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**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**COUNTRY PARTNERSHIP STRATEGY PROGRESS REPORT**

**FOR THE**

**REPUBLIC OF BOTSWANA**

**FOR THE PERIOD FY09 – FY13**

**October 5, 2011**

**Southern Africa Country Department 1  
Africa Region**

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**BOTSWANA**  
**COUNTRY PARTNERSHIP STRATEGY**  
**PROGRESS REPORT**

**CURRENCY EQUIVALENTS**

Currency Unit = Botswana Pula (BWP)

US\$1 = BWP 6.54 (at July 31, 2011)

BWP 1 = US\$ 0.15285

**WEIGHTS AND MEASURES**

Metric System

**FISCAL YEAR**

April 1 – March 31

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**ACRONYMS AND ABBREVIATIONS**

AAA	Analytic and Advisory Activities	ITP	Integrated Transport Project
ART	Anti-Retroviral Therapy	kW	Kilowatt
BAIS	Botswana AIDS Impact Survey	MAP	Multi-country HIV/AIDS Program
BDP	Botswana Democratic Party	M&E	Monitoring and evaluation
BIDPA	Botswana Institute for Development Policy Analysis	MIC	Middle Income Country
BMC	Botswana Meat Commission	MIGA	Multilateral Investment Guarantee Agency
BNAPS	Botswana National AIDS Program Support Project	MTEF	Medium-Term Expenditure Framework
BPC	Botswana Power Corporation	MSME	Micro, Small, Medium Enterprises
BTC	Botswana Telecommunications Corporation	MW	Megawatt
BWP	Botswana Pula	NACA	National AIDS Coordinating Agency
CCS	Carbon Capture and Storage	NBFIRA	Non-Bank Financial Institutions Regulatory Authority
CBM	Coal Bed Methane	NBFI	Non-Bank Financial Institutions
CPS	Country Partnership Strategy	NDP	National Development Plan
DWNP	Department of Wildlife and National Parks	OFID	OPEC Fund for International Development
DWR	Department of Water Resources	OPRC	Output and Performance-Based Road Contracting
CWIS	Core Welfare Indicators Survey	PEFA	Public Expenditure and Financial Accountability
CSP	Concentrated Solar Power	PBB	Performance-Based Budgeting
EU	European Union	PER	Public Expenditure Review
ESKOM	Electricity Supply Commission (South Africa)	PFM	Public Financial Management
ESW	Economic and Sector Work	PR	Progress Report
FIRST	Financial Sector Reform and Strengthening Trust Fund	RESA	Regional Environmental and Social Assessment
FSAP	Financial Sector Investment Program	SADC	Southern African Development Community
FSDS	Financial Sector Development Strategy	SB	Statistics Botswana
GCM	Global Climate Models	SAPP	Southern African Power Pool
GDP	Gross Domestic Product	SSA	Sub-Saharan Africa
GEF	Global Environment Facility	STI	Sexually Transmitted Infections
GIA	Government Investment Account	TA	Technical Assistance
GICO	Government Implementation and Coordination Office	TB	Tuberculosis
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome	TFSCB	Trust Fund for Statistical Capacity Building
IBRD	International Bank for Reconstruction and Development	UN	United Nations
ICA	Investment Climate Assessment	UNAIDS	United Nations Joint Program on HIV/AIDS
ICBC	Industrial and Commercial Bank of China	UNDP	United Nations Development Program
IDF	Institutional Development Fund	WRM	Water Resources Management
IFC	International Finance Corporation	WUC	Water Utilities Corporation
IMF	International Monetary Fund		
GoB	Government of the Botswana		



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## I. INTRODUCTION

1. ***The Country Partnership Strategy (CPS) for Botswana was considered by the Board on May 21, 2009.*** At that time Botswana was dealing with the immediate impacts of the global financial crisis, which from late 2008 had begun to have profound macroeconomic impacts on Botswana. Through prudent economic management and sound governance Botswana had sustained high levels of growth for many years, largely based on the export of rough diamonds, and built foreign reserves of some 80 percent of GDP at end 2008, representing over two years of imports. However, the crisis saw diamond retail sales plummet globally, and Botswana's diamond exports fell by about 40 percent between October 2008 and May 2009, with the contribution of diamonds to revenues falling from 44 percent to 31 percent between the 2007/08 and 2009/10 financial years.

2. ***The onset of the crisis coincided with the preparation of the tenth National Development Plan (NDP10) by the Government of the Botswana (GoB).*** The seven year NDP10, within the framework of Botswana's long-term development strategy, Vision 2016, outlined a significant program of investment focused on identified growth opportunities in tourism, energy, agriculture, financial services and manufacturing. The advent of the crisis however highlighted Botswana's vulnerability to reduced diamond exports. With revenues reduced in the short-term, and against the backdrop of a secular decline in diamond exports and eventual exhaustion of the resource<sup>1</sup>, the NDP10 program added urgency to the long recognized need for Botswana to diversify its economy and establish new drivers of economic growth. The NDP10 program implied substantial fiscal deficits in the short term, and thus new sources of finance have been actively sought. These have included running down of reserves, borrowing from international financial institutions, and accessing the domestic credit market.

3. ***The CPS outlined a substantial program of World Bank re-engagement in Botswana.*** While the first IDA operation to Botswana was approved in 1964, in the fifteen years to 2009 there had been little demand for Bank financing, and the Bank's engagement had been limited to small pieces of analytic work. However, the GoB sought the Bank's expertise in the design of the National HIV/AIDS prevention strategy in 2007, which spurred a substantial increase in both lending and AAA activity. An unprecedented energy crisis in Southern Africa developing at the same time, with substantial implications for Botswana, also opened a window for dialogue in the infrastructure sectors. In response to this growing interest in Bank support and consistent with Botswana's vision and development strategy, the CPS outlined a program of support focusing on four elements of the Government's development agenda: (i) enhancing public sector effectiveness; (ii) fighting HIV/AIDS and improving education outcomes; (iii) increasing competitiveness – through infrastructure development and improving the climate for investment and growth; and (iv) the environment.

4. ***The strategy outlined in the CPS is aligned with the new Africa Strategy and its emphasis on improving competitiveness and employment while addressing vulnerabilities and resilience, as well as the Regional Integration Assistance Strategy for Sub-Saharan Africa***<sup>2</sup>. In particular, the CPS emphasizes infrastructure investment and AAA to support the policy reforms needed to help Botswana diversify its economy, making it more competitive and less reliant on diamond exports. In line with the

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<sup>1</sup> Establishing the likely remaining lifetime of Botswana's diamonds is highly uncertain. The productive capacity of the largest mines is being extended through additional "cuts", although this will come at a cost to profitability. So while production is likely to continue at roughly current rates for another 10 to 15 years, revenues will fall as the costs of production rise. Given the luxury good and cartel-like nature of the international diamond industry, it is also difficult to predict trends in international prices and demand.

<sup>2</sup> *Africa's Future and the World Bank's Support to it*, SecM2011-0116; IDA/SecM2011-0121. *Partnering for Africa's Regional Integration: Progress Report on the Regional Integration Assistance Strategy for Sub-Saharan Africa*, SecM2011-0181 ; IDA/SecM2011-0217

Africa Strategy's emphasis on increasing resilience, the strategy features support for the Government programs aimed at coping with the HIV/AIDS pandemic and stubbornly high rates of HIV infection in Botswana. In keeping with the Africa Strategy's cross-cutting focus on governance and public sector capacity the strategy seeks to enhance government effectiveness with a particular focus on strengthening public expenditure management. Given Botswana's small population and economy, landlocked geography and interdependence with its neighbors, the strategy also emphasized the importance of regional approaches.

5. ***This Progress Report (PR) describes implementation experience through the first three years of the CPS (FY09- FY11).*** During this period the Bank's partnership with Botswana has grown substantially with new financing and guarantees totaling US\$620 million and a significant deepening of the policy dialogue based on an expanded program of analytical and advisory activities. This experience has underscored both the value added that can be provided by the Bank to an African Middle Income Country (MIC) like Botswana, but has also brought to light some implementation difficulties driven by the lack of recent partnership experience between the Bank and Botswana's institutions. This report concludes that the CPS program and outcomes remain appropriate and relevant, as does the NDP10 on which it is based, and that strong progress has been recorded against most of the milestones outlined in the Results Matrix of the CPS. The flexibility built in to the CPS, befitting Botswana's MIC status, is sufficient to allow for the planned activities in the remaining two years of the CPS to substantially achieve their intended outcomes.

## II. COUNTRY CONTEXT

6. ***Botswana continues to benefit from a robust democracy built on sound institutions of governance.*** Parliamentary elections were held in Botswana on October 16, 2009, with the Botswana Democratic Party of President Seretse Khama Ian Khama increasing its majority by one seat to hold forty-five of the fifty-seven seats in the National Assembly. As with the previous nine elections since Botswana's independence in 1966, polling went smoothly and the elections were internationally regarded as free and fair. The next general election is scheduled to take place in October 2014. Opposition parties have moved to form a united front in a bid to challenge the long-dominant ruling party. Economic issues, including the need to diversify the economy and reduce government spending in the face of continued global economic uncertainty could emerge as important issues and may increase challenges to the dominance of the ruling party.

7. ***Botswana is emerging relatively strongly from the effects of the global crisis*** which had a severe negative impact on the country's economic growth and exports. Government was able to rely on large accumulated savings in the Government Investment Account (GIA, also known as the Pula Fund) to maintain high public spending levels, which limited the contraction in GDP to 4.9 percent in 2009, despite a decline in diamond exports of over 30 percent (in US dollar terms). Economic growth estimates for 2010 indicate that the economy returned to strong GDP growth of 7.2 percent, as diamond production and exports rebounded from their low levels during the previous year, with exports growing by 33 percent in value terms. For 2011, GDP growth of around 7 percent is projected, and a return to pre-crisis diamond production and exports is forecast for 2012/13.

8. ***The decision to protect public spending levels during the crisis meant that large fiscal, and external, deficits were – and continue to be – accumulated.*** While government revenues fell from 40 percent of GDP prior to the crisis to 35 percent in FY2009/10, public spending actually rose from pre-crisis levels of around 30 percent of GDP to near 45 percent in 2009/10. Fiscal deficits of 10.9 and 9.7 percent of GDP were recorded in the 2009/10 and 2010/11 financial years. The deficits are being financed largely by drawing upon the GIA, which has dwindled from close to 40 percent of GDP in 2008 to about 16 percent currently. A budget support loan of some 15 percent of GDP from the African



Development Bank has completed the government's financing requirement. In tandem, external debt<sup>3</sup> has grown from under 3 percent of GDP pre-2008 to 19 percent today, virtually depleting the government's external borrowing capacity, which is legally limited to a maximum of 20 percent of GDP. The external accounts have also shifted from surplus to deficit as a result of the decline in diamond exports, with estimated current account deficits of 5.8 percent of GDP in 2009 and 4.9 percent in 2010.

**Table 1: Selected Economic Indicators**  
(percent of GDP unless otherwise noted)

	2008	2009	2010 (p)	2011 Forecast	2012 Forecast
GDP growth (annual %)	2.9	-4.9	7.2	6.8	7.1
Inflation, CPI (annual %, period average)	12.6	8.2	6.9	7.8	6.0
Overall Fiscal Balance <sup>1</sup>	-5.2	-10.9	-9.7	-5.7	0.0
Total Central Government Debt <sup>1</sup>	6.4	16.1	19.3	20.6	20.0
External Public Debt <sup>1</sup>	2.1	14.2	19.7	20.4	18.9
Central Government Revenue & Grants	34.0	34.6	28.8	30.5	31.2
Export Growth (% yoy)	-2.9	-35.7	33.6	11.1	6.0
Import Growth (% yoy)	18.2	-3.5	18.1	10.0	5.7
Current account balance	6.9	-5.8	-4.9	-4.6	-2.5

(p) Indicates preliminary data.

<sup>1</sup> Fiscal year data (April 1 – March 31)

Source: Ministry of Finance, Bank of Botswana, IMF, Bureau of Statistics

9. ***On the positive side, the enclave nature of the mining sector has helped to contain the effects of the global crisis from spreading to the rest of the economy.*** As only about three percent of the labor force is directly employed in mining, unemployment rates are not thought to have risen substantially above pre-crisis levels, although information on the labor market is limited. By maintaining public spending levels and expanding the public work-fare program, Ipelegeng, the government further helped to reduce the impact of the crisis on wage earners generally and on the poor in particular. The non-mining private sector, which is highly dependent on government spending, also weathered the crisis fairly well, growing at an estimated 5 percent during 2009 and at over 6 percent in 2010 (but down from peak levels of 10 percent in 2007). And, as has been true for other countries in the region, the small and insulated nature of the financial sector in Botswana protected it from the worst effects of the global crisis. Banks remain liquid and well capitalized, and although household debt rose to worrisome levels in 2009, this trend was reversed in 2010.

10. ***Botswana's past prudent macroeconomic and fiscal policies have largely paid off, but significant challenges remain, and some risks may have increased with the global crisis.*** Downside risks to growth come from weaker than expected global growth, which would have a significant impact on Botswana's revenues given the elasticity of diamond export to the economic performance of trading partners such as the US, EU and Japan. And although these threats appear to be broadly balanced by a potentially faster recovery in domestic private investment in the energy and non-diamond mineral sectors, significant global uncertainty, combined with high food and fuel price pressures, little legal scope for increased external indebtedness and a diminished Pula Fund, points to considerable potential risks to a sustained recovery, particularly in the event of shocks. So while accumulated fiscal savings and large international reserves have served their intended role as a cushion to enable a gradual adjustment to adverse circumstances, emphasis on re-building these fiscal buffers as soon as possible would be prudent,

<sup>3</sup> This includes publically guaranteed debt.

particularly while diamond prices are high. Any revenue over-performance, such as higher-than-projected SACU income, should therefore be saved. In the event of multiple shocks, Botswana still holds international reserves that cover nearly 17 months of imports, but cushioning the economy to the same extent as in the crisis would be difficult with a diminished Pula Fund (now at just under 20 percent of GDP, half its level pre-crisis, although still substantial) and very limited access to external debt given that the country is very close to the 20 percent of GDP external debt limit – although significant space remains to take on domestic debt.

11. ***In the near term, over the next two to three years, the government's priority will be to return the fiscal accounts to equilibrium.*** Deficits are projected to remain high this year as major investment projects are completed. The 2011 Budget Speech set an objective of closing the 2011/12 financial year with a deficit of 6.3 percent of GDP (from an estimated 9.7 percent of GDP 2010/11), which would be reduced to zero in 2012/13. Public spending would decline from 39.9 percent of GDP in 2010/11 to 37.5 percent in 2011/12, and to 31.1 percent a year later. This path implies a virtual halt to new capital spending beyond the completion of ongoing projects, a focus on maintenance of existing infrastructure, and a real reduction in recurrent spending, including in the wage bill. But holding the line on spending is proving difficult, particularly in the case of public sector wages which this year will constitute nearly 30 percent of total central government outlays. Facing a third year without a pay increase as a result of the impact of the crisis on public finances, public sector unions in Botswana went on strike in April. The confrontation led to the closure of public schools and some medical facilities. The crisis underscored the fact that reaching a consensus on the spending cuts that are needed to reduce the size of the public sector to levels more consistent with the long term revenue outlook will be a significant challenge in the years ahead. And while the economic consolidation program is largely expenditure-based, there is scope over time for a greater focus on revenue measures, including broadening the tax base and improving tax administration.

12. ***Social protection programs have probably helped to contain the impact of fiscal austerity measures.*** The government's policy of providing a stable food basket to a number of vulnerable and needy groups, a broad school-feeding program reaching all public primary school students, as well as an expanded public work-fare program – *Ipelegeng* – help to shield large segments of the population from the impact of expenditure reduction and inflation related to food and fuel prices.<sup>4</sup> It is, unfortunately, virtually impossible to assess the impact of these social protection programs as data on poverty and unemployment is outdated and irregularly published, and there are no systematic evaluations of the incidence of social protection programs or their impacts.

13. ***Looking ahead to the medium- and longer- terms, clarity and vision in three broad areas of economic policy-making will be required:*** these are (i) public spending reforms; (ii) economic diversification, and; (iii) tackling poverty and inequality. Quite apart from the impact of the global crisis, Botswana's economy is beginning to slow down and the dramatic economic growth rates of the 1970s and 1980s will be hard, if not impossible, to match. While this may be natural for a maturing economy whose basic building blocks are in place, it also reflects low productivity associated with a large public sector and a fledgling, largely uncompetitive and inward-looking private sector that is heavily reliant on government spending and contracts. There is today an acceptance by policymakers that public spending will need to fall from about 40 percent of GDP today to 25-30 percent in the medium-term, more in line with long-term revenue potential. Improvements in the effectiveness and efficiency of public spending will be indispensable for managing this transition.

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<sup>4</sup> At this stage, however, there appear to be no firm evidence of generalized price pressures in the economy, largely due to some slack in the non-mining economy.

14. ***The diversification agenda has been a central pillar of policy making in Botswana for over two decades.*** Although some successes have been achieved, the country is still heavily reliant on diamonds and on the public sector revenues they provide, as became painfully clear in 2008 and 2009. Regional and international competitiveness are challenges which have not always been clearly targeted by policy. Signals and incentives to domestic and international businesses are mixed and at times at cross purposes. While overall tax rates are low, the increasing demand for exemptions – that are rarely evaluated for their economic merits – risks undermining the broad policy over time. Subsidies to certain sectors are rarely evaluated for their impact and serve as disincentives to investment in what may perhaps be more productive areas with greater long-term potential.

15. ***Botswana's poverty and inequality rates remain too high for a middle income country.*** Improving the quality of growth and tackling the causes of structural unemployment are critical for poverty reduction. Here the diversification agenda is crucial to developing Botswana's labor market and increasing employment opportunities, as the capital intensive nature of mining is partly behind Botswana's high rates of unemployment and poverty. While the country achieved gender parity in both primary and secondary education at least a decade ago, important gender disparities persist, particularly in terms of economic empowerment. Public sector reforms will also need to address spending on social protection and insurance, and how it can be more cohesive and better targeted. The 2010 Public Expenditure Review (PER) found that public spending on social protection was significant, but its impact was diluted by fragmentation of programs, poor targeting, and lack of monitoring and evaluation. The lack of up-to-date information on the poor and their characteristics, and on the incidence of poverty-reduction programs, makes policy-making all the more challenging.<sup>5</sup>

### III. PROGRESS THROUGH FY11

#### ***Pillar One: Enhancing Public Sector Effectiveness***

16. ***Milestones.*** The CPS results matrix outlined six Outcomes under Pillar One, and a total of nine milestones/progress indicators against which progress would be evaluated. (Annex 1: CPS Results Matrix – Progress Report). A summary of progress against these milestones is included in Annex 1, with the main elements described in the paragraphs below.

17. ***The Household Income and Expenditure Survey*** in Botswana is known as the Core Welfare Indicators Survey (CWIS), which was conducted in 2009 and 2010 by the Central Statistics Office (CSO, now Statistics Botswana (SB)). Data cleaning and processing is currently in the final stages, and the survey data is expected to be made public in October 2011. The Bank, at the request of government, is providing assistance to SB in the calculation of the poverty line and in the preparation of associated documentation; this assistance includes training to SB staff and other researchers in building a new poverty datum line consistent with international standards. Government has also expressed interest in enhanced technical assistance from the Bank to support the ongoing transformation of SB into an autonomous and technically excellent institution to increase the quality and credibility of official statistics.

18. ***The Bank has developed a substantive dialogue on public expenditure reform and public financial management with government.*** This process has enjoyed the leadership and commitment of government, and has contributed to strengthening the momentum for reform. The on-going engagement began with the Public Expenditure Review (PER) which was delivered to government in FY10. The PER identifies the challenges in the public spending arena, including the projected decline of mining revenues,

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<sup>5</sup> New data on poverty will become available later this year as the results of the Core Welfare Indicators Survey become available. The most recent Household Income and Expenditure Survey was conducted a decade ago.

significant outstanding development needs, and the need to ensure long-term fiscal sustainability in the aftermath of the global crisis during which large fiscal deficits were accumulated and savings depleted. The PER suggests a re-examination of resource allocation and budgeting, with a greater emphasis on fiscal discipline, policy priorities and efficient resource management. A shift by government to a role less focused on channeling mineral revenues towards the provision of basic infrastructure and social services and more concerned with supporting a dynamic and competitive private sector will be needed. The ensuing dialogue with government has supported a reform program that includes a move toward a Medium-Term Expenditure Framework (MTEF) and Performance-Based Budgeting (PBB) in order to improve the quality of spending and to enable policy makers to better respond to more constrained and volatile resources in the future. The PER also takes a closer look at public investment management and social protection as examples of areas where reforms are needed. A successful PER dissemination workshop in August 2010 added significant detail to the PFM reform agenda, and included South-South exchange and the sharing of experiences from Mauritius and South Africa. A related activity was the assistance provided by the Bank to the Office of the Accountant General in the Ministry of Finance and development Planning (MFDP) outlining the merits and costs of moving from cash-based to accrual accounting.

19. ***The Government's recently-developed PFM Action Plan reflects recommendations from the PER, and those of other partners including the IMF and the EU, and highlights the GoB's commitment to budget and financial management reform.*** Motivated by the imperative of confronting the prospect of dwindling revenues and thus a smaller government, coupled with important unmet social and economic needs, the Government is seeking to reform its planning and budget system in view of emerging requirements to do more with less, paying greater attention to the quality of expenditures and improvements in the effectiveness and efficiency of public spending. The Action Plan, prepared by the Ministry of Finance and Development Planning (MFDP) foresees a gradual effort to improve financial controls and reform the budget process. A number of measures have been already been undertaken, including the inclusion of 3-year fiscal projections in the budget speech, a review of project appraisal methodology and practice, and greater public consultations during the budget process. Nevertheless, given the seriousness of the challenges, more rapid implementation of reforms than now envisioned is warranted.

20. ***Extending the dialogue on PEM/PFM to implementation and sequencing issues,*** a Public Sector Performance Global Expert Team from the Bank provided advice to government in March 2011. The mission concluded that Botswana has some elements of both a MTEF and PBB in place which would facilitate more substantial reforms at a more rapid pace. The Bank views this agenda as a programmatic engagement that is critical to Botswana's continued economic success, and will continue its support to the government in this area in accordance with the GoB's PFM Action Plan.

### ***Pillar Two: Fighting HIV/AIDS and Improving Education Outcomes***

21. Pillar Two of the CPS seeks to achieve two outcomes: (i) increasing effectiveness of HIV/AIDS prevention efforts and (ii) identifying the skills mismatches between education outcomes and labor market needs.

22. ***Botswana continues to experience the second most severe HIV/AIDS epidemic in the world, despite very high investments in the national HIV/AIDS program over the past two decades.*** National adult (15-49 years) HIV prevalence is estimated at approximately 24 percent.<sup>6</sup> Incidence data, which

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<sup>6</sup> Government documents reflect a 17.6 percent national prevalence rate versus the UNAIDS/WHO estimate of 24 percent prevalence. The difference derives from the Government use of a denominator of "number of individuals tested between 18 months to 64 years," whereas UNAIDS/WHO utilize the global standard of "number of individuals tested between 15-49 years".

monitor new infections over the past year, are perhaps even more alarming, as these figures dramatically highlight the need for a more effective prevention program and strategy. Incidence of new infections is 8.7 percent for young women (aged 25-29) and incidence for adult males (aged 45-49) is 8.1 percent, indicating that over 8 percent of all Batswana in these age groups became newly infected with HIV.

23. ***Recent analysis of the major drivers of the Botswana epidemic implicates the role of multiple concurrent partnerships (including age-discordant relationships), limited practice of male circumcision, and inconsistent condom use in high-risk sexual relationships.*** Botswana was the first African country to provide no-cost, antiretroviral therapy to its citizens. It has achieved notable successes in HIV treatment, including development of the medical infrastructure to deliver specialized services. Acceptance of HIV testing also is widespread. It is estimated that 90 percent of individuals with advanced HIV infection are receiving anti-retroviral therapy in Botswana. However, the traditionally treatment-oriented national program has resulted in a lesser focus on prevention priorities and outcomes.

24. Prevention is acknowledged by Government to be the weakest element of its national response to HIV/AIDS. As noted above, data from recent serosurveys indicates that national infection rates continue to remain remarkably high (e.g. over 40 percent of all pregnant women are seropositive in a number of districts). In general, awareness of HIV/AIDS is widespread, but in large part this awareness has not translated into sustained behavior change at the population-level. Although its impact has not been quantified, it appears that the success of the no-cost national treatment program may have inadvertently created a sense of false security at the individual level among those who are both seronegative and seropositive (thereby yielding a possibly widespread “moral hazard”).

25. Botswana is at the epicenter of tuberculosis and HIV infection in southern Africa; it is 2nd in the world with respect to the magnitude of its HIV epidemic and 6<sup>th</sup> in the world in terms of tuberculosis burden per capita. It also has among the lowest TB treatment success rate in the world – 65 percent in 2008 against a global target of 85 percent – and one of the highest rates of HIV/TB co-infection. The human dimensions and economic implications of the Botswana epidemic remain unacceptably high – particularly given that both are expected to increase in coming years due to an increasing population requiring treatment, in addition to drug-resistant cases of both HIV and TB infection. The high-cost of sustaining the no-cost public anti-retroviral therapy program for a growing HIV positive population (for the lifetime of each patient) poses an increasing challenge to Government, particularly as key donor partners look to scale down their financial support in this area over the next several years.

26. ***Given the above epidemic context, the Botswana National Aids Program Support Project (BNAPS) was designed to enhance overall program efficiency while emphasizing HIV prevention.*** The US\$50 million BNAPS was approved in July 2008 and became effective in June 2009. The project includes an innovative “buy down” mechanism whereby European Union resources are being used – subject to satisfactory project performance—to lower the cost to Botswana of the IBRD loan. The National Strategic Framework to combat HIV/AIDS was finalized in July 2010, triggering the first tranche of the European Union's US\$20 million Buy-Down grant (co-financing the BNAPS project). However, the Project has experienced a slow start-up and low disbursements as a result of design and implementation challenges, including challenges in country-level program coordination and management. The project is now undergoing restructuring and it is anticipated that the next phase of the operation will intensify focus on the delivery of behavior change interventions, specifically to reduce multiple concurrent partnerships, support advocacy and delivery of safe male circumcision, and delivery of interventions more strongly focused on the prevention needs of women aged 15-34 years.

27. To address a major technical gap in the design of the prevention program, a Social Assessment was carried out under the BNAPS project to improve understanding of the socio-economic and socio-cultural factors that affect HIV/AIDS risk and prevention efforts. The assessment highlights the socio-

cultural factors underlying high-risk behaviors. Chief among these are gender norms that create an imbalance of power between women and men, suggesting that greater empowerment of women could bolster HIV prevention efforts. The assessment was completed in early FY11, and the study findings will be used to help strengthen service delivery and focus on changing risky behavior. Looking ahead, there is a realization that the chronic nature of the HIV challenge will require a broader approach with implications for the overall health care system, financing, and social insurance programs. Hence, a major focus of the project is to enable a transition from an emergency response to a broader, more strategic and sustainable approach toward the epidemic. Addressing the capacity needs of the National AIDS Coordinating Agency (NACA) is central to this effort.

### ***Pillar Three: Increased Competitiveness – Infrastructure and the Climate for Investment and Growth***

28. Pillar Three of the CPS seeks to attain Outcomes in five separate areas, with ten Milestones/Progress Indicators being identified (Annex 1).

29. ***The global crisis has brought into sharp focus the need to foster an increasingly dynamic and diverse private sector in Botswana to progressively substitute for Government spending as a driver of growth.*** While Botswana has a well articulated diversification strategy, progress in implementing the reforms and initiatives it identifies has been limited.<sup>7</sup> The Bank's support in this area has focused on identifying and developing options to address the key constraints to competitiveness through analytical and advisory services. Botswana fell two places in the 2011 Ease of Doing Business ranking compared to 2010, from 50 to 52 overall. The Bank presented the Doing Business findings at the biennial Botswana National Business Council meeting in September 2010, and subsequently IFC presented the work to the Botswana Economic Advisory Council (BEAC).<sup>8</sup> In this way, the Bank Group has helped to focus greater attention on business environment issues and assisted Government in reinvigorating reforms. Following these presentations IFC's advisory arm is in discussions with GoB for an ongoing role in advising as to how Botswana can move to rapidly improve its Doing Business ranking. For its part, the Government has launched an inter-ministerial, committee, led by the Ministry of Trade and Investment, to coordinate and catalyze business environment reforms with a view to making rapid improvements.

30. ***The preparation of a Development Policy Review on Competitiveness and Diversification in Botswana began in FY11, for delivery in FY12.*** By taking a close look at relevant government policies, the DPR aims to provide fresh analysis regarding the causes of the limited success of Botswana's diversification efforts to date and to identify measures to spur the private sector in achieving greater regional and global competitiveness. The DPR will focus on the overall incentive framework provided by government (taxes, subsidies, credit schemes, etc.), labor-market related issues, the potential for services to emerge as a growth sector, trade and export competitiveness, and the potential and constraints represented by Botswana's regional affiliations (SACU and SADC). The report also focuses on existing sectors in which Botswana has already demonstrated a comparative advantage, but which may benefit from more focused policy attention.

31. ***Analytic work on Skills for Economic Diversification is progressing.*** A survey of employer and employees has been completed to identify the specific skill needs and skills mismatch in the labor market in Botswana. A series of background papers drawing on the knowledge of international and Botswana experts was completed and discussed at a workshop in December 2010 co-hosted by the Ministry of Education and Skills Development and the World Bank. Stakeholders acknowledged this as core piece of work for the successful implementation of NDP10, and have requested the Bank to come up with new and

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<sup>7</sup> Government of Botswana, Botswana Excellence: A Strategy for Economic Diversification and Growth, November 2008.

<sup>8</sup> BEAC is a group of key advisors organized by the National Strategy Office to advise The President on economic matters.

innovative policy recommendations, including experiences from similar successful case studies. Preliminary results highlight gender disparities finding that women generally face high unemployment rates, are more likely to be poor and a majority of them are found in the informal sector and subsistence agriculture where wages are generally lower. There is therefore a need to come up with labour market policies that can empower women The AAA is expected to be finalized December 2011.

32. ***The policy dialogue on competitiveness and diversification has been supported by additional AAA, including work focusing on regional trade and growth as well as microenterprise.***

- A report on Harnessing Regional Integration for Trade and Growth in Southern Africa was completed in FY11. The report argues that non-tariff barriers continue to hamper the growth of the trade in goods in the region, while domestic regulatory obstacles make regional integration in services more difficult. It provides examples of obstacles encountered by some of the largest firms that trade regionally as well as small ones for which the impact of trade barriers is more severe.
- A regional Investment Climate Assessment entitled "The Business Environment in Southern Africa: Issues in Trade and Market Integration" was completed in December 2010.

33. As a follow up to the FY07 Investment Climate Assessment, the Bank, working with the Ministry of Trade and Industry, completed a survey of micro, small and medium enterprises (MSMEs) and accompanying analysis in identifying constraints in the microenterprise sector. ***Nevertheless, important gaps in the government's and Bank's knowledge persist with respect to diversification and improving the quality of growth.*** Much analytical work remains to be done to understand the linkages between diversification, growth and employment, and how to promote competitiveness while ensuring a pattern of growth that addresses structural unemployment and promotes the creation of private sector jobs in the country. The latest unemployment data, several years out of date, suggest that the unemployed represent about 17 percent of the population, and that youth are over-represented among the ranks of the unemployed. Unemployment has historically been persistently high, and the rate would be substantially higher were discouraged workers also counted. There is no information regarding the impact of the global crisis on unemployment (or, for that matter, poverty) levels. Competitiveness indicators do not identify major policy-induced obstacles in terms of labor market rigidity; the high unemployment rate seems to largely reflect both the capital intensity of the mining sector, skills mismatches in the labor market for the non-mining sectors, and also perhaps low productivity and relatively high unit costs of labor. Data in this area is of generally poor quality, however (in addition to the paucity of employment statistics, there is no reliable information on productivity, for instance). Understanding the relationships at work and identifying the key policy variables to manipulate are challenges for future work. Clearly, addressing the unemployment problem is also important for the long-term sustainability of growth.

34. ***The infrastructure goals of the CPS are closely aligned with the goals of NDP10.*** In general Botswana faces significant infrastructure challenges given the large size of the country and the widely dispersed population. Currently the main challenges include increasing electricity generation capacity and securing supply in the energy sector, addressing water supply and sanitation deficits while implementing the water sector institutional reform, and balancing new development and asset maintenance in the transport sector. During CPS implementation regional broadband connectivity has also emerged as a key constraint to competitiveness. As other countries in Africa accelerate the development of their broadband networks and services, Botswana is at risk of falling behind. This is particularly important given the country's landlocked position and the significant role of the service sector in the government's long-term economic development plans.

35. ***Transport capacity.*** The US\$186 million IBRD loan for Botswana Integrated Transport Project (ITP) was approved by the Board in June 2009, co-financed by a US\$40 million loan from the OPEC

Fund for International Development (OFID), and US\$159 million from the government budget. The project seeks to enhance the efficiency of the transport system by building modern business management capacity, and improving the strategic planning aspects of inter-regional transport and critical transport infrastructure. It also includes an urban traffic improvement program in Greater Gaborone. Implementation of the three critical activities under the project (road asset preservation, urban traffic improvement, and regional transport integration study) has been slow for three main reasons: (i) a need to build capacity in Bank procurement and disbursement procedures resulting in delayed initial disbursements; (ii) the international consultants hired for the design of the Output and Performance Based Road Contracting (OPRC) component performed poorly and the contract had to be terminated and re-tendered; and (iii) project management arrangements within the Ministry of Transport and Communication have not functioned efficiently. Issue (i) has been addressed by intensive supervision and concerted portfolio-wide training efforts by the Bank and implementation performance and disbursement are expected to improve in the months ahead. Issues (ii) and (iii) have also been resolved with the appointment of a qualified OPRC consultant and agreement on revised project implementation and oversight mechanisms for the project.

36. ***The Morupule B Generation and Transmission Project is a pillar of the Bank's engagement in Botswana.*** In October 2009 the Board approved a partial credit guarantee of US\$242.7 million and an IBRD loan of US\$136.4 million for the project, which is co-financed by AfDB (US\$202.5 million), the Government and the Botswana Power Corporation (BPC) (US\$498.4 million) and the Industrial and Commercial Bank of China (ICBC), (US\$582.3 million) at a total cost of US\$1,662 million. The project is a key element of GoB's plans to ensure energy supply security for Botswana as import availability from South Africa ends, and to further integrate Botswana's power market into the Southern African Power Pool (SAPP). The project includes support for a portfolio of measures intended not only to ensure Botswana's available coal resources are used as efficiently as possible, but also to kick start development of alternative greener sources of energy to feed into the SAPP (see Box 1 for a summary of progress).

***Box 1: Morupule B Generation and Transmission Project – Summary of Progress***

- Progress is satisfactory under all project components. The power station is on track to be completed in October 2012, about two months ahead of schedule. Periodic safeguards reviews have found that the project is on track with all environmental and social safeguards undertakings.
- Work is underway to establish a new Energy-Water regulatory agency and a new electricity tariff policy. Consistent with its commitment to get the sector on a sustainable financial footing, the government implemented a 32 percent tariff increase effective May 1, 2010 and another 30 percent adjustment effective June 1, 2011. As part of this process, BPC is also developing alternatives for a lifeline tariff to protect poorer consumers.
- BPC has installed 800,000 compact fluorescent lights and about 29,000 smart meters by end-2010 and aims to install 80,000 by May-2011, which is expected to save about 30 MW (5 percent of peak load) demand. The government has selected a firm to help implement a communications strategy over a 15-month duration, including capacity building in BPC and the government.
- The government is committed to supporting international efforts to combat climate change and intends to promote initiatives in this regard. At government's request, the Bank facilitated a workshop in Dec. 2010 on PPP for coal bed methane (CBM) development, drawing participation from industry and officials, including from South Africa. There is active interest and progress by private sector (4-5 firms) for exploring and producing CBM for both domestic and export market (mainly to RSA). The government will be hiring a CBM Advisor to fill the knowledge and capacity gap on CBM issues.
- A feasibility study for a 200 MW concentrated solar power (CSP) plant is to start imminently (jointly financed with the AfDB). In parallel, a grant of US\$1.4 million from the Carbon Capture and Storage Trust Fund (CCS TF) has been approved for awareness and capacity building on CCS in Botswana, which would complement the Government's interest to undertake a pilot CCS project by end-2013 (using project funds).



37. ***The CPS also envisioned support for a second power investment:*** a private sector coal-to-power project at Mmamabula. The project was driven in 2009 mainly by the prospect of export sales to ESKOM, South Africa's power utility. However, despite lengthy negotiations, CIC Energy Corporation, the sponsor of the Project, and ESKOM have not entered into a power sales contract, and the project is now reportedly being restructured, and its future is uncertain.

#### ***Pillar Four: The Environment***

38. ***A US\$5 million GEF grant was approved to support the Northern Botswana Human-Wildlife Coexistence Project in December 2009.*** The project supports activities in three project areas (including 13 villages) to pilot and disseminate best international practice in reducing human-wildlife conflict, a source of major tension in affected areas in Northern Botswana. While start up of the project has been slow due to delays in getting staff on board in the Department of Wildlife and National Parks (DWNP), problems retaining staff, and a lack of familiarity with Bank procurement and safeguard review processes, pilot project activities are underway. Techniques that draw on global experience with human-wildlife coexistence are being introduced in the project areas. A key challenge is the design of a revised policy framework which builds on the unique experience in Botswana wherein public financing supports compensation for wildlife-related losses to subsistence farmers. The benefits and costs of this system have been reviewed and will be complemented with household and village level pilot activities which focus on ex-ante prevention of human-wildlife conflict.

39. ***Botswana is considering how to make climate change adaptation central to its development.*** Under the CPS and in response to a request from the GoB, the Bank prepared two analytical pieces to build the knowledge base regarding (i) the environmental implications of implementing NDP10, and (ii) the likely impacts of Climate Change in Botswana. The Climate Change work developed a first-ever analysis using Global Climate Models (GCM) to predict how climate variability might impact Botswana over the next 50 years. The results suggest that Botswana faces a wide range of direct and indirect economic impacts due to increased climate variability, including in agriculture and tourism which could be adversely affected by drought. This work gathered further momentum over the past year. Building on the Climate Change Policy Note, policy dialogue supported by the Bank's *Global Expert Team (GET)* on Climate Change Adaptation is helping the GoB consider how it could make adaptation to climate change/variability central to Botswana's development. Planned technical assistance will focus on ways that Botswana could address the climate threat and make the country more resilient and less vulnerable. This would likely require economy-wide work in: sustainable water management; increasing the climate resilience of the key ecosystem on which the country's world-class nature-based tourism is based; work on agriculture, food security and livestock; and work on health information because of the spatial changes in disease patterns, especially malaria.

40. ***Water supply in Botswana will increasingly rely on sources beyond national boundaries, making essential the development of a sound domestic and regional institutional framework and solid analytical capacity.*** This is especially the case considering Botswana's reliance on water-intense sectors such as mining, energy, tourism and agriculture. Botswana's water resources are characterized by high dependence on internationally shared and trans-boundary waters, wide spatial variability, and extreme scarcity. The dependency ratio, reflecting that, at 80 percent, the proportion of the total renewable water resources originating outside the country is the highest in southern Africa; all of the country's five major drainage basins are shared with other SADC Member States. Bank support to the GEF SADC Groundwater and Drought Management Project, hosted by the SADC Water Division in Botswana, is helping to develop consensus among the SADC Member States for a regional strategic approach to defining drought management policies. A Multi-Sector Investment Opportunity Analysis (MSIOA) for the Zambezi River basin engaged all eight riparian countries in a consultative process to illustrate the

benefits of cooperation through a multi-sectoral economic evaluation of water resources development, management options and scenarios.

41. ***Botswana’s domestic water sector reform effort is proceeding well with Bank support via a fee-based services arrangement.*** A new Water and Wastewater Sector Policy has been drafted and is in the public consultation phase. It will be submitted to Parliament in its July 2011 session. The reform program will eventually transfer all responsibility for the provision of retail water and wastewater to the Water Users Corporation (WUC), as opposed to current provision by local governments and the Department of Water Affairs (DWA). To date, management of 150 of the country’s over 200 water systems has been transferred to the WUC. The program also seeks to enhance the capacity and focus of DWA for strategic Water Resources Management (WRM). Government subsidies to the sector have been substantially reduced; subsidies which amounted to P364 million (US\$56 million) in FY07/08 are expected to be reduced to zero by FY14/15. Recognizing the value of the Bank’s advisory support for the reform process, the Government has requested an extension of the fee-based services arrangement through 2014.

### ***Program Delivery and Portfolio Performance***

42. ***All of the projects identified in the CPS have been delivered with the exception of one (the Mmamabula IPP Power Project) which has been put on hold in light of developments since the CPS was prepared.*** As a result, the project portfolio has grown from one project at the time of the CPS to four (including one GEF project). Net commitments stand at US\$378 million, reflecting the Bank’s growing lending engagement with Botswana in energy, transport, environment and HIV/AIDS. In addition a US\$242.7 million IBRD Partial Credit Guarantee for the Morupule B project has been instrumental in allowing rapid project implementation progress by unlocking financing for power station construction from commercial sources.

**Table 2: Planned vs. Actual IBRD Financial Support**

	<b>Indicative CPS IBRD lending (US\$ million)</b>	<b>Actual Lending to date (US\$ million)</b>
<b>FY09</b>		
HIV/AIDS Project	50.0	50.0
Morupule B Generation and Transmission Project	450.0	136.4 IBRD Loan 242.7 IBRD PCG
Integrated Transport Project	180.5	186.0
<b>FY10</b>		
Mmamabula IPP Project	100.0	0.0
Northern Botswana Human-Wildlife Conflict Prevention	-	5.0 GEF grant
<b>Total</b>	<b>780.5m</b>	<b>377.4 Loan/grant 242.7 Guarantee coverage</b>

\*Includes GEF, and guarantees

43. ***Reflecting a lack of recent experience with investment lending in Botswana, several projects have experienced a slow start-up highlighting the need for more intensive implementation support.*** With a young portfolio that is heavily weighted towards infrastructure, IBRD disbursements in Botswana through FY09-FY11 were projected to be modest. With the exception of the Morupule B project,

disbursements have tended to lag behind initial projections due to slow administrative processes in Government, a lack of recent experience in implementing Bank-financed projects and, in some cases, capacity constraints and rapid turnover among counterpart Government agencies. Both the Bank and GoB are learning from the challenges that have emerged and implementation is expected to accelerate in the months ahead. Nevertheless, implementation of key projects such as the BNAPS and the Integrated Transport Project will require stepped up implementation support to accelerate implementation and ensure successful outcomes. The portfolio has currently one problem project, the GEF-financed Northern-Botswana Human Wildlife Coexistence Project.

44. ***Progress towards CPS outcomes has generally been good (Annex 1).*** While progress in some areas, such as developing M&E and Transport Management capacity, have proven disappointing, significant milestones have been achieved in most areas of the Results Matrix. To improve the quality and realism of the CPS results matrix, this Progress Report proposes several revisions to the Results Matrix Outcomes and Indicators. The suggested changes (a) remove the Outcome related to the proposed Mmamabula energy project, which has foundered for reasons outside the control of GoB or the Bank, (b) include an Outcome related to Financial Sector strengthening, where the Bank's engagement has been increasingly demanded, and (c) includes a new Outcome related to Climate Change work, in which the Bank's AAA during FY09/FY10 has resulted in significant demand for follow-up analytic support. In addition, the revised Results Matrix is strengthened by adding baselines and targets for outcomes, where these were unavailable at the time of the CPS. Finally, to align the matrix more closely with the Bank's Africa Region strategy and the Government's economic diversification agenda, the CPS outcome related to skills development is now included under the Competitiveness Pillar of the CPS.

### ***Lessons Learned***

45. ***Despite Botswana's MIC status, close implementation support has been required.*** Several projects such as the BNAPS, Integrated Transport Project, and the Northern Botswana Human-Wildlife conflict GEF have experienced substantial delays in start up. While these were foreshadowed as implementation risks in the CPS, readiness for implementation of projects such as the BNAPS, Integrated Transport, and Northern Botswana Human-Wildlife conflict Prevention GEF was likely to have been somewhat overestimated. Concerted efforts through FY10 in delivering procurement, disbursement and financial management training to both implementing agencies and central ministries have helped to overcome some delays. Task teams are also working with Government to strengthen project management arrangements, add implementation capacity, and restructure projects where necessary. Intensive supervision, supported by the opening of a Bank office in Gaborone in FY10, providing videoconference access to experts based in Washington and the region in real time, has greatly enhanced the effectiveness of implementation support and the Bank's ability to monitor high corporate risk projects such as Morupule B.

46. ***The Bank program is strengthened by deeper cooperation with a ranger of partners.*** For example, in HIV/AIDS working with other donors has helped to harmonize overall program efforts while solidifying a stronger focus on prevention, in particular by working with the EU to utilize grant resources to lower the cost of IBRD financing contingent on satisfactory project performance. Similarly, work on public expenditure management has benefitted from close coordination with the EU and IMF as well as South-South exchanges with Mauritius and South Africa. The Moropule B project is bringing together multiple financiers and marks the Bank's first co-guarantee operation with a bilateral agency, namely, China Export & Credit Insurance Corporation, helping to mobilize a substantial amount of long-term debt despite the financial crisis. A planned knowledge exchange event on the diamond industry will bring together government and private sector representatives from Lesotho, Armenia, Botswana and Namibia.

## *CPS Relevance*

47. ***The FY09-13 CPS remains appropriate and relevant for Botswana.*** Botswana has managed to navigate the immediate impacts of the global crisis, but has emerged in a weaker position with reduced savings. With the international economic outlook presenting significant uncertainties for Botswana, a critical policy challenge will be to contain the fiscal expansion employed through the crisis and push forward with far reaching institutional reforms to improve spending efficiency, service delivery, and reduce the size of the public sector over time. Concurrent investments in critical infrastructure (particularly in energy, transport, and water), and aggressive action to improve the effectiveness of HIV/AIDS prevention efforts are also needed, and, together with intensifying efforts to diversify the economic base and strengthen public expenditure management, these form the critical agenda for progress. The Government of Botswana has confirmed that the four pillars of the current CPS thus remain highly relevant and appropriate for Botswana for the balance of the CPS period.

## IV. GOING FORWARD

48. ***In line with the Africa Strategy, the Bank will increasingly focus on mobilizing knowledge in support of CPS objectives.*** The first two years of re-engagement under the CPS have deepened our understanding of Botswana's development challenges and positioned the Bank to increasingly focus its AAA in support of policy reform implementation. Going forward during the remainder of the CPS period the strategy is being adjusted with addition of new and expanded activities that reflect Government priorities for enhanced Bank support in economic diversification, public expenditure management reform, and climate change. Working in partnership with the government and others, the Bank will mobilize global expertise and technical assistance with the aim of bringing the knowledge and experience of countries that have faced similar challenges in other parts of the world. Specific areas of focus will include:

- ***Economic Diversification and Competitiveness.*** Recognizing the growing urgency of this agenda, the Government is focused on accelerating implementation of its Economic Diversification Drive. During the balance of the CPS period the Bank Group will seek to support the development and implementation of a reform roadmap focusing on the concrete actions in business environment reforms, infrastructure, access to finance, and skills, technology and productivity. This will build on recent and ongoing analytical work, including the ICA, Doing Business Surveys, regional trade and market integration, and economic diversification.
- ***Public Expenditure Management.*** With the preparation of the PER and the finalization of the GoB's PFM reform strategy, continued technical assistance will be provided during the balance of the CPS period in support of its implementation. Complementary AAA will focus on increased value for money in public spending by helping identify opportunities for greater economy and efficiency in, inter alia, social protection and public procurement.
- ***Financial Sector.*** Additional work planned during the balance of the CPS will support the GoB in finalizing and implementing a Financial Sector Development Strategy now under preparation. An early draft of the strategy has identified various constraints in the financial sector relating to, inter alia, access to financial services; housing finance; banking and financial system infrastructure; non-bank financial institutions; capital markets; and regional integration of commitments under the SADC Protocols.
- ***Information and Communication Technology.*** The Government has expressed interest in Bank technical assistance in broadband connectivity where changes to the market structure and the regulatory strategy could deliver major improvements in the sector with positive spillover benefits to the rest of the economy. In addition, there is potential for supporting development of the strategy for utilizing the ICT infrastructure to enhance public service delivery (e.g.

e-government systems, management of decentralized services via mobile phones, government grant payments via mobile phone networks, public consultation and participatory decision-making using ICT networks, community monitoring of service delivery at clinics, schools etc.)

- **Climate Change.** A fee-based technical assistance engagement is planned to help Government to develop a climate resilient development strategy.
- **Poverty and social protection.** The release of the results of a new Core Welfare Indicators Survey later this year, after a ten-year hiatus, presents an opportunity for the Bank to respond to government demand for analytical assistance in this area. Linking new information on poverty and on the incidence of social protection programs would also help in developing policy recommendations for strengthening public sector management and encouraging greater emphasis on service delivery and on focusing on the effectiveness and efficiency of government programs. Gender-disaggregated data will also facilitate Bank AAA that would seek to develop a greater understanding of the gender dimensions of development in Botswana and support mainstreaming of gender concerns in the policy dialogue with Government.

49. **Important data issues constrain analytical work, the formulation of robust policies, and program evaluation.** As noted above, despite high levels of poverty and inequality, household income and expenditure data is a decade old in Botswana. Information on unemployment is not regularly produced. There are no reliable indices of productivity. Evaluations of public programs are rarely undertaken. The quality of national accounts data has been questioned. For an upper middle income country, this lack of quality data is an important constraint to implementing evidence-based policy, and is an area that deserves urgent attention. The Central Statistics Office, which has been hampered by lack of staff, high staff turnover and limited budgets, was recently made autonomous, and it is hoped that this will assist it in beginning to address some of these problems.

50. **Additional lending during the balance of the CPS period is possible, but will depend on Government demand within the context of its overall financing needs and strategy.** Emerging from the global crisis with foreign debt levels reaching statutory limits, GoB is seeking to use liquidity in domestic capital markets and any available concessional resources to meet its immediate financing needs. The IBRD Treasury team has provided advice to GoB regarding how the Bank might assist in mobilizing domestic financing using available Bank instruments, and will continue to provide support on an as-needed basis. Nonetheless, in FY12 and FY13 the Bank will remain ready to respond to any GoB requests for tailored financial support, as borrowing capacity allows, through the annual business planning process. Possible areas of further financial support include:

- DPL financing to support the ongoing reform program and close the short-term fiscal gap;
- Facilitating local currency financing either via a local currency guarantee or a World Bank loan funded by a local bond issue in Pula;
- Possible investment/TA lending in support of the PFM reform program as well as competitiveness-enhancing reforms;
- Investment support to the water reform program.

51. **Improving the pace of project implementation will be a critical focus during the remaining two years of the CPS.** As a first step, implementation support to projects experiencing delays has been increased. Agreement has been reached on the need for project restructuring in the case of the BNAPS in order to strengthen implementation capacity while streamlining the project to allow for a greater focus on delivery of prioritized interventions. In the case of the Integrated Transport Project, project oversight structures are being modified with a view to strengthening project management and accelerating implementation. Finally, staffing in the Bank's office is being increased with placement of a senior

economist and the possible addition of an operations analyst which should further increase the responsiveness of the Bank in addressing implementation issues.

## V. RISKS AND CREDITWORTHINESS

52. *The major risks identified in the CPS remain valid.* With respect to credit risk, although diamond exports have recovered and are expected to return to pre-crisis levels by 2012/13, Botswana's creditworthiness will remain constrained by its narrow economic base. Nevertheless, Botswana's S&P credit risk rating of A- remains the strongest in Africa, on a par with Malaysia and Poland, although the outlook is less favorable now reflecting the weakening of the fiscal stance as a result of the response to the impact of the financial crisis.

53. *Reputational risk*, as identified in the CPS, remains in particular due to the Bank's engagement in financing the Morupule B coal-fired power generation project. However, substantial communication and outreach effort in the lead up to the approval of the project, close implementation support and attention to safeguards through implementation, the growing Bank engagement in promoting renewable and lower carbon options for Botswana, and concurrent Bank efforts to help Botswana participate in the global climate change debate have all contributed to mitigating this risk. These efforts notwithstanding, the Bank's work in the energy sector in Botswana and the region will continue to generate reputational risk which will require close management at the country, regional and corporate level.

54. The *implementation risks* outlined in the CPS did materialize and were a source of delay during the first two years of implementation. As discussed above, the result was lower than expected disbursements, particularly in the HIV/AIDS and Transport Projects. However mitigation measures, including portfolio-wide procurement, disbursement and financial management training for counterparts and more intensive implementation support by task teams, have helped bring about the beginnings of a turnaround. Fiduciary training will continue during the balance of the CPS period as this is recognized as an ongoing need. The opening of a Bank office in Gaborone has facilitated these efforts.

### Annex 1: CPS Results Matrix

World Bank Strategic Element	Major Issues and Constraints to achieving Government's objectives	CPS Outcomes	Milestones/Intermediate Indicators	Progress to Date	Bank Program/Projects and Other Partner Interventions
<b>Enhancing Public Sector Effectiveness</b>	Need for greater public sector effectiveness in the implementation of policies and programs	<p><b>Improved capacity to compile, analyze and disseminate poverty-related statistical information</b></p> <ul style="list-style-type: none"> <li>• Poverty related household survey data documented and archived by 2010.</li> <li>• At least 5 statisticians and researchers trained in poverty analysis of household survey data by 2010.</li> </ul>	<p>Household Income and Expenditure Surveys (HIES) completed.</p> <p>Training of statisticians and researchers completed.</p>	Core Welfare Indicators Survey conducted in 2009/2010.	TFSCB Grant for Capacity Building and Poverty Analysis (FY09)
	Public financial management needs strengthening	<p><b>Improved public expenditure management. Public financial management reform</b></p> <ul style="list-style-type: none"> <li>• Improved capacity to analyze and forecast fiscal variables; macroeconomic model in use at MFDP.</li> <li>• Strengthened budget process: greater coordination between the various elements of budgeting – recurrent and capital budgets and personnel management.</li> <li>• PFM system further strengthened in key dimensions, including openness and accountability in public procurement.</li> </ul>	<p>Public expenditure Review (PER) carried out.</p> <p>PFM reform strategy formulated and initiated.</p> <p>Issues Note on Accrual Accounting completed.</p>	<p>The PER was delivered in FY10, and a successful PER dissemination workshop in August 2010 added significant detail to the PFM reform agenda.</p> <p>A PFM action plan has been finalized by the MoFDP.</p> <p>Accrual accounting issues note has been delivered to complement TA being provided by the IMF.</p>	<p>PER (FY10)</p> <p>Macro-modeling (FY10)</p> <p>PFM Reform TA (FY10-12)</p> <p>Issues Note on Accrual Accounting (FY11)</p> <p>Public Sector Management Justice and Law TA (FY 12)</p>

World Bank Strategic Element	Major Issues and Constraints to achieving Government's objectives	CPS Outcomes	Milestones/Intermediate Indicators	Progress to Date	Bank Program/Projects and Other Partner Interventions
	<p>Most ministries and agencies lack the institutional capacity to monitor and evaluate Government policies, programs and projects</p> <p>Weak institutional capacity for data tracking, collation, analysis and dissemination</p>	<p><b>Enhanced capacity of Government to adopt evidence-based management through increased application of monitoring and evaluation information</b></p> <ul style="list-style-type: none"> <li>At least 15 ministries have functional results-based M&amp;E systems in place by 2011.</li> <li>At least 60 percent of trained CSO (Civil Society Organizations) are using scorecards to assess the effectiveness of service delivery by 2011.</li> </ul> <p><b>Improved National Statistical Capacity</b></p>	<p>A needs assessment of M&amp;E capacity of at least 15 ministries carried out.</p> <p>Training of CSOs initiated and completed.</p> <p>Report on "strengthening national statistical capacity and policy analysis" completed and disseminated.</p>	<p>Little progress has been made on activities foreseen under IDF grant.</p> <p>GICO has been restructured into the National Strategy Office (NSO)</p>	<p>IDF Grant to Strengthen the M&amp;E Capacity of the Vision 2016 Council and the Government Implementation coordination Office (GICO) in the Presidency Office (FY10)</p>
<p><b>Fighting HIV/AIDS and Improving Education Outcomes</b></p>	<p>Success in good governance and macroeconomic and fiscal management has not been accompanied by a reduction of inequality, poverty and improved HD outcomes.</p> <p>HIV/AIDS is a huge drain on the economy and society with the youth most vulnerable.</p>	<p><b>Increased effectiveness of HIV/AIDS prevention efforts</b></p> <ul style="list-style-type: none"> <li>Increased proportion of youth reporting no sexual activity. (Age 15-19: from 78.4% to 85% by 2013; age 20-24: from 30.8% to 50% by 2013)</li> <li>Proportion of youth aged 15-19 and 20-24 reporting condom use during the last sexual encounter with a non-regular partner in the past 12 months. (Age 15-19: from 89% to 95% by 2013; age 20-24: from 85% to 95% by 2013)</li> <li>Number (cumulative) of male circumcision procedures performed in selected facilities increases from 52,000 (2008) to 262,000 by 2013</li> </ul>	<p>HIV/AIDS interventions adequately implemented.</p> <p>National Strategic Framework to combat HIV/AIDS was finalized in July 2010</p> <p>A total of \$6.6 million of grants for prevention activities has been awarded under the project's Civil Society grant component</p>	<p>Approximately 90 % of individuals with advanced HIV infection are receiving ART</p> <p>Proportion of youth (15-24 years reporting condom use increased from 19.2 % in 2004 (DHS Survey) to 42.8% (BIAS III Survey)</p>	<p>HIV/AIDS Prevention Support Project (FY09)</p> <p>Southern Africa Regional HIV/AIDS Strategy (FY10)</p> <p>Poverty and Social Impact Analysis (FY 11)</p>



World Bank Strategic Element	Major Issues and Constraints to achieving Government's objectives	CPS Outcomes	Milestones/Intermediate Indicators	Progress to Date	Bank Program/Projects and Other Partner Interventions
<b>Increased Competitiveness – Infrastructure and the Climate for Investment and Growth</b>	<p>Efforts to diversify the economy have yet to generate significant results.</p> <p>Diamond production is predicted to fall by 40%; Revenue from diamonds are projected to decline by 50%.</p> <p>Economic growth has not generated enough jobs.</p>	<p><b>Improved Investment Climate</b></p> <ul style="list-style-type: none"> <li>Identify key bottlenecks to greater domestic and international foreign investment.</li> </ul>	<p>Follow-up to the FY07 Investment Climate Assessment done.</p> <p>Strategic Issues in Competitiveness Study completed.</p>	<p>Botswana fell two places in the 2011 Ease of Doing Business ranking compared to 2010, from 50 to 52 overall</p>	<p>Follow-up to FY07 Investment Climate Assessment (ICA) (FY09)</p> <p>Development Policy Review (FY12)</p> <p>Strategic Issues in Competitiveness Study (FY10)</p> <p>Competitiveness Dialogue/TA (FY12)</p>
	<p>There is a skills mismatch between education outcomes and labor market needs.</p>	<p><b>Skills mismatch is identified and policy options agreed to reduce the gap</b></p>	<p>Skills gap/labor market study completed.</p>	<p>Study underway</p>	<p>Skills Gap/Labor Markets Study (FY12)</p>
	<p>Inadequate access to financial services due to need for stronger banking/financial system infrastructure and legal and regulatory frameworks for, <i>inter alia</i>, NBFIs, pensions, insurance, and capital markets</p>	<p><b>Government Financial Sector Development strategy adopted with action plan to address identified constraints.</b></p>	<p>New pension and insurance regulations developed.</p> <p>Financial Sector Development Strategy Finalized</p> <p>Investment and Securities regulatory regime Revised</p> <p>Collective Investment Undertakings (CIU) Act revised.</p>	<p>Revised pension and insurance laws have been finalized and are pending approval;</p> <p>Revised pension and insurance regulations have been approved</p> <p>Revised securities markets regulations and CIU Act have been prepared and are undergoing final review.</p>	<p>Financial Sector Reform and Strengthening (FIRST) Initiative support to the Pension and Insurance is under preparation.</p> <p>FIRST-funded technical assistance to develop Financial Sector Development Strategy (FSDS).</p> <p>FIRST-funded technical assistance to the Non-Bank Financial Institutions Regulatory Authority (NBFIRA).</p>
	<p>Compliance gaps in both corporate accounting and auditing practices undermine investor confidence and reduce investment</p>	<p><b>Strengthened accountancy profession to enhance corporate finance and reporting</b></p> <p><b>1. Increased capacity of the Botswana Institute of Accountants (BIA) to carry out its functions as a professional accountancy body</b></p>	<p>IDF Grant utilized and activities fully implemented</p>	<p>National qualification launched in April 2011</p>	<p>IDF Grant For Strengthening the Institute of Accountants (FY10)</p>

World Bank Strategic Element	Major Issues and Constraints to achieving Government's objectives	CPS Outcomes	Milestones/Intermediate Indicators	Progress to Date	Bank Program/Projects and Other Partner Interventions
		<ul style="list-style-type: none"> <li>National qualifications developed and at least 50 nationals have passed Part-1 (intermediate level ) examinations by June 2011</li> <li>At least 5 Continuing Professional Development (CPD) courses are developed</li> </ul> <p><b>2. Improved compliance with the International Federation of Accountants (IFAC)</b></p> <ul style="list-style-type: none"> <li>Enactment of Accountancy Profession Legislation</li> </ul>	Development of Accountancy Profession Legislation	The Accountancy Act and the Financial Reporting Act enacted in 2010 and effective 1 April 2011	FIRST Initiative supported project, "Updating Accounting and Auditing Legislation"
	<p>Infrastructure capacity and quality has not kept pace with growth.</p> <p>There are transport bottlenecks.</p> <p>Regional trade has more potential</p>	<p><b>Improved national capacity in transport management</b></p> <ul style="list-style-type: none"> <li>At least 250 km of roads under long-term output and performance-based road contracts (OPRC) for rehabilitation and maintenance by 2014.</li> <li>Average vehicle operating costs per vehicle-km on OPRC roads falls by 8% by 2014.</li> </ul> <p><b>Improved Regional Trade **</b></p>	<p>Road asset management protocols completed</p> <p>Contract awarded in June 2011for Regional Transport Integration Study</p> <p>Regional Investment Climate Assessment completed**</p> <p>Southern Africa Regional Trade and Integration Study completed**</p>	<p>Conceptual design for the 800 of OPRC component has started</p> <p>Regional Transport Integration Study contract awarded in June 2011.</p> <p>Regional Trade Study completed</p>	<p>Transport Sector Project</p> <p>AAAs: Regional Investment Climate Assessment **</p> <p>Southern Africa Regional Trade and Integration Study**</p>

World Bank Strategic Element	Major Issues and Constraints to achieving Government's objectives	CPS Outcomes	Milestones/Intermediate Indicators	Progress to Date	Bank Program/Projects and Other Partner Interventions
	<p>Major shortfall in electricity production</p> <p>Uncertainty of reliance on South Africa for electricity needs as Eskom faces electricity shortfall</p> <p>Regional broadband connectivity is held back by high cost</p>	<p><b>Improved energy security</b></p> <ul style="list-style-type: none"> <li>• Domestic generation capacity as % of peak demand increases from 18% to 102% by FY13</li> <li>• measures to address social issues and demand management implemented</li> </ul> <p><b>Broadband Strategy Developed and Adopted</b></p>	<p>Government adoption of electricity tariff policy</p> <p>Testing of new generation unit: 1 unit completed</p> <p>New Regulatory Agency: Contract awarded for TA</p>	<p>The Government implemented a 32 % tariff increase effective May 1, 2010, which is consistent with the commitment to make the energy sector financially sustainable</p> <p>BPC installed 800,000 compact fluorescent lights and about 29,000 smart meters by end of 2010</p>	<p>Morupule B Project (FY09/10)</p> <p>South Africa/Botswana Regional Broadband TA (with PPIAF) (FY12)</p>
	<p>Agriculture and nature-based tourism potential not fully utilized</p>	<p><b>Selected strategic challenges in agriculture and nature-based tourism identified and policy options presented to government</b></p>	<p>Policy notes completed</p>		<p>SDN Policy Notes on Agriculture and NBT (FY10)</p>
<p><b>The Environment</b></p>	<p>Weak environmental management</p> <p>High incidence of human-wildlife conflicts</p>	<p><b>Reduced human-wildlife conflict (HWC) incidence in targeted hotspot areas in northern Botswana</b></p> <ul style="list-style-type: none"> <li>• Numbers of wildlife conflict incidents in targeted hotspot areas reduced by 33%.</li> <li>• Number of people employed in eco-tourism increases by 75</li> </ul>	<p>Interventions to prevent wildlife conflict incidents in hot spot areas fully implemented</p> <p>Training programs for tourism-related programs implemented.</p>	<p>Wildlife and human conflict incidents in targeted hotspots areas have yet to be drastically reduced. From November 2009 to 17 January 2011 conflict incidents for elephants increased from 99 to 145 and for lions from 84 to 134 respectively. The increase in incidents is attributed to the lack of separation between the two project villages and the Makagadikgadi NP</p>	<p>Wild Life and Conflict Management Project in Northern Botswana (GEF) (FY10)</p> <p>SDN Policy Notes on nature-based tourism (FY10)</p>

World Bank Strategic Element	Major Issues and Constraints to achieving Government's objectives	CPS Outcomes	Milestones/Intermediate Indicators	Progress to Date	Bank Program/Projects and Other Partner Interventions
	Low capacity to capture Carbon Finance potential	<p><b>Low carbon growth strategy under implementation</b></p> <ul style="list-style-type: none"> <li>At least one low-carbon (CBM) reserve or no-carbon (CSP) energy alternative has been identified, or a CCS pilot project has been identified.</li> </ul> <p><b>Enhanced capacity to participate in the global carbon market</b></p> <ul style="list-style-type: none"> <li>Number of new carbon programs identified</li> </ul>	Government policy on carbon finance defined	Feasibility study for up to 200 MW concentrated solar power (CSP) plant is underway	<p>Carbon Finance Assistance Program</p> <p>Climate Change Policy Note (FY 10)</p> <p>Carbon Capture and Storage (CCS) Trust Fund grant</p>
	Frequent drought and frequent threats to water resources	<p><b>Improved ground water management (regional project)**</b></p> <ul style="list-style-type: none"> <li>Number of key technical officers and policy makers aware of groundwater management and its importance over total number questioned (relates to SADC countries of which Botswana is a participating member state)</li> </ul>	Regional environmental and social assessment study completed**	A Multi Sector Investment Opportunity Analysis (MSIOA) for the Zambezi River basin engaged all eight riparian countries in a consultative process to illustrate the benefits of cooperation through a multi sectoral economic evaluation of water resources development, management option scenarios.	<p>Groundwater and Drought Management Project**</p> <p>Advisory Services for Water Sector Reform Phase II (FY 11)</p> <p>Regional environmental and social assessment study **</p>

World Bank Strategic Element	Major Issues and Constraints to achieving Government's objectives	CPS Outcomes	Milestones/Intermediate Indicators	Progress to Date	Bank Program/Projects and Other Partner Interventions
	High vulnerability to drought and flood exacerbated by climate change.	<p><b>Increased understanding of implications of increased climate variability for Botswana with appropriate policy options for adaptation developed</b></p> <p><b>Improved water conservation and management. Water and Wastewater Sector Reform Option Implemented</b></p> <ul style="list-style-type: none"> <li>• WUC assumes water delivery nationwide</li> <li>• Water Resources Council and Regulator established</li> </ul>	<p>Climate impacts modeled by end 2010.</p> <p>Policy options for climate adaptation developed and adopted by end 2012</p> <p>Water and Wastewater Sector Reform FBSA Phase 1 completed</p> <p>Water and Wastewater Sector Reform FBSA Phase 2 completed</p>	<p>The climate change work developed a first-ever analysis based on a Botswana data set using Global Climate Models (GCM) to predict how climate variability might impact on Botswana over the next 50 years</p> <p>To date, management of 150 of the country's over 200 water systems has been transferred to the Water Users Corporation (WUC)</p>	<p>Climate Change Policy Note (FY11)</p> <p>Environment Policy Note (FY10)</p> <p>Climate Adaptation FBSA (FY12)</p> <p>Water and Wastewater Sector Reform FBSA Phase 1 (FY09)</p> <p>Water and Wastewater Sector Reform FBSA Phase 2 (FY10)</p> <p>Water and Wastewater Sector Reform FBSA Phase 3 (FY13)</p>

\*\* Achievement of regional outcomes cannot be measured within the timeframe of the CPS and can only be assessed against regional objectives

## Annex 2: Botswana at a Glance

### Botswana at a glance

2/25/11

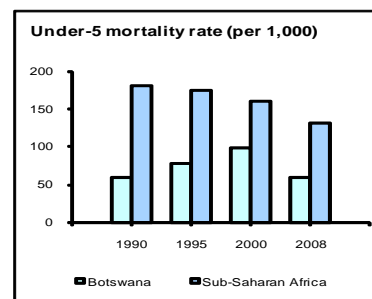
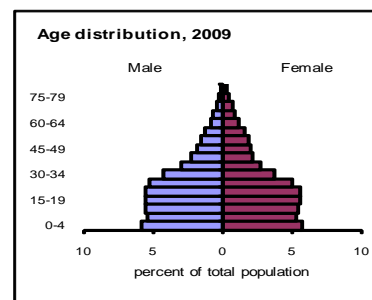
#### Key Development Indicators

(2009)

	Botswana	Sub-Saharan Africa	Upper middle income
Population, mid-year (millions)	19	819	993
Surface area (thousand sq. km)	582	24,242	48,659
Population growth (%)	1.5	2.5	0.9
Urban population (% of total population)	60	36	75
GNI (Atlas method, US\$ billions)	12.2	897	7,363
GNI per capita (Atlas method, US\$)	6,260	1,095	7,415
GNI per capita (PPP, international \$)	12,840	1,981	12,800
GDP growth (%)	-3.7	5.2	4.1
GDP per capita growth (%)	-5.1	2.7	3.2

(most recent estimate, 2003–2008)

Poverty headcount ratio at \$1.25 a day (PPP, %)	31 <sup>a</sup>	51	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	49 <sup>a</sup>	73	..
Life expectancy at birth (years)	54	52	71
Infant mortality (per 1,000 live births)	43	83	20
Child malnutrition (% of children under 5)	..	25	..
Adult literacy, male (% of ages 15 and older)	83	72	95
Adult literacy, female (% of ages 15 and older)	84	54	92
Gross primary enrollment, male (% of age group)	111	105	111
Gross primary enrollment, female (% of age group)	109	95	110
Access to an improved water source (% of population)	95	60	95
Access to improved sanitation facilities (% of population)	60	31	84

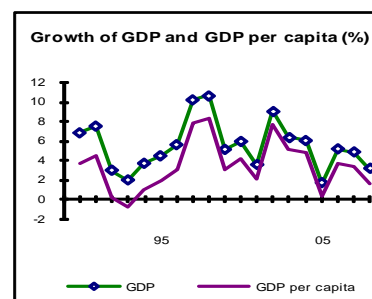


#### Net Aid Flows

	1980	1990	2000	2009 <sup>b</sup>
(US\$ millions)				
Net ODA and official aid	105	145	31	716
Top 3 donors (in 2007):				
Germany	15	19	7	439
United States	12	15	1	232
European Commission	6	8	4	27
Aid (% of GNI)	10.2	3.9	0.6	5.6
Aid per capita (US\$)	107	107	18	373

#### Long-Term Economic Trends

Consumer prices (annual % change)	13.6	11.4	8.7	8.4
GDP implicit deflator (annual % change)	10.2	6.3	0.0	-5.7
Exchange rate (annual average, local per US\$)	0.8	1.9	5.1	7.0
Terms of trade index (2000 = 100)	..	119	100	15



	1980–90	1990–2000	2000–09
Population, mid-year (millions)	10	14	17
GDP (US\$ millions)	1061	3,792	5,632
	(% of GDP)		
Agriculture	14.7	4.9	2.7
Industry	50.7	61.0	52.6
Manufacturing	5.1	5.1	4.5
Services	34.6	34.1	44.7
Household final consumption expenditure	52.0	33.2	30.8
General gov't final consumption expenditure	21.3	24.1	25.4
Gross capital formation	40.1	37.4	31.8
Exports of goods and services	53.1	55.1	53.3
Imports of goods and services	66.4	49.8	41.2
Gross savings	28.7	41.6	41.4
	(average annual growth %)		
	3.2	2.4	1.4
	11.0	5.7	4.4
	2.5	-0.7	1.2
	11.3	5.4	2.5
	11.5	3.5	4.8
	15.1	7.5	5.6
	6.2	5.9	6.6
	14.9	6.1	4.9
	7.6	4.6	3.0
	12.5	4.4	2.8
	9.2	4.3	4.8

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. .. indicates data are not available.

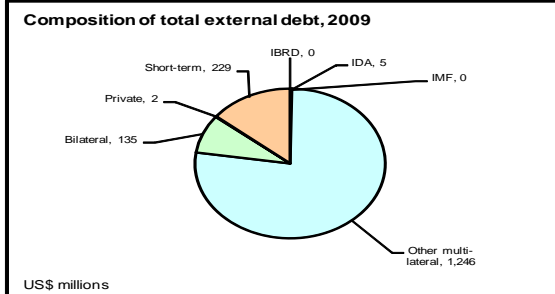
a. Country poverty estimate is for earlier period. b. Aid data are for 2008.

Development Economics, Development Data Group (DECDG).

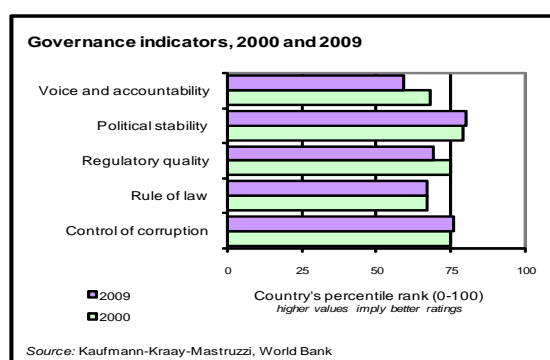
<b>Balance of Payments and Trade</b>	<b>2000</b>	<b>2009</b>
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	2,682	3,462
Total merchandise imports (cif)	2,005	4,734
Net trade in goods and services	681	-1,624
Current account balance as a % of GDP	547 9.7	-966 -8.2
Workers' remittances and compensation of employees (receipts)	26	88
Reserves, including gold	6,300	12,438
<b>Central Government Finance</b>		
<i>(% of GDP)</i>		
Current revenue (including grants)	47.0	32.5
Tax revenue	40.2	20.4
Current expenditure	28.0	30.7
Overall surplus/deficit	7.8	-14.7
Highest marginal tax rate (%)		
Individual	25	25
Corporate	25	25

**External Debt and Resource Flows**

<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	453	1617
Total debt service	69	47
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	8.0	13.7
Total debt service (% of exports)	2.0	0.7
Foreign direct investment (net inflows)	57	234
Portfolio equity (net inflows)	-6	18



<b>Private Sector Development</b>	<b>2000</b>	<b>2009</b>
Time required to start a business (days)	-	61
Cost to start a business (% of GNI per capita)	-	2.1
Time required to register property (days)	-	16
Ranked as a major constraint to business (% of managers surveyed who agreed)	<b>2000</b>	<b>2009</b>
Access to/cost of financing	..	24.3
Anticompetitive or informal practices	..	11.6
Stock market capitalization (% of GDP)	17.4	33.8
Bank capital to asset ratio (%)	10.3	..



<b>Technology and Infrastructure</b>	<b>2000</b>	<b>2008</b>
Paved roads (% of total)	35.3	32.6
Fixed line and mobile phone subscribers (per 100 people)	21	85
High technology exports (% of manufactured exports)	0.5	0.6

**Environment**

Agricultural land (% of land area)	46	46
Forest area (% of land area)	22.1	20.7
Terrestrial protected areas (% of surface area)	..	30.1
Freshwater resources per capita (cu. meters)	1,354	1,249
Freshwater withdrawal (billion cubic meters)	0.2	..
CO2 emissions per capita (mt)	2.5	2.6
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	9.1	11.8
Energy use per capita (kg of oil equivalent)	1,066	1,068

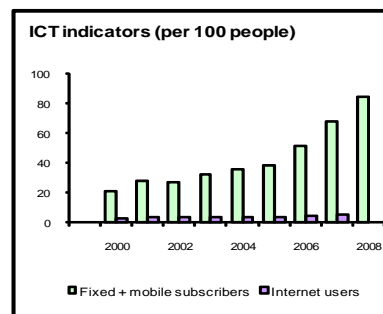
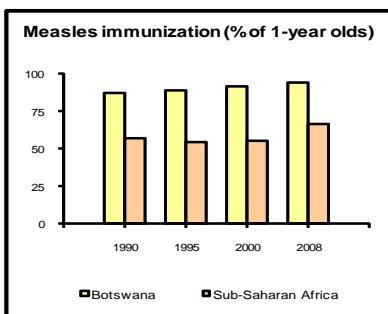
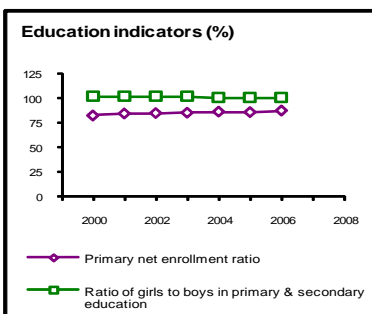
<b>World Bank Group portfolio</b>	<b>2000</b>	<b>2009</b>
<i>(US\$ millions)</i>		
<b>IBRD</b>		
Total debt outstanding and disbursed	16	0
Disbursements	0	0
Principal repayments	7	0
Interest payments	1	0
<b>IDA</b>		
Total debt outstanding and disbursed	9	5
Disbursements	0	0
Total debt service	1	1
<b>IFC (fiscal year)</b>		
Total disbursed and outstanding portfolio of which IFC own account	2	27
Disbursements for IFC own account	1	1
Portfolio sales, prepayments and repayments for IFC own account	0	0
<b>MIGA</b>		
Gross exposure	-	-
New guarantees	-	-

Note: Figures in italics are for years other than those specified. 2009 data are preliminary.  
.. indicates data are not available. - indicates observation is not applicable.

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With selected targets to achieve between 1990 and 2015  
(estimate closest to date shown, +/- 2 years)

	Botswana			
	1990	1995	2000	2008
<b>Goal 1: halve the rates for extreme poverty and malnutrition</b>				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	..	312	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Share of income or consumption to the poorest quintile (%)	..	3.1	..	..
Prevalence of malnutrition (% of children under 5)	..	..	10.7	4.3
<b>Goal 2: ensure that children are able to complete primary schooling</b>				
Primary school enrollment (net, %)	87	79	83	87
Primary completion rate (% of relevant age group)	90	92	91	86
Secondary school enrollment (gross, %)	40	58	76	80
<b>Goal 3: eliminate gender disparity in education and empower women</b>				
Ratio of girls to boys in primary and secondary education (%)	108	104	102	101
Women employed in the nonagricultural sector (% of nonagricultural employment)	34	38	39	41
Proportion of seats held by women in national parliament (%)	5	9	11	11
<b>Goal 4: reduce under-5 mortality by two-thirds</b>				
Under-5 mortality rate (per 1,000)	60	78	99	76
Infant mortality rate (per 1,000 live births)	46	57	66	57
Measles immunization (proportion of one-year olds immunized, %)	87	89	91	94
<b>Goal 5: reduce maternal mortality by three-fourths</b>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	83	130	310	198
Births attended by skilled health staff (% of total)	77	87	94	95
Contraceptive prevalence (% of women ages 15-49)	33	..	48	53
<b>Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases</b>				
Prevalence of HIV (% of population ages 15-49)	4.7	19.0	26.5	23.9
Incidence of tuberculosis (per 100,000 people)	307	444	595	536
Tuberculosis case detection rate (% , all forms)	71	70	73	63
<b>Goal 7: halve the proportion of people without sustainable access to basic needs</b>				
Access to an improved water source (% of population)	93	94	96	96
Access to improved sanitation facilities (% of population)	38	42	45	84
Forest area (% of total land area)	24	23	22	21
Terrestrial protected areas (% of surface area)	..	..	..	19.0
CO2 emissions (metric tons per capita)	1.6	2.2	2.5	2.5
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	7.6	7.8	9.1	11.8
<b>Goal 8: develop a global partnership for development</b>				
Telephone mainlines (per 100 people)	2.0	3.9	7.9	7.4
Mobile phone subscribers (per 100 people)	0.0	0.0	12.9	77.3
Internet users (per 100 people)	0.0	0.1	2.9	6.2
Personal computers (per 100 people)	..	1.0	3.5	6.2



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

2/25/11

Development Economics, Development Data Group (DECDG).



### Annex 3: Selected indicators of Bank Portfolio Performance and Management

As Of 7/5/2011

Indicator	2009	2010	2011
<b>Portfolio Assessment</b>			
Number of Projects Under Implementation <sup>a</sup>	2	4	4
Average Implementation Period (years) <sup>b</sup>	0.5	1.1	1.8
Percent of Problem Projects by Number <sup>a, c</sup>	0.0	0.0	25.0
Percent of Problem Projects by Amount <sup>a, c</sup>	0.0	0.0	1.5
Percent of Projects at Risk by Number <sup>a, d</sup>	0.0	0.0	25.0
Percent of Projects at Risk by Amount <sup>a, d</sup>	0.0	0.0	1.5
Disbursement Ratio (%) <sup>e</sup>	0.0	1.0	13.3
<b>Portfolio Management</b>			
CPPR during the year (yes/no)			
Supervision Resources (total US\$)			
Average Supervision (US\$/project)			

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	20	0
Proj Eval by OED by Amt (US\$ millions)	195.0	0.0
% of OED Projects Rated U or HU by Number	20.0	0.0
% of OED Projects Rated U or HU by Amt	11.4	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

\* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

## Annex 4: IFC Investment Operations Program

	2009	2010	2011
<b><u>Original Commitments (US\$ millions)</u></b>			
IFC and Participants		4.76	
IFC's Own Accounts only		4.76	
<hr/>			
<b><u>Original Commitments by Sector (%)- IFC Accounts only</u></b>			
OIL, GAS AND MINING		100	
<b>Total</b>	0	100	0
<hr/>			
<b><u>Original Commitments by Investment Instrument (%) - IFC Accounts only</u></b>			
Equity		100	
<b>Total</b>	0	100	0

\* Data as of July 01, 2011

## Annex 5: Summary of Nonlending Services

As of July 2011

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience<sup>a</sup></i>	<i>Objective<sup>b</sup></i>
<b>Recent Completions</b>				
Public Expenditure Review	FY10	471	G, B	KG, PS
ICA follow up; Informality survey and TA	FY10	71	G, B, P	KG, PS
Agriculture and Environment Policy Notes	FY10	70	G, B	KG, PS
FBSA Water Sector Reform (Phase 2)	FY11	463	G, B	KG, PS
Climate Change Policy Note	FY11	58	G, B	KG
Accrual Accounting Guide	FY11	45	G, B	PS
<b>Underway</b>				
Skills and Competitiveness	FY12	212	G, B	KG, PS
Public Sector Management Justice & Law TA	FY12	75	G, B	PS
Financial Sector Development Strategy	FY12	200	G, B, D, P	KG, PS
Strengthening Accounting Oversight Board	FY12	34	G	KG, PS
Enhancing Supervision of Capital Markets	FY12	191	G, B	KG, PS
Programmatic DPR (Policy Notes)	FY12	200	G, B, D, P	KG, PS, PD
Public Expenditure Management TA	FY12	100	G, B	KG, PS
<b>Planned</b>				
Competitiveness and Diversification TA	FY12	50	G, B, P, D	PD, PS
Social Safety Net Review	FY12	50	G, B, D, P	KG, PS
TA to Public Private Partnerships	FY13	50	G, B	PS
Climate Change Adaptation FBSA	FY13	400	G, B, P	PD, PS
Poverty Assessment	FY13	250	G, B, D, P	KG, PS, PD
Health Public Expenditure Review	FY13	100	G, B	KG, PS
FBSA Water Sector Reform (Phase 3)	FY13	250	G, B	KG, PS

a. Government, Donor, Bank, Public Dissemination

b. Knowledge Generation, Public Debate, Problem-solving

## Annex 6: Key Economic Indicators

### Botswana - Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>National accounts (as % of GDP)</b>									
Gross domestic product <sup>a</sup>	100	100	100	100	100	100	100	100	100
Agriculture	2	2	2	2	2	2	3	3	3
Industry	51	54	53	53	40	45	45	47	47
Services	48	44	45	45	57	52	51	58	58
Total Consumption	11	10	10	10	11	12	0	0	0
Gross domestic fixed investment	25	22	24	23	28	26	26	26	22
Government investment	7	6	9	12	15	13	11	10	9
Private investment	17	16	15	11	13	13	15	16	13
Exports (GNFS) <sup>b</sup>	51	47	48	42	32	33	31	29	27
Imports (GNFS)	34	31	36	38	43	40	32	30	27
Gross domestic savings	89	90	90	90	89	88	100	100	100
Gross national savings <sup>c</sup>	87	91	93	93	94	91	102	103	103
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	10255	11255	12376	13473	11474	14857	14508	16362	18459
GNI per capita (US\$, Atlas method)	5180	5730	6100	6620	6450	7020	7290	8180	8750
Real annual growth rates (% , calculated from 94 prices)									
Gross domestic product at market prices	1.6	5.1	4.8	2.9	-4.9	7.2	4.8	7.2	7.4
Gross Domestic Income	2.3	5.0	5.5	-0.2	-8.0	7.9	9.5	6.1	8.2
Real annual per capita growth rates (% , calculated from 94 prices)									
Gross domestic product at market prices	0.5	3.9	3.5	1.6	-6.1	5.9	3.5	5.9	6.1
Total consumption	2.5	1.2	3.4	5.0	9.2	5.6	3.1	6.0	7.3
Private consumption	-2.2	3.9	2.7	3.3	14.3	8.7	3.5	6.9	8.4
<b>Balance of Payments (US\$ millions)</b>									
Exports (GNFS) <sup>b</sup>	5277	5292	5902	5707	3477	4112	4479	4686	4963
Merchandise FOB	4444	4521	5053	4789	3462	4112	4437	4640	4915
Imports (GNFS) <sup>b</sup>	3550	3451	4471	5580	4121	4599	4682	4836	4988
Merchandise FOB	2686	2617	3443	4458	4121	4595	4682	4836	4988
Resource balance	1727	1841	1430	127	-644	-487	-203	-150	-25
Net current transfers	672	871	1105	1010	1067	1119	1137	1362	1362
Current account balance	1564	1939	1798	473	-244	-33	94	350	542
Net private foreign direct investment	223	437	444	617	0	347	372	376	403
Long-term loans (net)	..	..	..	..	..	..	..	..	..
Official	-26	-40	-27	-12	957	264	183	23	16
Private	..	..	..	..	..	..	..	..	..
Other capital (net, incl. errors & omissions)	..	..	..	..	..	..	..	..	..
Change in reserves <sup>d</sup>	-1377	-1757	-1742	-1092	-13	231	-268	7	-202
<i>Memorandum items</i>									
Resource balance (% of GDP)	16.8	16.4	11.6	0.9	-5.6	-3.3	-1.4	-0.9	-0.1
Real annual growth rates ( YR94 prices)									
Merchandise exports (FOB)	1.5	15.4	3.1	-5.7	-35.7	13.9	12.9	-100.0	..
Primary	3.1	21.5	-1.3	-5.4	-46.9	3.8	27.1	-100.0	..
Manufactures	38.5	-43.8	96.9	-20.8	-28.3	17.6	6.8	-100.0	..
Merchandise imports (CIF)	-9.1	-11.0	18.9	-84.0	102.5	28.9	12.3	-100.0	..

## Botswana- Key Economic Indicators (Continued)

Indicator Indicator	Actual			Estimate			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Public finance (as % of GDP at market prices)<sup>e</sup></b>									
Current revenues	40.5	39.8	37.7	33.1	32.9	32.8	34.8	37.8	37.6
Current expenditures	26.6	24.0	24.5	26.0	31.2	26.9	28.8	27.4	25.9
Current account surplus (+) or deficit (-)	13.9	15.8	13.2	7.1	1.7	5.9	6.0	10.4	11.7
Capital expenditure	6.7	5.6	8.2	12.2	16.7	11.9	10.7	10.0	9.5
Foreign financing	0.0	0.1	-0.1	-0.2	7.8	1.3	0.1	0.1	-0.1
<b>Monetary indicators</b>									
M2/GDP	28.0	37.4	42.4	42.4	46.7	44.1	47.9		
Growth of M2 (%)	10.6	67.4	31.2	21.1	-1.8	16.1	9.5		
Private sector credit growth / total credit growth (%)	-27	-32	-79	202	21	44	42		
<b>Price indices( YR94 =100)</b>									
Merchandise export price index	86.1	75.9	82.2	82.7	93.0	96.9	92.7		
Merchandise import price index	140.9	152.1	167.7	653.9	604.3	523.4	474.9		
Merchandise terms of trade index	61.1	49.9	49.0	12.6	15.4	18.5	19.5		
Consumer price index (% change)	8.6	11.6	7.0	12.7	8.1	6.7	6.3	5.6	5.4
GDP deflator (% change)	9.3	19.2	10.4	17.7	-6.1	14.7	-3.9	5.2	5.0

a. GDP at

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

## Annex 7: Key Exposure Indicators

Indicator	Actual			Estimated			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	447	382	458	431	1767	2363	2483	2642	2760
Net disbursements (US\$m) <sup>a</sup>	-1	-65	-15	-26	905	188	121	15	-11
Total debt service (TDS) (US\$m)	51	58	52	69	78	101	130	125	
Debt and debt service indicators (%)									
TDO/XGS <sup>b</sup>	7.8	6.5	7.1	7.0	43.5	46.2	39.2	48.9	48.8
TDO/GDP	4.4	3.4	3.7	6.4	16.1	19.3	20.6	20.0	12.9
TDS/XGS	0.9	1.0	0.8	1.1	1.9	2.0	2.1	2.3	0.0
Concessional/TDO	65.4	64.2	52.5	57.4	70.9	51.7	61.3	68.1	8.5
IBRD exposure indicators (%)									
IBRD DS/public DS	2.3	2.1	2.4	0.0	0.0	1.3	2.6	3.9	..
Preferred creditor DS/public DS (%) <sup>c</sup>	69.2	67.5	66.0	44.7	59.6	74.7	43.6	64.1	..
IBRD DS/XGS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
IBRD TDO (US\$m) <sup>d</sup>	2	1	0	0	0	141	173	231	295
Of which present value of guarantees (US\$m)	0	0	0	0	0	121	121	121	121
Share of IBRD portfolio (%)	0	0	0	0	0	0	0	0	0
IDA TDO (US\$m) <sup>d</sup>	7	6	6	5	5	4	4	3	3
IFC (US\$m)									
Loans	2	0	0	17	18	7	20	20	20
Equity and quasi-equity /c	8	7	6	13	10	14	11	11	11
MIGA									
MIGA guarantees (US\$m)	0	0	0	0	0	0	12	12	12

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

## Annex 8: Operations Portfolio (IBRD/IDA and Grants)

As of 7/15/2011

**Closed Projects** 25

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**IBRD/IDA\***

Total Disbursed (Active)	56.2
of which has been repaid	0.0
Total Disbursed (Closed)	0.0
of which has been repaid	14.1
Total Disbursed (Active + Closed)	56.2
of which has been repaid	14.1
Total Undisbursed (Active)	316.2
Total Undisbursed (Closed)	0.0
Total Undisbursed (Active +Closed)	316.2

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**Active Projects**

Project ID	Project name	Last PSR			Original Amount in US\$					Difference Between Expected and Actual		
		Supervision Rating		Fiscal Year	Millions				Undisb.	Disbursements		
		Dev. Obj.	Imp. Progress		IBRD	IDA	Grant	Cancel		Org	Frm rev'd	
P102299	BW-HIV/AIDS Project SIL (FY09)	S	S	2009	50.0					40.5	16.5	3.5
P102368	BW-Integrated Transport SIL (FY09)	S	S	2009	186.0					182.6	30.6	
P112516	BW:Morupule Generation and Transmission	S	S	2010	136.4					93.1	-43.3	
P095617	NB Human Wildlife Coexistence Project	MS	MU	2010			5.5			3.4	-0.9	
<b>Overall Result</b>					<b>372.4</b>		<b>5.5</b>			<b>319.6</b>	<b>2.9</b>	<b>3.5</b>

## Annex 9: Committed and Disbursed Outstanding Investment Portfolio (IFC)

As of July 2011  
(In USD Millions)

FY Approval	Company	Committed					Disbursed Outstanding				
		Loan	Equity	**Quasi Equity	*GT/RM	Participant	Loan	Equity	**Quasi Equity	*GT/RM	Participant
2001/08	Afrbnkcorp	0	4.68	13.55	0	0	0	4.68	13.55	0	0
2005/08	Letshego	6.84	3.9	0	0	0	6.84	3.9	0	0	0
2003	Petra diamonds	0	0.54	0	0	0	0	0.54	0	0	0
2010	Tsodilo	0	3.4	0	0	0	0	3.4	0	0	0
<b>Total Portfolio:</b>		<b>6.84</b>	<b>12.52</b>	<b>13.55</b>	<b>0</b>	<b>0</b>	<b>6.84</b>	<b>12.52</b>	<b>13.55</b>	<b>0</b>	<b>0</b>

\* Denotes Guarantee and Risk Management Products.

\*\* Quasi Equity includes both loan and equity types.