



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 11-May-2021 | Report No: PIDA32087



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Botswana	P175934	Botswana Programmatic Economic Resilience and Green Recovery DPF (P175934)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA EAST	11-Jun-2021	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Botswana	Ministry of Finance and Economic Development		

**Proposed Development Objective(s)**

To support Government’s response to the COVID-19 pandemic, strengthen private sector development, and promote a resilient, green recovery.

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

**SUMMARY**

<b>Total Financing</b>	250.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	250.00
World Bank Lending	250.00

**Decision**

The review did authorize the team to appraise and negotiate

**B. Introduction and Context**

Country Context

**The limitations of Botswana’s diamond-led growth model were becoming apparent even before the 2019 Coronavirus**



**Disease (COVID-19).** Botswana has historically enjoyed strong and stable growth since independence catalyzed by the discovery of large diamond deposits, and prudent use of the proceeds. Growth averaged 7 percent in the 30 years before the 2009 Global Financial Crisis, with diamond mining representing over 25 percent of output. Real GDP has since slowed to an average at 2.6 percent between 2015 and 2019, reflecting minimal economic diversification, low productivity, and limited job creation. Despite some progress, inequality remains high (a Gini coefficient of 0.53) and its Human Capital Index is low for an upper middle-income country (at 0.41). While Botswana made significant gains in reducing poverty between 2003 and 2010, progress has since come to a halt. Lack of employment generation has been a key contributor to this trend. At the same time, increased diamond market volatility, reduced Southern African Customs Union transfers and fiscal expansion have eroded fiscal buffers.

**COVID-19 has compounded these challenges.** The shock to the diamond industry, which remains a key driver of growth, contributed to the 7.9 percent growth contraction in 2020. Mining output is estimated to have fallen by 26 percent due to a combination of weakened global demand, accumulated inventories, and cancellations of diamond sales events due to travel restrictions. While existing buffers provided much-needed cushioning to the economy and allowed the Government to implement its COVID-19 Relief Package, fiscal buffers are now significantly reduced (at an estimated 0.8 percent of GDP in FY2020/21, from 8 percent in FY2019/20).

**Notwithstanding these challenges, Botswana’s macroeconomic framework is assessed as adequate.** Growth is set to recover in 2021, albeit from a low base, and average at 4.2 percent in the medium term. This is to be supported by the acceleration of reforms which aim to support economic diversification and private sector development. Government has also committed to returning to a positive fiscal balance and aims to begin rebuilding fiscal buffers by FY23/24. Important steps include revenue enhancing measures and efforts to address spending inefficiencies. The World Bank and the African Development Bank (AfDB) are providing budget support. Historically low levels of borrowing mean the significant external borrowing required to support Botswana’s recovery agenda will not compromise debt sustainability.

#### Relationship to CPF

**The proposed Development Policy Financing (DPF) series is aligned with the FY16-20 Country Partnership Framework (CPF), which was extended through FY21 under the Performance and Learning Review (PLR) discussed by the Board on February 27, 2019.** 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 are in line with CPF Objectives 1.1 and 1.2, which aim to address key constraints to the development of non-diamond sector and promote private sector growth; and with CPF Objective 3.1, which seek to improve the efficiency and effectiveness of Botswana’s social protection system.

#### C. Proposed Development Objective(s)

**The proposed operation aims to support the Government’s response to the COVID-19 pandemic, strengthen private sector development, and promote a resilient, green recovery.** The creation of an enabling policy environment to implement the Single Social Registry (SSR) and targeting reforms is key to improve targeting of social spending on the most vulnerable, while also strengthening systems for future shocks. The second pillar addresses regulatory constraints to private sector development by improving access to finance for individuals and small and micro enterprises (SMEs), by filling a gap in credit information between lenders and borrowers, and easing regulatory requirements to start a business. The third pillar lays the foundations for sustainable, “green” growth by awarding additional renewable energy capacity to independent power producers and connects it to the energy grid; regulating permits to domestic, commercial, and industrial users of rooftop solar energy; and embedding climate change considerations in



environmental assessments.

#### Key Results

**The key results for this operation are (i) strengthened pandemic and crisis response through improved social protection systems, (ii) an enabling business environment for increased job creation and economic diversification, and (iii) promoting renewable energy generation and addressing climate change concerns while helping to attract private sector investments, contribute to diversified exports, and increase job opportunities towards a green economy.** The *Prior Action under Pillar 1* will create an enabling policy environment to implement Botswana's SSR and targeting reforms, thus improving targeting of social spending on the most vulnerable, while also strengthening systems for future shocks. *Prior Actions under Pillar 2* will contribute to creating an enabling business environment for increased job creation and economic diversification. A formal regulatory framework should result in increased confidence in the credit information industry in Botswana and increased lending to individuals and MSMEs. The adoption of the Trade Regulations will reduce the time and cost burden for businesses to conduct specified lower-risk activities. *In Pillar 3, beyond addressing climate change concerns, Prior Actions* are expected to help attract private sector investments, contribute to diversified exports, and increase job opportunities towards a green economy. The first action will result in the first successful completion of a large-scale bid for solar energy projects in Botswana, spurring private sector investment in this area. The second action provides an enabling environment for end users to generate their own electricity and sell it to the Botswana Power Corporation (BPC). Both actions will contribute to the broader effort to diversify the energy sources and accelerate the development of renewable energy in the country. The third prior action aims to reduce Botswana's overall vulnerability to climate change impacts by ensuring that projects have an Environmental Impact Assessment (EIA) and Environmental Management Plan (EMP) that follow climate resilience guidelines.

#### D. Project Description

**The proposed DPF of US\$250 million supports Botswana's short and long-term recovery from the socio-economic crisis triggered by the spread of COVID-19.** It is the first-ever budget support loan Botswana requests from the World Bank. It is the first in a series of two programmatic operations. This DPF is closely aligned with Government's Economic Recovery and Transformation Program (ERTP). It is also aligned with National Development Plan 11 and with Vision 2036, which aims to turn Botswana into a higher income country by 2036. In the ERTP, Government has committed to pursuing a diversified and inclusive export-led growth strategy, whilst strengthening Botswana's response to climate change as a basis for renewed, sustainable growth. The DPF specifically supports three elements of the ERTP: (i) SME development, (ii) investing in infrastructure and (iii) building resilience. The DPF's Pillar Two, on private sector development, focuses on improving access to finance in order to enhance firm productivity and competitiveness. Pillar Three, on the green recovery, supports Botswana's efforts to transition towards solar power generation. It also strengthens institutional and regulatory frameworks for environmental impact assessments, which is key to improving climate resilience.



## E. Implementation

### Institutional and Implementation Arrangements

**The Government of Botswana, specifically the Ministry of Finance and Economic Development (MoFED), has overall responsibility for the implementation, monitoring, and evaluation of the proposed Prior Actions of the DPF.** In monitoring actions under the DPF, the MoFED will work in close collaboration with the National Statistics Office, Statistics Botswana. The program outcomes will be monitored through results indicators, as detailed in the Policy and Results Matrix (Annex 1 of the Program Document). Most of these results indicators are based on routinely published information and, for those that are not, the concerned ministries or agencies will be responsible for collecting the data, tracking the relevant indicators, and providing these to the MoFED in a timely manner. The MoFED will be responsible for submitting necessary information at a frequency and in a format satisfactory to the World Bank.

**Data availability, data collection capacity and data quality are variable depending on the Ministries.** The World Bank will provide support, including technical assistance for some of the reforms described above, to ensure timely implementation, and adequate data collection and monitoring of indicators and outcomes of the program. Specifically, the World Bank could help the Government of Botswana develop a monitoring or data collection plan for each of the indicators in the results framework, and review progress.

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

### Poverty and Social Impacts

**Overall, the policy measures and institutional reforms supported under the proposed DPF are likely to have poverty-reducing effects.** Potentially strong positive poverty impacts are also expected from the new social protection framework, Prior Action 1, which is expected to improve the efficiency and effectiveness of the delivery of social programs, an important step for response to future shocks. Prior Actions 2 and 3 are also likely to have a positive impact on poverty. These aim to promote private sector development through better MSME access to credit financing and removing regulatory barriers to start a business. In addition, measures that help reduce climatic risks through the promotion of renewable energies such as Prior Actions 4, 5 and 6 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

**The operation supports several actions that are likely to have a positive environmental impact, such as the transition to renewable energy generation, climate conscious EIAs and EMPs, and the use of digital platforms for social protection administration, but private sector development actions may have negative implications.** The introduction of renewable energy sources to the energy grid will contribute to a reduction in reliance of conventional energy sources generated through burning of fossil fuels, resulting in a positive contribution to air quality and greenhouse gas emissions (PA 4 and PA 5). Strengthening environmental assessment practice under PA 6 by ensuring that climate resilience aspects are considered and implemented as part of future developments, will facilitate progress in adapting investments to the impacts of climate change as well as minimizing the overall negative environmental footprint (including carbon emissions) of investments. Legislative changes under PA 6 will promote investments in clean and environmentally friendly technology and in turn lessen the impact on the environment and natural resources. Finally, the use of a digital SSR platform and its gradual expansion to additional districts is expected to have a positive impact by moving gradually to paperless and environmentally friendly operations. The importance of this has been further highlighted by the



pandemic. While generation of e-waste is anticipated to be insignificant at this stage as all social protection districts offices are currently adequately equipped with the necessary electronic facilities, the authorities are encouraged to make provision for the establishment of an adequate e-waste management strategy. Similarly, added efforts are needed to ensure the private sector complies with EIA regulations and includes environmental and safety considerations (including capacity building) in their business plans, financial institutions providing access to capital to private sector operators incorporate environmental and social considerations in their operations, and have adequately trained staff and procedural guidelines to undertake the screenings.

## G. Risks and Mitigation

**The overall risk rating for the operation is assessed to be Moderate** using the World Bank's Systematic Operations Risk-Rating Tool (SORT). This reflects mitigating factors influenced by Botswana's stable political environment, prudent macroeconomic set up and strong institutional framework and policies. The most relevant residual risk to the operation's ability to achieve its development objective is linked to sector strategies and policies. Key mitigating factors to these risks include the prior actions proposed under this operation.

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**APPROVAL**

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**Approved By**

Country Director:	Asmeen M. Khan	11-May-2021
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