

## COMMENTARY ↘

## I A Challenging Start to 2015

The first quarter of 2015 has been a tough time for the economy, driven by both international economic developments and domestic factors. In the international economic arena, the growth slowdown – particularly in China - has continued to have a negative impact on commodities markets. This has led to further declines in the prices of key primary commodities, and weaker demand for luxury products, including diamonds. Given that mining remains central to the Botswana economy – and of overwhelming importance to exports – the impact has been extensive.

Declining prices for copper and nickel have created a difficult environment for existing and emerging base metals miners. Weak demand for diamonds has led to squeezed margins for polishers and ultimately, reduced exports. Exports of Botswana rough diamonds in January and February 2015 were 29% down in US dollar terms compared to the same period in 2014, indicating potential balance of payments

pressures if the trend continues. And low demand and weak prices for bulk commodities such as coal and iron ore means that hopes of developing new, large-scale export operations along with associated infrastructure such as the Trans-Kalahari Railway are very much on the back burner, especially as prices are expected to remain low into the medium term.

The positive aspect of weak commodities prices is of course the low price of oil, which has helped to bring inflation down to historic lows in Botswana and elsewhere. While global oil prices rose somewhat in the first quarter, the expectation is that inflation in Botswana will remain very low for the rest of 2015.

Another positive development in the first quarter was the 2015 Budget, which showed that government finances are reasonably healthy. A budget surplus of P7.2 billion (5.5% of GDP) was recorded in the 2013/14 financial year – the most recent for which actual revenue and spending data are available –and approximately balanced budgets are projected for the current and forthcoming financial

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## COMMENTARY ↘

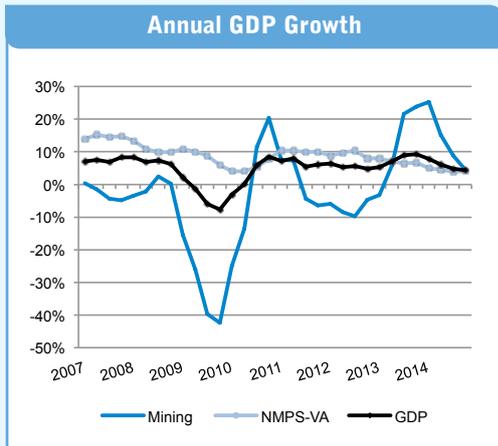
years. Government financial savings – an essential cushion against future shocks – are gradually being rebuilt, although public sector pay increases may slow this down.

A range of other factors have contributed negatively to the economic environment, particularly for the private sector. The tightening of requirements for the issuance and renewal of work permits for expatriate employees and foreign investors has led to the closure of several businesses and the shelving of expansion plans by others, and is one of the reasons for poor performance with regard to job creation (see later feature in this Review). It has also undermined economic confidence and Botswana's reputation for openness and "fair dealing" more generally. The failure of key public services including water and electricity supplies has not helped either, nor has the tightening of liquidity conditions in the financial sector, which led to reduced availability of credit and higher interest rates on borrowing, despite lower policy rates. Compounding all of these developments, the regional drought has negatively affected farming, and is in due course likely to lead to higher regional food prices as well as increased government spending on social welfare programmes.

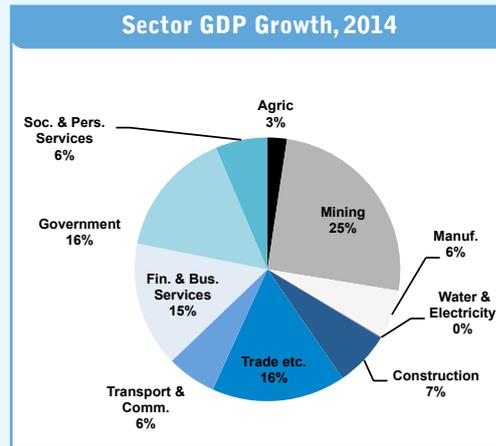
Various initiatives have been undertaken or proposed to address some of these problems. Towards the end of the quarter, the Bank of Botswana reduced the liquidity requirements imposed on the banks, which has eased some of the constraints on bank credit and profitability. A wide range of business environment reforms have been agreed, in principle, by Cabinet. Several of them are quite far-reaching and could have a dramatic and positive impact on business conditions, assuming that they are followed through to the implementation stage in a reasonable time frame, without the underlying intent being compromised.

Finally, an extensive consultation process is taking place with regard to the formulation of a new national Vision, to take effect for the 25-year period after the end of the current Vision 2016. This will be a prerequisite for the finalisation of National Development Plan 11, which has now been postponed for a year (to 2017) so that it can be made consistent with the new Vision. Besides objectives related to economic growth and poverty reduction, the Vision will also include a range of objectives related to the quality of life and citizen well-being, as well as environmental and economic sustainability. The Vision objectives will also complement the new Sustainable Development Goals (SDGs) being developed under the auspices of the United Nations as a successor framework to the Millennium Development Goals.

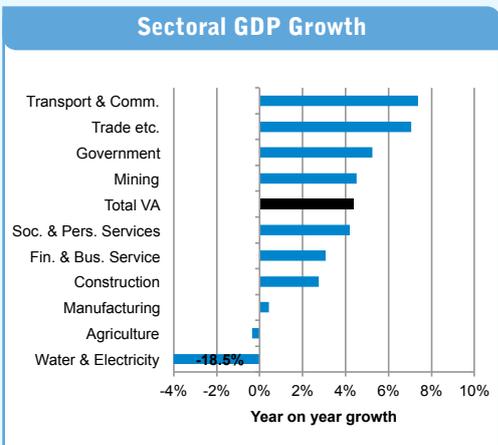
## KEY ECONOMIC VARIABLES



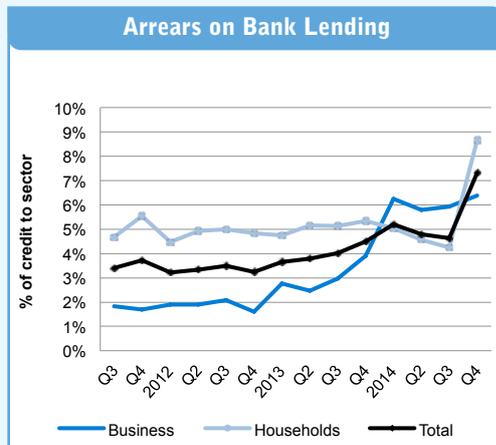
The Q4 2014 GDP bulletin indicated that GDP, particularly in the mining sector, had been underestimated since 2008. Apparently, production from some new mines had been omitted. The revised data indicated showed that mining sector, and in turn total GDP, had grown at a rate faster than initially estimated. Mining grew by 23.9% in 2013, compared to 4.5% in 2014. Consequently, GDP slowed down from a revised 9.3% in 2013 to 4.4% 2014.



When value added is measured at current prices, mining accounts for the largest share of GDP. However, at constant prices, it is second to the trade sector. It is evident that services sectors are becoming increasingly important in the economy, while the production sectors (agriculture, manufacturing and utilities) remain small, despite extensive Government support.

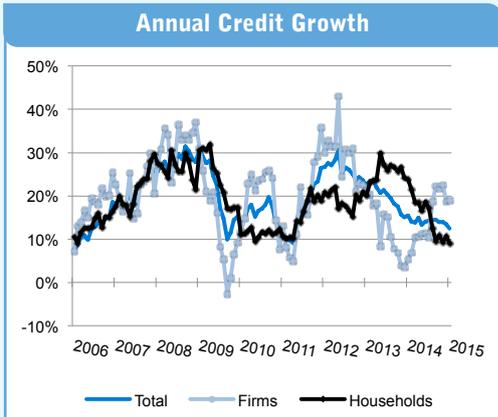


Transport and Communications was the fastest growing sector in 2014, ahead of Trade/Hotels and Government. The once buoyant services sectors (Social & Personal services and Finance & Business services) have lost steam, growing at rates of less than 5% during 2014. Owing to the negative VA of BPC, the water and electricity sector remained the slowest growing sector in the economy.

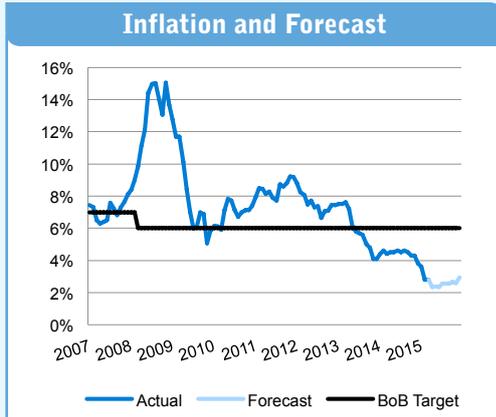


In a disturbing development, arrears on bank lending jumped from 4.6% in Q3 2014 to 7.3% in Q4 2014. The increase in arrears was across all borrowers. Arrears on lending to businesses increased from 5.9% to 6.4% and while arrears to households more than doubled from 4.2% to 8.7% between Q3 2014 and Q4 2014. In a rare event, some lending to Government and Parastals also was in arrears at the end of Q4 2014.

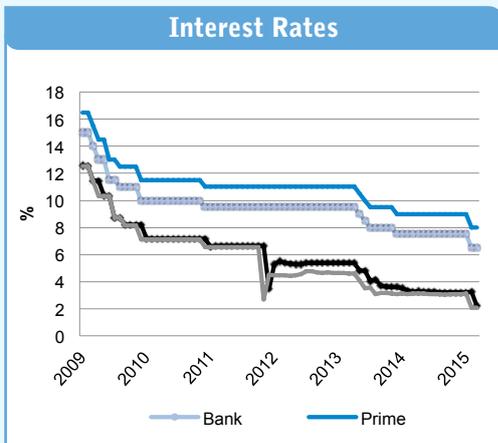
## KEY ECONOMIC VARIABLES ↘



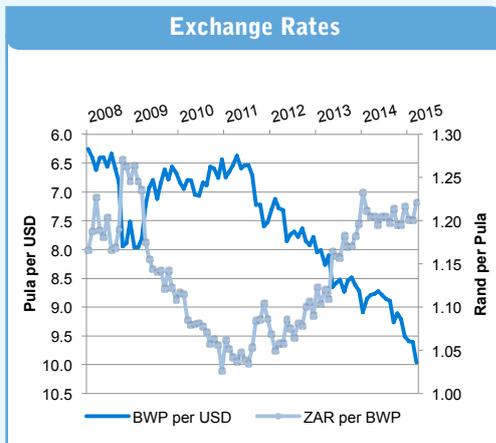
Annualised credit growth decreased from 14.0% in October 2014 to 12.4% in January 2015. Bank credit growth to both households and firms softened from 10.8% and 21.6% in October 2014 to 9.0% and 18.9% in January 2015, respectively. The decrease in credit growth may be attributable to the increase in arrears on bank lending and liquidity constraints in the market.



Headline inflation was at its lowest level, and below Bank of Botswana's objective range, at the end of Q1 2015. March 2015 inflation was 2.8%, down from 3.8% in December 2014. This decrease in inflation is mainly attributable to the fall in oil prices, which led to the downward adjustment of regulated local pump fuel prices. With international fuel prices increasing in recent weeks, there is little scope for further reductions in domestic prices. We anticipate that inflation will remain around or below 3% for the rest of the year, notwithstanding some upward pressure from rising water and electricity tariffs.



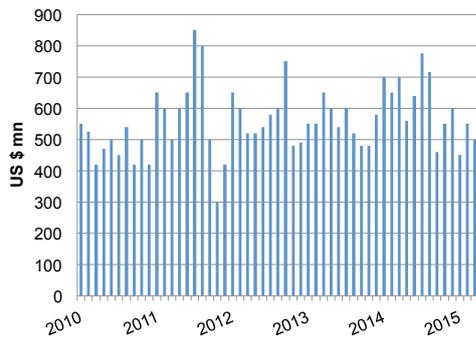
Interest rates followed inflation downwards during Q1 2015. With a view to spurring economic activity, the Bank of Botswana's Monetary Policy Committee decided to cut the Bank Rate by 100 basis points on the 18th of February. BoBC rates and most prime-lending rates followed suit. Nevertheless, this only partially offset the impact of liquidity shortages, which have led to increases in many deposit and lending rates. With inflation forecast to remain fairly steady throughout the rest of 2015, we do not expect another bank rate adjustment this year.



In a bid to protect the Pula from the volatility of the ZAR, the MFDP adjusted the weight of the ZAR in the Pula basket downwards (from 55% to 50%). The rate of crawl was adjusted from -0.16% a year to zero. During the first quarter of 2015, the Pula appreciated slightly (by 0.3%) against the ZAR, and by 0.1% against the SDR. However, the SDR currencies were unstable against each other, and the Pula depreciated by 4.5% against the USD while appreciating by 7.6% against the Euro.

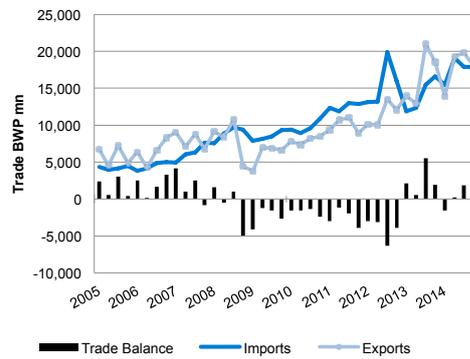
## KEY ECONOMIC VARIABLES ↘

### DTC Sales



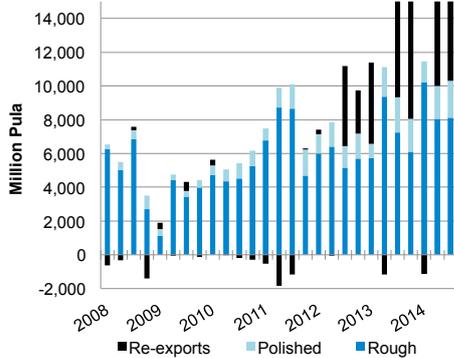
The first quarter of 2015 had 3 DTCI sights, grossing an estimated USD1,500 million. This was 26.8% less than the value of the sights in Q1 2014. The poor sales are attributable to the squeezed profit margins of the polishers because of the low prices of polished diamonds and the high prices of rough. In view of this, sightholders are rejecting and/or deferring the buying of rough diamonds on offer. It is estimated that the sightholders rejected 20%, 25% and 30% of the boxes on offer during the January, February and March sights, respectively.

### Trade



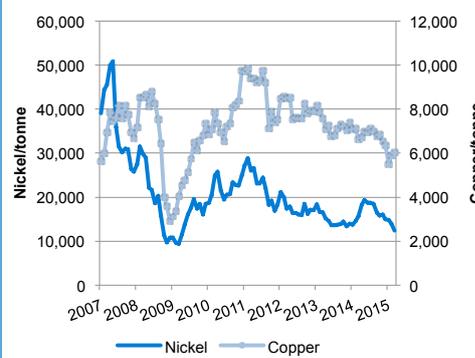
Owing to the 0.3% and 8.7% decrease in imports and exports during Q4 2014, respectively, the trade balance deteriorated from P1,884 million in Q3 2014 to P222 million in Q4. During 2014, exports increased by 6.8% while imports increased by 24.6%. This saw the trade balance deteriorate from P10.1 billion in 2013 to P763.7 million in 2014.

### Diamond Exports



Trends in diamond exports remained fairly constant between Q2 2014 and Q3 2014. The total value of total diamond exports (including Botswana rough, re-exports of rough and polished diamonds) increased slightly from P16.5 billion in Q2 2014 to P17.0 billion in Q3 2014. Similarly, the value of Botswana's rough diamonds exported increased from P8,054 million to P8,129 million between the 2 quarters.

### Copper & Nickel Prices



The softening of commodity prices continued into Q1 2015 with prices of copper and nickel falling to levels last seen during the economic crisis of 2009. During Q1 2015, copper and nickel prices fell by 4.8% and 16.6%, respectively. Consequently, the Boseto mine (copper) closed down during the quarter on account of insolvency. Moreover, African Copper also indicated that it may have to close down its Mowana mine in June 2015 if prices remained low.

NEWS HIGHLIGHTS 

6th January	Increasing oil supply globally likely to extend price declines (Business Day)	Morgan Stanley anticipates that the oil market is set for “more problems” in 2015 as increasing supplies from countries including Russia and Iraq add to the global glut that drove prices almost 50% lower last year. The extra supplies come at a time when the Organisation of the Petroleum Exporting Countries (OPEC) is committed to maintaining its production quotas and the US pumps at the fastest rate in more than 30 years.
9th January	Diamond prices fall as liquidity crunch spurs sales (Business Day)	Diamond prices suffered the biggest quarterly decline in more than 2 years as banks tightened credit to the industry. Rough diamond prices fell 6.9% in the last quarter of 2014, the steepest drop since the second quarter of 2012.
9th January	PPADB cracks whip on contractors (Mmegi)	The Suspension and Delisting Disciplinary Committee of the Public Procurement and Asset Disposal Board (PPADB) has started cracking the whip on contractors who violate the Contractor’s Code of Conduct. For the first time since the establishment of the code of conduct, PPADB delisted one contractor and gave one other a warning.
12th January	Botswana GDP may be ‘underestimated’ (Sunday Standard)	The African Development Bank has expressed concerns about the manner in which Statistics Botswana estimates national accounts. On the basis of its assessment of Botswana’s processes, the bank worries that the country’s GDP may be underestimated.
15th January	African Energy seals Sese disposal deal (Mmegi)	African Energy has concluded negotiations to sell a majority stake in its Sese coal and energy project to a Zambian company, First Quantum Minerals (FQM). The deal will see FQM acquiring a 51% stake in the power project located in the Central District (Botswana), for \$8.0 million (P76.0 million)
16th January	15MW waste energy power plant on cards (Mmegi)	The Kgatleng District Council (KDC) plans to build a 15MW waste energy power station at the Pilane landfill. In an interview with BusinessWeek, Kgatleng Councillor Mpho Moruakgomo indicated that KDC is currently in negotiations with the Botswana Power Corporation to secure an independent power producing licence as well as a power purchase agreement.
20th January	More diamonds discovered in Malatswae (Mmegi)	Diamond explorer Pangolin Diamonds says it has recovered its fourth and largest diamond from its Malatswae project.
26th January	Botswana Coal companies see output without new rail line (Bloomberg)	Botswana Chamber of Mines CEO, Charles Siwawa, affirmed that coal explorers in Botswana are pressing ahead with plans to start production and use existing rail capacity to ports in South Africa and Mozambique, instead of waiting for the planned line to Namibia.
27th January	Gem Diamonds warns of possible price softening in early 2015 (Mining Weekly)	Gem Diamonds CEO, Clifford Elphick, has cautioned that diamond prices will continue to soften in first quarter of 2015. This was against the backdrop of the announcement of the closure of the Antwerp Diamond Bank in October 2014, raising concerns over the availability of liquidity in the rough diamond market.
27th January	Textiles anchors 53% jump in AGOA exports (Mmegi)	According to the statistics from the US Department of Commerce, Botswana’s exports to the USA under AGOA increased 53% from \$5.5 million (P52.0 million) to \$8.5 million (P80.0 million) of the first 11 months of 2014. This was driven by increased exports of textiles and apparel.
29th January	Liquidity constraints slows residential market (Mmegi)	Vantage Properties director, Sethebe Manake, told Mmegi Business that the liquidity constraints faced by local financial institutions have slowed down the boom in the residential property market, as financiers become more risk averse in granting loans.

NEWS HIGHLIGHTS 

29th January	Govt shields Pula from volatile Rand (Mmegi)	The Ministry of Finance and Development Planning has effected adjustments to the exchange rate regime that saw the weight of the Rand in the Pula basket reduced from 55% to 50% while the rate of the crawl changed from -0.16% a year to zero. Analysts believe these changes are aimed at protecting the value of the Pula against the volatility of the Rand.
30th January	The false economy of Statistics Botswana incapacity (Mmegi)	The recently released Open Data Barometer global report has lumped Botswana into a cluster of 'capacity constrained' countries that are facing challenges in establishing sustainable open data initiatives as a result of limited Government or civil society capacity. In addition, the report indicated that the limited capacity at Statistics Botswana has caused delays in publishing or absence of key public data, a trend that has long-term economic and social costs.
3rd February	BDC embarks on major restructuring exercise (Mmegi)	Botswana Development Corporation (BDC) has begun a major restructuring exercise aimed at transforming the organisation into a profitable and sustainable DFI.
5th February	African Copper warns of possible closure (Mmegi)	African Copper cautioned that it may have to halt operations if international copper prices do not rebound. The warning came shortly after Discovery Metals announced that it would shut its Boseto Mine in June 2015, laying off about 400 workers in the process.
6th February	Diamond savings fund deferred to 2017 (Mmegi)	A proposal to save 40% of annual mineral revenues for future generations has been deferred to 2017, due to delays in preparations of the new National Development Plan (NDP 11).
9th February	BTCL to release shares sale prospectus mid-2015 (Sunday Standard)	The Botswana Telecommunication Corporation Limited (BTCL) has announced that its share sale prospectus will be released mid-2015 ahead of its initial public offering.
10th February	Study to gauge financial inclusion on cards (Mmegi)	According to Minister Kenneth Matambo, improving financial inclusion is key to achieving inclusive growth through provision of basic financial services to the people. As such, a diagnostic analysis on how to make financial services accessible to as many people as possible will be carried out during 2015.
10th February	Discovery secures P1billion for underground mine (Mmegi)	Discovery Metals Limited (DML) has secured a \$110.0 million (P1.0 billion) investment from equity fund, Castlepines Global Equities, to develop the Zeta underground mine and repay its debts.
13th February	Kingdom Bank in doldrums (Mmegi)	Kingdom Bank Africa Limited is teetering on the brink of collapse, weighed down by acute liquidity constraints that have seen the offshore bank fail to meet depositor obligations and pay workers' salaries.
16th February	Automotive plant to open in Lobatse (Mmegi)	BDC is at an advanced stage of funding the relocation of Pasdec Automotive Technologies from South Africa to Lobatse. Relocation of the company, which manufactures automotive wiring harnesses, is expected to create about 500 jobs.
16th February	BoB takes over Kingdom Bank (Mmegi)	The central bank announced that it had assumed temporary management of Kingdom Bank (KBAL); A period during which the operations of KBAL will only be restricted to receiving repayments of loans and advances made to customers.

NEWS HIGHLIGHTS 

17th February	Mohohlo chides banking sector (Mmegi)	Speaking at the official opening of Barclays Bank of Botswana head office recently, Bank of Botswana Governor, Linah Mohohlo, asserted that despite the increased competition and technological advances, the local banking sector has not delivered a commensurate improvement in the quality of service.
19th February	Galane Gold Ltd. announces receipt of mining license for Tekwane (Junior Mining Network)	Galane Gold has received a mining licence for its Tekwane project. The Company previously announced an indicated mineral resource of 12,735 ounces of gold and a total inferred mineral resource of 11,443 ounces of gold at its Tekwane site. The resource is contained in a gold-bearing rubble horizon which will be strip-mined and processed using the Company's current operating plant.
22nd February	BIFM reels from BPOPF contract termination (Sunday Standard)	Botswana Insurance Holdings Limited (BIHL) is reportedly bracing for a massive retrenchment and scaling down exercise at its subsidiary, Botswana Insurance Fund Management (BIFM), after the loss of its multi-billion pula management contract with Botswana Public Officers Pension Fund (BPOPF).
23rd February	Cupric advances ambitions of new copper mine in Botswana (Mining Weekly)	Emerging copper miner Cupric Africa has set its sights on developing a new underground copper mine in Botswana, with work under way to firm up the bankable feasibility study (BFS) and map out the next step for the company's Khoemacau copper/silver exploration project.
24th February	Karowe Mine pushes Lucara revenue up 20% (Mmegi)	Lucara Diamond reported a year-on-year revenue increase of 20% during the fourth quarter of 2014. Moreover, the average value of the company's rough diamonds increased by 56% to \$675 per carat. All of Lucara's production comes from its sole producing mine, Karowe mine.
27th February	Import and export taxes under review (Mmegi)	The Botswana Unified Revenue Service has embarked on a process to amend the Customs and Excise Duty Act with a view to reduce costs associated with import and export of goods.
27th February	Boseto copper mine closes (Botswana Guardian)	Miners at the Boseto Copper mine were on the 27th of February told by management to leave mine premises with immediate effect, halting production at the mine. It is reported that all employees of the company including sub-contractors have been told to leave as the company has been placed under voluntary administration.
27th February	BPC buys Matshelagabedi power plant (Mmegi)	Botswana Power Corporation (BPC) has bought the 70MW Matshelagabedi diesel power plant. BPC had been renting the plant from APR Energy since 2009.
2nd March	SSKIA to be completed this month (Mmegi)	The multi-million-pula expansion project of the Sir Seretse Khama International Airport (SSKIA) is set to be completed in March (2015) after works were suspended for three years.
9th March	P100 million oil factory to be opened in Francistown (Mmegi)	United Refineries Botswana (URB) will next month open an oil factory worth P100 million in Francistown. The company will manufacture olive oil, cooking oil, margarine and mayonnaise.
13th March	Namibia overtakes Botswana as top mining destination (Mmegi)	According to the 2014 Fraser Institute Survey of mining jurisdictions, Botswana has slipped two places to position 26 while Namibia has improved to 25 from 34 in 2013. Botswana has been overtaken by Namibia as the most attractive jurisdiction in Africa for mining investment due to a perceived fall in the mineral endowment potential of the country.

NEWS HIGHLIGHTS 

19th March	Drought declaration imminent( Mmegi)	Assessment teams are reportedly traversing the country, with their recommendations expected to guide President Ian Khama to declare a drought. The last such announcement was made in July 2013, triggering a range of state-funded interventions costing a collective P217.5 million.
20th March	Botswana faces P5.0 billion drop in SACU revenues (Mmegi)	Falling regional trade volumes may result in Botswana suffering a drop of up to 30% in SACU revenues next year, amid a fresh campaign by South Africa to review the revenue sharing formulae.
22nd March	Botswana considers alternative coal transport routes (Sunday Standard)	The Government is considering a possible alternative route to facilitate transportation of coal from Botswana, apart from the much publicized Trans-Kalahari Railway line. One such proposed route would go through Zimbabwe to Mozambique's Techobanine port.
22nd March	Sightholders complaining of low productivity, high production costs in Botswana (Sunday Standard)	Local diamond sightholders (polishers) are complaining about high production costs and low productivity in the country. It is reported that the relatively low productivity in Botswana is driven in part by the low number of days worked in a year. In Botswana workers work 230 days in a year compared to 280 days in India.
23rd March	Parliament abolish CEDA Young Farmers' Fund (Botswana Guardian)	Parliament adopted a motion to transform the Citizen Entrepreneurial Development Agency (CEDA) Young Farmers Fund to a Youth Entrepreneurship Fund in order to broaden its scope. Sectors proposed for further inclusion in the fund are the Information and Communication Technology (ICT), Tourism, Entertainment, Tailoring, Services and Leather works.
24th March	Customers owe BPC over P400.0 million (Mmegi)	Botswana Power Corporation (BPC) has adopted new, stricter credit control measures, which include credit blacklisting of defaulters, as customer arrears now stand at over P400 million. The bulk of customer arrears are from charges on new connections and outstanding balances from the change to prepaid meters.
26th March	SA sticks to its guns over SACU revenue deal (Business Day)	South Africa (SA) is pushing hard for the reworking of revenue-sharing agreement between the Southern African Customs Union (SACU), both in terms of the formula itself and the way in which the money was used once it had been distributed.
27th March	Food prices edge up on SA drought (Mmegi)	Consumers will have to dig deeper into their pockets in 2015 as prices of maize meal and other maize related products are on the rise. This is attributable to the drought in South Africa that significantly reduced the country's produce. Botswana imports about 95% of its white maize from South Africa.
27th March	BoB unlocks P2.3billion to boost banks' liquidity (Mmegi)	The Bank of Botswana (BoB) has moved to ease liquidity conditions in the banking industry by releasing P2.3 billion into the market by halving the Primary Reserve Ratio (PRR) for commercial banks from 10% to 5%. Primary reserves are the commercial banks' deposits held in a special non-interest earning account at the Central Bank.
30th March	De Beers making harder for diamond dealers to join supply chain (MINING.com)	De Beers is fine-tuning details of a set of new conditions for companies seeking to become its sightholders. It is reported that the De Beers wants traders to hold a specified proportion of equity in their businesses, so they are less reliant on bank borrowing. Moreover, the diamond company wants sightholders to changes to their accounting practices, failing which they lose their sightholder status. The changes seek to direct gems to the most financially sound purchasers and make the business more transparent.

## MACROECONOMIC DATA

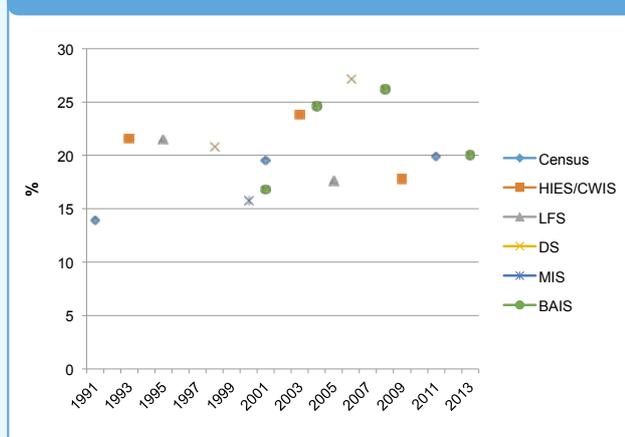
Key Economic Data									
	unit	2012	2013	2014	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1
<b>Annual Economic Growth</b>									
GDP	%	4.8	9.3	4.4	7.9	6.1	4.8	4.4	..
Mining	%	-4.6	23.9	4.5	25.4	15.2	8.7	4.5	..
Non-mining private sector	%	8.0	6.8	4.1	5.0	4.6	3.9	4.1	..
GDP current prices	P mn	112,705	125,810	141,942	33,435	36,650	34,978	36,878	..
GDP 2006 prices	P mn	75,786	82,851	86,514	21,157	21,341	21,652	22,365	..
<b>Money &amp; Prices</b>									
Inflation	%	7.4	4.1	3.8	4.4	4.6	4.5	3.8	2.8
Prime lending rate	%	11.0	9.0	9.0	9.0	9.0	9.0	9.0	8.0
BoBC 14-day	%	4.6	3.1	3.1	3.1	3.1	3.1	3.1	2.1
<b>Trade &amp; Balance of Payments</b>									
Exports - total goods	P mn	45,719	66,467	70,998	13,872	19,306	19,769	18,051	..
Exports - diamonds	P mn	36,143	55,443	60,287	11,735	16,531	16,967	15,054	..
Imports - total goods	P mn	62,112	56,347	70,234	15,449	19,072	17,885	17,829	..
Balance of visible trade	P mn	-16,393	10,121	764	-1,577	234	1,884	222	..
Balance of payments	P mn	-862	1,340	..	2,856	4 765	1 082	..	..
<b>Foreign Exchange</b>									
Exchange rate BWP per USD	end	7.776	8.718	9.515	8.787	8.787	9.259	9.515	9.960
Exchange rate ZAR per BWP	end	1.090	1.196	1.217	1.204	1.205	1.214	1.217	1.221
FX reserves	\$ mn	7,628	7,726	8,323	7,992	8,547	8,240	8,323	..
FX reserves	P mn	59,317	67,772	79,111	70,102	75,174	76,295	79,111	..
<b>Financial Sector</b>									
Deposits in banks	P mn	47,216	48,512	53,231	48,778	52,304	56,328	53,231	..
Bank credit	P mn	34,555	39,763	45,116	40,928	42,694	44,138	45,116	..
BSE index		7,510.2	9,053.4	9,501.6	8,955.9	9,133.9	9,440.0	9,501.6	9,693.9
<b>Business Indicators</b>									
Diamond production (a)	'000 cts	20,619	23,134	24,658	5,870	6,364	6,321	6,103	..
Copper production	tonnes	57,916	49,448	46,721	9,266	12,033	12,453	12,969	..
Nickel production	tonnes	17,942	22,848	14,958	2,715	4,134	2,810	5,299	..
Business confidence index		47%	45%	52%	38%	..	52%	..	..
No. of companies formed		16,561	14,190	..	3,616	3,989	4,682	..	..
Electricity consumption	GWh	3,703	3,502	3,990	933	1,007	1,036	1,013	..
Crude oil (Brent)	\$/bar	110.80	109.95	55.27	105.95	111.03	94.67	55.27	53.69
<b>Employment (formal)</b>									
Government		131,033	130,175	..	..	..	..	..	..
Parastatals		17,484	18,838	..	..	..	..	..	..
Private sector		188,531	189,894	..	..	..	..	..	..
Total		337,048	338,907	..	..	..	..	..	..
<b>Govt Budget</b>									
		2013/14	2014/15 Revised	2015/16 Budget					
Revenues	P mn	48,951	51,544	55,382					
Spending	P mn	41,730	51,263	54,153					
Balance	P mn	7,222	281	1,229					
Public debt & guarantees	P mn	30,769	32,064	31,931					
Govt deposits at BoB	P mn	31,745	..	..					
GDP	P mn	130,462	143,712	155,735					
Revenues	%GDP	37.5%	35.9%	35.6%					
Spending	%GDP	32.0%	35.7%	34.8%					
Balance	%GDP	5.5%	0.2%	0.8%					
Public debt & guarantees	%GDP	23.6%	22.3%	20.5%					
Govt deposits at BoB	%GDP	24.3%	..	..					

# Employment Creation – No Quick Wins

Job creation and unemployment have become perhaps the most high profile and contentious issues of this year so far. This is in part due to the elevation of the issue to the Vice President's office and the registration exercise of unemployed graduates carried out at the end of last year.

There is no doubt that unemployment is a pervasive problem, and not a new one at that. There is no clear trend over the past decade, or even comparing the 2000s with the 1990s; however, available data from various sources show that Botswana's "official" unemployment rate is high, ranging between 20% and 30%. The latest three unemployment readings have all been around 20% as shown in Figure 1 below.

Figure 1: Unemployment rate, 1991-2013



Source: Statistics Botswana

Note: BAIS – Botswana AIDS Impact Survey; MIS – Multiple Indicator Survey; DS – Demographic Survey; LFS – Labour Force Survey; HIES – Household Income & Expenditure Survey; BCWIS – Botswana Core Welfare Indicators Survey

These figures however, only apply the 'narrow' definition of unemployment which looks at individuals who are still actively seeking employment, neglecting those who have been discouraged and are no longer looking for employment. An application of the 'broad' definition of unemployment would lead to higher unemployment figures.

According to the national Population and Housing Census, unemployment remained virtually unchanged between 2001 and 2011. However, household surveys provide a

more encouraging reading; the 2009/10 BCWIS showed a drop in unemployment compared to the previous similar survey in 2002/3. It should, however, be noted that household surveys are based on a sample of the population and therefore have a margin of error, and while the censuses are more comprehensive and accurate, being based on the entire population.

It is no secret that the face of unemployment is youthful and female; the youth (under 30) unemployment rate is three times the unemployment rate for adults. Of those who are unemployed in Botswana, the majority (61%) are aged 15-29. This not only represents foregone output today and a waste of potentially productive resources, but it can also have a negative effect on both social cohesion and future output; hence solving the youth employment crisis has to be of top priority.

## Employment Growth

Job creation in the formal sector has been quite low in the last decade, below both economic growth and labour force growth. Annual formal sector employment growth has averaged 2.3% over the last decade, lower than the annual growth rate of total employment, which is approximately 3.6%<sup>1</sup>. In 2011, the formal sector employed approximately 335 000 out of the estimated 801 529 people in the labour force and 642 065 who were employed – in other words about 52% of those employed had formal sector jobs. However, back in 2001 the formal sector provided jobs for 59% of those in employment.

The fastest-growing sectors in terms of employment over the last decade have been mining, (private) education and utilities, with over 4% growth, but they remain small. Sectors like construction and health had negative employment growth rates. Parastatals play an important role in job creation, as existing organizations expand and new ones are established. But government as a whole can no longer play a major role in job creation; it is saturated, is a very large employer (around 40% of total employment) with a huge wage bill. For fiscal reasons, there is an upper limit on job creation in government, which may have already been reached. Hence, future job growth is tied to diversification and growth of the economy and, particularly, employment creation in the private sector.

## Labour Market Entry and Exit

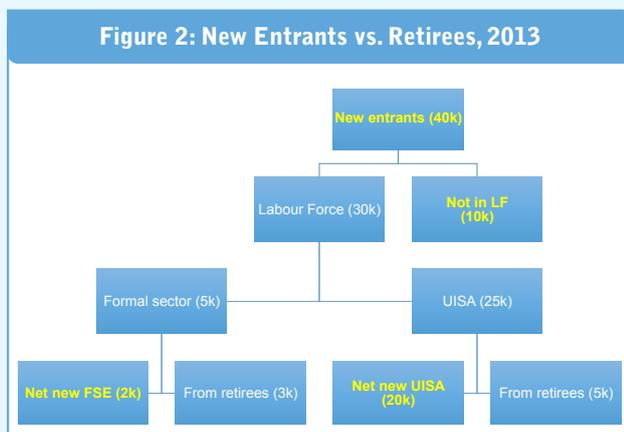
Approximately 40,000 young people graduate from education and training every year and enter the working age population. Of them, it is estimated that some 30,000 of them enter the labour force. These new job seekers either enter formal sector employment (FSE) or end up unemployed, in

<sup>1</sup>The total employment annual growth rate, as reported by Statistics Botswana, should be taken with a pinch of salt as there is very limited data on the informal sector in Botswana.

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the informal sector, or agriculture (UISA). Because of the age structure of the population, the number of people leaving the labour force on retirement is much lower than the number entering it.

Although the unemployment rate is reported to be around 20%, the situation facing school and college leavers is worse than this. As stated above, formal sector job creation has only been growing slowly; in recent years, there have been around 2,000 new jobs a year. In addition, there are about 3,000 jobs released by those leaving the labour force. So only around 15-20% of the new entrants to the labour force will get formal sector employment and most young adults will end up in the informal sector, agriculture, or unemployed.



Source: Statistics Botswana, Econsult Botswana

### Job Losses

Concerns about employment growth should not just focus on job creation. It is also important to retain existing jobs and minimise job losses. Focusing only on job creation and neglecting job retention is like pouring water into a bucket with holes, there is no accumulation for long term benefits. Over the past few months there have been numerous cases of company closures and downsizing, resulting in job losses and retrenchments across most sectors.

It is estimated that in mining and related industries alone over 1000 jobs have been lost in recent months, mainly from the closure of the Teemane Manufacturing Company (350) and Discovery Metals Limited (400), coupled with retrenchments in some other diamond manufacturing companies. In other manufacturing, there have been reports of 150 jobs lost due to the closure of Cadbury Botswana. Services have also been affected; some 200 jobs have been lost due to business closures and retrenchments<sup>2</sup>. To sum it up, it is estimated that over 1350 jobs have been lost since the beginning of this year. This is equivalent to the total

<sup>2</sup>These are just for selected and reported job losses. The actual figure is likely to be higher.

growth in formal employment in the private sector over the year to September 2013 (the most recent period for which data are available).

### Job Creation

At present, there are simply not enough high quality jobs being generated for all the people that want them. Hence there is a need for policies that are supportive of job creation by the private sector, through the creation of an appropriate enabling environment and the provision of incentives for the private sector to operate and grow in Botswana, providing sustainable jobs for the long term. As mentioned above, future growth employment can only be private sector led, if the private sector is not growing then there will not be many new jobs created.

There are several factors that can explain why there is high unemployment in Botswana and why job creation has been so slow:

- Structural issues: low productivity in agriculture, which means that income-earning opportunities are limited despite a demand for labour in the sector;
- Demand-side issues: slowing private sector growth, hence limited creation of net new jobs
- Supply-side issues of education and skills:
  - (i) a view that there is a mismatch between the supply of skills coming out of the education system and the kind of skills needed in the labour market; resulting in graduates who do not easily find employment, and
  - (ii) fundamental concerns with the education system including the quality and curriculum at all levels.
- Business weaknesses: some firms have innate weaknesses which mean that they cannot survive in a competitive market;
- Macroeconomic environment: diminishing international competitiveness, as measured by the real effective exchange rate.

While the government should not meddle in how businesses operate, there is nevertheless scope for the Government to influence the other issues related to high unemployment, especially sluggish private sector growth. These have been discussed at several committees and conferences associated with doing business in Botswana:

- Timely implementation of the doing business reforms as recommended by the National Doing Business Council (NDBC) which include but are not limited to
  - reducing licence restrictions
  - assessing the impact of any proposed new regulations on the private sector
  - electronic business registrations and paying of taxes
  - improving public service efficiency and making the public service supportive of the private sector, rather than an obstacle
  - easing cross border trade requirements
  - stable access to utilities (power, water, bandwidth)

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- “Roll out the red carpet and not red tape” for foreign investors. As suggested by Professor Michael Porter, Government should proactively seek out global corporates to serve their African markets from Botswana.
- Relax immigration restrictions to make it much easier for foreign investors to come and setup business in Botswana. While business acknowledges the importance of developing local skills and increasing work opportunities for all Botswana, the unique contribution of foreign investors should not be overlooked. Government needs to make it easier for foreigners to invest in the country and to be a part of a globally competitive and productive workforce. Both government and the population should make foreign investors welcome, and counter the prevailing attitude of “when are you leaving?”
- Avoid using the immigration system to throw out existing foreign investors, as has been the case recently, as this has been a major contributor to job losses

Other policies that are specifically tailored to support employment creation all need substantial reform; there is a need to stop running them like social welfare programmes to make them more employment and productivity focused, for instance relating payment structures to productive work performed, with greater attention paid to output. All these initiatives need much better supervision of participants to avoid exploitation by both parties.

- The Internship Scheme should be made more employer-friendly, with employers given more choice in selecting the graduates that are placed with them. There should also be more consultation with the private sector as to what changes are needed to encourage investment in interns and improving their chances of being offered permanent employment.
- The Training Levy also needs to be made more flexible, making it easier for employers to make use of the scheme for reimbursement of training costs. The current existing time restrictions on use of the levy should be removed.
- Ipelegeng participants need to be engaged in productive activities that add value to the economy, where there is some sort of skills transfer. The same applies to Tirelo Sechaba and Government Volunteer Scheme.

In addition, it is impossible to make an adequate assessment of job creation and destruction in Botswana due to the lack of regular and comprehensive data on the labour market. This lack of data undermines evidence-based decision making; policies towards job creation are made blindly without proper targeting and therefore are unable to produce necessary results. For instance, the Labour Market Observatory was established to provide information on demand for and supply of workers, and in particular ‘skills availability’ and ‘shortages’, but so far has failed to deliver.

There is an immediate need for more frequent labour force surveys, informal sector studies and tracer studies which will tell us what happens to school leavers and tertiary education graduates once they leave education: how long do they spend unemployed, what kinds of jobs do they end up doing (are they related to their training?), and what level of wages/salaries do they earn in different occupations? This is all essential information in dealing with unemployment. Information is also needed on job losses and company closures, so that policies can address the problems that lead to this.

While microeconomic policies focusing on labour markets and the business environment are crucial, macroeconomic policies also play an important role. Of particular concern is the level of the exchange rate, which is a major factor in determining the competitiveness of firms. The real effective exchange rate – a measure of overall competitiveness – has been gradually appreciating in recent years, indicating that Botswana firms have become less competitive in regional and international markets. This indicates that the Pula may be overvalued, and could be one factor contributing to closures of firms and a more general lack of business confidence.

Unemployment is not an issue that can be solved quickly or easily. Any solution needs to be focused on the long term to ensure sustainability. An attempt to find “quick wins” will not guarantee sustainable, high quality jobs but instead will distract attention from the underlying reforms that are needed.

Though the rate of employment growth has been faster than the rate of growth of the population (3.5% vs. 2%), the labour force on the other hand has been growing faster than the population as a whole. This has led to no decline in unemployment in the last decade. What is worrying is that due to the age structure of the population, which is relatively young, the labour force will continue to grow at rates higher than in the previous years, putting additional pressure on existing jobs. In-order to deal with expected increased demand for jobs in the future, there is a need for innovative, bullish and bold policies to ensure private sector growth, job creation and retention.

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