





# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 10-Mar-2022 | Report No: PIDC33690



**BASIC INFORMATION**

**A. Basic Project Data**

Country Botswana	Project ID P176810	Project Name Botswana Programmatic Economic Resilience and Green Recovery Development Policy Loan II (P176810)	Parent Project ID (if any) P175934
Region AFRICA EAST	Estimated Board Date May 25, 2022	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Republic of Botswana	Implementing Agency Ministry of Finance and Economic Development		

**Proposed Development Objective(s)**

The program development objectives (PDO) of this DPF are: (1) to support the Government’s response to the COVID-19 pandemic and an inclusive recovery; (2) to strengthen private sector development; and (3) to promote a resilient, green recovery. These PDOs lay the foundation for Botswana’s transition to a private sector-led economy, paving the way for more diversified, inclusive growth and enhanced resilience to climate change.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	150.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	150.00
World Bank Lending	150.00

**Decision**

The review did authorize the preparation to continue

**B. Introduction and Context**

- 1. Botswana’s diamond-led growth model has shown its limitations in recent years.** Since independence, Botswana has historically enjoyed strong and stable growth, driven by the discovery and sound administration of the world’s largest diamond deposits. In this context, real Gross Domestic Product (GDP) per capita grew almost five times



faster than the global average until the 2009 Global Financial Crisis (GFC), and it currently stands at US\$6,700, placing Botswana among upper middle-income countries since 2004. However, the economy remains poorly diversified and vulnerable to swings in the global demand for diamonds. As a result, GDP growth slowed down over the last years preceding the COVID-19 pandemic, averaging 2.4 percent over 2015-19. Parallely, job creation has been too slow to absorb a young and growing labor force, with the unemployment rate reaching 21.9 percent in 2019. Against this backdrop, poverty reduction is projected to have stalled, and inequality remains one of the highest globally. At the same time, increased diamond market volatility, reduced Southern African Customs Union (SACU) transfers, and fiscal expansion have eroded fiscal buffers.

2. **The COVID-19 pandemic has further exposed the economy’s structural challenges, urging reforms to avoid a reversal of past progress in poverty reduction.** The pandemic hit Botswana at a time when the limitations of its diamond-driven growth model had become more visible, particularly the inability to diversify beyond non-tradeable goods and services. The shock to the diamond industry was a key contributor to the 8.5 percent contraction in 2020. Existing buffers cushioned the impact on the economy, but the fiscal space provided by the Government Investment Account (GIA) is now largely depleted. The persistence of the pandemic throughout 2021 has also had a lasting impact on some sectors such as tourism —Botswana’s most important service export— threatening economic diversification and jobs. Nowcasted poverty levels have risen and are expected to remain above their 2019 level until 2022. Botswana is thus entering the post-COVID-19 era on a weaker footing, with a looming sense of urgency to transition towards a more diversified and inclusive growth model that is also more resilient against shocks.
3. **Notwithstanding these challenges, Botswana’s macroeconomic framework is assessed as adequate.** The medium-term growth outlook is broadly favorable as the global pandemic and travel restrictions ease, driven by a higher than anticipated diamond sector recovery, expanding domestic demand, and progress on structural reforms. Growth started to recover in 2021 and is forecast to average 5 percent over the medium term, supported by the acceleration of structural reforms under the ERTF to boost private sector development and economic diversification. A credible commitment to medium-term fiscal consolidation is critical to underpin the recovery, maintain macroeconomic stability, and rebuild fiscal space for social and development spending. This operation will support these efforts, helping sustain a stable macroeconomic framework and promoting inclusive growth. Debt remains low and is assessed to be sustainable over the medium term despite higher financing requirements driven by largely depleted fiscal buffers. The monetary authority is expected to maintain price stability and the exchange rate peg effectively. External buffers are set to remain strong, with international reserves projected to stay at a comfortable level over the medium term.

#### Relationship to CPF

4. **The proposed DPF supports the World Bank Group’s strategic focus to promote private sector-led, job-intensive growth and effective resource management, as highlighted in the Country Partnership Framework (CPF).** The Board of Executive Directors approved the FY2016/20 CPF (Report No. 97931-BW) in October 2015 and extended it in 2019 through FY21, following a Performance and Learning Review (PLR; Report No. 134105-BW). The new CPF will be prepared in FY23, drawing on a Systematic Country Diagnostic (SCD) update and a Country Private Sector Diagnostic (CPSD) due this fiscal year. During FY22, a period not formally covered by the CPF, WB engagement has continued implementing the former CPF strategic areas alongside this programmatic DPF series. The reforms supported by the proposed operation address urgent challenges identified in WBG strategic documents and enhance the Government’s ability to deliver vital structural reforms at a critical juncture of its development trajectory. It is directly linked to the objectives outlined in the WBG Botswana CPF PLR for FY19-21



under Pillar 1 (Promoting private sector-led, jobs-intensive growth) and Pillar 3 (Supporting effective resource management). In particular, the proposed reforms align with CPF Objectives 1.1 and 1.2, which aim to address key constraints to the development of the non-diamond sector and promote private sector growth; and with CPF Objective 3.1, which seeks to improve the efficiency and effectiveness of Botswana's social protection system.

### C. Proposed Development Objective(s)

- 5. The proposed second operation (DPO 2) deepens and extends the reforms achieved as prior actions for the first operation (DPO 1).** The substance of the proposed DPO 2 remains consistent with the program design presented under the DPO 1 and its prior actions link directly to the indicative triggers established under the first operation. The program development objectives (PDOs) of this DPF are: (1) to support the Government's response to the COVID-19 pandemic and an inclusive recovery; (2) to strengthen private sector development; and (3) to promote a resilient, green recovery. These PDOs lay the foundation for Botswana's transition to a private sector-led economy, paving the way for more diversified, inclusive growth and enhanced resilience to climate change. The DPF's first pillar supports efforts to strengthen the provision of relief from the COVID-19 pandemic, creating added resilience to future shocks. The pillar also seeks to make electricity more accessible to low-income households, supporting a more inclusive recovery benefiting all Botswana. Actions under the second pillar underpin two interlinked objectives: promoting the development of the private sector through entrepreneurship and improving SME access to finance, increasing financial inclusion. The actions proposed under the third pillar support Botswana's NDC and CCP commitments and a financially sound power sector, speeding up the transition to renewable energies.

#### Key Results

- 6. This DPF supports the Government's homegrown agenda to promote economic resilience and green recovery.** Reforms under Pillar 1 improve the targeting of social spending and strengthen the system for future shocks. They also support the Government in its plan to achieve universal access to electricity, promoting a more inclusive recovery. Actions under Pillar 2 will improve access to finance for micro, small and medium enterprises (MSMEs) and support an improved credit environment, promoting private sector growth and job creation. Reforms under Pillar 3 are expected to accelerate Botswana's transition to a green economy through increased renewable energy capacity, a more financially sound power sector, and more stringent environmental impact assessments. The Government has made good progress in implementing the DPF-supported reforms, and achieved substantial results under the DPO 1.

### D. Concept Description

- 7. This operation is the second in a programmatic DPF series, the first budget support loan the Government of Botswana requested from the World Bank.** At the root of the request was the economic crisis from the COVID-19 pandemic, which drained available resources, creating elevated financing needs and pressure to accelerate the economic diversification agenda. For the World Bank, this crisis has provided an opportunity to deepen the policy dialogue on various issues, supporting Botswana's economic diversification, notably reforms in enabling sectors such as energy, which suffers from electricity supply constraints. It has also provided an opportunity to engage productively on resilience, inclusion, and several other reforms that subsequent operations may support. Following the first operation approved in June 2021, this second operation further strengthens the dialogue on addressing the country's binding policy and institutional constraints over the medium term.



- 8. This DPF aligns closely with the government’s response to the COVID-19 pandemic, as well as the NDP 11, Vision 2036, and the ERTF.** In the ERTF, the Government has committed to pursuing a diversified and inclusive export-led growth strategy while strengthening Botswana’s response to climate change as a basis for renewed, sustainable growth. The DPF supports several elements of this strategy: (i) SME development, (ii) investing in infrastructure, and (iii) building resilience. The DPF’s prior actions draw on the authorities’ reform priorities, supported by the World Bank’s analytical engagement in these areas.

## E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

### Poverty and Social Impacts

- 9. Overall, the policy measures and institutional reforms supported under the proposed DPF are likely to have poverty-reducing effects.** Potentially substantial positive poverty impacts are expected from improving social programs’ efficiency and effectiveness through better targeting, an essential step for response to future shocks. Measures aimed at promoting private sector development through better MSME access to credit financing and removing regulatory barriers to starting a business, will also support labor market inclusion as MSMEs are often important motors of job creation. In addition, measures that help reduce climatic risks by promoting renewable energies and reducing energy inefficiencies are expected to reduce poverty in the long run, as the poor tend to be more vulnerable to climatic and environmental shocks.

### Environmental, Forests, and Other Natural Resource Aspects

- 10. The operation supports several actions that are likely to have a positive environmental impact; however, some could have negative implications but they can be mitigated.** Measures under Pillar 3 will positively impact the environment by reducing greenhouse gas (GHG) emissions. On the other hand, measures aimed at stimulating private sector activity may contribute to adverse environmental impacts due to increased demand for natural resources. The anticipated negative environmental effects can be mitigated through strengthening private sector involvement in the energy sector and rising IPP’s energy contributions from renewable energy sources under National Energy Policy (2020) and the Rooftop Solar Program adopted by the Ministry of Mineral Resources, Green Technology and Energy Security, both policies supported by this programmatic series. Increased access to financing for MSMEs is likely to contribute to negative impacts on Botswana’s environmental and natural resources due to many MSMEs’ lack of awareness of their activities’ environmental impacts and challenges faced in pursuing green growth opportunities. SME business plans will incorporate environmental and social considerations to mitigate potential adverse environmental effects, and environmental and safety (E&S) capacity-building activities will be prioritized. Standard ERMPs and Environmental Codes of Best Practices (COPs) for the management of environmental and safety (E&S) risks in SMEs will be developed for activities not falling under Schedules 1 and 3 of Environmental Assessment Regulations (Cap 65:07), which determine the activities requiring environmental assessment.

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**APPROVAL**

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