particular, the report stressed the need for better links between social protection programs and interventions in health, education, and active labor market programs to limit the intergenerational transmission of poverty. It also emphasized the need to reform social protection, including “adopting technologies and processes to improve targeting efficiency, consolidating the fragmented programs and introducing a single household-level grant as ‘last resort’ protection, introducing conditional interventions to promote behavioral changes, and more effectively linking social protection with public works and active labor market programs”.

Progress on *outcomes* has continued, as social protection programs contribute significantly to the reduction of poverty and inequality. A large share of the population benefits from social protection programs, with more than half (54 percent) of the beneficiaries in the poorest 40 percent of people, and 79 percent of poor people benefiting from at least one social protection program. Botswana responded to the COVID-19 pandemic better than many African countries by providing food relief programs,⁶⁸ continuing existing essential social services and social protection programs, partially maintaining its Ipelegeng public works program, launching an Emergency Operations Center to provide essential supplies, and enhancing efforts to move to digital payments (see Box 2.1 for lessons learned on social protection responses to the COVID-19 pandemic). However, the country's social protection system includes multiple cash, food distribution and in-kind transfer programs, which are not well coordinated. In fiscal 2018, Botswana spent 3.6 percent of GDP on at least 29 social protection programs across nine ministries (including 2.6 percent of GDP spent on noncontributory social assistance). Although more than half of the population benefits from social assistance programs, around 21 percent of poor people do not have access to any such programs. There is also significant overlap between the three areas of social protection benefits received by members of the same household (social insurance, social assistance, and labor market/employment programs).

Partial progress has been achieved on *reforms*. The government has started to reform the administration of social assistance but will need to broaden and deepen these reforms. The National Social Protection Framework approved by the Cabinet in 2020 aims to establish a comprehensive and well-coordinated social protection system. Recognizing the challenges in the delivery of social protection, the government took important steps towards developing a social registry, although this is still in an early phase.⁶⁹ It is also developing and pilot testing a proxy means test, a better methodology for determining eligibility for the poverty-focused programs in the social registry. Moving towards a fully harmonized social assistance targeting

68. As of March 2021, Botswana's COVID-19 Food Relief Programme had allocated P431 million (\$57.3 million) to food baskets for 429,555 households or 67.7 percent of the population (1.59 million individuals). The Orphan Care Programme continued to be delivered even during lockdown, but with some disruption and delays. For school feeding, Botswana changed from on-site meals to take-home food parcels, in line with World Food Programme guidelines.

69. The implementation of the social registry started in four districts, with beneficiary data digitized for the five key programs. By March 2023, the government had uploaded beneficiary data to the registry for all 13 programs implemented by the Ministry of Local Government and Rural Development. Moving from the current database towards a fuller, unified, single registry also requires the addition of beneficiary data from programs not implemented by this ministry, along with data on nonbeneficiaries who are poor, vulnerable, or at risk of shocks.

system requires more broadly determining eligibility and using the proxy means tests for identifying poor households and beneficiaries for other programs. Beyond these reforms, the government could further improve the poverty impact of its programs by using the social registry and harmonized targeting methodology to consolidate small programs with the Destitute Persons Program and put in place a targeted and more comprehensive grant program for poor households. It also needs to improve links to health, education, and labor market services to enhance human capital development. For example, it could strengthen links between cash transfers and services, building on the social registry, or improve links between safety net programs through social intermediation and case management by social workers. This would be a “cash plus” approach.⁷⁰

BOX 2.1 Lessons learned from Botswana’s social protection during COVID-19

Governments across Southern Africa responded to COVID-19 in a mix of similar and contrasting ways. Many introduced emergency social protection measures, but these varied in terms of reach, generosity, and modality. The Government of Botswana’s social protection response reflected its long acknowledgment of responsibility for mitigating poverty and responding to disasters—through feeding schemes rather than cash transfers—as well as its concern for the welfare of the urban middle- and working classes.

After imposing the lockdown, the government introduced temporary but substantial wage subsidies, which benefited a minority of people in formal, private sector employment. It also distributed substantial food baskets to poorer people, the majority of the population. This wide and impressively prompt distribution of food parcels contrasted starkly with the failure of neighboring South Africa to distribute food after its lockdown. This achievement was offset, however, by the suspension of some existing feeding schemes. Overall, the volume of food distributed did not meet

the additional need. Moreover, the Ipelegeng workfare program was also disrupted by the lockdowns.

Unlike in South Africa, Lesotho, and Namibia, Botswana did not supplement its existing cash transfer programs or introduce a new emergency cash transfer scheme (except, on a very small scale, for informal business owners). Although the pandemic did reinvigorate the discussion of social protection policy reforms, overall, it did not affect either the direction or the pace of social protection reform in the country.

Botswana’s social protection system remains conservative and grounded in the idea that assistance from the state should be linked, wherever possible, to the goal of people achieving self-reliance through productive work, thereby fulfilling their responsibilities to the wider society. These norms and values rendered the government unable to respond more fully to the shock of the COVID-19 lockdown. Rather than expand its social protection system in novel ways, it preferred to ease the lockdown to ensure a quick return to “normality”.

Source: Gronbach and others (Forthcoming).

LIMITED PROGRESS ON DIVERSIFICATION AND PRODUCTIVITY

Facilitating a competitive, export-oriented private sector

The diversification of the economy has yet to gain traction, and Botswana still relies heavily on diamonds, as progress on *facilitating a competitive, export-oriented private sector* has been limited. Developing a competitive private sector that generates broad-based employment—a key priority identified in the 2015 SCD and confirmed in this SCD Update as critical for faster and more inclusive growth—can take decades. The 2015 SCD focused on two issues on the private sector development agenda: “establishing the incentives to support an outward-oriented private sector” and “improving connectivity”. The former highlighted “trade, competition, and immigration policies that ensure access to competitively priced inputs and

70. Several program-level recommendations are included in World Bank (2022c), such as rethinking tertiary sponsorships and scholarships; transforming the Destitute Persons Program; reconfiguring the Ipelegeng public works program; rethinking the feeding programs; planning social care services for a growing elderly population; and ensuring that the BMTHS captures all the benefits of the Destitute Persons Program.

skills, and incentives to compete in tradable sectors”. The latter highlighted “a focus more on soft than hard infrastructure, including (1) improving national and regional trade facilitation to support integration into regional and global value chains; (2) improving air connectivity to open up opportunities in key sectors; and (3) improving the speed, quality, and cost-effectiveness of ICT infrastructure (especially broadband)”. Limited progress has been made on efforts to establish incentives and improve connectivity for a competitive private sector since the 2015 SCD. Progress on outcomes and reforms was also limited, as discussed below.

Progress has been mixed on private sector outcomes for foreign direct investment, road quality, and trade logistics. The private sector has yet to attract significant foreign direct investment outside the extractive sector, in both relative and absolute terms. With diamonds representing 90 percent of exports, few of Botswana’s current export products provide an obvious platform for further diversification. In terms of road quality, Botswana is well connected internally, with a rural access index of 79 percent; this compares favorably with its income group peers (71 percent).⁷¹ On trade logistics, Botswana’s 2016 Logistics Performance Index stood at 3.045 and ranked 57th globally, as against the regional average of 2.449 and an income group average of 2.721. This represents a significant improvement on the 2014 score of 2.493 and ranking of 120th reported in the 2015 SCD.⁷² In addition, as anticipated in the 2015 SCD, the flagship 923-meter Kazungula road and rail bridge project connecting Botswana with Zambia across the Zambezi River has been completed and opened to traffic. Despite these improvements, as a landlocked country, Botswana’s ability to move goods and people beyond its borders depends largely on the transport and logistics systems of its neighbors.⁷³ Its high trade imbalances with these neighbors also contribute to high transport costs for truckers, as outbound trucks are often empty.

Botswana’s air infrastructure is insufficient to support export growth. Air transport infrastructure remains limited, with a lack of long-haul connections and restrictions on scheduled domestic and international air transport services. Limited air connectivity, both regional and long-haul, critically inhibits Botswana’s ability to access new markets and destinations in the tourism sector. Botswana ranks 119th out of 140 countries in the openness of bilateral Air Service Agreements in the 2019 World Economic Forum Travel and Tourism Competitiveness Index, and it ranks 103rd for air transport infrastructure. Air Botswana—the loss-making state-owned airline—has a fleet of only three airplanes, operates a limited international route network, and faces significant barriers to developing new flight routes.⁷⁴

On key digital indicators, Botswana fares at least as well as its neighbors but lags its global peers, ranking 71st out of 79 on the Global Connectivity Index.⁷⁵ Botswana’s landlocked status means that it depends on its neighbors for access to undersea cables, and the related costs are passed on to consumers. Another structural barrier is the small, dispersed population; network gaps persist in rural areas, and many villages are not connected. These factors contribute to the slow adoption of digital technologies, with mobile broadband subscriptions relatively low (49 percent), the quality of connectivity poor (often only suitable for basic applications), and services relatively expensive. Internet speeds have stagnated for almost a decade, with a particularly negative effect on the business services sector, which requires high-speed connections. Although Botswana has a well-articulated National Broadband Strategy, inadequate coordination and a lack of implementation mechanisms have limited its impact.

71. For more information, see Sustainable Mobility for All (SUM4ALL), <https://www.sum4all.org/>.

72. For more information, see <https://lpi.worldbank.org/>.

73. Bottlenecks such as poorly maintained or missing cross-border road and rail links, inefficient customs and other agencies at borders, and the poor performance of neighboring seaports hamper Botswana’s efforts to diversify into other revenue sources.

74. The regional inbound market is dominated by expensive charter flights, and the lack of direct, long-haul flights means that long-haul tourists must travel to Botswana via Johannesburg, Windhoek, Victoria Falls, or other gateway locations.

75. Data are drawn from the Botswana Country Profile GCI (database), Huawei GCI (Global Connectivity Index), Shenzhen, <https://www.huawei.com/minisite/gci/en/country-profile-bw.html>.

Progress on implementing reforms to strengthen the private sector has also been limited. Policies have favored declining activities, import substitution, manufacturing, and agriculture, instead of emerging activities, exports, and services. In 2015 the government adopted a reform action plan to improve its rankings in the annual Doing Business exercise. However, although some reforms have been undertaken, implementation has generally lagged. According to the 2019 Global Competitiveness Index, Botswana ranks 91st out of 141 economies, down from 85th in 2017. For the tourism sector, the country's ranking dropped seven places to 92nd on the World Economic Forum Travel and Tourism Competitive Index between 2017 and 2019. There is a consensus that the implementation of reforms is hindered by the limited capacity of government agencies, cumbersome processes for approving legal reforms, and weak overall intergovernmental coordination. As noted in section 1.3.2, the implementation of potentially beneficial policies to increase private sector participation in nonmineral exports and transformative sectors has dragged over the years. For example, most of the Special Economic Zones have remained in the planning stage since their conception in 2015.

The government also adopted new legislation and maintained old strategies that discourage foreign direct investment. Examples include: (1) the Economic Diversification Drive Strategy of 2010, which promotes local procurement and the use of preference margins to encourage local production and consumption; (2) the Transfer Duty Act of 2019, which introduced a punitive 500 percent hike (from 5 to 30 percent) in transfer duty on the purchase or lease of fixed property by noncitizens; (3) the new Public Procurement Act of 2021, which includes anticompetitive elements, such as a Localization Policy, a Reservation Policy, and Preferences under Public Procurement, which restricts over 30 service sectors to local citizens; and (4) the 2022 Economic Inclusion Law, which requires foreign companies to outsource at least 50 percent of their services or projects to citizen-owned companies. There is little to no prioritization of the National Trade Policy as an overarching policy in the diversification drive, and policies, programs, and legislation designed to drive much-needed growth are fragmented.

Hence, to a large extent, the binding constraints identified by the 2015 SCD—an undiversified, low-productivity, and inward-oriented private sector—remain valid today. The diversification agenda has yet to gain traction because progress on core pillars of competitiveness has been slow. Also, the enablers of private sector development are lacking, including electricity, logistics, water, skills, access to finance, and digital connectivity. Important cross-cutting constraints include: (1) the large SOE presence and lack of competition in commercial sectors; (2) gaps in infrastructure, access to finance, and skills, which constrain employment and productivity growth; and (3) the unrealized opportunity to facilitate trade in environmental goods and services to support economic diversification and resilience. These increasingly translate into weak job creation and sluggish earnings, with a widening wage gap.

Raising the productivity of smallholders and microenterprises

Progress on increasing the returns to self-employment by raising the productivity of smallholders and microenterprises has also been limited. Developing a competitive private sector that can generate broad-based employment will take time, which means a large share of the population will continue to rely on (crop and animal) farming, remain outside the formal labor market, or be in the formal labor market but not earn sufficient incomes. The 2015 SCD therefore focused on improving productivity and increasing agricultural incomes as “key to developing a more vibrant rural economy, which will in turn create non-farm employment opportunities”. The agenda focuses on “establishing the right incentives for smallholders to adopt technologies and methods to improve yields and mitigate risks and strengthen the extension system”. The 2015 SCD also highlighted the need for interventions to create a more dynamic (urban and rural) microenterprise sector. It emphasized both self-employment and the development of small and medium

enterprises, along with productivity improvements through capacity building and access to services.

Botswana has seen limited progress and in some cases a reversal in outcomes for the agricultural sector.

The 2015 SCD highlighted the lack of sustainability of smallholder agriculture and its vulnerability to droughts and flooding. Many poor people rely on subsistence agriculture, and smallholder communal or traditional farming remains the primary production system in rural areas, with nearly 97 percent of farms classified as smallholdings. Agriculture is mostly rainfed and thus vulnerable to droughts. During the severe drought of 2015/16, poverty in rural areas rose, as noted, because both subsistence and nonsubsistence farmers were unable to make up the lost consumption via other sources of income (Figure 2.3). This underlines the importance of efficient water management and irrigation policy, and of making agricultural livelihoods more resilient, given the heavy reliance on subsistence agriculture in poor areas.

Labor productivity in agriculture remains low, and off-farm employment has stagnated in part because of limited access to credit.

Productivity in agriculture (proxied by value added per worker) was estimated at 22,000 pula (USD 2,000) per worker in 2021. In contrast, in the services sector, productivity is nine times higher (driven primarily by real estate, ICT, and finance), and in industry, it is 24 times higher (driven largely by mining). Despite the highlighted need for a more dynamic microenterprise sector in both rural and urban areas, the share of nonfarm self-employment has not changed much over the last 20 years, averaging about 15.4 percent. Participation in the nonfarm informal sector does not create a pathway to formal sector employment, and the sector is unable to absorb excess labor in a context of rising unemployment. Micro-, small, and medium enterprises (MSMEs) still struggle to access finance: the IFC Country Private Sector Diagnostic estimates the MSME financing gap at 19 percent of GDP. It suggests that enhancing the growth and productivity of MSMEs also requires support to build skills and entrepreneurial capacity, enhance management capabilities, and increase the adoption of new technologies.

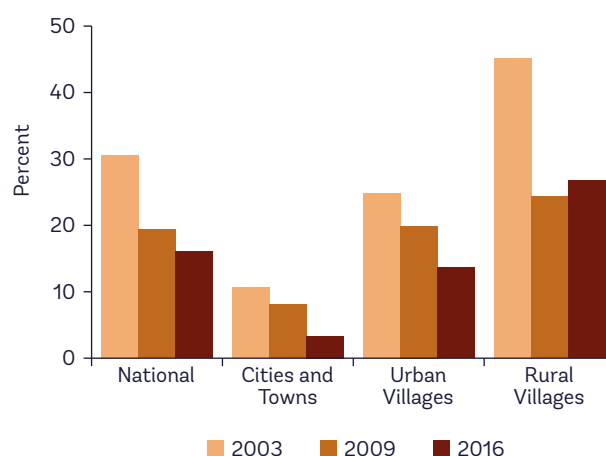
Productivity in the livestock sector is low, with high cattle mortality, vulnerability to climate shocks, and policy and institutional misalignment.

Cattle mortality is high because of disease, drought, and loss, mainly through theft. The system is highly vulnerable to climate shocks, particularly droughts, during which critical inputs, such as fodder and water, are at best seasonal and often not accessible at all. This is compounded by the dualistic structure of the agricultural sector, where a small number of large-scale, highly productive commercial farms have access to profitable value chains, and smallholder farmers on communal lands remain unproductive. Extension and livestock-related services tend to be assigned based on productivity, which leaves the small-scale sector even less equipped to adopt good animal husbandry practices.

Progress on reforms is also limited. Botswana's beef industry is relatively well-organized, meets the quality requirements and sanitary and phytosanitary standards set by high-end markets, and has implemented good animal identification and traceability systems.⁷⁶ Reform priorities include adding small-scale farmers to the

FIGURE 2.3 Poverty declined in urban areas but increased in rural areas

Poverty trends by strata



Sources: 2003 HIES (Central Statistics Office 2004), 2009 BCWIS, and 2016 BMTHS (Statistics Botswana 2013, 2018).

76. For a discussion of sustainable livestock value chains, see Syed and others (2022).

traceability system to strengthen trust among trading partners, improving the monitoring and surveillance of diseases, and supporting genetic improvement programs to increase productivity. Productivity improvements also hinge on better management strategies for breeding and livestock systems and natural resources, particularly water and rangeland. These in turn require parallel regulatory and institutional actions, such as finalizing the Botswana Meat Commission (BMC) Transition Act, amending the Botswana Livestock and Meat Industries Act, and establishing the Botswana Meat Industry Regulatory Authority. This would improve the enabling environment by establishing a clear regulatory framework with defined roles and responsibilities and increasing the competitiveness of the sector by reducing the market share of the state-owned BMC. In terms of microenterprises, the government needs to implement its National Entrepreneurship Policy to coordinate regulatory reforms, digitize small and medium enterprises, and crowd in early-stage finance. The latter is fragmented and would benefit from a coordinated approach to financing entrepreneurship. In addition, authoritative data on the informal sector are lacking, making it difficult to inform effective policy making.

NEW ENERGY AND CLIMATE CHALLENGES

Mainstreaming the management of scarce natural resources

Some progress has been made in *mainstreaming the management of scarce natural resources*, but growing energy and climate risks pose new challenges. Addressing these issues is vital for the other priority intervention areas to deliver rapid and sustainable progress on the twin goals. A principal factor in Botswana's long success has been the effective management and conversion of wealth from natural resources, which has supported sustainable growth and livelihoods. Botswana's Vision 2036 aspires to the sustainable and optimal use of its natural resources to transform the economy and improve livelihoods. The 2015 SCD discussed in detail the importance of minerals, water, energy, and biodiversity in Botswana. Progress in the water sector and limited progress in the livestock sector were discussed above. In terms of energy, the 2015 SCD argued that Botswana had adequate interventions in place to address its energy challenges, and it expected substantial new capacity to become operational in the next decade. However, progress has been slower, as explained below, and since then, global commitments to cleaner energy have become more important. Climate shocks have also aggravated existing vulnerabilities and undermined water security in this highly water-stressed country. Botswana is therefore considering more ambitious plans to mitigate and increase its resilience to climate shocks.

Natural resource management amid energy and climate shocks

Both growth and poverty reduction are at risk from droughts, flooding, and energy shortages, which threaten the agricultural, industrial, and tourism sectors. Climate shocks have increased in recent years, with severe droughts and flooding mostly affecting the rural population and impeding efforts to reduce poverty and inequality. Climate shocks are a particular threat to livelihoods because almost 18 percent of employment is concentrated in the agricultural sector, the sector is highly dependent on rainfall and natural resources, and its adaptive capacity is low. Likewise, tourism is also overwhelmingly dependent on nature-based and biodiversity-driven activities; to address this pressing issue, Botswana's Ministry of Environment and Tourism developed a National Adaptation Plan Framework in 2020.⁷⁷ The World Bank's Climate Risk Country Profile highlights the importance of sustainable adaptation and resilience measures in Botswana, and the government's Economic Recovery and Transformation Plan also discusses the

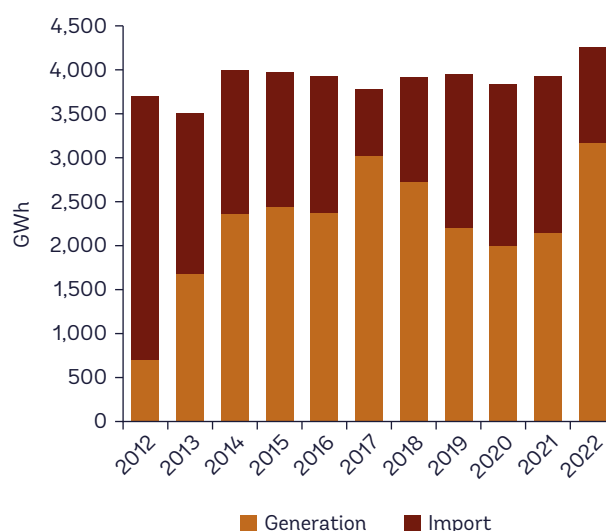
77. Government of Botswana (2020b). For a discussion of tourism policies in Botswana, see World Bank (2019b).

importance of renewable energy.⁷⁸ However, the implementation of these plans is hampered by research, data, information, and institutional gaps.

Energy supply and distribution are increasingly challenging. The 2015 SCD highlighted that despite the scale of Botswana's coal and solar resources, reliable, cost-effective energy had not become a source of comparative advantage. Rather, Botswana faced electricity crises and had to rely on imports for more than 90 percent of its electricity needs. The SCD expected substantial new capacity to come on stream by 2018 and into 2025, with Botswana potentially becoming a significant exporter of power to the region. Instead, despite significant improvement, major challenges remain. The country continues to rely on domestic coal-fired generation from the Morupule A (132 MW) and Morupule B (600 MW) power plants. However, the latter has never operated at full capacity and experienced average plant availability of just 32 percent in 2021, as it underwent remedial works. As a result, Botswana continued to rely on imports from South Africa and the Southern African Power Pool, which still account for one-quarter of total supply. Operational issues at Morupule and the cost of imported electricity burden both the Botswana Power Corporation and the government's fiscal balance. Consumer electricity tariffs are below the cost of supply, although the size of the subsidy has declined steadily over the past few years. Even with the remedial work completed on Morupule, new power generation capacity, preferably lower-cost solar and wind capacity, will be needed to meet the growing demand, ensure energy security, and reduce electricity imports (Figure 2.4).

FIGURE 2.4 Electricity imports are falling but still comprise 26% of supply

Electricity production and sourcing



Source: Statistics Botswana, 2022a.

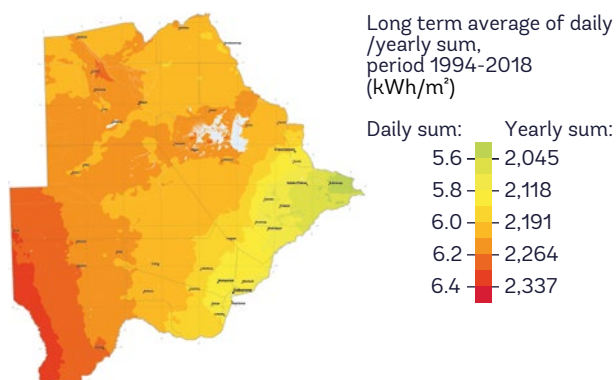
Progress on access to electricity has slowed. At 65 percent, national electrification is low by international standards and relative to Botswana's per capita income. The National Energy Policy adopted by Parliament in April 2021 set out a strategy to ensure universal access by 2040, but progress in increasing access has slowed since the COVID pandemic. Disparities in access to electricity between urban and rural areas are significant. Between 2010 and 2020, access to electricity in rural areas saw only a modest increase (from 25.3 to 26.4 percent); in urban areas, access is substantially higher (90.7 percent in 2020). A 0.005 \$/kWh levy on electricity customers is used to connect low-income households to the grid, but the levy is not sufficient to fund universal access. Meanwhile, Botswana has yet to mainstream offgrid solutions.

Significant shifts in the global energy context have important implications for Botswana. In 2022, 83 percent of the additions to global electricity generation capacity were renewable energy. The cost of solar photovoltaic and onshore wind continued its downward trend, with their global weighted average levelized cost of electricity falling by a further 63 percent and 45 percent respectively since 2015 (IRENA 2023). Southwestern Botswana has one of the highest solar irradiation levels in the world, and most of the country has excellent solar potential. There is also a significant wind resource in the northeast of the country (Figure 2.5). Wind speeds typically reach their maximum after sunset and can therefore be complementary to solar resources. Botswana could leverage its abundant domestic renewable energy resources to provide

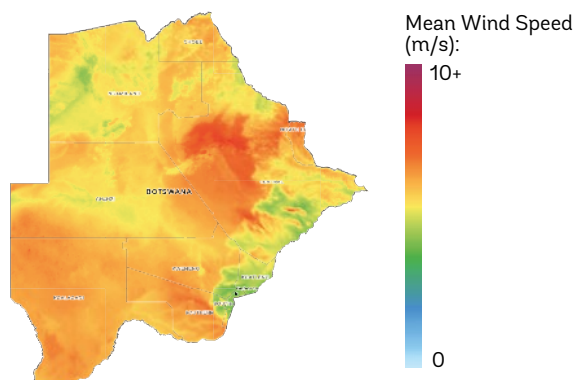
78. See World Bank (2021a) and Government of Botswana (2020a).

FIGURE 2.5 Solar irradiation levels in the southwest and wind resources in the northeast are high

a. Solar resources



b. Wind resources



Sources: World Bank Solar Atlas, World Bank Wind Atlas.

affordable, reliable, and green electricity to domestic users and potentially to its neighbors. This could improve its competitiveness and maximize the associated socioeconomic benefits for its people. Indeed, a forthcoming World Bank assessment suggests that in a context of high regional demand, Botswana's renewable energy capacity could reach 3,970 MW by 2040, with supportive investment in transboundary power lines. This would vastly exceed domestic demand and enable Botswana to become a regional leader in the supply of renewable energy.

Increasing its reliance on renewable energy would be consistent with Botswana's climate policy goals and enhance the competitiveness of vital industries, especially diamonds. Through its Nationally Determined Contribution, Botswana committed to "an overall emissions reduction of 15 percent [below the "business-as-usual" scenario] by 2030, taking 2010 as the base year". Transitioning away from coal-fired power toward renewable electricity is at the core of the country's decarbonization strategy and will also benefit air quality. However, this is hampered by simultaneous plans to expand coal-fired power; the need for regulatory reform on renewable energy; and the need for financing, especially private capital. Meanwhile, in view of the rising global demand for sustainable jewelry, many diamond mining, processing, and vendor companies have already adopted ambitious goals to reduce their carbon footprint by switching to renewable electricity. For example, diamond mining company De Beers, which has a considerable presence in Botswana through the joint venture Debswana Diamond Company Limited, adopted a target of achieving carbon neutrality in its operations and supply chains by 2030 (De Beers 2021). Still, the mining industry remains a major consumer of power, accounting for 21 percent of power demand in Botswana. Overall, as noted, power generation in Botswana has a high carbon footprint, given its reliance on thermal coal power stations.

NEW CROSS-CUTTING PRIORITY INTERVENTION: BRIDGING PUBLIC SECTOR IMPLEMENTATION GAPS

Modernizing the public sector

Public sector effectiveness and efficiency remain a challenge, despite partial progress in some narrow elements of the *modernizing the public sector through improved technology, management, and systems of accountability* priority area. The public sector is the largest employer in Botswana, with 27 percent of total employment (as against a global average of 17 percent) and 47 percent of formal employment

(38 percent globally).⁷⁹ As highlighted in the 2015 SCD, “Delivering on any of the interventions requires a substantial, if not leading, role from the public sector. Improving public investment management, project management, and program delivery through adopting modern technologies, systems, and processes, and putting in place systematic and meaningful processes for monitoring and accountability will be fundamental ...” However, it deemed public sector modernization to have the lowest implementation potential among the seven priorities, given the lack of capacity and political will, along with the relative difficulty of effecting change. The 2015 SCD also noted that the government lacked a settled position on both the reasons for the problem and its potential solutions.

As an example of progress on outcomes, Botswana is digitizing the public sector, which improved its ranking on the UN e-Government index from 127th (out of 193 countries) in 2018 to 115th in 2020. But the country’s performance remains below the regional average, and online service delivery is particularly weak (World Bank 2022b). It also started digitizing internal public processes and external services, but many platforms are used for back-office purposes and emulate the manual processes they are replacing; some still include paper-based steps.

As an example of partial progress on reforms, the government aims to ramp up its digital transformation efforts. It launched the SmartBots initiative in 2020 and created a dedicated Ministry of Communications, Knowledge, and Technology in 2022.⁸⁰ Public sector transformation is an intrinsic goal of the SmartBots strategy, and the adoption of digital platforms is recognized as crucial for more efficient and effective service delivery. However, despite some progress, overall implementation of the strategy has been relatively limited.

Botswana is still rated well in terms of governance, but questions about its public sector management are growing. As an example of progress on outcomes, the global governance indicators (such as the Ibrahim Index of African Governance and Transparency International’s Corruption Perceptions Index) continue to rank Botswana among the best in Africa. The government maintains effective checks and balances, and institutions remain robust, inclusive, and transparent. Yet, as noted in the 2015 SCD, public sector management is perceived as a source of potential weakness, notably because of capacity and skills constraints. To address these concerns, the government had prioritized reforms, but their implementation has yet to generate significant progress. Public investment efficiency and the quality of public procurement have been highlighted as key concerns, as discussed below.

Bridging public sector implementation gaps

Because implementation gaps reduce the effectiveness and efficiency of the public sector, affecting all other priority intervention areas, the SCD Update argues for setting it as a cross-cutting priority intervention. Although the government’s attempted reforms demonstrate an awareness of the need for change, implementation of these reforms is usually lacking, for reasons such as weak accountability and the politicization of the public service. Across the priority intervention areas, progress in addressing the constraints identified in the 2015 SCD has been limited, and progress on development outcomes has likewise been slow. These poor outcomes are not from a lack of spending: for example, public sector investment is high, including by global standards. Therefore, compared to the last SCD, more attention needs to be paid to bridging implementation gaps in the public sector.

79. Worldwide Bureaucracy Indicators dataset (version 3.0). August 2022. <https://www.worldbank.org/en/data/interactive/2019/05/21/worldwide-bureaucracy-indicators-dashboard#2>

80. The SmartBots digital strategy is an ambitious action plan aimed to prepare Botswana for the Fourth Industrial Revolution (4IR). <https://smartbots.gov.bw/home>

The government has been central to the success of resource-rich Botswana, but it is constrained by inadequate implementation capability and low levels of productivity. The performance management of public officials is weak and accountability for nonperformance limited. Implementation of reforms in the private sector seems to be hindered by limited capacity in government agencies, cumbersome processes for approving legal reforms, and weak intergovernmental coordination. The government has announced reform initiatives but has yet to make much progress. For instance, the Directorate of Public Service Management plans to introduce a civil servant performance management system. In the 2021/22 Budget Speech, the Minister of Finance announced that half the vacant positions in the public sector would be abolished and requested a review of and recommendations for resizing the public sector as part of overarching public sector reforms. However, these have yet to be implemented and could face significant resistance from the civil service and SOEs.

Botswana's public investment management system had long been seen as exemplary in terms of discipline, efficiency, and productivity, but its performance has been eroded. Poor project planning, delays, procurement challenges, contractual disputes, cost overruns, and corruption in major projects have exposed significant weaknesses in public investment management. An assessment of public investment management in Botswana by the International Monetary Fund⁸¹ and the Public Expenditure and Financial Accountability (PEFA) report of 2020 show that the efficiency of public investment management is low relative to countries with similar levels of public capital stock per capita or the average in emerging markets and the world.⁸² About one-third of investment spending does not result in the level or quality of infrastructure of countries that manage their resources efficiently. The capital budgeting system is relatively strong on planning, budget comprehensiveness, protection of investment, availability of funding, and fiscal rules but lags in crucial aspects of project appraisal, selection, management, management of public-private partnerships, and company regulations. The government is taking action to address these shortcomings, including the implementation of the second Public Financial Management Reform Programme (2021 – 27) (an example of *progress on reforms*) informed by the findings in the 2020 PEFA report. The Public Finance Management Act of 2011 has been revised to provide for much-needed reforms in public investment management and public debt management (including nonmonetary guarantees to public-private partnerships), and to strengthen a culture of discipline and accountability. These reforms will take time to bear fruit.

The new Public Procurement Act of 2021 complies with good practice, but shortcomings in the procurement system have manifested in the performance of infrastructure projects. A World Bank review of major capital projects revealed issues across the procurement process, including projects running over budget, delays in construction, and problems with the quality and completion of the finished works. Notable issues include inadequate budgeting; compressed schedules; management churn and fragmentation; inadequate design requirements; and a lack of independent review of projects. As an example of *progress on reforms*, the government enacted the 2021 Public Procurement Act, which is aligned with good international practice and separates regulatory and oversight functions from execution functions. The Act also strengthens its applicability at central and local levels, including to SOEs and public-private partnerships; the composition and functions of decentralized procuring entities and their accounting officers; the range of procurement methods; the mechanism for complaints and dispute resolution; the standardization of bidding documents; the use of e-procurement; and the designation of central agencies for common-use items. The government is developing and issuing the accompanying implementing regulations.

Given the government's dominant role in large parts of the economy, particularly through its ownership

81. IMF (2017); see also IMF (2022).

82. Some areas that received an "A" score in the PEFA assessment included information on commitment ceilings, internal control of payroll, procurement monitoring, public access to procurement information, segregation of duties, compliance with payment rules and procedures, and internal audit coverage. See PEFA (2020).

of SOEs, further improvement in sectoral governance and delivery capabilities is needed. Botswana's SOEs are large, accounting for about 6 percent of total formal employment, and their revenues exceed 27 percent of GDP. Although initiatives to privatize SOEs have been proposed, these have been implemented only in part. The legal framework governing SOEs is fragmented, and multiple laws have conflicting and outdated requirements, which undermines the viability, compliance, and accountability of SOEs. The ownership and oversight of SOEs are decentralized, with ministries having authority to establish SOEs and appoint their boards. In 2019 the Botswana Accountancy Oversight Authority (IFC 2022, 28) announced that many SOEs were not in compliance with basic reporting requirements, and some audits had been deemed ineffective. The Cabinet Subcommittee on SOEs recently recommended reforms to improve SOE mandates, shareholder oversight, accountability, and transparency. Priorities include: (1) harmonizing and updating the legal frameworks of SOE; (2) developing a Botswana Corporate Governance code and requiring all SOEs to comply with the code; and (3) strengthening the systems and capacity of oversight institutions, and reorganizing board remuneration and appointment principles into a transparent framework.

The government, through the leadership of the National Planning Commission, is implementing reforms to strengthen monitoring and evaluation of projects and programs. The new system will focus more on outcomes and integrate results into strategic planning, budgeting, and public service management. Existing weaknesses in monitoring and evaluation make it difficult for the government to understand whether projects are meeting their objectives, and if not, why. It has adopted important measures to strengthen the national capacity for monitoring and evaluation, most recently by adopting the Performance Monitoring and Evaluation Policy in October 2020. The policy lays the foundation for the design and implementation of a comprehensive monitoring and evaluation system in Botswana. As part of renewed efforts to strengthen evidence-based policymaking, some key statistics (for instance, on the labor force) are being produced more frequently.⁸³

The government is also pursuing the decentralization of key public services to local authorities. This is expected to enhance ownership and accountability within local authorities and to bring services closer to the people. In addition, certain functions carried out by central ministries will be moved to implementing ministries and departments. Some powers will be devolved to accounting officers to enhance their ability to make rapid decisions and so improve their effectiveness and accountability. To create a conducive environment for this process, the government has committed to reviewing existing policies, rules, systems, and processes during fiscal 2023 to remove any barriers to reform.

83. As noted, Statistics Botswana has implemented a series of quarterly multi-topic household surveys that focus on more recent labor force indicators. It also conducted the 2022 Population and Housing Census (Statistics Botswana 2022b), for which preliminary results have been published. This new round of household and census data will make it easier to monitor the performance and impact of some government policies and programs.

CHAPTER 3

**PRIORITIZATION
FOR ACHIEVING
MORE BALANCED
DEVELOPMENT OUTCOMES:
WHAT NEEDS TO CHANGE?**



AIMING HIGH: HIGH-LEVEL OUTCOMES

Botswana's development outcomes have not changed substantially since 2015, and progress has been elusive. Economic growth has slowed and become more volatile, making the goal of reaching and sustaining high-income status much more challenging. Poverty reduction likewise slowed between 2010 and 2016, and estimates suggest further stagnation in recent years. Similarly, although inequality declined between 2010 and 2016, growing wage gaps suggest it may have stopped falling or even worsened in recent years. Botswana remains one of the most unequal countries in the world and, relative to other upper-middle-income countries, has one of the highest poverty rates.

Most of the priorities identified in the 2015 SCD remain relevant; however, some have grown in importance, and the country faces increasingly modest performance and chronic implementation gaps. This SCD Update adjusts the priorities identified in 2015 to take account of these changes and defines priority interventions for Botswana to accelerate progress. The revised priorities in large part reflect the realities of a fast-changing local and global context characterized by growing challenges and risks but also offering fresh opportunities. Increasing climate shocks in the form of higher temperatures, more erratic rainfall patterns, and more frequent and severe droughts and floods are among the most notable of these challenges. Other multidimensional shifts include increasing international uncertainty, volatile commodity prices, high inflation and interest rates, the revamping of global value chains, geopolitical transformation, and protracted conflicts. At the regional level, South Africa, Botswana's main economic partner, has lost its growth momentum. It has systematically underperformed other middle-income economies for the last 15 years, gradually ceding its leading role on the continent. In fact, Botswana's declining growth trend mirrors that of South Africa. Other mega trends, such as the energy transformation, greener sources of growth, the digital revolution, artificial intelligence, and advances in biomedicine and the pharmaceutical industry, are evolving fast. They add to the challenges but also offer novel opportunities to build on Botswana's potential comparative advantages, for example in renewable energy, exports of battery minerals (such as copper, nickel, cobalt, and manganese), livestock value chains, and ecotourism.

Based on this analysis, the SCD Update identifies four country-specific, high-level outcomes, ultimate desired changes that can only be achieved in the long run and reflect a sustained improvement in the well-being of Botswana's people, in particular its poorest and most vulnerable people. At its core, the purpose of an SCD is to identify the binding constraints to achieving the twin goals, along with policy priorities for alleviating those binding constraints. High-level outcomes have clear links to the SCD priorities.

The four high-level outcomes are:

- **High-level outcome 1: Accelerated private-sector job creation.** Attaining strong, stable, and inclusive growth that generates more and better jobs and raises people's standard of living requires a change in the current structure of growth. The growth model needs to move beyond the extractive industries to a more competitive and outward-oriented private sector. A dynamic private sector in a small domestic economy requires growing export markets in sectors that can exploit regional or global comparative advantages. The supply of jobs must be consistent with the profile of the labor force, complemented by more attention to the supporting environment for skills development and to improving the qualifications of the labor force.
- **High-level outcome 2: Strengthened human capital formation.** A new growth model will require substantial improvements in human capital, through education and health, to increase the productivity of the labor force. Intergenerational improvements in health and education also help people break the cycle of poverty, although building human capital is a long-term undertaking. Botswana's human development outcomes are very low relative to its income level. Social assistance plays a critical role and can potentially link poor children with education, health, and nutrition services.

- **High-level outcome 3: Increased resilience to shocks.** Botswana continues to be vulnerable to climate-related shocks, such as droughts, floods, and fire, which threaten crops, livestock, rural livelihoods, and food security, and contribute to forced displacements and the perpetuation of poverty. Such shocks also place a big burden on urban infrastructure and contribute to urban population pressures; these pressures need to be managed, as urban expansion continues without regard to flood exposure. Improving water management, water security, wastewater treatment, and access to sanitation is critical, as are systems for financing disaster preparedness and response. Shock-responsive social assistance systems can protect vulnerable households and build their resilience to climate, health, economic, or other shocks.
- **High-level outcome 4: Improved public service delivery.** Public service outcomes are increasingly at odds with the country's level of investment and development. Botswana has witnessed a steady decline in the quality of the public sector, with a corresponding widening of the gap between policy formulation and implementation. Although it still leads its regional peers in most measures of public sector quality, and despite a clear intent to move forward, a lack of implementation capacity and misallocation of resources have been major challenges. Improving access to public services will require a greater focus on the performance and quality of public service delivery.

PRIORITIZATION PROCESS

The SCD Update largely builds on the prioritization methodology used in the 2015 SCD to screen the most binding challenges (old and new) and define priority policy objectives. The 2015 SCD evaluated 30 challenges and opportunities against seven criteria.⁸⁴ The reprioritization is informed by new knowledge from recent analytical work and internal and external consultations. Such new evidence and the evolving country context were used to reassess the urgency of the constraints. The assessment of the potential impact of addressing these challenges was done separately for poverty and shared prosperity. The urgency of accelerating the reduction of inequality—closely linked to higher consumption by the poorest 40 percent of people—is an important reason for this distinction, especially as inequality remains so high by global standards. The identified development challenges were validated in consultations on changes since the last SCD, including whether the identified policy areas remained relevant, and the proposed high-level outcomes were appropriate. External consultations included a broad group of stakeholders through a series of sessions with government agencies, academics, civil society, the private sector, and development partners. The government session generated useful feedback and an endorsement of the analyses and policy areas. Government participants agreed that the implementation gaps linked to governance challenges represent a critical cross-cutting constraint. They also cited a lack of coherence between stated policy goals (such as increased foreign direct investment) and specific actions (imposition of tariffs or the non-issuance of residence permits to investors). Other issues cited included the importance of improving the effectiveness of investments in human capital (especially in education), reducing the public sector's large footprint in the economy, and regional integration. Overall, the consultations revealed widespread consensus on the relevance of the proposed high-level objectives.

As noted, the SCD Update finds that although most issues raised in the 2015 SCD remain broadly relevant, new challenges have emerged, and some old ones have become more pressing. Against this backdrop, the SCD Update adjusts the priorities along several dimensions and defines priority interventions for Botswana to address its increasingly modest performance. Priorities related to developing a com-

84. The seven criteria were: (1) impacts on the goal of eliminating extreme poverty; (2) impacts on the goal of sustainably enhancing the welfare of the poorest 40 percent; (3) complementarities, or the extent to which addressing the various constraints reinforces the effects of other reforms; (4) the time horizon for impact; (5) the extent to which the identification of the priority challenges is supported by timely and high-quality data and analytics; (6) the stage of the reform process—whether it requires starting reforms from scratch or consolidating interventions that are already moving in the right direction; and (7) implementation potential or whether the country has the institutional capacity and political will to implement the priority interventions.

petitive, export-oriented economy, raising the productivity of smallholders, and increasing human capital have been maintained but adjusted to reflect emerging challenges. Raising productivity calls for a stronger emphasis on smart and inclusive urbanization and regional connectivity to enable economies of scale and agglomeration, which are essential for a country with a relatively small population (2.3 million) spread over an area (582,000 square kilometers) larger than that of France. Given the growing climate risks, a new priority related to adaptation and resilience has been added. Finally, recognizing that chronic gaps between policy formulation and implementation have increasingly undermined reforms and stymied progress across most economic, social, and governance sectors, this has been highlighted as a critical cross-cutting priority. The revised priority interventions and entry points for reforms are set out in Table 3.1 and discussed below.

BUILDING ON BOTSWANA'S STRENGTHS TO IMPLEMENT PRIORITY INTERVENTIONS

The policy constraints identified in the 2015 SCD remain broadly valid, but as shown below, they need fine-tuning to become more specific in terms of both diagnostics and policy requirements, with due consideration of new analytical work, progress in implementing reforms, and changes in the operating environment.

PRIORITY 1:

Develop a competitive, export-oriented private sector, leveraging regional integration

The process of economic diversification has been slow, both because it takes a long time to transform an economy and because limited progress has been made in strengthening the foundations of a more competitive and export-oriented economy. The delayed implementation of structural reforms for growth and transformation has deepened the stark divide between formal and informal employment, which in turn contributed to inequality. New jobs are increasingly concentrated in the informal sector, where productivity is low. It has also contributed to lower competitiveness and stymied the much-needed transformation of the economy toward an export- and private-sector led growth model. The analysis in the Country Private Sector Diagnostic sharpened the findings of the 2015 SCD. It remains necessary to support an outward-oriented private sector, including trade, competition, and immigration policies that ensure access to competitively priced inputs and skills, and incentives to compete in tradable sectors. Potential entry points are:

- *Improve competition in the economy.* The government owns at least 50 percent of about 20 firms in 16 sectors, including in areas typically served by the private sector, such as real estate, wholesale trade, accommodation, travel agencies, crop and animal production, and manufacturing of food products. The excessive public sector footprint creates barriers to entry, discourages diversification, and results in large economic inefficiencies, including for consumers. Improving competitiveness also requires adequate foreign investment rules to facilitate inflows that generate good jobs aligned with the needs of the labor market. Restrictions on foreign investors hinder the commercialization of some services. Botswana needs a pro-competition regulatory environment and to embed competitive principles in industrial policies, to help generate more jobs.
- *Facilitate external trade in goods and services.* Some tariff and nontariff trade barriers undermine preferential access agreements, as well as imports of environmental goods and services, raising the costs of imported inputs for the country's exports. Botswana has developed an improved animal identification and traceability system, along with well-developed systems for tracking animal disease status, which provide the basis for controlling foot and mouth disease and obtaining access to the markets of the European Union.

- *Improving connectivity* remains vital, given Botswana's position as a landlocked country. Increasing market access and lowering costs will require a focus on soft infrastructure, including: (1) improving national and regional trade facilitation to support integration into regional and global value chains; (2) improving air connectivity; and (3) improving the speed, quality, and cost-effectiveness of ICT infrastructure (especially broadband).
- *Expand energy access and leverage the potential for renewable energy generation to increase self-reliance and exports.* Although Botswana has significantly expanded access to energy, at 65 percent, national electrification is low relative to the country's income level. Botswana could leverage its abundant renewable energy resources to provide affordable, reliable, and green electricity for domestic use and with supporting investment, even export to the region.

PRIORITY 2:

Raise productivity of smallholders and microenterprises

The 2015 SCD recognized that developing an outward-oriented competitive sector would take time, and the formal labor market would not provide sufficient income-earning opportunities for all Botswana. The need to increase the opportunities for and returns to self-employment by raising the productivity of smallholders and microenterprises remains relevant. The 2015 SCD emphasized the need to establish the right incentives for smallholders to adopt more appropriate technologies and methods to improve yields, mitigate risks, and strengthen the extension system. Outside of agriculture, it called for a more dynamic microenterprise sector, in both rural and urban areas, focusing on entry into self-employment and the MSME sector and on improving the productivity of the sector through capacity building and access to affordable and reliable production support services. Based on the policy recommendations of the Country Private Sector Diagnostic and other inputs, the following entry points are relevant:

- *Improve access to finance.* The MSME financing gap is estimated at 19 percent of GDP, with only 8 percent of smaller firms receiving funds from a commercial bank between 2014 and 2017 and just 45 percent accessing outside funding.
- *Strengthen skills training and qualifications and productive economic inclusion programs.* Despite high levels of secondary education, skills mismatches limit productivity growth and employment. Upgrading the quality of skills (including business skills and socio-emotional competencies) can improve the investment environment and help reduce the wage differentials that contribute to inequality. The technical and vocational education and training system is fragmented and suffers from a lack of coordination and limited organizational capacities. Technologies to help rural workers both learn and earn more could help raise productivity.
- *Improve standards and certification of domestic products and services to enhance competitiveness in external markets.* Very few companies are certified to national and international standards, particularly among small and medium enterprises—over 75 percent are not certified to any quality, sustainability, or other standard. Although the beef sector does meet quality requirements and standards for sanitary and phytosanitary measures, repeated droughts deplete the supply of animals. Better knowledge of and adoption of good animal husbandry practices will improve compliance and competitiveness, expanding access to profitable opportunities for small-scale producers.
- *Create scale for strong market access via cross-country co-investments and harmonized support services.* Lacking the scale to access large markets, Botswana's livestock smallholders may benefit from collaboration with countries such as Namibia, for instance on veterinary services, traceability, transboundary animal disease surveillance and control, and research and development.

Other entry points that would help increase the productivity of smallholders and microenterprises, such as climate-smart agriculture and digital technologies, are discussed in the other priority sections.

PRIORITY 3:

Increase human capital for employment, productivity, and inclusion

Education. The 2015 SCD emphasized the need to raise the quality of education, with a specific focus on aligning skills with labor market needs to help Botswana, especially young people, participate productively in the economy. The SCD Update suggests the following entry points:

- *Improve the allocation of resources in the education and training subsectors to be more pro-poor.* Public spending is high at 7.1 percent of GDP (22.2 percent of the government budget), but much of this is allocated to tertiary education, which primarily benefits students from the top two income quintiles. To become a high-income country, Botswana will need to continue to invest in higher education, but the allocation of funds should better target poorer communities, focusing on preschool, primary, and secondary education. Priorities include increasing the coverage of preschool education, and at the secondary level, addressing the shortage of classrooms and learning materials; giving teachers adequate in-service training; improving retention by providing students with clearer paths to further education; and fine-tuning education testing systems to track progress and facilitate corrective action.

Health. The 2015 SCD highlighted the need to address health barriers to skills acquisition and labor market participation, in particular childhood malnutrition and the impact of disease (especially HIV) on women's participation in income-earning activities. The Update emphasizes the following:

- *Strengthen the quality of health service delivery, implement strategic purchasing of health services, and redouble efforts to meet global nutrition targets.* Enhancing the quality of care is vital for reducing the evolving epidemiological burden, particularly the growing incidence of noncommunicable diseases. Addressing the stagnation in key indicators, such as neonatal mortality, also requires better essential health services, including ante-, peri-, and neonatal care. The implementation of strategic purchasing reforms in the health service is vital for Botswana to transition to a health financing system that better reflects its pluralistic delivery of health care. Insufficient data make it difficult to track malnutrition trends, such as stunting and wasting, as well as key contributors to childhood nutrition, such as low birth weight and adequate complementary feeding. Hence, investing in data collection and using data to make informed public health policies are critical.

Water and sanitation. Although access to water is relatively high, service levels and quality lag national aspirations, and a significant share of the population is still not connected to water and sanitation networks.

- *Undertake priority investments to improve water service quality and increase access to sanitation.* Mobilizing private capital and expertise can help expand services, improve service quality, create jobs, and increase resilience to climate change. It can also offer other opportunities, such as performance-based contracts for the reduction of nonrevenue water, improved collections, energy efficiency, and water savings performance contracts for large users.

Social protection. The 2015 SCD argued that Botswana had the unique opportunity to eliminate extreme poverty within the following five to seven years, anchored partly in social assistance. Although this was not achieved, the opportunity remains. The country's significant allocation to social assistance is relatively progressive, despite some errors of exclusion (around 20 percent of poor people are excluded) and inclusion (sizable resources are allocated to richer people). Botswana can make rapid progress by building on work already underway:

- *Reform social assistance programs to improve targeting, efficiency, and progressivity.* Botswana has embarked on reforms to strengthen the administration of social assistance, but these need to be broadened and deepened. The government took important steps towards the development of a social registry, although this is still at an early stage. Combining the social registry with a harmonized targeting approach could help the government configure an efficient social protection system that improves the allocative efficiency between social assistance programs, reduces poverty, and enhances human development outcomes.

PRIORITY 4:

Improve resilience and adaptation to shocks and climate impacts

Growing global uncertainty and instability, combined with the increasing frequency and severity of natural shocks, have exposed significant macro and socioeconomic vulnerabilities in Botswana, an issue acknowledged but not stressed enough in the 2015 SCD. Experience since then has underscored the importance of building resilience through reforms to increase the shock responsiveness of social protection systems, for instance through stronger disaster risk management frameworks that include financing frameworks to manage the cost of preparing for and responding to these events. Entry points include:

- *Develop productive and shock-responsive social protection systems to mitigate climate shocks, disaster vulnerability, and inequity in human capital.* Although Botswana responded better to the COVID-19 pandemic than many other African countries, the pandemic exposed significant gaps in the shock responsiveness and resilience of its social protection system. A functional, unified social registry would be an important first step in building the flexibility of the system by pre-identifying at-risk households and having their details already in the registry in the event of a shock.
- *Strengthen and implement disaster risk management frameworks to protect key public infrastructure.* A comprehensive framework will help identify, assess, and mitigate potential risks and guide risk reduction investments, such as early warning systems, resilient infrastructure, and land-use planning.
- *Enhance fiscal sustainability and resilience to disasters.* Implementing risk financing mechanisms, such as disaster insurance, catastrophe bonds, or contingency funds, can help manage the financial burden of such shocks by providing funds for post-disaster recovery and reconstruction and reducing the reliance on ad hoc budget allocations.

PRIORITY 5:

Sustainably manage scarce natural resources and build on key comparative advantages

The sustainable use of the natural asset base has become more challenging since the 2015 SCD. Natural resources, such as water, are highly constrained by weak pricing policies and competing demands from sectors such as tourism, agriculture, and mining. Water, in particular, is central to Botswana's economic growth and the competitiveness of its key economic sectors. Entry points for reforms are:

- *Improve the utilization of surface and groundwater resources and improve the efficiency of the Water Utilities Corporation.* Reforms should target a significant increase in the reuse of treated wastewater, groundwater recharge, demand management and loss reductions, and large-scale transboundary water transfer schemes (the Chobe-Zambezi transfer and the Lesotho-Botswana transfer). They should optimize existing infrastructure to reduce the water demand gap. Addressing high rates of nonrevenue water and low billing collection rates is also critical.

- *Develop a climate change policy to provide the legislative framework for developing and implementing priority interventions.* Botswana's natural resources will remain at the heart of the country's success, but they are highly constrained, fragile, and face many competing demands. Putting in place effective systems for planning that take clear account of (often irreversible) effects on critical resources will be vital for maintaining sustainability in the medium run.
- *Prioritize interventions that maximize sustainable resource management and climate resilience objectives, particularly among low-income households.* Primary challenges center around water resource availability, changing precipitation patterns, and increasing population demands. Communities in semi-arid areas face food insecurity and unstable livelihoods, being vulnerable to unsustainable agroecological systems, crop failure, and unproductive rangelands. Measures should contribute to food security, job creation, and the protection of carbon sinks, for example through climate-smart agriculture, forest management, biodiversity protection, community-based natural resource management, river basin management, and investments in sustainable energy.
- *Transition away from coal-fired power toward renewable electricity to advance the decarbonization strategy and improve air quality, while also making the remaining coal-fired power cleaner.* The government should accelerate its plans to increase the domestic power supply by using more renewable sources. Implementing these plans will require both mobilizing private sector support and financing and introducing complementary regulatory changes.

CROSS-CUTTING:

Close the gap between policy aspiration and implementation with efficient and accountable institutions

The 2015 SCD showed that the public sector had been more efficient in state-building and broad service delivery but became less so when the role of government shifted to more specific, targeted service delivery. It highlighted issues of capacity (limited "human resources available for increasingly complex, sophisticated, and highly specific technical tasks"), failure to adopt modern technologies and approaches, a lack of monitoring and evaluation of projects and programs, and weak statistical capacity. The SCD Update suggests the following entry points:

- *Strengthen performance-based management practices and monitoring and evaluation systems.* Botswana has seen a steady decline in the quality of the public sector, with a corresponding widening of the gap between policy formulation and implementation. Addressing this requires strengthening performance management of public officials and increasing accountability.
- *Improve regulatory and oversight functions* based on objective and credible standards.
- *Leverage progress in digital investments to improve efficiency, quality, and transparency of service delivery.* The government should redouble efforts to adopt digital platforms, which are key to improving the efficiency and effectiveness of service delivery to citizens and businesses.
- *Improve the governance of SOEs, introduce measures to enhance accountability for performance, and liquidate nonperforming SOEs.* Priorities include: (1) harmonizing and updating the legal frameworks for SOEs; (2) developing a Botswana Corporate Governance code and requiring all SOEs to comply with the code; and (3) strengthening the systems and capacity of oversight institutions, and reorganizing board remuneration and appointment principles into a transparent framework.

SCD UPDATE FRAMEWORK WITH PRIORITY INTERVENTION AREAS AND ENTRY POINTS

TABLE 3.1 SCD Update framework with entry points

WBG Twin Goals	End Extreme Poverty and Boost Shared Prosperity in a Sustainable Way				
High-Level Outcomes	HLO1: Accelerated private-sector job creation	HLO2: Strengthened human capital formation	HLO3: Higher resilience to shocks	HLO4: Improved public service delivery	
Priority Intervention Areas	Develop a competitive, export-oriented private sector, leveraging regional integration	Raise productivity of small-holders and microenterprises	Increase human capital for employment, productivity, and inclusion	Improve resilience and adaptation to shocks and climate impacts	Sustainably manage scarce natural resources and build on key comparative advantages
Cross-Cutting Priority Intervention Area					
Entry Points	<p>Improve competition in the economy, including pro-competition industrial policies to facilitate more job generation</p> <p>Facilitate outward-oriented trade and foreign investment</p> <p>Improve connectivity (urban, digital, transport network, regional integration) to facilitate agglomeration and market scale</p> <p>Expand energy access and leverage potential for increased renewable energy generation to enable exports.</p>	<p>Improve access to finance</p> <p>Strengthen skills training/qualifications and productive economic inclusion programs</p> <p>Improve standards and certifications of domestic products and services to enhance competitiveness in external markets.</p> <p>Create scale for strong market access via cross-country co-investments and harmonized support services</p>	<p>Improve the allocation of resources across education and training sub-sectors to be more pro-poor</p> <p>Strengthen quality of health service delivery, implement strategic purchasing of health services, and redouble efforts to meet global nutrition targets</p> <p>Undertake priority investments to improve water service quality and increase access to sanitation</p> <p>Reform social assistance programs to improve targeting, efficiency, and progressivity</p>	<p>Develop productive and shock responsive social protection systems to address climate shocks, disaster vulnerability and human capital inequities</p> <p>Strengthen and implement disaster risk management frameworks to protect key public infrastructure</p> <p>Enhance fiscal sustainability and resilience to disasters</p>	<p>Improve utilization of surface and groundwater resources and improve the efficiency of the Water Utilities Corporation</p> <p>Put together a Climate Change Policy to provide the legislative framework to develop and implement priority interventions.</p> <p>Prioritize interventions that maximize sustainable resource management and climate resilience objectives, particularly for low-income households</p> <p>Transition away from coal-fired power toward renewable electricity, while making remaining coal-fired power cleaner.</p>
	<p>Strengthen performance-based management practices and monitoring and evaluation systems</p> <p>Improve regulatory and oversight functions based on objective and credible standards</p> <p>Leverage progress in digital investments to improve efficiency, quality, and transparency of service delivery</p> <p>Improve governance of SOEs, introduce measures to enhance accountability for performance, and liquidate non-performing SOEs</p>				

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APPENDIX A

CRITICAL DATA AND KNOWLEDGE GAPS

Knowledge gaps	Description
From 2015 SCD	
Informal economy	Remains a knowledge gap
Relative cost of capital, access to finance, and contribution of the financial sector	Done. IFC. 2022. Country Private Sector Diagnostic; World Bank, 2017. MSME Finance Gap.
Childhood malnutrition: causes and impacts	Remains. Insufficient data make it difficult to track malnutrition trends, such as stunting and wasting, as well as key contributors to childhood nutrition, such as low birth weight and adequate complementary feeding.
Climate change impacts	Done. World Bank. 2020. Climate Risk Country Profile: Botswana.
Planning, procurement, and public management: underlying factors of declining public sector effectiveness	Done. IMF. 2017. Botswana: Public Investment Management Assessment. Technical Assistance Report.
New	
Urbanization impacts	How is increasing urbanization affecting existing infrastructure and services and creating challenges such as access to land, the spread of informal settlements, unemployment, inequality, and environmental degradation?
Knowledge gap on political economy drivers of change	What is the reason for the decline in public sector efficiency? Botswana has had policy continuity, is business friendly, invested in knowledge, and has hired external people. What prevents the move to action? What are the barriers to action? Growing anecdotal evidence of increasing corruption.
Skills training system (formal and informal)	What is the size of the informal sector? How many businesses are informal? What systems exist for skills training for formal and informal businesses?

APPENDIX B

STRUCTURAL PEERS

To put Botswana's performance into perspective, this SCD Update features a set of structural peers. These structural peers were selected based on an assessment of different combinations of indicators from the World Development Indicators database, using a tool created for benchmarking. Eight countries proved robust to different combinations of indicators: Gabon, Georgia, Lebanon, Mongolia, Namibia, the Republic of Congo, South Africa, and Tunisia.

The set of 20 indicators from the World Development Indicators database chosen for circa year 2015, plus or minus three years, included:

1. The labor force participation rate (% of total population ages 15 - 64)
2. The Gini coefficient
3. GDP per capita, PPP (current international \$)
4. Industry (including construction), value added (% of GDP)
5. Manufacturing, value added (% of GDP)
6. Imports of goods and services (% of GDP)
7. Gross fixed capital formation (% of GDP)
8. Exports of goods and services (% of GDP)
9. General government final consumption expenditure (% of GDP)
10. Vulnerable employment, total (% of total employment) (modeled estimate of the International Labour Organization)
11. Mortality rate, under-five (per 1,000 live births)
12. Rural population (% of total population)
13. Economically active population in agriculture (number)
14. Employment in agriculture (% of total employment) (modeled estimate of the International Labour Organization)
15. Access to electricity, rural (% of rural population)
16. Arable land (hectares per person)
17. Population, total
18. Total natural resources rents (% of GDP)
19. Survey mean consumption or income per capita, total population (2011 PPP \$ per day)
20. Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population).

APPENDIX C

POVERTY PROJECTIONS

Like most countries in Sub-Saharan Africa, Botswana does not conduct frequent surveys to track poverty trends. In fact, in the last 20 years, only three such surveys were conducted: the 2002/03 Household Income and Expenditure Survey (HIES), the 2009/10 Botswana Core Welfare Indicators Survey (BCWIS), and the 2015/16 Botswana Multi-Topic Household Survey (BMTHS).⁸⁵

However, in 2019 Botswana began to field the Quarterly Multi-Topic Survey (QMTS), a labor force survey with additional modules, which had been collected six times by 2022.⁸⁶ On its own, the QMTS cannot provide information on monetary poverty and inequality. To help fill the poverty data gaps, the World Bank and Statistics Botswana applied survey-to-survey imputations to the QMTS, using a methodology called Survey of Well-being via Instant and Frequent Tracking (SWIFT).⁸⁷ The SWIFT methodology combines machine learning and multiple imputations techniques to project household expenditure and impute poverty statistics in surveys without such data.

The BMTHS 2015/16, a year-long survey with data for all four quarters, was used in its entirety as the training data for the SWIFT models. The variable set used for the modeling was limited to what could be harmonized between the BMTHS 2015/16 and the six QMTS datasets, such as household demographics, dwelling characteristics, sources of household income, education, and labor market information.

Overall, four types of models or methodologies were used to project poverty up to 2022:

1. *Limited SWIFT model (quarterly)*. The limited model was developed using the SWIFT survey-to-survey imputation methodology, with the BMTHS 2015/16 as the training data, and applied to all six available QMTS datasets. The name of this model reflects the limited set of variables common to all quarters of the QMTS and the 2015/16 BMTHS, such as demographics, education, and labor market variables.
2. *Full SWIFT model (quarterly)*. The QMTS for the third and fourth quarters of 2019, the first quarter of 2020, and the fourth quarter of 2022 collected two additional modules with questions on household dwelling conditions and sources of household income, which could also be harmonized to the BMTHS 2015/16 survey. The name of the model reflects this larger set of variables, which strengthened the projection model. However, it could only be applied to four quarters.
3. *Full+FIES SWIFT model (quarterly)*. The QMTS for the fourth quarter of 2022 collected the same information as the 2019 surveys but added a set of food security questions to estimate Food Insecurity Experience Scale (FIES) indicators. These variables represent quickly changing poverty correlates that usually strengthen poverty projection models. The results, however, were not very different.

85. The dates of these surveys were as follows: 2002/03 HIES: June 2002 – August 2003 (Central Statistics Office 2004), 2009/10 BCWIS: April 2009 – March 2010 (Statistics Botswana 2013), and the 2015/16 BMTHS: November 2015 – December 2016 (Statistics Botswana 2018). As noted, for ease of reference, the rest of document uses the year in which a survey covered the most months as its date; hence, the 2003 HIES, the 2009 BCWIS, and the 2016 BMTHS.

86. The six QMTS dates were Quarters 3 and 4 of 2019, Quarters 1 and 4 of 2020, Quarter 4 of 2021, and Quarter 4 of 2022 (Statistics Botswana 2019a, 2019b; 2020a, 2020b; 2021; 2022c).

87. For background on SWIFT, see Yoshida and others (2015).

4. *Elasticity (annual)*. A simple, non-SWIFT methodology was also used to estimate annual poverty projections for 2017 – 22 using a growth-poverty elasticity. The elasticity estimate is based on the official poverty estimates and GDP growth data for 2009 and 2016 and is applied to later years using actual or projected GDP data, assuming a passthrough rate of 0.87.

All the models show a similar slowdown in poverty reduction since 2016.

APPENDIX D

SUMMARY OF PROGRESS IN TACKLING PRIORITY INTERVENTIONS

The table below summarizes the progress made in tackling the priority intervention areas presented in the 2015 SCD.

TABLE A4.1 Progress on priority intervention areas articulated in the 2015 SCD

Pathway	Priority area articulated in the 2015 SCD	Progress on outcomes since 2015	Progress on implementing reforms since 2015
Private-sector-led, jobs-intensive growth	Facilitating a competitive, export-oriented private sector by aligning incentives and improving connectivity	Limited progress since 2015 SCD. The private sector failed to attract significant foreign direct investment beyond extractives. Few export products provide a potential platform for diversification. Roads are well interconnected. The logistics Performance Index has improved; however, air infrastructure remains unfavorable for supporting export growth, and key digital indicators are lagging. GDP growth has slowed and become more volatile.	Limited progress on reforms since 2015 SCD. Policies have favored declining activities over emerging ones, import substitution over exports, and manufacturing and agriculture over services. Some reforms implemented on simplifying paying taxes and trading across borders, but indicators on ease of creating and growing a business have deteriorated. Botswana also declined on the Global Competitiveness Index and in the Tourism Competitive Index (largest decline in SACU). Most Special Economic Zones have been in the planning stage since their 2015 conception.
	Increasing the returns to self-employment by raising productivity of smallholders and microenterprises	Limited progress on outcomes and a reversal in poverty. Nearly 97% of farms are communal or traditional smallholdings. Rural poverty increased during a deep drought in 2015/16. Agricultural labor productivity remains extremely low and far below industry and services, and off-farm employment has stagnated. The MSME financing gap is estimated at 19% of GDP. Ensuring the growth and productivity of MSMEs requires support to build skills and entrepreneurial capacity, enhance management capabilities, and increase the adoption of new technologies.	Limited progress on reforms. In the beef industry, Botswana is yet to adopt a performance-based rating system to ensure financing for small and medium producers and needs to promote private finance along the supply chain. Increased adoption of good animal husbandry practices will improve compliance and competitiveness, expanding access to profitable opportunities for small-scale producers. Government needs to enact the Botswana Meat Commission Transition Act (to allow competitors to the SOE), amend the Botswana Livestock and Meat Industries Act, and establish the Botswana Meat Industry Regulator Act. In terms of microenterprises, it needs to implement its National Entrepreneurship Policy to coordinate regulatory reforms, digitize small and medium enterprises, and crowd-in early-stage finance (which is fragmented and would benefit from a coordinated approach).

Pathway	Priority area articulated in the 2015 SCD	Progress on outcomes since 2015	Progress on implementing reforms since 2015
Strengthened individual and community assets	<p>Improving health and education outcomes by reducing the disease burden, and raising and aligning skills</p>	<p>Some progress on outcomes in health and education.</p> <p>Health: Survival rates to age 5 and from age 15 to 60 have increased. Botswana is the first high-burden country to reduce mother-to-child transmission of HIV below 5%, and it achieved an HIV case rate below 500 per 100,000 live births. But serious challenges persist: tuberculosis incidence remains one of the highest; neonatal mortality rate is relatively unchanged; rates of maternal and under-five mortality are high, despite high health sector investment and country's income level; and modelled data show stunting (22%) relatively unchanged over the last two decades. Quality of service delivery is unacceptably low for some key health services.</p> <p>Education: Considerable progress in increasing access to early childhood education; most children complete primary and junior secondary education. However, many drop out after junior secondary level; and the senior secondary gross enrollment rate is only 62%. Quality remains low, and performance on international assessments is poor, especially by low-income children.</p>	<p>Limited progress on reforms in health and education.</p> <p>Health: High public spending (6% GDP in 2019); 83% of recurrent expenditure is allocated to clinical services, which is not aligned with the policy intention of the Ministry to move toward prevention and primary health care. A national health fund that would be predominantly tax funded has been proposed but not yet implemented. Strategic health service purchasing reforms are critical for transitioning to a health financing system that better reflects Botswana's pluralistic delivery of health care services and improve efficiency, quality, and equity of health services.</p> <p>Education: Public spending is high (7.1% of GDP, 22.2% of budget), but a large share is allocated to tertiary education, with per-student spending 6 times higher than at primary level, and mainly benefiting top two income quintiles. At secondary level, problems include a shortage of classrooms and learning materials, and limited training for teachers. The technical and vocational education and training system is fragmented and lacks coordination and organizational capacities. Concerns about quality and relevance of training remain, with a mismatch between skills trainees acquire and labor market demands. A 2017 re-organization of the education system resulted in a complex and fragmented organizational structure.</p>
	<p>Ensuring improved access to water and sanitation</p>	<p>Some progress on outcomes in water and sanitation.</p> <p>Improved drinking water: Access in 2016 of 96.3%, just short of government's "commitment to universal access by 2016"; 91% of households receive water from a piped network, in line with structural peers. However, water supply is limited to 8 hours per day, 3 days a week in many areas, requiring alternative sources, such as mobile water tanks. Annual water supply-demand gap is estimated at 20 Mm³ (2020) and could potentially increase to 114 Mm³ a year by 2035, unless immediate action is taken.</p> <p>Access to sanitation: Significant increase from 34 to 48% between 2009 and 2016, with the largest increases among poor (from 14 to 31%). Nevertheless, levels are well below the average for upper-middle-income countries, and major gaps exist between urban and rural areas, with rural access still very low.</p>	<p>Some progress on reforms in water and sanitation. National Water Master Plan Update (2018) targets better utilization of internal surface and groundwater resources and optimization of existing infrastructure, including significant increase in treated wastewater reuse, groundwater recharge, and demand management and loss reductions, and the proposed large-scale transboundary water transfer schemes. The Water Utilities Corporation performs relatively well but efficiency could be further improved, with better cost recovery and investments in resilience. The Water Utilities Corporation's revenue does not cover its operating costs, which leaves no funds for new investment. In 2017, nonrevenue water was 39% and the collection rate stood at 79%. Government operating and capital subsidies are neither consistently received nor sufficient.</p>

Pathway	Priority area articulated in the 2015 SCD	Progress on outcomes since 2015	Progress on implementing reforms since 2015
Strengthened individual and community assets (cont.)	Reforming social protection to reduce fragmentation and improve targeting, efficiency, and linkages	<p>Some progress on outcomes in social protection. Significant poverty impact, as poverty would have been almost 8 points higher in 2015/16 without social protection. Large share of the population benefits: 54% of beneficiaries are among the bottom 40% of population, and 79% of poor people benefit from at least one program. Old age pensions and primary school feeding programs have the largest impact on poverty, given their large coverage; the Destitute Persons Program has the most progressive distribution (83% in bottom two quintiles). Social protection programs helped to protect poor people during COVID, especially through food handouts, although targeted cash transfer programs were not scaled up. However, social protection system includes multiple cash and food distribution programs, which are not well coordinated, and overlaps with in households are significant. In 2017/18, Botswana spent 3.6% of GDP on at least 29 programs across nine ministries.</p>	<p>Some progress on reforms in social protection. Reforms to strengthen the administration of social assistance started but need to be broadened and deepened. The 2020 National Social Protection Framework establishes a comprehensive and well-coordinated social protection system. Important early steps taken to implement a social registry, to strengthen delivery, and to pilot a proxy means test to improve eligibility determination. Further improvements in poverty impact are possible by using the social registry and harmonized targeting methodology to consolidate small programs with the Destitute Persons Program and put in place a targeted, more comprehensive grant program for poor households. System still needs to improve links to health, education, and labor market services, to enhance human capital development and productive outcomes through a “cash plus” approach. Lastly, the pandemic did not affect either the direction or pace of social protection reform in Botswana.</p>
Effective resource management	Modernizing the public sector through improved technology, management, and systems of accountability	<p>Limited progress on outcomes in modernizing the public sector and on implementation. Progress on digitizing the public sector, as reflected in improved UN e-Government index ranking, yet performance still below the average for Southern Africa and particularly weak in online service delivery. Started digitizing internal public processes and external services, yet many platforms used for back-office purposes and emulate manual processes they are replacing. Still among the highest in Africa on global governance indicators. Maintains effective checks and balances, and institutions remain robust, inclusive, and transparent. Yet, public sector management perceived as source of potential weakness, notably capacity and skills constraints. Government prioritized reforms in this area, but implementation yet to generate significant progress. Public investment efficiency and the quality of public procurement are key concerns. Public investment management system used to be exemplary (in discipline, efficiency, productivity), but performance has eroded. Public sector implementation gaps reduce public sector effectiveness and efficiency, affecting all other priority intervention areas; SCD Update argues for converting it into a cross-cutting priority intervention.</p>	<p>Partial progress on reforms. The government aims to ramp up digital transformation efforts, including the 2020 SmartBots initiative and the 2022 creation of the Ministry of Communications, Knowledge, and Technology. Public sector transformation is the intrinsic goal of the SmartBots strategy, and adoption of digital platforms is key to more efficient and effective service delivery. However, despite some progress, the overall implementation of the strategy is limited. On public investment management, government is implementing a second Road Map (2021–27) of public financial management reforms, informed by 2020 PEFA report, and revising the Public Financial Management Act of 2011 to reform public investment management and public debt management, and strengthen accountability. It will take time for these reforms to bear fruit. The new Public Procurement Act of 2021 is aligned with good international practice and separates regulatory and oversight functions from execution functions.</p>

Pathway	Priority area articulated in the 2015 SCD	Progress on outcomes since 2015	Progress on implementing reforms since 2015
Effective resource management (cont.)	Mainstreaming the management of scarce natural resources	<p>Limited progress on management of scarce natural resources, but new challenges are increasingly urgent, including energy and climate shocks. Botswana's natural resources include minerals, water, energy, and biodiversity. Some progress has been made on outcomes and reforms in water sector, and limited progress on smallholder productivity, as noted elsewhere. In energy, the 2015 SCD deemed Botswana to be adequately prepared for energy challenges and expected substantial new capacity to come on stream. Instead, acute shortages of energy (despite plans to switch to renewable sources of energy) have made energy into a more urgent challenge. Climate shocks have aggravated existing vulnerabilities and affected water security in this highly water-stressed country. Botswana is putting forth plans to increase resilience to climate shocks. Growth and poverty reduction are at risk from droughts, flooding, and energy shortages, which threaten the agricultural, industrial, and tourism sectors.</p>	<p>Some progress on reforms. Ministry of Environment, Natural Resources Conservation and Tourism developed comprehensive National Adaptation Plan Framework (2020). World Bank Climate Risk Country Profile highlights importance of sustainable adaptation and resilience measures in Botswana, and government's June 2020 Economic Recovery and Transformation Plan discusses the importance of renewable energy. However, large research, data, information, and institutional gaps remain. The National Energy Policy adopted in April 2021 sets out a high-level strategy to ensure universal access to electricity by 2040, but progress has slowed, especially during COVID. Through its Nationally Determined Contribution, the government committed to achieving an overall emissions reduction of 15% below the "business-as-usual" scenario by 2030, taking 2010 as the base year.</p>

Source: World Bank analysis.

