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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$250 MILLION TO

REPUBLIC OF BOTSWANA

FOR THE

BOTSWANA PROGRAMMATIC ECONOMIC RESILIENCE AND GREEN RECOVERY DEVELOPMENT POLICY LOAN

May 14, 2021

Macroeconomics, Trade And Investment Global Practice
Eastern and Southern Africa Region

Republic of Botswana

GOVERNMENT FISCAL YEAR

April 1 – March, 31

CURRENCY EQUIVALENTS

Exchange Rate Effective as of May 10, 2021

Botswana Pula (P)

US$1.00 = P 10.73

ABBREVIATIONS AND ACRONYMS

ABL	Asset-Based Lending	MFI	Microfinance Institution
AFD	Agence Française de Developpement	MIGA	Multilateral Investment Guarantee Agency
AfDB	African Development Bank	MIS	Management Information System
ASA	Advisory Services and Analytics	MLGRD	Ministry of Local Government and Rural Development
ASA	Annual Statements of Accounts	MoFED	Ministry of Finance and Economic Development
BIDPA	Botswana Institute for Development Policy Analysis	MOHW	Ministry of Health and Wellness
BMC	Botswana Meat Commission	MSME	Micro, Small and Medium Enterprise
BMTHS	Botswana Multi-Topic Household Survey	MTEF	Medium-Term Expenditure Framework
BoB	Bank of Botswana	MW	Megawatts
BP	Basis Points	NAP	National Adaptation Action Plan
BPC	Botswana Power Corporation	NDC	Nationally Determined Commitment
BWP	Botswana Pulas	NDP	National Development Plan
CAD	Current Account Deficit	NDVP	National Deployment and Vaccination Plan
CBNRM	Community-Based Natural Resource Management	NEP	National Energy Policy
CCA	Common Customs Area	NMES	National Monitoring and Evaluation System
CCP	Climate Change Policy	NPL	Non-Performing Loan
CIPA	Companies and Intellectual Property Authority	NSPF	National Social Protection Framework
COVID-19	Coronavirus Disease of 2019	OECD	Organisation for Economic Co-operation and Development
CPF	Country Partnership Framework	OP	Operational Policy

DAC	Division of Audit and Compliance	PDO	Program Development Objectives
DEA	Department of Environmental Affairs	PEFA	Public Expenditure and Financial Accountability
DIT	Department of Information Technology	PER	Public Expenditure Review
DPF	Development Policy Financing	PFM	Public Financial Management
DPO	Development Policy Operation	PFMA	Public Finance Management Act
DVS	Department of Veterinary Services	PFMRP	Public Financial Management Reform Program
EIA	Environmental Impact Assessment	PLR	Performance and Learning Review
EMP	Environmental Management Plans	PMT	Proxy Means Test/ing
ERTP	Economic Recovery and Transformation Plan	PP	Percentage Point
ESHS	Environmental, Social and Health and Safety	PPAD	Public Procurement and Asset Disposal
EU	European Union	PPADB	The Public Procurement and Asset Disposal Board
FDI	Foreign Direct Investment	PPP	Purchasing Power Parity
FY	Financial Year	PPP	Public-Private Partnership
GDP	Gross Domestic Product	PV	Photovoltaic
GFC	Global Financial Crisis	RAS	Reimbursable Advisory Services
GFN	Gross Financing Need	RE	Renewable Energy
GFS	Government Finance Statistics	REER	Real Effective Exchange Rate
GFSM	Government Finance Statistics Manual	SACU	Southern African Customs Union
GHG	Greenhouse Gas	SCD	Systematic Country Diagnostic
GIA	Government Investment Account	SDR	Special Drawing Rights
GNP	Gross National Product	SEA	Strategic Environmental Assessment
GoB	Government of Botswana	SME	Small and Micro Enterprises
GRID	Green, Resilient and Inclusive Development	SMME	Small, Medium and Micro Enterprises
GRS	Grievance Redress Service	SOE	State-Owned Enterprise
IBRD	International Bank for Reconstruction and Development	SP	Social Protection
ICC	Inter-Agency Coordinating Committee	SPE	State of Public Emergency
IDA	International Development Association	SSR	Single Social Registry
IFC	International Finance Corporation	UNDP	United Nations Development Program
IMF	International Monetary Fund	UB	University of Botswana
IPCC	Intergovernmental Panel on Climate Change	US	United States
IPP	Independent Power Producer	US$	United States Dollar
ISF	Industry Support Facility	VAT	Value Added Tax
KPI	Key Performance Indicator	VRE	Variable Renewable Energy
LDP	Letter of Development Policy	WB	World Bank

LEA	Local Enterprise Authority	WBG	World Bank Group
M&E	Monitoring and Evaluation	Y/Y	Year-on-Year
MADFS	Ministry of Agricultural Development and Food Security	ZAR	South African Rand

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REPUBLIC OF BOTSWANA

BOTSWANA PROGRAMMATIC ECONOMIC RESILIENCE AND GREEN RECOVERY DPF

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P175934	Yes	1st in a series of 2

Proposed Development Objective(s)

To support Government's response to the COVID-19 pandemic, strengthen private sector development, and promote a resilient, green recovery.

Organizations

Borrower: REPUBLIC OF BOTSWANA

Implementing Agency: MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**250.00**

DETAILS

International Bank for Reconstruction and Development (IBRD)	250.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Moderate

Results

Indicator Name	Baseline	Target
Prior Action 1: Indicator 1: Percentage of beneficiaries in five (5) social programs updated in the Single Social Registry	20.5 (2021)	75.8 (December 2022)
Prior Action 2: Indicator 2: Value of financing facilitated to the small and micro enterprise (SME) sector (new loans), in Pula	0 (2021)	50 million (December 2022)
Prior Action 3: Indicator 3: Percent of new businesses falling under the Trade Act or Industrial Development Act that are exempt from licensing requirements.	0 (2020)	70 (December 2022)
Prior Action 4: Indicator 4: Capacity of Renewable Energy permitted to be commissioned, in Megawatts	2 (2021)	100 (December 2022)
Prior Action 5: Indicator 5: Aggregate capacity for Solar Rooftop Program, in Megawatts	1.5 (2021)	10 (December 2022)
Prior Action 6: Indicator 6: Percentage of Environmental Management Plans (EMP) and Environmental Impact Assessment (EIA) processes that integrate climate change resilience considerations in line with the climate change guidelines	0 (2021)	33 (December 2022)

IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO REPUBLIC OF BOTSWANA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Financing (DPF) of US$250 million supports Botswana's short and long-term recovery from the socio-economic crisis triggered by the spread of the 2019 Coronavirus Disease (COVID-19).** It is the first-ever budget support loan Botswana requests from the World Bank. It is the first in a series of two programmatic operations. The program development objectives (PDO) of this DPF are: (1) to support the response to the COVID-19 pandemic; (2) to strengthen private sector development and (3) to promote a resilient, green recovery. The second and third PDOs lay the foundation for Botswana's transition to a private sector-led economy, paving the way for more diversified and inclusive growth.

2. **Botswana has long been a top performer on the African continent in terms of income per capita, macroeconomic management and democratic governance.** The *2008 Commission on Growth and Development* identified Botswana as one of the 13 economies that have grown at an average rate of 7 percent or more per year for 25 years or longer since the 1950s.[1] This is akin to the economy nearly doubling every decade. The discovery in the 1960s and, more importantly, the good stewardship of the world's largest diamond deposits underpins this success story. Real Gross Domestic Product (GDP) per capita grew almost five times faster than the global average until the 2009 global financial crisis. Buoyant diamond exports resulting in large revenue inflows led Botswana to establish the Pula Fund in 1994 – "pula" means rain in Setswana – with the aim to preserve part of the diamond exports earnings for a rainy day.

3. **Botswana's diamond-led growth model has since shown its structural limitations.** It has failed to generate enough jobs, thus contributing to some of the world's highest levels of inequality (Gini coefficient of 0.53 in 2015). While the economy is more diversified in terms of GDP composition, exports have not diversified across different sectors of the economy. Notably, mining represented 53 percent of GDP in 1989 and only 10 percent in 2019 but diamonds still account for 80 percent of merchandise exports. Among the structural challenges to the existing model is its inability to diversify beyond non-tradable sectors as demand for and investment in these continues to be encouraged and financed by public and mineral resources. As a result, sectoral diversification policies, at the top of the reform agenda for many years, have not yet resulted in fostering competitive non-mining sectors.

4. **The health impact of COVID-19 in Botswana has been limited compared to neighboring countries, but recent trends are worrying.** Six months after reporting its first case on March 31, 2020, the country had 3,172 cumulative cases and only 16 total deaths. Most cases were transmissions from neighboring South Africa. The situation deteriorated rapidly with the advent of the end-of-year festive season, as people left cities for their home villages. As of May 06, 2021, there were about 47,850 confirmed cases of COVID-19, about two percent of the population. Total deaths reached 724 deaths in the same period, with over half of these reported over the past two months. The trajectory of the disease remains

[1] Commission on Growth and Development. 2008. The Growth Report: Strategies for Sustained Growth and Inclusive Development. Washington, DC.

preoccupying. The current seven-day rolling average of 179 daily new cases and three daily deaths indicates that Botswana, a small country of 2.3 million, remains in the middle of its second wave of infections.

5. **The pandemic has compounded the structural challenges to Botswana's economy and threatens to reverse progress in poverty reduction, thus imparting a sense of urgency to reform.** The pandemic hit Botswana at a time when the limitations of its diamond-driven growth model have become more visible, particularly the inability to diversify beyond non-tradeable goods and services. The shock to the diamond industry was a key contributor to the 7.9 percent growth contraction in 2020. Existing buffers have provided much-needed cushion to the economy, but fiscal buffers in the form of the Government Investment Account (GIA) are now largely depleted (see Box 3 for further details). Poverty levels have risen and are expected to remain above the 2019 level until 2022. World Bank estimates suggest the pandemic pushed the US$1.9/day poverty rate (in 2011 Purchasing Power Parity) to an estimated 16 percent in 2020, up from 12.6 percent in 2019. The disproportionate impact on poorer and more vulnerable households could raise inequality in one of the most unequal countries in the world. Botswana is thus entering the post-COVID-19 era on a weaker footing, with a looming sense of urgency to transition towards a more diversified and inclusive growth model that is also more resilient against shocks.

6. **Recognizing the severity of the crisis, Government responded with a relief program valued at approximately 2 percent of GDP.** The relief program consists of measures to protect lives and limit the spread of virus, supporting livelihoods as well as supporting firms and the banking sector. An Economic Recovery and Transformation Plan (ERTP) complements the relief program by accelerating important structural reforms to mitigate the impact of COVID-19 and promote a robust recovery. The ERTP, which supports Botswana's efforts to pursue an outward-looking growth strategy, has an estimated budget equivalent to 7.8 percent of GDP. Authorities plan to make use of P13.5 billion (US$1.23 billion) of the total P14.5 billion (US$1.32 billion) through development spending, and the remaining P1 billion (US$90 million) for recurrent spending. The Bank of Botswana (BoB) further eased monetary policy, introduced additional liquidity support measures for commercial banks, and increased the rate of downward crawl of the Pula to support the competitiveness of domestic firms (see Box 1 for a summary of the Government's response to COVID-19).

7. **The COVID-induced crisis has added to another ongoing challenge: climate change.** Botswana is highly vulnerable to climate change impacts, especially drought and variable rainfall. A low-carbon and resilient recovery is in-line with the country's existing commitments to tackling climate change. At the same time, the country is heavily reliant upon carbon intensive economic activities. As a result, both climate change adaptation and mitigation are critical to Botswana's green development vision. The Intergovernmental Panel on Climate Change (IPCC) suggests Botswana's average temperature could increase by about 3°C by mid-century and average annual rainfall could drop by 9 percent. This puts the country at risk of increased *veld* fires, reduced water availability and quality, with negative impacts on grazing lands, biodiversity, and livelihoods. These climactic changes particularly affect small-scale farmers dependent on rain-fed agriculture and husbandry. They also worsen poverty outcomes of communities living in and around protected areas and dependent upon nature-based tourism. According to the Tourism Satellite Account data, the tourism sector's direct contribution to GDP is 4.7 percent and it employs about 3.2

percent of the population. The transport and beef production sectors are also vulnerable to climate change. The Government's growth strategy supported by this DPF series, seeks to diversify the economy based on the country's comparative advantages in sectors such as tourism and livestock, while also positioning Botswana to pursue green growth.

8. **This is the first budget support operation the Government of Botswana has requested from the World Bank.** At the root of this request is the economic crisis from the COVID-19 pandemic, which drained available resources, creating elevated financing needs as well as a sense of urgency to accelerate the economic diversification agenda. For the World Bank, this crisis has provided an opportunity to deepen the policy dialogue on a range of issues but also to engage productively on several other promising reform agendas that following operations may support. These include the liberalization of the meat sector, the adoption of a carbon tax, and the reform of State-Owned Enterprises (SOEs). This DPF also represents the best opportunity the World Bank has had so far to build trust with the Government, acquaint itself with the instrument, and leverage complementarities with other bilateral and multilateral partners. This first engagement opens the door for a deeper dialogue that will eventually help address binding policy and institutional constraints in the country over the medium-term.

9. **The proposed operation is structured around three pillars with a total of six prior actions (PAs):** (i) strengthening pandemic and crisis response – Pillar 1, (ii) addressing regulatory constraints for a private sector recovery – Pillar 2, and (iii) building the foundations for sustainable, "green" growth – Pillar 3. The creation of an enabling policy environment to implement the Single Social Registry and targeting reforms (PA 1) is key to improve targeting of social spending on the most vulnerable, while also strengthening systems for future shocks. Actions to support private sector development include improvements to individuals and small and micro enterprises' (SMEs) access to finance (PA 2) and easing of regulatory requirements to start a business (PA 3). Together, these reforms contribute to an enabling business environment for SME-led increased job creation and economic diversification. Actions that support sustainable, "green" growth include increasing renewable energy capacity through independent power producers (PA 4), promoting and regulating rooftop solar energy generation (PA 5) and embedding climate change assessments in environmental assessments (PA 6). Beyond addressing climate change concerns, these reforms will help attract private sector investments, contribute to diversified exports, and increase job opportunities towards a green economy.

Box 1: The Government of Botswana's response to COVID-19

Since the global outbreak, Government has taken important steps to prevent and respond to the COVID-19 outbreak in Botswana, including a declaration of a six-month State of Public Emergency (SPE) by the President from April 02, 2020. Subsequent extensions have been made to strengthen the response to the pandemic, with the current SPE ending in September 2021. Key measures taken by the Government are:

1. **State of Public Emergency (SPE),** which has allowed Government to restrict the movement of people and operations of businesses to prevent the exposure of people to the coronavirus, thereby, containing its rapid spread and transmission. Public gatherings are currently limited to a maximum number of 50 people, the wearing of masks is compulsory and other general COVID-19 precautionary measures including social distancing and good hygiene are required.
2. A **COVID-19 Relief Fund**, with Government seed capital of P2 billion (US$181.8 million), was established under the COVID-19 Economic Response Plan to (i) support workers, (ii) stabilize businesses, (iii) ensure availability of strategic supplies, (iv) restructure financial services, and (v) facilitate doing business. Private contributions were also encouraged, with monetary contributions totaling P134.6 million (US$ 12.2 million) and in-kind donations reaching P62.7 million (US$5.7 million) by September 2020. The wage subsidy scheme made available to private sector companies for three months from April was extended until December 2020 for the tourism industry, one of the countries' hard-hit sectors.
3. The **Economic Recovery and Transformation Plan (ERTP)**, approved as an addendum to the Mid-Term Review of the Eleventh National Development Plan NDP 11 in September 2020, was developed to support Government's short-term relief package by addressing structural reforms for Botswana's a resilient economic transformation. The ERTP is estimated at P14.5 billion and will be implemented over a period of two-three years.
4. A P1.3 billion **Industry Support Fund** was set up to provide soft loans to cushion the impact of the economic downturn on businesses. Amounts earmarked to key sectors are: P200 million (US$18.2 million) for tourism and P100 million (US$9.09 million) for agriculture. An additional P100 million provides small grants to informal sector and micro enterprises registered with the Local Enterprise Authority (LEA). The remaining P900 million is for general business.
5. **Mitigation measures in the education sector** include the reduction of class sizes by half and school operation on a shift basis to provide for social distancing, with teachers and leaners encouraged to wear face masks.
7. Botswana **received its first batch of COVID-19 vaccines** (30,000 doses) on March 9, 2021 – a donation from the Government of India. The country also **signed a COVAX scheme agreement** in November 2020, providing it with the option to buy coronavirus vaccines for 20 percent of its population. The **National Deployment and Vaccination Plan for COVID-19 Vaccine in Botswana was approved in March 2021**, and vaccinations began on March 26, 2021, with frontline health care workers. As of the end of April 2021, approximately 50,000 vaccine doses had been administered.
8. While Botswana is not in "lockdown", Government has introduced a **restriction on movement** which applies from 22h00 to 04h00 daily. This is in addition to the requirement for movement permits for travel across various zones of the country.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

Real and external sector developments

11. **Botswana has struggled to maintain its growth momentum in recent years as key sectors have faced persistent headwinds.** After averaging 7 percent between 2010 and 2014, weakening global demand for diamonds and severe weather conditions led real GDP growth to slow to an average 2.6 percent between 2015 and 2019. Per capita growth has narrowed by 4 percentage points (pp) between the two periods, averaging at 1 percent in the latter half of the decade. Whilst the mining sector's share in the economy has fallen,[2] diamonds remain an important driver of economic growth, are the largest single contributor to government revenues in most years and are the source of at least 80 percent of goods export earnings (see Box 2). In 2019, mining output contracted by 4.1 percent due to a pronounced decline in rough diamond sales, growing competition from synthetics and restricted bank financing in India – the main destination for rough diamonds. This, along with severe drought conditions that affected agricultural production and livestock farming, led growth to slow to 3 percent in 2019, from 4.5 percent in 2018.

12. **COVID-19 has exacerbated existing growth challenges, leading to an estimated real GDP contraction of 7.9 percent in 2020** (see Table 1). The contraction for 2020 represents a substantial downward revision to the World Bank's pre-COVID-19 projection of 3.5 percent and is akin to the output contraction experienced in 2009 following the Global Financial Crisis (GFC).[3] Plunging global demand for diamonds experienced in the first half of 2020 following lockdowns in key markets (China, India and Europe) and restrictive measures to prevent the spread of COVID-19 locally led to scaling back diamond production. Diamond sales fell sharply between March and July as travel restrictions led to cancellations to diamond *sights*.[4] While the gradual recovery in demand for diamond jewelry in the United States (US) and China led to improved sales since September 2020, accumulated inventories meant production remained subdued in 2020 (at 16.5 million carats, from 23.3 million in 2019). The impact of travel restrictions has also been felt in the tourism sector, with a survey conducted by Botswana's Local Enterprise Authority (LEA) covering 382 small, micro and medium enterprises (SMMEs) showing a 72 percent revenue loss in March 2020. While unemployment levels increased slightly between the first and last quarters of 2020 (23.2 percent in Q1 to 24.5 percent in Q4), this likely reflects the combined effect of wage subsidies and the ban on retrenchments under the SPE rather than active employment levels. Botswana's poverty rate is estimated to have reached 16 percent in 2020, up from 12.6 percent in 2019, using the US$1.9/day poverty rate (in 2011 Purchasing Power Parity). An additional 103,000 people are estimated to have fallen below the upper-middle income poverty line (US$5.5 per day, 2011 PPP) in 2020, bringing the total to 1.4 million people.

[2] The share of mining in overall output has steadily decreased from 32 percent in the mid-2000s to 10 percent in 2019.
[3] Output contracted by 7.7 percent in 2009 due to a sharp fall in mining output, with a strong recovery of 8.6 percent in 2010.
[4] De Beer's Global Sightholder Sales team relocated from the UK to Botswana in 2013. After being sorted, rough diamonds are sent to Gaborone from De Beers Group's operations in Canada, Botswana, Namibia, and South Africa. Sales are held 10 times a year and are known as *'Sights'* because, during the sales period, customers are able to inspect the rough diamonds offered to them before deciding what to buy.

13. **Inflation has reached historically low levels**. At an average 2.8 percent in 2019, headline inflation was already subdued (and below the Bank of Botswana target band of 3-6 percent) as low imported inflation and stable administered prices offset higher food prices. The impact of COVID-19 on global oil prices and subsequent lowering of fuel prices caused inflation to fall further in 2020, averaging at 1.9 percent.[5] Since Q3 2020, prices for domestic tradeables have experienced an increase due to higher food prices,[6] while those for imported tradeables decreased reflecting the downward adjustment in domestic fuel prices.

Table 1. Botswana: Contributions to GDP growth (2018-2024)

Percentage of GDP	Actual		Estimates		Current Baseline			
	2018	2019	2020 Pre-COVID	2020 Revised	2021p	2022p	2023p	2024p
Real Economy								
GDP at constant prices (%)	4.5	3.0	4.1	-7.9	7.8	5.9	4.4	4.1
Demand side:								
Consumption	4.0	4.0	5.0	1.4	2.4	1.3	3.6	2.7
Private	4.1	4.2	4.5	0.2	2.5	3.7	4.1	4.3
Public	3.7	3.3	6.3	4.3	2.1	-4.4	2.4	-1.5
Investment	8.1	6.6	10.3	-8.2	11.7	12.5	6.1	5.1
Exports	7.2	-16.6	6.5	-21.4	35.6	10.5	6.1	6.0
Imports	11.8	6.7	9.0	4.3	5.2	6.5	5.5	4.0
Supply side:								
Agriculture	2.6	-0.1	2.2	2.3	3.0	3.0	2.8	2.8
Mining	7.6	-4.1	6.0	-26.2	40.6	9.0	4.4	2.2
Industry	4.1	3.3	2.0	-8.9	6.8	4.6	3.2	3.6
Services	4.1	4.5	4.4	-5.8	4.2	6.0	4.6	4.7

Source: Botswana's authorities; World Bank estimates, as at February 2021. Notes: supply side include proportional net indirect taxes

14. **The pandemic caused the current account deficit (CAD) to widen further, reaching an estimated 8.8 percent of GDP in 2020 from 7.6 percent in 2019** (see Table 2). Merchandise exports declined by 19 percent in 2020 as muted global demand for diamonds and the impact of travel restrictions on *sights* constrained diamond sales and exports (which fell by 78 percent year-on-year (y/y) in the second quarter of 2020). Lower merchandise exports, a significant drop in tourism receipts and a slight increase in merchandise imports contributed to a significant increase in the trade deficit, which is estimated to have reached 14.4 percent of GDP in 2020 (from 6.9 percent of GDP in 2019). Despite this, increased SACU transfers for FY2020/21 helped to alleviate some of the pressures on the current account. Challenging global financial conditions have curtailed foreign direct investments, which fell 30 percent in the first half of the year and have thus placed additional pressures on reserves to cover the external balance. International reserves amounted to US$4.7 billion (equivalent to almost 7 months of next year's import cover) at the end of December 2020, a decrease of 24 percent from the same period last year. Drawdown in reserves has been carried out to finance government and private sector import obligations, as well as other government operations such as external loan servicing and funding of embassies.

[5] Y/y inflation fell to a record low of 0.9 percent in June and July following adjustments in fuel prices.
[6] The increase is a result of bad weather conditions during in the 2018/19 ploughing season and the effects of COVID-19 in 2020.

Fiscal policies and developments

15. **COVID-19 has worsened Botswana's already weakened fiscal position, with the FY2020/21 budget deficit set to reach 10 percent of GDP.** The increase reflects the combined impact of a sharp decline in mineral revenues, a sticky public sector wage bill and the impact of the COVID-19 Economic Response package. While strong macro-economic performance in the past has allowed for the accumulation of fiscal savings through the Government Investment Account (GIA, see Box 3), these have come under significant pressure due to consecutive budget deficits since FY2015/16 and have not been spared in FY2020/21. The GIA balance is set to narrow to an unprecedented 0.8 percent of GDP by the end of FY2020/21 (from almost 8 percent of GDP at the end of FY2019/20 and a high of 20 percent of GDP in 2015), underscoring the need for urgent reforms to support fiscal sustainability. Financing of the budget has also relied on increased domestic bond issuances,[7] which will push public and publicly guaranteed (PPG) debt to an estimated 24.5 percent of GDP at the end of FY2020/21, from 19 percent in 2019, although this remains below 40 percent of GDP statutory cap (20 percent cap for domestic debt and the same for external).

16. **COVID-19 related spending has added to existing spending pressures.** Total expenditures are on course to reach almost 37 percent of GDP in FY2020/21 due to a relatively rigid budget and the impact of additional COVID-19 induced spending. Spending rigidity - with approximately 40 percent of the budget accounted for by public wages – has posed a challenge to consolidation efforts and kept spending high even before the pandemic hit.[8] COVID-19 has created additional spending pressures in 2020, with the introduction of the P1.3 billion Industry Support Facility and the additional P1 billion spent on COVID-19 related health spending adding about 1.3 percent of GDP to expenditures. Additional spending through special fund balances (off-budget), equivalent to about 1 percent of GDP, was also carried out to meet measures under the Economic Response package – including a P2 billion (US$181.8 million) COVID-19 Relief Fund which financed a wage subsidy scheme and spending on emergency medical equipment, water supply and food baskets for vulnerable households.

17. **Revenues have been constrained by the shock to mineral revenues, which have typically accounted for over a third of total collection.** Mineral revenues, which include mineral income tax, royalties, and dividends, narrowed by 60 percent in the first half of the fiscal year (April to September) reflecting reduced diamond sales. Receipts from non-mineral income tax and VAT have also fallen significantly following tax deferrals introduced to cushion the impact of the pandemic on the economy and slowdown in activity. Contrastingly, SACU revenues, which have been a key source of volatility in revenues in recent years, have helped to soften the blow due to the coffers. Together, these developments motivate an expected 10.5 percent reduction in revenue collection in FY2020/21, while the expected 1.3pp of GDP pick up non-mineral primary balance highlights the important role mineral revenues play.

[7] In September 2020, Parliament approved the government's proposal to double the bond issuance limit for this year (to P30 million).
[8] Total spending has averaged at 33 percent of GDP since 2017, with the recurrent budget accounting for 75 percent of this.

Table 2: Selected Macroeconomic indicators pre- and post-COVID-19 (2018-2024)

	Actual		Estimates		Current Baseline			
	2018	2019	2020 Pre-COVID	2020 Revised	2021p	2022p	2023p	2024p
Output and prices	*(Annual percent change)*							
Real GDP	4.5	3.0	4.1	-7.9	7.8	5.9	4.4	4.1
Mining	7.6	-4.1	6.0	-26.2	40.6	9.0	4.4	2.2
Consumer prices (Annual average)	3.2	2.8	3.5	1.9	4.0	4.5	4.1	4.1
Money and credit								
Broad money (M2)	8.3	8	7.7	5.9	…	…	…	…
Credit to the private sector	6.6	7.1	7.9	4.5	…	…	…	…
Central government finance	*(In percent of GDP)*							
Total Revenue and Grants	28.1	27.5	28.0	26.9	28.8	26.7	28.6	28.2
Tax Revenue	19.8	19.1	19.9	21.0	20.3	18.7	20.1	20.6
Of which mineral revenue	2.7	2.3	2.5	1.0	2.1	2.2	2.0	2.1
Non-Tax Revenue	8.2	8.4	7.9	5.7	8.4	7.9	8.4	7.6
Of which royalties and dividends	7.0	5.1	6.5	2.6	7.2	6.7	7.2	6.4
Total Expenditure and Net lending	32.8	33.2	30.4	36.9	34.5	31.1	29.9	28.8
Current Expenditure	24.8	26.3	25.0	30.1	27.6	25.2	25.2	24.3
Capital Expenditure	8.1	6.9	5.4	6.8	7.5	6.4	6.1	5.8
Primary balance (including grants)	-4.1	-5.0	-1.7	-9.1	-4.8	-3.2	0.1	1.0
non mineral	-13.8	-12.4	-10.7	-12.8	-14.1	-12.1	-9.1	-7.5
Overall balance (including grants)	-4.7	-5.6	-2.3	-10.0	-5.7	-4.3	-1.3	-0.5
Balance of payments								
Exports of goods and services	40.3	33.6	38.4	29.9	37.6	39.9	40.7	40.2
Of which diamonds	31.7	25.9	28.9	23.5	30.5	32.3	32.7	32.1
Imports of goods and services	39.2	40.5	40.9	44.6	42.8	42.4	41.7	40.4
Prmary and secondary incomes	-0.5	-0.7	-0.1	5.9	2.2	0.2	0.8	1.3
Current account balance	0.6	-7.6	-2.1	-8.8	-3.0	-2.4	-0.1	1.1
Overall BOP balance	2.4	-9.6	-1.9	-9.2	1.9	3.8	2.7	2.6
Gross international reserves (US$ billion)	6.7	6.2	5.8	4.7	5.1	5.9	6.5	7.1
months of next year's import cover	10.8	10.5	8.5	6.9	6.9	7.5	7.9	8.2
months of next year's non-diamond import cover	14.5	13.3	13.7	9.6	9.6	10.5	11.1	11.6
Debt								
Public debt including guarantees (external and domestic)	18.1	19.3	16.2	24.5	26.4	28.8	28.2	25.8
Central Government External debt	8.0	7.8	5.7	7.9	9.8	12.6	12.7	11.2
Memorandum items:								
Nominal GDP (Pula Billions)	190.4	197.3	212.1	180.8	208.7	227.3	246.5	269.0
Nominal GDP (US$ Billions)	18.6	18.3	19.5	15.9	19.1	20.7	22.4	24.3
Pula per US$ (period average)	10.2	10.8	10.9	11.4	…	…	…	…

Source: Botswana Authorities, IMF and World Bank estimates

Monetary and financial sector developments

18. **Monetary policy remained accommodative in 2020, consistent with subdued inflation and the output gap.** In response to the impact of COVID-19 on the economy, BoB lowered the main reference rate by 50 basis points to 4.25 percent (in April) and then 3.75 percent (in October). This was supplemented by the removal of the 6 percent penalty on access to overnight funding of the BoB Credit Facility for commercial banks and a reduction the primary reserve requirement by 250bp to 2.5 percent. Together, measures aimed at taking pressuring off the financial system while allowing commercial banks to support economic

activity. The exchange rate depreciated (in nominal terms) in line with the crawling peg, which involved a following of the Rand (which depreciated against the US$ in 2020).

19. **Botswana's financial system continues to be resilient, characterized by strong capital and liquidity buffers, as well as continued profitability and buoyed by accommodative monetary conditions.** Domestic credit growth remains moderate posing minimal risk to financial stability. Annual growth in commercial bank credit decelerated to 4.5 percent in December 2020, from 7.6 percent a year earlier. Growth is subdued when compared to the 10.4 percent recorded in March 2020, partly reflective of the effects of COVID-19 on the supply and demand for loans. Notably, growth in credit to households, which account for almost two-thirds of overall borrowing, decreased to 7.3 percent in the twelve months to December 2020, from 13.7 percent in the corresponding period in 2019, with a significant decline in growth of credit card advances. While the ratio of non-performing loans (NPLs) remained modest at 4.3 percent in December 2020, from 4.9 percent in December 2019, this may be masked by measures introduced by commercial banks to provide cash relief to clients, including loan repayment holidays and restructuring of credit. Overall, there is no indication of excessive and rapid credit growth.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

Real and external sector outlook

20. **Growth is projected to be robust in 2021, driven by an emerging recovery in mining.** Emerging trends in 2021 point to a recovery in the global diamond industry, owing to strong demand from China, consumers' value for the good, added flexibility along the diamond value chain, and a gradual increase in prices. DeBeers' provisional results for the first two *sights* of 2021 show a 34 percent increase on sales carried out in the same period last year, highlighting recovering demand for Botswana's key export.[9] On the supply side, this translates to increased mining production and activities across different stages of the value chain, such as diamond cutting and polishing. Mining output will also be complemented by the opening of the new Khoemacau copper mine, expected to begin production in May 2021. Aside from robust agricultural production, other sectors will remain constrained by the impact of COVID-19 on production and by the need to carefully calibrate restrictive measures with Botswana's vaccination program, which began on March 26, 2021. Despite the expected recovery, which is also reflective of base effects, real output will remain below pre-crisis levels until 2022, highlighting the significant impact COVID-19 has had on the economy and firms' production.[10] Less favorable developments in the diamond industry and delays in vaccine deployment would dampen the recovery (see *risk to the outlook* section).

21. **Strong growth is also expected in 2022 as the non-mining sector recovers, before averaging 4.2 percent over the medium term**. Whilst the mining sector will continue to play a key role in the recovery, particularly as copper production is ramped up, a stronger recovery for the services sector is expected in 2022, as increased levels of immunization against COVID-19 (locally and in regional countries, particularly South Africa) provide a supportive environment for businesses, tourism activity and trade to recover.[11]

[9] Given global restrictions on the movement of people and products, De Beers Group has implemented a more flexible approach to rough diamond sales, including *sights* extended beyond its normal week-long duration.
[10] The December 2020 Business Expectations Survey shows firms anticipate it would take more than a year (from Q4 2020) for their businesses to recover from the impact of COVID-19.
[11] Botswana's National Deployment and Vaccination Plan targets herd immunity by the end of 2021.

This will be supported by increased government spending as the implementation of the ERTP unfolds and Botswana continues to pursue an outward-looking growth strategy that focusses on spurring private sector development and competitive external trade. Over the medium term, growth is set to average at around 4.2 percent and will be driven by private investments in copper mining and renewable energy, along recovering private consumption. Real GDP per capita is not expected to revert to 2019 levels until 2023 at the earliest.

22. **The current account deficit will narrow in 2021, but reduced SACU transfers will pose a constraint over the medium term.** Given their dominance in overall exports, the anticipated recovery in diamond exports is expected to reduce the trade deficit considerably in 2021 before turning marginally positive in the medium term. Despite this, the current account is set to remain in deficit until 2023 reflecting the impact of the anticipated contraction in SACU transfers over the next 2-3 years allied on the income account. Tourism earnings are also expected to remain below pre-COVID levels until 2023. Apart from investments in the coal and copper industries, FDI coverage of the current account deficit will remain minimal, with budget support and government commercial borrowing covering the bulk of the external financing needs. Botswana's reserves will remain stable and recover to almost eight months of import by 2023, albeit lower than the recent peak of 13.8 months recorded in 2016.

23. **Inflation is set to pick up in 2021 but will remain within the Bank of Botswana's targeted 3-6 percent band.** Inflation will edge upwards in 2021 due to expected increases in administered prices, including fuel and electricity prices, as well as the impact of the announced increase in the VAT rate. Additional factors that could contribute to the upward trend include an accelerated implementation of the Government's ERTP, whilst weak economic activity, recurrent lockdowns due to prolonged COVID-19 infections and lower than expected international commodity prices could create downward pressures. The exchange rate policy will continue to be used to support the competitiveness of local producers of tradeable goods and services in both international and domestic markets. This entails maintaining keeping the REER stable in relation to the Botswana's main trade partners.

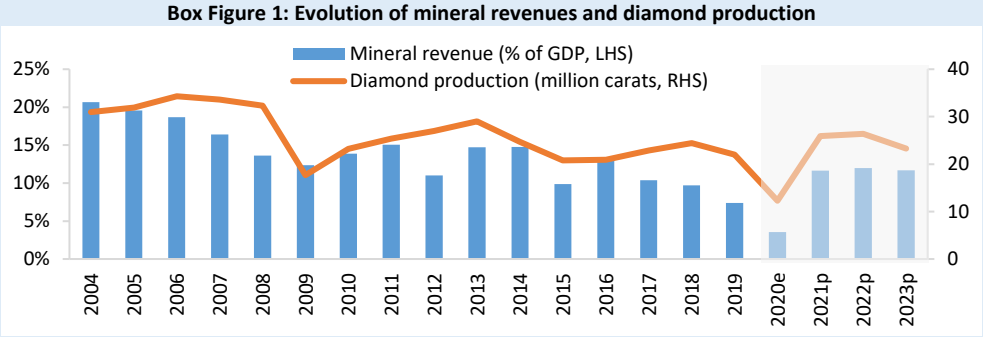
Box 2: A changing context for Botswana's diamonds

Diamonds have played a key role in shaping Botswana's development since Independence. Botswana has historically enjoyed strong and stable growth since independence catalyzed by the discovery of large diamond deposits, and prudent use of the proceeds. Buoyant diamond exports – at an average 80 percent of all exports - and accompanying significant revenue inflows (over a third of overall collection) led to the authorities to establish, in 1994, the Pula Fund with the aim of preserving part of the income from diamond exports for future generations. Since 2010, government efforts have focused on expanding the diamond value in Botswana which has led to growth in diamond beneficiation activities, including in manufacturing (cutting and polishing), wholesale trade, and sorting and valuing.

Increased global diamond market volatility has had a negative impact on the economy, even before COVID-19. After the GFC, prices for raw diamonds increased due to curtailed diamond production and recovering demand. Since then, global demand has been volatile, and prices have largely been on a downward trend as a result of developments in China (economic slowdown) and India (currency reform and restricted bank financing). The market for small, low value diamonds has also been particularly weak, due in part to competition from synthetic diamonds. These developments have caused Botswana's diamond production to average at 24 million carats between 2010 and 2019 (compared to 30 million during the 2000s), whilst mineral revenues have averaged 12 percent of GDP (from a peak of 20 percent in 2004). The COVID-19 induced demand slump in 2020 has led to an accumulation of inventories, with diamond production falling to an estimated 16.3 million carats.

Whilst a recovery is expected in the short term, added investments will be needed to keep Botswana's mines operational. The short-term expectations are grounded in recovering demand in South East Asia, China, Europe, and North America. Despite this, the outlook is consistent with expected lower production, than in the 2000s. Over the medium term, large investments will be required to widen and deepen maturing mines, coming at the expense of mineral revenues for the Government. Debswana has adopted a decarbonization strategy dubbed "building forever" aimed at attaining carbon neutrality by 2030, which will require a major shift from the current coal-powered electricity. This is consistent with industry-wide recognition of climate-conscious consumers. Current production capacity is generally expected be maintained up to about 2032, before declining thereafter. The end of sustainable mining would start from about 2042, with production ceasing by the early 2050s.

Box Figure 1: Evolution of mineral revenues and diamond production



Source: Botswana's Authorities, Debswana, IMF and World Bank estimates

Fiscal policies and outlook

24. **The overall deficit is set to narrow to 5.7 percent of GDP in FY2021, from 10 percent in FY2020** (see Table 3)**.** While this represents a significant adjustment, the anticipated improvement in the fiscal position hinges on expectations of higher mineral revenues collection. A slower than anticipated recovery in mineral revenues would thus result in significant pressures on the budget (see risk section). The improvement also reflects successful implementation of revenue enhancing reforms (discussed in the paragraph below), which are estimated to create an additional 1 percent of GDP in revenue collection in FY2021/22. Despite this, non-mineral revenue will be constrained by the impact of COVID-19 on SACU receipts (see Box 4). Winding down of relief spending in FY2021/22 will be partially offset by increased

investment spending as the ERTP progresses and additional health spending, including COVID-19 vaccine procurement.[12]

Table 3: Key Fiscal Indicators (2018-2024)

Percentage of GDP	Actual		Estimates		Current Baseline			
	FY18	FY19	FY20 Pre-COVID	FY20 Revised	FY21p	FY22p	FY23p	FY24p
Total Revenue and Grants	**28.1**	**27.5**	**28.0**	**26.9**	**28.8**	**26.7**	**28.6**	**28.2**
Tax Revenue	19.8	19.1	19.9	21.0	20.3	18.7	20.1	20.6
Income Tax	7.9	7.8	8.9	7.6	8.7	9.0	8.9	9.1
Of which mineral	2.7	2.3	2.5	1.0	2.1	2.2	2.0	2.1
VAT and sales tax	3.9	4.1	3.8	3.9	3.8	3.9	4.0	4.2
Taxes on international trade (inc SACU)	7.8	7.1	6.9	9.0	6.6	4.0	5.5	5.8
Revenue enhancing reforms	0.0	0.0	0.0	0.3	1.1	1.6	1.5	1.4
Nontax revenue	8.2	8.4	7.9	5.7	8.4	7.9	8.4	7.6
Of which mineral royalties and dividends	7.0	5.1	6.5	2.6	7.2	6.7	7.2	6.4
Grants	0.0	0.0	0.2	0.2	0.1	0.1	0.1	0.1
Total Expenditure and Net Lending	**32.8**	**33.2**	**30.4**	**36.9**	**34.5**	**31.1**	**29.9**	**28.8**
Current Expenditure	24.8	26.3	25.0	30.1	27.6	25.2	24.3	23.0
Wage bill	11.6	13.3	12.0	14.9	13.8	12.4	12.0	11.4
Interest	0.6	0.6	0.6	0.8	0.9	1.2	1.4	1.5
Other	12.7	12.3	12.4	14.4	12.9	11.6	10.9	10.2
Of which grants and subsidies	7.0	7.0	7.4	9.8	7.5	7.0	6.6	6.1
Capital Expenditure	8.1	6.9	5.4	6.8	7.5	6.4	6.1	5.8
Cost saving measures	0.0	0.0	0.0	0.0	-0.6	-0.5	-0.5	0.0
Net Lending	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance (including reforms)	**-4.1**	**-5.0**	**-1.7**	**-9.1**	**-4.8**	**-3.2**	**0.1**	**1.0**
non mineral	-13.8	-12.4	-10.7	-12.8	-14.1	-12.1	-9.1	-7.6
Overall balance (including reforms)	**-4.7**	**-5.6**	**-2.3**	**-10.0**	**-5.7**	**-4.3**	**-1.3**	**-0.5**
Government Financing Needs	**4.7**	**5.6**	**2.3**	**10.0**	**5.7**	**4.3**	**1.3**	**0.5**
External (Net)	-0.5	-0.4	-0.5	-0.6	2.9	3.6	0.7	-0.6
Disbursements	0.2	0.4	0.2	0.2	3.6	4.3	1.3	0.0
Project loans	0.2	0.4	0.2	0.2	0.1	0.0	0.0	0.0
World Bank Budget Support	0.0	0.0	0.0	0.0	1.3	0.7	0.0	0.0
African Development Bank Budget Support	0.0	0.0	0.0	0.0	0.7	0.6	0.0	0.0
Commercial borrowing	0.0	0.0	0.0	0.0	1.5	3.0	1.3	0.0
Amortization	-0.7	-0.7	-0.7	-0.8	-0.7	-0.6	-0.6	-0.6
Domestic (Net)	5.2	4.5	2.9	10.5	2.8	0.7	0.6	1.1
Of which net borrowing	-1.8	1.3	-0.4	3.9	2.3	1.1	1.0	0.5
...Of which change in GIA (- = increase)	7.0	3.1	3.3	6.6	0.5	-0.4	-0.4	0.6

Source: Botswana's Authorities, IMF and World Bank estimates.
Notes: (1) Revenue enhancing reforms account for the impact of the VAT increase to 14% and reduction of VAT exemptions, as well as the fuel levy increase to P1/lt. (2) Cost saving interventions include reduction of individual farmers' subsidies and of subventions to SOEs.

25. **Implementation of reforms to improve revenue mobilization has begun.** Firstly, as of April 2021, the VAT rate has increased by 2pp to 14 percent, bringing it closer to the regional average.[13] The fuel levy has also been revised upwards by P1 per liter (from P0.07 per liter for diesel and P0.12 per liter petrol) in part to

[12] Botswana has earmarked P7.9 billion to its health budget for FY2021/22 (about 4 percent of GDP and 11 percent of total spend).
[13] VAT receipts have averaged at 3.5 percent of GDP, well below the 7-8 percent of GDP average for other SACU countries.

align it to the VAT rate as fuel is a zero-rated product,[14] but also as an important step towards implementing a carbon tax. Other measures to address pollution concerns include levies on plastic bags and second-hand vehicles, while a levy on sweetened beverages aims to address high levels of diabetes. Progress is also being made on the development of the Tax Administration Act and on revisions to the VAT Act, adding provisions for the introduction of Electronic Billing Machines and the reduction of VAT concessions that do not predominantly benefit vulnerable households. Together, these measures could contribute an additional 1.4 percent of GDP annually to overall revenue collection over the medium-term.

26. **Strengthening the fiscal position will also depend on efforts to improve the quality and efficiency of spending.** The nominal adjustment on the expenditure side will likely be slower as implementation of the ERTP progresses. This said, and given the limited fiscal space, the authorities are committed to improving expenditure efficiency. To achieve this, the FY2021/22 budget has been prepared using the Zero-Based-Budgeting approach, which requires budgetary units to plan from a "clean slate" and thus reducing scope for entrenched excess spending. The on-going implementation of social protection reforms, including the Social Registry, also aim to enhance spending efficiency through improved administration of social protection systems and better targeting to support delivery of social benefits. Adoption of the new Procurement Bill, which includes use of modern tools and techniques to improve service delivery and procurement, will result in increased efficiency and accountability of public spending. Recognizing the heavy burden of the public sector wage bill, the authorities announced the abolishment of 50 percent of vacant public sector positions as of April 2021. A review of the public sector wage bill with a view to propose more comprehensive reforms is currently underway.[15] More broadly, ongoing revisions to the Public Finance Management Act will provide a platform for much-needed reforms in the areas of public investment management and public debt management (including non-monetary guarantees to Public-Private Partnerships). Steady progress is also being made to address non-performing SOEs, with the recently concluded assessment of the SOE portfolio providing the outline for rationalizing, merging, or terminating SOE operations.

27. **Depleted fiscal buffers mean external financing sources will be used to meet budget financing needs in FY2021/22.** Domestic market issuance is estimated at 4 percent of GDP but will be partially offset by amortization of existing debt. To close the gap, the government is mobilizing support from multilateral partners, including US$250 million from the World Bank under this operation and another US$135 million from the African Development Bank (AfDB) (see Table 4). Advanced discussions are also taking place for a US$600 million commercial loan, backed by the Multilateral Investment Guarantee Agency (MIGA), with half of this amount expected to be disbursed in FY2021/22. Additional external borrowing from bilateral creditors or through a Eurobond issuance is under consideration, although is likely for FY2022/23 and FY2023/24.

[14] Introduced at the same time as VAT, the levy compensates for the fact that fuel is zero-rated for VAT purposes. In principle, the fuel levy should approximate the VAT rate. However, the levy has not been adjusted to reflect rising cost of fuel or VAT rates.
[15] Historically, the increasing wage bill has been driven by significant public sector wage hikes. Key reforms are likely to focus on aligning pay with productivity (through minimal wage increases) as well as the roll out of public services on digital platforms.

Table 4: External Financing Needs (2018-2024)

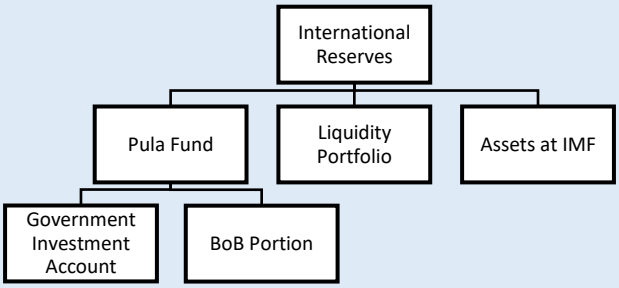
USD million	Actual		Estimates		Current Baseline			
	2018	2019	2020 Pre-COVID	2020 Revised	2021p	2022p	2023p	2024p
Total Financing requirements	**828**	**827**	**552**	**1,516**	**705**	**612**	**154**	**-146**
Current account deficit	-117	1,391	411	1,391	583	489	28	-278
Scheduled government debt amortization	113	127	141	125	122	123	126	133
Errors and omissions	-831	-686	0	0	0	0	0	0
Total financing sources	**827**	**820**	**552**	**1,516**	**705**	**612**	**154**	**-146**
FDI inflows (net)	203	217	309	140	262	305	319	333
Portfolio inflows (net)	627	-1,006	-173	-585	-383	-314	-354	-369
Government borrowing (gross)	0	0	141	39	685	910	275	0
of which World Bank budget support					250	150	0	0
of which AfDB budget support					135	135	0	0
of which commercial borrowing					300	625	275	0
Other capital flows	-414	500	-102	470	499	504	511	523
Change in reserves ("-" = increase)	411	1,109	377	1,450	-358	-793	-597	-634

Source: Botswana's Authorities, IMF and World Bank staff estimates
Note: Other capital flows include loans to the private sector, currency and deposits, and trade credits.

Box 3: Understanding Botswana's Pula Fund

A fund to preserve income from diamond exports for future generations. Established in 1994, the Pula Fund aims to preserve part of the income by creating a separate investment portfolio. International reserves are thus split into two portfolios: (i) the Liquidity Portfolio, to provide the foreign exchange needed for normal day to day international transactions; and (ii) the Pula Fund, to be invested in long-term assets to achieve higher returns. The Pula Fund is managed by the Board of the Bank of Botswana (BoB), in consultations with the Ministry of Finance and Economic Development. This has provided greater flexibility in the management of international reserves, and greater certainty in the forecasting of annual "dividend" payments to the government from the BoB.

Investing assets to meet fiscal policy objectives. The Pula Fund is composed of the Government Investment Account (GIA), which reflects savings from accumulated fiscal surpluses of the past, and the Bob's reserve accumulation above the target for liquid reserves. The GIA is used to provide short-term stabilization to the government budget and is supplemented through budget surpluses and dividends on investments made abroad through the Pula Fund. It provides a cushion in the event of an external shock. This cushion, rather than the statutory debt limits, has allowed Botswana to limit external borrowing.



Planning for the future. Going forward, Botswana needs to place a greater attention to medium-term considerations, as the issue of reserve exhaustibility figures more prominently now. Fiscal policy needs to strike a careful balance between short-term demand management and medium-term fiscal sustainability, which includes rebuilding the Pula Fund and the GIA.

Source: Adapted from Bank of Botswana; Kojo (2010).

Debt sustainability

28. **Total public debt is expected to remain sustainable over the medium term despite the significant increase in external borrowing.** Total public debt is projected to increase rapidly from 24.5 percent in FY2020/21 to almost 29 percent of GDP in FY2022/23 but will remain low and affordable (with interest payments accounting for about 5 percent of total revenues). The share of external borrowing to overall debt is expected to increase from 48 percent of total debt in FY2020/21 to about 52 percent by FY2025/26, increasing external vulnerability. This risk is partly mitigated by the long-term nature of external borrowing as well as the fact that almost two-thirds of fiscal revenues are in foreign currency (diamonds and SACU revenues). Moreover, estimates of costs based on comparator countries indicate that interest rates on commercial borrowing are expected to remain below 5 percent, consistent with the country's investment grade rating.[16]

29. **Fiscal consolidation, low inflation, a stable exchange rate and low borrowing costs are expected to reduce the debt-to-GDP ratio from 2024.** The medium-term baseline macroeconomic scenario envisages a gradual fiscal consolidation, with the primary balance becoming marginally positive in FY2023/24. This, along with improved growth conditions, will contribute to reducing debt creating flows in the outer years of the forecast period (see Figure 1a). As a result, public debt and gross financing needs are projected to follow a downward path reaching 22.5 percent of GDP and 5.9 percent of GDP respectively in FY2025/26, remaining below the 40 percent statutory limit.

30. **However, Botswana remains vulnerable to the impact of a more protracted COVID-19 recession and failure to control expenditure and increase revenue.** A more protracted recession combined with higher fiscal deficits, leading to higher borrowing costs (exemplified by the "combined macro-fiscal shock" scenario carried out in the latest World Bank Debt Sustainability Analysis (DSA), of February 2021), would result in public debt levels reaching 39 percent of GDP in 2023. Under this scenario, both public debt and gross financing needs would decline at a much slower pace compared to the baseline (see figure 1b). A 200 basis-points shock to real interest rates do not signal any vulnerability for Botswana's debt sustainability under the latest DSA. Similarly, an exchange rate shock would have minimal impact – reflecting the revenue composition.

Risks to the outlook

31. **The outlook is not without substantial COVID-19 related downside risks, particularly as additional waves and mutations of the virus provide added uncertainty.** The depth and duration of the COVID-19 pandemic, government efforts to mitigate and contain the outbreak, and the spillover of these policies to the real economy provide uncertainty on the outlook. To quantify these risks, a downside scenario was calibrated (Table 5). It assumes the additional worldwide lockdowns that started in towards the end of 2020 are extended, with a slow opening in Q3 of 2021. This affects demand in the global diamond industry, thus resulting in a slower recovery in Botswana's production as consumption in key exports markets remains subdued. The scenario also assumes a two-month delay in the vaccination roll out, which is primarily felt through the services sector, particularly tourism, trade, and transport. As a result, GDP growth is slower to recover in 2021, registering just under 4.9 percent (largely due to base effects). Under

[16] As of April 29, Botswana's credit ratings are A3 (Moody's) and BBB+ (S&P), both with negative outlooks.

this scenario, lower mineral receipts in FY2020/21 worsening the fiscal position. Moreover, constrained activity in the region would result in an even larger decline in SACU receipts which would contribute to keeping the fiscal balance in deficit beyond FY2023/24. Consequently, debt levels would edge closer to the statutory limit in FY2022/23, before entering a downward path.

Figure 1a: Debt-creating flows (percent of GDP)

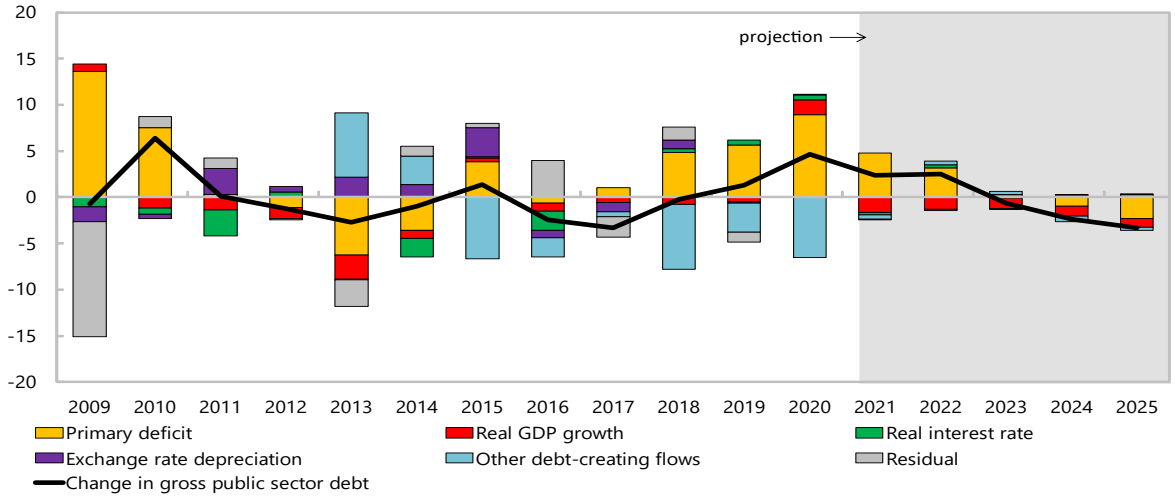
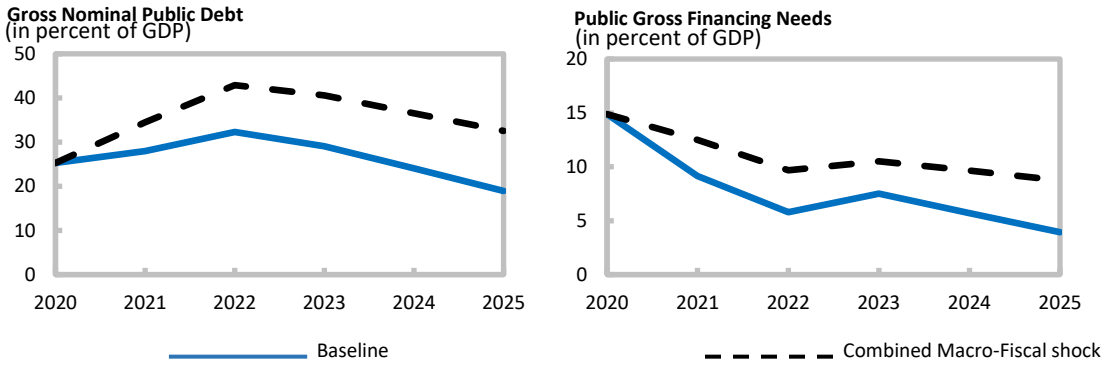


Figure 1b: Botswana Public DSA Stress Tests – Combined Macro-Fiscal Shock



Source: Botswana's Authorities, IMF and World Bank estimates (January 2021)
Notes: (1) Years represent Botswana's fiscal years, where 2020 refers to FY2020/21 which runs from April 2020 to March 2021.
(2) As the IMF's Article IV discussions were ongoing at the time of preparation of this operation, the update to Botswana's DSA was carried out by the World Bank, based on macroeconomic framework agreed with the IMF.

32. **Botswana is also subject to some additional risk beyond COVID-19.** Botswana is exposed to climate shocks (primarily droughts) which could affect key sectors such as agriculture in the absence of investment in climate smart interventions. A deeper recession in the neighboring economies, particularly South Africa, could also lengthen the recovery given the existing trade links. Finally, slippages in the implementation of the ERTP would create a challenge for the diversification agenda, thus keeping growth below potential.

Table 5. Downside scenario - Selected macroeconomic variables

	Act.	Est.	Baseline				Downside			
	2019	2020e	2021p	2022p	2023p	2024p	2021p	2022p	2023p	2024p
Real GDP	3.0	-7.9	7.8	5.9	4.4	4.1	4.9	5.2	4.2	4.0
Mining	-4.1	-26.2	40.6	9.0	4.4	2.2	15.0	7.0	5.0	3.0
Consumer prices (average)	2.8	1.9	4.0	4.5	4.1	4.1	5.0	5.5	4.5	4.5
Total Revenue and Grants	27.5	26.9	28.8	26.7	28.6	28.1	27.9	25.4	26.8	26.7
Tax Revenue	19.1	21.0	20.3	18.7	20.1	20.6	20.1	17.9	18.1	18.6
Total Expenditure	33.2	36.9	34.5	31.1	29.9	28.8	37.4	31.6	30.6	29.6
Overall fiscal balance	-5.6	-10.0	-5.7	-4.3	-1.3	-0.5	-9.5	-6.2	-3.8	-2.9
Current account balance	-7.6	-8.8	-3.0	-2.4	-0.1	1.1	-7.2	-3.8	-1.6	0.5
Overall BOP balance	-9.6	-0.9	0.2	0.4	0.3	0.3	-0.2	0.2	0.1	0.2
Public debt incl. guarantees	19.3	24.5	26.4	28.9	28.2	25.8	31.8	37.9	38.8	36.7
Public debt excl. guarantees	14.8	19.8	22.4	25.4	25.2	23.2	27.7	34.4	35.7	34.0
of which External Debt	7.8	7.8	9.8	12.6	12.7	11.2	11.1	14.1	13.1	12.1

Source: The downside projections are based on World Bank estimates. Note: the figures are in percentage of GDP unless otherwise indicated. Note: "p" is projected.

Overall Assessment

33. **The macroeconomic framework provides an adequate basis for this operation.** The medium-term growth outlook is broadly favorable as the global pandemic and travel restrictions ease, driven by a pickup in exports, additional government spending and the recovery in private consumption. Growth is projected to recover in 2021, albeit from a low base, and average at 4.2 percent in the medium term, supported by the acceleration of structural reforms under the ERTP, which would improve conditions for economic diversification and private sector development. The authorities have committed to returning to a positive fiscal balance and aim to begin rebuilding fiscal buffers by FY2023/24. Important measures are already announced, including those supported by this operation. Historically low levels of borrowing mean the significant external borrowing required to support Botswana's recovery agenda will not compromise debt sustainability. Monetary policy is expected to continue to be effective at supporting price stability and the exchange rate peg. Finally, strong external buffers will allow international reserves to remain at a comfortable level over the medium term.

2.3. IMF RELATIONS

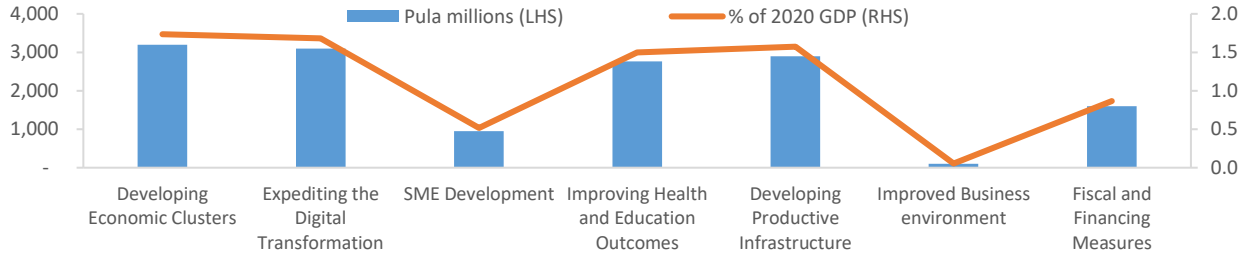
34. **The Government of Botswana is on a standard 12-month consultation cycle with the IMF.** The last Article IV consultation was concluded by the Executive Board on March 09, 2020. The 2021 Article IV mission took place from March 08 – 24, and an IMF Board date is scheduled for end of May 2021. A Letter of Assessment has been shared with the World Bank (see Annex 2). The Government of Botswana has not yet requested financial support from the IMF. Technical assistance spans the areas of monetary policy and operations, financial supervision and regulation, central bank operations, public financial management, domestic revenue mobilization, expenditure management, and macroeconomic statistics. The World Bank and the IMF have been closely collaborating, including on the macroeconomic framework and in the context of reforms needed for the post-COVID-19 recovery agenda.

3. GOVERNMENT PROGRAM

36. **Government's response to the COVID-19 pandemic spans the short term and the long term.** The short-term response focused on immediate relief by (i) protecting lives and limiting the spread of virus; (ii) supporting livelihoods; and (iii) and supporting firms and the banking sector. The longer-term ERTP, described below in more detail) complements the short-term response by introducing measures to (i) restore economic activity and incomes; (ii) facilitate economic growth and the further expansion of productive capacity; and (iii) accelerate economic transformation and build the resilience of the economy.

37. **The ERTP provides an opportunity for Government to accelerate crucial structural reforms.** The ERTP, adopted in September 2020, complements other ongoing plans and programs, notably Vision 2036 and the NDP 11. The aim of the ERTP is to implement the pre-COVID-19 transformation agenda of promoting diversified and inclusive growth, while assimilating the lessons learned and seizing new opportunities to turn Botswana into a high-income status country by 2036. In order to pursue its outward-looking growth strategy, the ERTP has five key priorities: (1) promote export-led growth, (2) improve the efficiency of government spending, (3) develop human capital, (4) invest in infrastructure and (5) build resilience. The implementation of reforms in the short, medium, and long term will take place via seven key areas, as outlined in Figure 2 below. To pursue the acceleration of structural reforms and support economic recovery, Government will implement the ERTP over the remaining two and half years of NDP 11 and probably beyond. The ERTP has a budget estimated at P14.5 billion (US$1.32 billion), with P 0.5 billion (US$46 million) allocated to 2020/21; the remaining P14 billion (US$1.27 billion) spread across a period of two-three years.

Figure 2: ERTP spending by key area



Source: Botswana's Authorities and World Bank estimates

38. **Ensuring a green and sustainable economic recovery is a core element of the ERTP.** Emphasis is placed on accelerating the move towards solar power generation, reducing subsidies to the use of fossil fuels, and introducing carbon taxes. In 2016, Government committed "to achieve an overall emissions reduction of 15 percent by 2030, taking 2010 as the base year" and prioritized the development of a National Adaptation Plan (NAP) as part of its Nationally Determined Commitment (NDC) to the Paris Agreement. In January 2019, it published a National Climate Change Strategy and Action Plan 2019-2030, outlining 11 priority adaptation sectors and seven mitigation sectors where strategic interventions are needed.

39. **Botswana's Climate Change Policy (CCP) was adopted by Parliament, in April 2021, to provide the legislative framework to develop and implement the priority interventions identified in the National**

Action Plan. The CCP prioritizes adaptation and mitigation measures that result in food security, job creation, and protection of carbon sinks. It aims to achieve these goals through, *inter alia*, the use of climate-smart agriculture, forest management, biodiversity protection, community-based natural resource management (CBNRM), and investments in sustainable energy, carbon markets, and carbon budgets. The Policy also promotes climate resilient infrastructure by integrating climate considerations into infrastructure planning and designing. To unlock its renewable energy potential and speed up GHG mitigation, the Government has taken important steps toward efforts to 'green the recovery' including with the introduction of a National Energy Policy (NEP) approved by Parliament in April 2021. Moreover, an Independent Power Plants (IPP) tender is underway for the development of Solar Power Plants as part of the Integrated Resource Plan (IRP) adopted and published in December 2020. Finally, a Memorandum of Understanding for a Mega-Solar Project with Namibia has been signed under a regional program. Together, these actions demonstrate a notable shift toward a renewables-driven economy.

40. **The rationalization of SOEs, including the liberalization and reform of the beef sector, is another priority of the ERTP.** The SOE privatization program of the ERTP aims to reduce spending inefficiencies and boost private sector competitiveness. Government has renewed its efforts to address constraints to increasing competitiveness in the livestock sector and building of domestic and export markets. The privatization of the Botswana Meat Commission (BMC) constitutes one strategic initiative towards this renewal vision.

41. **Digital transformation is also seen as a critical enabler to improve public services and propel the post-COVID-19 economic recovery.** Government has launched the SmartBots initiative in October 2020 to ensure a whole-of-government approach to digital transformation and to drive implementation. The first 2.5-year plan involves a range of public and private stakeholders, and spans across the digital economy, including infrastructure, e-government, and digital skills.

42. **Government has also reinforced support to businesses given growing uncertainty – particularly for tourism.** While short-term relief measures implemented from April-August 2020 have largely been phased out, the wage subsidy was extended to December 2020 for the tourism sector given dampened international travel. Loan repayment holidays and restructuring of loan facilities for the sector were also extended to March 2021. To reinforce support to the private sector, the Government launched the P1.3 billion Industry Support Facility (ISF) in November 2020, which provides soft loans to affected business. Key sectors such as tourism and agriculture have a dedicated amount of P200 million (US$18.18 million) and P100 million (US$9.09 million), respectively. To support the informal sector adversely affected by COVID-19 restrictions, P100 million from the ISF will provide one-off P1000 grants to informal sector and micro enterprises registered through the Local Enterprise Authority (LEA). The balance is available for general businesses.

43. **Finally, Government also stepped up actions to address gender-based violence, which has spiked since the pandemic begun.** Relevant laws and policies in place include the Domestic Violence Act (2008) and the National Gender Based Violence Strategy (2015-2020), yet gaps in implementation remain. The United Nations Population Fund (UNFPA) estimates nearly 70 percent of women in Botswana have experienced physical or sexual abuse -- more than double the global average. Police statistics show a spike in abuse in 2020 that is attributed to lockdowns. The Ministry of Health and Wellness in partnership with UNFPA has ramped up efforts in prevention and access to services for those at risk. Moreover, in November 2020 the

government set up 25 gender violence courts, to focus on more timely access to justice for victims.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

44. **This DPF is closely aligned with the ERTP.** It is also aligned with National Development Plan 11 and with Vision 2036, which aim to turn Botswana into a high income country by 2036. In the ERTP, Government has committed to pursuing a diversified and inclusive export-led growth strategy, whilst strengthening Botswana's response to climate change as a basis for renewed, sustainable growth. The DPF specifically supports three elements of the ERTP: (i) SME development, (ii) investing in infrastructure and (iii) building resilience. The DPF's Pillar Two, on private sector development, focuses on improving access to finance in order to enhance firm productivity and competitiveness. Pillar Three, on green recovery, supports Botswana's efforts to transition towards solar power generation and reduce subsidies to the use of fossil fuels. It also strengthens institutional and regulatory frameworks for environmental impact assessments, which is key to improving climate resilience.

45. **The design of this DPF draws on the World Bank's COVID-19 Crisis Response Approach Paper 2020.** Much like the Government's response plan, this operation focuses on providing relief from COVID-19 in the short term while preparing the country for a resilient recovery. Consequently, actions under this DPF largely fall under the Approach Paper's first, second and third stages: Relief, Restructuring and Resilient Recovery. In this operation, the relief stage (in blue in DPF Matrix in Annex 1) "*involves emergency response to the health threat posed by COVID-19 and its immediate social, economic and financial impacts*"; the restructuring stage (in orange in the DPF Matrix in Annex 1) focuses on "*restructuring of firms and financial institutions*", while the resilient recovery stage (in green) entails "*taking advantage of new opportunities to build a more sustainable, inclusive and resilient future in a world transformed by the pandemic*".[17]

46. **This DPF is also very well aligned with the Green, Resilient and Inclusive Development (GRID) approach, 2021**. Building on the progress towards Resilient Recovery under Pillar 4 of the WBG Crisis Response Approach Paper, GRID provides a longer-term framework for enabling the needed economic and social transformations. Prior Action 1, which enables the rollout of a social registry and targeting reforms, and Prior Actions 2 and 3 under the private sector development pillar, are aligned with the "Inclusive" part of the GRID framework, which calls for "*Investing in human capital and fostering policies for inclusive growth to create jobs and tackle exclusion and inequality*". Prior Actions 4, and 5 are well aligned with the "G" part of GRID, because they "*invest in solutions that sustain natural capital, including climate, to ensure that today's decisions are resilient and do not undermine tomorrow's growth*". Finally, Prior Acton 6 is well aligned with the "R" part of GRID, which call for "*investing in risk management to prevent and prepare for climate change, pandemics, natural hazards, socio-economic and financial shocks*".

[17] World Bank Group COVID-19 Crisis Response Approach Paper: Saving Lives, Scaling-up Impact and Getting Back on Track (English). Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/136631594937150795/World-Bank-Group-COVID-19-Crisis-Response-Approach-Paper-Saving-Lives-Scaling-up-Impact-and-Getting-Back-on-Track

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

PILLAR ONE: SUPPORT GOVERNMENT'S RESPONSE TO THE COVID-19 PANDEMIC

47. **The first pillar of the DPF supports efforts to strengthen provision of relief from the COVID-19 pandemic, as well as creating added resilience to future shocks.** Botswana has leveraged its existing Social Protection system to respond to the COVID-19 crisis, including support to vulnerable people through distribution of food baskets to over 325,000 households. In addition, the Ipelegeng Public Works Program was increased and adapted to hire individuals with health care experience to work enforcing COVID-19 protocols (COVID-19 Scorpions), cleaning school facilities and supporting police (special constables and wildlife volunteers). Despite this, COVID-19 has underscored the need for modernizing the delivery of social protection and accurate identification of beneficiaries. The single measure under this pillar supports the creation of an enabling policy environment to implement Botswana's Single Social Registry and targeting reforms. Such reforms will improve targeting of social spending on the most vulnerable, while also strengthening systems for future shocks.

Prior Action 1: ***To improve capacity to more accurately identify and assist poor and vulnerable affected by shocks such as COVID-19, the Borrower, through its Cabinet, has adopted the National Social Protection Framework, which creates the enabling policy environment to implement the Single Social Registry and targeting reforms.***

Trigger 1: ***The Borrower, through the Ministry of Local Government and Rural Development, has established the Proxy Means Testing (PMT) as targeting mechanism for the Destitute Persons Program***

48. **Context:** Botswana has a long history of providing centrally funded and locally provided social protection. In FY 2018/19, Botswana devoted an estimated 2.6 percent of GDP to social assistance which include multiple feeding programs, cash and near cash programs, other in-kind transfers, and a public works program. According to the Botswana Multi-Topic Household Survey (BMTHS) 2015/16, nearly 56 percent of the total population and 79 percent of the poor benefit from at least one social protection program. Data also shows that social assistance programs are generally progressive, with 39 percent of beneficiaries belonging to the poorest quintile. Their impact of poverty reduction is significant since in the absence of social assistance programs: the poverty headcount would increase from 16 percent to 22.8 percent in 2015/2016, while the poverty gap would go up from 4.6 percent to 7.9 percent. Still, 21 percent of the poor are not covered by any type of social protection program. On the other hand, among the total population who receives a program, about seven percent benefits from more than one program.

49. While Botswana devotes sizable resources to social protection, there is room to improve the identification of the poor and vulnerable and the delivery of social benefits. Botswana needs to improve the administrative systems and tools that underpin efficient service delivery including objective beneficiary identification mechanisms particularly for means tested programs, a single social registry, and modern information systems.

50. **Description:** Recognizing these challenges, Government took important steps towards modernizing its social protection system, as per the NDP 11 Social Registry Project. To identify and assist poor and vulnerable people affected by shocks such as COVID-19 more accurately, the National Social Protection Framework (NSPF) was approved by the Cabinet in August 2020. The NSPF created the enabling policy environment to implement the Single Social Registry (SSR) and targeting reforms—two main reforms to modernize Botswana's social protection system. The SSR is a digital platform that serves as a gateway for registration and determination of eligibility across multiple social protection programs. In addition to improving capacity to accurately identify and assist the poor and vulnerable including those affected by shocks such as COVID-19, the SSR is also expected to improve the coordination of the delivery of social protection and improve service quality. The Government is implementing the SSR in four Phases. Phase 1 witnessed the implementation of the SSR in four districts (Gaborone, Kweneng, Kgatleng and South East), by uploading beneficiary data from five programs (Ipelegeng Public Works Program,[18] Home Based Community Care, Destitute Persons Program, Orphans Care Program and the Poverty Eradication Program) on a monthly basis. The Government has already expanded the implementation of the SSR by uploading beneficiary data in two additional districts for five programs (Francistown and Selike Phikwe) in April 2021. Government's commitment is to further expand implementation of the SSR to five additional districts by end of 2022. This commitment will therefore result in the implementation of social registry in 11 districts out of the country's 16 districts by the end of 2022, which corresponds to 75.8 percent of the total 165,565 beneficiaries under the five programs (47 percent of which are women and girls).

51. To improve the way beneficiaries benefiting from the Social Registry are identified, Government will proceed to implement a proxy means test (PMT). A PMT will objectively identify a household's poverty status based on empirically derived poverty scoring coefficients.[19] Transitioning to the PMT has several advantages. First, all households, regardless of the program, can potentially be assessed in a systematic and consistent way in terms of their poverty level. Doing so will remove duplications due to variable definitions of poverty and reduce subjectivity in welfare assessment. In addition, household socioeconomic data collected through the PMT tool can be used to populate the Social Registry in the future; this would help move the social protection system away from individual benefits to delivering packages of benefits targeted to households. Doing so will greatly improve coordination within Botswana's social protection system. The next operation will support the implementation of the PMT by the Destitute Persons Program for new entrants only in select districts.

52. **Expected Outcomes:** Beyond expected improvements in spending efficiency, the Social Registry will strengthen Botswana's delivery of social benefits – which is particularly important in the face of shocks. **Results indicator:** Percentage of beneficiaries in five (5) social programs updated in the Single Social Registry. Baseline: 20.5 percent (March 2021); Target: 75.8 percent (December 2022).

[18] Botswana launched a Public Works Program (PWP) – commonly known as Ipelegeng (IP) - in 2008 as one, among a myriad of initiatives meant to reduce poverty for sustainable development in marginalized contexts. This program offers short term employment, for a maximum of 1 calendar month. Upon completion of the month, interested parties may re-apply to be re-enlisted into the program.

[19] A PMT is a beneficiary identifictaion mechanism based on a statistical model that estimates the relationship between poverty and a series of observable variables (or proxies) measured in a standardized way. Under the PMT methodology, indicators in multiple areas are assigned weights according to a model and the score is used to determine eligibility for program benefits.

PILLAR TWO: STRENGTHEN PRIVATE SECTOR DEVELOPMENT

53. **The second pillar of the DPF supports actions to develop Botswana's private sector.** The existing growth model has undermined the creation of a strong private sector, with high unemployment reflecting the lack of opportunities in the small, non-mining private sector. Latest job creation data shows most private sector job creation has occurred in non-tradeable (local) services. Similarly, Botswana's high ranking on the Global Entrepreneurship Index (52 out of 137 ranked countries) has masked key structural challenges. The country scores well on opportunity perception, risk acceptance, high-growth economy, and cultural support for entrepreneurship, but fares poorly on access to risk capital, technology and innovation, internationalization, and startup regulation. Overall, this paints a picture of a country with very high potential for entrepreneurial activity but limited institutional and human capacities to exploit that opportunity. Actions under this pillar support efforts to encourage growth in small and micro enterprises (SMEs), which struggle to get access to financing, and promote private sector dynamism. The first action under this pillar focuses on improving access to finance by filling a gap in credit information between lenders and borrowers. The second action eases regulatory requirements to start a business.

Prior Action 2. ***To improve access to finance for SMEs, the Borrower, through its Cabinet, has approved the Credit Information Bill, including approval of its submission to Parliament, which aims to provide regulatory oversight over credit bureaus and decrease the information asymmetry between borrower and lender.***

Trigger 2: ***The Borrower has approved accompanying Credit Information Regulations.***

54. **Context:** The Credit Information Bill is an important element of Government's policy agenda on access to credit. One priority of the Botswana Financial Inclusion Roadmap and Strategy 2015-2021 is "*to increase access to credit to consumers for consumption smoothing, risk management and investment in productive activities, and enterprise credit for investment focused on SMMEs*". One of the main constraints to attaining this objective is lack of credit information: "*In all segments the efficiency of lending, the management of credit risk and loan pricing is constrained by a lack of credit information and restrictions on sharing such information*". Despite the fact that three credit bureaus operate in Botswana, covering 54.4 percent of adults and 13,500 firms, credit information reporting is made on voluntary basis, by way of private contracts. These don't guarantee completeness of information. Until recently, the database consisted mostly of negative information, which restricts credit growth. There is no consistency in lenders' use of credit information for credit worthiness assessments of new credit applications, nor in their monitoring of portfolios. These are fundamental practices for a well-functioning credit information ecosystem that contribute to sustainable growth and economic development.

55. **Description:** The approval by Cabinet of the Bill on Credit Information, including approval of its submission to Parliament, has two implications: first, the adoption of a legal framework designed under the General Principles of Credit Reporting promotes the sound and fair extension of credit and strengthens the supervisory role of the Bank of Botswana – the implementing authority. The Credit Reporting Bill mandates positive and negative data to be reported on individuals and firms by data providers. It requires that credit information from the bureaus be considered in creditworthiness assessment. It also considers provisions for reporting data from alternative sources and to develop tools such as 'credit scoring'. This

will increase access to affordable and sustainable credit by unserved and underserved segments, helping them grow their businesses, creating more job opportunities and resulting in inclusive economic growth.

56. Second, the Bill allows access to information by the regulatory authority. Access to information enhances the regulator's ability to design supervisory strategies based on risk. It also allows for micro-prudential, risk-based supervision, as the data from the credit information service providers may be used for supervisory planning, to offsite asset quality rating and to inform thematic reviews. Macro-prudential oversight will also improve, because credit registry data can be used to calibrate macroprudential indicators such as Credit to GDP and Loan to Value ratios, develop early warning systems and calibrate stress testing parameters. Data on the performance of credit portfolios can also improve policy formulation such as sectoral and geographical concentration limits. The information from the credit bureaus may contribute to designing strategies for the recovery period. It provides a more accurate picture of the historical performance of credit in the country from all lenders, not only commercial banks. This more granular picture includes segmentation by geography, industry type, etc. that can be used to design policies to promote credit to targeted segments. As an example, the data and analytics produced by the bureaus may guide the strategic allocation of resources to rescue small firms with greater potential to survive, hence benefiting individuals that depend on them, and contributing to job creation and faster recovery and growth of the economy.

57. **Expected Outcomes:** A formal regulatory framework that enforces reporting of complete, accurate and secured data on individuals and firms, and enhances supervisory capabilities should result in increased confidence in the credit information industry in Botswana. It is therefore expected that lending to individuals and SMEs will increase, while maintaining and even improving the quality of the loan portfolios. **Results indicator:** Value of financing facilitated to the SME sector (new loans) through availability of information (positive and negative) to perform creditworthiness assessments and monitor portfolio performance. Baseline: zero (February 2021); Target: P50 million (December 2022).

Prior Action 3: ***To incentivize greater entrepreneurship, improve the regulatory environment and reduce the administrative burden for business registration, the Borrower has adopted the Trade Regulations and Industrial Development Regulations, which introduce a risk assessment system with simplified start-up requirements for low-risk businesses.***

Trigger 3: ***The Borrower, through its Cabinet, has approved and submitted to Parliament, the Moveable Property Security Interests Bill to allow for all types of movable property to be used as collateral, thus contributing to financial inclusion*****.**

58. **Context:** In 2017, Government adopted a National Entrepreneurship Policy and Strategy, with the goals of encouraging more risk-taking and experimentation by entrepreneurs and to promote more entrepreneurial clusters. As part of this Strategy, Government also embarked on a regulatory journey to improve the business regulatory environment for start-ups, which at the time was one of the most cumbersome in the world. Registering a new firm took nearly twice as many procedures and days than in the average African country.

59. A system of efficient and effective business regulations can support firm creation and increased productivity. At the outset of the business lifecycle, it is important that business establishment processes are clear, simple, and fast. Countries that have efficient business registration processes tend to have a greater number of new firms entering the market and a larger number of businesses per population (business density).[20] Higher compliance costs have also been shown to discourage entrepreneurship, which in turn reduces job creation in the economy.[21] To reduce burdensome and unnecessary requirements and procedures, governments worldwide are increasingly adopting "risk-based approaches": businesses that pose risks to health, safety and the environment are subject to more stringent requirements, whereas low risk-businesses that do not have the same impacts have lower administrative burdens. Risk-based regulation can also conserve limited government resources.

60. Business formality is a prerequisite for commercial banks offering a secured lending product due to the prudential regulation requirements. The draft Bill on Movable Property Security Interest, which is proposed as the trigger, will provide greater access to finance by providing enhance credit analysis, legal certainty, improved transparency, clear priority, and enforcement rules on a broader set of asset categories. Modern secured transactions laws and collateral registry systems reduce lending risk, transactional costs and support cross border trade transactions, including start-ups who may have limited collateral to offer. Movable asset-based lending (account receivable financing/factoring and structured financing, trade receivables, etc.) require modern secured lending regimes to facilitate these types of commercial transactions. They also connect multiple market players in supply and value chains where several extensions of credit commonly occur in dependent relationships. The quintessential credit product enabled by secured transactions reforms is asset-based lending (ABL), which supports the entire business cycle of the borrower, from the purchase of raw materials to the sale of the finished product (inventory), to the collection of the receivables generated by the sale. The draft Bill will support the entire cash conversion cycle of a business and is therefore vitally important to business expansion and growth.

61. **Description:** Previously business licensing was required for almost every type of business activity. The Trade Act of 2019[22] and Industrial Development Act of 2019[23] (and their implementing regulations adopted in 2020) introduced a risk-based licensing system using "business registration certificates" that removed licensing requirements for low-risk business activities such as for "general dealer" or "distributor". Such certificates effectively allowed simple firms to start up without obtaining a business license. This reform identified 35 business activities that do not pose immediate health or safety concerns, requiring a simple "business registration certificate" from them. Businesses engaged in these low-risk activities can now send a simple notification to the local authority that the business was duly registered with the Companies and Intellectual Property Authority (CIPA). They can commence operations without further ex-ante requirements from licensing authorities. The data supports the shift to the less burdensome regime: from June 2020 to February 2021, a total of 3,369 business registration certificates were issued, and 945 licenses. This also been facilitated by the new online business registration scheme,

[20] Klapper, Leora, Anat Lewin and Juan Manuel Quesada Delgado. 2009. "The Impact of the Business Environment on the Business Creation Process." Policy Research Working Paper 4937, World Bank, Washington, DC

[21] Fonseca, Raquel, Paloma Lopez-Garcia and Christopher Pissarides. 2001. "Entrepreneurship, Start-Up Costs and Employment." European Economic Review 45 (4–6): 692–705.

[22] The primary objective of the Trade Act is to "simplify trade licensing procedures".

[23] The primary objective of the Industrial Development Act is "to provide for the regulation of manufacturing enterprises through their licensing, registration and supervision to facilitate industrial development".

up and running since 2019, which also aims to reduce the time for firm registration.

62. Further efforts to support competitiveness and entrepreneurship include the enactment of the Movable Property Security Interest Bill, which will serve as a trigger for the next operation. Small business owners in Botswana have repeatedly identified access to credit as a major obstacle, given that most banks in Botswana focus on large corporate clients and individuals with regular incomes (e.g., salaried employees). As such, lending to SMEs is severely limited and comes mostly from Government sponsored programs. The secured transaction regime will facilitate the use of movable property as collateral for loans and other forms of credit, thus leading to lower interest rates, improved loan terms, and more financial innovation. This improved credit environment, in turn, will promote small business growth, entrepreneurship and job creation.

63. **Expected Outcomes:** The adoption of the Trade Regulations implementing the risk-based approach will reduce the time and cost burden for businesses to conduct specified lower-risk activities. The number of firms that will benefit from the introduction of the risk-based approach and be considered low risk – transitioning from being "licensed" to only requiring a "business registration certificate" -- is expected to increase. **Result indicator:** Percentage of new businesses falling under the Trade Act or Industrial Development Act that are exempt from licensing requirements. Baseline: zero percent (June 2020); Target: 70 percent (December 2022).

PILLAR THREE: PROMOTE A RESILIENT, GREEN RECOVERY

64. The third pillar puts Botswana's energy trajectory on a path to green growth: a longstanding intention expressed by the government that is now being translated into policy formulation and implementation. Botswana's energy sector is highly reliant on conventional fuels; coal for electricity generation and petroleum based liquid fuels. Energy represents over two-thirds of Botswana's emissions (68 percent). The COVID-19 recovery thus represents a timely opportunity to accelerate the green transition, which brings with it important economic and social benefits, including pull factors for private sector investment, and improved conditions for economic diversification, job creation and more inclusive growth. The first action in this pillar awards additional renewal energy capacity to independent power producers and connects it to the energy grid; the second action regulates permits to domestic, commercial, and industrial users of rooftop solar energy; the third action makes environmental assessments more stringent. Beyond renewable development, preliminary estimates suggest investments could result in significant increases in jobs and local content opportunities if the country simultaneously realizes its export opportunities. Moreover, the shift away from coal-based resources will become increasingly important to protect the value of the diamond industry from potential backlash from climate-conscious consumers, which could harm the sector's competitiveness.

Prior Action 4: ***To implement its Nationally Determined Contributions (NDC) and the country's Vision 2036 and accelerate the shift towards renewable energy and meeting SDG7, the Borrower has adopted the National Energy Policy and the Integrated Resource Plan, including the adoption of specific renewable energy technology targets and a competitive tendering process, which aim to unlock the way towards attracting private financing to accelerate the development of renewable energy projects***

Trigger 4: ***The Borrower, through the Botswana Energy Regulatory Authority (BERA), has approved a national grid code to ensure an adequate enabling environment for the increased development and deployment of variable renewable energy (VRE) on-grid.***

65. **Context:** The energy sector of Botswana faces major constraints. It suffers from a power supply deficit and dependency on a single coal-fired power station and expensive imports. Its reliance on the Morupule coal power plant, which is currently undergoing major remedial work, poses a significant risk of concentrated and unreliable power supply, forcing the country to rely on expensive electricity imports from South Africa, impacting the financial situation of the utility Botswana Power Corporation (BPC). Yet, Botswana is endowed with world-class solar and wind resources, which remain largely untapped. Yet, as demonstrated by the Renewable Energy Roadmap currently being prepared with the support of the World Bank, renewable energy, along with concessional climate finance, represents a low-carbon and least-cost option for Botswana's energy sector. It could greatly contribute to the electricity sector's financial viability, the diversification of the economy and its resilience to external shocks in the long term.

66. **Description:** In line with the NDP-11 and Vision 2036, the Government has started to take action to develop renewable energy. The 2020 National Energy Policy (NEP) and IRP set a clear direction for the inclusion of more renewable energy into the energy mix. Together, they constitute a clear and credible commitment of the government to accelerate the development of renewable energy in the country: the NEP sets the framework to guide the development of Botswana's energy sector, especially the penetration of new renewable energy sources into the country's energy mix, and the IRP provides an implementation plan, outlining the capacity expansion path and the timeline for the inclusion of renewable energy into the mix. The Government intends to reach this objective by promoting the development of IPPs through competitive bidding processes and a pipeline of energy investments needed in the short term is included in the IRP. However, in the past years, the utility has struggled to successfully attract private financing for such project. To overcome these difficulties, the Government and the utility have been strengthening their internal capacity and the World Bank Group has been sharing recommendations on ways to improve the existing environment to attract the best possible bidders and reach the lowest possible tariffs. The Government announced its intention to continue supporting the BPC financially, if necessary, to ensure that it will be in a position to meet its financial obligations under the Power Purchase Agreement and mitigate risks for the private sector. The government is also gradually increasing electricity prices to reach cost-reflective tariffs, which will also contribute to improving BPC financial situation and lower fiscal pressure, and the Government expressed its intention to reform the tariff setting mechanism, with a view to reduce the exchange rate risk for IPP. Benefits from expected lower cost generation (higher economic growth, lesser need to resort to subsidies) are foreseen to far exceed the fiscal cost of guaranteeing BPC obligations.

67. The proposed trigger supports adopting a new grid code that specifies the technical requirements to connect and integrate variable renewable energy (VRE) plants to the national grid. As documented by the IEA, International Renewable Energy Agency (IRENA), and international experiences, VRE grid codes are critical to ensure the successful integration of VRE. They are also important to attract private financing, clarifying what requirements need to be met to be dispatched and what might lead to curtailment or other penalties that would impact the profitability of their investment. A new grid code would provide a clear and transparent set of operating procedures for the operator and all users of a grid

network. The absence of a grid code is a risk that most private investors might not be willing to take. Botswana is currently relying on the South African grid code and will be able to integrate the plants under current procurement given their relative size compared to the whole system. However, with the acceleration of the development of renewable energy, it will become important for Botswana to adopt its own grid code considering the specificities of its own network and to ensure integration of more renewable capacity.

68. **Expected Outcomes:** A competitive tendering process was launched to procure two large-scale (50MW) solar photovoltaic (PV) systems on an Independent Power Producer (IPP) basis. The IPPs will develop, build, and operate the assets and sell power to BPC under a power purchase agreement. One of the two 50MW PV plants was approved by the BPC Board in April 2021, with the operations of both projects expected by late 2022. The first successful completion of this large-scale bid for solar energy projects in Botswana is a key step towards accelerating the development of renewable energy, building investors' confidence and attracting private sector participation in the sector to reach the objectives of the NEP. **Results Indicator:** Capacity of Renewable Energy permitted to be commissioned, in Megawatts. Baseline: 2 MW (May 2021); Target: 100 MW (December 2022).

Prior Action 5: ***To strengthen independent producers' participation in the electricity sector and promote uptake of solar energy solutions, the Borrower, through the Ministry of Mineral Resources, Green Technology and Energy Security, has adopted solar rooftop guidelines, which define the framework and process for the implementation of small-scale grid-tied solar photovoltaic (PV) systems by domestic, commercial and industrial consumers.***

Trigger will be the same as trigger 4.

69. **Description:** The Rooftop Solar Program allows end users to generate their own electricity and sell excess power to the Botswana Power Corporation (BPC). As international experience shows, solar PV can be rapidly deployed thanks to rooftop programs, and this program will contribute to the objectives of the NEP. The country already has some success stories in the development of off-grid solar for hotel and farms currently self-producing with PV. But it lacked a consistent framework for the development of small grid-connected solar PV projects. The Program entails the development of the required rules, regulations, standards, and tariffs for installing rooftop solar. In particular, applicants must obtain a permit consisting of an Interconnection Agreement regulating terms and technical standards of the grid connection, and a Certificate of Completion for the installed rooftop solar system. The Program also entails the review of implementation processes, such as metering, interconnection, vending and billing. For applications exceeding 100 kW generating capacity, an additional license approval is required for a 15-year term. These preliminary steps have already been successfully completed and applications for Rooftop Solar permits were opened to domestic, commercial, and industrial BPC customers on November 30, 2020. The application process will run until an aggregate capacity limit of 10MW is reached. The government's objective is to reach these 10 MW by November 2021. Twenty per cent (2MW) of the capacity is reserved for domestic consumers and eighty percent (8MW) for commercial and industrial consumers. Upwards of 50 applications have been received in the first three months, which is very encouraging. Efforts to communicate about the program and raise awareness in communities with high potential benefits for

poverty alleviation should be encouraged.

70. **Expected Outcomes:** The Ministry of Mineral Resources, Green Technology and Energy Security will award Rooftop Solar permits to domestic and commercial and industrial consumers until it reaches a total capacity of 10MW. This program provides an enabling environment for end users to start generating their own electricity and sell it to the BPC. It will contribute to the broader effort to diversify the energy sources in Botswana and accelerate the development of renewable energy in the country. **Result indicator:** Aggregate capacity for Solar Rooftop Program awarded, in Megawatts. Baseline: 1.5 MW (May 2021); Target: 10 MW (December 2022).

71. The development of renewable energy technologies represents an opportunity for creating local jobs in Botswana and improving the inclusiveness of growth. As part of the Renewable Energy Roadmap, the World Bank is assessing the skills and job potential associated with the development of renewable energy projects. Its early findings show that most of the opportunities for local jobs are in installing, operating, and maintaining the solar rooftop installations, and repair them in the case of failures and outages. Structuring the local workforce and training personnel for this type of work could be a very effective job catalyst and could contribute to a "just transition" for workers in the mining industry.

Prior Action 6: ***To promote private sector development and facilitate climate change assessments, the Borrower has amended the Environmental Assessment Act, which clarifies the process for project evaluation and streamlines the review process.***

Trigger 6: ***The Borrower has approved Amendments to the Environment Assessment Regulations to clarify the type of environmental assessment required of all project types and categories and has adopted guidelines to instruct government agencies on how to evaluate and address climate risk in the context of Environmental Impact Assessment (EIA) and Environmental Management Plans (EMP) for all development projects.***

72. **Context:** The 2020 amendment of the Environmental Assessment Act was made largely in recognition that the existing EIA process was overly burdensome and a barrier to private sector activity. Amendments to the Act aim to improve efficiency and efficacy of attracting private sector development. One unintended consequence of the overly stringent Act was that by limiting private sector and other development activity, the Act reduced the need for oversight and streamlined procedures to manage environmental impact, as there was less risk of impact. In addition to providing certainty as to the timeline and review process to create a more conducive environment for private sector development, the revised Act and corresponding Regulations add clarity to the types of environmental evaluation (i.e., EMP or EIA) required for developments. Clarity and certainty will facilitate private sector investment; however, to ensure that investment is in-line with low-carbon and climate-resilient development, additional guidelines to instruct government agencies on how to evaluate and address climate risk in the context of EMPs, SEAs, or EIAs are necessary. Such guidelines will also help developers incorporate climate resilience considerations into the design of their projects. These guidelines will form the basis of approval decisions, and so will be binding.

73. **Description:** The Environment Assessment Act of 2011 was amended through the Environmental Assessment Amendment Bill 2020. The revised Act reduces the turnaround time for approval of submissions by developers to remove hinderance to private sector development and calls for streamlining the processes that determine the type of environmental assessment – EIA or EMP – required for different categories of projects. The Amended Bill was presented to Parliament in July 2020 and signed into law by President Masisi on November 16, 2020.

74. As to the trigger for the next operation, through amendment of Regulation 7; Schedule 1 (Activities that Require Strategic Environmental Assessment) and Schedule 2 (Timeline for Review) of the Amended Environmental Assessment Act, Government of Botswana will provide a schedule to specify the type of environmental assessment required of all project types and categories. This will further streamline the process of assessments and improve impact effectiveness by providing clarity on approval requirements to the developers and the regulatory.

75. To make the streamlined environmental assessment process more robust from a climate resilience perspective, however, guidelines that provide instruction for government agencies and project developers on how to evaluate and address climate risk in the context of project design will also be needed. Finally, it will be important to strengthen capacity of regulators and environmental assessment practitioners to implement said guidelines. Government of Botswana (Department of Environmental Affairs) has requested support from the World Bank to provide technical assistance to develop the guidelines following the passing of the new regulations and to provide capacity building support to strengthen oversight capacity within government. The amended regulation was presented to Parliament in February 2021 and was enacted by April 1, 2021. The guidelines will be finalized and made publicly available by September 2021.

76. **Expected Outcomes:** The aspirational outcome from this prior action is that through changes to the Environmental Assessment Act and implementation of climate resilience guidelines, Botswana reduces its overall vulnerability to climate change impacts. Definitively linking changes in the legislation and changes in vulnerability in a measurable way, however, is difficult. A more realistic approach is to measure the output from this prior action, which is that EMP and EIA follow climate resilience guidelines for proposed development. A qualitative evaluation of these environmental assessments should also take place. **Results indicator:** Percentage of EMP and EIA processes that integrate the climate change resilience considerations in line with the climate change guidelines.[24] Baseline: zero (February 2021); Target: 33 percent (December 2022).

[24] These guidelines are not expected to be ready before September 2021.

Table 6: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar One: Support Government's response to the COVID-19 pandemic	
Prior Action 1: To improve capacity to more accurately identify and assist poor and vulnerable affected by shocks such as COVID-19, the Borrower, through its Cabinet, has adopted the National Social Protection Framework, which creates the enabling policy environment to implement the single social registry and targeting reforms.	• P166742 - Support to a Coordinated and Scalable Social Protection System in Botswana—Objective of the ASA was to strengthen and modernize the SP system and increase its capacity to respond to shocks. The ASA supported Government in putting in place the foundations of a modern and scalable social protection system by developing the Social Registry and its operationalization by piloting the SR in four districts. The ASA also supported development of a generic management information system (MIS) and its customization for the public works program (Ipelegeng). • P172175-Review of Social Protection Systems in Southern Africa –ongoing—the objective of the ASA is to carry out a review of the Social Protection System by evaluating spending and performance of social protection programs and providing recommendations to improve efficiency and effectiveness.
Pillar Two: Strengthen Private Sector Development	
Prior Action 2: To improve access to finance for SMEs, the Borrower, through its Cabinet, has approved, the Credit Information Bill, including the approval of its submission to Parliament, which aims to provide regulatory oversight over credit bureaus and decrease the information asymmetry between borrower and lender.	• P101357 FSAP 2007 (closed). The FSAP from 2008, already highlights the benefits of a credit information system and promotes the development of a credit bureau to support the strategy to extend services to MSMEs and salaried employees in urban and rural areas. This initiative was initiated by the Bankers Association. • P124915 Financial Sector Development Strategy 2013 (closed). Pillar 3 of this FSDS "Promoting financial access for the under-served and low income, non-salaried Cohorts", proposed improving the credit information system by promulgating a legal framework and add positive information to be reported to the bureaus. • P159532 Economic Diversification and Competitiveness including access to finance (active RAS). The objective of this RAS is to support the authorities to develop the legal framework for movable assets and deploy a collateral registry. While in the process of providing the TA for this purpose, a special request to review the governance structure of the Credit Reporting system, help them identify the appropriate regulatory, and provide comments to the draft law was made. The TA supported the authorities by demonstrating best practices and recognized principles on the matter, thus assigning the Central Bank as the official regulator for Credit information industry. Additionally, some recommendations were adopted into the draft law that was approved by Cabinet in May 2021.

	• IFC 564749 SME Finance (closed). The objective was to improve access to finance for MSMEs through developing BABCB's capacity in four countries (including Botswana) to serve MSME customers, including women entrepreneurs. A component of the advisory service included the development of SME loan process tools that combine financial and non-financial variables into a scorecard for creditworthiness assessment. A credit information system would provide more rigor and trust to these tools.
Prior Action 3: To incentivize greater entrepreneurship, improve the regulatory environment and reduce the administrative burden for business registration, the Borrower has adopted the Trade Regulations and Industrial Development Regulations, which introduce a risk assessment system with simplified start-up requirements for low-risk businesses.	• The World Bank and IFC have supported the implementation of risk-based assessments for licensing in a number of countries worldwide, including Greece (P173428 and P166076) and Jordan (IFC 574387), and the respective governments have recognized the effectiveness of such reforms.
Pillar Three: Promote a Resilient, Green Recovery	
Prior Action 4: To implement its Nationally Determined Contributions (NDC) and the country's Vision 2036 and accelerate the shift towards renewable energy and meeting SDG7, the Borrower has adopted the National Energy Policy and the Integrated Resource Plan, including the adoption of specific renewable energy technology targets and a competitive tendering process, which aim to unlock the way towards attracting private financing to accelerate the development of renewable energy projects.	• World Bank. 2017. Botswana Renewable Energy Strategy. This strategy builds on the Renewable Energy Assessment to lay out the enabling environment requirements to accelerate the development of renewable energy and the development of an investment plan. The strategy had a focus on private participation in the provision of renewable energy, including independent power producers (IPPs) for the larger RE generation projects, and it recommended to bolster existing capacity and processes for managing renewable energy generation procurements. • IRENA. 2016 – Scaling up Variable Renewable Power: The role of grid codes. The report highlights the importance of well-designed regulations for grid management and operation to accompany the development of new renewable technologies. In particular, grid connection codes for variable renewable energy (VRE) are critical to enable and manage the integration of variable sources, namely solar and wind energy. • USAID. 2019 - Southern Africa Energy Program Mega Solar White Paper. The White Paper looked at the conditions for the development of a Mega Solar project in Botswana and Namibia. In particular, it reviewed the energy sectors of each country as well as the general sectoral and broader economic conditions that might impact a mega solar program. The white paper analyzed the main challenges in the energy sector in Botswana and concluded that there are major challenges associated with generation reliability (forcing the country to relay on electricity imports), lack of cost-reflective tariffs, and difficulties procuring power (major delay for a competitive tender for 100MW).

	• World Bank. Forthcoming. Botswana Renewable Energy Roadmap. • Government of Botswana. April 2021. – National Energy Policy.
Prior Action 5: To strengthen independent producers' participation in the electricity sector and promote uptake of solar energy solutions, the Borrower, through its Ministry of Mineral Resources, Green Technology and Energy Security, has adopted the Rooftop Solar Guidelines, which define the framework and process for the implementation of small-scale grid-tied solar photovoltaic (PV) systems by domestic, commercial and industrial consumers.	• IRENA. Forthcoming. Botswana Renewables Readiness Assessment: Discussion Paper (draft). The Assessment details the main issues supporting the development of renewables in Botswana. It identifies the need to attract private sector financing, but points to issues limiting private sector investments, including high transaction costs, lack of clarity, regulatory certainty, and adequate renewable energy and IPP framework. Regarding solar rooftop systems, the assessment highlights existing success stories (tourist facilities, farms, and commercial centers producing for self-generation), and identifies the adoption of guidelines as a priority to set up an enabling environment and address some of the current issues, including the lack of incentives, regulatory framework and mandatory standards.
Prior Action 6: To promote private sector development and facilitate climate change assessments, the Borrower has amended the Environmental Assessment Act, which clarifies the process for project evaluation and streamlines the review process.	• World Bank. 2020. Reference Guide to Climate Change Framework Legislation. The Guide advocates for an overarching, multisectoral regulatory instrument that lays down general principles and defines the institutional framework for climate change policy and implementation. This type of framework protects policies from abrupt shifts in priorities when crises arise and guides the crisis response and the design of policies for a sustainable recovery. Botswana's Climate Change Strategy and Action Plan – which calls for ensuring the country environmental impact evaluation takes climate change into consideration -- is in line with such a framework. The framework will also be used to help develop climate change guidelines for environmental impact evaluation as part of the trigger of Prior Action 6. • World Bank. 2016. WAVES Country Report: Botswana. WAVES supported compilation of natural capital accounts (minerals, water, energy, tourism) to inform the National Development Plan 11 (2017-2022), including the Keynote Policy Paper and the Macro Economic Outline. NCAs help inform Government of Botswana on steps to conserve natural assets while at the same time ensuring that meeting current needs does not compromise the ability of future generations to meet their needs. NCA can also inform where to prioritize private sector development.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

77. **The proposed DPF series is aligned with the World Bank Group FY16-20 Country Partnership Framework (CPF) -** Report No. 97931-BW**.** The CPF was discussed by the Board of Executive Directors on October 5,2015 and extended through FY21 under the Performance and Learning Review (PLR; Report No. 134105-BW) discussed by the Board of Executive Directors on February 27, 2019. Because this first-ever request

for a budget support operation came towards the end of the CPF cycle, a short note on how the country program is adjusting to COVID-19 accompanies the present program document (Annex 5).

78. **The proposed operation supports the Government in achieving its vision of renewed, sustainable growth for the transition towards high-income status, as outlined in Vision 2036.** It is directly linked to the objectives outlined in the WBG Botswana CPF PLR for FY19-21 under its first pillar (Promoting private sector-led, jobs-intensive growth) and its third pillar (Supporting effective resource management). In particular, the proposed reforms are in line with CPF Objectives 1.1 and 1.2, which aim to address key constraints to the development of non-diamond sector and promote private sector growth; and with CPF Objective 3.1, which seek to improve the efficiency and effectiveness of Botswana's social protection system.

79. **Several ongoing and planned projects are direct complements to this operation and provide financial and technical assistance, and institutional capacity-building in mutually reinforcing areas.** In the efficiency in of public spend pillar, the engagement includes the Support to a Coordinated and Scalable Social Protection System in Botswana project (P166742) – an ASA program which supported implementing initial but already solid building blocks for a strong and modern Social Protection System – and the ongoing Review of Social Protection Systems in Southern Africa project (P172175). Technical assistance under the Botswana: Roadmap for Sustainable Livestock Value Chain in Southern Africa (P174621) supports the dialogue for broader reforms in SOEs. The private sector development pillar builds on WBG two-year programmatic ASA which aims to contribute to increase financial inclusion and MSMEs access to finance (though the Southern Africa Financial Inclusion Follow Up project (P172044)). Under the green recovery pillar, the DPF series complements the ongoing the Botswana Energy diversification and electrification ASA (P175421), and the forthcoming technical assistance project to support the Government of Botswana in establish a carbon tax. Finally, the reforms supported under the DPF, in combination with findings from forthcoming WBG Country Private Sector Diagnostic, are expected to catalyze further IFC investment and advisory engagement in Botswana, with a focus on economic diversification via support of the financial sector, renewable energy, agribusiness and PPPs.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

80. **The reforms supported by this programmatic DPF are part of Botswana's ERTP, which builds on key aspects of Vision 2036, both of which benefitted from broad consultations within Botswana.** Botswana's Vision 2036 was prepared following a national consultation process under the leadership of the President. The ERTP was developed by a committee led jointly by the Governor of the Bank of Botswana and the Ministry of Finance and Economic Development, following extensive consultations within government and across stakeholders, including the private sector, Botswana's Institute for Development Policy Analysis and University of Botswana (UB). In designing this DPF, and to ensure consistency, MoFED frequently convened meetings with various ministries involved and sector regulators to ensure broad government participation. The World Bank extends its sincere appreciation to its government counterparts for the depth, quality, and responsiveness of the policy dialogue.

81. **The preparation of the proposed operation has benefited from close collaboration with other development partners active in Botswana, including the IMF, the AfDB and representatives of the**

European Union. The macroeconomic context and assessment have been undertaken in close cooperation with the IMF, which has also provided inputs on key reforms that would support Botswana's diversification agenda given the ongoing technical assistance program. The IMF concluded its Article IV mission on March 24, 2021. The World Bank has consulted and collaborated closely with the AfDB which has recently began developing its own first budget support operation of US$135 million. The WB and AfDB will very likely go with a joint policy matrix, or a largely overlapping one at the very least. Most recently, the *Agence Française de Developpement* (AFD) indicating interest in collaborating with the World Bank on its own budget support loan. Discussions are ongoing with the EU Delegation and French Embassy in Gaborone. It expects this close collaboration with development partners to continue as the second operation in the series is developed.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

82. **Overall, the policy measures and institutional reforms supported under the proposed DPF are likely to have poverty-reducing effects.** Potentially strong positive poverty impacts are expected from the new social protection framework, Prior Action 1, which is expected to improve the efficiency and effectiveness of the delivery of social programs, an important step for response to future shocks. Prior Actions 2 and 3 are also likely to have a positive impact on poverty. These aim to promote private sector development through better SME access to credit financing and removing regulatory barriers to start a business. In addition, measures that help reduce climatic risks through the promotion of renewable energies such as Prior Actions 4, 5 and 6 are expected to reduce poverty in the long run, as the poor tend to be more vulnerable to climatic and environmental shocks.

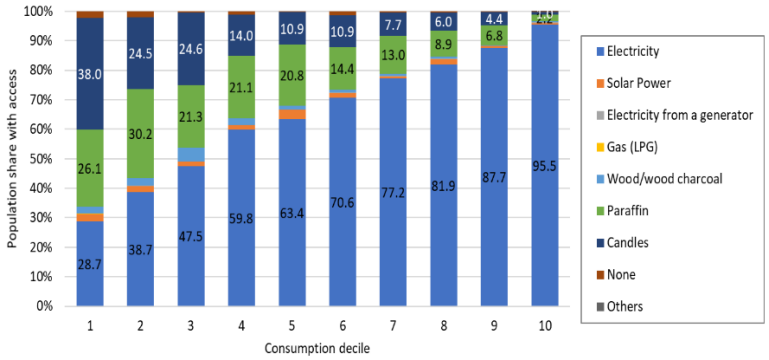
83. **The implementation of the social registry and proxy means testing under the new Social Protection Framework (Prior Action 1 and Triggers 1) is expected to have poverty-reducing effects, with the improved efficiency and targeting of social programs leading to a wider coverage of poor beneficiaries.** Botswana's social programs have been playing a key role in reducing poverty. Without them, 6.7 percent of population, or about 154,000 individuals would live below the national poverty line. Among the social programs, the Destitute Person Program has only a moderate impact on poverty (0.6 percentage point reduction) due to its targeting inefficiency and small budget. Introducing PMT to the program will improve its targeting efficiency and therefore support a larger share of poor populations. Setting up a mechanism to reduce inclusion and exclusion errors in PMT, such as complementary community-level information, would further strengthen the poverty-reducing effect.

84. **Prior Action 2 and Prior Action 3, on the Credit Information Bill and the Trade Regulations respectively, as well as their associated triggers, are expected to bring positive impacts on poverty, by supporting household- and micro-enterprises.** Prior Action 2 will provide regulatory oversight over credit bureau and decrease the information asymmetry between borrowers and lenders. Improving access to finance would allow otherwise credit-constrained entrepreneurs and microenterprises to more easily start up and expand businesses. This is particularly beneficial to self-employed workers, who tend to be poorer than salaried workers in Botswana. Currently, most household enterprises—particularly informal ones—are

financed by households' own savings, sales of assets, or grants or loans from relatives (75 percent), while only 3 percent of them borrowed from commercial banks. Prior Action 3 will also contribute to the development of business-friendly environment by reducing regulatory requirements for the start-up of low-risk businesses.

85. **Prior Action 4 and Prior Action 5 aim to promote private investments in the development of renewable energy through the setup of National Energy Policy and solar rooftop guidelines, respectively.** Facilitating the private sector investment in renewable energy will help to reduce the import of expensive energy from South Africa and lower overall energy prices, thereby benefiting consumers. Improving the energy access among low-income households is important, as they currently rely on inefficient sources (Figure 3). Renewable energy could also be an engine of growth and contribute to the country's post COVID-19 economic recovery by diversifying its energy sources, providing cleaner and reliable energy, and creating jobs. In addition, the establishment of a national grid code (Trigger 4) is expected to set the enabling environment required for the inclusion of variable renewable energy into the grid.

Figure 3. Energy access (source for lighting) by consumption decile, 2015



Source: World Bank calculations using 2015/16 BMTHS

86. **Prior Action 6, on the amendment to the Environmental Assessment Act and the Environmental Assessment Regulations (Trigger 6), will make efficient and effective the environmental assessment process for private sector activities.** These would potentially reduce the risk of environmental hazard among poor and vulnerable populations. The streamlining of the assessment process, however, needs to be accompanied with strengthened capacity of regulators to ensure climate change risks are acknowledged and addressed during the process; this will be achieved through the proposed development and adoption of climate change resilience guidelines. Among the SACU countries, Botswana is particularly vulnerable to climate shocks. For example, the average loss in household consumption due to droughts amounts to 11.2 percent, which is second to Lesotho (11.7 percent). Particularly vulnerable are small-scale farmers, who tend to be poor. In addition, flooding affects poorer population in Botswana. National efforts to reduce climatic risks will eventually lessen the costs borne by the poor and vulnerable.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

87. **Botswana has made significant strides in developing its environmental legislation and administrative frameworks over the past 15 years,** culminating to the promulgation of the Environmental Assessment

Act No 10 of 2011 and the Environmental Assessment Regulations No 58 of 2012. The Department of Environmental Affairs (DEA) under the Ministry of Environment, Natural Resources Conservation and Tourism is responsible for the enforcement of the environmental act and assessment regulations and approval of environmental impact assessments (EIAs). Despite Botswana having a well-defined institutional framework for environmental, forests natural resources management; it faces several challenges namely poor coordination capacity between ministries and departments, limited and overstretched human capacity within DEA leading to poor enforcement of legislative requirements. To mitigate the identified weaknesses, this DPF has recommended a participatory policymaking process, and that the subsequent actions from the DPF do not lead to any weakening or disregard of the environmental and social due diligence process. The policymaking process should rather result in the strengthening of environmental, social and health and safety (ESHS) performance by integrating for example ESHS performance requirements as part of the public procurement process.

88. As per Operational Policy (OP) 8.60, the World Bank has assessed whether the country policies supported by this DPF are likely to have an impact on the environment, forests, and natural resources. **This assessment shows that the Prior Actions 1, 4, 5, and 6 are likely to have a positive impact on the country's environment, forests, and natural resources.**

89. **Prior Action 1** is likely to generate small quantities of e-waste but will have a positive impact by significantly reducing paper usage and waste by moving to a digital Single Social Registry (SSR) platform. The importance of a digital system has been further highlighted by the pandemic. Generation of e-waste is anticipated to be insignificant at this stage as all social protection districts offices are currently adequately equipped with the necessary electronic facilities but is likely to occur throughout the implementation lifecycle of the SSR. Botswana has adopted a Waste Management Strategy in 1998 and promulgated the Waste Management Act (Chapter 65:06) in 1998 which sets out measures for adopting a waste minimization and safe disposal approach for both hazardous and non-hazardous waste. The Waste Management Act further sets out the licensing and permit, storage, transportation, and disposal requirements for both hazardous and non-hazardous waste, however does not explicitly address the management of e-waste, for which clear specific regulations, are still currently lacking in Botswana. However, there are several licensed and reputable waste management operators with the necessary competency and capacity in Botswana who would be able to safely manage waste throughout the implementation lifecycle of the SSR. The government is advised to consider potential generation of e-waste in the area of social protection and to make provision for the establishment of an adequate e-waste management strategy.

90. **Prior Action 4** will have a positive impact on the country's environment, forests, and natural resources. The National Development Plan (2017 – 2023) (NDP) identified climate change as a threat to major economic sectors such as agriculture, water health, tourism, and ecological systems in Botswana. The energy sector is considered a major contributor (62 percent) of GHG emissions in Botswana according to the National Communication to the United Nations Framework Convention on Climate Change (2019). Prior Action 5 aims to strengthen private sector involvement in the energy sector and increase IPPs energy contributions from renewable energy sources. The introduction of renewable energy sources to the energy grid contributes to a reduction in reliance of conventional energy sources generated through burning of fossil fuels and is likely to have a positive contribution to air quality and greenhouse gas

emissions. The construction of facilities for energy generation requires an authorization from DEA, in terms of the Environmental Assessment Regulations No 58 of 2012. The limited and overstretched human capacity within DEA may lead to poor enforcement of legislative requirements, and therefore the government should take robust measures to ensure that environmental and social due diligence requirements are not lowered or circumvented when executing activities under Prior Action 5. To overcome these limitations, the government is currently strengthening its capacity to mitigate environmental risks. For example, to ensure promotion of sustainable development through realization of quality environmental assessment in Botswana, the Environmental Assessment Practitioners Board (EAPB), was recently established under Section 20 of the Environmental Assessment (EA) Act of 2020 and Order, 2019 (L.I. No. 29 of 2019) establishes an Appeals Committee and procedure of Appeals under the EA process. In addition to these institutional and regulatory measures, power purchase agreements will include environmental performance indicators, and developers will be required (i) as per the EA Act to submit an evaluation report on monitoring to the relevant technical department or local authority, the monitoring data will function as an 'early-warning' system; (ii) to set up effective investment level Grievance Mechanisms that allow for increased opportunities for participation.

91. **Prior Action 5** will have an impact similar to that of Prior Action 4, as the expected decline in the need for burning fossil fuels to produce energy will contribute to reduced carbon emissions. Additionally, solar energy will be a cost effective and clean alternative for households relying on harvesting of wood for energy production which will positively contribute to the preservation of forests and natural resources.

92. Positive impacts are also expected from the implementation of **Prior Action 6**, which will strengthen environmental assessment practice by ensuring that climate resilience aspects are considered and implemented as part of future developments - consistent with the National Climate Change Strategy (2018). Adopted guidelines will explain how to evaluate and address climate risk in the context of EIA, EMP, and enhance monitoring and enforcement of climate change mitigation and adaptation measures.

93. **On the other hand, activities under Prior Actions 2 and 3** are likely to lead to more future investments, which may contribute to negative environmental impacts due to an increase in demand on natural resources. Since the value-for-money provision in the World Bank's procurement rules does not exclude environmental considerations, the accompanied public procurement regulations need to be prepared in a participatory manner and shall dedicate a sub-section to general environmental, social, and occupational health and safety requirements. Access to financing for SMEs under Prior Action 2 and 3 are likely to contribute to negative impacts on Botswana's environmental and natural resources due to many SME's lacking awareness of the environmental impacts of their activities and challenges faced in presuming green growth opportunities. Given their wide spatial and sectoral range, SMEs may produce more pollution than big businesses due to their informal nature and the resulting lack of regulations. To mitigate potential negative environmental impacts, SMEs business plans will incorporate environmental and social considerations. In addition to environmental and safety (E&S) capacity building activities, Standard ERMP(s) and Environmental Codes of best Practices (COPs) for the management of E&S risks in SMEs will be developed for SMEs activities that do not fall under Schedules 1 and 3 of Environmental Assessment Regulations (Cap 65:07), which set the list of activities for which an environmental assessment is required.

94. The environmental assessment regulations (2012) require an EIA for the construction of facilities for electricity generation. The forthcoming amended regulations shall maintain this requirement and clarify the type of environmental assessment required for solar energy projects. Botswana Energy Regulatory Authority is responsible for ensuring compliance with the laws and regulations on environmental protection and will ensure that environmental and social due diligence and associated permitting requirements are not by-passed or watered down. To complement the above listed regulatory requirements, Commercial Financial Institutions (CFIs) shall be encouraged to develop and implement a process that assists them in the identification, assessment, management, and on-going monitoring of identified E&S risks associated with the solar renewable businesses. This shall be done as part of the overall credit assessment of the solar businesses they provide funding to. Financial institutions shall develop a list of eligible and non-eligible (e.g. production or activities involving forced labor; confirmed cases of Gender Based Violence/Sexual Exploitation and Abuse, absence of an environmental certificate issued by the ministry of Environment), and report at least annually about their E&S risk management processes and experience, including information of solar off-grid sector clients and transactions.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

95. **The recipient is the Government of Botswana.** The loan is for US$250 million. The closing date for the loan is December 31, 2022.

96. **The results of the 2020 Public Expenditure and Financial Accountability (PEFA) assessment show that the PFM systems in Botswana are operational and generally meet the basic requirements.** The country has maintained steady fiscal growth over the last few years with its debt relatively low and sustainable. In July 2010, the government adopted a comprehensive and integrated Public Financial Management Reform Program (PFMRP), which recognized the need to improve PFM as one of the elements to increase efficiency and effectiveness of service delivery and to focus more on value for money. Reforms to budget formulation and management, including greater emphasis on prioritizing spending and delivering results, have received significant attention.

97. **The Government of Botswana supports a transparent and comprehensive annual budget process.** Budget transfers to subnational governments are done on a timely basis and provides enough time for local authorities to complete their annual budget requests. The transfer to local authorities is done on a quarterly basis by the line ministries and the disbursement is based on the approved budget for each entity. Budget classification is adequate but uses the older version of GFSM 1986. The economic classification does not apply to the development budget. This makes it difficult to accurately assess and quantify the capital component of the development budget. GFSM 1986 only covers Budgetary Central Government activities. There is limited to no information compiled on extra-budgetary entities. MoFED plans to transition to accrual-based accounting by FY 2022.

98. **Botswana's budget is made publicly available through various channels**, including the MoFED website, local radio stations, hard copies at a nominal fee and free access in the Government libraries. The Government has every intent of making the fiscal information (including the budget allocation and utilization) accessible to the public through electronic media, but it is hampered by internet connectivity as limited population has access to internet. This therefore suggests that placing reliance on ICT or

websites as is the case now does not enable majority of public to access the information with ease. The information is also made accessible through the traditional media such as use of the radio through call in programs where officials make presentations which is the followed by a question and answer session. Documents are made available in English (official language) and Setswana (national language) but for a nominal fee charged to cover the costs of publication. Documents are also made available through public libraries although this is in limited in number.

99. **The Government is revising the Chart of Accounts as part of the reform to transition to accrual-based accounting from cash accounting by 2022.** This will broaden the scope of GFS to include Local Governments and extrabudgetary units. The adoption of GFSM 2014 is ongoing under the PFM Reform Program. **The Government uses several methods to relay information to stakeholders and to the public**, the more frequent methods used to relay fiscal information include conducting public forums, uploading the information to MoFED' s website and print copies made available in Government stores and national libraries.

100. **The Accountant General is required to submit the Annual Statements of Accounts (ASA) to the Auditor General within a period of six months after year end, in accordance with the PFMA, Section 42(2).** ASA cover loans, stock of debts and guarantees. The statements are comprehensive and include full information on revenue, expenditure, some financial assets and liabilities.

101. **The Government uses a modified accounting standard for reporting. The accounting standards are in accordance with the country's legal framework and adheres to international practices and standards.** The Government is in the process of transitioning from cash-based to accrual-based accounting. This is expected to be completed over the next few years. The IMF and US Treasury currently provide technical assistance.

102. **External auditors have expressed unqualified audit opinion on the annual financial statements of the Bank of Botswana for the year ending 31 December 2019.** Although there is no recent IMF safeguard assessment available, the audit review noted that the Bank of Botswana is discharging its mandate of promoting and maintaining monetary stability, efficient payments mechanism and the liquidity, solvency and proper functioning of a soundly based monetary, credit and financial systems.

103. **The proposed operation would consist of a single tranche of US$250 million disbursed upon satisfactory implementation of the development policy program.** The operation would follow the disbursement procedures of the International Bank for Reconstruction and Development (IBRD) for development policy operations and would not be linked to specific expenditures. Once the Financing Agreement becomes effective and a withdrawal application has been received, the IBRD will deposit the loan proceeds into an account designated by the Government at the Central Bank—provided the IBRD is satisfied with the program being carried out by the Government and with the appropriateness of the country's macroeconomic policy framework. The deposit will be part of the country's foreign exchange reserves. The Government will credit the local-currency equivalent in the budget management system using the prevailing exchange rate. As a due diligence measure, the Government will provide IBRD with confirmation that the amount of the loan proceeds have been accounted for in the country's budget management system, with an indication of the exchange rate applied and the date of transfer and that

the account used to deposit loan proceeds is part of the country's foreign exchange reserves. The confirmation will be expected within 30 days of disbursement. If the proceeds of the loan are used for excluded expenditures as defined in the Financing Agreement, the IBRD will require a direct refund of an amount equal to payment, promptly upon notice from IBRD. Amounts refunded to the World Bank upon such request shall be cancelled. No dedicated account is required since the control environment is assessed to be adequate.

104. **Auditing requirements.** The budgeted public expenditures to be financed by the loan's Botswana Pula equivalent shall be subject to external audit by the Auditor-General under the normal auditing arrangements applicable to the Government. The IBRD will have access to these audit reports.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

105. **The Government of Botswana, specifically the Ministry of Finance and Economic Development (MoFED), has overall responsibility for the implementation, monitoring, and evaluation of the proposed Prior Actions of the DPF.** In monitoring the DPF, the MoFED will work in close collaboration with the National Statistics Office, Statistics Botswana. The program outcomes will be monitored through results indicators, as detailed in the Policy and Results Matrix (Annex 1). Most of these results indicators are based on routinely published information and, for those that are not, the concerned ministries or agencies will be responsible for collecting the data, tracking the relevant indicators, and providing these to the MoFED in a timely manner. adequate for monitoring progress of this operation. The MoFED will be responsible for submitting necessary information at a frequency and in a format satisfactory to the World Bank.

106. **Data availability, data collection capacity and data quality are variable depending on the Ministries.** The World Bank will provide support, including technical assistance for some of the reforms described above, to ensure timely implementation, and adequate data collection and monitoring of indicators and outcomes of the program. Specifically, the World Bank could help the Government of Botswana develop a monitoring or data collection plan for each of the indicators in the results framework, and review progress.

107. **The Government has a strengthened monitoring and evaluation (M&E) capacity which will allow it to successfully monitor the implementation of the Prior Actions of the DPF.** The Government has adopted significant interventions to strengthen the national M&E capability, most recently by adopting the Performance M&E Policy in October 2020. The Policy lays the foundation for the design and implementation of a comprehensive M&E system in Botswana. It affirms the Government commitment to performance M&E at all levels of government based on the National Vision 2036 and the 11th National Development Plan (NDP 11). A Performance M&E Manual developed provides further guidance for the policy implementation. Through these actions, the Government of Botswana has demonstrated that effective performance M&E practices are of high importance for it.

108. **Implementing the Performance M&E Policy in the existing public sector management systems is an essential element to improve public sector effectiveness.** The policy outlines a move beyond traditional monitoring to a new and more performance-focused approach to M&E as an integrated means to

strengthen public sector performance, which is needed to achieve the goals of Vision 2036 and NDP 11. Performance M&E combines tools, capacities, and incentives to enable government and each of its institutions to track policies, programs, and projects to achieve results that meet national priorities. Promoting the use of performance information for evidence-based policymaking and implementation strengthens public sector effectiveness, efficiency, transparency, and accountability. Thus, the National Monitoring and Evaluation System (NMES) envisaged for Botswana is a fully integrated component of public sector management. NMES is intended to strengthen public sector performance and mainstream evidence-based policymaking in the policy cycle from strategic planning and budgeting through implementation to M&E**.** In brief, focus will be on using M&E findings for policymaking and implementation to ensure the delivery of services and on holding institutions and individuals accountable for performance and results.

109. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

110. **The overall residual risk rating of this operation is set at "moderate".** This reflects mitigating factors influenced by Botswana's stable political environment, prudent macroeconomic set up and strong institutional framework and policies. The most relevant residual risk to the operation's ability to achieve its development objective is linked to sector strategies and policies. Risks to the operation are described below and summarized in Table 6. This is broadly consistent with that of the CPF.

111. **Political and governance risks are rated as moderate.** Botswana's stable political environment includes a multi-party democratic tradition (the oldest in Africa), with general elections held every five years. The ruling Botswana Democratic Party (BDP) has been in power since 1966. In October 23, 2019 Botswana held its 11th general elections, with His Excellency President Dr. Mokgweetsi Eric Masisi assuming the presidency. A cabinet reshuffle took place on April 16, 2021. Ms. Peggy Onkutlwile Serame has been nominated the new Minister of Finance and Economic Development (MoFED), the first woman in this post. She replaces Dr. Thapelo Matsheka who had been in this position since November 6, 2019. From 2007 to 2011, Ms. Serame was MoFED' s Chief Economist and Director of Macroeconomic Policy Section. She is also familiar with the World Bank, as she headed the Multilateral Institutions Cooperation Unit in MoFED. Prior to taking up her new position, Ms. Serame was Minister of Investment, Trade and Industry.

No significant change in the World Bank's relationship with the MoFED and government more broadly is expected, thus mitigating any risks to implementation of this operation.

112. **Macroeconomic risks are moderate despite Botswana's relatively strong and stable growth since independence.** This is reflective of the prevailing uncertainty around the global economic environment, which is subject to further shocks caused by the COVID-19 pandemic including slower-than-expected vaccination, prolonged lockdowns and restrictions to flows of goods and people across borders, a dampening in global demand for diamonds, a sharper than expected contraction in SACU revenues and a slower-than-expected pace of recovery of main trading partners. The Government's commitment to maintain prudent macroeconomic policy and ability to secure financing for, and commitment to advance key reforms laid out in its ERTP will play a key role in helping to manage potential risks mentioned above. To this end, this operation contributes to the mitigation of fiscal costs by providing financing which would lower debt service costs as compared to financing through capital markets.

113. **Sector strategies and policies risks are substantial** given historical trends in the effectiveness of policy implementation in the past, including on private sector development and economic diversification. Despite this, this operation mitigates such risks by supporting reforms under the ERTP, which outlines Government priorities including areas where reforms are already taking place and are being supported through World Bank technical assistance. For example, to unlock its renewable energy potential, Government has already taken some important steps towards efforts to 'green the recovery' with both the Climate Change Policy and National Energy Policy adopted by Parliament in April 2021. Implementation of the Single Social Registry, which is enabled by the action supported in Pillar 1, will need to consider treatment of personal data. While Botswana's Data Privacy Act (2018), which is applicable to government databases, includes many aspects of good international practice when it comes of personal data usage, it will be important to ensure that the Registry has data protection mechanisms built into it and to carry out a data protection impact assessment around the design and operationalization of the Registry.

114. **The risk related the institutional capacity for the implementation of the proposed program is moderate.** Botswana has a strong institutional setup, with strong policy making institutions such as the Bank of Botswana and the Ministry of Finance and Economic Development. It also has strong accountability institutions including the Judiciary, Attorney General, the Ombudsman, and the Auditor General. This said, the implementation of the reforms supported by this DPF requires strong collaboration among a several implementing agencies and strong coordination by MoFED as executing agency. Similarly, strong institutional capacity has been hindered by implementation capacity. The DPF mitigates this risk by strengthening policy dialogue between the Bank and the Government, in close coordination with other development partners including the AFDB.

115. **Fiduciary risks are moderate.** They are appraised in detail in Section 5.3 of this program document. Social and environmental risks are moderate. They are respectively appraised in detail in Sections 5.1 and 5.2 of this document. Stakeholder risks are moderate. Effective checks and balances exist, institutions overall remain robust, inclusive, and transparent, and stakeholders are involved, widely consulted, and well informed of government programs.

116. **The COVID-19 pandemic poses a moderate risk on the economy and the general welfare of the population.** As of May 06, 2021, Botswana had over 47,850 confirmed cases COVID-19 cases, with 724 confirmed deaths. A state of public emergency is in effect until at least September 20, 2021 in continued efforts to curb the spread of the virus. The Government is maintaining several COVID-19 restrictions, including extending a nationwide night-time curfew. While international travel has resumed, those entering Botswana must present a negative COVID-19 test taken no more than 72 hours before arrival. At the end of March, Botswana started vaccinations against COVID-19 with the AstraZeneca vaccine and plans to complete the vaccination of eligible citizens and residents in 2021. Table 6 rates this risk under "Other Risks".

Table 7: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	Moderate
Overall	Moderate

ANNEX 1: POLICY AND RESULTS MATRIX

Color Codes: The three stages of the World Bank's COVID-19 response Approach Paper: Relief, Restructuring and Resilient Recovery.

Relief | Restructuring | Resilient Recovery

Prior actions and Triggers		Results		
Prior Actions under DPF 1	**Triggers for DPF 2**	**Indicator Name**	**Baseline**	**Target**
Pillar One – Support Government's response to the COVID-19 pandemic *through strengthening of the social protection framework*				
Prior Action 1: To improve capacity to more accurately identify and assist poor and vulnerable affected by shocks such as COVID-19, the Borrower, through its Cabinet, has adopted the National Social Protection Framework, which creates the enabling policy environment to implement the Single Social Registry and targeting reforms.	(Indicative) **Trigger 1:** The Borrower, through the Ministry of Local Government and Rural Development, has established the Proxy Means Testing (PMT) as targeting mechanism for the Destitute Persons Program for new entrants.	Results Indicator 1: Percentage of beneficiaries in five (5) social programs updated in the Single Social Registry	20.5 (Mar 2021)	75.8 (Dec 2022)
Pillar Two: Strengthen Private Sector Development *through reforms to improve access to finance and simplify business registration*				
Prior Action 2: To improve access to finance for SMEs, the Borrower, through its Cabinet, has approved, the Credit Information Bill, including the approval of its submission to Parliament, which aims to provide regulatory oversight over credit bureaus and decrease the information asymmetry between borrower and lender.	(Indicative) **Trigger 2:** The Borrower has approved accompanying Credit Information Regulations.	Results Indicator 2: Value of financing facilitated to the SME sector (new loans), in Pula.	0 (Feb 2021)	50 million (Dec 2022)
Prior Action 3: To incentivize greater entrepreneurship, improve the regulatory environment and reduce the administrative burden for business registration, the Borrower has adopted the Trade Regulations and Industrial Development Regulations, which introduce a risk assessment system with simplified start-up requirements for low-risk businesses.	(Indicative) **Trigger 3:** The Borrower, through its Cabinet, has approved and submitted to Parliament, the Moveable Property Security Interests Bill to allow for all types of movable property to be used as collateral, thus contributing to financial inclusion.	Results Indicator 3: Percent of new businesses falling under the Trade Act or Industrial Development Act that are exempt	0 (June 2020)	70 (Dec 2022)

Prior actions and Triggers		Results		
		from licensing requirements.		
Pillar Three: Promote a Resilient, Green Recovery *through measures in the area of renewable energy generation and climate change*				
Prior Action 4: To implement its Nationally Determined Contributions (NDC) and the country's Vision 2036 and accelerate the shift towards renewable energy and meeting SDG7, the Borrower has adopted the National Energy Policy and the Integrated Resource Plan, including the adoption of specific renewable energy technology targets and a competitive tendering process, which aim to unlock the way towards attracting private financing to accelerate the development of renewable energy projects.	(Indicative) **Trigger 4:** The Borrower, through the Botswana Energy Regulatory Authority (BERA), has approved a national grid code to ensure an adequate enabling environment for the increased development and deployment of variable renewable energy (VRE) on-grid.	Results Indicator 4: Capacity of Renewable Energy permitted to be commissioned, in Megawatts	2 (May 2021)	100 (Dec 2022)
Prior Action 5: To strengthen independent producers' participation in the electricity sector and promote uptake of solar energy solutions, the Borrower, through its Ministry of Mineral Resources, Green Technology and Energy Security, has adopted the Rooftop Solar Guidelines, which define the framework and process for the implementation of small-scale grid-tied solar photovoltaic (PV) systems by domestic, commercial and industrial consumers.	(Indicative) **Trigger 5:** The Borrower, through the BERA, has approved a national grid code to ensure an adequate enabling environment for the increased development and deployment of variable renewable energy (VRE) on-grid.	Results Indicator 5: Aggregate capacity for Solar Rooftop Program, in Megawatts	1.5 (May 2021)	10 (Dec 2022)
Prior Action 6: To promote private sector development and facilitate climate change assessments, the Borrower has amended the Environmental Assessment Act, which clarifies the process for project evaluation and streamlines the review process.	(Indicative) **Trigger 6:** The Borrower has approved Amendments to the Environment Assessment Regulations to clarify the type of environmental assessment required of all project types and categories and has adopted guidelines to instruct the government agencies on how to evaluate and address climate risk in the context of Environmental Impact Assessment (EIA) and Environmental Management Plans (EMP) for all development projects.	Results Indicator 6: Percentage of EMP and EIA processes that integrate climate change resilience considerations in line with the climate change guidelines	0 (Feb 2021)	33 (Dec 2022)

ANNEX 2: FUND RELATIONS ANNEX

Botswana—Assessment Letter for the World Bank
April 16, 2021

I. Recent Developments, Outlook, and Risks

1. Botswana entered the COVID-19 crisis with larger buffers than most countries—international reserves at more than 10 months of imports and central government debt below 20 percent of GDP. But the economy was already on a downward trajectory—a series of persistent negative shocks (including a declining trend in diamond prices over 2016-20), and delays in both structural and fiscal adjustment have over time weakened the fiscal position amidst high unemployment and inequality. When the pandemic hit in 2020, heavy reliance on diamonds and contact-intensive services caused a sharp GDP contraction at 7.9 percent, and the current account deficit widened to 10.1 percent of GDP. The fiscal deficit worsened significantly, at 11 percent of GDP, as the government sought to counter the impact of the pandemic with support measures while implementing a sizeable public wage increase agreed in 2019. The deficit was financed largely by drawing down on the Government Investment Account, the balance of which declined from 18.4 percent of GDP at end-2019 to 3.6 percent of GDP by end-2020. At the same time, the Pula Fund[25] increased from 46.3 percent of GDP in 2019 to 50.2 percent of GDP in 2020.

2. Botswana plans to vaccinate 75 percent of the adult population by end-2021. The country has made an upfront payment to COVAX, the World Health Organization (WHO)'s vaccine arrangement, to acquire 940, 800 vaccines under a two-dose regime, enough to cover about 20 percent of the population. In parallel, the country is seeking to secure other vaccine sources (including through the African Union). The authorities have a rollout plan in place and are ready to move as the vaccine supplies improve. The vaccination initiative is expected to cost a minimum of 1/3 percent of GDP. The vaccination cost and other COVID-19 related health spending are incorporated in the 2021/22 budget.

3. A relatively strong recovery is underway. Following a projected contraction of 7.9 percent in 2020, real GDP is expected to grow by 8¼ percent in 2021. The recovery assumes a rebound of diamond production and sales in line with recent trends. In addition, the scenario assumes the entree

[25] Foreign reserves are under the control of the Bank of Botswana—with about 85 percent kept in a sovereign wealth fund (the Pula Fund) and 15 percent in a "liquidity" portfolio (used as a short-term liquidity buffer). Within the Pula Fund, one-third is owned by the BoB and two-thirds by the government (kept separately in a "Government Investment Account" held at the BoB in domestic currency). Foreign exchange reserves in excess of the amount required for daily foreign transactions kept in the Liquidity Portfolio (currently set at nine months of imports) are transferred to the BoB's portion of the Pula Fund. If the Liquidity Portfolio declines below three months of imports, it receives a transfer from the Pula Fund.

in production of the Khomaceau copper mine, less restrictive containment measures in response to elevated COVID-19 infections, and some resumption of international tourism in the second half of 2021 as vaccination ramps up. The recovery, albeit at a slower pace, is expected to continue through the medium term, conditional on the government's implementation of its Economic Recovery and Transformation Plan. However, output will remain below its pre-pandemic forecasted levels through 2025.

4. Inflationary pressures are expected to rise temporarily in the near term. Staff forecasts inflation to pick up to 4.8 percent on average in 2021, from 1.9 percent in 2020. This reflects the rebound in oil prices, the planned increase in the VAT rate, fuel levy, electricity tariffs, sugar tax, rentals, and sustained domestic consumption. These pressures will linger through the first half of 2022. Beyond that, inflation is expected to ease and remain within the central bank objective of 3-6 percent over the medium term.

5. The current account deficit is expected to narrow to 3.3 percent of GDP and 1.9 percent of GDP in 2021 and 2022, respectively, as the recovery of diamond production and favorable terms of trade are expected to more than offset the projected drop in SACU revenue. At the same time, the financial account is expected to improve thanks to higher FDIs, greater reliance of the government on external borrowing, and smaller outward investment by the pension fund (to finance large gross financing needs). As a result, reserves cover, which fell from 10.1 months of imports in 2019 to 7.3 months of imports in 2020, is expected to stabilize in 2021 and gradually improve through the medium term.

6. The fiscal deficit is expected to narrow in FY2021/22 despite the large drop in SACU transfers. This is mainly due to recovery in mineral revenue, phasing out of the one-off COVID-related spending, and implementation of expenditure consolidation measures. About 1/2 of the deficit is expected to be financed through domestic issuances. Public debt will continue to increase in the next two years, reaching a peak of 28.9 percent of GDP in 2022/23 and decline thereafter.

7. The outlook is subject to significant uncertainty with risks tilted to the downside. The COVID-19 pandemic could last longer than envisaged, which would affect employment, domestic demand, SACU transfers, and government expenditure. Even if the pandemic wanes as expected, the uneven nature of the recovery could delay expected improvements in labor markets, people's livelihoods, and the balance sheets of firms in hospitality-related sectors. Other risks stem from contingent liabilities (state-owned enterprises, guaranteed loans) and a larger-than-expected deterioration in the corporate sector's balance sheet that could increase unemployment once the State of Emergency is lifted, impair banks' balance sheets, and amplify the scars of the crisis. In addition, weaker-than-expected diamond revenue amid shifts in consumer preferences and greater competition from synthetic diamonds could weaken current account and fiscal balances, put pressure on external buffers, and increase public debt. On the upside, a faster rollout of vaccines in Botswana and worldwide

could lead to a resumption of tourism activity, higher SACU revenue in FY2022, and higher demand for diamond exports. In addition, accelerated implementation of the Economic Reform and Transformation Plan could improve potential growth over the medium term.

II. Macroeconomic Policies

8. The first priority remains securing and ensuring successful rollout of vaccines to a share of the population large enough to keep the pandemic under control and prevent health systems from being overwhelmed. This is key to sustaining the recovery.

9. Another critical policy priority is to place Botswana back on a path of sustained inclusive growth by enhancing resilience to shocks and improving competitiveness through supply side reforms to foster private sector-led growth and structural transformation.

- **Fiscal policy**. The authorities' medium-term fiscal framework aims to support the recovery and lay the foundation for higher growth potential, while ensuring fiscal sustainability. To create space for transformative investment in infrastructure and human capital, the authorities' budget for FY2021 envisages to enhance revenue mobilization by increasing the VAT rate by 2 percentage points, streamline VAT exemptions, and increase fuel and withholding taxes. On the expenditure side, measures include containment of the wage bill, cuts in non-priority spending (e.g. travel) and "efficiency gains" in grants and subventions and transfers to local government. Proceeding with the planned fiscal consolidation is critical to achieve fiscal sustainability and rebuild an asset base that will benefit future generations. The consolidation will also guard against the risks around the outlook for the diamond market. As a same time, fiscal reforms would be needed to lock-in consolidation efforts. These include civil service reform, acceleration of plans to rationalize the parastatal sector and improve its governance, and a strengthening of the fiscal framework to better anchor fiscal policy and increase credibility. In addition, it is necessary to maintain targeted support to households and illiquid but solvent firms and make the support state-contingent or conditional to reduce moral hazard.

- **Monetary and exchange rate policy.** Monetary policy should remain accommodative in the near term, while carefully monitor second-round effects from supply shocks and discretionary measures on inflation and expectations, as well as credit developments. The real effective exchange rate is assessed to be moderately overvalued. Continuing use of the flexibility within the current crawl arrangement would allow to gradually reduce real overvaluation and help the economy adjust to shocks and facilitate structural transformation, while avoiding de-anchoring inflation expectations.

- **Financial sector policies.** Major government interventions have helped to mitigate immediate macro-financial risks. However, an uneven recovery could increase corporate vulnerabilities, while the expiration of the debt moratorium could lead to higher NPLs. These risks could add to structural vulnerabilities in the banking system: households' indebtedness—in particular the large share of unsecured loans—could further increase in a context of low interest margins; and concentration on wholesale funding exposes banks to liquidity risks, increases their funding costs, and reduces their profitability. At the same time, further reliance on domestic borrowing to finance the fiscal deficit will increase the sovereign-financial nexus. As the health crisis wanes, COVID-19 related forbearance measures need to be unwound while maintaining adequate liquidity in domestic market. There is also a need to closely monitor risks through enhanced reporting, regular stress testing, and financial oversight. NPLs should be well recorded and provisioned for. On the AML/CFT front, the remaining deficiencies need to be addressed in a timely manner.

- **Structural policies.** The approval of the Economic Recovery and Transformation Plan lays the ground for the country to accelerate its structural transformation. Successful transformation requires greater focus on promoting non-mineral exports, manufacturing, and transformative sectors (including green and climate adaptation technologies), while reducing reliance on import substitution and protectionist policies. Enhancing cost competitiveness through competition in the network sector, spatial planning/geographic clustering, and e-government should be prioritized. Strengthening institutions and accountability will help reduce information asymmetries and enhance implementation.

III. IMF Relations

10. A virtual Article IV mission took place during March 08-23, 2021. The IMF Executive Board discussion of the Article IV is scheduled for May 28, 2021. Botswana benefits from the Fund's technical assistance, particularly in revenue administration, public financial management, central bank operations, monetary and macroprudential policy, and financial supervision and regulation.

Table 1. Botswana: Selected Economic Indicators, 2015–26

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Prel.			Projection			
	(Annual percent change, unless otherwise indicated)[1]											
National income and prices												
Real GDP	-1.7	4.3	2.9	4.5	3.0	-7.9	8.3	6.4	4.8	4.0	4.0	4.0
Mineral[2]	-19.6	-3.5	-11.1	7.6	-4.1	-26.2	52.9	17.2	8.0	1.7	1.3	1.3
Nonmineral	1.7	5.5	4.8	4.1	3.9	-5.9	4.5	5.0	4.4	4.3	4.4	4.4
GDP per capita (US dollars)	6,811	7,249	7,883	8,290	7,989	...	...	...	...	...	...	...
Consumer prices (average)	3.1	2.8	3.3	3.2	2.7	1.9	4.8	5.0	4.4	4.4	4.4	4.4
Diamond production (millions of carats)	20.8	20.9	22.9	24.4	23.7	16.9	23.5	25.9	28.0	27.8	27.8	28.3
Money and banking												
Monetary Base	18.6	3.7	-13.7	17.5	5.4	-7.0	10.4	10.3	8.9	8.9	8.8	8.8
Broad money (M2)	19.9	5.4	2.7	8.3	8.0	5.9	10.4	10.3	8.9	8.9	8.8	8.8
Credit to the private sector	9.0	9.0	5.3	6.6	7.1	5.3	7.8	10.5	9.2	8.9	9.3	9.3
	(Percent of GDP, unless otherwise indicated)											
Investment and savings												
Gross investment (including change in inventories)	32.6	27.0	27.6	29.4	33.3	35.8	34.7	32.4	31.8	31.1	31.2	31.1
Public	8.8	8.5	8.2	8.0	7.1	6.2	6.2	5.9	5.5	5.3	5.1	4.9
Private	23.8	18.5	19.4	21.4	26.1	29.6	28.5	26.5	26.3	25.8	26.1	26.2
Gross savings	39.5	123.1	104.8	108.4	27.2	25.7	31.4	30.5	32.8	33.6	33.8	33.6
Public	16.1	16.2	15.2	12.5	8.8	4.9	8.8	8.1	10.2	11.5	11.6	11.9
Private	23.4	106.9	89.6	95.9	18.4	20.8	22.6	22.4	22.6	22.1	22.1	21.8
Central government finances[3]												
Total revenue and grants	31.2	33.2	30.9	27.8	26.0	24.0	27.5	24.4	27.3	27.5	27.1	26.7
Total expenditure and net lending	35.8	32.5	32.0	32.4	33.9	35.0	32.0	30.2	29.2	28.3	27.6	26.6
Overall balance (deficit –)	-4.6	0.6	-1.1	-4.6	-7.9	-11.0	-4.4	-5.7	-1.9	-0.8	-0.5	0.1
Non-mineral primary balance[4]	-18.1	-17.6	-14.3	-17.1	-17.7	-18.5	-16.5	-18.3	-13.4	-12.3	-11.2	-10.3
Total central government debt	23.2	21.3	18.1	18.6	19.2	23.5	25.7	28.9	28.5	27.3	26.0	23.7
External sector												
Exports of goods and services, f.o.b. (% change)	-24.1	14.4	-16.2	9.2	-17.5	-24.6	58.9	8.1	8.5	8.0	4.5	5.9
o/w diamonds	-28.4	24.6	-17.0	9.8	-19.9	-21.8	64.2	2.8	7.4	7.5	4.4	6.5
Imports of goods and services, f.o.b. (% change)	-10.0	-14.6	-9.8	17.0	5.2	-4.9	11.7	-3.0	5.2	5.8	4.6	4.6
Current account balance	2.1	7.7	5.3	0.6	-6.0	-10.1	-3.3	-1.9	1.0	2.5	2.5	2.5
Overall Balance	-5.4	-2.3	1.8	2.3	-8.4	-14.4	-0.7	1.8	3.3	3.4	3.1	3.1
Nominal effective exchange rate (2010=100)	94.9	95.1	95.4	95.5	...	...	...	...	...	...	...	...
Real effective exchange rate (2010=100)	105.2	104.8	105.0	105.1	...	...	...	...	...	...	...	...
Terms of trade (2005=100)	197.4	175.9	159.2	166.2	143.6	138.7	151.6	159.0	165.4	170.0	170.6	171.4
External public debt[5]	18.4	14.3	11.6	11.7	10.5	11.1	12.4	13.0	12.4	11.1	9.9	8.7
o/w public and publicly guaranteed	5.3	4.7	4.4	4.2	4.1	4.4	3.8	3.4	3.0	2.8	2.6	2.4
	(Millions of U.S. dollars, unless otherwise indicated)											
Gross official reserves (end of period)	7,546	7,189	7,502	6,657	6,172	4,944	4,818	5,178	5,914	6,724	7,504	8,345
Months of imports of goods and services[6]	13.1	13.8	12.3	10.4	10.1	7.3	7.3	7.5	8.0	8.7	9.3	9.9
Months of non-diamond imports[6]	17.5	17.8	16.3	13.7	13.9	10.1	9.6	9.8	10.7	11.5	12.2	12.9
Percent of GDP	58.0	44.9	41.1	37.5	33.2	29.5	26.3	25.6	27.1	28.8	30.1	30.5

Sources: Botswana authorities and IMF staff estimates and projections.

[1] Calendar year, unless otherwise indicated.

[2] Projections are based on diamond production due to lack of information on the breakdown of mining value added by mineral.

[3] Year beginning April 1.

[4] The non-mineral primary balance is computed as the difference between non-mineral revenue and expenditure (excluding interest receipts and interest payments), divided by non-mineral GDP.

[5] Includes central government-guaranteed debt.

[6] Based on imports of goods and services for the following year.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

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REF: MFED 4/12/4 Vol. 161

REPUBLIC OF BOTSWANA

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT
PRIVATE BAG 008
GABORONE

12th April 2021

Mr. David Malpass
President
World Bank Group
USA

Dear Mr Malpass

LETTER OF DEVELOPMENT POLICY

1. The Government of Botswana is seeking the support of the World Bank Group in mitigating the impact of the COVID-19 pandemic through a USD400 million budget support operation. This request is made within the context of the long-term partnership with the World Bank Group under the Country Partnership Framework (CPF). My letter outlines the impact of COVID-19 on Botswana and the measures the Government has taken to protect people's lives and livelihoods and support the country's economic recovery. It also describes in some detail the measures being taken to ensure the long-term structural transformation of the economy and achieve a new growth path, which the proposed loan facility will make a significant contribution to.

I. The Health, Social and Economic Impact of COVID-19

2. ***Health Impact***

COVID-19 has had a severe impact on health and livelihoods in Botswana. As at April 5th, 2021, some 40,230 COVID-19 infections had been reported, cumulatively, with 636 deaths and 38,203 recoveries. While Botswana experienced few incidences of COVID-19 in 2020, the situation changed significantly from the beginning of 2021. The impact has since become more severe, with public and private health systems under severe stress. Health and other interventions have been focused on caring for those with COVID-19 related illnesses, containing the growth of infections, supporting

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households and livelihoods, and supporting economic resilience. A national vaccination campaign has started. A State of Public Emergency (SoPE) was imposed in late March 2020, initially for six months, but since extended to September 2021, to support the necessary public health interventions. Under the SoPE, a national lockdown was imposed in April-May 2020, followed by a regional lockdown in the greater Gaborone area in August 2020. There have also been restrictions on movement between zones in the country, to control the spread of infections from the most affected areas to the rest of the country, as well as other restrictions on public gatherings and some economic activities.

3. *Economic Impact*

Prior to the advent of COVID-19, real GDP growth in 2020 was projected at 4.4 percent. However, the latest date from Statistics Botswana show that the economy contracted by 7.9 percent from the 2019 level. A robust recovery is expected in 2021, driven mainly by recovery in the diamond mining sector, with real GDP growth projected at 8.7 percent. Nevertheless, there may still be serious headwinds given that international tourism is not expected to recover until 2022. Overall, it is anticipated that there will be a long-term loss of real income as medium-term recovery will not fully compensate for the income loss in 2020.

4. COVID-19 has had a huge impact on public finances in 2020/21, with revenues dropping to an estimated 26.7% of GDP, the lowest level for over 40 years. This is mainly due to a dramatic fall in mineral revenues, with the diamond mining and export sector badly hit by restrictions on movement and the global economic slowdown. At the same time, expenditures have been increased to cope with the health, social and economic impacts of the pandemic. As a result, a fiscal deficit of 11.6 percent of GDP has been budgeted for the 2020/21 financial year. This is of a similar magnitude to the 12.4 percent deficit experienced in 2009/10 as a result of the global financial crisis. Similarly, the key external buffer – in the form of the foreign exchange reserves - had declined to US$4.9 billion in December 2020, a fall of 20 percent from the December 2019 level, due largely to the impact of COVID-19.

II. Stabilisation and Reform Agenda

5. The COVID-19 pandemic arrived at a time when the Botswana economy was already facing major economic challenges and hence the need for deep structural reforms. The ongoing pandemic has had a dramatic impact on Botswana's main sources of export earnings and fiscal revenue, and has emphasized the urgency of implementing key structural reforms to transform the country's growth trajectory. The need to transition from mineral-led growth to a more diversified, private sector-led, high productivity growth model has long been recognised, and a range of policies have been implemented over the years in pursuit of this objective. This is consistent with the national Vision 2036 development Pillars specifically: (i) Sustainable Economic Development; (ii) Human and Social Development; (iii) Sustainable Environment; and (iv) Governance, Peace and Security.

6. Development policies and projects are laid out in six-year National Development Plans (NDPs). The current Plan, NDP 11, covering the period from 2017/18 to 2022/23, has recently been revised through a Mid-Term Review, approved by Parliament in 2020. The COVID-19 pandemic struck as the Mid-Term Review was being finalised, leading to the preparation of an Economic Recovery and Transformation Plan (ERTP) to accompany the NDP. The Mid-Term Review of NDP 11 and the ERTP set out five key strategies that are being pursued through to 2022/23 and beyond. These are:
   - Promoting export-led growth;
   - Improved the efficiency of government spending and financing;
   - Developing human capital;
   - Investment in productive infrastructure; and
   - Promoting economic resilience.

   In pursuing these priorities, the following strategies will, among others, be implemented:

   - Strengthening the COVID-19 response and mitigating the impact;

- Fast-tracking improvements to the business environment;
- Promoting the digital transition;
- Addressing climate change and investing in renewable energy; and
- Improving health and education outcomes.

In implementing these strategies, the Government will, at the same time, ensure that action is taken to enhance the resilience of public finances and ensure that Botswana's debt position remains sustainable.

7. In terms of *strengthening the COVID-19 response*, a National Deployment and Vaccination Plan has been developed and approved by Cabinet. The first COVID-19 vaccinations were administered on 26th March 2021, and are expected to be rolled out to the entire adult population before the end of the year. The rollout will prioritise vulnerable groups, based largely on age and co-morbidities. It is anticipated that the rollout of vaccines within Botswana, combined with similar rollouts in many other countries, will be the key unlocking international travel and underpin the recovery of the travel and tourism industry, which has been the hardest hit of all economic sectors in Botswana. In terms of the economic response, a wide range of interventions were taken throughout 2020 to support the economy, including time-limited wage subsidies, loan guarantees and support for vulnerable households; monetary policy easing; and regulatory support for loan restructuring by banks. Currently, a soft loan facility has been provided for firms across the economy, with dedicated allocations for the tourism and agricultural sectors.

8. *Reforms to the business environment* are essential to support the private sector and enable a strong response to the need for economic diversification and export-led growth. A Doing Business Reforms Roadmap has been approved by Cabinet, and while the implementation of some Roadmap elements has lagged behind the desired schedule, several key reforms have been implemented and more will be introduced in the coming months. A crucial element has been the establishment of an Online Business Registration System (OBRS), so that the incorporation of new companies can be entirely

carried online. The OBRS is also linked to the tax authority, the Botswana Unified Revenue Service (BURS), so that tax registration can be carried out simultaneously with company registration. This has considerably shortened the time taken to establish a new business, which is one of the areas where Botswana has historically under-performed in the World Bank Doing Business assessment.

9. There have also been reforms to the requirements for business licensing, to ease the regulatory burden on new and existing firms. General business licensing had been required under the Trade Act (for most retail, wholesale and other trading activities) and the Industrial Development Act (for manufacturing). The first reform was to make licenses indefinite, rather than requiring annual renewal. In 2020, significant reforms to the licensing system narrowed the list of business requiring licenses to specific activities where there were public health and safety considerations; for most businesses, the only requirement is a much more simplified registration system. Furthermore, the previous licensing committees were abolished, and replaced by an over-the-counter administrative process for licensing and administration. It is anticipated that the reforms to the company registration and business licensing system will reduce barriers to the formation of new businesses, and therefore add dynamism to private sector activities.

10. A related set of reforms have been initiated under the Financial Inclusion Roadmap. This was prepared in 2016 and identified a number of key financial sector reforms to improve financial access and inclusion, for both individuals and businesses. One such reform is the introduction of a Credit Information Bill, which will govern the licensing and operation of credit information bureaus and require all loan information to be lodged with one or more licensed credit bureaus. Furthermore, all lenders will be required to determine the capacity of borrowers to take on more debt. This will help to improve information flows in the financial sector, and improve access to credit by reducing information asymmetries, and should help to curb over-indebtedness. A Bill to enable lenders to use moveable assets as security for loans is also being prepared.

11. Besides improving access to credit, the Financial Inclusion Roadmap also targeted improvements to the payments system. In line with this, new Electronic Payments Regulations were introduced in 2019 to govern the operation of mobile money and other electronic payment service providers (PSPs). A current initiative is considering the establishment of a national payments switch, to facilitate interoperability between bank and non-bank PSPs and reduce payment settlement times.

12. With respect to *climate change*, Botswana is highly vulnerable to the impact of rising temperatures, potentially reduced rainfall and more extreme weather events, as an arid and water-stressed country with very limited surface water resources. Various measures are under way to develop and strengthen water distribution infrastructure, maximise the (limited) potential of water storage facilities, improve water catchment and recycling, and reduce waste. A national Climate Change Policy was approved by Cabinet in 2019, and has recently been approved by Parliament. The Policy addresses climate change mitigation and adaptation, and includes initiatives such as the introduction of carbon taxes to change incentives towards the use of carbon-emitting technologies for transport and power generation, and the adoption of renewable energy technology. While a fully-fledged framework for the introduction of carbon taxes is being developed, with the technical assistance of the World Bank, an interim measure has been the raising of fuel taxes (on petrol and diesel) in April 2021, to an approximately 12 percent rate on the retail price of fuel.

13. Botswana is well placed to develop renewable energy generation through solar energy technologies, having one of the highest levels of solar irradiation in the world. A new National Energy Policy has been approved by Cabinet and, together with the associated Integrated Resource Plan (IRP), envisages a significant shift from the current reliance on coal-fired power generation and imported electricity towards solar energy in the coming years. A competitive tendering process was launched to procure two large-scale (50MW) solar photovoltaic (PV) systems on an Independent Power Producer (IPP) basis, and it is expected that preferred bidders for these two projects will be selected in the near future. In addition, a number of smaller

village-scale grid-tied solar systems are also being procured as part of NDP 11. Support for off-grid domestic solar installations will be provided for more remote settlements, while urban households generating power from rooftop solar installations can now sell their surplus back to the grid. Further investments in solar power, wind energy and battery storage are also included in the IRP.

14. Various other measures are being implemented to support resilience to climate change. These include the promotion of "climate-smart agriculture", which will contribute to both moving agriculture onto a more commercial path and reducing dependence on increasingly erratic rainfall patterns. Significant investment is taking place in water infrastructure, which will contribute to more efficient water capture, storage and distribution, and contribute to resilience in the face of climate uncertainty, as well as improve household access to clean water supplies and improved sanitation.

15. The COVID-19 pandemic has shown the importance of digital technologies and the potential impact of the ongoing *digital transition* across the world. It is acknowledged that one of the key objectives for Botswana is to actively promote the digital transition, which can achieve several objectives: improve efficiency in the delivery of public services; reduce the costs of government and contribute to reducing the size of government; help promote the export of business, financial and information technology services and help overcome the barriers resulting from the country's landlocked location which increase transport costs for goods; and improve the quality of health and education services, particularly those in the more remote rural areas of the country. Considerable investment in infrastructure has taken place (such as the national fibre-optic backbone) and it is planned to move many public services online, as shown in the OBRS mentioned above and the roll-out of a national e-filing system for taxes in mid-2020. Rapid development of the digital transition is expected in the coming months and years, including critically important e-education and e-health services in public schools and health facilities. By enabling remote access to public services, this will reduce the need for physical presence at government offices and other facilities, thereby

contributing to reduced transport needs and hence lower CO2 emissions.

16. The combination of the above measures – investment in renewable energy, water resilience, climate-smart agriculture and digital technologies - together constitute a green-growth agenda that will contribute to the achievement of Botswana's diversification objectives in the coming years.

17. It is anticipated that the above measures will have a positive impact on employment creation and help to address unemployment. Key measures that are expected to lead to job creation include improving the business environment, financial sector reforms, investing in renewable energy, and the digital transition.

18. All of the above will be pursued while maintaining a close focus on ensuring the continuation of *sustainable public finances*, including debt levels. A reasonably robust recovery in revenues is anticipated in 2021/22, leading to a smaller budget deficit of less than 3 percent of GDP budgeted in 2021/22. In the medium term, the intention is to restore a balanced budget.

19. Current budget deficits are not solely the result of COVID-19, and in part reflect longer term structural trends. Various measures are being taken to improve domestic revenue mobilisation and reduce dependence on the major revenues sources from mineral revenues and the Southern African Customs Union (SACU). This includes an increase in the rate of Value Added Tax (VAT) to 14 percent, the increase in fuel tax, and higher charges for a range of government services. Efforts will also be made to improve the effectiveness of tax collection and reduce leakages, for instance through the introduction of electronic billing machines for VAT-registered merchants. It is also planned to raise property taxes, extend their application and improve collection rates. With regard to expenditures, measures will be implemented to contain the public sector wage bill, rationalise State-Owned Enterprises and reduce their dependence on subventions from government.

20. Botswana entered the COVID-19 pandemic with a strong public sector balance sheet, with some government savings accumulated from historical budget surpluses and low public debt, below 20 percent of GDP. In addition, foreign exchange reserves in the region of 13 months of import cover provided a cushion for external account shocks. In the short-term, much of the deficit incurred in 2020/21 has been financed by drawdowns from government savings, along with increased domestic borrowing through issuance of bonds and T-Bills. In 2021/22, it is intended to undertake external borrowing, from the World Bank, African Development Bank, and commercial banks with a MIGA guarantee facility. This will partly be used to finance ongoing modest fiscal deficits, but also to rebuild the financial buffers (foreign exchange reserves and government savings) that have been partially run down in 2020/21. Nevertheless, the anticipated level of government and government-guaranteed debt is expected to remain below 35% of GDP by the end of NDP 11 in March 2023, which is a sustainable level and well below the statutory limit of 40% of GDP.

21. We are counting on the continued support of the World Bank Group to provide the required financial assistance to support the implementation of the above-mentioned economic and social reforms, to help minimise the impact of the COVID-19 pandemic and achieve the desired structural transformation in the country's economic growth trajectory.

Yours sincerely

T. Matsheka

Dr Thapelo C. Matsheka
MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT
WORLD BANK GROUP GOVERNOR FOR BOTSWANA

cc: Ms Marie Francoise Marie-Nelly
World Bank Country Director for Botswana

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ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar One: Support Government's response to the COVID-19 pandemic		
Prior Action 1: To improve capacity to more accurately identify and assist poor and vulnerable affected by shocks such as COVID-19, the Borrower, through its Cabinet, has adopted the National Social Protection Framework, which creates the enabling policy environment to implement the single social registry and targeting reforms.	Positive	Positive
Pillar Two: Strengthen Private Sector Development		
Prior Action 2: To improve access to finance for SMEs, the Borrower, through its Cabinet, has approved, the Credit Information Bill, including the approval of its submission to Parliament, which aims to provide regulatory oversight over credit bureaus and decrease the information asymmetry between borrower and lender.	Negative	Positive
Prior Action 3: To incentivize greater entrepreneurship, improve the regulatory environment and reduce the administrative burden for business registration, the Borrower has adopted the Trade Regulations and Industrial Development Regulations, which introduce a risk assessment system with simplified start-up requirements for low-risk businesses.	Negative	Positive
Pillar Three: Promote a Resilient, Green Recovery		
Prior Action 4: To implement its Nationally Determined Contributions (NDC) and the country's Vision 2036 and accelerate the shift towards renewable energy and meeting SDG7, the Borrower has adopted the National Energy Policy and the Integrated Resource Plan, including the adoption of specific renewable energy technology targets and a competitive tendering process, which aim to unlock the way towards attracting private financing to accelerate the development of renewable energy projects.	Positive	Positive
Prior Action 5: To strengthen independent producers' participation in the electricity sector and promote uptake of solar energy solutions, the Borrower, through its Ministry of Mineral Resources, Green Technology and Energy Security, has adopted the Rooftop Solar Guidelines, which define the framework and process for the implementation of small-scale grid-tied solar photovoltaic (PV) systems by domestic, commercial and industrial consumers.	Positive	Positive
Prior Action 6: To promote private sector development and facilitate climate change assessments, the Borrower has amended the Environmental Assessment Act, which clarifies the process for project evaluation and streamlines the review process.	Positive	Positive

ANNEX 5: COVID-19 RESPONSE AND IMPACT ON COUNTRY PROGRAM

I. Impact of the COVID-19 pandemic on Botswana and government response

1. **The COVID-19 pandemic has had a significant health impact in Botswana.** The first confirmed case in the country was announced on March 31, 2020. The number of cases rose slowly during the first six months, with most cases representing transmissions from neighboring South Africa. However, the situation deteriorated quickly with the end-of-year festive season as people left cities for their home villages. By May 6, 2021 there were 47,850 confirmed total cases, including 724 deaths, more than half of which were in the past month alone. The trajectory of the disease continues to exhibit worrying trends: the positivity rate has increased recently and stood at 3.98 percent in early March 2021, and the current seven-day rolling averages of 265 daily new cases and five daily deaths in a small country indicates that Botswana is in the middle of its second wave of infections. To reduce the pandemic spread, the government closed all its airports and land borders to travelers until December 2020 and restricted peoples' movement within the country, except for essential services. A curfew from 8pm to 2am was introduced in mid-December 2020 and is still in effect. To fight the pandemic, in April 2020, the government introduced an economic relief package that helped implement measures to limit the spread of the virus, protect lives and keep economic activity and livelihoods afloat. To this end, more than P4 billion (US$363.8 million) has been spent on various components of the relief package.

2. **The pandemic has negatively impacted Botswana's economic growth.** COVID-19 has exacerbated existing growth challenges, leading to an estimated real GDP contraction of 7.9 percent in 2020, the largest on record. Plummeting global demand for diamonds in 2020 and lockdown measures to prevent the spread of COVID-19 led to a scale back in production. Diamond sales have also dwindled as a result of cancellations to sights due to travel restrictions. The impact of travel restrictions has also been evident in the tourism sector. Inflation has reached historically low levels, averaging 1.9 percent in 2020, below the Bank of Botswana's medium-term objective of 3-6 percent. The pandemic also caused the current account deficit to widen, reaching an estimated 8 percent of GDP in 2020. Botswana's fiscal deficit is set to widen to 11.3 percent of GDP in FY2020/21, from 5.6 percent in FY2019/20, reflecting a sharp decline in mineral revenues, a sticky public sector wage-bill, and the impact of the COVID-19 spending.

3. **The economic crisis triggered by the COVID-19 pandemic threatens to reverse Botswana's progress in poverty reduction.** The pandemic has pushed the US$1.9/day poverty rate (in 2011 Purchasing Power Parity) to an estimated 16 percent in 2020, from 12.6 percent in 2019. Using the upper-middle-income country poverty line (US$5.5/person/day in 2011PPP), the poverty rate is estimated at 60.2 percent in 2020 (from 57 percent in 2019). Forecasts suggest the poverty rate will remain above the 2019 figure until, at least, 2023. The COVID-19 crisis thus risks increasing inequality in Botswana which, with a Gini coefficient of 53.3% in 2015, is one of the most unequal countries in the world.

4. **The government developed an ERTP in acknowledgement of the long-term impact of COVID-19 on the economy and the need for urgent structural reforms**. The Plan, approved by the Parliament in September 2020 and estimated to cost US$1.7 billion over a period of 2.5 years, sets out a comprehensive sectoral approach to the recovery, centered around (i) supporting the economic recovery, (ii) facilitating and accelerating the structural transformation, and (iii) building resilience. The ERTP has an estimated

budget equivalent to 7.8 percent of GDP. To finance the ERTP, the government will use existing buffers (i.e. Government Investment Account and international reserves), as well as domestic and external borrowing. While debt levels will pick up, they are set to remain below prudence levels.

II. WBG support for responding to the crisis

5. **The government has not used World Bank offer to divert funds from the IBRD portfolio to respond to the pandemic crisis or to use the Fast Track COVID-19 Facility allocation.** The Botswana lending portfolio consists of: (i) two active IBRD operations, the Botswana Integrated Transport Project and the Emergency Water Security and Efficiency, with a total commitment of US$331.5 million, of which 62.6 percent is undisbursed as of end 2020; and (ii) a Partial Credit Guarantee of US$242.7million—based on the IBRD loan for the Morupule B Generation and Transmission Project, to support the loan facility to the Botswana Power Corporation (BPC). The Word Bank informed the government of the possibility of using a portion of the undisbursed portfolio amount to respond to the Botswana's COVID-19 financing needs, but the government preferred to tap into its fiscal buffers to finance the COVID-19 relief package. Similarly, the government did not take advantage of the US$18.6 million allocation offered under the Fast Track COVID-19 Facility.

6. **World Bank Group DPF has been requested to support Botswana's economic recovery.** To close the financing gap of the country recovery program, the government of Botswana has sought to mobilize domestic and external financing. External support is being mobilized from multilateral partners, including US$150 million from the World Bank under this development policy operation. In addition, advanced discussions are ongoing for a US$600 million syndicated foreign bank loan, backed by the Multilateral Investment Guarantee Agency (MIGA). Botswana has also requested a US$150 million second DPF from the World Bank.

7. **The government of Botswana is interested in the World Bank support for COVID-19 acquisition and deployment, but the request has not been made yet.** The government has indicated its plan to vaccinate Botswana population and residents. The Ministry of Health and Wellness has signed an agreement under the COVAX facility to procure vaccines to cover 20 percent of the adult population, and the country is planning to procure additional vaccines through bilateral arrangements with manufacturers to cover the remaining 80 percent of the eligible population. Nevertheless, the Minister of Finance has indicated that the government would seek a World Bank loan to cover the vaccines cost and deployment. The World Bank has reiterated its readiness to provide support for vaccines once a formal request is received.

III. Selectivity, Complementarity, Partnerships

8. **The government has requested the African Development Bank to contribute to filling the financing gap, but the IMF has not been approached yet in this regard.** The African Development Bank is currently preparing a US$135 million budget support, in parallel and close consultation with the World Bank. Botswana has not yet requested financial support from the IMF, although precautionary instruments such as the Short-term Liquidity Line and Flexible Credit Line be available. The Bank and the IMF have been closely collaborating, including on the macroeconomic framework and in the context of

reforms needed for the post-COVID-19 recovery agenda.

9. **Going forward, a new WBG CPF will be prepared in FY2022 and will benefit from lessons learned during the pandemic.** The current CPF (FY2016-2021), initially scheduled to end in June 2020, was extended to June 2021 during the PLR discussion held in March 2019. The Completion and Learning Review of the CPF has been launched, and an update of the 2015 Systematic Country Diagnostic will start soon. A new CPF is scheduled in FY2022. The new CPF products will be prepared in light of the government's own strategic priorities and the COVID-19 long-lasting implications for growth and poverty reduction and will greatly benefit from lessons learned during the COVID-19 pandemic.