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Banknotes

Inside

PROFILE

2003 BANKER OF THE YEAR: *Ms Tsholofelo Ntsayakgosi*

Ms Tsholofelo Ntsayakgosi joined the Bank in 1992 as an Assistant Supervisor in the then Exchange Control Department that was later merged with the Banking Supervision Department to become Financial Institutions Department. She was promoted to Supervisor in April 1996. She was then transferred to the Internal Audit Division in April 1, 1997. In April 1, 2001, Ms Ntsayakgosi was then promoted to Assistant Banking Manager and transferred to Banking Department, Payment Systems Unit (Project and Business Development Unit) where she is currently serving.

Ms Ntsayakgosi obtained a Bachelors Degree in Arts (Economics and Accounting) from the University of Botswana in 1992, Associate Diploma in Banking from the Botswana Institute of Bankers in 1994, Master of Policy Studies from Southern Africa Political and Economic Series (SAPES) in Zimbabwe in 2000, Professional Diploma in Network Centred Computing from National Institute of Information Technology (NIIT) in 2001 and Master of Business Administration (MBA) from University of Botswana in 2003, all of which she acquired through part-time studies except the first one.

In addition to winning the 2003 Banker of the Year Competition, Ms Ntsayakgosi has also previously received the Barclays Bank Completion Award and the Bank of Botswana Student of the Year Award for successfully completing the Associate Diploma in Banking in 1994.

Banknotes congratulates Tsholofelo on her achievements; all the best for the future.

Group photo of the award winners with the Chairman of the Botswana Bankers' Association, Mr Alex Park

The Bank's 2003 Monetary Policy Statement

Price Stability as reflected in low levels of inflation, is one of the key monetary policy objectives of the Bank of Botswana. The objective of price stability not only creates a conducive environment for investment, but it is also essential for the maintenance of exchange rate competitiveness in relation to trading partners.

The Bank communicates its monetary policy objectives to its stakeholders through various channels, including the annual Monetary Policy Statement (MPS). The 2003 MPS follows the same lines as past statements. Among others, it outlines the monetary policy framework and the instruments at the Bank's disposal for the achievement of the objective. The framework has three main elements:

OPERATING INSTRUMENTS:
- Bank rate
- Open market operations

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INTERMEDIATE TARGET:
- Credit growth rate

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OBJECTIVE:
- Low and stable inflation

In setting the inflation objective for 2003, the MPS recognises the influences on inflation in Botswana. Among the most important are credit growth and government spending, which contribute to an increase in demand pressures, as well as imported inflation and administered prices. The inflation objective for 2003 was maintained at 4-6 percent, the same as in 2002.

Domestic demand in excess of supply may result in high and undesirable levels of inflation. For 2003, credit growth rate of 12 percent to 14 percent is considered to be compatible with achieving the inflation objective of 4 to 6 percent. The Bank will at the same time continue to monitor government expenditure to determine its degree of influence on inflation and employ the various instruments used to control inflation whenever necessary.

Imported inflation with a relatively open economy, an increase in prices of imported goods and services impacts heavily on domestic prices; imported tradeables account for 47 percent, by weight, of the Botswana CPI basket. For 2003, inflation in South Africa, Botswana's main source of imports, is expected to slow down to lower levels than in 2002. This should ease inflationary pressures in Botswana, although there may be some lagged effects of the high South African inflation in 2002. The 2003 Monetary Policy Statement also recognised the possible impact in inflation of higher oil prices due to the conflict in the Middle East and, at the time, a possible war in Iraq.

Administered prices rentals on public housing, utilities (power, water and telecommunication tariffs), public transport, etc., all with administered prices, account for a relatively large proportion of domestically produced goods and services. The 2003 MPS, therefore, recognises the influence on inflation of possible increases in Botswana Housing Corporation rentals and other administered prices.

The MPS noted that while inflation was expected to remain high, at between 10 and 12 percent in the first half of 2003, it was anticipated that inflation would fall significantly in the second half of the year, as the impact of the introduction of value added tax in July 2002 falls out of the inflation calculations, and the monetary tightening of late 2002 takes effect.

By publishing a statement of objectives through the MPS, the Bank also supports the objectives of policy transparency and accountability. While the concept of transparency is, in its own right, an important one, at the same time it influences the behaviour of economic agents in making their financial and economic decisions, as well as expectations. Being accountable to stakeholders also ensures policy credibility. The MPS includes policy achievements and failures in the preceding year and reasons for not achieving some of the set objectives as well as actions geared towards attaining those objectives. This ensures that economic and financial decisions are made in a more stable environment.

Alex Kganetsano

'By publishing a statement of objectives through the MPS, the Bank also supports the objectives of policy transparency and account-ability.'

In Pursuit of a Vibrant, Diversified External Sector –

BANK OF BOTSWANA 2002 ANNUAL REPORT

'Botswana's External Sector: Policies and Contribution to Economic Diversification, 1991 – 2001', was the topic chosen as the theme for the Bank's Annual Report 2002. Many of the issues covered have come up in various forms over the years in earlier reports, most obviously in 1994 (with the theme 'Botswana in the International Economy'), but also in 1996 ('Macroeconomic Stability During NDP 8') and 2000 ('The Challenge of Economic Diversification'). To return to this general theme is a reflection of the centrality of these issues to the discussion and formulation of economic policy in Botswana. Put simply, the successful development of the Botswana economy has relied, and will continue to rely, on effective interaction with the regional and world economies; to be effective, policies must be in tune with and supportive of this fundamental reality.

Most importantly perhaps, the objective of diversification away from the continuing heavy reliance on diamond mining will only be realised in the context of outward-looking development policies. Botswana products – both goods and services – must be able to compete effectively in international markets. Securing finance, technology and skilled manpower through foreign direct investment (FDI) clearly requires the willing cooperation of foreigners. (While self-evident, this latter observation is all too easily lost sight of!) But, while the objective of diversification is clear, moving significantly in this direction has proved frustratingly difficult. This is clear from the period (1991 – 2001) reviewed in detail in the Annual Report, by the end of which the export base was more dominated by diamonds than at the beginning. In the intervening years there were the false dawns of the hoped-for breakthroughs in textiles and vehicle assembly. The inadequacies of policies such as FAP in coping with modern economic conditions were clearly exposed, and while a whole raft of modern institutions and initiatives, have been established – Botswana Export Development and Investment Authority (BEDIA), Citizen Entrepreneurial Development Agency (CEDA), International Financial Services Centre (IFSC), Botswana Bureau of Standards, etc, with more on the way – their effectiveness or otherwise has yet to be demonstrated. The massive investment by government in education – what economists refer to as developing human capital – has yet to yield significant results in terms of attracting investment and employment creation.

By standard measures the Botswana economy is already open to a significant degree. Together, imports and exports have consistently totalled in excess of 80 percent of GDP, and in some years more than 100 percent. But, as is common knowledge, this has been dominated by the continued development of the diamond sector, which makes up the vast majority (more than 80 percent in recent years) of the country's exports. There is, however, some evidence that the increased productive capacity of domestic industry has led to some reduction on the reliance on imports. The continuing dominance of diamonds in the economy was seen once more very clearly in the most recent national accounts estimates for 2001/02. Much of the economy performed quite well, with output in the non-mining, non-government sectors of the economy growing by 4.5 percent, up from 3.1 percent the previous year. But because of a contraction in the mining sector, overall the economy grew by only 2.3 percent, down from 8.4 percent and insufficient to increase per capita incomes by much, if at all. For the same reason, as diamond mining recovers (carats mined in the 2002 calendar year were at record levels with further increases forecast for 2003), growth will pick up again in 2002/03, but continuing to rely on this one sector clearly makes the economy vulnerable to risks of more prolonged downturns in fortune.

In reviewing recent economic developments, the Annual Report includes some interesting new data on employment, taken from the 2001 population census and which helps characterise the nature of the unemployment problem in Botswana. In 2001 the unemployment rate was measured at 19.6 percent, up from 13.7 percent in 1991. Clearly this is not a desirable trend and effective job creation is rightly a priority objective. However, the important point to realise is that the source of increased unemployment can be entirely attributed to the near collapse in the numbers employed in traditional agriculture: in 2001 these totalled 18 000 compared to 68 000 in 1991, a fall of 50 000 that almost exactly matches the increase in unemployment from 60 000 to 110 000. In the rest of the economy job creation has been sufficiently rapid (averaging 3.4 percent per year) to keep up with the growth of the labour force. So the view that Botswana's economic growth has not been matched by increased job opportunities needs to be qualified by this observation: indeed, the relative success in job creation in the more productive sectors of the economy (including small businesses and the informal sector, which are not covered by the annual employment statistics which receive most attention) is likely to be one reason why the numbers working in traditional agriculture have declined so rapidly.

Returning to the theme topic, the thrust of international economic policy is the detail of the various agreements that govern international trade between countries, and the Report includes a section that reviews in detail how these affect Botswana. There are a number of such agreements governing trade arrangements between member countries of, among others, Southern African Customs Union (SACU), Southern African Development Community (SADC), Afro Caribbean and Pacific European Union (ACP-EU), African Growth and Opportunity Act (AGOA), World Trade Organisation (WTO), etc. There are more on the way, for instance, negotiations are about to commence to establish a free trade agreement between SACU and the United States. Considerable resources are required to keep on top of the bewildering complexity of these arrangements, which is itself a strong argument in favour of moving in the direction of genuinely free trade, and it should come as no surprise that the agreements often overlap and are in some cases in conflict. The Report identifies the need to have more systematic mechanisms for evaluating these various arrangements to ensure their continuing relevance to Botswana.

The Report pays some attention to the issue of attracting FDI, both the track record and the potential benefits. While underlying macro-economic and political stability remain a strong plus in the country's favour, persuading investors that Botswana is a good location from which to conduct their business remains an uphill struggle. A quick glance at the tables on the international investment position (IIP) suggests that one of the few growth areas for FDI is the retail/wholesale sector: this may indicate that the consumer in Botswana is increasingly well off but, as others have observed, becoming a nation of shopping centres may not be the path of sustainable development. This suggests that statements of good intent and promotion exercises can only go so far and that more is needed on the ground to establish an investor-friendly climate in the country; indications are that this is recognised by the Government which is to scrap the current investment code and is seeking further advice on how best to develop investment policy. The Report also notes the need to develop further the potential for harnessing local resources to support investment, through encouraging joint ventures for example. There is no reason why the objectives of attracting foreign investors and promoting citizen economic empowerment cannot be mutually supportive.

Recording the development of the external sector is a formidable task. The Bank of Botswana has responsibility for producing balance of payments statistics. Not just imports and exports of goods have to be recorded but also trade in services (such as tourism – a hoped for growth industry in Botswana), and the myriad range of financial transactions. In Botswana, the recent growth in employees' pension funds, which place many of their assets outside the country, is just one area where the requirements of data collection have had to be developed in response to rapidly changing circumstances. The report includes an appendix to help give readers a feel of the complexities involved in compiling balance of payments statistics.

Matthew Wright

A Review of the 2003 BUDGET SPEECH THEME

> *For firms to survive domestic competition, let alone international competition, they must develop a competitive advantage.*

INTRODUCTION

Improving Botswana's Competitiveness in Global Markets was the theme for the 2003 Budget Speech. It is no coincidence that the Budget Speech concentrates on highlighting measures intended to boost export sector competitiveness in international markets. Export promotion is a logical way to escape the strictures of a small market while simultaneously contributing to economic diversification.

The focal point of the review is the competitiveness aspect of the theme. The review identifies factors, over which Government has some control, that contribute to the country's international competitiveness and assesses the extent to which the Budget Speech relates to these factors. But first, defining competitiveness and explaining its importance for the performance of the export sector seems to be a good starting point.

WHAT IS COMPETITION?

In the context of a market economy, competition, in its purest form, is understood to be a contest to supply goods and services of an optimal mix to consumers efficiently, i.e., at the lowest possible cost. In this market structure, individual firms have no leverage over the market price, so that attempts to sway demand for the firm's product one way or the other by varying its price will not yield the desired effect. While the 'ultimate ideal', this type of market structure does not obtain in reality. In practice, markets are generally characterised by imperfections of one sort or another, such that different market segments will exhibit competitive pressures of varying degrees, with both the intensity of competition and efficiency declining with higher concentrations of market power, i.e., with a few dominant firms in the market, and vice versa.

The implication of the foregoing for the theme is that firms that are unduly sheltered from competition – through restrictions on entry and exit of firms from markets and the lack of exposure to the discipline provided by international trade – are less likely to be efficient, highly productive and competitive, either locally or globally, or both. Some degree of competition is necessary for the achievement of competitiveness. However, the desired level of competition may not exist in the presence of market imperfections. Under these circumstances, when left to their own devices, markets can produce less than efficient outcomes, reflecting market failure. This provides a justification for government intervention by way of enforcement of competition policies and regulations. Competition policies, which include anti-competitive laws and other policy instruments, are used to influence the market structure and individual firm behaviour on the assumption that vigorous competition fosters efficiency and economic welfare. It is important that competition policies are carefully designed so that they recognize, as some already do, situations where certain firm behaviour that

appears to be competition-restricting could in fact be efficiency enhancing or even if it restricts competition, it may not necessarily be welfare reducing. For example, joint research initiatives – where costs of the undertaking may be so prohibitive for a small firm as to preclude a go-it-alone approach – may create positive externalities.

Botswana is in the process of drafting a competition policy that is aimed at infusing healthy competition in domestic markets. Perhaps surprisingly, especially given the importance Government seems to be attaching to the policy, the Budget Speech says nothing about its scope, i.e., what competition issues it might entail, how it may be expected to address those issues and what benefits are likely to flow from its enforcement.

WHY COMPETITION IS IMPORTANT

Competition promotes efficiency, firm productivity and growth of overall productivity. Efficient firms stand a better chance to increase sales, profitability, incomes and social welfare. Productivity growth is one of the main sources of economic growth and development. It is generally acknowledged that productivity growth in developed countries results from technological advancement, while in developing countries it is largely driven by, inter alia, technology spillovers through trade and foreign direct investment (FDI). It is little wonder, therefore, that governments in developing countries should want to attract FDI and push for greater access for their exports in developed country markets.

Botswana is no exception in this regard. Attracting FDI and promoting exports take centre stage in Government promotional programmes. The Budget Speech mentions the introduction of a programme that aims to develop investment and export promotion strategies, a modern investment law and capacity for negotiating bilateral investment treaties. It further notes the intention to withdraw the investment code introduced in 2002 and replace it with a more investor friendly one, as well as to review, during 2003/04, administrative barriers to investment in Botswana. This latter is an area that has been of concern to industry for a long time. In order to improve market access and international competitiveness, Government intends to actively participate in the implementation and/or negotiation of regional and international trade protocols and agreements, such as the Southern African Customs Union Agreement (SACUA) and the World Trade Organisation (WTO) protocols.

In what follows, the discussion turns to three areas – infrastructure provision, provision of health care and education services and the national payments system – through which Government can influence the competitiveness of firms.

PROVISION OF UTILITY AND ROAD INFRASTRUCTURE SERVICES

The implication of the theme for state-owned enterprises is that the service should be of good quality, adequate, reliable, accessible and must be delivered efficiently and timely. The critical issue of the cost of utilities received little attention in the Budget Speech, and yet it is a direct component of production costs, while other issues were addressed to varying degrees. In the energy sector, the concern is with the efficient and reliable supply of energy. To keep the cost of power low, cheaper power imported from the Southern African Power Pool will continue to be used, while long-term reliability will be ensured through the expansion of the Morupule Power Station if a planned feasibility study supports the expansion. On the telecommunications side, the focus is on expanding the network through the rural telecommunications project. In the water sector, several projects are ongoing to address the availability and quality of water.

Poor road infrastructure could impact negatively on both the final price and timeliness of delivery of firm products. Therefore, the intent to use toll fees and higher transport user charges to finance the maintenance of roads could potentially contribute positively to firm operations, if it takes off and gets implemented properly.

Infrastructure services are essential for the operational efficiency of an economy. The maintenance of service quality and delivery coverage at appropriate levels can help promote competition in product markets and boost economic growth. However, globally, the public sector record in the provision of infrastructure services has often been poor. Consequently, countries have privatised the provision of services in order to enhance efficiency and ease the strain on public coffers. Technological advances, especially in the energy and telecommunications sectors, have opened up competition opportunities in these areas, previously regarded as natural monopolies. The water sector has been relatively unaffected because of slower technological progress in this area. In Botswana private provision of infrastructure services has occurred in the telecommunications sector only, although several parastatals are being considered for privatisation. It is expected that some efficiency, quality and delivery speed gains will be made and that this will boost industry competitiveness. Progress so far has been slow.

HEALTH CARE AND EDUCATION SERVICES

Improved quality and range of health care and educational services contribute towards improving the quality of human capital, a key factor of production. From a competitiveness viewpoint, healthy workers can be expected to improve the competitiveness of firms through high labour productivity, which may translate to lower unit cost and product prices. To improve the quality of health of the population, the Government will intensify training and recruitment efforts to address shortages of sufficiently trained health personnel, upgrade ageing hospitals and establish a centre of excellence that will provide HIV/AIDS care and treatment and undertake clinical research.

A well-educated population can be another key competitive factor as it provides a readily trainable workforce. Among efforts to improve the quality of education are the planned construction of new technical colleges and a modern e-learning education centre, while the ongoing senior secondary school expansion programme will be concluded in 2003/04. In order to sustain a high level of provision of good quality education, the Government will consider introducing user fees and cost sharing measures in the education sector in order to ensure that education is at least part self financing.

PAYMENTS, CLEARING AND SETTLEMENT SYSTEMS

Efforts are ongoing relating to the continual improvement of the national payments, clearing and settlement systems, which is a crucial counterpart to the successful conduct of domestic and international trade and without which effective competition would be difficult. The passage of the National Clearance and Settlement Systems Bill is an important development as it will ensure the finality of payments and engender confidence in the country's payments system. This, together with the introduction of the electronic clearing of cheques, should improve efficiency and speed, both of which are important for global competitiveness.

DO BOTSWANA FIRMS STAND A CHANCE TO OUT-COMPETE RIVAL FIRMS?

The Government's facilitation role as discussed above is well recognised for its influence on the competitiveness of Botswana products and services in international markets. But, ultimately, it is the firms that compete and export. For firms to survive domestic competition, let alone international competition, they must develop a competitive advantage, i.e., superiority in some facet of selling in the market place. This can be achieved in any number of ways including offering better quality products that are the result of constant innovation and upgrading; lower prices; better packaging and labelling; adherence to the highest industry standards, e.g., health; superior marketing channels and strategies and employee talent; all of which should be harnessed to confer on the firm's product or service a distinctive attractiveness that is unmatched by any other competitor product or service. Can Botswana firms live up to these challenges? A few are already exporting successfully and must be adhering to most of these. But many have yet to prove that they can.

Pelani Siwawa-Ndai

Watchout ...

For The Fashion Police!

If you have been reading the local news carefully, you should have come across articles that mentioned the presence of Fashion Police in our midst. These Fashion Police are real. So to be on the right side of the fashion law, here is some advice, especially to men.

1. When you wear clothes, always ensure that you do not wear more than three colours. For example, a dark pair of trousers, a white shirt and a red tie will do. If your tie is multi coloured, then those multi colours should be dark, white and red only so that you fall within the rule of three colours.
2. Buy dark coloured trousers (black, brown, grey, dark blue, charcoal, etc.) and Khakhi; avoid bright colours such as green, stripes, yellow and red. For shirts, go for any plain colour.
3. Buy new ties to match with your trousers and shirts. When you wear your tie make sure it does not extend below the belt level (waist).
4. You can buy a multi coloured shirt, pair of trousers and any shoe type for casual wear.
5. Buy suits that are dark coloured, and have at least three good ones. It is best to wear a full suit than to mix two suits into one. i.e instead of wearing a brown jacket and black pair of trousers, wear either the brown suit or the black suit.
6. Black shoes should go with black belt and brown shoes with brown belt.
7. Buy the latest belt and shoes as and when fashion changes. Most men do not change belts.
8. Buy dark coloured socks. White socks do not look that good.
9. Keep hair short.
10. The above clothes are easy to match.
11. If fashion dictates otherwise then follow the trend, even if it means ignoring the above rules.

I could not provide tips for the ladies because they wear lots of stuff at one time. Hipsters, topless tops, skirts of various lengths, trousers, shoes of various colours, jewellery, make-up and different hairstyles. I don't know how they match these all at one time. I think they should buy suits as official wear. What do you think?

Anonymous.

How to MINIMISE BANK CHARGES

Bank charges in Botswana are often considered to be high. Therefore, like any other cost, bank customers should manage the costs of banking services so that the fees do not eat too much into their hard earned incomes. There are many ways of doing this. Firstly, bank customers should monitor their bank statements on a monthly basis to determine how much they spend on bank charges alone. Secondly, they should set a limit of the amount they wish to spend on bank charges every month, i.e. budget for, say, no more than P50 on bank charges every month. Once the budget has been set, the customer should come up with appropriate strategies to ensure that their monthly bank charges fall within the budget.

Banks offer some services and products for free. Always find out whether you could use the free services and save some money. For example, most banks issue monthly statements free. So, instead of paying between P15 and P33 for a copy of the old statement, bank customers could keep the statements they get free in a safe place and refer to them whenever the need arises. Alternatively, they could do with an interim statement at the ATMs, which is also free for most banks.

1. TIPS ON THE USE OF ATMS

- Instead of withdrawing cash at the ATM (which incurs a charge) customers can pay using their cards at "Point of Sale" (POS) machines that are found in many supermarkets, petrol stations, utility corporations, etc. (which is free).
- Customers should avoid withdrawing cash from the ATMs of banks other than their own. They must use their own bank's ATMs or POS machines, which is cheaper, other banks' ATMs charge between P3.30 and P5.50.
- When outside the country, use POS machines instead of ATMs. POS

machines are usually free. This will save the customer the ATM withdrawal charge, which can be high when a foreign card is used.

2. TIPS ON USE OF CHEQUE BOOKS

- Customers should avoid writing cheques for amounts less than P2 000. They should use the ATMs to draw cash instead.
- Customers should avoid writing cheques when they know they do not have money in their accounts; they should not stop payments of cheques they issued unnecessarily; they should request special clearance of cheques only when they are in dire need of money, and should avoid writing post-dated cheques. These services do not come cheap. For example, a dishonoured cheque costs between P165 and P220, special clearance of cheques is priced between P82.50 and P110, and stop payment is currently charged between P80 and P110. For post-dated cheques, customers pay between P27.50 and P33.

3. FOREX TIPS

- Shop around for a good deal. Some banks offer lower commissions than others.
- Listen/Read the news for the latest exchange rates, and buy when the foreign currency is weak. People who go to Mafikeng/Rustenburg/Johannesburg every month can benefit from this strategy.
- Shopping in Zimbabwe (Bulawayo and Harare) is another cost saving measure now that the Zim dollar is at its lowest.

4. TIPS ON SAVINGS POSSIBLE WHEN NEGOTIATING A LOAN

- Negotiate for a better interest rate. It is possible to be offered a loan at prime rate or even below prime rate.
- Some banks quote higher interest rates for loans below P10 000. If you qualify for a larger loan, always get a loan above P 10 000 so that you benefit from a better interest rate.

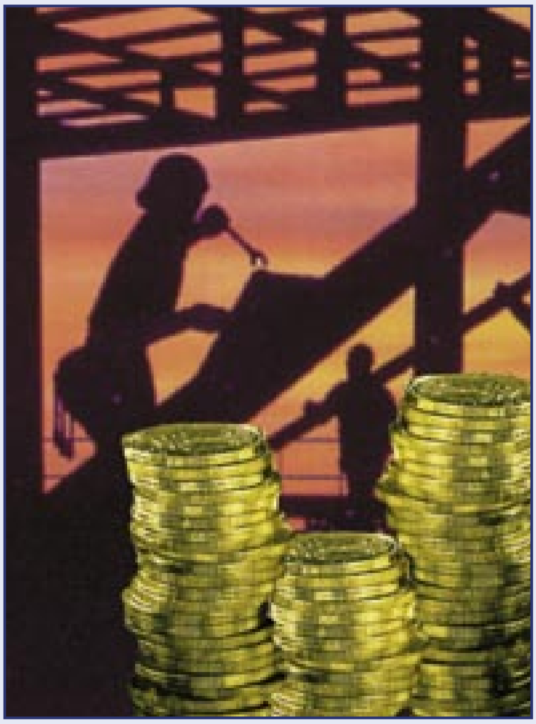
- Repay your loan within a short period of time if you have the money. This could save you interest charges.
- Negotiate to pledge your existing life insurance policy instead of taking a new credit life policy cover.

And finally, maintain appropriate balances in your accounts to benefit from free banking, where it is offered. Also, go for other special services, such as, excel/prestige/boutique banking, telephone banking if you find them beneficial in terms of cost savings. Avoid going into the banking hall to cash when ATMs are operational and when you need cash less than P2 000. Minimise your visits to branches to inquire about small things such as interim balances, account numbers, etc. These services increase the costs of providing banking services. An interim balance can be obtained from an ATM for free in some banks and if you cannot remember your account number, you can find it on one of the copies of old statements. If you still are not satisfied with the service you get from your current bank, then try a new bank.

Goememang Baatlholeng

THE IMPACT OF AIDS

On Productivity



The previous topic (Dec 2002 edition of Banknotes) covered THE IMPACT OF AIDS ON SAVINGS AND INVESTMENT

In this instance, I will be looking at THE IMPACT OF AIDS ON PRODUCTIVITY

The impact of HIV/AIDS on productivity is negative. As the disease develops workers will suffer from progressively more illness, before they eventually die. The amount and timing of AIDS-related illnesses will depend on a variety of factors, including

- the general level of health of the population;
- the incubation period between infection and development of illness;
- the quality of health care;
- opportunistic infections; and
- the amount of money spent on health care from both public and private sources

The productivity impact of AIDS-related illness comes from workers taking time off work because they are sick, and also those at work working less hard because of illness or worry. It is also likely that working days will be lost because of HIV/AIDS infection of workers' family members, as employees take time off to look after their sick relatives. Essentially, all of these effects reduce the supply of labour and increase its cost.

A second channel is through the disruptive effects of more frequent replacement of workers. Even if workers who fall sick can be replaced, their replacements will not immediately reach the same levels of productivity.

The overall economic impact of HIV/AIDS depends on the degree to which different segments of the labour force are infected. Those segments with higher infection rates would be expected to grow more slowly (due to deaths) and have higher productivity losses.

Botswana is characterised by a shortage of skilled workers, and if skilled workers have relatively high infection rates, this shortage would be exacerbated, with potentially adverse effects on economic output and growth.

Lillian Tlholwe

(Ref: Macro Economic Impacts of the HIV/AIDS Epidemic in Botswana - UNDP, 2000)