



second quarter april - june 2013

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COMMENTARY 

Some good economic news, but growth being held back by poor project management

The second quarter of 2013 saw a range of conflicting economic data and developments that make it difficult to draw a clear overall picture of where the economy is heading. On the macroeconomic front there were some positive developments. Inflation fell to 5.8% in June, the lowest rate since late 2009. This time there are good prospects of a more sustained decline in inflation through the rest of 2013. As a result, interest rates have been reduced and are now at their lowest levels for over 20 years.

There was also good news on the trade front, with a strong performance from diamond exports in Q1, which was in turn mainly driven by aggregation-related flows. As a result, the merchandise trade account was more or less in balance, the best quarterly performance since before the global financial crisis of 2008-9. This is encouraging, given uncertainties in the world economy.

Not all the macroeconomic news has been good, however. Overall GDP growth slowed down to 3.6% over the year to March 2013, due to reduced growth in both mining and non-mining sectors of the economy. Credit expansion continued at a high rate, but what is of real concern is that this was mainly driven by bank lending to households, which is thought to be largely for consumption purposes. Bank lending growth to private businesses fell to very low levels, and as well arrears on bank lending to businesses jumped sharply. Both of these trends will need to be watched closely by the regulatory authorities.

While the diamond market seems to be robust, other commodity price developments are less favourable, with copper, nickel and gold prices reaching multi-year lows – not good for Botswana's other mineral exporters. Exchange rates were volatile during the quarter, driven by the weakness of the SA rand against the US dollar. This has provided some relief for mining exporters, whose revenues are mostly in US dollars but many of whose costs are in rand or Pula.

One of the biggest detractors from economic performance and confidence in Q2 was the continuation of widespread electricity “load-shedding”, or power outages. This has been highly disruptive across the private sector, with inevitable implications for costs and productivity. Botswana Power Corporation has given assurances that supplies will be restored to normal by the end of July with the full commissioning of the new Morupule B power station, but given their failure to honour such commitments in the past, actions will speak louder than words. Power outages are being compounded by water shortages and restrictions in the south of the country, a problem that will take much longer to resolve. And while Botswana has bought access to new undersea telecoms cable links to the rest of the world, internet access remains expensive, slow and unreliable – way below international standards.

The ongoing power and water shortages are indicative of a deeper problem of poor planning and project management in the public sector. While Morupule B may be the most extreme example, there are any number of other major projects that have been started late, completed late or not at all, been badly designed, have gone over budget, or not delivered the benefits or services that had been anticipated. The long and the short of it is that public money is being wasted, and the nation is being deprived of essential infrastructure, which is in turn holding back development.

It is essential that proper attention is devoted to proper planning, selection, design and management of public sector investment projects. Maybe this means doing fewer projects, but doing them better. It certainly means developing improved capacity within government and parastatals to plan and manage projects. If not, it is certain that future growth will be hindered, and Botswana's reputation for good governance and management will be in jeopardy.

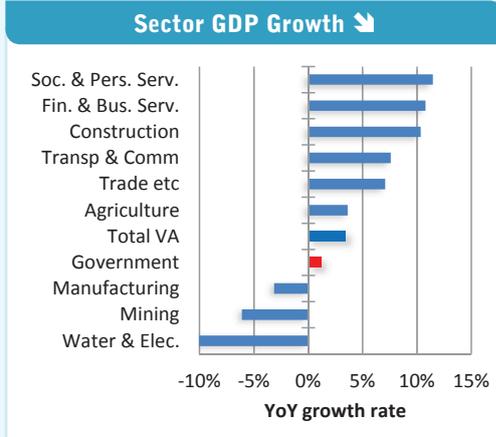
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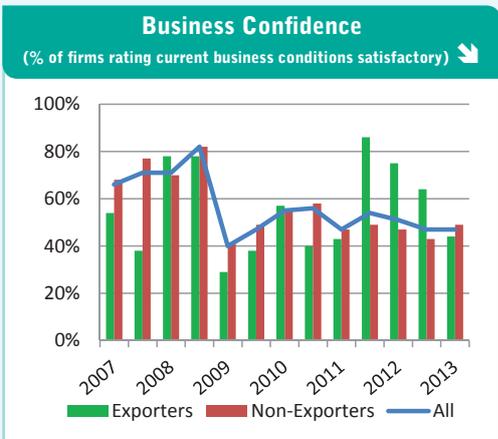
KEY ECONOMIC VARIABLES



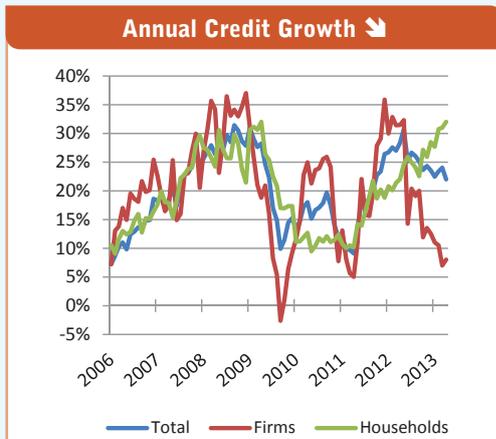
During the 12 months to March 2013, the economy grew by 3.6%, down from the 4.2% growth experienced in 2012. This is attributable to both the 6.1% contraction of mining output and the slowing of growth in the non-mining private sector. The latter fell from 8.0% in 2012 to 6.3% during the year to March 2013.



Services continued to be the fastest growing sectors during the year to March 2013. The top three sectors were social & personal services, finance & business services, and construction. Three sectors contracted during the year – manufacturing, mining and water & electricity – the latter experiencing a 75.3% contraction, due to the negative value being created by the Botswana Power Corporation.



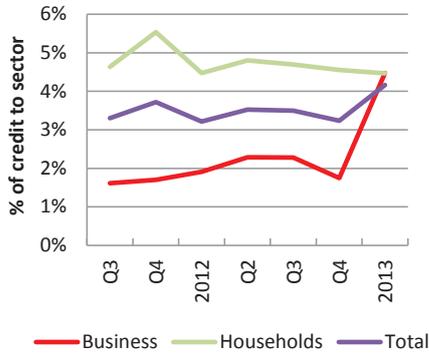
The Bank of Botswana's H1 2013 Business Expectations Survey (BES), conducted between March and May 2013, showed that overall business confidence remained constant at 47%. However, confidence amongst exporting firms deteriorated from 64% in September 2012 to 44% in March 2013. Conversely, the confidence of local non-exporting firms improved from 43% to 47% during the same period. It should be noted that, despite overall business confidence remaining unchanged, it is still below 50%, indicating that the majority of businesses do not consider current business conditions to be satisfactory.



Annualised credit growth stood at 22% in April 2013, compared to 28% in April 2012. The growth rate of credit to firms sharply declined from 31% in April 2012 to 8% in April 2013. Inversely, the growth rate of credit to households continued to rise; reaching 32% in April 2013, up from 22% in April 2012. Both trends are of concern, indicating excessive borrowing by households and worsening conditions for firms.

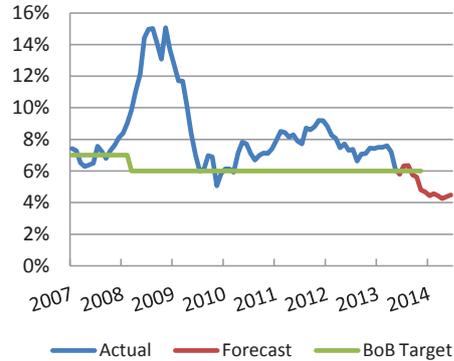
KEY ECONOMIC VARIABLES ↘

Arrears on Bank Lending ↘



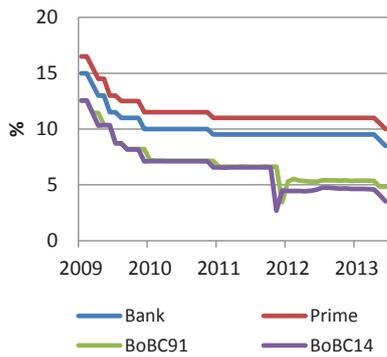
Despite the sharp growth in bank lending to households and anecdotal reports of "debt stress", there is no evidence of increased arrears on household borrowing. However, there appears to have been a sharp increase in arrears on lending to businesses, which may in turn explain some of the slowdown in corporate lending. The deterioration seems to be quite broadly based, with the manufacturing, construction and trade sectors all experiencing a sharp increase in arrears.

Inflation and Forecast ↘



Inflation fell sharply, from 7.6% in March to 5.8% in June. This reflects a number of developments, including base effects whereby some large price increases in Q2 2012 dropped out of the calculation, combined with weak underlying inflationary pressures. Inflation has therefore fallen within the BoB objective range of 3-6% for the first time since early 2010. Notwithstanding a likely increase in fuel prices, which could push the rate up temporarily, inflation is generally expected to continue on its downward trajectory in the second half of 2013. We forecast inflation to end the year below 5%.

Interest rates ↘



The second quarter of 2013 saw two cuts of 0.5% each in the BoB's main policy interest rate, the Bank Rate. The BoB Monetary Policy Committee noted that owing to subdued domestic demand and projected low external inflationary pressures, some non-inflationary economic stimulus was necessary. Following the cuts, the Bank Rate was 8.5%, the lowest level since December 1990.

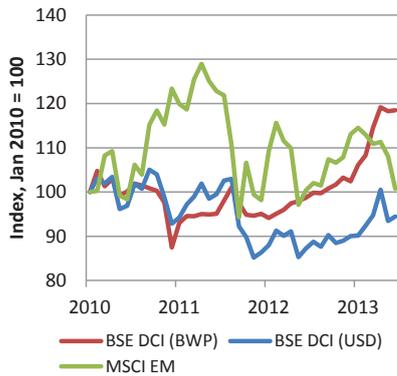
Exchange rates ↘



The quarter was characterised by a high level of exchange rate volatility, driven by the weakness of the SA rand against the US dollar. As a result, the Pula continued to depreciate against the US Dollar and appreciate against the Rand. From the beginning of Q2 to the end of June the Pula appreciated by 3.4% against the ZAR while it depreciated by 3.6% against the USD.

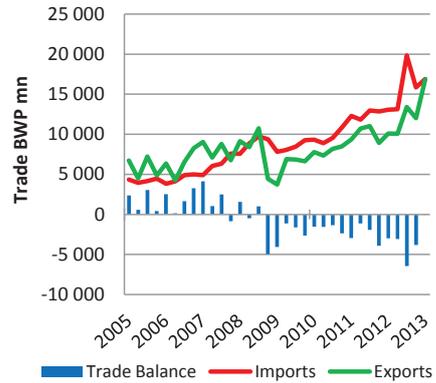
KEY ECONOMIC VARIABLES

Stock Markets



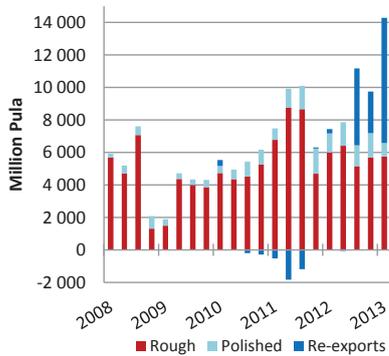
During Q2 2013, the BSE DCI gained 3.4%. However, in US dollar terms the BSE DCI actually went down by 0.3%. This is attributable to the Pula's depreciation against the US dollar. Despite its contraction in US dollar terms, the BSE DCI outperformed its peers as the MSCI Emerging Markets index (which is reported in US dollar terms) fell by 9.1%.

Trade



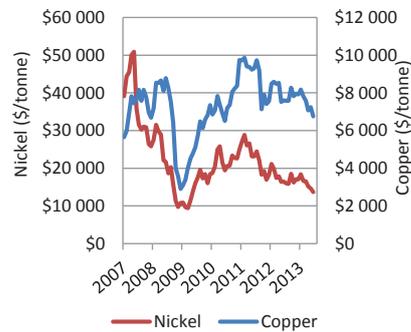
The international trade position improved in 2013Q1, with a sharp increase in exports to P16.85 billion, and only a modest increase in imports. The main driver was an increase in diamond exports, reflecting higher prices and increased aggregation flows. As a result the quarterly trade deficit was much reduced, to only P50 million.

Diamond Exports



For the first time since Botswana started aggregating diamonds, rough diamond re-exports were greater than Botswana's rough diamond exports during Q1 2013. This is attributable to the 199% growth in the value of rough diamond re-exports between Q4 2012 and Q1 2013. For Q1 2013, the value of Botswana's rough diamond exports was P5.8 billion, compared to P7.7 billion of rough diamond re-exports.

Copper & Nickel Prices



Global commodity prices continued their downward slide during Q2. Of particular interest for Botswana, copper prices were down 11% and nickel prices 17% during the quarter – the latter reaching a four year low. This mainly reflected the impact of slowing growth in China, and the expectation of a gradual re-orientation of the drivers of Chinese growth from investment towards household consumption, which is likely to lead to reduced demand for industrial metals. Copper-nickel is Botswana's second largest export, after diamonds.

NEWS HIGHLIGHTS 

4th April	Skills shortages threaten business prospects- survey (Mmegi)	Grant Thornton's 2013 International Business Report reported that a combination of poor work ethic, shortage of skilled workers and immigration restrictions is threatening the prospects of businesses in Botswana.
9th April	Shumba Coal debuts on BSE (Mmegi)	Shumba Coal, a majority-citizen owned coal development firm, listed on the Botswana Stock Exchange (BSE) following the placement of more than seven million shares with private investors.
16th April	Projected NDP 10 budget deficit cut sharply (Mmegi)	Higher than projected revenues coupled with constrained spending have sharply reduced the projected NDP10 cumulative budget deficit to P12.7 billion, from an initial estimate of P31.9 billion.
17th April	Government floats 600MW power tenders (Mmegi)	The Ministry of Minerals, Energy and Water Resources has gazetted a tender for the supply of 600mw of electricity from Independent Power Producers in an eagerly awaited move for a sector desperate for market opportunities.
18th April	Signing of Trans-Kalahari Railway deal postponed (Mmegi)	The signing of a bilateral agreement Botswana and Namibia for the development of the US\$11 billion Trans-Kalahari Railway, billed to happen on the 20th of April 2013, was postponed after Namibia reportedly requested more time to finalize technicalities.
23rd April	Debswana output falls in first quarter (Mmegi)	During the first quarter of 2013 Debswana produced 4.5 million carats of diamonds, an 8% year on year decline. This is attributable to plant maintenance at the Orapa mine.
29th April	Sale of Mmamantswe coal deposit by Aviva to African Energy (Mining Weekly)	Aviva Corporation has sold its Mmamantswe coal project to African Energy Resources for A\$3.5-million. Aviva, which acquired the project in 2007, has identified a 1.3-billion-ton coal resource, including a probable reserve of 895-million tons.
3rd May	Textile sector teeters on the brink (Mmegi)	Owing to high operating costs and low prices, profit margins of local textile companies have been squeezed, and the future of about 4,000 workers is uncertain. The Ministry of Trade and Industry is expected to resubmit a bailout proposal for the textile sector of P500 million over five years to cabinet, after the initial effort was rejected last year.
10th May	Government set to boost commercial farmers (Mmegi)	After failing to increase food production in the country through financially boosting subsistence farmers, government has set its sights on emerging and commercial farmers. Consequently, the guidelines the Integrated Supported Programme for Arable Agriculture (ISPAAD) have been reviewed, to place emphasis on emerging and commercial farmers.
14th May	Tourism sector upbeat on 2013 prospects (Mmegi)	Botswana's tourism sector is emerging from a three-year slump caused by the global recession, with some players reporting a 70 percent increase in business activity amidst industry-wide optimism.
15th May	Pangolin Diamonds discovers kimberlite in Botswana (Mining Weekly)	Junior diamond explorer Pangolin Diamonds, listed on the TSX venture board, reported that it has discovered a kimberlite pipe within its Tsabong North project.
15th May	Karowe mine ramps up production (Mmegi)	According to Lucara Diamonds, the budget plan for the Karowe mine this year is to mine and process 2.5 million tonnes of ore and to produce 400,000 carats of diamonds for sale. Last year the mine produced 303,000 carats from 1.4 million tonnes of ore, thus a 32% production increase is expected.

NEWS HIGHLIGHTS 

17th May	Diamond prices to increase 6% a year to 2020 (Bloomberg)	BMO analyst Edward Sterck asserted that owing to the growing demand in China and India, diamond prices will increase at an average of 6% a year through to 2020.
21st May	Discovery metals hang up "for sale" sign (Mining weekly)	Discovery Metals, which owns the Boseto copper project in Botswana, has launched a new search for a buyer, after Cathy Fortune Investment's A\$824-million offer was scrapped in February.
22nd May	Lucara's first large stone tender delivers 'exceptional' results (Mining Weekly)	Lucara Diamond Corporation asserted that its first special tender of large and exceptional diamonds fared exceptionally well, with the 15 stones fetching revenues of \$24.85 million.
22nd May	Bullish property market overtakes 2012 bustle (Mmegi)	Knight Frank suggests that demand for office accommodation is on course to overtake last year's 40,000 m2 uptake, with interest from government in the Central Business District (CBD) primarily driving the market. The stock of office space in the CBD has risen by 500% in the past two years on the back of a construction boom by both speculative investors and pre-let and owner occupiers. In 2011, there was only 20,000 m2 of available office space in the CBD rising to 80,000 m2 last year.
24th May	Eskom rules out longer BPC deal (Mmegi)	The South African power utility, Eskom has ruled out the possibility of extending the current 200-megawatt supply to Botswana past its July 31 deadline.
24th May	Botswana ups drive to shed 'tax haven' label (Mmegi)	Botswana is stepping up efforts to remove secrecy provisions and deficiencies in its tax information exchange agreements and laws in a bid to reverse impressions that the country may be a tax haven.
7th June	Credit referencing system to benefit real estate industry (Mmegi)	Real estate professionals have welcomed prospects of a credit referencing system to help them deal with challenges of pre-assessing the risk profile of potential tenants.
14th June	Botswana eyes coal exports to Eskom (Mmegi)	Botswana's coal sector is increasingly eyeing Eskom as a potential off-taker of supplies, with reports that Morupule Coal Mine is reaching agreement to supply the South African utility.
18th June	Botswana can lose Indian coal market to Australia (Mmegi)	The MD of African Energy Resources Limited, Frazer Tabear, warned that the slow pace of infrastructure development in the country might result in Australia surpassing Botswana in capturing the lucrative and fast expanding Indian coal market.
18th June	World Bank marginally downgrades Botswana forecast (Mmegi)	The latest edition of the Global Economic Prospects (GEP) report showed that the World Bank has marginally revised its projections for Botswana's economic growth for 2013 to 5%, down from 5.1% forecast in January.
21st June	Thin capital market threatens insurance industry (Mmegi)	Botswana Life Insurance limited (BLIL) warned that pensioners and other investors who want to invest their funds with life insurance companies could soon be turned away as the cash flush companies face an acute shortage of suitable investment instruments.
24th June	KPMG target investment in handbook (Mmegi)	KPMG Botswana recently launched a 74-page handbook on investment guidance titled "KPMG's Guide to Investing in Botswana". (available at http://communications.kpmg.co.za/Botswana%20Investment%20Guide/index.html)
28th June	National Petroleum Fund "running on empty" (Mmegi)	The National Petroleum Fund (NPF), a statutory buffer for retail fuel prices, has been depleted due to a prolonged period of under-recovery on fuel import prices.

MACROECONOMIC DATA

Key Economic Data

	unit	2010	2011	2012	2012 Q3	2012 Q4	2013 Q1	2013 Q2
Annual Economic Growth								
GDP	%	8.6	6.1	4.2	5.0	4.2	3.6	
Mining	%	22.7	-2.3	-7.0	-11.9	-7.0	-6.1	
Non-mining private sector	%	8.1	9.7	8.0	10.3	8.0	6.3	
GDP current prices	P mn	93 390	104 573	110 511	27 422	28 674	28 454	
GDP 2006 prices	P mn	66 549	70 610	73 560	18 285	19 115	18 689	
Money & Prices								
Inflation	%	7.2	9.2	7.4	7.1	7.4	7.6	5.8
Prime lending rate	%	11.0	11.0	11.0	11.0	11.0	11.0	10.0
BoBC 14-day	%	6.6	4.5	4.6	4.7	4.6	4.6	3.5
Trade & Balance of Payments								
Exports - total goods	P mn	31 822	40 022	45 567	13 400	12 029	16 850	
Exports - diamonds	P mn	21 780	30 248	36 143	11 169	9 748	14 274	
Imports - total goods	P mn	38 651	49 957	61 883	19 829	15 848	16 900	
Balance of visible trade	P mn	-6 829	-9 935	-16 316	-6 430	-3 819	-50	
Balance of payments	P mn	-3 178	-931	-978	1 489	-978		
Foreign Exchange								
Exchange rate USD per BWP	end	6.439	7.524	7.776	7.634	7.776	8.264	8.576
Exchange rate ZAR per BWP	end	1.027	1.086	1.090	1.078	1.090	1.121	1.159
FX reserves	\$ mn	7 886	8 082	7 628	7 794	7 628	7 531	
FX reserves	P mn	50 847	60 271	59 317	59 541	59 317	61 728	
Financial Sector								
Deposits in banks	P mn	40 423	43 505	47 216	47 939	47 216	47 650	
Bank credit	P mn	22 122	27 968	34 555	32 598	34 555	35 966	
BSE index		6 412.9	6 970.9	7 510.2	7 389.3	7 510.2	8 400.0	8 688.5
Business Indicators								
Diamond production (a)	'000 cts	22 019	22 903	20 619	4 384	5 537	4 658	
Copper production	tonnes	25 981	22 319	26 736	4 381	7 153	9 212	
Nickel production	tonnes	24 931	15 675	17 942	1 404	5 036	5 203	
Business confidence index		56%	54%	47%	47%	-	47%	-
No. of companies formed		11 458	11 788	16 561	4 806	4 588	3 404	
Crude oil (Brent)	\$/bar	93.23	108.09	110.80	111.36	110.80	108.45	102.49
Employment (formal)								
Government		130 709	130 196	-				
Parastatals		16 749	16 992	-				
Private sector		186 234	187 986	-				
Total		333 692	335 174	-				

Govt Budget

		2011/12	2012/13 Revised	2013/14 Budget
Revenues	P mn	38 486	41 911	44 022
	% GDP	36.0%	37.2%	-
Spending	P mn	38 667	41 076	43 242
	% GDP	36.1%	36.5%	-
Balance	P mn	-181	835	779
	% GDP	-0.2%	0.7%	-
Public debt & guarantees	P mn	28 464	28 737	28 575
	% GDP	26.6%	25.5%	-
Govt deposits at BoB	P mn	20 553	-	-
GDP	P mn	107 042	112 622	-

Comparison of Botswana and other Upper Middle Income Countries

Introduction

Botswana is widely considered to be a rare success story in Africa. The country is ranked above most of its Sub-Saharan counterparts in many international assessments and reports. However, as a result of the country's good performance - relative to the region - and continued praise there is perhaps a risk of complacency. To provide a broader picture, it is fitting that Botswana be compared with its peers, i.e. countries with similar income levels.

The World Bank ranks all its member 188 countries and all other economies with populations of more than 30,000 by their income levels. Its main criterion for classifying economies is gross national income (GNI) per capita. Economies are divided according to 2012 GNI per capita, calculated using the World Bank Atlas method. The groups¹ are: low income, US\$1,035 or less; lower middle income, US\$1,036 - US\$4,085; upper middle income, US\$4,086 – US\$12,615; and high income, \$12,616 or more. With income per capita of US\$7,720, Botswana is classified as an upper middle income country.

Upper Middle Income Countries

There are currently 55 upper middle income countries (hereinafter MICs) classified by the World Bank. These are:

LIST OF UPPER MIDDLE INCOME COUNTRIES (as at July 1, 2013)

Angola	Costa Rica	Lebanon	Serbia
Albania	Cuba	Libya	Seychelles
Algeria	Dominica	Macedonia, FYR	South Africa
American Samoa	Dominican Rep.	Malaysia	St. Lucia
Argentina	Ecuador	Maldives	St. Vincent & the Grenadines
Azerbaijan	Fiji	Marshall Islands	Suriname
Belarus	Gabon	Mauritius	Thailand
Belize	Grenada	Mexico	Tonga
Bosnia & Herzegovina	Hungary	Montenegro	Tunisia
Botswana	Iran	Namibia	Turkey
Brazil	Iraq	Palau	Turkmenistan
Bulgaria	Jamaica	Panama	Tuvalu
China	Jordan	Peru	Venezuela
Colombia	Kazakhstan	Romania	

1. Income classifications are set each year on July 1. These official analytical classifications are fixed during the World Bank's fiscal year (ending on June 30), thus countries remain in the categories in which they are classified irrespective of any revisions to their per capita income data.

SPECIAL FEATURE **Comparison of Upper MICs**

This note compares the performance of Botswana and other upper MICs across a variety of international assessments and reports. The comparison will follow a simple ranking of upper MICs as per their respective performance in each of the indices. The study examined different assessments which can be classified into five main themes, namely; Governance, Economic Performance, Economic Equality, Quality of life, and Business Climate.

SUMMARY OF BOTSWANA'S PERFORMANCE AMONGST OTHER UPPER MICs 

Theme	Variable/Index	Global rank	Upper MIC rank
Governance	Corruption Perception Index 2012 (Transparency International)	30 out of 176	2 out of 46
	Bertelsmann's Transformation Index 2012 (Bertelsmann Stiftung)	19 out of 128	8 out of 38
	Governance Sub-index 2012 (Legatum Institute)	32 out of 142	1 out of 37
Economic Performance	5 year average economic growth between 2008-2012 (World Economic Outlook)	n/a	27 out of 51
	Local currency Sovereign Ratings as on 15 th May 2013 (Standard and Poor's)	n/a	3 out of 37
Economic Equality	Gini coefficient (World bank databank)	n/a	35 out of 38
	Poverty rate (World bank databank)	n/a	31 out of 38
	Unemployment rate (World bank databank)	n/a	39 out of 45
Quality of Life	Human Development Index 2013 (Human Development Report)	119 out of 185	49 out of 53
	Legatum Prosperity Index 2012 (Legatum Institute)	70 out of 142	18 out of 37
Business Climate	Ease of Doing Business 2013 (Doing Business report)	59 out of 185	15 out of 50
	Global Competitiveness Index 2012-13 (Global Competitiveness Report)	79 out of 144	22 out of 37
	Baseline Profitability Index 2013 (Foreign Policy Group)	2 out of 102	1 out of 29

SPECIAL FEATURE

Governance

Botswana's performance in Governance-themed assessments is robust. Out of the 48 Upper MICs ranked in the Corruption Perception Index (CPI), Botswana is ranked the 2nd least corrupt upper MIC (behind St Lucia). Similarly, Botswana is also ranked high on Bertelsmann's Transformation Index (BTI). Of the 38 upper MICs ranked, Botswana was 8th in the Status Index². The BTI status index ranks the countries according to their state of democracy and market economy. Furthermore, Botswana is the highest ranked upper MIC on the Governance sub-index of the Legatum Prosperity Index (ahead of Costa Rica and Malaysia). Clearly, Botswana's Governance standards surpass those of most of its peers. This high standard of governance, supporting the prudent management of mineral revenues, has underpinned the country's economic development.

Economic Performance

Botswana's high standard of governance, supporting the prudent management of mineral revenues, has underpinned the country's economic development. Two variables were used to gauge the economic performance of the Upper MICs. These are the Standard and Poor's credit ratings and a 5-year average growth rate between 2008 and 2012. Botswana has an "A-" credit rating and it ranked 3rd out of the 37 rated Upper MICs. It shares this rating with four other countries; Brazil, Malaysia, Mexico and South Africa. This relatively high credit rating is evidence of Botswana's credit worthiness informed by a history of honouring its debt obligation and a relatively robust macroeconomy. The 5-year average GDP growth rate between 2008 and 2012 is a measure of the robustness of economies during the recent global financial crisis. On this variable, Botswana managed a mid-table performance of 27 out of 51 Upper MICs. This is partly attributable to the contraction in the diamond market in 2008-9 that had a major impact on growth. This underscores the country's need to diversify away from diamonds.

Economic Equality

Many upper MICs are resource-based economies. Despite being successful in terms of economic growth and average incomes, equitable distribution of resources eludes most. Three variables³ will be used to paint a picture of the state of economic equality within the upper MICs. These are the Gini coefficient, the incidence of poverty and the unemployment rate. The sporadic data reporting in some countries, including Botswana, makes the analysis of this theme quite difficult. For each of the upper MICs, the most recent available data was used for each of the three variables. Therefore, the statistics used are not necessarily for the same years. Botswana has the 4th highest Gini coefficient of the 38 MICs ranked. This means that Botswana has a relatively unequal distribution of wealth. Moreover, Botswana is among the upper MICs with high poverty rates (the poverty headcount ratio, measured as the proportion of population that survives on less than US\$1.25 a day). The country ranked 31 out of 38 upper MICs in the incidence of poverty, thus Botswana has the 8th highest incidence of poverty in the group. Botswana scored a bottom-table rank of 39 out of 45 on the unemployment front. Clearly, Botswana does not fare particularly well against other upper MICs on economic equality. In many respects Botswana has managed the fiscal proceeds from mining (especially diamonds) well, and the economy has grown steadily. But despite policies aimed at supporting equitable growth, the result has been that national income has not been equitably shared by all citizens, and the gap between the rich and the poor remains wide, due mainly to inadequate job creation.

Quality of Life

This theme compares the quality and standard of life in the upper MICs. Two indices used to measure the quality of life: the Human Development Index (HDI) life, a measure of the quality of life across all nations, and the Legatum Prosperity Index (PI), an inquiry of wealth and wellbeing in most countries. Botswana is ranked 49 out of 53 upper MICs in the HDI. Botswana's low HDI ranking (and score) is attributable to its low life expectancy (the result of high HIV/AIDS prevalence). Moreover, Botswana is ranked 18th (out of 37 upper MICs) on the PI. These two indices suggest that the quality of life of the residents of Botswana is lower than that of residents in many upper MICs. However, it should be noted that residents of Botswana enjoy very high personal freedom - that is, freedom of expression, belief and organisation. Botswana is ranked 4 out of 37 upper MICs and 30th globally on the PI Personal Freedom sub-index.

²The status index is part of the Bertelsmann's Transformation Index ranks the countries according to their state of democracy and market economy.

³All sourced from the World Bank databank website (databank.worldbank.org). The authors then ranked the MICs using the data from World Bank.

SPECIAL FEATURE

Business Climate

In a bid to increase private sector participation in the economy and attract FDI, Governments strive to create business friendly environments. This entails removing unnecessary red tape and bottlenecks within the economy. The World Bank Doing Business report and the World Economic Forum (WEF) Global Competitiveness report evaluate the friendliness of the business environment in different countries. The Doing Business report specifically assesses the helpfulness (or not) of business regulations in an economy, while the Global Competitiveness report assesses the general competitiveness of an economy. The 2013 Doing Business report ranked Botswana 15th out of 50 upper MICs (119th globally) on the ease of doing business. Similarly, of the 37 upper MICs ranked by the Global Competitiveness report, Botswana is ranked 22nd. Evidently, the business environment in Botswana is less friendly than those of many upper MICs, but better than that of some – on average a mid-table ranking.

Recently, an American think tank, the Foreign Policy Group, published a Baseline Profitability Index (BPI) which ranked countries by their overall attractiveness to generic foreign investment. Of the 102 countries ranked in the BPI, Botswana is ranked 2nd. Furthermore, Botswana is ranked 1st among the 29 MICs assessed. While this is a good performance, the BPI needs to be properly understood. It is an average of a range of indicators including projected economic growth (IMF), credit ratings (S&P), Governance Indicators (World Bank), Corruption Perceptions (TI), property rights, index of investor protection (World Bank), exchange controls and exchange rate stability. Botswana's good performance on the BPI therefore represents a consistently good performance across these underlying indicators, some of which have been discussed earlier in this note. The name of the BPI is, however, somewhat misleading, as it makes no assessment of the profitability of investments in a particular country.

Conclusion

Of the five themes examined, Botswana fares well on governance (both globally and amongst its peers) and economic performance. However, the state of the economic equality is towards the other extreme. Compared to peers, Botswana is an economically unequal country characterised by relatively high incidences of poverty and unemployment. Moreover, Botswana's performance under the themes quality of life and business climate is less than satisfactory.

A comparison of Botswana with upper MIC counterparts rather than those in sub-Saharan Africa, as is usually the case, shows that the country's performance is not as impressive as it is sometimes thought to be. Botswana should aspire to reach greater heights and shine among middle income countries, not just in Africa. There is a lot that can be done to improve the quality of life in Botswana as well as the business climate. As well as improving conditions for business and investment, there is a need to boost employment creation and strengthen the country's social safety net system, so that the gap between the poor and the rich is reduced.



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