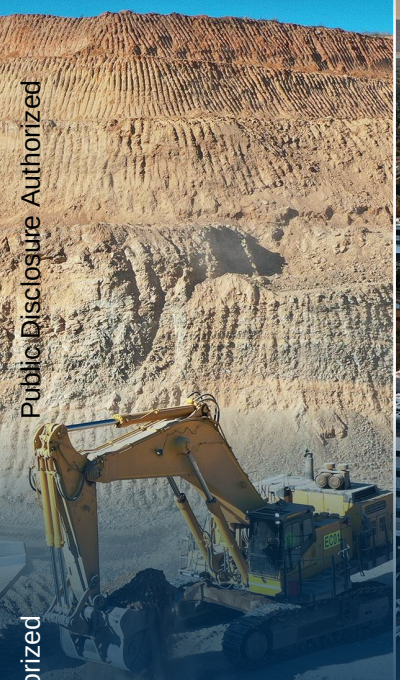
Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized

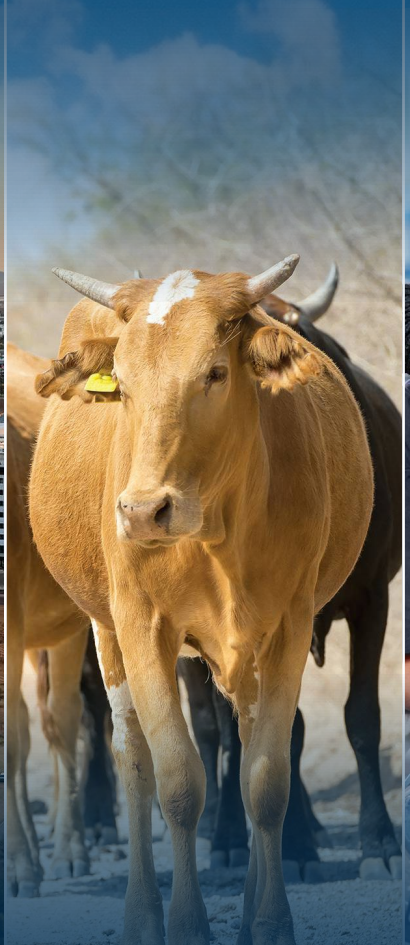
WORLD BANK GROUP

SEIZING THE MOMENT

HOW BOTSWANA CAN TURN CRISIS INTO OPPORTUNITY









BOTSWANA ECONOMIC UPDATE

FIRST EDITION

JULY 2026

© 2026 The World Bank
1818 H Street NW, Washington DC 20433
Telephone: 202-473-1000; Internet: www.worldbank.org

Some rights reserved
This work is a product of the staff of The World Bank. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of the Executive Directors of The World Bank or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Rights and Permissions
The material in this work is subject to copyright. Because The World Bank encourages dissemination of its knowledge, this work may be reproduced, in whole or in part, for noncommercial purposes as long as full attribution to this work is given.

Attribution—Please cite the work as follows: "World Bank. 2026. Botswana Economic Update: Seizing The Moment. How Botswana Can Turn A Crisis Into An Opportunity. Washington, D.C.: The World Bank."

All queries on rights and licenses, including subsidiary rights, should be addressed to World Bank Publications, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2625; e-mail: pubrights@worldbank.org

SEIZING THE MOMENT

HOW BOTSWANA CAN TURN CRISIS INTO OPPORTUNITY

BOTSWANA ECONOMIC UPDATE

FIRST EDITION

JULY 2026

FOREWORD

I am proud to present the first edition of the Botswana Economic Update— a new series dedicated to providing rigorous and timely analysis in support of policy debate and Botswana's development journey. The Economic Update is the World Bank's flagship annual country publication, assessing recent economic developments and the medium-term outlook while examining a key issue on the country's development agenda in depth.

This inaugural edition is timely. After decades of remarkable progress built on diamond revenues and an active state, the economy now faces its most significant test in a generation. Two consecutive years of economic contraction and mounting fiscal pressures are not merely cyclical setbacks— they signal that the foundations of the country's growth model require renewal. The Government of Botswana has already responded with a decisive shift in direction through the Botswana Economic Transformation Programme, pursuing a dual ambition: a leaner, more efficient public sector alongside a more dynamic private sector capable of driving sustainable and inclusive growth and job creation.

The first part of this report reviews recent economic developments and discusses the medium-term outlook for Botswana in an uncertain global environment. It then proposes four complementary pathways to re-engineering the country's inclusive growth: sound and sustainable fiscal management; a competitive and innovative private sector; prudent stewardship of natural capital alongside climate resilience; and investment in human capital. Together, these pathways provide a coherent platform to support a necessary economic transformation.

The focus section turns to skills for jobs — and for good reasons. International experience is unambiguous: economies that have successfully diversified and sustained resilient and inclusive growth have done so by investing in the skills of their people. Botswana has invested substantial public resources in education yet returns — measured by learning outcomes and labor market relevance — have fallen short of what one would aspire from those investments. This update diagnoses the underlying challenges and proposes concrete, practical reforms, many of which can begin to yield results in the near term.

The path forward calls for open and constructive dialogue among government, the private sector, academia, civil society, and international partners about what is working, what is not, and what must change. I hope this first edition of the Botswana Economic Update series helps catalyze that dialogue and supports Botswana in charting a new economic model that delivers faster and more inclusive growth.

Satu Kahkonen
Division Director for Botswana, Eswatini, Lesotho, Namibia, and South Africa

ACKNOWLEDGMENTS

This Economic Update was led by Irineu Evangelista De Carvalho Filho and Tshepho Babatshi-Gasha under the guidance of Jacques Morisset (Lead Economist) and Valentina Martinez Pabon (Economist) on Part 1. The team also benefited from the invaluable administrative support of Matingou Emeline Umeh (Program Assistant). The main authors of Part 2 were Elizabeth Ninan Dulvy (Lead Education Specialist) and Jutta Franz (Lead Skills Development Consultant), with support from Simon Cresswell (Data Scientist). Thank you to Pedro Cerdan-Infantes (Lead Economist) and Jean-Pascal Nguessa Nganou (Lead Economist) who reviewed the report as part of the World Bank internal process.

Lucy Davis provided editorial and design support. Images included on the cover were created by Bashi Kikia, THP Creative and DC Studio and licensed through Shutterstock.com.

The report was prepared under the overall guidance and supervision of Satu Kahkonen (Country Director), Hassan Zaman (Regional Practice Director for Equitable Growth, Finance, and Institutions), Rafael Muñoz Moreno (Practice Manager) and Meskerem Mulatu (Practice Manager for Education). This report also benefited from comments by Miguel Angel Saldarriaga Noel (Senior Economist), Omowunmi Ladipo (Practice Manager), Liang Wang (Resident Representative), and from valuable feedback provided by the Government.

For questions about this report please email **tbgasha@worldbank.org**

For information about the World Bank and its activities in Botswana, please visit:
https://www.worldbank.org/en/country/botswana

TABLE OF CONTENTS

FIGURES, TABLES AND BOXES v

ABBREVIATIONS AND ACRONYMS vi

EXECUTIVE SUMMARY vii

Part 1: The state of the economy vii

A crisis that is different from the past vii

Recent developments: Weak growth, strained buffers viii

Outlook and risks viii

A policy agenda for an inclusive future ix

Part 2: Skills for jobs: Supporting inclusive growth for economic diversification in Botswana x

The core challenge: Jobs and skills mismatch x

Four structural weaknesses x

Policy priorities: From diagnosis to delivery xi

PART 1: THE STATE OF THE ECONOMY 1

Introduction 1

Should Botswana rethink its economic model? 1

Seizing the moment 2

1.1 Recent developments 3

1.1.1. Botswana had its first political transition after 60 years 3

1.1.2. GDP growth continued to be weak in 2025 3

1.1.3. Poverty in Botswana is too high for an upper-middle-income country 4

1.1.4. Inflation has increased on cost-push pressures; monetary policy has been recalibrated 5

1.1.5. External sector developments shaped by diamond market conditions and the global fuel crisis 6

1.1.6. Growing financial sector risks 7

1.1.7. Fiscal policy faces difficult challenges 8

1.2 Economic outlook and risks 10

1.2.1. A modest recovery is expected for 2026 10

1.2.2. Risks to the outlook are significant and tilted to the downside 12

1.2.2.1. External shocks and financing constraints 12

1.2.2.2. Policy trade-offs and shock management 12

1.2.2.3. Diamond sector risks 12

1.2.2.4. Domestic policy and implementation risks 12

1.3 A policy agenda for an inclusive, prosperous future 13

1.3.1. Four policy pathways for an inclusive future 15

1.3.1.1. Pathway 1: Restore fiscal stability through a more efficient state 15

1.3.1.2. Pathway 2: Promote a dynamic private sector to create jobs and diversify the economy 16

1.3.1.3. Pathway 3: Invest in people and ensure services deliver results 17

1.3.1.4. Pathway 4: Harness natural capital for sustainable growth 18

1.4 From economy-wide priorities to jobs and skills 18

PART 2: SKILLS FOR JOBS: SUPPORTING INCLUSIVE GROWTH FOR ECONOMIC DIVERSIFICATION IN BOTSWANA 21

2.1 Skills development pathways have favored university education 23

2.1.1. University graduation has been the focus, with little attention and resources given to TVET 23

2.1.2. Youth employment programs do not yet provide a clear alternative pathway 26

2.2 Limited integration between industry and training providers 27

2.2.1 Weak governance architecture for employer engagement 27

2.2.2. Limited employer involvement in training delivery and work-based learning 27

2.2.3. Private providers are not operating on a level playing field 28

2.2.4. Limited institutional autonomy constrains system responsiveness 28

2.3 Public spending is high but reinforces rather than corrects system weaknesses 29

2.4 Limited focus on results and value for money 32

2.5 Policy priorities for strengthening skills development and employment outcomes in Botswana 33

2.5.1. Priority 1: Build sector skills and jobs compacts to make TVET and non-university pathways viable 36

2.5.2. Priority 2: As part of the compacts, scale apprenticeships and industry training for new labor market entrants through the HRDF 38

2.5.3. Priority 3: Grant greater autonomy to TVET institutions, balanced by stronger monitoring and reporting 39

2.5.4. Priority 4: Make per-student spending model shift explicit, outcomes-linked and pro-poor 40

CONCLUSION: FROM POLICY FRAMEWORKS TO IMPLEMENTATION 44

FIGURES, TABLES AND BOXES

List of figures

Figure 1. Economic activity has long been volatile in Botswana 4
Figure 2. Weaknesses in mining have gradually spilled over to the non-mining sector 4
Figure 3. The urban-rural poverty gap widened between 2009 and 2016 5
Figure 4. Botswana has a low employment ratio, similarly to its regional peers 5
Figure 5. Inflation has breached the Bank of Botswana's target range 5
Figure 6. Non-traded goods and services kept inflation low in 2025 6
Figure 7. Bank of Botswana started tightening monetary policy in October 2025 6
Figure 8. Since the 2008 Global Financial Crisis, Botswana has no longer generated large external surpluses 7
Figure 9. Diamond exports have faded as a pillar of the economy, despite a recovery in 2025 7
Figure 10. Bank lending to the private sector remains limited and has failed to gain traction 7
Figure 11. Mining revenues do not go a long way to cover recurrent expenditure anymore 8
Figure 12. Fiscal deficits have become the norm in the past decade 8
Figure 13. Average yields are on the rise, while maturities are shorter 9
Figure 14. … as reflected in the interest service costs of public debt 9
Figure 15. Five different paths for the primary deficit… 14
Figure 16. … lead to divergent paths for the public debt 14
Figure 17. Botswana's productivity loss relative to successful countries 15
Figure 18. Botswana's HCI is low relative to its spending on education and health 19
Figure 19. Number of graduates 2024 by qualification level 24
Figure 20. Tertiary enrollment by field of education, 2024 25
Figure 21. Key results of tracer study of 2018 TVET graduates 26
Figure 22. Education spending by level 29
Figure 23. Socio-economic status quintile breakdown of 18–25-year-olds by university attendance, 2015/16 29
Figure 24. Student allowances and institutional grants: 2018/19 to 2024/25 30
Figure 25. Nominal change: 2018/19 to 2024/25 31

List of tables

Table 1. Selected economic indicators and baseline forecasts (Annual percent change unless indicated otherwise) 10
Table 2. Overview of higher education and TVET training provision, 2023 24
Table 3. A reform architecture for skills, jobs and inclusive growth 35
Table 4. International experience with sector-based skills partnerships 37

List of boxes

Box 1. Managing the spillovers from the Middle East Conflict in Botswana 13
Box 2. The importance of human capital for development 18
Box 3. The Construction Industry Trust Fund (CITF): A sector-based financing model 28

ABBREVIATIONS AND ACRONYMS

ADEA	Association for the Development of Education in Africa
BETP	Botswana Economic Transformation Programme
BIUST	Botswana International University of Science and Technology
BGCSE	Botswana General Certificate of Secondary Education
BoB	Bank of Botswana
BOTEPCO	Botswana Teaching Professionals Council
BPC	Botswana Power Corporation
BPOPF	Botswana Public Officers Pension Fund
BQA	Botswana Qualifications Authority
BUAN	Botswana University of Agriculture and Natural Resources
BWP	Botswana Pula
CITF	Construction Industry Trust Fund
ETSSP	Education and Training Sector Strategic Plan
FX	Foreign Exchange
GDP	Gross Domestic Product
GIA	Government Investment Account
HCI	Human Capital Index
HRDC	Human Resource Development Council
HRDF	Human Resource Development Fund
ICT	Information and Communication Technology
ILOSTAT	International Labour Organization Statistics
MLGTA	Ministry of Local Government and Traditional Affairs
MPM	Multidimensional Poverty Measure
MTHS	Multi-Topic Household Survey
NDP12	National Development Plan 12
NEET	Not in Employment, Education, or Training
OSET	Out-of-School Education and Training
PPP	Purchasing Power Parity
PSET	Post-School Education and Training
PYEC	Presidential Youth Empowerment Campaign
RPL	Recognition of Prior Learning
SACU	Southern African Customs Union
SDR	Special Drawing Rights
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
STEAM	Science, Technology, Engineering, Arts and Mathematics
TIMSS	Trends in International Mathematics and Science Study
TVET	Technical and Vocational Education and Training
VAT	Value Added Tax
VTC	Vocational Training Center
YDF	Youth Development Fund

EXECUTIVE SUMMARY

Botswana's economy is facing some of its most difficult challenges in decades. The economy contracted by 2.8 percent in 2024 and a further 0.7 percent in 2025, driven by a sharp downturn in the diamond sector, which undermined the country's fiscal stability. The challenge is unlikely to be temporary as the downward trend in the country's diamond exports has been evident over the past 15 years due to structural changes in global production, with Botswana's share in global exports declining from about 40 percent to 20 percent over the past three decades. More fundamentally, the current fiscal crisis reflects a prolonged weakening of fiscal discipline, evidenced by repeated fiscal deficits and rising debt, compounded by limited progress in diversification, rather than a short-term shock. This crisis is further exacerbated by the small size of the economy and its heavy reliance on a single commodity, making it highly vulnerable to external shocks, including the conflict in the Middle East, which weighs on global growth prospects, fuel prices, and confidence.

This Economic Update argues that Botswana needs to shift its economic model. While this message has been repeated many times in the past, including across multiple government strategies, the urgency of such a shift is now greater than ever. Indeed, the government has largely exhausted its fiscal buffers after years of underperforming diamond exports and fiscal policy inertia that have led to a rapid increase in public debt, rising from about 22 percent of GDP in 2023 to nearly 40 percent in 2025. If not corrected, this recent increase will lead to an unsustainable debt trajectory, a concern already reflected in the significant rise in domestic interest rates in recent months. Beyond fiscal adjustment, the country also needs to diversify its export base, which remains heavily concentrated in diamonds, accounting for approximately 80 percent of total exports. This will require unleashing the potential of the private sector through the implementation of reforms to improve the business environment and facilitate better access to infrastructure and financial services, especially for new and small businesses. Moreover, private sector development and diversification ultimately depend on the availability of workers with the right skills. A key priority of the reform agenda will be to strengthen human capital, which is currently too low in Botswana compared to other upper-middle-income countries, and to align skills development more closely with labor market needs.

The Update is structured in two parts. Part 1 reviews recent economic developments, the economic outlook, and key macroeconomic risks, and outlines a policy agenda for inclusive and diversified growth. Part 2 focuses on skills for jobs, diagnosing Botswana's skills and employability system, and proposing practical reforms to support diversification and job creation.

Part 1: The state of the economy

A crisis that is different from the past

Botswana has faced diamond downturns before, but the current episode is fundamentally different. Earlier slumps, such as during the global financial crisis and again in the mid-2010s, were largely cyclical and absorbed by substantial fiscal savings accumulated during boom years. Today, diamond revenues appear structurally weaker, reflecting intensified global competition, changing consumer preferences, and the rapid growth of lab-grown diamonds. The slow but irreversible decline in diamond revenues has led to the exhaustion of its fiscal buffers, with the Government Investment Account (GIA) holding only enough to cover about two weeks of government spending at the end of 2025, compared with more than three months in 2019. Mining revenues that once covered more than two years of government wages now cover only about four months. Fiscal deficits have widened in recent years, and unlike in the past, the government can no longer offset temporary declines in diamond revenues through drawdowns of fiscal buffers, limiting its ability to conduct countercyclical fiscal policy. Public debt surged from 22 percent of GDP to nearly 40 percent of GDP between 2023 and 2025, prompting an increase in the statutory debt ceiling from 40 percent of GDP to 60 percent of GDP in early 2026.

The latest slump in the diamond market has aggravated Botswana's economic and fiscal challenges. However, these challenges are not new; rather, they reflect a slow but persistent deterioration in the country's economic, financial, and social indicators over time. GDP growth has been slowing down over the past two decades, from an average of over 6 percent in the 1990s to 2.3 percent during 2015–24, and a contraction in the last two years. While the country achieved a substantial reduction in poverty rates in the 1990s and early 2000s, poverty reduction has stalled since around 2009. Inequality remains among the highest in the world, and the unemployment rate has consistently remained above 20 percent. These trends point to structural constraints beyond the current diamond shock and underscore the need to shift the country's economic model away from single-commodity dependence toward a more diversified, private sector-led, job-creating economy.

Recent developments: Weak growth, strained buffers

In 2025, economic activity contracted for a second consecutive year, driven by a sharp 14 percent decline in mining output. Diamond production and trading fell steeply as global demand remained subdued while inventories of unsold diamonds were high. Outside mining, the economy continued to grow modestly, but not sufficiently to offset the mining slump. Construction contracted, reflecting the under-execution of public investment, and disruptions at major power plants sharply reduced electricity generation.

Weak domestic demand helped contain inflation. Inflation averaged 2.7 percent in 2025 and remained within the Bank of Botswana's (BoB) target range of 3 to 6 percent, supported by subdued inflation in non-traded goods and services. Monetary policy was accommodative through most of 2024/25 before the central bank began tightening in October 2025, as exchange rate depreciation and increases in domestic fuel and water tariffs raised inflation risks. The financial system remains sound and well capitalized at the end of 2025. However, credit growth to households and firms has remained modest, at about 6 percent, while credit depth—at 33 percent of GDP—remains low by international standards, constraining investment and economic recovery.

Botswana's external position strengthened in 2025, supported by a pickup in net diamond exports and fresh inflows of foreign financing. The current account moved from a deficit of 4.3 percent of GDP in 2024 to a surplus of 3.6 percent of GDP in 2025, and international reserves increased from US$3.4 billion to US$4.2 billion between 2024 and 2025. At the same time, the Pula depreciated modestly against key currencies, reflecting a faster rate of crawl and greater exchange-rate flexibility introduced by the BoB.

Fiscal policy has come under severe strain in FY2024/25 and FY2025/26. After a broadly balanced budget in FY2021/22–FY2022/23, disappointing revenues, particularly from diamonds, and rising expenditure pressures pushed the fiscal deficit to an average of about 7 percent of GDP over the past two fiscal years. Diamond revenues fell sharply relative to both historical norms and budget projections, while expenditure rose by nearly 4 percent of GDP. Long-standing rigidities, including a large public wage bill, continued transfers to loss-making State-Owned Enterprises (SOEs), and inefficiencies in public procurement and investment, amplified the deterioration of fiscal balances. To finance these deficits, the government turned increasingly to borrowing, with public debt rising rapidly, and straining domestic debt markets. Borrowing costs have increased sharply, maturities have shortened, and interest payments are consuming a growing share of public resources, reaching 1.5 percent of GDP in FY2025/26, compared to only 0.6 percent of GDP in FY2022/23.

Outlook and risks

A modest recovery is expected in the next 2–3 years, led by a recovery in diamond production from historically low levels. Growth is projected to rebound to about 3.2 percent in 2026, supported by a significant rebound in diamond production, even if levels remain significantly lower than in the past decade. Momentum in the non-mining economy is likely to remain subdued, constrained by the required fiscal adjustment and weak private investment in a still challenging business environment. Over the medium-term, growth could average around 3 percent, reflecting gradual improvements in the policy environment and the maturing of investment in renewable energy and base-metal mining that will contribute to boosting economic activity. However, growth at this pace would be insufficient to significantly reduce poverty or unemployment.

Inflation risks are tilted to the upside, driven by higher fuel and transport costs, before easing back toward the target range in 2027 as demand remains weak. The external position is expected to deteriorate in 2026, reflecting higher fuel import costs linked to geopolitical tensions, before improving gradually as diamond production recovers and renewable energy investments reduce electricity imports.

The fiscal outlook remains challenging. The deficit is expected to remain large in FY2026/27, reflecting an expansionary budget that combines higher development spending with significant one-off expenditures. Financing constraints have become a binding risk: limited domestic market depth and rising borrowing costs mean that budget execution will increasingly depend on access to affordable external financing. In the absence of such financing, liquidity constraints may lead to the under-execution of expenditure, an outcome already observed in the recent past.

Risks to the outlook are significant and tilted to the downside. Botswana remains highly exposed to global commodity and geopolitical shocks, particularly risks to oil prices and the diamond market. A weaker-than-expected recovery in global diamond demand or further loss of market share would weigh heavily on growth, exports, and fiscal revenues. At the same time, limited fiscal financing space amplifies vulnerability to shocks: delays or slippages in fiscal adjustment, or policy responses that shift external cost pressures onto the budget, could worsen debt dynamics and force disruptive expenditure compression during budget execution. Together, these risks raise the costs of policy errors and underscore the importance of timely, credible adjustment and disciplined shock management.

A policy agenda for an inclusive future

Looking ahead, Botswana faces two alternative paths to address its structural challenges and place its economy on a more fiscally stable and efficient footing, while reversing the productivity decline observed over the past decade.

The first option is to maintain the status quo, with only marginal adjustments and continued reliance on diamonds as the main export. This path carries significant risks. In a volatile environment, sustaining fiscal and debt stability would be increasingly difficult, as shocks would widen deficits and raise borrowing pressures. It also offers limited prospects for improving productivity and job creation, which have been weak over the past decade. Continued dependence on one single commodity leaves growth exposed to external fluctuations, while generating limited employment gains and only modest reductions in poverty, as illustrated by the country's recent experience.

The second option is to engineer a shift in the economic model to reduce the state's footprint in the economy while promoting private sector development through diversification. Such a shift has been advocated in the past and is now at the center of the Botswana Economic Transformation Programme (BETP) adopted in 2025. This Economic Update identifies four mutually reinforcing policy pathways that could support this Plan and place Botswana on a more prosperous, inclusive, and resilient development trajectory:

1. **Restore fiscal stability through a more efficient state by** (1) achieving fiscal savings through stronger domestic revenue mobilization and containment of the wage bill; (2) reallocating public expenditures toward government priorities; and (3) improving spending efficiency gains through improved procurement and public investment management, while reducing the state's economic footprint through divestment and a clearer oversight of SOEs.

2. **Promote a dynamic private sector by** (1) improving the business environment through simplifying regulations, reducing barriers to entry, opening state-dominated markets, improving access to finance, and enhancing physical and digital connectivity to regional and global markets; (2) leveraging the country's competitive advantages in mineral and agricultural endowments; (3) developing targeted segments in business and personal services.

3. **Invest in people and ensure services deliver results,** with a sharper focus on outcomes and value for money in education, health, and social protection.

4. **Harness natural capital for sustainable growth,** by improving water security, scaling renewable energy, especially solar, and strengthening climate-smart rural livelihoods.

While each pathway is important, the second part of this Update will focus on the third pathway, and the relevance of adequate skills for improving human capital.

Part 2: Skills for jobs: Supporting inclusive growth for economic diversification in Botswana

The core challenge: Jobs and skills mismatch

Botswana invests heavily in education and skills development, but outcomes have lagged. Public spending on education averaged 8.1 percent of GDP between 2018 and 2023, well above the average for upper-middle-income countries (3.9 percent) and above regional peers such as South Africa (6.1 percent) and Mauritius (4.6 percent). The country has built a comprehensive post-school system spanning 80 institutions, including public and private universities, technical colleges, Vocational Training Centers (VTCs), and brigades, supported by governance bodies and levy-based financing mechanisms. Yet this investment has not translated into commensurate results. A child entering school can expect to complete 8.4 years of schooling, equivalent to only 5.3 years once adjusted for actual learning. The problem is one of relevance of skills acquired as much as attainment of numbers of years of schooling or education qualifications. Firms report persistent skills mismatches, with only about 65 percent of services firms finding a good match between available skills and their needs, and many firms train workers themselves to compensate. Graduate unemployment is high, and only 17 percent of Technical and Vocational Education and Training (TVET) graduates secure employment within a year of completing their training. The central challenge, therefore, is not the level of public spending or the reach of institutions, but how effectively existing resources are allocated and used to translate education and training into productive employment.

Four structural weaknesses

The underperformance of the education and training system reflects four structural weaknesses that together limit its ability to translate investment into employment outcomes:

- **An overconcentration on university pathways with limited credible alternatives.** A diversifying economy needs many more technicians, artisans, and skilled tradespeople than university-trained professionals and managers, and these mid-level skills can be produced faster and at lower cost. Botswana's post-school system is set up the other way around. Of Botswana's 80 formal post-school institutions in 2023, 40 are higher education institutions and 40 are TVET institutions, yet higher education enrolls 52,485 students compared to only 7,802 in TVET (87 percent versus 13 percent of total post-school enrollment). The tilt persists despite weakening returns to university itself. Unemployment among tertiary graduates reached 18.5 percent in 2022, the highest on record (even though it is better than the rest of the labor force), and per-student tertiary spending has fallen in real terms as the cohort has grown. Yet TVET is not in a good position to absorb the demand that university cannot. The public TVET sector comprises 40 formal TVET institutions of which, 32 are brigades, 4 are technical colleges, and 4 are VTCs, all under government management, with over 500 additional providers registered by the Botswana Qualifications Authority (BQA) but largely absent from official enrollment and outcome statistics. The TVET sector also operates at only 56 percent of capacity. Per-student public spending on TVET (BWP 148,700) exceeds that of higher education (BWP 91,300), but this reflects underutilization rather than higher spending. Quality gaps and weak labor market returns discourage student demand, which in turn discourages the investments that would make TVET more attractive. The consequences are felt most acutely by nearly half of young people who do not complete upper secondary education, and for whom formal post-school pathways remain largely inaccessible.
- **Limited employer engagement compounded by centralized control of TVET institutions.** Employer participation in skills governance, curriculum design, and work-based learning is weak and insufficiently institutionalized. Formal apprenticeship systems have largely lapsed, work attachments are not compulsory across all TVET programs, and available placements are scarce and concentrated in the public sector. The Human Resource Development Fund (HRDF), Botswana's levy-based skills financing instrument, primarily reimburses firms for training their existing employees rather than supporting workplace learning for new labor market entrants. At the same time, public TVET institutions cannot easily respond to employer demand, because they operate under highly centralized administrative and financial controls.

Decisions on budgeting, staffing, and program approval are managed centrally; institutions cannot independently introduce new programs, adapt curricula, or offer short courses without central authorization; civil service regulations restrict flexible teaching arrangements such as overtime or evening instruction; and revenues generated from commercial or production activities must be remitted to the central treasury rather than reinvested. This centralized governance structure, originally introduced to strengthen oversight, has had the unintended effect of constraining the responsiveness that effective TVET systems require.

- **A financing structure that reinforces rather than corrects inequalities.** Public financing is concentrated on students who have already succeeded academically, with merit-based scholarships disproportionately benefiting youth from higher-income households. More than 60 percent of university students come from the two highest income quintiles, while fewer than 20 percent come from the poorest two. The rules that govern sponsorship deepen the gap. Students who fail 50 percent or more of their modules can lose their funding, and poorer students, who are less able to self-finance repeats or interrupted studies, are the most likely to drop out as a result. Meanwhile, within a flat tertiary envelope of around BWP 4.8 billion per year, public funds have steadily shifted from institutional grants to student-side transfers since 2018/19. Student allowances have grown by 49 percent in nominal terms (from BWP 835 million to BWP 1.24 billion), while institutional grants to the University of Botswana and other public institutions have fallen by 9 to 16 percent in nominal terms (25 to 30 percent in real terms). Botswana is therefore moving toward a per-student "funding-follows-the-learner" model in practice, but without explicit policy direction, performance criteria, or rebalancing toward institutions that serve disadvantaged youth.
- **An input-driven system with limited focus on results.** Botswana measures what it spends and who enrolls, but not what its skills system actually delivers. Monitoring employment, earnings, and productivity outcomes is fragmented across multiple ministries and agencies. The Human Resource Development Council (HRDC) maintains management information for the formal Post-School Education and Training (PSET) sector, but the more than 500 private TVET providers and the multiple youth employment programs operating across ministries fall largely outside this reporting framework. Tracer studies are intermittent, not institutionalized, and not linked to funding decisions. As a result, there is no consolidated picture of total enrollment and completion across all skills programs, no systematic comparison of unit costs across pathways, and no reliable evidence on employment or earnings outcomes for the majority of providers. Without such data, it is difficult to assess which programs deliver value for money, to inform student choices, or to link financing to performance. This information gap is not a peripheral concern but a cross-cutting constraint, since the financing, autonomy, and the following accountability reforms all depend on evidence that the system does not yet collect.

Policy priorities: From diagnosis to delivery

The policy groundwork for reforming Botswana's skills system is largely in place, but implementation has lagged. Rather than waiting for system-wide change, the report sets out a practical agenda built around four priorities, anchored in employer-led sector compacts that can catalyze reform in partnership with the private sector and concentrated on the pathways most central to a diversifying economy such as TVET, and youth employment programs. University strengthening remains important, but the priority there is quality and labor market relevance rather than further expansion:

- **Establish employer-led sector skills and jobs compacts in two to four priority sectors aligned with the BETP.** Rather than waiting for system-level reform, the compacts serve as a practical platform for change, bringing employers, government, training providers, and youth-employment programs together to shape skills development by sector. They would not create new agencies. They would function as implementation platforms that map workforce demand across all skill levels, coordinate training provision across universities, public and private TVET institutions, and youth employment programs, mobilize workplace learning opportunities, and open pathways for youth who exit the education system early, including through Botswana's newly introduced Recognition of Prior Learning (RPL) framework.

- **Expand workplace learning for new labor market entrants** by reorienting HRDF resources toward structured apprenticeships, internships, and industrial attachments anchored in the sector compacts. This requires broadening reimbursement eligibility beyond formal apprenticeships, simplifying procedures for Small and Medium Enterprises (SMEs), earmarking a share of levy income for unemployed youth, and using HRDF resources to co-finance trainee allowances, mentorship, and certification.
- **Grant greater autonomy to TVET institutions, balanced by stronger monitoring.** Institutions need the ability to adapt programs to sector demand, manage instructors with greater flexibility, retain and reinvest revenues from partnerships, and track graduate employment outcomes. Autonomy should be introduced gradually and conditional on readiness criteria, including capable leadership, sound financial management, and reliable data systems. Institutionalized graduate tracer studies should accompany expanded flexibility.
- **Make the per-student financing model that has emerged in practice explicit, outcomes-linked, and pro-poor.** The 2025 reform extending student support to lower-level TVET creates a natural opportunity to review this framework across the post-school system, with clear rules, needs-based criteria informed by the Social Registry, and an explicit fiscal envelope for the TVET allowance reform. A per-student model only works, however, when students can compare programs based on credible evidence about quality and labor market outcomes; institutionalizing annual graduate tracer studies with program-level results published on a public platform is therefore a precondition both for informed student choice and for gradually linking institutional funding to outcomes. Extending the framework consistently across public and private providers would also address current financing asymmetries without increasing total public spending.

Botswana's crisis has narrowed the margin for error, but it has also clarified priorities. Stabilizing public finances and restoring economic growth will require difficult choices. Yet durable diversification and inclusive growth ultimately depend on the country's ability to create productive jobs and equip Batswana with skills that match the needs of a changing economy. By acting decisively on fiscal reform, private sector development, and an outcomes-orientated skills system, Botswana can turn today's crisis into an opportunity to renew its development model and lay the foundations for a more resilient and inclusive future.

PART 1: THE STATE OF THE ECONOMY

Introduction

The past two years have been unkind to Botswana's economy. Growth has slowed, fiscal space has tightened, and confidence has weakened as conditions in the diamond market have deteriorated. For a country long regarded as a careful manager of its natural resources, the downturn has been a sobering reminder that much of Botswana's prosperity remains closely tied to diamonds.

Botswana has experienced diamond slumps before. When global demand collapsed during the financial crisis in the late 2000s, the economy shrank sharply. Another downturn followed in the mid-2010s, when weaker diamond sales again slowed growth and put pressure on the budget. In both cases, the impact was painful but manageable. Strong external positions and sizable fiscal buffers built up during years of high diamond revenues allowed the government to smooth the impact, protect priority spending, and avoid abrupt fiscal tightening.

The current episode is more challenging, for two interrelated reasons:

1. **The shock from the global diamond market appears increasingly structural rather than cyclical.** Previous downturns were driven by temporary collapses in demand, followed by recoveries as global conditions improved. Today, the diamond industry itself is undergoing a deeper transformation. Competition has intensified, consumer preferences are shifting, and the growing presence of alternative suppliers and lab-grown stones has eroded Botswana's market position. As a result, Botswana's share of the global diamond market has declined from around 40 percent a decade ago to closer to 20 percent today. Even if global demand for diamonds recovers, these shifts suggest that a return to earlier levels of diamond revenues is far from assured.

2. **Botswana is entering this downturn with much weaker fiscal buffers than in the past.** Successive deficits since 2019 have steadily eroded longstanding savings, with holdings in the Pula Fund and the Government Investment Account (GIA) declining markedly, and for the first time in decades, Botswana's public debt exceeded the Pula Fund holdings in 2022. Liquid fiscal buffers that once covered, on average, more than six months of government expenditure during the 2010s now cover about 2 weeks of spending. As a result, the scope to smooth shocks through asset drawdowns is largely exhausted.

Taken together, a more persistent shock to diamond revenues now meets a fiscal position far less able to absorb it. This fundamentally alters Botswana's adjustment challenge. With limited room to defer difficult choices or rely on a rapid rebound in diamond income, restoring macroeconomic stability and inclusive growth will depend increasingly on timely, credible, and well sequenced policy action.

Should Botswana rethink its economic model?

The current crisis has highlighted a deeper question that Botswana has been grappling with for more than a decade: why has growth weakened so persistently, and what can be done to restore it and make it more inclusive? The slowdown did not begin with the latest slump in diamond prices. Trend growth has been drifting lower for decades, from rates above 6 percent in the 1990s to closer to 2.5 percent in the past decade, only slightly above the population growth of 1.6 percent and not enough to absorb new entrants in the labor force.

Even more concerning, Botswana's long and commendable decline in poverty stalled around 2009. About one-third of the population still lives below the national poverty line—high for a country at Botswana's income level. Inequality remains among the highest in the world, social mobility has weakened, and the middle class has grown only modestly, compared with both advanced and regional peers. For many households, climbing the income ladder has become increasingly difficult.

These outcomes point to challenges that extend beyond cyclical shocks linked to diamonds and suggest deeper structural constraints that have gradually weakened the growth model.

- **First, economic growth has failed to create jobs and the country's unemployment rate remains one of the highest in the world.**[1] Evidence from across countries shows that employment is the main channel for reducing poverty and inequality.[2] In Botswana, access to productive jobs remains limited, particularly for youth aged 15–35, more than 40 percent of whom are not in employment, education, or training (NEET). This challenge is not only economic; it also carries significant social and political risks.
- **Second, institutions and governance have shown signs of strain.** While Botswana continues to outperform much of Sub-Saharan Africa, measures of governance effectiveness and perception of corruption have weakened over the past decade.[3] Today, according to the World Bank's Governance Indicators, local institutions are weaker than in most other upper-middle-income countries, while they were stronger in the late 2000s. These weaknesses adversely affect service delivery, reduce responsiveness to shocks, lengthen implementation timelines, and raise the risk of policy slippage.
- **Third, the economy appears to be experiencing declining returns to past development strategies.** Approaches that once delivered strong gains, large public investment, state-led development, and incremental diversification initiatives, have yielded smaller payoffs over time, making it harder to sustain productivity growth and job creation outside the public sector.
- **Finally, the economy has failed to diversify.** Despite years of strategy documents and industrial policies, diamonds continue to dominate exports, revenues, and foreign exchange earnings, with copper mining and tourism the only other significant tradable sectors. Manufacturing has failed to gain traction, and the service sector remains largely inward-looking.

Together, these patterns mirror the experience of many upper-middle-income countries that have struggled to shift toward more diversified, productivity-driven growth. In many cases, the challenge has been to move up the manufacturing value chain. For Botswana, it is to reduce dependence on natural resources, much as several oil-dependent economies have had to do in recent decades. These constraints are further intensified by the country's small domestic market, landlocked geography, and exposure to climate risks. The message is clear: restoring durable and inclusive growth will require more than a cyclical recovery or a rebound in diamond prices.

Seizing the moment

Botswana's reform agenda to address its structural challenges has been well articulated in government strategies and reinforced by assessments from development partners, including the World Bank. The main obstacle has been implementation, as the benefits of maintaining the status quo have long been perceived by policymakers to outweigh the political and institutional costs of change.

The depth of the current crisis has likely altered the policy trade-offs, even if implementing reforms remains difficult. The costs of inaction have risen sharply: delaying adjustment would entrench low growth, persistent inequality, and recurrent fiscal stress. With weaker buffers and tighter financing conditions, the government can no longer sustain spending above its means—fiscal adjustment is increasingly unavoidable. At the same time, the payoff from reform has increased as it will reinforce macroeconomic stability and increase the value for money of public spending, leading to better social

[1] The most recent Quarterly Multi-Topic Survey with a labor force module refers to Q1 2024, when the unemployment rate was 27.6 percent. Preliminary results from the Botswana Multi-Topic Household Survey (MTHS) 2024/25 indicate an unemployment rate of 21 percent, referring to data collected from November 2024 to November 2025.
[2] https://www.worldbank.org/en/news/immersive-story/2025/04/17/jobs-the-surest-way-to-fight-poverty
[3] World Bank. 2024. *Botswana - Country Economic Memorandum: In Search of New Drivers of Inclusive Growth.* © World Bank.

and infrastructure outcomes. Beyond adjustment, a stronger contribution from the private sector will be needed to offset the structural decline in diamond revenues and generate new sources of jobs, exports, and productivity. This points to a greater role for competition and openness to facilitate the entry and expansion of more dynamic firms, even if it can affect the dominant position of incumbent firms.

Looking ahead, the authorities have a unique opportunity to turn the current crisis into a catalyst for reform. Drawing on government and World Bank diagnostics, Part 1 outlines a way forward built around four mutually reinforcing pathways.

1.1 Recent developments

The section reviews recent developments, focusing on the scale and nature of the current downturn, its domestic and external determinants, and providing the factual backdrop against which policy choices must now be assessed.

1.1.1. Botswana had its first political transition after 60 years

Botswana has undergone an unprecedented political transition marked by a peaceful transfer of power and a clear electoral mandate for change. This transition reflects rising citizen expectations for economic inclusion and accountability and represents a crowning achievement of Botswana's mature democracy. The change in administration has occurred within the context of strong and resilient institutions, an independent electoral system, a professional civil service, and a stable constitutional order, which have ensured continuity of governance and policy credibility. At the same time, the new administration faces complex realities: diminished fiscal buffers, heightened macro-fiscal pressures, and growing demands for delivery and reform. The emerging political landscape is therefore characterized by the imperative of balancing the need for fiscal discipline with calls for redefining the state's role in enabling job creation and inclusive growth led by the private sector.

1.1.2. GDP growth continued to be weak in 2025

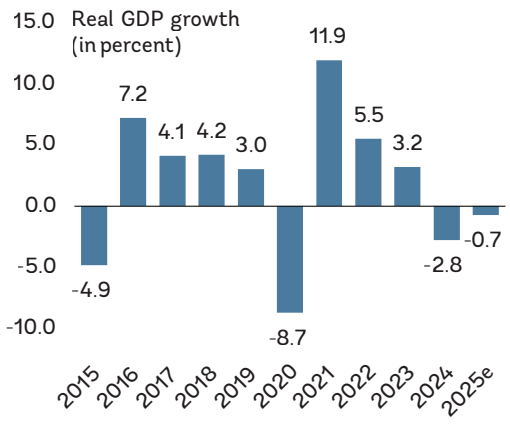
In 2025, for the second year in a row, Botswana recorded an economic contraction. GDP contracted by 0.7 percent, following 2.8 percent the year before. While large fluctuations in economic activity are not new to Botswana (**figure 1**), a two-year economic contraction is unprecedented.

Botswana's economic contraction is not broad-based but concentrated in the mining sector. Diamond production and trading fell sharply as global demand stayed weak, inventories of unsold diamonds remained high, and tighter conditions in key markets, including higher U.S. import tariffs and reduced new orders. In response to these demand shocks, mining output contracted substantially, declining by 23.9 percent in 2024 and a further 14.0 percent in 2025.

Outside mining, the economy in Botswana continued to expand, albeit at a slower pace, as several key sectors lost momentum (**figure 2**). Overall growth outside mining slowed down to 2 percent in 2025, compared to 3.1 percent a year earlier. This was insufficient to offset the mining sector's negative contribution. Most sectors reported only modest gains, while two sectors experienced outright declines. Wholesale and retail trade, transport, Information and Communication Technology (ICT), and public services continued to expand, but at a slower pace than in 2024. Construction declined by 0.8 percent, largely reflecting under-execution of public development expenditure. Water and electricity output fell sharply by 16.6 percent, following technical shutdowns and maintenance at the Morupule A and B power stations, which disrupted electricity production and led to increased electricity imports from South Africa.

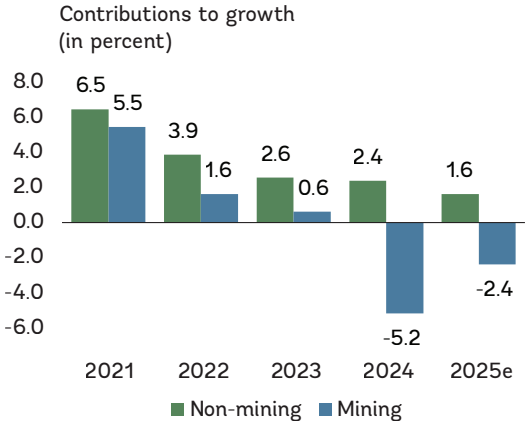
From the demand side, there was a deceleration of consumption growth and a contraction in investment. Consumption by families increased by 0.6 percent, down from 2.2 percent in 2024, reflecting slower job creation, weaker confidence, and some credit tightening. Investment growth was negative at -1.2 percent, compared to 4.9 percent in 2024, reflecting tighter domestic financing conditions, under-execution of development expenditure, as well as spillovers from the downturn in the diamond sector.

Figure 1. Economic activity has long been volatile in Botswana



Source: Statistics Botswana, World Bank

Figure 2. Weaknesses in mining have gradually spilled over to the non-mining sector



Source: Statistics Botswana, World Bank

1.1.3. Poverty in Botswana is too high for an upper-middle-income country

In recent years, progress in reducing poverty has slowed, largely because the economy has been weak.[4] Between 2009 and 2016, the share of people living below the national poverty line fell only slightly, from 19 percent to 16 percent. This was a much slower improvement than in the years before 2009, when poverty fell much faster. In effect, the gains made in the past decade have not been enough to significantly change living conditions for many households (**figure 3**).

A similarly concerning picture emerges when poverty is measured using international standards. About one in five people live on very low incomes by global definitions, and nearly two-thirds of the population live on incomes that are considered vulnerable for an upper-middle-income country. Even when some improvement is expected in the coming years, poverty levels remain higher than in most comparable countries.[5]

Poverty in Botswana is not only about income. Many families still lack reliable access to basic services. Access to proper sanitation remains a major problem, and many households still do not have electricity or adequate education. While access to electricity has improved over time, reaching about 76 percent of the population in 2025 up from 62.1 percent in 2015, progress in other basic services has been slow.[6]

Botswana is also one of the most unequal countries in the world. Income disparities are very large, indicating that the benefits of growth have not been shared widely. The latest available measure of inequality dates back to 2015, a Gini coefficient of 53.3. High inequality makes it harder for families to improve their lives and limits opportunities for children, especially in poorer households.[7]

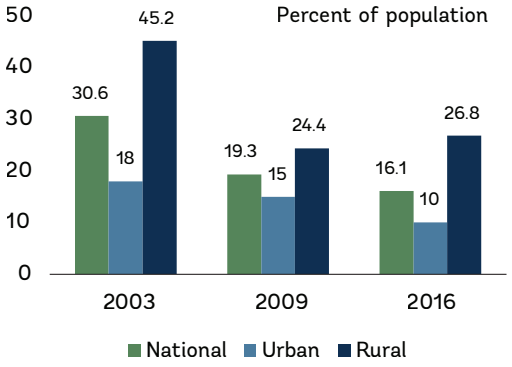
[4] As in many other SSA countries, the analysis of poverty and inequality in Botswana is constrained by limited household survey data. The 2015/16 Multi-Topic Household Survey (MTHS) remains the most recent nationally representative survey with detailed consumption and expenditure modules. Its poverty assessment is now outdated and provides an imperfect guide for policymakers in 2025—yet it is the only instrument available for analyzing distributional issues in Botswana.

[5] Using the international extreme poverty line (US$3.00 per day, 2021 PPP) and the upper-middle-income-country poverty line (US$8.30 per day, 2021 PPP), poverty stands at 21.4 percent and 63.2 percent, respectively.

[6] Botswana's Multidimensional Poverty Measure (MPM), which measures the share of households deprived of monetary poverty, education, and basic infrastructure services, stood at 25.6 percent in 2016. Among MPM indicators, access to sanitation has the highest deprivation rate at 52 percent, followed by access to electricity at 35.5 percent. Notably, access to electricity improved by nearly 20 percentage points since 2009, contributing to a significant drop in the overall MPM rate between 2009 and 2016.

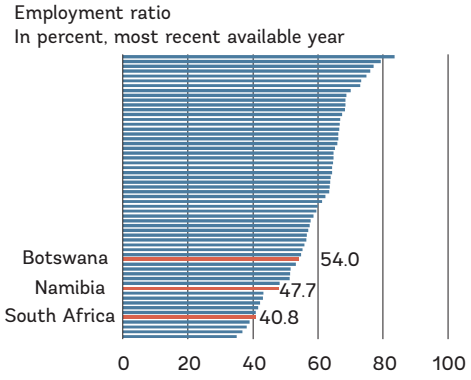
[7] Botswana had a Gini coefficient of 53.3 in 2015. Among its peers, only South Africa and Namibia exhibit greater income inequality.

Figure 3. The urban-rural poverty gap widened between 2009 and 2016



Source: World Bank (2024).
Note: Poverty incidence is measured using the national poverty line.

Figure 4. Botswana has a low employment ratio, similarly to its regional peers



Source: ILOSTAT
Note: This figure includes all upper-middle income and lower-middle income with populations above 1 million.

High poverty and inequality hold back the country's development. They limit people's ability to gain skills, reduce productivity, weaken household spending, and slow economic growth overall. Experience from other countries shows that it will be difficult for Botswana to achieve lasting growth and higher living standards unless poverty and inequality are reduced more decisively.

A central factor behind persistently high poverty is the shortage of jobs. Unemployment, especially among young people, is widespread. Many people work in informal jobs that are unstable and poorly paid, while the formal sector has not created enough new employment. Preliminary results from the 2024/25 Multi-Topic Household Survey (MTHS) indicate an unemployment rate of 21 percent, up from 17.6 percent in the 2015/16 MTHS, while the labor force participation stood at 65 percent. In addition, Botswana, much like other countries in Southern Africa, remains among the countries with the lowest employment ratios in the world (**figure 4**).

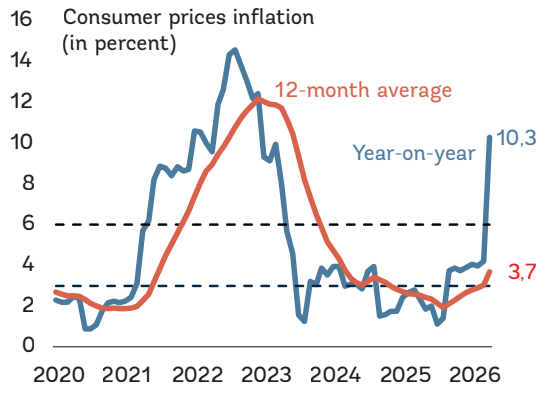
Without stronger job creation, especially stable, well-paid jobs in the formal economy, poverty will remain difficult to reduce, regardless of other policies. The government's strategic plans, National Development Plan 12 (NDP12) and Botswana Economic Transformation Programme (BETP) agree with this diagnostic and provide a roadmap for policy reforms to achieve more inclusive growth.

1.1.4. Inflation has increased on cost-push pressures; monetary policy has been recalibrated

Headline inflation rose sharply to 10.3 percent in April 2026, breaching the BoB's medium-term objective range of 3–6 percent, largely due to the pass-through of higher global oil prices (**figure 5**). This represents a marked acceleration from 4.2 percent year-on-year in March 2026 and from an average of 2.7 percent in 2025, when inflation remained subdued.

The recent surge in inflation reflects primarily cost-push pressures, notably higher fuel prices and transportation costs, rather than overheating domestic demand. By contrast, underlying inflationary pressures remain contained. Prices of non-traded goods and services, including housing, communication, recreation, and cultural services, have continued to grow slowly through 2025 and into early 2026 (**figure 6**). These components, which are more sensitive to domestic demand conditions, indicate that the economy remains operating below potential, limiting demand-driven inflation.

Figure 5. Inflation has breached the Bank of Botswana's target range

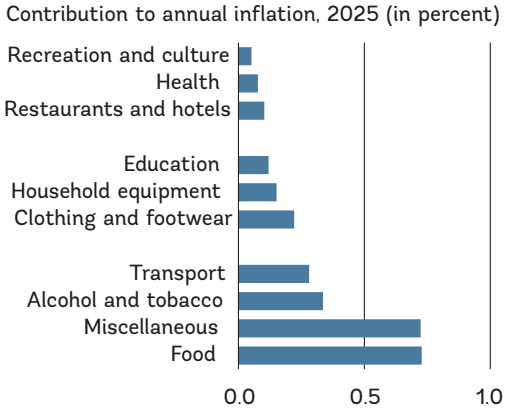


Source: Statistics Botswana; World Bank staff calculations

Against this backdrop, monetary policy has shifted from an accommodative stance toward a more restrictive posture, aimed at anchoring inflation expectations and reinforcing policy credibility. After keeping interest rates low through most of 2024 and 2025, the BoB raised the policy rate from 1.9 percent to 3.5 percent in October 2025, citing emerging cost-push pressures and the potential for second-round effects of domestic fuel and water tariff increases. This was followed by a further 200 basis point increase to 5.5 percent at the Monetary Policy Committee meeting on 30 April 2026 (**figure 7**). These policy rate adjustments also supported the parallel tightening of the exchange rate framework, reinforcing efforts to preserve external stability and enhance competitiveness.

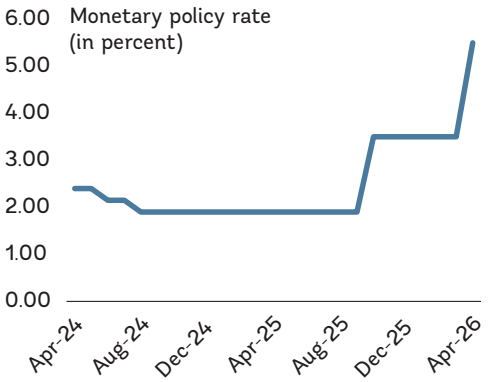
Overall, monetary policy now reflects a narrowing margin of comfort on inflation. At the same time, the stance recognizes that the economy remains operating below full capacity. Policy aims to contain inflation expectations and preserve credibility in the near term, while allowing inflation to return gradually toward the target range as temporary price pressures fade.

Figure 6. Non-traded goods and services kept inflation low in 2025



Source: Statistics Botswana; World Bank staff calculations

Figure 7. Bank of Botswana started tightening monetary policy in October 2025



Source: Bank of Botswana

1.1.5. External sector developments shaped by diamond market conditions and the global fuel crisis

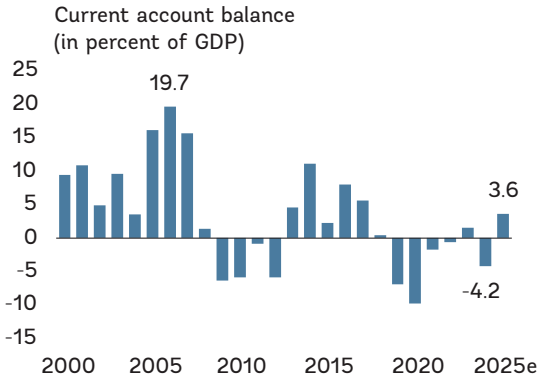
Botswana's external position strengthened in 2025, supported by a pickup in diamond exports and fresh inflows of foreign financing. As a result, foreign currency reserves increased from US$3.4 billion at end-2024 to US$4.2 billion. The current account moved from a deficit of 4.3 percent of GDP in 2024 to a surplus of 3.6 percent of GDP in 2025 (**figure 8**), driven by higher (net) diamond exports that rose sharply to US$3.3 billion in 2025, compared to US$1.9 billion in 2024. However, there are signs that part of this turnaround may be temporary, as some diamond exports were brought forward ahead of potential US trade measures and the temporary closure of the main production site for renovation. The decline in diamond imports also contributed to amplifying the positive impact on the trade balance, as local traders worked through elevated inventories.

Over the past decade, the country's external position has gradually deteriorated due to weakening global diamond market conditions. Diamond exports fell from approximately US$5 billion per year in the early 2010s to a low of US$1.9 billion in 2024, illustrating that the recent increase in 2025 remains well below historical values (**figure 9**). This downward trend reflects slower growth in major markets such as the United States and China, alongside rising competition from lab-grown diamonds.

To reduce external pressures stemming from the structural imbalance in the diamond market, exchange rate policy was modestly adjusted in July 2025, when the authorities increased the rate of crawl of the local currency against a basket of currencies from 1.51 percent to 2.76 percent per year. They also widened the daily trading band to give markets greater room to adjust and emphasized

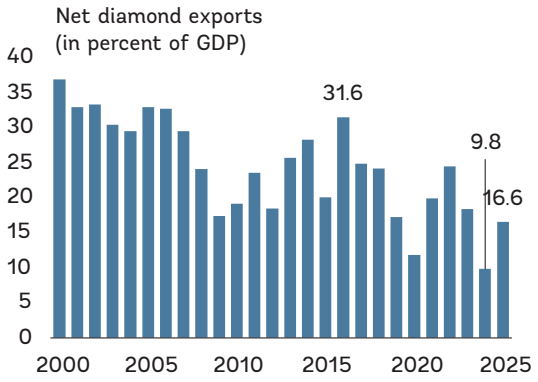
their readiness to intervene further to prevent excessive exchange rate volatility, in order to preserve broader macroeconomic and financial stability. These adjustments led to a depreciation of the Pula of approximately 2 percent against the South African rand and 1.2 percent against the Special Drawing Rights (SDR) basket between July and October 2025, while it appreciated by only 0.5 percent against the US dollar.

Figure 8. Since the 2008 Global Financial Crisis, Botswana has no longer generated large external surpluses



Source: World Development Indicators

Figure 9. Diamond exports have faded as a pillar of the economy, despite a recovery in 2025



Source: World Bank staff calculations and Bank of Botswana

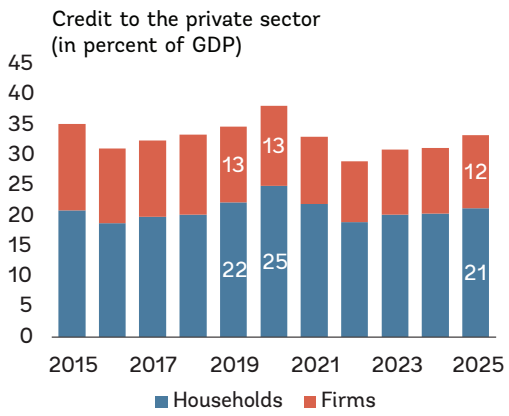
1.1.6. Growing financial sector risks

Over the past year, liquidity in Botswana's banking system tightened, beginning in late 2024 and intensifying in early 2025. An uneven distribution of liquidity across the banking system, worsened by large institutional depositors shifting part of their savings offshore, left some banks facing acute funding shortfalls. Competition for deposits intensified, pushing up interbank funding costs and, in turn, lending rates. For households and businesses, this translated into more expensive loans, including mortgages, car loans, and business credit. At the same time, increased sovereign borrowing absorbed a larger share of available domestic liquidity, further constraining credit to the private sector.

The BoB responded by easing liquidity conditions, including lowering certain requirements and facilitating access to central bank funding. These actions helped stabilize short-term funding markets and restore confidence. However, structural weaknesses, particularly banks' funding structures and persistent liquidity segmentation, mean that liquidity pressures could return if domestic or external conditions deteriorate.

Credit growth has remained modest despite the strength of the banking sector. Lending to the private sector has grown by around 6 percent, while household credit has expanded by only about 3 percent, reflecting subdued demand, tighter financial conditions, and increased risk aversion in a slowing economy (**figure 10**). Beyond cyclical factors, credit depth remains structurally low: bank credit to the private sector stands at about 33 percent of GDP, far below the upper-middle-income country average of roughly 123 percent. This shallow financial system continues to constrain investment and growth.

Figure 10. Bank lending to the private sector remains limited and has failed to gain traction



Source: World Bank staff calculations; Bank of Botswana

In short, while banks are stable and profitable, credit growth has been stagnant, especially for consumers. This has helped protect the financial system but has also limited the flow of credit to households and businesses at a time when economic activity remains subdued.

1.1.7. Fiscal policy faces difficult challenges

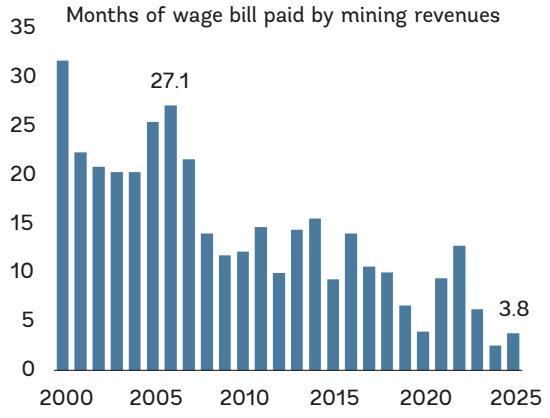
Significant under-execution of spending and a large dividend payment from the BoB helped reduce the fiscal deficit to about 5 percent of GDP, down from 9.2 percent of GDP in FY2025/26.[8]

On the expenditure side, total spending came in at 3.8 percent of GDP below the approved budget, making expenditure compression the primary driver of fiscal consolidation. A significant share of the adjustment occurred through under-execution of development expenditure, which fell short of budgeted levels by about 2 percent of GDP, reflecting tight financing conditions and implementation delays. This compression took place despite higher-than-budgeted transfers to the Botswana Power Corporation (BPC), driven by the elevated cost of importing electricity from South Africa. Additional savings, estimated at around 2 percent of GDP, were realized in goods and services, following the imposition of strict controls on recurrent spending, most notably through the centralization of government purchase orders and measures to limit overtime allowances and the travel budget of ministries.

On the revenue side, a notable shortfall in tax collections was offset by non-tax revenues. Total revenues fell short of budget targets by about 0.8 percent of GDP, reflecting combined underperformance in mineral revenues and non-mineral income taxes. The shortfall in tax revenues (1.9 percent of GDP) and mineral royalties and dividends (1.3 percent of GDP), was partially offset by a sizeable dividend transfer from the BoB equivalent to about 2.5 percent of GDP, which provided substantial one-off support to revenues.[9]

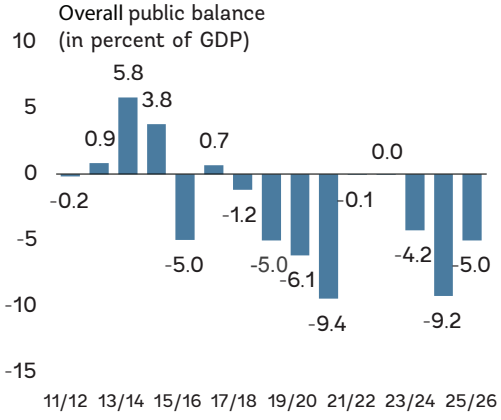
The respite provided by BoB dividends does not negate Botswana's structural fiscal imbalance. Diamond revenues, which once covered more than two years of government payroll, are now sufficient for only four months (**figure 11**). As a result, for the past decade, fiscal deficits have been the norm, with the exception of two years of strong diamond revenues which combined the post-COVID-19 recovery and a temporary disruption in Russian supply related to the conflict in the Ukraine (**figure 12**).

Figure 11. Mining revenues do not go a long way to cover recurrent expenditure anymore



Source: World Bank staff calculations, Ministry of Finance, World Bank Development Indicators, Statistics Botswana

Figure 12. Fiscal deficits have become the norm in the past decade



Source: World Bank staff estimates; Ministry of Finance

[8] Weaknesses in Botswana's integrated financial management information system, the Government Accounting and Budgeting System (GABS), have undermined the quality and timeliness of fiscal reporting. As of May 2026, validated outturn data for FY 2023/24 remain unavailable. As a result, reported fiscal balances may understate the true deficit if unpaid commitments and expenditure arrears have not been fully captured.

[9] Under the Bank of Botswana Act, its profits may be transferred to the Government, provided that statutory provisions, reserve allocations, and capital adequacy requirements have been met. Over the last decade, Bank of Botswana dividends averaged 1.3 percent of GDP.

The succession of large fiscal deficits over the past decade has steadily eroded Botswana's fiscal buffers. Savings accumulated in the GIA during earlier periods of strong diamond revenues were repeatedly drawn down to finance recurrent spending and cushion shocks, with limited offsetting replenishment during upswings. As deficits persisted, balances in the GIA declined sharply, from a peak of 26.8 percent of GDP at end-2014 to less than 1 percent of GDP on average in 2025. With little cash left to draw on, the government has increasingly had to turn to borrowing.

As a result, public debt has risen sharply. From about 22 percent of GDP in 2023, it reached nearly 40 percent in 2025. With the statutory public-debt ceiling of 40 percent of GDP close to being breached, Parliament approved legislation raising the ceiling to 60 percent of GDP, underscoring the extent to which fiscal pressures have altered Botswana's policy framework.

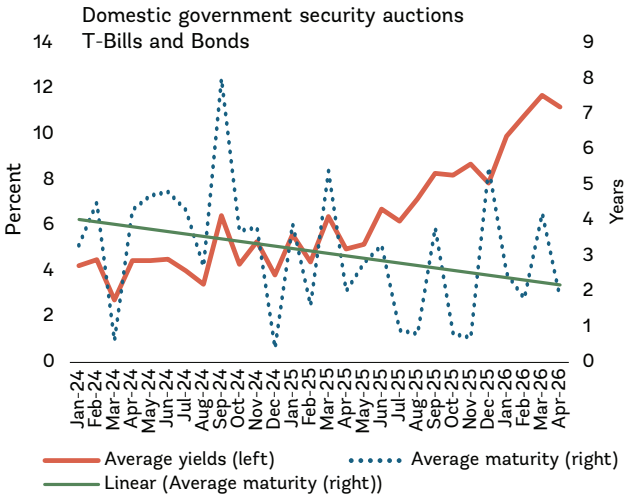
Borrowing from its domestic sources has also become significantly more expensive. Interest rates paid by the government have risen sharply, while the maturity of new issuances has shortened, reflecting heightened investors' concerns about fiscal risks and the limited capacity of the domestic capital market. For instance, the interest rate on short-term government bills increased from 2.5 percent in mid-2024 to nearly 11 percent in March 2026 (**figure 13**). As a result, interest service costs more than doubled, rising from 0.6 percent of GDP in FY2022/23 to 1.5 percent of GDP in FY2025/26 (**figure 14**). This means a larger share of public money is now being used to pay interest, reducing the fiscal space for essential services such as health, education, and infrastructure.

At the close of FY2025/26, the government resorted to commercial loans to meet its obligations. Those loans included costly transactions with local banks with short maturities alongside a guaranteed trade credit for €200 million at relatively favorable rates. A similar situation ensued in March 2025, when the government faced acute liquidity pressures and drew on exceptional financing instruments, including a short-term advance from the BoB and its first-ever direct loan from the Botswana Public Officers Pension Fund (BPOPF).

The risks do not stop with the budget. Because most government bonds are held by a small number of banks and pension funds, a worsening fiscal position could spill over into the financial system. If confidence weakens further, pressures on government finances could start to affect banks, savings, and credit in the wider economy.

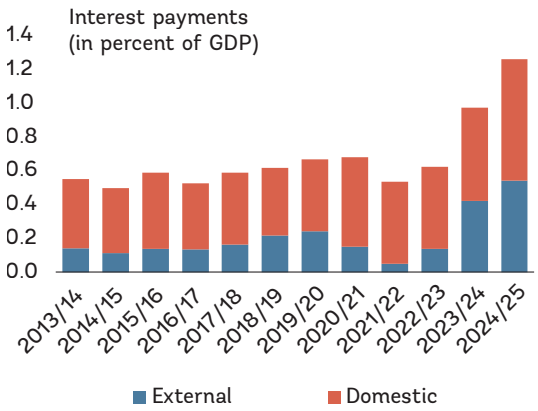
In short, Botswana is facing a fiscal challenge that is deeper and more constrained than in the past. Large deficits, depleted savings, rising debt, and higher interest costs leave far less room to absorb shocks. Without decisive action, there is a real risk that fiscal stress could intensify and spill into broader economic and financial instability.

Figure 13. Average yields are on the rise, while maturities are shorter



Source: World Bank staff calculations, Bank of Botswana

Figure 14. … as reflected in the interest service costs of public debt



Source: World Bank staff calculations, Ministry of Finance

1.2 Economic outlook and risks

This section looks ahead, presenting the outlook and discussing risks for the next two to three years. It assesses alternative scenarios for growth, public finances, and the balance of payments, and identifies the main risks surrounding the baseline projection. Special attention is given to uncertainties linked to global diamond markets and oil prices, financing conditions, and domestic policy responses.

Table 1. Selected economic indicators and baseline forecasts (Annual percent change unless indicated otherwise)

	2022	2023	2024	2025e	2026f	2027f	2028f
Real GDP growth, at constant market prices	5.5	3.2	-2.8	-0.7	3.2	2.5	3.2
Private consumption	3.0	2.3	2.2	0.6	-0.5	0.9	0.9
Government consumption	2.8	5.1	4.8	0.4	0.5	0.5	0.5
Gross Fixed Capital Formation	-0.2	3.6	4.9	-1.2	2.0	3.0	3.0
Exports, goods and services	-7.3	-12.1	-9.9	14.8	-7.2	-1.6	3.2
Imports, goods and services	-18.7	-8.1	16.4	-19.0	-3.4	-8.4	2.9
Real GDP growth, at constant factor prices	5.5	3.2	-2.8	-0.7	3.2	2.5	3.2
Agriculture	1.2	1.8	0.3	1.4	-7.1	-0.2	2.0
Industry	7.5	2.4	-12.3	-7.1	5.9	2.5	4.6
Services	4.3	3.8	3.5	2.8	2.0	2.6	2.5
Inflation (Consumer Price Index)	12.2	5.1	2.8	2.7	9.3	5.3	4.5
Current Account Balance (percent of GDP)	-0.6	1.5	-4.5	3.6	-6.5	-4.5	-4.1
Fiscal Balance (percent of GDP)	0.0	-4.2	-9.2	-5.1	-8.2	-5.1	-5.1
Primary Balance (percent of GDP)	0.6	-3.3	-8.0	-3.5	-6.3	-3.3	-3.4
Debt (percent of GDP)	20.6	22.7	30.7	33.8	39.3	43.4	42.6

Source: World Bank staff calculations; Bank of Botswana; Statistics Botswana; Ministry of Finance.
Notes: e = estimate, f = forecast

1.2.1. A modest recovery is expected for 2026

Growth is expected to rebound in 2026 to 3.2 percent as mining activity gradually normalizes, in line with Debswana's current production plans, which envisage diamond output of around 18 million carats in 2026 (table 1). Diamond mining recovered in Q1 2026, with production up by 27 percent relative to its average level in 2025, providing early support to the recovery. This outlook, however, is subject to unusually high uncertainty. Conditions in the global diamond market remain fluid, reflecting structural shifts in demand and competition, while external risks, including heightened geopolitical tensions and ongoing conflict in the Middle East, could weigh on global growth, consumer confidence, and demand for luxury goods.[10] The pace and durability of any recovery in mining activity will therefore depend on how these external factors evolve. At the same time, momentum in the non-mining economy is likely to remain subdued, constrained by weak private investment and a still-challenging business environment.

Over the medium term (2027–2030), growth is projected to average about 3 percent, predicated on diamond production stabilizing at its 2026 level, continued progress in the implementation of the authorities' broader economic agenda, including initiatives under the BETP, and the maturation of investment in renewable energy (e.g. Mmadinare Solar Project) and base-metals mining. This outlook remains highly sensitive to external conditions and to the pace and consistency of domestic policy implementation, as reflected in frequent forecast revisions and a wide dispersion of plausible growth outcomes.

Growth at this pace, however, would be insufficient to significantly reduce poverty and unemployment. Reflecting population growth that largely offsets gains in aggregate output, poverty at the US$3 per day (2021 PPP) line is projected to remain broadly unchanged at 19.7 percent in 2026—equivalent to roughly 513,000 people.

[10] Our baseline assumes an average Brent oil price of US$86 per barrel and an overall commodity price increase of 16 percent in 2026. They are consistent with a gradual return of shipping through the Strait of Hormuz to prewar levels by year-end.

Looking ahead, inflation risks remain tilted to the upside, requiring a vigilant monetary policy stance. Inflation is expected to remain elevated and stay above the target range temporarily, reflecting an ongoing pass-through from higher fuel and transport costs, increases in public transport fares and medical aid premiums, and the risk of second-round effects. On this basis, average inflation is projected to remain above the 6 percent limit of the target range until 2027, as temporary price pressures dissipate and domestic demand remains weak.

Monetary policy may need to tighten further if the oil price shock proves persistent, and imported inflation intensifies. A more generalized increase in prices could lead to second-round effects through wages, services, and administered prices, increasing the risk of inflation becoming entrenched. However, any additional tightening would need to balance the objective of containing inflation against the risk of further dampening economic activity, given the still-fragile state of domestic demand.

In the short term, Botswana's external current account is expected to move back into deficit, driven by more expensive fuel imports due to the conflict in the Middle East. An increase in the average crude oil prices by US$10 costs about 1 percent of GDP in additional imports. Considering a scenario where fuel prices average US$100 per barrel in 2026, the current account deficit would reach about 3.2 percent of GDP.

Beyond oil price gyrations, diamonds remain the main driver of Botswana's external account. The production cuts over the last two years have contributed to a better alignment of supply and demand, and reduction of diamond inventories.

Over the medium term, the current account deficit is expected to remain contained, at around 1 percent of GDP, owing to a modest recovery in diamond production and services exports, and the maturation of investments on renewable energy which will substitute for electricity imports.

Foreign-currency reserves, which fell to about five months of import cover in 2025, are expected to recover slightly. This improvement would be supported by increased concessional borrowing and continued management of the exchange rate by the central bank. However, risks remain tilted to the downside. Rising global oil and transport costs linked to tensions in the Middle East could further increase import bills, leaving Botswana exposed to renewed external pressure.

Botswana's fiscal deficit is expected to remain wide in FY2026/27, driven by a projected increase in development expenditure and one-off spending pressures. The government has submitted an expansionary budget, projecting a deficit of 9 percent of GDP, of which 2 percent of GDP comes from one-off expenditures related to court rulings on pension entitlements and cancellation fees for suspended public investment contracts. Development expenditure is projected at 8 percent of GDP, compared to 6.6 percent of GDP estimated for FY2025/26. Domestic revenue projections incorporate the expected initial yield from the package of tax laws approved by Parliament in early 2026, although the full revenue impact will materialize only gradually.

However, fiscal outcomes are increasingly shaped by limited financing options. With a narrow domestic investor base and a relatively small banking system, reliance on domestic borrowing has pushed financing costs sharply higher. As a result, the government's ability to implement its expenditure plans hinges on securing cheaper external financing. In practice, if tight financial conditions emerge or planned borrowing fails to materialize, fiscal adjustment is likely to occur through implementation rather than policy changes: capital projects may be delayed, discretionary spending compressed, and commitments rationed during budget execution. This pattern has already been observed in FY2024/25, when only 61 percent of the development expenditure allocation was ultimately executed.

To restore fiscal sustainability, some hard choices are inevitable. In a more constrained fiscal environment, it is essential for the government to be proactive in assessing which programs deliver good value for money and to be willing to scale back or discontinue ineffective spending. At the same time, strengthening domestic revenue mobilization offers an important additional lever, helping to reduce reliance on borrowing while making the fiscal adjustment more balanced. The alternative is to delay action and a continued rise in public debt and an even tighter fiscal constraint in the not-so-distant future.

To avoid continued fiscal pressures over the medium term, Botswana should act decisively on curbing its fiscal deficit. On the expenditure side, authorities have expressed interest in strengthening procurement practices and public investment management, with a view to improving spending efficiency and reducing leakages and cost overruns over time, including by containing the wage bill growth.

1.2.2. Risks to the outlook are significant and tilted to the downside

The outlook is subject to significant downside risks, reflecting the interaction of external shocks, sectoral vulnerabilities, domestic policy challenges, and financing constraints. Together, these risks leave little margin for error: adverse developments or delayed policy responses could materially weaken growth prospects and exacerbate macro-fiscal pressures.

1.2.2.1. External shocks and financing constraints

Botswana remains exposed to adverse developments in global commodity markets and geopolitics, while uncertainty in the diamond sector continues to cloud prospects for growth and public finances. In particular, a prolonged or escalated conflict in the Middle East could weaken global growth and consumer demand, delaying Botswana's economic recovery at a time when fiscal deficits are already large and financing conditions tight. Such a shock would likely depress revenues while keeping borrowing costs elevated, further straining public finances.

These external risks are compounded by limited fiscal financing space. Botswana's sovereign credit rating sits at the lowest investment-grade level and could come under pressure if fiscal risks intensify, potentially increasing external borrowing costs or constraining access to international capital markets. Together, these vulnerabilities imply that delays in fiscal adjustment would erode policy space and increase the likelihood that adjustment occurs through disruptive expenditure compression during budget execution rather than through deliberate policy choices.

1.2.2.2. Policy trade-offs and shock management

Beyond external shocks, there are also material policy risks related to how such pressures are managed. Recent decisions illustrate these challenges. Fuel prices have been allowed to adjust in response to higher global oil prices, reflecting the role of the Botswana Energy Regulator Authority in maintaining cost pass-through and limiting the buildup of implicit subsidies. At the same time, political and social pressures led the government to partially suspend fuel levies to cushion the impact on consumers, effectively shifting part of the burden of higher oil prices onto the state budget. While this response provides short-term relief, it weakens public finances and increases fiscal exposure if oil prices remain elevated. Going forward, resisting pressures that undermine the fiscal anchoring role of automatic price mechanisms will be important; **box 1** outlines a more resilient framework for responding to this external shock.

1.2.2.3. Diamond sector risks

Risks related to the diamond market remain paramount. Baseline growth projections assume a recovery in diamond production, albeit to levels below historical averages. A weaker-than-expected recovery in global demand, or further loss of market share due to competition, would undermine growth, exports, and fiscal revenues. Given diamonds' outsized role in the economy, downturns in the sector tend to propagate through multiple channels, generating macroeconomic effects that are disproportionately large.

1.2.2.4. Domestic policy and implementation risks

There are important domestic policy and implementation risks. The required fiscal adjustment may be delayed or diluted, especially if consolidation measures prove politically difficult. Slippage on spending control or revenue mobilization would worsen debt dynamics and limit policy space. More broadly, there is a risk that the reform agenda set out in the BETP fails to translate into concrete action. Vested interests, capacity constraints, and weak coordination across institutions could impede implementation, even where policy intentions are sound.

The next section describes a feasible policy agenda for Botswana's future.

Box 1. Managing the spillovers from the Middle East Conflict in Botswana

The primary transmission of the Middle East conflict to Botswana is through higher energy and transport costs, with knock-on effects on domestic inflation and the prices of imported goods, including food. Higher fuel and shipping costs increase the landed prices of imported food staples, amplifying cost-of-living pressures for households. Fuel pricing policies should allow gradual and transparent price adjustment, supported by clear public communication, to avoid shortages and unsustainable fiscal burdens. Broad-based fuel subsidies or price freezes would be costly and difficult to unwind, with limited targeting efficiency. Instead, limited, time-bound support should focus on protecting vulnerable households and essential services, while safeguarding the financial sustainability of energy providers. Measures that promote energy savings and demand management can further dampen second-round inflationary effects.

These cost-of-living pressures risk undermining household welfare by compressing real incomes and prompting short-term coping strategies that can erode nutrition, health, and education outcomes. The policy response should prioritize protecting purchasing power among vulnerable households through temporary, well-targeted adjustments within existing social programs, while safeguarding spending on essential health, nutrition, and education services. Measures should be explicitly time-bound, fiscally calibrated, and designed to offset the immediate cost-of-living shock rather than to expand coverage or create new entitlements. Preserving employment relationships and continuity in basic service delivery is critical to preventing the transitory price shock from translating into persistent human capital losses.

1.3 A policy agenda for an inclusive, prosperous future

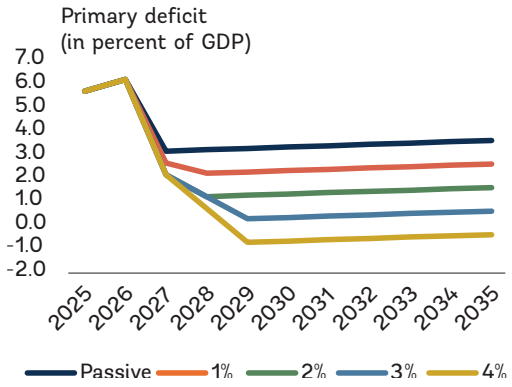
This section outlines a policy agenda for a more inclusive and resilient growth model, organized around four mutually reinforcing pathways. The focus is on concrete policy priorities and their sequencing, highlighting how progress across these four areas can support sustained and inclusive growth.

Today, Botswana is at a crossroads. The long but irreversible fall in diamond revenues has eroded the foundations of its economic model: growth has slowed down, and fiscal pressures have intensified, including a sharp rise in public debt. Looking ahead, the authorities could consider two options:

1. **To maintain the status quo, which would imply broadly following the same set of policies as in the past decade, with only minor adjustments.** Under this scenario, the economy would continue to depend on diamonds as the dominant source of foreign currency and a major contributor to government revenues. This is a risky path. If diamond markets recover for a few good years, the economy may rebuild its fiscal buffers and muddle through at growth rates similar to those of the past decade. However, with continued reliance on a single commodity, GDP growth is unlikely to improve significantly, as the economy would remain vulnerable to fluctuations in global markets. This natural resource-dependent growth, is also unlikely to generate sufficient employment or significantly reduce poverty, as illustrated by the country's experience over the past decade and international evidence. Conversely, if a sustained diamond recovery does not materialize, fiscal buffers would remain depleted, leaving the economy exposed to episodic stop-and-go cycles and an ever-shrinking policy space.
2. **A deliberate shift in the economic model to reduce the state footprint in the economy, toward a more diversified, private-sector-led growth model.** Such a shift has been advocated in the past and is now at the center of the BETP adopted in 2025. This path requires rethinking the role of the state, rebuilding fiscal space, and systematically removing barriers to private investment and job creation. It may entail higher short-term adjustment and implementation costs. While politically and institutionally demanding, it offers the largest potential payoff: higher and more resilient growth, broader participation, and reduced dependence on a single commodity. Experience from countries that have successfully escaped the middle-income trap underscores that such transitions are rarely easy, but delays usually raise, rather than lower, the eventual costs of adjustment.

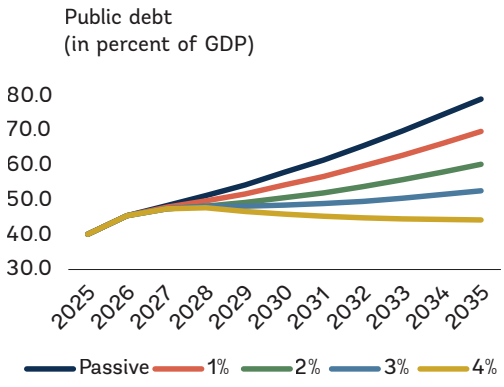
The advantage of the second option can be illustrated by considering a debt-sustainability exercise. Under current policies (passive scenario), the primary deficit will continue to average around 3 percent of GDP and public debt would continue to rise rapidly, reaching close to 80 percent of GDP by 2035, with gross financing needs eventually exceeding 20 percent of GDP (**figure 15** and **figure 16**). The alternative scenarios illustrate different degrees of permanent fiscal adjustment, ranging from 1 to 4 percent of GDP. In the more gradual cases, the adjustment is completed over two years, while in the stronger scenarios (3 and 4 percent of GDP), it is phased in over three years and then maintained through 2035. Only a decisive adjustment that reduces the primary deficit by at least 3 percent of GDP will stabilize debt near 50 percent of GDP, while a sustained primary surplus improvement of 4 percent of GDP places debt on a clear downward path. These results highlight a simple point: without a significant fiscal adjustment, borrowing needs are likely to remain too large to stabilize debt. A growing debt would progressively tighten financing conditions, compress policy space, and weigh on growth, reinforcing the risks associated with maintaining the status quo.[11]

Figure 15. Five different paths for the primary deficit…



Source: World Bank staff calculations

Figure 16 … lead to divergent paths for the public debt



Source: World Bank staff calculations

With real interest rates around 6 percent and medium-term growth well below that level, borrowing cannot be a sustainable strategy for Botswana. Even if additional debt were used to support growth, the cost of financing already exceeds the expected return, and would likely rise further as fiscal space narrows. For debt to remain sustainable under these conditions, growth would have to increase to implausibly high levels, which is not credible given current constraints. In practice, borrowing at rates above the return it generates leads to rising debt ratios and, eventually, solvency risks —this applies to governments as much as to firms or households. Moreover, higher public borrowing would tighten financing conditions, raising interest rates, shortening maturities, and crowding out private credit. Rather than closing the gap between interest rates and growth, this dynamic is likely to widen it, reinforcing a cycle of rising debt and declining economic performance.

Three additional considerations suggest that a deliberate shift is both urgent and feasible:

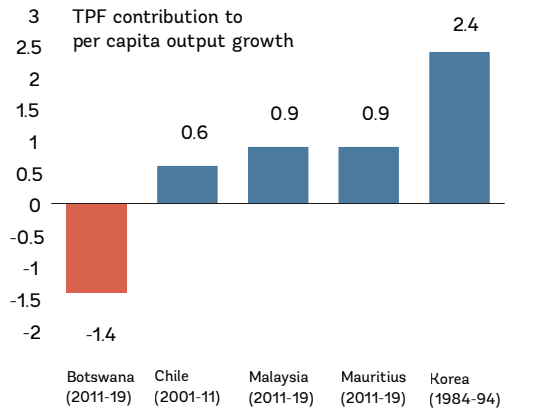
1. **The cost of maintaining the status quo has increased.** Weaker diamond prospects, tighter financing conditions, and diminished fiscal buffers mean that the old model can no longer absorb shocks without visible social and economic strain.
2. **Many of the analytical foundations for reform are already in place,** including established diagnostics, policy frameworks, and a core set of institutional capabilities, reducing uncertainty about direction.
3. **The potential gains from reform are expected to exceed the transitional costs,** particularly if reforms are well-sequenced and coordinated.

[11] The exercise considers a common macroeconomic framework across scenarios, with growth stabilizing at about 2.5 percent in the medium term, inflation at 4.5 percent, and baseline fiscal deficits reflecting current policies, including recently proposed tax measures. Alternative scenarios vary only in the pace of fiscal adjustment, with the primary balance ranging from deficits of 3.5 percent of GDP to a surplus of 0.5 percent of GDP. For illustrative purposes, economic growth, financing assumptions, interest rates, and borrowing structures are held constant to isolate the impact of fiscal adjustment on debt dynamics.

1.3.1. Four policy pathways for an inclusive future

The key objective of option two– shifting the economic model- is for Botswana to avoid the middle-income trap. Achieving this would require not only continued investment in physical and human capital but also faster productivity growth. The transition from middle- to high-income status depends less on factor accumulation and more on how efficiently resources are used. In this respect, Botswana has underperformed: over the past decade, productivity growth has been weak and declining, eroding relative to peer countries (**figure 17**).

Figure 17. Botswana's productivity loss relative to successful countries



Source: Botswana Country Economic Memorandum "In the Search of New Drivers of Inclusive Growth"

To become more efficient, Botswana will need to pursue far-reaching reforms, as recognized by the government's recent strategies, especially the BETP that proposes a clear roadmap for the next 5 to 10 years. Building on a series of World Bank Group diagnostics.[12] This Economic Update identifies four mutually reinforcing policy pathways that together provide a concrete reform agenda. The objective of this agenda is to support the transition toward a more diversified, private-sector-led growth model capable of generating jobs, reducing vulnerability to commodity cycles, and sustaining high-income aspirations. Achieving this shift requires restoring fiscal space, reducing the state's footprint in the economy, removing barriers to private investment, strengthening human capital, and improving the management of natural resources. These priorities are not new, but they are singled out because they address the most binding constraints facing Botswana today and because progress along one pathway amplifies returns from the others.

1.3.1.1. Pathway 1: Restore fiscal stability through a more efficient state

Botswana can no longer rely on diamond revenues to finance a large and expanding public sector. Fiscal adjustment will need to be organized around three complementary pillars:

1. **Restoring fiscal space through increased savings:** With fiscal buffers depleted and debt rising, re-establishing a sustainable fiscal trajectory has become a prerequisite to restoring the fiscal space. On the revenue side, strengthening domestic non-mining revenue mobilization is a priority, particularly given the low efficiency of VAT collection and the comparatively modest statutory rates of VAT and corporate and personal income taxes. On the expenditure side, a tighter control of the wage bill and strong commitment controls.
2. **Achieving allocation efficiency:** Equally important is improving how government funds are spent. Better planning, stronger oversight, and clearer accountability are needed to ensure that public resources deliver services of quality, whether in schools, clinics, infrastructure, or social programs. Reallocating spending toward high-impact areas, including human capital and infrastructure, while reducing low-priority or inefficient expenditures, will be essential to maximize the impact of limited fiscal space. A sharper focus on ensuring that expenditure matches national priorities would both reduce waste and enhance the impact of public spending on livelihoods and economic opportunity.
3. **Improving efficiency in spending:** Stronger public financial management is essential to reduce leakages and improve the value of public spending. The reform agenda proposes to address this with three principal actions:
    - **Procurement reforms** could introduce an electronic procurement platform to increase transparency, tighten oversight, clarify approval responsibilities, and strengthen capacity in the largest spending agencies.

[12] *Botswana Country Private Sector Diagnostic*, https://www.ifc.org/en/insights-reports/2022/cpsd-botswana
The *2024 Botswana Country Economic Memorandum: In Search of the Drivers of Growth*, https://hdl.handle.net/10986/41676
The *2025 Botswana Country Climate and Development Report*, https://hdl.handle.net/10986/43947.
The *2026 Botswana Streamlined Country Diagnostic* (forthcoming), and the *2026 Botswana Public Finance Review* (forthcoming).

- **Public investment management** should require proper appraisal of major projects, independent review before approval, and systematic evaluation after completion.
- **Core budget management** should financial systems to track commitments and prevent arrears, alongside the adoption of accrual-based accounting.

Reducing the state's economic footprint is also critical for unlocking private sector growth Botswana's extensive state ownership—particularly in commercially viable sectors—has crowded out private investment, weakened competition, and generated fiscal risks, while SOE performance has lagged international benchmarks.[13] Progress in this area could be supported by advancing privatization and strategic divestments in commercially viable sectors, supported by a unified ownership policy that clearly distinguishes commercial from public service objectives and strengthens performance expectations, transparency and oversight.

Restoring fiscal stability will be politically challenging, but it is unavoidable. Postponing fiscal adjustment would lead to a deeper correction in the near future and would delay progress on the national development agenda. Without a credible and sustainable effort to contain spending, reallocate resources to priority areas, and improve efficiency, it will be difficult to establish a clear and sustainable fiscal path or mobilize the private capital needed for NDP12 and BETP investments.

1.3.1.2. Pathway 2: Promote a dynamic private sector to create jobs and diversify the economy

Over the past decade, the economy has underperformed on two fronts. First, productivity growth has been weak—around three to four times lower than in faster-growing peers—eroding firms' competitiveness over time. Second, growth has failed to generate enough jobs to absorb an expanding labor force, with unemployment reaching 27 percent in 2024. A common factor behind both outcomes is the lack of dynamism in the private sector. Key sectors are dominated by a small number of large firms, often with public participation, while the net entry of startups and young firms has been limited. Evidence from the 2023 World Bank Enterprise Survey shows that businesses face difficulties in accessing finance, navigating regulatory complexity, securing land and infrastructure, and finding appropriately skilled workers. These obstacles weigh most heavily on small and medium-sized firms, which are essential for experimentation, entry into new activities, and employment creation.

Injecting dynamism into the private sector will require a series of cross-cutting actions:

1. **Making the business environment more friendly:** This includes reducing administrative burdens through digitalization, and opening markets where state presence or restrictive rules limit entry.
2. **Improving access to finance:** Important steps in this direction would be to operationalize the movable assets collateral registry, which would allow firms to borrow against non-land assets; and develop interoperable payment systems, which would increase firms' ability to transact efficiently and build digital records that support access to formal finance.
3. **Upgrading digital connectivity:** Continued development of the digital ecosystem, including high-speed broadband and digital public services, can further lower transaction costs and allow firms to participate in regional and global value chains.
4. **Opening to trade and investment:** As a small economy, Botswana cannot generate sustained growth at scale by relying on its domestic market alone. Expanding economic opportunities therefore requires firms to reach larger external markets through exports. This will require improved air links, smoother border processes, and reduced non-tariff barriers, particularly within Southern African Customs Union (SACU).

Beyond these cross-cutting reforms, the government will need to pursue targeted actions to accelerate diversification away from diamonds toward other tradable sectors. For Botswana, diversification means the emergence of sectors that compete in international markets and can scale beyond the small domestic economy to generate sustained employment. This is the path followed by economies such as Mauritius (from sugar to textile and to digital) or Malaysia (from oil to digital and value-added services), which successfully shifted from reliance on primary commodities to manufacturing and higher-value services. In Botswana, diversification over the past decade has occurred mainly toward

[13] International Monetary Fund, 2023. *Selected Issues Paper,* IMF Country Report No. 23/318.

non-tradable sectors such as construction, utilities, and retail trading, often supported by protection, with limited prospects for export expansion.[14] As a result, the export base remains highly concentrated: diamonds accounted for 72 percent in 2025, virtually unchanged from 71 percent in 1992, followed by copper and nickel (around 15 percent) and tourism (around 10 percent). One area of progress is the development of downstream diamond processing, with polished diamonds now accounting for about 20 percent of diamond exports, compared to negligible levels three decades ago.

To implement an export-oriented growth strategy, the government could support the emergence of competitive exporters. While there is no silver bullet to systematically selecting priority sectors, three guiding criteria can guide policy:

1. **Focus on labor–intensive tradable activities** that can generate jobs and foster productivity gains.
2. **Prioritize sectors that can compete in international markets,** which is essential to expand beyond a small domestic economy.
3. **Target areas with strong and growing regional or global demand.**

Applying these three principles, the 2024 World Bank Country Economic Memorandum highlights several promising sectors, including livestock, mineral processing, green energy, digital industries, and high-end tourism. The main challenge will be not only to expand domestic production but also to integrate them into regional and global value chains.

1.3.1.3. Pathway 3: Invest in people and ensure services deliver results

Botswana invests heavily in education, health, and social protection, but results have not always matched expectations. Botswana is among the highest spenders on education globally, allocating on average about 8 percent of GDP between 2018 and 2023, well above regional peer countries, which average below 6 percent of GDP. The priority challenge is to improve outcomes without spending more.

Strengthening learning outcomes is central to Botswana's development agenda, not because enrollment is low, but because the education system is not consistently translating spending into skills. Too many children progress through school without mastering basic literacy and numeracy, weakening foundations for later learning. At higher levels, gaps in science, mathematics, and language limit students' readiness for a changing labor market, while access challenges persist for learners from low-income households. At the post-school level, training systems remain insufficiently linked to employer needs, contributing to persistent youth unemployment. Improving outcomes, therefore, requires a sharper focus on learning at early grades, stronger alignment of curricula with labor-market demands, and closer links between education, training, and jobs.

A particularly important dimension that constrains firms in Botswana is the prevalence of skills mismatches. Survey evidence shows that firms are widely dissatisfied with the quality and relevance of available skills, despite high education spending, with only about 65 percent of services firms reporting a good match between workforce skills and firm needs, and significantly lower shares in other sectors.[15] This mismatch coexists with high unemployment, pointing to a disconnect between the education system and labor market demand. Firms report shortages in technical, managerial, and job-specific skills, which constrain their ability to upgrade processes, adopt new technologies, and enter more complex activities. As a result, skills gaps not only weaken firm-level productivity, but also limit the capacity of the private sector to diversify into tradable sectors and higher-value exports.

In health, improvements in efficiency, equity and resilience are needed for achieving outcomes commensurate to public spending levels. Service delivery is uneven, frontline facilities remain unreliable in many areas, and weaknesses in the management of medicines and supplies have periodically disrupted care. Addressing these gaps requires strengthening primary health care at the local level, improving supply-chain management, and using digital tools to support planning, accountability, and continuity of care. Over time, reforms to health financing, including the introduction of a national health insurance scheme, could contribute to making the system more sustainable and better aligned with service delivery outcomes.

[14] Loubser, J.J. and Jefferis, K., 2026. *Moving Beyond Manufacturing in East Asia to a New Natural Resource Middle-Income Trap: Lessons from Botswana's Diamond-Led Transformation, mimeo.* For example, the share of mining in GDP declined from 53 percent to 17 percent between 1988/89 and 2023..
[15] World Bank Group, 2022. *Botswana Country Private Sector Diagnostic: Creating markets in Botswana.*

Social support programs should reach the vulnerable and those in need and help move beneficiaries toward employment. Integrating the Single Social Registry with a harmonized targeting approach would reduce wastage and direct the resources to those who need the most. Consolidating small overlapping programs would reduce administrative complexity and increase the effectiveness of social protection. Moreover, reducing inequality and addressing gender gaps, such as gender-based violence, are essential for human capital improvements and broad-based growth.

1.3.1.4. Pathway 4: Harness natural capital for sustainable growth

Botswana's economy and livelihoods are closely tied to its natural environment. Water scarcity, droughts, and climate shocks are already affecting households, agriculture, tourism, and energy supply.[16]

Botswana's strong potential in renewable energy, particularly solar, provides a great opportunity to expand energy capacity. Improving energy reliability would support private sector development by removing a binding constraint. According to the 2023 World Bank Enterprise Survey, 64 percent of firms in Botswana experienced electrical outages. To attract private investment in this area, Botswana should provide a clear and predictable regulatory framework that supports competitive procurement for Independent Power Producers.

Improving water security is critical to enhance climate resilience in Botswana—a necessary condition for diversification towards tourism and agriculture. This means maintaining infrastructure, reducing losses, investing wisely in new capacity, and managing water utilities efficiently, including by introducing modern metering, so services remain reliable and affordable.

1.4 From economy-wide priorities to jobs and skills

The four policy pathways previously outlined set out what is required to restore growth, diversify the economy, and make progress on poverty and unemployment. Yet progress along each of these pathways ultimately depends on one common channel: the ability of the economy to create productive jobs and equip Batswana, especially young people, with skills that match the needs of a changing labor market.

While all factors of production contribute to long-term growth, both economic theory and empirical evidence point to human capital as a central driver. Improvements in education and health raise productivity directly by increasing workers' skills and capabilities, and indirectly by reinforcing the effectiveness of physical capital, innovation, and technological adoption.[17]

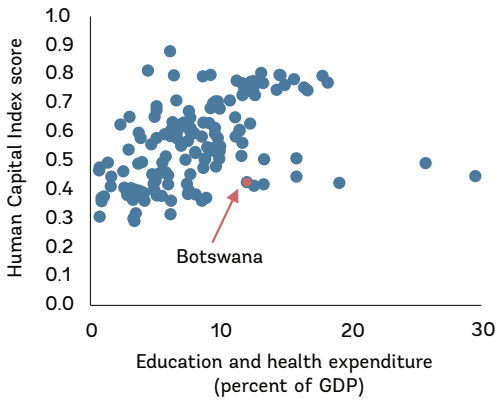
Box 2. The importance of human capital for development

D. Acemoglu, 2024 Nobel laureate, highlighted that most of the cross-country differences in productivity are explained by the close relationship between innovative technology and skilled labor, as both go together in the production process of firms.[18] More specifically, studies by Hanushek and Woessman (2012) show that it is the level of learning that makes the difference to economic growth and not merely access to and completion of education levels (e.g., expected years of schooling).[19] Differences in cognitive skills and learning outcomes explain far more of the variation in growth across countries than years of schooling or enrollment rates. Strengthening human capital also promotes equity, as growth processes that rely more intensively on labor offer the most direct and sustainable pathway out of poverty. Several high-performing East Asian economies, including Korea and earlier Japan, explicitly prioritized improvements in learning outcomes among disadvantaged groups as part of their development strategies.

[16] For a comprehensive report on the interactions between climate change and development in Botswana, see the 2025 *Botswana Country Climate and Development Report.*
[17] See P. Romer. "Human capital and growth: Theory and evidence." *Carnegie-Rochester Conference Series on Public Policy*, Volume 32, Spring 1990, pages 251 –286.
[18] D. Acemoglu and F. Zilibotti. "Productivity differences." *The Quarterly Journal of Economics*, May 2001.
[19] E. A. Hanushek and L. Woessmann. "Do better schools lead to more growth? Cognitive skills, economic outcomes, and causation." *Journal of Economic Growth* (2012) 17:267–321

To support policymakers in assessing and strengthening human capital, the World Bank has developed the Human Capital Index (HCI) that measures the contribution of health and education to the future productivity of today's children. The index tracks outcomes across a child's life cycle, combining indicators of health (such as infant survival, healthy growth) with measures of education (expected years of schooling, harmonized test scores, learning adjusted years of schooling). In 2020, Botswana's HCI value was 0.41, suggesting that on average a Motswana child can expect to attain an only 41 percent of her potential productivity as an adult under current conditions. This level is well below the average for Upper Middle-Income Countries (0.63) and only marginally above the Sub-Saharan Africa average (0.40), despite Botswana's relatively high public spending on education and health (**figure 18**).

Figure 18. Botswana's HCI is low relative to its spending on education and health



Source: World Development Indicators

Differences in education outcomes account for the largest share of human-capital gaps across income groups. According to the World Bank analysis,[20] nearly three-quarters of the HCI gap between low and high-income countries is explained by differences in learning-adjusted years of schooling, underscoring that closing Botswana's human-capital gap will depend less on expanding access to education and more on substantially improving learning quality.

Botswana lags its peers in the performance of its education sector. Part 2 of this Economic Update, therefore, turns to skills for jobs. It examines how Botswana's education, training, and employability systems are performing, with a focus on TVET post-secondary programs, as the country seeks to diversify beyond diamonds and generate inclusive growth. The analysis focuses on whether current pathways from education and training into work are aligned with labor market demand, deliver value for money, and widen opportunities for youth across different education levels. By doing so, Part 2 explores how strengthening the link between skills and employment can become a practical lever for diversification, productivity growth, and social inclusion.

[20] https://openknowledge.worldbank.org/entities/publication/93f8fbc6-4513-58e7-82ec-af4636380319

PART 2: SKILLS FOR JOBS: SUPPORTING INCLUSIVE GROWTH FOR ECONOMIC DIVERSIFICATION IN BOTSWANA

Botswana's path to a more diversified and inclusive growth model will depend substantially on its ability to create productive jobs and equip Botswana with the skills that a changing labor market demands. The current labor force and the generation of young people progressing through post-school institutions constitutes the labor force that will determine, over the next five to ten years, whether Botswana can realize its ambitions for sectoral growth and economic diversification. This chapter, therefore, turns to one specific lever within the broader human capital agenda: the Post-School Education and Training (PSET) system, with a particular emphasis on Technical and Vocational Education and Training (TVET), higher education, and youth employment pathways. While improvements across the full education cycle from early childhood through secondary education are equally important in determining whether young people leave school ready to benefit from further training, those upstream levels fall outside the scope of this analysis. This chapter takes the structure of basic and secondary education as given and focuses on reforms to the post-school system that can be implemented quickly enough to influence the supply of skills available to Botswana's priority economic sectors in the near term.

The starting point is not a deficit of investment— Botswana has long recognized that human capital is central to its development trajectory and has invested accordingly. Botswana spent an average of 8.1 percent of GDP on education during 2018 to 2023, well above the average for upper-middle-income countries (around 3.9 percent) and above regional peers such as South Africa (6.1 percent) and Mauritius (4.6 percent). The country has built a comprehensive post-school system that includes public and private universities, technical colleges, Vocational Training Centers (VTCs), brigades, and specialized institutes in health sciences and teacher education. Governance bodies such as the Human Resource Development Council (HRDC) and the Botswana Qualifications Authority (BQA), together with levy-based financing mechanisms including the Human Resource Development Fund (HRDF) and the Construction Industry Trust Fund (CITF), provide an institutional foundation for skills development. Recent reforms, such as the extension of student support to lower-level TVET programs, signal a continued commitment to expanding post-school opportunities. By any measure, Botswana invests heavily in education.

Despite substantial public spending on education and training, learning levels and labor market outcomes for many young people remain weak. A child entering school in Botswana can expect to complete 8.4 years of schooling by age 18; however, this is equivalent to only 5.3 years once adjusted for actual learning, resulting in a learning-adjusted shortfall of roughly three years. International and regional assessments tell a consistent story over more than a decade. Botswana has participated in four cycles of the Trends in International Mathematics and Science Study (TIMSS) and has performed near the bottom of the international distribution throughout.

Weak learning is only part of the problem; the system also loses students at successive stages of the education pathway. Close to half of young people do not finish Grade 12, and of those who sit the Botswana General Certificate of Secondary Education (BGCSE), only about a third enroll in tertiary education the following year. Though the gross tertiary enrollment rate has noticeably risen from 11 percent in 2007 to 22 percent in 2023, it remains well below the upper-middle-income-country average of around 65 percent. For the majority who do not enter university, the principal alternative— TVET— neither absorbs many students (around 13 percent of post-school enrollment) nor retains them well. The TVET completion rate is low, and among those who do complete, labor market returns are weak. The most recent tracer study (2020/21) found that only 17 percent of TVET graduates were employed at follow-up, and fewer than half of those held permanent positions.

On the demand side, the problem is a persistent skills mismatch rather than a simple shortage of skills. The 2022 Country Private Sector Diagnostic found firms dissatisfied with the quality and relevance of available skills, with only about 65 percent of services firms reporting a good match between workforce skills and their needs. The 2023 World Bank Enterprise Survey showed firms compensating by training workers themselves: about 35 percent provide formal training, compared with a Sub-Saharan Africa average of 28 percent, indicating that workers often arrive underprepared. That these gaps persist alongside high unemployment points to a disconnect between what the education and training system produces and what the labor market demands. The binding constraint is one of matching, quality, and relevance, not a uniform deficit of educated workers.

Some of the causes of these weak learning, progression, and employment outcomes lie outside the skills system itself. Household income constraints, opportunity costs, family circumstances, distance to schools, and uneven academic preparation all shape who is most likely to progress in the education and training system. These barriers lie largely beyond the reach of the skills system, yet because they fall hardest on those who exit early, their consequences land squarely within it. A credible post-school system, therefore, cannot focus only on those who complete the academic track. It must also offer viable pathways, including second-chance, short-cycle, and recognition-of-prior-learning options, for the substantial group of young people who exit before Grade 12 and would otherwise have no structured route into productive employment.

The evidence describes a system that is well funded by international standards but is not converting that funding into either strong learning or strong employment outcomes. The central challenge, therefore, is not the level of spending or the reach of institutions, but how effectively existing resources are allocated and used to translate education and training into productive employment. This chapter traces this gap to the following four structural features of the post-school system:

1. **Skills development pathways that remain strongly oriented towards university education.** While higher education capacity has expanded rapidly, technical and vocational pathways, particularly for youth who do not transition directly into university and for early school leavers, remain smaller, less resourced, and less clearly connected to employment. Youth employment programs, although numerous, do not yet function as a coherent alternative pathway.
2. **Engagement between industry and training providers remains uneven and insufficiently institutionalized.** Employer participation in governance, curriculum development, and work-based learning remains limited, and training institutions, particularly TVET providers, often lack the operational flexibility needed to respond to changing labor market needs.
3. **The system's pro-poor orientation remains constrained.** Public spending is concentrated at the tertiary level, where participation is largely merit-based and disproportionately benefits youth from higher-income households. Alternative pathways serving youth who exit earlier from the academic system remain weaker and historically under-resourced, reinforcing inequalities in access to opportunity.
4. **The system remains more input-driven than outcome-driven.** While elements of management information systems exist across the post-school sector, Botswana lacks a consolidated framework that tracks enrollment, costs, and labor market outcomes across training and employment programs. As a result, assessing value for money and using performance evidence to guide policy and financing decisions remains difficult.

Addressing these challenges does not require a wholesale restructuring of institutions. Rather, it requires strengthening the viability of non-university pathways, improving coordination between training and employment programs, deepening employer partnerships, and embedding a stronger results orientation in public spending.

This chapter proposes four policy priorities to support that transition:

1. **Botswana can strengthen the viability of TVET and other non-university pathways** by establishing industry-based skills and jobs partnerships in priority sectors, linking training more closely to labor market demand while improving career guidance and transition support for young people.
2. **Work-based learning,** particularly apprenticeships and industry training for new labor market entrants, can be expanded through more strategic use of the Human Resource Development Fund (HRDF).
3. **Greater operational autonomy for TVET institutions** can enable providers to respond more rapidly to evolving skills needs, provided it is accompanied by stronger monitoring and accountability systems.
4. **Public financing, including scholarships and student support,** can be rebalanced to strengthen the system's pro-poor orientation while gradually introducing results-based funding mechanisms that reward institutions for strong training and employment outcomes.

Together, these reforms would shift Botswana's skills system toward a more demand-driven and performance-oriented model, while improving value for money and aligning skills spending with Botswana's need for fiscal consolidation and a more affordable post-diamond state. In this model, technical and vocational pathways become credible routes to employment, employer partnerships play a stronger role in shaping training provision, and public resources are used more effectively to widen opportunity and support economic diversification.

The remainder of this chapter examines each of these structural challenges and outlines policy directions to strengthen the contribution of skills development to productivity, employment, and inclusive growth in Botswana.

2.1 Skills development pathways have favored university education

2.1.1. University graduation has been the focus, with little attention and resources given to TVET

Botswana's post-school orientation toward university education is not accidental. It is the product of several decades of policy and fiscal circumstances. From independence, Botswana built its post-school system around academic, university-track education. Technical and vocational training was kept comparatively small and under-resourced. For most of this period, the model was fiscally viable. Buoyant public revenues, underpinned by diamonds, allowed the state to sponsor large numbers of students through university, including substantial cohorts placed in institutions abroad. University access became the principal route to opportunity and to public-sector employment.

This model is no longer sustainable, for three reasons:

1. **The economy needs more technicians and artisans than university graduates.** A diversifying economy relies on a broad base of technical and vocational skills. It needs far more technicians, artisans, and skilled tradespeople than professionals and managers. Many of these mid-level skills can also be produced faster and at lower cost than a multi-year university degree. A system that channels most young people toward university is therefore poorly matched to the shape of labor demand. The case for a deliberate shift toward technical and vocational skills development is now well established across the continent (Association for the Development of Education in Africa (ADEA) 2014).

2. **The rising completion of secondary education has expanded the pool of young people** seeking post-school places faster than the university system can absorb them.
3. **The fiscal basis for the old model has eroded.** Diamond revenues, which historically funded near-universal sponsorship, have weakened, and per-student tertiary spending has fallen in real terms even as the tertiary-age cohort has grown (see Section 2.3). The implication is structural. TVET and other non-university pathways are no longer merely alternatives to university. For a large share of young people, they are an unavoidable destination. This is why strengthening the quality, relevance, and labor market linkages of those pathways is a precondition for redirecting students toward them. Students and families will not move toward education and training pathways that do not lead to jobs.

Despite this imperative, the system remains structurally oriented toward university education. Of the 80 formal post-school institutions recorded in 2023, exactly half (40) are TVET institutions, including technical colleges, VTCs, and brigades. The remaining 40 are higher education institutions, including universities, colleges of education, institutes of health science, and public and private colleges. This equal institutional footprint serves very different numbers of students. Higher education enrolled 52,485 students in 2023, while TVET enrolled only 7,802, around 13 percent of the total (**table 2**). Graduation outcomes follow the same pattern: about 45 percent of all graduates completed a bachelor's degree in 2024, while only 25 percent obtained certificate-level qualifications, which are typically associated with brigade and VTC programs (**figure 19**).

Figure 19. Number of graduates 2024 by qualification level

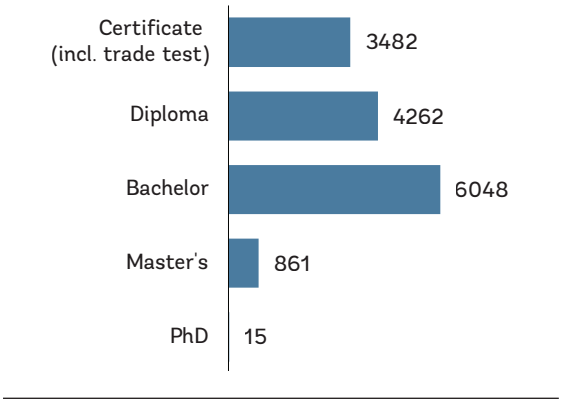


Table 2. Overview of higher education and TVET training provision, 2023

The post-school education and training (PSET) system: pathways, students and public spending

Botswana 2023 (enrollment) and 2024/25 (public spending) - formal post-school institutions

The institutional landscape

Higher Education		**40 institutions 52,485 students**	
4	Public universities	**27,741**	46%
3	Private universities	**6,591**	11%
4	Public colleges	**7,919**	13%
18	Private colleges	**7,520**	12%
7	Institutes of Health Science *(public)*	**1,406**	2%
4	Colleges of Education *(public)*	**1,308**	2%
TVET		**40 institutions 7,802 students**	
4	Technical colleges *(post-Grade 12)*	**2,245**	4%
4	Vocational training centers *(Grade 10+)*	**1,717**	3%
32	Brigades *(Grade 10+, community-based)*	**3,840**	6%

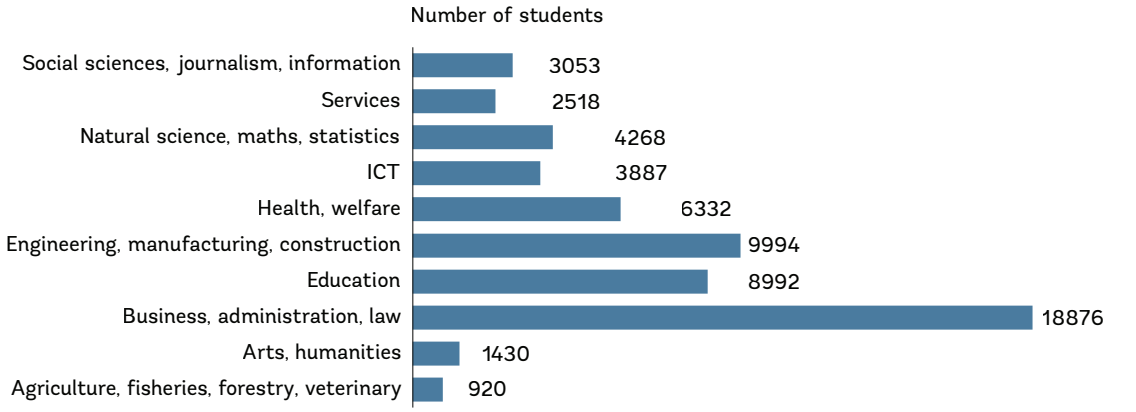
Where the students are vs where the money goes

	Share of post-school students	Share of public PSET spending
Higher Education		universities + colleges + institutes
	87%	**81%**
	52,485 students	*BWP 4.79 bn*
	Per student: **BWP 91,300 per year**	
TVET		technical colleges, VTCs, brigades
	13%	**19%**
	7,802 students	*BWP 1.16 bn*
	Per student: **BWP 148,700 per year**	

Note: Same number of institutions in each group (40), but Higher Education enrols 6.7 times more students. TVET utilization rate averaged 56% in 2023.
Source: HRDC, Tertiary Education Statistics 2024 (enrollment, 2023); Ministry of Finance actual spending data (2024/25).
Note: Public spending shares reflect the aggregate split between "tertiary" (Higher Education) and "post-secondary non-tertiary" (TVET) in the Government's Chart of Accounts; institution-level public spending is not separately reported.

The composition of enrollment in tertiary education is also poorly aligned with the economy's needs. Only 31.7 percent of tertiary students are enrolled in Science, Technology, Engineering, Arts, and Mathematics (STEAM) disciplines (**figure 20**), despite the central role of these fields in industrial upgrading and diversification. Gender disparities compound the issue. Women make up about 60 percent of tertiary students overall, but they account for only 37 percent of TVET enrollment and 30 percent of STEAM enrollment. These patterns risk reinforcing occupational segregation in the labor market.

Figure 20. Tertiary enrollment by field of education, 2024



Source: HRDC (2025). Tertiary Education Statistics Report 2024

Public spending reinforces the same imbalance, but with an important twist. In 2024/25, higher education absorbed BWP 4.8 billion in public spending (81 percent of public post-school education spending), while TVET received BWP 1.16 billion (19 percent). On a per-student basis, however, TVET costs more than higher education, approximately BWP 148,700 per student per year, compared to BWP 91,300 in higher education. This higher unit cost in TVET does not reflect a more generous funding settlement but the structural underutilization of TVET infrastructure. Average capacity utilization across TVET institutions stood at only 56 percent in 2023. Small rural brigades often operate with limited course offerings due to instructor shortages, while some urban institutions face constraints related to accreditation, equipment, laboratory facilities, hostel space, and specialized teaching staff. Higher-level TVET programs are very limited. The result is a TVET network that is geographically extensive but operates well below its potential scale. Underutilization is both a cause and a consequence of TVET's weaker standing in the post-school system. Capacity constraints and quality gaps limit the appeal of TVET to students and families, while weak demand in turn discourages investments in quality, equipment, and instructor capacity that would make TVET more attractive. The financial efficiency of public spending in this pathway is constrained as much by this dynamic as by absolute resource levels.

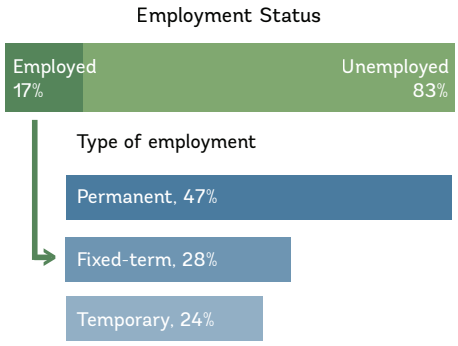
Levy-funded financing shows a parallel weakness. These resources, flowing through the HRDF, were designed to strengthen employer engagement in training by reimbursing firms for eligible training costs, but uptake has historically been limited. Low HRDF utilization appears to reflect a combination of liquidity constraints, procedural complexity, and limited enterprise training planning capacity, especially among Small and Medium Enterprises (SMEs), compounded by historical accreditation rules that did not align well with practical workplace training needs. In FY2022/23, BWP 460 million in accumulated surplus was transferred to the Back-to-School Program rather than deployed for workforce development. Although reimbursement claims have increased more recently, funding remains largely tied to firm-based staff training under pre-approved plans and is less accessible for broader pre-employment or sector-wide skills development initiatives. A review of the HRDC disbursement framework could further enhance alignment with national skills priorities.

Even TVET and other non-university pathways favor those who stayed in school longest, leaving the earliest school-leavers with the fewest ways in. Technical colleges primarily serve post-Grade 12 students. VTCs and brigades are formally open to Grade 10 completers, providing alternative routes for those who do not complete senior secondary school. In practice, however, many Grade 12 leavers compete for spaces in VTCs, particularly in urban areas, effectively narrowing access for lower-secondary

completers. For youth who exit the education system before completing Grade 10, pathways into the formal public TVET system are effectively absent. Their options are confined mainly to non-formal, often short-duration training opportunities delivered by NGOs, community-based organizations, and targeted government initiatives, including programs offered through the Ministry of Education's Out-of-School Education and Training (OSET) unit.

Labor market outcomes reflect these challenges. The most recent tracer study (2020/21) found that only 17 percent of TVET graduates were employed at the time of follow-up. Of those employed, fewer than half were in permanent positions; 28 percent held fixed-term contracts, and 24 percent were in temporary employment (**figure 21**). Many graduates reportedly pursue further education rather than transition directly into employment. Entrepreneurship outcomes also remain modest.

Figure 21. Key results of tracer study of 2018 TVET graduates



Source: World Bank staff calculations

Botswana's skills ecosystem has developed substantial higher education capacity, but the TVET pathway remains comparatively small in terms of student numbers, structurally underutilized in capacity, and weakly connected to the labor market outcomes that would justify families investing in it. The challenge, therefore, is less about the level of resources directed to TVET and more about translating those resources into trained, employed graduates. Strengthening the quality, relevance, utilization, and employment linkages of technical pathways will be central to broadening opportunities and aligning the supply of skills with labor market demand.

2.1.2. Youth employment programs do not yet provide a clear alternative pathway

Beyond formal education and training institutions, Botswana operates a wide range of youth employment and entrepreneurship programs. In principle, these programs are intended to complement formal training pathways and provide entry points into the labor market. In practice, however, they do not yet function as a coherent alternative route for young people who do not progress through university. The limited effectiveness of Botswana's youth employment and entrepreneurship programs stems less from insufficient program supply than from systemic fragmentation across design, implementation, and learning functions. Multiple initiatives with overlapping mandates operate across ministries and agencies with limited coordination, resulting in duplication, weak targeting, and discontinuous support pathways from skilling to finance to market access. This is compounded by top-down, one-size-fits-all program models that insufficiently reflect the heterogeneous needs of youth across education levels, locations, and livelihood opportunities, while weak monitoring and evaluation systems prevent iterative, evidence-based program improvement.

Multiple initiatives such as the Youth Development Fund (YDF), Tirelo Sechaba, and the Graduate Internship Program operate across ministries and agencies. While each addresses important constraints, the ecosystem remains fragmented and weakly linked to the formal skills development system. This limits the extent to which employment programs reinforce structured skills pathways or respond systematically to labor market demand. Against this backdrop of institutional fragmentation, the Presidential Youth Empowerment Campaign (PYEC), launched in late 2025 under the Office of the President, could provide an important platform for strengthening coordination across youth employment interventions by aligning training, job creation, and entrepreneurship support within a unified national framework.

Access to programs is also uneven across education levels. The Graduate Internship Program primarily targets university graduates, reinforcing the preference for academic pathways. Industry-based training supported through the HRDF largely benefits individuals already employed in firms, rather than new labor market entrants. It remains less clear to what extent youth who exit before completing secondary education are systematically covered by employment promotion programs.

Entrepreneurship support through the YDF, which has been under review since early 2025, has reached a large number of beneficiaries since 2009, including youth without high school credentials. However, projects tend to be small-scale, concentrated in low-productivity sectors, and associated with limited job creation potential. Repayment rates remain low, reflecting both business viability challenges and program design features. Across programs, systematic monitoring of employment outcomes and long-term earnings impacts is limited, constraining learning and program refinement.

Overall, the structure of both training and employment programs reinforces a hierarchical pathway. University education is the primary route to opportunity; technical colleges are a secondary option for Grade 12 completers; and VTCs and brigades are residual alternatives. Employment programs, while extensive, do not yet consistently provide a strong bridge for those who exit the education system earlier or struggle to transition into work.

2.2 Limited integration between industry and training providers

Botswana's skills system operates largely within the public sector domain, with relatively limited structured engagement from employers in governance, delivery, and financing of training. International experience shows that strong employer participation at policy, institutional, and delivery levels is a defining feature of responsive skills systems. In Botswana, engagement exists, but it is uneven and insufficiently institutionalized.

2.2.1 Weak governance architecture for employer engagement

At the national level, there is no fully functional, high-level governance structure that consistently anchors industry participation in skills planning and oversight. Sector Human Resource Development (HRD) Committees under the HRDC exist in principle, but their role remains consultative, and their operational activity has been intermittent. The High-Level Consultative Committee between the government and the private sector, through Business Botswana, is no longer active. As a result, strategic dialogue between government and industry on skills demand, sector priorities, and workforce planning is not yet systematic. While employers may be consulted during qualification and curriculum processes, involvement often occurs at later stages, and training providers tend to dominate technical discussions. The result is a system that remains largely supply-driven.

2.2.2 Limited employer involvement in training delivery and work-based learning

Work-based learning (WBL), including apprenticeships, structured internships, and industrial attachments, was historically more developed in Botswana. The Botswana brigades, for example, were once known internationally for their community-based, training with production model. Today, formal apprenticeship systems have largely lapsed, and attachments, while common in higher education, are not compulsory across all TVET programs. Available placements are scarce and concentrated in the public sector.

Financial arrangements further constrain employer participation. TVET institutions are formally responsible for covering student attachment costs such as transport, meals, and uniforms, yet funding constraints limit their ability to do so. Employers are often asked to absorb these costs. Attachment-related expenses are not claimable under the HRDF, which primarily reimburses firms for training their existing employees under pre-approved plans. As a result, HRDF resources are largely inaccessible for pre-employment or unemployed youth.

A revitalized National Apprenticeship and Student Internship Policy has been drafted but remains pending. Its implementation could provide the regulatory and financial architecture needed to re-establish structured work-based learning pathways.

Box 3. The Construction Industry Trust Fund (CITF): A sector-based financing model

The Construction Industry Trust Fund (CITF), established under the Construction Industry Trust Fund Act, provides an example of sector-based training financing in Botswana. The CITF is funded through a levy on construction projects and was designed to finance training for the construction workforce, including artisans and tradespeople. Unlike the HRDF model, which focuses on firm-based employee reimbursement, the CITF resources were used to support sector-wide skills development initiatives, including pre-employment training. In recent years, the CITF, now renamed Rapid Skills Development Centre, was brought under central government management alongside other vocational training institutions. While this has strengthened oversight, it has also reduced its operational autonomy. The CITF experience illustrates the potential of levy-based sectoral financing mechanisms to support industry-relevant training, particularly in sectors with clear workforce demand, provided governance arrangements ensure strong employer leadership and flexible funding modalities.

2.2.3. Private providers are not operating on a level playing field

Private providers account for a significant share of Botswana's training capacity, yet they remain weakly integrated into publicly funded skills development. Public scholarship recipients can enroll at approved private institutions, so private providers already participate in the publicly financed system. However, they operate on an uneven financial footing relative to public institutions, a financing asymmetry set out in full in Section 2.3, which further limits their integration. This weak integration is not only financial. Private providers are also less consistently included in governance, curriculum, and work-based-learning arrangements discussed above, leaving a large part of the country's training capacity outside the structures designed to align provision with industry demand.

2.2.4. Limited institutional autonomy constrains system responsiveness

Public TVET institutions, including brigades, operate under highly centralized administrative and financial controls that limit their ability to respond to evolving labor market needs. Key decisions related to budgeting, staffing, and program approval remain centrally managed. Institutions cannot independently introduce new programs, adapt curricula, or offer short courses without central authorization. Civil service regulations further restrict flexible teaching arrangements, such as overtime or evening instruction, which limits the ability of institutions to deliver modular or industry-responsive training. Financial rules also constrain institutional initiative: revenues generated from commercial or production activities must be remitted to the central treasury rather than reinvested in training programs or facility improvements.

The experience of Botswana's brigades illustrates the implications of this centralized governance structure. Historically, brigades operated as community-based training centers using a "training-with-production" model that combined skills instruction with commercial production activities. This approach generated income for training centers, provided trainees with practical work experience, and anchored training in local economic activity. Following their integration into the centralized public TVET system, however, brigades adopted standardized curricula and lost much of their operational autonomy. As a result, their ability to tailor training programs to local labor market needs and generate supplementary revenue has diminished.

The Education and Training Sector Strategic Plan (ETSSP, 2015–2020) recognized these constraints and proposed granting TVET institutions greater operational and financial autonomy, alongside strengthened governance and accountability. Implementation of these reforms remains pending. The binding constraint is not the reach of Botswana's extensive training network but its orientation, which remains largely supply-driven, with employers only weakly engaged in governance, financing, and delivery. Without greater institutional autonomy, structured employer engagement, and greater parity between public and private training providers, the system risks remaining supply-driven and insufficiently responsive to labor market demand. Until employers help shape what is taught, how it is delivered, and how it is financed, the country's training infrastructure will keep producing graduates the labor market does not need.

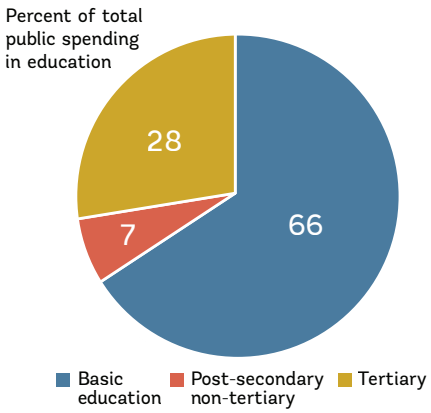
2.3 Public spending is high but reinforces rather than corrects system weaknesses

The pathway hierarchy described in Section 2.1 has important distributional consequences. Income and poverty in Botswana are closely correlated with educational attainment. When post-school pathways are hierarchical and primarily merit-based, the system tends to amplify pre-existing inequalities rather than offset them. Behind this hierarchy lies a financing structure that disproportionately benefits youth from higher-income households, leaves alternative pathways structurally weaker, and operates with limited accountability for outcomes.

Within the high overall envelope set out at the beginning of this chapter, public spending is heavily weighted toward the levels and learners that are already best served. Of the BWP 17.4 billion spent on education in 2024/25, basic education absorbed about 66 percent (BWP 11.4 billion), tertiary education 28 percent (BWP 4.8 billion), and post-secondary non-tertiary institutions, primarily the formal TVET sector, only 7 percent (BWP 1.2 billion) (**figure 22**).

The tertiary envelope is also under growing pressure. Public spending on tertiary education has been essentially flat in nominal terms since 2018/19, moving between BWP 4.4 and 5.0 billion despite an expanding student cohort. In real terms, per-student tertiary spending has therefore declined, even as the population of tertiary-age youth has continued to grow. Improving outcomes will depend on reallocation within the post-school envelope rather than adding to it.

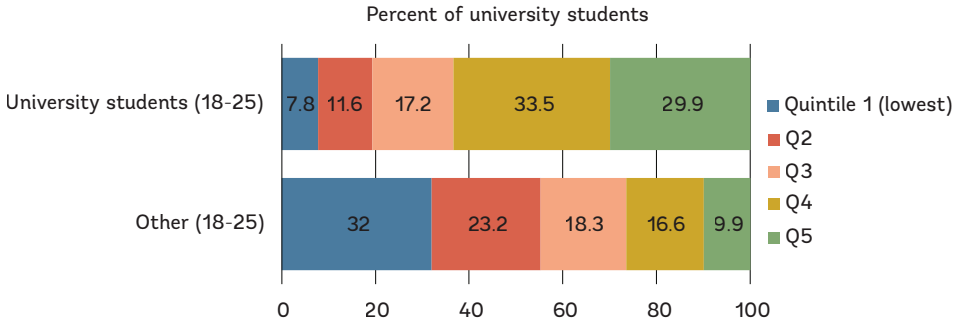
Figure 22. Education spending by level



Source: World Bank staff calculations using BOOST data (2024/25)

Within this envelope, public financing is concentrated on students who have already succeeded academically. Admission to higher education is competitive and merit-based, and once admitted, most students receive scholarships. At some private universities, the majority of students are publicly sponsored. While adjustments are made for vulnerable groups, including orphans and students from rural areas, the overall system remains primarily merit-based. The distributional implications are clear. Earlier household survey data indicate that more than 60 percent of university students come from the two highest income quintiles, while almost 20 percent come from the poorest two (**figure 23**). These inequalities are reinforced by strict progression requirements applied by the Department of Tertiary Education Financing, under which students failing 50 percent or more of their modules may lose their sponsorship. This appears to disproportionately affect students from poorer backgrounds, many of whom are unable to finance repeat modules or continue their studies once sponsorship is withdrawn. Public PSET resources, therefore, flow disproportionately to a relatively small group of young people who have already navigated the academic system successfully, and who are disproportionately drawn from higher-income households.

Figure 23. Socio-economic status quintile breakdown of 18–25-year-olds by university attendance, 2015/16



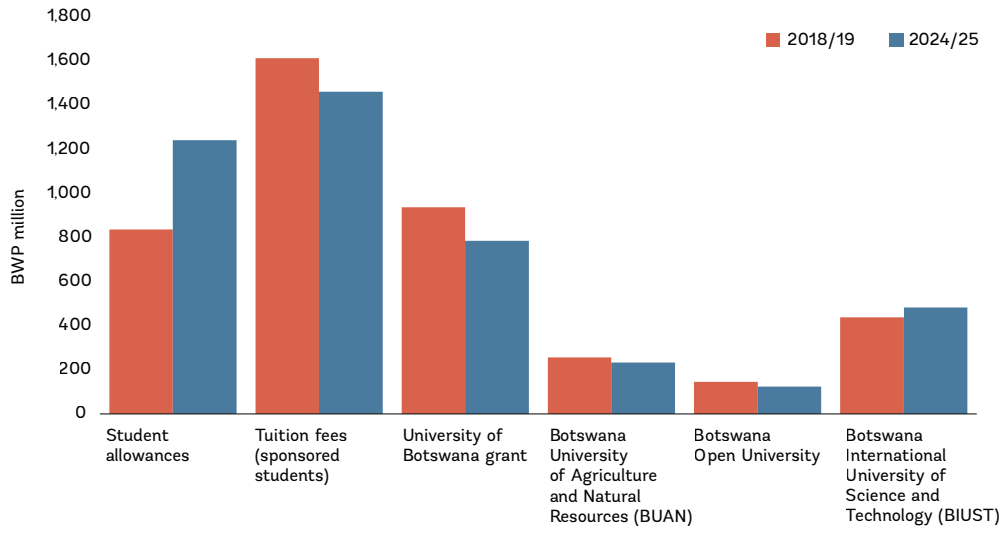
Source: World Bank (2019). Public Expenditure Review of the Basic Education Sector in Botswana. Based on Botswana Multiple Topic Household Survey, 2015/16

A structural shift in post-school financing is underway. Public money increasingly flows through students rather than directly to institutions, but no explicit policy choice has been made about whether or how this shift should occur. The shift is most visible at the tertiary level, where 94 percent of public spending in 2024/25 was classified as transfers. The composition of those transfers tells a more nuanced story than a single number suggests. A detailed line-item analysis of the 2024/25 tertiary transfer envelope of BWP 4.5 billion shows that:

- **Student-side spending,** comprising student allowances, stipends, and tuition fees paid on behalf of sponsored students, accounted for about 61 percent of transfers (BWP 2.7 billion). Student allowances alone reached BWP 1.24 billion, with tuition fees paid to public and private institutions on behalf of sponsored students contributing a further BWP 1.46 billion.
- **Institutional grants,** comprising core funding to a small number of named institutions, accounted for 37 percent of transfers (BWP 1.68 billion). These grants went to the University of Botswana, Botswana International University of Science and Technology (BIUST), Botswana University of Agriculture and Natural Resources (BUAN), Botswana Open University, Botswana Accountancy College, and mission hospitals, with the University of Botswana receiving the largest share (BWP 785 million).
- **Regulatory bodies and miscellaneous items** (BQA, Botswana Teaching Professionals Council (BOTEPCO), awards, international commitments) made up the remaining 2 percent (BWP 94 million).

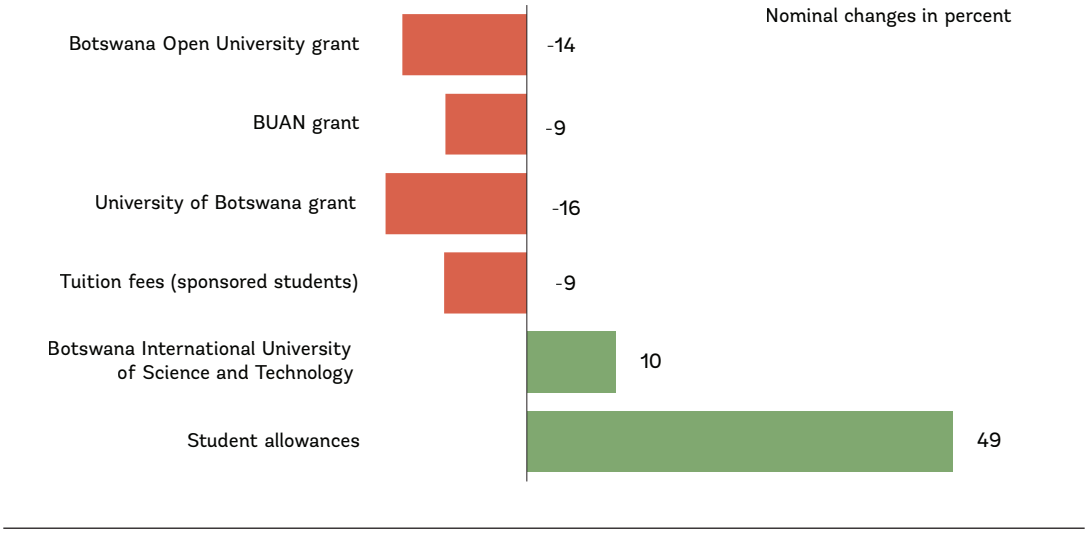
Within a flat tertiary envelope, public funds have been steadily reallocated from direct institutional support to student-side transfers since 2018/19. Student allowances have grown by 49 percent in nominal terms, while tuition fees paid for sponsored students have declined by 9 percent. The institutional grants have moved the other way. The institutional grants to the University of Botswana have fallen by 16 percent in nominal terms, the grant to BUAN by 9 percent, and the grant to Botswana Open University by 14 percent (**figures 24** and **25**). Adjusted for inflation, these institutional grants have declined by 25 to 30 percent in real terms over the period. Only the grant to BIUST, still in the build-out phase, has grown modestly. The overall pattern is clear. Botswana is already moving toward a per-student "funding-follows-the-learner" model in practice, but is doing so without explicit policy direction, without performance criteria, and without rebalancing toward institutions or pathways that serve disadvantaged youth.

Figure 24. Student allowances and institutional grants: 2018/19 to 2024/25



Source: World Bank staff calculations using BOOST data

Figure 25. Nominal change: 2018/19 to 2024/25



Source: World Bank staff calculations using BOOST data

Alternative pathways to university education remain weaker and less attractive. For youth who do not enter university, TVET is the principal alternative, and brigades and VTCs are formally open to Grade 10 completers. As Section 2.1 sets out, however, these institutions are underfunded relative to their capacity, operate well below it, and deliver weak labor market returns.

The 2025 reform extending student support to lower-level TVET students in public VTCs and brigades represents a welcome step toward leveling educational access, though its fiscal sustainability will need close monitoring. The reform currently covers approximately 5,600 students and will require the introduction of a new student allowance amount. If allowances were set at levels comparable to those provided at the tertiary level (where student allowances average around BWP 21,000 per student per year), the fiscal impact at current enrollment would be modest, in the region of BWP 110 to 120 million annually. However, if the reform incentivizes the enrollment increases that lower TVET utilization rates (currently 56 percent) would allow —and is partly intended to encourage— the cost could rise significantly. A doubling of TVET enrollment to fill existing capacity would imply an annual allowance bill of BWP 200 to 250 million, on top of any operational costs associated with running institutions at higher utilization. The reform is sound on equity grounds, but its fiscal envelope should be set explicitly, and it should be paired with mechanisms such as completion-linked or employment-linked allowance schedules that guard against open-ended cost growth at a time when the overall education envelope is unlikely to expand.

Private provision plays a significant role in the system but is not well integrated into the public financing framework. Of Botswana's 80 formal post-school institutions in 2023, three are private universities and 18 are private colleges, together enrolling 14,111 students —about 23 percent of all post school enrollment— down from 43 percent a decade earlier. BQA lists over 500 registered TVET providers, the majority of which are non-governmental, yet national enrollment and outcome data focus primarily on public institutions, which constrains system-wide planning.

Public scholarship recipients can enroll at approved private higher education institutions, and tuition fees paid on their behalf flow to those providers. In this sense, private providers already participate in the publicly financed system. However, tuition fees are subject to government approval and are often capped below cost-recovery levels, and private providers do not receive operational subsidies, research funding, or capital grants comparable to those flowing to public institutions. The result is an asymmetric financing arrangement: public institutions benefit from direct budget allocations and capital investment, while private institutions rely primarily on regulated tuition income. The volatility of the public financial arrangements with private institutions also restricts further investments by the private sector in tertiary education. Systematic data on private financing flows, including household out-

of-pocket payments, tuition income from non-sponsored students, and any non-government revenues, are not currently published, which limits the ability to assess the full contribution of private resources to the system.

Beyond direct spending, levy-funded resources flowing through the HRDF and the CITF (Rapid Skills Development Center) represent an additional but largely off-budget envelope for skills development. These flows are not captured in **figure 22**, which makes the total resource envelope available for skills development larger than the direct budget tables suggest. A consolidated view of the skills financing system, encompassing the central budget, levy-funded resources, and household contributions, would help policymakers understand the full scale of the resource base and identify opportunities for reallocation across instruments.

These features describe a financing system that disproportionately benefits youth from higher-income households and leaves alternative pathways structurally weaker. It is also drifting toward a per-student model without policy direction or performance criteria and offers little visibility into the contribution of private providers or off-budget resources. Rebalancing the system points to five parallel adjustments:

1. Strengthen the quality, status, and labor market relevance of alternative pathways, including TVET, particularly for youth who exit before finishing school.
2. Make the implicit shift toward per-student financing transparent, outcomes-linked, and pro-poor by design.
3. Bring private providers and off-budget resources into a more coherent financing framework.
4. Ensure that new spending commitments such as the TVET allowance reform are designed with explicit fiscal envelopes and performance criteria from the outset.
5. The upcoming policy priorities discussed provide the architecture for these adjustments, but they cannot succeed unless the financing framework is addressed in parallel.

2.4 Limited focus on results and value for money

A well-funded education and training system should be able to show what its funding achieves. Botswana's system largely cannot. It is managed by its inputs — namely budgets, enrollment, and infrastructure— far more than by the employment, productivity, and poverty outcomes those inputs are meant to produce. This is not a minor gap. Without knowing what the system produces, it is hard to design reforms well, target them at the people who need them most, or determine whether they are working.

Monitoring and evaluation arrangements in the skills and employment space remain fragmented. The HRDC maintains management information for the formal Post-School Education and Training (PSET) sector, including public TVET institutions. Yet large segments of the skills ecosystem fall outside this reporting framework. Private providers who constitute the majority of registered TVET institutions are not comprehensively captured. Similarly, data on youth employment and entrepreneurship programs are dispersed across ministries and agencies and are not consolidated into a unified results framework. As a result, there is no complete picture of (1) total enrollment and completion across all skills programs; (2) participation in employment and entrepreneurship initiatives; (3) unit costs across different training pathways; and (4) employment, earnings, or enterprise survival outcomes of beneficiaries.

Where outcome data exists, they are one-off rather than systematic. Tracer studies have been conducted, mainly in the formal TVET sector, but they are ad hoc, not institutionalized, and not linked to funding decisions or program reform. Some institutions track their graduates, but there is no consolidated national graduate outcomes system. Labor market data are therefore insufficiently integrated into skills planning.

This information gap has implications for resource allocation. Public spending patterns reveal significant variation in per-student allocations across education streams, yet full economic unit-cost comparisons accounting for subsidies, infrastructure, and allowances, are not routinely published. Nor is there a systematic comparison of the cost per employed graduate across pathways (university, technical colleges, VTCs, brigades, employment programs, or entrepreneurship funds). Without such metrics, it is difficult to assess value for money, and the reallocation that Section 2.3 argues for cannot be steered with any precision.

The absence of outcome-based monitoring also weakens accountability. Examples include: (1) The HRDF reimburses firms for employee training, but systematic evidence on productivity gains or employment expansion is limited; (2) entrepreneurship funds report on disbursements and the number of beneficiaries, but survival rates, business growth, and employment creation are not consistently tracked; and (3) TVET institutions report enrollment and graduation numbers, but not standardized employment or earnings outcomes.

These gaps are not only a measurement problem. They are themselves evidence of the central recommendation that follows in the policy priorities: that information infrastructure should be treated as a precondition for reform rather than an afterthought. A financing model that follows the learner cannot guide students who lack comparable information on program outcomes. Funding cannot be linked to results that are not measured. Greater institutional autonomy is safe only where performance can be observed and compared. The fact that data is not readily available to calculate the cost per employed graduate by provider type, or to identify which providers deliver the strongest labor market returns, is itself the clearest demonstration of why building these systems must be a priority.

In the context of fiscal pressures and high youth unemployment, improving the results orientation of the skills system is not merely a technical refinement. It is central to ensuring the efficient use of public resources. International experience shows that countries that link funding to performance indicators such as graduate employment rates, employer satisfaction, and earnings outcomes tend to achieve stronger alignment between training provision and labor market demand. Strengthening data systems would allow Botswana to move from managing inputs (budgets, enrollment, infrastructure) to managing outcomes (employment, productivity, inclusion). A consolidated skills and employability dashboard— covering public and private provision, education and employment programs, and linking administrative data with labor force surveys— would provide the evidence base needed to steer reform and improve value for money.

2.5 Policy priorities for strengthening skills development and employment outcomes in Botswana

Botswana does not lack strategies or policy frameworks for strengthening its skills development system. Over the past decade, the government has produced several major reform documents that diagnose key constraints and articulate a direction of travel that is broadly consistent: stronger employer partnerships, expanded work-based learning, improved TVET relevance, and a greater focus on outcomes. Many of these reforms remain pending approval or are only partially implemented, including key policies related to TVET governance and apprenticeships. Advancing the approval and operationalization of these policies is an important step, particularly where they strengthen employer involvement and shift the skills system toward greater results orientation. However, policy approval alone will not be sufficient. The priority now is to move decisively into implementation and to create practical delivery mechanisms that improve training quality, strengthen pathways from education to employment, and widen opportunities for youth from lower-income households and those without secondary education.

Experience from many countries suggests that system-wide reforms that require multiple institutions to move in lockstep can take years to gain traction. Botswana can accelerate reform by building from a more implementation-focused entry point: sector-based partnerships in priority industries where demand is clearer, employer participation can be mobilized more readily, and early results can build momentum. Sector-driven implementation also provides a concrete mechanism for making TVET and other non-university pathways more credible for individuals, because it links training choices directly to real occupations and real jobs.

The four priorities set out in the following reform agenda are mutually reinforcing and are unlikely to succeed in isolation. Sector skills and jobs compacts provide the platform; expanded work-based learning and greater institutional autonomy are the delivery mechanisms; and a reformed financing framework underpins them all.

The sector skills and jobs compacts bring employers, government, and training providers together to map workforce demand across Botswana's priority economic sectors, from entry-level operators and artisans to technicians and professionals. They then serve as the organizing platform for two mutually reinforcing delivery streams:

1. **The expansion of structured workplace learning** through HRDF-supported apprenticeships, internships, and industry training.
2. **A more responsive training system that updates curricula,** introduces new programs, and aligns provision across universities, TVET institutions, private providers, and youth employment initiatives.

To enable rapid adaptation, participating TVET institutions would progressively gain greater operational autonomy, balanced by stronger accountability for labor market outcomes. Underpinning all of this, the financing framework would be reformed so that the per-student model is made pro-poor by design, is applied consistently across public and private providers, and is increasingly linked to measurable outcomes in completion, work-based learning participation, graduate employment and opportunities for disadvantaged youth. Together, these reforms can strengthen the alignment between skills supply and labor market demand while improving the value for money generated by Botswana's substantial investment in PSET.

Table 3. A reform architecture for skills, jobs and inclusive growth

STARTING POINT	A COHERENT REFORM ARCHITECTURE, ANCHORED IN SECTORAL DEMAND				
Four structural challenges in Botswana's skills system	**ANCHORED IN** **Priority economic** *sectors*	**PRIORITY 1** **Sector Skills & Jobs** ***Compacts*** *Employer-led implementation platforms*			**OUTCOME** **Skills meet** *labor market demand*
		Map & coordinate	**Mobilize employers**	**Include the underserved**	
1 CHALLENGE Pathways skewed toward university; weak TVET routes	Mining Renewable energy Construction Tourism Health Manufacturing	Map workforce demand across all skill levels; coordinate training across universities, TVET, private providers and youth employment programs	Bring employers into a co-ownership role: workplace placements, curriculum input, and accountability for outcomes	Open pathways for early school leavers via short-cycle training, bridging courses, and Recognition of Prior Learning (RPL)	*Stronger employment, broader opportunity, and economic diversification*
	SUPPORTED BY THREE ENABLING REFORMS				
	PRIORITY 2 **Expand** *industry-based training*		**PRIORITY 3** **Institutional** *autonomy with accountability*		**PRIORITY 4** **Pro-poor** *financing model*
2 CHALLENGE Limited industry-training integration	> Broaden HRDF eligibility beyond formal apprenticeships		> Modify or introduce training programs in response to demand		> Formalize the per-student framework with clear, pro-poor rules
3 CHALLENGE Financing reinforces rather than corrects inequalities	> Simplify approval & claims procedures, especially for SMEs		> Recruit and manage instructors with greater flexibility		> Build the information base so students can make informed choices
4 CHALLENGE Input-driven system, weak focus on results	> Earmark levy income for unemployed youth and first-time jobseekers		> Retain and reinvest own-generated revenue > Balanced by stronger monitoring; earned, not assumed		> Design the TVET allowance reform with an explicit fiscal envelope > Level the playing field across public and private providers

2.5.1. Priority 1: Build sector skills and jobs compacts to make TVET and non-university pathways viable

A recurring constraint in Botswana's skills and employability system is the weak connection between training provision and labor market demand. This is not only a question of curriculum relevance or employer engagement; it also shapes how individuals perceive their education and career options. For many young people and families, the system continues to signal that university is the primary pathway to opportunity, while TVET and other non-university routes are viewed as second-best options with uncertain labor market returns. Strengthening the credibility of technical and vocational pathways will therefore require clearer and more reliable links between training, occupations, and employment.

A practical way to address this challenge is to organize implementation around a small number of priority economic sectors aligned with the Botswana Economic Transformation Programme (BETP). Sector-based approaches allow stakeholders to focus on concrete labor market needs and coordinate training delivery, work placements, and employment support more effectively than system-wide reforms alone. Botswana could therefore establish sector skills and jobs compacts in two to four priority sectors where employer demand is strong, and workforce constraints are most visible. These compacts would not require the creation of new agencies but would function as coordination platforms that align existing programs, training provision, and employer participation around clearly identified labor market needs. Potential sectors include mining, renewable energy, construction, tourism, health services, and selected manufacturing value chains. Beginning with a limited number of sectors would allow Botswana to demonstrate early results, develop effective partnership models, and scale the approach gradually.

Each compact would bring together employers, training institutions, relevant ministries, and regulatory bodies such as HRDC and BQA to jointly identify priority occupations and translate these into training and workforce development responses. This should include not only skills-sector ministries, but also ministries with the ability to leverage community-level and employment-linked interventions, notably the Ministry of Local Government and Traditional Affairs (MLGTA), alongside the Presidential Youth Empowerment Campaign (PYEC) in its coordination role. Unlike consultative forums, these partnerships should operate as practical implementation platforms with clear responsibilities, strong private-sector leadership, and a formal government mandate that anchors participation and accountability across institutions. Their mandate would include coordinating training provision across institutions, mobilizing employers to offer workplace learning opportunities, and strengthening the transition from training into employment.

A key feature of the sector compact model is that it addresses workforce needs across the full spectrum of skills levels. Modern industries rely on teams that include semi-skilled operators, artisans, technicians, supervisors, and professionals. Sector compacts should therefore map occupational demand across this continuum and ensure that training pathways, from university programs to TVET courses, apprenticeships, and youth employment initiatives, are aligned with real labor market opportunities. This approach can help create clearer progression routes for learners with different educational backgrounds and ensure that young people entering the labor market have access to viable pathways into productive employment.

This full-spectrum approach also allows the compacts to reach vulnerable youth, particularly those who leave school before Grade 10 and have very limited access to formal TVET. By grounding skills planning in actual industry demand, the compact approach brings into focus the full occupational structure within priority sectors, including the large number of entry-level and lower-skilled jobs that are often most relevant for disadvantaged youth. Bringing employers, TVET institutions, private providers, and youth employment programs into a single sector platform creates the conditions for developing tailored responses, including short-cycle training, bridging courses, firm-based induction, and community-linked pathways aligned to real vacancies. In this context, Botswana's newly introduced Recognition of Prior Learning (RPL) framework can play an important complementary role by enabling youth and workers with informally acquired skills to obtain formal recognition and transition into further training or better jobs. By integrating skills development planning, RPL pathways, and employment promotion within one delivery architecture, the compact model is, therefore, well placed to increase policy and operational attention to low-income, low-educational-attainment youth who are currently underserved by the formal system.

Sector compacts can also address an important gap in Botswana's skills ecosystem: limited coordination of career guidance and transition support. Improving the viability of TVET requires more than upgrading training infrastructure. Young people need clearer information about career opportunities, expected earnings, and the training required for different occupations. Sector partnerships can help strengthen career services by linking labor market information with training programs and by connecting learners more directly with employers and placement opportunities.

In addition, the compact model can provide a practical mechanism for coordinating existing youth employment programs. Botswana currently operates several initiatives, including graduate internships, entrepreneurship support programs, and public service programs, but these initiatives often operate independently. Sector-based partnerships could help align these programs with workforce needs in priority sectors, expand access for youth with different educational backgrounds and turn fragmented support into clearer pathways into work.

The proposed sector skills and jobs compacts differ from earlier employer engagement mechanisms such as industry councils and high-level consultative committees, because they are designed as employer-led delivery platforms rather than primarily advisory bodies. Their stronger implementation potential lies in a clear operational mandate that spans the full skills development value chain, from workforce demand identification to the design and execution of training solutions. The model shifts employer engagement from consultation to co-ownership of implementation, increasing the likelihood that dialogue translates into measurable labor market outcomes.

International experience supports the effectiveness of sector-based approaches. Countries such as Ireland and Singapore have used sector skills frameworks to align training provision with industry demand, while World Bank-supported initiatives in countries such as Senegal have demonstrated how sector partnerships can strengthen employer participation and improve labor market outcomes for graduates. While Botswana's institutional context differs, these experiences highlight the value of sector platforms that anchor training reforms in real labor market demand. **Table 4** summarizes selected international experiences.

Table 4. International experience with sector-based skills partnerships

Country	Institutional model	Key functions	Relevance for Botswana
Ireland	Sector skills emerging councils under the national skills strategy	Employer-led councils identify skills needs, conduct labor market analysis, and advise education and training providers on curriculum changes and program development.	Demonstrates how sector-based governance structures can strengthen alignment between education systems and industry needs while maintaining strong employer leadership
Singapore	Industry transformation maps and sector skills frameworks	Sector-specific frameworks integrate skills development, industrial policy, and workforce planning	Illustrates how sector-focused workforce planning can align training investments with economic diversification strategies and technological change
Senegal	Sector "clusters" under the Skills for Jobs and Competitiveness Project	Training institutions organized into sector clusters guided by boards with strong private-sector representation Boards help define training priorities, oversee curriculum reform, and coordinate partnerships between training providers and employers	Shows how sector-based governance mechanisms can be used to strengthen employer participation in training systems and improve the labor market relevance of programs
Malaysia	Sector skills development committees	Sector committees involving industry representatives and training providers guide the development of occupational standards and support apprenticeship programs under the National Dual Training System	Demonstrates how sector partnerships can support the expansion of workplace-based learning and industry training pathways

Source: Adapted from international workforce development literature and World Bank project experience

For Botswana, sector compacts represent a practical entry point for strengthening the credibility of technical pathways. By focusing initially on sectors where employment demand is clear, Botswana can demonstrate that technical and vocational routes lead to real jobs, thereby improving the perception and attractiveness of TVET. Over time, successful sector partnerships can provide a foundation for broader skills system reforms while delivering immediate improvements in employment outcomes for young Batswana.

2.5.2. Priority 2: As part of the compacts, scale apprenticeships and industry training for new labor market entrants through the HRDF

Work-based learning is one of the strongest predictors of a successful transition from training into employment. Botswana has recognized this through draft policies on apprenticeships and internships, but implementation has lagged, and workplace learning opportunities remain uneven and fragmented. Expanding structured work-based learning should therefore be treated as both an immediate implementation priority and one of the central operational mandates of the proposed sector skills and jobs compacts. A core function of the compacts should be to identify occupations most suited for workplace learning, mobilize employers to provide apprenticeship, internship, and attachment placements, and establish minimum quality standards for structured workplace training. This is particularly important in sectors where employer demand is clear and where sector-based partnerships can translate skills needs directly into scalable workplace learning opportunities.

The HRDF provides a potentially powerful instrument to support this shift, but its current design works against it. Originally designed to strengthen workforce development through employer contributions, HRDF has largely been used to reimburse firms for training existing employees. This is useful for upgrading the current workforce, but it does little to address youth unemployment or support new entrants to the labor market. Reorienting a portion of HRDF resources toward structured workplace training and entry-level industry training would help provide unemployed youth with the workplace exposure needed to transition into employment. This would require broadening reimbursement eligibility beyond formal apprenticeships to include the full range of employer-incurred work-based learning costs, including internships, industrial attachments, and other structured workplace training modalities. Greater flexibility should also be introduced in the range of reimbursable training courses and short-cycle industry programs linked to sector demand, alongside simplified approval and claims procedures to reduce administrative burdens that currently discourage employer uptake, particularly among Small and Medium Enterprises (SMEs). In addition, a designated share of levy income could be earmarked for labor-market-oriented training for unemployed youth and first-time jobseekers, offset by a corresponding reduction in reimbursements with limited demonstrated employment impact, following the logic of demand-responsive funding windows such as South Africa's Skills Development Fund.

Tied to the compacts, these resources can co-finance the elements that make workplace learning work, including trainee allowances, mentorship support, and certification. Sector partnerships would identify priority occupations suited to apprenticeship pathways and bring employers to the table, while HRDF co-financing would create a predictable pipeline of placements for young entrants that Botswana currently lacks. Expanding workplace learning in this way also reinforces the credibility argument made under Priority 1, since technical training that visibly leads to employment strengthens employer confidence in graduates and shifts how families view TVET.

International experience shows that apprenticeship systems and industry-led training partnerships are most effective when employer responsibilities are clearly defined and financing mechanisms reduce the costs of participation while maintaining strong incentives for firms to train. Germany's dual system institutionalizes employer participation in training delivery and certification, while countries such as Malaysia and South Africa have adapted similar approaches by linking workplace learning to levy-funded training schemes and structured industry partnerships. Across these systems, the common lesson is that effective workforce development models combine strong employer leadership, clear training standards, and financing arrangements that make workplace-based learning feasible at scale. Successful approaches also integrate training pathways across education levels and establish mechanisms to translate labor market information into curriculum reform and training provision, helping ensure that skills development systems remain aligned with evolving labor market demand.

The task, then, should be to move from fragmented initiatives to structured, scalable models of work-based learning. Botswana already has draft apprenticeship and internship frameworks available, as noted in Section 2.2. Approving and operationalizing these policies and the legal framework and aligning HRDF financing rules accordingly would help create a coherent system that supports youth entering the labor market while strengthening links between training institutions and industry.

2.5.3. Priority 3: Grant greater autonomy to TVET institutions, balanced by stronger monitoring and reporting

Strengthening the viability of TVET requires more than expanding access or providing scholarships. Training institutions must be able to respond quickly to changing employer demand and adapt programs to evolving technologies and workplace practices. In Botswana, however, many public TVET institutions operate under centralized management arrangements that limit their ability to adjust courses, recruit instructors, manage performance, and build partnerships with employers. Greater operational flexibility at the institutional level is therefore essential if TVET is to become a credible pathway into employment.

Botswana has prior experience with more decentralized training models. As noted in Section 2.2, the brigades once operated as locally responsive, production-based training institutions with strong links to local markets and communities before centralization eroded that autonomy. That experience is a useful precedent, but institutional arrangements have changed, and today's providers vary widely in capacity and leadership. Autonomy should therefore be introduced gradually and based on readiness, rather than applied uniformly across the system.

A pragmatic approach would be to grant increasing operational flexibility to institutions that demonstrate readiness. Minimum conditions should include capable leadership and governance structures, sound financial management systems, transparent human resource practices, and the ability to collect and report reliable administrative data. Institutions should also demonstrate the capacity to engage with employers and implement quality assurance processes aligned with national qualification standards. Establishing these foundations helps ensure that autonomy improves responsiveness and performance rather than weakening oversight.

In practical terms, institutional autonomy should allow TVET providers to adjust training programs in response to sector demand, including the introduction of modular and term courses where appropriate. Institutions should have greater flexibility in recruiting and managing instructors, including the ability to address persistent performance issues. They should also be able to retain and reinvest revenues generated through partnerships or training-with-production activities, thereby reducing reliance on central budget transfers over time. Finally, institutions should assume clearer responsibility for tracking graduates and strengthening employer linkages that support the transition from training to work.

Greater autonomy must be balanced by stronger accountability, and this is where the information infrastructure identified in Section 2.4 becomes a precondition rather than an add-on. Autonomy is only safe where performance can be observed and compared, yet Botswana's current monitoring is fragmented and data on graduate employment outcomes are limited. Expanding institutional flexibility must therefore go hand in hand with stronger systems to collect, analyze, and publish information on key indicators, including enrollment, completion, certification, participation in work-based learning, and graduate employment. Tracer studies should be institutionalized rather than conducted only periodically, and administrative data should be structured to enable performance comparisons across institutions and pathways. Without this, autonomy risks becoming unaccountable, and the system would lose the very oversight that makes flexibility worth granting.

This is also where the sector compact approach helps. Sector partnerships can provide a mechanism for defining key outcome indicators for employers and for ensuring that institutions remain anchored in labor market demand. Over time, improved reporting and monitoring systems will provide the foundation for the next phase of reform, of linking financing more explicitly to results.

2.5.4. Priority 4: Make per-student spending model shift explicit, outcomes-linked and pro-poor

As Section 2.3 documents, Botswana already operates much of its post-school financing on a per-student basis. Public money increasingly follows the learner rather than flowing to institutions, but this has happened through the accumulation of separate decisions rather than as an explicit policy choice. Priority 4 recommends recognizing that direction and building the framework that a per-student model needs to work well, because the model is sound in principle but risky in its current unmanaged form.

The benefits of a per-student financing model are real, but so are the risks. A per-student model lets public funding follow learner choices, exposes institutions to competitive pressure to improve, and gives students the agency to pick the programs and providers that suit them. However each of these benefits depends on one condition that Botswana does not yet meet, which is that students can make informed choices. As Section 2.4 sets out, credible information on program quality and graduate outcomes is largely unavailable, so the implicit model is operating in an information vacuum. The predictable result is that demand concentrates on a small number of high-prestige academic pathways even where their labor market returns are uncertain, while alternatives with potentially stronger employment outcomes struggle to attract students, and students remain exposed to low-quality programs. A credible per-student financing model therefore requires three parallel reforms: (1) getting the rules right, (2) building the information base that informed choice depends on, and (3) protecting equity and value for money.

1. **Getting the rules of the framework right.** The 2025 reform extending student support to lower-level TVET creates a natural opportunity to review the per-student framework across the post-school system, with clear rules on which students qualify, on what terms, and with what expectations regarding completion and labor market outcomes. Within that framework, scholarship allocation should incorporate stronger needs-based criteria to ensure that students from disadvantaged backgrounds are not excluded by a primarily merit-driven admissions system that disproportionately favors youth from higher-income households. Botswana's Social Registry can play an important role here by helping identify potential beneficiaries for needs-based scholarships and for new employment and skills programs targeted at more vulnerable youth, including those who are work-ready but lack market-relevant skills.

   The new TVET allowance line should be designed with an explicit fiscal envelope and performance criteria from the start. Section 2.3 shows that its cost could rise substantially if enrollment grows toward capacity, and in a context where the overall education budget is unlikely to expand, that growth must be managed deliberately. Practical features could include allowance schedules tied to enrollment in the priority occupations and sectors identified through the compacts, completion- or attendance-linked disbursements, and fiscal envelopes set annually rather than open-ended entitlements.

2. **Build the information base that students need to make informed choices.** A per-student model only works when students can compare programs on the basis of credible evidence. Botswana should therefore institutionalize graduate tracer studies covering all major post-school institutions, public and private, with results published at the program level and updated annually. The information should include graduate employment rates, earnings outcomes, time-to-employment, and the proportion of graduates working in fields related to their training. A simple public-facing platform, hosted by HRDC or another appropriate body, would allow prospective students and their families to compare options before enrolling. Over time, this information becomes the foundation for both informed student choices and results-based institutional funding (discussed below). Without it, neither can function well.

3. **Protect equity and value for money.** Scholarship reform should be paired with quality and labor market relevance criteria. In the near term, public financing for TVET should favor programs with credible routes to employment or self-employment, including those with active employer partnerships through the compacts, adequate equipment and instructor capacity, and demonstrated graduate outcomes. This shields students from low-quality programs and gives institutions an incentive to improve. Care is needed not to entrench geographic inequality. Rural institutions, which sit further from industry, could be supported through targeted investment, partnerships with local enterprises, and entrepreneurship-focused training, so

that students outside the main urban labor markets are not disadvantaged. As institutions strengthen their programs and industry links, eligibility for student support could widen.

Pro-poor financing should also include bridging and foundational programs for students on the margin of university entry or who need more preparation to succeed in technical programs. Bridging courses in mathematics, science, languages, and digital skills can provide a second chance for learners whose schooling has not adequately prepared them for tertiary education. Such programs can also strengthen progression between pathways, allowing learners to transition from certificate-level training into higher-level technical qualifications over time. When aligned with sector priorities and linked to work-based learning opportunities, bridging programs can help broaden access to productive employment pathways.

As graduate outcome data become more comprehensive and reliable, a portion of institutional funding can be linked to measurable outcomes such as completion rates, certification outcomes, participation in work-based learning, and graduate employment. This would help align institutional incentives with national skills objectives and provide well-performing institutions with a clear pathway to expand their resource base. The same data that informs student choice becomes the foundation for results-based institutional funding, which is why investments in tracer studies and performance reporting (also discussed under Priority 3) are a precondition for this reform.

The framework should also be extended consistently across public and private providers. As Sections 2.2 and 2.3 set out, private providers carry a large share of training capacity but operate on asymmetric terms, relying on regulated tuition while public institutions receive direct budget and capital support. Letting public funding follow the learner regardless of provider would address this imbalance without raising total public spending, by reallocating existing resources based on enrollment, quality, and employment outcomes. Qualified private providers delivering programs aligned with national priorities and meeting quality standards would receive public financing per enrolled student on terms comparable to public institutions. This would expand capacity, improve the efficiency of public spending, and encourage competition on quality and employment outcomes rather than on institutional ownership.

Finally, the design of the per-student framework should be informed by a consolidated view of the resource base. Levy-funded resources flowing through the HRDF and the CITF (now Rapid Skills Development Center) represent a substantial but largely off-budget envelope for skills development that is not currently visible in the central budget tables. A consolidated view of the skills financing system, encompassing the central budget, levy-funded resources, household contributions, and private provider revenues, would help policymakers understand the full scale of the resource base, identify opportunities for reallocation across instruments, and make informed choices about how the per-student framework should be designed.

CONCLUSION: FROM POLICY FRAMEWORKS TO IMPLEMENTATION

Botswana's skills problem is not one of intent, effort, or money. The country spends more on education than almost any of its peers and has produced a decade of strategies that diagnose the right problems. What it has lacked is implementation, and the cost of that gap is now rising. A shrinking diamond dividend, mounting fiscal pressure, and a large cohort of young people moving through the system at the same time mean that the old model—sponsoring ever more students through university and absorbing them into public employment— can no longer carry the weight placed on it. The choice is no longer whether to reform, but whether reform happens by design or by default.

The four priorities in this chapter are best understood as one move, not four. Within a budget that is unlikely to grow, the task is to reallocate toward the pathways the economy needs, reorient provision around real labor market demand, and steer both with evidence on what works. Sector skills and jobs compacts are the entry point because they make demand visible and give employers a stake in meeting it. Expanded work-based learning and greater institutional autonomy are how the system responds to that demand. A reformed, pro-poor financing model is what directs public money toward results rather than prestige. Running through all of them is the information base, without which none can be targeted, funded, or held to account. These reforms reinforce one another, and if pursued in isolation, each is likely to under-deliver.

What makes this moment different is that much of the groundwork is already in place. The per-student financing model exists in practice and needs only to be made explicit and pro-poor. Draft apprenticeship and TVET-autonomy policies have been written and await approval. The Recognition of Prior Learning (RPL) framework and the Social Registry are operational and can be put to work for disadvantaged youth. The binding constraint is no longer the design, but the decision to act— starting in sectors where labor demand is most evident, and results can be demonstrated.

The stakes extend well beyond the skills system. Whether Botswana can diversify its economy, absorb its young people into productive work, and sustain its development gains in a post-diamond era depends largely on whether the substantial resources already committed to education begin to translate into employment and productivity. The reforms set out here will not deliver that on their own, but without them the gap between what Botswana spends and what it gets will continue to widen. Acting now, deliberately and in sequence, is what turns a well-funded system into a productive one.



www.worldbank.org