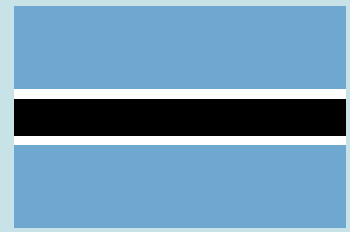




# INEQUALITY IN SOUTHERN AFRICA: AN ASSESSMENT OF THE SOUTHERN AFRICAN CUSTOMS UNION



## COUNTRY BRIEF: BOTSWANA<sup>1</sup>

Botswana is one of the most unequal countries in the world, with inequality in per capita consumption more than 30 percent higher than the average for upper-middle-income countries. However, it has moderately reduced inequality in recent years, faster than the rest of SACU. The main sources of inequality are inequality of opportunity and disparities in factor markets, with access to jobs and land being severely constrained and uneven. The country's high spending on transfers and social services partially mitigates inequality, although transfers could be targeted better. Moving forward, Botswana needs to: (a) improve access to quality services to promote equality of opportunity across races and disadvantaged groups; (b) enhance conditions for private job creation, including by reducing barriers to entrepreneurship and self-employment and by enhancing access to productive assets (skills and land); and (c) continue investing in the capacity of the social protection system to respond to shocks, especially in view of the growing climate-related risks, while improving targeting of safety net programs.

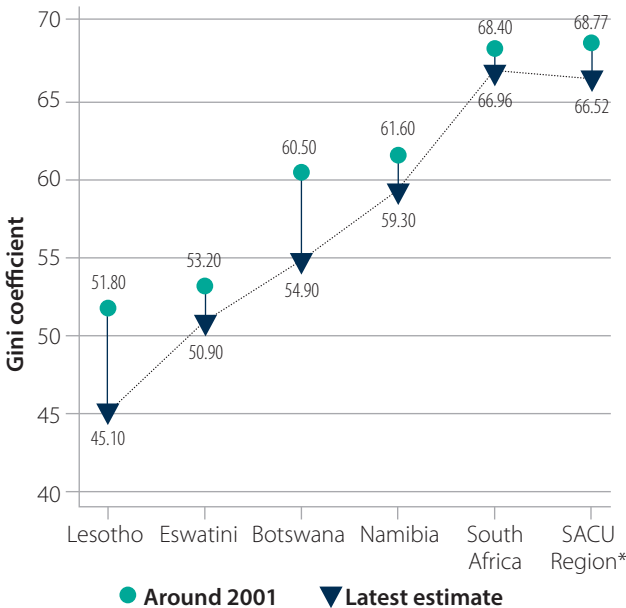
### A. Inequality is high but has decreased

Botswana is among the most unequal country in the world, ranking in the top 10 among the 164 countries in the World Bank's global database of Gini coefficients, which measure inequality of per capita consumption (or income, depending on the country). The most recent data put Botswana's Gini index at almost 55 in 2015, over 30 percent higher than the average for upper-middle-income countries.

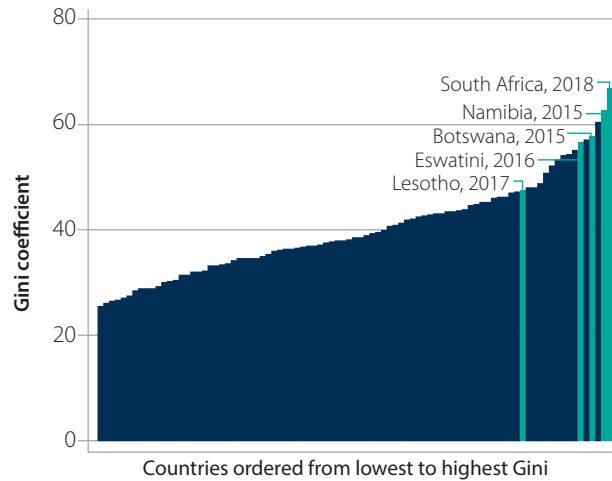
The country has made some progress in reducing inequality. Between 2010 and 2015, its Gini coefficient decreased from 60.5 to 54.9, or by 5.6 Gini points in five years. This was the highest annual reduction in inequality in SACU.

Figure 1. Inequality remains the second highest globally

a. Regional comparison of Gini coefficients



b. International inequality comparison



Source: World Bank 2022.

Note: Panel a presents the Gini coefficient of consumption for the whole SACU region, based on the earliest and latest rounds of household surveys from member countries.

1 This brief is largely drawn from a SACU regional report on inequality prepared by the World Bank and co-authored by Victor Sulla, Precious Zikhali, and Facundo Cuevas. The report uses the framework highlighted in Box 1: World Bank. 2022. *Inequality in Southern Africa: An Assessment of the Southern African Customs Union*. Washington, DC: World Bank.

## B. Jobs, education, and demographic patterns are key contributors to inequality

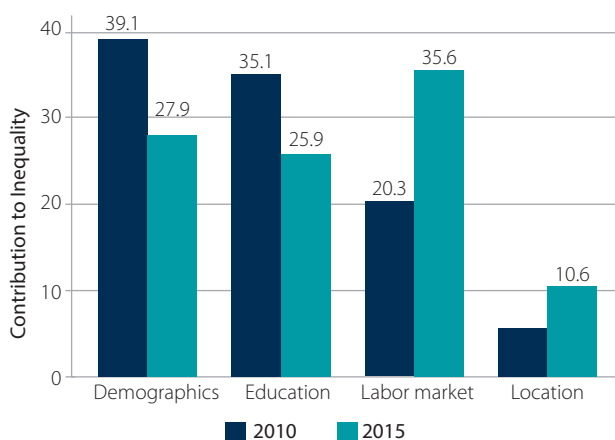
**Disparities in employment outcomes are the primary contributor to inequality.** Differences in labor market attributes (labor force status, industry of employment, and occupation type) account for 36 percent of overall inequality. Among these attributes, differences in occupation type (such as senior managers, professionals, and clerks), which reflect skills differences, contribute most to inequality. The “industry in which people work” does not seem to affect inequality significantly.

**Differences in educational attainment are another key driver of inequality,** especially in post-secondary or

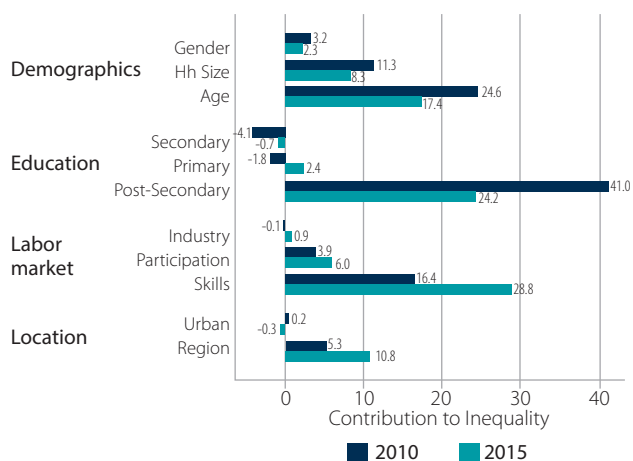
tertiary attainment. Disparities in higher education, which is key to human capital accumulation, account for about 24 percent of overall inequality. However, the significance of these disparities has decreased, as tertiary education among adults increased from 16 percent in 2010 to 21 percent in 2015. Still, the levels of human capital remain relatively low. The World Bank’s Human Capital Index (HCI) estimates that a child born in Botswana in 2020 would on average reach only 41 percent of its potential productivity as an adult. This is lower than expected given the country’s per capita GDP.

**Figure 2. Decomposition of inequality**

### a. Contribution of selected factors to inequality (%)



### b. Breakdown of the contribution of selected factors to inequality, percentage points



Source: World Bank 2022.

Note: Panel (a) reports the contribution (%) of spatial, demographic, education, and labor market factors to overall inequality. Panel (b) disaggregates the contribution of each of these four factors into its various subfactors.

**Demographic factors contribute significantly to inequality through the age of household members,** with an aggregate contribution to overall inequality of 28 percent. This is largely because the age of its members

affects the capacity of a household to engage in economic activities. In that sense, households with more members of working age, and fewer dependents, have a “demographic dividend”.

## C. Inequality and the cycle of income generation

**It is useful to analyze the process of household income generation to identify the sources of high and persistent inequality.** The first step focuses on the *pre-income distribution*, which is the inequality of opportunity that arises from differences in circumstances at birth and during childhood, such as gender, race, location, parental education, and family wealth; these differences create

expected inequalities in income distribution even before people interact with factor markets. The second component looks at the *primary income distribution*—how inequality is affected by access to factor endowments (or assets), such as education, skills, land, and capital, as well as their use and returns from interaction with markets. The third explores the *secondary income distribution*, assessing how

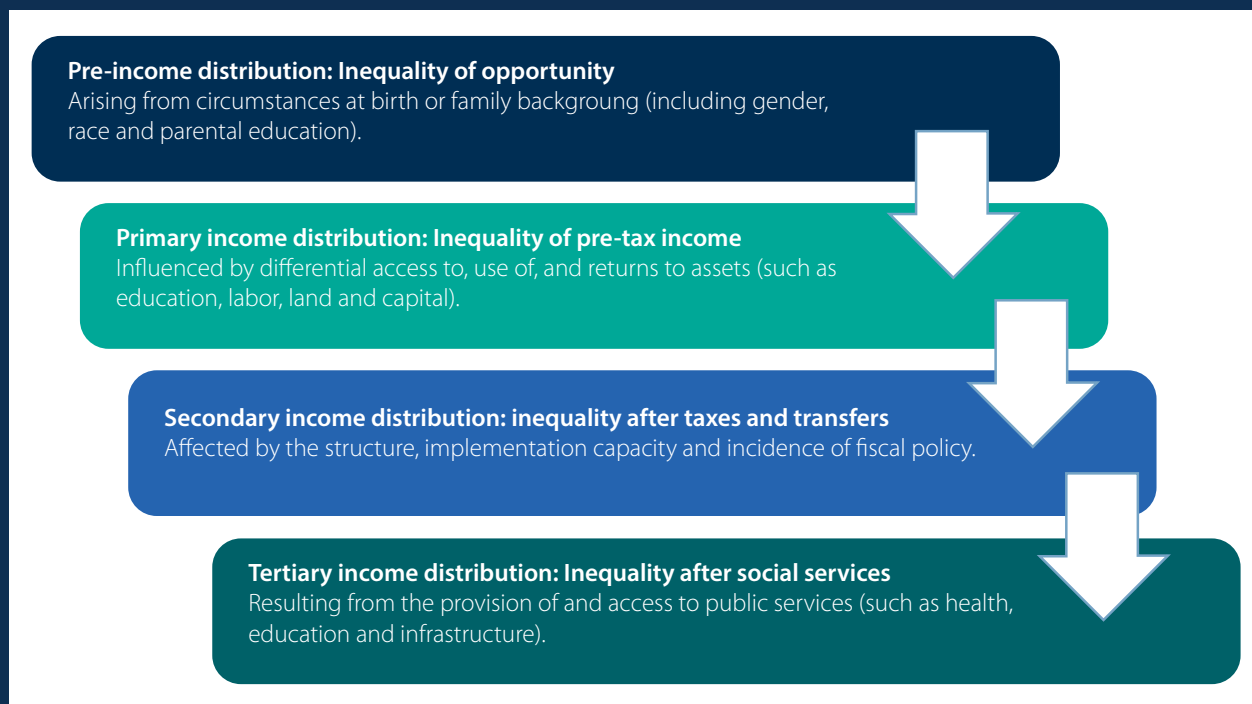
inequality is influenced by taxes and government transfers. Finally, the fourth component relates to the *tertiary income distribution*—the disparities that remain after accounting

for the role of social services (such as education, health, and infrastructure).

## Box 1. Framework to assess sources of income and consumption inequality

The SACU regional inequality report uses an innovative framework built around the process that underlies household income generation to identify sources of high and persistent inequality. The framework is organized into four sequential components, presented in Figure 3.

Figure 3. Framework to assess sources of income and consumption inequality



Source: World Bank (2022).

### High inequality of opportunity

**Children in Botswana face stark differences in life prospects depending on their circumstances at birth and during their early years.** Their opportunities are unequal because of circumstances they inherit and cannot control, such as gender, region of residence, and parental characteristics. Inherited circumstances account for 20 percent of inequality in consumption per capita;<sup>2</sup> and this number has doubled since 2010. Region of residence and living in urban areas account for almost all inequality of opportunity, overshadowing circumstances such as gender and age.

**Children from low-income households tend to grow up without access to key services, which reduces their opportunities later in life and so perpetuate inequality.** Region of residence and living in urban areas are important because of their association with access to services. Children raised in lagging regions and rural areas are deprived of access to services that are critical for their development, such as water, sanitation, and electricity at home, as well as early childhood care and education.

<sup>2</sup> This figure should be taken as a lower-bound estimate of inequality of opportunity, since it captures the role of only a subset of circumstances—those that were available in the household survey.

**High wealth inequality limits the socio-economic mobility of new generations.** The richest 10 percent of households own 57 percent of all assets and 61 percent of financial assets, while the poorest 50 percent own only 4.2 and 3.3 percent, respectively. As wealth and assets are passed on from one generation to the next, such inequality limits the scope for upward mobility among the next generation.

### ***Inequities in access and returns to productive assets (labor and land)***

**A lack of job creation and skills mismatches hamper the ability of disadvantaged households in urban areas to generate income, and so limits the reduction in inequality.** Unemployment remains high, at 20.7 percent of the labor force in the last quarter of 2019; it is almost twice as high among young people. Disparities in labor market outcomes stem from bottlenecks that limit the capacity of firms to create jobs and from barriers that constrain the ability of workers to access such jobs. Although many factors are at play, one stands out: having post-secondary and tertiary education is vital both for getting a job and for getting better wages once employed.

**High wage inequality fuels overall inequality.** Given the limited number of skilled workers, returns to post-secondary education are high, which in turn increase wage disparities. The gender wage gap is also substantial: among people with similar education, backgrounds, and occupations, men earn on average 24 percent more than women.

**Land ownership in rural areas is highly unequal, and land is subject to low productivity exploitation.** Unequal access to land and the lack of titling are critical issues underpinning disparities in rural areas. Over

70 percent of land is under customary tenure, ruled by traditional leaders or structures that are largely unregistered. There is widespread use of communal land, which is highly degraded, overgrazed, and vulnerable to bush encroachment. Farmers on communal land are less likely to have land titles, which makes it difficult for them to access financing and contributes to low productivity.

### ***Taxes and social spending play an important role in reducing inequality***

**Taxes and transfers contribute significantly to lower inequality.** Driven primarily by high spending on education and health services, complemented by progressive personal income tax and social assistance programs, Botswana's fiscal interventions help reduce inequality. Without social transfers and social spending, inequality would be about 10.3 Gini points higher. This redistributive fiscal impact is among the highest in the world, at least among countries in which comparable studies have been done.

**The impact of social assistance could be increased with better targeting.** Spending on social assistance programs is high by international standards. But the main social assistance programs use categorical targeting, rather than a measure of economic need; this limits their capacity to reduce inequality. Redirecting resources towards lower-income households would have a larger impact on inequality without requiring additional resources.

**Social protection was swiftly mobilized to respond to the COVID-19 crisis.** The pandemic has wrought unprecedented socio-economic challenges across the world. The safety net system responded with the relatively swift introduction (by April 2020) of the Food Hampers program, which assisted more than 400 000 households with food packages and agricultural products.

## **D. Policy considerations to accelerate the reduction in inequality**

**Improve access to quality services to promote equality of opportunities across races and disadvantaged groups.** Spending on social services is high by international standards, but results are often below those of other countries with similar development levels. The policy agenda could focus on elevating the quality of public education and health services, improving basic services such as electricity, and addressing coverage gaps for disadvantaged groups and regions. In education, the focus should remain on enhancing early childhood development programs and improving basic education at all levels, in terms of both enrollment and learning outcomes. Early childhood development initiatives offer a particularly cost-

effective area of action. Investing in young children in their first 1,000 days has lifelong implications and could help break the intergenerational cycle of unequal chances.

**Consider better targeting of flagship social assistance programs.** Social grants provide important benefits to low-income households, but their categorical targeting approach is not the most cost-effective. Tweaking their design and eligibility rules to reduce the transfers that reach high-income households could increase their impact on inequality without the need for additional fiscal resources.

**Revitalize employment creation and remove barriers to jobs for disadvantaged populations.** Although the

structural reform agenda aims to resume a path of growth and employment generation in the economy, removing barriers to self-employment and entrepreneurship and strengthening programs to boost employability will help alleviate the lack of job opportunities. Relaxing regulatory constraints and simplifying legislation could help boost entrepreneurship, self-employment, and small businesses, all sectors with untapped potential. This could help get people working, as it does in other developing countries, instead of staying unemployed, becoming discouraged, and depreciating their human capital. To enhance the inequality-reducing impact of this option, low-skilled entrepreneurs could be supported with business skills, socio-emotional competencies, and grant financing to address constraints that go beyond the regulatory

framework. In rural areas, addressing land titling issues will be important for improving productivity and enhancing economic opportunities.

**Continue strengthening the responsiveness of the social protection system to shocks, with attention to climate risks.** The system demonstrated its adaptive capacity to weather the COVID-19 crisis. Going forward, as part of the strategy for adapting to growing climate risks, ongoing investment is needed in the responsiveness and efficiency of the system for horizontal and vertical expansion. This would allow it to reach new affected populations (horizontal expansion) and/or increase support to existing beneficiaries (vertical expansion). Digital technologies and mobile payments could support such initiatives.

## References

World Bank. 2022. *Inequality in Southern Africa: An Assessment of the Southern African Customs Union*. Washington, DC: World Bank.