

# BOTSWANA





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# BOTSWANA AT A GLANCE

## General Information

Subregion	Southern Africa
Official language(s)	Se Tswana, English
Currency	Pula (P)
Capital city	Gaborone
REC membership(s)	SADC

## Rankings

Human development index (United Nations Development Programme)	106/188 (2014)
Gender inequality index (African Union Commission)	106/155 (2014)
Ibrahim index of African governance (Mo Ibrahim Foundation)	3/54 (2014)
Ease of doing business index (World Bank)	72/189 (2015)
Corruption perceptions index (Transparency International)	28/168 (2015)



### ECONOMIC GROWTH

Following the 2008 global economic crisis, the Botswana economy bounced back in 2013 with gross domestic product (GDP) growth increasing to 3.2 per cent in 2014, then declining to only 1.0 per cent in December 2015. The extractive sectors account for more than one fourth of Botswana's gross value added, with the mining sector being the largest single contributor.



### FISCAL POLICY

Botswana maintains a prescribed limit for public debt and debt guarantees of 40 per cent of GDP. A budget surplus of 5.6 per cent of GDP was recorded in the financial year 2013/14 and 0.8 per cent in 2014/15. Total expenditure is projected to increase to 35.7 per cent of GDP in 2014/15 and to 34.8 per cent in 2015/16. Total revenue is expected to decline to 35.9 per cent of GDP in 2014/15, and then to decline slightly further, to 35.6 per cent in 2015/16.



### MONETARY POLICY

Inflation has declined considerably, from 9.2 per cent in 2011 to 3.1 per cent in 2015. Low inflation is a result of modest wage growth and the decline in the prices of most goods and services, in particular, food and fuel. This inflation rate remains consistent with the medium-term target range set by the Bank of Botswana of between 3 and 6 per cent.



### CURRENT ACCOUNT

Since 2011, Botswana has recorded current account surpluses after facing a deficit in 2010. The highest surplus in the last five years, some US\$ 2.5 million, was recorded in 2014. In 2015 the recorded surplus was US\$ 1.4 million. The decline in surpluses may be attributed to the fall in commodity prices, in particular diamonds, which account for the largest share of deposits in the country's current account.



### CAPITAL AND FINANCIAL ACCOUNTS

Botswana received its largest amount of foreign direct investment inflows in 2011, which coincided with the height of the commodities super-cycle. In 2011, foreign direct investment was valued at US\$ 1.371 billion and was primarily directed to the mining sector. In 2012, however, inflows started to decline drastically, dropping to US\$ 393 million in 2014.





### DEMOGRAPHY

Botswana had an estimated total population of 2.3 million people in 2014. In all, 34 per cent of the population was below the age of 15, while 60 per cent of the population was between the ages of 15 and 64.



### POVERTY

According to the 2013/14 annual report by Statistics Botswana, the poverty head-count ratio at the national poverty line is 19.3 per cent, down from 30.6 per cent in 2003. Poverty is higher in rural areas, with 8.4 per cent of the rural population living in extreme poverty, compared to 2.7 per cent in urban areas.



### EMPLOYMENT

Unemployment remains a major social challenge in Botswana, despite the decline in the rate from about 47.0 per cent in the 1990s to 19.8 per cent in 2015. Unemployment is higher among women, at 21.4 per cent, compared to 14.5 per cent for men.



### HEALTH

Statistics Botswana reports that over 95 per cent of the population has access to health services and lives within an average of eight kilometres from the nearest health facility. HIV/AIDS remains one of the biggest health challenges for Botswana. The HIV prevalence rate increased from 17.1 to 18.5 per cent between 2003 and 2013.



### EDUCATION

Botswana has recently recorded progress towards achieving universal primary education. In all, 93.1 per cent of school-age children (7-13 years old) were in school in 2013. In terms of school achievement, 90.1 per cent of adult women have reached the secondary level of education or higher, compared to 83.5 per cent of their male counterparts.



### GENDER SCORECARD OF THE AFRICAN UNION COMMISSION

Gross enrolment ratios in secondary education stand at 46.6 per cent for girls, almost the same as for boys (47.9 per cent). The labour force participation rate for women of 87.1 per cent is also not much lower than that of men, at 94.7 per cent. The proportion of women in the lower house of parliament stands at 31.5 per cent, above the regional average.



Diamond extraction, fiscal discipline and sound management (good governance) have yielded positive socioeconomic dividends for Botswana. The extractive sector remains dominant and mining accounted for more than one quarter of the gross domestic product (GDP) in 2015. The tourism sector, focused on one of the world's most unique ecosystems, the Okavango Delta, and on the central Kalahari Desert, has grown significantly in recent years owing to the country's conservation practices and extensive nature preserves and to concerted efforts by the Government to promote the sector. The GDP growth rate of Botswana declined slightly to 3.2 per cent in 2014 from 5.8 per cent in 2013 because of a slowdown in non-mining activities, including in the water and electricity sector, and declined further to 1 per cent in 2015 as the prices of commodities continued to retreat as a result of falling demand. Inflation remains between 3 and 6 per cent, the target range of the Bank of Botswana, and was at 3.1 per cent in December 2015, down from 3.8 per cent in December 2014. The slow international economic recovery, the associated low demand for minerals and the retreating price of diamonds continue to weigh down growth prospects in Botswana.

Unemployment among young people aged 15-24 was 37 per cent in 2013 and the national unemployment rate was estimated at 19.8 per cent in 2015. The agriculture sector employed 29.9 per cent of the total labour force in 2012. The literacy rate in Botswana was 88.6 per cent in 2014, with

women and girls being more literate than men and boys aged 15-24 (Statistics Botswana, 2015a). Poverty remains high and is estimated at 19.3 per cent; that said, it has declined from 30.6 per cent in 2003 (Ministry of Finance and Development Planning, 2016). An estimated 25 per cent of young people aged 15-25 are infected with HIV (see [www.unaids.org/en/regionscountries/countries/botswana](http://www.unaids.org/en/regionscountries/countries/botswana)) and the HIV prevalence for 15-49 year-olds is 21.9 per cent (UNDP, 2015). The Government has taken steps to address the scourge of HIV/AIDS by increasing expenditure on health from 4.7 to 5.2 per cent of GDP between 2010 and 2011 (World Health Organization, 2014) and by making antiretroviral treatment free across the country, among other strategies. It is estimated that about 95 per cent of the total population living with HIV/AIDS will have access to antiretroviral treatment by 2016 (Botswana Institute for Development Policy Analysis and World Bank, 2013). Botswana has high income inequality: its Gini coefficient was 0.57 in 2014. The high diamond revenues and sound governance have underpinned strong State-led social protection programmes to address inequality and poverty.

The heavy dependence on a diamond sector that is poorly integrated into the local economy remains a major economic challenge for Botswana. The promotion of mineral beneficiation and value addition in line with the Economic Diversification Drive is designed to strengthen domestic linkages and minimize the adverse impact of price fluctuations, as happened in 2009 during the

economic meltdown and the resultant decline in the demand for and price of diamonds. Unemployment among youth, HIV/AIDS, poverty, the rise in non-communicable diseases such as diabetes, cancer and cardiovascular ailments, malaria, tuberculosis and inequality are major socioeconomic challenges. Water shortages and the electricity deficit continue to undermine industrial development and economic performance. Similarly, low rainfall in Botswana owing to climate change is a serious threat to food security and livelihoods.

## NATIONAL AND SUBREGIONAL CONTEXT

Botswana is a pluralist democratic State that has organized peaceful, multiparty contested elections since independence in 1966 and good governance has been the hallmark of the country's socioeconomic development. The country has consistently ranked high on the Ibrahim index of African governance and in 2013 had an overall score of 76.2. In 2014, Botswana ranked third, behind Mauritius and Cabo Verde, on that same index and scored the highest of any African country for safety, the rule of law and accountability (Mo Ibrahim Foundation, 2014). On the Transparency International corruption perceptions index, the country had a score of 64 and ranked first on the continent and thirty-first out of 175 countries and territories worldwide (Transparency International, 2014). In addition, on the latest fragile States index (2015) Botswana ranked 122nd out of 178 countries and, with a score of 62.8, was grouped together with South Africa among the "low-warning" countries (J.J. Messner and others, 2015).

The discovery of diamonds, the effective and transparent use of mineral revenues and good governance practices have helped to lift Botswana from being one of the poorest countries in the world at independence in 1966 to being an upper-middle-income country by 1985. The country's mineral revenue management strategy through the Pula Fund, a sovereign wealth fund, has so far managed to avert the pitfalls of the "resource curse" often experienced in mineral-dependent economies. The Pula Fund, established in 1993 under the Bank

of Botswana Act of 1975 and re-established under the Bank of Botswana Act of 1996, currently stands at 6.9 billion pula (Bank of Botswana, 2014). The Fund provides the country with a buffer that could be mobilized to address economic challenges; it has been used to stabilize revenues and serves as a savings fund for future generations.

The extractive sector accounts for more than one quarter of GDP, with the mining subsector, mainly diamond mining, being the largest single contributor. The GDP growth rate of Botswana stood at 1 per cent in December 2015, down from 3.2 per cent in 2014 and 5.8 per cent in 2013, owing to a continued slowdown in mining and in the water and electricity sector. Persistent water shortages and electricity outages resulting from challenges at the Morupule B project and the North-South Water Carrier Project undermined overall growth (Ministry of Finance and Development Planning, 2015a and 2016). A slowdown in the diamond mining subsector, which currently accounts for nearly 40 per cent of the country's budgetary revenue and around 85 per cent of export earnings in dollar terms, has resulted in declining growth. That decline is expected to bottom out in early 2016. The price of diamonds is expected to recover in late 2016 and economic growth is projected to stabilize as the market improves and the export of processed diamonds through the Diamond Hub increases. Although inflation remains within the target range set by the Bank of Botswana of between 3 and 6 per cent, and stood at 3.1 per cent in December 2015, the scourge

of unemployment remains a major socioeconomic challenge in Botswana.

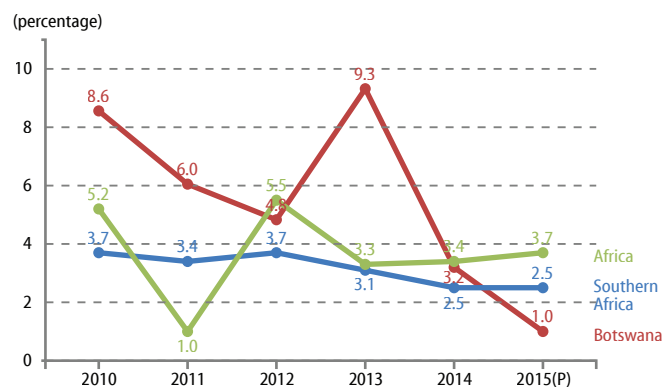
In recent years, the Government of Botswana has intensified efforts to diversify the economy for long-term sustainability through various initiatives, including the promotion of tourism. The Government has also increased the levels of savings, built infrastructure and increased investment and expenditure in education and health (Ministry of Finance and Development Planning, 2015b). It has ensured that the level of domestic savings is maintained above 40 per cent of GDP and that the level of investment in the country is maintained at 35 per cent of GDP (Ministry of Finance and Development Planning, 2015b). Through the national Economic Diversification Drive, which was approved by the Cabinet in 2010, Botswana has sought to use local procurement and government-preference margins in the short term and to develop a vibrant and globally competitive private sector, independent of government support and protection, in the long term (Ministry of Trade and Industry, 2011). The Diamond Hub, part of the Botswana Economic Hubs initiative, is expected to strengthen value-addition and beneficiation in the diamond sector through domestic sorting, cutting and polishing processes and also to strengthen the generation of other forward and backward linkages and high-quality employment in related sectors. The Diamond Hub is expected to assume a regional role in the beneficiation of diamonds by accommodating rough diamonds from other countries in the region, further increasing linkages. Furthermore, the economic stimulus programme launched in November 2015 is geared towards promoting growth and employment (Ministry of Finance and Development Planning, 2015b).

Botswana is a member of the Southern African Development Community (SADC) and the Southern African Customs Union (SACU), and thus enjoys the benefits of regional integration initiatives such as unified trade negotiations, coordinated

trade facilitation and cross-border infrastructure development and transit facilitation. The country trades freely with SACU member States and enjoys the benefits of a common external tariff on all goods imported by States members of SACU. As a member of SACU, Botswana also receives customs and excise revenues collected in line with the agreed revenue-sharing formula (see [www.sacu.int](http://www.sacu.int)). Trade within the SADC region is carried out according to the group's protocol on trade and other bilateral and interregional trade arrangements among member States. Although the Government of Botswana supports a carefully planned tariff liberalization process to achieve the objective of moving away from using tariffs as a source of revenue to using them as a tool for industrialization, it has recently applied some non-tariff barriers to trade, including import permit requirements for a variety of food products, seasonal trade bans on selected agricultural goods and a State monopoly on beef exports (African Development Bank, Organization for Economic Cooperation and Development and UNDP, 2014).

Until 2014, the growth rate of Botswana was higher than that of SADC States as a group and higher than the continental average, except in 2012 (see

**Figure 1: Real GDP growth, Botswana compared to SADC and Africa (2010-2015)**



Sources: Ministry of Finance and Development Planning, budget speeches for the years 2009-2016; Southern African Development Community, 2015; African Development Bank, Organization for Economic Cooperation and Development and UNDP, African Economic Outlook 2010-2015.

**Table 1: Position of Botswana relative to SADC, on selected economic indicators (2005-2014)**

Indicators	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Botswana per capita GDP (United States dollarsUS\$)	5 477	5 495	5 819	5 716	5 263	6 433	7 745	7 179	7 137	7 346
SADC average	1 640	1 768	1 937	2 012	1 928	2 295	2 582	2 555	2 471	2 378
Botswana annual real GDP growth rate (percentage)	4.6	8.4	8.3	6.2	-7.7	8.6	6	4.8	9.3	4.4
SADC average	6.6	7.2	8.1	5.6	0.6	4	4.1	4.3	3.8	4.6
Botswana imports of goods and services (percentage of GDP)	35.6	34.1	40.1	50.7	51.9	49.7	51.2	58.3	54.3	43.3
SADC average	31.8	32.8	35.9	41.4	37.6	33.5	35.6	36.8	36.4	33.6
Botswana debt-to-GDP rate (percentage)	5.2	5.1	3.7	11.4	23.7	13	17	19.1	21.5	10.7
SADC average	26	24.4	24.3	23.9	27.8	26.3	25.7	29.5	30.8	33.5

Source: SADC Selected Indicators, (2005-2014), 2015

figure 1). The country grew by 1 per cent in 2015, a rate that is expected to be lower than that of the regional average, which is expected to be 3.9 per cent (Ministry of Finance and Development Planning, 2016).

The GDP per capita of Botswana was more than three times the regional average, with Seychelles having the highest per capita GDP in SADC in 2014 and Malawi the lowest (see table 1). The

real GDP growth rate of Botswana was below the SADC average and the ninth highest in SADC in 2014. The country's debt-to-GDP rate was a third of the regional average and the third-lowest behind Swaziland and Namibia in 2014.

Box 1 and Table 2 show the result of an assessment of progress made by Botswana in terms of integration using the Africa regional integration index.

### Box 1: Africa regional integration index: Botswana

The Africa regional integration index is designed to measure the extent to which each country in Africa is meeting its commitments under the various pan-African integration frameworks such as Agenda 2063 and the Abuja Treaty. The index, which is a joint project of the African Development Bank, the African Union Commission and the Economic Commission

for Africa, covers the following dimensions: (i) free movement of persons; (ii) trade integration; (iii) productive integration; (iv) infrastructure; (v) financial integration and macroeconomic policy convergence. The following section gives highlights on selected indicators. A technical description of the indicator may be found on the ECA website at [www.uneca.org](http://www.uneca.org).

#### Overall rank:

Second in SADC (score: 0.56). Best-performing country in SADC is South Africa (score: 0.74) \*

Free movement of persons: eighth in SADC (score: 0.60). Best-performing country in SADC is Swaziland (score: 0.70).	Trade integration: fourth in SADC (score – 0.61). Best-performing country in SADC is South Africa (score: 1).	Productive integration: fourteenth in SADC (score: 0.175). Best-performing country in SADC is Zimbabwe (score: 0.74).	Infrastructure: first in SADC (score: 0.82).	Financial integration and macroeconomic policy convergence: third in SADC (score: 0.59). Best-performing country in SADC is South Africa (score: 0.915).
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**Free movement of persons:** Botswana scores moderately in this dimension relative to other member countries of the Southern African Development Community (SADC). Nationals from 17 other African countries are allowed to enter Botswana without a visa or to obtain a visa on arrival. This places the country joint twenty-eighth across the continent and joint eighth out of the 15 SADC member States for this indicator. The fact that Botswana is yet to ratify the SADC Protocol on Facilitation of Movement of Persons has an adverse impact on the movement of nationals from other SADC member States.

**Trade integration:** Botswana has made significant progress towards removing tariff barriers on imports from States members of regional economic communities of which it too is a member. The country's average applied tariff on imports from other SADC member States is only 0.00003 per cent, the fourth lowest among the 13 SADC members for which data was available. However, the country ranks thirty-second in Africa and ninth among SADC member States on the indicator on the ease of trading across

borders (World Bank ease-of-doing business index). Although ranking poorly, Botswana scores higher than all other landlocked countries in Africa except Lesotho and Swaziland, which have a low cost of inland transport owing to their small size. The investment made by Botswana in trade infrastructure and in trade facilitation measures may account for this.

The country's trade with other SADC member States as a proportion of GDP is reasonably high. At 8 percent of GDP, Botswana has the sixth-highest share of intra-SADC exports to GDP (excluding re-exports) among the 13 members of the bloc for which data was available. It also has the third-highest share of intra-SADC imports to GDP among the 15 members, amounting to 37 percent of GDP. Indeed, given that SADC appears to be the most trade-integrated regional economic community on the continent, Botswana scores strongly in this dimension overall relative to other African countries. However, trade between Botswana and other SADC member States may be depressed by limited complementarity of goods. Botswana has the third-lowest position



on the merchandise trade complementarity index of the United Nations Conference on Trade and Development vis-à-vis member countries of the same regional economic community than all other SADC members except Angola and Lesotho.

**Productive integration:** Botswana is not well integrated with the rest of SADC in respect of this indicator. It has the eighth-highest share of exports of intermediate and capital goods to other SADC countries in GDP, at around 3 percent. In terms of imports of intermediates and capital goods, it has the fourth-highest share of intermediate and capital goods exports to the region out of the 14 members for which data was available, at around 24 percent.

**Infrastructure:** The Internet bandwidth per capita in Botswana, which is of one megabit per second per person, is the seventeenth-highest on the continent and the fourth-highest among SADC members. Internet bandwidth is important for communication as well as for supporting trade in services. Botswana has the twentieth-highest net electricity production

capacity per capita, and the seventh-highest among SADC members. Access to electricity is essential for the industrial sector, the development of which promises to encourage intra-African trade.

Information on Botswana's financial integration and macroeconomic policy convergence can be retrieved from the dedicated website on the Africa Regional Integration Index, [www.integrate-africa.org](http://www.integrate-africa.org),

**Conclusion:** The Africa regional integration index shows that Botswana performs best in terms of regional infrastructure, then in terms of financial integration and macroeconomic convergence; it ranks poorest in terms of productive integration. The country's performance in respect of the free movement of persons and trade integration is relatively weak. To strengthen integration, Botswana should take steps to ratify the regional protocols on the free movement of people and improve participation in regional value chains.

\* A continent-wide ranking, in which all African countries from all regional economic communities will be compared with one another, is currently under development for the Africa regional integration index and will be added to subsequent updates of the ECA country profiles.

# 3

## ECONOMIC PERFORMANCE

### 3.1 Economic growth and sectoral performance

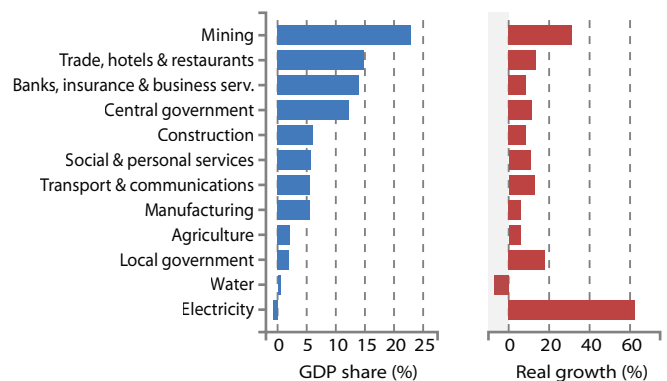
The 2008 and 2009 global economic crisis had a negative impact on the country's economic growth owing to its dependence on diamond exports. The European and United States markets were in serious recession during the crisis and consequently GDP growth in Botswana slowed from 6.2 per cent in 2007 to 3.1 per cent in 2008 and -7.7 per cent in 2009; it then recovered in 2010 and 2011, recording a growth of 8.1 and 6.1 per cent, respectively. It slowed down again in 2012, to 4.3 per cent, as global demand for diamonds was subdued and prices and volumes fell. The economy bounced back in 2013, with GDP growth increasing to 5.8 per cent before declining marginally to 3.2 per cent in 2014 and to only 1 per cent as of December 2015 (Ministry of Finance and Development Planning, 2016). The drivers of the recovery, which had included a good price for diamonds in 2011, declined further in 2015, leading to depressed growth. The mining subsector declined by 14 per cent in 2015 owing to a reduction in diamond production. The economy is projected to rebound, however, and to grow by 4.2 per cent in 2016 and 4.3 per cent in 2017, as both mining and non-mining subsectors improve. The mining subsector is expected to grow by 0.6 per cent and 0.7 per cent in 2016 and 2017 with the non-mining subsector growing by 4.7 per cent and 4.9 per cent during the same period (Ministry of Finance and Development Planning, 2016).

The agriculture and mining sector accounts for more than a quarter of the gross value added of

Botswana, with the mining subsector being the largest single contributor despite a slight decrease in the contribution between 2007 and 2014, from 29.1 to 22.9 per cent, attributable to reduced global demand during the global economic crisis and the slow economic recovery (see figure 2).

The contribution of the agricultural sector to domestic value added has declined drastically since the discovery of diamonds, contributing 2.1 per cent in 2015. The impact of the Agricultural Hub, which was established in May 2008 as a catalyst for increasing the commercialization and diversification of the sector and to improve food security, demonstrates the importance that the Government attaches to the sector. The results of that effort, however, are yet to be felt. Support to the horticulture subsector through the Integrated

**Figure 2: Gross domestic product by type of economic activity, 2014 (as a percentage of the total, in current prices) and real growth 2013-14 (percentage)**



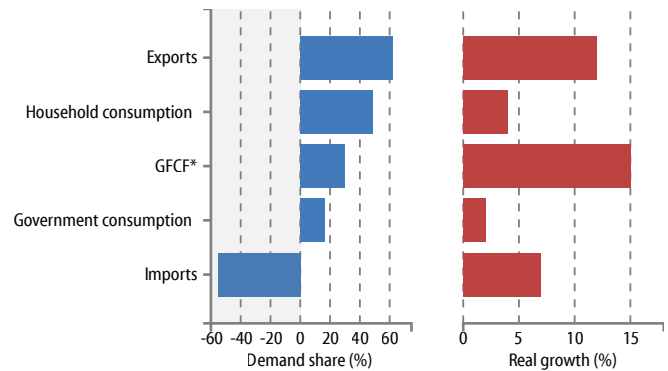
Source: Bank of Botswana, 2015a.

Support Programme for Arable Agriculture Development (by which farmers contribute 60 per cent and the Government contributes 40 per cent towards the costs of installing irrigation equipment) will boost the sector. Inadequate rainfall and recurring droughts remain the main challenges.

The manufacturing sector remains small and contributed 5.5 per cent to GDP in 2015. Efforts by agencies such as the Botswana Investment and Trade Centre continue to promote domestic and foreign direct investment into the sector and provide targeted fiscal incentives to major manufacturing projects to enhance value addition and competitiveness as part of the Economic Diversification Drive. Strategies such as the Leather Industry Strategy and the Dairy Industry Strategy focus on sectoral transformation and value addition. The other major individual contributors to GDP are wholesale and retail trade, finance, real estate and business services and public administration, education, health and social work, and community, social and personal services, all of which accounted for 49.7 per cent of GDP in 2013.

The share of gross value added from tourism was 14.8 per cent in 2014. The water and electricity sector has contracted in recent years, recording a negative growth rate of 27.2 per cent in 2013 (Ministry of Finance and Development Planning, 2015b).

**Figure 3: Demand shares (2014 percentage) and real growth (2013-2014)**



\*GFCF: Gross fixed capital formation

Source: Ministry of Finance and Development Planning, Budget Speeches for the years 2009-2016.

The export of goods and services remains the largest component of demand for national output and government consumption remains the smallest component (see figure 3).

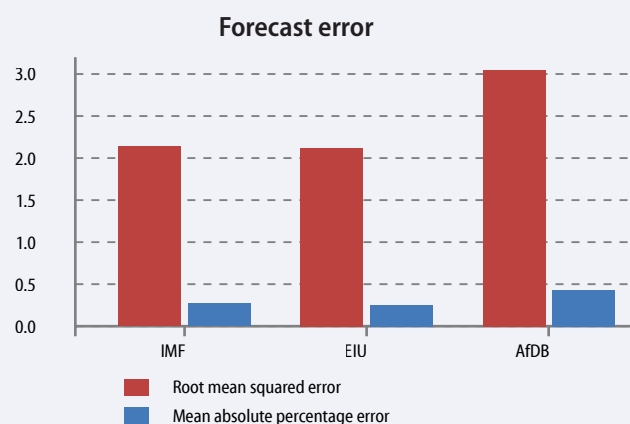
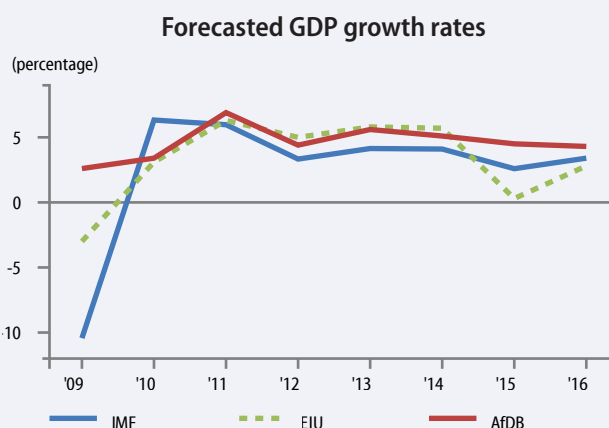
The Government of Botswana uses the forecasts on macroeconomic indicators provided by various authoritative sources for determining its own forecasts for planning and budgeting. Box 2 compares the accuracy of the estimates provided by the African Development Bank (AfDB), the Economist Intelligence Unit (EIU) and the International Monetary Fund (IMF) on the real GDP growth rate.

### Box 2: Forecasts for the Botswana economy

The GDP growth forecasts produced by the AfDB, EIU and the IMF have become much closer since 2011 although in 2015 the forecast by EIU was low compared to the other two. The most optimistic forecast for 2016 was produced by the AfDB (4.3 percent) and the least optimistic by the EIU (3.4 percent).

The root mean squared error and the mean absolute percentage error are common forecast accuracy measures. The higher the value of these errors, the less

accurate the forecasts are. The analysis suggest that the most accurate forecasts produced for the period 2009-2014 were those made by the Economist Intelligence Unit and the International Monetary Fund. The forecasts by the African Development Bank were the least accurate of the three.



## 3.2 Fiscal policy

### *Sustained prudent fiscal policy and debt management*

Botswana maintains a prescribed limit for public debt and debt guarantees of 40 per cent of GDP, which has enabled the country to avoid excessive debt. The limit is applied equally to external and domestic debt, at 20 per cent each. The country's international reserves, measured by months of import cover, are higher than those of most middle-income countries. In 2015, import cover of US\$ 7.9 billion was 19 months, up from 15.8 months in 2013 (Ministry of Finance and Development Planning, 2015c). This favourable position is generally attributable to receipts from diamond exports,

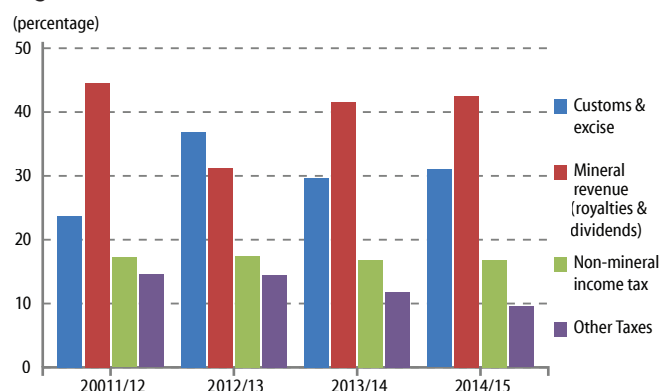
which are a major source of revenue for the country and have been well managed in the context of fiscal policy and rules (Bank of Botswana, 2015b).

The global financial crisis of 2008, however, affected the budget surpluses, which had remained at about 4.7 per cent of GDP on average over the previous five years. Diamond revenues declined sharply, by 46 per cent, in 2009 and pushed Botswana into a budget deficit equal to 11.3 per cent of GDP. In order to mitigate the negative effects of the crisis and achieve a broadly balanced budget within three years, the Government introduced fiscal consolidation measures and committed to eliminating the deficit. A budget surplus of 5.6

per cent of GDP was recorded in the financial year 2013/14 and one of 0.8 per cent was recorded for 2014/15 (Ministry of Finance and Development Planning, 2015c). Total expenditure is projected to increase to 35.7 per cent of GDP in 2014/15 and to amount to 34.8 per cent in 2015/16. In addition, total revenue is expected to decline from 38.1 per cent in 2013/14 to 35.9 per cent of GDP in 2014/15 and again to 35.6 per cent in 2015/16. The decline in expenditure, to 32.5 per cent of GDP in 2013/14 from 36.1 per cent in 2012/13, is largely due to restrained recurrent spending, including on wages. The Government's wage bill, together with subsidies and transfers, accounts for about 50 per cent of total expenditure and therefore reduces the margin of manoeuvre for fiscal policy. The country recorded a balance-of-payments surplus of US\$ 1.36 billion in 2014 owing to an increase in receipts from SACU, which rose by 9 per cent, from US\$ 1.44 billion in 2013 to US\$ 1.57 billion in 2014. This contributed to an increase in foreign exchange reserves, which stood at US\$ 8.26 billion in December 2014. This was equivalent to 18 months' import cover for goods and services (Ministry of Finance and Development Planning, 2015b). A surplus of US\$ 1.32 billion was achieved in 2015, thanks in part to high SACU revenue, relatively stable mineral revenues and continued efforts to rein in unnecessary spending (African Development Bank, Organization for Economic Cooperation and Development and UNDP, 2014). Foreign exchange reserves, which amounted to US\$ 7.5 billion, were equivalent to 19 months' import cover for goods and services (Ministry of Finance and Development Planning, 2015c).

A focus on sustaining a broad tax base and encouraging private sector investment has ensured that the country's tax system remains robust and non-distortionary (Ministry of Finance and Development Planning, budget speeches for the years 2009-2016). The sound performance of the Botswana Unified Revenue Service has ensured that both tax and non-tax revenue targets are

**Figure 4: Sources of tax revenue (2011/12-2014/15)**



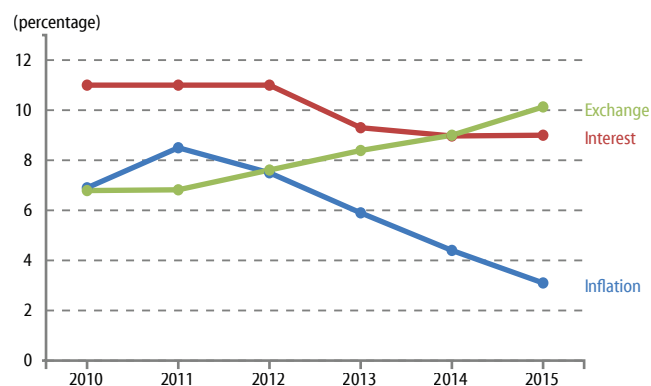
Source: Bank of Botswana, 2015a.

consistently surpassed. Value added tax is currently set at 12 per cent, which is lower than in other SACU countries: Lesotho, South Africa and Swaziland levy 14 per cent and Namibia levies 15 per cent. Income tax rates are progressive and range from 5 to 25 per cent. Mineral revenues account for around 43 per cent of the total government tax revenue and customs and excise for 31 per cent (see figure 4). Tax revenue accounted for 92 per cent of government revenue in 2014/15. In spite of these favourable revenue outcomes, Botswana could improve its tax collection system even further by granting fewer exemptions and incentives, including tax holidays, for a period of 5 to 10 years, and by not withholding taxes on dividends, interests, royalties and management fees for companies approved under the International Financial Services Centre. These incentives, unless designed to achieve specific developmental objectives, undermine revenue collection.

### 3.3 Inflation and monetary policy

#### *Decline in inflation and modest movements in the exchange rate*

Inflation has declined considerably, from 9.2 per cent in 2011 to 5.9 per cent in 2013 and 3.8 per cent in 2014 (Ministry of Finance and Development Planning, 2015b). It declined further, to 3.1 per

**Figure 5: Sources of tax revenue (2011/12-2014/15)**

Sources: Ministry of Finance and Development Planning, Budget Speeches for the years 2009-2016.

cent, in 2015 (see figure 5). The low inflation rate is the result of modest wage growth and weak demand pressures, as well as the limited impact of an increase in administered prices and government levies. External pressures on domestic prices were also benign in the context of low and declining inflation in trading partner countries and a reasonably stable rand-to-pula exchange rate in 2014. The decline in the prices of most goods and services, in particular food and fuel, accounted for the decrease in domestic inflation. Food price inflation decreased from 3.9 per cent in December 2013 to 2.5 per cent in December 2014 and fuel prices decreased by 6.1 per cent during the same period. Lower demand-side pressures (consumer and government spending) are expected to keep inflation within the target range in 2016 (Ministry of Finance and Development Planning, 2015b). The inflation rate remains consistent with the Bank of Botswana's medium-term target range of between 3 and 6 per cent.

Maintaining a stable real effective exchange rate is important for the economy. The country's exchange rate policy aims at supporting the competitiveness of domestic industries in the international and domestic markets (Bank of Botswana, 2014). Trends in bilateral nominal exchange rates show that the pula has depreciated against major currencies

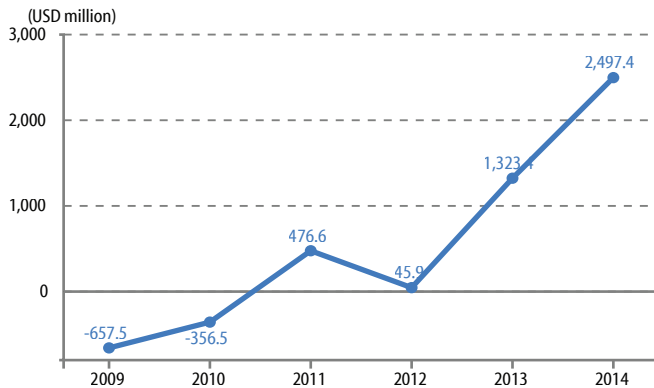
since 2012 as the price of diamonds has continued to decline, thereby eroding the revenue base, which is the source of strength of the pula. For example, from the end of December 2012 to end of December 2013 only, the pula depreciated by 16.1 per cent against the Euro, by 13.7 per cent against the pound sterling and by 12.2 per cent against the United States dollar owing to a declining demand for diamonds. The pula appreciated against the rand by 9.3 per cent during the same period as the South African economy contracted owing to a low demand for exports. In 2014, the pula depreciated by 8.3 per cent against the United States dollar and by 2.9 per cent against the pound sterling, and appreciated by 4.5 per cent against the Yen, by 4 per cent against the euro and by 1.7 per cent against the rand. The Government disclosed in its 2013/14 budget both the rate of crawl of the pula and the weight of the currencies in the basket, a move that was hailed by stakeholders as critical in fostering transparency of the country's exchange rate mechanism.

The pula appreciated by 13.6 per cent against the rand as the South African economy continued to decline and by 16.6 per cent against the Special Drawing Right (an international reserve asset) in 2015 (Ministry of Finance and Development Planning, 2016). The Government's exchange rate policy supports its export-oriented development strategy by ensuring the stability of the real effective exchange rate.

### 3.4 Current account

Since 2011, Botswana has recorded current account surpluses after facing a deficit in 2010. The highest surplus in the past five years, which stood at US\$ 2.5 million in 2014, was attributable mainly to foreign trade and the transfer of earnings in the country. Even though a current account surplus of US\$ 1.4 million was recorded in 2015, this translates into a 43.8 per cent reduction in relation to 2014. The decline in surpluses can be attributed to the fall in commodity prices, of which diamonds account for the largest share of deposits in the current account.

**Figure 6: Current account balance, 2009-2014**



Source: Ministry of Finance and Development Planning, Budget Speeches for the years 2009-2016.

The positive contribution of receipts from SACU to the current account balance is expected to be offset by the trade deficit, as weak global demand for exports of goods and services is expected to result in a surplus decrease of 18.6 per cent in 2015. Imports too are expected to decline, by 8.1 per cent, during the year (Ministry of Finance and Development Planning, 2015b).

The overall budget deficit will be financed by drawing on government savings, domestic

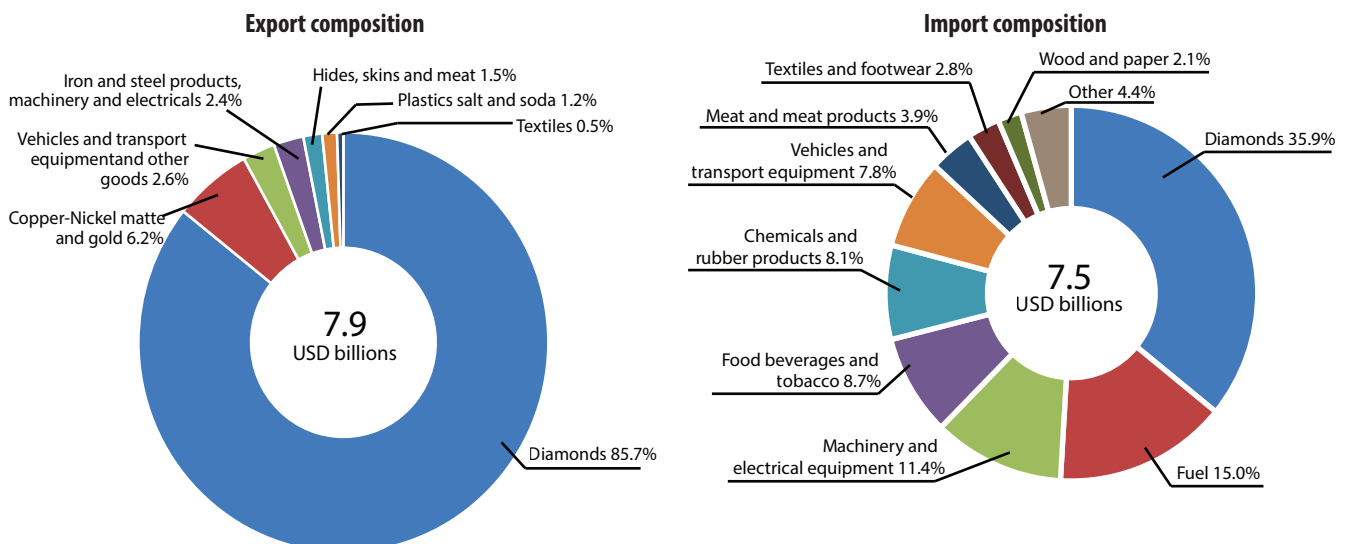
borrowing and foreign borrowing, after a careful cost-benefit analysis (Ministry of Finance and Development Planning, 2016).

Diamonds accounted for 36 per cent of total imports in 2013/14, while fuel accounted for 15 per cent and electrical equipment accounted for 11 per cent of all imports, valued at US\$ 7,473 billion (see figure 7). During the first three quarters of 2015, the value of imports totaled US\$ 5,157 billion, with diamonds accounting for 32.4 per cent of the total value of imports.

The principal sources of imports in November 2015 were South Africa, Namibia and Swaziland (SACU), Zambia, Zimbabwe and Mozambique (SADC), Belgium, Germany, the United Kingdom of Great Britain and Northern Ireland, China, including Hong Kong, the Russian Federation, Israel, Australia and the United States of America (see figure 8).

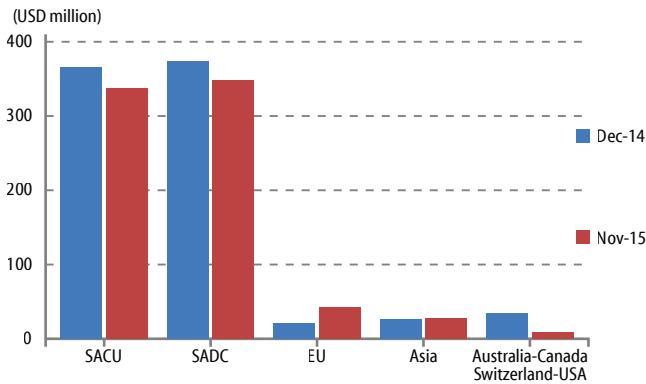
The main products exported by Botswana in 2014 were copper-nickel matte, diamonds and gold. The other exports were iron and steel and related products, machinery, plastics, salt and soda ash, and textiles. In 2014, diamond exports alone accounted

**Figure 7: Foreign trade (2013-2014)**



Source: Statistics Botswana, "Monthly digest" (November 2015).

**Figure 8: Principal sources of imports (December 2014 and November 2015)**



Source: Statistics Botswana, "Monthly digest", November 2015.

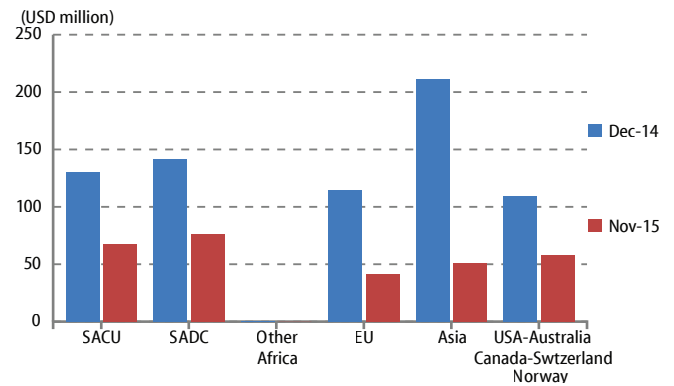
for 85.7 per cent of export earnings and, together with copper-nickel matte and gold, accounted for 91.9 per cent of exports (see figure 7). During the third quarter of 2015, diamonds accounted for 81.2 per cent of export earnings and copper-nickel matte accounted for 11 per cent of such earnings. The total export earnings for the quarter amounted to US\$ 1,148.2 million. During the first 11 months of 2014, the principal export destinations were South Africa and Namibia (SACU), Zimbabwe and Zambia (SADC), Belgium, Finland, the United Kingdom, India, Israel, the United Arab Emirates, Norway, Switzerland, Canada and the United States. SACU and SADC countries were the principal destinations (see figure 9)

### 3.5 Capital and financial accounts

#### *Fluctuating foreign direct investment inflows and low outflows*

Botswana received its largest amount of foreign direct investment (FDI) inflows in 2011 and this coincided with the height of the "commodities super cycle" (United Nations Conference on Trade and Development, 2014). FDI was valued at US\$ 1.371 billion, much of which was directed to the mining sector, mainly to the diamond subsector. However, FDI inflows declined drastically to US\$ 487 million in 2012 as prices began to retreat, and then

**Figure 9: Export destinations (December 2014 and November 2015)**

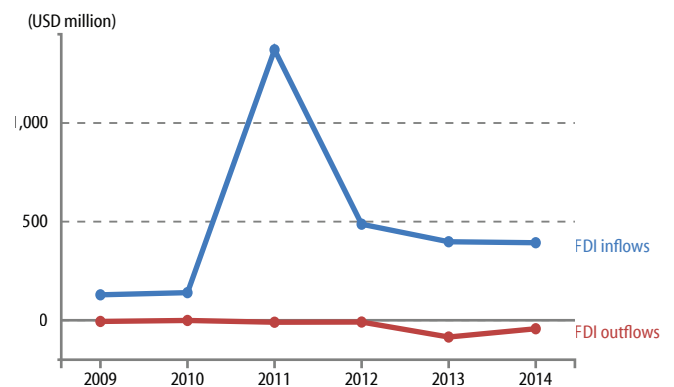


Source: Statistics Botswana, "Monthly digest", November 2015.

declined by 18 per cent to US\$ 398 million in 2013 before recording a further decline, 1.26 per cent, to US\$ 393 million in 2014 (United Nations Conference on Trade and Development, 2015). As regards FDI outflows, these remain relatively low although an increase of 49 per cent was recorded between 2013 and 2014, from US\$ 85 million to US\$ 43 million (see figure 10).

The country remains relatively attractive for FDI when compared with other countries in Africa.

**Figure 10: Foreign direct investment flows (2009-2014)**



Source: United Nations Conference on Trade and Development, World Investment Report 2015.



The ease-of-doing business ranking of Botswana declined, however, from 66 in 2014 to 74 in 2015, and the country ranked 149 out of 189 economies worldwide on an index measuring how easy it is to start a business (World Bank, 2015). The Government has introduced investment policies to support the establishment of new businesses and attract foreign investment. Nonetheless, Botswana lags behind other countries in the region, including Zambia (68) and South Africa (61) on this measure. There were ten procedures for starting a business in Botswana in 2015 and it took 60 days to start a business. The introduction of various reforms aimed at making it easier to do business in the country, such as simplifying the processes for obtaining a business

licence and to register for taxes in 2005 (World Bank, 2016) and the establishment of the National Doing Business Committee in 2011, which has introduced reforms aimed at attracting skilled labour into Botswana, has strengthened the country's position as a destination of FDI. Other recent reforms include the establishment of e-legislation, the review of immigration and labour laws and the simplification of permits for construction. Maintaining an attractive investment environment is important for Botswana given the key role that the private sector, both local and foreign, will play in driving economic diversification. Further improvements in the operating environment will be important for overall economic growth and transformation.

# 4

## SOCIAL CONTEXT

### 4.1 Demography

Botswana had an estimated total population of 2.3 million people in 2014. Of that total, 50.04 per cent were female and 49.96 per cent were male. The urban population constituted 63.6 per cent of the total population in 2014 (see [www.gov.bw](http://www.gov.bw)). According to the 2011 population census, 64.9 per cent of the population was aged 15-64 years (see figure 11). In 2014, however, 60 per cent of the population was in that age range, while 34 per cent of the population was below the age of 15 years and an estimated 6 per cent was above 64 years. The population of Botswana has gone through a demographic transformation over the past decade as both the median age (23 in 1991 to 26 in 2011) and the average age have increased. (Statistics Botswana, 2014b) The economically active population is growing at a fast pace, and the working age population has increased from 58.2 per cent in 2001 to 64.9 per cent in 2011. The country is also experiencing a decline in the proportion of persons below the age of 15, an increase in the population of young people and a slight decline in the elderly population.

### 4.2 Poverty and inequality

#### *High inequality despite robust economic growth*

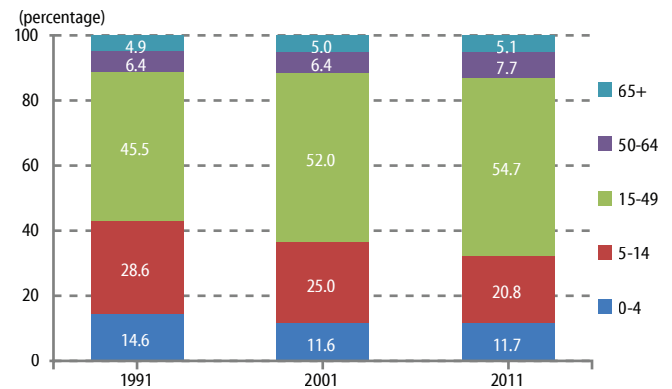
Botswana has a Gini coefficient of 0.57, which represents an unequal society. The poverty head count ratio at the national poverty lines (percentage of the population) remains relatively high at 19.3

per cent (Statistics Botswana, 2014a) despite having declined from 30.6 per cent in 2003. The incidence of poverty is higher in rural areas, where 24.3 per cent of the population lives in poverty and 8.4 per cent lives in extreme poverty, compared to 8 per cent of urban dwellers living in poverty and 2.7 per cent of urban dwellers living in extreme poverty (UNDP, 2014, and Statistics Botswana, 2014a). The country's score on the human development index for 2013 was 0.683, having increased from 0.470 in 1980, which places it in the medium human development category (UNDP, 2014). When the country's index value of 0.683 is discounted for inequality, however, the score declines to 0.422. The decline attributable to inequality for Botswana is greater than the average loss for countries in the world with medium human development (25.6 per cent) and greater than the average loss for sub-Saharan Africa (33.6 per cent). The human inequality coefficient for Botswana is 36.5 per cent (UNDP, 2014).

The country has taken measures to narrow the inequality gap by increasing government spending on social protection, which accounted for 4.4 per cent of GDP in 2012/13 (Botswana Institute for Development Policy Analysis and World Bank, 2013) and has been budgeted at 12.9 per cent in 2015/16. Botswana has also developed a family support grant to be rolled out in 2016. The grant is designed to be a cash support programme for vulnerable families that are unable to access other social protection initiatives. Government support

has resulted in an increase in the coverage of social safety net programmes. The country's strong commitment to State-led social protection through programming for poor, vulnerable and excluded groups is comprehensive. The country's social safety net ensures that those with a heightened vulnerability to hunger and malnutrition are able to meet their food needs (see [www.bw.undp.org/content/botswana/en/home/countryinfo](http://www.bw.undp.org/content/botswana/en/home/countryinfo)). The safety nets include old-age pensions, destitution allowances, the World War II veterans' programme, primary-school feeding programmes, community home-based care, programmes for orphans and vulnerable children, programmes for people living in remote areas, programmes for people employed in labour-intensive work, vulnerable group feeding programmes and drought relief programmes (Ministry of Finance and Development Planning, 2016). Pillar 3 of Vision 2016, which relates to poverty and social protection, underlines the commitment by the Government to distributing income equitably, eradicating poverty and enhancing the efficiency of the social safety nets. Some notable achievements of these programmes, as recorded in the mid-term review of the tenth national development plan, are: (a) social support of up to 98 per cent of eligible orphans; (b) the provision of either cash or food baskets to 17,016 vulnerable beneficiaries; (c) the primary-school feeding programme, benefiting 840,633 children, and extra meals delivered in drought-stricken areas, benefiting a further 46,572 children; (d) the provision of shelter to 851 destitute persons; and (e) assistance through the provision of livestock to 442 beneficiaries in settlements in remote areas. Diamond revenues and sound governance have underpinned the strong State-led social protection programmes in Botswana. As a result, declining diamond revenues pose a risk to the sustainability of social protection programmes in Botswana.

**Figure 11: Population distribution by age (1991-2011)**



Source: Statistics Botswana, population and housing censuses.

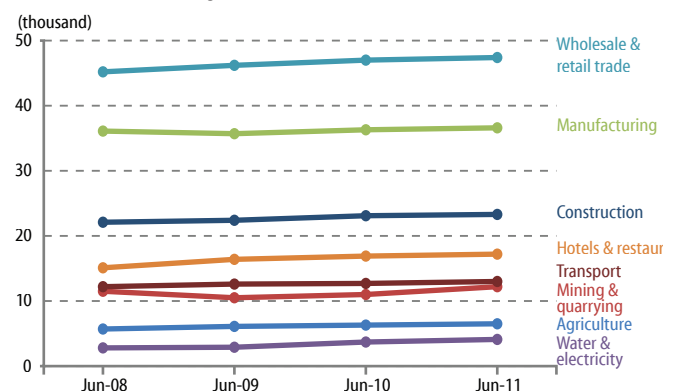
### 4.3 Employment

**High youth unemployment reflects a mismatch between available skills and labour market demands**

The public sector is the largest employer of those in formal employment in Botswana. In 2012, the agriculture sector employed 29.9 per cent of the labour force and the service sector employed 54.9 per cent. The wholesale and retail trade, construction and manufacturing sectors were the major employers in June 2011 and accounted for 27 percent of the total employment (Figure 12)

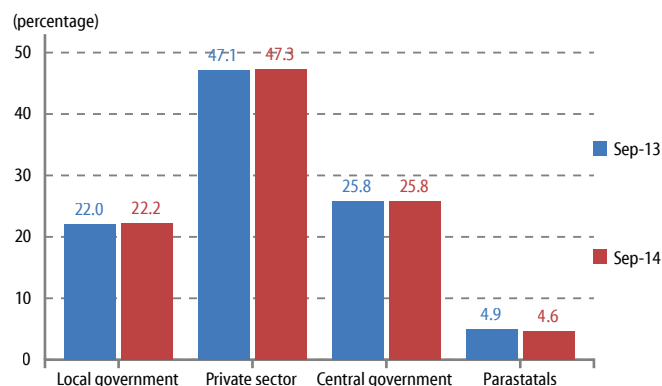
In September 2013 (Statistics Botswana, 2013) the private sector was the main employer, accounting

**Figure 12: Number of paid employees by major economic activity (June 2008 to June 2011)**



Source: Statistics Botswana, 2015c.

**Figure 13: Formal employment by sector (September 2013)**

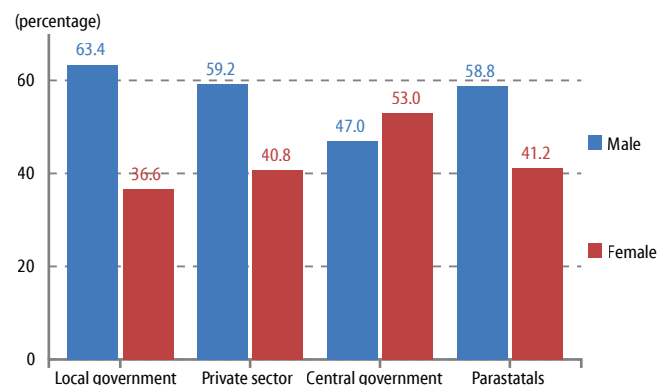


Source: Statistics Botswana, Sector Statistics, 2014 <http://www.cso.gov.bw/index.php/sector-statistics/labour>.

for 47 per cent of the labour force, followed by the Government, at 26 per cent (see figure 13). The employment rate in Botswana was at 62.6 per cent in 2013 among those aged 15 years or older and the labour force participation rate for the same age group was 76.7 per cent (UNDP, 2015). In 2013, the labour force participation rate was higher among males (81.6 per cent) than among females (71.9 per cent). There are more males in formal employment than females in all sectors except in Central Government (figure 14).

Unemployment remains another major social challenge in Botswana despite the decline in the rate from about 47 per cent in the 1990s to 19.8 per cent in 2015 (Ministry of Finance and Development Planning, 2015b). In 2010, 34 per cent of those between the ages of 20 and 24 were unemployed, while 40 per cent of those between the ages of 15 and 19 were unemployed. This was against a national average unemployment rate of 17.8 per cent during that year. Unemployment is higher among women (21.4 per cent) than among men (14.5 per cent) and the lack of skills among the unemployed is a major contributor. Informal sector employment has grown in Botswana from 11 per cent of the total labour force in 1995 to 20 per cent in 2005 (Statistics Botswana, 2007). In 2007, about 58,000 people were active in the informal sector

**Figure 14: Share of Males And Females In Formal Employment (September 2013)**



Source: Statistics Botswana; 2015b.

as workers and entrepreneurs (Statistics Botswana, 2007). Informal workers are predominantly women (60.5 per cent), urban (55.3 per cent) and slightly younger than the average worker (73 per cent are aged between 15 and 44 years); retail trade (45.4 per cent) is the predominant activity within the informal sector (Ministry of Labour and Home Affairs and International Labour Organization, 2011).

To address unemployment challenges, the Government of Botswana continues to roll out programmes to improve skills among young people and women. For example, the Government expects to create new employment opportunities by allocating 22.5 per cent of capital expenditure in its 2015 budget for infrastructure projects that involve, for example, the construction of new schools, new power transmission lines and water pipelines (Ministry of Finance and Development Planning, 2015). The Government has also taken steps to address the unemployment challenge through the 2010 National Human Resources Development Strategy and the comprehensive Human Resources Development Plan, which are underpinned by a sector-wide approach. Specific strategies and measures envisaged include reform of the education system, especially of secondary and tertiary institutions, to diversify academic programmes and thereby equip learners with the

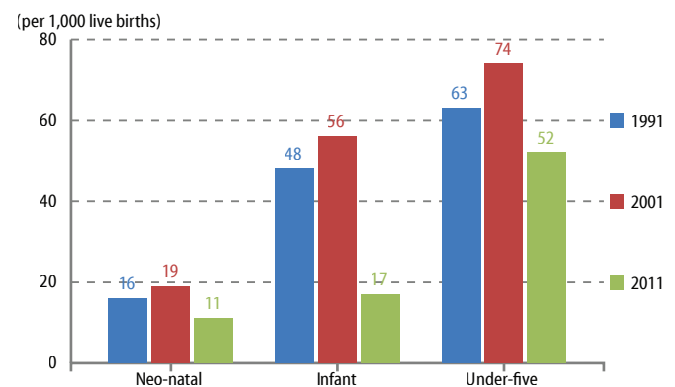
skills needed. To this end, an internship programme has been established to facilitate skills development among young unemployed graduates. This is an ongoing programme that, since its inception in 2009, has provided placements to over 3,000 interns. A diverse set of skills is needed to enable the labour force to be absorbed into the private sector. Acquiring such skills will be particularly important for the growing value-addition sector and for structural transformation.

#### 4.4 Health

Statistics Botswana (Statistics Botswana, 2008) reports that over 95 per cent of the population in Botswana has access to health services and lives within an average of 8 km-radius from the nearest health facility. In cities, over 99 per cent of deliveries have been assisted by skilled birth attendants; that figure is 97.2 per cent of deliveries in urban villages and 90.2 per cent for deliveries in rural areas (Statistics Botswana, 2008). Furthermore, the high number of births attended by skilled health personnel means that it is possible to accurately identify and classify maternal deaths and to certify the causes of maternal deaths. The results of the Botswana Family Health Survey 2007-2008 further indicate that over 95 per cent of all reported deliveries occur in health facilities (Statistics Botswana, 2015d). The improved health delivery system has resulted in a decrease in neonatal, under-5 and child mortality rates in Botswana (see figure 15). The neonatal mortality rate decreased by 82 per cent between 1971 and 2011, the infant mortality rate by 80 per cent and the under-5 mortality rate decreased by 66 per cent during the same period. Similarly, maternal mortality has also decreased from 190 per 100,000 live births in 2008 to 170 per 100,000 live births in 2013 (see the human development reports for the years 2008-2014) (see figure 16).

HIV/AIDS remain among the biggest health challenges for Botswana, as is the rise in non-

**Figure 15: Infant, child and under-5 mortality rates (1991-2011)**

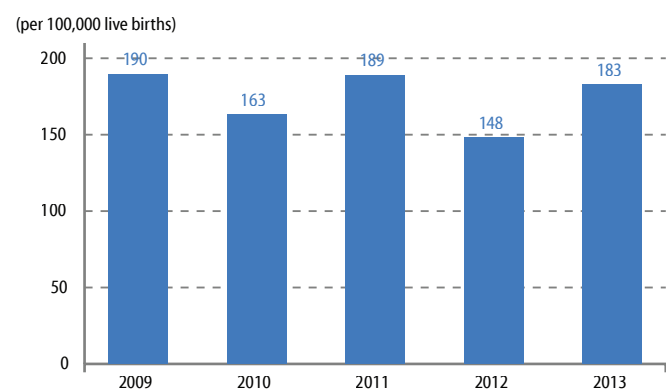


Source: Statistics Botswana, population census reports.

communicable diseases such as diabetes, cancer and cardiovascular ailments (Statistics Botswana, Health Survey 2013, 2015). In addition, deaths attributable to malaria and tuberculosis have been on the increase in Botswana. In 2012, the proportion of deaths attributable to malaria per 100,000 people was 0.4 per cent and the proportion of deaths attributable to tuberculosis was 21 per cent.

The HIV prevalence rate increased from 17.1 to 18.5 per cent between 2003 and 2013 (Statistics Botswana, 2014b). The rate is highest among people aged between 15 and 49 years: it was recorded at 23.4 per cent in 2011 (Botswana Institute for Development Policy Analysis and World Bank,

**Figure 16: Maternal mortality rates (2009-2013)**



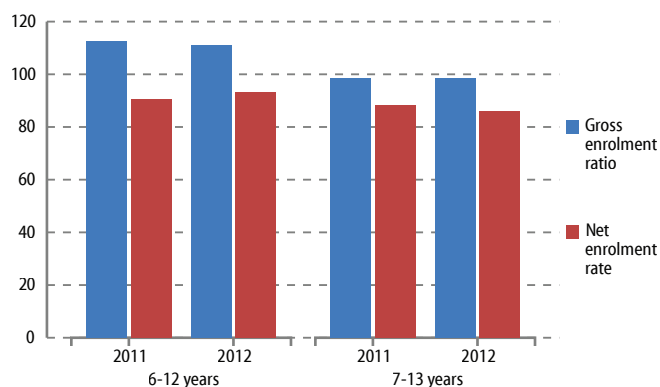
Source: UNDP, human development reports for the years 2008-2014.

2013) but then declined slightly to 21.9 per cent in 2014 (UNDP, 2015). An estimated 25 per cent of persons aged between 15 and 25 are infected with HIV (see [www.unaids.org/en/regionscountries/countries/botswana](http://www.unaids.org/en/regionscountries/countries/botswana)). Steps taken to address the challenges posed by HIV/AIDS include an increase in expenditure on health from 4.7 to 5.2 per cent between 2010 and 2011 (World Health Organization, 2014) and to 15.7 and 15.5 per cent in 2014/15 and 2015/16 respectively (Ministry of Finance and Development Planning, 2015d). The Government continues to dedicate a high proportion of its annual budget to the fight against the epidemic. Furthermore, its provision of antiretroviral treatment has increased from reaching 10,000 people in 2002 to 120,000 people in 2007 and it is expected that this number will increase to 190,000 by 2016, representing over 95 per cent of those infected (Botswana Institute for Development Policy Analysis and World Bank, 2013). More efforts are required for the country to reduce further the number of new infections, despite the decrease already achieved of 71 per cent between 2001 and 2011. Estimates show that about 14,000 new infections were recorded in 2014 (see <http://aidsinfo.unaids.org/#>); this calls for continued support to prevention programmes. The country adopted the Declaration of Commitment on HIV/AIDS in 2011 as part of efforts to fight the pandemic (Botswana, 2014).

## 4.5 Education

The adult literacy rate for both men and women was about 88.6 per cent in 2014 from 81.2 percent in 2003 and 68.9 percent in 1993 (Statistics Botswana, 2015a). In 2012, the literacy rate in the 15-24 age group was 96 per cent (UNDP, 2014). The expected number of years of schooling, although increasing since 1980, was higher for females (12.6 years) than for males (12.4 years). The mean years of schooling for males was 9.1 years and 8.1 years for females in 2014 (UNDP, 2015).

**Figure 17: Primary school enrolment rates (2011 and 2012 )**

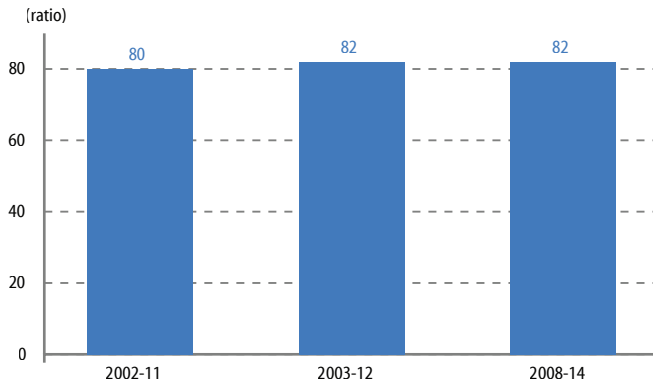


Source: Statistics Botswana, 2012.

The gross enrolment ratio in pre-primary schools averaged 18 per cent between 2008 and 2014. For primary school, the gross enrolment ratio was 110.98 per cent in 2012 for the 6-12 age group, down from 112.7 per cent in 2011. For the 7-13 age group, the gross enrolment ratio remained the same for 2011 and 2012, at 98.6 per cent. Meanwhile, the net enrolment ratio for the 6-12 age group increased from 90.6 per cent in 2011 to 93.1 per cent in 2012 (see figure 17). The net enrolment ratio for the 7-13 age group decreased slightly, from 88.4 per cent in 2011 to 86 per cent in 2012 (Statistics Botswana, 2012). The country has recently recorded progress towards achieving universal primary education. About 90 per cent of school-age children (7-13 years old) were in school in 2011 and 93.1 per cent of school-age children were in school in 2013. There is near-universal access to primary and junior secondary education. At the primary school level, girls' enrolment stands at over 100 per cent of the primary school-age group. However, the primary school dropout rate, currently estimated at 7 per cent, remains a concern (UNDP, 2015).

The secondary school gross enrolment ratio has increased from 80 per cent during the period 2002-2011 to 82 per cent during the period 2008-2014 (see figure 18). Of all the students in secondary schools, 52.9 per cent are boys and 47.1 per cent

**Figure 18: Secondary school enrolment rates (2002-2014 )**



Source: UNDP, human development reports for the years 2012-2015.

are girls. The gender parity index is 0.98 in primary schools and 1.05 in secondary schools. The key policies that have contributed to these outcomes include the provision of free basic education, the adoption of an inclusive education policy in 2011

and an ongoing literacy programme that has mainly benefited women. Government expenditure on education constitutes about 25 per cent of the total budget. The teacher-to-pupil ratio in primary schools averaged 1 to 25 during 2008-2014 (UNDP, 2015).

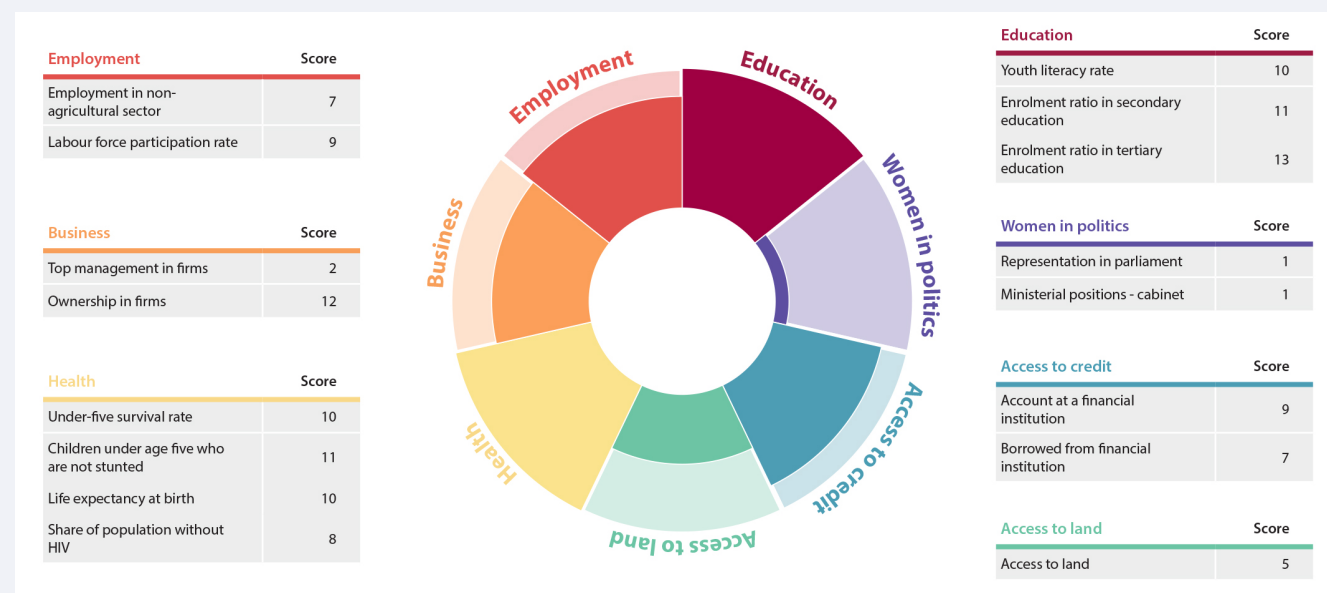
The Government has prioritized vocational and technical training in order to equip young people with skills and address the high unemployment rate affecting them. The Botswana Training Authority was established in 2000 to provide a framework for promoting skills development and training. In addition, the Department of Technical Vocational Education and Training has developed a new technical and vocational education and training programme and in 2013 the Botswana Qualifications Authority began maintaining the National Vocational Qualifications Framework and coordinating the education, training and skills development quality assurance system.

## 4.5 Gender scorecard of the African Union Commission\*

The African Union declared 2015 as the Year of Women’s Empowerment and Development towards Africa’s Agenda 2063, with a view to building momentum for gender equality and women’s empowerment on the continent. Based on this commitment, the African Union developed the African gender scorecard. The scorecard is designed to measure the status of gender equality

and women’s empowerment in seven core sectors that have a transformative impact on women’s lives through their contribution to broad-based, sustainable and inclusive growth. These core sectors are: employment, the business sector, access to credit, access to land, women in politics and decision-making, health, and education at the secondary and tertiary levels.

**Interpretation of the pie chart:** The scoring is between 0 and 10, with 0 being the worst level of inequality, 5 suggesting middle parity, and 10 indicating perfect parity. Perfect parity connotes a situation where the proportion of men and women is equal, irrespective of the developmental level of the variable or indicator being assessed. Some countries go beyond the score of 10, thus showing that women may be more highly empowered in that subsector than men for that country. However, caution is needed when drawing conclusions based only on the scores, particularly when there are large variations in levels of developmental achievements between countries.\*\*



\* The data used in the calculation of the scorecard are drawn from several international databases and sources, including: United Nations, Statistical Division; World Development Indicators, Global Financial Inclusion Database and Enterprise Surveys of the World Bank; the Gender and Land Rights Database of the Food and Agriculture Organization of the United Nations; International Labour Organization; United Nations Children’s Fund; Joint United Nations Programme on HIV/AIDS; World Health Organization; International Food Policy Research Institute; United Nations Educational, Scientific and Cultural Organization; United Nations Population Division; United Nations Population Fund; Inter-Parliamentary Union; and some national data sources. Data on access to land were drawn from several sources, with the scoring and harmonization of legislative frameworks done in-house by the African Centre for Statistics and the African Centre for Gender.

\*\* The pie chart is based on the African gender scorecard, which was presented to the Heads of State and Government at the twenty-fifth ordinary session of the Assembly of the African Union in June 2015.



## MAJOR POLICY CHALLENGES

Despite the notable socioeconomic achievements over the years and the economic stability, Botswana still faces many challenges. Among them are inequality, social vulnerability, extreme poverty in rural areas, water and electricity shortages (infrastructure), a high prevalence of HIV and desertification. Its high dependence on the diamond sector makes the country vulnerable to the fragility of the global economic recovery process. Furthermore, the unstable economic environment in South Africa, the major economic partner of Botswana, has a direct impact on growth and stability. Economic diversification anchored on an integrated minerals sector is key to addressing many of these challenges.

### ***Enhancing the role of the mining subsector in economic diversification***

The diamond mining subsector continues to be central for prosperity in Botswana, but the adverse impact of the 2008 global economic crisis on the local economy has demonstrated the danger of dependence on a single mineral and further highlighted the urgent need to accelerate economic diversification. The decline in royalties, dividends, annual lease charges and other charges from the mining subsector has resulted in a serious economic decline. Strengthening value addition along the diamond value chain will be important in enhancing the developmental role of the subsector and minimizing the adverse impact of diamond price fluctuations.

Local sighting, sorting, cutting, polishing and marketing through the Diamond Hub will lead to the creation of jobs and the transfer of skills. This will be the foundation for a sustainable and domestically integrated diamond subsector that can withstand price fluctuations. The Diamond Trading Company of Botswana, officially launched in 2008 as an equally owned joint partnership of Debswana and the Government with the objective of becoming the world's largest diamond valuing and sorting company, is part of the strategy for the sector. The relocation of diamond sales and sorting activities by De Beers from London to Gaborone in 2013 and the Government's decision to reserve a proportion of the diamonds of Botswana for local processing has provided the impetus for an accelerated integration of the diamond value chain into the national economy, deepened the subsector's local linkages and generated economic multipliers. For example, in 2014, the Diamond Hub directly employed 2,769 people in cutting factories and an additional 1,000 people in ancillary services such as transport, hospitality, equipment repair and maintenance, and as diamond couriers (see the website of the Ministry of Minerals, Energy and Water Resources at [www.mmewr.gov.bw](http://www.mmewr.gov.bw)). In addition, the number of companies operating in the Hub increased by 20 per cent 2008 and 2014 (see [www.mmewr.gov.bw](http://www.mmewr.gov.bw)). The supply of rough diamonds to local businesses has increased considerably during the past few years, from a value of US\$ 618 million in 2012 to US\$ 770 million in 2013 and to close to US\$ 1 billion in 2014. The country's first fully State-owned diamond trading

enterprise, Okavango Diamond Company, was launched in September 2013 to provide the global diamond industry with access to the diamonds of Botswana at market-determined prices. In addition, the Diamond Hub will also be important in the medium-to-long term as a centre for the subsector in the region and will be central in developing and consolidating forward and backward linkages.

However, the general decline in the price of diamonds over the past two years has had a negative impact on business for the Diamond Hub. For example, profitability in the cutting and polishing industry has declined since the second half of 2014 owing to a decline in the price of diamonds worldwide. The price of polished diamonds declined by more than 30 per cent between January and December 2015 because of low demand and the high price of rough diamonds. Consequently, two factories closed operations and an estimated 1,000 jobs were lost between January and November 2015. In addition, the jewellery manufacturing sector continued to face viability challenges leading to the closure in 2015 of two factories that had opened after 2008 (see [www.mmewr.gov.bw](http://www.mmewr.gov.bw)).

Thus, the decline in the price of diamonds remains the biggest risk going forward and further emphasizes the importance of diversifying, including with regard to other mineral commodities. There are many other untapped opportunities to further strengthen the role of the mining subsector in economic diversification. In addition to downstream value addition and linkages, the upstream linkages of the diamond sector with other economic activities needs to be explored and developed (the supply side). The supply of inputs into the diamond subsector could provide entry points for maximizing local participation in the diamond value chain. For example, local entrepreneurs could participate in the subsector by supplying capital goods (machinery, plants, equipment etc.), consumables (explosives, drilling steel, grinding media, protective clothing and chemicals) and services (labour,

analysis, financial expertise, security and information and communications technologies).

The national Economic Diversification Drive (see box 3), which seeks to use local procurement and government-preference margins in the short term and to develop a vibrant and globally competitive private sector, independent of government support and protection in the long term, will be important in both the medium and the long term.

In the medium-to-long term, economic diversification will ensure that Botswana enjoys the benefits of its natural resource endowments without depleting them. The diversification of the economic and export base of Botswana into sectors that will sustain the country's economy in a way that is not so dependent on diamonds and other natural resources is the long-term objective of the Economic Diversification Drive. The Drive's medium-to-long-term strategy for the period 2011-2016 is anchored in a vibrant, globally competitive private sector that is weaned off Government support and protection. The Drive, led by the private sector and underpinned by modern technology and skills, will propel Botswana into a knowledge-driven economy. An institutional framework under the direct supervision of the Cabinet has been established with the mandate to spearhead the Drive towards the expected outcomes of an industrialized economy, diversified exports, citizens' empowerment, increased employment and improved quality of life. The approach is focused on four clusters (diamonds, tourism, cattle and mining), all of which will be key for diversification. Government intervention through appropriately configured legal and regulatory frameworks, as intended under the short-term Economic Diversification Drive, will be critical in facilitating the engagement of local entrepreneurs. The enforcement of policies and programmes will be important for the growth of the local private sector and its participation in the mineral value chain. Implementation of the Drive will help to address the

### Box 3: Economic Diversification Drive

The Economic Diversification Drive is aimed at diversifying the country's economy and has identified a number of strategic areas and priority sectors for implementation:

#### Strategic areas

- Sectoral development and linkages
- Investment and finance
- Research, innovation and technology development and transfer
- Export development and promotion
- Entrepreneurship development
- Quality control standards and production

In the short term, the EDD strategy is centered on the active role of government through direct interventions via administrative instruments, empowerment strategies,

and local procurement strategies, reservations of business opportunities, preference schemes for locals and the use of government procurement opportunities to promote local companies.

#### Priority sectors

Approved by the National Economic Development Council

- Agro-processing
- Leather and leather products
- Renewable energy
- Primary production
- Construction and building materials
- Coal, diamond and other minerals beneficiation

Source: Ministry of Trade and Industry, *Economic Diversification Drive: Medium-to-Long-term Strategy (2011-2016)*.

persistent challenges of unemployment and non-inclusive growth.

The development of other abundant mineral resources, such as coal and iron ore, could help address the vulnerability associated with monomineral dependency. Coal and iron ore are critical strategic feedstocks for infrastructure development (power) and manufacturing (industrialization). For example, Botswana possesses an estimated 212 billion tons of coal resources, of which 48 billion tons are economically extractable. Of the 11 coal fields that have been identified in Botswana, only Morupule (the only operating mine) and Mmamabula have been extensively explored; they are estimated to have a combined reserve base of 7.2 billion tons. The exploitation of coal presents a major growth opportunity and the construction of thermal power stations can help address the current power challenges and provide further impetus to value addition and industrialization in the rest of the economy. In 2012, the Government

of Botswana developed a coal road map and strategy to facilitate the development of the vast coal deposits and enable the country to diversify its exports. Furthermore, the establishment of the Centre for Coal Studies to conduct research on coal beneficiation will contribute to diversification.

The development of a steel industry at Selebi Phikwe using local coal and iron ore has the potential to create important inter-industry linkages and fuel economic diversification. Steel is a basic input for construction, infrastructure development and mining. Thus, the construction of the country's first integrated steel plant at Selebi Phikwe by Pula Steel will promote economic development and sustainability in the region.

#### **Addressing energy and water challenges**

The energy challenges currently facing Botswana are a threat to socioeconomic development and structural transformation. Investment in internal renewable energy resources, including solar

energy, and development of the country's vast coal resources for thermal power production could help avert the crisis. The country has abundant solar energy resources and receives over 3,200 hours of sunshine per year, with an average insolation on a horizontal surface of 21MJ/m<sup>2</sup>. Moreover, the country possesses an estimated 66 per cent of the continent's coal resources, which could be evaluated for thermal energy development. Power imports from the Southern African Power Pool are constrained by the regional nature of the electricity deficit. Other medium-term measures to address the power deficit, such as enhancing the efficiency of the current systems to reduce utilization losses, could be investigated. Addressing the power deficit is critical for economic diversification and long-term sustainability. Furthermore, the climate change mitigation measures being developed by Government should be accelerated to help address the scarcity of both energy and water.

Water is naturally scarce in Botswana due to the semi-arid climate conditions and lately this has been exacerbated by the recurrence of drought. The two major environmental problems of drought and desertification are creating major challenges for the crop and animal sector. Due to the country being a desert, there is high dependence on groundwater and an estimated 75 percent of the country's human and animal populations are dependent on groundwater (Ministry of Minerals, Energy and Water Resources). Pressure on the exploitation of the natural ecosystem through farming, cattle ranching and other economic activities has accelerated desertification in Botswana. Water levels in Botswana's major water reservoirs have fallen significantly during the last three years due to low

rainfall and water rationing has been introduced in most urban areas. The Government has prioritized infrastructure development in the current budget and among the targeted projects are water pipelines and the development of underground water sources (Ministry of Finance and Development Planning, 2015a).

### ***Poverty and inequality***

Poverty levels remain high at 19.3 per cent and are even higher in rural areas owing to the unequal distribution of wealth. Most people living in rural areas are subsistence farmers and are confronted with unreliable rainfall and increasing desertification, which has resulted in the loss of farmlands and affected crops and animal raising. The implementation of deliberate policies to tackle the large wealth gap and the high levels of inequality is urgently needed. Furthermore, the strengthening of social safety nets, including social security, to prevent and reduce poverty, inequality and insecurity and to support small and medium-sized enterprises and the implementation of skills development programmes among young people will help address the current high levels of unemployment in Botswana.

### ***HIV/AIDS***

The planned increase in access to antiretroviral drugs and other life-sustaining treatments to address the high prevalence of HIV/AIDS (about 350,000 people are living with HIV/AIDS) is laudable. More needs to be done, however, to arrest the high rate of infection, especially among young people, as such a high prevalence affects productivity levels and the overall economic outlook for the country.

## 6. NATIONAL DATA QUALITY EVALUATION

### Methodological note on data quality evaluation

The quality of national data sources for key indicators in the country profiles was evaluated. The result is presented in colour codes, with green indicating a "good" data source, yellow for "satisfactory", and red for "needs improvement".

The evaluation focused on the transparency and accessibility of each national data source. The evaluation took into consideration the timeliness and periodicity of data publishing, based on the punctuality of publication and frequency of data updates in accordance with international standards. It also measured the comparability of the data series, based on their length, definition and standard units of measurement. It evaluated database accessibility, specifically whether the data were open and freely available to the general public, the format of the data, and the ease of downloading and sharing. Data citation, together with references to primary or secondary sources, was also assessed. Finally, the evaluation checked the completeness of metadata for data release and the completeness and clarity of documentation and notes.

Demography	Value (Year)	Evaluation
Population ('000)	2,025	1
Child (0-14 years)	660	1
Adult (15-64 years)	1,264	1
Aged (65+ years)	101	1
Urban population (%)	64.1	1
Growth rate (%)	1.9	1
Total fertility rate	5.6	1
Life expectancy at birth (years)	53.2	1
Crude death rate (deaths per 1000 population)	6.25	1
Crude birth rate (births per 1000 population)	25.7	1

Key macroeconomic and sectoral performance	Value (Year)	Evaluation
Real GDP growth rate (%)	3.2	1
GDP, current prices (P million)	142,466	1
Inflation rate (%)	3.1	1
Current account balance (P billion)	12.9	2

Economic trends and performance indicators	Value (Year)	Evaluation
Inward flows of foreign direct investment	n/a	
Total Exports (billion USD)	7.9	1
Total Imports (billion USD)	7.5	1

Education and employment	Value (Year)	Evaluation
Literacy rate (15-24) (%)	n/a	
Net enrolment rate in Primary (%)	93.1	1
Unemployment rate (%)	19.8	2
Population below national poverty line (%)	19.3	1

Health	Value (Year)	Evaluation
Under five mortality rate (per 1,000 live births)	52	1
Infant mortality rate (per 1,000 live births)	17	1
Neo-natal mortality rate (per 1,000 live births)	11	1
Maternal mortality ratio (per 100,000)	183	1
Contraceptive prevalence rate	n/a	
HIV prevalence rate	18.5	1

### Data sources code index

1. Central Statistics Office
2. Ministry of Finance and Development Planning

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