

AFRICAN DEVELOPMENT BANK



PROGRAM: ECONOMIC RECOVERY SUPPORT PROGRAM – PHASE II (ERSP II)

COUNTRY: REPUBLIC OF BOTSWANA

STREAMLINED APPRAISAL REPORT

November 2022

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AFRICAN DEVELOPMENT BANK



BOTSWANA

ECONOMIC RECOVERY SUPPORT PROGRAM – PHASE II (ERSP II)

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RDGS/ECGF
November 2022

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CURRENCY EQUIVALENTS

(As of November 2022)

1 UA	=	BWP 17.18
1 UA	=	USD 1.28
1 UA	=	EUR 1.29
1 USD	=	BWP 13.39

FISCAL YEAR

April 1 – March 31

WEIGHTS AND MEASURES

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

ACRONYMS AND ABBREVIATIONS

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

PROGRAM INFORMATION

INSTRUMENT	GENERAL BUDGET SUPPORT – PROGRAM BASED LOAN
PBO DESIGN TYPE	PROGRAMMATIC OPERATION

LOAN INFORMATION

Client's information

BORROWER: REPUBLIC OF BOTSWANA

EXECUTING AGENCY: MINISTRY OF FINANCE

Financing plan for 2021/22 and 2022/23

Source	Amount (2021/22)	Amount (2022/23)
ADB Loan	USD 137 million	USD 179.66 million
World Bank	USD 250 million	USD 150 million
JICA		USD 100 million ¹
OPEC Fund		USD 100 million ²
TOTAL FINANCING	USD 387 million	USD 529.66 million

ADB FINANCING INFORMATION

Loan currency	United States Dollars (USD)
Type of Loan	Fully Flexible Loan
Tenor	20 years inclusive of Grace Period
Grace Period	5 years
Repayments	Equal and consecutive semi-annual payments after grace period (15th February, 15 th August)
Interest Rate	Base Rate + Funding Cost Margin + Lending Spread + Maturity Premium The Interest Rate is floored to zero
Base Rate	Floating rate for the USD: Daily SOFR compounded in arrears, A free option to exchange the Floating Base Rate against a Fixed Base Rate is available
Funding Cost Margin	The Bank funding cost margin as determined each 1 st January and 1 st July and applied to the Base Rate each 1 st February 1 st February and 1 st August
Lending rate	80 basis points (0.80%)
Maturity Premium	<ul style="list-style-type: none"> • 0% as the Average Loan Maturity = 12.75 years •
Front-end fees	0.25% of the loan amount due at loan effectiveness and payable at the earliest of (i) up to 60 days from Loan Effective Date or (ii) at the time of first disbursement. If the loan is partially or fully cancelled after the Loan Effective Date, the Front-end fee is still due on the full loan amount and no refund is made. The borrower has the option to pay the Front-end Fee: (i) either from its own resources, or (ii) by deducting its amount from the loan proceeds at the first disbursement.
Commitment fees	0.25% of the undisbursed amount. Commitment fees start accruing 60 days after signature of the loan agreement and are payable on payment dates including during

¹ At negotiation stage

² At negotiation stage

	the grace period. The Commitment fee ceases to accrue upon full disbursement or full cancellation of the loan.
Option to convert the Base Rate**	In addition to the free option to fix the floating Base Rate, the borrower may reconvert the fixed base rate to a floating base rate or re-fix it in part or for the fully disbursed amount. Transaction fees are payable
Option to cap or collar the Base Rate**	The borrower may cap or set both the cap and floor on the Base Rate to be applied in part or to the fully disbursed amount. Transaction fees are payable.
Hedge unwinding or adjustment costs	Any costs incurred by the Bank in adjusting or terminating the conversions are passed to the borrower
Option to convert loan currency (<i>Except for AGTF</i>)	The borrower may convert the loan currency for both undisbursed or disbursed amounts in full or part to another approved lending currency of the Bank. Transaction fees are payable

Timeframe - Main Milestones

Program Appraisal	August 2022
Program Approval	November 2022
Loan Effectiveness	January 2023
Disbursement Closing Date	31 December 2023
Completion	31 December 2023

PROGRAM EXECUTIVE SUMMARY

2022 Program overview	<p>Program name: Botswana – Economic Recovery Support Program – Phase II (ERSP II). This is the second phase of the two-year programmatic series, for the period 2021/22-2022/23.</p> <p>Program goal and objective: Remaining consistent with the original program approved by the Board of Directors on 8 September 2021, the goal of ERSP II is to support resilience and post-COVID 19 pandemic inclusive economic recovery through improved governance and real sector structural reforms. The three components continue to be: Component 1: <i>Improving Fiscal Efficiency and Sustainability</i>; Component 2: <i>Supporting Private sector-led Agriculture, and Industrial Sector Transformation</i>; and Component 3, <i>Enhancing Resilience and Social Inclusion</i>.</p> <p>Expected outputs: The key outputs of the Program are (i) Efficiency of public spending improved (PFM Bill approved; Public Procurement Regulatory Authority established); (ii) Domestic resource mobilization enhanced (Tax Administration Bill approved; Income Tax (Amendment) Bill approved; cost recovery measures adopted); (iii) Climate-smart agriculture sector productivity and value addition, and job creation enhanced (Revised National Policy on Agriculture Development and Transformation approved; Meat Industry Regulatory Authority Bill approved); Industrialization framework strengthened (Cabinet approval to establish a research fund); Enabling environment for private investment improved (Secured Transactions on Movable Property Bill approved; PPP Regulations approved; Revised electricity grid code and licensing framework approved); MSME development framework and capacity strengthened (Technical Vocational Education and Training Policy approved; National Productivity Blueprint approved by Cabinet); Social protection and gender mainstreaming enhanced (Retirement Fund Bill approved; single social registry fully rolled out; Gender Equity Bill approved).</p> <p>Program Cost: The program cost for the second phase of the two-year programmatic operation is USD 179.66 million. That brings the total for the two-year programmatic series to USD 316.66 million.</p>
2022 Country context and Overview	<p>Botswana's economy remains undiversified in respect of some key economic variables, particularly exports. Over the past decades, the country has followed a natural resource-based growth model that is highly dependent on the diamond mining industry and a large public sector. The extraction and processing of diamonds for export is the largest single contributor to public revenues (27%), and goods export receipts (over 89%). The mining sector's capital-intensive nature and weak linkages with the other sectors have limited the sector's value chains development and job creation. As a result, despite a 119% growth in per capita income from USD3170 in 2000 to USD 6940 in 2021, there is limited structural transformation in the economy. This challenge has been exacerbated by the COVID19 pandemic. The economy contracted by 8.5% in 2020. However, the economic growth momentum has picked up with the easing of the COVID-19 pandemic restrictions. Real GDP rebounded by 11.4% in 2021, driven mainly by Mining and Quarrying, and Manufacturing sectors. The sanctions on Russia, as a result of the Russia's invasion of Ukraine³, have kept Russia's diamonds out of the US and European markets, making Botswana the dominant supplier of rough diamonds. This has boosted the country's balance of payments and fiscal earnings in an environment of global diamond supply shortages and strong prices. Preliminary figures indicate a balanced budget for 2021/22, from a fiscal deficit of 9.5% in FY2020/2021, due to higher revenues than budgeted from mineral earnings and from underspending of the budget. Deficits of 3.4% and 0.1% are projected for FY2022/2023, and FY 2023/2024, against the backdrop of stronger growth in revenues, and the expectation that the Government will successfully implement consolidation, and wide-ranging PFM and structural reforms. Botswana remains at low risk of debt distress. Based on preliminary estimates, the country's public debt stood at 20.93% of GDP in Q2 2022, down from an estimated 23.1% in FY2021/2022, and is expected to moderate at 22.5% in FY2023/24. The Government remains committed to addressing the country's socioeconomic development challenges through implementation of wide-ranging fiscal and structural reform measures. The justification for continued support through ERSP II is based on the need to create fiscal space to finance critical development spending, implement PFM and real sector reforms geared towards maintaining macroeconomic stability and attaining socioeconomic transformation.</p>
Lessons learnt	<p>The key lessons learnt from the implementation of Phase I of the operation include: (i) <i>Government ownership of the reform effort is critical to the success of the program:</i> The success of the program and the achievements of Phase I are largely due to government ownership of the reform effort; (ii) <i>Providing complementary TA is important for effective program implementation:</i> There is need to complement each lending operation with some technical assistance. In this regard, the Bank is providing TA support in the areas of Agriculture; Energy and PPP capacity strengthening; (iii) <i>Effective donor coordination is critical to the success of PBOs:</i> The Bank has ensured full engagement with other development partners (including the World Bank) from the conception stage and throughout the processing and implementation of Phase I and preparation of Phase II of the operation; (iv) <i>Need to maintain continuous policy dialogue:</i> The Bank ensured continuous policy dialogue with the Authorities at all stages of program preparation and implementation; (v) <i>The scope of the program should be commensurate with implementation capacity:</i> In view of capacity challenges in Botswana, the number of prior actions, triggers and performance measures should be minimised to avoid implementation delays.</p>
Conditions for continued support	<p>Botswana continues to fulfil the Bank's eligibility criteria for General Budget Support. The country continues to enjoy <i>political stability</i>. Elections are held regularly and have consistently been judged by independent and international observers as generally free, fair, and peaceful. The Government continues to implement policies geared towards guaranteeing the fundamental rights and freedoms of its people as enshrined in the Constitution. <i>Macroeconomic stability</i> remains satisfactory, and despite facing a difficult economic situation, exacerbated by the COVID19 pandemic and now the Russia/Ukraine war, the economy remains stable. Government has demonstrated strong commitment to fiscal sustainability. Debt levels remain low and sustainable. The country remains <i>committed to poverty reduction and inclusive growth</i>. GRB is taking the necessary steps to advance strategies to reduce poverty and income inequality. The social protection program is having a positive impact and steps are being taken to make it more effective and efficient. The updated CFRA shows that <i>overall fiduciary risk is substantial</i>. Botswana has continued to make progress in implementation of PFM reforms in several areas even though implementation delays have been encountered in some areas. The <i>framework for development partners harmonisation and coordination is adequate</i>. The Bank continues to coordinate the implementation of the program in close collaboration with other development partners, particularly the World Bank which is also processing Phase II of its Development Policy Operation.</p>
Policy dialogue and linked technical assistance	<p>Dialogue with the Authorities will continue to focus on the following areas: (a) deepen fiscal consolidation to strengthen domestic resource mobilization and efficiency in public spending, including transparency and the performance of state-owned enterprises; (b) accelerate the implementation of the economic diversification program for job creation, with particular emphasis on promoting investment climate reform, PPP, and accelerating private investments in priority sectors; and (c) pursue reforms to transform the agriculture and industrial sectors, as part of post-COVID-19 economic recovery efforts.</p>

³ Agreed wording at the African Development Bank Annual Meetings 2022 in Ghana - Algeria, China, Egypt and South Africa entered a reservation and proposed "Russia-Ukraine Conflict"

RESULTS FRAMEWORK

A PROJECT INFORMATION

PROJECT NAME AND SAP CODE: Economic Recovery Support Program – Phase II: P-BW-K00-005 COUNTRY: Republic of Botswana

PROJECT DEVELOPMENT OBJECTIVE: Support resilience and post-COVID 19 pandemic inclusive economic recovery through improved governance and real sector structural reforms.

ALIGNMENT INDICATORS: (i) Agriculture, and industrial sector contribution to GDP; (ii) Employment

B RESULTS MATRIX

RESULTS CHAIN AND INDICATOR DESCRIPTION	RMF INDICATOR	UNIT OF MEASUREMENT	BASELINE (Date)	TARGET AT COMPLETION (Date)	MEANS OF VERIFICATION
OUTCOME STATEMENT 1: Fiscal performance enhanced					
OUTCOME INDICATOR 1.1: Fiscal deficit/GDP ratio		Percentage	-8.4% (2020/21)	-4.8% (2022/23)	MTEF/IMF Article IV Country Reports
OUTCOME 1.2: Country Policies and Institutional Assessment (Economic Management score)		Score (out of 6)	5.3(2020)	5.5 (2022)	CPIA
OUTCOME STATEMENT 2: Private sector participation in key sectors enhanced					
OUTCOME INDICATOR 2.1: Private Gross Fixed Capital Formation ⁴ as share of GDP		Percentage	24.4% ⁵ (2019)	27.4% (2023)	National Accounts
OUTCOME INDICATOR 2.2: Agriculture value added as % of GDP		Percentage	1.9% (2019)	2.9% (2023)	National Accounts
OUTCOME INDICATOR 2.3: Manufacturing value added as % of GDP		Percentage	5.24% (2019)	7.24% (2023)	National Accounts
OUTCOME STATEMENT 3: Economic and social inclusion enhanced					
OUTCOME INDICATOR 3.1: Domestic credit to the private sector (excluding parastatals) from banks and DFIs as % of GDP		Percentage	12.1% (2019)	13.5% (2023)	Bank of Botswana reports
OUTCOME INDICATOR 3.2: Targeting of social protection schemes enhanced (% of beneficiaries uploaded to the Single Social Registry)		Percentage (% women and youth)	0 (2019)	75.8 (2023)	Ministry of Employment, Labour Productivity & Skills Development reports
COMPONENT 1: IMPROVING FISCAL EFFICIENCY AND SUSTAINABILITY					
OUTPUT STATEMENT 1.1: Efficiency of public spending improved					
OUTPUT INDICATOR 1.1.1: PFM Bill approved by Cabinet		Yes/No	No (2019/20)	Yes (2022/23)	Copy of the approved Bill
OUTPUT INDICATOR 1.1.2: Automated appraisal, risk analysis, prioritization and sequencing methodology for public investment program developed		Yes/No	No (2019/20)	Yes (2022/23)	MOF Reports

⁴ Proxy for private investments

OUTPUT INDICATOR 1.1.3: Public Procurement Regulatory Authority established*		Yes/No	No (2019/20)	Yes (2022/23)	MOF reports
OUTPUT STATEMENT 1.2: Domestic resource mobilization enhanced					
OUTPUT INDICATOR 1.2.1: Tax Administration Bill designed to increase efficiency of tax collection approved by Cabinet		Yes/No	No (2019/20)	Yes (2022/23)	Copy of the approved Bill
OUTPUT INDICATOR 1.2.2: Income Tax (Amendment) Bill designed to reduce tax leakages approved by Cabinet		Yes/No	No (2019/20)	Yes (2022/23)	Copy of the approved Bill
OUTPUT INDICATOR 1.2.3: Cost recovery measures adopted		Number of ministries	0 (2019/20)	5 (2022/23)	Ministry of Finance reports
COMPONENT 2: PRIVATE SECTOR-LED AGRICULTURE, AND INDUSTRIAL SECTOR TRANSFORMATION					
OUTPUT STATEMENT 2.1: Climate-smart agriculture sector productivity and value addition, and job creation enhanced					
OUTPUT INDICATOR 2.1.1: Revised National Policy on Agriculture Development and Transformation to support the transformation of the sector and enhance private sector participation approved by Cabinet		Yes/No	No (2019/20)	Yes (2022/23)	Copy of the Policy document
OUTPUT INDICATOR 2.1.2: Meat Industry Regulatory Authority Bill to guarantee competition and enhance private sector participation in the meat sector approved by Cabinet*		Yes/No	No (2019/20)	Yes (2022/23)	Ministry of Agriculture reports
OUTPUT STATEMENT 2.2: Industrialization framework strengthened					
OUTPUT INDICATOR 2.2.1: Cabinet approval to establish a research fund*		Yes/No	No (2019/20)	Yes (2022/23)	Copy of the Gazette
OUTPUT STATEMENT 2.3: Enabling environment for private investment improved					
OUTPUT INDICATOR 2.3.1: Investment Facilitation Bill approved by Cabinet		Yes/No	No (2019/20)	Yes (2022/23)	Copy of approved Bill
OUTPUT INDICATOR 2.3.2: Movable Property Bill providing for the establishment of moveable asset registry to increase secured lending approved by Cabinet*		Yes/No	No (2019/20)	Yes (2022/23)	Copy of approved Bill
OUTPUT INDICATOR 2.3.3: PPP Regulations issued by Cabinet		Yes/No	No (2019/20)	Yes (2022/23)	Copy of Regulations
OUTPUT INDICATOR 2.3.4: Revised electricity grid code and licensing framework to support entry and development of IPPs adopted		Yes/No	No (2019/20)	Yes (2022/23)	Ministry of Minerals and Energy reports
COMPONENT 3: ENHANCING RESILIENCE AND SOCIAL INCLUSION					
OUTPUT STATEMENT 3.17: MSME development framework and capacity strengthened					
OUTPUT INDICATOR 3.1.1: Technical Vocational Education and Training Policy approved by Cabinet		Yes/No	No (2019/20)	Yes (2022/23)	Copy of approved Policy document

OUTPUT INDICATOR 3.1.2: National Productivity Blueprint to provide a holistic approach to improving productivity and competitiveness across all sectors of the economy approved by Cabinet		Yes/No	No (2019/20)	Yes (2022/23)	Copy of the blueprint
OUTPUT STATEMENT 3.2: Social protection and gender mainstreaming enhanced					
OUTPUT INDICATOR 3.2.1: Retirement Fund Bill allowing pension fund members to access funds from their pensions approved by Cabinet*		Yes/No	No (2019/20)	Yes (2022/23)	Copy of approved Bill
OUTPUT INDICATOR 3.2.2: Full roll out of the single social registry to improve targeting of beneficiaries of social protection schemes*		Yes/No	No (2019/20)	Yes (2022/23)	Ministry of Local Government and Rural Development reports
OUTPUT INDICATOR 3.2.3: Gender Equity Bill to enhance women's economic empowerment approved by Cabinet		Yes/No	No (2019/20)	Yes (2022/23)	Copy of approved Bill

NB: * denotes Prior Action

REPORT AND RECOMMENDATION OF THE MANAGEMENT OF THE ADB TO THE BOARD OF DIRECTORS ON A PROPOSED LOAN TO THE REPUBLIC OF BOTSWANA TO FINANCE THE SECOND PHASE OF THE ECONOMIC RECOVERY SUPPORT PROGRAM (ERSP II)

I. INTRODUCTION: THE PROPOSAL

1.1 Management submits the following proposal and recommendation for an ADB Loan of one hundred and seventy-nine million, six hundred and sixty thousand US Dollars (USD 179,660,000), to the Republic of Botswana to finance the second Phase of the Economic Recovery Support Program (ERSP II). The ERSP is designed as a programmatic series of two consecutive General Budget Support (GBS) operations covering the fiscal years 2021/22 - 2022/23 for total indicative financing of USD 316.66 million. This is the second phase of the two-year series of the Program Based Operation (PBO). It follows Board approval of the first phase on 8 September 2021 for an amount of USD 137 million and subsequent implementation of the related program measures.

1.2 Botswana approached the Bank in 2021 to support the country's economic recovery efforts following the negative impact of the COVID19 pandemic, which led to an economic contraction of 8.7% in 2020. This was as a consequence of lockdown and movement restrictions which constrained economic activity. ERSP was designed to support the Government's response by helping to address short, medium and long-term macroeconomic challenges facing Botswana. The reforms supported by the Bank are anchored on the Economic Recovery and Transformation Plan (ERTP, 2020/21-2022/23), which presents short to medium term priorities and policy measures to fast track implementation of the eleventh National development Plan (NDP 11) and enhance economic resilience over the medium to long term.

1.3 The processing of this second phase of the operation (ERSP II) followed the satisfactory implementation of the first phase of the program, in accordance with the Bank's PBO policy. The first phase of the program contributed to the following: (i) an increase in the GDP growth rate to 11.4% in 2021 from a contraction of 8.7% in 2020; (ii) an improvement in the Revenue/GDP ratio to 33.8% in 2021/22 from 28.7% in 2020/21; (iii) a reduction in the expenditure/GDP ratio to 33.8% in 2021 from 38.3% in 2020; and (iv) an improvement in the Fiscal deficit/GDP ratio to 0% in 2021/22 from 9.5% in 2020/21. The program will also help to deal with emerging issues such as the impact of the Russia/Ukraine war (see Box 1). At policy level, measures that supported the *Fiscal Efficiency and Sustainability* objective include: (i) approval of a second PFM Reform roadmap (2021-2027); (ii) Cabinet approval of the Revised Public Procurement Bill; and (iii) adoption of cost recovery measures across six ministries. Measures that supported the *Agriculture and Industrial Sector Transformation* objective include (i) approval of the 1.3 billion Pula (approx. USD 141 million) Industry Support facility; (ii) Cabinet approval of a Credit Information Bill; and (iii) Cabinet approval of the Energy Policy. Measures that supported *Resilience and Social Inclusion* objective include (i) approval of Botswana Export Development Program (2020-2024); (ii) adoption of the National Informal Sector Recovery Plan; and (iii) expansion of the roll out of the single social registry to 10 districts. Details are in Annex 15.

1.4 ERSP II builds on the achievements of the first phase and is carefully designed and sequenced to continue support to GRB's reforms with particular emphasis on improved governance, business enabling environment and real sector reforms for inclusive growth. Focus on the policy and regulatory environment aims to create a favourable business environment that will attract private investment, promote industrialization, diversification, and boost job creation. Focus on fiscal efficiency and sustainability aims to help attain macroeconomic stability and streamline public investment and public finance management, all of which are critical in the context of post-pandemic economic recovery.

Support to social sector interventions will contribute to addressing poverty and unemployment challenges.

1.5 The long-term tenure of the Government's borrowing for this operation will continue to help improve the reserve position and extend the maturity profile of Government debt. The use of the programmatic approach for budget support also benefits the country in terms of predictability of resource flows and flexibility in the use of triggers, which are important in the context of a rapidly changing economic environment. Formulation of the program was based on continuous dialogue with the Government of the Republic of Botswana (GRB), and in close collaboration with Development Partners and other stakeholders, including the private sector.

II. UPDATE ON COUNTRY ELIGIBILITY

2.1 *Government's continued commitment to poverty reduction*

2.1.1 **The Government remains committed to poverty reduction and inclusive growth.** Over the past two decades, Botswana has decreased the poverty head count ratio to 16.3% and allocated about 25% of total public expenditures to Education and Skills Development. This has translated into a high Human Development Index, positioning the country at 100 out of 189 countries and territories around the World. Between 1990 and 2019, Botswana's HDI value increased from 0.573 to 0.735, an increase of 28.3 percent. Despite this performance and sizeable investments, Botswana with an Income Gini coefficient 53.3 (2015), features amongst the most unequal countries in the World. The national unemployment rate remains high. It stood at 20.7% during the third quarter of 2019 and was last reported at 26.0% for the fourth quarter of 2021, mainly a reflection of both the inadequate inclusiveness of economic growth and skills mismatch on the labour markets. Even more worrying is youth unemployment rate, which stood at 77% (15 to 17 years), 55% among youths aged 18-19 years, 45.1% (20-24 years) and 30.0% for 25–29-year-olds.⁶

2.1.2 **Human Capital Development is one of the six priority areas of the National Development Plan 11 (NDP11, 2017-2023)**, whose theme is "*Inclusive Growth for the Realisation of Sustainable Employment Creation and Poverty Eradication*". Inclusive economic growth and reform in three main areas (i.e. fiscal efficiency and sustainability, private sector-led economic growth, and livelihood and social inclusion) are anchored on NDP 11 and the Economic Recovery and Transformation Plan (ERTP 2020-2023). The GRB has also developed progressive policies to address youth, jobs and skills mismatch include among others: the revised Youth policy, the National Entrepreneurship Policy and industrial policy, which is aimed at improving the country's competitiveness, promotion of economic growth, diversification, and sustainable job creation. The GRB has also embarked on the Cluster Development Initiative to enhance economic diversification and create jobs in priority sectors of beef, diamond beneficiation, financial services, mining, and tourism. Technical Annex 9 presents detailed assessment

2.2 *Continued political stability*

2.2.1 **Botswana continues to enjoy a stable political environment since independence in 1966 and has consistently ranked among the top countries in Africa on good governance.** The political environment remains stable, underpinned by prudent economic management and strong institutions. Democratic elections have been held every five years and a two-term limit is entrenched in the republican constitution. The last multi-party elections were held in October 2019, resulting in the Botswana Democratic Party (BDP) winning 38 of the 57 elected Parliamentary seats, the main opposition party, the Umbrella for Democratic Change (UDC), winning 15 seats, and the remaining 4

⁶ Quarterly Multi – Topic Survey (QMTS), Report, Quarter 4, 2021.

seats divided between two other political parties. President Mokgweetsi Eric Keabetswe Masisi assumed office in April 2018 in an orderly transition of power from former President Ian Khama and was re-elected in October 2019. Among the identified priorities in the Government's Reset Agenda is Public Service reform to align the implementation machinery to the Presidential agenda on transformation. In line with this priority, the Government portfolio responsibilities were rationalised, and several Government ministries, departments and agencies were restructured in April 2022 for enhanced service delivery, accountability and ownership, and good governance. The review of Botswana's 1966 Constitution is underway, following the appointment of a Presidential Commission in December 2021. The Commission, which has been given a comprehensive mandate to review the entire constitutional framework, has started the consultative review process which will be completed before the next General Elections scheduled for 2024.

2.3 Continued macroeconomic stability

2.3.1 Botswana's macroeconomic stability continues to be satisfactory despite the challenges of the COVID-19 pandemic and the impact of the ongoing Russia's invasion of Ukraine⁷. The economic growth momentum has picked up with the easing of COVID-19 pandemic restrictions. Real GDP expanded by 11.4% in 2021 from the pandemic-induced contraction of 8.7% in 2020. The broad-based expansion has been maintained into the second quarter of 2022 (Q2 2022). As at (Q2 2022) the economy grew by 5.6% on a year-on-year basis compared to 37.1% registered during the same period in 2021. The Q2 2022 annual growth was driven mainly by Diamond Traders (128.0%), and Water and Electricity (94.7%) industries. The sanctions on Russia, the world's top supplier of diamonds, as a result of its invasion of Ukraine have kept the Russian diamonds out of the US and European markets, making Botswana the dominant supplier of rough diamonds, boosting the country's balance of payments and fiscal earnings in an environment of diamond supply shortages and strong prices. The Debswana Diamond Company, which accounts for almost all of Botswana's diamond exports, has been operating at full capacity to meet this demand with its sales of rough diamonds increasing by 54% in the first six months of 2022 compared to the same period in 2021.

The local electricity production went up with the improved coal uptake by Morupule Power Station from better efficiency on all available boilers in Morupule B plant. While all the other industries recorded positive growth higher than 0.7%, Mining and Quarrying fell by 3.4%, with a decrease in diamond and gold

	2019/2020 Actual	2020/2021 Actual	2021/2022 Estimates	2022/2023 Projection	2023/2024 Projection
Real GDP growth rate (%) *	3.0	-8.7	11.4	4.2	4.1
Inflation, % (end period) *	2.2	2.2	8.7	11.1	5.9
Customs & Excise revenue (% GDP)	7.7	9.6	7.0	6.3	8.0
Total revenues (% GDP)	30.0	28.7	33.8	31.3	31.8
Total expenditure (% GDP)	36.1	38.3	33.8	34.7	31.9
Fiscal balance (% GDP)	-6.1	-9.5	0.0	-3.4	-0.1
Public debt (% GDP)	21.1	24.2	23.1	23.5	22.5
Current account balance (% GDP)	-6.9	-8.7	-0.5	1.7	2.6
International reserves** (Months of imports, end of year)	11.7	9.5	8.3	6.9	7.6
Sources: Ministry of Finance-Botswana/Bank of Botswana/IMF Article IV 2022 Report *Calendar year; FY 2019/2020 = 2019 **As of November 2022					

production. A successful roll-out of vaccines against COVID-19 is one of the pre-conditions to a full economic recovery. As of June 28, 2022, 64.7% of the 2.35 million population had been fully vaccinated (out of which 26.2% have been boosted), and 72.4% have received the first dose.

2.3.2 Botswana's fiscal and external account positions improved strongly in FY2021/2022.

Preliminary numbers indicate a balanced budget, from a fiscal deficit of 9.5% of GDP in FY2020/2021, driven by higher revenues than budgeted from mineral earnings. Expenditures came in

⁷Agreed wording at the African Development Bank Annual Meetings 2022 in Ghana - Algeria, China, Egypt and South Africa entered a reservation and proposed "Russia-Ukraine Conflict

lower than budgeted, mainly due to the under execution of some capital projects, with Ministries failing to fully spend their development budget allocations. Deficits of 3.4% and 0.1% are projected for FY2022/2023, and FY 2023/2024, with the falling trend driven by stronger growth in revenues, and on the assumption that the Government's consolidation and PFM reform plans are successfully implemented. The current account deficit narrowed to 0.5% of GDP in 2021, from 8.7% in 2020, as the annual diamond price index rose by 17.9% and the receipts from the Southern African Customs Union (SACU) rebounded by 17.8%. International reserves declined to US\$4.4 billion at end June 2022 or 8.8 months of import cover, from US\$4.8 billion in December 2021, or 9.9 months, and remain at a level lower than Botswana's traditional external buffer position (which is an average of 20.5 months of import cover over the 25-year period since 1997, according to Bank of Botswana).

2.3.3 The Bank of Botswana (BoB) has tightened its monetary stance against a worsening supply-side driven inflation outlook. Averaging 6.7%, annual inflation in 2021 rose to above the Central Bank's medium-term objective range of 3-6% from 1.9% in 2020, due to the effects of the upward adjustment in fuel prices and VAT, and the recovery in domestic demand. The Bank of Botswana (BoB) had maintained an accommodative monetary stance to support the economic growth recovery, by keeping its policy rate at 3.75% since 2021 from 4.75% in 2020. However, by September 2022, inflation was at 13.8%, much higher than 8.4% registered during the same period in 2021, with the year-on-year prices of the Transport and Food and Non-Alcoholic Beverages categories going up by 36.2% and 14.8%, respectively, among other price hikes. The BoB has introduced several reforms to its monetary policy framework to improve the effectiveness of the transmission of its monetary policy actions to the real sector. One such reform has been the adoption of a monetary policy rate (MoPR) based on the yield on the 7-day Bank of Botswana Certificate. In August 2022, the BoB increased the MoPR by 50 basis points to 2.65%, from 2.15% signalling a further tightening stance against entrenched expectations for even higher prices. End-period inflation is projected at 11% in 2022, assuming a successful monetary policy tightening stance. However, the BoB anticipates that inflation will only revert to within range from the third quarter of 2024. In July 2022, the Ministry of Finance announced a set of interventions valued at P1.8 billion (approx. USD 141 million) aimed at easing the cost of living. They include a reduction of the Value Added Tax rate by 2 percentage points to 12% from 14%, and zero-rating cooking oil and liquid petroleum gas both for six months from August 01, 2022; an 18.5% increase in allowances for local tertiary institution students effective September 01, 2022; and a loan provision (up to P120 million) from the Public Debt Service Fund to the Botswana Meat Commission to enable it make payments to its suppliers, and for working capital. The loan is conditional on the commencement of the BMC Transition Act that will remove BMC's beef export monopoly and prepare it for privatization.

2.3.4 Botswana remains at low risk of debt distress. The country's public debt stood at 20.93% of GDP in Q2 2022 (preliminary), down from an estimated 23.1% in FY2021/2022, and is to moderate at 22.5% in FY2023/24, keeping way below the national statutory limit of 40% of GDP and within the Southern African Development Community (SADC) ceiling of 60% of GDP. The September 2022 update by S&P Global kept Botswana's sovereign credit rating at "BBB+/A-2" for long and short term foreign and local currency sovereign credit, with a stable outlook based on the strong demand for Botswana's diamonds that boosted the current account and fiscal outcomes, all underpinned by robust institutional frameworks and prudent macroeconomic management and stability.

2.3.5 The medium-term growth outlook is cautiously positive. Real GDP growth is projected to moderate at 4.2% in 2022 and 4.1% in 2023 and to keep within the range of 2.9% to 4.7% in the years to 2029. Growth will be supported by the continued pickup in domestic economic activity in various sectors, particularly in agriculture and mining, with the liberalization of the beef sector and good weather, as well as from the increased demand and higher prices for rough diamonds, and the ramping up of copper production. All these improvements will have positive effects on the manufacturing,

water and electricity, and ICT sectors. Manufacturing will be further boosted by the patent-free Pula Corbevax vaccine production from the new NantBotswana COVID-19 Vaccine Manufacturing Plant, whose construction has commenced. The positive forecast hinges on the strengthening of the country’s social protection system to protect the vulnerable most affected by the high domestic prices, and the fast-tracking of the full implementation of the Economic Recovery and Transformation Plan (ERTP). The growth outlook may be tapered by the anticipated further slowdown of the global economy exacerbated by high global inflation resulting from supply-chain disruptions related to the ongoing Russia’s invasion of Ukraine⁸. In addition, there is a tendency of the demand for diamonds, as a luxury good, to drop if major diamond markets, such as Europe and the USA go into recession, which could potentially reduce Botswana’s earnings from the global diamond market over the medium term. Other headwinds include climate change in the form of persistent droughts, and adverse impact of the sustained weak economic conditions in South Africa on Botswana’s exports and revenues from the Southern African Customs Union (SACU).

Box 1: Impact of the Russia’s invasion of Ukraine⁹ to the economy of Botswana

- Diamond mining and trade remain a critical driver to Botswana’s fiscal revenues and external trade balances. Botswana’s position in the global diamond market has been reinforced by the significant increase in the demand for and prices of rough diamonds, given the current sanctions on Russia. This potentially benefits the country with anticipated improved export earnings and fiscal revenues from the mining sector in 2022.
- As net oil importer, Botswana is facing worsening terms-of-trade from the higher global energy prices. In addition, the imported inflation drove up transportation costs and fares, and the general cost of living in the country. Headline inflation was at 13.8% in September 2022, way higher than the 8.4% in the same period in 2021.
- Botswana is a food-importing country, whose cereal imports made up 19.7% of total food imports which in turn formed 10.6% of total imports in May 2022. Like higher oil prices, higher food prices also feed into domestic inflation, increasing incidences of hunger at a time when most economies are just recovering from the ravages of the COVID-19 pandemic.
- In the short run, tightening global financial conditions caused by the ongoing war tend to reverse portfolio investment in emerging market assets. The Pula depreciated by 15.5% against the US dollar, and by 5.9% against the SDR in the twelve months to September 2022. A more depreciated domestic currency makes accessing global financial markets more expensive.
- The Russia-Ukraine war is weighing down on the growth prospects for South Africa, prospects which were already restrained by production constraints from the sustained power supply shortages, the COVID-19 pandemic variants, and PFM challenges. The subdued growth of the South African economy will therefore also negatively impact Botswana through these links.

2.4 Fiduciary risk assessment

2.4.1 Botswana has continued to make progress in implementation of PFM reforms in several areas. Some of the key achievements include the adoption and implementation of the Medium Term Fiscal Framework (MTFF) and Medium Term Expenditure Framework (MTEF); Public Investment Program; Treasury Single Account (TSA); Government Accounting and Budgeting System; the transition from cash to accrual accounting including the adoption of IPSAS; accounting policies consistent with the requirements of IPSAS, GFS 2001/2015 and COFOG; People’s Budget in three languages (English, Setswana and Braille); and Development Projects Management System to improve the monitoring and evaluation of projects management. GRB has also adopted a risk management policy and the enterprise risk management framework, and established Cash Management Unit, Cash Management and Liquidity Committee, and Audit Committee. Furthermore, the Government has adopted Public Assets Management policy and Medium-Term Debt Strategy. In the area of public procurement, major strides include the promulgation of the Public Procurement Act, 2021, aimed at substantially addressing the deficiencies of the 2001 Act, and establishment of a Public Procurement Regulatory Authority and Procurement Tribunal, in addition to the e-procurement Strategy, Public

⁸Agreed wording at the African Development Bank Annual Meetings 2022 in Ghana - Algeria, China, Egypt and South Africa entered a reservation and proposed “Russia-Ukraine Conflict.

⁹Agreed wording at the African Development Bank Annual Meetings 2022 in Ghana - Algeria, China, Egypt and South Africa entered a reservation and proposed “Russia-Ukraine Conflict

Procurement Policy and Procurement Governance Model. Following significant improvements in Botswana's handling of its anti-money laundering (AML) and counter-terrorist financing (CTF) regimes, the Financial Action Task Force (FATF) removed Botswana from its greylist of jurisdictions at its plenary held on 21 October 2021 in Paris. Despite the above improvements, a number of risks have been identified that need to be addressed. These include weaknesses in the accounting and reporting system due to incomplete reconciliations, delayed clearance of reconciling items and suspense accounts; and inadequate coverage by internal audit. The CFRA also noted several elevated risks that impaired the overall information integrity, including weak account reconciliation functions, exacerbated by a large backlog of unreconciled items, poor structures for audit recommendations follow up, and limited data on the stock of arrears. Approval of the PFM Bill also continues to face delays and consultations are still ongoing. The 2020 CFRA, as updated in 2022, concluded that overall fiduciary risk level remains Substantial. Detailed CFRA is presented in Annex 12.

2.5 Harmonization

2.5.1 The framework for aid coordination in Botswana remains adequate. The UN Resident Coordinator is leading the efforts for DP coordination in aid modalities, operations, knowledge work, and dialogue with the Government. The DP Coordination Forum, which meets bi-annually, is the platform through which these discussions take place. The Bank continues to participate in various donor coordination fora, including the Development Partners Forum (DPF), which provides a platform for high-level dialogue between senior Government officials and development partners. The Forum is an effective platform for information sharing on government policies, aid modalities and aid coordination in general. The Macroeconomics, Trade, and Economic Diversification (MTED) Working Group is a DPF technical sub-committee on economic diversification and macroeconomic stability. The Ministry of Finance has developed a donor database to enhance donor coordination with a view to improving the quality of aid and facilitating the provision of information on Official Development Assistance (ODA) in Botswana. A number of major DPs that are active in the country include the European Union (budget support to the educational sector), World Bank (budget support, public financial management reform process and water sector) and United Nations (capacity building and social development). Others are, GIZ (coordinating the cooperation between Botswana and the SADC; climate change and readiness support for the Green Climate Fund); JICA (capacity building) and the Bank (economic diversification and infrastructure development). The Bank continues to work closely with the World Bank, which is also processing the second phase of its Economic Resilience and Green Recovery Development Policy Loan (DPL). This follows approval of the first phase in June 2021, designed to support resilience to shocks, strengthen private sector development and promote green recovery. The two operations are complementary. For example, in the area of social protection, while the WB's focus is on approval of the social protection framework and proxy means testing, the PBO focuses on actual roll out of the single social registry. Component 2 also strongly complements the private sector development component of the WB operation. The Bank also played a key role in mobilizing co-financing to the tune of USD 100 million from JICA, which is currently being negotiated. The Bank's policy matrix was used for the JICA operation. The Government is also negotiating a loan of USD 100 million from the OPEC Fund.

III. PROGRAM for 2022/23

3.1 Program Goal and objective

3.1.1 The overarching development objective of the proposed operation is to continue to support post-pandemic economic recovery through improved governance, business enabling environment and real sector reforms for inclusive growth. It will continue to focus on supporting Government efforts to enhance the efficiency of public spending and domestic resources mobilisation; improve the enabling environment for private investments; enhance climate-smart agriculture and strengthen the framework for industrialisation; and strengthen social protection; all geared towards inclusive growth and job

creation. To this end, the proposed operation supports economic recovery and transformation initiatives at the centre of Government's national development plan.

3.2 Programme Components

3.2.1 ERP-II maintains the same three mutually reinforcing and complementary components of ERP-I. The wide-ranging reforms under ERP-II are carefully selected and sequenced to deliver on the overall strategic objectives of the two-year program. Component 1: *Improving Fiscal Efficiency and Sustainability*, will continue to support measures geared towards enhancing macroeconomic performance and creating fiscal space for the prioritization of capital and social spending by helping to enhance domestic resource mobilization and mitigating fiscal risks (including those related to SOEs). Component 2: *Supporting Private sector-led Agriculture, and Industrial Sector Transformation*, will continue to support the strengthening of the policy framework for agriculture and industrial sector productivity and value addition, and enhance private sector participation and increase job opportunities. Component 3: *Enhancing Economic and Social Inclusion*, will continue to support the development of the MSME framework, social protection, and gender empowerment. It is designed to ensure the right balance between fiscal and sector-specific reforms while ensuring resilience and inclusion.

Component 1: Improving Fiscal Efficiency and Sustainability

3.2.2 Context: Botswana has a strong track record of good economic management, but the lack of economic diversification exposes the country to significant vulnerabilities. The COVID-19 pandemic negatively affected the economy. The resultant surge in expenditure to deal with the pandemic and headwinds to fiscal revenues dampened economic activity. Government is implementing a wide range of measures to guarantee fiscal sustainability.

3.2.3 ERSP I supported several important measures. These include: approval of the second PFM Reform Roadmap (2021-2027); development of a strategy for IFMIS, which has been completed and the relevant quality assurance done; and approval of the Public Procurement Bill by Cabinet, which was subsequently submitted to and enacted by Parliament; and adoption of cost recovery measures across six ministries.

3.2.4 ERSP II will sequentially build on the above by supporting a range of additional measures. In the area of improving efficiency of public spending and mitigating fiscal risk, measures include (i) approval of the PFM Bill; (ii) development of an automated appraisal, risk analysis, prioritization, and sequencing methodology for public investment program; and (iii) establishment of the Public Procurement Regulatory Authority (Prior Action), which among others, regulates and controls the public procurement system in Botswana. To help efforts to enhance domestic resource mobilization, the program will support (iv) Cabinet approval of Tax Administration Bill and Income Tax (Amendment) Bill to strengthen the efficiency and effectiveness of tax administration and enhance domestic resource mobilization; and (v) adoption of cost recovery measures across five additional ministries, which include various forms of user fees and service charges to raise revenue for Government.

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

3.2.5 Context: Despite Botswana's economic progress over the decades since independence, the country has experienced minimal export diversification, low productivity, and limited job creation. The state-led growth model pursued by the country, coupled with high dependency on the diamond mining industry has contributed to the limited expansion in the size of the private sector and minimal investments in other critical sectors. GRB is now embarking on wide-ranging reforms to enhance private sector participation in economic activity, particularly Agriculture and Manufacturing.

3.2.6 ERSF I supported a wide range of measures geared towards enhancing agriculture and industrial sector productivity and value addition. These include: (i) issuance of the amended industrial development regulations; and (ii) approval of the P1.3 billion industry support facility and commencement of disbursement. To help improve the enabling environment for private investments, measures supported include: (iii) approval of a Credit Information Bill; (iv) amendment of the FIA Act to amend the definition of beneficial ownership; (v) Cabinet approval of the Energy Policy and Integrated Resource Plan (for electricity generation); and (vi) Cabinet approval of amended industrial development regulations simplifying registration procedures.

3.2.7 ERSF II will build on the above by supporting: (i) approval of the National Policy on Agricultural Development and Transformation, designed to support agricultural sector transformation and enhancing private sector participation in the sector; (ii) approval of the establishment of a meat industry regulator (Prior Action) to enforce standards and regulations and liberalise the economy. Measures related to the enabling environment include: (iii) Cabinet approval of the Non-Bank Financial Institutions Regulatory Authority Bill; (iv) Cabinet approval of the Investment Facilitation Bill; and (v) Cabinet approval of the Moveable Property Bill (Prior Action). Other measures include (vi) adoption of the revised electricity grid code and licensing framework to support entry and development of independent power producers in the power sector; (vii) issuance of PPP Regulations; and (viii) Cabinet approval of the establishment of a Research Fund (Prior Action).

Component 3: Enhancing Resilience and Social Inclusion

3.2.8 Context: Micro, Small and Medium Enterprises (MSMEs) form the backbone of Botswana's domestic private sector as they continue to be an important source of income and job creation. However, their full participation in economic activity is hindered by a range of factors, including lack of access to affordable credit, poor infrastructure, inadequate knowledge and skills and limited market access. Another major challenge for Botswana is how to address poverty and inequality. Despite considerable progress, nearly a fifth of Botswana still live in poverty, and the country has a Gini coefficient of 0.52. The Government is therefore making efforts to enhance social inclusion by improving the efficiency and effectiveness of existing social assistance programs and expanding coverage of social protection programs.

3.2.9 ERSF I supported a wide range of measures including (i) approval of the Botswana Export Development Program (2020-2024); and (ii) roll out of 50 million Pula emergency response fund targeting businesses producing PPEs and products required to fight the COVID-19 pandemic. The program also supported actions including (iii) appointment of Gender Commissioners to deal with women's economic empowerment; (iv) approval of a revamped Women's Economic Empowerment Fund; and (v) roll out of pilot phase of single social registry designed to improve targeting of beneficiaries of social protection schemes increased from 4 to 10 districts.

3.2.10 ERSF II will build on the above by supporting (i) approval of the Technical Vocational Education and Training (TVET) Policy ; (ii) approval of the National Productivity Improvement Blueprint; (iii) Cabinet approval of the Retirement Fund Bill (Prior Action), which allows pension fund members to access funds from their pensions to get loans and also use part of the pension as security for mortgage loans; (iv) full roll out of single social registry (Prior Action), to help deal with the problem of multiple payments to beneficiaries under different welfare programs; and (v) approval of a Gender Equity Bill, to promote the empowerment of women.

3.3 Program Outputs and Expected Results

3.3.1 The table below presents progress achieved on the overall program outputs and expected results (Phases I and II).

Table 2 (a): Progress on Output Targets from the Results Framework

Output	Achievements
Component 1: Improving Fiscal Efficiency and Sustainability	
Approval of a second PFM Reform roadmap for 2021-2027 (ERSP I)	Achieved. The Roadmap was approved in 2021. It, among others, covers the introduction of accrual accounting and measures to improve the efficiency of public investment management. It will run concurrently with the implementation period of the second phase of the NDP 11 and Vision 2036. It will ensure the achievement of priority objectives set out in NDP 11, Vision 2036 and the Sustainable Development Goals (SDGs).
Public Procurement Bill approved by Cabinet (ERSP I)	Achieved. The Bill was approved by Cabinet and later enacted by Parliament. The Act aims at strengthening the public procurement framework and incorporates PPP procurement modalities, among others.
Enhanced cost recovery measures across six ministries adopted (ERSP I)	Achieved. In June 2021, Cabinet approved a set of cost recovery measures relating to user fees and service charges for six ministries. These are: Transport and Communication; Investment, Trade and Industry; Mineral Resources, Green Technology and Energy Security; Infrastructure and Housing Development; and Tertiary Education, Research, Science and Technology. These measures are expected to raise a total of P 420 million annually.
Adoption of cost recovery measures across five additional ministries (ERSP II) -New measure	In progress. Preparations of modalities for cost recovery measures in five additional ministries is currently ongoing and Cabinet approval of the measures is expected by early 2023.
Approval of the PFM Bill (ERSP II)	In progress. Approval of the PFM Bill continues to face delays. A draft was prepared and subjected to a first round of stakeholder consultations. The scope of the Bill is likely to be expanded to include an asset disposal function as this no longer forms part of the Public Procurement Act. Steps are being taken to reconstitute the task team to work on the outstanding activities. Further consultations will follow. The Bill is not expected to be finalized and approved before end 2022.
Develop automated appraisal, risk analysis, prioritization, and sequencing methodology for public investment program (ERSP II)	In progress. Development of automated appraisal, risk analysis, prioritization, and sequencing methodology for public investment program is under way. Enhancements to the Project Monitoring System (DPMS) commenced in November 2020 and the anticipated completion date is March 2023.
Public procurement regulatory authority established (ERSP II)	Achieved. The Public Procurement Regulatory Authority has been established. Board members have been appointed and employees of the former Public Procurement and Asset Disposal Board (PPADB) have been seconded to the Authority. The Authority will regulate and control the public procurement system in Botswana.
Tax Administration Bill approved by Cabinet (ERSP II)	In progress. The Bill is aimed at improving the efficiency and effectiveness of tax administration. The Ministry of Finance has received the draft Bill from Attorney General's Chambers (AGC) and conducted consultations with the private sector at technical level. The next step is to undertake holistic consultations with the Taxation Review Committee (TRC) and thereafter the Bill will be sent to AGC for final drafting. It is expected to be approved by Cabinet by early 2023.
Income Tax (Amendment) Bill approved by Cabinet (ERSP II)	In progress. The Layman's draft of the Bill was sent for drafting on 21 September 2021 and is still awaited. Next step is consultation with the private sector before sending the Bill for final drafting by the AGC and submitting to Cabinet for approval. It is expected to be approved by early 2023.
VAT (Amendment) Bill approved by Cabinet (ERSP II)	In progress. The VAT (Amendment) Bill is under preparation. Further consultations are required. It is expected to be approved by early 2023

Component 2: Private Sector-led Agriculture and Industrial Sector Transformation	
Amended Industrial development Regulations issued (ERSP I)	Achieved. The Industrial Development Regulation was issued in 2021. The Regulations deals with implementation of the provisions of the Industrial Development Act with the aim to improve and simplify the procedures for application and approval of industrial licenses, licenses for new products and licenses for manufacturers.
Approval of the P1.3 billion Industry Support facility and commencement of disbursement (one-third disbursed) - (ERSP I)	Achieved. The facility, created under the COVID19 Pandemic Relief Fund, provided financing to beneficiary entities and helped to reduce job losses as a result of the impact of the pandemic. It was designed to support the Economic Recovery and Transformation Plan and revival of the economy by extending financial support to industry participants.
Approval of a Credit Information Bill (ERSP I)	Achieved. The Credit Information Bill was enacted in 2021. It is aimed at providing for the regulation of the credit reporting system, the licensing and supervision of credit bureaus. It will help to reduce asymmetric information, improve the quality of credit decisions, increase credit growth and reduce defaults.
Amendment of the FIA Act through the Financial Intelligence (Amendment) Bill, 2021 (to amend the definition of “Beneficial Owner”) – (ERSP I)	Achieved. The Bill was passed in 2021. It amended Section 2 of the FIA Act to align the definition of the term “Beneficial Owner” to the international standard as set by the Financial Action Task Force (FATF). The aim was to make provision for Botswana to meet her international obligations regarding the need to keep information or record of “Beneficial Owner” information for purposes of transparency and effective exchange of tax information.
Energy Policy approved by Cabinet (ERSP I)	Achieved. The Policy was approved by Cabinet in 2021. It is intended to guide the management and development of Botswana’s energy sector, particularly the penetration of new and renewable energy sources into the country’s energy mix. This will help Botswana to attain energy self-sufficiency and increased security of supply. The Policy is expected to create a conducive environment to facilitate investment in the energy sector and add value to export revenues, facilitate production in other sectors of the economy and create employment within the energy sector.
Approval of a Revised National Policy on Agriculture Development and Transformation (ERSP II)	In progress. Approval of the National Policy on Agricultural Development and Transformation (Trigger) has experienced delays. A Cabinet memo was drafted and circulated but was later returned to allow for the incorporation of emerging issues and further consultations. It is now expected to be finalised and approved by end March 2023. The policy is aimed at supporting agricultural sector transformation, value addition, and enhancing private sector participation in the sector.
Meat Industry Regulatory Authority Bill approved by Cabinet (ERSP II)	Achieved. The Act will create the legal basis to establish a meat industry regulator and engender competition in the sector. Establishment of a Meat Industry Regulator is a pre-requisite for the Botswana Meat Commission (BMC) to be transformed into a company with improved competitiveness and opening of other market opportunities. This will help to enforce standards and regulations and liberalise the meat industry.
Investment Facilitation Bill approved by Cabinet (ERSP II)	In progress. Processing of the Investment Facilitation Bill for Cabinet approval has faced some delays. The Bill needs to be subjected to regulatory impact assessment and once it meets the required threshold, processing will continue. The Bill is expected to be completed and approved during FY2023/2024.
Approval of the Secured Transactions on Movable Property Bill (ERSP II)	Achieved. The Secured Transactions on Movable Property Bill was enacted by Parliament in February 2022. It provides for the establishment of moveable assets registry to increase secured lending and hence boost private investments.
Adoption of revised electricity grid code and	In progress. The Bank-funded Botswana Renewable Energy Support

licensing framework (ERSP II)	Project is under implementation. The expected deliverables from the Project will include development of an electricity grid code and licensing framework, to be achieved by second half of 2023. If approved, it will support entry and development of Independent Power Producers (IPPs) in the power sector.
PPP Regulations (which entails guarantees and contingent liabilities) issued (ERSP II)	In progress. The drafting of the PPP regulations has been delayed but the Ministry of Finance is working with the Attorney General's Chambers on this issue. The draft PPP regulation is expected to be finalized and approved by early 2023. Further development of the PPP framework could include measures to strengthen climate resilience and transition to a low carbon economy. These gaps will be addressed through the development of PPP Manual/Guidelines to be financed by the recently approved Bank-financed PPP Project.
Cabinet approval of a proposal to establish a research fund (ERSP II) -New	Achieved. In March 2022, Cabinet approved the proposal to establish a research fund and initial steps have been taken to draft the legal instruments for its establishment. This will be in addition to the innovation fund which is already in place. The Ministry of Communication, Knowledge and Technology is in the process of setting up a Research Information Management System and this is expected to go live by September 2022. Furthermore, there are plans to establish a research, science and technology monitoring and evaluation framework.
Component 3: Enhancing Resilience and Social Inclusion	
Botswana Export Development Program (2020-2024) approved by BITC Board (ERSP I)	Achieved. Botswana Export Development Program was approved by the Botswana Investment and Trade Centre (BITC) Board and is currently being implemented. The program is designed to facilitate the participation of local firms in exports through capacity building and export certification and support export diversification
Appointment of Gender Commissioners (ERSP I)	Achieved. The appointment of gender commissioners faced some delays but was finally done in February 2022 and the commission was launched in August 2022. Establishment of Gender structures is ongoing to facilitate gender mainstreaming and strengthen women's economic empowerment. To date, a total of twenty (20) District Gender Committees have been established across the Country.
Revamping and operationalization of the Women's Economic Empowerment Fund (ERSP I)	In progress. The Fund is aimed at enhancing women's access to finance. It will form part of the Women's Economic Empowerment Program, an initiative to help groups of women obtain seed money to start their own income generating projects.
Roll out of pilot phase of single social registry (ERSP I)	Achieved. This is designed to improve targeting of beneficiaries of social protection schemes. It provides for a single social register for all social welfare beneficiaries to allow for single beneficiation per program. It will deal with the problem of multiple payments to beneficiaries under different welfare programs.
Approval of Technical Vocational Education and Training (TVET) policy (ERSP II)	In progress. The draft TVET Policy was prepared and taken to Cabinet and comments (including the need for a costed Action Plan) have been incorporated. The revised draft needs to be presented to a meeting of Accounting Officers (Permanent Secretaries) before being resubmitted for final Cabinet approval by early 2023. .
Approval of National Productivity Improvement Blueprint (ERSP II)	In progress. The Blueprint will provide a holistic approach to improving productivity and competitiveness across all sectors of the economy. Work on development of the Blueprint has commenced with the appointment of Botswana Institute for Development Policy Analysis (BIDPA) as local consultant for conducting situational analysis. Consultations are expected to be completed by early December 2022, paving the way for the development of the policy and strategy by an EU-appointed consultant. The draft Policy and Strategy are expected to be finalized by 31 January 2023. Thereafter, Cabinet approval is expected by February/March 2023.
Approval of amendments to the Retirement Fund Bill (ERSP II)	Achieved. The Retirement Fund Bill was approved by Cabinet in August 2022. It will allow pension fund members to access funds from

	their pensions to get loans and also use part of the pension as security for mortgage loans.
Full roll out of the Single Social Registry (ERSP II)	Achieved. The Single Social Registry was developed and rolled out to the regions. The system has been integrated with other systems such as those for national identity cards, birth and death certificates, etc. Data on beneficiaries has been uploaded and available. While the system worked well in the testing environment, it faced some challenges in the operational phase.
Approval of a Gender Equity Bill (ERSP II)	In progress. The development of the Gender Equity Bill has been halted pending Constitutional Review. Gender Mainstreaming across sectors is implemented through Gender Focal Persons in various Ministries. The challenge is that Focal Persons have their own responsibilities which render them less effective as they perceive this as an add-on to their responsibilities.

Table 2 (b): Progress towards achievement of Outcome Targets from the Results Framework

Indicator	Target	Current status	Comments
Outcome 1:			
Fiscal deficit/GDP ratio	-4.8% (2022/23)	0.0% (2021/22)	Achieved. The country achieved a balanced budget in 2021/22 and a deficit of -3.4% is projected for 2022/23. That will still represent a better performance than the target of -4.8%.
Country Policies and Institutional Assessment (Economic Management score)	5.5 (2022)	5.333 (2021)	No change. The CPIA (yet to be released) remains the same as the baseline. It is expected that improvements will be recorded in the next 1-2 years once the ongoing reforms begin to have an impact.
Outcome 2:			
Private Gross Fixed Capital Formation as share of GDP	27.4% (2023)	27.9% (at 2021 current prices)	Achieved. The current outturn of 27.9% (2021) is higher than the target of 27.4%. It should be clarified that the figure represents total fixed capital formation (both private and public). Unlike when the baseline was set, data provided in the national accounts is no longer split between private and public.
Agriculture value added as % of GDP	2.9% (2023)	1.7% (2021)	Expected to be achieved. This indicator was affected by the rebasing of the economy in July 2021. The 2.9% target for 2023 is expected to be achieved as economic activity picks up and the agriculture sector benefits from more value addition.
Manufacturing value added as % of GDP	7.24% (2023)	5.7% (Q2, 2022)	Expected to be achieved. The latest figure available is from Quarter 2 of 2022. This indicator was affected by the rebasing of the economy in July 2021. The 2019 baseline of 5.24% has been revised to 6.1% in the latest national accounts. The 7.24% target for 2023 is expected to be achieved as economic activity picks up and the manufacturing sector benefits from more value addition.
Outcome 3:			
Domestic credit to the private sector (excluding parastatals) from banks and DFIs as % of GDP	13.5% (2023)	N/A	34.6% (2021 Q4 – commercial bank loans, excluding parastatals).
Targeting of social protection schemes enhanced (% of beneficiaries uploaded to the Single Social Registry)	75.8 (2023)	N/A	Awaiting update on the percentage of beneficiaries uploaded so far.

3.3.2 Assessment of progress in the implementation of ERSP I policy measures shows that 10 out of 12 Output targets have already been achieved. The result of assessment of other Phase I performance measures (outlined in Appendix 4) shows that 7 out of 8 measures are achieved. The overall assessment of progress is therefore satisfactory. Similar high levels of performance are expected when the implementation performance of Phase II of the program is conducted by the end of the current fiscal year on 31 March 2023. At Outcome level, 2 of 7 Outcome targets have already been achieved and 4 others are expected to be achieved at the target date of 31 March 2023.

3.4 Progress on Triggers Outlined in the Previous Operation ERSP I

The Bank's appraisal team undertook an assessment of the progress made by the Botswana authorities towards fulfilment of the agreed triggers, which now become the prior actions for ERSP II. There has been some progress on the set of ERSP I triggers (now prior actions for ERSP II) outlined in the original PAR approved by the Board on 8 September 2021.

Progress on triggers for Component I of ERSP II are summarized below:

3.4.1 PFM bill approved by Cabinet: A draft Bill was prepared and subjected to stakeholder consultations. The scope of the Bill is likely to be expanded to include an asset disposal function. Steps are being taken to reconstitute the task team to work on the outstanding activities. The Bill is planned to be finalised and submitted for Cabinet approval by early 2023. It will continue to be monitored as a performance measure.

3.4.2 Public procurement regulatory authority established: The Public Procurement Regulatory Authority has been established. Employees of the former PPADB have been seconded to the Authority. Board members have been appointed. The Prior Action has therefore been achieved.

3.4.3 Tax Administration Bill approved by Cabinet: The Ministry of Finance has received the draft Tax Administration Bill from Attorney General's Chambers (AGC) and conducted consultations with the private sector at technical level. The next step is to undertake a holistic consultation with the Taxation Review Committee (TRC) and thereafter the Bill will be sent to AGC for final drafting. The bill is expected to be finalised in 2023. It has therefore been converted into a performance measure.

3.4.4 Income Tax (Amendment) Bill approved by Cabinet: The Layman's draft of the Bill was submitted to Attorney General's Chambers. The Ministry of Finance is now waiting to receive the revised draft. This will be followed by consultation with the private sector both at technical level and with the TRC before sending the Bill for final drafting by the AGC. The bill is expected to be finalised in 2023. It has therefore been converted into a performance measure.

Progress on triggers for Component II of ERSP II are summarized below

3.4.5 National Policy on Agriculture Development approved by Cabinet: Approval of the National Policy on Agricultural Development and Transformation (Trigger) has experienced delays. A Cabinet memo was drafted and circulated but was later returned to allow for the incorporation of emerging issues and further consultations. The policy is aimed at supporting agricultural sector transformation and enhancing private sector participation in the sector. This is expected to be finalised for Cabinet approval before end-March 2023. It has therefore been replaced by **Meat Industry Regulatory Authority Bill approved by Cabinet**, which provides the legal basis to establish a meat industry regulator. The Prior Action has therefore been achieved

3.4.6 Investment Facilitation Law approved by Cabinet: Processing of the Investment Facilitation Bill for Cabinet approval has faced some delays. The Bill needs to be subjected to regulatory impact assessment and once it meets the required threshold, processing will continue. The Bill is expected to

be completed and approved during the FY2023/2024. The trigger will continue to be monitored as a performic measure and has been replaced by ***approval of the Movable Property Bill***. The Bill was approved by Cabinet and later enacted by Parliament in February 2022. It provides for the establishment of moveable assets registry to increase secured lending and hence boost private investments. The Prior Action has therefore been achieved.

3.4.7 PPP Regulations/Guidelines (which entails guarantees and contingent liabilities) issued: The drafting of the PPP regulations has faced delays but the draft has now been circulated for comments. The process is expected to be finalised in early 2023. Complementary PPP support to be provided through a MIC Grant will include the development of PPP Manual/Guidelines including measures to strengthen climate resilience and transition to a low carbon economy. The Trigger has therefore been replaced by ***Cabinet approval of Research Fund Bill***, which will facilitate resource mobilization to finance research. The Prior Action has therefore been achieved.

Progress on triggers for Component III of ERSP II are summarized below

3.4.8 Approval of Technical Vocational Education and Training (TVET) policy: The draft TVET Policy was prepared and taken to Cabinet and comments have been incorporated. However, the approval process is expected to be finalised by early 2023. It has therefore been replaced by a ***Cabinet approval of Retirement Fund Bill***, which allows pension fund members to use their pensions to secure mortgage loans. The Prior Action has therefore been achieved.

3.4.9 Full roll out of the Single Social Registry: The Single Social Registry was developed and rolled out to the regions. The system has been integrated with other systems such as those for national identity cards, birth and death certificates, etc. Data on beneficiaries has been uploaded and available. While the system worked well in the testing environment, it faced major challenges in the operational phase. This Prior Action has therefore been achieved.

3.5 Policy Dialogue:

3.5.1 The updated program policy matrix (Appendix III) will continue to provide the basis for policy dialogue and will focus on the need to: (a) deepen fiscal consolidation to strengthen domestic resource mobilization and efficiency in public spending; (b) accelerate the implementation the economic diversification program for job creation. The focus will be on promoting reforms in areas such as PPP, SME and value chain development to accelerate private investment in priority sectors such as agriculture and manufacturing; (c) pursue reforms to transform the agriculture and industrial sectors, as part of post-COVID-19 economic recovery efforts. The ongoing technical assistance projects for economic diversification, Zambezi Agro-Commercial Development, renewable energy procurement program and recently approved Public Private Partnership project are critical for the delivery of the operation. RDGS continues to be constantly engaged in policy dialogue with the Authorities through regular missions (both physical and virtual). The views of non-state actors (including the private sector and civil society) will continue to be important in shaping the focus of the policy dialogue. The Bank will therefore continue to engage them throughout the implementation phase.

3.6 Loan Conditions

3.6.1 **Prior Actions for 2022/23:** Policy measures/actions identified in the original appraisal report of ERSP as indicative triggers for phase II of the operation, as well as the measures/actions which were finally agreed with the Government as the prior actions for ERSP II, required before Board presentation of this Streamlined Appraisal Report, are presented in Table 3 below.

Table 3: ERSP II Prior Actions and Required Evidence for 2022			
Objective	Original Triggers	Prior Action Retained/Reasons for Modification/Status	Evidence Required
Component 1: Improving Fiscal Efficiency and Sustainability			
Objective 1.1: Improving the efficiency of public spending and mitigating fiscal risk	Trigger 1: PFM bill approved by Cabinet	<ul style="list-style-type: none"> Protracted consultations have led to delays in finalising the PFM Bill for Cabinet approval. It is expected to be achieved by early 2023. It has been transformed into a performance measure and will continue to be monitored as part of continuous policy dialogue. 	
	Trigger 2: Public procurement regulatory authority established	Prior Action 1: Public procurement regulatory authority established <ul style="list-style-type: none"> No change Status: Achieved 	(a) Letter from the Ministry of Finance confirming the establishment of the Authority, appointment of Board members;(b) copy of the relevant establishment Act and Commencement Order.
Objective 1.2: Enhancing domestic resource mobilization	Trigger 3: Tax Administration Bill approved by Cabinet	<ul style="list-style-type: none"> Protracted consultations have led to delays in finalising the Bill for Cabinet approval. It is expected to be achieved in July 2023. It has been transformed into a performance measure and will continue to be monitored as part of continuous policy dialogue. 	
	Trigger 4: Income Tax (Amendment) Bill approved by Cabinet	<ul style="list-style-type: none"> This Bill and the Tax Administration Bill are being processed together. It is expected to be achieved in July 2023. It has been transformed into a performance measure and will continue to be monitored as part of continuous policy dialogue. 	
Component 2: Private sector-led Agriculture and Industrial Sector Transformation			
Objective 2.1: Enhancing agriculture, tourism and industrial sector productivity and value addition	Trigger 5: National Policy on Agriculture Development approved by Cabinet	Prior Action 2: Botswana Meat Industry Regulatory Authority Bill approved by Cabinet. <ul style="list-style-type: none"> Approval of the National Policy on Agriculture Development has faced delays. It has been replaced by the Meat Industry Regulatory Authority Bill which will create the legal basis to establish a meat industry regulator. Status: Achieved 	Copy of the gazetted Bill.
Objective 2.2 Improving the enabling environment for private investments	Trigger 6: Investment Facilitation Law approved by Cabinet	Prior Action 3: Movable Property (Security Interests) Bill/Act approved by Cabinet <ul style="list-style-type: none"> Protracted consultations have led to delays in finalising the Investment Facilitation Bill for Cabinet approval. The Trigger is not expected to be achieved before end of 2022 and has therefore been replaced by an equally significant measure which is the Moveable Property Bill. This provides for the establishment of moveable assets registry to increase secured lending and hence boost private investments Status: Achieved 	Copy of the gazetted Bill or Act
	Trigger 7: PPP Regulations/Guidelin	Prior Action 4: Establishment of Research Fund approved by Cabinet	Letter from the Ministry of Finance, confirming Cabinet

	es issued	<ul style="list-style-type: none"> • Draft PPP Regulations have been prepared and circulated for comments but will only be finalized for approval by February 2023. The Trigger has therefore been converted to a performance measure. • It has been replaced by Cabinet approval of the Research Fund Bill, which will enable resource mobilization for research purposes. • Status: Achieved 	Decision/Presidential Directive establishing the Fund
Component 3: Enhancing Resilience and Social Inclusion			
Objective 3.1: Improving the MSME development framework and capacity	Trigger 8: Approval of Technical Vocational Education and Training (TVET) policy	Prior Action 5: Retirement Fund Bill/Act approved by Cabinet <ul style="list-style-type: none"> • Approval of the TVET Policy has faced delays. • It is therefore replaced by Cabinet approval of the Retirement Fund Bill, which allows pension fund members to use their pensions to secure mortgage loans. • Status: Achieved 	Copy of the gazetted Bill or Act
Objective 3.2: Enhancing Social protection and gender empowerment	Trigger 9: Full roll out of the Single Social Registry	Prior Action 6: Full roll out of the Single Social Registry <ul style="list-style-type: none"> • No change • Status: Achieved 	Letter from the Ministry of Finance confirming the full roll out of the single social registry.

3.7 Application of Good Practice Principles on Conditionality

3.7.1 The design of the ERSP is in line with good practice principles on conditionality. The reform policy matrix is fully owned by GRB. This is reflected in its policy reform program as encapsulated in the Letter of Development Policy (Appendix I). The proposed operation was designed in line with GRB's reform program, and the prior actions and indicative triggers are derived from the Government's development program. Adequate steps have been taken to ensure harmonization with development partners' programs and operations in Botswana. Details of compliance with Good Practice Principles of Conditionality are outlined in Technical Annex 2.

	FY2021/22	FY2022/23	FY2023/24
	Preliminary Outturn	Projection	Projection
Total revenue and grants (A)	68.45	71.56	78.99
<i>Of which: grants (excl. budget support)</i>	<i>0.03</i>	<i>0.22</i>	<i>0.22</i>
Total expenditure and net lending (B)	68.46	79.24	79.15
<i>Of which: interest payments</i>	<i>1.16</i>	<i>1.74</i>	<i>1.97</i>
<i>Of which: capital expenditure</i>	<i>11.82</i>	<i>16.43</i>	<i>14.74</i>
Overall balance (cash basis) (C=A - B)	-0.01	-7.69	-0.16
Accumulation of arrears (D)			
Overall balance (commitment basis) (E=C - D)	-0.01	-7.69	-0.16
External financing (net minus WB, JICA, OPEC AfDB PBO) (F)	-0.91	-3.14	-1.73
World Bank (G)	2.83	2.01	0
JICA (H)	0.00	1.34	
OPEC (I)	0.00	1.34	
AfDB PBO (ERSP) (J)	1.58	2.41	0.00
Domestic financing (net) (K)	3.10	2.98	-0.01
IMF Transactions (L)	-0.13	-0.25	-0.08
Other Financing (M)	0.80	-0.01	-0.01
Change in Cash Balances (N; minus denotes an increase)	-7.26	1.01	1.99
Financing (O= F+G+H+I+J+K+L+M+N)	0.01	7.69	0.16
Financing gap/surplus (E+O)	0.00	0.00	0.00

Sources: Ministry of Finance, September 2022; and Bank staff calculations.

3.8 Financing Needs and Arrangements

3.8.1 The Government's financing needs for 2021/22 to 2023/24 and the Bank Group contribution for the period, are presented in table 5 below. The proposed operation is part of the external financing to help close the 2022-2023 financing gap. The Government estimates the budget deficits for the fiscal

years 2022/23 and 2023/24 at P7.69 billion, and P0.16 billion, respectively (Table 5) and at -3.2% and -0.1% as percentage of GDP respectively. The total deficit over the two-year period (2022/23 – 2023/24) is P7.85 billion. For 2022/23, the government plans to finance the nominal deficit with the World Bank, JICA, OPEC and AfDB budget support of P7.09 billion, while the balance will be financed sources such as the domestic market and cash balances.

IV. OPERATION IMPLEMENTATION

4.1 Beneficiaries of the Program

4.1.1 The program’s direct beneficiaries are the various Ministries, Departments and Agencies whose reforms are being supported by the operation. These are the Ministry of Finance; Ministry of Minerals and Energy; Ministry of Agriculture; Ministry of Education and Skills Development; Ministry of Trade and Industry; Ministry of Youth, Gender, Sports and Culture; Ministry of Local Government and Rural Development; Ministry of Communication, Knowledge and Technology; Botswana Unified Revenue Services; and the Public Enterprise Evaluation and Privatization Agency (PEEPA). The private sector will benefit from improved investment opportunities in agriculture and manufacturing. As well as PPP opportunities. The MSMEs will benefit from improved policy framework and access to affordable finance, markets, and business skills, as the economy recovers from the negative impact of the COVID-19 pandemic. Ultimately, the program will indirectly benefit all Batswana as enhanced fiscal performance will help to expand fiscal space for development and pro-poor social spending. On account of pre-existing gender-based inequalities, youth and women will likely have experienced more difficulty during the pandemic. The program will help to address some of these challenges.

4.2 Implementation, Monitoring and Evaluation

4.2.1 *Implementation Institutional Framework:* The Ministry of Finance will continue to serve as the executing agency for ERSP II. It will be responsible for the overall coordination of the program, by working closely with other Ministries, Departments and Agencies. The Bank continues to provide capacity building support through MIC-TAF Grants, to complement ongoing support by other Development Partners to further enhance implementation and delivery capacity. Examples are the Zambezi Integrated Agro-commercial Development Project; Support to Economic Diversification Technical Assistance Project; and the recently approved PPP Capacity Strengthening Project.

4.2.2 *Monitoring and Evaluation Arrangements:* The Operations Policy Matrix (Appendix V) agreed between the Botswana Authorities and the Bank, as well as the quantitative and qualitative indicators outlined in the Results Framework, will continue to constitute the instruments for monitoring and evaluation of the operation. The Ministry of Finance, with the support of Statistics Botswana and other relevant Ministries, Departments and Agencies, will be responsible for collecting data and coordinating monitoring and evaluation. As was the case under Phase 1, the Bank will continue to monitor the implementation of the Program through regular supervision missions and constant follow-ups, to assess progress achieved based on the agreed indicators and policy measures. The Southern Africa Regional Development and Business Delivery Office (RDGS) will continue to play a critical role in follow-up of implementation and monitoring of program results and, in particular, drive the policy dialogue with Government and maintain regular consultations with Development Partners. Following completion of the operation, a Program Completion Report (PCR) will be prepared, to evaluate progress against the Results Framework and draw lessons for future operations.

4.3 Financial Management, Disbursement and Reporting Arrangements

4.3.1 The Ministry of Finance will continue to play a central role in the financial management of the program, including overseeing the drawdowns, planning for the use of funds, related controls, reporting as well as arrangements for oversight. The loan proceeds will be credited to the Government

Remittance Account in the Bank of Botswana by GRB. The funds will be transferred to the Consolidated Fund converted into Pula in one tranche and used to finance budgeted expenditures. GRB will be required to acknowledge receipt of the funds within 30 days of receipt, and to provide confirmation to the Bank that an amount equivalent to the loan proceeds in local currency has been credited to the Remittance Account, with resources recorded in its Government Accounting and Budgeting System.

4.3.2 The program will rely on the external audit of the Government by the Auditor General and GRB will be required to share a copy of the full audit report of the consolidated fund for the years in which the disbursements take place, no later than nine months after the end of the financial year. In addition, the flow of funds into the Remittance Account will be subject to a separate audit, by the Auditor General in accordance with a Bank approved Terms of Reference, and the audit report will be submitted to the Bank within six months after disbursement.

4.4 Procurement

4.4.1 The Borrower Procurement System will be used for all procurements undertaken using the program funds, in line with the Bank's policy on PBOs. Significant progress has been recorded in public procurement reform. Key among them is the enactment of the Public Procurement Bill, which substantially addressed the deficiencies identified in the 2001 Act. Some of the changes include (i) serving as the sole procurement law in Botswana; (ii) incorporating PPP; (iii) establishment of Regulatory Authority; and (iv) providing for sustainable/Green procurement, among others. Procurement risk is assessed as Moderate.

4.5 Impact on Gender, Poor, and Vulnerable groups: The operation is classified as Category III on the Gender Marker System. The programme envisages policy reforms and actions that will positively influence gender equality and women empowerment involved in SME's. In addition, the Component 3, *Enhancing Economic and Social Inclusion*, will continue to support the social protection system, targeting the poor and the vulnerable population in Botswana. Detailed Gender Assessment is presented in Annex 10.

4.6 Environmental and Social Compliance: The ERSP is classified as Category 3, in accordance with the requirements stipulated in the Bank's Integrated Safeguards System (ISS) and Botswana's Environmental Assessment Act of 2011. The program's activities focus on institutional and policy reforms and are limited to measures aimed at enhancing the country's economic recovery through fiscal sustainability, resilience, industrial and agricultural transformation, and inclusion. The Government is expected to ensure that the program's category is maintained throughout implementation. Furthermore, GRB is committed to environmental protection, socio-economic and sustainable development as articulated in various Environmental Protection Legislations. The Environment and Social Compliance Note is presented in Appendix VII.

4.7 Climate change: Using the Bank's Climate Safeguard System (CSS), the program, due to its nature, is classified as a category 3 operation. GRB continues to pursue sustainable development and is fully committed to the 2030 Agenda for Sustainable Development, its principles, goals, and targets. It has put in place a legal framework and mechanisms to protect, conserve, and derive values out of natural and cultural resources; as well as promote sustainable environment for the benefit of the nation. The agriculture and industrial sector reforms supported under the program will enable investments in clean and environmentally friendly technology and build the agriculture and food system resilience. Meanwhile, the program supports the energy sector development. Cost reflectivity framework supported will also promote the development of renewable energy generation capacity and therefore support Botswana's Nationally Determined Contributions (2016) enablers. Furthermore, the program will lay the foundation for the development of climate-smart PPP enablers in Botswana to enhance

private sector participation in green technology and climate-smart skills development. The program will contribute to Botswana's transition to low-carbon economic recovery. It is therefore aligned with the Bank Climate Change and Green Growth Policy and Strategy 2021-2030. Technical Annex 11 presents a detailed assessment.

4.8 Vulnerability and Resilience: The COVID19 pandemic has negatively impacted investment and job creation which contributed to overall vulnerability in Botswana. Continued reliance on mining has also exposed Botswana to external shocks such as geographical and climatic pressures. Prolonged dry spells, pest and weed infestations, and rising food and input costs (fertilizers and fuel) have reduced the production of main cereals in the country and exacerbated vulnerability. The impact of these multiple shocks has left an estimated 36,977 people vulnerable to food and nutrition insecurity. The Government is implementing wide ranging reforms to enhance economic performance and strengthen social protection. The Bank's Botswana Country Resilience and Fragility Assessment (CRFA) indicates that improving fiscal efficiency and sustainability will help to enhance macroeconomic performance.

V. LEGAL DOCUMENTATION AND AUTHORITY

5.1 Legal Documentation

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

5.2 Conditions Associated with the Bank's Intervention

5.2.1 *Conditions Precedent to Entry into Force of the Loan Agreement:* The entry into force of the Loan Agreement shall be subject to the fulfilment by the Borrower of the provisions of Section 12.01 of the General Conditions Applicable to African Development Bank Loan Agreements and Guarantee Agreements (Sovereign Entities).

5.2.2 *Prior Actions:* Before the proposed operation is presented to the Board, GRB shall have provided evidence, satisfactory in form and substance to the Bank, that the prior actions for the ERSP II outlined in Table 3 have been fully fulfilled.

5.2.3 *Conditions precedent to disbursement of the single tranche of the Loan:* Disbursement of the loan amount of USD 179,660,000 shall be conditional upon the entry into force of the Loan Agreement, and the submission to the Bank of the details of the Government Remittance Account in the Bank of Botswana for the deposit of the proceeds of the Loan, in form and substance satisfactory to the Bank.

5.3 Compliance with Bank Group Policies

5.3.1 The ERSP II complies with all applicable Bank Group policies and guidelines. The key Bank Group Guidelines and policies applied to this Program are the following: (i) Bank Policy on Program-Based Operations (2012), (ii) the Bank Group Ten-Year Strategy (2013-2022); (iii) the Governance Strategic Framework and Action Plan and its successor Strategy for Economic Governance in Africa (SEGA, 2021-2025), (iv) the Revised Staff Guidance on Quality-at-Entry Criteria and Standards for Public Sector Operations, (v) the Private Sector Development Strategy, (vi) Industrialization Strategy, (vii) Feed Africa Strategy; and (viii) Guidelines on Product and Pricing for MICs (2009); and Bank Group's Credit Policy on non-concessional financing.

VI. RISK MANAGEMENT

6.1 The risks and mitigation measures of the program are presented in table 5 below.

Risk category	Risk Description	Rating	Mitigation measures	Risk owner
Macroeconomic stability	Botswana's vulnerability to external shocks remains a major source of risk. This has been heightened by the COVID19 pandemic and the ongoing Russia's invasion of Ukraine. ¹⁰	Substantial	Continue implementing reforms designed to contain the fiscal deficit and enhance efficiency in public spending and address structural challenges.	Ministry of Finance
Fiduciary and value for money	The Country Fiduciary Risk Assessment (CFRA) conducted by the Bank for Botswana in 2020 indicates that the overall residual risk level is deemed "Substantial" taking into account the risk mitigation factors.	Substantial	Continue implementation of the PFM reforms roadmap including accounting, cash management, and public procurement through rolling out the new legislations such as the PFM Bill, and Public Procurement Bill.	Ministry of Finance
Social impact	In the context of the economic recovery and transformation program being implemented by GRB since 2020, there are potential risks that structural reforms and their impact on poor and disadvantage group could be exacerbated by the revenue shortfall related to the COVID-19 pandemic and the ongoing Russia's invasion of Ukraine. ¹¹ .	Moderate	Continue to ring-fence pro-poor spending and strengthen the national social protection framework and implementation plan.	Ministry of Local Government, and Ministry of Gender Affairs

VII. RECOMMENDATION

7.1 Management recommends that the Board of Directors approve an ADB loan not exceeding One Hundred and seventy-nine Million, six hundred and sixty thousand United States Dollars (USD 179,660,000) to the Republic of Botswana, for the fiscal year 2022/23 for the purposes, and subject to the conditions, stipulated in this report. Management invites the Board to note that this operation is the second phase of a 2-year programmatic series, covering the fiscal years 2021/22-2022/23.

¹⁰ Agreed wording at the African Development Bank Annual Meetings 2022 in Ghana - Algeria, China, Egypt and South Africa entered a reservation and proposed "Russia-Ukraine Conflict.

¹¹ Agreed wording at the African Development Bank Annual Meetings 2022 in Ghana - Algeria, China, Egypt and South Africa entered a reservation and proposed "Russia-Ukraine Conflict.

APPENDIX I: LETTER OF DEVELOPMENT POLICY

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MINISTRY OF FINANCE AND ECONOMIC
DEVELOPMENT
PRIVATE BAG 008
GABORONE

REF: MFED 4/12/4 Vol. 161

15th June, 2021

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

Dear President Adesina,

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

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

Botswana's Medium-Term Development Goals

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

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

The health, social and economic impact of COVID-19

Health impact

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

Economic impact

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

Fiscal impact

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

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

Proposed Reform Agenda

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

Improving Fiscal Efficiency and Sustainability

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

Supporting Private sector-led Agriculture, and Industrial Sector Transformation

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

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

Enhancing Economic and Social Inclusion

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

Conclusion

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

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

Yours sincerely,



Peggy O. Serame

MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT

APPENDIX II: BOTSWANA: RELATIONS WITH IMF

Press Release: IMF Executive Board Concludes 2022 Article IV Consultation with Botswana

July 27, 2022

Washington, DC: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Botswana and endorsed the staff appraisal without a meeting on a lapse-of-time basis.

A successful vaccination campaign, prudent macroeconomic management, and strong demand for diamonds have allowed Botswana to recover to its pre-pandemic output level. The economy grew by 11.4 percent in 2021. Fiscal and current account deficits both narrowed sharply, and foreign reserves stabilized. Inflation, however, exceeded the central bank's medium-term 3–6 percent objective range, while unemployment rose close to record highs. To combat rising inflation, the Bank of Botswana raised the newly introduced Monetary Policy Rate (MOPR) by a combined 101 basis points in April and June 2022.

Growth is projected at about 4¼ percent in 2022 and 4 percent per annum through the medium term. Relatively low fiscal buffers and continued reliance on mining expose Botswana to external shocks, such as geopolitical and climate shocks. The outlook depends on the course of the war in Ukraine, the pandemic, and implementation of fiscal consolidation and economic diversification plans. With inflation projected at 11 percent in 2022, additional monetary tightening will be required. In addition, some fiscal support may be needed to cushion the most vulnerable households from the effects of rising global inflation. Accelerated implementation of the “Reset Agenda” should help to diversify the economy towards financial services (facilitated by fintech), manufacturing, and tourism. This will also help create the jobs needed to reduce unemployment and absorb the 35,000 annual labor market entrants.

Executive Board Assessment

Botswana's economy is one of the few in sub-Saharan Africa where output has recovered to its pre-COVID level. This performance has been underpinned by careful management of mineral resources and a track record of very strong policies and policy frameworks.

The recovery is expected to continue through the medium term, but there is significant uncertainty. Growth will be supported by higher prices and demand for diamonds, increased copper production, prospects for a good harvest, less COVID-19 mobility restrictions, and more international tourist arrivals. These factors and a strong fiscal adjustment will strengthen buffers, particularly those held by the government. Downside risks to this outlook relate to the strength of commodity markets, China's growth, the pace of tightening of monetary policy in advanced economies, and climate shocks.

Despite the positive outlook, Botswana faces difficult challenges. Unemployment has risen close to historic highs, and poverty and inequality have worsened following the COVID-19 pandemic. With inflation above the central bank's objective range, providing support to the most vulnerable through the government social programs remains a priority in the near term. In this context, improving the targeting of social programs will reduce leakages. Over the medium term, a sustained reduction in poverty and inequality will require further progress on diversification and digitalization reforms as well as moving away from inward-looking policies such as import restrictions.

Implementing the planned medium-term fiscal consolidation will rebuild buffers and financial

assets for future generations. The consolidation plan will achieve fiscal surplus over the medium term and rebuild the Government Investment Account to shield the economy against shocks and build an asset base. Successful implementation of the plan will require institutional fiscal reform, including to adopt a public wage formation framework, anchor fiscal policy in a credible medium-term fiscal framework, and formalize a new fiscal rule in National Development Plan 12. Joint ventures of identified SOEs with private sectors and efforts to close the tax gap should proceed as planned. In addition, greater transparency and accountability in spending is needed to help catalyze public support for fiscal reform and revenue collection. Public investment efficiency and the quality of public procurement need to improve to help create fiscal space.

Bringing inflation back within the Bank of Botswana's objective range will require additional monetary tightening. In the absence of further tightening, the broad-based rise in inflation risks de-anchoring inflation expectations and requiring even sharper tightening later with negative effects on growth. The newly created monetary policy rate will over time enhance monetary policy transmission and implementation. Strengthened monitoring and communication would help to limit risks of volatility in interbank rates and disruptive capital flows. Lifting the restrictions on the current prime lending rate in due course would contribute to the efficiency of financial intermediation and financial access.

The external position is broadly in line with fundamentals and desirable policies. Fiscal consolidation and higher diamond exports should strengthen the current account and support reserves accumulation. Looking forward, maintaining the current crawl rate would be appropriate as domestic interest rates rise. In addition, continuing to allow flexibility within the current exchange rate regime should help the economy adjust to shocks and facilitate structural transformation.

A successful implementation of the Reset Agenda will enhance Botswana's resilience and ensure sustained high-job rich growth. Implementation of the plan will diversify the economy towards financial services (facilitated by fintech), manufacturing, and tourism, and transform Botswana into a high-income status as per Vision 2036. Reforms should include enhancing accountability, competition, and governance, deepening trade integration, and a faster energy transition. Undue reliance on import substitution and restrictions to promote industrialization could be counterproductive.

It is expected that the next Article IV consultation with Botswana will be held on the standard 12-month cycle.

APPENDIX III: BOTSWANA ERSF I & II: UPDATED POLICY MATRIX

Medium term policy objectives	Policy measures (2021/22)	Policy measures (2022/23)	Outcomes (Monitoring indicators)	CSP goals to which the program is contributing
Component 1: Improving Fiscal Efficiency and Sustainability				
Objective 1.1: Improving the efficiency of public spending and mitigating fiscal risk	Approval of a second PFM Reform roadmap for 2021-2027	Approval of the PFM bill	Reduction of the fiscal deficit (fiscal deficit/GDP ratio)	Pillar 2: Private Sector Development
	Public debt management procedures manual which details, process for borrowing, reporting	Publication of annual debt management report		
Development of a Strategy for the Integration of Financial Management Information Systems	Develop automated appraisal, risk analysis, prioritization, and sequencing methodology for public investment program			
Revised Public Procurement Bill approved by Cabinet (Prior Action)	Develop a fiscal risk framework			
Objective 1.2: Enhancing domestic resource mobilization	Adoption of cost recovery measures across six ministries (following an earlier batch of ministries in 2020) (Prior Action)	Approval of the procurement regulations		
		Public procurement regulatory authority established (Prior Action) Procurement tribunal established Develop the implementation plan for E-procurement system.		
		Tax Administration Bill approved by Cabinet		
		Income Tax (Amendment) Bill approved by Cabinet		
		VAT (Amendment) Bill approved by Cabinet		
		Development and implementation of a revenue forecasting model for BURS		
		Adoption of electronic billing solution for VAT collection purposes		
		Additional cost recovery measures across 5 ministries adopted		
Component 2: Private sector-led Agriculture and Industrial Sector Transformation				
Objective 2.1 Enhancing agriculture, tourism and industrial sector productivity and value addition	Amended Industrial development Regulations issued	Approval of a National Policy on Agriculture Development	Real sector and financial sector contribution to GDP	Pillar 2: Private Sector Development
	Approval of the P1.3 billion Industry Support facility and commencement of disbursement (one-third disbursed) (Prior Action)	Meat Industry Regulatory Authority Bill approved by Cabinet (Prior Action)		
	Approval of the Economic Diversification Drive Strategy	Establishment of a meat industry regulator to enforce standards and regulations, and liberalise the industry		
		Botswana Meat Commission restructured to allow for private sector participation		
		Cabinet approval to establish a research fund (Prior Action)		
Objective 2.2	Approval of a Credit Information Bill (Prior	Approval of the Non-Bank Financial Institutions Regulatory		

Improving the enabling environment for private investments	Action) Amendment of the FIA Act through the Financial Intelligence (Amendment) Bill, 2021 (to amend the definition of “Beneficial Owner”) (Prior Action) Collective Investment Undertakings Act Approved by Cabinet	Authority Bill 2021 Investment Facilitation Law approved by Cabinet Approval of the Movable Property Bill (Prior Action) Approval of the Bank of Botswana Act, and the Banking Act		
	Integrated Resource Plan (for electricity generation) Energy Policy: (Prior Action) Intellectual Property Policy approved by Cabinet (Prior Action) Trade Regulation issued SOE Rationalization Strategy approved	Adoption of revised electricity grid code and licensing framework to support entry and development of Independent Power Producer (IPP) in the power sector Adoption of tariff migration (for cost reflectivity) plan informed by the cost-of-service study PPP Regulations/Guidelines (which entails guarantees and contingent liabilities) issued Extension of the 2 nd privatization masterplan approved by Cabinet Approval of SOE Ownership Policy Botswana Trade Commission (Amendment) Bill approved by Cabinet		
Component 3: Enhancing Resilience and Social Inclusion				
Objective 3.1: Improving the MSME development framework and capacity	Botswana Export Development Program (2020-2024) approved by BITC Board (Prior Action) 50 million Pula emergency response fund rolled out by CEDA National Informal Sector Recovery Plan Adopted	Approval of Technical Vocational Education and Training (TVET) policy Approval of National Productivity Improvement Blueprint Approval of National Policy on Research, Science, Technology, and Innovation (RSTI) Framework to strengthen business development services to up-skill MSMEs and start-ups, and to promote entrepreneurship	Contribute to inclusive economic growth through demand driven skills, MSME & entrepreneurship development for increased job creation	Pillar 2: Private Sector Development
Objective 3.2 Enhancing Social protection and gender empowerment	Appointment of Gender Commissioners Approval of a revamped Women’s Economic Empowerment Fund Roll out of pilot phase of single social registry increased from 4 to 10 districts (Prior Action)	Approval of the National Poverty Eradication Policy Approval of the Retirement Fund Bill (Prior Action) Full roll out of the Single Social Registry (Prior Action) Full roll out of national integrated single registry linking all payment systems to the integrated single registry and in-house payment processes (e.g. SOBERS) and roll out of Proxy Means Testing (PMT) Approval of a Gender Equity Bill.		

APPENDIX IV: PERFORMANCE MEASURES

Performance Measures	
Measure	Status
Component 1: Improving Fiscal Efficiency and Sustainability	
PFM Bill (ERSP II)	In progress. A draft Bill was prepared and subjected for stakeholder consultations. This is still ongoing. It is expected to be finalized and approved in 2023.
Tax Administration Bill (ERSP II)	In progress. The Ministry of Finance has received the draft Tax Administration Bill from Attorney General's Chambers (AGC) and conducted consultations with the private sector at technical level. Wider consultations are still ongoing. It is likely to be finalized and approved in 2023.
Income Tax (Amendment) Bill	In progress. The Layman's draft of the Bill was sent for drafting on 21 September 2021. The Ministry of Finance is now waiting to receive the revised draft, after which it will be circulated for wider consultations. It is likely to be finalized and approved in 2023.
Public debt management procedures manual which details process for borrowing, reporting (ERSP I)	Achieved. The public debt management procedures manual spells out the process for borrowing and reporting.
Development of a Strategy for the Integration of Financial Management Information Systems (ERSP I)	Achieved. This has been completed and the relevant quality assurance done.
Publication of annual debt management report (ERSP II)	In progress. Preparation of the debt bulletin is currently underway.
Develop a fiscal risk framework (ERSP II)	Achieved. The fiscal risk paper was prepared as part of the annual budget preparation process. However, the scope is limited to government revenues and expenditure and does not include PPP and SOE related fiscal risks
Approval of the procurement regulations (ERSP II)	In progress. The draft Public Procurement Regulations have been prepared and submitted to the Attorney General's Office. This is expected to be finalized by November 2022.
Procurement tribunal established (ERSP II)	Achieved. The public procurement tribunal has been established
Develop the implementation plan for E-procurement system (ERSP II)	Achieved. An implementation plan for e-procurement has been developed. A team has been put in place to work on the procurement business processes re-engineering. Situational analysis and validation have already been done. However, the e-procurement system is dependent on the upgrade of the government accounting and budgeting system, which is expected to be completed by December 2022.
Development and implementation of a revenue forecasting model for BURS (ERSP II)	In progress. Preparations for the development of the revenue forecasting model for BURS are still at preliminary stage. This is expected to be achieved by the end of the 2022/2023 financial year. BURS is in talks with the IMF AFRITAC to support the exercise.
Adoption of electronic billing solution for VAT collection purposes (ERSP II)	In progress. In view of the complexity of the implementation of an electronic billing solution, BURS has decided to undertake a feasibility study for its adoption. The study will be informed by a benchmarking exercise. BURS has also initiated the process of recruiting a consultant to help develop an electronic billing solution for VAT collection purposes. The aim is to commence roll out and technical implementation during the 2023/24 financial year.
Component 2: Private Sector-led Agriculture and Industrial Sector Transformation	
Approval of the Economic Diversification Drive Strategy (ERSP I)	In progress. Approval of the Economic Diversification Drive Strategy was delayed due to the difficulty of undertaking consultations during the COVID-19 restrictions. The strategy is now expected to be finalized and approved by November 2022.
Collective Investment Undertakings Act Approved by Cabinet (ERSP I)	Achieved. Cabinet has approved the Collective Investment Undertakings Bill, which was subsequently passed by Parliament during the July/August 2021 session. The Act commenced on 28 February 2022.

Investment Facilitation Bill (ERSP II)	In progress. Processing of the Investment Facilitation Bill for Cabinet approval has faced some delays. The Bill needs to be subjected to regulatory impact assessment and once it meets the required threshold, processing will continue. The Bill is expected to be completed and approved during the FY2023/2024.
Approval of the Non-Bank Financial Institutions Regulatory Authority Bill 2021(ERSP II)	In progress. The second draft of the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) Bill, which includes industry comments, was received on 8th August 2022. Final instructions are expected to be incorporated, and the Bill will be circulated to Ministries for comments before submission for Cabinet consideration by November 2022. If enacted, the Bill will help to improve the regulatory framework for non-bank financial institutions in Botswana.
Integrated Resource Plan (for electricity generation) approved. (ERSP I)	Achieved. The IRP will support green technology projects and enable the country to meet the national electricity demand at least cost and in an environmentally responsible manner through private sector participation in the sector. The Government has begun the implementation process. The Ministry of Minerals and Energy is currently reviewing the IRP to identify and fast-track additional Renewable Energy projects with a view to increasing the target of 15% Renewable Energy in the energy mix to 30% by 2030 from the current 2.4%.
SOE Rationalization Strategy approved (ERSP I)	Achieved. The SOE Rationalization Strategy was approved by Cabinet in December 2021. It is aimed at the rationalization of SOEs as part of public sector reforms to promote efficiency and cost savings in delivery of public services.
Botswana Meat Commission restructured (ERSP II)	In progress. The BMC Transition Act, which was passed 2 years ago, has become effective in 2022 in line with government commitment to remove BMC's export monopoly, and promote private sector participation in beef export.
Approval of the Bank of Botswana Act, and the Banking Act (ERSP II)	Achieved. The Bank of Botswana Bill was approved by Cabinet in 2021 and subsequently passed by Parliament in July 2022. However, consultations on the Banking Bill are still in progress. The Bill is yet to be cleared by Cabinet.
Adoption of tariff migration (for cost reflectivity) plan informed by the cost-of-service study (ERSP II)	In progress. The Bank-funded Botswana Renewable Energy Support Project is under implementation. The expected deliverables from the Project will include a cost-of-service study, to be achieved by second half of 2023. BPC has recently submitted a tariff review application to BERA following a two-year tariff freeze. The review process will be concluded by March 2023.
Extension of the 2nd privatization masterplan approved by Cabinet (ERSP II)	In progress. The extension of the second privatization masterplan has been delayed, given the need to align it with NDP 12.
Issuance of PPP Regulations (ERSP II)	In progress. The drafting of the PPP Regulations has faced delays, but the draft has now been circulated for comments. The process is unlikely to be finalised in 2023.
Approval of SOE Ownership Policy (ERSP II)	In progress. The Botswana Institute for Development Policy Analysis (BIDPA) was recently appointed to help develop the State-Owned Enterprises (SOE) Ownership Policy. Cabinet approval is expected by October 2022.
Botswana Trade Commission (Amendment) Bill approved by Cabinet (ERSP II)	In progress. The second draft of the Botswana Trade Commission (Amendment) Bill was ready on 3rd August 2022. Discussions with AG's Chambers was held on 8th August to discuss gaps identified. The aim is to finalise the Bill for presentation to the November 2022 sitting of Parliament.
Approval of National Policy on Research, Science, Technology, and Innovation (RSTI) Policy (ERSP II)	In progress. The 2011 Policy on Research, Science, Technology and Innovation is undergoing review. Consultations were delayed by the COVID19 pandemic and are now expected to be completed by December 2022 and Cabinet approval expected in 2023.

Component 3: Enhancing Resilience and Social Inclusion	
50 million Pula emergency response fund rolled out by CEDA (ERSP I)	Achieved. The emergency response fund rolled out by the Citizen Entrepreneurial Development Agency (CEDA) also continues to have an impact, with several MSMEs benefiting from the relief program. It targeted businesses producing PPEs and products required to fight the COVID-19 pandemic.
National Informal Sector Recovery Plan Adopted (ERSP I)	Achieved. The Plan was approved and launched in 2021. The plan provided a mechanism for the informal sector businesses to respond to the effects of COVID-19 pandemic. It provided for the development of sustainable measures to overcome similar shocks by addressing the challenges facing the informal sector. It rests on two strategic goals, namely (i) Establishment of Informal Sector Facilitation Structures; and (ii) Economic Revitalization of the Informal Sector.
Approval of the National Poverty Eradication Policy (ERSP II)	In progress. Approval of the National Poverty Eradication Policy has been halted pending constitutional review.
Full roll out of national integrated single registry linking all payment systems to the integrated single registry and in-house payment processes (e.g. SOBERS) and roll out of Proxy Means Testing (PMT) (ERSP II)	In progress. Work on linking the single social registry with the payment systems is ongoing. Creating the right interface is challenging but is expected to be achieved. A Cabinet memo on proxy means testing has also been prepared and submitted to Cabinet. Approval is expected by early November 2022. Its implementation will help to bring consistency in the way beneficiaries are registered in the system

APPENDIX V: MONITORING AND EVALUATION ARRANGEMENTS

A. Alignment indicators							
Indicator name	Definition/ description	Source		Baseline and targets (where possible)			
Agriculture, tourism, and industrial sector contribution to GDP	The share of GDP coming from the agriculture, tourism and industrial sectors	National Accounts					
Employment creation	Number of new jobs created during the programme period	Statistics Botswana Reports					
B. Outcome and output indicators (performance indicators)							
Indicator name	Definition/ description	Methodology for collection	Responsibility for collection	Frequency of reporting	Results planning		
					DATE 1	DATE 2	
OUTCOME INDICATORS							
1.1: Fiscal deficit/ GDP ratio	Fiscal deficit expressed as percentage of GDP	MOF/IMF Reports	MOF	Half-yearly	15 June 2023	15 Dec 2023	
1.2: Country Policies and Institutional Assessment (Economic Management score)	Economic management performance	CPIA	AfDB	Annual	15 Dec 2023	-	
2.1: Private Gross Fixed Capital Formation as share of GDP	Proxy for private investment in the country's total output	National Accounts	Statistics Botswana	Half-yearly	15 June 2023	15 Dec 2023	
2.2: Agriculture value added as % of GDP	Production or manufacturing processes, marketing or services that increase the value of primary agricultural commodities, expressed as percentage of GDP	National Accounts	Statistics Botswana	Annual	15 Dec 2023	-	
2.3: Manufacturing value added as % of GDP	The total estimate of net-output of all resident manufacturing activity expressed as percentage of GDP	National Accounts	Statistics Botswana	Annual	15 Dec 2023	-	
3.1: Domestic credit to the private sector (excluding parastatals) as % of GDP	Measure of lending to the private sector expressed as percentage of GDP	Bank of Botswana reports	Bank of Botswana	Annual	15 Dec 2023	-	
3.2: Targeting of Social protection schemes enhanced (% of beneficiaries uploaded to the single social registry)	Data on social protection schemes uploaded to the Single Social Registry	Ministry of Labour and Social Protection reports	Ministry of Labour and Social Protection	Annually	15 Dec 2023	-	
OUTPUT INDICATORS							
1.1.1: PFM Bill approved by Cabinet	Cabinet approves Bill addressing current gaps in existing PFM legislation	Copy of the approved Bill	MOF	One-off	15 December 2022		
1.1.2 Automated appraisal, risk analysis, prioritization and sequencing methodology for public investment program developed	Methodology developed to improve public investment management	Copy of the approved methodology document	MOF	One-off	15 December 2022	-	
1.1.3: Public Procurement Regulatory Authority established	The Authority is operationalised and staffed	Letter from the Ministry of Finance	MOF	One-off	11 November 2022	-	

1.2.1: Tax Administration Bill approved by Cabinet	Amendment of legislation to modernize tax administration and increase efficiency of tax collection	Revised Bill	MOF	One-off	15 February 2023	-	
1.2.2: Income Tax (Amendment) Bill approved by Cabinet	Amendments of tax legislation to enhance domestic revenue mobilization	Revised Bill	MOF	One-off	15 February 2023		
1.2.3 Cost recovery measures across five ministries adopted	A range of measures to aimed at cost recovery and hence boosting government revenue	Policy document	MOF	One-off	15 February 2023		
2.1.1: Revised National Policy on Agriculture Development and Transformation approved by Cabinet	Revision of the 1991 Policy to address emerging issues such as climate change, youth unemployment and gender	Revised Policy	Ministry of Agriculture	One-off	15 February 2023	-	
2.1.2: Meat industry regulatory authority Bill approved by Cabinet	Provide the basis to establish a regulatory body for the meat sector	Gazette	Ministry of Agriculture	One-off	11 November 2022	-	
2.2.1: Proposal to establish a research fund approved by Cabinet	Approval of the proposal which will help to raise funding for research and contribute to enhancing economic competitiveness	Policy document	Ministry of Communication, Knowledge and Technology	One-off	11 November 2022	-	
2.3.1: Investment Facilitation Bill approved by Cabinet	Approval of the Bill which is expected to help attract more private investments in Botswana	Copy of the approved Bill	Ministry of Trade and Industry	One-off	15 June 2023	-	
2.3.2 Movable Property Bill approved by Cabinet	Approval of the Bill providing for the establishment of moveable asset registry to increase secured lending	Copy of the approved Bill	Ministry of Finance	One-off	11 November 2022	-	
2.3.3 PPP Regulations issued	Issuance of the Regulations following enactment of the Public Procurement Bill which addressed PPPs	Copy of Gazette	Ministry of Finance	One-off	15 February 2023	-	
2.3.4 Revised electricity grid code and licensing framework approved	Approval of the framework which will help to attract private investments in the electricity sector	Copy of the approved framework	Ministry of Minerals and Energy	One-off	15 June 2023	-	
3.1.1: Technical Vocational Education and Training Policy approved by Cabinet	Approval of the Policy to help improve the quality of tertiary and vocational training and address the skills mismatch	Policy document	Ministry of Education and Skills Development	One-off	15 February 2023	-	
3.1.2: National Productivity Blueprint approved by Cabinet	Approval of the blueprint aimed at enhancing productivity	Copy of the blueprint	Ministry of Education and Skills Development	One-off	15 February 2023	-	
3.2.1: Retirement Fund Bill approved by Cabinet	Approval of the Bill providing for retired workers	Copy of the approved Bill	Ministry of Local Government and Rural Development	One-off	11 November 2022	-	
3.2.2: Single social registry rolled out	Roll out of the registry which will help to capture information on the needy, facilitate efficient management of social programmes to improve targeting of beneficiaries and hence contribute to attaining	Progress reports	Ministry of Local Government and Rural Development	One-off	11 November 2022	-	

	sustainability.						
3.2.3 Gender Equity Bill approved by Cabinet	Approval of the Bill to improve empowerment of women	Copy of the approved Bill	Ministry of Youth, Gender, Sports and Culture	One-off	15 June 2023		

APPENDIX VI: ENVIRONMENT AND SOCIAL COMPLIANCE NOTE

A. Basic Information¹²

Project Title: Botswana Economic Recovery Support Program -Phase II		Project "SAP code": P-BW-K00-005	
Country: Botswana	Lending Instrument¹³: DI <input type="checkbox"/> FI <input type="checkbox"/> CL <input type="checkbox"/> BS <input checked="" type="checkbox"/> GU <input type="checkbox"/> RPA <input type="checkbox"/> EF <input type="checkbox"/> RBF <input type="checkbox"/>		
Project Sector: Economic Governance		Task Team Leader: Baboucarr KOMA	
Appraisal date: 8-15 August 2022		Estimated Approval Date: 23 November, 2022	
Environmental Safeguards Officer:			
Social Safeguards Officer: Daniel Ouma OGOL			
Environmental and Social Category: 3	Date of categorization: 18/10/2022	Operation type: SO <input checked="" type="checkbox"/> NSO <input type="checkbox"/> PBO <input type="checkbox"/>	
Is this project processed under rapid responses to crises and emergencies?		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
Is this project processed under a waiver to the Integrated Safeguards System?		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	

B. Disclosure and Compliance Monitoring

B.1 Mandatory disclosure

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

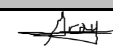

B.2. Compliance monitoring indicators

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

C. Clearance

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

Yes No

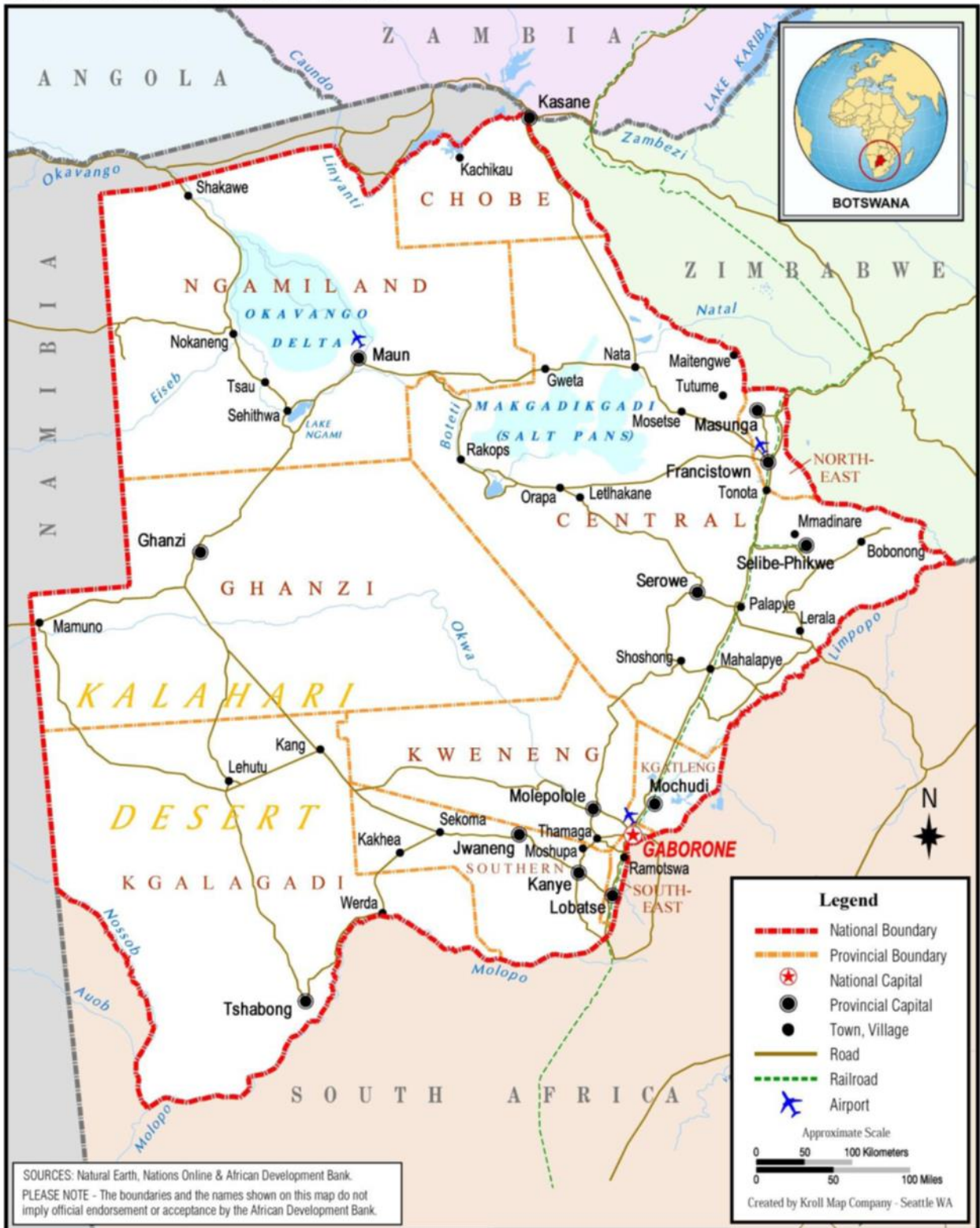
1. Prepared by:	Name	Signature	Date
Environmental Safeguards Officer:	xxxx		
Social Safeguards Officer:	Daniel Ouma OGOL		19/10/2022
Task Team Leader:	Baboucarr KOMA		19/10/2022
Submitted by:			
Sector Director:	Abdoulaye Coulibaly		19/10/2022
Cleared by:			
Director SNSC:	Maman-Sani ISSA		19/10/2022

¹² Note: This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.

¹³ DI=Direct Investment; FI=Financial Intermediary; CL=Corporate Loan; BS=Budget Support; GU=Guarantee; RPA=Risk Participation Agreement; EF=Equity Financing; RBF=Results Based Financing.

APPENDIX VII: MAP OF THE REPUBLIC OF BOTSWANA

GENERAL MAP OF BOTSWANA



SOURCES: Natural Earth, Nations Online & African Development Bank.
 PLEASE NOTE - The boundaries and the names shown on this map do not imply official endorsement or acceptance by the African Development Bank.

Legend

- National Boundary
- Provincial Boundary
- National Capital
- Provincial Capital
- Town, Village
- Road
- Railroad
- Airport

Approximate Scale
 0 50 100 Kilometers
 0 50 100 Miles

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