



COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN BOTSWANA

A Diamond in the Rough:
Toward a New Strategy for Diversification
and Private Sector Growth

Executive Summary

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EXECUTIVE SUMMARY

In many ways Botswana is a development paradox. Botswana stands out among countries in Africa for its successful development policy, economic performance, and long track record of macroeconomic stability. Successive governments used the country's considerable diamond and mineral wealth to drive significant investments in infrastructure, education, health, and social protection, which resulted in its graduation to upper-middle-income status in 2004. However, the rapid growth during the first decades after independence that lifted most Botswana out of poverty still left the country with high inequality and subpar human capital indicators compared with peers.

Diamonds have been at the center of Botswana's growth miracle for decades—but the urgency to diversify is stronger than ever. The world's second-largest producer of diamonds, Botswana remains almost fully dependent on diamonds for its exports. Today, the contribution of minerals to government revenue hovers at about 30 percent, but the forward outlook is uncertain. DeBeers' market power, which somewhat insulates prices against market shocks, has not been able to fully protect the Botswana economy, which saw an 8 percent contraction of gross domestic product (GDP) in 2009 following the global financial crisis and an 8.5 percent contraction in 2020 during the COVID-19 pandemic.¹ Although diamond demand has been recovering during 2021 and 2022, the prospects for the industry remain volatile, underscoring the need to move away from diamond dependency and putting a greater urgency on the diversification reform agenda.

Although Botswana's economy has undergone transformation over the past decades, the shift has been largely into nontradable services, with limited gains in employment, income equality, and export diversification. Revenues from diamond production and exports provided the main impetus to the development of the nontradables sector. The services sector now is the largest contributor to GDP in Botswana, with public administration and defense (18.5 percent), wholesale and retail (11.6 percent), and construction (11.3 percent) the most important subsectors. At the same time, the agricultural sector's contribution to GDP has declined significantly over the years to about 1.9 percent in 2019. The sector remains dominated by subsistence farming, which leaves many rural households excluded from the mining boom. Manufacturing has not picked up either—contributing only about 6.6 percent to GDP in 2019 and serving mostly the domestic market. As a result, the export base has remained undiversified, with diamonds accounting for nearly 90 percent of exports while productivity is low and job creation is limited. Inequality remains high (a Gini coefficient of 0.53) and Botswana's Human Capital Index is low for an upper-middle-income country (UMIC) (at 0.41). In 2019, Botswana's poverty headcount, measured at the UMIC rate of US\$5.50/day, reached 57 percent, reflecting limited job creation.

The limitations of Botswana’s public investment and diamond-reliant growth model were made apparent during the COVID-19 crisis. Despite strong fiscal buffers, the crisis brought to the fore, both the high risk of continuing to rely on public investment to drive growth in the context of future fiscal vulnerabilities as well as the vulnerability of growth to declining external balances, mainly owing to lack of export diversification. The pandemic amplified those challenges and caused a sharp GDP contraction, among the strongest in Sub-Saharan Africa, a widening in the current account deficit, and the biggest jump in the unemployment rate over the past 35 years.

In addition, Botswana’s high vulnerability to climate change, which affects all major sectors of the economy, underscores the need to strengthen the country’s response to climate factors as a basis for renewed, sustainable growth. Botswana ranked 94th out of 181 countries in the 2020 Notre Dame Global Adaptation Initiative Index, which measures a country’s political, geographic, and social factors to assess vulnerability to climate change, as well as its readiness to improve resiliency. Agriculture, which is mostly rainfed, is especially vulnerable to drought. The higher frequency and intensity of extreme droughts and floods threaten crops and livestock and consequently food security, employment (one-fifth of which is concentrated in the agricultural sector), and poverty rates. The water sector, which is already struggling to meet demand, is expected to see a decline in water quality and availability. Botswana’s successful low-volume, high-cost tourism model depends on water-based wildlife endowments, especially in the Okavango Delta, which is projected to have a decrease in stream flows. At the same time, the energy sector will be transformed by climate-change mitigation requirements and related policies that call for a more sustainable and efficient energy mix while at the same time adapting to the impacts of emerging changes in climate and weather.

The current context provides Botswana with an opportunity for a paradigm shift—to redirect the economy to a more resilient, green, and diversified growth model. The gradual sunset of diamonds, volatile global conditions due to the COVID-19 pandemic, and the impending effects of climate change have placed the Botswana economy at a crossroads. This CPSD argues for a new strategy that puts the foundations for a greener and more sustainable growth model at its core, making diversification an outcome rather than a starting point. This strategy would focus on leveraging and protecting Botswana’s natural resource endowments and driving new investment in high-potential sectors such as tourism to lay the groundwork for green competitiveness and growth. Meeting those goals would start with policies that tackle underlying and cross-cutting constraints, especially those that foster competition in sectors dominated by state-owned enterprises (SOEs) and harness private sector participation to foster transitions to sustainability, efficiency, and affordability of key enabling sectors such as energy and water. The government should reduce the state’s presence and influence in sectors that are fully competitive, creating markets with competitive neutrality. This will create markets that encourage the entry and growth of new firms and the participation of domestic and foreign investors. These actions would be buttressed by policies to facilitate trade in environmental goods and services and reduce gaps in infrastructure, skills, and access to finance that hinder employment and productivity growth in firms. The government’s Economic Recovery and Transformation Plan, valued at approximately 7.8 percent of GDP, supports this transition with its climate agenda aimed at reducing Botswana’s dependence on carbon-intensive sectors, enhancing electricity generation capacity, and strengthening climate resilience.

A positive growth outlook and steps taken as part of the COVID-19 crisis response should give the government new impetus to accelerate reforms. Botswana entered the pandemic with larger buffers than most countries, but the depletion of those buffers and constraints in revenue collection dampened the government's ability to accelerate much needed structural reforms. In 2021, an increased demand for diamonds, an expansionary fiscal stance, and the lifting of mobility restrictions led to a strong GDP growth of 11.4 percent,² which was complemented by robust agricultural production, given improving rains.³ This growth should give the government the fiscal space to accelerate much needed structural reforms and to execute on a strategy to redirect the economy to a more resilient, green, and diversified growth model. However, this strong rebound also risks diminishing the momentum to undertake necessary reforms. Botswana should seize the moment to address the longstanding and difficult issues around competitive markets, SOE governance and performance, quality of infrastructure, and inefficiencies in sectors that enable private sector growth such as water, energy, and digital. Tackling these reforms can underpin the government's vision of green, diversified, and private sector-led growth.

Success in diversifying the economy will depend on the decisive implementation of structural measures to increase private sector participation in nonmineral exports and transformative sectors. Despite government efforts in the past, a move from diamond dependency has not been achieved. Instead, current policies favor declining activities over emerging ones, import substitution over exports, and manufacturing and agriculture over services. Both in relative and absolute terms, Botswana has failed to attract significant foreign direct investment (FDI) outside extractives, and few of Botswana's current export products provide an obvious platform for further diversification. At the same time, the complexity of services exports has increased, indicating further growth opportunities in the tourism and financial services sectors and underscoring the potential of nonmineral exports and transformative sectors (including digital, green, and climate adaptation technologies). Regional market integration, taking advantage of Botswana's membership in the Southern African Development Community, the Southern African Customs Union, and the Africa Continental Free Trade Agreement (AfCFTA), can play an important role in developing regional value chains opportunities in sectors such as tourism, energy, and livestock to create jobs and incomes for communities, with Botswana acting as a hub to link these markets.

The private sector's growth is undermined, however, by constraints that limit its ability to drive economic activity, generate jobs, and successfully compete in markets. Key cross-cutting constraints identified through consultations held with experts, private sector stakeholders, and development partners are as follows: (a) the impact of SOE presence, and lack of competition, on private participation in commercial sectors; (b) gaps in infrastructure, access to finance, and skills that constrain employment and productivity growth; and (c) the unrealized opportunity for facilitation of trade in environmental goods and services that support economic diversification and resilience.

The dominant role that the government of Botswana still plays in large parts of the economy, both through direct ownership of SOEs as well minority ownership in firms that lead in important sectors, is a critical constraint that inhibits the entry and success of private sector participants. Limited competition is driven especially by (a) distortions owing to the state's participation in markets in which contestability is the norm in other countries, particularly related to the large presence and preferential treatment of some SOEs in those sectors; (b) regulatory barriers to market entry and the growth of new competitor firms; and (c) lack of effective competition rules and limited enforcement. As of 2019, the government had ownership participation of 10 percent or more in at least 92 companies across 16 sectors, which is relatively high with respect to the economy's size.⁴ Companies with state participation are large market players in the economy, accounting for about 5 percent of total formal employment and with collective revenues that surpass 25 percent of GDP. Seven out of every 10 companies with state participation identified in Botswana operate in competitive sectors⁵ (that is, those that are not natural monopolies or highly regulated in other countries), which are often viable for the private sector to operate in and where there is no clear rationale for state ownership.⁶ Furthermore, the legal framework governing SOEs is fragmented, with multiple laws containing conflicting and outdated requirements, adversely affecting SOE viability, compliance, and accountability. The government has been working to improve the SOE legal framework, improve governance and profitability of SOEs, and reduce the presence of SOEs in competitive sectors, but much remains to be done. The government should commit to and prioritize addressing issues in the competitive environment. The competition framework should be updated to (a) emphasize the subsidiarity role of the state, so its presence is assessed through an economic rationale, (b) spell out more strongly the competitive neutrality principles to ensure that SOEs are subject to the same discipline and enforced in similar terms as their private peers, and (c) strengthen the power and capability of the competition agency to review and abolish current regulations that create barriers to entry to the private sector (e.g., FDI caps in competitive sectors). Once appropriate governance and regulatory mechanisms are in place they should be followed by firm-level SOE reforms and improvements.

Gaps in infrastructure, access to finance, and skills are additional key constraints to employment and productivity growth. Despite relatively high public investment spending, Botswana's quality of infrastructure has fallen, significantly lagging structural peers. Though Botswana performed better than UMIC averages up to 2010, more recent indicators of infrastructure quality in the Global Competitiveness Index suggest significant bottlenecks, particularly in access to railways and electricity supply. Increased private participation in roadway, rail, and air infrastructure and improved governance of SOEs are important ways to improve infrastructure spending efficiency. Inclusion of SOEs in the public-private partnership law, preparation of a dedicated investment policy and investment law, and improving the investment dispute system are all ways to increase foreign investment. In addition, access to finance for micro, small, and medium enterprises (MSMEs) remains challenging. Although financial inclusion on an individual level is higher than the regional average (51 percent of Botswana adults have a formal bank account versus the regional median of 40.5 percent), access to finance for firms, and particularly MSMEs, is limited. The MSME financing gap is estimated at 19 percent of GDP, indicating a large unmet demand in the market. A coordinated approach to financing entrepreneurship and policies to increase uptake

of digital finance could help close the access to finance gap. Also, despite Botswana's high spending on education, skills mismatches are a key constraint to employment and productivity growth. Enterprises surveyed are largely unsatisfied with the skills found in the labor market. In the short term, the government can assist firms trying to fill these skills gaps with labor from abroad by streamlining the cumbersome processes firms face when obtaining employment permits for foreigners. In addition to financing and skills support, the growth and productivity of small and medium enterprises (SMEs) will rely on improved management capabilities, technology adoption, and entrepreneurial capacity.

Trade barriers are another key cross-cutting constraint for the private sector, and a greener path for the economy could be unlocked by facilitating improved trade in environmental goods and services (EGS). Botswana has relatively high costs for EGS despite its high potential for using EGS such as solar and other environmental technologies in energy production and in other sectors such as tourism. Tariff and nontariff trade barriers undermine imports of EGS. Preferential access agreements raise the costs of imported inputs for Botswana exports. For example, Southern African Development Community rules of origin are relatively complicated to administer and to reach because they often follow a line-by-line approach with rules devised for a specific product or sector. For example, Southern African Development Community rules of origin are relatively complicated to administer and to reach because they often follow a line-by-line approach with rules devised for a specific product or sector. Similarly, high tariffs on imported goods, and import licenses, raise the cost of manufacturing products dependent on imported inputs.⁷ Beyond EGS, trade barriers affect all exporting sectors. For example, a 2016 United Nations Conference on Trade and Development (UNCTAD) report documents that Botswana systematically underperformed in all service exports in comparison with the rest of the world despite its high potential for trade in services. Restrictions placed on foreign investors by Botswana's National Trade Policy, such as limits on foreign-owned capital, hinder the commercialization of some services. To improve trade in EGS and other sectors, the government should strengthen standards and certifications systems to raise the competitiveness of Botswana exporters.

In addition to cross-cutting constraints, the CPSD investigates the potential for a greater private sector role in three key sectors: energy, water and sanitation, and tourism. The energy and water sectors are enabling sectors necessary to increase productivity and competitiveness of other sectors, while reducing the costs of public services. All three sectors relate to upgrading the economy with greener and more future-oriented modes of production. This in turn supports diversification and upgrading of the economy with greener and more future-oriented modes of production. Five criteria, reflecting those priorities, were used to select these sectors for deeper assessments: (a) feasibility of attracting investment into the sector in the next three to five years; (b) potential to support enhanced competitiveness and productivity; (c) contribution to economic growth and diversification; (d) potential to contribute toward equity, social inclusion, and jobs; and (e) contribution to sustainability and greening of the economy. In addition, the sector selection considers the feasibility of expected sector reforms, the ability for the CPSD to add value, and an overall fit with strategic priorities for the country.

Energy is a growing industry in Botswana with tremendous potential and importance as an input to other industries. Because of steady population and GDP growth, overall power demand in Botswana has been on the rise and is expected to further grow by 4 percent per year over the next decade. At the same time, the country is facing diminished generation capacity, forcing the national power utility Botswana Power Corporation (BPC) to increase its energy imports with more than 50 percent of Botswana's power requirements being imported from South Africa and Zambia. This increase in energy imports has resulted in high import costs and operational inefficiencies that have affected BPC's financial performance, which in turn is affecting consumer tariffs and draining public finance resources. At the same time, key growth industries, services, and households suffer from a lack of sustainable, cost-effective, and reliable energy. Despite a higher electrification rate than the regional average, most firms in the country are not satisfied with their access to electricity. Interruptions stemming from importing electricity as well as transmission and distribution losses continue to be important barriers to growth in Botswana because the grid lacks appropriate investment and maintenance. In addition, the generation and import of fossil-fueled power is threatening the international marketability of Botswana's diamond industry, a key contributor to Botswana's GDP (20 percent) and exports (90 percent).

To address the energy supply shortage, Botswana has set ambitious targets to grow domestic power generation capacity and to accelerate the move toward renewable energy resources contributing at least one-half of total electricity by 2036. With an abundance of sunshine, Botswana has a comparative advantage in producing solar energy while also supporting energy diversification in the region. This presents solid opportunities for increased private sector participation in Botswana's energy sector, especially in renewable energy generation and related value chains, standalone solar photovoltaic solutions, as well as aspirational opportunities in transmission and distribution. However, systematic constraints such as institutional, regulatory, financial, and risk-mitigation challenges must first be addressed if these opportunities are to be harnessed by the sector.

Three key recommendations for the energy sector are as follows. The first recommendation is the fast tracking of instruments to facilitate investment in energy infrastructure development, including independent power producer (IPP) licensing, and procurement guidelines and processes. In addition, the capacity of the Projects and Energy Development Unit (PEDU) under the Ministry of Minerals and Energy (MME) should be increased to implement large electricity infrastructure projects including all projects under the Integrated Resource Plan, and the Sustainable Mega Solar Program. In the medium term, the PEDU should be transformed into a full-fledged IPP office. The second recommendation is the enhancement of the institutional capacity and governance model of the Botswana Energy Regulatory Authority (BERA). A short- to medium-term objective should be to implement full independence of BERA away from the government to give investors and industry players confidence in the regulator. This would include, among other things, moving it from dependence on government subvention to a sustainable and independent revenues-from-fees-and-levies model, as well as making BERA the final decision maker in tariff determination. The third recommendation is the development of credit-enhancement and risk-mitigation strategies and supporting instruments to attract and mobilize private sector investment. Risk-mitigation instruments such as sovereign guarantees, backstops on liquidity and termination, as well as foreign exchange rate risk mitigation in power purchase agreements are critical to ensure private sector participation and need to be considered by policy makers.

Tourism directly accounted for 4.64 percent of Botswana’s GDP in 2019, rising to almost 10 percent when including indirect contribution to GDP. It comprises more than 60 percent of the country’s services exports, with wide-ranging economic impacts and strong long-term growth potential. However, after remarkable growth between the early 1990s and mid-2000s, both visitor volumes and receipts have leveled off. The COVID-19 pandemic has severely affected the tourism sector, exposing structural weaknesses and accelerating their impacts. Several governance, coordination, and strategy issues threaten the sector’s long-term competitiveness and attractiveness. These issues include competing priorities across government departments; limited government budgetary allocations for the sector; climate change and environmental degradation and early signs of “over-tourism”; a lack of location, source market, and product diversity; and revenue leakage throughout the tourism supply chain that is limiting local value capture. Nevertheless, Botswana is well placed to take advantage of new post-COVID-19 demand trends. In preparation for recovery, the industry is consolidating with a view to increasing efficiency and reducing costs. Opportunities include expanding the luxury safari segment to new source markets (for example, China and India) and longer stays, attracting and dispersing foreign and regional independent travelers toward new locations, and strengthening local tourism supply-chain linkages to create opportunities for domestic SMEs providing goods and services to the sector. Support for digitization and entrepreneurship built around community-based tourism can also help support more domestic SME participation in the tourism sector.

A revitalization of private sector–led growth in the tourism sector can be catalyzed through a three-pillar approach. Pillar one is to streamline and harmonize the tourism-enabling and business environment. This approach would include undertaking a regulatory review of permits, licenses, fees, and processes for tourism firms to reduce barriers to entry and growth in coordination with the Botswana Bureau of Standards, and clarifying the operationalization of the new tourism policy, including institutional roles, responsibilities, coordination, and a roadmap toward decentralization. Pillar two is to catalyze private investment in new products, destinations, and markets. This approach would include increasing concessions available in new destinations and encourage government-private sector-community public-private partnerships in the design and management of new sites and attractions and promoting foreign joint ventures with local partners, particularly with investors and brands from high-potential markets (China, India). Pillar three is to improve local economic links and sector sustainability. This approach would include piloting a local sourcing program for a small basket of green tourism supply goods and services by providing incentives to procure from locally based firms, upgrading skills and business processes, linking local suppliers to tourism firms, and developing a tourism sector climate-change adaptation and mitigation strategy.

Botswana faces water supply and sanitation issues. Botswana is already a water-stressed country and is projected to become even more highly water stressed by 2040, with water supply shortages affecting all key sectors of the Botswana economy including mining, agriculture, manufacturing, and tourism. Botswana is located on semi-arid terrain with low, variable, and unevenly distributed rainfall. It suffers from chronic droughts that are becoming more severe due to climate change. Local water supply is not enough to meet demand, and part of the water supply is imported from South Africa.⁸ Climate change, infrastructure deficiencies, and contamination of water sources threaten water supply reliability. Although the state-owned water and sanitation company, Water Utilities Corporation (WUC), performs well relative to many African utilities, it is facing serious headwinds to maintain and increase water supply. WUC's deteriorating infrastructure, inadequate collection rates, shortfall of revenue necessary to cover operating costs, challenges to access finance for water supply expansion, and low productivity of staff all hamper investment in water resilience. Because WUC's revenue does not cover its operating costs, traditional lenders are hesitant to provide WUC with investment capital.

Introducing private sector participation in the water sector could help address weaknesses in the sector. This report identifies three main opportunities for private sector participation: (a) performance-based contracts for nonrevenue water reduction, collections, and energy efficiency; (b) concession for wastewater treatment and water recycling services; and (c) water savings performance contracts for large users. Several actions can advance these opportunities for private sector participation. The WUC should be assisted to develop performance-based contracts to reduce nonrevenue water levels, improve energy efficiency, and improve customer collections. Public-private partnerships for wastewater treatment and recycling services should be implemented. Large water users should be encouraged to implement water savings performance contracts. A legally or contractually bound regulatory mechanism should be created to define full-cost recovery tariff mechanisms for WUC and to mandate that WUC's tariffs be set at that level. The government, working with WUC, should consider legally establishing a subsidy system to ensure affordability of low-income households while also providing a reliable source of revenue (that is, cross-subsidies or direct subsidies by the government).

Table ES.1 summarizes the priority recommendations for each of the cross-cutting areas and the three sector assessments. Further recommendations and additional detail on each of the recommendations are provided in the main report.

TABLE ES.1 HEADLINE POLICY RECOMMENDATIONS**State-owned enterprise presence and competition**

- Reduce the state's presence and influence in sectors that are fully competitive, creating markets with competitive neutrality. This will create markets for entrepreneurs and SMEs to address, private firms to grow, and foreign investors to participate in.
- Update the competition framework to (a) emphasize the subsidiarity role of the state, so its presence is assessed through an economic rationale, (b) spell out more strongly the competitive neutrality principles to ensure that SOEs are subject to the same discipline and enforced in similar terms as their private peers, and (c) strengthen the power and capability of the competition agency to review and abolish current regulations that create barriers to entry or competition that protect companies with state participation. (e.g., FDI caps in competitive sectors).
- Introduce competitive neutrality principles across regulatory provisions related to state-owned enterprises (SOEs) and consider removal of legal monopolies to SOEs in commercial sectors.
- Follow through on the recently recommended reforms proposed by the government's cabinet subcommittee on SOEs, to improve the achievement of SOE mandates, enhance shareholder oversight, and improve the accountability and transparency of SOEs. Create an overarching legal framework governing SOEs to improve viability, compliance, and accountability.
- Provide firm-level support for SOE governance and efficiency improvements after addressing the above issues in the competitive landscape.

Infrastructure, access to financing, and skills

- Strengthen implementation of existing and higher-quality digital infrastructure development at the national level to facilitate the digital transition to a high data volume, knowledge-based economy.
- Facilitate better quality infrastructure through an improved public investment management framework (i.e., better project appraisal, selection, and monitoring) and greater integration in transportation subsector planning, including increased Southern African Development Community integration for the development of better transport networks.
- Attract foreign investment through the inclusion of SOEs in the public-private partnerships law, preparation of a dedicated investment policy and investment law, and improving the investment dispute system.
- Coordinate an approach to encourage early-stage finance for entrepreneurial start-ups and small and medium enterprises (SMEs), including through regulatory reforms, uptake of digital banking methods, and digitization of SMEs as described in the National Entrepreneurship Policy and e-commerce strategy.
- Assist firms trying to fill immediate skills gaps with labor from abroad by streamlining the cumbersome processes firms face when obtaining employment permits for foreigners.

Trade in environmental goods and services

- Strengthen standards and certifications systems to raise competitiveness of Botswana exporters.
- Reassess restrictions placed on foreign investors by the National Trade Policy so as to not limit the commercialization and productivity of some services, particularly telecommunications and air transportation.

**CROSS-CUTTING**



Facilitate private investment in energy infrastructure

- Fast-track the completion of instruments to facilitate investment in energy infrastructure development, including independent power producer licensing and procurement guidelines and processes.
- Develop a network connection policy and a national transmission grid code to govern the development, operation, maintenance, and use of the national transmission network as well as regulatory mechanisms for ancillary service pricing.
- Enhance institutional capacity and the governance model of the Botswana Energy Regulatory Authority (BERA). Transition to full independence of BERA away from government subvention to a sustainable and independent revenues-from-fees-and-levies model, as well as making BERA the final decision maker in tariff determination.
- Develop and implement quality-of-service regulations that cover all aspects of reliability to guide toward a more reliable and efficient network as well as to achieve cost reflectivity.
- Enhance Projects and Energy Development Unit (PEDU) project management and process efficiency through institutional and technical capacity building. In the medium term, the PEDU should be transformed into a full-fledged independent power producer office.
- Develop credit-enhancement and risk-mitigation strategies and supporting instruments to attract and mobilize private sector investment, including sovereign guarantees, backstops on liquidity and termination, and foreign exchange rate risk mitigation in power purchase agreements.



Streamline and harmonize the tourism-enabling and business environment

- Undertake a regulatory review of permits, licenses, fees, and processes for tourism firms to reduce barriers to entry and growth in coordination with the Botswana Bureau of Standards.
- Clarify the operationalization of the new tourism policy, including institutional roles, responsibilities, coordination, and a roadmap toward decentralization.

Catalyze private investment in new products, destinations, and markets

- Increase concessions available in new destinations and encourage government-private sector-community partnerships in the design and management of new sites and attractions.
- Promote joint ventures between foreign and local partners, particularly with investors and brands from high-potential markets.

Improve local economic links and sector sustainability

- Pilot a local sourcing program for a small basket of green tourism supply goods and services by providing incentives to procure from locally based firms, upgrading skills and business processes, and linking local suppliers to tourism firms.
- Develop a tourism sector climate change adaptation and mitigation strategy.
- Provide community-based organizations with funding and entrepreneurship training to diversify away from reliance on hunting licenses.



Facilitate private investment in water and sanitation infrastructure

- Assist the Water Utilities Corporation (WUC) to develop performance-based contracts to reduce nonrevenue water levels, improve energy efficiency, and improve customer collections.
- Implement public-private partnerships for wastewater treatment and recycling services.
- Encourage large water users to implement water savings performance contracts.
- Create a legally or contractually bound regulatory mechanism to define full-cost recovery tariff mechanisms for WUC and to mandate that WUC's tariffs be set at that level.
- Consider legally establishing a subsidy system to ensure affordability of low-income households while also providing a reliable source of revenue (i.e., cross-subsidies or direct subsidies by the government).

Notes

1. GDP numbers used are from the World Bank's World Development Indicators. Botswana data is available at: <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=BW>
2. Central Statistics Office, Botswana
3. Strong economic performance is expected to continue in 2022, though the effects of the crisis in Ukraine create uncertainty with likely food and fuel price rises and increasing diamond prices due to sanctions on Russian diamonds.
4. The definition of SOE used for the Businesses of the State (BOS database) and used for this assessment uses the three main conditions proposed by the IMF (2020), but also expands the coverage beyond majority participation to offer a very comprehensive landscape of the real footprint of the state. An entity is considered a SOE if it satisfies the following conditions:
 - I. it is controlled by government units or by other public corporations, with a level of direct or indirect (i.e., through subsidiaries) participation of 10% or more
 - II. It is recognized by law as a legal entity separate from its owners
 - III. It can generate profit or other financial gain for its owners
 - IV. It is set up for the purposes of engaging in market production
5. Competitive sectors refer to competitive sectors characterized by small entry barriers; contestable sectors are characterized by moderate entry barriers, public goods, or externalities; and natural monopoly sectors are those that exhibit high entry barriers, economies of scale, or sub-additivity cost structures.
6. Findings based on the World Bank global Businesses of the State database, which include SOEs (with majority or full control of the state), but also minority owned companies given that this analysis looks to understand and unveil the footprint of the state in markets and potential implications for the private sector, which are not limited to majority owned firms.
7. Tariffs are applied on goods that are imported outside SACU.
8. Botswana shares several transboundary rivers with its neighbors, making its water security dependent on the arrangements how to share those resources among member countries. The shared river-basins are Okavango (with Namibia and Angola), Zambezi (with Angola, Zambia, Namibia, Zimbabwe and Mozambique), Orange-Senqu (with Lesotho, Namibia and South Africa), and Shashe-Limpopo (with Mozambique, South Africa and Zimbabwe).

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