COUNTRY FOCUS REPORT 2026

BOTSWANA

Mobilizing Botswana's Development Financing at Scale in a Fragmented World



AFRICAN DEVELOPMENT BANK GROUP

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ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank Group
BETP	Botswana Economic Transformation Programme
BoB	Bank of Botswana
BSE	Botswana Stock Exchange
C-Efficiency	Consumption Efficiency
CFR	Country Focus Report
ECCE	Country Economics Department
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
MSMEs	Micro, Small and Medium Enterprises
NBFIs	Non-Bank Financial Institutions
NCA	Natural Capital Accounting
PFM	Public Financial Management
PIM	Public Investment Management
PIT	Personal Income Tax
PPP	Public-Private Partnership
RDGS	Regional Development, Integration and Business Delivery – South
SACU	Southern Africa Customs Union
SMEs	Small and Medium Enterprises
SOEs	State-Owned Enterprises
VAT	Value-Added Tax

EXECUTIVE SUMMARY

Chapter 1 reviews Botswana's recent macroeconomic performance and outlook for 2026–2027, highlighting the impact of the downturn in the global diamond market on growth, fiscal balances, and the external position. The contraction in diamond exports reflects both cyclical pressures from weaker global demand and structural challenges linked to Botswana's heavy reliance on the mining sector. While non-mining sectors have shown modest growth, widening fiscal deficits, declining foreign exchange reserves, and rising public debt have weakened macroeconomic buffers. The chapter emphasizes the need for prudent macroeconomic management and structural reforms to support economic diversification, strengthen domestic resource mobilization, and enhance Botswana's development financing capacity.

Chapter 2 examines how Botswana can mobilize substantial development financing by strengthening its domestic resource mobilization, enhancing public financial management, expanding financial inclusion, formalizing the informal employment sector, leveraging public–private partnerships and regional capital markets, and utilizing the continent's demographic and natural resource assets. In addition, it explains how global geo-economic and financial fragmentation concretely alters the country's access to financing and how it positions itself within this new environment. It identifies opportunities to reduce inefficiencies and illicit financial flows, minimize investment losses, redirect institutional and diaspora funds into productive, climate-resilient investments, and unlock value from carbon credits and natural resource value chains.

Chapter 3 examines the need to strengthen and modernize Botswana's financial architecture and agency in a weakening global environment marked by tightening financial conditions. It assesses the decline in global development financing and the rising risks for Botswana, including the current state of its financial system with volatile capital flows, the structural vulnerabilities within domestic financial systems as well as financial system integration. The objective is to highlight the reforms required to create a more resilient and integrated financial architecture that can effectively mobilize capital and support long-term development goals. The chapter concludes by formulating short-, medium-, and long-term policy recommendations based on lessons learned in Botswana with regard to enhancing financial systems.

GENERAL INTRODUCTION

Botswana is a middle-income country with per capita income estimated at US$7,800 in 2024, according to the World Bank's classification. It is a land-locked country in Southern Africa, with a population of 2.7 million. Botswana's land surface covers 581,730 km2, of which 46% is zoned for agricultural production. This Country Focus Report (CFR) was prepared through a consultative process, with a data-gathering mission to Botswana during the 12- 13 March 2026 and data from the Bank's Statistics Department and Statistics Botswana. These information sources were complemented by a literature review and data triangulation from other international sources.

The 2026 CFR for Botswana reviews recent key economic, social and political developments in the country, and underscores how Botswana is mobilizing development financing at scale in a fragmented world. In line with this, the CFR assesses how Botswana is strengthening and consolidating its financial systems and agency in the changing world; and draws relevant lessons for future development financing mobilization for the country. The report is prepared in three chapters, aligned with the Bank's continental annual African Economic Outlook report, 2026. Chapter 1 presents Botswana's recent economic performance (up to 2025) and provides updated growth projections for 2026-2027. It discusses the main downside risks and potential upside triggers to the outlook. Chapter 2 examines how Botswana can mobilize substantial development financing by strengthening its domestic resources, enhancing public financial management, expanding financial inclusion, formalizing the informal sector, leveraging public–private partnerships and regional capital markets, and utilizing the continent's demographic and natural resource assets. Chapter 3 discusses the need to strengthen and modernize Botswana's financial architecture and agency in a weakening global environment marked by tightening financial conditions. The chapter concludes with policy recommendations to create a more resilient and integrated financial architecture that can effectively mobilize capital and support long-term development goals.

Botswana's challenging macroeconomic situation is driven largely by its continued dependence on the diamond sector amid weakening global demand. This challenge underscores the increased urgency of mobilizing development financing at scale to address rising fiscal and external imbalances, increasing public debt and growing social needs. While the country retains strong institutional foundations, its financing capacity is constrained by a narrow revenue base, shallow capital markets and tightening global financial conditions.

ECONOMIC PERFORMANCE AND OUTLOOK

1

Key Messages

- Botswana faces macroeconomic strain due to the global diamond market downturn, exposing its high dependence on a single export commodity.
- Real gross domestic product (GDP) contracted in 2025, reflecting sharp declines in mining, despite modest resilience in non-mining sectors.
- Fiscal pressures intensified, with rising deficits, declining mineral revenues and increasing public debt.
- External balances weakened, as falling diamond exports and strong import demand widened the current account deficit.
- Monetary policy remained accommodative amid low inflation, although transmission to lending conditions is limited.
- Financial sector stability is strong, but shallow intermediation continues to constrain private sector growth.
- Social challenges persist, including high unemployment, inequality, and poverty.
- Medium-term recovery depends on economic diversification and structural reforms.

1.1 Introduction

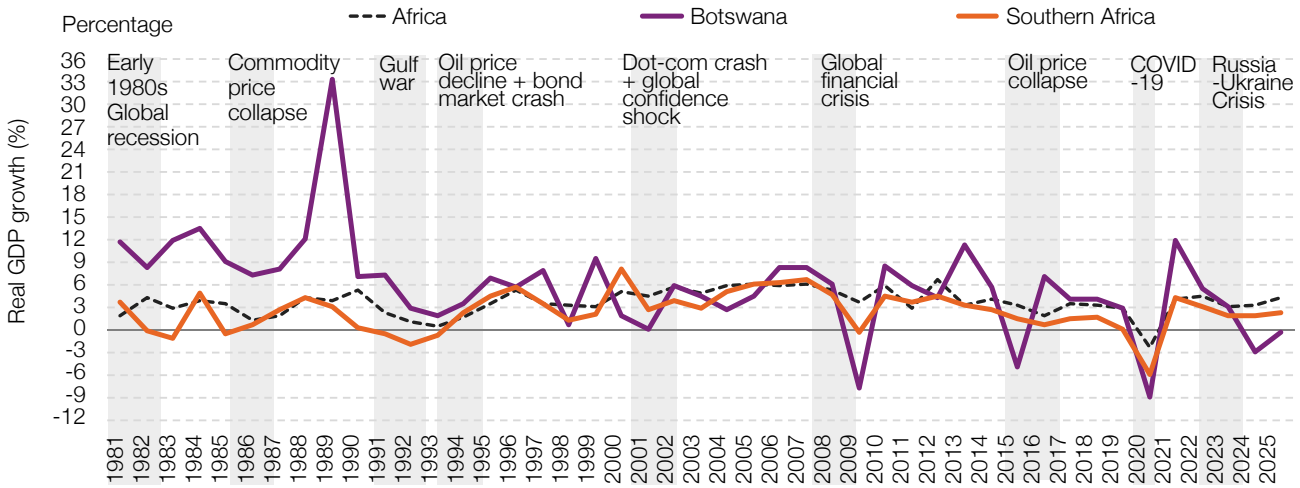
Since 2024, Botswana has faced significant economic pressures, largely driven by a downturn in the global diamond market. Weaker international demand for natural diamonds, combined with the rapid growth of lower-priced lab-grown diamonds, has reduced export revenues and slowed economic activity. These challenges were further intensified by a 2.3% reduction in planned diamond production for 2025 and the introduction of new U.S. import tariffs on Botswana's diamond exports in August 2025. Given that diamonds account for around 30% of GDP and nearly 80% of export earnings, the contraction in the sector had significant macroeconomic consequences. Economic growth has slowed, fiscal pressures have increased, and foreign exchange reserves have come under strain. These developments have also had social implications, including rising youth unemployment, widening inequality, and growing pressure on public service delivery.

1.2 Growth Performance

Botswana's economic performance weakened in 2025 as real GDP contracted by 0.7%, compared with growth of 2.8% in 2024, following recurrent global shocks (Figure 1). The contraction of growth reflected reduced diamond production on the supply side and subdued government spending on the demand side.

A relative slowdown in the mining sector was offset by non-mining sectors, which expanded by 2.6% in the year to September 2025, slightly higher than the 2.1% growth recorded during the same period in 2024. The mining sector contracted by 10.7% in the year to September 2025, although this represents an improvement compared to a 15.9% contraction recorded in the same period of 2024. The downturn was largely driven by the diamond sector, where output fell by 11.4%, compared with a sharper decline of 17% in 2024. The natural diamond market remains under pressure due to weaker global demand and increasing competition from synthetic alternatives. In addition, structural constraints such as low productivity, the lingering effects of drought and limited fiscal space continued to weigh on economic performance. These developments highlight Botswana's vulnerability to external shocks and reinforce the urgency of advancing export diversification and strengthening macroeconomic resilience. In this regard, accelerating the implementation of reforms under the National Development Plan 12 and the Botswana Economic Transformation Programme (BETP) remains critical for economic diversification and productivity enhancement in Botswana.

Figure 1: Botswana's Historical Growth Performance (1980-2025)



Source: AfDB, Statistics Department and IMF

1.3 Other Recent Macroeconomic and Social Developments

1.3.1 Monetary Policy, Inflation, Exchange Rate

The Bank of Botswana (BoB) implements monetary policy with the objective of keeping inflation within a medium-term target range of 3% to 6%. In 2025, average annual inflation edged down to 2.7% from 2.8% in 2024, reflecting several factors: notably, the government reduced water and electricity tariffs for low-consumption households and introduced a unitary petroleum pricing system in November 2025, which led to lower fuel prices. Additionally, subdued domestic demand, particularly weak household consumption, further suppressed inflationary pressures. In response, the BoB maintained a broadly accommodative monetary stance. The monetary policy rate was held at 3.5% in December 2025, following a substantial increase from 1.9% earlier in July 2025. The exchange rate remained relatively stable, experiencing a 2.1% nominal effective depreciation after the annual rate of crawl was adjusted from 1.51% in December 2024 to 2.76% in July 2025 to support export competitiveness. However, monetary conditions remained tight with high wholesale deposit and lending rates, indicating some disconnect between policy signals and actual market conditions.

1.3.2 Financial Sector

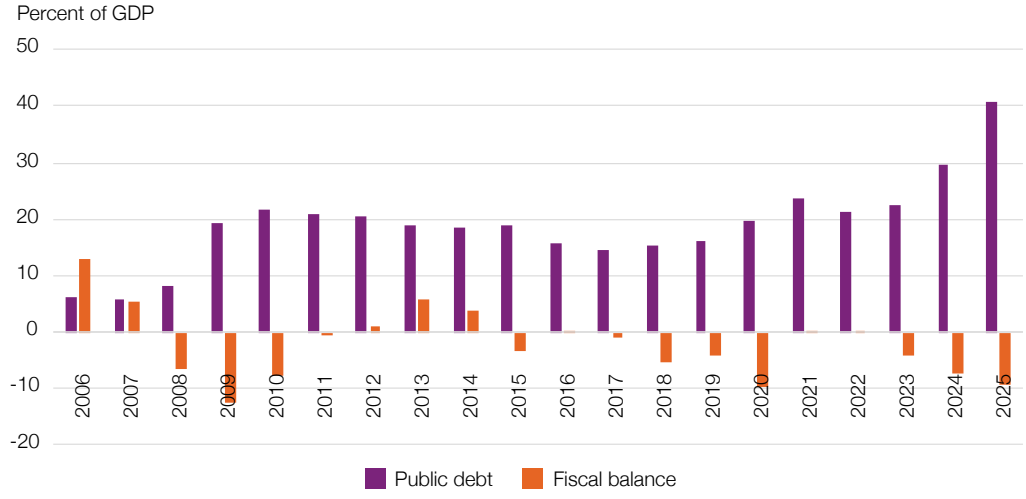
Botswana's financial sector remains stable supported by a sound banking system, which is well capitalized at 20% and common equity Tier 1 ratios above the minimum regulatory

requirements of 12.5% and 4.5%, respectively. The ratio of non-performing loans to total loans declined slightly from 3.4% in 2024 to 3.3%, indicating resilience. However, financial intermediation remains shallow with credit to the private sector at 30% of GDP, compared with 90% for South Africa. Limited credit continues to constrain private sector development, particularly in small and medium-sized enterprises (SMEs). Despite the country's relatively sophisticated financial system and substantial domestic savings pools, commercial lending is still heavily concentrated in large corporates and household lending. Many SMEs struggle to satisfy stringent bank lending conditions including collateral requirements. As a result, smaller firms often rely on retained earnings or informal financing, limiting their capacity to expand operations, invest in productivity-enhancing technologies, or enter new markets. The financing gap is particularly acute for youth- and women-led enterprises, as well as businesses operating in non-mining sectors such as manufacturing, agro-processing, tourism, and digital services, which are critical for economic diversification. Weak access to long-term and affordable financing also constrains innovation and entrepreneurship, undermining efforts to create employment and reduce dependence on the mining sector. Strengthening financial inclusion, expanding credit guarantee mechanisms, improving SME financial literacy, and developing alternative financing instruments such as venture capital and blended finance will therefore be critical to supporting inclusive private-sector-led growth.

1.3.3 Fiscal Policy and Public Debt

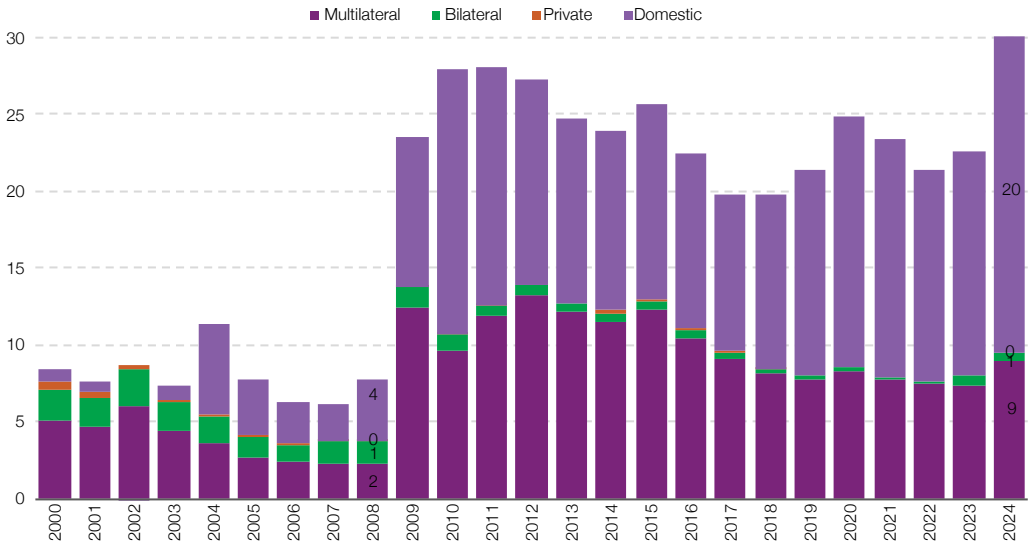
The fiscal deficit increased to 9.5% in 2025 from 7.3% of GDP in 2024 due to a 23.4% drop in mineral revenues, reducing total revenues (including grants) to 23.3% of GDP, compared to 26.7% in 2024. Meanwhile, expenditures climbed from 31.2% to 33.3% of GDP (Figure 2). To cover the deficit, Botswana relied on domestic borrowing (66.9%) through treasury bills and government bonds, and concessional external borrowing (33.1%) from multilateral lenders. Consequently, public debt surged from 33.1% to 40.7% of GDP in 2025 with debt servicing cost at 5.8% of total expenditure, thereby elevating debt pressures with a shift from concessional multilateral debt to short-term domestic debt (Figures 3 and 4). Short-term maturities expose Botswana to rollover risk, because when they become due, the government may have to pay higher interest rates or struggle to find new buyers. The share of government revenue devoted to external debt service increased from 3.45 in 2017 to 6% in 2024 (Figure 5), despite spending more on healthcare than interest payments (Figure 6). Increased public debt is hindering economic productivity in Botswana, as a 1% increase in public debt leads to a decline in labor productivity by 4.1% (Figure 7).

Figure 2: Trends in fiscal balance and public debt in Botswana



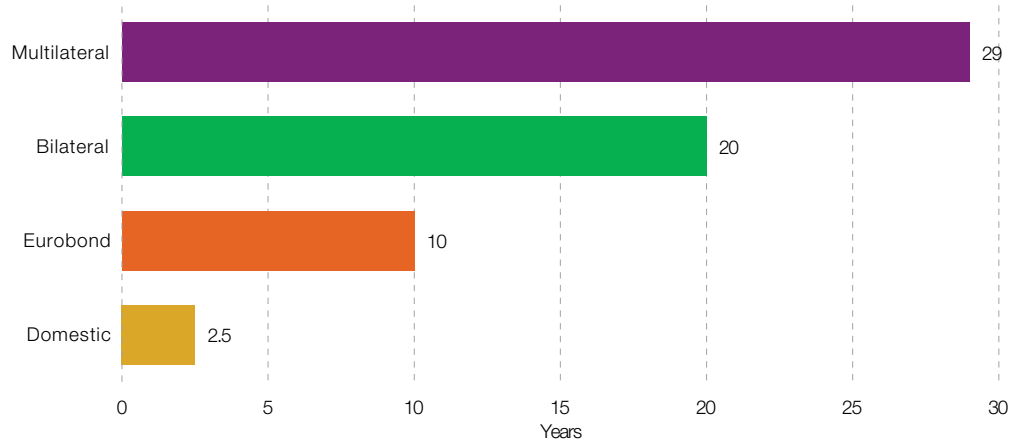
Source: Staff calculations using World Development Indicators data.

Figure 3: Debt Vulnerabilities Remain Amid Evolving Development Financing Landscape



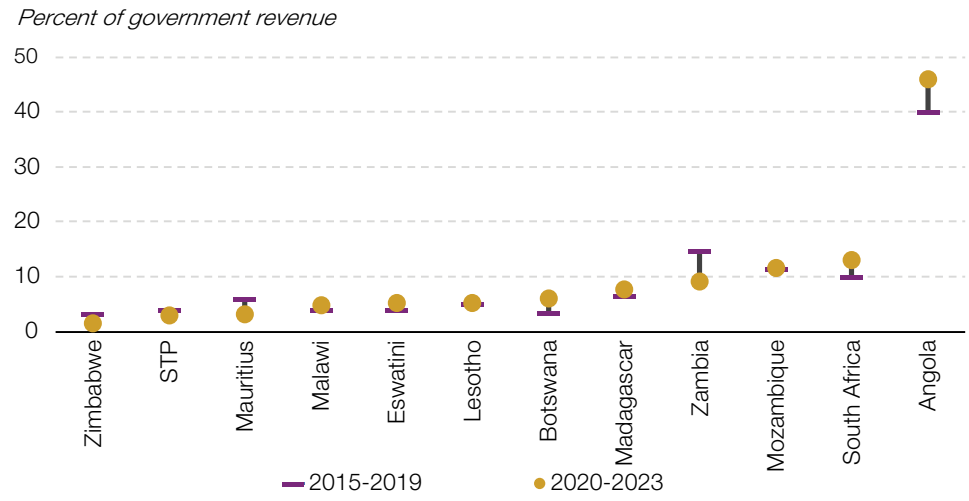
Source: Staff calculations based on data from IMF World Economic Outlook database and International Debt Statistics database.
Note: Domestic debt is calculated as the difference between gross public debt (IMF WEO) and external public and publicly guaranteed (PPG) debt. External PPG debt is defined as the sum of bilateral, multilateral, and private external debt.

Figure 4: Distribution of Debt Maturity by Instrument (Domestic, Eurobond, Bilateral, Multilateral)



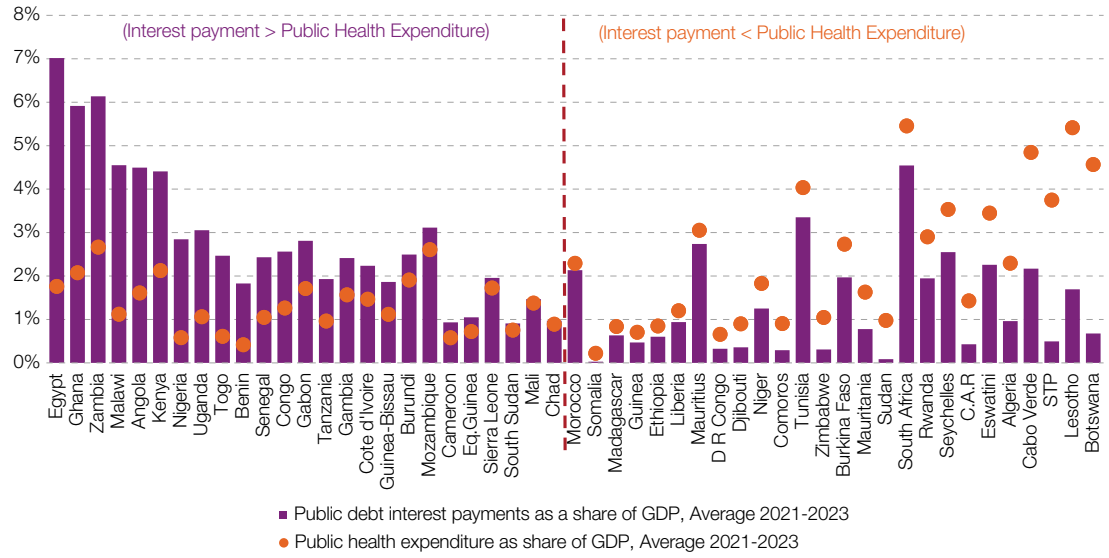
Source: Sy and Laws, 2026
https://www.imf.org/en/publications/fandd/issues/2026/03/the-new-face-of-african-debt-amadou-sy

Figure 5: External public debt service (principal and interest) as percent of government revenue, period average



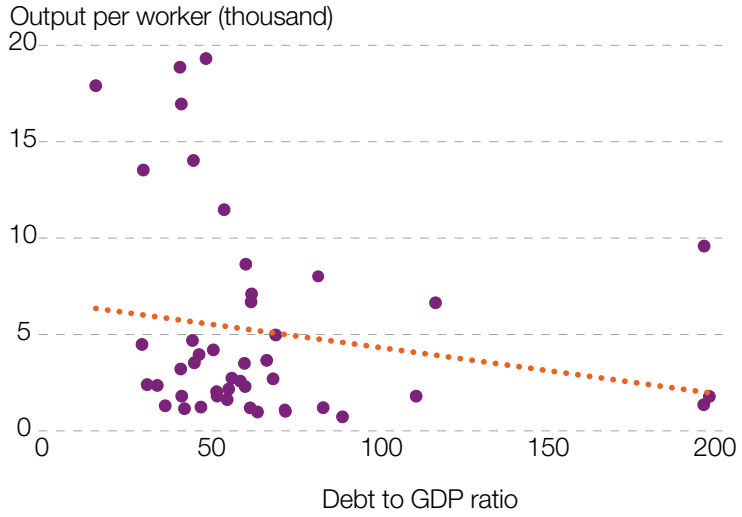
Source: Staff calculations using data from World Bank International Debt Statistics

Figure 6: External public debt interest payment vs public health expenditure, as percent of GDP, average 2021-2023



Source: UNCTAD, A World of Debt Database (2025).

Figure 7: Empirical Evidence Suggests that Higher Public Debt Can Hinder Economic Productivity in Some Countries



Source: Source: African Development Bank Group. (2026). African Economic Outlook 2026

1.3.4 External Position – External Financial Flows

Botswana's external sector faced mounting challenges as export earnings declined while import demand remained robust. The current account deficit widened to about 4.3% of GDP in 2025, mainly due to a significant trade balance deterioration. Lower diamond exports and continued high imports of essential commodities, such as fuel and food, which resulted in a trade deficit of US$115 million between January and November 2025. This reliance on diamond exports and imported strategic goods left Botswana vulnerable to global market fluctuations. External financial pressures intensified, with gross international reserves dropping from US$3.5 billion (5.4 months of import cover) in 2024 to US$3.1 billion (4.4 months) in 2025. Fiscal buffers also weakened, as the Government Investment Account fell sharply and the government's net financial asset position deteriorated. This erosion of financial reserves increased Botswana's exposure to external shocks and heightened potential borrowing costs, underscoring the urgent need for export diversification.

1.3.5 Social Developments

Botswana's weak growth performance in 2025 is also reflected in its real GDP per capita growth, which contracted by 0.7% from 2.8% in 2024 (Figure 8). Although the country is classified as an upper-middle-income country, it continues to grapple with substantial social challenges. Although the current national poverty rate is estimated at 14.5% from 18.0% in 2021, inequality remains high, reflected in a Gini coefficient score of 0.53. This is accompanied by persistent unemployment, with overall rates at 21.0% with youth unemployment soaring to 28.9% in 2024. While Botswana's Human Development Index score stands at 0.731, progress in inclusive development has been limited by sluggish growth in real GDP per capita.

Figure 8: Real GDP per Capita Growth (2021–2027)

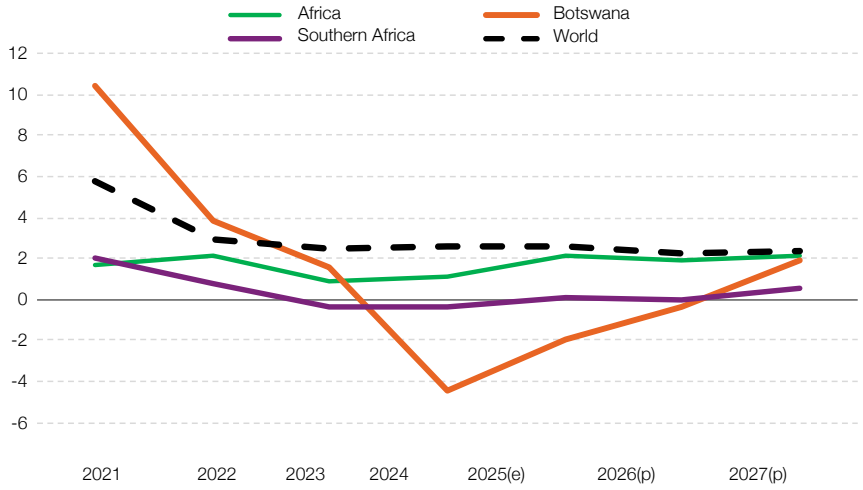


Table 1: Key Macroeconomic and Social Indicators

Indicators	2021	2022	2023	2024	2025(e)	2026(p)	2027 (p)
Real GDP Growth (%)	11.9	5.5	3.2	-2.8	-0.7	0.8	3.5
Real GDP Growth per Capita (%)	10.4	3.9	1.6	-4.4	-2.3	-0.8	1.9
Inflation (%)	6.7	12.1	5.2	2.8	2.7	6.7	5.1
Primary Deficit (% GDP)	0.5	0.6	-3.2	-6.8	-6.2		
Overall Fiscal Balance, Including Grants (% GDP)	0.0	0.0	-4.2	-7.3	-9.5	-9.1	-8.2
Current Account (% GDP)	-1.8	-0.6	1.5	-4.3	-4.3	-7.2	-5.2
Total Population (Millions)	2.40	2.44	2.48	2.52	2.56	2.60	2.60
Life Expectancy (Years)	63.3	68.7	69.2	69.3	70.0	70.1	

Source: Data from national authorities, AfDB Statistics Department, International Monetary Fund, the United Nations and the World Bank; estimates (e) and prediction (p) based on authors' calculations, April 2026.

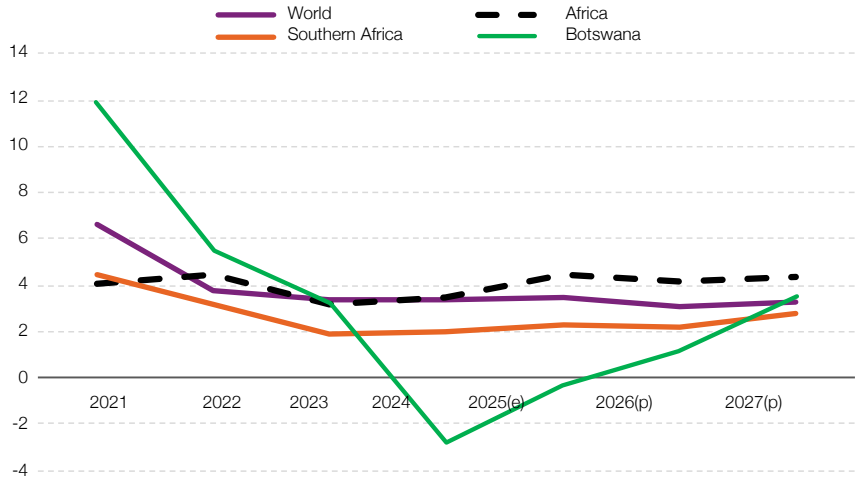
1.4 Macroeconomic Outlook and Risks

1.4.1 Outlook (Economic Growth – Inflation - Fiscal and External Position)

Real GDP growth is projected at 0.8% in 2026 and 3.5% in 2027, below Africa's growth (Figure 9), supported by renewed investment in the mining sector and increased activity in non-mining sectors, particularly services. Inflation is expected to average 6.7% in 2026 but decline

to 5.1% in 2027, supported by a tight monetary policy stance by BoB. The fiscal deficit is projected at 9.1% of GDP in 2026, narrowing to 8.2% in 2027, reflecting fiscal consolidation and is expected to be financed through borrowing. The current account deficit is projected to widen to 7.2% of GDP in 2026 before narrowing to 5.2% in 2027, supported by a recovery in diamond exports and is expected to be financed through the financial account.

Figure 9: Real GDP Growth Outlook (2021–2027)



Source: African Development Bank statistics and Word Economic Outlook April 2026
Note: e- estimated; p-projected

1.4.2 Risks

The key downside risks to Botswana's growth outlook include continuing weak diamond demand, structural changes in the global diamond market, limited economic diversification, rising fiscal pressures, external vulnerabilities, and persistent structural constraints affecting private sector development. In addition, the ongoing Middle East crisis poses inflationary risks due to expected increases in fuel and energy prices (Box 1). Furthermore, the crisis could lead to a decline in export demand for Botswana's diamonds from its key export destinations which include Israel and India, with an adverse impact on export revenue, as well as the fiscal and current account balances. These factors could slowdown economic recovery which reinforce the need for structural reforms and economic diversification in Botswana.

Box 1: Implications of the Middle East crisis for Botswana

Botswana has a moderate exposure to the Middle East crisis, due to its heavy reliance on imports, fuel and chemical products accounting for 39% of total imports in 2024. With global crude oil prices rising sharply, this dependence is expected to intensify inflationary pressures and increase production and transport costs across the economy. The transmission channels are primarily through higher energy costs and disrupted trade and logistics. Rising freight costs linked to constrained global shipping routes could further affect Botswana's export performance, especially for diamonds, with key markets such as India and Israel exposed to the crisis. Combined with the ongoing diamond market downturn, this is likely to strain public finances and widen the fiscal and current account deficits. Social impacts may also intensify, including pressures on employment and service delivery. Increased demand for external financing and budget support from development partners is expected, alongside risks of delays and cost overruns in public investment projects.

1.5 Policy Options to Accelerate Botswana's Economic Development

Botswana's economic development hinges on transitioning from its over-dependence on diamonds to higher value-added sectors such as agro-processing, manufacturing, tourism and knowledge-based services. This transition requires policy options to be sequenced across the short, medium, and long term to address immediate constraints, while supporting structural transformation and long-term resilience. In the short term, reforms should focus on removing constraints to private sector development by streamlining business registration, licensing and tax administration through improving digital platforms and one-stop service centres to reduce regulatory costs and delays, particularly for micro, small, and medium-sized enterprises (MSMEs). Expanding access to finance will require strengthening credit guarantee schemes, improving collateral registries and credit information systems and developing targeted financing windows for youth- and women-led enterprises. Human capital development should prioritize reforms to technical and vocational education and training systems by aligning curricula with labour market needs in sectors such as renewable energy, agribusiness, tourism and digital services, while expanding apprenticeships and partnerships between industry and training institutions. In the medium term, efforts should focus on deepening economic diversification by promoting innovation, entrepreneurship and value addition in non-mining sectors through technology hubs, business incubators and expanded digital infrastructure. Mobilizing resources for development will require deeper domestic capital markets, stronger public-private partnership (PPP) frameworks, and greater participation of pension funds and institutional investors in productive sectors and infrastructure financing. Improving public sector efficiency through more digitized administration, performance-based budgeting and regulatory reforms will also strengthen investor confidence and service delivery. Over the long term, the economy should transition toward a knowledge-based and green growth model supported by investments in research and development, advanced digital skills, renewable energy and climate resilience. Education reforms should increasingly emphasize entrepreneurship, problem-solving, and the technological capabilities to support innovation-led growth. Strengthening social protection systems and inclusive policies targeting youth, women and rural populations will be essential to ensure inclusive growth and broad-based benefits, including for marginalized groups. By combining these policy options, Botswana can lay the foundation for sustainable economic development, diversify its revenue base, and enhance competitiveness in the global marketplace.

2 MOBILIZING CAPITAL AT SCALE FOR ACCELERATED AND RESILIENT GROWTH IN BOTSWANA

Key Messages

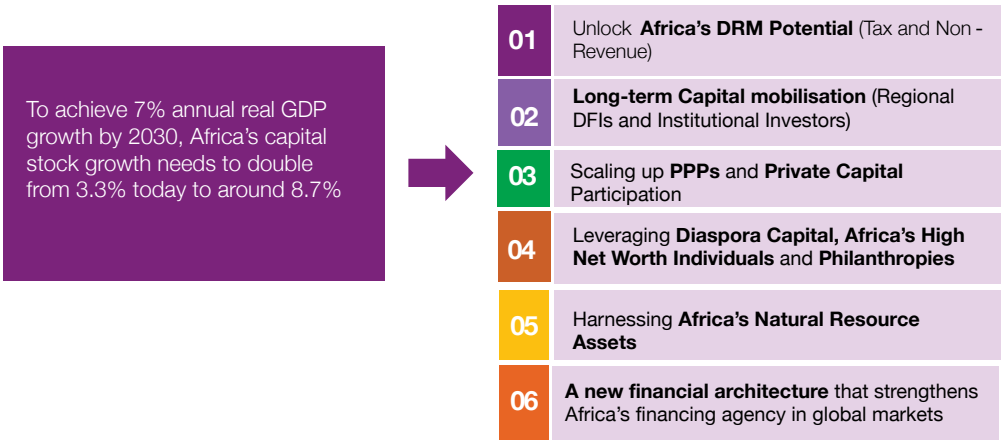
- Despite Botswana's macroeconomic stability, structural transformation remains limited and diamond dependence persists.
- Fiscal space is tightening amid declining mineral revenues, rising expenditure pressures, and increasing reliance on debt.
- Development financing needs are substantial, with a large financing gap requiring scaled-up resource mobilization and efficiency gains.
- Domestic revenue performance is constrained by a narrow tax base, weak buoyancy and reliance on cyclical mineral revenues.
- The tax structure is dominated by value-added tax (VAT), while informality, tax exemptions and administrative gaps limit potential revenue.
- Strengthening tax efficiency, compliance, and digitalization is critical to broaden the revenue base.
- Mobilizing long-term capital, leveraging PPPs, and aligning institutional frameworks alongside public financial management is key to enhancing development finance.

2.1 Introduction

Botswana stands at a pivotal juncture in its development trajectory. Over the past two decades, the country has maintained relatively strong macroeconomic stability and average growth of 5%, underpinned by prudent fiscal management, diamond revenues and sound institutions. However, this growth has not fully translated into much needed structural transformation. The economy remains heavily dependent on diamonds, with limited industrialization, slow export diversification and persistent unemployment, particularly among the youth. Since becoming an Upper Middle-Income Country in 2007, the country is struggling to transition into a high-income economy due to structural challenges and declining productivity. This highlights the need to foster economic diversification to escape the middle-income trap. Infrastructure gaps, especially in energy, logistics, and climate vulnerability constrain high productivity and competitiveness. Fiscal space is tightening due to declining mineral revenues, rising expenditure pressures, and increased reliance on debt. At the same time,

global uncertainty and shifting trade patterns pose risks but also create opportunities in green minerals, regional value chains, and services. To align with the achievement of 7% annual real GDP growth by 2030 in Africa, unlocking Botswana's potential requires accelerating capital mobilization for inclusive growth and sustainable development in the country. This includes strengthening domestic resource mobilization, increasing long-term capital mobilization, scaling up PPPs and private capital participation, leveraging diaspora capital, high net worth individuals and philanthropies, while harnessing the country's natural resource assets and a new financial architecture. improving public financial management, and crowding in private investment for sustainable, diversified growth (Figure 10).

Figure 10: Accelerating Capital Mobilization for Inclusive Growth and Sustainable Development in Africa



Source: African Development Bank Group. (2026). African Economic Outlook 2026

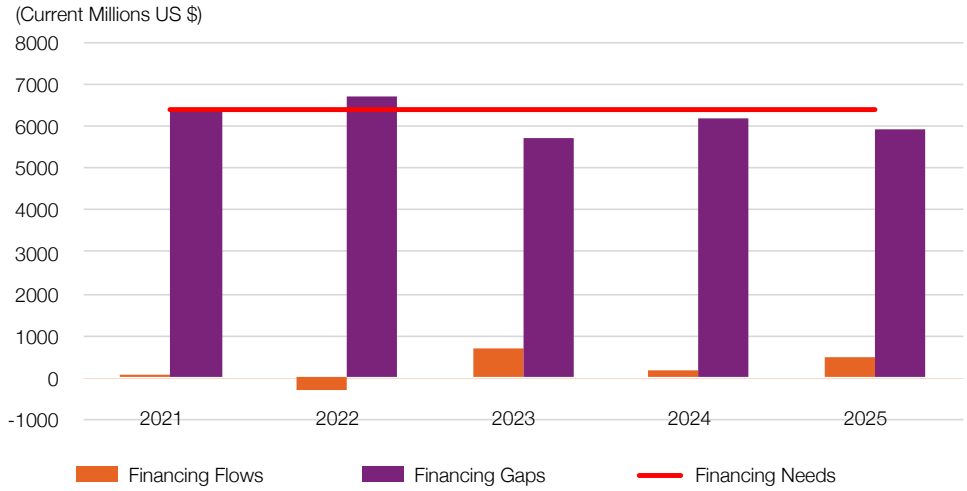
2.2 Quantifying Botswana's Development Financing Needs

While financing flows to Botswana averaged US$217. 2 million from 2021 to 2025, the financing needs remained higher at US$6.4 billion creating a financing gap of US$6.2 billion over the period (Figure 11). Mobilizing capital at scale is imperative for the country's sustained growth, accelerated structural transformation and large-scale job creation. Growth has been driven mainly by capital accumulation, anchored in the diamond sector, but limited diversification and productivity gains have constrained its impact. Increasing the productivity of capital through skills development, technology adoption, and more efficient public investment is critical. Weak project selection, delays, and capacity gaps reduce the conversion of spending into productive assets. Improving public investment management could raise growth without proportionately increasing spending. It could also crowd in private investment, and accelerate Botswana's transition to a more diversified, high-productivity economy.

2.3 Mobilizing Fiscal Resources at Scale

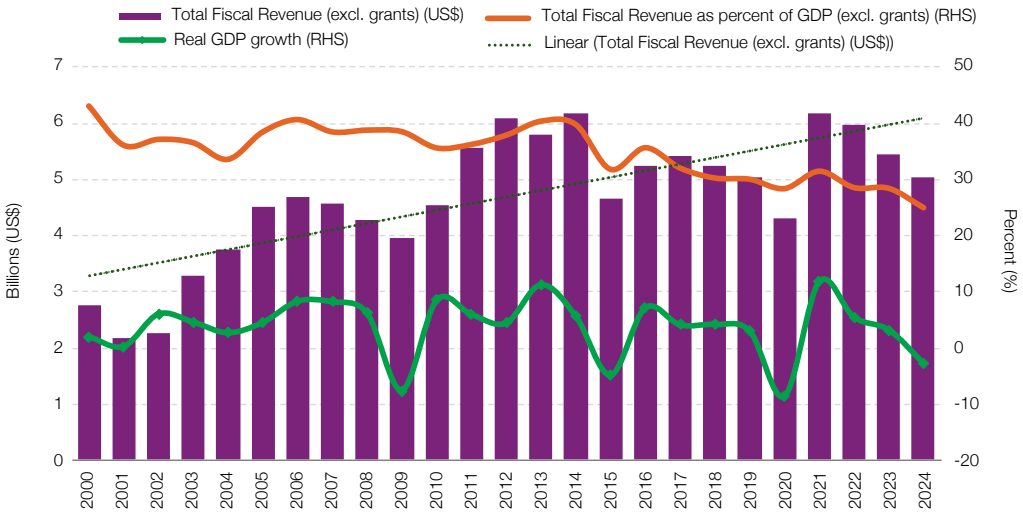
Botswana has historically benefited from its strong mineral revenues, prudent macroeconomic management, and sovereign savings that supported fiscal stability and infrastructure development. However, declining diamond revenues, rising expenditure pressures, and constrained fiscal space have ramped up the need for more diversified and sustainable financing sources. In nominal terms, total domestic fiscal revenue declined from US$6.2 billion in 2021 to US$5.0 billion in tandem with a decline in economic growth and global price for natural diamond. At the same time, the revenue-to-GDP ratio declined from 31.4% to 24.9% (Figure 12). Strengthening domestic resource mobilization through improved tax administration, a shift to digitalization, and creating broader tax bases will be critical. Enhancing public financial management, expenditure efficiency, and strategic borrowing can further improve the government's ability to finance development priorities while maintaining fiscal sustainability

Figure 11: Botswana's financing needs, financing flows and gaps



Source: African Development Bank Group. (2026). African Economic Outlook 2026

Figure 12: Botswana's Fiscal Revenue, Revenue-to-GDP Ratio and Growth Trends



Source: African Development Statistics

and sufficient resilience to external shocks. In addition, deepening domestic capital markets, improving public investment management, and strengthening partnerships with development finance institutions and private investors can help mobilize long-term financing for infrastructure, economic diversification, and climate-resilient development while also reducing dependence on volatile mineral revenues and external financing conditions.

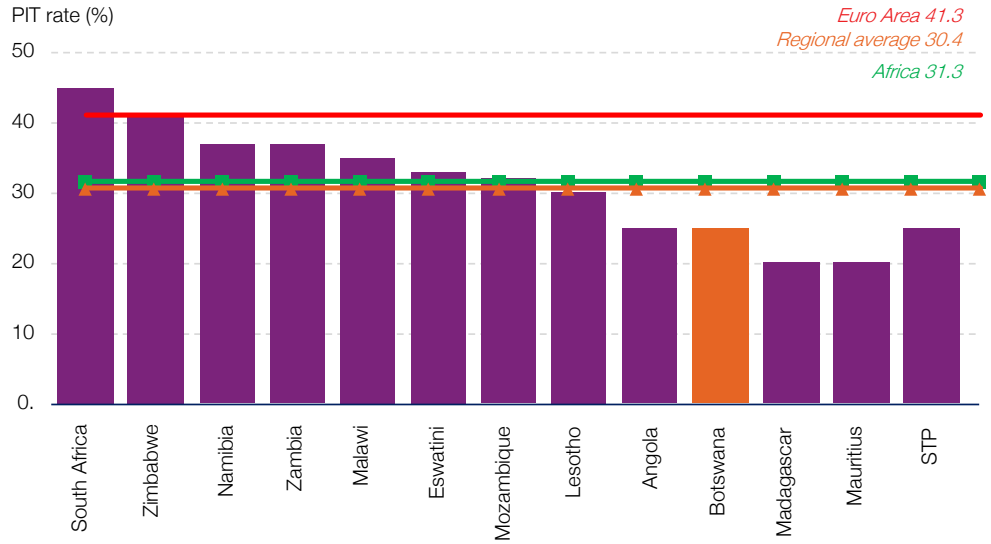
2.3.1 Trend of Domestic Revenue in Botswana

The trend of Botswana's domestic revenue reflects four interrelated dynamics. First, nominal fiscal revenues have grown strongly over the last decade, largely driven by diamond exports, inflation, and exchange-rate effects rather than sustained improvements in tax productivity. Second, despite this growth, revenue as a share of GDP has weakened, reflecting structural constraints such as a narrow tax base, reliance on mining, persistent informality and limited diversification. Third, revenues remain highly cyclical, declining sharply during global shocks, including commodity downturns and health pandemics like COVID-19, underscoring an underlying vulnerability to external factors. Finally, post-pandemic recovery in revenues remains cyclical, highlighting the need for structural reforms to strengthen tax efficiency and broaden the domestic revenue base.

2.3.2 Botswana's Tax Structure and Revenue Administration: Patterns, Gaps and Challenges

The tax structure reflects mainly personal income tax (PIT) and value-added tax (VAT). VAT remains the backbone of tax revenue, contributing roughly 35% of collections, supported by excise and customs duties, highlighting a reliance on indirect taxation. In comparison, PIT contributes modestly, as the PIT rate of 25% falls below the African average of 31.3% (Figure 13). The low PIT rate reflects a narrow formal employment base, while high informality and tax exemptions continue to limit revenue potential, underscoring the need to formalize, strengthen compliance, broaden the base, and enhance tax system efficiency and equity. While revenue administration is relatively advanced, gaps persist in audit capacity, data integration, and compliance enforcement.

Figure 13: Statutory Personal Income Tax (PIT) Rates in Botswana

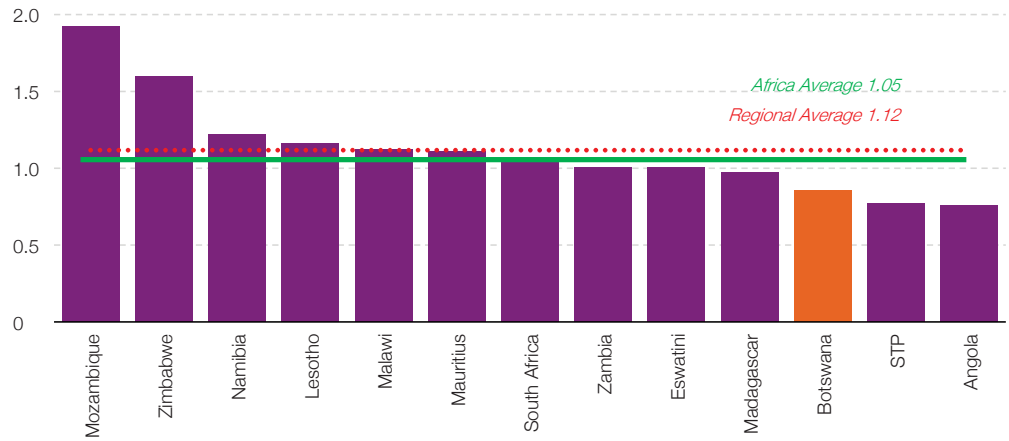


Source: PricewaterhouseCoopers (PwC).

2.3.3 Tax Efficiency, Buoyancy, and Structural Revenue Gaps in Botswana

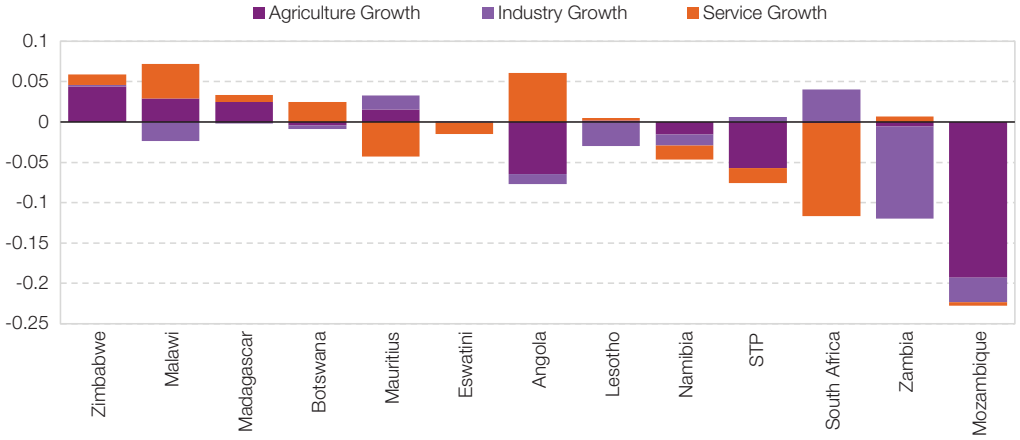
Botswana's domestic resource mobilization challenge is largely structural, reflected in modest tax buoyancy, defined as how strongly revenues grow as the economy expands, which remain below the Africa average of 1.05% (Figure 14), indicating revenues often grow slower than GDP. Sectorally, services show relatively stronger and more stable tax performance, while industry, dominated by mineral revenues is volatile and agriculture remains weak due to its informality (Figure 15). Despite the reliance on VAT, the C-efficiency is moderate, constrained by exemptions, compliance gaps, and administrative weaknesses. This underscores the need for reforms to broaden the tax base, strengthen compliance, and improve VAT efficiency, while enhancing revenue stability and long-term fiscal sustainability across economic sectors.

Figure 14: Tax Revenue Buoyancy in Botswana, 2024



Source: Staff estimation using data from the African Development Bank Statistics Department.

Figure 15: Africa's Sectoral Tax Revenue Buoyancy, 2024



Source: Staff estimation using data from the African Development Bank Statistics Department.

2.3.4 Operationalizing Botswana's Untapped Revenue Potential

The moderate PIT and C-efficiency suggest Botswana could mobilize additional revenue from corporate income tax and VAT. The tax-to-GDP ratio, which remains below the regional average (Figure 16), can increase by improving tax buoyancy. Steps to achieve this include strengthening VAT compliance, reducing exemptions, improving enforcement, alongside better management of excises, arrears, and customs. Corporate income tax reforms in the diamond and broader extractive sector, and improved taxation of high-income entities offer further scope. Property taxation remains underutilized, while non-tax revenues, especially from state-owned enterprises (SOEs) and mineral rents could be enhanced through better governance and pricing. Realizing this potential requires sequenced reforms to broaden the tax base, strengthen administration, and improve compliance (Table 2).

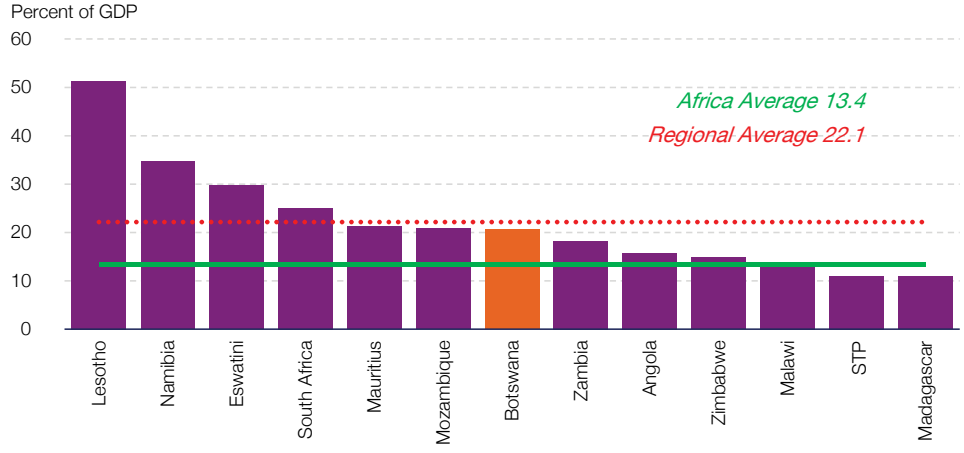
Table 2: Policy instruments for effective revenue mobilization in Botswana

Pillar 1: Tax Instruments	Pillar 2: Non-Tax Instruments
- VAT compliance, reducing exemptions, increasing formalization - Integrated digital platforms - Customs and domestic tax modernization	- Institutional coordination - Service delivery and voluntary compliance - Natural resource revenues

Cross-cutting:
Equity safeguards (targeted subsidies, social protection)

Source: Staff elaboration.

Figure 16: Botswana's Tax-to-GDP Ratio, 2024

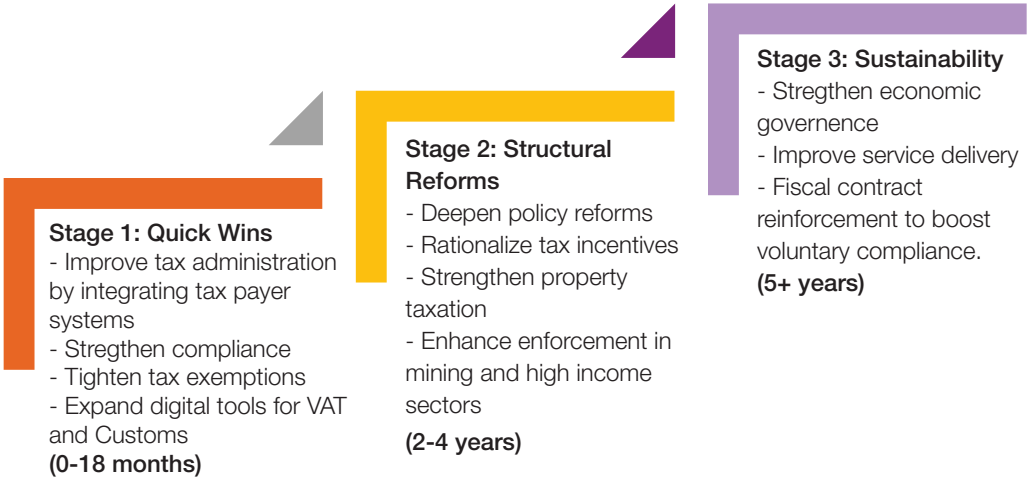


Source: African Development Bank Statistics Department.

2.3.5 Revenue Reforms and Sequencing

While Botswana needs revenue reforms, sequencing the reforms will be critical to balance fiscal goals with impacts on growth, firms, and households. A phased approach can deliver early gains while also building institutional capacity over time. The initial phase can produce quick wins from rapidly improved tax administration by integrating taxpayer systems, strengthening compliance, tightening exemption management, and expanding digital tools for VAT and customs administration. A second phase would involve more structural reforms, including broadening the tax base, rationalizing incentives, strengthening property taxation, and enhancing enforcement in mining and high-income non-mining sectors. Lastly, sustainability will depend on stronger governance, improved public service delivery, and reinforcing the fiscal social contract to boost voluntary compliance (Figure 17).

Figure 17: Reform Sequencing Timeline: From Quick Wins to Sustainable Fiscal Capacity



Source: AfDB Staff elaboration

Box 2: Key tax reforms aimed at strengthening domestic resource mobilization in Botswana

The Botswana Unified Revenue Service is undertaking strategic reforms to improve revenue collection and compliance, including the rollout of a debt recovery strategy and operational enhancements in tax audits and taxpayer services. To modernize the tax framework and support these reforms, the government has finalized four key pieces of legislation—the Value Added Tax Bill (2025), Income Tax Bill (2025), Tax Administration Bill (2025), and Customs (Amendment) Bill (2025). A major policy shift will expand the VAT base to include digital trade from 2026/27, enabling Botswana to capture revenue from the growing digital economy and align with international best practices. Together, these measures aim to reduce revenue leakages and secure a more sustainable revenue base.

The Botswana Economic Transformation Programme (BETP) will reinforce this agenda by identifying new revenue sources, strengthening domestic resource mobilization, and improving the efficiency of tax administration. Central to this effort is the commercial repositioning of state-owned enterprises to enhance profitability, innovation, and service delivery while reducing their reliance on government transfers. Local authorities will similarly be supported to expand own-source revenues through improved financial management, local economic development, and innovative service-based income streams, contributing to a more diversified and resilient fiscal framework.

2.3.6 Institutional Enablers and Digitalization of Revenue Collection Systems

There is a need for sound tax policy design supported by strong institutional enablers for Botswana to effectively mobilize its domestic revenue. Key foundations include securing sustained political commitment, ensuring Botswana Unified Revenue Service's capacity to increase collections, and creating robust legal frameworks for enforcement and transparency measures that build taxpayer trust. Expanding interoperable digital systems such as unique taxpayer identification, integrated databases, and secure e-payment platforms can reduce leakages and broaden the tax base. Digitalization is increasingly important, with e-filing, e-payments, and emerging e-invoicing aimed at modernizing revenue collection in Botswana (Box 2). Nonetheless, VAT revenue can also increase through real-time reporting, better and coordinated systems, and audit targeting without necessarily raising tax rates.

2.3.7 Role of International Cooperation and Development Partners

Development partners, which include multilateral development banks, bilateral partners, and international organizations, can provide financing and technical assistance to strengthen tax systems. Botswana's participation in global initiatives such as the Organisation for Economic Co-operation and Development/G20 base erosion and profit shifting framework and the Global Minimum Tax offer opportunities to protect the tax base, particularly in the mining and multinational sectors. However, capacity constraints, especially in transfer pricing, treaty management, and data analysis limit effective implementation. Aligning external support with Botswana's reform priorities, while deepening regional cooperation, can enhance sustainability, strengthen institutional capacity, and improve the role of partners in strengthening the country's tax system, supporting long-term domestic resource mobilization and fiscal resilience to finance sustainable and inclusive development.

2.4 Improving Public Financial Management Systems

Mobilizing capital at scale requires strengthening fiscal resources alongside efficient and transparent public financial management (PFM) in Botswana. While Botswana performs relatively well, risks remain around expenditure prioritization, SOE oversight, and value for money in large projects. Weaknesses in spending efficiency and oversight can reduce

Box 3: Key actions and reforms aimed at modernizing revenue collection in Botswana

Botswana is advancing a set of reforms aimed at strengthening domestic revenue mobilization through greater efficiency, transparency, and digitalization. Central to this effort is the modernization of tax administration systems, including the expansion of e-filing, e-payments, and data-driven compliance tools to improve taxpayer services and reduce leakages. The Botswana Unified Revenue Service is enhancing the use of integrated digital platforms to streamline tax processes, improve real-time monitoring, and strengthen audit capacity. Reforms also focus on broadening the tax base by reducing exemptions, formalizing segments of the informal sector, and strengthening VAT compliance.

The adoption of risk-based compliance frameworks and third-party data matching is helping to improve enforcement while simultaneously lowering administrative costs. Efforts to enhance customs administration—including the automation of border processes and improved valuation systems—are supporting trade facilitation while safeguarding revenues. Institutional coordination is also being strengthened through improved information-sharing across government agencies. In parallel, Botswana is investing in taxpayer education and service delivery to promote voluntary compliance. Together, these reforms aim to build a more resilient, efficient, and growth-friendly revenue system aligned with the country's fiscal sustainability objectives, and innovative service-based income streams, contributing to a more diversified and resilient fiscal framework.

the impact of public investment, undermine fiscal sustainability, and weaken trust in government. Strengthening PFM across the budget cycle, from planning to execution and audit, can improve infrastructure and human capital outcomes. Enhancing transparency, procurement systems, and expenditure tracking will reduce leakages, boost investor confidence, and ensure that revenues mobilized translate into sustained and inclusive economic growth.

2.4.1 Where Botswana Stands: Progress with Persistent Institutional Gaps

Botswana's public financial management system has strengthened over time, particularly in fiscal planning, transparency, and audit practices, effectively supporting macroeconomic stability and policy credibility. However, gaps persist in budget execution, cash management, procurement discipline, and project implementation. Deviations between planned and actual spending, alongside challenges in forecasting and commitment controls, can reduce efficiency. Fragmented reporting systems and capacity constraints also affect coordination and oversight. Weaknesses in public investment management (PIM) contribute to delays and cost overruns in infrastructure projects, limiting growth impact. Strengthening digital integration, treasury systems, and procurement practices will be essential to improve spending efficiency and maximize development outcomes, while strengthening project preparation can improve budget execution.

2.4.2 Improvements in Transparency and Fiscal Accountability

Botswana has made steady progress in strengthening its fiscal transparency, supported by improvements in budget-reporting, disclosure, and public access to information. Institutions such as parliament and the auditor general play important roles in oversight, while internal audit systems have increasingly adopted risk-based approaches. However, challenges remain in ensuring full transparency across the budget cycle, including timely reporting and broader public participation, while excessive tax expenditures may also erode the revenue base. A central element of sustaining revenue performance is strengthening the fiscal social contract between governments and citizens through improved delivery of social and public services (Figure 18). Strengthening DRM in such contexts requires linking revenue reforms more explicitly to inclusive and visible improvements in service delivery, helping to restore trust between citizens and public institutions.

2.4.3 Has Budget Transparency Translated into Credibility?

Despite relatively strong fiscal institutions, low budget credibility and administrative capacity challenges in compliance monitoring and enforcement undermine collection efficiency in Botswana. Deviations between approved budgets and actual outcomes persist, often reflecting volatility in mineral revenues, SACU transfers, and difficulties in accurate revenue forecasting and expenditure planning. External shocks, such as commodity price fluctuations and geopolitical crises can further widen these gaps, and disrupt fiscal discipline. Weak budget credibility reduces the efficiency of public investment, raises fiscal risks, undermines investor confidence and increases borrowing costs. Strengthening forecasting capacity, commitment controls, as well as treasury and cash management systems will be essential to enhance budget reliability, support fiscal sustainability, and mobilize capital more effectively.

2.4.4 Strengthening Oversight, Audit, and Public Accountability

In Botswana, strong oversight and accountability are central to effective public financial management. Institutions such as the auditor general, parliament, and key civil society organizations play important roles in scrutinizing fiscal performance and ensuring the responsible use of public resources. Public demand for accountability is growing, reinforcing the importance of legislative oversight and citizen engagement in the budget process (figure 19). While Botswana has relatively robust institutions, gaps remain in timely audits, follow-up on findings, and oversight of SOEs. Strengthening transparency, improving digital reporting, and

enhancing participatory mechanisms can enhance accountability. Building resilient and adaptable PFM systems will be critical for managing shocks while also maintaining fiscal discipline and public trust.

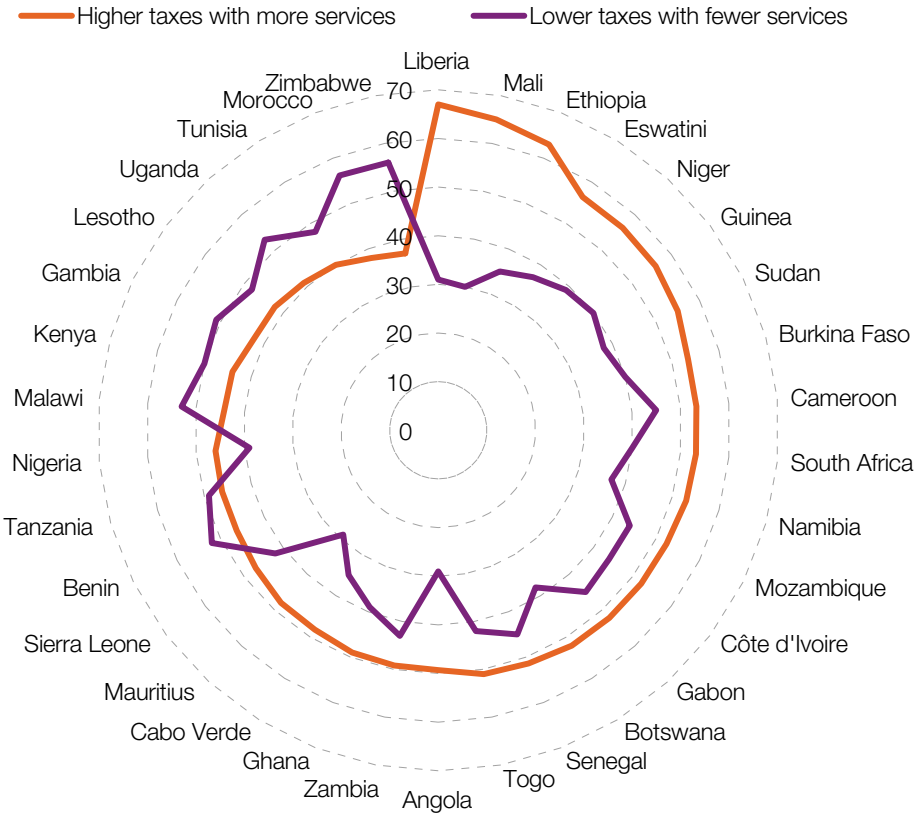
2.4.5 Digital Transformation of Public Financial Management Systems

Strengthening digital tax systems could improve outcomes. Botswana has adopted digitalization as a key driver of public financial management reform, enhancing efficiency, transparency, and accountability across the budget cycle. The country has implemented an integrated financial management information system (IFMIS), improving expenditure control, reporting, and budget execution. However, challenges remain in fully integrating IFMIS with tax, procurement, and banking systems, limiting the advantages of seamless data exchange. Expanding digital treasury, e-procurement, and payroll systems can further reduce leakages and strengthen fiscal discipline. While Botswana performs relatively well in digital governance, continued investment in infrastructure and interoperability is needed to unlock the full benefits of digital PFM and improve PIM outcomes.

2.4.6 Economic Dividends and Fiscal Gains from Closing the Efficiency Gap

The effectiveness of public investment depends not only on resource availability but also on the strength of public financial management and investment frameworks. While Botswana has maintained relatively strong fiscal systems, inefficiencies in project selection, execution, and monitoring can reduce potential returns on public spending. Strengthening medium-term fiscal frameworks can improve planning, budget credibility, and resource allocation. Enhancing PIM through rigorous appraisal, transparent procurement, and effective oversight can increase the quality and economic impact of infrastructure. Improving efficiency would generate significant fiscal savings, expand fiscal space, and support growth without increasing

Figure 18: Strengthen Fiscal and Social Contract Between Government and Citizens



Source: Staff Calculations using data from the 2022 Afrobarometer surveys

debt, while also crowding in private investment for the Botswana Economic Transformation Programme (BETP) and improving long-term development outcomes.

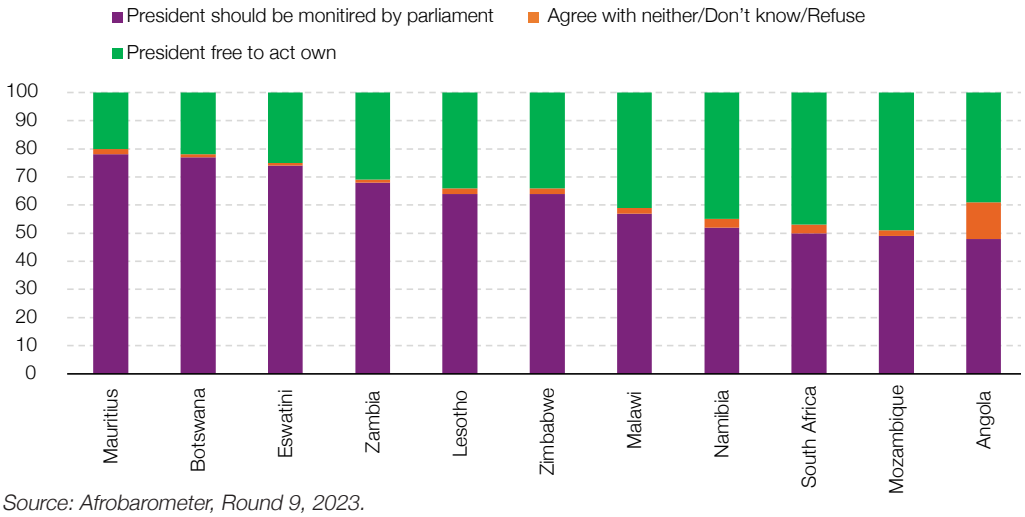
2.5 Formalizing the Informal Sector

Despite relatively low informality, it contributed a meaningful share of 30.1% of GDP in 2023 (Figure 20). However, informal businesses remain outside the tax net. This highlights the urgency to increase formalization as an option to further enhance tax revenue in the country.

2.5.1 Economic Costs of Informality and the Return to Formalization

Informality imposes measurable macroeconomic costs on Botswana, even though its scale is lower than in many of its African peers. In the short term, informal activity weakens domestic revenue mobilization by narrowing the effective tax base and limiting the ability of authorities to capture income and transactions occurring outside of formal systems. The African Development Bank (2024) notes that the large size of the informal sector in Africa significantly limits the tax base and constrains revenue collection, thereby weakening domestic resource mobilization. Over time, widespread informality also slows structural transformation and productivity growth by keeping firms small, less efficient, and disconnected from formal value chains and markets. It reduces incentives for innovation,

Figure 19: Strong public demand for legislative oversight of executive power in Africa (benchmarking)



Source: Afrobarometer, Round 9, 2023.

limits economies of scale, and perpetuates low productivity across sectors. Informality further constrains the financial sector's development. Businesses operating outside formal systems often lack verifiable financial records, acceptable collateral, and credible credit histories, which restricts access to finance and reduces investment opportunities. This, in turn, weakens private sector expansion, employment creation, and economic diversification. Conversely, gradual formalization through improved business registration systems, wider adoption of digital payments, and expanded access to financial services can generate substantial economic gains. Reducing informality would broaden the tax base, improve equity among taxpayers, and strengthen fiscal sustainability, while supporting higher productivity, more inclusive growth, and deeper financial intermediation across Botswana's economy.

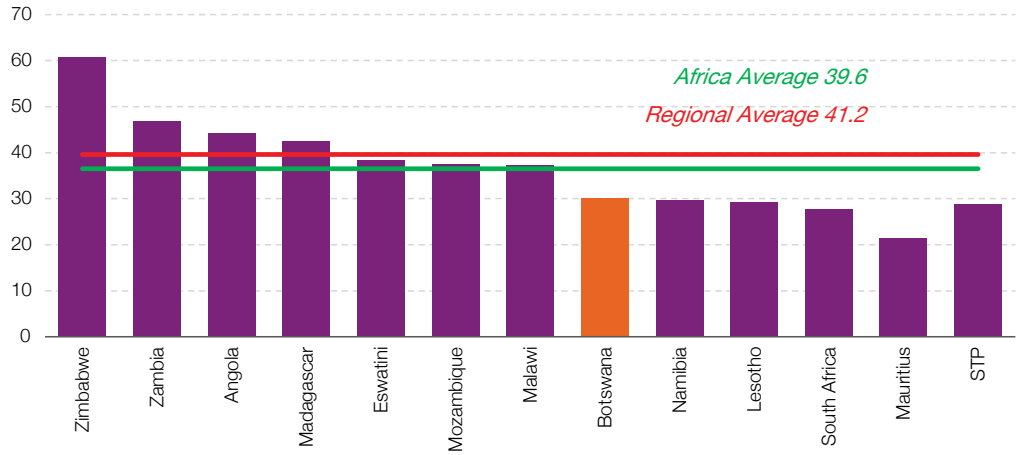
2.5.2 Digitalization as a Catalyst for Formalization

Digitalization presents a powerful lever for accelerating formalization and strengthening the foundations of domestic revenue mobilization. By reducing the time, cost, and administrative burden associated with business registration, tax filing, and payments, digital platforms can significantly expand participation in the formal economy. Scaling up electronic public services such as online business registration,

e-filing systems, and interoperable government databases enhances taxpayer identification, improves transaction traceability, and enables more effective compliance monitoring. These reforms allow authorities to increase revenue collection efficiency without raising tax rates, while also capturing economic activities that previously operated outside the formal system.

The benefits extend well beyond fiscal outcomes. Digitalization promotes financial inclusion by enabling small and informal enterprises to access digital payment systems and financial services. As businesses transact electronically, they generate verifiable financial records, which can be used to build credit histories and unlock their access to loans, savings instruments, and insurance products. This creates a virtuous cycle in which improved access to finance incentivizes gradual and voluntary formalization, driven by market opportunities rather than enforcement pressures. To fully realize these gains, Botswana can strengthen digital identification systems, integrate tax and financial sector data, and enhance coordination across institutions. Investments in cybersecurity and data governance will also be critical to maintain trust. In the long-term, a well-integrated digital ecosystem can deepen formal sector participation, improve productivity, and support a more resilient and sustainable fiscal framework.

Figure 20: Contribution of the informal sector to GDP in Botswana (2015–2020)



Source: Afrobarometer, Round 9, 2023.

2.5.3 Other Relevant Issues for Botswana in Formalizing the Informal Sector

Formalizing Botswana's informal sector requires tackling structural and institutional barriers that shape business incentives. Although informality is relatively limited, it commonly persists in SMEs, rural activities and parts of the services sector. Many operators perceive few benefits from formalization due to compliance costs, administrative complexity, and limited access to finance or markets. Strengthening these incentives is essential. Access to finance remains a key constraint, as informal firms usually lack collateral and credit histories. Expanding digital financial services and alternative lending mechanisms can support their transition. Regulatory simplification through streamlined registration, reduced fees, and presumptive tax regimes can lower entry barriers. Improving business support services, skills development, and market access, especially for youth and women, is also critical. Strengthening local institutional capacity and aligning formalization with broader economic diversification efforts will help ensure that newly formalized businesses can grow sustainably and contribute to a broader tax base.

2.6 Scaling Up Public-Private Partnerships (PPPs)

2.6.1 Building Credible PPP-Enabling Frameworks and Project Preparation Ecosystems

Botswana has made steady progress in advancing PPPs, with its finalization of a draft new PPP bill in 2025, thanks to AfDB's support.

However, the use of PPPs remains selective, with the country continuing to rely predominantly on public finance and procurement systems. Nonetheless, the draft PPP bill attempts to strengthen PPP legislation, with dedicated policy frameworks and operational guidelines signalling a growing commitment by the government to scale these partnerships in a structured and sustainable manner. In line with this, institutional design remains central to the effective implementation of the new bill. The Ministry of Finance, together with sector ministries and implementing agencies, plays a critical role in project identification, appraisal, approval, and oversight. However, capacity constraints in areas such as project preparation, financial modelling, risk assessment, and contract management can limit the pipeline of bankable projects and affect execution quality.

Strengthening technical capacity through targeted training, standardized appraisal methodologies, and dedicated PPP units will be essential to improving outcomes. Clear institutional mandates, transparent approval processes, and robust procurement systems are necessary to ensure accountability, value for money, and investor confidence. Well-designed risk-sharing frameworks can further enhance efficiency by allocating construction, operational, and financial risks to private actors, while preserving the appropriate regulatory oversight by the government. At the same time, integrating PPP commitments into medium-term fiscal frameworks, improving disclosure practices, and actively managing contingent liabilities are critical to safeguarding fiscal sustainability.

2.6.2 Making Marginal Projects Bankable and Connecting them to Capital Markets

Government investment and the priority infrastructure projects identified under BETP are both economically and socially beneficial, but financial returns remain uncertain due to affordability constraints related to the continent's perceived high financing risk. While Africa's perceived risk is a barrier to attracting assets currently invested outside, it records the lowest infrastructure loan default rate globally at 1.9%, compared with 12.4% in Eastern Europe and 10.1% in Latin America (Figure 21). This creates a gap between project viability and bankability, underscoring the need for targeted financing instruments to crowd in private investment. Viability gap funding can play a central role by providing carefully structured public support, including upfront capital grants or performance-based payments, to bridge the difference between project costs and expected revenues. When anchored in strong PFM systems, this gap funding can enhance project attractiveness while still preserving fiscal discipline and transparency. Infrastructure asset recycling offers an additional pathway to unlock value from existing public investments.

By concessioning or leasing mature assets in sectors such as energy and transport, Botswana can mobilize upfront capital from private investors and redeploy the proceeds into new infrastructure projects without increasing public debt. This approach can also improve operational efficiency and service delivery, provided it is supported by clear regulatory frameworks, credible pricing regimes, and transparent reinvestment strategies. At the same time, the development of capital market instruments, including infrastructure bonds and securitized revenue streams, can help mobilize long-term domestic savings. By transforming predictable cash flows into investable assets, Botswana can attract pension funds and insurance companies, thereby deepening financial markets and reducing reliance on public financing. Effective implementation will require strong legal frameworks, consistent tariff policies, and high standards of disclosure.

2.6.3 Managing Fiscal Risks and Safeguarding Value for Money

Although PPPs can reduce immediate budget pressures by deferring upfront capital spending, scaling up public-private partnerships without strong fiscal risk management could pose risks to fiscal sustainability. This is because PPPs often generate significant long-term obligations, including availability payments and government guarantees, which constitute contingent liabilities. If not properly monitored

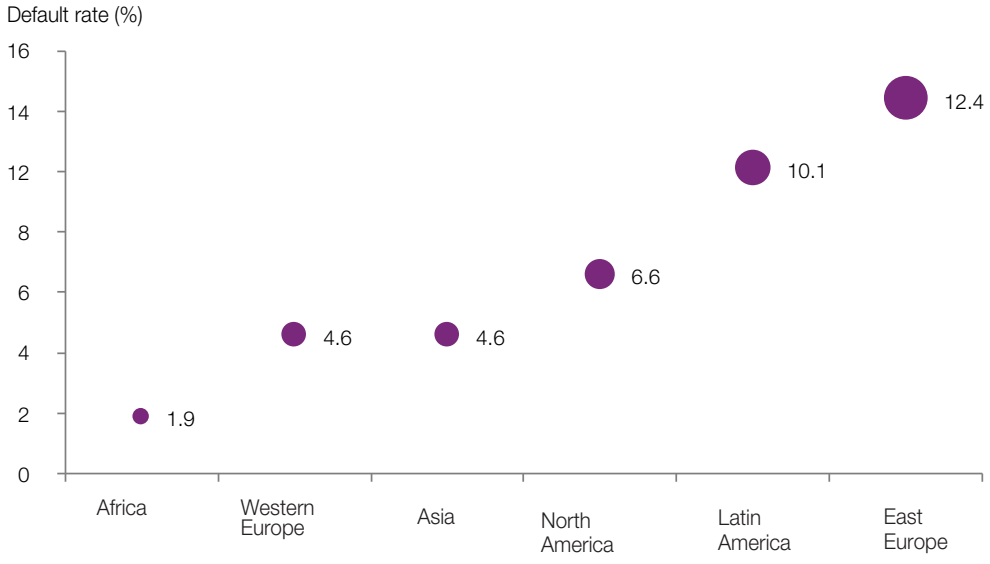
and managed, these liabilities can accumulate over time, leading to increased public debt and further constraining the fiscal space, and limiting the government's ability to respond to economic shocks or finance new priorities. Botswana's average public investment efficiency score stands at 76.3%, implying an efficiency gap of about 23.7% (Figure 22). While the country's efficiency score of 76.3% is higher than the Southern Africa regional average of 56.3%, its efficiency gap of 23.7% means that of US$100 spent in public investment, US$23.7 is wasted or does not translate into productive capital. This means that Botswana could improve infrastructure outcomes by as much as 23.7% by converging toward international best practices in investment planning, project selection, and execution.

Transparency and oversight in PPP budgeting is therefore essential. This requires systematically identifying, quantifying, and recording both direct fiscal costs and contingent liabilities across the public sector, including those arising from SOEs. Embedding PPPs within an integrated PIM framework is equally important. Projects should be appraised using consistent value for money and affordability criteria to ensure that PPPs are selected based on efficiency gains rather than purely short-term financing considerations. Improved transparency also plays a critical role in developing investor confidence. Proactive disclosure of PPP contracts, fiscal commitments, and risk-sharing arrangements helps reduce information asymmetries, enabling investors to assess risks more accurately and price them appropriately. For Botswana, enhancing disclosure standards, strengthening fiscal reporting systems, and aligning PPP commitments with medium-term fiscal frameworks will be key. These measures will support the effective mobilization of long-term private capital, while safeguarding fiscal sustainability and ensuring that PPPs deliver tangible economic value.

2.6.4 Other Relevant Issues for Botswana in Scaling Up Public-Private Partnerships

Scaling up PPPs in Botswana requires strengthening both the enabling environment and project pipeline, which currently consists of 184 projects selected under the BETP. While the country has maintained a cautious approach, its limited institutional capacity in project preparation, appraisal, and transaction management constrains the development of successful bankable projects. Building a credible pipeline of well-prepared projects, particularly in energy, water, and transport is essential to attract private investment. Fiscal risk management is equally critical. PPPs can create long-term contingent liabilities, requiring stronger integration into medium-term fiscal frameworks, clear ceilings on guarantees, and improved disclosure practices. Enhancing transparency and delivering more regulatory certainty will help

Figure 21: Africa Has the Lowest Default Rates on Infrastructure and Related Projects



Source: Moody's Analytics, 2020

reduce investor risk perceptions. Deepening domestic capital markets, including leveraging pension funds, can provide long-term financing. At the same time, instruments such as viability gap funding and blended finance can improve project bankability. Strengthening governance, institutional coordination, and contract enforcement will be critical building blocks to scale PPPs sustainably.

2.7 Mobilizing Long-Term Capital from Regional and International Institutional Investors

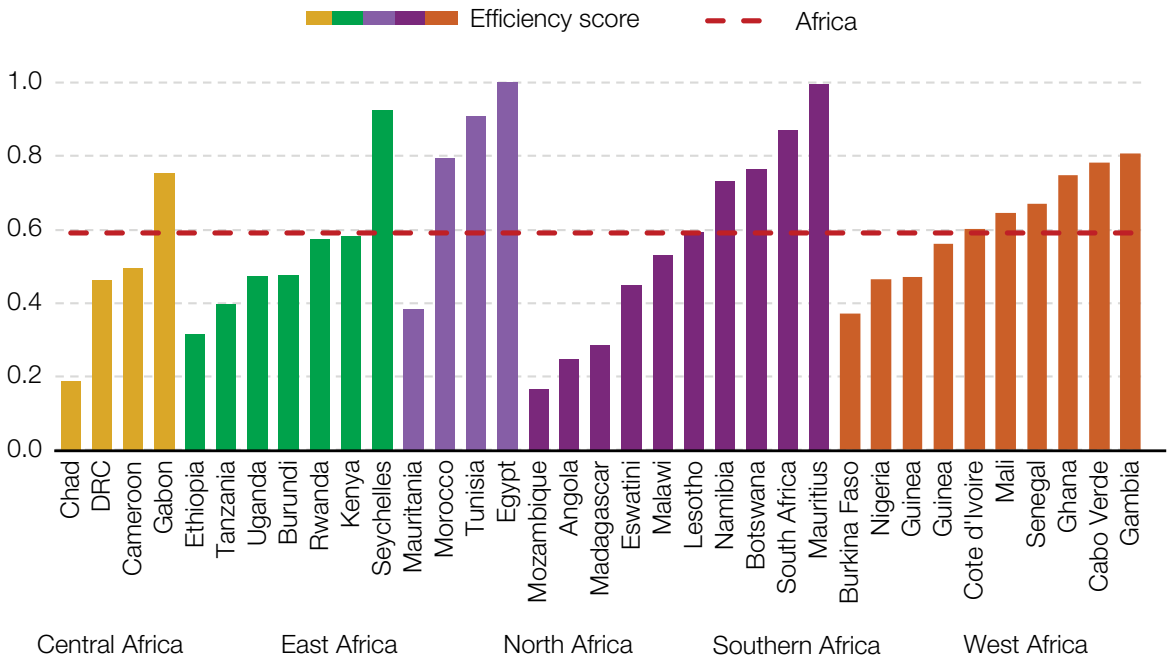
Botswana's ability to mobilize long-term capital is constrained by its relatively small and concentrated financial system, mainly in pension funds. A limited pipeline of bankable projects, shallow capital markets, and heavy reliance on the banking sector restrict the flow of funds into long-term productive investment. While Botswana's capital markets are more developed than many peers, they remain narrow, with limited instruments for infrastructure financing. Strengthening project preparation, expanding investment vehicles, and improving risk mitigation frameworks can help unlock domestic institutional capital. Deepening regional financial integration and enhancing market liquidity will further support the channelling of savings into sustainable infrastructure and economic diversification.

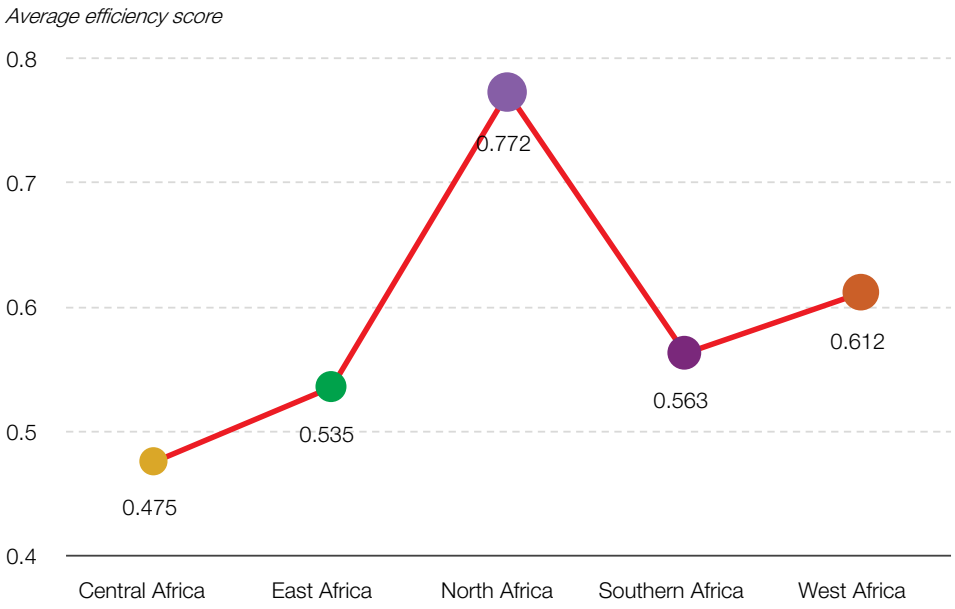
2.7.1 Pension Funds as Patient Capital: What the Data Implies for Reform

Botswana's pension funds represent a significant pool of long-term capital, with assets estimated at 68.6% of GDP in 2025, placing the country among the more developed pension systems in Africa. Pension funds' long-dated liabilities and predictable contribution flows make them well suited to finance infrastructure and other long-horizon investments that support economic transformation. Despite this potential, asset allocation remains relatively conservative. A substantial share of pension assets is held in government securities, offshore investments, and bank deposits, with limited exposure to domestic private sector activities and infrastructure projects. This allocation pattern reflects a combination of structural constraints and risk considerations. These include a limited pipeline of well-prepared and bankable projects, shallow domestic capital markets, and prudential requirements that emphasize capital preservation and liquidity.

As a result, investment in alternative asset classes such as infrastructure, private equity, and green finance remains modest, pointing

Figure 22: Public investment efficiency gaps by region





Source: African Development Bank Statistics Department
Note: No specific assumptions were made. Efficiency scores were computed using the Data Envelopment Analysis (DEA) methodology. The maximum score = 1 or 100% (efficiency gap=1-score)

to considerable untapped potential. Even incremental shifts in portfolio allocation toward domestic long-term investments could yield meaningful development benefits. Unlocking this opportunity will require strengthening project preparation and appraisal capacity, which will be essential to generate investable opportunities. Expanding the range of financial instruments, including infrastructure bonds and pooled investment vehicles, can help match pension fund preferences. At the same time, improving risk mitigation mechanisms, enhancing regulatory clarity, and strengthening governance standards will be critical. Deepening domestic capital markets will further support the effective channelling of pension savings into productive investments that can advance infrastructure development and economic diversification.

2.7.2 Sovereign Wealth Funds: Shifting from Outward Bias to Strategic Investment Windows

Botswana's main sovereign wealth fund is the Pula Fund, which plays a central role in managing diamond revenues. In September 2025, the government announced the establishment of an additional diversification-focused fund. While sovereign wealth funds globally are major providers of patient capital, Botswana's asset base, though prudently managed, remains modest relative to the scale of infrastructure and diversification needs. The sovereign wealth fund's primary mandate focuses on macroeconomic stabilization and intergenerational savings, which has historically resulted in a strong outward investment orientation aimed at preserving value and diversifying risk. While this approach is sound from a fiscal and risk management perspective, it limits the direct contribution of sovereign assets to domestic development. Expanding the developmental role of these assets will require a careful balance between preserving savings objectives and creating targeted domestic investment windows, particularly in infrastructure and priority sectors for economic diversification. Key constraints include a limited pipeline of bankable projects, shallow domestic capital markets, and the need to uphold strong governance and risk management standards. Strengthening institutional frameworks will be critical. Establishing ring-fenced investment windows, clarifying mandates, and aligning with international best practices can support greater domestic deployment without undermining fiscal discipline. In parallel, improving project preparation capacity, developing co-investment platforms, and deepening partnerships with development finance institutions can help crowd in private capital. With the right balance, the country's sovereign assets can play a more catalytic role in mobilizing long-term investment

while also safeguarding macroeconomic stability.

2.8 Leveraging Diaspora Capital

Botswana's diaspora remittances, while smaller than in many African countries, represent a stable and growing source of external financing. Over time, remittance inflows have increased alongside an increasing diaspora, providing important support to household incomes and consumption. Although they do not match the scale of mineral revenues, remittances are also less volatile than foreign investment and can enhance economic resilience. There is untapped potential to leverage diaspora savings for development through instruments such as diaspora bonds and investment platforms. Strengthening financial infrastructure, reducing transfer costs and building trust can help channel remittances toward investment and support the country's long-term development objectives, including entrepreneurship development, housing finance, small business growth, and broader financial inclusion across underserved communities and regions. Strengthening partnerships with diaspora associations and expanding digital financial services could further improve investment participation, knowledge transfer, and access to the international networks that support innovation, skills development, trade linkages, and private sector development.

2.8.1 State of Financial Resources from the Batswana Diaspora

Botswana received US$128.3 million (0.7% of GDP) of remittances in 2024, representing 110% increase since 2021, although this remains moderate compared with stronger performers across Africa, reflecting not only the modest size of the diaspora but also the absence of targeted institutional frameworks to effectively channel these resources. The constraint is less about diaspora capacity and more about gaps in financial instruments, limited engagement strategies, and insufficient incentives to direct savings toward productive investment. International experience suggests that countries achieving strong diaspora outcomes combine clear policy direction, dedicated institutions, and tailored financial products.

Botswana can strengthen its approach by developing a formal diaspora policy, enhancing financial infrastructure, and introducing instruments such as diaspora bonds or dedicated investment funds. Measures to reduce transaction costs, expand digital transfer systems, and improve access to foreign exchange services would also help shift flows toward formal channels. Beyond remittances, there is significant potential to mobilize diaspora capital for investment in infrastructure, small and medium-sized enterprises, and innovation-driven sectors. Realizing this opportunity requires building trust through transparency, credible project pipelines, and consistent communication. Establishing collaborative investment platforms, potentially in partnership with development finance institutions, can help crowd in diaspora savings at scale. Strengthening governance frameworks and legal certainty will be equally important. With the right mix of policies and institutions, Botswana can better leverage diaspora resources to support economic diversification, resilience, and sustained long- term growth.

2.9 Harnessing Botswana's Natural Resources Assets

Botswana's abundant natural capital which includes rangelands, wildlife ecosystems, and mineral-linked landscapes provides vital services such as carbon sequestration, water regulation, and biodiversity conservation. However, these assets remain undervalued in fiscal and investment planning. Emerging opportunities in carbon markets, biodiversity credits, and Natural Capital Accounting (NCA) offer pathways to mobilize innovative financing while supporting sustainable growth. Integrating environmental assets into national accounts and public investment decisions can strengthen fiscal resilience and diversify revenue sources. At the same time, climate risks and ecosystem degradation threaten long-term productivity, underscoring the need to align development with environmental conservation, green finance and just ecological transition.

2.9.1 Moving Beyond the Extractive Model

Natural resource endowments, particularly diamonds, have been central to Botswana's

development path, underpinning fiscal revenues, foreign exchange earnings, and overall macroeconomic stability. The sector, led by Debswana, has supported sustained public investment and prudent fiscal management over several decades, allowing Botswana to build strong institutions and buffers. However, continued reliance on extractive rents exposes the economy to commodity price volatility, external demand shocks, and long-term sustainability risks, especially in the context of shifting global demand patterns. Although Botswana's resource rents are relatively moderate as a share of GDP compared to more resource-dependent African economies, the production structure remains highly concentrated, with diamonds dominating exports and fiscal revenues. Limited linkages between the extractive sector and the broader economy constrain job creation, domestic value addition, and private sector expansion. As a result, the economy captures only a portion of the potential benefits associated with its natural resource wealth.

In response, Botswana is increasingly prioritizing downstream processing, mineral beneficiation, and the development of alternative growth sectors such as tourism, financial services, and green industries. These efforts are aimed at broadening the economic base, enhancing resilience, and reducing exposure to external shocks. Strengthening governance and transparency in the extractive sector remains essential to ensure that resource revenues are efficiently managed and equitably distributed across society. Looking ahead, integrating NCA into national planning frameworks offers a pathway to better capture the full value of ecosystems, including wildlife, rangelands, and water resources. This can support more informed land use decisions and balance conservation with economic priorities. Advancing a more diversified, inclusive, and environmentally-sustainable non-mineral growth model will be critical to securing Botswana's long-term economic stability and resilience.

2.9.2 Natural Capital, Economic Performance, and Macroeconomic Stability

Botswana applies the System of National Accounts 2008 Framework, which provides a comprehensive structure for estimating the value generated from diamond extraction and related activities, but only partially reflect the broader economic contribution of ecosystems such as wildlife habitats, rangelands, and water systems. This creates a bias toward extractive activities while undervaluing conservation and sustainable land use that support long-term income streams, particularly in tourism and agriculture. As a result, development strategies may overlook the full wealth embedded in natural assets. Botswana's natural capital was US$116 billion in 2020 (AfDB, 2025). While natural capital constitutes a significant share of Botswana's total wealth, it remains insufficiently integrated into macroeconomic and fiscal analysis. Failure to account for ecosystem services, such as carbon sequestration, biodiversity and land productivity can lead to the underestimation of fiscal space and economic potential. Incorporating NCA into national frameworks would strengthen debt sustainability assessments and improve policy coherence. By aligning fiscal policy with asset-based wealth management, the country can ensure that short-term revenue gains do not come at the expense of long-term sustainability, supporting intergenerational equity and resilience.

2.9.3 Natural Capital as a Source of Financing

As part of efforts towards NCA in Botswana, the financial valuation of nature is emerging through climate, biodiversity, and ecosystem-based markets, gradually redefining the role of natural resources beyond traditional extraction. The country's rich wildlife, rangelands, and unique ecosystems, particularly within conservation areas offer a comparative advantage in emerging carbon and biodiversity markets. This positions Botswana to leverage natural capital as a strategic asset for both domestic revenue mobilization and international climate finance. Nature-based solutions, including rangeland restoration, sustainable land management, and conservation tourism, present cost-effective opportunities for climate mitigation and adaptation.

However, Botswana captures only a limited share of global carbon and biodiversity finance due to its institutional constraints, limited project pipeline, and high certification costs.

Strengthening regulatory frameworks and technical capacity can help unlock this potential. Beyond climate, Botswana's biodiversity holds economic value for tourism and ecological services, though monetization remains limited. Emerging instruments such as biodiversity credits and conservation finance mechanisms offer new opportunities. By developing these markets and integrating them into fiscal strategies, Botswana can diversify revenues, enhance resilience, and position itself within the global green economy.

2.9.4 Governance, Institutions and Macroeconomic Stability

Translating ecological assets into sustained economic gains depends, critically, on institutional quality and governance. While Botswana has relatively strong PFM systems, other gaps in environmental valuation, contract transparency, and enforcement of conservation standards limit the full development impact of natural capital. Strengthening these areas is essential to ensure that revenues from ecosystems, such as wildlife, tourism, and carbon assets are efficiently managed and equitably distributed. Unlike mineral revenues, which are highly exposed to global price cycles, ecosystem-based revenues linked to tourism and environmental services offer more stable and sustainable income streams, if well managed. To realize this potential, the country must enhance transparency in conservation financing, adopt standardized monitoring and verification systems, and strengthen environmental safeguards. Improving data systems and integrating NCA into fiscal planning will further support evidence-based decision-making. By reinforcing institutional frameworks and building credibility in environmental markets, Botswana can attract long-term investment, stabilize revenues, and position itself as a high-integrity supplier of nature-based assets in global markets.

2.10 Crowding in Global Private Capital in a Fragmented World

External financing for Botswana is being shaped by global fragmentation, characterised by a shift toward multipolarity. Rising geopolitical tensions, trade uncertainty, supply chain reconfiguration, and tighter global liquidity conditions are affecting capital flows, increasing borrowing costs, and constraining foreign direct investment (FDI) to the country. In this context, attracting long-term private capital is critical. Botswana can leverage its stable governance and institutional strength to position itself as a reliable investment destination, particularly in energy, logistics, digital infrastructure and value-added industries. Strengthening regulatory predictability, project preparation capacity, and alignment with national development priorities in Vision 2036, National Development Plan 12, and the BETP will be the key to crowding in private investment.

2.10.1 Foreign Direct Investment signals both Botswana's Potential and its Fragility

Foreign direct investment flows in Botswana stood at 2.4% of GDP in 2024, down from 3.8% in 2023 and 2.8% in 2015, reflecting the country's reputation as a stable and well-governed investment destination and its continued exposure to global economic shocks. They have been largely attracted by the mining sector, particularly diamonds, but they remain relatively modest and volatile. They are often driven by a narrow set of large projects rather than a broad and diversified investment pipeline. As global financial conditions tighten, with higher-risk premiums and shifting investor preferences, the country faces increasing uncertainty over sustaining consistent and predictable inflows. The current investment pattern highlights the risks associated with concentration. Large capital-intensive projects in mining and energy can significantly boost headline investment, yet they tend to generate limited employment and weak linkages with the domestic economy.

At the same time, greenfield investments in manufacturing, services, and agro-processing remain underdeveloped, constraining efforts toward diversification, productivity growth, and job creation. Improving the quality of investment is therefore as important as increasing its volume. Botswana can strengthen its competitiveness by enhancing project preparation, ensuring regulatory clarity and predictability, and consciously aligning investment incentives with

sectors that support value addition and export diversification. Developing a pipeline of bankable projects in renewable energy, logistics, tourism, and digital services can attract a wider range of investors and reduce its dependence on a few large transactions. Equally important is improving the conversion rate of investment commitments into operational projects. This requires stronger coordination across government institutions, streamlined approval processes, and targeted risk mitigation instruments. By building a deeper, more diversified, and execution-ready investment pipeline, Botswana can reduce volatility, crowd in private capital, and support more inclusive, sustainable, and resilient economic growth.

2.10.2 De-risking and Blended Finance: Building Bankable Pipelines

In Botswana, private investment is constrained by a gap between expected project returns and the cost of financing, reflecting perceived risks and limited depth in domestic capital markets. Even with strong macroeconomic fundamentals and political stability, investors often demand higher-risk premiums, particularly for long-term infrastructure and industrial projects. Bridging this gap requires a coordinated approach that strengthens policy credibility, reduces risk and improves project bankability. The starting point is a predictable regulatory environment, enforceable contracts, and transparent tariff frameworks, especially in energy, transport, and utilities. While BETP has built a pipeline of priority, aggregating bankable projects, enhancing project feasibility preparation can reduce transaction costs and attract institutional investors. Targeted de-risking instruments, such as guarantees, credit enhancement, and blended finance can help crowd in private capital, where market failures persist, particularly in social sector projects under BETP, with high social returns. However, these tools should be used selectively and anchored in strong fiscal frameworks. By sequencing reforms and strengthening institutions, the country can mobilize private investment at scale while maintaining market discipline and fiscal sustainability.

2.10.3 External Portfolio Inflows

External portfolio inflows remain volatile, reflecting Botswana's exposure to global financial conditions. A key example is COVID-19, which triggered portfolio reversals that reduced net portfolio investment from US$927.1 million in 2019 to US$921.7 million in 2020. Although conditions improved from 2023, portfolio flows remain inherently volatile and pro-cyclical with a decline in net portfolio investment from US$754.4 million in 2023 to US$351.7 million in 2024, underscoring the need for strong macroeconomic fundamentals, low inflation, and credible policy frameworks to sustain investor confidence. Botswana's capital markets are relatively small and concentrated, limiting the range of instruments available to investors. As larger African markets have observed, foreign portfolio investment tends to focus on a narrow set of sectors and firms with strong governance and liquidity. For Botswana, the priority is to deepen and diversify domestic capital markets by expanding local-currency bond and equity instruments, strengthening investor protection and improving market infrastructure. Broadening the domestic institutional investor base and enhancing regional financial integration can help build scale, improve liquidity, and attract more stable and sustained portfolio investment over time.

2.10.4 Leveraging Fragmentation to Build Strategic Platforms

As global capital becomes more selective, with investors increasingly sensitive to geopolitical risks, compliance standards, and transaction frictions, it raises the cost of accessing finance and heightens volatility, particularly for Botswana's relatively smaller and less diversified economy. At the same time, intensified competition around secure supply chains, especially in minerals, energy, and data creates an opportunity to position the country as a stable and reliable production and investment platform within regional and global value chains. To capitalize on this, Botswana must focus on the quality of investment by promoting value addition, local supplier development, and industrial capabilities. Strengthening integration into regional trade and infrastructure corridors, such as transport

and logistics networks in Southern Africa can enhance scale and reduce costs, making projects more attractive to investors.

Equally important is improving trade and payments systems to reduce transaction costs and foreign exchange risks. By aligning regulatory standards, enhancing traceability, and leveraging regional initiatives, Botswana can improve market access, attract diversified sources of capital, and strengthen resilience in an increasingly fragmented global financial landscape.

2.10.5 Strengthening Partnerships to Mobilize Capital, Investment, and Trade

Global political fragmentation and shifts in the international financial architecture present a mix of risks and opportunities for Botswana's development financing strategy. On one hand, tighter global liquidity conditions, elevated risk premiums, and the reorientation of capital toward domestic priorities in advanced economies are likely to constrain access to affordable external finance. On the other hand, evolving global value chains and the diversification of investment partnerships create space for Botswana to position itself as a stable, rules-based and predictable investment destination. To take advantage of these dynamics, Botswana can deepen South-South partnerships that combine infrastructure development, industrialization, and improved market access.

Strategic collaboration in areas such as minerals beneficiation, renewable energy, and logistics can support structural transformation while strengthening resilience. Embedding supplier development, local content requirements, and skills transfer within these partnerships will be critical to enhancing domestic value addition and ensuring that investment translates into broader economic benefits. At the same time, co-financing platforms that bring together development finance institutions, institutional investors, and private sector partners can help reduce financing costs, extend maturities, and mobilize capital at scale for large projects.

Engagement with development partners also offers opportunities through blended finance and green investment initiatives. However, rising environmental, social, and governance standards, including sustainability and traceability requirements, will require targeted support to ensure compliance and competitiveness. Aligning regulatory frameworks, strengthening project preparation capacity, and ensuring high standards of transparency and governance will be essential to convert these evolving global dynamics into tangible investment opportunities. With the right policy mix, Botswana can leverage these shifts to attract diversified capital flows and support long-term, inclusive economic growth.

2.11 Conclusion and Policy Recommendations

Botswana faces a complex but opportunity-rich financing landscape shaped by tighter global liquidity, moderating FDI inflows and constrained fiscal space. **In the short term**, policy efforts should focus on strengthening domestic resource mobilization through targeted administrative and tax policy reforms with the highest potential revenue gains. Priority actions include reducing VAT exemptions, strengthening compliance through digital tax administration systems, expanding e-filing and e-invoicing, and improving enforcement in sectors characterized by informality and transfer pricing risks. Strengthening tax administration capacity in audit systems, data analytics and large taxpayer management is likely to yield faster returns than broad tax rate increases. Improving expenditure efficiency through stronger project appraisal, procurement reforms, and monitoring systems will also help ensure that limited public resources are directed toward high-impact investments and service delivery outcomes.

In the medium term, the focus should shift toward mobilizing long-term domestic and external capital to support diversification and infrastructure development. Better alignment between institutional investors and domestic investment opportunities can be achieved by developing bankable project pipelines, strengthening project preparation facilities, and standardizing public-private partnership

frameworks to reduce investor uncertainty. Pension funds and insurance institutions could be encouraged to invest in infrastructure and productive sectors through revised investment guidelines, blended finance instruments, and partial risk guarantees that reduce exposure to project risks. Deepening domestic capital markets will require expanding the supply of tradeable financial instruments, including infrastructure bonds and green bonds, while improving market liquidity and regulatory oversight.

In the long term, financing strategies should support structural transformation and climate resilience. Integrating natural capital into development planning, strengthening environmental governance frameworks, and aligning projects with global environmental, social, and governance standards can help unlock climate finance, carbon markets, and biodiversity-linked investment flows. Expanding digital financial infrastructure and leveraging diaspora investment instruments can further diversify financing sources and strengthen external resilience.

3 STRENGTHENING AND CONSOLIDATING BOTSWANA'S FINANCIAL SYSTEMS AND AGENCY IN THE CHANGING WORLD

Key Messages

- External financing sources remain important but are volatile, reinforcing the need to strengthen domestic financial systems.
- Botswana's financial sector is stable but shallow, with limited depth, concentration risks and insufficient long-term financing.
- Financial intermediation is constrained by high collateral requirements, information asymmetries, and limited access to finance.
- Capital markets remain underdeveloped, with low liquidity, few listings and weak linkages between institutional savings and domestic investment.
- Pension funds and institutional investors hold significant assets but allocate a large share offshore due to limited bankable projects.
- Digitalization, financial inclusion, regional integration, strengthening governance, regulatory frameworks and system integration offer opportunities to deepen markets, mobilize capital effectively and expand access to development finance.

3.1 Introduction

While FDI, remittances, and portfolio flows remain important for Botswana, their volatility, combined with tighter global liquidity, highlights the need to strengthen domestic financial systems to support national development priorities. At the same time, the country's financing needs have grown in response to economic diversification challenges and climate-related pressures. Although Botswana's strong pension system and stable banking sector provide a solid foundation, the financial system remains concentrated and insufficiently diversified toward long-term productive investment. Strengthening financial intermediation, deepening capital markets, and expanding instruments for infrastructure and private sector financing are critical to mobilize resources at scale. Policy priorities include addressing structural bottlenecks such as limited project pipelines, shallow capital markets and capacity constraints in project preparation. Enhancing cross-border financial integration within the Southern African region, improving regulatory frameworks, and promoting financial

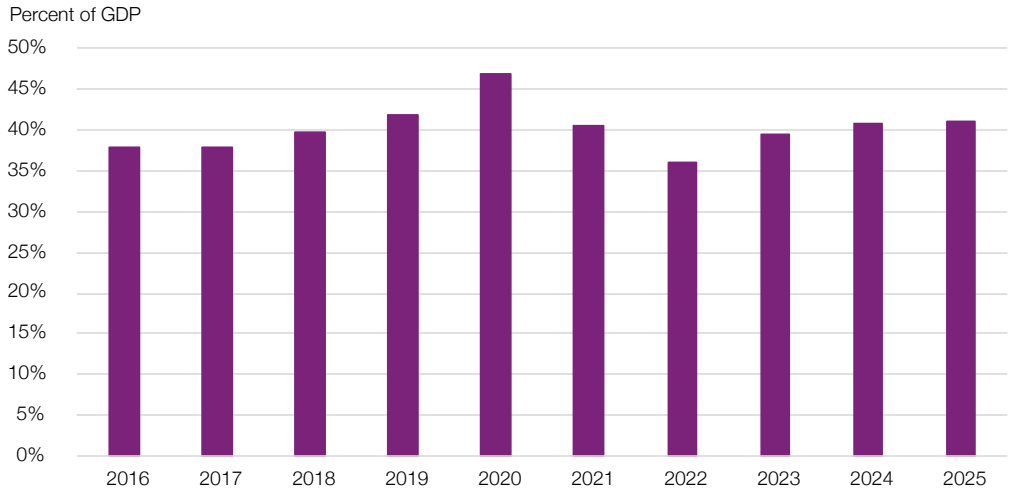
inclusion will further expand the country's investment base. Ultimately, reinforcing governance, institutional capacity, and policy credibility will enable effective mobilization of capital, reduce dependence on external flows and strengthen Botswana's financial agency in a rapidly-evolving global landscape.

3.2 Strengthening Botswana's Financial System: Addressing Bottlenecks and Expanding Reach and Impact

3.2.1 State of the Financial System in Botswana

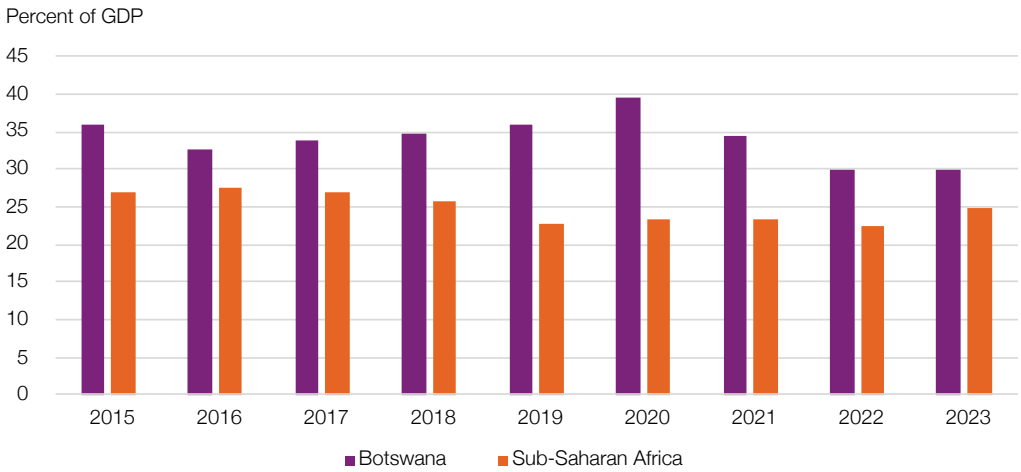
Starting from a relatively strong macro-financial base, Botswana's financial system has expanded and diversified over recent decades, supported by prudent macroeconomic management and institutional stability. The country's financial sector, comprising commercial banks, pension funds, insurance companies and a growing capital market plays a central role in mobilizing domestic resources. Despite this progress, Botswana's financial system remains insufficiently deep to mobilize long-term capital at the scale and cost required for structural transformation and economic diversification. Financial intermediation remains constrained. While banks are well capitalized and liquid bank deposits average 40.2% of GDP from 2016 to 2025 (Figure 23), lending is concentrated in short-term, low-risk activities, with limited financing opportunities for productive sectors such as manufacturing and SMEs. Credit to the private sector, although higher than in many African peers, still falls short of levels observed in more diversified emerging markets (Figure 24). Structural constraints, including limited domestic savings, high collateral requirements, and information asymmetries continue to restrict broader access to finance. Capital markets, anchored by the Botswana Stock Exchange, remain relatively shallow, with limited listings and low liquidity. Institutional investors, particularly pension funds, hold substantial assets but allocate a significant share offshore, due to the limited pipeline of bankable domestic projects. This reduces the potential for local capital to support domestic investment and job creation. Regulatory and institutional frameworks are generally strong, but inefficiencies in contract enforcement, project preparation and financial innovation constrain deeper market development. High lending spreads and conservative risk assessments further limit credit expansion. Despite notable gains in financial inclusion, supported by digital financial services, gaps persist, particularly among SMEs and informal sectors. Addressing these challenges will require strengthening financial intermediation, deepening capital markets, expanding digital infrastructure, and building a robust pipeline of investable projects to allow domestic savings to contribute to development financing needs.

Figure 23: Bank deposits to GDP (as a percentage), 2016 - 2025



Source: Staff calculations using data from the Bank of Botswana.

Figure 24: Domestic credit to the private sector in Botswana and in sub-Saharan Africa, 2015 - 2023



Source: Staff calculations using data from World Development Indicators.

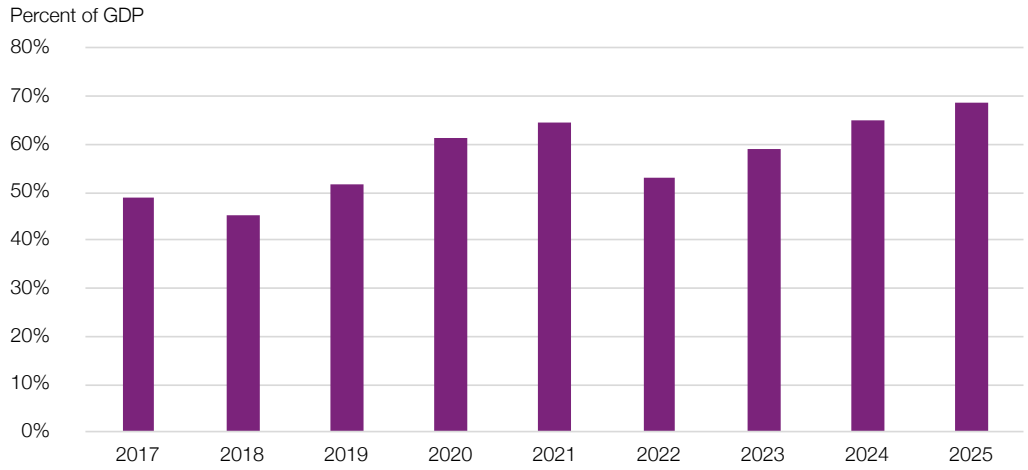
3.2.2 Broadening the Catchment Area: Expanding the Financial Sector's Reach and Impact

In the context of declining external development financing, Botswana must increasingly rely on domestic financing to meet its development needs. A critical starting point is to expand the reach, depth, and efficiency of its financial sector by mobilizing savings from households and businesses, including those currently underserved. Strengthening the role and coordination of key financial institutions such as the Botswana Development Corporation, the commercial banks, key pension funds including the Botswana Public Officers Pension Fund, insurance companies and capital market intermediaries will be essential to improving financial intermediation and supporting investment in productive sectors. Well governed and adequately capitalized national development finance institutions can play a catalytic role in the country by addressing market gaps, particularly in SMEs, infrastructure, and green investments. However, their effectiveness depends on balancing developmental mandates with financial sustainability, strengthening governance frameworks and diversifying funding sources beyond government transfers toward capital market instruments. Botswana is relatively well positioned in terms of institutional savings, particularly through pension funds and its sovereign wealth framework. Better alignment of these long-term assets with domestic investment opportunities, through improved project pipelines, risk-sharing mechanisms, and regulatory clarity could unlock significant financing for infrastructure and private sector growth, while safeguarding returns. The insurance sector's assets (Figure 25) also present opportunities to deepen financial markets by mobilizing long-term capital and expanding risk coverage, particularly in agriculture and climate-related activities. At the same time, the Bank of Botswana (BoB) plays a central role in maintaining macro-financial stability, promoting financial innovation, and strengthening regulatory oversight to support inclusion and market development. Emerging areas such as climate finance, real estate development and digital financial services offer additional pathways to broaden Botswana's financial ecosystem. Leveraging these opportunities, while maintaining sound governance and macroeconomic stability, will be critical to building a resilient, inclusive, and development-oriented financial system.

3.2.3 Other Relevant Issues for Botswana in Strengthening its Financial System

Strengthening Botswana's financial system also requires addressing cross-cutting structural and institutional challenges. Persistent reliance on diamond revenues exposes the financial sector to external shocks, underscoring the need for economic diversification and the development of non-bank financial markets. Shallow capital

Figure 25: Insurance market landscape in Botswana – Insurance company assets (percentage of GDP), 2017 - 2025



Source: Staff calculations using data from the Bank of Botswana.

markets, limited product diversity, and low levels of financial literacy continue to constrain participation by households and SMEs. Additionally, gaps in credit information systems and collateral frameworks hinder access to finance, particularly for smaller firms. Advancing digital financial infrastructure, while improving cybersecurity and data protection, will be critical to enhancing efficiency and inclusion. At the same time, strengthening the legal and judicial environment, including contract enforcement and insolvency processes, can reduce lending risks and support credit expansion. Regional financial integration within SADC also presents opportunities to deepen markets and attract investment. Addressing these issues holistically will enhance resilience, broaden access, and improve the overall effectiveness of the country's financial system.

3.3 Consolidating Botswana's Financial System: The Case for a Cohesive and Integrated Financial Architecture

Botswana's financial system has expanded steadily over the past two decades, with rising bank deposits, growing pension assets and gradual development of capital markets. However, the system remains fragmented across market segments, concentrated and small with limited market depth and product diversity. Addressing these weaknesses is essential to enhance resilience, improve integration, and support Botswana's long-term development objectives.

3.3.1 Botswana's Financial System Integration

Botswana's financial system has developed steadily over time but remains relatively small, shallow and concentrated. While the number of licensed capital market entities rose from 116 in 2023 to 118 in 2024 with assets increasing from US$49.7 million to US$59.9 million, capital markets account for less than 1% of the non-bank financial institutions (NBFIs) sector. The BSE has made notable progress since the early 2000s, including a growth in market capitalization, improvements in listing rules and increased participation by institutional investors, which have strengthened the regulatory and operational foundations of the market. Despite this progress, the stock exchange remains limited in scale and depth compared to more developed African peers. Market activity is concentrated in a small number of large firms, often linked to mining, financial services, and consumer sectors, while many domestic companies, including high-growth and medium-sized firms, remain unlisted. This concentration constrains liquidity, weakens price discovery and limits the Boerse's effectiveness as a platform for broad-based capital mobilization. Trading volumes remain low, and turnover ratios are

modest, reflecting thin secondary market activity and a narrow investor base. Despite a relatively strong pool of institutional investors, particularly pension funds, linkages between these long-term savings and the domestic equity market remain underdeveloped. A significant share of institutional assets is invested offshore, driven by limited domestic opportunities and diversification considerations. Efforts to deepen the market through regulatory reforms, product innovation, and regional integration within the Southern African region have yet to significantly increase liquidity and participation. Strengthening market infrastructure, encouraging new listings including small and medium-sized enterprises, and improving cross-border investment linkages will be essential. These reforms can enhance the role of the equity market in mobilizing capital, supporting private sector growth, and advancing economic diversification.

3.3.2 Policy Pathways to Consolidate Botswana's Financial System

Consolidating Botswana's financial system is essential for closing financing gaps and supporting national development priorities. This requires a more coordinated domestic financial architecture that strengthens linkages across banks, capital markets, pension funds, and development finance institutions. A key priority is enhancing interoperability across payment and settlement systems under the leadership of the BoB. Strengthening digital payment infrastructure and aligning regulatory standards will improve liquidity circulation, reduce transaction costs and support financial inclusion. Botswana can also leverage regional integration within SADC to deepen cross-border financial flows and expand market access. Harmonizing prudential standards and strengthening supervisory coordination remain critical. Continued improvements in capital adequacy frameworks, risk management practices, and crisis response mechanisms will enhance financial stability and investor confidence. Strengthening cooperation with regional regulators will also support cross-border banking and investment. Botswana can further leverage regional platforms as integration anchors, linking its financial infrastructure to broader regional systems. Participation in initiatives such as cross-border payment platforms and capital market integration schemes can help overcome scale limitations and improve liquidity. Deepening the BSE through improved listing frameworks, greater institutional investor participation, and enhanced market infrastructure will support capital mobilization. At the same time, strengthening credit information systems and risk assessment frameworks can improve lending efficiency and reduce borrowing costs. Building financial resilience will also require strengthening sovereign risk management through improved fiscal coordination, debt transparency, and macroeconomic stability. A well-coordinated ecosystem across financial institutions, supported by strong governance and regulatory clarity, will position Botswana to mobilize domestic resources more effectively, attract investment, and build a more integrated, resilient, and development-oriented financial system.

3.3.3 Other Relevant Issues for Botswana in Consolidating its Financial System

Consolidating Botswana's financial system also requires addressing structural and institutional gaps that limit integration and scale. The small size of the domestic market constrains liquidity and product diversification, making regional integration within SADC critical for achieving economies of scale. Strengthening coordination among regulators, including the BoB and non-bank financial supervisors, will improve oversight consistency and reduce regulatory fragmentation. Gaps in financial market infrastructure, including credit registries, collateral systems and insolvency frameworks, continue to impede efficient intermediation. Enhancing data quality and transparency will support better risk pricing and investor confidence. Additionally, improving public debt management and aligning fiscal and monetary policies can reduce sovereign risk spillovers into the financial sector. Promoting financial literacy and expanding digital financial services will further integrate households and SMEs into the formal system, strengthening deposit mobilization and supporting a more cohesive and resilient financial ecosystem.

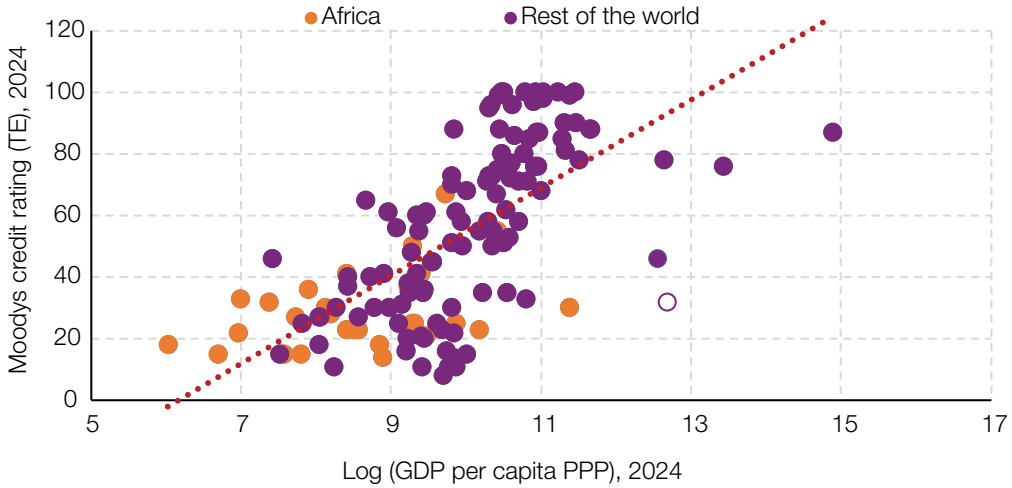
3.4 Towards Financial Agency and Sovereignty

Botswana's financial agency refers to its ability to influence the size, structure and cost of its financing needs through effective domestic resource mobilization and strategic engagement with external partners. Strengthening this agency will enhance the country's credibility in global financial markets and reduce its reliance on volatile external flows, while channeling domestic savings into productive sectors that support inclusive growth and structural transformation.

3.4.1 Imperatives of Botswana's Financial Agency

While Botswana's financial agency implies improving access to funding, it is imperative to reshape the institutional and market architecture through which financing decisions are made, risks are priced, and capital is mobilized and allocated. This calls for a coherent package of regulatory, institutional, and market-deepening reforms that enhance credibility, strengthen domestic capital markets, and increase Botswana's influence over the size, structure, and cost of its financing. Strengthening financial agency will depend on building a more integrated domestic financial system that can efficiently channel savings, particularly from pension funds and insurance assets, into productive sectors such as infrastructure, SMEs, and green investments. Enhancing the role of local financial institutions in structuring and managing sovereign and corporate financing, including bond issuance, will deepen domestic expertise and reduce reliance on external intermediaries. Sustained macroeconomic stability remains foundational, given the high correlation between GDP per capita and credit ratings (Figure 26). Prudent fiscal management, credible monetary policy and strong debt management will help increased GDP per capita and lower risk premiums. In parallel, strengthening technical capacity in debt management, project preparation and financial structuring is essential to improve financing outcomes.

Figure 26: GDP per Capita is Highly Correlated with Credit Risk Ratings



Source: Staff calculations using data from World Bank International Debt Statistics 2025.

3.4.2 Institutional Structures for a Resurgent and Impactful Financial Sector

Strengthening institutional capacity and fostering cross-border linkages among financial institutions and businesses is central to the resurgence and impact in Botswana's evolving financial architecture. Adopting a risk-based framework, such as identifying domestic systemically important banks and strengthening resolution regimes is a path to enhance resilience. Improving the quality, availability, and integration of financial data is equally critical for sound regulation and risk management. Financial innovation, including fintech and digital payments, is expanding rapidly, alongside growing NBFIs such as pension funds and insurers. However, supervisory frameworks have not always kept pace, necessitating

stronger oversight, cybersecurity safeguards and regulatory adaptation. Leveraging digital supervision tools and regulatory sandboxes can help address capacity constraints. Financial inclusion remains essential for sustainable financial agency. Expanding credit access requires better data systems, functional credit bureaus and efficient collateral registries to reduce information asymmetries and strengthen contract enforcement. Ultimately, Botswana's financial agency will depend on building a well-regulated, inclusive and technologically adaptive system capable of mobilizing domestic resources, supporting private sector growth and integrating effectively into regional financial markets.

3.4.3 Other Relevant Issues for Botswana with Regards to Financial Agency and Sovereignty

Strengthening Botswana's financial agency and sovereignty requires reinforcing institutional credibility while safeguarding policy autonomy in an increasingly interconnected financial system. A key issue is balancing reliance on external financing with the strategic use of domestic resources, particularly given the country's strong pension fund base and sovereign savings. Enhancing local participation in structuring sovereign debt and investment transactions would improve pricing power and reduce dependence on external intermediaries. Data transparency, timely disclosure, and credible macroeconomic frameworks remain essential for shaping investor perceptions and lowering sovereign risk premiums. At the same time, Botswana must strengthen its capacity in debt negotiation, liability management, and risk analysis to better navigate global financial cycles. Finally, aligning financial sector development with clear inclusion objectives, especially for SMEs and underserved populations, will ensure that financial sovereignty is broad-based and sustainable, supporting long-term inclusive and sustainable growth.

Box 4: National examples of successful or current reforms for strengthening financial architecture and governance in Botswana

Botswana has implemented a series of targeted reforms to strengthen its financial architecture and governance, reinforcing stability and improving resilience to external shocks. A central pillar has been the enhancement of regulatory and supervisory frameworks led by the Bank of Botswana, including ongoing alignment with Basel II/III standards, risk-based supervision, and macroprudential oversight. The central bank has also expanded stress-testing frameworks and crisis preparedness tools to safeguard financial stability. On the fiscal side, reforms spearheaded by the Botswana Unified Revenue Service have focused on digitalizing tax administration through e-filing systems, strengthening compliance, and improving revenue mobilization efficiency.

Public financial management has been reinforced through the rollout of integrated financial management systems and improved budget transparency. Botswana has also advanced capital market development via the Botswana Stock Exchange, including initiatives to deepen market liquidity, promote bond market development, and encourage institutional investor participation. Pension fund reforms have supported greater domestic investment. Additionally, the country has strengthened its anti-money laundering and counter-terrorism financing frameworks in line with Financial Action Task Force standards, improving financial integrity and international credibility. Collectively, these reforms demonstrate Botswana's commitment to building a robust, transparent, and well-governed financial system.

3.5 Conclusions and Policy Recommendations

Botswana has abundant domestic capital, but investment in productive sectors remains constrained by weaknesses in financial intermediation and capital allocation. The country benefits from substantial pension fund reserves, insurance assets, sovereign savings anchored by the Pula Fund, and mineral revenues that have historically supported macroeconomic stability. However, conservative investment mandates

and regulatory constraints have resulted in a large share of domestic savings, particularly pension assets, being invested offshore, limiting their contribution to domestic job creation, export diversification, and productivity growth. Structural bottlenecks include shallow capital markets, limited financial instruments, weak project preparation capacity, and inadequate linkages between institutional investors and domestic investment opportunities.

In the **short term,** reforms should focus on maintaining macro-financial stability and strengthening public debt management to preserve investor confidence and reduce vulnerability to external shocks. Deepening local currency bond markets can reduce dependence on foreign borrowing, while expanding financing options for both government and private sector investment. In the **medium term,** policy efforts should prioritize better alignment between institutional savings and domestic investment opportunities. This can be achieved through stronger project preparation facilities, standardized public-private partnership frameworks, and clearer investment guidelines for pension funds and insurance institutions. Strengthening credit risk assessment systems, improving financial disclosure standards, and enhancing regulatory oversight would help reduce information asymmetry, lower borrowing costs, and improve access to finance. Expanding digital financial services and interoperable payment systems can also strengthen financial inclusion and broaden participation in the formal financial system. Expanding instruments such as infrastructure bonds, green bonds, and blended finance vehicles, supported by partial risk guarantees and co-financing mechanisms, would help mobilize long-term capital into infrastructure, renewable energy, and climate-resilient sectors.

Over the **long term**, building a more integrated, innovative, and inclusive financial ecosystem will be essential to mobilize domestic capital and support sustained structural transformation, resilience, and inclusive growth.

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