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BOTSWANA

- The economy recovered in 2016 to 2.9%, driven by the rebound in the global diamond market.
- Growth prospects remain favourable but crucially depend on continued rebound in the global diamond market, improved reliability in electricity and water supply, as well as reforms.
- Reducing vulnerability to adverse shocks will require accelerating the pace of reforms aimed at enhancing competitiveness and improving the business climate to promote industrialisation and entrepreneurship.

Overview

Botswana has experienced boom-bust cycles, two of which have occurred since the turn of this century. The economy recovered in 2016, after it suffered another setback when economic growth contracted in 2015 because of weak demand for diamond exports and persistent electricity and water supply shortages. Domestic growth was boosted in 2016 by both the expansion of mining activity, reflecting the recovery in diamond industry, and a sound performance of non-mining sectors.

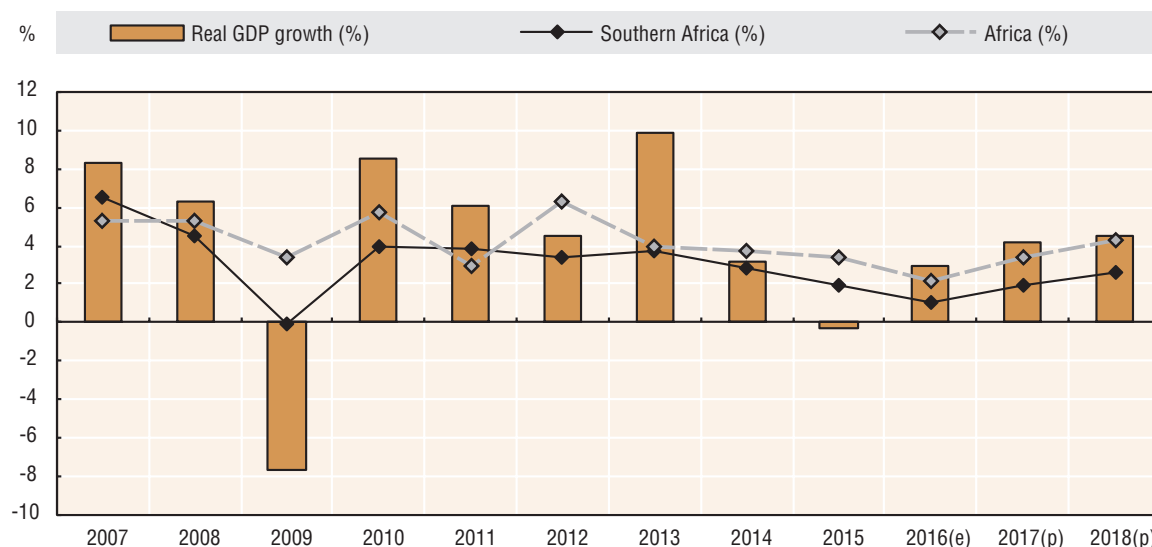
Botswana's growth prospects for the medium term remain favourable. Medium-term growth is forecast to rise moderately. The continued recovery depends crucially on a continued rebound in the global diamond market, the expansion in construction activities in the context of the government's Economic Stimulus Programme (ESP), improved reliability in electricity and water supply, and reforms to further improve the business environment. Downside risks remain elevated stemming from the sluggish recovery of the global economy and its impact on diamond demand.

The fiscal situation has weakened. After three consecutive years of surpluses, the fiscal position swung into a deficit in the 2015/16 financial year and another deficit is expected in FY 2016/17, reflecting lower mining revenues, a decline in revenues from the volatile South African Customs Union (SACU) and the continued use of fiscal stimulus. The government remains committed to returning the budget to surplus in the near term.

Inflationary pressures have eased sharply. Annual inflation closed below the lower end of the Bank of Botswana's medium-term objective range of 3% to 6% in 2016. Key factors that have helped to drive down inflation include the drop in international fuel prices and the government's commitment to prudent monetary policy. Inflation is expected to remain within the target range in the medium term, owing to low domestic demand and subdued foreign price developments.

To achieve economic diversification, Botswana needs to promote industrialisation by accelerating economic transformation from the primary sector to advanced manufacturing and services. Over the past four decades, the government has put in place appropriate policies and initiatives in support of industrial development and entrepreneurship. It has also stepped up efforts aimed at addressing various challenges investors and entrepreneurs face by pursuing measures aimed at reducing the cost of doing business and increasing competitiveness, as well as enhancing skills development.

Figure 1. Real GDP growth



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	-0.3	2.9	4.2	4.5
Real GDP per capital growth	-2.2	1.1	2.5	2.8
CPI inflation	3.1	2.8	3.5	3.7
Budget balance % GDP	-4.7	-0.7	-1.4	-0.8
Current account % GDP	7.8	3.6	7.1	7.3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Botswana is praised for the prudent management of its resource wealth, which has facilitated the transformation of the country from a least developed country to a middle-income country (MIC) status in 1992. The country's gross domestic product (GDP) per capita has risen from USD 80 at the time of independence in 1966 to USD 6 360 in 2015. However, Botswana has experienced boom-bust cycles, two of which occurred since the turn of this century. This is on account of the country's vulnerability to external shocks due to its heavy reliance on one commodity – diamonds. After several years of robust growth, the economy contracted by 7.8% in 2009 due to reduced demand for diamonds in the aftermath of the 2008 global economic crisis. However, the economy rebounded strongly thereafter with 7.2% real GDP growth, on average, during 2010-13. The recovery was led by a rebound in diamond exports and supported by solid growth in the non-mining sectors, boosted by the government's timely countercyclical policies. The Botswana economy suffered another setback when economic growth slowed to 3.2% in 2014, before dipping into negative territory in 2015 because of weak demand for diamond exports and persistent electricity and water supply shortages.

The Botswana economy recovered, growing by 4.5% in the 12 months to September 2016. Real GDP growth was driven by both mining and non-mining sectors. Mining activity rebounded strongly, expanding by 13.3% in the 12 months to September 2016 after registering a sharp

contraction of 37.9% during the corresponding period in 2015. The robust growth in mining production is attributed to the recovery in diamond industry value added, which increased by 9.3% compared to a decline of 33.4% in the previous year. Diamond prices gradually rebounded and remained relatively stable in 2016, reflecting the recovery in the global diamond market. Mining contributed about 19% to GDP in 2015 with diamonds providing 83% of Botswana's exports.

The performance of the non-mining sectors remained sound, supporting domestic growth in 2016. All non-mining sectors registered positive growth exceeding 1.5% in the 12 months to September 2015. Growth was driven mainly by service-oriented sectors, notably water and electricity; trade, hotels and restaurants; and transport and communication, each posting robust growth of at least 5%. The water and electricity sector bounced back strongly, growing by 59% after the power generation challenges were resolved. This was as a result of the completion of remedial measures to improve the reliability of the newly constructed Morupule B Power Station, which allowed the plant to operate at full capacity. The trade, hotels and restaurants sector expanded by 6.8%, driven mainly by a significant increase in wholesale value added after companies that are trading in diamonds were added to this sub-sector. Manufacturing activity growth decelerated to 1.7% during the 12 months to September 2016 from 2.1% during the corresponding period in 2015. In addition, the steel manufacturing plant, which was commissioned in 2015, suspended its operations in 2016. The sector failed to bounce back from the adverse impact of persistent electricity and water supply shortages in previous years.

Agricultural output continued to be affected by the severe drought conditions. The sector performed weakly, growing by 1.7%, compared to a fall in production registered in 2015. Botswana's crop production is hampered by traditional farming methods, drought, soil erosion and diseases. The contribution of the agriculture sector to GDP has remained modest; it was at 2.4% in 2015 from a peak of 3.4% in the 1990s.

Botswana's growth prospects for the medium term remain favourable. Real GDP growth is projected to pick up, averaging just over 4% in 2017-18, after a lacklustre outturn in 2014 and 2015. The continued recovery of medium-term growth depends crucially on a continued rebound in the global diamond market, the expansion in construction activities in the context of the government's ESP, and improved reliability in electricity and water supply. The favourable outlook is also underpinned by reforms to further improve the business environment, currently being pursued by the government in the context of the National Doing Business Committee, which are expected to have positive spin-offs for manufacturing and industrialisation.

The sluggish recovery of the global economy and its impact on diamond demand and prices pose substantial downside risks to the positive medium term outlook. Further, lower revenues from SACU relative to the pre-recession period, persistent drought, continued slow growth in South Africa, and the slow pace of reforms are the other main downside risks that need to be carefully monitored. The risks underline the importance for Botswana to accelerate its reform and economic diversification efforts and decisively resolve the energy and water crises. The country needs to promote industrialisation by accelerating economic transformation from the primary sector to advanced manufacturing and services in order to cushion the economy from adverse effects of external shocks. This can be achieved by improving the quality and efficiency of public infrastructure to facilitate the growth of private sector investments, by providing a sound regulatory environment and enhancing skills development.

Table 2. GDP by sector (percentage of GDP at current prices)

	2011	2015
Agriculture, forestry, fishing and hunting	2.8	2.4
of which fishing
Mining and quarrying	25.9	19.6
of which oil
Manufacturing	6.4	6.4
Electricity, gas and water	-0.1	-0.2
Construction	6.6	7.3
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	16.5	18.0
of which hotels and restaurants
Transport, storage and communication	5.4	6.5
Finance, real estate and business services	14.7	16.3
Public administration and defence	15.6	17.1
Other services	6.2	6.6
Gross domestic product at basic prices / factor cost	100.0	100.0

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Botswana's fiscal situation has weakened by lower mining revenues and expansionary fiscal policy. After three years of consecutive surpluses, the fiscal position swung into a deficit in the 2015/16 financial year. To insulate the economy from spillovers from the weak global economy, the government commenced the implementation of ESP in FY 2015/16. The programme entails higher capital expenditures in key sectors where there is a backlog of public projects in order to counteract the economic slowdown and create jobs. As a result, the ratio of expenditure to GDP rose sharply from FY 2014/15 to FY 2015/16. The ratio is projected to remain high in FY 2016/17, reflecting the continuation of the expansionary stance to accommodate the ESP. The ratio of total government revenue (including grants) to GDP is projected to fall slightly in FY 2015/16. The decline in government revenue is mainly on account of subdued mining revenues and a decline in SACU revenue. Consequently, a fiscal deficit of about 4.7% of GDP is envisaged in FY 2015/19. Taking advantage of Botswana's sizeable fiscal buffers built during boom years, the deficit is essentially being financed through drawing down on government savings and, to a lesser extent, domestic and international borrowing. The government remains committed to returning the budget to surplus in the near term. Its medium term fiscal consolidation process includes expenditure rationalisation by containing the growth of the wage bill (about 10.5% of GDP in 2015/16) and a reduction of transfers to state-owned enterprises, and an increase in revenue collection on account of a gradual recovery of the mining sector. To widen its revenue base in the medium term, the government intends to simplify both the Income Tax Act and Value Added Tax Act with a view of developing a Tax Administration Act. The aim is to improve tax administration efficiency.

Table 3. Public finances (percentage of GDP at current prices)

	2008/09	2013/14	2014/15	2015/16	2016/17(e)	2017/18(p)	2018/19(p)
Total revenue and grants	40.9	37.3	37.8	32.0	35.8	34.2	34.2
Tax revenue	36.5	32.1	32.2	28.8	32.1	30.3	30.3
Grants	0.8	0.2	0.3	0.2	0.2	0.3	0.2
Total expenditure and net lending (a)	47.2	31.8	34.2	36.7	36.5	35.6	35.0
Current expenditure	32.1	25.3	25.4	26.5	26.6	23.9	22.3
Excluding interest	31.7	24.8	24.9	25.8	26.1	23.3	21.8
Wages and salaries	11.7	11.7	11.2	10.5	12.1	10.4	10.3
Interest	0.4	0.5	0.5	0.7	0.5	0.6	0.4
Capital expenditure	15.4	6.8	8.8	9.4	9.9	11.8	12.8
Primary balance	-5.9	6.0	4.1	-4.0	-0.2	-0.8	-0.4
Overall balance	-6.3	5.5	3.6	-4.7	-0.7	-1.4	-0.8

Note: a. Only major items are reported.

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

After peaking at 12.8% in 2008, inflationary pressures have eased sharply. This is in line with Botswana's overarching monetary policy objective: achieving price stability and safeguarding financial stability. Annual inflation closed at 2.8% in 2016, lower than 3.1% in 2015 and 4.4% in 2014, which breached the lower the end of the Bank of Botswana's medium term objective range of 3% to 6%. Key factors that have helped to drive down inflation include the drop in international fuel prices. In the medium term, inflation is expected to remain within the target range of 3% to 6% owing to low domestic demand and subdued foreign price developments. Botswana's inflation tracks that of South Africa due to very close trade links between the two countries, the source of about two-thirds of Botswana's imports.

With inflationary pressures easing, an accommodative monetary policy stance has been pursued to support economic activity. Since December 2013, the Bank of Botswana (BoB) has reduced its policy rate by 200 basis points, bringing it down to 5.5% in August 2016. As a result, annual growth in credit to the private sector accelerated in the six months to June 2016 to 10.1% from 7.1% in December 2015 despite the slowdown in economic activity and restrained growth in personal incomes. The increase was driven by expansion in lending to businesses. While the annual growth in household credit fell marginally from 12.8% in December 2015 to 12% in June 2016, the borrowing by the corporate sector increased to 7.4% in June 2016 from a contraction of 0.3% in December 2015. The decline in household credit augurs well for the stability of Botswana's financial system.

The BoB decided to change the rate of crawl of the domestic currency, the Botswana pula (BWP), from zero to 0.38% upward rate of crawl from January 2016. This is consistent with the policy objective of maintaining a stable and competitive real exchange rate of the pula in line with monetary policy developments in Botswana's major trading partner countries. Consequently, the trade-weighted nominal effective exchange rate was stable in the 12 months to November 2016. In the same period, trends in bilateral nominal exchange rates show that the pula depreciated by 1.9% against the South African rand, but appreciated against the US dollar (by 1.3%), euro (0.8%) and British pound sterling (21.9%). The real effective exchange rate has remained relatively stable and competitive against major currencies. The crawling-peg exchange rate regime continues to serve the economy well, balancing it between stability and flexibility.

Economic co-operation, regional integration and trade

As a land-locked country with a small domestic market, Botswana recognises that it has much to gain from regional integration and economic co-operation. The country is a member of the

Southern African Development Community (SADC) and SACU. Both give Botswana opportunities for expanding and diversifying its export markets, while the latter allows it to enjoy free movement of goods, a common external tariff regime and harmonised rules of origin as a member of SACU with other member states (Botswana, Lesotho, Namibia, South Africa and Swaziland). Botswana has entered into several trade agreements and arrangements at the multilateral, regional and bilateral levels. After protracted negotiations, Botswana with other member countries of the SADC Economic Partnership Agreement (EPA) Group (Lesotho, Mozambique, Namibia, South Africa and Swaziland), signed the EPA with the European Union (EU) in June 2016. The EPA guarantees access to the EU market without any duties or quotas for the SADC EPA countries. In 2015, Botswana became a signatory to the Tripartite Free Trade Area (TFTA) agreement, which was launched in June 2015. The TFTA will create a single free trade area, bringing together 26 member states of the East African Community, SADC, and the overlapping Common Market for Eastern and Southern Africa (COMESA). The country will also continue to engage in the negotiations for the Continental Free Trade Area, which aims at bringing together 54 African countries. Bilaterally, Botswana has also signed trade agreements with Malawi, Zimbabwe and South Korea.

Botswana's commitment to becoming a regional transport hub is demonstrated by a number of initiatives it has taken to develop transport links necessary to promote regional integration. The country is leasing part of the Walvis Bay Port in Namibia to facilitate the country's exports and imports through the Namibia seaport. It is also constructing the Kazungula Bridge project, in collaboration with Zambia, to develop a rail and road bridge linking the two countries. Botswana's trade policy operates on the principle of free trade with no exchange control. South Africa is the main source of Botswana imports, accounting for over 60% of its imports, and a major market for its manufactured goods. However, the country's exports remain highly concentrated in diamonds, which account for over three quarters of total annual exports and are mainly destined for Europe.

Table 4. Current account (percentage of GDP at current prices)

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	-3.4	-1.9	3.2	-6.2	-7.4	-2.3	-2.8
Exports of goods (f.o.b.)	43.8	53.2	52.4	43.6	45.0	50.9	51.5
Imports of goods (f.o.b.)	47.3	55.1	49.2	49.9	52.3	53.2	54.3
Services	0.8	2.4	3.6	4.8	4.9	5.7	5.9
Factor income	-6.8	-2.5	-2.1	-2.1	-2.0	-2.5	-2.1
Current transfers	10.9	11.3	10.6	11.3	8.0	6.2	6.4
Current account balance	1.3	9.3	15.2	7.8	3.6	7.1	7.3

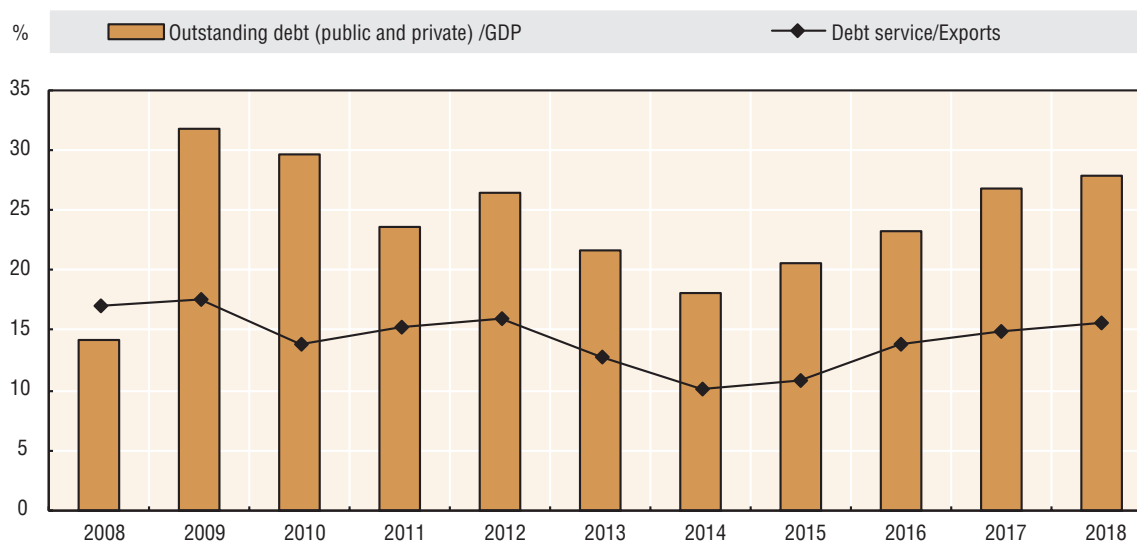
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

In line with its prudent and measured debt policy, Botswana has consistently adhered to a fiscal benchmark that statutorily limits public debt (including government guaranteed debt) to 40% of GDP (split equally between domestic and external borrowing). After peaking at 26.3% of GDP in FY 2012/13, reflecting high borrowing to support countercyclical measures to sustain economic growth in the aftermath of the 2008 global economic crisis, total public debt fell to 22% of GDP in FY 2015/16. Public external debt fell from 19.6% of GDP to 16.3% while domestic debt fell from 6.7% of GDP to 5.7% during the same period. Public debt remains sustainable and well below the statutory ceiling of 40% of GDP. The bulk of external debt is from multilateral institutions, while the domestic debt is predominantly in the form of bonds, reflecting the role played by the government to help develop the local capital market. The overall objective of the debt policy is to ensure that public debt remains affordable and at low risk to ensure fiscal sustainability. Due to its low public debt levels, Botswana can still accommodate higher borrowing without jeopardising the country's debt sustainability. A new Medium Term Debt Management Strategy

has been developed to help the government manage exposure to the risks that come with increased borrowing.

Figure 2. Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

Botswana continues to undertake reforms aimed at enhancing the country's business environment, as reflected by recent improvements in the country's non-price competitiveness indicators. The World Economic Forum's *Global Competitiveness Report (GCR) 2016/17* ranks Botswana 64 out of 138 countries (a remarkable improvement of 11 places over the past two years) and 4th in Africa. A sound macroeconomic environment, efficient labour market, reliable and legitimate institutions and a developed financial market all enhance Botswana's competitiveness. The World Bank report, *Doing Business 2017*, also ranks Botswana among Africa's best performers. For the second successive year, the country's ranking improved, from 72 to 71 out of 190 economies (from 74 to 72 in the previous year), making it the third best performer in Africa. The process of obtaining building permits was streamlined after the Gaborone City Council abolished, in 2015, the requirement of presenting a rates clearance certificate when applying for such permits. Paying taxes was also made easier after the Botswana Unified Revenue Service (BURS) introduced an integrated taxpayer management system to reduce queues and establish a new and exclusive office for large taxpayers.

Despite recent improvements, Botswana continues to face various challenges including the country's small market size, infrastructure bottlenecks, as evidenced by the recent electricity and water shortages, and inadequate basic health care and education. As a result, the government continues to make strides aimed at enhancing competitiveness and improving the business climate in order to foster development of the private sector. In 2011, the government set up a National Doing Business Committee (NDBC), charged with improving Botswana's business climate. The government also established the Cabinet Sub-Committee on Doing Business to monitor and guide the work of the NDBC and advise the cabinet on the reforms required for ease of doing business and global competitiveness. These initiatives led to the approval of the Doing

Business Reforms Roadmap and Action Plan in April 2015. The reforms being pursued aim to reduce government bureaucracy, eliminate unfriendly business laws and regulations, improve service delivery, reduce paper work, as well as leverage on ICT applications. Consequently, amendments to the Companies Act of 2015 were passed by Parliament in August 2016 to allow applicants to register companies without assistance of company secretaries. To provide an investor-friendly business environment with a view to attracting domestic and foreign investors, the government is in the process of developing eight Special Economic Zones (SEZs) in activities with perceived comparative advantage, including mineral beneficiation, leather, beef, financial services and agricultural processing. The Board for the SEZ Authority was appointed and a technical advisor was engaged in 2016 to roll out the zones following the adoption of the SEZ Policy in 2015. Botswana's ranking, as highlighted above, partly reflects the implementation of these initiatives.

Financial sector

Botswana has a reasonably developed financial market, which is able to provide various financial products and services. The financial system remains generally stable due to sufficient provisioning by banks and the robustness of their capital, asset quality and profit levels, which meet prudential requirements for banks. The country's commercial banks remain well capitalised, profitable and highly liquid. Various prudential indicators pertaining to asset composition and portfolio quality demonstrate the robustness of the financial sector. The ratio of non-performing loans to total credit increased slightly to 3.9% at the end of December 2015 from 3.6% in 2014, reflecting sluggish global and domestic economic activity. The regulatory and supervisory oversight of commercial banks is undertaken by BoB, which is guided by the Basel Core Principles for Effective Banking Supervision. The BoB Board approved the adoption of Basel II as a basis for the determination of capital adequacy for domestic banks effective 1 January 2016. The 2016/17 GCR ranked the country 65 out of 138 in financial market development.

Botswana has been making progress in increasing access to financial services for its population. According to FinScope in 2014, about 68% of adults had access to formal banking in 2014, compared to 61% in 2009, while about 11% of adults relied on informal mechanisms to manage their financial needs by 2014. Botswana has registered an increase of financial services between 2009 and 2014. The banked population increased by 25%. From a low base, cell phone banking rose by over 370% and Internet banking by 200% during the same period. Following the passing of the Securities Act and the Retirement Funds Act in 2014 and the Insurance Industry Act in 2015, Parliament passed the revised Non-Bank Financial Institutions Regulatory Authority (NBFIRA) Bill in 2016 aimed at strengthening NBFIRA.

Public sector management, institutions and reforms

Botswana boasts a culture of strong political, administrative and financial management accountability mechanisms. This has underpinned the country's strong economic growth for the past four decades. The establishment of key effective oversight institutions, such as the Office of the Ombudsman and the Directorate on Corruption and Economic Crime (DCEC), as well as the implementation of the Public Finance Management Reform, have ensured a robust accountability mechanism for decisions taken by civil servants in the course of executing their responsibilities. The country's civil service is well organised, which has benefited from a number of initiatives. Cognisant that previous public sector reform efforts were piecemeal, fragmented and uncoordinated, the government is developing a comprehensive Public Sector Reform Co-ordination Programme, which will be implemented during the Eleventh National Development Plan (NDP-11) to improve public service delivery.

Existing oversight institutions continue to undergo reforms aimed to enhance their effectiveness. Following the adoption of the Corruption and Economic Crime (Amendment) Act of



2013, which introduced new sections covering abuse of office, conflict of interest and intimidation of informers, DCEC has started examining processes and procedures in public institutions to identify areas of risks and recommend remedial measures. To further strengthen the country's zero tolerance commitment to fighting corruption, the Whistle blowing Bill was passed by Parliament in August 2016. The law will provide clear guidelines on how a person may report abuses and protection for those who do so. On the basis of the progress the country has made, Botswana is praised for its institutional transparency. The country is ranked among the top 25% (and highest in Africa) in Transparency International's 2016 Corruption Perception Index, and second out of 54 African countries in the 2016 Mo Ibrahim Index of African Governance.

Natural resource management and environment

Botswana is prone to drought and highly vulnerable to the impact of climate change. The country, therefore, accords high priority to environmental protection. Environmental sustainability is central to many of Botswana's key development issues, including the exploitation of minerals, use of scarce water resources for industrial development, tourism, and development of the cattle industry and arable agriculture. Over a third of the country's total land area is under some form of conservation, with 17% designated as national parks and game reserves, 20% as wildlife management areas and 1% as forest reserves. Thus, the Community-Based Natural Resources Management Programme, which has been going on for over two decades, ensures the participation of local communities in natural resource conservation. Further policy initiatives, legislation and regulations are being reviewed or formulated, including the Environmental Assessment Act of 2011. Following the development of the National Framework for Sustainable Development (NFSD), which proposes priority areas to drive Botswana on a sustainable development pathway, the process is underway to develop the draft NFSD into a Strategy with an Action Plan. A draft National Climate Change Policy has been completed and the expectation is that it will be tabled in Parliament in 2017. Botswana signed the Paris Agreement on 22 April 2016. The country intends to achieve an overall emissions reduction of 15% by 2030 from 2010 levels.

Political context

Botswana's political scene has remained remarkably stable. In addition to good policies and strong institutions, the country's stable political environment and mature democratic processes have underpinned effective economic management for over four decades. Although Botswana is a constitutional multiparty democracy, the ruling Botswana Democratic Party (BDP) has dominated the political scene since independence in 1966. BDP's President Seretse Khama Ian Khama was re-elected President for a second and last five year term after his party maintained its majority in Parliament, winning 37 out of the 57 available seats in the last parliamentary elections, held in October 2014.

Social context and human development

Building human resources

Botswana has made strides in social and human development. In education, the country achieved gender parity in primary and secondary education in 2011. More girls were enrolled in secondary schools with the female to male gross enrolment ratio of 107% in 2013. The literacy rate among females aged 15 and above reached 91% in 2014 compared to 88.7% for males. Key initiatives that contributed to these outcomes include allocation of significant budget, provision of free basic education, adoption of the Inclusive Education Policy in 2011, and an ongoing literacy programme that mainly benefits women. Despite these positive achievements, education outcomes across all segments remain low; there is a mismatch between skills demand and supply. To address these shortcomings, the government is currently implementing the 2015-2020 Education and

Training Sector Strategic Plan (ETSSP), adopted in May 2015. As part of the ETSSP, pre-primary education has been extended to an additional 107 primary schools and the Target 20 000 Initiative commenced in 2015/16 when 13 401 students were enrolled in 24 institutions for the rapid up-skilling of unemployed youth.

In health, Botswana has one of the best health care systems in Africa in spite of the country's sparsely distributed population. In 2012, the country had 35 general hospitals, 290 clinics, 55 dentists, 819 doctors and 5 816 nurses. Thus, over 95% of the total population and 89% of the rural population live within a radius of 15 km from a health centre. As a result, life expectancy in Botswana reached to 68 years in 2011 from 55.6 years in 2001. HIV prevalence has dropped from 17.6% in 2008 to 16.9% in 2013. The country has led the way in HIV/AIDS prevention and treatment programmes by mounting a broad multi-sectoral response to HIV/AIDS, encompassing interventions from both health and non-health sectors, largely funded through the government's own resources. It became the first sub-Saharan African country to provide universal free anti-retroviral therapy (ART) to people living with HIV (PLHIV) in 2002. The percentage of eligible people receiving ART reached 96% by December 2012. The mother-to-child transmission rate has also fallen significantly to around 2%. In 2013, amendments to the Public Health Act were passed that allow non-consensual HIV testing under special circumstances. These initiatives have led to a sharp decline in new infections from 15 000 in 2005 to 9 100 in 2013 and AIDS-related deaths from 14 000 in 2005 to 5 800 in 2013. Botswana also intends to launch a new policy of "Test and Start", aimed to prevent 120 000 new infections and 55 400 deaths, as well as to significantly reduce new tuberculosis (TB) cases over the next 15 years.

TB remains the leading cause of death in PLHIV. It accounts for 13% of total adult deaths and 40% of deaths among PLHIV. The government is making strides to contain and reverse the incidence of TB. The TB notification rate fell from 511 per 100 000 people in 2006 to 337 per 100 000 in 2013. The disease, however, remains a major health concern. The challenges include rising multi-drug resistant TB (2.5%) and high TB/HIV co-infection, which currently stands at 68%. The country has also made remarkable progress towards eliminating malaria. The incidence of malaria declined from 42.57 cases per 1 000 people in 2000 to 11 cases in 2013, benefiting from the implementation of the Malaria Strategic Plan. Consequently, Botswana is targeting the elimination of malaria by 2018.

Poverty reduction, social protection and labour relations

Botswana has made significant progress in eradicating poverty. However, stubborn pockets of poverty persist and the country's levels of unemployment and inequality remain disturbingly high. According to the most recent information available in the 2009/10 Botswana Core Welfare Indicators Survey, the proportion of the population living below the poverty line declined sharply from 30.6% in 2002/03 to 19.3% in 2009/10, partly due to the implementation of social safety nets. The largest decrease in poverty incidence, which was mainly due to the implementation of social safety nets and the rapid increase in GDP per capita from USD 80 at independence to USD 6 360 in 2015, occurred in the rural areas. Poverty displays a geographical and gender dimension, with female-headed households more likely to be poor than their male-headed counterparts. The unemployment rate was 20% in 2013. The high rate mainly reflects a mismatch between the quality of education and labour market demand. Reflecting the disparities in the quality of economic opportunities and services, inequality remains among the highest in Africa despite the sharp decline in poverty. The persistent high inequality is exacerbated by the limited economic diversification and the dominance of mineral (diamond) extraction in the country's GDP and exports. It underlines the need to ensure more inclusive development.

The government's commitment to fighting poverty is reflected in a number of on-going initiatives and its budget allocation. In 2010, the government introduced the Poverty Eradication Programme (PEP) to economically empower and capacitate various needy people to lead a



dignified life. The programme aims at assisting the beneficiaries to graduate from extreme or abject poverty through income generation projects and employment initiatives, capacity building and skills development, and grants to promote small and micro scale entrepreneurship. A Poverty Eradication Strategy is now in place to better guide the PEP programmes currently under implementation. In FY 2016/17, the sum of BWP 200 million was allocated to PEP.

The government has been implementing diverse programmes, which provide generous social safety nets to assist different groups that cannot afford basic necessities of life. The government also operates a labour-intensive public works programme centred mainly on public projects, known as *Ipelegeng*. The programme, which was set up in 2008, provides short-term employment to unemployed poor adults in urban and rural settlements. While the government's social safety net programmes are commendable, there are concerns about their effectiveness. The shortcomings include inadequate co-ordination, absence of a clear exit mechanism and lack of a comprehensive database of beneficiaries. The programmes are also considered to be fragmented because different ministries implement them in spite of limited capacity in government. The government is, therefore, committed to ensuring the sustainability of these programmes through continuous evaluation of their effectiveness and better targeting of their beneficiaries.

With regard to labour relations, Botswana has legislated various laws aimed at promoting industrial harmony. The laws continue to be amended to conform to international best practices. A new Trade Disputes Bill, which replaces the Trade and Disputes Act of 2003, was passed by Parliament in August 2016, while the Trade Union and Employers Organisation Act is currently undergoing revision to facilitate harmonious industrial relations and make the labour relations environment conducive to investment.

Gender equality

Botswana continues to make progress in promoting gender equality and women's empowerment in line with the country's constitution, which prohibits any form of discrimination on the grounds of gender. The country has assented to international conventions relating to gender equality. It commenced the process of domesticating the provisions of the United Nations Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in 2013. In 2014, Parliament passed the Married Persons Property (Amendment) Act, which introduced provisions to enable spouses after the solemnisation of their marriage to change the property regime they had opted for. The Legal Aid Act of 2013 became effective in January 2015, making Legal Aid Botswana an independent public entity, in order to improve access to justice for those without financial resources, including women. Recognising the need to be proactive in eliminating Gender Based Violence (GBV), the government adopted the National Gender Based Violence Strategy (2014-2020) in 2015. In 2014, the government started piloting a GBV Referral System to provide support to GBV survivors.

Guided by some of the above legal provisions, Botswana has made significant progress in improving the status of women, including gender parity, in primary and secondary education, and the gender balance in the workforce. Women have made progress in getting into leadership positions. They occupy 42% of economic decision-making positions in public service. However, women's earned income remains much lower than that of men despite the increase of the proportion of women who are economically active. In addition, women continue to have low access to property ownership and financial credit and their representation in the political and business spheres remains lower than that of men. Women only hold 9.5% (6 of 63) Parliamentary seats, well below the SADC minimum threshold of 30%. To reduce inequalities in opportunities and outcomes of social, economic, political, cultural and legal development for both women and men, Parliament adopted the National Policy on Gender and Development in August 2015, which replaces the Women in Development Policy of 1996. To facilitate effective implementation of the policy, a National Gender Commission was launched in September 2016.

Thematic analysis: Entrepreneurship and industrialisation in Botswana

Despite efforts to diversify the economy, Botswana's economic base remains narrow. The extraction and processing of diamonds for export remains the country's main growth driver. Unlike in many other middle-income countries, non-mining manufacturing has not been a dynamic absorber of labour. The share of the manufacturing sector in GDP has remained limited, in the range of 5% to 6% since the 1990s. Despite this, the sector contributes about 11% to formal employment. Thus, Botswana needs to promote industrialisation and achieve a higher rate of job creation by accelerating economic transformation from the primary sector to advanced manufacturing and services in order to reduce the country's dependence on the diamond industry before diamond reserves are depleted, possibly as early as 2030.

Several policies and strategies have evolved over the past four decades aimed at diversifying the economy, mainly tailored to increasing employment in non-agricultural sectors, especially manufacturing and services. The major policy in support of industrial development is the Industrial Development Policy of 2014 (IDP 2014), covering the period 2014-28. The policy aims at achieving diversified and sustainable industries, while ensuring beneficiation of locally available materials. While the policy does not target any specific sectors, this will be achieved by promoting the development of all types of manufactured projects, industrial upgrading and modernisation, development of backward and forward linkages industries, natural resource-based and service-based industrialisation, and development of regional and global value chains. The policy also focuses on addressing various challenges investors face by pursuing measures aimed at reducing the cost of doing business and increasing competitiveness, including improving the business environment and investment climate, provision of appropriate infrastructure and promoting industry efficiency through privatisation, as well as enhancing skills development. Thus, as discussed under the section on private sector above, in April 2015, the government approved the Doing Business Reforms Roadmap and Action Plan to intensify the implementation of regulatory and other structural reforms. The government is also in the process of developing SEZs, which are given special dispensations, such as tax and other regulatory exemptions, in order to provide an investor-friendly business environment with a view to attracting domestic and foreign investors in various manufacturing activities. The government is also implementing ETSSP, which among other things, aims at ensuring that the education system produces graduates with relevant industry skills, a major problem in Botswana.

One of the success stories of industry creation and development in Botswana is the launching of the country's own diamond-trading company, Diamond Trading Company Botswana (DTCB). For a long time, most of the diamonds mined in Botswana were exported in rough form to London. This restricted the number of jobs that could be created from the sector as no value was added. DTCB, a joint venture between De Beers and the Botswana government, was established in September 2013 in a move to promote downstream diamond industry and create jobs in the country. It replaced the London-based main Diamond Trading Company in the sorting and marketing of rough diamonds mined in Botswana. DTCB is adding value to the local diamond industry through cutting and polishing of diamonds and ultimately manufacture of jewellery. Botswana's exports of polished diamonds have now become the country's single largest manufactured export.

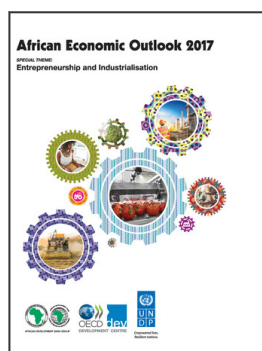
IDP 2014 recognises that inclusive growth cannot be achieved without empowering citizens to take an active role in economic activities. To this end, the government is making concerted efforts to support the development of local entrepreneurs. The prevalence of entrepreneurship in Botswana appears to be high. In Africa, the country is one of the leaders in entrepreneurship. The Global Entrepreneurship Index (GEI) of 2017 ranked Botswana 52 out of 138 countries (second in Africa after Tunisia). The Global Entrepreneurship Monitor 2015/16 ranked the country 2nd out of 60 countries in the world in terms of total entrepreneurship activity. There is little information regarding the entrepreneurship situation in Botswana. However, a survey carried out by the Botswana Institute for Development Policy Analysis in 2009 reported that, according to the



2006 Labour Force Survey, there were approximately 300 000 people working in the nonfarm sector, of which 80% were engaged in SMMEs. Of these, 46 000 were own-account workers running microenterprises, of which about 70% were women. Nearly a third of such entrepreneurs in Botswana operate wholesale or retail businesses, while another one-third are drawn to opportunities such as catering, transport, personal care, car repairs, printing services, finance and real estate. The rest were predominantly involved in food processing and other manufacturing, craft, tailoring and knitting, wood work and metal work. Nearly a third of the entrepreneurs had been in business for at least 10 years. Key challenges faced by entrepreneurs include inadequate marketing skills, access to finance, business premises and other start-up business problems.

Over the years, the government has put in place appropriate policies and initiatives in support of the development of entrepreneurship and small, medium and micro enterprises (SMMEs). Following the introduction of FAP in early 1980s, the government launched the Integrated Field Services in the late 1980s to provide training to SMMEs. Following the establishment of the Small Business Promotion Agency in 1999 to co-ordinate all SMME support programmes, the government set up the Citizen Enterprise Development Agency (CEDA) in 2001 to provide subsidised loans, as well as mentoring, business advisory service and training, to citizen business start-ups. CEDA has funded 3 289 enterprises for the sum of about BWP 2.7 billion since 2008. Established by the Small Business Act of 2004, the Local Enterprise Authority (LEA) offers various support services aimed at promoting entrepreneurship. They include business development; training, mentoring and advisory services; identifying business opportunities; facilitating access to markets and finance; facilitating technology adoption; and promoting general entrepreneurship and SMME awareness. In addition, the Entrepreneurial Development Policy of 2014 was developed to foster entrepreneurship in the country. The policy aims at developing and inculcating a culture of entrepreneurship, as well as encouraging citizens to learn and adopt existing and new entrepreneurship traits and skills of globally successful entrepreneurs. However, to increase the effectiveness of these policies and initiatives, the government needs to continue to focus on ensuring that these policies and strategies are well tailored to the needs of microenterprises. Both CEDA and LEA also need to step up their public awareness campaigns to ensure that the general public effectively take advantage of the services offered by them.





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