

# AFRICAN DEVELOPMENT BANK



## PROGRAM: ECONOMIC RECOVERY SUPPORT PROGRAM (ERSP)

## COUNTRY: REPUBLIC OF BOTSWANA

### APPRAISAL REPORT

13 August 2021

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# **AFRICAN DEVELOPMENT BANK**



## **BOTSWANA**

### **ECONOMIC RECOVERY SUPPORT PROGRAM (ERSP)**

**RDGS/ECGF DEPARTMENTS**

**August 2021**

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## **CURRENCY EQUIVALENTS**

*(As of April 2021)*

### **Botswana Currency Unit = Botswana Pula (P)**

1 Unit of Account (UA)	=	P 15.48
1 Unit of Account (UA)	=	USD 1.44
1 Unit of Account (UA)	=	EUR 1.19
1 U.S. Dollar (USD)	=	P 10.75

## **FISCAL YEAR**

April 1 – March 31

## **WEIGHTS AND MEASURES**

1 metric tonne	=	2204 pounds (lbs)
1 kilogramme (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (“)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

## ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank
AG	Auditor General
BDS	Business Development Services
BITC	Botswana Investment and Trade Center
BoB	Bank of Botswana
CAR	Commitment at Risk
CFRA	Country Fiduciary Risk Assessment
CPIA	Country Policy and Institutional Assessment
CSO	Civil Society Organization
CSP	Country Strategy Paper
DPs	Development Partners
DSA	Debt Sustainability Analysis
ERSP	Economic Recovery Support Program
ESW	Economic and Sector Work
EU	European Union
FM	Financial Management
FY	Fiscal Year
GBS	General Budget Support
GCI	Global Competitiveness Index
GDP	Gross domestic product
GRB	Government of the Republic of Botswana
HDI	Human Development Index
IMF	International Monetary Fund
IOP	Indicative Operational Program
MIC TAF	Middle Income Country Technical Assistance Fund
MOFED	Ministry of Finance and Economic Development
MSMEs	Micro, Small and Medium Enterprises
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
MTR	Mid-Term Review
NDP	National Development Plan
OECD	Organization for Economic Cooperation and Development
PBO	Program Based Operation
PCR	Program Completion Report
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PPP	Public Private Partnerships
PSD	Private Sector Development
SACU	Southern Africa Customs Union
SADC	Southern Africa Development Community
SOEs	State-Owned Enterprises
SSN	Social Safety Net
TA	Technical Assistance
TSA	Treasury Single Account
TYA	Ten Year Strategy
UA	Units of Account
VAT	Value-added Tax

## PROGRAM INFORMATION

<b>INSTRUMENT</b>	GENERAL BUDGET SUPPORT
<b>PBO DESIGN TYPE</b>	PROGRAMMATIC OPERATION

## LOAN INFORMATION

### CLIENT'S INFORMATION

<b>BORROWER:</b>	<b>REPUBLIC OF BOTSWANA</b>
<b>EXECUTING AGENCY:</b>	<b>MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT</b>

### FINANCING PLAN FOR 2021 (Amount in millions of USD)

Source	2021/22	2022/23
ADB Loan	137.00	TBD
World Bank Loan	250.00	150
<b>TOTAL FINANCING</b>	<b>387.00</b>	<b>TBD</b>

### ADB FINANCING INFORMATION

Loan currency	United States Dollars (USD)
Type of Loan	Fully Flexible Loan
Tenor	25 years inclusive of Grace Period
Grace Period	8 years
Repayments	Consecutive semi-annual payments after grace period (May/November)
Interest Rate	Base Rate + Funding Cost Margin + Lending Spread + Maturity Premium
Base Rate	Floating rate based on 6-month LIBOR with free option to fix the base rate
Funding Cost Margin	The Bank funding cost margin as determined each 1 <sup>st</sup> January and 1 <sup>st</sup> July and applied to the Base Rate each 1 <sup>st</sup> February 1 <sup>st</sup> May, 1 <sup>st</sup> August and 1 <sup>st</sup> November
Lending rate	80 basis points (0.80%)
Maturity Premium	To be determined based on the Average Loan Maturity <ul style="list-style-type: none"> <li>• 0% if Average Loan Maturity &lt;= 12.75 years.</li> <li>• 10 bps (0.10%) if 12.75 &lt; Average Loan Maturity &lt;=15;</li> <li>• 20 bps (0.20%) if Average Loan Maturity &gt;15 years</li> </ul>
Front-end fees	0.25% of the loan amount payable no later than 60 days from the date of entry into force or at first disbursement, whichever is earlier
Commitment fees	0.25% of the undisbursed amount. Commitment fees start accruing 60 days after signature of the loan agreement and are payable on payment dates
Option to convert the Base Rate**	In addition to the free option to fix the floating Base Rate, the borrower may reconvert the fixed rate to floating or re-fix it in part or for the fully disbursed amount. Transaction fees are payable
Option to cap or collar the Base Rate**	The borrower may cap or set both the cap and floor on the Base Rate to be applied in part or to the fully disbursed amount. Transaction fees are payable.

## **TIME FRAME – MAIN MILESTONES**

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Program Appraisal	April 2021
Program Approval	September 2021
Loan Effectiveness	December 2021
Disbursement Closing Date	31 March 2022
Completion	31 December 2023



## PROGRAM EXECUTIVE SUMMARY

Paragraph	Topics to cover
Program overview	<p><b>Program name:</b> Botswana – Economic Recovery Support Program (ERSP)</p> <p><b>Program Cost:</b> USD 137 million (UA 95 million) for the first year of the two-year programmatic operation</p> <p><b>Expected outputs:</b> The key expected outputs of the Program are: Efficiency of public spending improved; Domestic resource mobilization enhanced; Climate-smart agriculture sector productivity, job creation and value addition enhanced; Industrialization framework strengthened; MSME business development services (BDS) framework and capacity strengthened; and Social protection and gender mainstreaming enhanced</p> <p><b>Overall timeframe:</b> 2021/22-2022/23, two-year programmatic operation.</p>
Program outcomes	The key outcomes of the Program are (i) Fiscal performance enhanced (Fiscal deficit/GDP ratio; WGI Governance effectiveness score); (ii) Increased job creation through enhanced private sector participation in key sectors enhanced (Private investment as share of GDP; Agriculture value added as % of GDP; Manufacturing value added as % of GDP); and (iii) Economic and social inclusion enhanced (Domestic credit to the private sector as % of GDP; Social protection coverage expanded).
Alignment with Bank priorities	The operation is aligned to two of the operational priorities of the Bank Group’s Ten-Year Strategy, 2013-2022, namely Private Sector Development, and Governance and Accountability, and reinforced by three of the High-5 priorities, namely, Feed Africa, Industrialize Africa and Improve the quality of life of the people of Africa. Furthermore, the program is closely linked to both pillars of the Bank Group’s Country Strategy Paper for Botswana 2015-2021 ( <i>Infrastructure Development</i> to increase productivity and improve competitiveness; and <i>Private Sector Development</i> through a sound regulatory business-friendly environment). The operation is also consistent with other Bank Group strategies, including, the Strategy for Economic Governance in Africa, Industrialization Strategy, and Feed Africa Strategy.
Needs Assessment and Justification	Botswana enjoyed robust economic growth averaging 8.4% between 1989 and 1999, underpinned by political stability and prudent economic management. Growth however declined to an average of 4.8% from 2000 to 2008, before plummeting to minus 7.7% in 2009, as the diamond market was severely affected by the global financial crisis. Although growth recovered to 8.6% in 2010, average growth rate for the decade between 2010 and 2019, at 4.75%, remained less than the average for the 1990s. This situation was exacerbated by the COVID-19 pandemic, which led to a sharp contraction in GDP by 7.7% in 2020 from an expansion of 3.0% in 2019. GDP growth is projected to return to positive trajectory in 2021 (7.5%) and 2022 (5.5%). However, this favorable outlook hinges on the effective implementation of the Economic Recovery and Transformation Plan (ERTP, 2020-2022), including critical business enabling environment reforms. Botswana’s continued dependence on diamond mining is a major source of vulnerability. In 2019/2020 financial year, the mineral sector contributed 26.8% of total revenue, 7.3% of GDP and about 80% of goods export earnings. The large size of the public sector also remains a challenge as the space for private sector participation in the economy is limited. The focus of the Government’s medium-term reform effort is to fast track implementation of NDP 11, enhance economic resilience, promote inclusion, and pursue privatisation of SOEs to reduce the public sector footprint, but implementation is slow. The justification for the proposed operation is premised on the need to create fiscal space to finance critical development spending, implement reforms that will help to maintain macroeconomic stability, enhance agriculture and industrial sectors contribution to GDP, unlock job creation, and improve economic and social inclusion.
Harmonisation	The Bank actively coordinates its interventions with all the key Development Partners (DPs) including the World Bank, EU, and the UN system in Botswana. The Bank is part of the Development Partners Forum (DPF) which provides a platform for high-level interaction between senior Government officials and development partners. The Macroeconomics, Trade, and Economic Diversification (MTED) Working Group is a DPF technical sub-committee that is intended to synchronize technical discussions on economic diversification and macroeconomic stability. During the Preparation and Appraisal missions, the Bank convened a meeting of DPs to explore modalities for collaboration and views expressed in those meetings have been considered in the design of ERSF. Further bilateral discussions with the IMF, and World Bank were held. Currently, there is no budget support working group in Botswana. However, the Bank will ensure continuous engagement with all DPs throughout the processing and implementation of the operation. The Bank will use the DP’s forum to report on progress and seek feedback on implementation progress of the policies. It will work particularly closely with the IMF; World Bank; and EU on private sector development, SOE and PFM reforms; and the UN agencies on MSME development, gender, and social protection.
Bank’s Added Value	This operation is responding to both emerging and long-term development challenges and demonstrates the Bank’s added value and relevance in the country. Botswana’s overarching development challenge is to achieve post-pandemic economic recovery through transformative and inclusive economic growth to address the triple challenges of unemployment, poverty, and income inequality. The proposed PBO operation aims to support government plans for economic recovery and transformation, with a focus on (i) <i>Improving Fiscal Efficiency and Sustainability</i> , to support domestic resource mobilization, efficiency in public spending, and mitigate fiscal risks (including those related to state owned enterprises); (ii) <i>Private sector-led Agriculture, Tourism and Industrial Sector Transformation</i> , to support the strengthening of the policy framework for enhanced private sector investment in agriculture and industrial sector, thereby raising productivity, value addition, and job creation; and (iii) <i>Enhancing Resilience and Social Inclusion</i> , to support the development of the MSME BDS framework, social protection and gender empowerment. The use of the PBO instrument, and the structuring of Bank’s support, responds to the Government’s short and medium-term development agenda. In the short term, it will provide fiscal space for the Government to finance development priorities at a time when revenue collection has declined due to the impact of COVID 19. In the medium term, it will support key reforms needed for diversification. In the medium to long term, the operation supports the Government’s policy reform agenda designed to advance private sector led agriculture and industrial sector transformation. The Bank has considerable experience and expertise in designing and implementing PBOs in RMCs, including the ground-breaking 2009 USD 1.5 billion budget support operation in Botswana. The choice of the programmatic approach also brings some flexibility on the use of triggers and hence allows for the possibility of adapting to changing circumstances during program implementation. Through the proposed operation and accompanying policy dialogue, the Bank will leverage its unique position as a reliable and trusted partner of choice to sustain and help implement difficult reforms.
Contributions to Gender	The policy focus of the ERSF on enhancing fiscal efficiency and sustainability will create fiscal space, which will enable the government to fund social programs in health and education, amongst others, targeting the most vulnerable and poor, including women and youth. The focus on agriculture, and industrial sector transformation and MSME development will create job

Equality and women's empowerment.	opportunities for youth and women. The support to social protection will significantly benefit youth and women. Finally, the focus on enhancing women's economic empowerment through the approval of a revamped Women's Economic Empowerment Fund, Gender Equity Bill, and appointment of Gender Commissioners, is expected to contribute to gender equality in Botswana.
Policy dialogue and linked technical assistance	The proposed operation will focus on supporting measures geared towards enhancing fiscal efficiency and sustainability, enhanced private sector participation in agriculture and industrial sectors and strengthen women empowerment and social protection. Through this operation and other on-going projects such as the financial and technical assistance to Botswana Development Corporation; the Botswana Renewable Energy IPP Procurement program; and the Zambezi Integrated Agro-Commercial Development Project, the Bank will continue to engage the government, as well as DPs, in policy dialogue in areas such as private sector development, renewable energy policy measures, PFM reform, and economic diversification. The program will create a strong platform for policy dialogue with the Bank's Directorate General – South, playing a pivotal role.

# RESULTS FRAMEWORK<sup>1</sup>

A PROJECT INFORMATION					
PROJECT NAME AND SAP CODE: Economic Recovery Support Program: P-BW-K00-004			COUNTRY: Republic of Botswana		
PROJECT DEVELOPMENT OBJECTIVE: Support resilience and post-COVID 19 pandemic inclusive economic recovery through improved governance and real sector structural reforms.					
ALIGNMENT INDICATORS <sup>2</sup> : (i) Agriculture, and industrial sector contribution to GDP; (ii) Employment					
B RESULTS MATRIX					
RESULTS CHAIN AND INDICATOR DESCRIPTION	RMF INDICATOR	UNIT OF MEASUREMENT	BASELINE (Date)	TARGET AT COMPLETION (Date)	MEANS OF VERIFICATION
<b>OUTCOME STATEMENT 1: Fiscal performance enhanced</b>					
OUTCOME INDICATOR 1.1: Fiscal deficit/GDP ratio		Percentage	-8.4% (2020/21)	-4.8% (2022/23)	MTEF/IMF Article IV Country Reports
OUTCOME 1.2: Country Policies and Institutional Assessment (Economic Management score)		Score	5.3(2020)	5.5 (2022)	CPIA
<b>OUTCOME STATEMENT 2: Private sector participation in key sectors enhanced</b>					
OUTCOME INDICATOR 2.1: Private Gross Fixed Capital Formation <sup>3</sup> as share of GDP	x	Percentage	24.4% <sup>4</sup> (2019)	27.4% (2023)	National Accounts
OUTCOME INDICATOR 2.2: Agriculture value added as % of GDP	x	Percentage	1.9% (2019)	2.9% (2023)	National Accounts
OUTCOME INDICATOR 2.3: Manufacturing value added as % of GDP	x	Percentage	5.24% (2019)	7.24% (2023)	National Accounts
<b>OUTCOME STATEMENT 3: Economic and social inclusion enhanced</b>					
OUTCOME INDICATOR 3.1: Domestic credit to the private sector (excluding parastatals) from banks and DFIs as % of GDP		Percentage	12.1% (2019)	13.5% (2023)	Bank of Botswana reports
OUTCOME INDICATOR 3.2: Targeting of social protection schemes enhanced (% of beneficiaries uploaded to the Single Social Registry)		Percentage (% women and youth)	0 (2019)	75.8 (2023)	Ministry of Employment, Labour Productivity & Skills Development reports
<b>COMPONENT 1: IMPROVING FISCAL EFFICIENCY AND SUSTAINABILITY</b>					
<b>OUTPUT STATEMENT 1.1: Efficiency of public spending improved</b>					
OUTPUT INDICATOR 1.1.1: Second PFM Reform Roadmap (2021-2027) to introduce accrual accounting and improve efficiency of public investment management approved		Yes/No	No (2019/20)	Yes (2021/22)	MOFED Reports
OUTPUT INDICATOR 1.1.2 Revised Public Procurement and Asset Disposal Bill to strengthen the public procurement framework and		Yes/No	No (2019/20)	Yes (2021/22)	Cabinet memo

<sup>1</sup> New format approved by the Operations Committee (OpsCom) of the Bank

<sup>2</sup> These indicators will measure alignment with the country priorities identified for the operation

<sup>3</sup> Proxy for private investments

address issues such as PPP submitted to Parliament*					
<b>OUTPUT STATEMENT 1.2: Domestic resource mobilization enhanced</b>					
OUTPUT INDICATOR 1.2.1: Income Tax and VAT (Amendment) Bills designed to reduce tax leakages approved by Cabinet**		Yes/No	No (2019/20)	Yes (2021/22)	Cabinet memo
OUTPUT INDICATOR 1.2.2: Tax Administration Bill designed to increase efficiency of tax collection approved by Cabinet**		Yes/No	No (2019/20)	Yes (2021/22)	Cabinet memo
OUTPUT INDICATOR 1.2.3: Enhanced cost recovery measures adopted*		Number of ministries	0 (2019/20)	9 (2021/22)	Ministry of Finance Reports
<b>COMPONENT 2: PRIVATE SECTOR-LED AGRICULTURE, AND INDUSTRIAL SECTOR TRANSFORMATION</b>					
<b>OUTPUT STATEMENT 2.1: Climate-smart agriculture sector productivity and value addition, and job creation enhanced</b>					
OUTPUT INDICATOR 2.1.1: Revised National Policy on Agriculture Development to support the transformation of the sector and enhance private sector participation approved by Cabinet**		Yes/No	No (2019/20)	Yes (2022/23)	Cabinet memo
OUTPUT INDICATOR 2.1.2: Botswana meat industry regulator established to guarantee competition and enhance private sector participation in the meat sector**		Yes/No	No (2019/20)	Yes (2022/23)	Ministry of Agricultural Development and Food Security reports
<b>OUTPUT STATEMENT 2.2: Industrialization framework strengthened</b>					
OUTPUT INDICATOR 2.2.1: Amended Industrial Development Act Regulations simplifying registration procedures approved		Yes/No	No (2019/20)	Yes (2021/22)	Cabinet memo
OUTPUT INDICATOR 2.2.2 P1.3 billion Industry Support Facility approved and one-third disbursed to DFIs*		Yes/No	No (2019/20)	Yes (2021/22)	Ministry of Finance and Economic Development Reports
<b>OUTPUT STATEMENT 2.3: Enabling environment for private investment improved</b>					
OUTPUT INDICATOR 2.3.1: Cabinet approval of the amended FIA Act through the Financial Intelligence (Amendment) Bill 2021 (to amend the definition of "Beneficial Ownership")*		Yes/No	No (2019/20)	Yes (2021/22)	Cabinet memo
OUTPUT INDICATOR 2.3.2 Approval of the Secured Transactions on Movable Property Bill providing for the establishment of moveable asset registry to increase secured lending		Yes/No	No (2019.20)	Yes (2022/23)	Cabinet memo
OUTPUT INDICATOR 2.3.3: Credit Information Bill to reduce asymmetric information, improve credit decisions, increase credit		Yes/No	No (2019/20)	Yes (2022/23)	Cabinet memo

growth and reduce defaults submitted to Parliament*					
OUTPUT INDICATOR 2.3.4: Investment Facilitation Law designed to attract private investments submitted to Parliament**		Yes/No	No (2019/20)	Yes (2022/23)	Cabinet memo
OUTPUT INDICATOR 2.3.5: Cabinet approval of the Energy Policy*		Yes/No	No (2019/20)	Yes (2021/22)	Cabinet memo
<b>COMPONENT 3: ENHANCING RESILIENCE AND SOCIAL INCLUSION</b>					
<b>I OUTPUT STATEMENT 3.17: MSME development framework and capacity strengthened</b>					
OUTPUT INDICATOR 3.1.1: Botswana Export Development Program (2020-2024) designed to facilitate the participation of local firms in exports and support export diversification approved*		Yes/No	No (2019/20)	Yes (2021/22)	Ministry of Investment, Trade and Industry reports
<b>I OUTPUT STATEMENT 3.2: Social protection and gender mainstreaming enhanced</b>					
OUTPUT INDICATOR 3.2.1 Pilot phase of single social registry to improve targeting of beneficiaries of social protection schemes rolled out*		Yes/No	No (2019)	Yes (2021/22)	Ministry of Local Government and Rural Development reports
OUTPUT INDICATOR 3.2.2 Gender commissioners appointed by the Minister of Nationality, Immigration and Gender Affairs to strengthen women's economic empowerment		Yes/No	No (2019/20)	Yes (2021/22)	Cabinet memorandum
OUTPUT INDICATOR 3.2.3 Women's Economic Empowerment Fund designed to enhance women's access to finance revamped and operationalized by the Government		Yes/No	No (2019/20)	Yes (2021/22)	Ministry of Nationality, Immigration and Gender reports

NB: \* denotes Prior Action; and \*\* denotes indicative trigger for Phase II

# **REPORT AND RECOMMENDATION OF THE MANAGEMENT TO THE BOARD OF DIRECTORS ON A PROPOSED LOAN TO THE REPUBLIC OF BOTSWANA TO FINANCE THE ECONOMIC RECOVERY SUPPORT PROGRAM (ERSP)**

## **I. INTRODUCTION: THE PROPOSAL**

**1.1 Management submits the following proposal and recommendation for an ADB Loan of One hundred and thirty-seven million United States Dollars (USD 137,000,000.00) to the Republic of Botswana to finance the Economic Recovery Support Program (ERSP).** The ERSP is designed as a programmatic series of two consecutive General Budget Support (GBS) operations covering the fiscal years 2021/22-2022/23. The proposed loan is the first of the two-year series of the Program Based Operation (PBO). The operation is designed in response to a request submitted by the Government of the Republic of Botswana (GRB) in November 2020.

**1.2 The program is aligned with Botswana’s Vision 2036** that aims to promote economic diversification, and inclusive and sustainable economic growth within the context of the country’s three main development challenges of unemployment, poverty, and income inequality. It is consistent with Botswana’s National Development Plan (NDP 11) 2017-2023; the Economic Recovery and Transformation Plan (ERTP, 2020/21-2022/23) and the policy priorities and reform program set out in the Letter of Development Policy (Appendix 1). Program implementation will be strengthened through the complementary ongoing and planned technical assistance supported by development partners. The proposed operation was formulated based on continuous dialogue with the Government of the Republic of Botswana (GRB), and in close collaboration with Development Partners and other stakeholders, including the private sector and civil society. It also complements the recently approved World Bank Development Policy Operation.

**1.3 The overarching objective of the program is to support post-pandemic economic recovery** through improved governance, business enabling environment and real sector reforms for inclusive growth. By improving the policy and regulatory environment the Government aims to create a favourable business environment that will attract private investment, promote industrialization, diversification, and boost job creation. By improving fiscal efficiency and sustainability, the program will help attain macroeconomic stability and streamline public investment and public finance management, critical in the context of post-pandemic economic recovery. The operation is aligned with the Country Strategy Paper (2015-2021) that is anchored on the Bank Group’s Ten Year Strategy (2013-2022) and the new operational priorities, the High 5s: the program supports the objectives of “Feed Africa” (by strengthening policy and institutional reforms for agriculture transformation); “Industrialize Africa” (by promoting enabling environment for private sector development and strengthening the policy framework for industrialization); and “Improve the Quality of Life of the People of Africa” by promoting fiscal efficiency and sustainability as well as enhanced job creation, social protection and gender empowerment.

**1.4** Designed as a two-year programmatic operation, the ERSP will help address immediate macroeconomic challenges as well as medium to long term challenges facing Botswana. The long-term tenure of the Government’s borrowing for this operation will help to improve the reserve position and extend the maturity profile of Government debt. The use of the programmatic approach for budget support also brings the advantage of predictability and flexibility on the use of triggers, by allowing for the possibility of adapting to changing circumstances during program implementation.

## II. COUNTRY AND PROGRAMME CONTEXT

### 2.1 Political Developments and Governance Context

**2.1.1 Botswana’s political environment remains stable, underpinned by prudent economic management and strong institutions.** Democratic elections have been held every five years and a two-term limit is entrenched in the republican constitution. The ruling Botswana Democratic Party (BDP) has dominated the political scene since independence in 1966. President Mokgweetsi Eric Keabetswe Masisi assumed office in April 2018 in an orderly transition of power from former President Ian Khama. Following the October 2019 multi-party elections, the BDP won 38 of the 57 elected Parliamentary seats, and the main opposition party, the Umbrella for Democratic Change (UDC), won 15 seats, and the remaining 4 are divided among two other political parties. The ruling party promised to implement reforms to address the country’s triple challenges of unemployment, poverty, and inequality within the context of rapid technological advances, adaptation to climate change and achieving higher economic growth rates.

**2.1.2 Botswana ranks among the top African countries on good governance, albeit with warning signs of decline.** The country's score in the Mo Ibrahim Index of African Governance (IIAG) declined by 1.79 between 2015 and 2018, and partly recovered by 1.67 between 2018 and 2019. The 2020 IIAG ranked Botswana 5<sup>th</sup> out of 54 countries in overall governance, the best-score country in Southern Africa. However, the country registered lower scores in education, rural sector, and public administration. The Bank's 2020 Country Policy and Institutional Assessment (CPIA) ranked Botswana 2<sup>nd</sup> out of 54 countries under the governance cluster with a score of 4.9, unchanged from 2018. The 2019 World Economic Forum Global Competitive Index ranked Botswana 34<sup>th</sup> out of 141 countries in the future orientation of government - in ensuring policy stability, responsiveness to change, and its long-term vision. The country emerged 38<sup>th</sup> out of 180 countries assessed in the 2021 World Press Freedom Index, representing a four-step improvement over its 2015 ranking. Private sector engagement in the economy is promoted through deliberate GRB policies that encourage free trade and attract foreign direct investment (FDI). Botswana is the least corrupt African country, according to Transparency International, with a global ranking of 35<sup>th</sup> out of 180 countries on its 2020 Corruption Perception Index, a slight decline from 29/198 in 2015. The GRB has several legal instruments to fight corruption such as the Corruption and Economic Crime Act 1994, the Whistleblowing Act 2016, the Declaration of Assets and Liabilities Act 2019, a specialized anti-corruption court, and an Anti-Money Laundering Unit.

### 2.2 Recent Economic Developments, Macroeconomic and Fiscal Analysis

**2.2.1 Botswana has shown strong growth supported by prudent macroeconomic management and good governance practices.** It has registered a rapid growth in per capita income by 125% between 2011 and 2020. As a

resource-rich country, Botswana enjoyed robust economic growth averaging 8.4% between 1989 and 1999, underpinned by political stability and prudent economic management,

	2019/2020 Actual	2020/2021 Pre- COVID Projection	2020/2021 Actual	2021/2022 Projection	2022/2023 Projection
Real GDP growth rate (%)*	3.0	4.4	-8.5	8.8	5.5
Inflation, % (average)*	1.9	1.8	1.9	3.0	3.3
Customs & Excise revenue	7.7	6.9	9.5	7.2	4.2
Total Revenues	30.1	28.1	29.5	32.2	29.6
Fiscal balance	-6.1	-2.4	-8.4	-3.9	-4.8
Public debt	21.1	18.6	24.5	27.0	27.5
Current account deficit*	7.1	10.0	10.6	7.4	6.6
International reserves (months of imports)*	9.9	....	....	8.8**	....

Sources: MFED  
\*Calendar year i.e. 2019/2020 = 2019 \*\*As of June 2021

slowing to an average of 4.1% from 2000 to 2019 due to erratic rainfall affecting the agriculture sector

and negative impact of the 2009 global financial crisis on the diamond market. In the last five decades, Botswana has transformed itself from an underdeveloped to a middle-income country (MIC), with a vision to make the leap to a high-income country by 2036. However, despite efforts to diversify the sources of growth and development, the country's economy is still largely dependent on the diamond mining industry and a large public sector. In 2019/2020 financial year, mining contributed 26.8% of government revenue, 15.8% of GDP and about 80% of goods export earnings. The public sector contributes 77.4% of the total investment and employs about 31% of the formal labour force. The mining sector's capital-intensive nature and weak linkages with the other sectors have limited value chain development and job creation resulting in high unemployment especially amongst the youth aged 15-35 years (37.4%).

**2.2.2 Widening fiscal and external account deficits, largely arising from the COVID-19 pandemic, are also threatening Botswana's growth aspirations.** GDP growth contracted sharply by 8.5% in 2020 from a growth of 3.0% in 2019, as the COVID-19 lockdown and movement restrictions constrained economic activity. In 2020, tax revenues declined with the COVID-19 induced slowdown in economic activity, decline in imports, and reduced receipts from the Southern African Customs Union (SACU). In contrast, public expenditure grew in line with the measures the Government put in place to protect lives, livelihoods, and jobs at the start of the pandemic. Reflecting lower revenue and increased public spending, the fiscal deficit is estimated to have widened to 8.4% of GDP in 2020/21 financial year from 6.1% in 2019/2020, above the internal 4% fiscal rule. As the Government strives to get back to a more sustainable fiscal path, the deficit is projected to decline to 3.9% in FY 2021/2022, as domestic revenues pick up with the revival of economic activity, and growth is stimulated by public investments associated with the ERTF. In FY 2022/2023, the deficit is projected at 4.8%, driven by higher recurrent expenditures. The global COVID-19 containment measures have severely affected Botswana's diamond and tourism industries and disrupted the country's regional trade. As a result, the current account deficit is estimated to have worsened to 10.6% of GDP in 2020 from 7.1% in 2019 but may modestly improve to 7.4% in 2021 and improve further to 6.6% in 2022, dependent on the gradual revival of diamond trade and tourism.

**2.2.3 Taking advantage of the prevailing low inflation, the Bank of Botswana (BoB) has maintained an accommodative monetary stance to support economic activity.** Annual inflation fell to an average of 1.9% in 2020 from an average of 3.0% between 2015 and 2019 and was below the lower bound of the BoB target range of 3% to 6%. The low inflation reflects a combination of downward adjustment in domestic fuel prices that outweighed the increase in electricity tariffs and transport fares, and subdued domestic demand for, and supply of, output from the COVID-19 lockdowns. Inflation rose to 6.2% in May 2021, breaching the upper bound of the objective range for the first time since June 2013. As of June 2021, inflation stood at 8.2%, and is projected to revert to within the objective range in 2022. BoB gradually reduced its policy rate to 3.75% in October 2020, from 5.5% in 2016 and has maintained it at that level as of June 2021. International reserve buffers have declined but remain high (estimated at 8.8 months of import cover in June 2021, from 13 months in 2018).

**2.2.4 Botswana is at a very low risk of debt distress.** While the country's public debt rose from 21.1% in 2019/20 to 24.5% in 2020/21, it remained well within the national statutory limit of 40% of GDP, and the Southern African Development Community (SADC) ceiling of 60% of GDP. More than 80% of total external debt is in medium- to long-term maturities. Botswana's borrowing continues to be based on the principle of contracting debt at the minimum cost and lowest risk as guided by the Medium-Term Debt Strategy (MTDS).

**2.2.5 The medium-term growth outlook is positive.** GDP growth is projected to return to positive trajectory from 2021 onwards. GDP growth is projected to recover to 8.8% in 2021 and 5.5% in 2022 supported by a pickup in economic activity and the commodity price rebound as economies reopen.



Trade conditions have improved in the mining sector. The increase in demand for rough diamonds in the second half of 2020 is expected to continue into the medium term. Wholesale and retail activities are rebounding with the opening of the economy, and improvements in agriculture will have positive knock-on effects on the manufacturing sector. Recovery in tourism is hinged on widespread availability of the COVID-19 vaccines, the continued lifting of travel and border restrictions, and the promotion of domestic and regional tourism. The favorable outlook also hinges on steadfast implementation of business enabling environment reforms and government interventions against COVID-19, including the Economic Recovery and Transformation Plan (ERTP). Nevertheless, there are headwinds including weaker diamond demand if the global economic recovery loses momentum amid the COVID-19 second and third waves, persistent drought, and adverse impact of the sustained weak economic conditions in South Africa on Botswana's exports and revenues from the Southern African Customs Union (SACU).

## **2.3 Competitiveness of the Economy**

**2.3.1 Botswana continues to make good progress in creating an enabling environment for private investments to drive structural transformation.** The World Economic Forum's 2019 Global Competitiveness Report ranked Botswana 91 out of 141 countries (fourth in Sub-Saharan Africa). While Botswana continues to face challenges around unreliable electricity supply, unskilled labour, insufficient jobs, low quality of judicial processes, and weak contract enforcement, a lot of progress has been made on other fronts. Through the implementation of the Doing Business Reforms Roadmap and Action Plan approved in 2014, the GRB is pursuing numerous initiatives geared towards easing constraints to doing business in Botswana. Recent amendments to the legal and regulatory framework and administrative changes are expected to significantly reduce GRB red tape. Since the Botswana Investment and Trade Centre (BITC) revamped the one-stop service centre in 2018, major improvements to service delivery have been registered. The roll out of the online business registration which started in 2019 continues to make steady progress. Integrating the business registration systems with various other government services, such as immigration, continues to be a priority. Other areas of ICT-related improvements include online filing of tax returns, customs declarations, and computer aided case management systems at the courts. With the adoption of the new trade and industry acts, the number of business activities that require licensing has reduced drastically and trade licensing committees have been abolished, making the process of acquiring company licenses much faster. The revision of the 2011 Environmental Impact Assessment Act is being finalised for consideration by Parliament in 2021, helping to significantly reduce the turnaround time for approval of environmental impact assessments. Digitalization of investment promotion activities at BITC has also been accelerated in the context of COVID. An Investment Facilitation Law, designed to facilitate private investments and enhance investor protection, is at the drafting stage. A Board of Investment is being established, with the objective of quickly resolving bottlenecks faced by investors and addressing policy gaps. This body will comprise public and private sector players as well as international experts and will be chaired by the President of Botswana.

## **2.4 Public Financial Management**

**2.4.1 GRB has continued to strengthen the public financial management systems guided by the comprehensive reform roadmap.** Significant results have been achieved in the face of several challenges. Some of the achievements are the adoption and implementation of: Medium Term Fiscal Framework (MTFF) and Medium Term Expenditure Framework (MTEF); Public Investment Program; Treasury Single Account (TSA), Government Accounting and Budgeting System; the transition from cash to accrual accounting including the adoption of IPSAS; accounting policies consistent with the requirements of IPSAS, GFS 2001/2015 and COFOG; People's Budget in three languages (English, Setswana and Braille); and Development Projects Management System to improve the monitoring and evaluation of projects management. GRB has also adopted a risk management policy and the enterprise risk management framework, and established Cash Management Unit, Cash Management and Liquidity

Committee, and Audit Committee. Furthermore, the Government has adopted Public Assets Management policy, Medium Term Debt Strategy, e-procurement Strategy, Public Procurement Policy and Procurement Governance Model.

## **2.5 Inclusive Growth, Poverty and Social Context**

**2.5.1 Botswana has made significant progress in reducing poverty over the past three decades** and has successfully decreased the poverty headcount ratio to 17.2% in 2020 from 30.6% in 2002. As a result of allocation of considerable resources amounting to about 25% of total public expenditures, to education and skills development, Botswana has recorded a significant improvement in its Human Development Index (HDI). For instance, between 1990 and 2019 the country's HDI value increased from 0.537 to 0.735, an increase of 28.3% and a position of 100 out of 189 countries. Despite this performance, there is still a lot of room for improvement, and with a current Gini coefficient of 0.52, Botswana ranks as one of the most unequal countries in the world. With sizeable investments in education and skills development, Botswana has a high adult literacy rate of 88.5%, but skills mismatch and inadequate inclusiveness of economic growth are contributing to persistently high unemployment levels, which stood at 20.0% nationally in 2019, driven by high youth unemployment rate of 37.9%. Moreover, the loss of livelihoods among women and men that resulted from the COVID -19 pandemic has further aggravated unemployment in Botswana, with particularly more impact on women given that about 75% of informal sector businesses (which were disproportionately affected by the pandemic) are women-owned. By 2020, the unemployment rate was at 24.5% (23.3% for males and 25.8% for females) compared to 22.2% in 2019, highlighting the adverse impact of the pandemic on the labour market.

**2.5.2** Botswana has a mature social protection system and devotes significant resources to social protection. Social protection programs in Botswana include a range of cash transfers, in-kind transfers, feeding programs, fee waivers, public works, programs to enhance employability and livelihoods of youth and other adults, and pension programs. However, the delivery of social protection is fragmented, while at the same time there are overlapping programs. Other challenges include inefficient administrative systems, unclear and conflicting guidelines and eligibility criteria, and inadequate monitoring and evaluation. Social protection needs to be responsive to the different risks and vulnerabilities that citizens face through the course of their lives. Recognising this, on 19 August 2020, the Cabinet approved a new National Social Protection Framework (NSPF). The NSPF adopts a life-course approach which recognises that an individual faces different challenges at each stage of their life, and social protection programmes can therefore be put in place that have different primary objectives depending on the challenges faced: better nutrition for pregnant women, babies and infants; education for children; skills for adolescents; income and employment for the working age; income security for older persons; inclusion and dignity for persons with disabilities. The implementation of the NSPF will require a far-reaching program of reform to improve coordination, effectiveness, and efficiency of spending on social protection schemes.

**2.5.3** Despite a number of policy measures to reduce gender inequality, including adoption of a National Policy on Gender and Development in 2015 and related National Operational Plan in 2018, there remains gender disparities in the country, and this has been exacerbated by the COVID-19 pandemic. In 2020, Botswana scored 0.537 on the African Gender Index, lower than its comparators, Namibia, and South Africa, who scored 0.797 and 0.767 respectively. Women, who constitute more than half of the population in Botswana, are more vulnerable to poverty and make up the majority of the unemployed. In addition, they have less access to and control over economic resources and skills training.

### III. GOVERNMENT DEVELOPMENT PROGRAM

#### 3.1 Government overall Development Strategy and Medium-Term Reform Priorities

3.1.1 Botswana's long-term development strategy, "Vision 2036", sets out the country's aspiration for **Achieving Prosperity for All**, in the context of the three main development challenges of unemployment, poverty, and income inequality. The medium-term strategic direction and operational priorities are outlined in **the eleventh National Development Plan (NDP 11, 2017-2023)**. The overall theme of NDP 11 is: "Inclusive Growth for the Realisation of Sustainable Employment Creation and Poverty Eradication." NDP 11 is articulated around six strategic priorities: developing diversified source of economic growth; human capital development; social development; sustainable use of natural resources; consolidation of good governance and strengthening national security; and implementation of effective monitoring and evaluation systems. These priorities are guided by and aligned with Vision 2036 pillars of: sustainable economic development; human and social development; sustainable environment; and governance, peace, and security. In September 2020, the GRB launched the **Economic Recovery and Transformation Plan (ERTP, 2020/21-2022/23)**, presenting short to medium term priorities and policy measures to fast track implementation of NDP 11 and enhance economic resilience over medium to long term. The Budget Strategy Paper (2021) contains revenue and expenditure projects for 2021/22 – 2022/2023, aligned with the NDP 11 and ERTP. The ERTP areas of priorities are: developing economic clusters (agriculture, tourism and manufacturing), improving the efficiency of government spending, expediting the digital transition, supporting SME development, developing human capital (health and education outcomes), investment in infrastructure, and improvement of business enabling environment.

#### 3.2 Challenges to National/Sector Development Program

3.2.1 **A core macroeconomic challenge for Botswana is attaining fiscal sustainability**, which is a prerequisite for growth, job creation and private sector-led competitiveness. In recent years, the country's fiscal position has been deteriorating as a result of lower mining revenue and reduced SACU transfers, continued underperformance of VAT, and a growing wage bill. Expansionary fiscal policy in the face of persistent lower diamond and trade revenues, as well as lower SACU proceeds and delays in the needed fiscal adjustment, including the large increase in the wage bill, continue to widen the fiscal deficit and weaken the external position. It has also eroded buffers and savings for future generations. As of January 2021, the Pula Fund was valued at 46.6 billion Pula, compared to 53.9 billion Pula in January 2015. However, the country is at a very low risk of debt distress. Re-establishing fiscal sustainability will require reforms to enhance Botswana's fiscal framework and additional efforts to improve domestic resource mobilization by broadening the tax base, advancing tax reform, and enhancing the quality and efficiency of public spending. Weaknesses related to public procurement need to be addressed, including through strengthening the existing law to facilitate e-procurement. SOEs also continue to be a drain on the fiscus, hence negatively impacting fiscal sustainability. Enhanced monitoring of SOEs and commercialising some of them will help to improve the situation. There is also need to downsize the public sector, reform parastatals and strengthen their monitoring and accountability.

3.2.2 Botswana's overarching development challenge is to achieve a post-COVID-19 recovery and economic transformation that is driven by a competitive export-led and inclusive economic growth to address the challenges of poverty, unemployment, and social and income inequalities. This calls for actions and policy reforms to address the challenges of declining revenues, expansive government spending, and resultant deterioration in fiscal position, which pose a threat to fiscal stability and growth. It also calls for a focus on private sector-driven transformation of the key sectors of agriculture, financial services, manufacturing, and energy, which have been beset by myriad challenges, including the vagaries

of the weather (agriculture), inadequate infrastructure, and legislations that require modernization to accommodate and facilitate the rapid changes and support innovation.

**3.2.3 Diversification and Economic Transformation Challenges:** Despite Botswana's efforts to diversify, the economy has experienced limited economic transformation and remains substantially dependent on revenues generated by mining (especially from diamonds), which contributed 88.2% of export receipts in 2020. The high economic growth rates the country achieved over many years did not translate into a significant broadening of the economic base. For instance, agriculture, though a critical sector in terms of food security, employment creation, and rural livelihood, contributes only 2.0% of GDP. Manufacturing, a critical sector for industrial development, accounts for around 5.7% of total value added in the economy, a share that has been declining gradually from a peak of 7.2% in 2009. It accounted for 7.8% of exports on average in 2017 - 2018, with the most important items being meat, electrical cables, plastic pipes, textiles, vaccines, and vehicle parts. In 2018, financial services accounted for 4.7% of GDP, making it slightly smaller than manufacturing, but larger than tourism which contributes 4.9% of GDP and generated 25,000 direct and indirect jobs in 2016. Implementation of the universal electrification program by 2030 (Vision 2036) would significantly assist the drive towards transformation and diversification of the economy. Electricity access rate increased to 82% in 2019 from 62% in 2017, due mainly to rural electrification achievements, but key challenges remain in increasing the contribution of renewable energy to the country's energy mix. The target is to achieve a 15% contribution of renewable energy by 2030, from the current 1%.

**3.2.4 Botswana is actively involved in regional integration initiatives,** as a member of the SACU, SADC, the Tripartite Free Trade Area, as well the African Continental Free Trade Area (AfCFTA), which it has signed but not yet ratified. Participation in SACU and SADC especially, has allowed Botswana to harmonize some of its policy frameworks, particularly on trade facilitation, with those of the region. Nevertheless, Botswana's participation in intra-regional trade has been very limited, largely due to its narrow product range. In 2018, 83% of Botswana's total intra-Africa trade, which includes both exports and imports, was with South Africa. This was followed by Namibia at 13% of total trade, and Zimbabwe and Zambia at 1.2% and 1.1% respectively. The vast majority of Botswana's intra-Africa trade therefore lies with the SADC region. There are real opportunities to be derived from the AfCFTA once the country ratifies the agreement and starts trading within the expanded continental market. The revised National Trade Policy provides the policy framework that reduces and mitigates some of the challenges inherent to Botswana's regional trade, which is hampered by trade facilitation impediments, non-tariff measures which also manifest as non-tariff barriers to trade. These reforms in trade policies and trade facilitation must be undertaken in tandem with developments in infrastructure, productive capacities and relevant reform and development of trade support institutions. The AfCFTA will further enhance the competitiveness of Botswana's private sector as they link into value chains and expand market access. The AfCFTA will benefit countries that are able to expand their agriculture and agro-processing, manufacturing, and services sectors, the most.

**3.2.5 Economic and Social Inclusion Challenges:** Much of the country's growth continues to be largely public sector driven. This negatively affects the sustainability of the country's economic growth. A major challenge for Botswana, therefore, is to diversify the economy and make it more private sector driven to ensure that Botswana continues to enjoy the fruits of sustained economic growth post depletion of minerals, especially diamonds. The impact of COVID-19 and structural weaknesses related to dependency on diamond mining undermine government plans to address economic diversification, unemployment, and inequality. Addressing this challenge would require dynamic structural and regulatory adjustments to significantly improve the performance of the key sectors of agriculture, manufacturing, financial services, and power, amongst others. Specifically, this requires a multi-pronged approach by improving policies designed to enhance private sector participation in these critical sectors.

GRB has now embarked on elaborate plans designed to enhance private sector-led growth that is inclusive and sustainable. These include the 11<sup>th</sup> National Development Plan, Economic Recovery and Transformation Plan and sector-specific strategies.

### 3.3 Consultation and Participation Processes

#### 3.3.1 Policy and strategy development in Botswana is characterized by extensive consultations.

The Vision 2036, on which Botswana’s eleventh National Development Plan (NDP 11, 2017-2023) is anchored, was developed through an all-inclusive and participatory stakeholder consultative process, involving Botswana from all parts of the country. It also benefited from inputs by leading local and international experts. The consultation process was led by the Presidential Task Team (PTT)<sup>5</sup>, which undertook countrywide consultation, using different methods to get consensus from Botswana on how their country should look like in the next twenty years. The consultations covered a wide area of Botswana, including each district/sub-district headquarters and at least two other localities comprising medium and smaller villages.<sup>6</sup> In addition, in each political constituency at least one locality was selected to ensure adequate political representation. In all 103 localities were visited. Over and above national consultations, international benchmarking visits were undertaken to four countries: Austria, Chile, Malaysia and Rwanda between March and April 2016. The main objective of the international benchmarking exercise was to learn from and share experiences with other countries.

## IV. BANK SUPPORT TO GOVERNMENT STRATEGY

### 4.1 Link with the Bank Strategy

4.1.1 **The proposed operation is aligned with** the Bank Group’s Country Strategy Paper for Botswana (2015-2021) Pillar II Private Sector Development through a sound regulatory business-friendly environment. The operation is also consistent with the Ten Year Strategy - 2013-2022 (particularly Governance and Accountability and Private Sector Development), High Fives (particularly Industrialize Africa (through support to industrialization), Feed Africa (through support to agriculture), and Improve the quality of life of the people of Africa (through support to fiscal efficiency and sustainability, employment creation, and gender empowerment and social inclusion) and other Bank Group strategies, including: the Strategy for Economic Governance in Africa (SEGA, 2021-2025). ERSP’s linkage with both the CSP and GRB’s development agenda is summarized in Table 2 below.

**Table 2: Link between NDP 11, the CSP, the ERSP and High-5s**

National Development Plan 2017-2023	CSP 2015-2021	ERSP 2021 - 2022	High-5s
<i>Strategic Objective:</i> Achieving Prosperity for All through an inclusive growth for the realization of sustainable employment creation and poverty eradication.	<i>Strategic Objective:</i> To support Botswana to achieve high, inclusive, and sustainable growth	<i>Operational objective:</i> To support post-pandemic economic recovery through improved governance, business environment and real sector reforms for inclusive growth.	Accelerate Africa’s development within the areas of special emphasis of the Bank’s Ten-Year Strategy 2013-2022 (gender, youth, fragile states, and agriculture and food security)
<b><u>Strategic Priorities</u></b> (i) Developing diversified source of economic growth (ii) Human capital (iii) Social development (iv) Sustainable use of natural resources (v) consolidation of good governance and strengthening national security (vi) effective monitoring and evaluation systems	<b><u>Priorities/Pillars</u></b> (i) <i>Infrastructure Development</i> to increase productivity and improve competitiveness (ii) <i>Private Sector Development</i> through a sound regulatory business-friendly environment.	<b><u>Program components</u></b> (i) Improving Fiscal Efficiency and Sustainability (ii) Supporting Private sector-led Agriculture and Industrial Sector Transformation to unlock jobs (iii) Enhancing Economic and Social Inclusion	<b><u>Priorities</u></b> (i) Light up and Power Africa (ii) Feed Africa (iii) Industrialize Africa (iv) Improve the Quality of Life of the People of Africa

<sup>5</sup> The PTT was appointed by the President to oversee the process of developing the Vision 2036.

<sup>6</sup> In all localities visited, Kgotla meetings were the main method of consulting the communities.

## **4.2 Meeting the PBO Eligibility Criteria**

**4.2.1 Botswana fulfills the eligibility criteria for Program Based Operations (2012).** *The Government remains committed to poverty reduction and inclusive growth.* Inclusive economic growth and reform in three main areas (i.e. fiscal efficiency and sustainability, private sector-led economic growth, and livelihood and social inclusion) are anchored on its NDP 11 (2017–2023) and the ERTTP (2020-2023). *Macroeconomic stability is satisfactory* despite the challenges of COVID-19. The government remains committed to fiscal consolidation and continues to take steps to improve efficiency in government spending and increase domestic revenue. *The country continues to enjoy a stable political environment since 1966* and has consistently ranked among the top countries in Africa on good governance. *The updated CFRA 2021 shows* a positive trend, and continuous progress in the implementation of public financial management reforms. *The framework for donor coordination is adequate.* The Bank continues to participate in various donor coordination fora, including the Development Partners Forum, and the Macroeconomics, Trade, and Economic Diversification Working Group. Technical Annex I presents detailed assessment of eligibility criteria for PBO.

## **4.3 Collaboration and Coordination with Other Partners**

**4.3.1 The proposed operation has been designed in consultation and coordination with key stakeholders, including the Government, private sector, civil society, and development partners<sup>7</sup>.** The Bank is part of the Development Partners Forum (DPF) which provides a platform for high-level dialogue between senior Government officials and development partners. The Macroeconomics, Trade, and Economic Diversification (MTED) Working Group is a DPF technical sub-committee on economic diversification and macroeconomic stability. During the Preparation and Appraisal missions, the Bank convened consultation meetings of development partners and their comments have been reflected in program design. The World Bank has approved, in May 2021, a budget support operation of US\$ 400 million to support the response to the COVID-19 pandemic, economic resilience, and greener recovery. The EU is providing budget support to the education sector, which complements this operation's intervention as regards skills development particularly among the youth. The United Nations Agencies are providing financial and technical support in the areas of social protection program, economic diversification, and youth employment. The Bank's proposed ERSP is emphasizing areas that are complementary to the financial programs of the World Bank, EU, and UN agencies by addressing fiscal efficiency and sustainability, private sector development, and social inclusion. The choice of agriculture and industrial sectors as sectoral areas of focus of the operation was welcome in view of their job creation and transformational potential. The focus on economic and social inclusion was also considered appropriate, based on the need to create economic opportunities, and enhance social protection effectiveness, as well as improved allocative efficiency (through better targeting). The Bank's Directorate General South will ensure continuous engagement with all key stakeholders throughout the implementation of the proposed operation, including during half yearly supervision.

## **4.4 Relationship with Other Bank Operations**

**4.4.1** The Bank Group's active portfolio in Botswana as at 30<sup>th</sup> April 2021, comprised four (4) operations with a total commitment of UA 57.7 million (Technical Annex 14). The portfolio is financed through an ADB non-sovereign operation (NSO) Line of Credit amounting of UA 55.8 million; two Middle Income Countries Technical Assistance Facility (MIC-TAF) grants of UA 1.22 million and the Fund for African Private Sector Assistance (FAPA) of UA 0.7 million. The ADB loan constitutes 98% of the funding with the rest coming from the three grants. According to the portfolio performance flashlight, 50% were green (satisfactory), 25% flagged and 25% under close watch. The average age of the portfolio is 2.4 years with a disbursement ratio of 35.3%. The financial sector accounts for the largest

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<sup>7</sup> Including the World Bank, IMF, EU, and UN.



share of the resources (97.1%), followed by agriculture sector (1.7%) and industrial sector (1.2%). The portfolio is divided into 3 High 5 priority areas: Improve Quality of Life has the largest share of 97%; Feed Africa has a share of 2%; and Industrialize Africa has 1%.

**4.4.2 The proposed operation has strong synergies with the current portfolio.** Component 2 of the proposed operation will complement the ongoing intervention in the financial sector, that is support to Botswana Development Corporation as well as the support to private sector and MSME development. The program implementation will also be supported by the ongoing and planned technical assistance aimed at strengthening the renewable energy policy and regulatory framework to increase private investments, under the Botswana Renewable Energy IPP Procurement Program; and the Zambezi Integrated Agro-Commercial Development Project. The program is also complemented by the FAPA Botswana Support to Economic Diversification TA Project, which aims at supporting the Government in its efforts to diversify the economy through increased competitiveness of SMEs and effectiveness of Business Support Institutions in business support and service delivery. The planned non-lending activities and technical assistance projects for scaling-up youth entrepreneurship and women empowered businesses will complement the program’s policy measures under Component 3. Furthermore, stepped up dialogue will be used to overcome portfolio challenges.

**4.4.3 Lessons from past and ongoing similar operations.** The design of the proposed operation incorporates lessons learned from previous operations (e.g. the Botswana Economic Diversification Support Loan (EDSL) and BDEV’s evaluation of PBOs (2018). Five lessons emerge as relevant for this operation: (a) Government ownership of the reform effort is critical to the success of the program; (b) flexibility is necessary; (c) complementary technical assistance is necessary in the context of capacity challenges; (d) effective donor coordination is critical to the success of PBOs; and (e) maintain continuous policy dialogue is critical for ensuring continued commitment to programme implementation and delivery of results. These lessons learnt have been factored into the design of this program.

Key lessons learned		How lessons are incorporated into the new operation (ERSP)
a)	Government ownership of the reform effort is critical to the success of the program	Reform measures supported by the ERSP are informed by the country’s National Development Plan 11, and key strategies such as the economic recovery and transformation plan and medium term budget policy statement; The policy matrix is agreed with and owned by the Government, and is aligned with Botswana’s medium-term reform program.
b)	Flexibility is necessary	EDSP is designed as a two-year programmatic operation that provides predictability of Bank’s resources and flexibility to adapt to changing circumstances during implementation. It is also prepared on a timely basis in response to the Government’s urgent financing needs in the context of tight fiscal constraints amid the COVID-19 pandemic.
c)	Complementary TA is necessary in the context of capacity challenges	The program measures are supported by the ongoing and planned Technical Assistance (TA) projects, and will work closely with other DPs to tap into their available TA funds to support critical aspects of the operation such as social protection
d)	Effective donor coordination is critical to the success of PBOs	The operation has been designed in conjunction with the World Bank, and in consultation with the IMF, European Union (EU), and the United Nations (UN) Agencies in Botswana. The policy matrix identifies reform actions that are complementary with the World Bank, as well as enhances the Bank’s added value by focusing on fiscal efficiency and sustainability as well as strengthening policy framework for private sector participation in Agriculture, Tourism, and Industrial Sector Transformation
e)	Need to maintain continuous policy dialogue	The Bank will build on the strong engagement currently being led by RDGS to ensure continuous policy dialogue on strategies to diversify Botswana’s sources of economic growth, and reform to promote private sector led economic growth model

## **4.5 Analytical Work Underpinnings**

**4.5.1 The design of the proposed ERSP was underpinned by analytical and diagnostic reports** carried out by the Bank, World Bank, IMF, other development partners, and GRB. The key findings of these analytical works have helped to shape the design of the operation. These include: the Bank’s CSP 2015-2021 Update and Country Portfolio Performance Review (2020); Public Expenditure and Financial Accountability (PEFA) assessment (2020); IMF Article IV Consultation Report (February 2020); UNDP Human Development Report (2020); Global Competitiveness Report 2019; NDP 11; Mid-year review of the NDP 11; Economic Recovery and Transformation Plan; Medium Term Budget Policy Statement; National Social Protection Plan, and Botswana Industrial Policy.

## V. THE PROPOSED PROGRAM

### 5.1 Program Goal and Purpose

5.1.1 The goal of the proposed operation is to support post-pandemic economic recovery through improved governance, business enabling environment and real sector reforms for inclusive growth. It will support the Government in its efforts, during the current financial straits, to increase the efficiency in public spending, domestic resources mobilisation, and implement reform programs to improve enabling environment for private sector development, to enhance climate-smart agriculture, and to strengthen the framework for industrialisation all geared towards job creation. To that end, the proposed operation supports economic recovery and transformation initiatives at the centre of Government's national development plan.

### 5.2 Program Components

5.2.1 **The package of reforms under the proposed program is organised around three mutually reinforcing and complementary components.** Component 1, *Improving Fiscal Efficiency and Sustainability* will support enhancing macroeconomic performance and create fiscal space for the prioritization of capital and social spending by helping to enhance domestic resource mobilization and mitigate fiscal risks (including those related to SOEs). Component 2, *Supporting Private sector-led Agriculture, and Industrial Sector Transformation* will support the strengthening of the policy framework for agriculture and industrial sector productivity and value addition, and enhance private sector participation and increase job opportunities. The link between the two sectors is important as agriculture value addition can serve as springboard for industrialization and job creation. Implementation of the proposed measures will reinforce the fiscal sustainability measures through increased tax revenue expected to be generated from more vibrant agriculture, and industrial sectors. Component 3, *Enhancing Economic and Social Inclusion*, will support the development of the MSME BDS framework, social protection, and gender empowerment. It is a balanced program combining fiscal and sector-specific reforms while supporting measures geared towards enhancing inclusion. By enhancing private sector participation in agriculture and industrial sectors, measures under component 2 will boost investments and economic activity and hence tax revenue for Government (hence reinforcing component 1). Attainment of fiscal sustainability (component 1) will create fiscal space to increase spending on social protection and gender-mainstreaming activities (hence reinforcing component 3).

#### **Component 1: Improving Fiscal Efficiency and Sustainability**

5.2.2 **Challenges and Constraints:** Botswana has a strong track record of economic performance. However, the lack of economic diversification exposes the country to significant vulnerabilities. The FY 2020/21 budget deficit is estimated at 8.1%, in part due to the surge in expenditure, and headwinds to fiscal revenues as the COVID-19 pandemic dampened economic activity, imports and SACU revenues. Tax revenue leakages attributed to weaknesses in tax policy and administration continue to be pose a challenge. GRB is taking the necessary steps to get back to a more sustainable fiscal path, and in this regard, the deficit is projected to decline to 3.9% in FY 2021/2022, and further to 3.6% in FY 2022/2023. The Government is committed to returning to a positive fiscal balance and building fiscal buffers through a range of revenue enhancing measures and actions to address spending inefficiencies

5.2.3 **Recent Government Actions:** The Botswana Unified Revenue Services (BURS) is developing a web-based Tax Management and Revenue Collection System to replace the current manual system. The project will enhance BURS' capability in revenue mobilisation. During the financial year 2019/20, BURS successfully implemented a mobile application for filing tax returns. Other recent actions taken by the authorities include the Income Tax (Amendment) Bill, 2019; the Income Tax (Transfer Pricing) Regulations, 2019; the Capital Transfer Tax (Amendment) Act, 2019 passed by Parliament in July 2019; and the Tax Management System known as Lekgetho Live was launched in May 2020. During the



2019/20 fiscal year, actions were taken by the authorities to improve PFM including the establishment of liquidity committees, approval of Public Assets Policy (Public Asset Management component), and the review and update of the Regulatory and Performance Audit manuals. During the 2020/21 fiscal year, the cascading of PEFA report, production of PFM reform promotional and branding material, and Payroll and Pension Manual were completed. Botswana's third PEFA Assessment Report (a self-assessment), which was done with the support of the USA Treasury-Office of Technical Assistance (USA-OTA), was published in March 2020. Work on the development of the second PFM Reform Roadmap was started in June 2020 and its completion is expected in during the course of 2021. In addition, the development of a strategy for Integration of the Financial Management Information Systems is expected to be approved during the second quarter of 2021/22 fiscal year.

**5.2.4 Measures supported by the Program:** The proposed program, complementing recent government action, will support reform measures including the: adoption of a second PFM Reform roadmap for 2021-2027 to among others, introduce accrual accounting and improve the efficiency of public investment management; approval of a public debt management procedures manual which spells out the process for borrowing and reporting; approval of the revised Public Procurement Bill aimed at strengthening the public procurement framework and incorporating PPP procurement modalities; ; development of a strategy for the Integration of Financial Management Information Systems. To support revenue mobilization, the proposed program will support the adoption of cost recovery measures across six ministries (following an earlier batch of ministries in 2020).

**5.2.5 The second operation, envisaged for 2022/23 under the two-year programmatic series, will support further actions to enhance fiscal efficiency and sustainability.** These will include: Approval of the PFM bill and procurement regulations, publication of annual debt management report, establishment of a Public procurement regulatory body and Procurement tribunal, implementation of the E-procurement (IPMS) system to streamline procurement process within government as well as the development of automated appraisal, risk analysis, prioritization and sequencing methodology for public investment program; and fiscal risk framework. With regard to revenue policy and administration, the program will support the approval of enabling legislations to enhance domestic revenue mobilisation including the Tax Administration Bill, Income Tax (Amendment) Bill, and VAT (Amendment) Bill, all of which are designed to reduce tax leakages and increase the efficiency of tax collection. It will also support the development and implementation of a revenue forecasting model for BURS, and (b) the adoption of electronic billing solution for VAT collection purposes, amongst others.

**5.2.6 Expected Results: Policy actions supported by the proposed operation will result in:** (i) a reduction in the fiscal deficit from 8.4% of GDP in 2020/21 to 4.8% in 2022/23; and (ii) an improvement in Botswana's CPIA (Economic Management) score from 5.3 in 2020 to 5.5 in 2022.

## **Component 2: Supporting Private sector-led Agriculture, and Industrial Sector Transformation**

**5.2.7 Challenges and Constraints:** In the last five decades, Botswana has transformed itself from an underdeveloped to a middle-income country (MIC), with a vision to become a high-income country by 2036. However, the country has experienced minimal economic diversification, low productivity, and limited job creation. Furthermore, growth has not been sufficiently inclusive. The country pursued a state-led growth model with high dependency on the diamond mining industry. As a result, the size of the private sector remains small and private investments in critical sectors is limited. Regulatory constraints to private sector development and gaps in credit information between lenders and borrowers also continue to be challenges. Preparing for a post-diamond world is at the heart of Botswana's development challenge. In this respect, GRB is embarking on wide-ranging reforms to enhance private sector participation in economic activity, particularly Agriculture and Manufacturing.

### 5.2.8 *Recent Government Actions:*

**Agriculture:** The GRB is prioritizing the finalization of an agricultural policy, which will encompass critical issues that have emerged in recent years including climate change, youth unemployment and gender, to supersede the one enacted in 1991. The Government has taken a decision to privatise the BMC Lobatse and Francistown abattoirs, and to liberalize the beef export market to introduce competition and promote efficiency and productivity in the beef industry. This, however, will require establishment of a meat regulator to enforce standards and regulations, as well as ensure competitiveness and provision of adequate support services in the sector. Emphasis is also being placed on Information, Communication and Technology (ICT) as an enabler for agricultural development. Digital technologies offer numerous opportunities to agriculture value chain actors to make informed decisions, increase productivity, and achieve improved nutrition and health outcomes.

**Financial Services:** Following the establishment of the Financial Stability Council (FSC) in February 2019, a macro-prudential policy framework was approved by Government in August 2019. Electronic payments services regulations have been promulgated to accommodate and catalyse electronic payments, especially at the retail level, through mobile phone and internet platforms and applications. Several financial sector laws have been enacted by Parliament, along with related regulations since April 2017. These include the Securities Act Regulations; the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) Regulations; and the amendment of the Banking Act in 2018. In addition, a revised Financial Intelligence Act was promulgated in 2019.

**Manufacturing and Power Sector:** The government continues to implement the 2014 Industrial Development Policy, and related measures to expand the country's industrial base, improve competitiveness and support the growth of Micro, Small and Medium Enterprises (MSMEs). A Private Sector Development Strategy was launched in February 2013 with the aim to create an enabling business environment for private sector development and growth, as well as putting in place interventions to alleviate impediments to the sector's growth. With regard to the power sector, some key transmission and distribution infrastructure projects have been completed, including the extension of the high voltage transmission grid to the North West of the country, as well as transmission reinforcement works in Ramotswa and Gaborone. The implementation of the newly approved Integrated Resource Plan, which will support green technology projects, will enable the country to meet the national electricity demand at least cost and in an environmentally responsible manner through private sector participation in the sector.

5.2.9 ***Programme Activities:*** The program will support measures to enhance agriculture and industrial sector productivity and value addition, including: approval of amended industrial development regulations to simplify business registration procedures, and a P1.3 billion Industry Support facility (one-third disbursed), which is designed to provide financing to beneficiary entities and eventually help to create jobs, approval of the revised Diversification Drive Strategy, Cabinet approval of the Intellectual Property Policy, approval of the SOE Rationalization Strategy and issuance of the Trade Regulations, and Trade Regulation. The proposed program will also support measures in the financial and energy sectors as enablers for private sector development, and these include: Cabinet approval of the FIA Act, through the Financial Intelligence (Amendment) Bill, 2021; the Collective Investment Undertaking Bill; and the Credit Information Bill, to reduce asymmetric information, improve credit decisions, increase credit growth and reduce defaults. It will also support approval of the Energy Policy, and Integrated Resource Plan (for electricity generation).

5.2.10 **The second operation, envisaged for 2022/23 under the two-year programmatic series, will support measures to further enhance the policy framework for private sector-led economic growth in the two priority sectors.** Main actions will include: Approval of a revised National Policy on

Agriculture Development to support sector transformation and enhance private sector participation in the sector, the establishment of a meat industry regulator to enforce standards and regulations and liberalise the industry, the restructuring of Botswana Meat Commission to allow for private sector participation, and approval of an SOE Ownership Policy. The proposed program will also support measures to improve the enabling environment for private investment, including the approval of: Investment Facilitation Law, extension of the second privatization masterplan, the Botswana Trade Commission (Amendment) Bill, the Non-Bank Financial Institutions Regulatory Authority Bill 2021, to improve the regulatory framework for non-bank financial institution, the Secured Transactions on Movable Property Bill providing for the establishment of moveable assets registry to increase secured lending, revised Bank of Botswana Act, and the Banking Act. Other measures to be supported by the program include the issuance of PPP Regulations/Guidelines, and adoption of the revised electricity grid code and licensing framework to support entry and development of independent power producers in the power sector, and adoption of tariff migration (for cost reflectivity) plan informed by a cost of service study.

**5.2.11 Expected Results: Policy actions supported by the proposed operation will result in:** (i) an increase in the Private Gross Fixed Capital Formation as share of GDP from 24.4% in 2019 to 27.4% in 2023; (ii) increase in Agriculture value added from 1.9% in 2019 to 2.9% in 2023; and (iii) increase in Manufacturing value added from 5.24% in 2019 to 7.24% in 2023. All of these will eventually contribute to increased agriculture, tourism, and industrial sector contribution to GDP and job creation, thereby helping to address the challenge of unemployment.

### **Component 3: Enhancing Economic and Social Inclusion**

**5.2.12 Challenges and Constraints:** Micro, Small and Medium Enterprises (MSMEs) play an important role in Botswana's economy. They are an important source of economic inclusion by virtue of the creation of income and employment opportunities for economically excluded segments of the population including women and youth. They serve as an important source of input supply to large firms in all sectors of the economy. However, their full participation in economic activity is hindered by a range of factors, including lack of access to affordable credit, poor infrastructure, inadequate knowledge and skills and limited market access. A major challenge for Botswana is how to reduce the extreme levels of inequality that still hinder macro level growth and micro level inclusion. Despite considerable progress, nearly a fifth of Botswana still live in poverty, with almost 14% in extreme poverty. Moreover, Botswana ranks as one of the most unequal countries in the world, with a Gini coefficient of 0.52. To enhance social inclusion, it is important to review the efficiency and effectiveness of existing social assistance programmes and expand coverage of social protection. Steps should be taken to address challenges related to the coordination framework and existing data gaps.

**5.2.13 Recent Government Actions:** To support and protect domestic MSMEs, Government introduced selected trade restrictions, including restrictions on the export of scrap metal, and on the importation of bottled water and packaged salt. It has put in place several policy measures for youth development including the revised Youth policy of 2010, the National Entrepreneurship Policy and also preparing TVET policy with support of GIZ and other development partners. On 19<sup>th</sup> August 2020, the Cabinet approved a new National Social Protection Framework (NSPF) for Botswana and tasked the Ministry of Local Government and Rural Development (MLGRD) to develop a plan for its implementation. Prior to this, Government had earlier rolled out a new program (COVID-19 Food Relief) across the country, reaching over two-thirds of households, to counter the negative social impact of the pandemic and the containment measures.

**5.2.14 Program Activities: The proposed operation will support a range of measures in economic and social inclusion.** These include: approval of the Botswana Export Development Program (2020-2024) designed to facilitate the participation of local firms in exports through capacity building and

export certification and support export diversification, roll out of 50 million Pula emergency response fund targeting businesses producing PPEs and products required to fight the COVID-19 pandemic, adoption and launch of the National Informal Sector Recovery Plan to support the informal sector, and. The proposed program will also support actions including the appointment of Gender Commissioners to deal with women's economic empowerment; approval of a revamped Women's Economic Empowerment Fund; and the roll out of pilot phase of single social registry designed to improve targeting of beneficiaries of social protection schemes increased from 4 to 10 districts, with a further 6 programmed for the next 12 months.

**5.2.15 The second operation envisaged for 2022/23, under the two-year programmatic series, will support further actions to build on achievements in enhancing economic and social inclusion.**

These will include: approval of the Technical Vocational Education and Training (TVET) Policy; National Productivity Improvement Blueprint; Revised National Policy on Research, Science, Technology and Innovation; framework to strengthen business development services to up-skill MSMEs and start-ups, and to promote entrepreneurship development and job creation. The proposed program will also support approval of the National Poverty Eradication Policy; Retirement Fund Bill; full roll out of the Single Social Registry; full roll out of national integrated single registry linking all payment systems to the integrated single registry and in-house payment processes (e.g. SOBERS), roll out of Proxy Means Testing (PMT), and approval of a Gender Equity Bill.

**5.2.16 Expected Results: Policy actions supported by the proposed operation will result in:** (i) an increase in domestic credit to the private sector (excluding parastatals) from 12.1% in 2019 to 13.5% in 2023; and (ii) targeting of social protection schemes enhanced (percentage of beneficiaries uploaded to the single social registry) from 0% in 2019 to 75.8% in 2023. All of these will eventually contribute to enhancing the success rate of businesses (particularly MSMEs and youth led start-ups), strengthen economic empowerment, and poverty reduction.

### **5.3 Policy Dialogue**

5.3.1 This proposed program is the outcome of close and sustained dialogue between the Bank, Botswana authorities and development partners. The program policy matrix (Appendix II) provides the basis for policy dialogue and will focus on the need to: (a) deepen fiscal consolidation to strengthen domestic resource mobilization and efficiency in public spending, including transparency and the performance of state-owned enterprises; (b) accelerate the implementation the economic diversification program for job creation. The focus will be on promoting investment climate reform, PPP, value chain studies to accelerate private investment in priority sectors such as agriculture and manufacturing, and MSME development; (c) pursue reforms to transform the agriculture and industrial sectors, as part of post-COVID-19 economic recovery efforts. The Bank's main value addition lies in the fact that, as a trusted partner, it will bring its expertise to bear on the successful implementation of the Government's economic reform programs. The Bank, through RDGS, will be a major actor in continuing policy dialogue between DPs and the Government. The ongoing technical assistance projects for economic diversification, Botswana Development Corporation, Zambezi Agro-Commercial Development, and planned technical assistance to Public Private Partnership, and the renewable energy procurement program are critical for the delivery of the operation.

### **5.4 Loan Conditions**

**5.4.1 Prior Actions for 2021/22 and indicative triggers for phase 2 of the operation 2022/23:**

Before the proposed operation is presented to the Board, the prior actions presented in Table 4 below would have been met and the required documentary evidence submitted to the Bank. Appendix II shows indicative policy actions that will serve as triggers for the second phase of the operation, subject to modification, as may be necessary, during the preparation of the streamlined program appraisal report in 2022.

<b>Table 4: ERSF Prior Actions and Required Evidence for 2021</b>		
<b>Policy Objectives</b>	<b>Prior Actions</b>	<b>Evidence required</b>
<b>Component 1: Improving Fiscal Efficiency and Sustainability</b>		
<b>1.1. Improving the efficiency of public spending and mitigating fiscal risk</b>	Cabinet approval of the Revised Public Procurement Bill	Letter from the Permanent Secretary of the Ministry of Finance and Economic Development confirming Cabinet approval of the Bill, together with copies of the Bill and gazette
<b>1.2 Enhancing domestic resource mobilization</b>	Adoption of cost recovery measures across six ministries (following an earlier batch of ministries in 2020)	Letter from the Permanent Secretary of the Ministry of Finance and Economic Development confirming adoption of the cost recovery measures, including information on details of the measures, and ministries concerned.
<b>Component 2: Private sector-led Agriculture, and Industrial Sector Transformation</b>		
<b>2.1 Enhancing policy framework for agriculture, tourism and industrial sector productivity and value addition</b>	Approval of the 1.3 billion Pula Industry Support facility and commencement of disbursement (P550m disbursed from MFED to DFIs).	Letter from the Permanent Secretary of the Ministry of Finance and Economic Development confirming approval of the Industry Support facility and amount disbursed to DFIs
<b>2.2 Improving the enabling environment for private investments</b>	Cabinet approval of a Credit Information Bill	Letter from the Permanent Secretary of the Ministry of Finance and Economic Development confirming Cabinet approval of the Bill, together with copy of the Bill and gazette
	Cabinet approval of the amended Financial Intelligence Act through the Financial Intelligence (Amendment) Bill 2021 (to amend the definition of “Beneficial Owner”)	Letter from the Permanent Secretary of the Ministry of Finance and Economic Development confirming Cabinet approval of the Bill, together with copy of the Bill and gazette.
	Cabinet approval of the Energy Policy	Letter from Permanent Secretary of the Ministry of Finance and Economic Development confirming the approval and copy of final document
<b>Component 3: Enhancing Economic and Social Inclusion</b>		
<b>3.1 Improving the MSME development framework</b>	Approval of Botswana Export Development Program (2020-2024)	Letter from the Permanent Secretary of the Ministry of Finance and Economic Development confirming the approval of the Botswana Export Development Program (2020-2024) by the BITC Board, together with a copy of the program document.
<b>3.2 Enhancing Social protection and gender empowerment</b>	Roll out of the single social registry increased from 4 to 10 districts	Letter from the Permanent Secretary of the Ministry of Finance and Economic Development confirming roll out of single social registry to 6 additional districts (from 4 to 10), and the report showing the number of beneficiaries uploaded in the system.

## **5.5 Application of Good Practice Principles on Conditionality**

5.5.1 The program design incorporates good practice principles on conditionality (Technical Annex 2) through: (a) aligning the program policy matrix with the country’s NDP 11, ERTF and other strategic documents; (b) selecting reform actions critical for achieving results; (c) using a programmatic approach to improve predictability of budget support resources, and reduce transaction costs; and (d) recognizing the importance of strong Government ownership of the reform program to minimize risks posed by shifting policy priorities and ensure sustainability of the reform agenda. The prior actions and indicative triggers were derived from the government’s development program. Adequate steps have been taken to ensure harmonization with development partners’ programs and operations in Botswana. The Bank is processing this proposed program on an accelerated basis to improve alignment with the Government’s financing needs.

## **5.6 Financing Needs and Arrangements**

5.6.1 **The proposed operation is part of the external financing to help close the 2021-2022 financing gaps.** The GRB estimates the budget deficits for the fiscal years 2021/22 and 2022/23 at P7.8 billion, and P10.4 billion, respectively (Table 5) and at -3.9%

and -4.8% as percentage of GDP respectively. The total deficit over the two-year period (2021/22 – 2022/23) is P18.1 billion. For 2021/22, the government plans to finance the nominal deficit with the World Bank, and AfDB budget support of P4.2 billion, while the balance will be financed from the domestic market.

## 5.7 Application of Bank Group non-concessional borrowing policy

### 5.7.1 Botswana is eligible to borrow from the ADB non-concessional window.

The operation supports the GRB’s plans to mobilize resources to finance its development needs as part of efforts to attain post-COVID-19 economic recovery. The operation provides fiscal space to increase development spending, and support structural reforms aimed at raising productivity, creating jobs, and helping diversify the economy and revenue sources. GRB’s borrowing continues to be based on the principle of contracting debt at the minimum cost and lowest risk as guided by the medium-term debt strategy (MTDS), which has helped maintain the country’s public debt at low and sustainable levels. At 24.5%, the ratio of total public debt to GDP remains significantly below both the national statutory limit of 40% of GDP, and the 60% of GDP convergence ceiling of SADC. The amount of the proposed program falls within the Bank’s lending headroom available to Botswana.

	FY2021/22 Budget	FY2022/23 Projection
Total revenue and grants (A)	63.65	63.88
<i>Of which: grants (excl. budget support)</i>	<i>0.15</i>	<i>0.14</i>
Total expenditure and net lending (B)	71.40	74.27
<i>Of which: interest payments</i>	<i>1.58</i>	<i>2.85</i>
<i>Of which: capital expenditure</i>	<i>14.75</i>	<i>14.76</i>
<b>Overall balance (cash basis) (C=A + B)</b>	<b>-7.75</b>	<b>-10.39</b>
Accumulation of arrears (D)	0.00	0.00
<b>Overall balance (commitment basis) (E=C - D)</b>	<b>-7.75</b>	<b>-10.39</b>
External financing (net – minus Bank) (F)	-1.6	-1.7
Domestic financing (net) (G)	5.14	4.0
World Bank (H)	2.73	1.66
AfDB PBO (ERSP) (I)	1.48	1.48
Financing (J= F+G+H+I)	7.75	5.44
Financing gap (E-J)	0.00	-4.95

*Sources: Ministry of Finance and Economic Development, August 2021; and Bank staff calculations.*

## VI OPERATION IMPLEMENTATION

### 6.1 Beneficiaries of the Program

**6.1.1 The program’s direct beneficiaries are the various Ministries, Departments and Agencies whose reforms are being supported by the operation.** These are the Ministries of Finance and Economic Development; Investment, Trade, and Industry; Agricultural Development; and the ministries responsible for Tourism, Social Protection Program, and Gender and Employment. The private sector will benefit from improved investment opportunities in agriculture, tourism and industry and PPP opportunities. The MSMEs will benefit from improved policy framework and access to affordable finance, markets, and business skills, as they struggle to recover from the COVID-19 pandemic. Ultimately, the program will indirectly benefit all Botswana as enhanced fiscal performance will help to expand fiscal space for development and pro-poor social spending. On account of pre-existing gender-based inequalities, youth and women will likely have experienced more difficulty during ongoing the pandemic.

### 6.2 Impact on Gender, Poor, and Vulnerable Groups

**6.2.1 Impact on gender:** The reforms supported by this operation will positively influence efforts geared towards reducing gender inequality. The program supports measures to address gender inequality, including the appointment of Gender Commissioners, approval of a revamped Women’s Economic Empowerment Fund, the National Poverty Eradication Policy, and a Gender Equity Bill. The sectoral focus will also directly benefit women who are active in the sector. Policies and actions under Component 3 will facilitate the growth of MSMEs, in which women are very active. The support to social protection will also significantly benefit women who comprise a significant share of the poor and vulnerable population in Botswana. The operation is classified as Category III on the Gender Marker System (Technical Annex 10).

**6.2.2 Impact on poor and vulnerable groups:** The reforms supported by this operation will help Botswana to shift from alleviating immediate poverty (poverty-targeted social safety net) to investment

in its citizens to address vulnerability and building resilience through inclusive life-course social assistance program. Ongoing schemes include the COVID-19 Food Relief, school feeding, and orphan care. Public spending on social protection has grown steadily over the past decade. By helping to improve fiscal performance and efficiency of social spending, the proposed ERSP will give a boost to the transformation of social sectors, and positively impact the poor and vulnerable groups. By supporting the implementation of the national social protection recovery plan, including the rationalisation and consolidation of the existing social assistance program, the proposed program is likely to positively impact on Botswana currently living in conditions of poverty and vulnerability.

### **6.3 Impact on Environment and Climate Change**

**6.3.1 The ERSP is classified as Category 3**, in accordance with the requirements stipulated in the Bank's Integrated Safeguard System (ISS) and Climate Safeguard Systems (CSS). The policy and institutional reforms supported by the operation are not expected to have adverse impact on the environment and climate change. For Botswana to achieve sustainable economic recovery and structural transformation, the GRB will need to address the crisis of COVID-19 and the challenge of climate change. In this regard, the GRB has embraced pursuing sustainable development and is fully committed to the 2030 Agenda for Sustainable Development, its principles, goals, and targets. It has put in place legal framework and mechanisms to protect, conserve, and derive values out of natural and cultural resources; as well as promote sustainable environment for the benefit of the nation. The business enabling reforms supported under the program have potential to promote investments in clean and environmentally friendly technology and in turn lessen the impact on the environment and natural resources. The program supports implementation of the Energy Policy, and Integrated Resource Plan for electricity generation, which will promote green technology projects, contribute to a reduction in reliance on conventional energy sources generated through burning of fossil fuels, resulting in reducing greenhouse gas emissions. It will also support measures to enhance resource allocation for green investment and disaster risk management. The sectors critical for economic recovery, including Agriculture and Energy (greener energy), will integrate both national adaptation and mitigation priorities. Appendix VI and Technical Annex 13 present detailed assessment.

### **6.4 Impact on Private Sector Development**

**6.4.1 The proposed ERSP is expected to have a positive impact on Botswana's economic competitiveness and private sector development.** Component 1 (Improving Fiscal Efficiency and Sustainability) will help create macroeconomic stability, which is necessary for attracting long term private investments. It will help to create fiscal space for increased investment in infrastructure and therefore enhance Botswana's economic competitiveness and boost private sector development to create more jobs. Reforms targeting SOE-related fiscal risks, particularly through privatization, will help to improve efficiency of public spending, minimise leakages and help to lay the foundation for attracting long term private investments. Support to private sector led agriculture, and industrial sector transformation (component 2) will create major boost to the private sector in these three areas through improved policy environment and reduce the cost of doing business. Support to MSME development will also create opportunities for micro, small and medium enterprises through improved policy environment and increased access to finance.

### **6.5 Implementation, Monitoring and Evaluation**

**6.5.1 *Implementation Institutional Framework:*** The Ministry of Finance and Economic Development will serve as the executing agency for ERSP. It will be responsible for the overall coordination of the programme, by working closely with other Ministries, Departments and Agencies. The Bank continues to provide capacity building support through MIC-TAF Grants, to complement ongoing support by other Development Partners to further enhance implementation and delivery capacity.

**6.5.2 Monitoring and Evaluation Arrangements:** The Operations Policy Matrix (Appendix II) agreed between the Botswana Authorities and the Bank, as well as the quantitative and qualitative indicators outlined in the Results Based Framework, will constitute the instruments for monitoring and evaluation of the operation. The Ministry of Finance and Economic Development, with the support of Statistics Botswana and other relevant bodies, will be responsible for collecting data and coordinating monitoring and evaluation. The Bank will monitor the implementation of the Program through regular supervision missions and constant follow-ups, to assess progress achieved based on the agreed indicators and policy measures. The Southern Africa Regional Development and Business Delivery Office (RDGS) will play a critical role in follow-up of implementation and monitoring of program results and, in particular, drive the policy dialogue with Government and maintain regular consultations with Development Partners. Following completion of the operation, a Program Completion Report (PCR) will be prepared, to evaluate progress against the Result Based Framework and draw lessons for future operations (See Appendix IV).

## **6.6 Financial Management, Disbursement and Procurement**

**6.6.1. Country Fiduciary Risk Assessment (CFRA):** The updated 2020 CFRA concluded that overall fiduciary risk level is Substantial. Botswana has continued to make progress in implementation of PFM reforms in several areas. However, the CRFA has identified a number of risks that need to be addressed. These include weaknesses in the accounting and reporting system due to incomplete reconciliations, delayed clearance of reconciling items and suspense accounts; inadequate coverage by internal audit; weakness in the procurement complaints redressal mechanism; as well as conflict of functions due to the dual role played by the Procurement Authority (PPADB) which performs oversight roles (including review of complaints) as well as undertakes adjudication of some contracts above a certain threshold. Government is committed to continue to implement PFM reforms and the proposed program supports reform initiatives that mitigate the observed deficiencies in the short to medium term, to ensure that the funds from the ERSP are spent according to the intended purposes. The initiatives include the enactment of the Public Procurement Bill which is aimed at modernizing practices and strengthening the overall PFM environment. Additional fiduciary safeguards will be implemented under the program to mitigate the fiduciary risk. Technical Annex 13 presents the detailed CFRA.

### **6.6.2 Financial Management, Audit and Reporting Requirements**

**6.6.2.1** The Ministry of Finance and Economic Development will play a central role in the financial management of the proposed program, including overseeing the drawdowns, planning for the use of funds, related controls, reporting as well as arrangements for oversight. The loan proceeds will be credited to the Government Remittance Account in the Bank of Botswana by GRB. The funds will be transferred to the Consolidated Fund converted into Pula in one tranche and used to finance budgeted expenditures. GRB will be required to acknowledge receipt of the funds within 30 days of receipt, and to provide confirmation to the Bank that an amount equivalent to the loan proceeds in local currency has been credited to the Remittance Account, with resources recorded in its Government Accounting and Budgeting System. The programme will rely on the external audit of the Government by the Auditor General and GRB will be required to share a copy of the full audit report of the consolidated fund for the years in which the disbursements take place, no later than nine months after the end of the financial year. In addition, the flow of funds into the Remittance Account will be subject to a separate audit, by the Auditor General in accordance with a Bank approved Terms of Reference, and the audit report will be submitted to the Bank within six months after disbursement.

**6.6.2.2 Procurement:** The Borrower Procurement System will be used for all procurements undertaken using the program funds, in line with the Bank's policy on PBOs.



## **VII. LEGAL DOCUMENTATION AND AUTHORITY**

### **7.1 Legal Documentation:**

7.1.1 The Loan Agreement between the African Development Bank and the Republic of Botswana.

### **7.2 Conditions Associated with the Bank's Intervention**

7.2.1 *Conditions Precedent to Entry into Force of the Loan Agreement:* The entry into force of the Loan Agreement shall be subject to the fulfilment by the Borrower of the provisions of Section 12.01 of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank.

7.2.2 *Prior Actions:* Before the proposed operation is presented to the Board, GRB shall have provided evidence, satisfactory in form and substance to the Bank, that the prior actions for the ERSP outlined in Table 4 have been fully fulfilled.

7.2.3 *Conditions precedent to disbursement of the funds of the ERSP:* Disbursement of the loan shall be conditional upon the entry into force of the Loan Agreement, and the submission of the details of the Government Remittance Account in the Bank of Botswana for the deposit of the proceeds of the loan, in form and substance satisfactory to the Bank.

7.2.4 *A Streamlined Appraisal Report (SAR) for the second year of the programmatic series (ERSP II)* will be prepared at the end of phase I of the operation in 2022 and presented to the Board for consideration. The SAR for the second year will indicate, inter alia, any applicable prior actions adopted before Board presentation and/or any conditions precedent to disbursement. A separate loan Agreement shall be prepared for each phase of the programmatic operation.

### **7.3 Compliance with Bank Group Policies**

7.3.1 The proposed ERSP complies with all applicable Bank Group policies and guidelines. The key Bank Group Guidelines and policies applied to this Program are the following: (i) Bank Policy on Program-Based Operations (2012), (ii) the Bank Group Ten-Year Strategy (2013-2022); (iii) the Strategy for Economic Governance in Africa (SEGA, 2021-2025), (iv) the Revised Staff Guidance on Quality-at-Entry Criteria and Standards for Public Sector Operations, (v) the Private Sector Development Strategy, (vi) Industrialization Strategy, (vii) Feed Africa Strategy; and Bank Group's Credit Policy on non-concessional financing.

## **VIII RISK MANAGEMENT**

8.1 The key risks include macroeconomic risks, fiduciary, and social impact risks. The risks and mitigation measures are outlined in Appendix V.

## **IX RECOMMENDATION**

9.1 Management recommends that the Board of Directors approve an ADB loan of USD 137 million (One hundred thirty-seven million United States Dollars) to the Republic of Botswana, for the fiscal year 2021/22 for the purposes, and subject to the conditions, stipulated in this report. Management invites the Board to note that this operation is part of a 2-year programmatic series, for the period 2021/22-2022/23, and a Streamlined Appraisal Report (SAR) for the second year of the programmatic series (ERSP II) will be presented to the Board for consideration in 2022.

# APPENDIX I: LETTER OF DEVELOPMENT POLICY

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MINISTRY OF FINANCE AND ECONOMIC  
DEVELOPMENT  
PRIVATE BAG 008  
GABORONE

REF: MFED 4/12/4 Vol. 161

15<sup>th</sup> June, 2021

Mr. Akinwumi Adesina  
President, African Development Bank  
01 BP 1387 Abidjan 01  
Côte D'Ivoire

Dear President Adesina,

## **REQUEST FOR PROGRAMME-BASED LOAN FROM AFRICAN DEVELOPMENT BANK TO SUPPORT ECONOMIC RECOVERY**

1. I write to submit a request, on behalf of the Government of Botswana, a program-based loan to assist the country to revive the economy and support progress with improving fiscal efficiency and sustainability, transforming the industrial sector and private sector-led agriculture, and enhancing economic and social inclusion. This loan will support Botswana in its ongoing reform process and will serve as a major boost in enhancing economic transformation and competitiveness of the private sector, and the promotion of inclusive growth and job creation.
2. This letter of development policy details the relevant reform measures that the Government of Botswana is implementing to revive and transform the economy post-COVID-19. The reforms, which are aligned to Botswana's long-term development strategy "Vision 2036", its medium-term strategic direction as outlined in the eleventh National Development Plan (NDP 11, 2017-2023), and the Economic Recovery and Transformation Plan (ERTP, 2020/21-2022/23) will help with attaining fiscal sustainability, achieving private sector-led industrial development and competitiveness and advancing economic and social inclusion.

### **Botswana's Medium-Term Development Goals**

3. Botswana's medium-term development goals are outlined in the eleventh National Development Plan (NDP 11, 2017-2023), whose overall theme is: "Inclusive Growth for the Realisation of Sustainable Employment Creation and Poverty Eradication." The NDP 11 is articulated around six strategic priorities, and serves as near-term implementation tool for Botswana's long-term development blueprint, Vision 2036, that sets out the country's aspiration for Achieving Prosperity for All and high-income

status. The strategic priorities of NDP 11 are guided by and aligned with Vision 2036 pillars of sustainable economic development; human and social development; sustainable environment; and governance, peace, and security. More recently, the Post COVID-19 Economic Recovery and Transformation Plan (ERTP), launched in September 2020, presents short to medium term priorities and policy measures to fast-track implementation of NDP 11 and enhance economic resilience over the medium to long term.

## **The health, social and economic impact of COVID-19**

### *Health impact*

4. COVID-19 has had an increasingly severe impact on health and livelihoods in Botswana. As at 2<sup>nd</sup> June, 2021, some 54,973 COVID-19 infections had been reported, cumulatively, with 849 deaths and 51,259 recoveries. The pandemic has put enormous pressure on public and private health systems. Health and other interventions have been focused on caring for those with COVID-related illnesses, containing the growth of infections, supporting households and livelihoods, and supporting economic resilience. A national vaccination campaign has started, with 142,864 doses delivered as at 2<sup>nd</sup> June, 2021.

### *Economic impact*

5. Prior to COVID-19, real GDP growth in 2020 was projected at 4.4 percent. However, due to the impact of COVID-19, the domestic economy contracted by 7.9 percent in 2020. Nevertheless, a robust recovery is expected in 2021, driven mainly by recovery in the diamond mining sector, with growth projected at 7.5 percent, even though there may still be serious headwinds given that international tourism is not expected to fully recover until at least 2022. Furthermore, the various restrictions on social and economic activity may also restrain the anticipated recovery. Overall, it is anticipated that there will be a long-term loss of real income as medium-term recovery will not fully compensate for the income loss in 2020.

### *Fiscal impact*

6. COVID-19 has also had a huge impact on public finances in 2020/21, with revenues dropping to 27% of GDP, the lowest level for over 40 years. This is mainly due to a dramatic fall in mineral revenues, with the diamond mining and export sector badly hit by restrictions on movement and the global economic slowdown. At the same time, expenditures have been increased to cope with the health, social and economic impacts of



the pandemic. As a result, a preliminary fiscal deficit of 7.7 percent of GDP resulted in the 2020/21 financial year. Similarly, the foreign exchange reserves declined to US\$4.9 billion by the end of 2020, a fall of 20 percent over 12 months, due largely to the impact of COVID-19.

### **Proposed Reform Agenda**

7. Within the overall framework of our reform agenda, three areas will be particularly critical for success. These are measures aimed at: *improving fiscal efficiency and sustainability, supporting private sector-led agriculture and industrial sector transformation, and enhancing economic and social inclusion*. The current and prospective reforms that will help consolidate and extend gains in each of the key focus areas are outlined below.

#### **Improving Fiscal Efficiency and Sustainability**

8. The Government of Botswana remains committed to fiscal consolidation and has been implementing reforms in a wide range of areas since 2019. Measures are being implemented to strengthen public financial management, domestic revenue mobilization and expenditure rationalization. These include the adoption of a second PFM Reform roadmap for 2021-2027; approval of a new Public Procurement Bill; and new legislation to enhance domestic revenue mobilization, covering Tax Administration, Income Tax and Value Added Tax (VAT).

#### **Supporting Private sector-led Agriculture, and Industrial Sector Transformation**

9. Botswana has been implementing reforms designed to foster agricultural and industrial sector transformation. We are finalising a new agricultural policy, which will encompass critical issues that have emerged in recent years including climate change, youth unemployment and gender. In manufacturing, a Private Sector Development Strategy was launched in 2013 with the aim of creating an enabling business environment for private sector development and growth, as well as putting in place interventions to alleviate impediments to the sector's growth. These include reforms to enhance productivity and value addition, such as new Trade and Industrial Development Acts. As part of COVID-19 economic recovery package, a P1.3 billion Industry Support facility was approved for lending to tourism, agriculture and general industry. Other measures that we will be implementing in the financial and energy sectors will

serve as enablers for private sector development, including the Non-Bank Financial Institutions Regulatory Authority Bill 2021, Secured Transactions on Movable Property Bill, Credit Information Bill, Energy Policy, Integrated Resource Plan (for electricity generation), and Climate Change Policy.

### **Enhancing Economic and Social Inclusion**

10. The Government has taken a number of steps to enhance economic and social inclusion and to strengthen social protection. A new National Social Protection Framework (NSPF) has been approved, while government had earlier rolled out a COVID-19 Food Relief program across the country, reaching two-thirds of households, to counter the negative social impact of the pandemic and associated containment measures. The program will also support actions including the appointment of Gender Commissioners; approval of a revamped Women's Economic Empowerment Fund; and the roll out of the pilot phase of single social registry from four to six districts.
11. Other measures are being implemented to strengthen business development and support MSMEs and start-ups. These include approval of the Botswana Export Development Program (2020-2024), the roll out of a P40 million emergency response package under the Citizen Entrepreneurial Development Agency (CEDA), and the launch of the National Informal Sector Recovery Plan.

### **Conclusion**

12. In order to successfully implement the above reform agenda, and to continue fighting the pandemic, finance post-COVID-19 recovery and build resilience by supporting structural change, the country requires more fiscal resources. In this regard, support from the Africa Development Bank will assist the Government to implement the policy strategy outlined in this Letter of Development Policy, and contribute to the attainment of the country's long-term goals as outlined under Vision 2036. Proceeds from the requested program-based loan will contribute to reviving Botswana's economy, the attainment of fiscal sustainability, private sector-led agriculture and industrial sector transformation, and economic and social inclusion.
13. We thank the African Development Bank for its assistance to the development of this country, and look forward to the Bank's

consideration of our request for a program-based loan to support the country's reform agenda.

Yours sincerely,



Peggy O. Serame

**MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT**

**APPENDIX II: BOTSWANA - ERSF POLICY MATRIX**

Medium term policy objectives	Policy measures (2021/22)	Policy measures (2022/23)	Outcomes (Monitoring indicators)	CSP goals to which the program is contributing
<b>Component 1: Improving Fiscal Efficiency and Sustainability</b>				
<b>Objective 1.1: Improving the efficiency of public spending and mitigating fiscal risk</b>	Approval of a second PFM Reform roadmap for 2021-2027	Approval of the PFM bill ( <b>Trigger</b> )	Reduction of the fiscal deficit (fiscal deficit/GDP ratio)	Pillar 2: Private Sector Development
	Public debt management procedures manual which details, process for borrowing, reporting	Publication of annual debt management report		
Development of a Strategy for the Integration of Financial Management Information Systems	Develop automated appraisal, risk analysis, prioritization, and sequencing methodology for public investment program			
Revised Public Procurement Bill approved by Cabinet ( <b>Prior Action</b> )	Develop a fiscal risk framework			
<b>Objective 1.2: Enhancing domestic resource mobilization</b>	Adoption of cost recovery measures across six ministries (following an earlier batch of ministries in 2020) ( <b>Prior Action</b> )	Approval of the procurement regulations		
		Public procurement regulatory authority established ( <b>Trigger</b> )		
		Procurement tribunal established		
		Develop the implementation plan for E-procurement system.		
<b>Component 2: Private sector-led Agriculture and Industrial Sector Transformation</b>				
<b>Objective 2.1 Enhancing agriculture, tourism and industrial sector productivity and value addition</b>	Amended Industrial development Regulations issued	Approval of a National Policy on Agriculture Development ( <b>Trigger</b> )	Real sector and financial sector contribution to GDP	Pillar 2: Private Sector Development
	Approval of the P1.3 billion Industry Support facility and commencement of disbursement (one-third disbursed) ( <b>Prior Action</b> )	Establishment of a meat industry regulator to enforce standards and regulations, and liberalise the industry		
Approval of the Economic Diversification Drive Strategy	Botswana Meat Commission restructured to allow for private sector participation			
<b>Objective 2.2 Improving the enabling</b>	Approval of a Credit Information Bill ( <b>Prior Action</b> )	Approval of the Non-Bank Financial Institutions Regulatory Authority Bill 2021		
	Amendment of the FIA Act through the Financial Intelligence (Amendment) Bill, 2021 (to amend	Investment Facilitation Law approved by Cabinet ( <b>Trigger</b> )		



<b>environment for private investments</b>	the definition of “Beneficial Owner”) ( <b>Prior Action</b> ) Collective Investment Undertakings Act Approved by Cabinet	Approval of the Secured Transactions on Movable Property Bill Approval of the Bank of Botswana Act, and the Banking Act		
	Integrated Resource Plan (for electricity generation) <b>Energy Policy: (Prior Action)</b> Intellectual Property Policy approved by Cabinet (Prior Action) Trade Regulation issued SOE Rationalization Strategy approved	Adoption of revised electricity grid code and licensing framework to support entry and development of Independent Power Producer (IPP) in the power sector Adoption of tariff migration (for cost reflectivity) plan informed by the cost-of-service study PPP Regulations/Guidelines (which entails guarantees and contingent liabilities) issued ( <b>Trigger</b> ) Extension of the 2 <sup>nd</sup> privatization masterplan approved by Cabinet Approval of SOE Ownership Policy Botswana Trade Commission (Amendment) Bill approved by Cabinet		
<b>Component 3: Enhancing Resilience and Social Inclusion</b>				
<b>Objective 3.1: Improving the MSME development framework and capacity</b>	Botswana Export Development Program (2020-2024) approved by BITC Board ( <b>Prior Action</b> ) 50 million Pula emergency response fund rolled out by CEDA National Informal Sector Recovery Plan Adopted	Approval of Technical Vocational Education and Training (TVET) policy ( <b>Trigger</b> ) Approval of National Productivity Improvement Blueprint Approval of National Policy on Research, Science, Technology, and Innovation (RSTI) Framework to strengthen business development services to up-skill MSMEs and start-ups, and to promote entrepreneurship	Contribute to inclusive economic growth through demand driven skills, MSME & entrepreneurship development for increased job creation	Pillar 2: Private Sector Development
<b>Objective 3.2 Enhancing Social protection and gender empowerment</b>	Appointment of Gender Commissioners Approval of a revamped Women’s Economic Empowerment Fund Roll out of pilot phase of single social registry increased from 4 to 10 districts ( <b>Prior Action</b> )	Approval of the National Poverty Eradication Policy Approval of the Retirement Fund Bill Full roll out of the Single Social Registry ( <b>Trigger</b> ) Full roll out of national integrated single registry linking all payment systems to the integrated single registry and in-house payment processes (e.g. SOBERS) and roll out of Proxy Means Testing (PMT) Approval of a Gender Equity Bill.		

## **APPENDIX III: IMF COUNTRY RELATIONS**

June 2, 2021

**Washington, DC:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Botswana.

Botswana entered the COVID-19 crisis with larger buffers than most countries but was already contending with structural challenges. The pandemic caused a 7.9 percent contraction in GDP, due to heavy reliance on diamonds and contact-intensive services, while the unemployment rate reached 24.5 percent in the last quarter of 2020—the highest in the last three and half decades. The authorities have taken decisive measures to limit the health and economic fallout of the pandemic. While the fiscal relief package has focused on supporting firms and vulnerable households to cope with the shock, the monetary stance has been eased to maintain adequate liquidity in the banking system.

The Botswana economy is expected to recover in 2021, with growth projected at 8.3 percent, driven by improvements in the global demand for diamonds, the easing of restrictions on mobility, and the expansionary fiscal stance. The recovery is expected to be uneven across sectors, depending on improvement in both domestic and external environment. Current account and fiscal deficits are projected to narrow in 2021, reflecting the expected improvement in the global demand for diamonds, phasing out of the one-off COVID-related spending, and implementation of revenue enhancing and expenditure consolidation measures. Inflationary pressures are expected to rise temporarily in the near term, following the rebound in oil prices, the increase in fuel levy and VAT rate, and the increase in administered prices. However, inflation is expected to remain within the central objective of 3–6 percent over the medium term.

The growth outlook is subject to high uncertainty. Downside risks stem mainly from the evolution of the pandemic, availability and deployment of vaccines, and lower-than-expected diamond revenue. On the upside, a faster rollout of vaccines in Botswana and worldwide could raise growth; while steadfast implementation of supply side reforms could promote private sector activity and diversify the sources of growth.

### **Executive Board Assessment**

Executive Directors noted that careful management of mineral resources and a track record of very strong policies and policy frameworks have allowed Botswana to enter the crisis with larger fiscal space than most countries and they commended the authorities for their decisive pandemic response. However, Directors observed that the projected recovery in 2021 remains subject to downside risks, including from the path of the pandemic, and emphasized the need for a successful rollout of vaccines to support recovery. Going forward, they underscored the need for steadfast commitment to structural reforms to increase diversification, tackle climate change challenges, and boost potential growth.

Directors supported maintaining targeted support to firms and households until the recovery takes hold more firmly. They welcomed the planned fiscal consolidation through a combination of revenue and expenditure measures, which will be critical to rebuild buffers, guard against shocks, and create fiscal space for growth-oriented investment. Directors noted that sustaining fiscal consolidation will require civil service reform, rationalizing parastatals and improving their governance, and strengthening the fiscal framework.

Directors supported maintaining the accommodative monetary policy stance. They highlighted the need to monitor second-round effects from supply shocks and discretionary measures on inflation and expectations, as well as credit developments. Directors encouraged the authorities to use the exchange rate flexibility within the existing crawl arrangement to help the economy adjust to shocks and facilitate structural transformation to enhance competitiveness.

Directors agreed that the financial sector is sound. They encouraged the authorities to monitor risks, including through enhanced reporting, regular stress-testing and financial oversight. Directors concurred with the need to maintain targeted support to solvent but illiquid firms while reducing moral hazard and underscored the need to unwind COVID-related forbearance measures as the health crisis wanes. They also encouraged the authorities to clarify the role of development banks and deepen the domestic bond market. Directors urged the authorities to address the remaining deficiencies in the AML/CFT framework in order to be removed from the FATF grey list.

Directors emphasized that successful implementation of the Economic Recovery and Transformation Plan (ERTP) is essential in accelerating structural transformation, creating jobs, and promoting inclusiveness. They commended the authorities' focus on promoting non-mineral export, manufacturing, and transformative sectors, including digitalization and green and climate adaptation technologies.



**APPENDIX IV: MONITORING AND EVALUATION ARRANGEMENTS**

<b>A. Alignment indicators</b>							
Indicator name	Definition/ description	Source		Baseline and targets (where possible)			
Agriculture, tourism, and industrial sector contribution to GDP	The share of GDP coming from the agriculture, tourism and industrial sectors	National Accounts					
Employment creation	Number of new jobs created during the programme period	Statistics Botswana Reports					
<b>B. Outcome and output indicators (performance indicators)</b>							
Indicator name	Definition/ description	Methodology for collection	Responsibility for collection	Frequency of reporting	Results planning		
					DATE 1	DATE 2	
OUTCOME INDICATORS							
1.1: Fiscal deficit/ GDP ratio	Fiscal deficit expressed as percentage of GDP	MTEF/IMF Reports	MFED	Half-yearly	15 December 2021	30 March 2022	
1.2: Country Policies and Institutional Assessment (Economic Management score)	Economic management performance	CPIA	AfDB	Annual	30 March 2022	30 March 2023	
2.1: Private Gross Fixed Capital Formation as share of GDP	Proxy for private investment in the country's total output	National Accounts	Statistics Botswana	Half-yearly	15 December 2021	30 March 2022	
2.2: Agriculture value added as % of GDP	Production or manufacturing processes, marketing or services that increase the value of primary agricultural commodities, expressed as percentage of GDP	National Accounts	Statistics Botswana	Annual	30 March 2022	-	
2.3: Manufacturing value added as % of GDP	The total estimate of net-output of all resident manufacturing activity expressed as percentage of GDP	National Accounts	Statistics Botswana	Annual	30 March 2022	-	
3.1: Domestic credit to the private sector (excluding parastatals) as % of GDP	Measure of lending to the private sector expressed as percentage of GDP	Bank of Botswana reports	Bank of Botswana	Annual	30 March 2022	-	
3.2: Targeting of Social protection schemes enhanced (% of beneficiaries uploaded to the single social registry)	Data on social protection schemes uploaded to the Single Social Registry	Ministry of Labour and Social Protection reports	Ministry of Labour and Social Protection	Annually	30 March 2022	-	
OUTPUT INDICATORS							
1.1.1: Second PFM Reform Roadmap (2021-2027) approved	Adoption of accrual accounting, more efficient public investment management; more efficient public procurement	The Roadmap	MFED	One-off	15 September 2021		
1.1.2 Revised Public Procurement and Asset Disposal Bill submitted to Parliament*	Revision of the Bill will strengthen the public procurement framework and address issues such as PPP	Revised Bill	MFED	One-off	15 August 2021	-	

1.2.1: Income Tax and VAT (Amendment) Bills approved by Cabinet*	Amendments of tax legislations to reduce tax leakages and enhance domestic revenue mobilization	Revised Bills	MFED	One-off	15 April 2022	-	
1.2.2: Tax Administration Bill approved by Cabinet*	Amendment of legislation to modernize tax administration and increase efficiency of tax collection	Revised Bill	MFED	One-off	15 August 2021	-	
1.2.3 Cost recovery measures across six ministries adopted	A range of measures to aimed at cost recovery and hence boosting government revenue	Policy document	MFED	One-off	15 August		
2.1.1: Revised National Policy on Agriculture Development approved by Cabinet**	Revision of the 1991 Policy to address emerging issues such as climate change, youth unemployment and gender	Revised Policy	MFED	One-off	15 November 2021	-	
2.1.2: Botswana meat industry regulator established**	Regulatory body established to enforce standards and regulations and ensure competitiveness and provision of adequate support services in the meat sector	Gazette	Ministry of Agricultural Development and Food Security	One-off	30 April 2022	-	
						-	
2.2.1: Amended Industrial Development Act Regulations approved	The Regulation streamlines the issuance of licenses and registration certificates to businesses	The Bill	Ministry of Investment, Trade & Industry	One-off	15 August 2021	-	
2.2.2: P1.3 billion Industry support Facility approved and one-third disbursed to DFIs*	Special facility designed to provide financing to beneficiary entities and eventually help to create jobs	Facility document	Ministry of Investment, Trade & Industry	One-off	15 August 2021		
2.3.1: Cabinet approval of the amended FIA Act through the Financial Intelligence (Amendment) Bill 2021*	Amendment introduced to amend the definition of "Beneficial Ownership"	The Bill	MFED	One-off	15 August 2021	-	
OUTPUT INDICATOR 2.3.2 Approval of the Secured Transactions on Movable Property Bill	The Bill provides for the establishment of moveable asset registry to increase secured lending	The Bill	Bank of Botswana	One-off	15 April 2022	-	
2.3.3: Credit Information Bill approved by Cabinet*	The Bill seeks to promote availability of reliable, timely, and complete consumer information for assessing eligibility for credit, reduce asymmetric information, improve credit decisions, increase credit growth and reduce defaults	The Bill	MFED	One-off	15 August 2021	-	
2.3.4: Investment Facilitation Law submitted to Parliament**	Enactment of the Bill will enhance investment facilitation and strengthen economic competitiveness	The Bill	Ministry of Investment, Trade & Industry	One-off	15 April 2022	-	
2.3.5: Cabinet approval of the Energy Policy*	The Policy provides clarity on Government's intent on the future of the sector	The Policy	Ministry of Mineral Resources, Green technology	One-off	15 August 2021	-	

			and Energy Security				
3.1.1: Botswana Export Development Program (2020-2024) approved*	The Program will strengthen capacity of local manufacturers to engage in export activities and enhance export diversification	Program document	Ministry of Investment, Trade & Industry	One-off	15 August 2021	-	
3.2.1 Pilot phase of single social registry rolled out*	The registry will help to capture information on the needy, facilitate efficient management of social programmes to improve targeting of beneficiaries and hence contribute to attaining sustainability	Progress reports	Ministry of Employment, Labour Productivity & Skills Development	One-off	15 August 2021	-	
3.2.2 Gender commissioners appointed by the Minister of Nationality, Immigration and Gender Affairs	Improved empowerment of women	Annual reports	Ministry of Nationality, Immigration and Gender	One-off	15 November 2021		
3.2.3 Women's Economic Empowerment Fund revamped and operationalized	The fund will help to enhance women's access to finance and hence their economic empowerment	Annual Reports	Ministry of Nationality, Immigration and Gender	One-off	15 November 2021		

NB: \* denotes Prior Action; and \*\* denotes indicative trigger for Phase II

**APPENDIX V: RISKS TO RESULTS**

<b>Risk category</b>	<b>Risk Description</b>	<b>Rating</b>	<b>Mitigation measures</b>	<b>Risk owner</b>
Macroeconomic stability	Botswana’s vulnerability to external shocks remains a major source of risk. This has been heightened by the COVID19 pandemic	Substantial	Continue implementing reforms designed to contain the fiscal deficit and enhance efficiency in public spending and address structural challenges.	Ministry of Finance and Economic Development
Fiduciary and value for money	The updated Country Fiduciary Risk Assessment (CFRA) conducted by the Bank for Botswana in 2020 indicates that the overall residual risk level is deemed “Substantial” taking into account the risk mitigation factors.	Substantial	Continue implementation of the PFM reforms roadmap including accounting, cash management, and public procurement through rolling out the new legislations such as the PFM Bill, and Public Procurement Bill.	Ministry of Finance and Economic Development
Social impact	In the context of the economic recovery and transformation program being implemented by GRB since 2020, there are potential risks that structural reforms and their impact on poor and disadvantage group could be exacerbated by the revenue shortfall related to the COVID-19 pandemic	Moderate	Continue to ring-fence pro-poor spending and strengthen the national social protection framework and implementation plan.	Ministry of Local Government, and Ministry of Gender Affairs

**APPENDIX VI: ENVIRONMENT AND SOCIAL COMPLIANCE NOTE**

A. Basic Information <sup>8</sup>			
Project Title: Economic Recovery Support Program		Project "SAP code" P-BW-K00-004	
Country: BOTSWANA	Lending Instrument <sup>9</sup> : DI <input type="checkbox"/> FI <input type="checkbox"/> CL <input type="checkbox"/> BS <input checked="" type="checkbox"/> GU <input type="checkbox"/> RPA <input type="checkbox"/> EF <input type="checkbox"/> RBF <input type="checkbox"/>		
Project Sector: Governance		Task Team Leader: Kalayu Gebre-selassie	
Appraisal date: 03.05.2021		Estimated Approval Date: 14/07/2021	
Environmental Safeguards Officer: xxxx			
Social Safeguards Officer: Edith Birungi Kahubire			
Environmental and Social Category: 3	Date of categorization: 24/03/2021	Operation type: SO <input checked="" type="checkbox"/> NSO <input type="checkbox"/> PBO <input checked="" type="checkbox"/>	
Is this project processed under rapid responses to crises and emergencies?		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
Is this project processed under a waiver to the Integrated Safeguards System?		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	

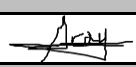

B. Disclosure and Compliance Monitoring	
B.1 Mandatory disclosure	
Environmental Assessment/Audit/System/Others (specify: ESMF, SITE SPECIFIC ASSESSMENT)	
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	[Date]
Date of receipt, by the Bank, of the authorization to disclose	[Date]
Date of disclosure by the Bank	[Date]
Resettlement Action Plan/Framework/Others (specify: RPF, RAP, LRP, .....)	
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	[Date]
Date of receipt, by the Bank, of the authorization to disclose	[Date]
Date of disclosure by the Bank	[Date]
Vulnerable Peoples Plan/Framework	
Was the document disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	[Date]
Date of receipt, by the Bank, of the authorization to disclose	[Date]
Date of disclosure by the Bank	[Date]
<b>If in-country disclosure of any of the above documents is not expected, as per the country's legislation, please explain why: NA.</b>	

B.2. Compliance monitoring indicators	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
Have costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
Is the total amount for the full implementation for the Resettlement of affected people, <b>as integrated in the project costs, effectively mobilized and secured?</b>	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>

**C. Clearance**

Is the project compliant to the Bank's environmental and social safeguards requirements, and to be submitted to the Board?

Yes  No

Prepared by:	Name	Signature	Date
Environmental Safeguards Officer:	xxxx		
Social Safeguards Officer:	Edith Birungi Kahubire		19.05.2021
Task Team Leader:	Kalayu Gebre-selassie		19.05.2021
Submitted by:			
Sector Director:	Abdoulaye COULIBALY		20.05.2021
Cleared by:			
Director SNSC:	Maman-Sani ISSA		20.05.2021

<sup>8</sup> Note: This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.

<sup>9</sup> DI=Direct Investment; FI=Financial Intermediary; CL=Corporate Loan; BS=Budget Support; GU=Guarantee; RPA=Risk Purchase Agreement; EF=Equity Financing; RBF=Results Based Financing.

APPENDIX VII: MAP OF THE REPUBLIC OF BOTSWANA

GENERAL MAP OF BOTSWANA

