key figures

- Land area, thousands of km² 582
- Population, thousands (2002) 1 770
- Illiteracy rate (2002) 21.1
BOTSWANA REMAINS ONE OF AFRICA’s success stories of sustained economic growth, which is anchored on good governance, political stability and prudent macroeconomic management. Economic growth had been strong over the past years, with strong revenue from the diamond sector prudently utilised to boost growth. In 2001/02, real GDP growth slumped to 2.2 per cent following the significant drop in diamond revenues. Real GDP growth resurged to 6.7 per cent in 2002/03 on account of improved mining performance. The outlook on economic growth is stabilisation in 2003/04 and 2004/05 (at 4.9 and 4.7 per cent respectively) albeit at lower levels of real GDP growth than recently achieved; the stabilisation in growth will follow a relative weakening in the international diamond market. The prudent fiscal policies pursued had enabled the government to accumulate substantial surpluses on the fiscal account in periods of strong diamond revenues. However, the downturn in the diamond sector as well as increasing HIV/AIDS related expenditures have brought about significant deficits on the fiscal account. The efforts of the government are therefore concentrated on restoring fiscal discipline.

Botswana’s long record of political and social stability, sustained rapid economic growth, and prudent macroeconomic management continue to earn the country high international ratings. Transparency International’s survey of country corruption perception index has since 1998 ranked Botswana as the least corrupt country in Africa. However, Botswana suffers some negative social developments. The country suffers from one of the highest rates of HIV/AIDS infections in the world, which is eroding the hitherto impressive improvements in the living standards and imposing a burden on the health system as well as contributing to deterioration in the education system. Moreover, the current high rate of poverty and unemployment in the country is not compatible with Botswana’s middle-income status.

Recent Economic Developments

Botswana’s economic performance is highly dependent on developments in the mining sector, especially diamond mining, and the recent growth performance has been directly related to the performance of diamond output. In 2002/03, the economy rebounded from the low growth in the preceding year. Real GDP growth rose to 6.7 per cent in 2002/03 from a low of 2.2 per cent recorded in 2001/02, when the adverse effects of

Sustained economic growth, and prudent macroeconomic management are threatened by the HIV/AIDS epidemic and the stagnation of diamond production.
drought and the significant decline in the output of diamonds constrained economic activity. The improved growth performance in 2002/03 followed the opening of new mines, which led to mining output increasing by 10.4 per cent, from the decline of 4.4 per cent in the preceding year. The rebound followed the coming on stream of the new Damtshaa mine (previously known as the BK 9 pipe) developed jointly by De Beers and the Government of Botswana. In 2003, about 292,000 carats of diamonds were recovered from this new mine. Other new mines that were developed include Martins Drift, close to the border with South Africa. In addition to diamonds, output from other minerals, such as copper and nickel, picked up in 2002/03 encouraged by high prevailing commodity prices. A new gold mine was opened in 2003, which is estimated to have total exploitable gold reserves of about one million onces.

The non-mining sector of the economy also experienced significant growth of 5.5 per cent in 2002/03. Growth in non-mining activity was spearheaded by substantial growth in the services sector, which was due to government’s diversification policy to shift the economy from over-dependence on mining activity. The agriculture sector, which accounted for 2.6 per cent of GDP in 2002/03, had a modest growth of 1.9 per cent. This positive growth reversed the decline of 2.5 per cent experienced in the preceding year, when the sector suffered from the effects of foot and mouth disease as well as the impact of the drought that engulfed the whole Southern Africa region. Agriculture in Botswana is dominated by livestock rearing, meat and diary production, estimated at 80 per cent of the sector’s value added while food crops (maize, sorghum, millet and beans) account for the remaining 20 per cent. Although the government has, under the Ninth National Development Plan (NDP 9), been making a push to diversify the sector into a wider range of crop production, based on the adoption of modern techniques including irrigation infrastructure, fertiliser enrichment, mechanisation and crop-disease control methods, agricultural output still depends on the weather and is prone to disease.

Manufacturing activity accounted for 4.7 per cent of GDP in 2002/03, with a growth rate of only 0.2 per cent. Growth in manufacturing has remained dismal since 1999/00 when the sector achieved 3.5 per cent. Among the factors inhibiting manufacturing growth are lack of skilled labour and the small domestic market. In 2002/03, the growth in manufacturing was derived from the output of textiles, tannery/leather products, jewellery and glass products. There is, however, prospect for improved performance in 2003/2004. The government, through the Botswana Export Development and Investment Agency (BEDIA), has selected niche industries on which to intensify its investment promotion drive. The selected industries include textiles and garments, jewellery, tannery and
leather products, glass and information technology products, which can utilise locally available raw materials. Through the efforts of BEDIA, 7 new companies became operational in 2003 to add to the 14 companies that were operational in 2002.

The service sector accounted for 47.3 per cent of GDP in 2002/2003. Expansion in communications services, especially mobile telephones, was an important factor in the sector’s growth in 2002/03. Mobile telephone services grew by 11 per cent in 2002/03 to follow a similar growth rate in the preceding year. Tourism also contributed to growth in the service sector. In 2002/03, the number of tourist arrivals is estimated to have risen slightly by 2 per cent, to reverse the decline of 19 per cent experienced in 2001/02, as a result of the
September 11 events. The banking, insurance and business services sub-sector recorded a 7.5 per cent growth rate in 2002/2003 to follow the 7.1 expansion in the preceding year. This sub-sector benefited from the financial reforms implemented in 2002, aimed at improving delivery of financial services, through the implementation of the National Payments System Reform. Within the service sector, construction activity, which accounted for about 6 per cent of GDP in 2002/03, recorded a growth rate of 5.6 per cent, up from 4.7 per cent in 2001/2002. The improved growth performance in construction during 2002/03 was due to expansion of government housing activity. There is, however, some productivity problem in the sector, particularly of building contractors who fail to complete projects on time, resulting in cost escalations and delays in benefit reaching the intended beneficiaries. The government is implementing a Self-help Housing Agency Programme, which is expected to continue boosting activity in construction.

### Table 1 - Demand Composition (percentage of GDP)

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<tr>
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<td>12.6</td>
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<td>10.6</td>
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<td>8.4</td>
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<tr>
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<td>15.5</td>
<td>19.8</td>
<td>21.3</td>
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<tr>
<td><strong>Consumption</strong></td>
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<td>60.0</td>
<td>56.9</td>
<td>61.9</td>
<td>61.0</td>
<td>62.3</td>
<td>61.4</td>
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<tr>
<td>Public</td>
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<td>30.2</td>
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<td>Private</td>
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<td>28.8</td>
<td>27.5</td>
<td>28.6</td>
<td>28.6</td>
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<tr>
<td><strong>External Sector</strong></td>
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<td>19.6</td>
<td>23.6</td>
<td>12.0</td>
<td>9.5</td>
<td>8.0</td>
<td>8.9</td>
</tr>
<tr>
<td>Exports</td>
<td>52.2</td>
<td>61.4</td>
<td>61.3</td>
<td>48.8</td>
<td>44.4</td>
<td>41.3</td>
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<tr>
<td>Imports</td>
<td>-37.3</td>
<td>-41.8</td>
<td>-37.7</td>
<td>-36.8</td>
<td>-34.9</td>
<td>-33.4</td>
<td>-32.4</td>
</tr>
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</table>

Source: IMF data; projections based on authors’ calculations.

Botswana’s recent strong economic performance has been supported by the export sector, which has enabled strong gross capital formation. In 2002/03, gross capital formation rose to the highest level in several years, following a strong rise in private investment that reflected the increasing confidence in the economy. The rise in private investment in 2002/03 offset a decline in public investment, in turn reflecting capacity constraints to implement development projects. The structure of demand of the Botswana economy is expected to be maintained as the export sector remains buoyant.

### Macroeconomic Policy

#### Fiscal and Monetary Policy

The fiscal policy of Botswana follows the directions set in the country’s National Development Plans. The government’s fiscal activities have on the whole remained disciplined. To a large extent, the institution of the National Development Plans has kept government expenditure from growing as fast as government revenues over the long term. As a result, Botswana has accumulated substantial government savings that have enabled the country to ride out downturns in the diamond market.

Fiscal performance is crucially dependent on diamond revenue. At the same time, the government continues to make efforts at increasing non-mineral revenue. An Income Tax Amendment Bill, which enhances enforcement and compliance under the Income Tax Act, has been proposed in 2002/03 to enhance tax administration. Also, since 2002/03, withholding taxes have been extended to rental income of immovable property, to dividend income of all companies, and to interest income received by residents. Further, the coverage of VAT, which was introduced in 2000/2001, has been widened. Nonetheless, the government’s strong fiscal dependence on mineral revenue is expected to remain in the foreseeable future. In addition to efforts to raise non-mineral revenues, the government continues
to take measures to control public expenditure. The government has introduced a performance contract for public officers, aimed at ensuring value for money and controlling expenditure. In addition, the government has set up the Public Procurement and Asset Disposal Board (PPADB), which commenced operations in July 2002, to manage the procurement activities of the government.

The outcome of the government’s fiscal activities, which had long enjoyed a record of robust surpluses in excess of 6 per cent of GDP, took a dip into a deficit in 2001/02 and 2002/03. Like the preceding deficit in 1998/99, the deficit in 2001/02 and 2002/03 was the result of an unexpected drop in mineral revenue. Moreover, since 2001/02, current expenditures have risen sharply reflecting spending on education, HIV/AIDS, and general public services. The significant increase in recurrent spending was due to increases in public sector salaries. This led to expenditure on wages and salaries rising from 9.6 per cent of GDP in 2000/2001 to 10.8 per cent in 2001/2002. As a result, the overall fiscal balance turned from the healthy surplus of 9 per cent of GDP in 2000/01 to a deficit of 3 per cent of GDP in 2001/02. An even larger fiscal deficit of nearly 4 per cent of GDP is estimated to have been registered in 2002/03, under the combined effect of continued pressure on current outlays, an appreciation of the Pula against the dollar, and diamond prices which did not increase significantly to compensate for the weakness of the dollar. As a result of the revenue shortfall in 2002/03, the Government was compelled to introduce supplementary budget to meet the salary increases and to finance relief programmes for drought-related activities. It is expected that the fiscal outlook will continue to show deficits in 2003/04, as mineral revenues remain subdued and some revenue items, notably VAT, are expected to show a sizeable shortfall owing to weak tax administration. On the other hand, current outlays on HIV/AIDS and drought relief are expected to exceed budget estimates.

The deficit is projected to contract in 2004/05, reflecting lower capital expenditures as well as improved revenue collection as the short-term measures introduced by the authorities in 2003 will start to produce some results. These measures are mainly associated with improving the administration of VAT and setting up of the Botswana Unified Revenue Service (BURS). In the medium term, revenue collection efforts as well as a prioritisation of expenditures are expected to lead to a balanced budget.

### Table 2 - Public Finances* (percentage of GDP)

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<td><strong>Total revenue and grants</strong></td>
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<tr>
<td>Tax revenue</td>
<td>28.3</td>
<td>39.8</td>
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<td>33.2</td>
<td>33.7</td>
<td>32.5</td>
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<tr>
<td>Grants</td>
<td>0.3</td>
<td>0.5</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.5</td>
<td>0.5</td>
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<tr>
<td><strong>Total expenditure and net lending</strong></td>
<td>36.6</td>
<td>41.8</td>
<td>40.3</td>
<td>42.8</td>
<td>43.2</td>
<td>42.5</td>
<td>40.4</td>
</tr>
<tr>
<td>Current expenditure</td>
<td>24.7</td>
<td>28.3</td>
<td>29.3</td>
<td>31.1</td>
<td>31.9</td>
<td>32.7</td>
<td>32.1</td>
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<tr>
<td>Excluding interest</td>
<td>24.1</td>
<td>27.9</td>
<td>29.0</td>
<td>30.8</td>
<td>31.6</td>
<td>32.1</td>
<td>31.2</td>
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<tr>
<td>Wages and salaries</td>
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<td>9.7</td>
<td>9.6</td>
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<td>10.9</td>
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<tr>
<td>Interest</td>
<td>0.6</td>
<td>0.4</td>
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<td>0.3</td>
<td>0.2</td>
<td>0.6</td>
<td>0.9</td>
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<tr>
<td>Capital expenditure</td>
<td>11.8</td>
<td>13.8</td>
<td>10.9</td>
<td>11.6</td>
<td>11.6</td>
<td>10.0</td>
<td>8.5</td>
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<tr>
<td><strong>Primary balance</strong></td>
<td>2.5</td>
<td>6.5</td>
<td>9.3</td>
<td>-2.7</td>
<td>-3.6</td>
<td>-3.4</td>
<td>-1.1</td>
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<tr>
<td><strong>Overall balance</strong></td>
<td>1.9</td>
<td>6.2</td>
<td>9.0</td>
<td>-3.0</td>
<td>-3.9</td>
<td>-4.0</td>
<td>-2.0</td>
</tr>
</tbody>
</table>

a. Fiscal year begins 1 July.
b. Only major items are reported.
Source: Domestic authorities’ data; projections based on authors’ calculations.

Monetary policy in Botswana is guided by the desire to control domestic price level, although explicit inflation targeting is not the rule. In order to achieve its inflation objective, the Bank of Botswana (BOB) uses interest rates to influence inflationary pressures in the economy. This is achieved indirectly through the impact
of interest rates on credit and other components of domestic demand. The BOB focuses on the intermediate targets that influence the main components of domestic demand. The principal intermediate targets in the monetary policy framework are the rate of growth of commercial bank credit to the private sector and growth in government expenditure.

In 2002, domestic demand remained strong, with the growth rates for both commercial bank credit to the private sector and growth in government expenditure higher than desired. Commercial bank credit to the private sector grew, on average, at an annual rate of 18 per cent in 2002, up from 13.2 per cent in 2001. Consequently, broad money supply (M2) rose by 12.8 per cent in 2002. In order to reduce the demand pressure emanating from credit expansion, the bank rate was increased by 100 basis points in October and November 2002 to 15.25 per cent. In response, commercial banks’ lending and deposit rates were also raised. In 2003, the Bank of Botswana increased its placement of certificates (BOBCs) – which represent the main instrument of liquidity control – to 26 per cent of GDP (from about 13 per cent in 2001). Moreover, the initial issuing of government bonds in 2003 contributed to further tightening of liquidity. Partly as a result of these measures, growth in private sector credit decelerated to 15 per cent at the end of 2003. In the light of this slower growth in credit, the authorities cut the bank rate to 14.25 per cent in December 2003.

In recent times, the authorities have defined the inflation target within the range of 4-6 per cent. This target has, however, proved difficult to attain. Inflation in Botswana is heavily influenced by trends in South Africa, as Botswana sources much of its imports from South Africa and the weight of the rand in the basket to which the pula is pegged is about 70 per cent. The annual average rate of inflation has remained in single digits since 1995, averaging around 7.8 per cent over the period 1995-2000. The rate of inflation fell to 6 per cent in 2001/02. In 2002/03, the annual average rate of inflation is estimated to have risen to 10.6 per cent, owing largely to the effect of the drought on food prices. However, inflation is projected to ease to 5.8 per cent in 2003/04 and to continue on a downward trend to reach 5 per cent in 2004/05 as the drought situation improves to reduce food prices.

The exchange rate of the pula is pegged to a weighted basket of currencies comprising the South African rand, the US dollar, the euro, the British pound and the Japanese yen. The weights reflect the volume of Botswana’s trade with the countries of these currencies. The weights are adjustable according to the discretion of the monetary authorities. The critical element in Botswana’s exchange rate strategy is to maintain a stable and competitive real exchange rate of the pula, primarily through control of domestic inflation, but also, when necessary, by changing the fixed nominal exchange rate of the pula against the basket to ensure macroeconomic stability and economic competitiveness. In recent years, the exchange rate of the pula has gradually appreciated, thus eroding the competitive position of Botswana’s exporters and domestic producers competing with imports. In 2002, the pula depreciated in nominal terms against the rand by 8.1 per cent and appreciated against the US dollar by 27.7 per cent. In real terms, it depreciated against the rand by 10.7 per cent while it appreciated against the US dollar by 28.5 per cent. The real effective exchange rate of the pula appreciated by 2.9 per cent in 2002. In order to counter the effects of the real appreciation of the pula, and to improve the competitiveness of Botswana’s products in domestic, regional and international markets, the authorities devalued the pula by 7.5 per cent on 5 February 2004.

**External Position**

Botswana’s trade policy is geared towards making the economy competitive in both regional and global markets. Botswana is a member of the Southern Africa Customs Union (SACU) and of the Southern Africa Development Community (SADC). As a member of SACU, Botswana is involved in the free trade agreement signed between South Africa and the European Union (EU) in 2000. Also in 2003, negotiations were initiated by the SADC Member States for Economic Partnership Agreements (EPAs) with the EU. In June 2003, negotiations started aimed at launching a free trade area between SACU and the United States. The
successful completion of these negotiations, expected by December 2004, will provide increased markets for exports from SACU countries. Concerning preferential trade with the United States, Botswana has qualified for duty free and quota free exports to the US under the AGOA (African Growth and Opportunity Act). At the end of 2003, authorities were negotiating an extension of the AGOA through 2008.

The current account of Botswana has remained in structural surplus as a result of substantial trade surplus. However, total exports, as a share of total GDP, have been declining since reaching a peak in 2000/01. Consequently, the trade surplus has followed a declining trend and contributed to a declining current account balance. The outlook on the external payments situation is a continuing decline in the trade balance in 2003/04 as the surge in diamond exports was offset by strong import growth, associated with the large budget deficit in 2002/03 and the appreciation of the pula. In 2004/05, it is anticipated that the trade balance will improve following an improvement in diamond exports reflecting rising production.

Along with the declining current account surplus, foreign exchange reserves have also been declining in recent years. The foreign exchange reserves at the end of 2002 stood at $5.47 billion, which was the equivalent of 32 months of imports of goods and services. By the end of 2003, the foreign exchange reserves had declined further to $5.3 billion, equivalent to 26 months of imports of goods and services.

In spite of the recent declining share of exports in total GDP, in nominal terms, the value of exports have been growing at an annual average of about 6.3 per cent between 1999/00 and 2002/03, with diamond output expanding its share of export earnings from about 70 per cent to 85 per cent over the same period. The rise in the share of diamonds has been due in part to the sharp reduction in export values of vehicles and parts following the closure of the Hyundai vehicle assembly plant in 1998, and also a reduction in the value of textiles. At the same time during the past three years the value of diamond exports increased by about 10 per cent. On the import side, the total value of imports increased by an annual average of about 3.5 per cent between 1999/00 to 2002/03, with the largest increases concentrated in fuels and wood, food, and paper products.

A significant factor in Botswana's external account is foreign direct investment (FDI), which has been in decline in recent years, despite the country's favourable international credit rating. FDI declined from about $95.3 million in 1998 to $56.9 million in 2001. This was attributed to slower inflow to the mining sector, particularly as diamond output appeared to reach a plateau. Other factors inhibiting the inflow of FDI included the limited domestic market, which has recently been weakened by the economic effects of the HIV/AIDS scourge. However, in 2002/2003, FDI recorded a remarkable increase to $386.7 million or 6.3 per cent of GDP. The increase in 2002/2003 reflected recovery in confidence in the economy by foreign firms following the discovery of new diamond mines.

### Table 3 - Current Account (percentage of GDP)

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<tbody>
<tr>
<td>Trade Balance</td>
<td>15.8</td>
<td>19.1</td>
<td>23.6</td>
<td>10.2</td>
<td>7.9</td>
<td>7.1</td>
<td>8.2</td>
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<tr>
<td>Exports of goods (f.o.b)</td>
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<td>54.7</td>
<td>54.9</td>
<td>40.7</td>
<td>36.8</td>
<td>34.7</td>
<td>35.0</td>
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<tr>
<td>Imports of goods (f.o.b)</td>
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<td>-29.0</td>
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<tr>
<td>Services</td>
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<td>3.9</td>
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<tr>
<td><strong>Current account balance</strong></td>
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<td><strong>13.9</strong></td>
<td><strong>19.2</strong></td>
<td><strong>4.2</strong></td>
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**Source:** Domestic authorities’ data; projections based on authors’ calculations.
The total external debt of Botswana stood at $482 million at the end of 2002. The total debt was equivalent to 8 per cent of GDP or 16 per cent of exports of goods and services. The debt stock in 2002 was comprised of 50 per cent multilateral loans, compared to 55.3 per cent in 2001. Bilateral loans accounted for 32.7 per cent in 2002, having declined slightly from 32.9 per cent in 2001. Botswana’s debt service ratio was estimated to be 1.9 per cent in 2002. As a result of its low level of debt and its sizeable foreign reserves, Botswana remains one of the few developing countries that has not gone through the IMF/World Bank structural adjustment programme. It is anticipated that this situation would continue as Botswana continues its policy of limiting its public sector external debt.

Structural Issues

The policy thrust of Botswana’s NDP9, like the NDP8, is economic diversification of the country. Under the NDP9, the major policy focus is, among others, on privatisation, rural development, science and technology, and local enterprise development. In pursuit of its economic diversification agenda Botswana has, for a long time, offered some of the lowest tax rates in Southern Africa plus generous incentives, including programmes of equity injection, to attract foreign investment. Botswana Export Development and Investment Authority (BEDIA) also organises promotion missions to help bring in foreign investors, support producers to market their output, construct factory shells, and centralises the issue of licenses and permits. In addition, the business environment is very conducive, with good intra and inter-urban transport systems, efficient telecommunications and power supply networks, a contract law system that is enforced, and an efficient financial system. Also, a draft Competition Policy was introduced in May 2003, which has been discussed at a National Stakeholders Seminar on 6 February 2004. In an effort to attract foreign investment, an Investment Code was put in place in mid-2001. However, following peer review of the Botswana FDI Policy by UNCTAD in June 2002, a decision was taken to withdraw the Investment Code, as it was not considered investor-friendly enough. An FDI Strategy being prepared by UNCTAD and an FDI Law would replace it.

The policy for the energy sector under the NDP9 emphasises provision of affordable, environmentally-
The Ministry of Mines, Energy and Water Resources (MMEWR) is responsible for the formulation, direction and co-ordination of the national energy policy. Energy needs are met through both local production and imports. The fast economic growth of the country has caused total energy consumption to increase at an annual rate of about 20 per cent, thus underlying the need for the expansion of energy supply. The government has adopted an Integrated Energy Planning (IEP) process in order to meet the basic energy requirements of the economy. This includes the reactivation of a solar energy programme for which a feasibility study and detailed engineering design have been completed.

The Botswana Power Corporation (BPC), a parastatal under the MMEWR, is responsible for electricity generation and supply. About 60 per cent of power supply requirements are imported through connections to the South African, Namibian, Zambian and Zimbabwean electricity grid lines. Domestic power supply is generated from coal and petroleum. Total domestic electricity generation has been on an upward trend, increasing by a cumulative 30 per cent from 1999/2000 to 2002/03, from about 1 645 GW in 1999/2000. In terms of electricity usage, the larger percentage (47.1 per cent) is due to the mining industry, with commercial users and households accounting for 24.5 per cent and 19 per cent respectively. In terms of on-going projects, the Botswana Power Corporation (BPC) is currently implementing projects in several towns to improve the reliability of electricity supply. In addition, the BPC undertook a feasibility study in 2003 for the expansion of domestic electricity generation, against the backdrop that surplus power for the SADC region is projected to run out in the years 2007-2010. The government is also implementing a Renewable Energy and Power Development Project aimed at expanding domestic power generation. Furthermore, some progress was made during the period 1998-2003 in the implementation of a rural electrification programme.

Botswana is an oil-importing country. The demand for oil was about 25 775 MTOE in 2002/03, which represented about one-third of total primary energy demand in the country. Botswana has no refineries. Storage capacity in the country represents about 45 days of requirements. By sector, transport accounts for about 67 per cent of total petroleum consumption in the country. Industry and manufacturing account for about 15 per cent, while other sectors, including agriculture account for the rest.

Coal utilisation in Botswana is low. Botswana has two coal depots with a total output of about 948 000 tonnes. The two depots, in Francistown and Gaborone, are in private operation, under a lease from the government. Coal utilisation in the household sector is hampered by the non-availability of affordable coal-fired equipment. In the industrial and commercial sectors, the major impediment to the use of locally-produced coal is the quality of the coal itself, which is said to contain a lot of incombustible material which increases the utilisation cost. The government conducted a Coal Export Market study in 2002 to explore the possibility of exporting coal from Botswana. The study, however, concluded that there is a competitive disadvantage against Botswana coal on the export market on account of high transport costs to the main markets in Europe, the United States, Asia, Japan, India, China, and the Middle East. Capacity development in the coal sector therefore depends on domestic demand.

The objective of privatisation in Botswana remains the improvement of efficiency in the delivery of services and the creation of opportunities for private sector growth, which sets the programme aside from most other African countries, where privatisation had been dictated by the need to improve financial performance of state-owned enterprises (SOEs). The privatisation programme in Botswana, initiated in 1998 to sell 65 public enterprises has, however, not met with much success.

In an effort to revamp the privatisation process, the government set up the Public Enterprises Evaluation and Privatisation Agency (PEEPA) in 2002 to evaluate the programme and prepare a Plan for its speedy implementation. However, PEEPA encountered a series of difficulties in co-ordinating with parastatals and parent ministries. This is mainly due to the lack of
statutory authority giving it power to drive privatisation. This enables public enterprises and certain government departments to ignore requests and initiatives made by PEEPA.

The SOEs slated for privatisation include Air Botswana, the Central Transportation Organisation, and Botswana Telecommunications Corporation. Also being considered for privatisation are the National Development Bank and Botswana Savings Bank.

The privatisation of Air Botswana, planned since 1998 but delayed due to the worldwide deterioration in the aviation industry, flawed in January 2004, as the only remaining bidder – the South African Airline Comair – withdrew the bid of a 49 per cent stake in the company. In order to avoid speculation that the airline was in financial trouble, the government stressed that the privatisation objective remained and there are possibilities that the government proceed with an initial public offering of Air Botswana without first acquiring a strategic partner for the airline.

Although the programme has not progressed as fast as required, some concrete actions have been taken. For example, the telecommunications sector has been liberalised by bringing in other players (mobile phone operators) to operate alongside the Botswana Telecommunication Corporation, thus, enhancing competition and efficiency gains in the sector. In early 2004, the Botswana telecommunications authority advertised for consultants to advise on how to introduce more competition also into the fixed line services.

The financial sector in Botswana is of modern standard with internationally comparable quality levels. The commercial banks maintain prudential ratios in excess of statutory requirements. A policy on disclosure of bank charges has been in existence since 2001 to encourage greater transparency in the financial sector. Pula credit cards, internationally accepted Visa debit card facilities and telephone banking services are also widely available. An electronic clearinghouse was introduced in 2002 linking the Bank of Botswana (BOB) with the commercial banks. The Bank of Botswana has continued with its policy of consulting with the commercial banks on tariff structure in the financial system. In 2003, some commercial banks, in response to the BOB consultations, pledged not to increase charges. Progress was also made in 2002 on the International Financial Services Centre (IFSC) project, launched in 2000, and designed to act as an intermediation process for investment funds from South Africa and the rest of the world into other parts of Africa. In 2002, three projects were approved under the IFSC with a further three projects approved in 2003. In 2003, the government introduced legislation to include the provision of reinsurance services in the range of financial services that the IFSC can provide. The Botswana Stock Exchange (BSE) has recorded consistent growth since 1995 and is set to make further gains owing to the expected boost to demand caused by the establishment, in 2002, of a contributory pension fund for civil servants, 30 per cent of the assets of which must be invested locally. The BSE has been further aided by the Government’s Pula-denominated bond issue (Public Debt Service Fund) introduced in 2003.

**Political and Social Context**

Botswana remains one of the few politically stable democratic countries in Africa. It has a track record of peaceful succession through free and fair elections held every five years. All eight elections held since 1966 have been regarded as free and fair. The last election was in 1999 and the next one is due in 2004. However, recently a growing disenfranchisement felt by minority groups, especially the Basara (bushmen), has become a political issue. In response, parliament has endorsed recommendations for a change in the constitution to allow for increased representation of smaller ethnic groups in the House of Chiefs. The government has continued a decentralisation process since 2002 to strengthen Local Authorities’ capacity. To this end, the Local Government Structure Committee Report was presented to Parliament in 2003.

Botswana’s flexibility in responding to changing political circumstances without major disruption is underpinned by a track record of good governance. On respect for human rights, prevalence of the rule of law, and
enforcement of accountability/transparency practices, the record of Botswana has been commendable over the years. The country tops the list for the whole of Africa in the ranking of Transparency International. The country’s multi-party democracy is embedded with a clear demarcation of powers and responsibilities between the executive, legislature and judiciary. The inviolability of property rights is guaranteed by the constitution and legal statutes are regularly revised to reflect society’s needs and preferences. A Directorate on Corruption and Economic Crimes (DCEC) has been established for several years now, which investigates complaints originating from both the general public and commercial competitors on all matters of the management of public funds and public assets.

Botswana has made substantial progress in poverty reduction since independence. From independence (in 1966), as one of the poorest countries in Africa, Botswana has within three decades, become a middle-income country with one of the highest per capita incomes in the continent. Remarkable progress has been achieved on both income and non-income indicators of poverty. The incidence of poverty, as measured by the number of people living below the national poverty line (which is a little higher than the one-dollar-per-day international poverty line) declined from a high of 59 per cent in 1985/86 to 47 per cent in 1994/95 and to 36.7 per cent in 2002/03. Despite these improvements, the current rate is high and is comparable to problems of poverty in low-income African countries. The level of income inequality is also quite high, with a Gini coefficient estimated at 0.54, one of the highest in Africa. An important feature of poverty in Botswana is its high incidence among female-headed households – 50 per cent, compared to 36.7 per cent for the continent as a whole. The unemployment rate for youth is also quite high. In addition, the regional variation in the incidence of poverty is wide, with the western regions being the poorest.

Botswana is saddled with health problems with HIV/AIDS as the main health issue. Botswana faces one of the highest incidence rates of HIV/AIDS in the world. According to the UNAIDS 2002 Report, the prevalence rate among adults (15–49 age group) rose from 33.2 per cent in 1996 to 39.4 per cent in 2001. Some of the known factors behind the fast rate of transmission of the virus in the country include: (i) multiple sexual relationships; (ii) insufficient condom use; (iii) presence of other sexually-transmitted infections (STIs); and (iv) the nature of the HIV –I subtype C virus responsible for the affliction in Botswana, which is believed to be relatively more easily transmissible than the others. The social and economic consequences of the HIV/AIDS scourge on Botswana include an overburdened health system, a deteriorating public education system, a declining economic growth rate due to labour shortage especially in the non-mining sector, and a threat to the hitherto impressive improvements in living standards. There has been a significant increase in the number of orphans in the country as a result parents dying of AIDS. An estimated 138 000 Batswana had died of Aids by 2002, with 69 000 children orphaned by the epidemics. Life expectancy at birth that increased from 56.5 years in 1981 to 65.3 years in 1991 had declined to 57 years in 2001. According to an IMF study, the population is expected to decline to 1.3 million in 2015, compared with a non-Aids scenario of 2.5 million. To combat the HIV/AIDS scourge, the government has prepared a multi-sectoral and comprehensive National HIV/AIDS Policy and a National HIV/AIDS Strategic Framework (2003-2009). The multilateral approach of the national strategy is based on several pillars, including: prevention, care and support, management of national response, economic impact mitigation, and strengthening of legal and ethical environment. A National AIDS Coordinating Agency (NACA) has been established to co-ordinate the planning and implementation of various HIV/AIDS interventions. The government’s determination in combating the HIV/AIDS menace is demonstrated by the substantial budgetary allocations made to HIV/AIDS Programmes. This allocation has increased from an equivalent of 1.7 per cent of GDP in 1999/2000 to nearly 4.3 per cent of GDP in 2002/2003. Among the specific projects undertaken in response to the HIV/AIDS threat is the Baylor Children Clinical Centre, started in 2002 and completed in 2003. The Centre provides care and treatment for HIV-infected infants and children. Also,
since its introduction in 2001/2002, ARV therapy is
now being implemented in four centres. By
February 2003, a total of 4 425 persons were enrolled
for the therapy, which is about 2 per cent of persons
affected. Further, prevention of Mother to Children
Transmission of HIV/AIDS programme is ongoing.
In addition, to mitigate some of the impacts on
health personnel, an emotional and psychological
support programme is currently being implemented
in some centres.

Education is virtually free in Botswana. However, in
2003, the cabinet approved user fees in education that
are expected to come into effect in 2006. Botswana has
high gross primary and secondary school enrolment
ratios at 116 and 89 per cent respectively. However, the
education system is beset with low-quality teaching
due to the high number of untrained teachers.
Consequently, the country suffers from shortages of
skilled manpower. Moreover, the impact of HIV/AIDS
is adversely affecting school enrolment; and the
productivity of teachers is being eroded by increased
morbidity, absenteeism and mortality. The resulting
exacerbation of the skills shortage and loss of earnings
are having a detrimental effect on all sectors of the
economy. In order to address many of the shortages of
skilled manpower currently experienced, more emphasis
is being placed on conventional and technical education.
An expansion programme for all senior secondary
schools, which began in 2001, is expected to be
completed in 2004. In the area of technical and
vocational training, major activities include construction
of the Francistown College of Technical and Vocational
Education and three other technical colleges. In line
with the government’s determination to improve
education, increased budgetary allocations continue
to be made to the sector. The allocation to education
increased from about 25 per cent of total expenditure
in 2001/02 –2002/03 to nearly 30 per cent under the