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Addressing Growth Bottlenecks in Botswana

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ABSTRACT: While Botswana achieved strong post-independence growth supported by prudent macroeconomic management and diamond revenues, economic performance has weakened over the past two decades, with slower growth, persistently high unemployment, and erosion of fiscal and external buffers. Declining global demand for diamonds has heightened the urgency of economic diversification. This note analyzes Botswana's growth constraints using a dual approach. Firm-level evidence from the 2023 World Bank Enterprise Survey highlights obstacles including limited access to finance, governance challenges, land tenure issues, and infrastructure gaps. A complementary cross-country macro-structural analysis applies a cross-country empirical model that estimates growth gains from reforms in institutions, credit markets, and labor regulations. The findings show strong alignment between firm-level concerns and macro-level reform priorities, supporting targeted structural reforms to boost medium-term growth and diversification.

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Addressing Growth Bottlenecks in Botswana

Botswana

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A. Introduction

1. For a few decades after its independence, Botswana achieved substantial economic and social progress, underpinned by strong institutions, political stability, and prudent macroeconomic management. Within a single generation, it became one of the richest countries in Sub-Saharan Africa, with a per capita income surpassing South Africa's since the early 2000s. The country consistently ranks among the top performers on the continent in terms of governance indicators, transparency, and public financial management. Notably, investments in health and education have yielded steady improvements in human development outcomes. Botswana's ability to translate its natural resource wealth—particularly from diamonds—into public investment and social gains has made it a regional model for effective resource management.

2. However, development momentum has significantly slowed over the past two decades, and the country is now experiencing a sharp downturn that represents a critical turning point for its economy. Since the mid-2000s, growth has declined significantly, while unemployment has increased to very high levels, most markedly for the youth. More recently, a deeper-than-expected and likely prolonged decline in diamond demand has led to a severe contraction in 2024. With fiscal buffers essentially depleted and a need for substantial fiscal consolidation, there is an urgent need to adopt and implement the long-postponed diversification reforms necessary to promote the development of the private sector and a more resilient and inclusive growth.

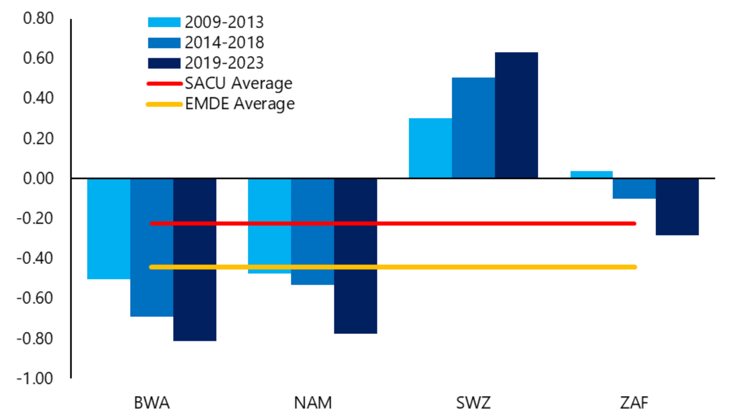
3. Botswana's economic model has remained highly concentrated in the capital-intensive diamond sector, with limited diversification into other productive industries. This reliance on a single commodity has increased the economy's vulnerability to external shocks and contributed to volatility in growth and employment. In addition, structural challenges such as high inequality, persistent high unemployment—especially among youth—and uneven spatial development continue to constrain inclusive growth. Recent indicators, including a declining Economic Complexity Index, suggest that Botswana's productive capabilities are narrowing, further underscoring the urgency of structural transformation.

4. This Selected Issues Paper (SIP) contributes to the policy dialogue on Botswana's growth trajectory by identifying the key impediments facing domestic firms and the broader private sector. Using a dual approach—combining firm-level evidence with cross-country structural reform benchmarking—the analysis seeks to diagnose where reform efforts could generate the highest payoffs. The objective is to inform a strategy for rethinking the country's growth model in light of its shifting structural foundations, particularly as diamond revenues decline. Strategic reforms to remove constraints on private sector development could not only boost productivity and competitiveness but also support a more diversified, resilient, and inclusive economy.

5. First, the analysis adopts a bottom-up perspective by utilizing data from the 2023 World Bank Enterprise Survey (WBES). This firm-level survey provides critical insights into the daily constraints businesses face across Botswana's private sector. It highlights key obstacles—such as limited access to finance, corruption, land acquisition difficulties, and unreliable electricity supply—that firms identify as their most binding constraints. This micro perspective captures perceptions and experiences directly from economic agents, enabling a nuanced understanding of the private sector's operational environment and investment climate.

6. **Second, the paper applies a macro approach, leveraging data from a broad set of countries to estimate potential growth payoffs from structural reforms.** The empirical methodology developed by Budina et al. (2023) assesses the impact of structural reforms across emerging markets. Using structural gap analysis relative to reform frontiers in emerging and advanced economies, the framework identifies areas where Botswana lags—particularly in labor market regulation, governance, the external sector, and credit markets—and estimates the potential growth dividends of closing these gaps. This top-down approach quantifies how reforms in institutions and regulations could translate into better GDP growth and employment outcomes over time.

Figure 1. Economic Complexity Index in SACU Countries
(2009 to 2023, from-1 to 1)



Source: Harvard Growth Lab, https://atlas.hks.harvard.edu/, and IMF staff calculations.

7. **Taken together, these complementary approaches provide a more robust analysis of Botswana's growth bottlenecks.** The WBES-based diagnostics identify symptoms experienced by businesses, while the macro-structural framework allows to apply broad cross-country estimates of growth impact from closing systemic institutional gaps. Furthermore, it is interesting that there are considerable overlaps of the areas identified by the business surveys as key bottlenecks with the findings looking at cross-country data. Hence, this allows an added layer of confidence that the results really uncover areas of relevance impeding economic growth.

B. Falling Economic Complexity

8. **Over the past two decades, the Botswana's Economic Complexity Index (ECI) for Botswana (as assessed by the Harvard Growth Lab) has deteriorated notably.** The country has slid from around rank 92 (2000) to rank 102 (2023) on the global ECI rankings, with a current index value near –0.67, weakening its position in terms of product space diversification among economies worldwide. This decline reflects a narrowing export base heavily concentrated in diamonds—accounting for about 80 percent of exports in 2023—while diversification into more complex, high-value products has stalled. Compounding this structural rigidity, Botswana's manufacturing sector accounts for only about 5 percent of GDP (quite low compared to over 30 percent in Lesotho and eSwatini, 10 percent in Namibia, and 15 percent in South Africa), underscoring

the limited development of industrial capabilities. Without progress in diversifying into adjacent ‘complex’ industries, the continued dominance of a single commodity sector risks entrenching economic vulnerability, limiting future growth potential and resilience.

9. A falling ECI, as measured by Harvard University's Growth Lab, indicates that a country is producing and exporting a narrower and less sophisticated set of goods over time. The ECI is based on the diversity and ubiquity of a country's exports — how many different products it makes and how complex those products are in terms of the knowledge and capabilities required to produce them[1]. A decline in the index suggests that the country is becoming more reliant on low-complexity, resource-based exports and is failing to develop new, knowledge-intensive sectors. This trend can limit long-term growth prospects, reduce resilience to external shocks, and signal a stagnation or reversal in structural transformation and industrial upgrading.

10. A decline in economic complexity is usually seen as having significant negative implications for long-term growth outcomes. Countries with higher economic complexity tend to grow faster because they are better able to diversify into more productive and knowledge-intensive industries (Hidalgo & Hausmann, 2009). Economic complexity reflects the accumulation of productive capabilities, which are essential for innovation, structural transformation, and resilience to external shocks (Hausmann, Hidalgo, Bustos, Coscia, & Chung, 2014). Empirical studies show that increases in the Economic Complexity Index (ECI) are strongly associated with future GDP growth, even after controlling for institutional quality and education (Hartmann, Guevara, Jara-Figueroa, Aristarán, & Hidalgo, 2017). Conversely, a declining ECI signals stagnation in capability development and limits a country's ability to upgrade its export basket, which in turn constrains its capacity to move into higher value-added sectors and achieve inclusive growth. For resource-dependent economies like Botswana, falling economic complexity increases vulnerability to commodity price volatility and hampers efforts to achieve long-term diversification.

C. Using WBES as a “Bottom Up” Tool

11. Botswana’s declining economic complexity reflects a broader structural issue: the limited capacity of non-mineral sectors to develop and diversify. While diamond exports have driven strong aggregate growth and macroeconomic stability, the lack of depth and variety in the country’s export basket points to persistent obstacles faced by domestic firms in scaling up and entering more sophisticated, tradable sectors. This underwhelming transformation suggests that firm-level challenges—such as access to finance and land, increasing governance problems, and regulatory inefficiencies taken together—are constraining innovation and investment. Understanding these constraints requires looking beyond aggregate statistics to the experience of firms themselves.

12. The World Bank Enterprise Survey (WBES) provides a valuable bottom-up perspective by collecting firm-level data from a representative sample of the formal private sector. It captures both

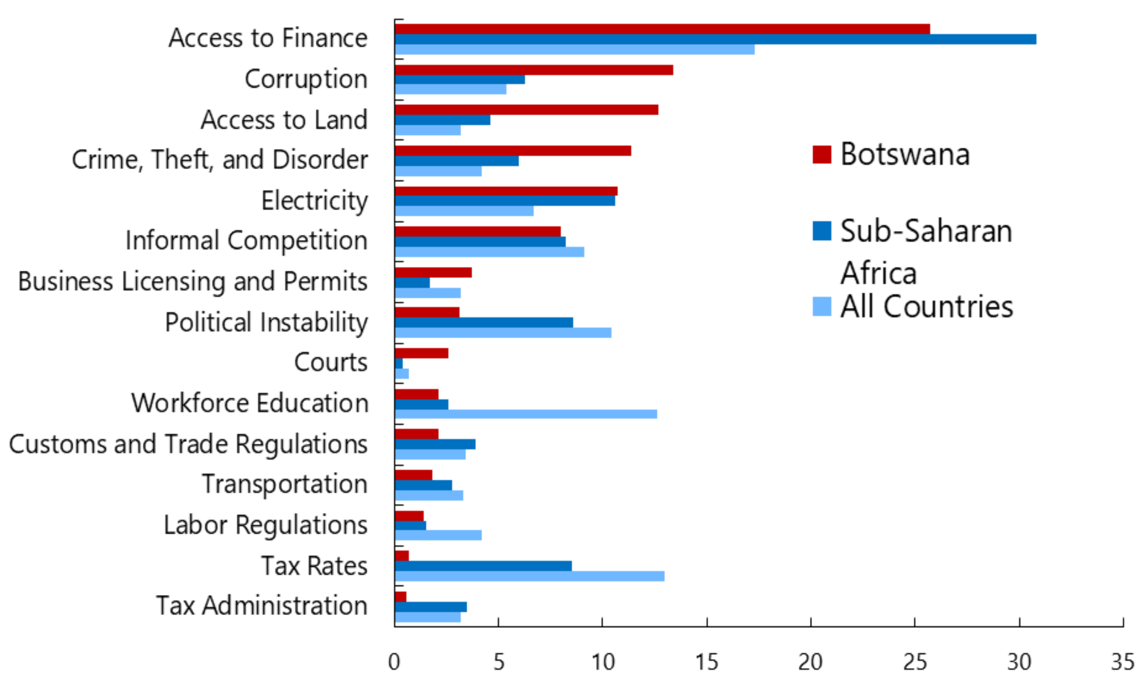
[1] It is calculated using network-based algorithms that assess both the number of distinct products a country exports (diversity) and how many other countries export those same products (ubiquity), under the assumption that more complex economies produce a diverse range of less ubiquitous (i.e., more specialized) products. See Hidalgo & Hausmann (2009), The Building Blocks of Economic Complexity.

objective indicators—such as the frequency of electricity outages or time taken to obtain permits—and subjective perceptions of key business environment issues, including finance, corruption, regulation, and infrastructure. As such, the WBES offers an important empirical window into the microeconomic frictions that may explain Botswana's declining economic complexity and weak structural transformation.

13. **In Botswana, the most recent WBES was conducted in 2023 and represented a substantial expansion over the previous survey, in 2010.** While the 2010 survey covered only 268 firms in Gaborone and Francistown, the 2023 wave sampled 622 establishments across the entire country. It encompassed all privately owned manufacturing industries and selected service sectors, offering a broader and more granular portrait of the national business climate. The results identified key constraints including limited access to finance, governance issues and cumbersome regulatory procedures, challenges in land acquisition, and persistent infrastructure deficits—highlighting persistent barriers to private sector-led diversification and growth.

Figure 2. Firm Perception of the Biggest Obstacle Faced

(Percent of Respondents, 2023)



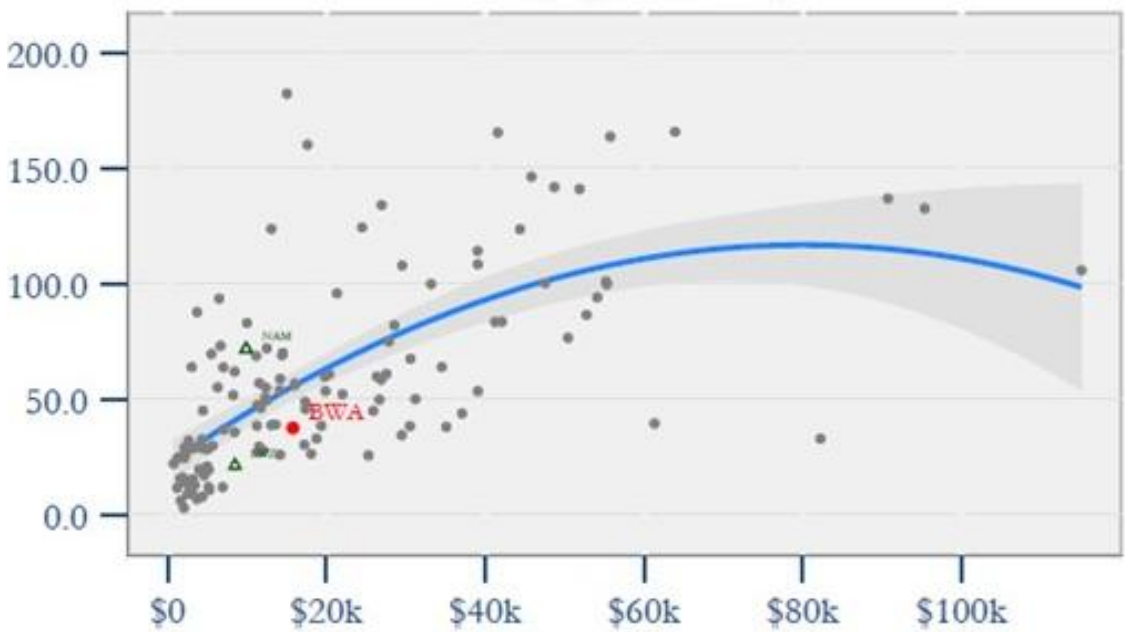
Source: World Bank Enterprise Surveys and IMF staff calculations.

Obstacle 1 – Access to Finance

14. **The WBES allows us to rank the obstacles – and access to finance comes up on top.** According to the survey, 25 percent of businesses reported that access to finance is their biggest problem. Limited access to credit and financial services hampers the ability of businesses to invest, expand, and innovate, which is essential for economic growth. Addressing this bottleneck involves enhancing financial inclusion, improving the regulatory environment, and promoting alternative financing options such as microfinance and venture capital.

15. Despite a sound banking sector, financial intermediation remains shallow, constraining especially small and medium-sized enterprises (SMEs) in expanding and innovating. Only about 8 percent of Botswana's micro, small and medium enterprises had a bank loan in 2019,[2] indicating that the vast majority are credit constrained. Private sector credit is around 30 percent of GDP in Botswana, which is modest compared to deeper financial systems in emerging markets (for instance, South Africa's private credit is about 90 percent of GDP). This gap suggests that many viable businesses in Botswana cannot obtain the financing needed to invest in new projects, technology, or hiring. When looking at domestic credit to the private sector and comparing across the income spectrum of countries (Figure 3), it also becomes evident that Botswana is not close to where it should be.

Figure 3. Financial Market Depth Across Countries
(Domestic Credit to Private Sector, Percent of GDP, 2020)



Notes: Variable in x-axis represents GDP per capita, PPP (constant 2017 international $).
Source: World Bank and IMF staff calculations.

16. Research on emerging economies confirms that such financial constraints impede growth. Firms with better access to finance tend to invest more and grow faster, whereas financing obstacles slow down firm expansion. In fact, Beck and others (2005) find that financing obstacles for small firms can have nearly twice the negative impact on annual growth compared to large firms. These findings align with global evidence that financial development spurs economic growth by enabling efficient allocation of resources (Levine, 2005) and that lack of credit is a binding constraint for entrepreneurship in Africa. Consistently, WBES shows that access to finance is the single most cited obstacle by Botswana's businesses in 2023, up from a lesser concern in 2010,[3] reflecting how crucial this bottleneck has become as other issues (such as skills)

[2] IMF 2024 Article IV Staff Report (link).

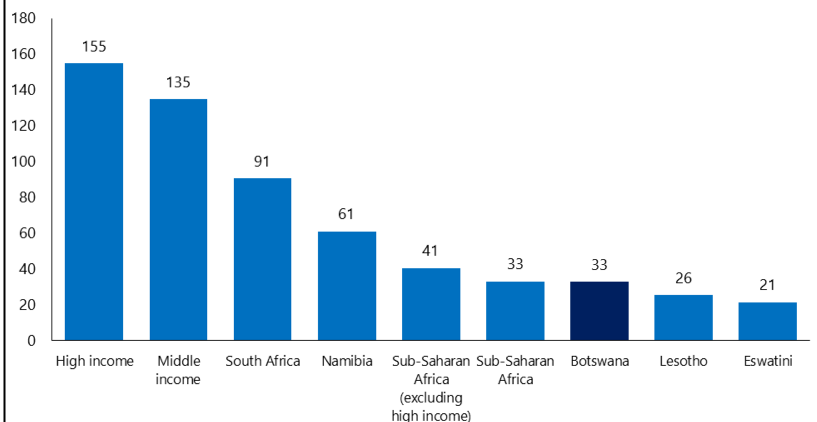
[3] Access report here (link).

slightly receded. Regionally, Botswana's experience mirrors that of many African and emerging markets, where up to one-third of firms report limited finance as a major constraint (Brixiova and others 2020). Without addressing this issue, the country's ambitious goals for private sector led diversification and job creation may be difficult to achieve, since entrepreneurs cannot capitalize on opportunities due to funding limitations.

17. **Compared to its peers, Botswana lags in some aspects of financial inclusion.** Other upper-middle-income economies often have more developed capital markets and alternative financing channels for firms (equity, venture capital, etc.), whereas Botswana's financial system is bank-dominated and cautious. Even within Africa, countries like South Africa and Mauritius have higher credit-to-GDP ratios and more SMEs utilizing formal loans, partly explaining their more diversified industrial base. Botswana's conservative lending environment—while contributing to financial stability—has meant that banks favor low-risk, well-collateralized borrowers (often larger firms), leaving smaller enterprises and startups behind. Moreover, the absence of a robust microfinance sector or local venture capital limits financing options. Empirical studies underscore that firms in countries with shallow financial sectors grow more slowly and create fewer jobs than those in financially developed economies (Beck & Demirgüç-Kunt, 2006).

Figure 4. Domestic Credit to Private Sector

(Percent of GDP)



Source: IMF IFS and IMF staff calculations.

18. **Policy Recommendations.** To alleviate the financing bottleneck, Botswana can pursue a multifaceted strategy drawing on international best practices and successful cases:

- **Strengthen credit infrastructure:** Improve financial information and reduce collateral constraints. This includes expanding credit bureaus and fully operationalizing a movable collateral registry, so banks can lend against assets beyond fixed property. For example, better credit reporting and collateral frameworks have been associated with higher SME lending in peer economies (Djankov, McLiesh, & Shleifer, 2007).

- **Promote diverse financing instruments.** Undertake the necessary reforms to enable and encourage banks and non-bank institutions to offer products tailored to micro, small, and medium enterprises (MSMEs). Expanding access to innovative financial products—such as accounts receivable financing with more flexible collateral requirements—would provide firms with much-needed breathing space. More broadly, the expansion of digital payment services could facilitate real-time transactions by developing acquiring infrastructure, improving system interoperability, and enabling the entry of new market participants.[4]

- **Reorient public support schemes:** Rather than direct lending by state-owned banks, which can sometimes crowd out private lenders, Botswana can adopt a catalytic approach. Public SME funds could co-invest alongside banks or investors, sharing risk, and focus on capacity-building (training entrepreneurs in finance and management). This approach, used in countries like Chile (through CORFO's programs; Griffith-Jones and others 2018) and Malaysia, helps improve bankability of SMEs and ensures that public resources mobilize private capital rather than substitute for it. Any remaining government credit programs should be carefully targeted and performance-monitored to avoid distortions.

- **Enhance competition in the banking sector:** Botswana's banking sector is profitable and liquid, suggesting room to extend more credit if competitive pressures increase. Regulatory sandboxes and proportional licensing (for microfinance banks, for instance) could foster a more inclusive financial landscape. Over the medium term, developing domestic capital markets (bond and equity listings for midsize firms) would provide alternative financing and reduce the over-reliance on banks.

19. Implementing such measures could help Botswana broaden financial access. International experience shows that when credit flows to productive smaller firms, countries reap gains in innovation, employment, and diversification. In the Botswanan context, a concerted push on financial inclusion aligns with the goal of reducing unemployment and fostering a more dynamic private sector-led economy.

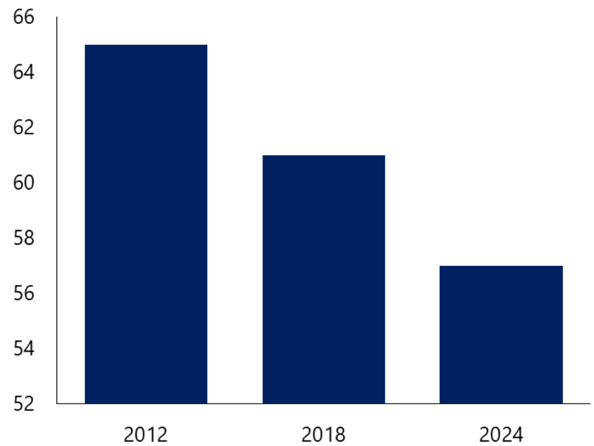
Obstacle 2 – Corruption

20. Strong governance has historically been a cornerstone of Botswana's development story. Botswana is frequently cited as the least corrupt nation in mainland Africa[5] and consistently ranks among the top performers on the continent in Transparency International's Corruption Perceptions Index. This stellar reputation is an economic asset: it has helped Botswana attract investment and effectively manage its vast diamond revenues. Studies show a clear link between good governance and growth, particularly in resource-rich countries. Cross-country research finds that corruption acts like a tax on investment, deterring business activity and ultimately slowing GDP growth (Mauro, 1995). Other researchers portray corruption's impact as "sand" in the economic engine (rather than the lubricant some earlier theories suggested), undermining efficiency and confidence. Botswana's relative success in controlling corruption—attributed to strong institutions like an independent judiciary and an effective anti-graft agency—has therefore contributed to its robust growth record over past decades. Comparatively, many of Botswana's regional peers have struggled with much higher corruption, which has impeded their development. Countries with similar income levels in other regions (like Eastern Europe or East Asia) often had to undertake significant anti-corruption reforms to sustain growth, something Botswana largely got right early on by emphasizing rule of law and accountability.

[4] IMF 2024 Article IV Staff Report (link), paragraph 35.
[5] Botswana: The Pragmatic Path to Prosperity

21. But the perception of corruption has deteriorated over the last decade. The widely tracked Corruption Perception Index computed by Transparency International declined by about 12 percent between 2012 and 2024. Furthermore, businesses have been increasingly voicing their concern. In the 2023 WBES, corruption features as the second most mentioned obstacle to development, with 13 percent of businesses naming it as a major issue, a considerable increase from the 10 percent reported for the 2010 WBES. Strengthening governance involves enhancing transparency, accountability, and public sector efficiency. Building the capacity of institutions to implement policies and deliver services effectively is essential for fostering an environment conducive to growth.

Figure 5. Botswana: Corruption Perception Index
(0= Highly Corrupt; 100 = Very Clean)



Source: Transparency International and IMF staff calculations.

22. Higher corruption could present risks to growth in Botswana. Mauro (1995) estimates that a one standard-deviation improvement in bureaucratic efficiency is associated with a boost of annual per capita GDP growth by around one percentage point. Conversely, even moderate corruption can shave off growth: for a middle-income country, moving from a low-corruption rank to a mediocre one tends to reduce long-term GDP per capita levels through lower productivity and human capital accumulation (Hammadi and others, 2019). As laid out in Chapter 2 of the 2019 IMF Fiscal Monitor[6], corruption undermines growth by eroding tax revenues, distorting spending toward rent-seeking projects, and reducing the efficiency of public investment and services. It lowers revenue collection by enabling evasion and exemptions, inflates procurement costs, weakens SOE performance, and crowds out social spending, ultimately reducing capital formation, human capital, and trust in institutions. In Africa, the payoff to fighting corruption is especially high: research suggests that the growth dividend of governance reforms in sub-Saharan Africa is two to three times larger than in other regions.[7] This is partly because many African economies have historically been held back by governance problems, so improvements create a step-change in efficiency. For Botswana, this means that reinforcing the importance of good governance could enhance its competitive edge regionally and amplify its diversification drive.

23. Policy Recommendations. To reinforce Botswana's gains and address emerging governance risks, a governance-strengthening agenda is advised, drawing on successful international experiences and Botswana's own history of good practice:

- **Bolster institutional checks and oversight:** Empower anti-corruption agencies like the DCEC with greater independence, resources, and investigative authority. Ensuring that bodies such as the Auditor

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[6] https://meetings.imf.org/en/IMF/Home/Publications/FM/Issues/2019/03/18/fiscal-monitor-april-2019

[7] https://www.imf.org/en/Publications/fandd/issues/2019/09/tackling-corruption-in-sub-saharan-africa-sobrinho#:~:text=Our%20research%20shows%20that%20the,2%20percentage%20points%20a%20year

General and parliamentary committees can rigorously scrutinize public spending and tenders is crucial. Judicial independence must be maintained and reinforced so that any corruption cases are handled fairly and without political interference.

- **Enhance transparency and e-governance:** Reducing opportunities for graft can be achieved by increasing transparency in government operations. Botswana should continue expanding e-procurement systems for public tenders, where bids and awards are conducted on digital platforms openly. Publishing budget information, mining revenues, and contract details openly (open data portals) will allow civil society and media to play a watchdog role. The more sunlight on government decisions, the lower the space for illicit behavior. Botswana's adherence to initiatives like the Extractive Industries Transparency Initiative (EITI) in the diamond sector, for example, can reassure investors of fair play.

- **Simplify regulations and reduce red tape:** Complexity in regulations often breeds petty corruption, as firms may feel compelled to pay bribes to navigate cumbersome rules. Botswana already fares relatively well in perceptions of regulatory quality, but further streamlining business licenses, permits, and customs procedures can limit daily corruption opportunities. International evidence suggests that "smarter" regulation—clear rules, one-stop-shop services—cuts down the need or temptation for unofficial payments.

- **Share experiences with peers and engage in international frameworks:** Botswana can actively participate in regional anti-corruption forums to share experiences and keep up with evolving best practices. Adopting international standards—such as the OECD Anti-Bribery Convention or utilizing World Bank integrity diagnostics—could further strengthen Botswana's own anti-corruption framework.

24. By redoubling efforts in these areas, Botswana can protect its hard-won reputation for good governance. The payoff is likely to be substantial: sustained investor confidence, efficient use of public resources, and the continued translation of its natural resource wealth into broad-based development. In the long run, maintaining low corruption is not just a moral or governance issue, but an economic strategy for ensuring robust and inclusive growth.

Obstacle 3 – Access to Land

25. Access to land remains a significant constraint for private sector development and economic diversification in Botswana. As indicated in the 2023 WBES, 13 percent of firms consider land access their most important obstacle. The main problem of land tenure in Botswana lies in the fragmented and inefficient land administration system, which stems from the coexistence of customary, state, and freehold land systems. Customary land—making up the majority—is managed by Land Boards but often lacks clear, formal documentation. This creates delays, weakens land security, and hampers the ability to use land as collateral. Institutional overlaps, slow allocation processes, and limited coordination between national and local authorities further compound access issues, especially for businesses and women (White, 2018).

26. Secure and transferable land rights are critical for collateralization, which affects access to credit. Without formal titles, firms cannot use land as collateral (Deininger & Feder, 2001), exacerbating financing constraints discussed previously. Although customary land rights are legally recognized, the process of obtaining Certificates of Customary Land Grant (CCLGs) and converting to leasehold remains complex and slow, particularly for SMEs and female-headed households (White, 2018). While Botswana's land policy is nominally gender-neutral, implementation often falls short in ensuring equitable access for women.

27. Comparatively, other African countries that reformed their land governance systems—such as Rwanda, which introduced a national land registry and digitized titling—experienced improved investment and credit access (Ali, Deininger, & Goldstein, 2011). In emerging markets, clarity in land use planning and registry reforms have been essential in catalyzing urban development and rural productivity (Byamugisha, 2013; World Bank, 2020). Botswana’s reforms under the Land Administration Procedures, Capacity and Systems (LAPCAS) project succeeded in mapping a large portion of the country, yet the legal integration and validation of records into the formal cadaster remain incomplete (White, 2018).

Obstacle 4 – Electricity

28. Reliable and affordable electricity is fundamental to enabling economic growth, improving productivity, and supporting the diversification of economic activities. In Botswana, the 2023 World Bank Enterprise Survey reported that 11 percent of firms consider electricity supply to be their main obstacle to doing business. This reflects both structural and operational deficiencies in the country's power sector, including high prices, inconsistent supply, and limited rural electrification.

29. Electricity tariffs in Botswana remain in mid to high range in the Southern African region, despite government subsidies and the partial liberalization of the power market. The Botswana Power Corporation (BPC), the state-owned utility, continues to struggle with operational inefficiencies, aging infrastructure, and fiscal dependency. Power outages and voltage fluctuations increase production costs for manufacturing firms and deter potential investors from establishing energy-intensive operations (Allcott et al., 2016).

30. Although Botswana has made progress in regional energy trade, relying on imports from South Africa and Namibia exposes it to external supply risks. The country remains vulnerable to power shortages and transmission losses due to its insufficient generation capacity and a fragile grid. This undermines industrial competitiveness and is especially damaging for SMEs, which often lack the capital to install backup solutions like diesel generators or solar systems. Furthermore, the lack of a transparent and competitive electricity market limits private investment in generation and renewables. While Botswana’s National Energy Policy (2021) commits to diversifying energy sources and increasing the share of renewables, implementation has been slow, and regulatory uncertainty continues to inhibit independent power producers (IPPs).

31. Policy Recommendations: Botswana should accelerate reforms to: (i) strengthen the financial viability and operational performance of BPC, (ii) invest in grid modernization and regional interconnections, (iii) incentivize renewable energy development through transparent regulation and feed-in tariffs, and (iv) promote mini-grid and off-grid solutions for underserved areas. Reducing regulatory barriers to entry for IPPs and improving energy governance would further catalyze the sector’s contribution to economic development.

D. Structural Reforms in Botswana – an Empirical Assessment

32. This section shifts the focus toward identifying reform areas that could unlock Botswana's growth potential and promote economic diversification. It leverages Botswana's position relative to advanced and frontier emerging economies to highlight priority gaps in structural reform. By drawing on cross-country evidence, the analysis provides country-specific insights into where reform efforts could be most impactful on supporting growth and employment.

33. The analysis conducted in this section assesses structural reforms in Botswana, based on the structural reforms database and empirical analysis featured in the IMF Staff Discussion Note "Structural Reforms to Accelerate Growth, Ease Policy Trade-offs, and Support the Green Transition in Emerging Market and Developing Economies," (Budina and others 2023). The authors analyze the growth and macroeconomic impacts of structural reforms using a panel of 54 emerging market and developing economies (EMDEs) over the period 1985–2021. They construct a composite Structural Reform Index (SRI) encompassing reforms in domestic finance, trade, labor, and product markets. The empirical approach relies on fixed-effects panel regressions to estimate the dynamic effects of reforms on real GDP per capita growth, accounting for both short-term adjustment costs and long-term gains. The study also explores how the effectiveness of reforms interacts with institutional quality, debt vulnerabilities, and climate policy objectives.

Structural Gaps

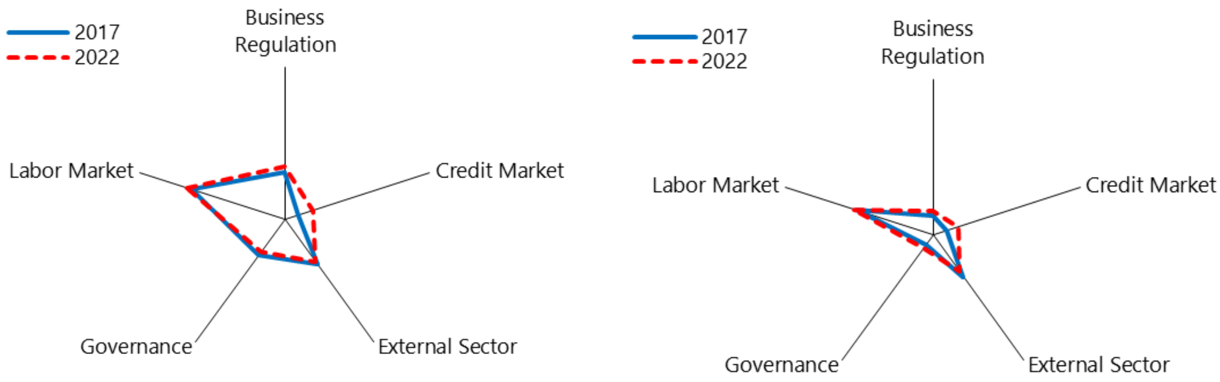
34. To analyze Botswana's progress on structural reforms, the methodology described in Budina and others (2023) is applied. Structural Reforms—business regulation, the credit market, the external sector, governance, and the labor market—are compared to global leaders in selected peer groups (Advanced Economies and Emerging Markets). Each reform indicator is normalized between 0 and 1 over the time-period 2000–22, with higher value implying better quality of institutions and regulation. For a given year, structural gaps are calculated as the absolute difference in values between the frontier (maximum value in each comparator group) and Botswana. Thus, a larger structural gap implies that the country is further away from the frontier. Table 1 provides a brief description of what each indicator captures.[8]

[8] The indices used for the charts have been modified to exclude the Doing Business indicators.

Table 1. Botswana: Definitions of Structural Indicators		
Structural Indicator	**Source**	**Definition**
Governance	World Bank, Worldwide Governance Indicators	Measures the perception of the quality of governance along six dimensions: voice and accountability, rule of law, political stability, government effectiveness, regulatory quality, and control of corruption.
External sector	Fraser Institute, Index of Economic Freedom	Measures the degree of trade and financial openness along four main dimensions: tariff and non-tariff barriers, exchange rate flexibility and constraints of the movement of physical capital (such as capital controls, degree of financial openness).
Business regulation	Fraser Institute, Index of Economic Freedom	Measures the degree to which regulation and bureaucratic procedures restrain entry and reduce competition. This indicator also captures the presence of impartial public administration.
Credit market regulation	Fraser Institute, Index of Economic Freedom	Measures the extent to which credit is supplied to the private sector, the presence of interest rate controls, and the extent to which the banking industry is privately owned.
Labor market regulation	Fraser Institute, Index of Economic Freedom	Measures the degree of flexibility of hiring and firing regulation and centralized collective bargaining.

Figure 6. Structural Gaps

Botswana: Evolution of Structural Gaps (Compared to Advanced Economies) | Botswana: Evolution of Structural Gaps (Compared to Emerging Markets)



Source: World Bank, Fraser Institute, and IMF staff calculations.

- **Governance:** Overall, Botswana remains structurally closer to the Emerging Market average than to Advanced Economies. Botswana continues to lag behind both advanced and emerging market peers in governance-related reforms. The reform gap relative to Advanced Economies narrowed marginally between 2017 and 2022, from 0.29 to 0.26, suggesting some progress. However, the gap relative to Emerging Markets actually widened slightly, from 0.08 in 2017 to 0.10 in 2022, indicating that peer countries may have progressed at a faster pace in strengthening governance institutions.

- **Business Regulation:** Botswana has lost some ground in business regulation reforms relative to both advanced and emerging market peers. Between 2017 and 2022, the reform gap with Advanced Economies widened from 0.31 to 0.35, while the gap with Emerging Markets increased from 0.13 to 0.15. This suggests that Botswana's regulatory improvements have not kept pace with global or regional reform momentum. Although the gap levels remain relatively moderate compared to other structural areas, the trend points to a growing risk of institutional drift.

- **External Sector:** Botswana has made modest progress in external sector reforms, but gaps with both advanced and emerging market peers remain sizeable. Between 2017 and 2022, the external sector reform gap narrowed slightly, from 0.37 to 0.34 relative to Advanced Economies, and from 0.33 to 0.29 relative to Emerging Markets. While this indicates some convergence, the persistence of a wide gap suggests that Botswana has yet to significantly improve external sector performance.

  Botswana's persistent reform gap in the external sector, despite modest aggregate gains, can be better understood by disaggregating into five key dimensions: non-tariff barriers, tariff barriers, capital controls, financial openness, and the black-market exchange rate.

  Across both Emerging Markets and Advanced Economies, the highest gaps remain in non-tariff barriers and tariff barriers. Encouragingly, both categories show some decline in average reform gaps over time. Among Emerging Markets, the gap in non-tariff barriers narrowed from 0.58 to 0.54, and in tariff barriers from 0.46 to 0.33. Similarly, for Advanced Economies, the gap in non-tariff barriers fell from 0.64 to 0.61, and tariff barriers from 0.50 to 0.36. This suggests that while these areas continue to represent major bottlenecks, there has been progress.

  By contrast, financial openness is the only area where reform gaps have widened. In Emerging Markets, the gap rose from 0.25 to 0.31, while in Advanced Economies it increased from 0.25 to 0.36. This trend likely reflects the growing complexity of capital account management. Capital controls remained unchanged in both comparators (0.46 in EMs, 0.31 in AEs), while the black-market exchange rate gap stayed at zero.

- **Credit Market Regulation:** Credit market reform remains a relatively modest gap for Botswana, but recent trends point to a gradual loss of momentum. Between 2017 and 2022, the gap with Advanced Economies widened from 0.09 to 0.19, and with Emerging Markets from 0.09 to 0.17. While these gaps remain smaller than in areas such as external sector, the direction of change suggests that Botswana is not keeping pace with peer progress. The gap in credit market regulations reflects limited progress in interest rate controls, where the gap with both Advanced and Emerging Markets has increased (with Botswana's gap in interest rate controls score rising from 0.0 to 0.3).

- **Labor Market Regulation:** Labor market reforms remain Botswana's most significant structural gap area, with a slight increase in gap over the past five years relative to Advanced Economies and Emerging Markets. In 2022, the reform gap stood at 0.67 relative to Advanced Economies and 0.53 relative to Emerging Markets, the widest across all core reform pillars. A closer look at the sub-indicators reinforces the picture of persistent rigidity in Botswana's labor market. The gap in hiring and firing regulations remains particularly wide, unchanged at 0.81 relative to Advanced Economies and 0.72 relative to Emerging Markets, pointing to constraints in employment protection frameworks. Meanwhile, the reform gap in centralized collective bargaining has widened relative to both comparator groups, increasing by 0.06 between 2017 and 2022.

Estimating the Potential Impact of Structural Reforms

35. **This section illustrates the potential impact of structural reforms in the context of Botswana, based on the empirical analysis featured in Budina and others (2023).** To assess this, the empirical framework relies on a local projection approach in a panel data setting to estimate the impact of reforms on output, following the specification below:

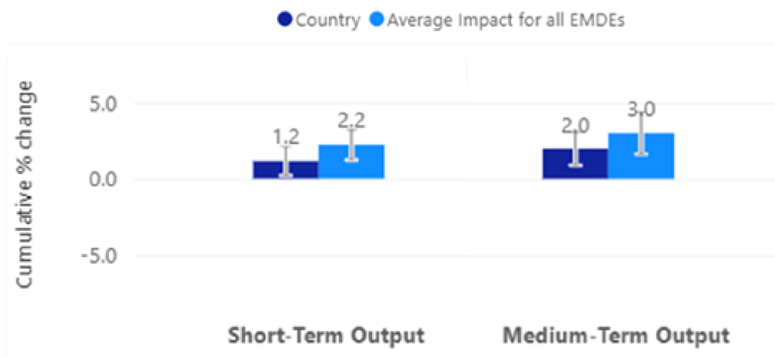
$$y_{i,t+k} - y_{i,t-1} = \alpha_i + \lambda_t + \beta_k \Delta SR_{i,t} + \theta X'_{i,t} + \epsilon_{i,t},$$

where $y_{i,t+k}$ is the log of real GDP (PPP) for country i in year $t+k$, α_i and λ_t denote the country and year fixed effects, which help control for unobservable cross-country heterogeneity as well as common global factors, $\Delta SR_{i,t}$ is the change in the average structural reform score[9] indicator for country i between *t and t-1*, and $X'_{i,t}$ is the set of time-varying controls, including lags of the dependent variable, and past reforms. For additional robustness, $X'_{i,t}$ also controls for simultaneous and past reforms in other areas of reform which could affect the estimated output response (i.e., when estimating the impact of business regulation reforms, simultaneous and past reforms in other areas such as external sector, credit market, labor market and governance are accounted for). It is important to note that the local projection approach is less robust to addressing endogeneity, and hence the large coefficients should be interpreted with caution. In the following section, the estimated reform multipliers are combined with information on which structural areas Botswana is lagging the most in (structural gaps radar chart) to identify potential areas of specific reform action.

36. **First-generation reforms, which include governance, business regulation, and the external sector, can meaningfully boost medium-term growth.** A 50 percent narrowing of the first-generation reform gaps is associated with a 1.2 percentage point increase in real GDP growth in the short term, and a 2.0 percentage point gain in the medium term (Figure 7). While the external sector accounts for the largest structural gap within this set, its medium-term impact could deliver a 2.1 percentage point boost to growth.

Figure 7. Impact of First-Generation Reforms on Output

(Country Impact Conditional on the Level of First-Generation Reforms)

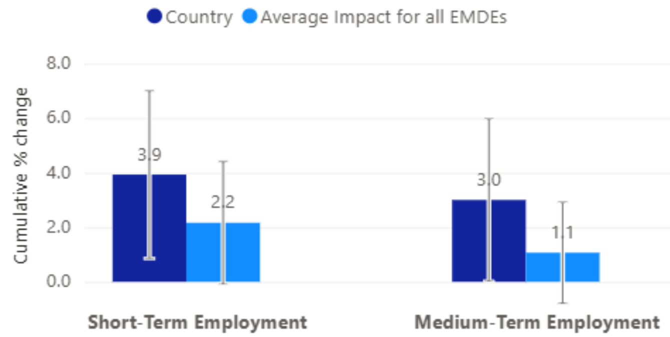


Sources: Fraser Institute; World Bank; IMF staff calculations.
Note: Each bar shows the average additional annual growth (in pp.) in response to a reform which would see Botswana closing the gap to the Emerging Markets frontier by 50 percent. We use the coefficient at the end of the projection horizon (average of last two periods), which represents the cumulative percent change in output over a period of five years and convert it to annual contribution to growth using CAGR formula. Results are statistically significant at the 10-percent level.

[9] Each reform area includes multiple sub-indicators, with 1 representing the highest score.

37. Botswana has made considerable progress in closing structural gaps, but labor market and external sector reforms remain its most critical priorities. Labor market reforms, where Botswana faces the widest gap, offers the highest dividends: closing half the gap could boost employment by 3.9 percentage points in the short term and 3.0 percentage points in the medium term (Figure 8). These findings highlight the urgency of addressing persistent rigidities in hiring and firing practices and centralized collective bargaining. External sector reforms also present a sizeable opportunity, particularly over the medium term. Complementary reforms in governance and business regulation could further enhance growth and strengthen the broader reform impact.

Figure 8. Impact of Labor Market Reform on Employment
(Country Impact Conditional on the Level of First-Generation Reforms)



Sources: Fraser Institute; World Bank; IMF staff calculations.
Note: Each bar shows the average additional annual employment growth (in pp.) in response to a reform which would see Botswana closing the gap to the Emerging Markets frontier by 50 percent. We use the coefficient at the end of the projection horizon (average of last two periods), which represents the cumulative percent change in employment over a period of five years and convert it to annual contribution to employment growth using CAGR formula. Results are statistically significant at the 10-percent level.

E. Lessons Learned and Policy Advice

38. The previous two approaches (survey and macro-empirical) broadly converge in both diagnosis and direction of policy recommendations:

- The WBES-based analysis identifies firm-level constraints—such as access to land, finance, skilled labor, and regulatory burdens—as key impediments to private sector growth and economic diversification. These constraints are grounded in the lived experiences of domestic firms and help explain why non-mineral sectors remain underdeveloped, contributing to Botswana's declining economic complexity.

- While the empirical analysis indicates that among the structural reforms the highest gains for growth could come from labor market adjustments, governance and credit market reforms also offer meaningful growth dividends—governance improvements would enhance institutional quality and policy credibility, while easing credit market constraints would support private investment and SME expansion. Although Botswana has made some progress, gaps remain sizeable relative to peers. Prioritizing first-generation reforms in labor markets, governance, credit markets, and trade openness would help unlock private sector–led growth and accelerate economic diversification.

39. Both approaches point to the same binding constraints: inefficiencies in public resource allocation, underperforming private sector capabilities, and the need for a shift away from state-driven to market-enabled growth. The WBES offers micro-level validation of these challenges, while the empirical exercise applies a cross-country comparator lens—together building a coherent case for structural transformation centered on enabling private sector–led development. **To address the private sector bottlenecks identified through the World Bank Enterprise Survey (WBES) and macroeconomic modeling, Botswana could consider the following policy actions, grouped into key reform areas:**

- ***Improve Access to Land***
  - Digitize and update land registries, especially in urban and peri-urban areas.
  - Streamline and decentralize land allocation processes to reduce bureaucratic delays.
  - Allow the use of customary land as collateral, with clear legal frameworks for conversion to leasehold.
  - Increase transparency in land transactions to reduce rent-seeking and provide investors with clarity on land availability.
- ***Enhance Access to Finance***
  - Support credit guarantee schemes for SMEs to reduce collateral requirements.
  - Deepen capital markets to diversify financing options beyond traditional banking.
  - Improve property rights and contract enforcement to lower the risk premium in lending.
  - Encourage the use of movable assets as collateral through secured transaction reforms.
- ***Boost Human Capital and Skills***
  - Align vocational and tertiary education with labor market needs, especially in technical and digital skills.
  - Expand public-private training partnerships, particularly in tradable sectors.
  - Implement targeted upskilling programs for youth and rural populations to reduce mismatches.
- ***Simplify Regulation and Lower Compliance Burden***
  - Establish a one-stop shop for business registration and licensing.
  - Digitize permit and inspection processes to increase efficiency and transparency.
  - Conduct regulatory impact assessments before new laws are passed, to reduce unnecessary burdens on firms.
- ***Improve Infrastructure and Utilities***
  - Invest in reliable electricity and water supply, particularly in industrial zones.
  - Expand affordable internet and broadband access to facilitate digital business operations.
  - Promote public-private partnerships (PPPs) for infrastructure development, with clear regulatory oversight.
- ***Foster Competition and Reduce Market Concentration***
  - Strengthen competition policy enforcement, particularly in sectors with state-owned enterprises or monopolies.
  - Encourage contestability in procurement and public service delivery to open space for private firms.
  - Review and rationalize industrial and tax incentives to ensure they are performance-based and do not distort markets.
- ***Strengthen Governance and Institution***
  - Implement a national productivity and innovation strategy, including support for startups and R&D.
  - Reduce corruption risks by improving procurement systems and public financial management transparency.
  - Enhance judicial efficiency to resolve commercial disputes quickly and fairly.

F. Conclusion

40. Botswana stands at a critical juncture in its development trajectory. Building on its early legacy of prudent macroeconomic management and strong institutions, the country must now address persistent structural impediments that constrain the economy’s ability to realize its growth potential and diversify.

41. Insights from firm-level perceptions and cross-country structural gap analysis point to a series of reform priorities. But two reform areas overlap across the approaches: access to finance, as well as corruption and governance. These bottlenecks not only suppress firm productivity and investment but also undermine broader macroeconomic performance. On the other hand, structural reform gaps identified through the cross-country macro-analysis and survey data point to complementary areas—particularly in labor markets, external sector openness, land tenure and electricity shortages—where reforms could unlock substantial growth dividends and employment gains.

42. Policymakers should leverage this dual-lens analysis to prioritize and sequence reforms strategically. Enhancing institutional quality, improving credit access, modernizing land administration, and advancing energy reforms will be essential to position Botswana for a more resilient, inclusive, and diversified growth path in the decade ahead. Sustained progress will require strong political will, effective implementation, and a commitment to inclusive consultation with private sector actors.

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