

# 5 Botswana

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## 5.1 Introduction

The Republic of Botswana was a British Protectorate formerly known as Bechuanaland from 1885 till it attained self-government in 1965 and became independent on 30<sup>th</sup> September 1966. The country was administered from South Africa, Vryburg and the office of administration later moved to Mafikeng in South Africa, and immediately after independence, in 1966 the capital was moved to Gaborone, Botswana.

Botswana is a landlocked country straddling the Tropic of Capricorn in the center of the Southern African Plateau. It forms borders with South Africa on the southern side, Zimbabwe on the northeastern side, Zambia on the northern side and Namibia on the western side. The total land area of Botswana is about 581730 square kilometers. Nearly 17% of the land area of Botswana is protected wildlife area mainly in the northern part of the country where a wide variety of animal species can be found. Tourism is an important income generating activity to the country. In the north western side the Okavango Delta drains inland from Angola to form a delta, which is said to be one of the largest inland deltas in the world. A large number of wildlife species can be found around the delta..

Botswana is situated close to the subtropical high-pressure belt of the southern hemisphere. The climate is semi arid and average rainfall ranges from 650 millimeters in the extreme northeastern part to less than 250 millimeters in the extreme southwest. Rainfall occurs during the month of October to April, from May to September it is generally dry. Although the rainy season is from October to April sometimes there is completely no rainfall at all which makes the country more susceptible to drought.

The country has very hot summers with average maximum temperatures of 33 degrees Celsius in January and 22 degrees Celsius in winter, July. The average minimum temperatures are about 19 degrees Celsius in January and 5 degrees Celsius in July. Lowest temperatures of about -5 degrees Celsius are often recorded in the southern and southwestern parts of the country. Drought has been persistent since the early 1980s because of low rainfall in the country.

The country is flat with gentle undulations and occasionally rocky outcrops. It is covered with thick sand layers of Kgalagadi Desert. This amounts to more than two-thirds of the land area of the country. Botswana is about 1000 meters above sea level. The Kgalagadi supports vegetation of scrub and grasses and in some parts of the country we have scrub and tree savanna. A few bushes can be found in the north of the country where there is relatively high rainfall compared to other areas of the country. Some bushes can also be found in the swampland, Okavango Delta in the northwestern side of the country.

The population of Botswana is about 1 533,000 people according to the 1991 population census. A national census is taken every 10 years. The population density according to the 1991 population census is 2.3 persons per square kilometer, a relatively sparsely populated country. This makes Botswana one of the countries with the lowest population in the world. The annual population growth rate is 3.5%. The growth rate has accelerated since 1971 census when it was growing at 3.1%. However, there is evidence that the total fertility rate is declining since the mid 1980s, point estimate of total fertility rate in 1991 was 4.23. According to the 1991 population census 43% of the population was under the age of 15 years, depicting a very young fast growing population. The population is very small compared to the size of the country.

There are many languages in Botswana; the most spoken language is Setswana. English and Setswana are used as official languages and medium of instruction in schools. The main religion is Christianity and other religions can also be found such as Islamic, Buddhism, African religion etc.

Among Botswana's natural resources there are vast occurrences of mineral deposits including diamonds, which have been discovered and are fully exploited. Other minerals include soda ash, copper nickel, and coal. More minerals are said to exist under the thick sand covering much of the country and with more exploration various mineral deposits may be discovered. The exploration of these minerals is hindered by the remoteness of the country and the absence of high cost infrastructure. Other resources include large wildlife population, and land suitable for beef production. The number of cattle in Botswana outnumbers human population.

## **5.2 Overview of Macroeconomic Activity and Fiscal Position**

Botswana was one of the poorest countries in the world when she attained her independence in 1966 with per capita income of P60 (equivalent then to roughly US \$8). The country was poverty-stricken which was noticeable due to several years of drought, which coincided with the attainment of independence in 1966. One third of the cattle had died while one fifth of the population received famine relief from the international community.

After achieving independence the main goal for the country was to fight to achieve financial independence in order to reduce reliance on grant in aid to cover recurrent budget. Grant in Aid from Britain was expected to continue for about seven to ten years but immediately after independence large deposits of minerals were discovered in the country among these are diamonds and copper nickel. These discoveries of minerals led to a phenomenal increase in government revenue and of exports by almost 700% or by P91 million during 1969-70 to 1975. Imports also increased and revenues from this increased following renegotiations on the Customs Union Agreement with South Africa. Prior to these revenues were from the beef industry but this was not sustainable because of the occasional drought in the country. In 1966 almost all the cattle were wiped out by drought.

Mineral revenues have been growing since independence and revenues from this sector has made Botswana one of the fastest growing economies in Africa. Since the discovery of diamonds Botswana's economy has undergone major changes. The efficient exploitation of mineral resources, coupled with the pursuit of prudent financial policies has enabled the country to establish an impressive growth record. During the past 20 years real GDP per capita increased by almost 5% and in 1997/8 it reached US\$ 3419, according to the national income accounts.

A decade after independence growth of the following sectors was observed;

- 1) The beef industry, which recovered due to the ending of drought of the mid 1960s. Beef exports gained access to the EEC markets and beef was sold at prices above world prices.
- 2) The renegotiation of the South African Customs Union (SACU) Agreement by the member countries increased revenues accruing to Botswana. SACU is a pool of customs revenue charged from goods originating from different countries by Botswana, South Africa, Lesotho and Swaziland. These revenues are shared according to a given formula.

During this period flows of aid from an increasingly wide range of donors was noticeable. Two more diamonds mines were discovered in the second decade after independence and these increased the share of mining revenue in the economy. Government spending was steady from the customs union revenues generated by mining construction and by direct revenues from diamonds exports. Other sectors of the economy were growing as a result of the mining sector; these sectors are manufacturing and the service sectors.

**Table 5.1 The Impact of Mining Constructions on Growth Rates of GDP**

Year	GDP%	Non Mining GDP%	Comment
1965-69	10	10	Agricultural recovery
1969-74	22	19	Shashe & Orapa mines
1974- 78	8	2	Post boom stagnation
1978-81	11	10	Orapa expansion and Jwaneng mine construction
1981-86	11.6	5	Post boom stagnation

Source National Income Accounts

The mineral revenues have been invested domestically and abroad. Domestic investment includes physical infrastructure, social services such as education and health. At independence the education base was negligible, almost 70% of adult illiteracy. Spending in education has increased to about 170% in real terms between 1980 and 1998/9 and Botswana `s social indicators have improved significantly. Education in Botswana was made free and compulsory to all children who start school at the age of six.

Health service is available to everyone in the country at a very minimal charge and children under the age of five receive free health service. Due to this child mortality and malnutrition has decreased dramatically since independence.

The mineral sector had its ups and downs, in 1981 the demand for gem diamonds fell sharply in the international market and the country stockpiled the rough diamonds, which had been mined but could not be sold. The value of exports fell sharply in dollar terms as high valued goods were held in stock. The market only recovered in 1985 and the sale of diamonds increased leading to a rise in revenues.

**Table 5.2 Botswana` s Economic Indicators 25 Years after Independence**

	1975/76	1980/81	1985/86	1990/91	Most Recent Estimate	Date	Annual Average Gr. Rate
GDP (P Million, Current prices)	300.5	875.5	2420.6	7475.2	14631	95/96	21.4
GDP (P Million, 1985/86 prices)	887.7	1511.1	2420.6	4252.4	5184.8	95/96	
Average Annual Growth Rate		11.2	9.9	11.9	4		9.2
GDP per capita (Pula Current Prices)	412.8	956.8	2194.6	5663	9807	95/96	17.2
GDP per capita (Pula, 1985/86 prices)	1071.8	1651.5	2194.6	3222	3475	95/96	6.1
Average Annual Growth Rate		9	5.9	8	1.5		
Mining GDP (Pula Million, 1985/86 prices)	144.4	530.3	1133.9	1547.6	1709.4	95/96	13.2
Average Annual Growth Rate		29.7	16.4	6.4	2		
Non-Mining GDP (P Million, 1985/86 prices)	743.3	980.8	1286.7	2704.8	3475.4	95/96	8
Average Annual Growth Rate		5.7	5.6	16	5.1		
Government GDP (P Million, 1985/86 prices)	135.2	199.8	325.7	655.8	892.8	95/96	9.9
Average Annual Growth Rate		8.1	10.3	15	6.4		
Formal Employment (thousands)	57.3	83.4	116.8	209	233.5	95/96	7.3
Average Annual Growth Rate		7.8	7	12.3	2.2		
Investment as a Percent of GDP	26.3	35	18.9	31.6	24.1	95/96	
Inflation Rate (based on CPI)	11.2	12	11	10.2	9.6	95/96	

Source: Central Statistics Office.

## **5.2.1 Macroeconomic Activity**

### **A. International Environment**

#### **A.1 Trade Balance**

Botswana is an open economy both imports and exports exceed 50% of gross domestic product. The terms of trade have been improving since independence, during National Development Plan 6 the currencies in which major exports were denominated were more valuable relative to the currencies in which most imports were denominated. Copper nickel and diamonds dominated growth in 1989 including other exports such as textiles. Stock piling of diamonds in 1987 led to a shrink in government revenues, but the economy recovered quickly from the shock due to the recovery of the international diamond market.

Diamonds constitutes the main exports of Botswana at 67.2% in 1995/96. Exports constituted 51.2% of GDP in 1995/96. The annual growth rate of exports during National Development Plan 7 was 2.6%. From 1991 to 1997 Botswana recorded a series of large current account surpluses. Over these years the surpluses averaged 6.9% of GDP, and peaked in 1997 at 13.9%. These positive balances were largely the result of rapid rise in diamond exports, which rose from P2 613.6 million in 1990 to P7 675.2 million in 1997, an average increase of 16.6%. Other exports include vehicles and parts 16.1%, copper nickel and soda ash 5.8%.

In 1995/96 imports constituted 31.2% of GDP, these included vehicles and transport equipment, 18.6%, food and beverages 15.9% and machinery and electrical goods 15.7%. Their respective share in 1991 was 16.0%, 13.6%, and 17.0%. The average annual growth rate of imports of goods and services was -5.2% over the period 1991/92 through 1995/96. Over the last couple of years imports started to expand very rapidly from P4 879.0 million in 1996 to P8 525.0 million in 1998 an increase of 75%. The main driving force behind the sharp rise in imports has been the increase in economic activity in the last couple of years with GDP growth of 6.6% in 1995/96, 7.2% in 1996/97, and 8.3% in 1997/98. Growth in imports has been spread quite evenly across all major categories in the last two to three years. It is noticeable that machinery and equipment imports have grown substantially in the last two years reflecting the rapid increase in construction activity as a result of the on going implementation of the development programme outlined in National Development Plan 8. The gradual increase in the deficit on the service account continued during the period 1990 at P310 million through 1998 at P988 million. Botswana is heavily dependent on imported services the requirement for which expanded as the economy expanded.

The main theme during the beginning of 1997 financial year was Sustainable Economic Diversification. The development strategy of the country is export oriented through diversification, this had to be achieved by the management of exchange rate policy to ensure that the country's exports are competitive in the international markets. The Pula has been depreciated significantly against major currencies, which measure the country's competitiveness in the tradable goods. The real exchange rate index between the Pula and the US dollar fell by 16% between December 1995 and December 1996 suggesting that exports to the US markets have been profitable.

Revenue from the sale of meat and meat products by the Botswana meat Commission fluctuated because of the occurrence of several droughts in the country leading to a decline in cattle heard. Beef is one of the major exports of Botswana but it is frequently threatened by drought. In the periods 1985-1998 exports grew rapidly leading to a surplus in balance of visible trade.

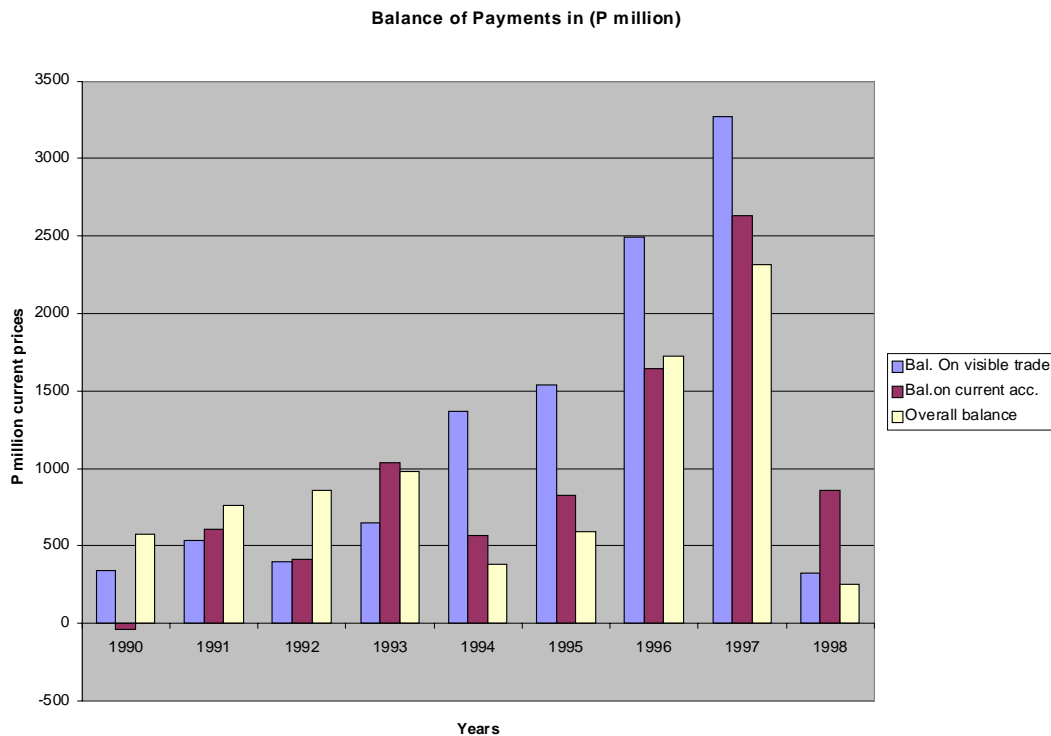
The capital account recorded a surplus from 1985-1989 except in 1987, because of the decline in diamond exports. The overall balance of payments was in surplus and it also recorded a surplus again from 1988 to 1998. The favorable balance of payments achieved in Botswana are attributable to solid performance in the diamond exports and investment earnings on accumulated foreign exchange reserves also made significant contributions to the annual surplus of the country.

**Table 5.3 Balance of Payments (P million)**

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Balance on visible Trade (adjusted)	343	540	395	646	1369	1538	2493	3269	328
Balance on services	-310	-349	-361	-325	-365	-510	-602	-841	-988
Balance on goods and services	33	191	35	321	1005	1028	1890	2427	-660
Balance on income	-197	127	237	712	-602	-90	-840	-529	505
Balance on Goods, services and income	-164	318	272	1033	402	938	1049	1899	-155
Net transfers	128	294	145	2	166	-108	595	735	1015
Balance on Current account	-36	612	417	1035	568	831	1643	2634	860
Balance on capital account	120	76	112	206	52	40	21	62	134
Balance on capital & current account	85	688	529	1240	620	871	1664	2695	994
Balance on financial account	154	249	582	-98	110	-94	141	20	-885
Net errors and omissions	340	-173	-250	-162	-351	-186	-83	-398	118
Overall Balance	578	764	861	980	379	591	1722	2318	256

Source: Botswana Financial Statistics December 1999.

**Figure 5.1**



**Table 5.4 Botswana Direction of Trade, 1993-1998**

	1993	1994	1995	1996	1997	1998 (Est)
Exports, f.o.b	<b>4,312</b>	<b>4,965</b>	<b>5,942</b>	<b>8,142</b>	<b>10,931</b>	<b>9,324</b>
South African Customs Union	379	691	1,277	1,490	1,485	1,333
Zimbabwe	135	134	182	251	383	343
Other Africa	57	49	49	51	114	102
United Kingdom	639	1,245	2,223	4,424	5,840	5,240
Other Europe	3,083	2,801	2,147	1,827	2,444	2,193
United States	14	35	52	78	102	91
All other	4	10	11	22	23	21
<b>Imports, c.i.f</b>	<b>4,285</b>	<b>4,407</b>	<b>5,307</b>	<b>5,735</b>	<b>8,256</b>	<b>9,839</b>
SACU	3,581	3,437	3,925	4,474	5,982	6,972
Zimbabwe	196	259	293	329	368	418
Other Africa	17	23	18	23	38	61
United Kingdom	112	110	135	147	163	161
Other Europe	192	260	319	241	580	915
Korea, Rep.	...	92	378	250	785	699
United States	141	83	107	74	89	152
All other	85	144	132	196	251	460

## A.2 Exchange Rates

During the establishment of the Pula in 1976 it was pegged to the dollar, as the dollar fluctuated relative to other currencies so did the Pula. The Government of Botswana changed the value of the Peg on several occasions in some instances to avoid importing inflation from countries where Botswana buys most of its imports and in other cases to protect the competitiveness of local producers so as to keep a favorable balance of payments.

In 1990 the Pula was pegged to a basket of major currencies weighted in terms of their importance to the country so that the Pula will not fluctuate greatly purely because of the movement of the US Dollar. Since the new policy was introduced Government and Bank of Botswana have continued to monitor developments and have made changes in the composition of the basket of currencies and in the rate at which the Pula was pegged to the basket in order to cope with changing international conditions.

**Table 5.5 Foreign Currency Units per Pula**

Pula Exchange Rates Against Selected Currencies  
Nominal Exchange Rates Foreign Currency Per Pula

	1997	1998	% Change
South African Rand	1.2775	1.3177	3
US Dollar	0.2625	0.2243	-14.6
Zimbabwean Dollar	4.4831	8.3888	73.2
UK Pound	0.1583	0.1347	-14.9
Japanese Yen	34.09	25.45	-25.3
SDR	0.1944	0.1595	-18
Euro	0.2377	0.1923	-19.1

Real Exchange Rates (Index December 1996=100)

South African Rand	101.12	101.81	0.7
US Dollar	101.4	90.4	-10.5
Zimbabwean Dollar	146.28	183.89	25.7
SDR	107.66	92.79	-13.8

Source Bank of Botswana

### **A.3 Foreign Direct Investment**

Most foreign investment is attracted to the country because of its stability. The country intends further to attract more investment to bring the needed capital to the country in order maintain the positive growth of the country and also to contribute in increasing the economic and social welfare of the economy, mainly creation of employment for improving the distribution of income. Many societies have benefited from the increased employment levels implying an increase in the level of income.

Foreign direct investment in Botswana stood at P57 726 million in 1998 and the highest proportion of this amount was investment in the mining industry. More foreign investment is expected in the tourism and manufacturing industry in the wake of the diversification of the economy away from the mining industry.

**Table 5.6 International Investment Position (P million)**

	1994	1995	1996	1997	1998	1999
NET INTERNATIONAL INVESTMENT	8366.6	10304.8	14776.4	16809.4	20669.5	23807.7
A. FOREIGN FINANCIAL ASSETS	13815.8	15934.3	21853.3	25007.1	30695.0	33903.2
1 Direct Investment Abroad	1316.6	1834.4	2101.7	1540.8	1148.2	1163.2
Equity Capital	1308.3	1826.0	2101.7	1519.3	1144.0	....
Other Capital	8.3	8.4	-	21.5	4.2	....
<i>Portfolio Investment Abroad</i>	73.2	174.1	506.7	779.8	1130.9	1179.9
Equity Securities	43.7	129.1	385.4	546.1	754.1	....
Debt Securities	29.5	45.0	121.4	233.7	376.9	....
<i>Other Investment Abroad</i>	465.4	674.7	922.5	1076.9	1930.5	2707.8
Trade creditors	105.1	215.9	348.6	178.2	276.2	...
Loans	8.3	8.5	0.2	0.2	-	....
Currency and Deposits	219.4	213.4	492.4	883.8	1638.6	...
Other assets	132.6	237.1	81.4	5.7	15.6	...
<i>Reserve Assets</i>	11960.6	13251.1	18322.4	21618.5	26485.4	28852.3
Special Drawing rights	101.3	118.9	141.2	152.8	205.2	180.1
Reserve position in IMF	64.8	84.5	97.3	90.3	173.0	143.6
Foreign exchange	11794.5	13047.7	18083.8	21375.4	26107.1	28528.6
B Foreign Liabilities	5449.2	5629.5	7076.9	8197.7	10025.5	10815.5
1 Direct Investment in Botswana	2713.2	3178.2	3856.0	4468.3	5772.6	6292.6
1.1 Equity Capital	753.9	1246.2	1418.8	1605.6	2369.4	...
1.2 Other Capital	1959.6	1932.0	2437.2	2862.7	3403.2	...
2 Portfolio Investment in Botswana	29.6	45.2	190.6	230.5	152.4	122.4
2.1 Equity Securities	-	0.7	6.9	2.0	3.7	...
2.2 Debt Securities	29.6	44.9	183.8	228.5	148.7	...
3 Other Investment in Botswana	2706.4	2405.7	3030.3	3498.9	4100.5	4400.5
3.1 Trade creditors	135.2	246.1	664.7	505.5	544.6	...
3.2 Loans	1981.1	1592.2	1809.2	2324.4	2785.6	...
3.3 Currency and Deposits	105.8	98.9	99.7	90.1	74.9	...
3.4 Other liabilities	484.3	468.5	456.7	578.9	695.4	...

Source: Botswana Financial Statistics 2000

## Industrial Development Policy

The main thrust of Botswana is to foster a core-manufacturing sector that is export focused, highly productive, competitive and sustainable and provides diversification of exports, output and dependable employment.

The process of economic integration has advanced with Botswana geared to increase the benefits of foreign trade and investment. Positive developments include the removal of exchange controls, harmonization of the regional political and economic environment, expansion and advancement in telecommunications and technology.

The country is geared towards sustainable development and diversification in trade and investment against the backdrop of a competitive emerging global market. Increased levels of investment are seen as vital to the economy of Botswana. Opportunities of inward investment are welcome, transfer of technology, to investigate segments within the economy that offers prospects of import substitution and have export potential.

Botswana Export Development and Investment Authority (BEDIA)) has been formed to promote inward investment, focusing on the manufacturing area and Hatab has been formed to promote tourism. According to the available data foreign investment into Botswana has been increasing since 1994 thus showing a positive response towards this area.



#### A. 4 Foreign Aid

At independence 57% of government revenues were financed by grants from Britain and these were used to finance development projects and recurrent budget support. In the next ten years development spending has increased more than seven folds in money terms, negotiations have been entered with a wide range of international agencies and bilateral sources. In 1970 the influx of aid was to finance the newly discovered copper nickel and associated infrastructure. This project was to become a major source of direct employment, diversify exports and increase government revenues (Harvey and Lewis 1990: 37).

Aid came mostly from the United Kingdom, Sweden, Norway, Germany and USA with most grants coming from Britain. In 1980 bilateral assistance averaged \$80 million, 80-90% of the aid came from these five countries. Other grants came from other sources, \$5 million was received from Non Governmental Organizations; Lutheran Foundation, Organization of Netherlands volunteers, the US Peace Corps and the Danish Volunteer Service (ibid).

The Government of Botswana has been able to provide donors with programmes of agendas and projects already in development plans. These has increased the Botswana's level of ownership of various donor financed projects.

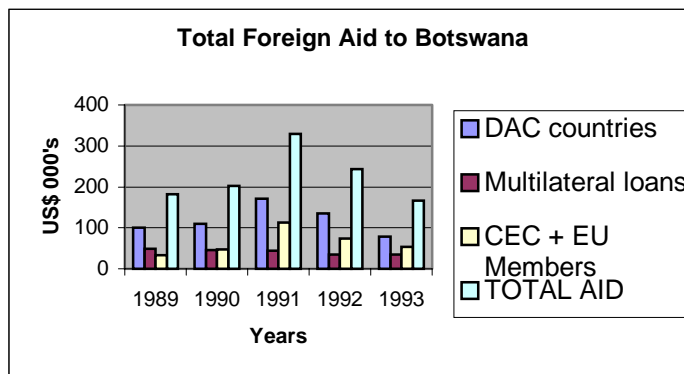
In 1987 aid was as high as \$217 million, which was one of the highest per capita aid level in the world at the time and in 1993 aid was down to US \$112 million, since then aid has been decreasing and most donor agencies have begun to leave the country.

The shortage of skilled manpower has been severe in Botswana since independence as well as poor physical and social infrastructure. Aid from the international community has played an important role in this regard. The country has undergone positive economic growth for the past decades considering that the country was one of the poorest in the world at independence 1966.

Aid was more significant during the early years of independence in the 1960's. The amount of aid to Botswana has been decreasing since the country entered into a phase of rapid economic growth.

Aid to Botswana since 1989 in (US Dollar million).

Figure 5.2



#### A.5 Borrowing from Abroad

Botswana has incurred foreign debt mainly to finance Government budget deficit and balance of payments deficit. The foreign debt is still manageable and is unlikely to increase in the short term, the government deposits at the central bank will mainly finance any deficits occurring in the next fiscal years. The debt, which has accumulated to Botswana, is on concessionary terms of which the cost of it is less than can be earned on foreign exchange reserves. It is noticeable from the table below that the total external debt for Botswana stood at P1, 267.8 million in 1994 and in 1999 the debt has risen to P1, 911.0 million it is anticipated that in the long term the debt may rise further due to the fact that the proportion of donor funded development expenditure has fallen over the years to about 12%. Botswana has graduated

from the group of least developed countries to a lower middle-income country hence most donor agencies have left the country. Donor funds may be substituted by external borrowing. A major risk associated with foreign financing may occur if they may be a significant decline in the price of important export commodities such as diamonds. The country will need to borrow to avoid balance of payment crisis. Currently the total external debt of Botswana is around 10% of GDP in 1998 down from about 30% of GDP in the 1970s.

The foreign exchange reserves act as an insurance against external debt problems. Foreign exchange reserves of Botswana stood at P26 485 million (about US \$5 369 million) in 1998, an increase of 22.5% over the twelve-month period from December 1997.

**Table 5.7 Botswana Public Sector External debt (In Pula Million, As at March 31<sup>st</sup> each year)**

	1994	1995	1996	1997	1998	1999
<b>Loans from Governments</b>	<b>246.7</b>	<b>267.4</b>	<b>321.8</b>	<b>403.3</b>	<b>459.4</b>	<b>460.7</b>
United Kingdom	0	0	0	0	0	0
United States	61.2	61.1	115.8	150.2	94.3	94.4
China	4.9	5.6	15.7	51	81.7	82
Denmark	2.1	2.5	0	0	0	0
Arab States	0	0	0	0	0	0
Germany	0	0	0	0	0	0
Kuwait	18.8	26.6	34.6	49.9	58.8	59.1
Saudi Arabia	33.4	20.8	24.3	24.1	24.6	24.8
Sweden	12.2	12.1	0	0	0	0
Belgium	3.9	5	5.3	5.3	5.3	5.4
Japan	110.2	133.7	126.1	122.8	194.7	195
<b>Loans from Organizations</b>	<b>994.6</b>	<b>1,083.10</b>	<b>1,091.10</b>	<b>1,361.50</b>	<b>1,403.50</b>	<b>1,421.20</b>
International Dev. Association	28.2	26.1	34.7	38.7	40.1	41.1
IBRD (1)	204.9	271.9	167.2	162.7	130.8	130.9
UNDP (2)	0	0	0	0	0	0
African Dev. Bank	619.6	620.8	673	829.5	825	840.5
OPEC Special Fund	26	23.7	25.4	26.6	25.5	25.6
Commercial Bankers	5.1	5.1	5.8	5.6	0	0
CDC (3)	0	0	0	0	0	0
European Investment Bank	59.7	84.9	108.9	221.3	298.4	299
BADEA (4)	38.5	38.7	72.9	75.5	83.7	84.1
Export Development Corp.	12.6	12.6	3.2	1.6	0	0
<b>Botswana Registered Bonds</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Suppliers Credits &amp; Other Loans</b>	<b>26.5</b>	<b>26.5</b>	<b>27</b>	<b>26.2</b>	<b>28.7</b>	<b>29.1</b>
<b>Total</b>	<b>1,267.80</b>	<b>1,377.70</b>	<b>1,439.90</b>	<b>1,791.00</b>	<b>1,891.60</b>	<b>1,911.00</b>

1 International Bank for Reconstruction and Development

2 United Nations Development Program

3 Commonwealth Development Corporation

4 The Arab Bank for Economic Development In Africa

Source: Ministry of Finance and Development Planning

## B. DOMESTIC ENVIRONMENT

### B.1 Economic Growth Rate GDP/ GNP

The Republic of Botswana engages in five-year development planning of the economy. The country has undergone eight development plans since independence; the latest one is the National Development Plan 8 (1997/8- 2002/3).

The growth domestic product at nominal prices was estimated to have grown at 14.2% from P20.4 billion in 1997/8 to P23.3 billion in 1998/9 lower than the growth of the previous year of 16.5%. Most sectors registered significant growth rates during the period. The mining sector, which is the mainstay of the economy, slowed down at a growth rate of only 6.1% in 1998/9 compared to 18.8 % in 1997/8. This was as a result of the weak international market following the Asian financial crisis. The Agricultural sector only registered 1.4% compared to 5.4% in 1997/8 due to the persistent drought. Other sectors have shown positive growth rates i.e. other non-mining sector indicating strong emphasis on the diversification of the economy away from the mining sector. The non-mining sector recorded 9.0% in 1998/9 compared to 7.3% in 1997/8.

Taking 1985/6 prices (constant) the economy slowed down from a growth rate of 8.0% 1997/8 to 4.5% 1998/9. The slow growth rate was as a result of the poor performance of the mineral and the agricultural sector; these sectors are considered to be the main sectors of the Botswana economy. Minerals are depletable resources hence heavy reliance on this sector can harm the economy in the near future. The economy is kept on growing by concentrating on other potential engines of growth.

**Table 5.8 GDP growth rates constant 1993/94 prices- Percentages**

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95
Agriculture	3.6	2.7	2.2	-0.6	-0.9	-3.5
Mining	-3.3	9.3	-0.2	-4.3	5.3	-1.3
Manufacturing	4.8	6.6	6.6	-0.7	-0.7	25.2
Water and Electricity	2.2	8.5	5.9	16.5	14.8	6.6
Construction	25.1	7.3	4.8	-14.7	3.6	6.3
Trade Hotels and Restaurants	17.9	-11.3	-8.5	2.2	65.0	19.1
Transport	7.7	15.0	14.2	7.8	1.2	7.8
Finance, real Estate and Business Serv.	27.9	8.4	4.1	16.5	8.0	8.7
General Government Services	2.0	7.9	17.0	4.6	3.3	3.3
Social and personal services	16.3	7.0	5.6	3.9	1.7	7.3
+ Adjustments Dummy Sector	2.7	-2.8	3.4	5.3	17.9	4.7
Customs Duties	8.5	30.0	32.9	-0.6	-25.5	14.7
Total GDP	<b>5.5</b>	<b>8.7</b>	<b>6.3</b>	<b>-0.1</b>	<b>4.2</b>	<b>3.5</b>
GDP excluding Mining	<b>12.1</b>	<b>8.3</b>	<b>10.5</b>	<b>2.4</b>	<b>3.5</b>	<b>6.1</b>

Source: National Accounts Statistics of Botswana 1974/75 to 1994/95

### B.2 Inflation

Botswana is faced by a number of determinants of inflationary pressures; like other small open economies: inflation from trading partners such as South Africa, value of the Pula against trading partners, fiscal and monetary and other developments in the domestic economy e.g. government policies on cost recovery or user charge. The actual inflation for the period March 1991 to March 1996 averaged 12.5%. The cause of inflation was due to the administered prices on health fees and changes in the exchange rates of the Pula against some major trading partner currencies. The highest inflation rate recorded was at the

peak of 17.7% in 1992. Most of this inflation is imported from South Africa, the country's major trading partner.

The available data shows that the average rate of inflation in Botswana during the year 1999 was around 7.2% higher than the 6.5% recorded in 1998. The cost of living index rose from 115.3 in December 1998 to 123.3 in December 1999.

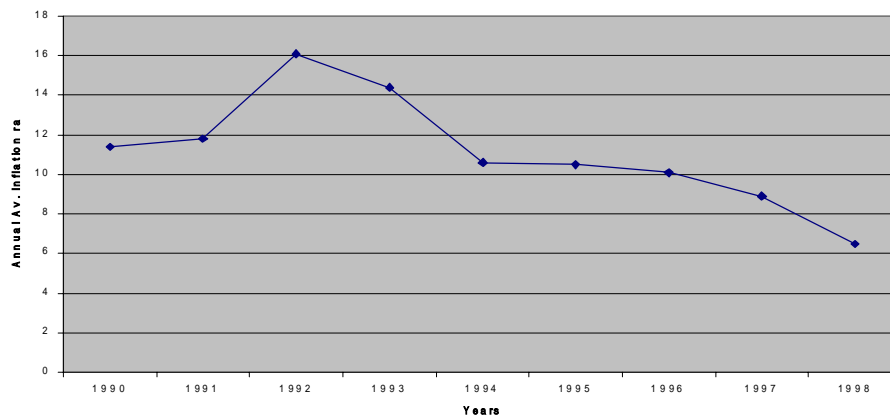
**Table 5.9 Annual Rate of Inflation in Percentages from 1990 to 1999**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Average
1990	11.3	11.8	11.5	11.7	11.4	10.6	10.6	10.9	10.9	11.2	12.8	12.0	11.4
1991	12.0	11.3	11.3	10.7	10.8	11.1	12.0	11.9	12.5	12.6	12.3	12.6	11.8
1992	12.7	13.7	14.6	16.1	16.9	17.7	17.3	17.4	17.1	16.9	16.7	16.5	16.1
1993	17.2	16.5	15.4	14.9	14.3	13.6	14.3	13.9	13.4	13.4	13.1	12.7	14.4
1994	11.4	11.5	11.1	10.5	11.3	11.2	10.2	10.2	10.2	9.7	9.8	9.8	10.6
1995	10.4	10.5	11.1	10.8	9.8	10.2	10.1	10.5	10.8	10.8	10.8	10.4	10.5
1996	10.5	10.3	10.2	10.1	10.3	10.4	10.4	9.9	9.7	9.8	9.8	9.6	10.1
1997	9.1	9.4	9.3	9.3	9.7	9.0	8.9	8.5	8.5	8.5	8.2	7.8	8.9
1998	7.7	7.0	6.9	7.3	6.6	6.1	5.9	6.4	5.9	5.9	6.2	6.4	6.5
1999	6.7	7.4	7.8	7.2	7.0	7.2	6.9	7.0	7.6				

Source: Statistical Bulletin September 1999 Volume 24 No 3

**Figure 5.3**

**Botswana Annual Average Inflation Rate from 1990 to 1998**



### B.3 Consumption

In 1994/95 Government consumption expenditure was P3 341 million at constant 1993/94 prices compared to a provisional estimate of P3 270 million, and private final consumption was P3 867.3 million compared to provisional estimate of P3 155 million. Government consumption increased by 5.1% while private consumption expenditure increased by 0.6% during this period. From the table below private consumption exceeded government consumption during the first decade after independence indicating the period of high economic growth. This period the economy of Botswana showed positive growth emerging

from abject poverty. Private consumption was five times more than government consumption; this ratio has declined over the years indicating an increase in government consumption and a decrease in private consumption, implying a reduced role of the private sector. This period of decline of private final consumption is characterized by decrease in the rate of growth of GDP.

Consumption expenditure in urban areas averaged P1 258 compared to P672 and P392 in urban villages and rural areas. The national average stood at P716 compared to P197 in 1985/86. Consumer preferences have changed over the years. The main items in household budgets are food 22%, housing 15%, transport and communications 17%. These three items are the main considerations in household budgetary decisions. In towns transport and housing are the main items in consumption budget.

**Table 5.10 Government Final Consumption and Private Final Consumption**

Years	Government Consumption			Private Final Consumption		
	P Million	Change %	Ratio of GDP	P Million	Change%	Ratio of GDP
1974/75	335.9		19.2	1099.3		62.7
1975/76	407.5	21.3	19.6	1230.8	12	59.3
1976/77	488	19.8	22.6	1346.3	9.4	62.3
1977/78	528.3	8.3	20.5	1457.1	8.2	56.5
1978/79	509.4	-3.6	18	1703	16.9	60
1979/80	597.4	17.3	18.4	1851	8.7	57
1980/81	695.4	16.4	19.5	1773	-4.2	49.8
1981/82	779.9	12.1	20.4	1782.2	0.5	46.6
1982/83	869.2	11.5	19	1602.5	-10.1	36.15
1983/84	963.8	10.9	19.5	1556.5	-2.9	31.5
1984/95	1127.1	16.9	21.3	1832.6	17.7	34.7
1985/86	1223.3	8.5	21.5	2140.9	16.8	37.7
1986/87	1493.5	22.1	24.3	2107.8	-1.5	34.2
1987/88	2000.7	34	28.3	2149.1	2	30.5
1988/89	2098.7	4.9	24.2	2489.9	15.9	28.8
1989/90	2361.6	12.5	25.9	3316.2	33.2	36.3
1990/91	2417.5	2.4	24.4	3790.3	14.3	38.2
1991/92	2506.9	3.7	23.8	4024.3	6.2	38.2
1992/93	2956.3	17.9	28.1	3690.1	-8.3	35
1993/94	3179.7	7.6	29	3843	4.1	35
1994/95	3341.3	5.1	29.4	3867.3	0.6	34.1

#### **B.4 Investment and Capital Stock**

Increase in capital stock takes place through investment or gross fixed capital formation. During the past years gross fixed capital formation fluctuated a great deal, government therefore continued policies to refine existing ones to create an environment so that investment in the private sector is generated on its own. The economic environment in the country must be conducive for both domestic and foreign investment. Government must also be aggressive in implementing policies that will increase domestic savings so that sufficient pool of funds is available for domestic investment.

Government has engaged in a policy for privatization, which will ensure competition in the economy, thereby making effective decisions about investment projects, this could assist in the development of the private sector and also bring confidence in the capital market, enhance competition domestically and both internationally. The government is trying to remove the monopoly status of some of these organizations

such as Botswana Telecommunications Corporation; commercializing them so as to provide a boost towards the development of the capital market.

Gross capital formation increased from P2 954 million in 1993/94 to P3 059 million in 1994/95 an increase of 4,0%. In real terms gross capital formation decreased from P2 954 million to P2 768.3 million a decline of 6.3%, mainly due to the slow down of the economy. In 1994/95 capital formation comprised of P3 059 million gross fixed capital formation and P 13.7 million changes in inventories. The ratio of gross fixed capital formation to gross domestic product fluctuated between 38% and 25%.

**Table 5.11 Investment and Capital Stock**

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95
<b>Change in stock 1, 2</b>	<b>384.4</b>	<b>322.4</b>	<b>-13.3</b>	<b>165.3</b>	<b>204.4</b>	<b>13.7</b>
Sale of goods for resale	221.0	83.7	31.8	49.9	52.8	-267.7
Intermediaries	69.0	52.0	50.5	63.3	42.7	-21.3
Livestock	70.1	71.0	-216.4	-47.8	25.6	-20.7
Finished goods and Work in Progress	24.3	115.7	120.8	99.9	134.5	323.3
<b>Gross fixed Capital Formation</b>	<b>2080.9</b>	<b>2365.3</b>	<b>2473.4</b>	<b>2544.9</b>	<b>2750.0</b>	<b>3058.9</b>
Residential Buildings	272.0	518.5	458.3	359.6	457.1	376.1
Non residential Buildings	316.8	340.7	428.6	530.3	822.4	872.6
Roads	30.2	25.5	66.2	69.5	92.5	122.0
Other Construction	290.5	311.4	457.1	416.2	270.7	405.3
Transport and Equipment	257.8	48.1	342.3	398.1	264.2	511.3
Other machinery and equipment	913.6	821.1	720.9	771.3	843.0	771.6
<b>Gross Capital Formation</b>	<b>2465.3</b>	<b>2687.7</b>	<b>2460.1</b>	<b>2710.3</b>	<b>2954.4</b>	<b>3072.6</b>
<b>Gross Domestic Product (GDP)</b>	6490.7	7496.5	8298.6	9045.4	10972.2	12172.0
Ratio GCF to GDP %	38.0	35.9	29.6	30.0	26.9	25.2

Source: Extract, National Accounts Statistics Botswana 1974/75 to 1994/95

## B. 6 Money Supply

The growth rate in money supply aggregates during the 12-month period to October 1999 continued to be significant.

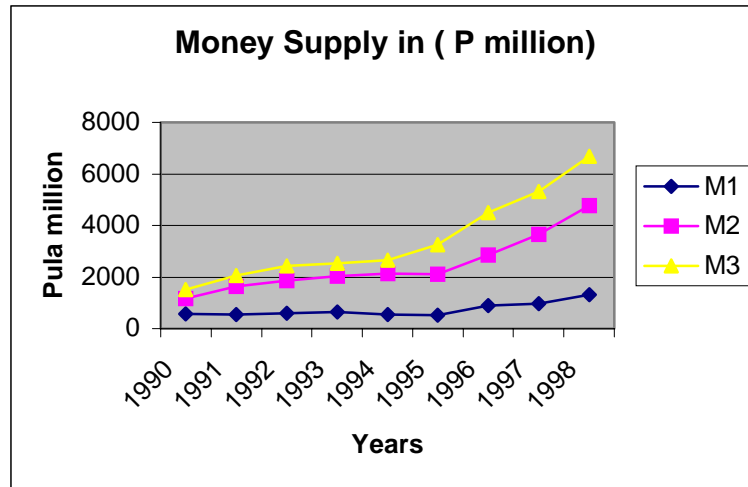
M1 comprises of currency in circulation plus demand deposits; this grew by 16.8% from P1 304 billion in October 1998 to P1 524 billion October 1999. This was due to the increase in currency outside banks demand deposits, which rose by 13.1% and 18.3% respectively. M2 referred to as broad money, call money plus savings, notice and time deposits, this increased by 18.6% over 1998 to 1999 from P4 675 billion to P5 554 billion. The growth of M2 is attributable to 22.2% interest bearing deposits.

M3 is equal to M2 plus Bank of Botswana Certificates (held by non bank private sector) increased by P6 537 billion to P7 590 billion. The Bank of Botswana Certificates rose by 4.9% to P2 046 billion.

M4 is equal to M3 plus foreign currency deposits increased by 15.4% from P7 496 billion as at October 1998 to P8 054 billion to October 1999.

Foreign assets of banking system rose from P27 750 billion in October 1998 to P27 910 billion in October 1999 with an increase of 1.5%.

**Figure 5.4 on Money Supply (P million)**



On average money supply grew by 12% during National Development Plan 6, the lower rate of increase in monetary aggregates as a result of a shift in the technique of monetary control and liquidity management adopted since 1991.

The Bank of Botswana adopted the Open Market Operations to absorb the excess liquid from the market by introducing the Bank of Botswana Certificates. This also achieved the market determined positive interest rates; the effect of this was a reduction for the demand for credit by the private sector substantially.

### **B.7 Employment**

Lack of employment opportunities has been a major issue of concern to the existing government. The average annual growth rate of formal sector employment was 1.1% for the period 1991 to 1996 with labor force growing at 3.4% per annum. Unemployment rate rose by 14% in 1991 to 21% in 1994 according to 1993/94 Household income and Expenditure Survey. In 1991 formal sector employment stood at 222 800 and it rose to 235 400 in March 1996. The private sector remained the largest employer with 57% employment, followed by government 37.1% and parastatals at 5.9%.

The Botswana Government is engaged in efforts, which necessitates the creation of employment. The government has set up some subsidies schemes such as financial Assistance Policy in the effort of creating employment i.e. setting up self help businesses mainly in the rural areas where most research show that communities have gained in terms of employment increasing income distribution.

**Table 5.12 Estimated Total Number of Paid Employees by Sector and Economic Activity**

	1997	1998	1999/a
Agriculture	3800	4000	4700
Mining and Quarrying	8600	8600	8700
Manufacturing	23500	23100	24700
Water and Electricity	2600	2700	2600
Construction	19400	25100	29500
Wholesale and Trade	31900	33700	35000
Hotels and Restaurants	9200	9500	9700
Transport and Communications	8400	8500	9300
Finance etc.	4900	3600	3600
Real Est. & Business Activities	11700	12200	12800
Education	4400	4700	5400
Health and Social Work	1900	1900	1900
Other Community Activities	1800	2000	2400
Private	119000	126200	137100
Parastatal	13100	13500	13300
Private and Parastatal	132100	139700	150400
Education/c	26900	30300	31800
Other	51000	52800	54400
Central Government	77900	83200	86200
Local Government/b	17800	18800	19000
All Sectors	227800	241700	255600

/a provisional figures hence subject to change

/b figures exclude Botswana Defense Force

/c Employees in schools excludes Ministry Headquarters

Source: Statistical Bulletin Volume 24 No.3

## C. Fiscal Position

### a. Government Expenditure

Government expenditure both recurrent and development are both aimed at providing services to all Batswana, to put infrastructure in place, to enhance development and most importantly to provide environment conducive for private sector expansion. In 1995/96 government contributed more than 17% to total GDP, the amount spent by Government has a large impact in economic growth. In 1996/97 Government grants and revenues amounted to P7 395 million and total expenditures and net lending amounted to P6 092 million with overall budget surplus of P1 302 million, mainly due to the improvement in the revenue situation of the mineral revenue. A budget deficit was recorded in fiscal year 1998/99 at P1 387 million, the first budget deficit in sixteen years after the one recorded in 1982/83.

**The Government of Botswana aims to spend within the limits of its revenues and grants, maintaining a balance budget.**

The following tables show government expenditure for period 1994/95 to 1998/99, development and recurrent Expenditure.



**Table 5.13 Government Development Expenditure (P million)**

	1994/95	1995/96	1996/97	1997/98	1998/99
<b>1 General Services</b>	<b>281.2</b>	<b>326.05</b>	<b>377.02</b>	<b>452.05</b>	<b>591.88</b>
General Administration	87.36	109.6	144.46	177.1	199.17
Public Order and Safety	25.46	30.09	79.59	107.02	131.64
Defense	168.3	186.36	152.97	167.93	261.07
<b>2. Social Services</b>	<b>501.01</b>	<b>620.1</b>	<b>823.69</b>	<b>967.34</b>	<b>1,295.01</b>
Education	247.03	329.81	499.52	559.58	666.18
Health	43.51	31.33	57.57	109.62	95.38
Food & Social Welfare Programmes	46.31	126.08	26.35	4.73	115.33
Housing Urban Regional Development	154.86	117.43	226.75	255.24	283.52
Other Community Services & Social Services	9.3	15.45	13.5	38.17	134.6
<b>3. Economic Services</b>	<b>594.17</b>	<b>725.76</b>	<b>1,038.73</b>	<b>1,276.15</b>	<b>1,047.08</b>
Agric. Forestry and Fishing	79.03	92.04	317.62	135.02	90.9
Mining	73.55	242.49	43.93	34.15	167.33
Electricity and Water Supply	88.66	209.47	271.94	633.68	331.29
Roads	129.94	120.57	171.38	221.03	252.91
Other	222.99	61.19	233.41	252.27	204.65
<b>4. Unallocated Expenditure</b>	<b>1.52</b>	<b>0.06</b>	<b>0.12</b>	<b>0</b>	<b>0.5</b>
Revenue Support Grants Urb. & Local Auth.	1.52	0.06	0.12	0	0.5
<b>Total Development Expenditure</b>	<b>1,377.82</b>	<b>1,671.97</b>	<b>2,239.56</b>	<b>2,695.54</b>	<b>2,934.47</b>

**Table 5.14 Government Recurrent Expenditure (P million)**

	1994/95	1995/96	1996/97	1997/98	1998/99
<b>1. General Services</b>	<b>992.27</b>	<b>1,115.15</b>	<b>1,256.26</b>	<b>1,575.77</b>	<b>1,893.60</b>
General Administration	571.84	683.64	766.67	905.07	1030.88
Public Order & Safety	136.28	155.57	173.72	212.87	311.98
Defense	284.15	275.94	315.87	457.83	550.54
<b>2. Social Services</b>	<b>1,162.73</b>	<b>1,409.27</b>	<b>1,657.65</b>	<b>2,076.63</b>	<b>2,709.97</b>
Education	689.81	836.81	1,018.47	1,226.57	1,609.46
Health	183.98	225.3	241.61	301.58	372.98
Food & Social Welfare Programmes	1.31	1.59	38.66	155.53	205.59
Housing Urban & Regional Development	228.69	278.69	276.45	299.74	386.17
Other Community & Social Services	58.94	66.88	82.46	93.21	135.77
<b>3. Economic Services</b>	<b>377.87</b>	<b>418.43</b>	<b>494.55</b>	<b>520.49</b>	<b>753.06</b>
Agric. Forestry & Fishing	175.31	191.78	195.68	244.17	349.11
Mining	15.81	17.17	20.54	24.34	33.89
Electricity & Water Supply	57.72	58.76	60.17	70.66	119.76
Roads	81.31	94.75	104.22	100.77	138.01
Other	47.72	55.97	113.94	80.55	112.29
<b>4. Unallocated Expenditure</b>	<b>478.39</b>	<b>566.78</b>	<b>635.49</b>	<b>755.72</b>	<b>908.68</b>
Public Debt Interest	84.47	91.59	91.41	86.24	94.64
Revenue Support Grants	357.72	403.19	472.08	567.48	706.04
FAP Grants	36.2	72	72	102	108
<b>Total Recurrent Expenditure</b>	<b>3,011.26</b>	<b>3,059.63</b>	<b>4,043.95</b>	<b>4,928.61</b>	<b>6,265.31</b>

Source: Ministry of Finance and Development Planning

#### **b. Public Debt Service Fund (PDSF)**

The Government of Botswana started the fund to make finance available to parastatals and other public sector organizations for investment in building the country's physical, financial and institutional

infrastructure. The country's infrastructure is now fairly developed, as are private sector financial institutions that are capable of accommodating the credit needs of the parastatals. With regard to this government has for the last few years adopted a policy of weaning parastatals from PDSF borrowing. The initial purpose of the fund was holding moneys for Government debt service payments.

This fund need some review, as it is believed that government is crowding out the financial institutions by continuing this fund.

**Table 5.15 Total Amount Outstanding in the Public Debt Service Fund**

Fiscal year	Total Loan outstanding (P million)
1991/92	1888.9
1992/93	2225.5
1993/94	2364.6
1994/95	2444.6
1995/96	2688.7
1996/97	2483.7
1997/98	2265.8
1998/99	2130.6

Source: Botswana Financial statistics July 2000

### c. Aggregate Tax Revenue

Aggregate tax revenue has increased gradually with the growth and development of the economy. In 1992 the tax revenue stood at P3 374 4 million and in 1998 the revenues had grown to P6 239.5 million. The increase is also attributable to the broadening of the sales tax base.

**Table 5.16 Aggregate Tax Revenues**

	1992	1993	1994	1995	1996	1997	1998
Tax Revenue	<b>3,374.4</b>	<b>3,677.2</b>	<b>3,632.7</b>	<b>4,019.9</b>	<b>5,198.5</b>	<b>6,768.5</b>	<b>6,239.5</b>
Customs & Excise	<b>998.4</b>	<b>822.3</b>	<b>711.8</b>	<b>829.4</b>	<b>896.2</b>	<b>1,186.3</b>	<b>1,265.3</b>
Mineral Revenue	<b>1,866.1</b>	<b>2,278.7</b>	<b>2,349.4</b>	<b>2,591.4</b>	<b>3,640.1</b>	<b>4,681.1</b>	<b>3,950.8</b>
Non- Mineral income tax	<b>369.9</b>	<b>420.5</b>	<b>386.9</b>	<b>356.9</b>	<b>385.0</b>	<b>537.3</b>	<b>607.0</b>
Other taxes:	<b>140.1</b>	<b>155.6</b>	<b>184.6</b>	<b>242.1</b>	<b>277.1</b>	<b>363.9</b>	<b>416.4</b>
Export Duties	0.5	0.5	0.4	0.5	0.4	0.4	0.4
Taxes on property	5.4	6.3	4.1	4.1	5.6	7.3	5.0
Motor vehicles	4.0	4.2	6.6	13.5	15.3	17.9	19.6
License fees	4.7	7.4	4.2	4.7	6.4	8.2	8.3
General sales tax	125.4	137.2	169.2	219.4	248.4	327.9	380.9
Airport tax	...	...	...	0.1	1.0	2.2	2.2

## 5.3 Botswana Tax System

Taxes are the source of revenue to the Government in order for it to finance its expenditures in enhancing public welfare. Income tax is a direct tax imposed on income earned by individuals and companies. It is moral and social duty of every resident of a country who enjoys the social and economic welfare provided by the state to contribute something from his income in the form of tax to the state. The authority of administering income tax system in Botswana is carried on by the Department of Taxes.

The tax system in Botswana is based on three principles, equity, efficiency, and economic effects. By efficiency a tax should be easy and cheap to collect. Tax should be fairly levied between one taxpayer and the other. This is to reduce the opportunities to avoid tax and to promote fairness. Tax can also have an impact in other sectors of the economy. Tax relief can stimulate one sector while imposition of heavy tax can restrain another sector.

In addition to being a mechanism for raising government revenue for government tax system is also used by government to pursue and achieve several economic and social objectives such as redistribution of income, stimulation of economic growth and expansion of employment opportunities.

### **A brief History of Botswana Tax System**

In 1899 the British Administrators imposed a Hut Tax, which required the occupants of each hut to pay tax. Over the years various taxes were introduced such as the Native Tax in 1909, Poll Tax in 1922 until Botswana's own post Independence Act in 1973, which started to address the economic and social, needs of the country. All taxes introduced before independence were not fair because they did not take into account the taxpayers ability to pay.

#### *Scope of Charge to Tax*

Gross income of every person for each tax year shall be the total amount in cash or otherwise accrued or deemed to have accrued in that tax year from every source situated or deemed to be situated in Botswana but does not include any amount of a capital nature

#### *Effective date of Accrual*

In the case of employment, an amount which accrues to a person shall be deemed to have accrued at the time of receipt, due and payable even when not actually paid and credited in the account, reinvested, accumulated, capitalized, carried to reserve or dealt with on his behalf.

In the case of a business the effective date of accrual will be at the time the transaction is credited in the books of accounts of such person, according to commercially recognized system of accounting and at the time he has an entitlement to the amount.

The Government of Botswana has two organs, which collect taxes. These are the Department of Taxes responsible for collecting income taxes and The Customs and Excise Department, which collects sales tax and the Customs and Excise Duties.

#### a. Types of Taxes

##### Direct Taxes

Administered by the Department of Taxes

1. Corporation Income Tax
2. Withholding Individual Income Tax Pay As You Earn (PAYE)
3. Withholding taxes on royalties, management fees, interest, dividends, and consultancy fees, Contracts with non Resident in excess of P5000, Entertainment fees
4. Capital Gains Tax
5. Capital Transfer Tax

Indirect Taxes administered by Department of Customs and Excise.

Sales tax and Customs and Excise.

### **Tax Collection And Assessment**

### *Corporate Tax*

A two-tier system of taxation is in operation, with basic tax rate at 15% and additional company tax at 10%. This 10% is a reserve for future declaration of dividends that is the amount will be used as a set off or credit against withholding tax on dividends. A company with additional company tax brought forward, when it declares dividends it utilizes this reserve for payment of withholding tax. When the amount is not enough then the company has to pay the shortfall. The set-off can be utilized against the 10% additional tax of the holding company and any resident associated company in a group situation.

Manufacturing companies are taxed at 5% and an additional tax of 10%. An application has to be made to the Ministry of Finance and Development Planning and an approval has to be obtained before the rate can be applied.

There is no additional company tax on non-resident companies tax rate is 25%.

### **Designated Companies (Cytax)**

These are companies designated by the Commissioner of Taxes by notice in writing and these companies are obliged to submit a declaration of their estimated tax every year within the first quarter of that tax year and they pay over the estimated tax to the Government of Botswana in four installments during that tax year. When the final installment of quarterly tax is due for payment and it appears to the company that the actual tax due for the year is likely to change the estimated quarterly tax, the company is obliged to submit an amended estimate and pay over the shortfall. At the end of the tax year these corporations submit a tax return on which adjustment will be made on assessment. If additional amount is charged then a penalty will be imposed on the shortfall of Cytax payments and if there is overpayment the taxpayer will be refunded. Most of the large corporations have been designated to pay taxes on quarterly basis and it is anticipated that these process will continue until all corporations are designated. The Department of Taxes is in the process of introducing self-assessment, which will replace the existing system. Other non-designated companies are also obliged to submit a tax return at the end of the tax year. The collection of taxes from these companies is done by the Collection Section, which takes responsibility of collecting all the taxes under the Department of Taxes.

The Act requires a person carrying on a business to submit his return with a copy of the books of accounts reflecting the true and full nature of the transactions of the business. Prior to this the companies have to appoint a public officer, representative taxpayer. Business accounting records are made up for a period of twelve months. The tax year is from July 1, to June 30, taxpayers are allowed to choose accounting period suitable to them.

### **Withholding Taxes**

#### **Pay As You Earn (PAYE)**

Firstly, employers are supposed to register with the Department of Taxes and thereafter deduct tax from each employee's remuneration on a monthly basis.

Employers are supposed to withhold taxes from employee remuneration monthly in accordance with the tax rates prescribed in the tax law. The Pay As You Earn system is based on the ability to pay principle, progressive rates are applicable. Those with high incomes pay higher taxes and those with low income pay lower taxes. Taxes withheld are suppose to be paid to the Department of taxes by the 15<sup>th</sup> day of the following month, failure to make payment by or on the due date may attract penalties.

## RATES OF TAXES 1998/99

Resident Individuals-1998/99		No-Resident Individual-1998/99	
Income	Tax Payable % On excess	Taxable Income	Tax Payable % On excess
0- 35000	0 + 5% over 20000	0-35000	0 + 5% over 0
35001-50000	750+ 10% over 35000	35001- 50000	1750 + 10% over 35000
50001-65000	2250 + 15% over 50000	50001-65000	3250 +15% over 50000
65001-80000	4500 + 20% over 65000	65001- 80000	5500+20% over 65000
80001-and over	7500 + 25% over 80000	80001- and over	8500+ 25% over 80000

Withholding Taxes From Dividends, Interest, Royalties, Management Fees and Consultancy Fees and Contracts with Non Residents

Any person making payment of the above is obliged to deduct taxes as required by the prevailing Income Tax Law. There is similar requirement to deduct tax fro dividends paid to residents and non-residents.

### *Capital Transfer Tax*

A tax is levied on the transfer by way of inheritance, donations, or gratuitous disposal of property of tangible and intangible movable or immovable property under the Capital Transfer Act. The donee or person, to whom property transferred by way of inheritance has devolved, is liable to capital transfer tax.

Capital transfer tax is charged on aggregate taxable value of all chargeable disposals made by a single donor to the donee in any tax year. Taxable value is the market value of the property on the date of disposal, according to rules specified in the Act.

Deductions from the aggregate value

- The first P100 000 of the distributable value of the estate.
- Any expenditure wholly, exclusively and necessarily incurred by the donee in effecting the disposal or obtaining possession of property; and
- All debts due by the donor to persons ordinarily resident in Botswana in respect to property disposed off.

### **Rates of Capital Transfer Tax**

Taxable person	Aggregate taxable Income	Rate
Persons (other than Company)	First P100 000	0 + 2% over 0
	100 001-300 000	2 000 + 3% over 100 000
	300 001-500 000	8 000 +4% over 300 000
	500 001 and over	16 000 +5% over 500 000
Company (resident or non-resident)		12.5%

### *Capital Gains Tax*

The following capital gains are taxable;

Gains arising from disposal of capital assets, buildings and company shares. Such gains are not taxed individually but aggregated for a tax year.

Capital gains are part of an individual's gross income but are charged at different tax rates.

Disposal gains liability arises on disposal of:

- Moveable and immovable property, wherever is located, that belongs to a business that is carried on in Botswana.

- Company shares and Debentures and
- Residential property

*Exemptions from Disposal Gains*

- Plant and machinery upon which capital allowances have been granted.
- Mining property, mineral rights and mining or prospecting information.
- A taxpayer's principal private residence. A taxpayer is allowed only one principal private residence at a time, if he owns more than one he must designate one for the purposes of this exemption.
- Shares and debentures in a public company. A public company is a company listed in the Botswana share market and recognized as such by the commissioner of Taxes.
- Shares and debentures of a company that has been specifically exempted by the Minister under a Statutory Instrument.
- Immovable property owned by a company wholly owned by one or more of the following funds; approved provident fund, approved superannuation funds, motor vehicle insurance fund and statutory life insurance fund.

*Allowable deductions*

Any costs allowable for the purpose of disposal are allowable.

*Increase in Capital Value*

The cost of any immovable property incurred before 1 July 1982, is increased by a capital accretion factor or capital growth factor at 10% compound interest for a period of 12 months up to the time of disposal. This is done to correct the unfairness that may arise because capital gains might have occurred during the period when there were no capital gains.

The moveable properties are not however increased by the capital accretion factor.

*Indexation*

This is in relation to immovable assets acquired after July 1982. Some allowance for the effect of inflation over the period of ownership is accounted for. The cost is indexed up in line with the movements in the national cost of living index until the date of disposal. The cost of improvements is also subject to the same treatment.

Companies are taxable on the net aggregate gains at the rate of income tax applicable to companies and The net aggregate gains to other persons are taxable at the following rates:

Taxable Income	Tax
0-10 000	0
10 000-35 000	0 + 5% of excess over 10 000
35 000-50 000	1250 + 10% of excess over 35 000
50 000-65 000	2750 + 15% of excess over 50 000
65 000- 80 000	5000 + 20% of excess over 65 000
Over 80 000	8000 + 25% of excess over 80 000

Net capital losses are carried forward for only one year.

**Sources Situated in Botswana**

- A contract made in Botswana for the sale of goods even if delivery is to take place in or outside Botswana.
- Payment for services rendered or work performed in Botswana whether payment is made by resident or non resident.

- Services rendered outside or inside Botswana by Government employees, such as diplomatic services.
- Any pension, bonus, gratuity or pension granted for past services by Government or when services were performed in Botswana. If services were performed partly in and outside the country apportionment is necessary.
- Payment for services rendered by aircrew on owned or chartered aircrafts.
- Proceeds for disposal of any interest in mineral right situated in Botswana or the disposal of shares, capital or income of companies with such rights.
- Income from investments or business outside Botswana by Botswana residents who have obtained permission from the Bank of Botswana to carry on such businesses.
- Foreign business income, including rent, brought into the country.
- Foreign dividend and interest

### **Business of Farming**

Farming is significant to the Botswana economy. Farming includes livestock, agricultural or pastoral farming. It is considered a business when a farmer owns more than 300 cattle, 6 goats or sheep are equivalent to one beast. It is the traditional industry of the country. Agriculture has been given priority when considering tax inducements. Various allowance and loss relieves are available. Capital expenditure is allowed as a deduction from farming income and farming losses can be carried forward indefinitely.

### **Persons Exempt**

- Bank of Botswana or any bank wholly owned by the government
- Local authority
- Any organization to which order has been made, diplomatic Immunities and privileges
- Religious charitable, educational institution of a public character or a trust for nature conservation scientific research or similar purposes
- Approved benefit fund, provident fund, superannuation fund
- Building society
- Mutual savings bank or mutual savings association
- Trade union or registered employees association under the Trade unions and Employers' Organization Act
- Employers' association approved by the minister
- Association of individuals non profit making, formed to promote sport and social amenities
- Political party registered with the Societies Act
- Motor Vehicle Insurance Fund
- Southern African Center for ivory making
- Botswana Institute of Accountants or any professional body established by statute
- Stock exchange established in Botswana by statute

### **Allowable Deductions General**

Expenditures wholly, exclusively and necessarily incurred by that person during the tax year in the production of income are deductible.

### **Specific Deductions**

- Any expenditure of a capital nature
- Closing stock
- Legal fees incurred by the person in respect of any claim, dispute or action at law arising in the ordinary operations of carrying on a business.
- Bad and doubtful debts

- Interest on loans at commercial rate
- Research and development fees for the business or contributions to any association, which does the same
- Replacement of loose tools
- Subscription fees
- License fees
- Expenditure incurred by a firm for purposes of having its shares listed by the Botswana Stock Exchange
- Entertainment and hospitality, which upon the commissioner's opinion are reasonable
- Management and consultancy fees paid to a non resident which upon the commissioner have been incurred for the business
- An employer's contribution to an approved superannuation fund for the benefit of employees is deductible. Successive deductions are deductible during the tax year in which there are made. Annual contribution for each employee shall not exceed P9000 or twenty percent of employment income whichever is lower.
- Retirement benefits and maintenance fees were a former employee is deceased.
- Premium on use of land and buildings, successive equal deductions divided the number of years of use or occupation or one twenty-fifth of that amount whichever is greater.
- Claim on lease improvements under an agreement with the lessor.

## **b. Tax Assessment and Collection Methods**

### **b.1 Assessment**

Under the income tax act all persons are suppose to furnish a tax return showing the persons gross income in respect of any tax year within two months after the end of that tax year except individuals whose income is only from remuneration. The tax return has to be signed and in case of persons engaged in a business the return has to be accompanied by the books of accounts of the business presented on comparative basis. In case the taxpayer is not able to furnish a tax return, an extension has to be requested in writing to the commissioner of taxes. The commissioner has the discretion to grant the taxpayer an extension for a period up to 60 days if the records are up to date. The tax officials examine the tax return and financial statements submitted and if the information provided is satisfactory then an assessment is raised on the taxable income of the taxpayer. The commissioner may make the assessment to the best of his judgment and he is required to contact the taxpayer in case of some differences in the returns to avoid objections. Such an assessment may be made within a period of four years.

When a person fails to submit a tax return the commissioner informs him in writing requesting him to furnish a tax return within a specified time. If after an expiration of such time the person whom the notice was served fails to submit a tax return the commissioner may proceed to make an estimated assessment and impose a penalty.

### **Additional Assessment**

An additional assessment may be made in the following cases;

- The tax charge is less than the amount that has been charged;
- Any assessed loss is greater than the amount at which it should have been assessed or;
- A refund has been made in excess of the amount that should have been refunded.

### **Reduced Assessment**

This may be issued in the following conditions;

- The tax charged is greater than the amount that should have been charged;



- Any assessed loss is less than the amount at which it should have been; or
- A refund has been made which is less than the amount that should have been refunded

The commissioner may also reduce an assessment under the order of the board of adjudicators. When a person notifies the commissioner that he was assessed on an erroneous return the commissioner may issue a reduced assessment accordingly, in accordance with the reasons advanced by the taxpayer.

Reduced assessment may be issued in the case of small taxpayers other than a company or a partnership when a person fails to lodge an objection in the absence of a tax return, when the commissioner is satisfied that the assessment is excessive he may within four years after the issue of the assessment reduce or cancel the assessment. This wide discretion deals with small taxpayers with tax payable less than P1000.

### **Provisional Assessment**

The assessment is made from a provisional return, which is filed by a person who was previously granted an extension. The assessment is provisional and any tax is due and payable within the specified time, 30 days after the issue of an assessment. When the taxpayer expresses dissatisfaction to the provisional assessment he may object to the assessment as required by the law and this objection will be in force after the issue of additional, reduced or confirmation of the additional assessment.

### **Estimated Assessment**

In case of a taxpayer not filing a return the commissioner may to the best of his judgment raise an estimated assessment in that tax year.

### **Time limits of the Assessments**

An assessment may be made before four years or after four years if the commissioner is satisfied that material fact were missing; failure to furnish a tax return, and an incorrect tax return was filed. A notice of assessment is final when no objection is received within sixty days from the date of issue of an assessment.

### **Objection to an Assessment**

A taxpayer may lodge an objection to the assessment by notice in writing to the commissioner within sixty days after the date of notice of the assessment. An objection should specify particulars of the grounds on which it is made. The commissioner has to consider any objection lodged in accordance with the law and may disallow or allow it either wholly or in part, according to the evidence in place and he will by notice in writing inform the concerned party. If the taxpayer is not satisfied by the commissioner's decision he may in writing appeal to the High Court or at his option to the Board of Adjudicators. This appeal has to be lodged with the commissioner within sixty days after the date of service of his decision on the objection or within such time as the commissioner may for good cause allow. The commissioner will therefore forward the appeal to the High Court or the Chairman of the Board of Adjudicators with the necessary documents. After such action the commissioner will notify the taxpayer of actions taken. Upon hearing such case the board or the court may confirm, annul or order the reduction of an assessment, or may make other orders as it deems fit. The commissioner or the appellant may appeal to the High Court from any decision of the Board of Adjudicators which involves a question of law, including questions of mixed fact and law or where the amount of tax exceeds P10000, but in any other case the decision of the Board should be final and no subject to further appeal.

## **b. 2 Collection of Taxes**

Strict rules are necessary to ensure efficient collection of taxes. The rules outline the following:

- Precise date of when the tax is payable;
- What consequences will be if the tax remains unpaid;
- What procedure to be followed when recovery action becomes necessary.

Tax charged on the assessment is due and payable within thirty days of the date of service of the notice of assessment. More emphasis is put on the correct service of notice of assessment. The commissioner of Taxes may upon request grant taxpayer's extension of time on the payment of taxes, or allow payment of taxes by installments. In the event of default of payment of an installment, the whole outstanding balance becomes payable forthwith. Overdue taxes are subject to interest at 2% for each month or part of a month during which the tax remains unpaid. The commissioner may upon request by the taxpayer or his own discretion waive the interest either wholly or in part depending on the reasons advanced by the taxpayer.

The time limit for payment of taxes deducted by employers from remuneration paid to employees is fifteen days after the end of the month during which the tax was deducted or should have been deducted. On ceasing to be the employer the time limit is fifteen days from date of cessation. Interest for late payment of withholding tax may be imposed on the on the person who should have deducted and paid over the tax. That person is not permitted to recover the interest from the recipient of the income. The interest on withholding is charged on taxpayers in order to ensure compliance on their part.

When recovery of tax debt fails it is becomes necessary to resort to court for recover of taxes. The commissioner may request the chief immigration officer to prevent the taxpayer absconding with unpaid taxes from leaving the country.

Tax may also be recovered from the representative taxpayer if while the tax remains unpaid;

- He disposes any amount in respect of which the tax is charged.
- Disposes or parts with any assets or money in his possession or which comes to him after the date on which the tax is payable.

The commissioner is empowered to appoint any person as agent of a taxpayer for the recovery of tax. An employer or bank may be appointed agent for collection of taxes. When the agent appointed fails to collect the taxes he may be personally liable for payment of the taxes.

The commissioner of taxes has preferential claim for payment of taxes from the date on which the tax becomes due and payable. The order of payment of tax debts from an insolvent, or company in liquidation, or under judicial management is provided in the Insolvency act and the Companies Act of Botswana.

#### **d. Offenses and Penalties**

The Income Tax Act specifies offenses and penalty measures in order for taxpayers to comply with the requirements of the act.

- Failure to submit a tax return commencing 30 days after the date on which the return should have been lodged, interest at the rate of 2% is charged to the taxpayers account, the Commissioner may also charge a penalty up to P500 which should not exceed the taxpayers tax liability.
- For fraud the taxpayer may be liable to a penalty not exceeding twice his tax liability and for neglect the penalty should not exceed his tax liability for each tax year.
- When a taxpayer fails to appoint a representative taxpayer he or she is liable to a penalty of P10.00 everyday as long as the default continues.
- Failure to deduct taxes on the interest payment, dividends, royalties, and contracts with non-residents is liable to a fine of P4000 or imprisonment for two years.
- Any person not complying with the requirements of the act is liable to a fine of P1000 or one year in prison. Intention to evade liability to tax carries a fine of P4000 or two years in prison.

### **Indirect Taxes**

#### **a. Sales Tax**

An Act of Parliament introduced sales tax in Botswana in 1982. The tax rate is 10% for most items; tobacco is taxed at 15%. Variable rates are applied on alcoholic and non-alcoholic beverages. At the time

of its inception a limited number of items were covered and these were petrol, diesel, and alcoholic beverages such as beers, still wines, sparkling wines and spirits.

The administration of taxes is mandated to the Department of Customs and Excise under the Ministry of Finance and Development Planning. In conformity with the operations of the department tax is paid at the port of entry into the country and in the case of local manufactured goods at the level of manufacturers.

In 1989 government widened the sales tax base by bringing consumer goods into the taxable bracket. The 1989 budget speech includes an extension of sales tax to tobacco and selected electronic goods and in 1990 further expansion was made to include motor vehicles. Further expansion were made on sales tax to include services, taxable on progressive basis; accounting auditing, car rental Management and consultancy, surveying and real estates etc.

In order to effectively collect the sales tax on goods and services provided for in the sales tax schedule it has been necessary to register traders involved with sales taxable commodities. The total registrants as at March 1997 were 1045.

### **Sales Tax Revenue Yield**

The sales tax has over the years continued to increase concomitant with the progressive broadening of the sales tax base. Table below shows the sales tax revenues from 1989 to 1997.

Financial year	Sales Tax Revenue Yield (Pula)
1988/89	16 784 563.00
1989/90	34 959 359.00
1990/91	58 496 251.00
1991/92	71 630 761.00
1992/93	125 389 419.00
1993/94	137 189 660.00
1994/95	173 815 543.00
1995/96	211 526 201.00
1996/97	247 486 796.00

Most goods have been embraced into the tax net and some mileage has been made into the service industry it is the time now that the government should consider introducing or reforming the current sales tax into a general sales tax or a value added tax.

### **b. Customs and Excise Duties**

Customs and Excise duties are collected by the Department of Customs and Excise under the prevailing legislation. The tax rate varies from zero to 57.5%. The customs union agreement requires Botswana to apply laws relating to Customs and Excise duties, which are similar to those in force in South Africa, as amended from time to time.

#### Customs and Excise Revenues

Customs and Excise duties are collected for the purpose of the common revenue pool and are shared according to a given formula.

Botswana Annual share of Revenue from the Revenue Pool

Year	Amount (thousands UA)
1984/85	180 544
1985/86	174 428
1986/87	232 496
1987/88	284 966
1988/89	364 180
1989/90	467 548
1990/91	661 223
1991/92	1 033 719
1992/93	1 341 965
1993/94	1 106 072
1994/95	939 468
1995/96	1 084 026
1996/97	1 156 056

Source: Department of Customs and Excise 1996/97 Report

The increase in customs revenues is attributable to the payment of imported components by the motor vehicle industry. Until August 1995 the motor industry paid excise duties on assembled vehicles. The change over has resulted in a reduction in excise duty.

Botswana's share from the revenue pool continues to increase as indicated in the table above. This growth has pushed customs revenue to the third position in the list of Government revenue sources, following mineral revenue and revenue from other sources (mainly foreign reserves).

## 5.4 Country's Specific Fiscal Issues

The successful development strategy will be one that addresses the national principles of democracy, development, self-reliance and unity. It is also one that leads to attainment of the planning objectives of sustainable development, rapid economic growth, economic independence and social justice. The development strategy must be compatible with the National Development Plan 8 theme of "Sustainable economic diversification". Creation of productive and sustainable employment, as well as poverty reduction, reform in public sector and promotion of the private sector, provision of infrastructure and cost recovery, human resource development, rural development and environment and land use policy is critical to the development strategy.

The government of Botswana continues a policy of diversifying the economy. The principal sectors have been mining and general government. It is anticipated that growth in the diamond industry will slow down in future and the Government sector will grow only moderately as such most of the needed overall growth will have to come from non mining sector, non government sectors. The government of Botswana is actively involved in promoting other sectors of the economy such as manufacturing and tourism to find other alternative engines of growth and reduce reliance on the traditional sectors. These new industries must be viable and profitable; use domestic resources available within the country have linkages among themselves and therefore reduce dependence on government subsidies.

Private sector expansion will occur when macroeconomic conditions are conducive. Appropriate policies with respect to wages, taxation, exchange rates, exchange controls, trade and investment, interest rates, delivery of serviced land and general improvement in efficiency and productivity.

Poverty remains a burning issue to the government of Botswana, therefore, poverty assessment is necessary and appropriate action taken to eliminate it. An improvement in income distribution is also essential. The main strategy of creating employment is to provide people with the opportunity of earning income. An old age pension scheme for people aged sixty-five years and over has been started in the last National Development Plan 7. Poverty reduction is an integral part of sustainable economic development

without which the objectives of the current development plan and long term national prosperity cannot be achieved.

Production and productivity are also critical areas through which employment creation and income growth can occur. Increasing production will depend to a great extent on diversification of the economy.

Employment creation is the cornerstone of the strategy for development whether in the formal or informal sectors of the economy. Sustainable employment opportunities need to be created outside the government sector.

Human Resource Development; the Government of Botswana ensures that Botswana are healthy and have access to acquisition of skills that match the demands of a diversifying and internationally competitive economy will be paramount to increasing labor productivity.

Public sector reform; the government is actively involved in reforming its parastatal organizations through privatization, hence increasing competition in the private sector and thereby strengthening it and leading to a strong capital market. In this regard generation of domestic savings are important to be invested in the private sector development.

### **Fiscal Policy**

Proper management of Government revenues and expenditure including investment of surpluses and financing of deficits is essential. Government expenditures must be guided by the needs of the entire population. During National Development Plan 8 fiscal policy should facilitate the development of the private sector and ensure improved efficiency in the use of government resources.

## **5.5 Where we stand**

Thirty-four years after independence development pattern is noticeable in the country. Some have been the result of human effort, while others have been dependent on the fortuitous exploitation of minerals, especially diamonds, and the generous support extended to Botswana by the donor community.

Many more minerals were discovered which contribute positively to the gross domestic product of the country, the re-negotiation of the South African Customs Union Agreement in 1969 with an improvement in terms in relation to the revenue sharing, Successful Botswana beef exports in the European Union Market, to which the country responded by increasing production and sales.

The revenues from these activities helped Botswana to emerge from situation of abject poverty and then enter a period of rapid growth and economic transformation. The Government invested the revenues received to improve the physical, social, and economic structure in the country. This has improved the delivery of government services to the entire population and the conditions for investment in productive activities and employment creation.

### **Education**

There has been rapid progress in the provision of educational services since independence. School enrolment has risen to about 70% of people aged between six and twenty-three compare to a level of 52% in 1980. Adult literacy has risen to 67% from a level of 41% in 1970.

Free primary tuition is available in Government schools and children enter school at age six. About 70% proceed to secondary schools; the University of Botswana in Gaborone and a number of other institutions including teacher-training colleges provides tertiary education. Vocational centers and brigades centers provide technical training. Non-formal education is also in place, i.e. distance-learning system.

### **Economic Growth and Development**

Between 1966 and 1995, Botswana's per capita GDP income grew from equivalent of approximately P1 682 to P7 863 in 1993/94 prices an average annual increase of 6%. In 1995/96 per capita income GDP

stood at about \$2 850. Formal sector employment grew over the same period by an average annual increase of 9%.

As a result of this positive economic growth Botswana has graduated from one of the poorest and least developed countries in the world, and has now moved into the group of middle-income countries according to the World Bank Classification.

High public spending led to an expansion in public sector employment and boosted employment in the private sector, especially in construction, retailing and distribution and services related to diamond industry.

### **Sound Management of the Economy**

Thirty-four years after independence, Botswana has exhibited relatively sound management of the economy. Foreign exchange reserves and cash reserves have been used to counter the cyclical short-term economic fluctuations. The country has evolved a system national development plans, based upon an overall set of objectives and strategies and an estimated total budget leading to a series of project spending votes authorized by parliament. This has been further developed into a system for economic planning and budget control, ensuring that development projects are selected on the basis of their economic and social returns.

### **Health**

Health infrastructure has improved steadily since independence. Health service standards are above the average of developing countries. Life expectancy in 1996 stood at 67 years compared with levels of between 72 and 78 years of developed countries. Life expectancy has dropped down to 47 years due to the Aids pandemic.

#### *Aids*

Aids has become one of the major challenges in Botswana, the government has diverted most of the funds to fight the Aids pandemic. According to the 1998 Surveillance about 17% of adult population, with 41% young people aged 15 to 29 were HIV positive. As a result, the country will lose some of its skilled human resources and experience of the gains made so far in health and other sectors of the economy. The other negative impact that disease imposes is the increase in morbidity that reduces the productivity of labor in the medium to long term.

Several studies have been carried out in order to find possible ways of combating the epidemic. A mother to child transmission project aiming at reducing the transmission of the disease from mother to child started in April 1999 in the country and it is estimated to cost about P16 million. The Community Home Based Care Programme, which has been approved by the Cabinet in March 1999, is estimated to cost P27 million. This will put heavy burden on the country's future budgets. A National Sexually Transmitted Disease Referral, Research and Training Center costing P1.5 million is being constructed in Gaborone.

The cost of Aids is estimated around 7% of GDP by the year 2021. The national savings rate will fall to 25% of GDP as compared to 32% without Aids.

### **Political Stability**

Botswana has enjoyed many years of political stability since independence and has maintained a sound public policy making machinery. Peaceful relations have also been kept with neighboring countries. National unit prevails in the country and although not without problems, it is comparatively free of destructive tribal and cultural divisions. These factors are seen as assets that will assist in inspiring confidence in investors, but they are also a necessary platform for any sustainable process of national development.

## **Where We Go**

Although improvements have been recorded within the educational system the pace of educational change has lagged behind the pace of national development. Botswana is now faced with the challenge of improving education to run parallel with pace of development.

Education has not been geared to the needs of the country, and to the job market. There is need to place greater emphasis on technical and practical subjects, and business skills- the skills that are needed most. A policy on education has been set forth to address many of the challenges in the education system of the country in order to provide improved services to the entire population.

The population growth in Botswana needs to be managed such that people are adequately catered for in terms of education, health and service provision.

The past economic growth to Botswana is mostly attributable to mineral wealth; therefore the challenge is to build on that success to create a prosperous society with a competitive and strong economy.

It remains a challenge to find other future engines of growth i.e. beyond diamonds and to develop a diversified economy with a strong commercial and industrial base, so that it can sustain economic growth in the future and avoid economic stagnation.

Strong emphasis is put on the manufacturing sector, the percentage GDP of manufacturing sector in Botswana is below average in Sub Saharan Africa, and well below the percentage for countries with similar per capita GDP. The manufacturing sector can play a more central role in future.

At independence the Botswana economy relied on revenues from the beef industry and hence as a traditional income generator this sector has to be developed. The challenge faced by the country is to be more innovative in making use of modern techniques such as animal husbandry and irrigation to raise productivity in the agricultural sector and maximize the returns to investment.

Preserving the environment and making prudent use of natural resource base in Botswana is crucial to its survival and future prosperity. The current rate of population growth and the rapidly changing lifestyle, characterized by urbanization and higher per capita consumption of resources will place increasing strains on the environment.

The rapid industrialization envisaged in the vision creates a challenge to limit the levels of pollution that have been associated with industries in other countries.

Unequal distribution of income in Botswana remains a big problem to the country. Necessary action needs to be taken to reduce the high degree of income inequality in Botswana while maintaining economic growth. Poverty is still rampant among many Batswana. Recent estimates indicate that in 1993/94 47% of people in Botswana had incomes below the poverty datum line. This level is high compared to other countries in the world with a comparable per capita income. The challenge to eradicate poverty in Botswana must be met. Even if absolute poverty is eradicated, there will always be those who fall into poverty as a result of misfortune. The challenge for Botswana is to provide an adequate and dignified safety net for those who are in poverty in a way that does not encourage dependency and provides a means of escape from the poverty trap and a return to a productive society.

Botswana is in the process of setting up an International Financial Service Center;

- To diversify the economy of Botswana away from its dependency on mining,
- To create sustainable employment for the young Batswana, and
- To create a financial center for the international communities through which to invest in the neighboring southern and central African States.

Another greatest challenge facing the country is the rising incidence of the HIV/AIDS virus which attempts to wipe out the young productive population, for Botswana to advance in the next twenty years and even beyond. A further challenge is to assess and minimize the impact of the disease and death on families, businesses and Government budget and the economy as a whole.

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