

PROJECT DATA SHEET

A = Add
 C = Change
 D = Delete

3

2 COUNTRY ENTITY

Botswana

3 PROJECT NUMBER

633-0253

PD-BBU-459

4 BUREAU OFFICE

Africa

5 PROJECT TITLE (maximum 40)

Botswana Private Enterprise Development

6 PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
09/30/96

7 ESTIMATED DATE OF OBLIGATION
(Under B specify month, 2, 3, or 4)

A. Initial FY 91 B. Quarter 2 C. Final FY 96

8 COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY <u>91</u>			LIFE OF PROJECT		
	B. FY	C. L/C	D. Total	E. FY	F. L/C	G. Total
Appropriated Total						
Grant	1,050	450	1,500	12,867	3,433	16,300
Loan						
Other						
US						
Host Country			466		2,738	2,748
Other Donor(s) Pvt Sector			490		4,299	4,299
TOTALS	1,050	450	2,456	12,867	10,470	23,337

9 SCHEDULE OF AID FUNDING (\$000)

A. APPROXIMATE PERCENTAGE OF FUNDING	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED T-TS ACTION		F. LIFE OF PROJECT	
		1 Grant	2 Loan	1 Grant	2 Loan	1 Grant	2 Loan	1 Grant	2 Loan
1	DFA	700	840			16,300		16,300	
2									
3									
4									
TOTALS						16,300		16,300	

10 SECONDARY TECHNICAL CODES (maximum 6 codes or 3 positions each)

840 920 720

11 SECONDARY PURPOSE CODE

270

12 SPECIAL CONCERNS CODES (maximum 7 codes or 4 positions each)

A. Code TNG BUN PVON
3 Amount 4,500 5,400

13 PROJECT PURPOSE (maximum 80 characters)

To increase the number of Botswana enterprises and employment in the non-mineral sectors of the economy by strengthening citizen entrepreneurship and improving the policy environment and policy implementation in Botswana.

14 SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
0 6 9 3 1 0 9 6

15 SOURCE ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16 AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

17 APPROVED BY

Signature *Richard L. Shortlidge, Jr*
Richard L. Shortlidge, Jr

Title Acting Mission Director

Date Signed MM DD YY
01/04/91

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY
01/10/91

AID 3304 (8-79) I certify that the methods of payment and audit plan are in compliance with the payment verification policy. USAID/Botswana Controller *Robert F. Allen*
"SENSITIVE COST INFORMATION - SEE FAR 3.104; DO NOT DISCLOSE"

ACTION MEMORANDUM

TO: ACTING DIRECTOR USAID/BOTSWANA
FROM: *R.B.* RAY BAUM, PROJECT DEVELOPMENT OFFICER
DATE: December 31, 1990
SUBJECT: Project Authorization - Botswana Private Enterprise
Development Project, Project No. 633-0253

I. PROBLEM: Your approval is required for a grant of US Dollars 16,300,000 from the Foreign Assistance Act (FAA), Development Funds for Africa (DFA) Appropriation, to the Government of Botswana (GOB) for the Private Enterprise Development Project. It is planned that \$1.5 million will be obligated in FY 1991.

II. DISCUSSION: The purpose of the project is to strengthen the private sector development by addressing constraints to private sector expansion. To accomplish this, BPED will focus on the following three main objectives:

(i) Policy Development and Implementation: By strengthening the local business environment by further improving the Government of Botswana (GOB) policies and implementation of policy which constrain private sector growth. The Ministry of Commerce and Industry (MCI) and the Botswana Confederation of Commerce, Industry and manpower (BOCCIM), will be instrumental in achieving this objective.

(ii) Management and Entrepreneurial Development: By addressing a key constraint to entrepreneurship development by improving business skills and knowledge of business opportunities. This will be achieved by strengthening local organizational and institutional capacity to train and assist local entrepreneurs. BOCCIM, a local private non-profit organization, will be the principal conduit for implementing this objective.

(iii) Investment Promotion and Support: This objective will serve as a catalyst to generate additional employment through facilitating foreign/domestic investment and improving the performance of management capacity of domestic entrepreneurs in the non-mineral private sector. Both the Botswana Development Corporation (BDC) a profit making parastatal and the International Executive Service Corps (IESC) will play major roles in achieving this objective.

This Project will assist in the complex and multi-dimensional task to increase the economic and social well-being of the average Botswana household by achieving the following outputs by the end of the project:

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- trained Batswana through in-country and regional training and workshops in administration and management;
- key GOB policy makers and Botswana private sector association representatives trained in the U.S. or third countries in areas fostering private sector growth and reducing regulatory and procedural constraints for such growth.
- Development of effective coordination and policy procedures for private sector development through technical assistance provided to BOCCIM, BDC and GOB ministries.
- Institutionalization of BOCCIM to continue management and basic skills training for private sector participants and take the lead in policy dialogue with the GOB.
- 4000 new jobs created for Batswana in the private non-mineral sectors of the economy of which at least 30% are held by women, and the creation of 360 new and 500 expanded businesses.

III. FINANCIAL SUMMARY: The total cost of the project is \$23,337,000. Of this amount, AID will provide \$16,300,000 over the six year life-of-project. AID contribution consists of the following components:

- Technical Assistance - Long-term/short term	(\$5,375,000)
- Training-External/Internal	(\$4,250,000)
- Project Coordination	(\$2,400,000)
- Direct-Indirect Support to BOCCIM	(\$1,183,000)
- Business Promotional Trips and Workshops	(\$ 485,000)
- Audit and Evaluation	(\$ 325,000)
- Commodities	(\$ 237,000)

The AID budget also includes:

- Inflation	(\$1,236,000)
- Contingency	(\$ 809,000)

The GOB contribution to this activity will be \$2,738,000 and the Private Sector is estimated to provide \$4,299,000.

IV. SOCIO-ECONOMIC, TECHNICAL AND ENVIRONMENTAL CONSIDERATIONS

(i) Project analysis indicate that the BPED Project is technically feasible. The purpose of BPED is to improve the environment for private enterprise development in the areas of policy formulation, licensing, finances and skills training resulting in increased foreign and domestic investment, expanded exports, increased employment and expanded and increased number of citizen-owned enterprises. Given this purpose, a majority of the BPED project interventions, i.e. policy reforms, technical assistance, skills training,

"SENSITIVE COST INFORMATION - SEE FAR 3.104; DO NOT DISCLOSE".

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institutionalizing BOCCIM etc. are designed to remove or minimize constraints to private enterprise development. These include limited access to capital, credit and markets and inadequate technical and business skills. BPED inputs will be targeted directly to several segments of the society, i.e. individuals in the urban and peri-urban private sector, and a few public sector employees. Both male and female Batswana will benefit from a reduction or removal of these constraints.

BPED will have a positive social and cultural impact by increasing private sector investment and productivity. The project should contribute to a wider distribution of household income in Botswana.

The project will have a favorable impact on women. Careful project monitoring will ensure that women are selected as beneficiaries within the recipient businesses and receive an equitable share of the technical assistance and training.

The assessment of the social benefits of the project indicates that social consequences will be strongly positive. The Administrative and Management Analysis of the principal implementing agency BOCCIM indicates that BOCCIM is a relatively strong national business association that is a suitable entity to support private sector business representation and services. BPED's activities are consistent with BOCCIM's mandate and will strengthen BOCCIM's capacity to make a positive impact upon private sector development in Botswana. The project linkages among the activities of BOCCIM, the Botswana Development Corporation (BDC), and the Ministry of Commerce and Industry (MCI) should increase communication amongst these institutions and help to develop a better coordinated approach to private sector development among these key private, government and parastatal institutions. BOCCIM has the basic capacity to accomplish the project goal, and will be further strengthened with technical assistance and training provided by this project.

The base core economic analysis estimated the benefit/cost ratio at 1.46 and the internal rate of return (IRR) of the project to be 19.4 percent. The sensitive analysis indicates that the major economic benefit is derived from the BDC feasibility studies. Without these, the project is not economically justifiable as a "stand alone" training program, with 8.48 % IRR and benefit/cost ratio at 0.94. However, since the development of these human resource are crucial over the long-run in building local organizational and institutional capacity, the balance between the more immediate gains from the feasibility studies and the longer run benefits from training provides an economically viable project.

The Cost Estimates and Financial Plan demonstrates (scaled down inputs) that BOCCIM will be able to absorb recurrent expenditures and will be able to sustain the momentum resulted from the project investment.

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(ii) The Revised Initial Environment Examination (IEE) of the project identified no issues requiring further environmental study and recommended Categorical Exclusion. This recommendation was approved by the Africa Bureau (State 435908 dated 12/29/90).

(111) No human rights issues were raised.

V. SECTION 611 (a) (1) OF FAA: The cost estimates and financial plan contained in the project paper concludes that Project planning is adequate and the costs are reasonable firm, thereby satisfying the requirements of Section 6112 (a) (1) of the FAA.

VI. IMPLEMENTATION The implementation arrangements described in the Project Paper were reviewed and discussed in detail during the USAID/Botswana review session and joint review sessions with BOCCIM, BDC, MCI, IESC and Peace Corps/Botswana. The reviews indicate that the implementation plan is realistic and sufficient to carry out this project activity. BOCCIM, BDC and IESC with GOB and private sector collaboration will each contribute at least 25 percent of the cost of the grant programs. BOCCIM will play a principal role in implementing this project with responsibilities shared among BDC, MCI, IESC, the AID-funded prime contractor, and USAID/Botswana. The grantworthiness of BOCCIM, BDC and IESC was clearly demonstrated through reviews of their respective annual audits and/or independent financial analysis.

- Based on the positive results of the financial analysis of BOCCIM, the Mission Controller has concluded that BOCCIM has an acceptable financial management system for controlling and accounting for the use of U.S. government funds, in particular the advances.

- BDC is uniquely situated and particularly successful in promoting investment in Botswana, and it is therefore appropriate that certain BPED activities be managed by BDC. The financial soundness of BDC is superior and the Mission Controller concurs that BDC's financial management system is more than adequate for controlling and accounting for funds received under its sub-grant. An Operational Program Grant will be signed between the Mission and BDC, and BDC will work on a reimbursement basis.

- The program and proposed funding amount for IESC will be similar to previous Mission funded IESC grants, which were implemented successfully. IESC is registered as a PVO with AID/Washington and authorized to receive Mission funded Operational Program Grants. Disbursements to IESC will either be on a reimbursement basis or through a Federal Reserve Letter of Credit mechanism.

VII. PVO vs NGO. IESC is registered with AID as a PVO, but neither BOCCIM nor BDC need to be registered because they are not "private voluntary organizations". Specifically, they are not "voluntary" because they do not receive significant contributions or donations of money, labor or in-kind support from the general public (as opposed to from their members, for example).

VIII. REVIEW COMMITTEE ACTION. The Project Identification Document (PID) was submitted to AID/W and was reviewed on March 29, 1990 and approved by Timothy Bork, AFR/PD in State 233014. Through Delegation of Authority 140 (as revised), project authorization has been assigned to the Director, USAID/Botswana. The Project Paper was reviewed by USAID/Botswana on October 25, 1990 and found acceptable, with the inclusion of suggested changes during the review.

IX. JUSTIFICATION TO CONGRESS. A congressional presentation for Botswana's planned obligations for FY91 included this project activity. Therefore, State 406212 advised Mission that no further notification to Congress is required.

X. COMPETITION WAIVERS. In accordance with Handbook 13, 2B3b and 2B4, a cooperative agreement will be awarded to BOCCIM and sub-grants to BDC without competition. BOCCIM and BDC are believed to have exclusive or predominant capability in the areas of business development in which they will operate using AID grant/cooperative agreement funds. Based on their respective experience, specialized facilities and technical competence coupled with their existing relationships in Botswana with the private sector, the roles envisioned for each are justified. Indeed, no other entities, within Botswana or outside, could manage these BPED project activities in a manner necessary to achieve BPED objectives. One major objective of BPED is to strengthen BOCCIM itself, which requires that the cooperative agreement activities be managed by BOCCIM. Also, BDC is uniquely situated and particularly successful in promoting investment in Botswana, and it is appropriate that certain BPED activities be managed by BDC under their grant.

A waiver is not required to sign a Grant Agreement with IESC since the proposed services to be provided by it are similar in scope and level of effort currently being performed by IESC in Botswana.

XI. MAJOR CONDITIONS PRECEDENT AND COVENANTS. As set forth in the attached Project Authorization, a condition precedent requires approval by USAID of the first six month Project Implementation and financial plan, and Covenants specifying agreements: for USAID to participant in periodic evaluations; to incorporate environmental considerations into various industrial feasibility studies; assure maximum assistance to female-owned businesses and maximum female trainees; USAID will not approve any export oriented business activities dealing specifically with textiles, finished leather items (footwear, handbags, luggage, gloves, apparel, etc)

XII. P.P. DISCLOSURE. The Procurement Integrity Act requires that the pages of the P.P. containing detailed budget information be marked "SOURCE SELECTION INFORMATION - SEE FAR 3.104; DO NOT DISCLOSE, SENSITIVE COST INFORMATION". The following pages have been so marked. Action Memorandum page 2, P.P. cover page, P.P. text pages 71 through 85.

XIII. RECOMMENDATION. That you sign the attached Project Authorization and thereby approve life-of-project funding of \$16,300,000 for the Botswana Private Enterprise Development Project, 633-0253.

Attachment:

- 1. Project Authorization
- 2. Project Paper

Drafter:D/PDO: P. Brahmbhatt 12/10/90

Clearances:	PDO:R Baum <u>[Signature]</u> Date: <u>1/4/91</u>
	CONT:AAkers <u>[Signature]</u> Date: <u>1/4/91</u>
	RLA:TRiedler <u>By fax</u> Date: <u>12/31/90</u>

PROJECT AUTHORIZATION

Cooperating Country: Botswana

Project Title Botswana Private Enterprise Development
Project

Project Number: 633-0253

1. Pursuant to the Foreign Assistance Act of 1961, as amended, the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1991, Africa Bureau Delegation of Authority (DOA) No. 551, as amended, and the authority delegated under 90 State 233014, I hereby authorize the Botswana Private Enterprise Development Project for Botswana (Recipient), involving planned obligations of not to exceed Sixteen Million Three Hundred Thousand United States Dollar (\$16,300,000) in grant funds from the Development Fund for Africa (DFA), over a five year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. Except as A.I.D. may otherwise agree in writing, the planned life of the project is six years from the date of initial obligation.

2. The project seeks to increase the number of Botswana enterprises and employment in the non-mineral sectors of the economy by strengthening citizen entrepreneurship and improving the policy environment and policy implementation in Botswana. The project will be implemented through various local and U.S. companies and institutions and will finance technical assistance, training, studies, commodities and other services in support of the project.

3. The Project Agreement, which may be negotiated and executed by the officers to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Suppliers

The source and origin of commodities and nationality of suppliers of commodities and services financed under the project shall be in accordance with Africa Bureau DOA 551, Section 5F. Accordingly, commodities financed by A.I.D. under the project shall have their source and origin in Botswana, the United States or any other country included in A.I.D.

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Geographic Code 935. Nevertheless procurement of commodities and services shall be from the U.S. to the maximum practicable extent. Except for ocean shipping, the suppliers of commodities or services shall have Botswana, the United States or any other country included in A.I.D. Geographic Code 935 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on a flag vessel of the United States.

b. Condition Precedent to Initial Disbursement

The Project Agreement shall contain, in substance, the following condition precedent to initial disbursement:

Prior to the first disbursement, the Recipient will, except as the parties may otherwise agree in writing, furnish to A.I.D., a statement of the name and position of those persons in the Government of Botswana who are authorized to sign project documents and communications, together with a specimen signature of each such person specified in such statement.

c. Condition Precedent to Additional Disbursements

The Project Agreement shall contain, in substance, the following condition precedent to additional disbursements:

Prior to any disbursement under the Grant in support of activities under the cooperative agreement between A.I.D. and the Botswana Confederation of Commerce, Industry and manpower (BOCCIM), A.I.D. must approve the first six month project implementation and financial plans under such cooperative agreement. This condition precedent will also be contained in the cooperative agreement with BOCCIM.

d. Covenants

The Project Agreement shall contain, in substance, the following covenants:

(1) The Recipient agrees to participate in quarterly meetings of the Project Implementation Committee (PIC) as further described in the Annex 1 Amplified Project Description to the Project Agreement. A similar covenant will be contained in the various A.I.D. agreements with other members of the PIC, as appropriate, and the cooperative agreement with BOCCIM will also contain a covenant requiring BOCCIM to prepare and submit, for the approval of A.I.D., six month project implementation and financial plans for the life of the cooperative agreement.

(2) The Recipient agrees to participate in periodic project evaluations.

(3) The Recipient agrees to incorporate environmental considerations into various feasibility studies and other appropriate activities under the project to the extent the Recipient may influence the conduct of such studies and activities. A covenant similar to this covenant will also be contained in the cooperative agreement with BOCCIM and the grant agreement with the Botswana Development Corporation (BDC).

(4) The Recipient agrees to assure that the project provides the maximum feasible assistance for women-owned businesses and selects the maximum feasible number of women for training under the project, to the extent the Recipient may influence such assistance and training selection decisions. A covenant similar to this covenant will be contained in the cooperative agreement with BOCCIM.

(5) The Recipient agrees that A.I.D. must approve in writing any activity presented to the PIC for approval of funding under the project. If an activity is specifically identified in the presentation and is foreseen, at the time of presentation, to involve assistance in establishing or expanding production of any specifically identified commodity for export (including training or technical assistance involving Botswana companies that will or do produce such commodities), A.I.D. approval will be based in part on its determination that such assistance will not cause substantial injury to U.S. producers of the same, similar or competing commodity. In general, A.I.D. will not approve funding for feasibility studies, pre-feasibility studies or project profiles of potential investment involving the following specific commodities if intended for export: textiles, apparel, footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel (but not hand-made cottage industry textiles). A covenant similar to this covenant will also be contained in the cooperative agreement with BOCCIM.

4. Competition Waivers. In accordance with Handbook 13, 2B3b and 2B4, a cooperative agreement will be awarded to BOCCIM and sub-grants to BDC without competition. BOCCIM and BDC are believed to have exclusive or predominant capability in the areas of business development in which they will operate using AID grant/cooperative agreement funds, based on their respective experience, specialized facilities and technical

competence in these areas of business development in Botswana, and based on their existing relationships in Botswana with the private sector. Indeed, no other entities, within Botswana or outside, could manage these BPED project activities in a manner necessary to achieve BPED objectives. One major objective of BPED is to strengthen BOCCIM itself, which requires that the cooperative agreement activities be managed by BOCCIM. Also, BDC is uniquely situated and particularly successful in promoting investments in Botswana, and it is appropriate that certain BPED activities be managed by BDC under their grant.

Richard L. Shortlidge

Richard L. Shortlidge
Acting Mission Director
USAID/Botswana

Date 1/4/91

Clearances: PDO:RBaum 1/4/91
CONT:AAkers 1/4/91
D/PDO:PBrahmbhatt 1/4/91
RCO:RWormack by phone 1/3/91

Draft:TRiedler:adm (12/27/90) (TIM)

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OUTLINE

	<u>Page</u>
Acronyms .	iv
I. SUMMARY	1
II. BACKGROUND	4
A. Economic Environment	4
B. The Environment for Private Enterprise	6
C. Relation to BWAST I and II	8
D. Project Background	10
E. Response to the PID Guidance Cable and Changes Since the PID	12
III. PROJECT RATIONALE AND DESCRIPTION	13
A. Rationale	13
B. Project Goal, Purposes and Outputs	14
C. Project Elements	15
1. Policy Development and Implementation	15
(a) The Policy Environment in Botswana	15
(b) Implementation Problems	17
(c) USAID's Role in Policy Reform and Implementation	17
(d) BPED Support of the Private Sector's Role in Policy Development	18
(e) BPED's Role in Support of the Public Sector's Role in Policy Change	20
(f) Public Sector's Role in Policy Reform	22
2. Management and Entrepreneurial Development	23
(a) Management Assistance	24
(b) Training	26
3. Investment Promotion and Support	31
(a) Investment Promotion	31
(b) Investment Support	34
(c) Support to the Financial Sector	40
D. Implementation Plan	41
1. General Aspects	41
2. Role of the Contractor	44
3. Implementation Schedule	45
4. Procurement Plan	47

	<u>Page</u>
IV. MONITORING AND EVALUATION PLANS	49
A. Monitoring and Process Evaluation Plans	49
B. Annual Financial and Compliance Audits	52
C. Mid-Term and Final Evaluations	52
D. Resource Requirements	53
V. SUMMARY OF ANALYSIS	53
A. Constraints Analysis	53
B. Social Soundness Analysis	55
1. Socio-Economic Environment	55
2. Beneficiaries	56
3. Social Impact	57
4. Summary and Conclusions	58
C. Economic Analysis	58
1. Economic Viability	59
2. Calculation of the Benefit Streams	59
(a) External Long-Term Degree Training	59
(b) Short-Term Training	60
(c) Long-Term T.A. - Cost-Savings	60
(d) Employment Generation	60
(e) Feasibility Studies	61
(f) Summary	61
(g) Project Costs	62
(h) Conclusion	62
D. Summary of Administrative Analysis	63
1. Botswana Confederation of Commerce, Industry and Manpower (BOCCIM)	63
2. Botswana Development Corporation (BDC)	66
E. Environmental Impact	69
VI. COST ESTIMATES AND FINANCIAL PLAN	70
1. Project Components	
A. Long-Term Advisors	71
B. BOCCIM Direct Costs	71
C. BOCCIM Indirect Costs	71
D. Commodities	72
E. Project Coordination	73
F. Short-Term Technical Assistance (TA)	74
G. In-Country Training	75
H. Support to B-MAP	76
I. Business Linkage Trips	76
J. External Training	77
K. Evaluation and Audits	78
L. Venture Capital Assistance	79

	<u>Page</u>
2. Illustrative Budget	80
Table I. FY Disbursements	80
Table II. Division of Responsibility	83
Table III. Methods of Implementation and Financing	85

ANNEXES

- A.1 PID Guidance Message
- A.2 PP Delegation of Authority
- B. Grantee's Request for Assistance
- C. Logframe Matrix
- D. Statutory Checklist
- E. Project Analyses
 - E.1 Constraints Analysis
 - E.2 Social Soundness Analysis
 - E.3 Economic Analysis
 - E.4 BOCCIM Administrative Analysis
 - E.5 Initial Environmental Examination
- F.1 AID/Peace Corps Microenterprise Development PASA
- F.2 Peace Corps Collaboration in BPED
- G. Role of Venture Capital Fund
- H. Changes in South Africa and Impact on Botswana
- I. Description of Research Studies
- J. RLA Opinion Regarding Lautenberg
- K. References

PROJECT DESIGN TEAM

Ray Baum	Team Leader, Project Development Officer, USAID/Botswana
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Ron Bobel	Project Development Officer, MDI, AID/W
John Hourihan	Social Scientist
Stephanie Funk	WID Specialist, AID/W
Steve Silcox	Small Enterprise Specialist, MDI, AID/W
Don Greenberg	Private Sector Advisor, REDSO/ESA
Robert Armstrong	Economist, USAID/Botswana
Tim Riedler	RLA, USAID/Swaziland
Richard Womack	RCO, REDSO/ESA

and

in collaboration with officials from the Government of Botswana's Ministry of Commerce and Industry, Ministry of Finance and Development Planning, Botswana Development Corporation, Botswana Confederation of Commerce, Industry and Manpower, and Peace Corps Costa Rica.

ACRONYMS

ADB	African Development Bank
AID	Agency for International Development
AFR/MDI	AID's Africa Bureau Office of Market Development and Investment
ATDO	Association of Training and Development Officers (Botswana Voluntary Organization)
AVCP	Africa Venture Capital Project
BDC	Botswana Development Corporation
BEF	Botswana Employer's Federation
B-MAP	Botswana Management Assistance Program
BOB	Bank of Botswana
BOCCIM	Botswana Confederation of Commerce, Industry and Manpower
BPED	Botswana Private Enterprise Development Project
BWAST	Botswana Workforce and Skills Training Project
CBD	Commerce Business Daily
CDC	Commonwealth Development Corporation
CDSS	Country Development Strategy Statement (AID program strategy)
CIPE	Center for International Private Enterprise
CIDA	Canadian International Development Agency
DPSM	Directorate of Public Service Management
ECPR	Executive Committee for Project Review
EEC	European Economic Community
EOPS	End of Project Status
FAP	Financial Assistance Policy
GOB	Government of Botswana
GTZ	German Agency for Technical Cooperation
IBRD	International Bank for Reconstruction and Development (World Bank)
IDM	Institute of Development Management
IEE	Initial Environmental Examination
IESC	International Executive Service Corps
IRR	Internal Rate of Return
GDP	Gross Domestic Product
LCDSS	Limited Country Development Strategy Statement
LDC	Lesser Developed Countries
LOP	Life of Project
MAPS	Manual for Action in the Private Sector
MCI	Ministry of Commerce and Industry
MFDP	Ministry of Finance and Development Planning
MLGL	Ministry of Local Government and Lands
MOA	Ministry of Agriculture
NCCI	National Chamber of Commerce and Industry
NDB	National Development Bank
NDP6	Sixth National Development Plan, Government of Botswana
NEMIC	National Employment, Manpower and Incomes Committee

NIR	National Institute of Development Research and Documentation (University of Botswana)
ODA	Overseas Development Administration
OPEX	Operational Expert
OPIC	Overseas Private Investment Corporation
P	Pula
PACD	Project Assistance Completion Date
PASA	Participating Agency Service Agreement
PCV	Peace Corps Volunteer
PIC	Project Implementation Committee
PID	Project Identification Document
PIO/C	Project Implementation Order/Commodity
PIO/T	Project Implementation Order/Technical Services
PO	Project Officer
PP	Project Paper
PRE	Bureau for Private Enterprise (AID/W)
RCO	Regional Contracting Officer
REDSO	Regional Economic Development Services Office
RFP	Request for Proposals
RSA	Republic of South Africa
SACU	Southern Africa Customs Union
SADCC	Southern Africa Development Coordination Conference
SAMDP	Southern African Manpower Development Project
SARP	Southern Africa Regional Program
SBD	Small Business Division
SED	Small Enterprise Development
SIDA	Swedish International Development Agency
SME	Small and Medium Enterprise
SRBC	SADCC Regional Business Council
SSE	Small Scale Enterprise
S&T	AID's Bureau for Science and Technology
TA	Technical Assistance
TIPA	Trade and Investment Promotion Agency (Ministry of Commerce and Industry)
UNDP	United Nations Development Programme
USAID	United States Agency for International Development (Country Mission in Botswana)
WFH	Women's Finance House (local NGO that expects to become an affiliate of the international Women's World Banking Organization)
WID	Women in Development

I. SUMMARY

- A. Grantee: Government of Botswana (GOB) Ministry of Finance and Development Planning (MFDP)
- B. Implementing Agencies: Botswana Confederation of Commerce, Industry and Manpower (BOCCIM), Botswana Development Corporation (BDC), Ministry of Commerce and Industry (MCI)
- C. Proposed Amount of Project:
- | | |
|------------|---------------------|
| AID | \$16,300,000 |
| PVT Sector | |
| GOB | 7,037,000 |
| Total | <u>\$23,337,000</u> |
- D. Term of Grant: Six years from date of initial obligation
- E. Purpose of Grant: To increase the number of Botswana enterprises and employment in the non-mineral sectors of the economy by strengthening citizen entrepreneurship and improving the policy environment and policy implementation in Botswana

F. Background of Project: Although Botswana's economy has been growing at nearly 13% a year and its per capita income is some \$1,700, a large proportion of the population is not participating fully in the economic boom. The high growth rate is attributed largely to the mining sector, especially diamonds, which employs only some 15,000 Batswana. Most of the economy is dominated by foreign owned, large firms which are managed by expatriates. More needs to be done to encourage the active participation of citizens in the economy, to diversify economic activity into non-mining areas and to create employment jobs. The GOB is aware of the problem and has requested A.I.D.'s assistance in generating employment and encouraging the development of citizen enterprises in the non-mineral private sectors.

This project builds upon previous USAID assistance, especially the Botswana Workforce and Skills Training Projects (BFAST) and its predecessor, the Southern Africa Manpower Development Project (SAMDP). These projects assisted the GOB to alleviate shortages of skilled manpower by providing training for Batswana in the public and private sector and technical assistance through the provision of long term experts who temporarily filled key positions while Batswana were receiving training.

G. Project Description: The Botswana Private Enterprise Development (BPED) Project contributes to two of the USAID Limited Country Development Strategy Statement (LCDSS) strategic objectives: (1) To increase the number of Batswana-owned enterprises in the non-mineral sectors of the economy and (2) an

increase of 106,306 new jobs in the non-mineral sectors between 1989/90 and 1996/97. The project purposes are the primary targets of these objectives: (a) to increase domestic and foreign investment in the non-mineral sectors of the economy; (b) broaden opportunities for citizen entrepreneurs; and (c) to increase the effectiveness of policy dialogue between the private and public sectors to reduce regulatory and procedural constraints and increase implementation capacity.

To achieve these objectives the project will do the following:

(1) assist the operation and expansion of the country's major business organization, BOCCIM. Three long term advisors will be provided to BOCCIM to assist micro and small businesses development through its outreach training programs such as the Botswana Management Assistance Program (B-MAP), the Small Business Development (SBD), Women in Business and the Botswana Credit Bureau; (2) assist the BDC to develop medium to large businesses, whose shares will be at least 40 percent locally owned, by providing two long term advisors and financing feasibility and other studies, pre-production training, and business linkage and investment trips; (3) provide long term training for up to 20 Batswana to obtain MA degrees in analysis of government policies or other critical areas affecting private sector growth, short-term training for up to 80 participants in areas such as business management, financial market development, banking, domestic and foreign investment, taxation, etc; (4) place a long-term policy advisor in the MCI to help define and articulate policy reform measures and assist in their implementation.

H. Summary of Analyses: The analyses of constraints, social soundness, economic returns, environmental impact and administration demonstrate that the principal objectives of the Project are well conceived. The constraints analysis is derived from a series of studies of the factors limiting the growth of Botswana's private sector. The social soundness analysis provides a great deal of information identifying the social constraints: a distribution of income and wealth which is severely skewed, an acute shortage of educated Batswana combined with unskilled labor far exceeding the requirements of the economy and a population imbalance stressing women and the young. It then shows how the inputs of the Project will be targeted to help alleviate those constraints and provide a positive social and cultural impact by increasing private sector investment and productivity, especially the creation or expansion of citizen owned businesses. The project also demonstrates the particular concerns of women at a number of levels.

The economic analysis measures four economic effects. First, the Project will increase the supply of better educated and more skilled persons which should increase productivity and earning potential. Second, the returned Batswana will replace

costly foreign expatriates, thereby resulting in a savings to Botswana. Third, the training of Fatswana and the provision of TA advisors will assist the country in meeting its economic growth and employment generation targets. Finally, the Project will fund feasibility studies to create new businesses and increase the number of jobs. The economic analysis shows an Internal Rate of Return of 22.6 percent and a benefit cost ratio of 1.64 to 1 when costs and benefits are discounted at 10 percent. Thus, the activities to be undertaken by the BPED Project are judged economically sound.

The revised initial environmental examination of the Project concluded that BPED falls into a class of action that does not require a complete environmental analysis. A categorical exclusion has been requested from and approved by the Africa Bureau's Environmental Officer.

The administrative analysis concentrates on BOCCIM, the principal institution which will receive project assistance. There is also a lesser analysis of BDC in view of its already demonstrated financial strength and institutional maturity and the fact that only a minor part of project assistance will be allocated directly to it.

With regard to BOCCIM, it is a relatively strong broad based national employers association. USAID's experience with BOCCIM to date, through the BWAST II project, demonstrates that it has the capacity to effectively utilize project assistance and magnify its efforts in the areas of policy reform and providing services to both members and nonmembers in training and management assistance. BOCCIM is well positioned to serve as the coordinating institution for the Project since it is a truly private sector organization which is representative of private sector interests and is well respected by both government and its private sector members. The activities for which it is responsible under the Project are consistent with its mandate and will help BOCCIM to considerably increase its impact upon private sector business development in Botswana.

I. Major Conditions and Covenants: Conditions Precedent and Covenants include the following:

Conditions Precedent to Disbursement

- o A statement naming authorized representatives of the Project along with their signatures.
- o Prior to disbursement of funds under the BOCCIM Cooperative Agreement, USAID will approve BOCCIM's first six month project implementation and financial plans. (This CP will also be contained in the Cooperative Agreement with BOCCIM.)

Covenants

- o Agreement by non-members of PIC to hold quarterly meetings of the Project Implementation Committee and as identified in the sub-grant agreements to prepare and submit, for the approval of A.I.D., six month funding and implementation plans. As applicable, these covenants will be contained in the USAID sub-grant agreements with BOCCIM, BDC and IESC.
- o Agreement to participate in periodic Project evaluations.
- o Agreement to incorporate environmental considerations into the various feasibility studies, and other appropriate activities.
- o Assure maximum assistance for women owned businesses and maximum selection of women for training.
- o USAID/Botswana must approve in writing any activity presented to the Project Implementation Committee for approval of funding under the Project. If an activity is specifically identified in the presentation and is foreseen, at the time of the presentation to involve assistance in establishing or expanding production of any specifically identified commodity for export, (including training or technical assistance involving Botswana companies that will or do produce such commodities), USAID/Botswana approval will be based in part on its determination that such assistance will not cause substantial injury to U.S. producers of the same, similar or competing commodity. In general, USAID/Botswana will not approve funding for feasibility studies, pre-feasibility studies or project profiles of potential investments involving the following specific commodities if intended for export: textiles, apparel, footwear, handbags, luggage, flat goods, work gloves and leather wearing apparel, other than hand-made cottage industry textiles. A covenant similar to this covenant will be included in the Cooperative Agreement with BOCCIM.

II. BACKGROUND

A. Economic Environment

At independence one of the poorest nations in the world, Botswana has achieved an overall economic growth rate in the past twenty four years that is among the highest in the world. Since independence economic growth has averaged nearly 13 percent per year, resulting in a five-fold increase in per capita Gross Domestic Product (GDP). The primary source of this phenomenal

performance has been the successful exploitation of the country's diamond resources. The diamond mines are owned and operated by Debswana, a joint venture between the Botswana Government and the De Beers Corporation. Today Botswana is the world's most important exporter of diamonds.

Sound economic policies have also substantially contributed to Botswana's economic successes. Botswana has maintained a generally open economy, promoted private sector investment, and maintained a stable macro-economic framework. While the government plays a substantial role in the economy, it has avoided severe price distortions and has not created a network of inefficient parastatals. Monetary and fiscal policies have been generally marked by caution and prudence.

In the last five years, Botswana has further gained from the sharp deterioration of the South African Rand (in which most of the country's imports are denominated) against the U.S. dollar (in which diamonds and other mineral exports are denominated). This terms-of-trade windfall has generated huge foreign exchange and budgetary resources. These resources have been used to expand and begin to diversify Botswana's economy. Direct government investments (through budgetary expenditures and the BDC's leveraging of private sector investments) and generous co-financing and capital-subsidizing arrangements (such as the Financial Assistance Policy (FAP), which subsidizes unskilled labor costs) have fueled a strong expansion in the sectors of manufacturing, construction and commerce.

Even with these increased investments, government surpluses and holdings of foreign reserves have continued to grow. Current foreign exchange reserves held in the Bank of Botswana (BOB) are close to \$3 billion, or equivalent to three years of import cover. That Botswana has been unable to absorb its large resource gains as rapidly as they have accumulated is demonstrated by the government's inability to spend nearly 20 percent of its most recent development budget, and by the large excess liquidity in the banking system. This liquidity is absorbed by the Bank of Botswana (at artificially high interest rates that are nonetheless negative in real terms) in its role of "depositor-of-last-resort".

Botswana's excess liquidity problem reflects both a strength and weakness. The strength is policy-related. Botswana has largely avoided the temptation of countries undergoing commodity booms to lose all discipline and waste resources through unsustainable consumption and inefficient investment, setting off inflationary pressures and difficult-to-reverse increases in wages. The GOB has realized that the quality of investment, private and public, is as important as the volume of investment. The Bank of Botswana has succeeded in sterilizing the excess foreign exchange revenues, averting an explosion in the money supply that would have set off very high rates of inflation. The government-fixed prices of scarce resources such

as electricity and water have been kept at their real opportunity costs. While public expenditures are increasing faster than revenue, the GOB is aware of the problem and is committed to maintaining a prudent approach to its diamond windfall.

Recently mineral revenues have been tapped to meet recurrent expenditures. Senior GOB officials believe that if this trend continues, there will be a depletion of reserves and a weakening of the overall economic situation. Hence, there is a strong need to develop the non-mineral sectors and curb growth in recurrent public sector expenditures through greater sharing of costs for education and health with the private sector.

The excess liquidity problem also reflects weaknesses in Botswana's economy: overdependence on diamonds, lack of diversification, limited manpower and managerial capacity, and basic economic dualism. There has been little progress in efforts to expand productive rural employment opportunities. While the current economic boom has generated nearly twenty thousand new jobs per year in the past few years, the vast majority of Botswana's population remains rural, poor, and dependent on the cattle economy. Rural women and young junior secondary school leavers in particular remain largely untouched by the economic boom. Given rapidly increasing population (3.4% per year) and environmental degradation in the rural areas, rural poverty and unemployment continue to be major issues of concern.

In the long run, the challenge facing Botswana is how to reinvest financial resources effectively so as to convert the diamond windfall, which should last at least another 40 to 50 years, into sustained prosperity while at the same time ensuring that Botswana actively participate in their own development. The Botswana Private Enterprise Development (BPED) Project is designed to focus on alleviating some of these constraints to economic development and income distribution. Its goal is to promote entrepreneurial development. At the same time, it seeks to improve the overall policy environment in which private-sector led growth can occur.

B. The Environment for Private Enterprise

The environment for private enterprise in Botswana is very positive due to two basic factors. First, Botswana's economy is financially one of the healthiest in Africa. Central bank holdings are nearly three years of exchange reserves (\$3.0 billion) and fiscal and balance of payments are in equilibrium. Second, the Government has a free market policy which encourages the private sector to take the lead in economic growth and diversification.

Perhaps one of the strongest incentives for foreign investment is the Government's liberal laws governing foreign investment in Botswana. In addition, corruption in the civil

service and the private sector has not been a problem. Foreign exchange controls by the central bank are extremely limited. Profits and legally acquired funds may be converted into foreign currency or repatriated freely and without difficulty. Investors may also borrow locally up to four times the amount of capital they bring into the country.

In general, the Government of Botswana prefers not to be a partner in private enterprise but encourages local as well as foreign investments in projects. The parastatal Botswana Development Corporation may provide local equity capital for approved projects when local entrepreneurs fail to come forward with sufficient funds. The long term goal is for the shares in companies owned by the BDC to be purchased by individual citizens. A step forward in this process was taken in 1989 with the establishment of Stockbrokers Botswana, which functions as a clearing house for local shares.

The GOB has encouraged private investment in several ways. The Financial Assistance Policy, a plan whereby newly formed or expanded productive activities may receive financial assistance from the Government, is available for both citizens and foreign investors. The Government also is sponsoring a package of even more lucrative incentives for export oriented businesses that locate in Selebi-Phikwe. Over the past six years the Trade Investment Promotion Agency (TIPA) in the Ministry of Commerce and Industry has sponsored a number of trade and investment missions to Europe, the Far East and the United States and has recently published a first class brochure on the advantages Botswana offers to foreign investors. TIPA was established in 1984 to provide "one stop" service for investors: provision of information about domestic and export markets and assistance in registration of their firms and acquisition of industrial licenses. Other sources of help to potential investors are the implementing entities of the BPED Project, BDC and BOCCIM, as well as the Selebi-Phikwe Regional Development Project.

The Government of Botswana has never nationalized or expropriated an industry or property owned by a non-citizen. By law, the Government cannot take over any property without providing appropriate and prompt compensation. There are no restrictions on reinvestment and/or repatriation of earnings and capital. Royalty payments and other such similar payments may be made outside Botswana upon presentation of appropriate documentation to the Bank of Botswana (i.e. the central bank).

Botswana has relatively few rules and regulations governing foreign investment. However, like many countries in Africa, the long range goal of the Government is, ownership of, or at least participation in, businesses by citizens. Recognizing the unique contributions of the private sector to the economy, the Government will participate directly in businesses only in very large projects or projects which are of a sensitive and strategic nature for which some Government control is absolutely necessary. Since independence, the Government has insisted on being a partner only in major mining projects.

Where indirect participation is deemed necessary for the success of a desired project, the Government participates through parastatals, such as the Botswana Development Corporation, in certain categories of business:

- o Where it is in the best interest of the nation that an economic rent be transferred to Government as a share of returns to equity instead of being charged as simple royalty;
- o Where the project has been identified as profitable and economically beneficial but, despite active promotion, has not been undertaken by the private sector or would not materialize without Government participation;
- o Where the investment will add to the skills of the local workforce, produce products which can be substituted for imports, and/or generate additional business opportunities;
- o Where the project would give considerable economic or rural development benefits, but little or no financial return.

Some of the problems which have been identified as limiting the success of Botswana's efforts to attract foreign investment include: bureaucratic delays in providing residence and work permits for expatriates; relatively high corporate taxation (currently at 40 percent); limited availability of housing and schooling for expatriate and senior Botswana personnel; and relatively high wage levels by Less Developed Countries (LDC) standards. These and other problems are being addressed by the Government of Botswana, and will receive the attention of the BPED policy analysts, in a serious effort to boost the level of foreign investment coming into the country.

On the whole, the policy environment for private enterprise is among the best in Africa and the Government continues to improve it through a dialogue with the private sector and the principal donors. Thus, BPED will operate in a favorable setting.

C. Relation to BWAST I and II

The Botswana Private Enterprise Development Project builds upon USAID's efforts of the past and it closely relates to other projects undertaken by USAID/Botswana, particularly the Botswana Workforce and Skills Training Project (BWAST) I and II. A closer look at the BWAST Projects and BPED show a ladder type of relationship, one project leading to the next.

The BWAST I project was designed to help the Government of Botswana alleviate shortages of skilled manpower and to provide assistance in employment generation in the public and private sectors. The project grew out of an earlier and similar project, the Southern Africa Manpower Development Project, which covered

Botswana, Lesotho and Swaziland. The BWAST I project provided short and long-term training for Botswana in the public and private sector.

BWAST II continued to expand upon the efforts undertaken through BWAST I but concentrated upon increasing the number of trained Botswana in positions which foster employment generation and increased in-country training for the private sector. BWAST II consists of the following:

(a) Training: long and short-term international training as well as short-term in-country training in administrative and technical fields;

(b) Technical Assistance: in high priority Government of Botswana ministerial positions that are involved with job creation, the long-term technicians temporarily filling key positions while Botswana were receiving advanced training. Short-term technicians were provided to undertake specific tasks for the private and public sectors;

(c) Management of Training: with tested and refined systems developed for the planning and management of training;

(d) Planning Studies: which explored the success of various options in expanding employment opportunities.

An Interim Evaluation of BWAST II, published in December, 1989, provided key conclusions and recommendations that helped restructure BWAST II and, in addition, form some of the key objectives and corresponding elements of BPED. The most significant findings follow:

o "If USAID intends to have a significant impact on private sector development and employment generation, it must reach beyond the confines of BWAST II. To stimulate private sector growth and development a variety of services must be provided including management and marketing assistance, credit, help with securing raw materials and product design assistance, among others. Training is useful, but will only be fully effective when given in conjunction with these other essential services. Any new project initiative must be designed to coordinate and deliver a wide range of services to enterprises."

o "BOCCIM has the potential to play a key economic development role in Botswana. It is essential that an institution coordinate and strengthen the intermediary resource institutions that promote and assist firms in Botswana. Rather than establish a separate center, however, the evaluation team suggests that strong consideration be given to strengthening the capacity of BOCCIM to coordinate the delivery of private sector services. In this role it must coordinate simultaneous assistance in management, production, financing, and

training to many clients, each of whom has a unique mix of labor needs, production technology, products, and market networks.

o BOCCIM has the potential to be the location for such a broad spectrum center in Botswana. BOCCIM has a small but highly professional staff. It has an established membership of employers, providing a network throughout Botswana. It is an independent, private sector organization, which has developed a close working relationship with the GOB on matters affecting private sector interest. It also has experience working with USAID through the BWAST II project. In other words, BOCCIM is strategically placed to undertake this by supporting the development of BOCCIM'S capacity, USAID can achieve a powerful multiplier effect.

o "The private sector would be better served by greater emphasis on shorter term training, observations and internships both external (i.e. in the U.S. and third countries) and in Botswana, and by selection on the basis of critical skill needs (both technical and entrepreneurial) with less emphasis on organizational affiliation... A needs assessment of critical skills in the private sector should be undertaken at the earliest opportunity."

The BWAST II project represents only one element, yet an essential one, needed to combat unemployment. It was fully recognized by both USAID and the GOB that in order to promote employment and improve the standards of living of Batswana, educational inputs and manpower development must be fully complemented by efforts in other sectors which generate employment more directly.

The Botswana Private Enterprise Development Project follows a tested procedure through which expansion of employment opportunities can be attained more directly than through BWAST II.

USAID/Botswana, the Government of Botswana, and the Private Sector all agree that, indeed, continued economic growth depends on a dynamic and diversified private sector, one that is capable of employing an expanding Botswana labor force. The project seeks to increase employment and household incomes by increasing the number of citizen owned, private, for profit enterprises in the non-mineral sector. BPED can be seen as a logical successor to BWAST I and II. All the efforts (outputs) of BWAST I and II are now being brought together under BPED to build a sustainable and thriving Botswana economy through the private sector.

D. Project Background

Fueled by highly lucrative diamond production, and sound government economic policies, the country's economy is booming.

However, the economy is driven by foreign-owned and managed large firms. A large segment of the population is not receiving sufficient economic benefits from the mining profits. Although foreign investment must continue, more must be done to encourage the active participation of citizens, particularly indigenous citizens, in the economy and to diversify economic activity into non-mining areas. The GOB is aware of the problem and has requested A.I.D.'s assistance in encouraging the development of citizen enterprises in non-traditional sectors. (Grantee's request for assistance Appendix B.) Thus, the problem is not one of solely economic growth. It is one of income distribution and job creation to spread the benefits of growth. We are seeking to provide more jobs for Batswana, the local citizens, and narrow the gap between the large, successful foreign-owned firms and the smaller, less successful citizen-owned firms which are not growing as desired. To ensure Botswana's continued economic prosperity and political stability, something must be done to bring more Batswana into the modern economy.

To achieve the increased participation of Batswana in the private sector we have chosen to:

(a) improve the local business environment by further improving GOB policies and their implementation which constrain growth;

(b) strengthen local organizational and institutional capacity to train and assist local entrepreneurs;

(c) generate additional employment through facilitating foreign/domestic investments in non-mineral private sectors; and

(d) increase access to investment capital by Batswana businesses by improving in the way that the financial market operates both on the supply and demand sides.

A.I.D.'s role will be that of a catalyst. It would be difficult for the GOB to assist BOCCIM, without submitting this private organization to criticism as an agent of the GOB. To remain truly private and objective, BOCCIM needs to retain its independence from government financing. However, BOCCIM is not yet able to generate sufficient revenue from its members, especially the smaller indigenous members, to be self-sustaining. BOCCIM needs the broader financing and technical support from USAID to establish itself as an independent and self-sustaining organization.

On the policy side, A.I.D. has established a long-standing relationship of confidence and trust with the GOB. The GOB has learned to respect and value the consulting of U.S. advisors as demonstrated by the evaluation of the BWAST II project. Cooperating with, and expanding the GOB contribution, the BPED financed advisors will concentrate upon those policy issues and implementation concerns which affect the local entrepreneurs in development.

Further support for the approach outlined is contained in the constraints analysis to private sector growth, attached as Appendix E.1. A number of constraints to growth will be addressed by the project. However, considering the limited size of USAID's investment, it would be unreasonable to expect that we will be able to solve completely the constraints of the weak participation of the citizen entrepreneur in the local economy, within the project time frame. This project will build a frame-work and a sustaining process for alleviating this constraint.

There are several constraints to private sector growth which will be addressed directly by this project. Other constraints are being tackled by the GOB, other donors and separate USAID projects. The lack of infrastructure such as power and roads is being handled by GOB, the World Bank, and the Southern African Development Coordination Conference (SADCC). Access to credit and the negative interest rate is a serious constraint which the GOB and the World Bank are seeking to alleviate. The high population growth rate and lack of vocational/technical training skills exacerbate the employment problem and are being addressed by the Botswana Population Sector Assistance Program, and the Swedish and German Governments.

The problem of employment creation is a serious one which this project will address in two ways. Improving policies to create better business environment will have a significant impact on job creation in the long run. More immediately, by strengthening the BDC program to attract foreign investment, and by stimulating local business through BOCCIM, this project will create an additional 4000 jobs during the life of project. Moreover, the project will put in place a private sector institutional structure, expanded and new businesses, and a stronger investment promotion program in BDC, which will continue to create thousands of new jobs after the A.I.D. inputs have been completed. Further, this project will not only coordinate with the GOB investment promotion efforts by TIPPA and BDC, but it will also support the AID/W MDI investment promotion program. However, the project's major focus will be upon assisting the local entrepreneur. BPED is focussed upon increasing the number of citizen entrepreneurs in the local economy. Its personnel and financial resources are concentrated upon achieving that objective.

E. Response to the PID Guidance Cable and Changes Since the PID

The guidance cable, attached as Annex A.1, raised two main issues. First, that the linkage between the problem and the interventions proposed was unclear. Second, and flowing from this linkage problem, the Executive Committee for Project Review (ECPR) thought the resource level proposed, both in terms of staff and funding, was insufficient to have a significant impact on generating additional employment and

investment in selected non-mineral areas. The Mission was asked to demonstrate why the relatively limited resources planned for each activity will achieve the objective. Alternately, the mission was counseled to target project resources and activities on fewer End of Project Status (EOPS).

The Mission has followed the advice of the ECPR and reduced the EOPS as reflected in this document and the revised Mission's Program Logframe. The goal and sub-goal levels have been modified to focus on improving the economic and social well-being of the average Botswana household. The credit and micro-enterprise portions of the project have been reduced to short-term studies. Staff and resources have been shifted to place more emphasis on activities generating investment and employment, and creating a strong, self-sustaining private association able to support the private sector.

We believe the project as well as the Mission's Program Logframe is more tightly focused, as a result, and that BPED will, indeed, generate a significant increase in employment and investment.

III. PROJECT RATIONALE AND DESCRIPTION

A. Rationale

This project will be the major vehicle for achieving the Mission's strategic objectives in enterprise development and broad-based economic growth in employment creation. The non-mineral private sectors* remain small but are growing rapidly. Future employment growth in the mineral and cattle industry is limited. However, there is a strong, unmet demand for all types of goods and services. The opportunities for creating profitable small and medium enterprises abound. The demand for skilled and semi-skilled labor is increasing.

To spread the benefits of growth more broadly, the non-mineral private sector needs to continue its rapid expansion of the last several years. However, the trained personnel needed for business creation and expansion are in short supply, and there are only a small number of sustainable citizen-owned private sector businesses. Recent public sector growth has exacerbated this problem by absorbing a large share of the skilled managerial and technical manpower available. Also, Botswana's small, widely-dispersed population results in a limited domestic market, which is served, substantially, by inexpensive, duty-free imports from South Africa.

*Non-mineral sectors are defined as all components of the private sector outside of diamonds, nickel-copper, beef and traditional dry-land farming. New productive areas related to minerals and cattle, such as diamond cutting and processing of cattle by-products, will be considered non-traditional.

These limitations pose major constraints to sustainable private sector diversification. But the increase in demand generated by the rapid economic growth of the past twenty years has generated market opportunities that are yet to be exploited by domestic investment. Export opportunities need to be identified and foreign investment promoted in order to provide increased employment opportunities for the increasing number of young Batswana annually entering the job market.

The constraints on production, marketing, and finance in business sectors have begun to be identified and will be addressed by this project. These constraints include policy issues and implementation, training and skills deficiencies, and a conservative financial system. For example, restrictive licensing policies limit competition. Conservative banking policies, such as strict collateral requirements, limit citizens' access to business financing, particularly female entrepreneurs. While Botswana's macro-economic policies favor private sector growth, their implementation often constrains it. Lack of managerial, administration, and financial skills among the workforce contribute to this problem.

B. Project Goal, Purpose and Outputs

As stated in the LCDSS, the overall goal of the USAID program in Botswana is to increase the economic and social well-being of the average Botswana household. Of the two sub-goals, the most relevant to this project is to increase off-farm sources of income through expanded opportunities for income generation and employment in the non-mineral private sectors. This is to be accomplished by (1) increase in the number of Batswana-owned enterprises in the non-mineral sectors of the economy and (2) an increase of 106,306 new jobs in the non-mineral private sector between 1989/90 and 1996/97.

The goal of this project addresses LCDSS strategic objectives one and two, increase in the number of Batswana enterprises and employment. The project purposes are the primary targets of that objective (a) to increase domestic and foreign investment in the non-mineral sectors, (b) broaden opportunities for citizen entrepreneurs, and (c) to increase the effectiveness of policy dialogue between the private and public sectors to reduce regulatory and procedural constraints and increase implementation capacity.

The project purposes will be achieved by producing the following outputs during the course of the project:

(a) 360 new, viable, citizen-owned businesses established, 500 citizen businesses expanded and ten joint ventures with foreign investors established.

(b) a self-sustaining, private business organization capable of representing and serving the private sector.

(c) a formal mechanism for the analysis, identification and implementation of improvements in government policies affecting private sector growth.

(d) 4000 new jobs created.

To achieve these objectives the project will:

(a) assist the operation and expansion of BOCCIM by providing three advisors in training, policy, and management and by financing training, feasibility studies, and a declining share of operational expenses.

(b) assist BDC to develop medium to large businesses, whose shares will be at least 40 percent locally owned, by providing a Senior Project Officer and a Principal Operations Advisor and financing feasibility studies, pre-production training, business linkage and investment trips.

(c) provide long-term training for up to 20 Batswana to obtain MA degrees in business management, investment, financing, economics, private policy analysis, labor economics, public relations. Additionally, up to 80 participants will receive short-term specialized academic training sponsored by U.S. universities and international "think tanks".

(d) place a policy advisor in the Ministry of Commerce and Industry.

C. Project Elements

1. Policy Development and Implementation

(a) The Policy Environment In Botswana

The policy environment in Botswana, especially compared to elsewhere in Africa, is favorable to private sector investment. Firms may remit profits and dividends freely, import without foreign exchange constraints, experience minimal corruption, have the benefit of political stability, and an independent judiciary to settle disputes. The investment incentives contained in the Financial Assistance Policy are generous, and compensate to a large degree for some of the high costs of doing business in Botswana. Also, the recently approved Income Policy further relaxes and restricts government regulation of wages and incomes.

Private sector job creation exceeds that of the public and parastatal sectors. Investors are finding Botswana a competitive base to produce for regional and export markets. There are policy-based disincentives to private sector investment, however. Some of the more important policy-based disincentives and their impacts are outlined briefly below:

Issuance of Work Permits Difficulties and lengthy delays in obtaining work permits for expatriates has been a major issue since 1975. Despite a cabinet approved decree announcing major changes in permit policy, persistent delays discourage investors. Valuable staff currently employed leave for other opportunities because their permits are not renewed in time; thousands of others are put on monthly waivers because of the tremendous backlog in processing. The renewal of the monthly waivers creates an additional burden thus perpetuating the bureaucratic backlog.

Skilled Labor Availability The structure of student grants, government allocation of college graduates, primary school curriculum policy, government-mandated salary compression, and numerous other policies serve to depress the supply of skilled labor and college graduates for the private sector. Although several of these issues have been addressed with the passage of the Incomes Policy, implementation of the revisions are still pending.

Licensing Procedures Manufacturing licenses can take four months or longer, particularly if there are other industries in the same field. Investors with capital but not the time to wait look elsewhere. Objections from existing producers can greatly complicate the process, causing delay or denial, reducing investment and stifling competition.

Utility Pricing Water and telecommunications rates are high. Electricity rates are the highest for the region, and unit costs increase with usage.

Financial Assistance Policy The generous terms of the FAP strongly favor labor intensive enterprises, and actually discourage capital intensive operations that create less, but more skilled and highly paid jobs. Exceptions are large multinationals which can negotiate with the GOB special Development Approval Authority incentives for capital intensive projects. Efforts have not been made to establish a balance between policies to stimulate employment particularly among the semi-skilled while simultaneously increasing production.

Other Investment/Export Incentives GOB, through TIPA, has adopted a promotional campaign which is not targeted on potential investors, but investment generally. TIPA needs to evaluate Botswana's competitive position in the region, recommend refinements to the incentive package and develop a targeted marketing strategy before an all out promotional assault. The concept of TIPA as a "one-stop" shop to streamline investment approvals, although accepted by TIPA management, has yet to become a reality.

Corporate Taxes At 40 percent corporate and 30 percent personal, the tax rate in Botswana is relatively high. Consistent with the overemphasis on labor intensive projects, there are no investment allowances for capital equipment.

Interest Rates Despite recent adjustments, real interest rates are still negative. This discourages private sector saving (although government savings are high). On the demand side, negative interest rates discourage the development of a risk or venture capital intermediary by greatly increasing the propensity to borrow.

Restrictions on Women Entrepreneurs Married women cannot pledge household property as collateral for loans without their husband's written approval; married men need no approval from their wives.

Land Allocation Land, particularly serviced land and industrial sites, is difficult to obtain and expensive, especially relative to other countries in the region. Quality housing for expatriate staff is limited, expensive and six month waits are not unusual. The Accelerated Urban Land Servicing and Housing Development Programme, started in 1987, has only begun to address the problem.

(b) Implementation Problems

Much of the problem between the public and private sectors, is not bad policy, but the failure to implement good policies already in plan. High-level agreements on policy issues, even presidential directives, are not translated into regulation and rules by the senior staff in the line ministries. Administration of the rules and regulations by the middle and lower level ministerial staff is done inefficiently and often arbitrarily.

The problem of implementation of private sector oriented policies has plagued Botswana at least since 1982, with the acceptance by the GOB of the findings of the President's Commission on Economic Opportunities. At that point, a consensus was developed on need for private sector led diversification and development of the economy. Many of the recommendations from the 1982 report have yet to be implemented although several of the constraints have been addressed in the recently passed Incomes Policy.

The reasons for this failure of implementation are complex. The line or technical ministries responsible for implementation often feel they have been railroaded into implementing policy that they have not had adequate input, and which they feel little ownership and oppose in some part. Ideological or nationalistic instincts in some civil servants may clash with official GOB policy, especially in sensitive matters such as work permits and business licensing.

(c) USAID's Role in Policy Reform and Implementation

USAID's involvement in the policy development process in Botswana has been far-reaching and critical. Informal, quiet policy dialogue by the Mission on a number of fronts has been successful in shaping the changes which have

occurred over the last several years. Many BWAST funded OPEXers have been deeply involved in their host ministry's policy activities, as well as serving on the key inter-ministerial committees that do much of the actual policy development work in Botswana.

The environment for USAID's involvement in policy development and implementation continues to be favorable. A major breakthrough came in August 1990, with the GOB's acceptance of the Revised National Policy on Incomes, Employment, Prices, and Profits. This confirmed the commitment on the highest levels on the need for private sector led economic development -- and at the same time made very specific recommendations relating to many of the policy constraints discussed above.

(d) BPED Support of the Private Sector's Role in Policy Development

One of the more important lessons learned from BWAST I and II, the Manual for Action in the Private Sector (MAPS) exercises, and informal policy dialogue was the realization of the key role the private sector should play in the policy process. The private sector has a considerable reservoir of knowledge and technical expertise on policy, regulatory development, and implementation. Nonetheless, the private sector effectiveness as a change agent has been limited. Specifically, the private sector's problems are a lack of ability to identify, prioritize, and analyze key policy issues. The private sector also has difficulty presenting its case convincingly, finding the right forum, and applying continued pressure for effective implementation of policy decisions and regulations.

Normally, this type of policy function is undertaken by business associations. BOCCIM is the lead private sector business association in Botswana, and represents over eighty percent of the business activity in the country. Its small business membership has also grown rapidly, increasing its prominence as an organization for leading the private sector's development with the GOB. To date, BOCCIM has been particularly active in tax and labor issues.

BPED intends to support BOCCIM's key role in the policy process by funding a long term analyst and partially funding the counterpart policy analyst who will be hired by BOCCIM in the third year of the Project. By the fourth year the Motswana counterpart will start taking over an increasing amount of these responsibilities. At the end of the project, the counterpart will be capable of handling much of the advisor's functions, and will be funded out of BOCCIM's own revenues.

BPED will fund short term technical assistance, to be provided by local or expatriate experts, where needed for

special analyses. BOCCIM will sponsor membership workshops of small working groups exploring key policy issues to develop a private sector consensus. BOCCIM will sponsor high level national GOB/private sector/union/donor conferences, on the Francistown 1988 model with BPED support.

Private Sector Policy Inputs:

(1) Long term Policy Analyst, funded for the life of the project, who will be responsible for assisting with the managing and coordinating the policy activities of BOCCIM, under the leadership of the Board of Directors. The long term analyst will have extensive experience in directing a chamber of commerce or similar organization's policy research and formulation and lobbying function, possibly combined with corporate government relations. Similar practical overseas experience will be essential.

Working under the Director of BOCCIM, the Long Term Analyst responsibilities include:

- o Identify and prioritize key policy issues for BOCCIM in collaboration with BOCCIM's members and staff;
- o Undertake analyses of key issues as directed by BOCCIM management. Draw upon other expert consultants as necessary including appropriate BOCCIM members to utilize their analytical skills, expertise, and presentation skills;
- o Coordinate and organize the presentation of BOCCIM analysis and conclusions to relevant GOB, private sector and international organizations;
- o Coordinate BOCCIM's monitoring function to ensure effective government implementation of key policy decisions, regulations, and rules affecting the interests of membership and would be membership;
- o Assist BOCCIM in recruitment of local counterpart, participation in preparation of overseas short-term training and ensure sufficient on the job experience and responsibility so that he or she can participate fully in the project's implementation;
- o Assist BOCCIM to publicize and disseminate its policy activities and more effectively to serve its membership through BOCCIM's newsletter and the mass media to create an appreciation for the value of the policy/lobbying function, and to build a base for support of the function after BPED funding, and;
- o Develop working informal relationships with the key policy players within the GOB ministries and the private sector.

(2) Counterpart and Counterpart Training

The local counterpart, recruited by BOCCIM with the assistance of the policy analyst, will act as the policy analyst's assistant, but will be groomed to take over an increasing amount of the responsibilities of the expatriate advisor over the course of the project life.

The counterpart will undertake appropriate long term and intensive Masters Degree training in the United States. Other BOCCIM personnel would be offered short-term training such as that offered by the U.S. Chamber of Commerce's Institution Management program. This training is likely to include internships with successful U.S. Chambers involved in policy and lobbying.

(3) Short Term Consultancies

Short term consultancies on key topics requiring special expertise will be funded. Use of local consultants and resource persons will be emphasized as appropriate. Topics will be selected by the policy advisor with the input of BOCCIM management and membership, but are expected to address the key policy constraints discussed earlier.

(4) Membership Workshops

Membership workshops as needed will be held, exploring issues of current importance to the private sector. These small working sessions with background discussion papers will provide an effective forum for BOCCIM to obtain input and guidance, develop strategy, and provide feedback to the membership.

(5) National Conferences

National conferences sponsored annually by BOCCIM, to include the GOB, unions, and donors, will review the progress made to date, outline delays and deficiencies in implementation where they have arisen, explore the causes for these delays and deficiencies, identify new policies to be considered, and provide an overview on changing regional and world conditions that may require a policy response.

(e) BPED's Role in Support of the Public Sector's Role in Policy change

BWAST I and II OPEXers have had a good deal of success in effecting policy change within government, as well as preparing counterparts to assume their position. The Ministry of Finance and Development Planning (MFDP), in particular, has been strengthened considerably.

The line ministry with the responsibility for private enterprise development, the Ministry of Commerce and Industry (MCI), continues to need strengthening. Many key technical and

administrative positions are vacant, or underfilled by inexperienced recent graduates. As a result, MCI's ability to respond to policy initiative, or to play a proactive role in policy development is weak. Similarly, implementation suffers. Regulatory developments do not filter down to implementation units. Furthermore, staff motivation is diminished by inadequate involvement of implementing staff in decision making and the development of team organization.

MCI's trade and investment promotional activities are still fledgling. While becoming increasingly important, concomitant with the increasing importance of the private sector in economic development, TIPA's effectiveness is restricted by lack of autonomy. As currently structured and funded, MCI's Trade and Investment Promotion Agency has difficulty attracting entrepreneurial, private sector oriented and experienced staff. Also, it has failed to win the confidence of the private sector.

BPED will provide a long-term advisor to MCI, for the Department of Industrial Affairs. The advisor's role will be to revitalize MCI's contribution by providing advice on policy analysis, implementation, participation on interministerial committees, contacts with private sector, and the restructuring of MCI's trade and investment promotion functions. The advisor will have funding available for short term expert consultancies to analyze priority policy issues, and organizational restructuring of TIPA. BPED will underwrite the costs of study tours and participation at conferences relevant to key policy development/implementation issues under consideration.

BPED will fund up to 20 masters level scholarships. Three will be reserved for key policy staff in MCI and MFDP and possibly the Ministry of Local Government and Lands (MLGL). Two slots one each will be reserved for BOCCIM and BDC respectively. Scholarships will only be offered to candidates who have been identified and have appropriate positions to return to. The return of these trained professionals will build the capacity to undertake and direct high level policy analysis, and provide exposure to means of effecting policy change in the government context. The remaining 15 Masters' Degrees in administration, management, economics, finance, etc. will be divided among selected GOB ministries and related private sector institutions on the basis of assisting in private sector growth.

The design team considered several other options for supporting the GOB policy/regulatory/implementation process. The support of MFDP was considered. Because the MFDP will continue to receive support from other sources, this was rejected. The team considered placing a long term advisor to serve with the National Employment, Manpower, and Incomes Committee (NEMIC), which is supposed to bring high level actors in labor, business, and government together on policy matters.

This was rejected, because strengthening two key participants in NEMIC, MCI and BOCCIM, will serve as the most effective means of revitalizing NEMIC, while accomplishing many other goals.

The team considered placing a long term advisor in TIPA. Until TIPA obtains more autonomy it may face difficulties in undertaking its responsibilities and attracting more experienced staff.

(f) BPED Inputs to Public Sector Policy Reform

(1) MCI Policy Advisor's Specific Tasks

The policy advisor will be funded for the life of the BPED project. He/she will have high level academic training, but more importantly will have long experience in applied economic/business policy research, dialogue, and consulting in a developing country context, preferably Africa.

Under the guidance of the Industrial Development Officer, the policy advisor's responsibilities will include:

- o Identify and prioritize new policy issues for MCI to become engaged, working with MCI staff. Develop working strategic agenda, and bi-annual workplans for implementation;
- o Undertake analyses of priority policy issues, with the support of outside consultant expertise where needed;
- o Coordinate representation on key policy matters in interministerial standing bodies such as NEMIC and the Regulations Review committees, as well as special blue ribbon commissions as they are formed;
- o Assuming the role of chief MCI resource person on policy issues pertaining to commerce and industry; accessible to the GOB, unions, private sector, donors, special conferences;
- o Engage the MCI analytical, administrative, and regulatory staff in the policy process to ensure their support and commitment to policy change and implementation;
- o Provide input on selection of candidates and institutions for the staff training component; and
- o Coordinate with the MCI counterpart and prepare study tours and conference participation;

(2) Short Term Technical Assistance

Short term technical consultancies will be available as required. This will allow the MCI to have the flexibility to address previously identified policy issues on its strategic agenda, as well as to respond rapidly to policy issues floated by BOCCIM or other GOB ministries and bodies.

(3) Study Tours/Conference Participation

Study tours or conferences pertaining to policy issues will be identified for participants from the MCI or other GOB ministries or private sector personnel. The policy advisor will assist senior MCI staff in selecting the sites to be visited, coordinating the visit, and ensuring that the participants are properly briefed.

2. Management and Entrepreneurial Development

The second project component is management and entrepreneurial development. This component addresses constraints to the development of citizen-owned enterprises and participation in the private sector as identified in the PID, i.e., inadequate business skills and poor knowledge of opportunities. It is consistent with the recommendation made in the mid-term evaluation of BWAST II to focus future USAID manpower development activities toward private sector development.

Most activities for this component will be coordinated and implemented by BOCCIM, utilizing both in-house resources and contracts with local private training and management assistance firms. Although BOCCIM membership is open to all private sector and parastatal enterprises in Botswana, and represents businesses at both the high and low ends of the spectrum, activities in this component will be designed to primarily serve urban and peri-urban micro, small and medium-scale businesses which have limited access to training and management assistance. BOCCIM has been improving its delivery capability in this area over the past two years through its Outreach and B-MAP programs and through its training courses.

The project will fund a policy analyst and continue to fund two long-term expatriate advisors, one for training and one for management assistance/outreach, which are currently funded under the BWAST II project. These advisors will train local BOCCIM staff counterparts to carry on their activities after the Project Assistance Completion Date (PACD).

The Peace Corps will provide three volunteers to assist BOCCIM in outreach and marketing assistance to small businesses. Peace Corps/Botswana has a very active small business assistance project and currently has approximately

twenty volunteers working with small businesses throughout the country. Although only three volunteer placements are identified at this time, Peace Corps participation may be expanded during the life of the project as other areas are identified by BOCCIM.

Peace Corps/Botswana has access to USAID funds through the existing MED PASA, a centrally-funded program jointly administered by PC/OTAPS and PRE/SMIE. These funds will be used to increase the effectiveness of Peace Corps Volunteers (PCVs) working on this project. (see Annex F for description of MED PASA activities).

The International Executive Service Corps (IESC), has been active in Botswana since 1987, and will be used to provide specialized training and assistance to BOCCIM and to member and non-member businesses. Approximately 15 person/months of IESC volunteers will be provided to the project annually.

Activities for this component will be targeted toward non-mineral private sectors of the economy which are current growth areas or have good potential for growth. Previous Mission studies have indicated that construction, tourism, agribusiness, handicrafts, business brokering and other professional services, and general manufacturing are potential areas of concentration for project activities. To the extent possible, and consistent with the restrictions contained in the Lautenberg amendments and related restrictions (see Annex J.), emphasis will be placed on developing export-led enterprises. During the first year of the project, a needs assessment will be conducted to identify types of constraints affecting entrepreneurial development and the capacity of local training institutions to respond to the identified constraints. The Project Implementation Committee (PIC) will use the needs assessment as a guide to assist BOCCIM in preparing a six month activity plan which lists specific training courses, staff development, proposed studies and short-term technical assistance needs. The needs assessment will be updated annually and be used as an implementation guide throughout the Life of Project (LOP).

The Management and Entrepreneurial Development Component has two subcategories - management assistance and training. The activities under each subcategory are described below:

(a) Management Assistance

(1) Outreach Program

BOCCIM provides management assistance to its members through its Outreach Program. This Program involves visits by BOCCIM field officers to both member and nonmember business sites to provide managerial and general business advice. This assistance is business specific and is designed to help solve identified problems. It may involve a single visit or a succession of visits to resolve the problem. The assistance

provided during these visits is primarily problem solving and includes general business planning, labor relations advice, environmental impact planning, information of BOCCIM sponsored training programs, and information and assistance on the Financial Assistance Policy (FAP) offered by the GOB.

In addition, the outreach staff enhances BOCCIM organizational strengthening through the recruitment of new members and maintaining contact with existing members. The staff members collect overdue subscriptions and serve as liaison between BOCCIM, its members, other specialized associations, and government departments.

The long-term Management Assistance Advisor attached to BOCCIM will provide intensive training to his/her counterpart, the Deputy Director of Outreach. She/he will also provide advice and assistance to the other members of the Outreach Division and will provide overall office management advice to the Director and general support to office staff on management information systems. These activities are currently performed by the Management Assistance Advisor at BOCCIM funded under the BWAST II project and will continue under the BPED project.

BOCCIM Francistown regional office augments its delivery service system to the business community in the northern region of Botswana. In addition, part-time field offices have been opened in Selebi-Phikwe, Serowe, Molepolole and Kanye. This effort has been supplemented through a grant from the Center for International Private Enterprise (CIPE) which covers about 30% of the operational costs for 18 months. During this project, BOCCIM will establish other part-time field offices in Palapye, Maun, Ghanzi, Kasane, Bobonong and Lobatse.

The BOCCIM outreach staff will initially consist of a Deputy Director of Outreach (to be hired in January 1991), Regional Manager, two Field Officers (one northern region and one southern region), and three Peace Corps Volunteers. Two additional Field Officers will be added in 1992. Based on one contact per day per staff member (staff members will be performing other duties each day, such as member recruitment and maintenance, resulting in an estimated average number of contacts), the following annual figures are obtained:

1991 -	1	contact/day/staff member	(7)	=	1344	contacts
1992 -	"	"	(7)	=	1344	" "
1993 -	"	"	(9)	=	1728	" "
1994 -	"	"	(9)	=	1728	" "
1995 -	"	"	(9)	=	1728	" "

Total LOP contacts = 7872

Assuming that 50% of the offered assistance is accepted and implemented, it is estimated that 3936 businesses will receive effective management assistance over the LOP.

(2) B-MAP Program

The Botswana Management Assistance Program (B-MAP) was established within BOCCIM as a pilot project financed in 1990. The project is similar to the U.S.-based SCORE/ACE program and involves matching volunteer manager/counselors from successful firms in Botswana with owners/managers of emerging and expanding enterprises. The volunteer agrees to make up to five visits to the client business over the course of a year to provide management assistance. Attempts are made to team up volunteers and clients in the same business so that a sharing of technical and marketing information is possible.

The pilot project was limited to the Gaborone area. However, requests for similar services have been received from around the country and USAID agreed to support an expanded activity on a matching basis. With the expansion of the program, the Botswana private sector contributed P100,000 and USAID matched this amount with \$100,000 (\$50,000 under BWAST II and \$50,000 subject to the approval of BPED). During BPED, BOCCIM will expand the B-MAP program to Francistown, Lobatse and Selebi-Phikwe, all of which have a substantial base of large, successful businesses and an increasing number of emerging local entrepreneurs. This program will serve approximately 240 businesses per year over the LOP.

(3) Small Business Division

The Small Business Division (SBD) of BOCCIM was recently formed after a group of small business-persons approached BOCCIM for services. BOCCIM uses the SBD both to identify businesses needing management assistance as well as to increase its membership. The SBD currently has about 400 members and is increasing steadily. Quarterly meetings of the SBD feature special topics such as the recent seminar on "Boosting Your Profits."

BOCCIM has recently established a Women in Business Association within the SBD which will address the special needs of female entrepreneurs. A group of eight women are currently on the planning committee to develop a program for management assistance and training through BOCCIM. The project will provide assistance to this group for its continuation and growth.

(b) Training

BOCCIM will provide various types of training during the project. The training needs assessment scheduled for the first quarter of 1991 will identify specific training needs required by member businesses and allow BOCCIM Training Officer to design and manage training strategies. Special attention

shall be given to the needs of women in the assessment. BOCCIM has a full complement of training courses and these will increase over the LOP. Furthermore, in order to increase access to business opportunities for women, BOCCIM will make good faith efforts to attain a high percentage of female participation for each type of training offered during the LOP.

The long-term Training Advisor attached to BOCCIM will work closely with his/her counterpart. The counterpart Training Officer is currently attending a degree program at a U.S. university and is expected to return in January, 1991. The Training Advisor is currently in place under funding from BWAST II. When the BWAST II funding expires, the BPED project will continue funding this position until the end of the project.

Most of the local training provided by BOCCIM is conducted by private training firms under contract to BOCCIM. This allows BOCCIM to offer an extensive training program with a minimum of staff and to strengthen Botswana's private sector training delivery capability. Local firms which have been used in the past include Institute for Development Management (IDM), PE Consulting and Damelin. BOCCIM strategy is to use local firms when available, foreign firms next, and finally, BOCCIM staff as a last resort.

(1) Local Training Courses

The current annual training program for the five years of the project will include the following illustrative courses. These are subject to modification based upon the needs assessment, feedback from participants, and periodic monitoring and evaluations of the training program:

Supervisor/Mid-Management Series - Five 2 day sessions each at 5 different locations (25 sessions/year) with 20 participants each @ P300/per participant. Targeted at small, medium and large-scale businesses. LOP Impact 2,500 persons.

Entrepreneurs/Small Business Series - Five 2 day sessions each at 5 different locations (25 sessions/year with 20 participants each @ P300/participant. Targeted for micro, small and medium-scale businesses. LOP Impact - 2,500 persons.

Training of Trainers - Two 3 day sessions each in the northern and southern regions (4 sessions/year) for 20 participants each @ P500/participant. Targeted for medium and large-scale businesses. LOP impact - 400 persons.

Single Sector/Association Series - 18 sessions over 5 years with 30 participants each @ P150/participant. Targeted for micro, small, medium and large-scale businesses. LOP impact - 540 persons.

Senior Management Series - Five 2 day sessions each at 2 different locations (for 10 participants each @ P500/participant. Targeted for medium and large-scale businesses. LOP impact - 100 persons.

Special Needs Series - Six per year at 2 locations in northern and southern regions (12 sessions/year) with 20 participants each @ P100/participant. Targeted for small, medium and large-scale businesses. LOP impact - 1200 persons.

(2) Non-Coursework Training

BOCCIM will coordinate other non-coursework training over the LOP which will include both pre-production training and on-site consultancy management assistance:

Pre-Production Training

This training ties in with the investment support component of the BPED project and will provide funding to an investor identified either by BDC or BOCCIM for pre-production training of employees. Although funding for employee training is available to investors under the FAP, applications for funding cannot be made until 6-8 months after the project is operational. During the LOP it is projected that BDC/BOCCIM will identify 20 businesses that would qualify for this component.

On-Site Management Consultancies

The project will provide short-term technical assistance to BOCCIM to support implementation of on-site construction management consultancies for selected groups of citizen businesses. This program will be delivered over a three year period to the owners/managers of small to medium-sized, citizen-owned companies which have demonstrated the aptitude to improve their management skills and expand their business operations. The general pattern of these consultancies will involve coursework followed by on-site consultancies, provided either all at one time or periodically over a year. (See Annex I Description of Research Studies.)

(3) Short-term Participant Training

Regional Training

This activity will enable BPED to take advantage of regional training for management or administrative personnel training, and to improve Botswana's trade skills by sending local participants to skills/vocational training institutions within the region. Forty person trips in the Southern African region are contemplated.

International Academic Training.

Up to 80 participants will be identified to receive short-term academic training, primarily in the United States, and a limited number for other international countries. The area of study on selective courses should focus on but not be restrictive to, business management, private sector policy formulation, financial market development, banking, domestic and foreign investment, taxation, private provision of social services, etc. This short-term specialized training in an academic environment will greatly assist in private sector development since the number of trained professional Batswana in these areas is very limited. The participants will be selected from both the public and private sectors and the PIC will coordinate with the Directorate of Public Service Management (DPSM) for the selection of public sector candidates. The proposed courses will be identified in the external training plan which will be developed by the PIC. Academic courses or seminars sponsored or identified by AID/Washington will be eligible for funding under this activity.

Business Linkages. The BPED Planning Work Group, which works independently of the PIC, will identify local businesses which have potential for exports to the U.S. and could benefit from a trip to the U.S. to link up with U.S. importers and marketing representatives. The prime contractor will assist the BPED Planning Work Group to identify U.S. trade associations and marketing representatives which could travel to Botswana to provide marketing advice and assistance for exports to the U.S. The project will partially finance:

- 10 business linkage trips from Botswana to the United States;
- 20 business linkage trips for U.S. business persons to visit Botswana; and
- up to 30 person trips for potential U.S. investors to visit Botswana.

These trade linkages are described in more detail in the next section on investment promotion.

(4) International Executive Service Corps (IESC)

IESC volunteers will assist BPED in supporting the development of citizen entrepreneurs. Short-term consultancies will be coordinated with BOCCIM in the following areas:

Technical consultancies for medium to large enterprises to improve operations.

IESC will sign an Operational Program Grant with USAID to provide assistance through consultancies with U.S. experts whose experience is closely matched to the needs of the Botswana clients, primarily in the area of production and operations. IESC/Botswana will identify Botswana firms that have specific

technical problems; a sub-agreement signed between IESC and each client will detail the tasks to be performed by the consultant and the IESC home office will locate the U.S. executive (usually retired) best suited for the task. The executives will serve as volunteers, but expenses (travel, hotel and per diem for executive and one dependent) will be covered. The consultant will work closely with a staff member of each client company in order to assure a transfer of technical knowledge. The length of the consultancies will average two months. Priority will be given to companies in which the majority shareholding is citizen-owned. Clients will pay an average of \$8,000 (Botswana Pula equivalent) for each person month of consultancy. The IESC country representative will coordinate IESC consultancies for Botswana with BOCCIM. This linkage should assist the efforts of both BOCCIM and IESC, since a large number of the client firms will undoubtedly be BOCCIM members and IESC will receive valuable leads from BOCCIM.

Technical training for groups of small enterprises in high-growth sectors.

Such projects involve bringing a volunteer executive to Botswana, for a group of small enterprises in similar businesses. The volunteer would work with each enterprise in order to tailor the help to the individual business; and also conduct group training sessions. Such projects are needed in retailing, construction, transportation, service industries, etc.

Assistance in organizing and setting up new associations.

IESC is well qualified to assist in providing guidance on how to establish business associations. The association could consist of a group of firms composed of similar businesses, i.e. a retailers association. An IESC expert in association matters, involving the specific type of enterprises, could be brought to Botswana to develop an organizational structure and job descriptions, develop membership campaigns, identify training needs for members, and identify procedures for establishing links with government and other associations.

Feasibility studies in areas of high-growth potential.

IESC experts in specific product areas: oilseeds, prefabricated housing, tourism, plastic pipe production, etc. could be provided under the IESC Grant.

Providing low-cost practical business information through the American Business Linkage Enterprise (ABLE) activity.

Studies may be conducted for new product development, equipment sourcing, joint partner searches and export development. These studies are prepared in the U.S. by IESC volunteers. Because the volunteer does not travel to Botswana, the cost of such information packages is much less than the usual volunteer visit.

3. Investment Promotion and Support

(a) Investment Promotion

(1) The Setting for Investment Promotion in Botswana

During the preliminary project planning at the PID stage, the project intended to place major emphasis on attracting/promoting investment. Further investigation during project paper preparation has refined the investment promotion concept. Under this project, the concept of investment promotion is divided into two aspects (a) investor identification and (b) investor support. This project will primarily concentrate upon investor support through BOCCIM and BDC, coupled by tapping into AID/Washington's and the Overseas Private Investment Corporation's (OPIC) investor identification efforts. In addition to BOCCIM and BDC, the BPED financed advisors will be in contact with and collaborate to the extent practical with the Ministry of Commerce and Industry's Trade and Investment Promotion entity (TIPA), and the World Bank supported advisor contracted to attract foreign investors to the Selebi-Phikwe Free Trade Zone.

The limited approach to investment promotion was decided on for a number of reasons; first, the foreign investor identification function, a key part of the investment promotion process, requires a major investment in personnel and resources beyond the scope of the BPED, and secondly TIPA, the nation's trade and investment promotion arm, operates under direct control of the MCI, with little independent scope of action.

Conditions for Investment Promotion Support

Admittedly, technical assistance and additional resources are needed to make TIPA effective, but such an effort must be preceded by a major commitment by the GOB to recognize the need to conduct a foreign promotion investment effort and be willing to provide the finances required.

During the course of the BPED program, we will continue our discussion with the GOB on this point, through policy dialogue and through the policy advisors efforts assigned to BOCCIM and MCI. If at a later date, the GOB decides to mount a complete investment promotion program, we will consider the possibility of financing a feasibility study of the investor promotion effort for Botswana. The analysis will identify the kind of activities that a national investment promotion agency should undertake, and provide options for its institutional setting. Before undertaking such a study the GOB should form a high-powered tripartite commission similar to the Income Policy Commission. Such a commission would have sufficient clout, draw on the expertise of all key players, give a widespread sense of ownership, and would not be resistant to solutions that altered the current institutional structures.

If the investment promotion study is conducted and the recommendations of the study are accepted by the GOB, then the Mission would consider supporting the new or restructured investment promotion center by funding of a long term advisor, with experience in working with a one stop investment office, and short-term technical assistance. Although funds are not budgeted in the Project Paper, they could be through an amendment to the Project Grant Agreement at a later date.

Support to Selebi-Phikwe

The BPED technicians will be supporting the efforts of the World Bank's funded Free Trade Zone located at Selebi-Phikwe, 350 kilometers north of Gaborone. The World Bank's technical consultant is highly qualified and motivated and has done a good job of "selling" Botswana. BDC plans to assign a project PCV in Selebi-Phikwe to assist in the promotion of secondary businesses which are citizen-owned.

Support for Investment Promotion Efforts

Limited investment promotion strategies, targeted at specific firms in the most promising industries can play an invaluable role in attracting and keeping investors. The BPED activities in investor promotion will be channeled through BDC and BOCCIM. Both entities will coordinate their efforts in providing investor support.

Botswana Development Corporation (BDC)

BDC is a development corporation, not a promotional agency. Its staff is highly motivated and capable, but it does not have the time, nor the skills, nor should it be expected to act as the primary promotional office for Botswana. Nevertheless, BDC through its experience in working in the Botswana economy has developed a unique capability to address the needs of investors, both public and private. BDC has a proven ability to get things done. Many of BDC's referrals concerning potential investors actually come from TIPAs. BDC is an invaluable source of advice and information on the local business climate and opportunities, and can supply equity and loan finance, as well as technical expertise, to its clients.

Botswana Confederation for Commerce, Industry and Manpower (BOCCIM)

As the national business association of Botswana, BOCCIM is a natural stop for potential investors testing the waters in Botswana. BOCCIM's staff help mostly by lining up appointments with the right people in business and government, and provides informal advice on local conditions. However, there is no formal investment promotion function within BOCCIM. Rather than waiting for the creation of a National Investment Promotion Agency, BPED will provide limited support to continue contributions to investment development by:

Technical Assistance

The two long-term advisors assigned to BDC will assist in new project development. Special attention to working with potential American investors will be provided through financing well researched business linkage trips, promising solid investment potential. These business linkage trips will be coordinated by the PIC and will strengthen trade association linkages between the U.S. and the Botswana business community. The trips will provide exposure to better understanding of Botswana's competitive advantages on an industry by industry basis.

Business Linkage Promotional Trips

The Project will assist Botswana to strengthen outside linkages to promote Botswana as an attractive place for investment. Botswana has several of the key elements that potential investors look for, i.e. a democratic and stable government, elections and change of power are peaceful, it maintains an open economy, does not impose high protective tariffs, its customs department provides timely clearance for imported goods, and the local currency, the Pula, is easily convertible. Nevertheless, selling Botswana, is a relatively new concept for Botswana entrepreneurs.

Botswana to U.S./International trips

Knowledgeable and prestigious Botswana will be requested to represent Botswana at appropriate international trade associations events in the U.S. or other foreign countries. Up to 10 person trips will be funded during the LOP. Sending private Botswana entrepreneurs to participate in foreign trade promotional fairs will serve a dual purpose. First, to seek an export market, and familiarize Botswana with international trade producers. The Botswana will obtain knowledge in terms of market size, pricing, quality standards and import procedures in foreign countries. Perhaps more important is that the Botswana, through trade association linkages, will be in a position to identify U.S. and foreign investors and alternative suppliers for Botswana producers.

U.S. Business trips to Botswana (trade association linkages) Understandably the return on investment appears greater to finance business linkage trips for well researched trade association visits from the U.S. to Botswana. The Project Implementation Committee will approve up to 20 person trips from U.S. trade associations to visit Botswana.

U.S. Investors to Botswana

As potential U.S. investors express interest to invest in Botswana, BPED will be responsive to such inquiries by financing a portion of the initial cost of visiting Botswana. The project will fund in country costs for up to 30 person trips for

potential U.S. investors willing to finance their own airfare to and from Botswana. Upon arrival in Botswana they will be eligible to receive per diem for up to seven days. BDC staff will meet the potential investor at the airport and escort him/her to appointments with appropriate business and government representatives. BDC has the mandate and ability (technical and financial) to negotiate with potential investors. It has the financial backing to take a business concept and through direct negotiations transform these concepts into a business reality. BDC is uniquely equipped and able to address the needs and aspirations of foreign entrepreneurs by:

- providing accurate and current data on wages, salaries, costs, market construction costs, factory availability and constraints;
- identifying specific needs and measurement of the market;
- determining needed resources in terms of personnel, equipment, site location;
- preparing financial plans and projections to determine activity's viability; and
- preparing an overall business plan based on the aforementioned reviews.

BDC, BOCCIM and MCI will receive considerable support through in-house seminars and workshops for staff development. Additionally short-term technicians will be contracted during the Project to address specific investment constraints as identified. Consultants will be utilized to conduct marketing and constraint analysis, review trade and investment policy issues, emphasize export incentives and identify non-mineral production possibilities. As appropriate, the results of these studies will be used by BDC and BOCCIM staff in negotiating with potential investors.

(b) Investment Support

The BPED project recognizes the need for the GOB and the Botswana private sector to continue and expand activities that support foreign and domestic investment promotion, especially in the following high priority investment arenas:

- technological manufacturing operations, particularly those seeking to utilize indigenous raw materials for higher value-added products;
- industries that complement or add significant value to the existing industrial base, such as veneers for wood, medical/pharmaceutical supplies, cement manufacturing, and others.

- industries with significant export potential, particularly for SADCC and the EEC;

BPED will provide several kinds of support for BDC and BOCCIM to continue promoting investment.

First, the long term advisors in BDC, BOCCIM and MCI will coordinate efforts to identify, analyze, and formulate policy recommendations and implementation methods for both foreign and local investors as a means of sustaining and accelerating private sector growth. The BDC and BOCCIM advisors, as appropriate, will also work with the staff of their respective organizations to continue to identify domestic and foreign investors for specific projects and non-specific but declared general interest areas. GOB investment promotion efforts will be improved through the introduction of new literature and industry-specific promotional approaches.

Second, in the overall objective of identifying and attracting domestic and foreign investors, the BPED project will support a number of activities; These include the following:

- identify and define acceptable approaches to the long-sought "one stop" investment center concept with clear and "do-able" assignments and methodologies presented in packaged form to GOB;
- joint sponsorship of BOCCIM conferences for identification of needed changes in policy and means of policy implementation;
- development and implementation of the shared cost/reimbursement program for specific project related feasibility studies, business expansion studies, and pre-operating training expenses;
- within the resources of BOCCIM, BDC, and MCI, attempt to meet the probable need for industry sector and policy reform studies and resource studies;
- development and implementation of a competitive program of investment incentives that recognizes the comparative advantages now enjoyed by surrounding nations;
- publication of the foregoing via the newsletters, direct mail, and other selected media to assure widest coverage for the cost.

Third, through the Project Implementation Committee, BPED will support special efforts to mobilize local capital for investment purposes. The special efforts are defined below:

BOCCIM

- Publicize in its monthly newsletter, segments devoted to business investment opportunities.
- Maintain and update a listing of members and non-members seeking investment projects/partners. Serve as the linkage between the two.
- Institute quarterly meetings in its regional offices for members and interested observers at which investment projects are presented.
- At the regional office meetings, sponsor seminars to identify, analyze, formulate possible methods of increasing local investment and overcoming the constraints to such investment.
- Through its coordinating committee, identify, analyze, formulate the overall approach and recommendations for BOCCIM, MCI, and BDC to GOB for increasing local capital mobilization for investment. This will include careful review of potential tax incentives and concessions.
- Review the constraints evident in the commercial banking systems, with a view to encouraging additional and more aggressive merchant banking facilities to be established in the country.
- Utilize PCVs to assist citizens to complete appraisal and loan origination documents, and prepare a basic feasibility plan, to facilitate bank loan applications, and to reduce the costs of these loans. BOCCIM will provide its concurrence for the loan request as well as help identify eligible candidates for business loans.

BDC

- Will expand its present interested citizen investor listing through consistent advertising in its newsletter, direct inquiries to its offices, and the public media.
- Expand its current program of investor opportunities described in its quarterly newsletter, to local and international readership.
- Utilizing the services of the Senior Project Officer and other members of its staff, identify and recruit investors nationally and internationally for specific identified projects.
- Continue its efforts to encourage and direct its subsidiary, affiliate and associated companies toward public issue of shares.

- Increase its efforts to enlarge the portion of citizen participation in BDC companies from the present 33 to 50 percent.

MCI

- Will play an important role in the Implementation Committee as a GOB "sounding board" to enhance the attainment of particular policy objectives to stimulate employment generation in the private sector.

Fourth, the BPED project will provide support to BOCCIM and BDC to prepare a detailed study of the export potential for Botswana-based industries. At present, the GOB has expressed its commitment to stimulate non-mineral exports, but its incentive programs offer little to offset the highly favorable export/investment incentives in the Republic of South Africa (RSA), Swaziland, Mozambique, and Zimbabwe.

Adding to the lack of incentives, there are a number of disincentives to the establishment of export-oriented businesses in Botswana. Among others, these include high transport costs, long lead times associated with freighting, high electrical usage costs, a limited local market to absorb "core business" while developing export markets, and a fairly high duty structure through the Southern Africa Customs Union (SACU) on many fundamental raw materials, machinery parts and finished goods. Added to these problems is reticence, associated with conservative fiscal operations, to provide incentives to the private sector for long terms (say more than 10 years) or indefinitely. Yet the best examples of successful export programs by governments are long-term and nationwide, as the Mauritius case reveals.

Given the problems, BOCCIM and BDC will co-author a study that will define the problems, propose solutions, and describe the steps necessary to take advantage of the enormous potential for export-oriented enterprises in Botswana, and the benefits to the country of promoting such enterprises. The study will quantify the expected benefits from both direct and indirect employment generation, the economic and the import substitution gains, and the foreign exchange benefits of developing export-oriented businesses.

The study will offer a list of the key export and investment incentives that could be offered to attract investors. The research will define these clearly, and detail their respective positive and negative attributes.

As an illustration, the list may include some or all of the following potential incentives to investment.

- Loan, investment, and export finance at preferential rates.

- Incentive rates for export industry usage of electrical power.
- Duty free importation of equipment, machinery, and raw materials for export usage.
- Preferential Company tax rates for the life of the investment, with perhaps 2.5% reduction in tax for each 10% of turnover exported, and special flat rate reductions in addition for selected geographic locations.
- Establishment of bonded warehouse facilities at any geographic location through licensing and provision of normal security.
- Establishment of a special export processing zone in key towns, with factory shells, controlled lease costs, and secure processing and storage facilities for manufacturing.

Prior to commencement of the study, a carefully planned program of review of its scope and terms of reference should aid in pre-disposing the key offices of GOB to its purposes and gain valuable direction in its preparation. Key informational releases during its compilation and analysis phases will aid in retaining attention and heightening the awareness of its importance.

After distribution of the study, a series of press releases and public discussions sponsored by BOCCIM will be planned to stimulate GOB thinking in its considerations of the study proposals. The efforts must be directed toward enactment into law and/or incorporation into existing regulations of the major aspects of the study proposals.

Fifth, in addition to funding the kinds of activities described above, BPED will also support more proactive and direct domestic and foreign investment promotion on the part of BOCCIM and BDC. Particular attention will be given to working with potential foreign investors (especially from the U.S.) through financing well researched business linkage trips, promising solid investment potential.

In order to assist in negotiating with potential investors (foreign or local) the project will authorize funding under a cost sharing arrangement with BDC to conduct industry specific feasibility studies. Feasibility or viability studies are essential for the potential investor and BDC to make commercial decisions. Whereas the investor has need for such a study, BDC has equal interests to assist it in making a final decision on providing venture capital for the investor. The costs of preparing the feasibility studies will be split between the potential investor, BDC and BPED. The soliciting firm will be required to fund 50% of the cost, BDC will fund 25% of the study

with its own resources and project funds may be used to fund the remaining 25%. Both BDC's and the project funds will be in the form of a loan to the soliciting firm, and will be paid back to BDC at commercial interest rates if the firm eventually establishes a business in Botswana.

These feasibility studies have proven to be quite productive in the recent past. For example, ten such feasibility studies were undertaken at a total cost of P300,000 (ranging from P5,000 to P150,000, but averaging P30,000).

All of these enterprises are close to or in an operational status. Most importantly, as Table I shows, 789 primary and 2714 secondary jobs have been created by developments to date in these ten enterprises. Moreover, four of the enterprises are 100% citizen-owned, four are majority citizen-owned, and the remaining two are 50% and 20% citizen-owned. BDC is a shareholder in six of the companies but, totally, the Corporation has invested nearly P56 m in the ten enterprises, in the form of loans, factory shells, serviced land, studies, and so forth.

Table I: Examples of BDC Businesses Developed from Feasibility Studies

Firm	Equity % Citizen/ BDC/Foreign	Employment Prim/Sec	Feasibility Study Costs	BDC Investment to Date
Asphalt Botswana	35/25/40	90/900	P 10,000	P1.9 m
Brass Foundry	45/35/20	100/100	P 15,000	P7.0 m
Cast Iron Foundry	20/10/70	64/64	P 15,000	P6.0 m
Private Hospital	75/25/25	100/60	P 45,000	P8.5 m
Steel Furn. Manufact.	35/25/45	90/90	P 15,000	P.25 m
Sheraton Hotel	0/50/50	200/50	P150,000	P31.0 m
Veld Prods. (agro)	10/90/0	30/300	P 10,000	P.4 m
Grapple plant (agro)	0/100/0	15/150	P 10,000	P.175 m
Tractor Assembly	0/100/0	80/800	P 25,000	P.75 m
Grain Dry. Plant	25/75/0	20/200	P 5,000	N/A

Given the success of BDC in participating in feasibility studies BPED will support the continuation of these activities. Moreover, funds will also be made available by the project to cover a higher percentage of the costs for citizen-owned enterprises in several instances where neither BDC nor the sponsor has the required financial resources to fund a proper study.

There will be cases when a feasibility study will require full financing from USAID resources. This may be where BDC is not involved and the sponsor cannot contribute or where perhaps a project idea is conceived by BOCCIM and there is sufficient reason to believe that a pre-feasibility study may point the way to an ultimate project. At other times, BDC may not have cash available to contribute its share of the feasibility study at the time required. All too often existing viable enterprises remain stagnant due to lack of cash flow to explore new product lines etc. The expansion of already viable businesses is the safest way to expand the economy and create sustainable employment. Existing businesses have certain advantages and should be encouraged to grow, and BPED can supply this needed assistance.

(c) Support to the Financial Sector

Lack of access to credit has been identified by interviews of small and medium businesses as the major impediment to business expansion. Although this may be a general impression, it may be that a contributing factor limiting access to credit is not lack of liquidity or the lack of credit mechanisms so much as the lack of knowledge and training by the entrepreneur in preparing a sound business plan. BPED's activities with BOCCIM in management training, including the preparation of business plans and the feasibility studies to be administered by BDC, will directly address this problem and facilitate access to credit for at least 360 new businesses and provide training for the expansion of an additional 500 existing firms.

The factors limiting access to credit have been identified and examined during a Bureau for Private Enterprise AID/PRE financed evaluation of the Loan Guarantee Scheme with the three local commercial banks - Barclays Bank, Standard Chartered and the bank of Commerce and Credit. This evaluation has uncovered a couple of misperceptions about the access of businesses to credit and will be an extremely important analysis for further policy dialogue with the banking sector. First, access to credit by small, medium and large businesses is not a constraint to investment. Those businesses which need, want and can justify credit by-in-large get it.

Established and commercially viable medium and large businesses have ready access to the commercial banking sector. Those smaller and less viable firms may tap the Financial Assistance Policy and Tswelelo. That considerable amounts of

unused FAP funds get returned annually to the treasury at the end of the GOB's fiscal year and the banks remain highly liquid are not so much the results of restrictive lending policies as they are of limited business opportunities. In other words, it is the demand for credit which is a constraint not its supply.

Second, the banking statistics do not validate the claim from entrepreneurs that overly restrictive security and collateral requirements hamper the availability of credit. Almost two-thirds of all loans to businesses by the commercial banks are unsecured. Loan rejections are most likely to be related to being too highly leveraged or a weak justification for the loan. Entrepreneurs may cite the absence of collateral as the reason to rationalize their rejection, being unwilling to accept the bank's argument that they don't have a viable business proposal.

Nevertheless if determined necessary, project funds may be made available to pay for short-term consultancies to assist in forming a venture capital fund and could be used to buy-in to the MDI Africa Venture Capital Project (AVCP) to assist in meeting operating expenses of the Fund in the first three years. Such assistance would require between \$50/100 thousand per year. Annex G, titled "Role of Venture Capital Fund," discusses how such a fund could assist Botswana and the status of the development of this activity with the Commonwealth Development Corporation (CDC).

D. Implementation Plan

1. General Aspects

It is expected that the BPED Project will be authorized by the USAID Acting Director in December, 1990. The Project Agreement, which is being prepared concurrently with the Project Paper, will be signed between USAID, on behalf of the U.S. Government, and the Ministry of Finance and Development Planning (MFDP), on behalf of the Government of Botswana (GOB). The Agreement is scheduled to be signed in January, 1991 or as soon thereafter that FY 1991 funds become available.

The Project Agreement will describe sub-project activities (Annex 1) and contain an explicit clause authorizing USAID to sign sub-agreements for the control and use of Project funds. Separate agreements will be required for each of the intermediaries identified as being responsible for the implementation of activities utilizing Project funds. The following A.I.D. Contract, Cooperative Agreement, Grant and Procurement procedures will be utilized:

1. U.S. Contractor - USAID will request that the REDSO Regional Contracting Officer in Nairobi negotiate a contract with a U.S. Contractor to provide general support services to the Project.

2. BOCCIM - USAID will sign a Handbook 13 type Cooperative Agreement with BOCCIM. This Agreement will serve as the document to control advances, liquidation and BOCCIM's implementation responsibilities under the Project.
3. BDC - BDC will work on a reimbursement basis rather than receiving advances. The activities that will be implemented by BDC will require less involvement by USAID, and therefore USAID will sign an Operational Program Grant with BDC.
4. IESC - IESC is a registered Private Voluntary Organization with AID/Washington, and is authorized to receive Mission funded Grants. IESC will coordinate its activities under BPED with BOCCIM but submit its reimbursement requests directly to USAID.
5. Commodity Procurement - BOCCIM will prepare a commodity procurement plan for submission to USAID, of goods identified in the Project Budget. USAID will competitively procure the requested commodities, obtain necessary exonerations of taxes and deliver the goods to BOCCIM.
6. MCI - Since the studies and short-term T.A. envisioned for MCI are minimal and the studies will equally benefit BDC and BOCCIM, upon concurrence of the Project Implementation Committee, these activities will be funded by the U.S. Contractor.

Expatriate technical assistance, external training, and business linkage travel will be coordinated through a U.S. contractor. USAID will request the Regional Economic Development Services Office (REDSO) Regional Contracting Officer (RCO) to prepare the Request for Proposals (RFP) to be announced in the Commerce Business Daily (CBD) in order that all interested U.S. firms may submit a proposal. Selection of the Contractor will be by a Contract Selection Panel, chaired by USAID, consisting of representatives from BOCCIM, MCI and BDC. The contract will be negotiated by the RCO in Nairobi. The CBD announcement will be published prior to the signing of the Project Agreement so that a selection can be made and a contract signed by April, 1991. The announcement will state that procurement will be contingent upon the signing of the Project Agreement with the GOB.

The Management Advisor and Training Advisor (BOCCIM) and Special Project Officer (BDC) are already being funded by BWAST II through CY 1991. Thus, assuming there are replacements for these three positions beginning in CY 1992, there will be a transition period during CY 1991 in which advisors experienced in Botswana will already be carrying out all planned project components except those pertaining to the Policy Advisors.

While USAID will be responsible for the general management of the Project, implementation decisions will be primarily the responsibility of the Project Implementation Committee, which will be coordinated by BOCCIM. The Committee will operate on the basis of consensus and consist of six members: representatives of BOCCIM, BDC, MCI, the MFDP, USAID, and the U.S. Contractor. It will be chaired by the BOCCIM Director.

A needs assessment identifying the constraints affecting entrepreneurial development will be updated annually and be used by the Project Implementation Committee to assist BOCCIM in preparing its semi-annual implementation plans. The plan will list specific training courses, staff development, proposed studies and conferences/workshops and short-term technical assistance needs. The plan will be reviewed by the Committee and submitted to USAID for approval. Upon receipt of USAID's approval BOCCIM may request its initial quarterly advance request.

Disbursements to BDC and IESC will be in the form of reimbursements for actual expenditures for activities falling within the general categories identified in their approved semi-annual implementation plans, for BDC, and for IESC, the general line item categories identified in IESC's grant agreement. USAID will not retain approval rights over specific activities to be funded under such general categories, or otherwise interfere with BDC's and IESC's discretion to select activities consistent with the general categories, grant program descriptions and other provisions of the grant agreements. However, the grant agreements will require that BDC and IESC coordinate their activities with BOCCIM and consult with BOCCIM regarding selection of specific activities to be supported under the grant agreements.

In addition to the Project Implementation Committee, BOCCIM will itself establish a separate BPED Planning Work Group consisting of nine members including three BOCCIM representatives, the three long-term advisors assigned to BOCCIM and representatives of the BDC, the IESC and the Peace Corps. The BOCCIM Working Group will meet monthly and be responsible for the following:

- o Develop a five year plan to meet BPED objectives;
- o Develop and present for approval by the BPED Project Implementation Committee, a quarterly program and specific financial requests based on the project budget;
- o Consult with BOCCIM's Executive Council Committees for private sector input;
- o Review and discuss activities provided under the sub-grant to BDC and IESC; and

- o Monitor BPED objectives and accomplishments against plan, problem solving and reset priorities as needed.

Project sustainability will depend upon sufficient numbers of Botswana professionals both in the private and public sector. Therefore, the project will fund up to 20 long-term degree training (Master's level) in the U.S.A. and approximately 80 participants for short-term academic training. These trainees will increase the base of public and private sector policy analysts necessary for market oriented improvements as Botswana take over positions currently being staffed by OPEXers.

2. Role of the Contractor

(a) Objective

The Contractor shall recruit and provide administrative support for the long-term advisors identified in the Project Description. A total of six long-term advisors staggered over the life of the Project are contemplated. The Contractor will recruit, screen, and nominate at least three candidates for each position, for concurrence by USAID, and subsequent review and selection by the Employer (host country entity). Operational Experts (OPEXers) personnel currently assigned to the requesting office will be considered as eligible candidates.

(b) Recruitment and Support Services

As identified in the approved implementation plans, the Contractor will recruit and provide administrative support for expatriate short-term consultants, and provide placement services and administrative support for short and long-term U.S. participant training programs.

(1) Academic Participant Training

The Contractor will be required to identify U.S. Universities offering Master Degrees and short-term academic training in Private Sector Policy Reform, and business-related courses and to place and support participants during their academic training.

(2) Regional External Short-term Skills Training

This type of training (managerial or vocational skills) may be offered in the African region for training not available in Botswana. The contractor may be requested to provide logistical support for participants that receive training under this activity.

(3) Short-Term Technical Assistance

As part of the administrative performance of this contract, the Contractor will provide periodic short-term technical assistance as identified in the approved implementation plans. As appropriate the Contractor may be requested to identify the technicians or merely serve as the paying agent for technicians identified by either BOCCIM, BDC or MCI.

(c) Contractor in-country Services/Duties(1) Administrative Responsibilities

The Contractor will be required to staff an office in Botswana consisting of a country representative, an accountant and a secretary. The office should be located as near to the offices of BOCCIM as practical. The Country Representative will be a member of the BPED Implementation Committee. Additionally, the Contractor will be responsible to receive the semi-annual reports from each of the long-term advisors for subsequent submission to USAID/Botswana.

3. Estimated Implementation ScheduleImplementation Schedule

<u>Commence</u> <u>Complete</u> <u>Activity</u>	<u>Activity</u>	<u>Responsible Party</u> <u>Party</u>
9/90-11/90	Project Paper	USAID
12/90	Project Authorized	USAID
1/91	CBD Advertisement of synopsized procurement	USAID/REDSO
1/91	Grant Agreement Signed	USAID/GOB
1/91	Cooperative Agreement Signed	USAID/BOCCIM
1/91	Operational Program Grant Signed	USAID/BDC
2/91	Operational Program Grant Signed	USAID/IESC
2/91	Initial OPs Satisfied	BOCCIM/GOB
1/91	Commodities Specifications Drafted	USAID/BOCCIM
2/91	Commodities Procured	

Implementation Schedule (cont)

<u>Commence Complete Activity</u>	<u>Activity</u>	<u>Responsible Party Party</u>
1/91	Quarterly PIC Meetings Held	PIC
12/95	Quarterly through LOP	
2/91	Six Month Plans Approved	PIC
12/95	Semi-annually through LOP	
2/91	Request for Advance received from BOCCIM	BOCCIM
3/91	Advance made to Drawing Account	USAID
3/91 12/95	Incountry Training starts	PIC
4/91 12/95	Regional Training starts	
6/91	Long-Term participants Selected	PIC
7/91	Prime Contractor selected and Contract Signed	USAID/REDSO
7/91	Contractor Selects Long- Term Policy Advisors and Country Representatives	Contractor
9/91	Long-term Advisors arrive	Contractor
7/91	Studies and Short-term TA take place	PIC
9/91 12/95	Long-term Participants in training	Contractor
6/93 8/93	Mid-term Evaluation	USAID
1/97 3/97	Final Evaluation	USAID

4. Procurement Plan

Procurement under this project activity falls into three categories: technical assistance and training services, commodities and evaluation/audit. The source and origin of commodities and nationality of suppliers and commodities and services financed under the project shall be in accordance with Africa Bureau DOA 551, Section 5F. Accordingly, commodities financed by A.I.D. under the project shall have their source and origin in Botswana, the United States or any other country included in A.I.D. Geographic Code 935. Nevertheless, procurement of commodities and services shall be from the U.S. to the maximum practicable extent. Suppliers of commodities or services shall have Botswana, the United States or any other country included in A.I.D. Geographic Code 935 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing be financed only on a flag vessel of the United States. Since the project is DFA funded, and A.I.D. Geographic Code 935 is the authorized code, procurement source/origin/nationality waivers are not required.

(a) Services

The Project will require a prime contractor capable of providing technical assistance and training services. Full and open competition is planned and USAID will rely on the Regional Contracting Officer, REDSO/ESA to negotiate a contract with the firm recommended by the technical review committee. The firm which is awarded the contract will be required, to comply with AIDAR Section 726.301, to subcontract to disadvantaged enterprises no less than 10 percent of the value of the contract, unless the prime contractor itself is a disadvantaged enterprise. Long-term technical assistance and long-term overseas training will generally be U.S. based. The training budget includes funding for U.S. income tax payment for long-term participants.

(b) Commodities

Whereas the prime contractor will procure its own commodities, the USAID Executive Officer will be responsible for procuring goods identified for BOCCIM, i.e. project vehicles, computer equipment, office furniture, etc. BOCCIM will prepare specifications and submit them to the USAID Project Officer who will issue Project Implementation Order/Commodity (PIO/Cs) with the USAID Mission acting as the authorized procurement agent. This procedure has been accomplished successfully on other AID financed activities. Non-U.S. manufactured vehicles will be procured since the U.S. does not manufacture right-hand drive vehicles.

The Mission EXO will procure:

(i) The project vehicles through REPSO/Tokyo which will follow standard U.S. Government regulations;

(ii) The computers, printers and suitable software programs from a supplier in the U.S.; and

(iii) The office furniture and basic equipment locally or within the region.

Promotional materials or other publications developed by BOCCIM, BDC or MCI which are financed by A.I.D. will contain proper acknowledgement of A.I.D. financing, and be reviewed and approved by USAID/Botswana prior to publication.

Office supplies and other basic commodities required by BOCCIM will be included in its implementation plan, and procured directly by BOCCIM.

(c) Evaluation/Monitoring

Funds will be reserved for direct disbursements by USAID or BOCCIM for evaluations, external audits and annual financial and compliance audits. External evaluators will be contracted to conduct the mid-term evaluation assessing implementation progress and the final impact evaluation. Semi-annual Project reviews will be conducted with Mission and counterpart agencies to review progress and constraints. As appropriate, corrective action will be discussed and agreed to during these reviews.

Procurement Time Table

A. At time of ProAg signing

- o Cooperative Agreement signed with BOCCIM
- o Operational Program Grants signed with BDC and IESC
- o RFP drafted and publicized in the Commerce Business Daily (CBD), responses received
- o Project Implementation Order/Technical Services (PIO/T) drafted and ready to issue when ProAg signed
- o Specifications for vehicles and computer equipment received, PIO/C for vehicles issuance and quotations reviewed.

- B. Ninety days after issuance of PIO/T
 - o Computer equipment/supplies ready for shipment and in-country within thirty days after vendor provides commodities to shipper.
 - o Offers received from RFP.
- C. One hundred and eighty days after issuance of PIO/T and PIO/C
 - o Vehicles in country if procured offshore.
 - o Prime contractor selected and contract executed.
 - o Participants selection and screening initiated
 - o Placement confirmed, PIO/Ps issued.
- D. Two hundred and forty days after issuance of PIO/T
 - o Prime Contractor staff (including long-term advisors) arrive in country.
 - o First batch of participants depart for external training.

IV. MONITORING AND EVALUATION PLANS

A. Monitoring and Process Evaluation Plans

Although USAID will have responsibility for the overall management of the BPED project, project implementation will be a collaborative and consensus process among members of the Project Implementation Committee. A rolling six month operating plan that lists general training courses, policy analyses, staff development, proposed studies, short-term technical assistance needs, and financial support requirements will be prepared and submitted to USAID.

The monitoring of the progress toward achieving the activities listed in the plan will be the direct responsibility of the Project Implementation Committee. Project monitoring will involve a continual collection and review of data relating to the oversight of all project targets such as: increased investments in the non-mineral sector, broadened opportunities for citizen entrepreneurs with special emphasis on women, increased effectiveness of dialogue between the private and public sector to reduce regulatory and procedural constraints.

The USAID Project Officer (PO) will work closely with other USAID staff personnel who have responsibilities related to project activities. These will include the USAID Training Officer on matters relating to the long-term, U.S.-based participant training activities, the Executive Officer on procurement and the Controller on financial management.

The PO will have access to the following computerized data maintained by the prime contractor or BOCCIM.

1. The Contractor will maintain a program of the project funded, long-term training participants. This program will include PIO/P numbers and dates, the name of each student, duration of training, financial commitments, expenditure levels and balance of funds, the degree, and the date of departure from and expected date of return to Botswana. Whether the trainee is from the public or private sector, and their cumulative grade point averages.

2. BOCCIM will maintain a similar program of the in-country and regional training participants. This program will be similar to the Contractor's program and will include the name, age, sex, of each trainee, their place of employment, job position, date(s) and duration of training. This program will also identify whether the trainee is from a female or a male-owned or operated enterprise, the number of employees in the trainee's firm, whether the firm is citizen-owned.

3. A technical assistance program will be maintained by the Contractor as well as the respective intermediary. This will include the name, sex, and country of origin of each technical assistant, the duration of his or her contract, financial commitments, expenditure levels and balance of funds. This program will categorize the TAs (both long and short term) by the type of assistance each is providing.

4. BOCCIM, BDC and the Contractor will maintain project financial data, commitments by fiscal year and line items, and will further differentiate whether the committed funds are administered by the contractor under sub-grants or USAID.

5. BOCCIM and BDC will maintain data base on enterprise development, investment, and employment.

The computerized programs, the rolling six month operating plan, and the quarterly reviews will enable USAID to maintain an up-to-date record of the status of the more quantitative or objective project activities, and these will be summarized in the semi-annual reports.

The semi-annual reports for each implementing entity will concentrate on four areas; (a) the effectiveness and subsequent results of project funded studies and business linkages/trips; (b) the usefulness of the short-term training programs to the trainee's employer; (c) the long and short-term

Technical Assistant performance assessments; (d) enterprise developed or expanded, and jobs created.

Reference will be made to the feasibility and general studies conducted during the reporting period. This section should refer to the general purpose of the studies and indicate the number for international and joint venture proposals as well as citizen-owned business ventures. The effectiveness of project feasibility and general studies will be measured by the number of firms that invested or expanded their enterprises in Botswana. Efforts should be made to quantify the impact on employment and increased management efficiency.

To measure the significance of the training programs, and to assess the performance of the short-term technical assistants, the trainees will complete an assessment form at the end of each training program. Summaries of the assessment will be included in the quarterly report of the implementing agencies.

While having some degree of usefulness, these exit evaluations have serious limitations. Most importantly, of course, they cannot measure the impact of the training in terms of improved work performance or productivity. To help in this regard, BOCCIM's long-term training advisor, with assistance from several PCVs, will undertake a more systematic appraisal of a reasonable sample of trainees who have returned to their workplaces. These appraisals will involve detailed and subjective interviews with the ex-trainees, their co-workers, and their supervisors. These interviews to the extent practical will occur twice for each selected trainee, at intervals of three and nine months following the completion of the training program.

The long and short-term technical assistants will have their performances measured against the specific items listed in their respective terms of reference. However, of particular concern to USAID will be: (a) the degree to which the policy environment is being changed in favor of the expansion of the private sector; (b) the degree to which private enterprises in the non-mineral sector have been created or expanded, and the impact on employment.

Two final points on assisting citizen-owned businesses should be stressed as regards the BPED project monitoring and evaluation. The first is whether BOCCIM will be able to continue with and expand the delivery of its services to women-owned citizen businesses, as well as increasing women membership in the organization.

At present, BOCCIM has an active Women in Business Advisory Committee within the organization, and BOCCIM staff serve as advisors to the private sector Women in Business Association. Additionally, according to its records,

approximately 25 percent of the services offered by BOCCIM in 1990 have been to women-owned enterprises. As indicated in the social soundness analysis, however, female entrepreneurs suffer a number of problems not shared by their male colleagues and thus their needs are somewhat greater.

The second point recognizes that the quantity of training programs offered by BOCCIM will be far less important than the quality of such training. In the end, the success of BPED will be measured by the strengthening and expansion of citizen-owned (male and female) and non-citizen owned private enterprises, and by the concomitant employment generated by them. Thus, it is the quality of the services that will be the focus of the monitoring and evaluation exercises.

B. Annual Financial and Compliance Audits

Annually BOCCIM will contract a local accounting firm to conduct financial and compliance audits of all project activity. USAID/Botswana will provide the PIC with a list of authorized accounting firms and a basic scope of work to be reviewed. The audits will focus on the terms and conditions of the Project Agreement in relation to project direction, progress and process for selecting and identifying participants. The roles of USAID, BOCCIM, BDC, MCI, IESC and the Peace Corps will be reviewed and a determination made pertaining to their complying with the terms and conditions established in the Project Agreement, and subsequent Project Implementation Letters. As appropriate recommendations for complying with the intent of the Project should be made.

C. Mid-Term and Final Evaluations

A mid-term, independent evaluation will examine the project's design and implementation as they relate to the goal, purpose and outputs. This evaluation will examine the on-going effectiveness and relevance of the project-funded long and short-term training and technical assistance, the management of the training and TA, the quality and usefulness of the project's research component, feasibility studies, and progress in the area of policy dialogue.

In addition to original research, the mid-term evaluation will draw from the data base maintained by BOCCIM, BDC and the Contractor. Additionally, the semi-annual reports of the implementing entities and the files maintained at USAID will be reviewed. From a broad perspective, the success in meeting project targets, increased investment in the non-mineral sector, broadened opportunities for citizen entrepreneurs and improved policy dialogue to reduce regulatory constraints will be reviewed.

Finally the individual implementing entities (BOCCIM, BDC and MCI) and the implementing contractor will be evaluated in terms of their respective contributions to obtaining the project objectives.

A final evaluation of the project will address issues similar to those covered during the mid-term assessment. The evaluation will establish quantitative and qualitative progress of the project in meeting its original objectives. It will evaluate the external and unplanned events (such as political change in the RSA, world-wide diamond demand and pricing, and drought on beef production) on project implementation.

The final evaluation will also discuss policy issues, institutional development, impact on the target population, and project management. It is expected that the data collected for the various evaluation components will be detailed, comprehensive and comparative. Furthermore, the final evaluation will determine the continued relevance of the project, particularly in light of its responsiveness to the original development needs, and will determine whether any follow-on activities would be desirable for USAID.

D. Resource Requirements

It is anticipated that external evaluators will be used for the mid-term and final evaluations. USAID plans to utilize evaluators from AID/Washington and/or REDSO/ESA for these evaluations. Funds to cover the costs of the two evaluations are reserved as a separate line item in the project budget, to be released as appropriate by USAID. If necessary, these funds will be augmented from centrally-funded contractual arrangements, such as through the GENESYS program.

Detailed terms of reference will be developed prior to the actual evaluations by the concerned parties in Botswana. Among other things, these terms will list the general types of data required and method of collection, the critical issues to address, and the manner in which the evaluations will be implemented. The mid-term evaluation presently is scheduled to be conducted in October of 1993, and the final examination in October of 1997.

V. SUMMARY OF ANALYSIS

A. Constraints Analysis

The constraints analysis (attached as Annex E.1) reflects a synthesis of a number of complete studies of the Botswana private sector, including the National Conference on Strategies for Private Sector Development, the World Bank's "Botswana: Financial Policies for Diversified Growth", "The Management Assistance to the Private Sector" by Cameron Smith and the

January 1990 "Manual for Action in the Private Sector" financed by AFK/MDI and PRE. The constraints which BPED is directed toward eliminating were judged to be most suitable for A.I.D. involvement. A number of other constraints affecting non-mineral private sector growth are being addressed by other donors, by other A.I.D. projects (i.e. family planning and education), by the GOB (i.e. roads and electricity), or are facts of life beyond assistance, (i.e. aridity, shortage of fertile land, small internal market, long distances from markets). Viewed in this context, the following constraints are those judged by local and outside experts as the most critical constraints to increasing private sector development in non-mineral sectors and accelerating the integration of Botswana entrepreneurs into the local economy.

1. Lack of access to credit has been listed by most local entrepreneurs as a major constraint to growth. BPED will provide financing to examine the credit issue and to explore the feasibility of establishing a new commercial bank or a venture capital fund, however, no project funds will be used for credit directly. The GOB has recognized the seriousness of the issue and has requested World Bank assistance. A major IBRD financial policies project is now underway.

2. Insufficient investment in non-mineral sectors is the constraint at the heart of the BPED project. BPED focus on three barriers composing this constraint: (a) restrictive policies and regulations and weak implementation, (b) underdeveloped citizen owned enterprises and participation in the private sector and (c) low capacity to attract and absorb foreign investment and to export.

3. Risk of regional instability may be considered the most important barrier to the growth of investment, and particularly, the foreign investment component. For the purposes of this exercise, we have assumed that changes in South Africa will be evolutionary and, therefore, not disruptive to regional economic stability. (A full discussion of this issue is contained in Annex H.)

4. The low capacity to attract and absorb foreign investment and to export must be improved if sufficient jobs are to continue to be created for a rapidly expanding labor force. The Investment Promotion and Support activities coupled with the extensive business training component will address this constraint.

5. Inadequate basic infrastructure is a key constraint to the growth of the Botswana private sector, but will be addressed by other donors and the GOB. BPED will be involved in policy discussions regarding improved land use.

6. Protective regional trade policies of its neighbors limit Botswana's ability to increase trade and expand its businesses. This is true in relation to SADCC Member States as well as aspects of the Southern African Customs Union.

7. Inadequate numbers of sufficiently prepared and able workers is a fundamental problem which must be overcome over the longer-term if the private sector is to evolve substantially. It will be an essential element of the Mission's FY 91 education project, and the topic of future Mission consideration.

B. Social Soundness Analysis Summary

1. Socio-Economic Environment

A full discussion of the Social Soundness Analysis is contained in Annex E.2.

The Republic of Botswana is a multi-party democracy, politically stable and fiscally conservative. Over 80% of the 1.3 million population are Tswana and speak the Setswana languages. The population is 85% Christian. Approximately 90% of eligible children are in primary school, 41% in junior secondary and 17% at higher education facilities. Health conditions throughout the country are improving but are still often very basic.

By the end of this century, Botswana will be approaching a figure of 50% urban dwellers. Gaborone, and other urban areas such as Francistown and Selebi-Phikwe are all experiencing considerable growth. Serviced land and housing are major problems, as is efficient allocation of land for industrial use.

Most of the population of Botswana may be classified as rural with a livelihood that is dependent on very tenuous agricultural production. There is a strong interdependence between off-farm wage employment and farm production, yet job opportunities, especially for the uneducated and the untrained, are limited in Botswana. The socio-economic result of this is that the distribution of income and wealth is skewed. In fact, Botswana's social structure reflects an acute shortage of educated Botswana and individuals with a junior secondary education. The latter require jobs but their numbers far exceed the skills requirements of the economy, and the certificate holders expect non-existent white-collar jobs.

Botswana also has a population structure with an imbalance stressing women and the young. The higher number of females can be explained partially by the male phenomenon of international migration. There are approximately 16,000 Botswana males working in the mines of South Africa. Botswana's population is also growing at a rate of 3.3% per annum and is projected to double within 20 years. A contributing factor to this population growth is the prevalence

of teenage pregnancy. Fifty percent of all women aged 19 are either mothers or pregnant, but 85% of all teenage pregnancies are unplanned.

In addition to contributing to the rapid population growth, (teenage pregnancy is a serious health problem), it is the main cause of females dropping out of school. Botswana's policy on teenage pregnancy forbids girls from remaining in school while pregnant and it is extremely difficult for them to return. As a result, 75% of all teenagers in this category fail to return to school. This contributes to the high number of female-headed, and impoverished, households in Botswana.

In the socio-economic environment of Botswana, women's place in society is only slowly improving: while having large families, they undertake much of the farm work in the rural areas and provide much of the labor in urban areas. At the same time, women hold several senior positions in Government and are playing a more active role in the formal private sector.

2. Beneficiaries

Given the purpose of the BPED project, a majority of the interventions (e.g. policy reform, technical assistance, skills training, commodities, and so forth) are designed to remove or minimize constraints to private enterprise development common to both male and female. In a general sense, both male and female Botswana will benefit from a reduction or removal of these constraints, especially in terms of the project's ultimate success in contributing to diversifying the economy, creating employment, and raising and more broadly distributing income.

More specifically, however, the inputs of the BPED will be targeted directly to several segments of the society: individuals in the urban and peri-urban private sector, and a few public sector employees. It must be stressed that the project resources directed to the public sector are designed to: (1) increase the ability of this sector to make policy decisions that will strengthen the private sector and to ensure the latter's growth, and (2) enhance foreign and domestic private sector investment and increase employment.

The direct beneficiaries of the technical assistance, training, commodities, and/or capital inputs of this project include the members or staff of such organizations as the MCI, BOCCIM, and the BDC. Additionally, the owners, managers, and employees of existing and new private sector firms will have access to the project training and TA resources and, thus, will also be direct beneficiaries.

Secondary beneficiaries will include the members of the extended families of these individuals. Especially since the extended family in Botswana is central to economic undertakings and filters and redistributes the proceeds from each activity.

Another set of secondary beneficiaries will include the individuals associated with businesses emerging and/or expanding as a result of the project's success. Although these would be difficult to quantify, they include individuals involved in prime and sub-contracted construction services, food service providers, and retail shops.

3. Social Impact

Given the BPED's goal and purpose, there should be a positive social and cultural impact from the project's intention to increase private sector investment and productivity. For the most part, considering the lack of economic opportunities in the formal and agricultural sectors, and assuming that the project is successful in creating new and/or expanded employment opportunities in urban and peri-urban centers, the project should contribute to a wider distribution of income among the households of Botswana.

In addition, there are several other real and potential social concerns and problems in Botswana, including the specific problems of female entrepreneurs, that can and will be addressed by the BPED project. An important concern, especially in the context of southern Africa, is the issue of citizen control of the economy. In this regard, many of the project activities will be directed to the creation or expansion of citizen-owned businesses.

Since many of the BPED-funded activities of the implementing agencies will lead to an expansion of employment opportunities, the potentially explosive issue of high unemployment rates for increasingly unaffected (and unskilled) youths, especially in the urban areas where they are migrating, will be diffused. This is especially true given that the population structure is heavily weighted to the young. At both the primary and secondary levels of employment, the opening of opportunities for females of women-headed households will be an important contribution to improving the situations of these numerous and frequently impoverished families.

In terms of Women in Development (WID), the project also has a good potential to address the particular concerns of females at a number of levels. At the most basic level, all project activities will disaggregate data by gender for tracking purposes. This will include the training, outreach, and research programs.

In the area of policy reform, BPED will support the Private Sector in its efforts to address the policy issues that particularly constrain the formation and/or expansion of female-owned enterprises. Also, female citizen-owned businesses will be specifically targeted to receive the BPED resources. BOCCIM will provide production, marketing, and financial training and services for small to medium,

female-owned enterprise creation and expansion, and BDC will continue to support the existing women-owned enterprises in its portfolio, and it will actively seek to expand its involvement with other such enterprises. Importantly, the project will identify research projects, TA needs, and training programs that would enhance female entrepreneurship.

4. Summary and Conclusion

In sum, female and male entrepreneurs in the more modern and monetized economies of the urban, peri-urban, and the larger secondary or market towns, face constraints to developing and/or expanding their enterprises, particularly in terms of the need for financing, skills training, and markets. Many of the BPED interventions will address these constraints, for both male and female entrepreneurs.

However, a majority of the women of Botswana face some different and enormous challenges in order to become active participants in the economic growth of the country, much less to be active recipients of the BPED project interventions. Among these are their lower educational attainment levels and their more time-consuming and demanding domestic and productive responsibilities. They have a serious need for basic skills training programs that are offered without undue interference into the domestic responsibilities of women, i.e. their timing, duration and locations are critical. Advances in policy and law also have to be made to establish a legal basis for females to gain greater control.

Despite the problems, the present assessment of the distribution of benefits and costs of the project indicate that the social consequences will be positive. This will be ensured, however, to the degree that the project impacts favorably and maximally on citizen-owned enterprises and on female entrepreneurs and workers, and youth. While ultimate success necessarily depends on the quality of the project implementation, analysis of the project in terms of the social factors involved indicates that the project is soundly designed to meet its stated objectives.

C. Economic Analysis

1. Economic Effects

A more detailed economic analysis and supportive tables is contained in Annex E.3.

As was the case with BWAST II, the long-run objective of the BPED project is to increase the number of trained Batswana in positions which foster economic development. The project will also provide selected TA personnel who will provide necessary expertise until Batswana have acquired the requisite skills and will fund feasibility studies to generate job creation.

The Project is seen to have a number of major economic effects, of which only four are measured here. First, the project will increase the supply of better educated, more skilled persons. The economic gain from the improved labor supply is increased productivity, which is assumed to be measured by increased earning potential.

Second, the returned Batswana will replace costly foreign expatriates, thereby resulting in a savings to Botswana. The non-salary costs of maintaining an expatriate in Botswana are considered. Third, the training of Batswana and the provision of TA Advisor will assist the country in meeting its economic growth and employment generation targets.

Fourth, BPED will fund Botswana Development Corporation (BDC) feasibility studies to create new businesses and increase the number of jobs.

1. Economic Analysis

Economic Viability

Two measures of the economic viability of the investment are examined. The first is the benefit-cost ratio. The second is the Internal Rate of Return (IRR) i.e. the rate at which the discounted costs and benefits are equal. Since the excess of benefits over the costs is small, the sensitivity of the conclusions is tested.

2. Calculations of the Benefit Streams

(a) External Long Term Degree Training

The earnings profiles for public sector and private sector employees are given in Tables 1. Private sector earnings are based on data for individuals without higher education provided by the Central Statistics Office, Ministry of Finance and Development Planning. Table 2 and 3 estimate the wage differential attributable to university or advanced degrees in the public and private sectors. These estimates are merely the difference between the earnings profiles without a degree and the earnings profiles with a degree.

Since the project expects to finance 20 individuals, for long-term training, an estimate of the additional wages received due to the long-term training for the group of 20 individuals, is calculated in Table 4 column 4. The working life of these individuals following training is assumed to be 20 years. Since one of the underlying assumptions in this kind of analysis is that earnings reflect productivity, the earnings stream for the group is used as a proxy for the improved productivity due to the long-term training of Batswana.

(b) Short Term Training

In the absence of hard data on the impact of short-term training on labor productivity or earnings in Botswana and, to be consistent with BWAST II, it was assumed that the training would result in a productivity increase equal to 10 percent per year of the current average wage of individuals in the proposed group targeted for training. The wage data was provided by the wage profiles and the Central Statistics Office, Ministry of Finance and Development Planning. Since the project expects to finance short-term training for 8,800 individuals in-country and 80 individuals for short-term international training over five years, estimates of the impact of training for each group were calculated and these estimates are shown in Table 4 column 5 and 6. The estimates of the impact of short-term training for each group were staggered to reflect their different years for completing the training.

(c) Long Term TA - Cost Savings

Since one must assume that wages paid non-citizen personnel reflect their value to the economy, no additional output will occur if a Botswana replaces a non-citizen in a position. These costs are estimated to be approximately US\$35,000 per year for U.S. personnel. For this analysis, we have assumed a savings of US\$30,000 per year per expatriate replaced or recruitment avoided because other, less costly, foreign nationals may be replaced by returning Botswana. The benefit stream resulting from the substitution on 20 Botswana in positions currently held by non-citizens is given in Table 4 column 7.

(d) Employment Generation

As part of the National Development Plan 6, 1985 - 1991, the Employment Policy Unit at MFDP has estimated 5 years intervals of manpower requirements necessary to achieve the development targets to 2001. Over the period 1991 - 1996, when BPED will provide the full-time equivalent of 7.5 persons (long and short-term TA) to the country, the shortfall of university training manpower is expected to be 2 500 persons. An estimate of BPED contribution to filling the manpower gap can be obtained by dividing the shortfall (2,500) into the number of person-years of TA assistance. The resulting ratio of .003, when applied to the anticipated employment growth during the period (56,300 persons), represents the project's contribution to achieving the development plan's employment target in 1996. In other words, the provision of 7.5 highly skilled persons should assist the country to develop 170 jobs over the period or 35 jobs per year (Table 4 column 8).

Over the period 1991-2001, after the 20 trained Batswana have returned, the shortfall of university trained manpower is expected to be 2,500 persons. Using the same logic as above, the training of 20 Batswana will supply .08% of university-trained manpower needed over the period. When this percentage is applied to the total amount of anticipated employment growth in the period (112,600), an estimate of the employment creation impact of BPED yields an estimate of the value of employment creation resulting from long-term training component can be obtained. Over the period 1991-1996 BPED II will supply the leadership and managerial talent to develop 450 jobs (56,300 x .008) or 90 each year. The Central Statistics Office estimates that the average yearly cash wage for citizens of Botswana across all economic sectors is P2,489 or US\$1,375. The application of this average wage to the expected contribution to employment generation for each year, from the 20 long-term professionals trained with project inputs. These estimates are shown in Table 4, Column 9.

(e) Feasibility Studies

The records of the BDC indicate that they have had a 25% success rate of actual new businesses resulting from their feasibility studies and that each new business has created an average of 95 primary or direct jobs. Table 4 Column 10 reflect the economic impact of funding 60 feasibility studies over the 5 year BPED project life; resulting in three new businesses per year, using the value of \$1,375 per job created.

In addition to the job created by the BDC portion of the BPED, BOCCIM also assumes that their "non-training" activities will create additional jobs. Although numerous jobs will probably be created by BOCCIM in this manner and at a very reasonable cost, their estimates of 60,000 jobs created at a cost of \$35/ job would be difficult to validate given the newness of BOCCIM's efforts in this area. Since the project is economically sound based on BOCCIM's contribution through training, the additional jobs created by BOCCIM were not included in the analysis. At the time of the mid-term evaluation, there should be an adequate data base at BOCCIM to indicate the value of the economic return from this effort.

(f) Summary

Returns to the project have been identified and calculated for three anticipated project effects, including:

- wage benefits due to long-term training of 20 Batswana;
- wage benefits due to short-term training of 8800 Batswana; in-country and 80 short-term international training participants;

- wage benefits to the lost employment if the project were not financed.

Each of these benefit streams are arranged in the appropriate project years and summarized in Table 4.

The key assumptions underlying this analysis are:

- wage benefits reflect labor productivity;
- the benefits of short-term training programs can be approximated by assuming a 10% increase in productivity per year for ten years;
- the support costs of retaining non-citizen assistance equals \$30,000 per year;
- the provision of technical assistance and long-term training of Batswana will assist the country to meet its economic and employment targets at a rate equal to the proportion of their numbers to the shortfall of trained manpower.

(g) Project Costs

The project costs are taken directly from the schedule outlined in the financial plan. The only adjustment made in the cost stream was to remove the estimates for contingencies and inflation.

As shown in columns 12 and 13 of Table 4, the benefits of the proposed project exceed the costs by about \$2.5 million when both are discounted at 10 percent. The benefit-cost ratio is 1.46 to 1 and the internal rate of return is 19.4 percent. The project would therefore appear to be justified.

To test the sensitivity of this conclusion, alternative assumptions about each of the benefit streams were posited and calculated following the methodology outlined previously. The results are shown in Tables 5, 6, 7, and the sensitivity analysis is found on Table 8.

(h) Conclusion

Based on the stated assumptions developed by the GOB in their National Development Plan 6 (NDP) for 1985-91, the past experience of USAID's Human Development activities, and the performance of BOCCIM and BDC, the activities to be undertaken by the BPED project are economically sound. The project as designed shows an IRR of 19.4% and a benefit cost ratio of 1.46 to 1 when costs and benefits are discounted at 10%. The sensitivity analysis indicates a major benefit resulting from the funding of the BDC feasibility studies. On the other hand the project is nearly economically justifiable

as a "stand alone" training program, with a 8.48% IRR and a .94 to 1 B/C ratio. If the results of the BOCCIM short-term training activity are applied to a recipient group with a wage of \$3,000, twice the country average, then the BPED project shows a very sound IRR of 27% and a 1.84 to 1 cost benefit ratio. In conclusion, the BPED project as presently designed is economically feasibly and sound.

D. Summary of Administrative Analysis

A detailed administrative analysis is contained in Annex E.4.

1. Botswana Confederation of Commerce, Industry and Manpower (BOCCIM)

The parent organization of BOCCIM was formed in 1971 as the Botswana Employers Federation (BEF). BEF's mandate was to protect and promote the interests of employers and to participate in the economic development of the country. Because numerous attempts to set up a sister national chamber of commerce an industry failed, the BEF took on some of the functions of such an organization. To reflect this evolution of interests and objectives, BEF changed its name to the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) in August 1988. The constitution was also modified to reflect the broader interests of the organization. BOCCIM is a registered non-profit, private association which is open to all individual employers, firms, companies, associations, confederations, or other bodies and authorities, whether incorporated or unincorporated.

For many years, BOCCIM's (then BEF's) membership hovered around 530 members and was composed of the larger and medium sized local and foreign-owned firms. Its current membership is over 1,000, of which about 400 are micro/small-scale businesses. (For definition purposes, micro-scale businesses are considered businesses with 10 or less employees, small-scale as having 10 - 25 employees, medium-scale as having between 26 and 100 employees and large-scale businesses as having over 100 employees.) BOCCIM's membership consists largely of urban-based businesses. Of its total membership, 497 members are located in Gaborone and 121 members are located in Francistown. BOCCIM plans to continue concentrating on building membership in peri-urban areas in order to focus its limited staff and outreach resources.

The Annual General Meeting (AGM) is the supreme authority of the Confederation. The Executive Council (Council) oversees all the business and affairs of BOCCIM and meets monthly. The Council is composed of 28 members and includes representatives from the major players in the economy such as key parastatal, mining interests, commercial banks, and larger accounting firms. It also includes representatives of local chambers of commerce, farmers associations, and the small business division

(an association of small-scale businesses which is a member of BOCCIM). The Council administers most of its responsibilities through both standing and special committees.

BOCCIM has its principal office on half of one floor of Botsalano House, a building on the Main Mall area in central Gaborone. BOCCIM has recently rented a house in the central business area of Gaborone which serves as offices for the outreach staff. BOCCIM has applied for a plot in the Central Business District to construct BOCCIM House, which will house all of BOCCIM staff. BOCCIM opened a regional office in Francistown in 1990 to serve the general business community in the northern region. This office is located in the central business district and is staffed by a Regional Manager, a Field Officer and a secretary.

BOCCIM provides various services to its members and the general business community in Botswana. It has activities in five basic areas - policy and regulatory reform, outreach/management assistance, training, industrial relations, and membership communications/publications, and a credit bureau.

BOCCIM has been active in representing the private sector before government agencies and promoting policy reform to encourage private sector development. Much of this work has been performed on a voluntary basis by members. The Economic and Legislative Committee of the Executive Council coordinates this effort. BOCCIM's input is highly regarded by both government and private business. BOCCIM has representation on various government and other standing boards and committees. The project will reinforce and bolster BOCCIM's past efforts in this area by providing a long-term, expatriate policy analyst to assist the Executive Council and Director. A Motswana will subsequently be trained to eventually become the local policy analyst counterpart.

BOCCIM provides management assistance to its members through an on-site, one-on-one approach, principally through its outreach and B-MAP programs. The Small Business Division and Women in Business section identify special business needs for their members. The outreach program involves visits by BOCCIM field officers to business sites to provide industry specific managerial and general business advice. The type of assistance provided during these visits includes general business planning, labor relations advice, information of BOCCIM sponsored training programs, and information and assistance on the Financial Assistance Policy (FAP) offered by the GOB.

The Small Business Division (SBD) of BOCCIM was recently formed. BOCCIM uses the SBD both to identify other SME needing management assistance as well as to increase its membership. The SBD currently has about 400 members and is increasing

steadily. Regular quarterly meetings of the SBD feature special topics such as the recent seminar on "Boosting your Profits. A Women in Business section was recently established within the SBD to address the special needs of female entrepreneurs.

BOCCIM has a full complement of training courses and these will increase over the LOP. Various courses offered are directed toward a broad spectrum of businesses including micro and small-scale productive sector entrepreneurs, supervisory and middle management, trainers, and senior management. The content of the courses is based on expressed needs of BOCCIM members and the general business community.

Industrial Relations is the area in which BOCCIM's predecessor, BEF, provided most of its services. BOCCIM has continued to offer its services in this area. A full-time Industrial Relations Officer mediates labor disputes for member businesses and provides information to members on labor laws and regulations.

The public relations function of BOCCIM is currently being performed by staff and long-term advisors. A permanent staff person will be hired to perform these duties by January of 1991. It is anticipated that an IESC volunteer or short-term consultant in association management or public relations will be needed to assist in setting up an effective program.

BOCCIM is currently in the process of establishing the Botswana Credit Bureau to provide information on "poor credit risks" to members. Additionally, the Botswana Credit Bureau will professionally research the subscribers own credit history and provide Certified Credit Reports on request. Members who desire to receive this information will pay for it.

According to an audit by Deloitte, Pim Goldby, BOCCIM relies heavily on membership subscriptions for its income. Approximately 90% of its income of P172,909 in 1988 was from subscriptions. In 1989, total income increased to P401,625, of which 82% was from subscriptions. Meanwhile, total expenditures increased from P211,848 in 1988 to P248,384 in 1989. BOCCIM had an operational deficit of P38,939 in 1988, but had a surplus of P153,241 in 1989.

In the past, BOCCIM has been able to rely on ad hoc contributions from larger members to make up any shortfall in revenues. Likewise, BOCCIM depends upon special donations from those members to fund unusual expenses. It is doubtful that this dependence on larger members will ever be overcome entirely. However, BOCCIM needs to broaden its base of financial support through increased reliance on fee-based service provision. BOCCIM's training program over the LOP will

emphasize this approach and the establishment of the credit bureau also is a good effort in this direction. If BOCCIM is to become a truly independent, representative business organization of national stature, it must continue to seek ways of generating revenues from delivery of services as well as from membership fees and special contributions. The technical assistance provided by the project should help BOCCIM to further broaden its income sources.

BOCCIM appears to have made and continues to make a genuine effort to become a representative business organization that will provide all the services of a national chamber of commerce. BOCCIM should continue to make the necessary changes to rid the organization of its vestiges as an employers federation substantially controlled by foreign-owned and large businesses. BOCCIM needs to be sensitive to concerns relative to the participation of Batswana in the economy and must develop ways to assuage these concerns if it is to be an effective institution representing the interests of all private sector firms in Botswana. The establishment of a Small Business Division and efforts to increase membership of small and medium-sized firms in BOCCIM are good efforts in this direction. But, more efforts will have to be made in the future to ensure that Batswana feel that they have a participatory stake in the development of Botswana's economy.

On balance, BOCCIM is a relatively strong national business association that is the appropriate locus of support for the strengthening of private sector business representation and services. USAID's experience with BOCCIM to date, through the BWAST II project, and a recent Mission initiated financial analysis of BOCCIM demonstrates that it has the capacity to effectively utilize project assistance and magnify its efforts in the areas of policy reform and providing services to both members and nonmembers in training and management assistance.

BOCCIM is well-positioned to serve as the coordinating institution for the BPED project since it is a truly private sector organization that represents private sector interests and appears to be supported and well-respected by both government and the private sector. The activities for which it is responsible under the BPED project are consistent with its mandate and will help BOCCIM to considerably increase its impact upon private sector business development in Botswana. The project linkages among the activities of BOCCIM, BDC, MCI should increase communication among these institutions and help to develop a coordinated approach to private sector development.

2. Botswana Development Corporation (BDC)

The Botswana Development Corporation (BDC) was established in 1970 to be Botswana's agency for commercial and industrial development. It was organized as a parastatal institution with all ordinary shares held by the government of

Botswana (GOB). The authorized share capital of BDC is P50 million, divided into P46 million ordinary shares and P4 million redeemable, cumulative, non-voting preference shares. The issued share capital of BDC of 42,799,462 is divided into 38,799,462 ordinary shares and 4,000,000 preference shares.

The control of BDC is vested in a board of directors which meets quarterly to approve investments, review activities, policies and objectives. All directors are appointed by the Minister of Finance and Development Planning. BDC is managed by the Managing Director with the assistance of an Executive Committee composed of the Deputy Director, Financial Controller, and the Manager of the Project Department.

The Managing Director is supported by the Manpower Development Manager, the Group Company Secretary, the Group Internal Auditor, and the Public Relations Officer. The Deputy Director heads the six operating divisions, comprising Agriculture, Commercial/Industrial, Financial Services, Hotels/Tourism, Estates Management and Transport. BDC monitors its interests through these divisions.

BDC has investments through subsidiary and associated companies in all sectors of the economy except large scale mining. The practice of BDC with companies in which it has investments is principally one of arms-length. Subsidiary companies are generally independent and BDC influence is exercised through the director(s) it nominates to subsidiary boards (appointees do not have to be BDC employees) and in its role as a shareholder. The exception to this doctrine occurs when the companies experience financial or management difficulties. In those cases, BDC will often engage in direct management of those companies in order to attempt to turn them back onto a solid financial basis.

The primary objective of BDC is to identify investment opportunities in Botswana for exploitation by both local and foreign investors. To achieve this, BDC provides investment advice, loans, share capital and industrial plots and buildings to investors. BDC attempts to limit its involvement in new projects to a minority interest, but it will bear the major burden of development when considered to be in the national interest.

The types of assistance provided by BDC include:

- provision of long-term loans
- provision of factories and serviced land
- provision of guarantees
- equity participation
- investment advice
- project feasibility studies
- assisting Botswana citizens to acquire shareholdings in BDC Group companies or from foreign owners willing to sell.

BDC finances enterprises which have good potential for:

- generating significant employment
- export and/or import substitution
- generating additional business opportunities
- commercial viability.

The audited financial statements for BDC for the year ending 30 June 1989 showed a profit of P5,775,000 before taxes and a net profit of P8,818,000. Dividends were issued in the total amount of 8,376,000 resulting in a retained profit of P442,000. Coupled with retained profits at the beginning of the year, the total retained profits at the end of the year were 6,169,000. The consolidated statements, which include all subsidiaries which are operational (86) showed a profit of P26,856,000 with a net profit of P7,612,000. The consolidated retained profits at the end of the year came to P31,742,000.

In terms of capital employed, the consolidated statements reveal P42,800,00 share capital on the part of BDC and P23,810,000 outside shareholders' interest in the subsidiaries. Total long-term loans amounted to P45,113,000 and insurance funds accounted for the other major source of capital (P32,510,000). In terms of employment of capital, P107,761,000 were in the form of fixed assets, P21,300,00 were in subsidiaries not consolidated in the statement, P31,073,000 were in associated companies and P38,399,000 were in investments.

The BDC recently formulated a five-year strategic plan. Specific targets set in that plan include:

- To create 10,000 new jobs
- To increase the portion of citizen participation in BDC companies from the present 33% to 50%
- Substantially increase BDC's companies

The financial projections show a rising level of profitability with return on capital growing by 50% reaching 11.3% in 1994/95 return on equity doubling to 18% and dividends to the ordinary shareholder increasing fourfold. Project disbursements will reach P469 million over the five year period, 90% of which will be invested in industrial/commercial projects and property development. The ratio of loan to equity investments will then have reached 65/35 compared to the recent 52/48.

BDC is clearly one of the key players in the investment scene in Botswana. Although it is a parastatal and makes some business decisions on the basis of political and equity concerns, it appears to operate on a profit basis and understands the necessity to be self-sustaining. It has a very professional and capable staff which has been assisted by USAID in the past through the BWAST II project as well as by the

Peace Corps, particularly in management and providing marketing assistance to medium-size business.

A principal concern mentioned by a number of sources is the high percentage of equity held by BDC in its projects. However, BDC appears to be changing its approach on this issue as evidenced by the target mentioned in its five year plan as well as comments by staff of BDC and others that BDC has been divesting its stock in companies operating on a solid basis through sales of the stock to the private sector.

In conclusion, BDC clearly has the capacity to effectively utilize the long-term advisors provided by the BPED project as demonstrated by its track record in attracting private investment to Botswana as well as its use of previous long-term advisors. The feasibility studies to be financed by BPED to attract private investors, both on a subsector basis and on individual company basis, are well within BDC's purview and existing capabilities.

E. Environmental Impact

The original Initial Environmental Examination (IEE) for the project PID recommended a positive determination based on two project objectives (strengthening citizen entrepreneurship and increased capacity to attract and absorb foreign investment and to export) which may promote investments in entrepreneurial activities such as tanning, textiles, beef by-products, tourism, exotic animal products, veld products for export markets and construction, leather and cotton/oil seed production for local markets. At the PP stage, project inputs and their direct effect or potential impacts on environment were examined. As such, they are not likely to have a significant effect on the natural or physical environment of Botswana or neighboring countries.

This project, through long-term technical assistance to the Botswana Development Corporation, BOCCIM and MCI, will coordinate efforts to identify, analyze and formulate policy recommendations and implementation methods for both foreign and local investment as a means of sustaining and accelerating private sector growth.

Feasibility studies may be carried out in specific product areas such as potential for development of agro-based industries, prefabricated housing, tourism, and plastic products. The feasibility studies themselves of course will not directly affect the environment. However, the feasibility studies will identify any environmental issues associated with the development of such activities which should be pursued before investment. In the event any of these studies identify significant adverse environmental concerns, required environmental assessment will be conducted in conformance with GOB legal requirements prior to initiation of the activities studied.

The BPED project will also finance participant training, and training and counselling in the field of management, entrepreneurial development, investment promotion and policy formulation as well as business promotional trips to the U.S.A. Training and technical assistance including training of construction management experts, will include assistance regarding environmental impact planning, where appropriate.

As indicated in the revised IEE attached as Annex E.5, it is recommended that the project be categorically excluded from further environmental review pursuant to A.I.D. Regulation 16, paragraph 216.2(c) 2(i) and (iii).

VI. COST ESTIMATES AND FINANCIAL PLAN

The total cost of the BPED will be \$23,337,000, \$16,300,000 (70%) will be contributed by AID and \$7,037,000 (30%) through combined efforts of the GOB and the Private Sector. Table I presents a summary of costs of the financial plan, with AID's projected expenditures for each fiscal year of the Project. Three of the long-term advisors will initially be funded out of BWAST II or the Cost-Sharing Project resulting in 25 person years of long-term person years being funded out of BPED rather than 30 person years.

The basic assumption made in preparing the budget includes a compounded 4.6% annual inflation rate for services procured in the United States and a 10% compounded per annum inflation rate for goods and services purchased in Botswana. In addition, a 7% contingency factor was selected for the AID budget to cover unexpected changes in the estimated level of assistance or possibly to fund a buy-in to the AFR/MDI supported venture capital scheme with the Commonwealth Development Corporation.

Procurement of services requiring local currency will be the responsibility of BOCCIM and BDC, each of whom will sign a Cooperative Agreement and Operational Program Grant respectively. Services requiring foreign exchange will generally be arranged through the U.S. contractor at the request of BOCCIM, BDC or MCI. IESC will sign a Grant Agreement with the Mission to provide technical services. All major commodities will be procured by USAID.

Listed below are the major project components and cost estimates (cost figures in '000) for each item, less inflation and contingency factors.

The Planned Expenditures.

Technical Assistance

A. Long-Term Advisors

Twenty (25) person years are projected during the LOP. The Advisors will be placed in three strategic organizations to maximize the return on investment.

Three advisors will be located within BOCCIM. The specific areas to be covered include Management Advisor, Training Advisor and Policy Analyst. These three advisors will provide direct assistance and counselling as well as training their counterparts during the project. As there is an overlap with BWAST for some of the contract years, only eleven of the fifteen person years will be charged to BPED.

Two advisors will be located within BDC, a Senior Projects Officer and a Principal Operations Advisor, each will have counterparts to be trained during the LOP. One year will be charged under Cost Sharing with the remainder charged to BPED.

One advisor will be located within MCI. This person will be a Policy Analyst/Implementer with one or more counterparts who will be trained during the LOP.

The GOB/Private Sector contribution will consist of local salary, housing, vehicle support, office space and equipment.

Total Cost @ \$125 per person year	\$3,125 USAID
	\$ 619 GOB
	\$ 920 Pvt. Sector

B. BOCCIM Direct Costs

As part of the organizational strengthening component of BPED there will be direct costs related to the administration and coordination of the program. BOCCIM will need to add four additional staff to meet the requirements of this task. BPED will cover the costs of these persons in a reducing scale over the LOP.

The positions to be added include a BPED Coordination Team consisting of a Staff Accountant, Programme Administrator and Secretary and Policy Analyst. BOCCIM's contribution will consist of offsetting salaries, and general office support.

Total Cost	\$ 304 USAID
	\$ 0 GOB
	\$ 168 Pvt. Sector

C. BOCCIM Indirect Costs

The extraordinary growth of BOCCIM membership during the past year (from 550 members to nearly over 1,000 members has created a short-term financial burden on the organization.

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There is a need to supplement the BOCCIM budget until revenues can be incrementally increased during the LOP. The budgetary constraint has been produced due to rapid expansion and increasing service to micro and small businesses which cannot afford subscriptions sufficient to repay BOCCIM services during their formative years.

Total Cost	\$ 879 USAID
	\$ 0 GOB
	\$ 433 Pvt. Sector

D. Commodities

1. Vehicles

BPED will provide four vehicles for use of the BOCCIM Outreach Staff and Long-Term Advisors. These will include one 4 x 4 Truck for use in the northern rural areas. This vehicle will be based in Francistown. Two additional front wheel drive trucks will be added to the Gaborone office to serve the southern portion of the country. The fourth vehicle will be a compact sedan for use in Gaborone and its environs where roads are suitable to such transport. All four vehicles will be directly procured by USAID. BDC and MCI will provide additional vehicles for the implementation of their components and all maintenance, insurance (third party, comprehensive, theft) and petrol as its contribution to this component.

Total Cost	\$ 80 USAID
	\$ 120 GOB
	\$ 0 Pvt. Sector

2. Computer, Printers, Software

During the past year with the assistance of CIDA, UNDP and USAID through the B-MAP pilot project, BOCCIM has been able to convert its membership, accounting and business assistance activities to computer based programs. As additional staff is added, particularly in the Outreach Department, maximum efficiency can only be obtained if the Long-Term Advisors, PCV's and BOCCIM Field Officers have access to this data through the use of portable computer systems to prepare FAP applications, check membership, payments, collections and prepare professional business plans. BPED funds will be used to obtain five computers and associated printers as well as suitable software programs. USAID will procure from U.S. suppliers the computers and printers. BOCCIM will provide the maintenance and peripheral accessories.

Total Cost	\$ 25 USAID
	\$ 0 GOB
	\$ 2 Pvt. Sector

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3. Office Equipment and Furniture

As the project is adding personnel to the BOCCIM staff there will be a need for associated furniture for these persons. USAID and BOCCIM will share the cost of this component, and USAID will purchase the office furniture financed with A.I.D. funds.

Total Cost	\$	15	USAID
	\$	9	GOB
	\$	6	Pvt. Sector

4. Training and Export/Promotional Materials

The competitive advantages of training, investment promotion and export promotion can be increased with adequately prepared literature. Project funds will be used for the design and printing of the required materials. The promotional materials may be used to attract industry specific investment or distributed locally through trade fairs. Promotional materials financed by A.I.D. should contain proper acknowledgement of A.I.D. financing and approved by USAID. The GOB contribution will consist of professional staff time, office space and secretarial support required for the development of promotional materials.

Total Cost	\$	100	USAID
	\$	45	GOB
	\$	5	Pvt. Sector

5. Support Materials for Long-Term Advisors

BPED will finance the shipment of professional support materials for use by the long-term advisors during their contracts. The support reference materials will aid the advisors to more effectively perform their tasks.

Total Costs	\$	12	USAID
	\$	0	GOB
	\$	0	Pvt. Sector

E. Project Coordination

1. USAID Project Assistant

To assist in the management and backstopping of the project, BPED funds will be used to contract a Project Assistant to be assigned to USAID. This Personal Services Contractor (U.S. PSC. or FSN) will provide daily implementation services in support of the project and report to the USAID Project Manager.

Total Costs - \$125,000 per person year	\$	625	USAID
	\$	0	GOB
	\$	0	Pvt. Sector

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2. U.S. Contracted Firm

The contractor will recruit and provide administrative support and be responsible for the procurement of professional services, support to the long-term advisors, and control the disbursements of foreign exchange costs. The contractor will staff an office in Botswana probably consisting of a country representative, an accountant and a secretary.

Total Cost	\$ 1,775	USAID
	\$ 0	GOB
	\$ 0	Pvt. Sector

F. Short-Term TA

1. Industry Specific Feasibility Studies

To assist in investment promotion the Project will fund, under a cost-sharing arrangement, industry specific feasibility studies. As a guide the soliciting firm would finance 50% of the cost, BDC 25% and USAID 25%.

Total Cost	\$ 625	USAID
	\$ 625	GOB
	\$ 1250	Pvt. Sector

2. Business Expansion Study

Business expansion studies will be funded to determine the viability of industry specific expansion or diversification. It is anticipated that a large number of firms requesting expansion studies will be smaller citizen owned and may not be able to contribute a 50% contribution. Nevertheless BDC and the client firm will still contribute staff time and minimum direct funding to this activity.

Total Cost	\$ 150	USAID
	\$ 75	GOB
	\$ 75	Pvt. Sector

3. Institutional Staff Strengthening

BPED will finance short-term expertise and training programs over the LOP to assist BOCCIM, MCI or private sector business associations in institutional strengthening. An example of such assistance would be contracting a specialist to redesign BOCCIM's monthly newsletter and assist the Department of Tourism in designing a national tourism strategy. The counterpart contributions will consist of providing office space, clerical support, professional staff, in-country transportation, and operating costs.

Total Cost	\$ 100	USAID
	\$ 25	GOB
	\$ 25	Pvt. Sector

4. Industry Sector Analysis/General Short-term T.A.

During the LOP private sector constraints or general areas requiring analysis will be identified. The studies could focus on procedures for improving the Construction and Engineering Sector, Export and Marketing Procedures, Micro Enterprise Development, Tourism and Financial Sector analysis. The counterpart contribution will consist of providing office, space, clerical support, professional staff support, in-country transportation and operating costs.

Total Cost	\$ 500	USAID
	\$ 60	GOB
	\$ 60	Pvt. Sector

5. IESC Consultancies

BPED will fund IESC consultants whose experience closely matches the needs of the Batswana clients primarily in the area of production and operations. The client will be required to contribute an estimated \$8,000 per consultancy. Fifteen person months per year.

Total Costs	\$ 875	USAID
	\$ 0	GOB
	\$ 280	Pvt. Sector

G. In-Country Training

1. Needs assessment/In-Country Capacity

A private sector needs assessment will be conducted in the first year of the project and updated annually. The assessment funded under BPED will identify critical skills areas, both technical and entrepreneurial, in which training can be provided. BOCCIM will provide the required professional staff support, administrative and clerical support and in-country operating travel costs.

Total Cost	\$ 105	USAID
	\$ 0	GOB
	\$ 25	Pvt. Sector

2. BOCCIM Coordinated Training

BPED will finance BOCCIM's in-country training courses in strengthening mid-management, entrepreneur development, training of trainers, senior management, and special needs courses. Over 5,000 participants will benefit from such training. The participating firms will be required to continue the participants salaries during training. The client firms will be required to contribute an average of 25 percent of the training costs related benefiting their employees.

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Total Cost	\$ 1,300 USAID
	\$ 0 GOB
	\$ 400 Pvt. Sector

3. Pre-Production Training

This training complements the investment support component, and will provide funding to an investor identified either by BDC or BOCCIM for pre-production training of employees. The soliciting firm will be responsible to provide the training site, provide administrative support and pay for participants salaries during the training. The GOB has agreed to match training cost Pula for Pula under the FAP policy.

Total Costs	\$ 300 USAID
	\$ 300 GOB
	\$ 125 Pvt. Sector

4. On-Site Consultancies

The general pattern of these consultancies will involve BOCCIM coordinated training coursework followed by on-site consultancies. The requesting firm will generally contribute 25% of these training costs.

Total Costs	\$ 450 USAID
	\$ 0 GOB
	\$ 115 Pvt. Sector

H. Support to B-Map

The B-MAP activities of utilizing volunteer business persons from medium and large firms to provide management and technical advice to small and medium-scale entrepreneurs will be expanded to Francistown, Lobatse and Selebi-Phikwe. The client firm will pay for 20 percent of the consultancy fee and the Volunteer's time will contribute 30 percent and project funds will finance 50 percent.

Total Cost	\$ 95 USAID
	\$ 0 GOB
	\$ 50 Pvt. Sector

I. Business Linkage Trips

1. Batswana to the U.S./International (trade association linkages)

Ten person trips will be funded to send knowledgeable and prestigious Batswana to attend trade/business association fairs in the U.S. or other foreign countries. The GOB will finance airfare and associated travel costs and the representative firms will finance the participants salaries.

Total Cost	\$ 100 USAID
	\$ 40 GOB
	\$ 15 Pvt. Sector

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2. U.S. Business Persons to Botswana (trade association linkages)

Twenty person trips to bring U.S. business persons from U.S. trade or franchisee associations will be funded during LOP. The GOB and interested local firms will provide in-country travel and devote considerable executive personnel time with the representatives.

Total Costs	\$ 280	USAID
	\$ 20	GOB
	\$ 30	Pvt. Sector

3. U.S. to Botswana (Investors)

The business trade linkages should result in identifying industries interested in investing in Botswana. Upto thirty potential U.S. investors willing to finance their own airfare to and from Botswana will receive in-country costs for up to seven days. GOB and private sector executives will escort and attend to their needs while in Botswana.

Total Costs	\$ 105	USAID
	\$ 30	GOB
	\$ 165	Pvt. Sector

J. External Training

1. Degree training in U.S.

BPED will fund up to 20 master level scholarships in applied policy analysis, business management, investment, financing, economics, labor economics, etc. for key policy staff in appropriate GOB ministries and for private business associations or parastatal institutions. Funding for U.S. income tax payments is included in the training budget. The GOB will finance all airfare and related travel costs and continue to provide salaries during the participants tour in the U.S. The private sector will continue to pay the salaries for its participants while studying in the U.S. \$25,000 per year x 40 years.

Total Costs	\$ 1000	USAID
	\$ 430	GOB
	\$ 60	Pvt. Sector

2. Short-term Training in U.S. or Outside AFR Region

This activity will enable BPED to take advantage of either AID/W or BPED sponsored or identified training and seminars requiring Mission funding. Emphasis will be for academic training which foster private sector development. Areas of study will include business management, private sector policy formulation, financial market development, banking,

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domestic and foreign investment, taxation private provision of social services. Additionally, this component will enable BPED to take advantage of AID/W sponsored or identified training. The GOB will finance airfares for all participants and continue salaries for public sector participants. The private sector will continue to pay salaries during the training period. Eighty person trips.

Total Costs	\$ 800	USAID
	\$ 320	GOB
	\$ 50	Pvt. Sector

3. Short-Term Regional Training

This training is similar to the above but will be reserved for the region. In addition to management or administrative personnel training, these funds will also be used to improve trade skills by sending local participants to skills training institutions within the region. 40 person trips. The Project will fund registration and course fees, transportation, subsistence costs. The GOB will fund international travel and pay salaries for its participants, the private sector will continue to pay salaries of participants during the training period.

Total Costs	\$ 200	USAID
	\$ 20	GOB
	\$ 40	Pvt. Sector

K. Evaluation and Audits

1. Annual Financial and Compliance Audits

BOCCIM will be responsible to contract, with Project funds, a local accounting firm, approved by USAID/B, to conduct an annual financial and compliance audit for all project activities. A copy of the audit will be submitted to USAID/B.

Total Cost	\$ 125	USAID
	\$ 0	GOB
	\$ 0	Pvt. Sector

2. Evaluations - Mid-term and Final

The Project will fund two evaluations, a mid-term and final evaluation. The evaluators will examine the project design and implementation as they relate to the goal, purpose and outputs. The evaluation will examine the effectiveness of the project, and the mid-term evaluation will recommend mid-course corrections. Five person months per evaluation.

Total Cost	\$ 200	USAID
	\$ 0	GOB
	\$ 0	Pvt. Sector

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L. Venture Capital Assistance

If the AID/CDC venture capital scheme materializes \$150 will be received from the contingency line item to fund a buy-in of AID/W contribution to assist CDC with its administrative costs. BPED will fund \$50 per year. The CDC equity fund of \$10 million is not included in the counterpart contribution, since too many uncertainties exist pertaining to the future of this activity.

Total Costs	\$	150	USAID
	\$	0	GOB
	\$10,000		Pvt. Sector

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TABLE I

FY 1991 COSTS FIGURES \$00

A I D

BUDGET LINE ITEM	FY91	FY92	FY93	FY94	FY95	FY96	TOTAL AID	LOP GOB	LOP PRIVATE SECTOR
LONG TERM ADVISORS									
A BOCCIM 12 person years									
- Management Advisor	BWAST	BWAST	125	125	125	-0-	375	106	160
- Training Advisor	BWAST	BWAST	125	125	125	-0-	375	62	120
- Policy Analyst	-	.25	125	125	125	93	625	115	120
B B D C 9 person years									
- Senior Project Officer	Cost Sharing	125	125	125	125	94	500	106	160
- Principal Operation Advisor	-	125	125	125	125	94	625	115	160
C M C I 5 person years	-	125	125	125	125	94	625	115	120
SUBTOTAL	-0-	500	750	750	750	375	3,125	619	620
2 BOCCIM DIRECT COSTS	(100%)	(100%)	(100%)	(90%)	(25%)	(25%)			
A Accountant	17	23	23	12	6	6	97	-	44
B Program Assistant	12	16	16	3	4	4	60	-	34
C Secretary	6	8	8	4	2	2	30	-	15
D Policy Analyst	29	20	29	19	10	10	127	-	75
SUBTOTAL	64	67	76	43	22	22	304	-	68
3 BOCCIM INDIRECT COSTS									
A Vehicle Oper Costs	40	50	40	20	20	20	200	-	50
B Hotels and Meals	25	34	30	30	6	15	149	-	46
C Rent & Utilities	65	75	70	40	35	15	300	-	140
D Telephone	22	25	21	5	4	3	90	-	67
E Newsletter	12	12	12	6	5	4	51	-	21
F Repairs and Maintenance	8	8	8	5	4	3	36	-	12
G Printing	15	21	15	5	4	3	63	-	57
SUBTOTAL	187	225	196	121	87	63	879	-0-	433
4 COMMODITIES BOCCIM									
A 4 Vehicles	80	-	-	-	-	-	80	120	-
B 5 Computers and Printers	25	-	-	-	-	-	25	-	2
Software	85	-	-	-	-	-	5	-	-
C Office Equipment/Furniture	12	-	3	-	-	-	15	9	6
D Training & Export/Promotional Materials	-	20	20	20	20	20	100	45	5
E Long Term TA Support Materials	-	2	2	-	-	8	12	-	-
SUBTOTAL	122	22	25	20	20	28	237	174	13

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BUDGET LINE ITEM	FY91	FY92	FY93	FY94	FY95	FY96	TOTAL AID	LOP GOB	LOP PRIVATE SECTOR
5 PROJECT COORDINATION									
A JSAID Administrative Asst	125	125	125	125	125	-	625	-	-
B U S Contracted Firm	<u>355</u>	<u>355</u>	<u>355</u>	<u>355</u>	<u>355</u>	-	<u>1,775</u>	-	-
SUBTOTAL	480	480	480	480	480	-0-	2,400	-0-	-0-
6 SHORT TERM TA									
A Industry Specific Feasibility Studies									
35 studies \$71,500 each	71	125	125	125	125	54	625	625	1250
B Business Expansion Study									
15 studies \$20,000 each	20	30	30	30	30	10	150	75	75
C Institutional/Staff Strengthening TA									
5 consultancies \$20,000 each	20	20	20	20	20	-	100	25	25
D Industry Sector Analysis									
Const. Eng, Export Marketing and Procedures, Joint Business Assoc Tourism Micro Enterprise, 3 person months per study \$60,000 each	60	100	100	100	100	40	500	60	60
E IESC 15 person months per year	<u>120</u>	<u>175</u>	<u>175</u>	<u>175</u>	<u>175</u>	<u>45</u>	<u>375</u>	-	<u>280</u>
SUBTOTAL	301	450	450	450	450	149	2,250	785	1,630
7 IN-COUNTRY TRAINING									
A Needs Assessment/In-country training capacity									
B BOCCIM Coordinated Training 5000 participants	100	255	255	275	265	140	1,300	-	400
C Pre-production Training 20 Firms									
D On Site Consultancies 75 firms 8 weeks each	25	75	90	110	110	40	450	-	115
E Support to B-MAP	<u>33</u>	<u>17</u>	<u>15</u>	<u>15</u>	<u>15</u>	-	<u>95</u>	-	<u>50</u>
SUBTOTAL	213	422	450	485	460	220	2,250	300	715
8 BUSINESS LINKAGE TRIPS									
A Botswana to International (Trade Assoc Linkage) 10 person trips									
B U S to Botswana (Trade Assoc Linkage) 20 person trips	23	56	56	56	56	33	280	20	30
C U S to Botswana (Investors) 30 trips									
SUBTOTAL	33	97	97	97	97	64	485	30	165*

* Airfare

"SENSITIVE COST INFORMATION - SEE PAR 3 104, DO NOT DISCLOSE"

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BUDGET LINE ITEM	FY91	FY92	FY93	FY94	FY95	FY96	TOTAL AID	LOP GOB	LOP PRIVATE SECTOR
EXTERNAL TRAINING									
A Degree Training in U S 20 Masters participants 25 per year x 40	50	200	200	200	200	120	1,300	430*	60**
B Short Term Training in International \$10,000 per person x 30 participants	50	175	175	175	175	50	800	320*	50**
C Short Term Regional Training 40 trips	20	40	40	40	40	20	200	20	40
SUBTOTAL	120	415	415	415	415	220	2,300	770	150
10 EVALUATION AND AUDITS									
A Annual Financial and Compliance Audit	-	25	25	25	25	-	125	-	-
B Evaluations Mid-Term and Final - 5 person months per evaluation	-	-	100	-	100	-	200	-	-
SUBTOTAL	25	25	125	25	125	-0-	325		
SUBTOTAL THROUGH 10	500	2,703	3,074	2,386	2,306	1,186	14,255	2,708	4,039

11 CONTINGENCIES 7%	100	169	215	202	203	-0-	109		
SUBTOTAL	1,500	2,392	3,289	3,088	3,109	1,186	15,064		
C INFLATION (10% year) rounded									
TOTAL	1,500	2,392	3,289	3,088	3,109	1,186	15,064		

* Airfare

** Salary 3%

*** If AID/W and CDC sign the venture capital agreement, \$150 from the contingencies line item will be reserved to cover a portion of CDC's operational costs over a three year period

**** No contingency or inflation have been applied to last year (FY 96) budget as surplus contingency and inflation will be carried over to the last year budget

"SENSITIVE COST INFORMATION - SEE PAR 3 104, DO NOT DISCLOSE"

TABLE II
DIVISION OF RESPONSIBILITIES

PER USE OF FUNDS (LOP)

LINE ITEM	BOCCIM		BDC		MCI	IESC	USAID	PRIME CONTRACTOR
	U.S.	P.Y. *	U.S.	P.Y. *	P.Y. *	P.Y.	P.Y.	P.Y.
1 Long-term Advisors								
A 11 person years		1,343						
B 10 person years				1,188				
C 5 person years					594			
2 BOCCIM Direct Costs	304	-						
3 BOCCIM Indirect Costs	879	-						
4 Commodities								
A Vehicles							80	
B Computers							30	
C Office Equipment/Furniture							15	
D Materials/Prom		25			50		25	
E Materials/Support		5		4	2			
5 Project Coordination								
A USAID Admin Assistance							625	
B Prime Contractor								1,775
6 Short-term T A								
A Feasibility Studies				625				
B Expansion Studies				150				
C Staff Strengthening		50		50				
D Sector Analysis		150		250				
E IESC O P F						375		
7 In-Country Training								
A Needs Assessment		105						
B Participant Training		1,300						
C Pre-Production Training				300				
D On-Site Consultancies		450						
E Support to B-MAP		95						
8 Business Linkages								
A Botswana to Internat		50		25	25			
B U S to Botswana		70		140	70			
C U S Industries		27		52	26			
9 External Training								
A Degree Training U S		25		25	25			925 **
B Short-term International		100		100	100			500 **
C Short-term Regional		200						

SENSITIVE COST INFORMATION - SEE FAR 3 104, DO NOT DISCLOSE

LINE ITEM	BOCCIM		BDC		MOI	ESC	USAID	PRIME CONTRACTOR
	LC	FL *	LC	FL *	FL *	FL	FL	FL
10 Evaluation/Audits								
A Financial Compliance		50					75	
B/ Evaluations							290	
11 Contingencies							809	
12 Inflation							1,236	
	3,133	2,196	300	2,609	892	875	3,095	3,200

* Represents Foreign Exchange Costs for activities to be implemented by the indicated Host Country entity, with disbursement made through the Prime Contractor

** Participants to be jointly selected and agreed upon by the GOB and USAID. Logistical support will be provided by the Prime Contractor

SENSITIVE COST INFORMATION - SEE FAR 3.104. DO NOT DISCLOSE

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85
TABLE III

METHODS OF IMPLEMENTATION AND FINANCING

FY 1991 COSTS FIGURES ,000

BUDGET LINE ITEM	METHOD OF FINANCING	BUDGET AMOUNT
1. LONG TERM TECHNICAL ADVISORS		
A. Direct Prime Contractor	Direct Payment	2,531
B. Host Government	Host Government Reimbursement	594
2. GRANTEE DIRECT/INDIRECT COSTS		
Direct Coop. Agreement	Advance Payment	1,183
3. COMMODITIES		
A. USAID/Botswana Procurement	Direct Payment	150
B. Direct Prime Contractor	Direct Payment	35
C. Host Government	Host Government Reimbursement	52
4. PROJECT TECHNICAL COORDINATION		
A. USAID direct	Direct Payment	625
B. Direct Prime Contractor	Direct Payment	1,775
5. SHORT-TERM TECHNICAL ASSISTANCE		
A. Direct Prime Contractor	Direct Payment	1,375
B. OPG Grant Agreement	Letter of Credit	375
6. IN-COUNTRY TRAINING		
A. Direct Cooperative Agreement	Advance Payment	1,950
B. OPG Grant Agreement	Grantee Reimbursement	300
7. TRAVEL & PER DIEM COSTS		
A. Direct Prime Contractor	Direct Payment	364
B. Host Government	Host Government Reimbursement	121
8. EXTERNAL TRAINING		
A. Direct Prime Contractor	Direct Payment	1,875
B. Host Government	Host Government Reimbursement	125
9. EVALUATION/AUDITS		
A. Direct Prime Contractor	Direct Payment	50
B. USAID/Direct	Direct Payment	275
10. CONTINGENCIES AND INFLATION		
(To be allocated to other budget line items)		<u>2,045</u>
TOTAL PROJECT		<u>16,300</u>

"SENSITIVE COST INFORMATION - SEE FAR 3.104; DO NOT DISCLOSE".

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PROJECT PAPER ANNEXES

- A.1 PID Guidance Message
- A.2 PP Delegation of Authority
- B. Grantee's Request for Assistance
- C. Logframe Matrix
- D. Statutory Checklist
- E. Project Analyses
 - E.1 Constraints Analysis
 - E.2 Social Soundness Analysis
 - E.3 Economic Analysis
 - E.4 BOCCIM Administrative Analysis
 - E.5 Initial Environmental Examination
- F.1 AID/Peace Corps Microenterprise Development PASA
- F.2 Peace Corps Collaboration in BPED
- G. Role of Venture Capital Fund
- H. Changes in South Africa and Impact on Botswana
- I. Description of Research Studies
- J. RLA Opinion Regarding Lautenberg
- K. References

7102C0R0949
 RR RUEHOR
 DE RUEHC #8612/01 1170450
 ZNR UUUUU 22H
 R 270454Z APR 90
 FM SECSTATE WASHDC
 TO RUEHOR/AMEMBASSY GABORONE 2132
 INFO RUEENR/AMEMBASSY NAIROBI 8744
 RUEHMB/AMEMBASSY MBABANE 9170
 BT
 UNCLAS STATE 135612

ANNEX A.1
 LOC: 086 172
 27 APR 90 2500
 CN: 23284
 CERG: AID
 DIST: AID

AIDAC NAIROBI FOR REC, MBABANE FOR RLA

E.O. 12356: N/A

TAGS:

SUBJECT: ECPR GUIDANCE - BOTSWANA PRIVATE ENTERPRISE DEVELOPMENT PID

1. THE ECPR MET ON 29 MARCH 1990 AND APPROVED THE PID FOR THE SUBJECT PROJECT AT AN APPROXIMATE LEVEL OF DOLS 15.9 MILLION SUBJECT TO RECEIPT OF FURTHER ANALYSES DESCRIBED BELOW. THE ECPR WAS CHAIRED BY TIMOTHY BORK, DIRECTOR OF AFR/PD AND ATTENDED BY REPRESENTATIVES OF AFR/PD, AFR/DP, AFR/SA, AFR/MDI, AFR/TR, PPC/PDFR, PPC/WID, PPE/PD, S AND T, AND OUTSIDE CONSULTANTS. THE MISSION WAS REPRESENTED BY PDO WILL ELLIOTT.
2. AFR/PD CONGRATULATES THE MISSION ON A WELL-WRITTEN PID. THE MISSION REPRESENTATIVE DID AN EXCELLENT JOB OF PRESENTING THE PROJECT BEFORE A LARGE GROUP OF EXPERIENCED PRIVATE SECTOR PROJECT OFFICERS. THERE WERE A NUMBER OF SERIOUS ISSUES RAISED, MOST OF WHICH CAN BE RESOLVED DURING PROJECT PREPARATION.
3. TWO MAJOR ISSUES REMAIN UNRESOLVED, HOWEVER, AND WILL REQUIRE ADDITIONAL ANALYSES BY THE MISSION PRIOR TO THE PREPARATION OF THE PP.
 - (A) ADDITIONAL ANALYSES:
 - (1) THE ECPR WAS NOT CONVINCED THAT SUFFICIENT ANALYSIS HAD BEEN COMPLETED TO DEMONSTRATE THAT THE ACTIVITIES PROPOSED WOULD ACHIEVE THE PROJECT OBJECTIVES. THE LEVEL OF ANALYSIS COMPLETED APPEARS TO HAVE BEEN ORIENTED TOWARD "PROBLEM IDENTIFICATION". THE ANALYTICAL GAPS BETWEEN PROBLEM, SOLUTION, AND RESULT WERE NUMEROUS. A DETAILED ANALYSIS OF THE CONSTRAINTS TO INCREASING SELECTED PRIVATE SECTOR INVESTMENT IN BOTSWANA SHOULD BE FORWARDED TO AID/W. THIS SHOULD CLARIFY THE RELATIVE ORDER OF IMPORTANCE AND MAGNITUDE OF THE CONSTRAINTS, AND THEIR RELATIONSHIP TO THE ECPS AND WHAT IS THE RANGE OF OPTIONS FOR ELIMINATING OR ALLEVIATING EACH CONSTRAINT. NEXT, THE MISSION SHOULD

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SUSTAINING ACTIVITIES TO STIMULATE INVESTMENT AND EMPLOYMENT GENERATION AFTER THE PACD.

3. LAUTENBERG (SECTION 547), SECTION 521 AND PD 71 RESTRICTIONS.

THE FOLLOWING HAS BEEN PROVIDED BY GC/AFR IN RESPONSE TO THE REQUEST CONTAINED IN THE PID FOR GUIDANCE ON THE LAUTENBERG AMENDMENT.

IN RESPONSE TO QUESTIONS ASKED IN THE PID. MOST OF THE CASES WHERE LAUTENBERG PREVIOUSLY HAS BEEN CONSIDERED HAVE INVOLVED INDIRECT ASSISTANCE (FOR INSTANCE, CAPITALIZING AN ICI OR PROVIDING A GRANT TO AN INTERMEDIARY FOR TA, WHERE A.I.D. DID NOT RETAIN APPROVAL RIGHTS OVER SPECIFIC FEASIBILITY STUDIES OR SUBLOANS, OR OTHERWISE INTEND TO SUPPORT THE ULTIMATE BENEFICIARIES, RATHER THAN STRENGTHEN THE INTERMEDIARY). THUS, THERE IS NOT MUCH EXISTING PRECEDENT ON THE PARAMETERS OF THE OTHER ASPECTS NEEDED TO TRIGGER THE LAUTENBERG PROHIBITION. IT IS VERY IMPORTANT THAT THE RLA BE INVOLVED AT AN EARLY STAGE OF PF DESIGN, TO HELP STRUCTURE THE VARIOUS PROJECT INTERVENTIONS AND CONSIDER THEIR LAUTENBERG IMPACT. TO

THE EXTENT POSSIBLE, THE PP (PREFERABLY IN AN RLA OPINION ACCOMPANYING THE PP) SHOULD RESOLVE (AND RECORD WITH SUPPORTING FACTS) THE LAUTENBERG CONCLUSION FOR EACH COMPONENT (E.G., WHETHER IT PROVIDES DIRECT OR INDIRECT ASSISTANCE, OR IS ONE OF THE FOUR LAUTENBERG ACTIVITIES), SO THAT FURTHER ANALYSIS WILL NOT HAVE TO BE PERFORMED DURING PROJECT IMPLEMENTATION. FOR INSTANCE, TA TO THE BOICC ON HOW TO CONDUCT FEASIBILITY STUDIES, ON A GENERALIZED BASIS, PROBABLY WOULD NOT BE A LAUTENBERG ACTIVITY. AND, AS INDICATED IN THE 1/6/87 LEGAL OPINION ON LAUTENBERG, BOTSWANA HAS ENTERED INTO A CERTIFICATION AGREEMENT WITH THE U.S. FOR HAND-MADE COTTAGE INDUSTRY TEXTILES, EXEMPTING THEM FROM LAUTENBERG. TO THE EXTENT THAT THE ISSUE CAN NOT BE FULLY RESOLVED AT THE PP STAGE FOR A PARTICULAR ACTIVITY INVOLVING DIRECT ASSISTANCE, THE PP SHOULD INDICATE THAT EACH IMPLEMENTING AGREEMENT (PROJECT AGREEMENT, CONTRACT) WILL PROVIDE THAT PROJECT FUNDS WILL NOT BE USED TO FINANCE LAUTENBERG ACTIVITIES UNLESS A.I.D. SPECIFICALLY AGREES IN WRITING. THIS WILL PROVIDE AN OPPORTUNITY TO CONDUCT A MORE SUBACTIVITY-SPECIFIC LAUTENBERG ANALYSIS AT THE RELEVANT TIME, WHICH SHOULD BE CLEARED BY THE RLA. ANY CONSIDERATION OF USES OF HOST COUNTRY FUNDS NEEDS TO CONSIDER LEVERAGING RESTRICTIONS.

THE STANDARD FOR VIOLATION OF SECTION 521 IS VERY HIGH - THE COMMODITY MUST BE IN SURPLUS ON THE WORLD MARKET AND THE DIRECT ASSISTANCE MUST RESULT IN SUBSTANTIAL INJURY TO U.S. PRODUCERS OF THE SAME, SIMILAR OR COMPETING

PURSUe INTERVENTIONS REQUIRED TO OPEN UP MAINSTREAM FINANCIAL CHANNELS, SUCH AS THE COMMERCIAL BANKS TO GREATER CREDIT ACCESS BY WOMEN.

THE MISSION IS REMINDED THAT A.I.D. POLICY ON WOMEN IN DEVELOPMENT EXPRESSES A PREFERENCE FOR MAINSTREAM, RATHER THAN SEPARATE, VEHICLES FOR REACHING WOMEN IN ALL CASES. WE WOULD SUGGEST THAT PP DESIGN COPY, SUCH AS THE SMALL AND MICRO BUSINESS STRATEGY TO BE CARRIED OUT BY THE GEMINI TEAM, BE GUIDED BY THAT PRINCIPLE AND SEEK WAYS TO ASSURE EQUITABLE ACCESS BY WOMEN TO PROJECT RESOURCES AND OUTPUTS.

(C) THE PID DOES NOT DISCUSS THE SOUTH AFRICAN MARKET OR THE IMPACT OF A POST-APARTHEID SOUTH AFRICA UPON PRIVATE INVESTMENT IN BOTSWANA. NEVERTHELESS, THE

IMPACT COULD BE SIGNIFICANT, AND RELATIONS BETWEEN BOTSWANA AND SOUTH AFRICA ARE LIKELY TO HAVE AN ENORMOUS EFFECT ON THE COURSE OF PRIVATE BUSINESS DEVELOPMENT IN BOTSWANA. IN THE AREA OF EXPORTS, SOUTH AFRICA IS BOTSWANA'S MAJOR MARKET. THE PROJECT COULD ATTEMPT TO DEVELOP ALTERNATIVE MARKETS, BUT THE MAJOR EMPLOYMENT GENERATED IN EXPORT JOBS WILL PROBABLY COME FROM PRODUCTS SOLD TO SOUTH AFRICA OR FROM SOUTH AFRICAN COMPANIES MOVING INTO BOTSWANA TO EXPORT OUTSIDE SOUTH AFRICA. IN ANY CASE, COMPLETE PROJECT ANALYSIS WOULD REQUIRE AN EXAMINATION OF SOUTH AFRICA'S INFLUENCE, NEGATIVE OR POSITIVE, UPON THE PROSPECTS FOR INCREASING INVESTMENT IN BOTSWANA. FOR EXAMPLE, WHAT EFFECT DOES SOUTH AFRICA HAVE UPON TRANSPORTATION, FUEL SUPPLY, RAW MATERIALS, ETC. WHAT LEVEL OF INVESTMENT NOW COMES FROM SOUTH AFRICA AND WILL THIS FALL OR INCREASE IF SANCTIONS ARE REMOVED/ WHAT PORTION OF BOTSWANA'S FUTURE INDUSTRIAL GROWTH WILL BE DIRECTED TOWARD THE SOUTH AFRICAN MARKET? BECAUSE OF TRANSPORTATION LIMITATIONS, (LOW VALUE, HEAVY PRODUCT) WHAT INDUSTRIES WOULD BE DEPENDENT UPON THE SOUTH AFRICAN MARKET/

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THE ECPR AGREED THAT THE PP SHOULD INCLUDE AN ANALYSIS OF THE IMPACT OF SOUTH AFRICA UPON THE PROPOSED PROJECT PURPOSE.

(D) THE BEO AND GC/AFR SUGGEST THAT THE MISSION REVISE THE IEE TO REQUEST A CATEGORICAL EXCLUSION FOR COMPONENTS 2 AND 3, SINCE THE SPECIFIC ACTIONS THAT A.I.D. WOULD FINANCE, ONLY T.A. AND TRAINING (AFTER DELETION OF THE CREDIT COMPONENTS), WOULD NOT THEMSELVES HAVE A DIRECT IMPACT ON THE ENVIRONMENT, WHICH IS THE SCOPE OF REGULATION 16. DISCUSSION IN THE IEE OF THE ENVIRONMENTAL EFFECTS OF ACTIONS FOLLOWING AFTER A.I.D.'S INTERVENTIONS (SUCH AS THE FOLLOW-ON INVESTMENTS), MAKING IT CLEAR THAT THIS DISCUSSION IS OUTSIDE THE SCOPE OF REGULATION 16, IS COMMENDABLE. THIS COMPORTS WITH BROADER AGENCY CONCERNS REGARDING THE ENVIRONMENT, ESPECIALLY IN RELATION TO THE GROWTH AND DEVELOPMENT OF AFRICAN INDUSTRIES.

THE BEO SUGGESTS THAT FOR OBVIOUSLY ENVIRONMENTALLY SENSITIVE INDUSTRIAL SECTORS (E.G. TANNING), ENVIRONMENTAL T.A. BE PROVIDED TO HELP ESTABLISH LOCAL TECHNICAL AND MONITORING EXPERTISE IN SUCH SECTORS. THIS WOULD INCLUDE DEVELOPMENT OF INDUSTRY-SPECIFIC

GUIDELINES. IT IS LIKELY THAT RATHER THAN THREE DAYS TWO WEEKS OF TIME FROM THE REGIONAL ENVIRONMENTAL OFFICER WILL BE REQUIRED FOR PP PREPARATION.

6. ACTION REQUIRED:

PRIOR TO THE PREPARATION OF THE PP, THE MISSION SHOULD SEND TO AID/W ADDITIONAL INFORMATION REGARDING THE TWO MAJOR ISSUES DISCUSSED ABOVE IN PARAGRAPH 3. AFTER REVIEW AND APPROVAL BY THE BUREAU OF THE ADDITIONAL INFORMATION, A DECISION WILL BE MADE ON PROJECT AUTHORIZATION VENUE. BAKER

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ACTION: A I D-2 INFO AMB DCM ICON RF (6)

A I D ANNEX A.2

VZCZCOPFC173
PP RUFHOR
DE RUEHC #3014 1982049
ZNP UUUUU ZZH
P 172048Z JUL 90
FM SECSTATE WASHDC
TO AMEMBASSY GABORONE PRIORITY 2744
BT
UNCLAS STATE 233014

LOC: 140 470
18 JUL 90 0443
CN: 01924
CERG: AID
DIST: AIDE

AIDAC

F.O. 12356: N/A

TAGS:

SUBJECT: BOTSWANA PRIVATE SECTOR DEVELOPMENT -
DELEGATION OF AUTHORITY

REF: (A) STATE 135612

1. THE PROJECT COMMITTEE FOUND THAT THE ADDITIONAL ANALYSIS SUBMITTED BY THE MISSION, SUPPLEMENTED BY THE ANALYSIS CONTAINED IN THE MISSION DIRECTOR'S MEMORANDUM TO AFR/PD BOPF DATED JUNE 25, ANSWERED THE REQUIREMENTS GIVEN IN PARAGRAPH 3 A AND B OF THE GUIDANCE CABLE, REFTEL A.

2. SUBJECT TO THE INSTRUCTIONS CONTAINED IN REFTEL A, THE MISSION DIRECTOR IS AUTHORIZED TO APPROVE THE PROJECT PAPER AND AUTHORIZE THE PROJECT IN THE FIELD.

3. PFP THE MISSION'S EARLIER REQUEST. PDO NEIL BILLIG HAS BEEN ASSIGNED BY AFR TO ASSIST THE MISSION IN THE PREPARATION OF THE PROJECT PAPER. MR. BILLIG IS FAMILIAR WITH THE BUREAU'S LATEST THINKING REGARDING PRIVATE SECTOR DEVELOPMENT AND STANDS READY TO ASSIST THE MISSION AS NEEDED. EAGLEBURGER

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REPUBLIC OF BOTSWANA

Annex B

FDP 4/16/3 XI (38)

10th January, 1990

ACTIC

CONTROL No. C-13

DATE 1/18

REF'D TO J.H.

Mr John Hummon,
Director,
USAID Mission to Botswana,
P O. Box 2427,
GABORONE.

Dear Mr Hummon,

DUE DATE 1/25/90

NEW USAID INITIATIVES TO BOTSWANA

COPIES TAKEN

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Reference is made to your letter dated the 12th December 1989. You brought to my attention several initiatives which are developing in the USAID Programme for Botswana.

Government concurs with the idea of a new project as a successor to the BWAST projects which will support both the public and private sectors for purposes of strengthening the private economy. We think at the preliminary consultations and preparations of the project, the Ministry of Commerce and Industry should take the lead on the Government side. This Ministry is ready to nominate a representative to the proposed reference group. However since this will be a development project, this Ministry will play the usual role of coordinating the finalisation and implementation of the project once the details have been worked out and agreed by all parties.

We are very grateful of the information you provided on the project initiatives that you have started in consultations with the Ministry of Education and the SADCC Secretariat. This Ministry is in support of these initiatives and we look forward to meeting with the projects' development teams which are scheduled to arrive in Botswana during February and March this year.

Government appreciates USAID's continued interest in assisting Botswana's development efforts.

Yours sincerely,

B. Gaolathe
PERMANENT SECRETARY

Copied to: Permanent Secretary, Ministry of
Commerce and Industry
Attention: Mr. Mothibatsela

gn

MEMORANDUM

TO: Richard Shortledge, Acting-Director, USAID/Botswana
FROM: Richard Harber, AFR/SA *Richard Harber*
SUBJECT: FY 1991 Country Checklist for Botswana

As requested, AFR/SA has completed the FY 1991 Country Checklist for Botswana. The Checklist is attached for your use.

Clearances:

AFR/SA, Keith Brown (draft)

GC/AFR, Mary Alice Kleinjan "JK"

Drafted: AFR/SA, RHarber, 12/17/90, 1554V

Received by USAID/Botswana - 01/04/90

BOTSWANA - FY 91

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1991 Appropriations Act Sec. 559(b). Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

2. FAA Sec. 481(h); FY 1991 Appropriations Act Sec. 559(b). (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs

No.

Botswana has not been defined as a "major illicit drug producing country" or a "major drug transit country."

94

are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

3. 1986 Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to

N/A See (2) above.

95

Congress listing such country as one:
(a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where:
- (a) such citizen has exhausted available legal remedies,
 - (b) the debt is not denied or contested by such government, or
 - (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?
5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

(a) No.
(b) No.
(c) No.

No.

6. FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545. Is recipient country a Communist country? (a) No.
If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan? (b) N/A
No.
7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? No.
8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? No.
9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? No.

10. FAA Sec. 620(q); FY 1991 Appropriations Act Sec. 518 (Brooke Amendment). (a) (a) No.
Has the government of the recipient (b) No.
country been in default for more than six months on interest or principal of any loan to the country under the FAA?
(b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds?
11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) N/A
12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.
13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrears taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.) As of October 31, 1990 Botswana's UN obligations are fully paid.

14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism? No.
15. FY 1991 Appropriations Act Sec.556 Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons? No.
16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? No.
17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No.
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) No.

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? N/A
20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.) While Botswana was represented at the meeting, it entered into subsequent written reservations
21. FY 1991 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? No. -
N/A
22. FY 1991 Appropriations Act Sec. 539. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? Yes.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? No.
N/A

b. FY 1991 Appropriations Act Sec. 535. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No.

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? N/A

b. FY 1991 Appropriations Act Sec. 559(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? N/A

PROJECT ANALYSES

E.1 CONSTRAINTS ANALYSIS

The following constraints analysis reflects a synthesis of a number of completed studies of the Botswana private sector, including the National Conference on Strategies for Private Sector Development, the World Bank's "Botswana: Financial Policies for Diversified Growth", "The Management Assistance to the Private Sector" by Cameron Smith and the January 1990 "Manual for Action in the Private Sector" financed by AFR/MDI and PRE. The constraints which BPED is directed toward eliminating were judged to be most suitable for A.I.D. involvement. A number of other constraints affecting non-traditional private sector growth are being addressed by other donors, by other A.I.D. projects (i.e. family planning and education), or by the GOB (i.e. roads and electricity), or are facts of life beyond assistance, (i.e. aridity, shortage of fertile land, small internal market, long distances from markets). Viewed in this context, the following constraints are those judged by local and outside experts as the most critical constraints to increasing private sector development in non-traditional sectors and accelerating the integration of Botswana entrepreneurs into the local economy.

1. Lack of access to credit has been listed by most local entrepreneurs as their major constraint to growth. The problem is not the absence of credit due to a lack of funds. The availability of funds is not itself a constraint. The lack of business skills, management skills, and access to affordable business services and lack of sound business plan is just as instrumental in credit denials.

However, BPED will not undertake a credit program per se. BPED will, however, look at various models and undertake action oriented studies to determine how financing for more and smaller local businesses can be increased. BPED will provide financing to examine the credit issue and to explore the feasibility of establishing a new commercial bank and a venture capital fund. The GOB has recognized the seriousness of the issue and has requested World Bank assistance. A major IBRD financial policies project is now underway.

2. Insufficient Investment in Non-Mineral Sectors is the constraint at the heart of the BPED project. It is in this area that USAID has had the greatest involvement up to this point and where we will continue to expand and focus our efforts in the BPED project. It fits most clearly with BPED selection criteria. A key is to help to maintain and improve an enabling environment for the private sector. The basic structure of that environment is a solid one. It is moving in

128

the right direction and by comparison with many other countries has many commendable features. There is also a fragility in the openness in the economy and its corollary political milieu. This project is trying to help strengthen that environment and to build upon it, including building upon the work that USAID has already done in support of the private sector.

In its 1988 Staff Report, the IMF made the following remarks: "The authorities envisioned that, with diamond revenues slowing, the private sector must and should assume the leading role in generating growth and employment over the longer run. Given the small size of Botswana's economy, that growth would have to be primarily export led. The authorities recognized, however, that the transition away from an economy dependent on diamonds would be neither rapid nor easy. Despite Botswana's strong financial position, there are important constraints to development." The report cited the severe shortage of skilled and semi-skilled labor as limiting both the pace of private sector development and the Government's own implementation capacity. The report further noted important bottlenecks in the provision of physical infrastructure, particularly serviced land for commercial, industrial, and residential development.

In a sense, there are several sub-constraints under the overall constraint of insufficient investment in non-traditional sectors which we might term as barriers to resolving the constraint. This analysis focus on three of these basic barriers. One is restrictive policies and regulations and weak implementation. The second is underdeveloped citizen-owned enterprises and participation in the private sector and the third is low capacity to attract and absorb foreign investment and to export. More focus will be given to the first two than the last, but all three are key elements.

Discussions of these and the other barriers follow:

3. Risk of Regional Instability

This may be considered the most important barrier to the growth of investment, and particularly, the foreign investment component. In fact, it is important to the entire question of Botswana's economic development, and the maintenance and strengthening of its political structure as well. What happens in South Africa is critical not only to investment and enterprise in Botswana, but also to other countries in southern Africa. The prospects are certainly better today than they were a year ago for non-disruptive changes in economic interrelationships. For the purposes of this exercise, we have assumed that changes in South Africa would be evolutionary and, therefore, not disruptive to regional economic stability.

4. Underdeveloped Citizen-Owned Enterprises and Participation in the Private Sector

Attacking this barrier is fundamental to the project. It breaks down into three components as follows:

A. Inadequate Citizen Business Skills and Poor Knowledge of Opportunities

An increase in the number and quality of citizen-owned enterprises and percentage participation in the private sector is absolutely the key element in the project. The Botswana local private sector is to be strengthened, and for the private sector to flourish there must be a strengthening of the local citizen entrepreneur and business manager at both urban and rural levels. Increased attention must be given to fortifying business skills and facilitating understanding and action to take advantage of new opportunities.

Citizens do not have a long tradition in the commercial/ industrial sector. Examples of family businesses being handed over to the next generation are rare. Some recent gains, however, have been made. The registering of new businesses, largely by citizens, has shown steady growth from 528 in 1981 to an estimated 1714 in 1989.

USAID has participated in this in a variety of ways -- through, for example, financial management seminars and business start-up seminars which have attracted large numbers of firms and individuals. Training has been held at the Botswana Institute of Development Management (IDM) and at other locations in such fields as management, financial administration, and skills training in such vocations as specialized as bone carving.

The creation of a Small Business Association in November 1989 indicates the emergence of the citizen business community as well as the effectiveness of the training and short-term technical assistance provided to the private sector. This association was initiated by 25 of the 150 participants who took intensive financial management training in late 1988 and early 1989. At the launching of the association and more recently through structured questionnaires, the founding members largely attributed their recent business success and newly-developed drive and initiative to this training course. The fifteen participants who completed a questionnaire indicated a cumulative increase in investment of one million Pula (\$500,000) and 76 new employees. The association membership has now swelled to over 4,000 as it has become the Small Business Division under the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM).

174

In this program we expect to intensify this effort through continued work with BOCCIM, the key business organization in the country, in conjunction with IDM and other local training and technical assistance entities. Our proposed efforts are discussed in Section IVC.

B. Lack of Adequate Support for Micro/Small Business Citizen Entrepreneurs

The economic base in Botswana is too small to absorb the growing numbers of people seeking wage employment. Citizen entrepreneurship must increase over the long-term to absorb job seekers. However, there is very little support, especially in secondary cities and rural areas, for local entrepreneurs either to start or manage new enterprises. This project will help develop a local capability, principally through BOCCIM, to provide this support to citizen micro and small-business entrepreneurs. This eventually will become a totally private sector capability of providing support through a nationwide network of linked organizations and services.

The Project will work closely with the Peace Corps in this effort. One BPED person will be assigned to work through BOCCIM with a Peace Corps person assigned to Francistown to assist in coordinating training and support activities.

5. Restrictive Policies and Regulations, and Weak Implementation

This is an area which is improving from what it was a few years past. What the project intends to do is to assist the government and the private sector in policy reforms and strengthening of implementation. This is the entire question of regulation of the private sector -- to minimize regulation to the extent possible and to support changes which essentially free up the economy even more than it is at the present time.

Botswana has a remarkably open economy with free foreign exchange allocations, full repatriation of profits, an independent judiciary that has helped to preserve the integrity of the system, a minimum of corruption, a lack of subsidies and "statism", etc. Yet there have been policy elements which have served to slow the growth in the private sector. And even where policy change has occurred, implementation progress has not always been parallel. The modifications which have taken place are a direct result of the Francistown conference supported by USAID policy development work performed with BOCCIM and the UNDP, and based on recommendations made in the Mission's 1987 Strategy Assessment and Evaluation and follow-on Private Sector Strategy Study.

The IMF's Staff Report (1988, p. 19) summarizes this as follows:

105

"The staff noted that while Botswana's liberal trade and payments system should and was playing an important role in attracting foreign investment, the way in which other types of regulations were being implemented was apparently a major disincentive to investors. In the mission's discussions with both public and private sector managers, the difficulty in obtaining licenses and permits - including work permits for skilled labor - was frequently cited as one of the main obstacles to new foreign investment and to the expansion of productive activity more generally. This had an important cost to Botswana in terms of lost employment and output, and the authorities needed to simplify, speed up, and coordinate the various required procedures."

The following are two key areas which the GOB and the private sector have indicated a willingness to address:

Work and Residency permits

Much improvement has been made to the policy. For many years, foreign investors/managers and other foreign staff have received two-year work and residency permits, renewable every two years. Realizing that this did not generate long-term confidence and security for foreign investors, the GOB revised its policy following the Francistown conference to permit (1) an initial three-month temporary permit, (2) an initial five-year permit, (3) renewable for another five years, and (4) followed by "established residency" (and work permit) similar to the U.S. "green card." While this policy change is significant, implementation remains a problem. For example, final approval of a work permit application can take up to 15 months. The system can handle 120 applications a week while up to 100 a day are received in Gaborone alone. The need for automating the system, identified in a 1987 ILO report, still remains.

Licensing permits

Similar to work and residency permits, some positive changes have been made in the licensing procedures. Previously, the Ministry of Commerce and Industry (MCI) decided upon all licensing applications, with appeals referred to the President of Botswana. Now, MCI's Director of Industrial Affairs chairs the licensing decision-making committee and appeals are submitted to the Minister. Vacant positions have been filled and delays have been reduced. Implementation and procedural problems still remain. Delays (up to six to eight weeks) and inappropriate decisions sometimes result from inexperienced staff, an unautomated system, authorities making commercial judgements and competitors allowed to object.

A. Insufficient Capacity of Private Sector to Analyze Policies and Influence Change

BPED's objective is to facilitate overall policy changes and an overall system of open access and dialogue on economic matters within the private sector and with the public sector. The main avenue for change will continue to come through BOCCIM, which represents the businesses in Botswana responsible for approximately 80% of the business activity, and is the recognized voice of the business community. There is a considerable reservoir of knowledge in the private sector of what rules and regulations need to be improved. Our dialogue through such structured surveys as that conducted under MAPS and frequent contact with the business community have identified a number of these, including work and residence permits and business licenses.

While BOCCIM has many strengths, its capacity to respond and take initiatives in analyzing a broad range of policies affecting private sector growth needs to be strengthened. Currently, BOCCIM relies on its membership to discuss tax issues with the GOB and uses a local consultant on labor relations legislation. On other issues, its capacity to draw upon expertise, both international and local, and respond quickly is limited.

In positioning a policy analyst at BOCCIM, BPED will assist BOCCIM and various industries to make specific recommendations to Government on policies and implementation procedures that require further modification, or strengthening. The BOCCIM based activities will be structured both to obtain short-term results and to strengthen BOCCIM as an institution and increase its ability to carry out an ongoing and effective dialogue with the GOB.

In the informal sector the basic question is not so much one of restrictive policies and regulations as it is the question of promotion, the training of people and access to credit and support services. In encouraging promotion, USAID would caution the GOB not to place any additional controls on these emerging entrepreneurs.

B. Insufficient Ability of GOB to Develop, Implement and Administer Private Sector Promotion Policies

There are several Botswana policy analysts in the Ministry of Finance and Development Planning (MFDP). Five were recently trained in the United States under the BWAST projects (one has moved to the Ministry of Education). In addition, there is a cadre of expatriate advisors at MFDP. There are few policy analysts at the Ministry of Commerce and Industry, although it is responsible for formulating and implementing industrial policies. In both Ministries, the policy staff is young and lacks experience, particularly with regard to issues affecting the private sector.

The overall situation is complex in terms of the question of basic attitudes and values towards the private sector in the government. Quite often at policy levels there is support for various changes that need to be made in strengthening the private sector, but at other levels, there often is reluctance to make changes, a predilection for government intervention and involvement rather than leaving the economy open to free and fair competition.

Changes in attitudes are taking place, and government speeches and messages reflect continuing change. More can take place through a variety of programs that will be key elements in the project. This is institution building and capacity strengthening - through long-term training of officials who will play prominent roles and impact courses and seminars to reach personnel who implement the regulations and help determine basic policies.

C. Impeded Growth of Women-Owned Businesses

A related area that should be looked at is the impediments to the growth of woman-owned businesses. There are many women-owned businesses, but experts agree that they are a resource that must be more fully assisted to effectively strengthen the private sector.

A WID report done for the Mission in conjunction with BPED PID design and the WID "Sectoral Keynote Issues Paper" prepared by the GOB for NDP VII indicate areas of concern and action. The keynote paper expresses GOB concerns in the area of developments planning as:

- (a) Lack of adequate gender-disaggregated information has resulted in inadequate planning for women;
- (b) Misunderstandings about the changing roles of men and women resulting in inadequate planning of programs and projects has led to diminished returns to investment; and
- (c) Lack of clear-cut government policy on women has made it difficult for program design and delivery.

6. Low Capacity to Attract and Absorb Foreign Investment and to Export

Foreign investment and export growth in non-traditional areas is important if jobs are to be created for a rapidly expanding labor force. This is fully recognized by the GOB and private sector. They agree that increased capital and new technology investments must be made which are oriented to and capable of producing competitive non-traditional goods for the export market, due to the limited size of the domestic market.

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If the country's three traditional commodities are discounted, and the economy is examined in terms of non-mineral exports versus non-mineral elements of GDP, the increase in non-mineral exports over the last four years is 20 percent annually. Textiles (54%), processed meat products (300%), oils and fats (550%), soap, pharmaceuticals and cosmetic products (350%), machinery and appliances (200%) and transport machinery and equipment (300%) are examples of segments with rapid growth rates. While representing only 7% of total exports in 1987, non-mineral exports do, in fact, exist and have been growing in importance.

However, there is presently no system and little expertise to attract foreign investment which is most profitable to Botswana in the long term, i.e. in which the Botswana participate and technologies and skills are transferred. The Republic of South Africa has taken greatest advantage of growing demand-side opportunities which have increasingly appeared over the last decade or more.

Recent efforts by OPIC and A.I.D. have demonstrated that it is indeed possible to attract productive investments. Because of this participation, the investments to be attracted will involve joint ventures, Botswana skilled jobs, technology transfer, and potentially, increased agricultural activity.

Efforts such as those of AID/W and OPIC while necessary to "get the ball rolling" and excellent for their specific employment generation, technology transfer and export impacts, can be only catalytic in nature because of the limited manpower available in US offices to conduct this type of promotion. However, efforts to date have shown that US companies can do business in Botswana and provide models for use in attracting additional investments. It is now up to the Botswana to learn how to take advantage of their growing economy and improving business environment to attract additional productive foreign investment. BPED will concentrate on ties with the US, but activities and techniques transferred to counterparts will serve to increase Botswana interaction with the EEC, Asian markets, etc.

A. Poor Local Knowledge of Technologies and Opportunities

The constraints faced by the Botswana business person include knowledge of a narrow range of exportable, non-traditional export commodities, the non-competitive nature of many domestically produced products on the export market, and difficulty in obtaining information about markets and potential business partners. The project proposes to help overcome these obstacles, to the extent possible at this time. This will be accomplished through local training, consultancies and such programs as external business travel to the U.S. under the Entrepreneurs International program and possible participation in the Trade and Investment Service of the International Executive Service Corps.

B. Poor Foreign Knowledge of Botswana Investment Opportunities

The ability of Botswana to promote business opportunities and target foreign investors from Botswana and through its embassies overseas is very limited. The competition of neighboring countries for foreign investments is strong and the opening of Eastern Europe to foreign investors has many potential investors' attentions distracted. The possibility exists that sanctions will be lifted from South Africa and that investments which might have come to Botswana will go there instead. It is not clear, however, that the mere lifting of sanctions will immediately make South Africa an attractive investment opportunity. BPED will address these constraints primarily through targeted promotion in the U.S. and partial support for selected investments satisfying A.I.D. and GOB criteria.

C. Inadequate Counselling and Assistance for Potential Investment Partners

Three local organizations are providing assistance to potential investors and their local investment partners. These are the Botswana Development Corporation, BOCCIM and the GOB Trade and Investment Promotion Agency (TIPA). All three organizations have needs to improve their knowledge and abilities to provide the information necessary for potential investors to make decisions. In this minor component of the project, BPED will provide short-term technical assistance to these organizations, through combined consultancies by IESC volunteers, trade specialists, and local professionals.

7. Inadequate Basic Infrastructure

This is key to the growth of the Botswana private sector and to the achievement of the purpose of this project. USAID's involvement here will be encouraging action through policy dialogue and discussion, particularly in the service area where the Mission has already had considerable dialogue on the importance of additional sites and services, i.e. serviced land. Urban housing is a problem, for both expatriates and for local employees. The current backlog on housing is roughly 50,000 units. While the planned accelerated delivery of 40,000 serviced plots over the next three years will help, the limited capacity of the construction sector to supply housing will retard alleviation of this problem. USAID has consistently stressed as a policy issue the important role which must be played by the private sector to increase housing availability.

English medium schools need to be increased, not only in Gaborone, but in secondary cities such as Selebi Phikwe. This is also a policy dialogue area in which personnel in the Ministry of Finance and Development Planning and Ministry of Commerce and Industry would be involved with BPED advisors, BOCCIM and Mission staff.

The African Development Bank will be involved in transport. There is a need for expanding the road network.

Telephone and telecommunications improvements are moving ahead rapidly and the government plans to expand its efforts.

Botswana previously was almost exclusively dependent on South Africa for energy, but now is self sufficient. Power rates are relatively high and will be discussed under BPED. Expansion is planned in power within the period of the project. If the government adheres to this plan this should satisfy the power requirements of anticipated emerging industry for the foreseeable future.

In summary, the Mission will not be involved in the infrastructure development area outside of collateral policy discussions through BPED. This is an area to be funded by the GOB, the IBRD, the African Development Bank and other donors. The Mission believes that infrastructure development will keep pace with private sector development needs, but will be a continuing subject of policy dialogue.

8. Continued Access to External Markets

In terms of exports in the non-mineral sector, it is important to maintain ties with Zimbabwe and with the EEC, the last with preferred treatment through the Lome Convention. South Africa is not a major export recipient of Botswana. Only 4% of Botswana's exports go to South Africa, mostly beef. It is not anticipated that South Africa will become a major importer of Botswana commodities in the short and medium-term. Much more important are such questions as the constraint of the size of the local market and what this means in terms of the types of industry that can develop; what is the export potential to other SADCC countries, and what is the export potential to the United States and the EEC. South Africa is extremely important on the import side. It is critical to maintain access to imports, most of which come from or through South Africa.

These external market elements are, however, beyond the scope of this project except for discussions under the policy environment activities of BPED. Certainly the government's strong intention is to keep the lines of access open as fully as possible; BPED will not have to deal with a xenophobia which would inhibit free-trade patterns. There is a full sense that Botswana is supportive of relieving identified constraints in this area. The present situation will likely improve, unless the political situation deteriorates. In any event, this area is essentially outside the confines of the BPED project.

9. Protective Regional Trade Policies, Regimes and Access

Protective trade policies of its neighbors limit Botswana's ability to increase trade and expand its businesses. This is true in relation to SADCC Member States as well as aspects of the Southern African Customs Union. Naturally, the GOB, with substantive inputs from the private sector, negotiates trade agreements to its greatest advantage.

This is not a major constraint at the present time, nor is it BPED's intention to focus specifically on this question.

10. Inadequate Numbers of Sufficiently Prepared and Able Workers

The general constraint of insufficient numbers of sufficiently prepared and able workers is a fundamental problem which needs to be overcome over the longer-term if the private sector is to evolve substantially. Part of this is related to basic education. Overall adult literacy is 77%, 80% of the school age population is in primary school, 41% in junior secondary, and 19% in secondary education. There are approximately 17,000 new workers entering the work force each year basically at the completion of junior certificate level which is nine years of education. They have little work-related skills and the primary school curriculum has done little to address this issue and attitudes related to the development of the private sector. We are not attacking this question in the BPED project. It will be an essential element of the Mission's FY 91 education project.

Part of this constraint, and more important over the next decade to development of industry, is the lack of sufficient vocational education opportunities. Other donors are involved in this, particularly the Germans, the World Bank and the British as well as the GOB. Four Vocational Training Centers (VTCs) have been built with IBRD assistance and staffed by German experts. The British have assisted the Botswana Polytechnic for several years and will provide technical assistance for the new Institute of Accountants.

At the same time, the Government has made it clear that it expects the private sector to provide skilled on-the-job training. The Mission concurs with this basic thesis and will encourage this through policy discussions with BOCCIM and in other forums. However, USAID will not be specifically involved in vocational education in this project.

Health is also an important consideration in terms of job performance. Again, USAID is involved in this area in a limited fashion through the District Management Improvement Health Project and through the Botswana Population Sector Assistance Program's family planning efforts which have a close correlation with health. The Mission, however, will not be engaged in this sector in the BPED project. The Swedish and

112

British are major contributors in health, and they have given every indication of continuing in this sector. Certainly Botswana's health system, while still developing, is improving rapidly and is better than in many developing countries.

E.2 SOCIAL SOUNDNESS ANALYSIS

a. Socio-Economic Environment

The Republic of Botswana is a multi-party democracy, politically stable and fiscally conservative. Over 80% of the 1.3 million population are Tswana and speak the Setswana languages. The population is 85% Christian. Approximately 90% of eligible children attend primary school, 41% in junior secondary and 17% at higher education facilities. Progress has been made in the expansion of education opportunities; the quality improvement of curriculum and teaching skills is a slower process. Health conditions throughout the country are improving but are still very basic.

Land tenure in Botswana is of three types: (1) communal (71%); state lands such as parks and reserves (23%); and freehold land (6%). Today more and more of the people are moving to the cities and it is expected that by the end of this century, Botswana will be approaching a figure of 50% urban dwellers. Gaborone is percentage-wise the fastest growing city in the world with a population of around 120,000 at present. Other towns such as Francistown, Selibe-Phikwe and some smaller centers are also experiencing considerable growth.

Most of the population of Botswana may be classified as rural. However, agriculture in Botswana is not self-financing nor is it sufficiently productive to feed most families, even in years with favorable rainfall. Because of this, there is a strong interdependence between off-farm wage employment and farm production. Various household members simultaneously engage in agriculture and wage employment to subsist or to accumulate wealth. Yet job opportunities, especially for the uneducated and the untrained, are limited in Botswana. The socio-economic result of this is that the distribution of income and wealth is skewed severely. In fact, Botswana's social structure reflects an acute shortage of educated Botswana and skilled labor.

Botswana's population structure has an imbalance stressing women and the young. The population is growing at a rate of 3.3% per annum and is projected to double within 20 years. This dramatically affects the age structure of the population which is heavily weighted towards young age groups. A contributing factor to this population structure is the prevalence of teenage pregnancy. 50% of all women aged 19 are either mothers or pregnant, but 85% of all teenage pregnancies are unplanned.

In addition to contributing to the rapid population growth, teenage pregnancy is a serious health problem, and is the main cause of females dropping out of school. Although the ratio of female to male students is 60:40 on entry to the junior secondary (certificate) level of school, the drop out rate is three times higher for girls than boys at this level, and four times higher at the next, or senior secondary, level. Pregnancy significantly curtails female education, which is inversely related to household earning capacity. It also contributes to the high number of female-headed, and impoverished, households in Botswana.

The higher number of females can be explained partially by the predominantly male phenomenon of international migration. There are approximately 16,000 Botswana males working in the mines of South Africa. In addition to migration, there is a difference in life expectancy for men and women, 52.7 and 59.3 respectively. The higher percentage of women is most apparent in the working age group of 20 to 40 years, where women outnumber men in a ratio of 4:3. This ratio is reflected in the social system in that almost 50% of all urban and rural households are female-headed. Unfortunately, approximately 50% of these households fall below the GOB-established poverty line. Women's place in society is only slowly improving: while having large families, they undertake much of the farm work in the rural areas and provide much of the labor in urban areas. At the same time, women hold senior positions in Government and are playing a more active role in the formal private sector.

b. Beneficiaries

The purpose of the planned BPED project is to improve the environment for private enterprise development (ie. policies, licensing, finance, skills, etc.) in order to increase foreign and domestic investments, expand exports, increase employment and expand and increase the number of citizen-owned enterprises.

Given this purpose, a majority of the BPED project interventions (e.g. policy reform, technical assistance, skills training, commodities, and so forth) are designed to remove or minimize constraints to private enterprise development. These include limited access to capital, credit and markets, and inadequate technical and business skills. In a general sense, (particularly in the more developed urban, and secondary or market towns) both male and female Botswana will benefit from a reduction or removal of these constraints. More specifically, however, the inputs of the Botswana Private Enterprise Development project will be targeted directly to several segments of the society: individuals in the urban and peri-urban private sector, and a few public sector employees. It must be stressed that the project resources directed to the

114

public sector are designed to: (1) increase the ability of this sector to make policy decisions that will strengthen the private sector and to ensure the latter's growth, and (2) to enhance foreign and domestic private sector investment and increase employment.

As indicated in other sectors of this PP, some of the direct beneficiaries of the technical assistance, training, commodities, and/or capital inputs of this project include the members or staff of such organizations as the MCI, BOCCIM, and the BDC. At the same time, the owners, managers, and employees of existing and new private sector firms will have access to the project training and TA resources and, thus, will also be direct beneficiaries. However, since the intent of assisting these people/organizations is to increase employment, exports, local and foreign investments, and the number of citizen-owned enterprises, a second set of direct beneficiaries will be the employees of these new and expanded enterprises.

Support to citizen-owned enterprises is especially important given the socio-political situation of southern Africa, and given that Botswana is in the first generation of a transition from a predominantly rural-based, non-monitized economy to a more urban-based economy that will be significantly reliant on commerce, industry and manufacturing. This relatively rapid transition has been and is possible, in large part, because of a significant infusion of non-citizens with the necessary entrepreneurial skills.

In the short term, such an infusion will remain important in order to expand and diversify the economy. However, over the long term, it is extremely important that Botswana do not find themselves in a situation where the economy is dominated by a non-Botswana elite who achieve their status through the efforts of a large, low-paid, unskilled or semi-skilled, Botswana workforce.

To forestall this potential, it is extremely important that citizens gain access to the resources necessary to establish and/or expand their own businesses, and the training necessary to advance to management and supervisory positions in non-citizen owned enterprises. Although the impact on citizens will have to be monitored carefully, the BPED project will contribute to providing these resources and training and therefore it will assist the citizens of Botswana to gain greater control over their economy.

In addition to the direct beneficiaries of the project, secondary beneficiaries will include the members of the extended families of these individuals. This diffusion of benefits is quite pronounced in Botswana because of the nature of the social organization. Specifically, the extended family provides a remarkably flexible unit of income generation, capital investment and production. Members of a given family

are geographically and economically dispersed within or over the macro-economy, thereby taking advantage of a variety of income opportunities and spreading their risks against failure. The family is central to economic undertakings and filters and redistributes the proceeds from each activity. Therefore, to the degree that Botswana continue their traditional systems of reciprocal sharing, a large number of secondary beneficiaries will gain from the success of the project. As will be discussed later, an exception to this reciprocal sharing system are many women-headed households.

Another set of secondary beneficiaries will include the individuals associated with businesses emerging and/or expanding as a result of the project's success at attracting investment for manufacturing and industrial development. Although these would be difficult to quantify, they include individuals involved in prime and sub-contracted construction services, food service providers, and retail shops.

c. Social Impact

Given the Botswana Private Enterprise Development project's goal and purpose, there should be a positive social and cultural impact from the project by increasing private sector investment and productivity. The project should contribute to a wider distribution of income among the households of Botswana.

Moreover, in addition to contributing to economic growth, the BPED project has the potential to alleviate some of the economic circumstances that have contributed to a serious weakening of the traditional systems of social support and familial cohesion, especially for residents of rural areas where approximately 75 percent of Botswana's population live.

As alluded to earlier, this rural population is confronted by an agricultural sector identified by frequent cyclical drought, intermittent or non-existent crop production, limitations to pastoralism, and limited non-agricultural opportunities. The economic constraints of rural areas have resulted in the pattern of out-migration of adult males for wage labor purposes and a concomitant skewing of the population distribution where women, young adults, and children predominate, as mentioned earlier. Moreover, it has been estimated that the per capita income of 50 percent of this population is slightly below \$100 per annum and that a large part of their economic survival (30-40%) is dependent on government subsidies (e.g. food aid and school lunches) and remittances from migrant workers (usually from the RSA mines, which are experiencing a decline in demand). This is in addition to their reliance on subsistence agriculture, small stock raising, and hunting and gathering, when engaging in these activities is practical. These conditions of rural life have contributed to the following socio-economic facts:

- (1) urban households that have more than twice the income of rural households, on average;
- (2) male-headed households that have income two-thirds larger than those headed by women;
- (3) 35 percent of male-headed and 48 percent of female-headed households that fall below the poverty line; and,
- (4) that 48 percent of all households are headed by women.

To the degree that the creation and/or expansion of labor intensive enterprises, especially at secondary population centers, will offer employment opportunities to various members of the families in surrounding villages, the social fabric of these communities should be strengthened.

The reasons for this vary but, basically, if such economic opportunities are competitive with the RSA mining and/or Gaborone employment possibilities, more adult males will remain with and/or commute to the homes of their families, thus decreasing the prevalence of de facto women headed households and their attendant problems. This is important since the existing pattern of out-migration of males for employment purposes causes, among other things, the break-up of families due to the long periods of separation, the decline of agricultural productivity due to the absence of males to assist in production activities (and due to the continued requirement of women to consult with absentee males), the lack of role models for children, the lack of adult males to represent family matters in various village affairs, and the increased work load on the women, young adults and children who remain at the home site.

The creation of more employment opportunities might also contribute to a reversal in the relatively recent male Batswana pattern of postponing or foresaking marriage and its attendant obligations and responsibilities due to an inability to afford the costs of the contract (i.e. housebuilding, brideprice, etc.). This pattern has contributed to the increase in the number of de jure women heads-of-household and to the poverty of such households.

In the specific case of women-headed households, it should be stressed that the employment opportunities generated by labor-intensive enterprise development should give rise to an expanding formal and informal service industry. Thus an improvement in the socio-economic status of some of these households should be expected if these individuals become involved in secondary employment generated to support larger enterprise growth.

Females and the BPED Project

The project should, in fact, have a very favorable impact on females. At the direct beneficiary level and careful project monitoring will ensure that the female staff of the recipient businesses and agencies receive an equitable share of the technical assistance and training offered. Also, importantly, female-owned and/or operated businesses will receive special attention in terms of TA and training by the BOCCIM staff.

The project will also track the ratio of male to female employees hired by the new or expanded enterprises. The recent experience of Botswana indicates that females are both competitive and effective at finding employment in urban-based enterprises. Females are extremely evident in a wide range of unskilled and semi-skilled positions. For example, at construction sites they make and haul bricks and blocks, mix and haul cement, and generally engage in activities supporting the skilled laborers. They predominate on street cleaning crews and in the less skilled positions of the service and retail industries. They are also often the core workforce in the larger manufacturing enterprises, such as those specializing in textiles, food processing, and repackaging.

It should be clear that women are active contributors to the social and economic condition and status of Botswana. These contributions, however, are not reflected in their legal status in society. In fact, in both Traditional Law and Common Law (British/Dutch derived), women are accorded few property or decision-making rights: indeed, they are roughly equivalent to a minor in the household in terms of legal rights.

This situation is derived from traditions long held by the Bantu-speaking Sotho-Tswana peoples. The male orientation of their societies is reflected in their traditional descent and inheritance systems (i.e. through the patrilineal or male line) and through their marriage system (polygamy) and male-oriented residence patterns (i.e. married couples live at or near the residence of the husband's father or other male relatives).

In traditional society, also, the long-term relationships between males was solidified frequently by arranged marriages. Thus, for a price (usually cattle), women were exchanged to establish close and friendly relationships between groups of males and, most importantly, to expand the socio-economic and political safety net of the male-oriented extended families.

In short, the Tswana peoples have a long cultural and social tradition that has relegated females to the position of a commodity not unlike that of other scarce resources. This has been particularly true since, because of their reproductive capacity, women were viewed by men as a resource to be exchanged for political and economic gain, and not as an equal legal partner in social and economic affairs.

Of course, today, many of the traditional practices have been abandoned or are in decline. For example, arranged marriages and polygamy are rare and brideprice, when required, can now be paid in cash rather than cattle. However, other traditional practices remain strong, albeit with modifications. Thus, by both Traditional and Common Law, husbands control the disposition of commonly held property. Most married women cannot own or control property that could be used for loan collateral, such as an agricultural surplus or cattle and they cannot sign for a commercial or personal loans. Even cash earned by a wife in a micro or small enterprise activity does not belong to her except at the husband's discretion. With divorce, or the death of the husband, the wife may be entitled to one half of the commonly held estate, to none, or to a "child's portion", depending on the marriage type. In fact, legally, in many ways, a woman is in a better economic (but not social) position by remaining single.

d. Summary and Conclusion

In sum, then, female entrepreneurs in the more modern and monetized economies of the urban and peri-urban areas, and probably some larger secondary or market towns, face constraints to developing and/or expanding their enterprises that are shared with their male counterparts. This is particularly true in terms of the need for financing, skills training, and markets. Many of the BPED interventions will address these constraints, for both male and female entrepreneurs.

However, a majority of the women of Botswana face some different and enormous challenges in order to become active participants in the economic growth of the country, much less to be active recipients of the BPED project interventions. Among these are their lower educational attainment levels and the fact that skills training programs have to be offered without undue interference into the domestic responsibilities of women, i.e. their timing, duration and locations are critical. Advances in policy and law have to be made to establish a legal basis for females to gain greater control

In addition to these specific problems of female entrepreneurs, the foregoing discussions indicate that there are several other real and potential social concerns and problems in Botswana. These, and the specific problems of the female entrepreneurs, can and will be addressed by the BPED project.

An important concern, especially in the context of southern Africa, is the issue of citizen control of the economy. In this regard, many of the project activities will be directed to the creation or expansion of citizen-owned businesses.

To the degree that the activities of all of the implementing agencies will lead to an expansion of employment opportunities, the potentially explosive issue of high unemployment rates for (unskilled) youths, especially in the urban areas where they are migrating, will be diffused. This is especially true given that the population structure is heavily weighted to the young.

In the area of policy reform, BPED will support BOCCIM and MCI in their efforts to address the policy issues that particularly constrain the formation and/or expansion of female-owned enterprises. In this regard, project supported staff will liaison with numerous organizations that are attempting to identify and remove legal and policy constraints to female entrepreneurship. Among others, these will include BOCCIM's own Women in Business sub-committee and Small Business Division, the Women in Business Association, the Women's Affairs Unit of the Ministry of Labor and Home Affairs, the donor agency WID working group, and the Peace Corps.

Female citizen-owned businesses will be specifically targeted to receive the BPED resources. BOCCIM will provide production, marketing, and financial training and services for small to medium, female-owned enterprise creation and expansion, and BDC will continue to support the existing women-owned enterprises in its portfolio, and they will actively seek to expand their involvement with other such enterprises.

On the issue of research, the project staff will also track (and/or contribute to as appropriate) related on-going or planned research programs that are or should address gender issues. Among others, these would include the on-going regional study of Women and the Law (jointly funded by a number of donors), and the research being undertaken by such local organizations as the National Institute of Development Research and Documentation. Importantly, the project staff will also identify research projects, TA needs, and training programs that would enhance female entrepreneurship, especially in terms of increasing access to capital and credit for small to medium-scale female-owned enterprises.

In summary, the present assessment of the distribution of benefits and costs of the project indicate that the social consequences will likely be positive. This will be ensured, however, to the degree that the project impacts favorably and maximally on citizen-owned enterprises and on female entrepreneurs and workers. While ultimate success necessarily depends on the quality of the project implementation, analysis of the project in terms of the social factors involved indicates that the project is soundly designed to meet its stated objectives.

120

E.3. Economic Analysis

1. Economic Effects

A more detailed economic analysis and supportive tables is contained in Annex E.3.

As was the case with BWAST II, the long-run objective of the BPED project is to increase the number of trained Batswana in positions which foster economic development. The project will also provide selected TA personnel who will provide necessary expertise until Batswana have acquired the requisite skills and will fund feasibility studies to generate job creation.

The Project is seen to have a number of major economic effects, of which only four are measured here. First, the project will increase the supply of better educated, more skilled persons. The economic gain from the improved labor supply is increased productivity, which is assumed to be measured by increased earning potential.

Second, the returned Batswana will replace costly foreign expatriates, thereby resulting in a savings to Botswana. The non-salary costs of maintaining an expatriate in Botswana are considered. Third, the training of Batswana and the provision of TA Advisor will assist the country in meeting its economic growth and employment generation targets.

Fourth, BPED will fund Botswana Development Corporation (BDC) feasibility studies to create new businesses and increase the number of jobs.

1. Economic Analysis

Economic Viability

Two measures of the economic viability of the investment are examined. The first is the benefit-cost ratio. The second is the Internal Rate of Return (IRR) i.e. the rate at which the discounted costs and benefits are equal. Since the excess of benefits over the costs is small, the sensitivity of the conclusions is tested.

2. Calculations of the Benefit Streams

(a) External Long Term Degree Training

The earnings profiles for public sector and private sector employees are given in Tables 1. Private sector earnings are based on data for individuals without higher education provided by the Central Statistics Office, Ministry of Finance and Development Planning. Table 2 and 3 estimate the wage differential attributable to university or advanced

degrees in the public and private sectors. These estimates are merely the difference between the earnings profiles without a degree and the earnings profiles with a degree.

Since the project expects to finance 20 individuals, for long-term training, an estimate of the additional wages received due to the long-term training for the group of 20 individuals, is calculated in Table 4 column 4. The working life of these individuals following training is assumed to be 20 years. Since one of the underlying assumptions in this kind of analysis is that earnings reflect productivity, the earnings stream for the group is used as a proxy for the improved productivity due to the long-term training of Botswana.

(b) Short Term Training

In the absence of hard data on the impact of short-term training on labor productivity or earnings in Botswana and, to be consistent with BWAST II, it was assumed that the training would result in a productivity increase equal to 10 percent per year of the current average wage of individuals in the proposed group targeted for training. The wage data was provided by the wage profiles and the Central Statistics Office, Ministry of Finance and Development Planning. Since the project expects to finance short-term training for 8,800 individuals in-country and 80 individuals for short-term international training over five years, estimates of the impact of training for each group were calculated and these estimates are shown in Table 4 column 5 and 6. The estimates of the impact of short-term training for each group were staggered to reflect their different years for completing the training.

(c) Long Term TA - Cost Savings

Since one must assume that wages paid non-citizen personnel reflect their value to the economy, no additional output will occur if a Botswana replaces a non-citizen in a position. These costs are estimated to be approximately US\$35,000 per year for U.S. personnel. For this analysis, we have assumed a savings of US\$30,000 per year per expatriate replaced or recruitment avoided because other, less costly, foreign nationals may be replaced by returning Botswana. The benefit stream resulting from the substitution on 20 Botswana in positions currently held by non-citizens is given in Table 4 column 7.

(d) Employment Generation

As part of the National Development Plan 6, 1985 - 1991, the Employment Policy Unit at MFDP has estimated 5 years intervals of manpower requirements necessary to achieve the development targets to 2001. Over the period 1991 - 1996, when BPED will provide the full-time equivalent of 7.5 persons (long and short-term TA) to the country, the shortfall of university

training manpower is expected to be 2 500 persons. An estimate of BPED contribution to filling the manpower gap can be obtained by dividing the shortfall (2,500) into the number of person-years of TA assistance. The resulting ratio of .003, when applied to the anticipated employment growth during the period (56,300 persons), represents the project's contribution to achieving the development plan's employment target in 1996. In other words, the provision of 7.5 highly skilled persons should assist the country to develop 170 jobs over the period or 35 jobs per year (Table 4 column 8).

Over the period 1991-2001, after the 20 trained Batswana have returned, the shortfall of university trained manpower is expected to be 2,500 persons. Using the same logic as above, the training of 20 Batswana will supply .08% of university-trained manpower needed over the period. When this percentage is applied to the total amount of anticipated employment growth in the period (112,600), an estimate of the value of employment creation resulting from long-term training component can be obtained. Over the period 1991-1996 BPED II will supply the leadership and managerial talent to develop 450 jobs (56,300 x .008) or 90 each year. The Central Statistics Office estimates that the average yearly cash wage for citizens of Botswana across all economic sectors is P2,489 or US\$1,375. The application of this average wage to the expected contribution to employment generation for each year, from the 20 long-term professionals trained with project inputs. These estimates are shown in Table 4, Column 9.

(e) Feasibility Studies

The records of the BDC indicate that they have had a 25% success rate of actual new businesses resulting from their feasibility studies and that each new business has created an average of 95 primary or direct jobs. Table 4 Column 10 reflect the economic impact of funding 60 feasibility studies over the 5 year BPED project life; resulting in three new businesses per year, using the value of \$1,375 per job created.

In addition to the job created by the BDC portion of the BPED, BOCCIM also assumes that their "non-training" activities will create additional jobs. Although numerous jobs will probably be created by BOCCIM in this manner and at a very reasonable cost, their estimates of 60,000 jobs created at a cost of \$35/ job would be difficult to validate given the newness of BOCCIM's efforts in this area. Since the project is economically sound based on BOCCIM's contribution through training, the additional jobs created by BOCCIM were not included in the analysis. At the time of the mid-term evaluation, there should be an adequate data base at BOCCIM to indicate the value of the economic return from this effort.

(f) Summary

Returns to the project have been identified and calculated for three anticipated project effects, including:

- wage benefits due to long-term training of 20 Batswana;
- wage benefits due to short-term training of 8800 Batswana; in-country and 80 short-term international training participants;
- wage benefits to the lost employment if the project were not financed.

Each of these benefit streams are arranged in the appropriate project years and summarized in Table 4.

The key assumptions underlying this analysis are:

- wage benefits reflect labor productivity;
- the benefits of short-term training programs can be approximated by assuming a 10% increase in productivity per year for ten years;
- the support costs of retaining non-citizen assistance equals \$30,000 per year;
- the provision of technical assistance and long-term training of Batswana will assist the country to meet its economic and employment targets at a rate equal to the proportion of their numbers to the shortfall of trained manpower.

(g) Project Costs

The project costs are taken directly from the schedule outlined in the financial plan. The only adjustment made in the cost stream was to remove the estimates for contingencies and inflation.

As shown in columns 12 and 13 of Table 4, the benefits of the proposed project exceed the costs by about \$2.5 million when both are discounted at 10 percent. The benefit-cost ratio is 1.46 to 1 and the internal rate of return is 19.4 percent. The project would therefore appear to be justified.

To test the sensitivity of this conclusion, alternative assumptions about each of the benefit streams were posited and calculated following the methodology outlined previously. The results are shown in Tables 5, 6, 7, and the sensitivity analysis is found on Table 8.

124

(f) Conclusion

Based on the stated assumptions developed by the GOB in their National Development Plan 6 (NDP) for 1985-91, the past experience of USAID's Human Development activities, and the performance of BOCCIM and BDC, the activities to be undertaken by the BPED project are economically sound. The project as designed shows an IRR of 19.4% and a benefit cost ratio of 1.46 to 1 when costs and benefits are discounted at 10%. The sensitivity analysis indicates a major benefit resulting from the funding of the BDC feasibility studies. On the other hand the project is nearly economically justifiable as a "stand alone" training program, with a 8.48% IRR and a .94 to 1 B/C ratio. If the results of the BOCCIM short-term training activity are applied to a recipient group with a wage of \$3,000, twice the country average, then the BPED project shows a very sound IRR of 27% and a 1.84 to 1 cost benefit ratio. In conclusion, the BPED project as presently designed is economically feasibly and sound.

125

TABLE 1
PUBLIC SERVICE
UNDEVELOPED PAYRANGE SYSTEMS FOR EMPLOYEES IN PUBLIC SERVICE
WITH AND WITHOUT DEGREE
(Paia)

Year	Payrange Profiles for Secondary Minimum Grades		Payrange Profiles for University and Professional Grades	
	Secondary Minimum Grades University Degree (Col. 1)	Secondary Minimum Grades University Degree (Col. 2)	Advanced (SA) Degree (Col. 3)	Professional without Professional Degree Advanced (SA) Degree (Col. 4)
1	3,852	7,500	7,500	9,720
2	4,044	7,396	7,396	10,232
3	4,236	8,292	8,292	10,764
4	4,440	8,688	8,688	11,256
5	4,644 ²	9,084 ¹	9,084 ¹	11,748
6	4,644	9,084	9,084	12,240 ²
7	4,644	9,084	9,084	12,240
8	4,644	9,084	9,084	12,240
9	4,872	9,084	9,084	12,240
10	5,160	9,084	9,084	12,255
11	5,448	9,084	9,084	12,255
12	5,736 ²	9,084	9,084	14,555
13	5,736	9,084	9,084	15,155
14	5,736	9,084	9,084	15,755 ²
15	5,736	9,084	9,084	16,355
16	6,204	9,084	9,084	16,755
17	6,600	9,084	9,084	17,155
18	6,996	9,084	9,084	17,555
19	7,392	9,084	9,084	17,955
20	7,788	9,084	9,084	18,355

¹GS regulations require individuals to acquire an advanced degree (M.A. or higher) after promotion beyond this level.

²Promotion to new grade depends on performance, satisfactory recommendations etc. For all analysis it was assumed that the average wait between grade increments is 1 year.

Source: Directorate of Personnel

126

TABLE 2
 WAGE DIFFERENTIAL ATTRIBUTABLE TO ADDITIONAL DEGREE
 PUBLIC SECTOR
 (1P = \$.55)

	Technical		Professional	
	Pula (Col. 1)	US \$ (Col. 2)	Pula (Col. 3)	US \$ (Col. 4)
1	3,700	2,035	2,200	1,210
2	3,800	2,090	2,400	1,320
3	4,000	2,200	2,500	1,375
4	4,200	2,310	2,600	1,430
5	4,400	2,420	2,700	1,485
6	4,400	2,420	3,200	1,760
7	4,400	2,420	3,200	1,760
8	4,400	2,420	3,200	1,760
9	4,200	2,310	3,200	1,760
10	3,900	2,145	4,300	2,365
11	3,600	1,980	4,900	2,695
12	3,300	1,815	5,500	3,025
13	3,300	1,815	6,100	3,355
14	3,300	1,815	6,700	3,685
15	3,300	1,815	6,700	3,685
16	2,800	1,540	6,700	3,685
17	2,400	1,320	6,700	3,685
18	2,100	1,155	7,700	4,235
19	1,700	925	8,300	4,565
20	1,300	715	9,100	5,005

TABLE 3

ESTIMATED UNDISCOUNTED EARNINGS STREAM FOR BOTSWANA
IN PRIVATE SECTOR, WITH AND WITHOUT DEGREE-
(1P = \$.53)

Year	Administrative without University Degree (Col 1)	Administrative With University Degree (Col. 2)	Difference in Earnings Stream Pula (Col. 3)	Earnings Stream US \$ (Col. 4)
1	3,972	9,600	5,600	1,080 ¹
2	4,260	12,000	7,800	4,290
3	4,548	14,000	9,500	5,225
4	4,836	16,000	11,200	6,160
5	5,124	18,000	12,900	7,095
6	5,412	20,000	14,600	8,030
7	6,192	21,000	14,900	8,195
8	6,588	22,000	15,500	8,525
9	6,984	23,000	16,100	8,855
10	7,380	24,000	16,700	9,185
11	7,776	25,000	17,300	9,515
12	8,172	26,000	17,900	9,845
13	9,168	27,000	17,900	9,845
14	9,660	28,000	18,400	10,120
15	10,152	29,000	18,900	10,395
16	10,644	29,000	18,400	10,120
17	11,136	29,000	17,900	9,845
18	11,628	30,000	18,400	10,120
19	12,780	32,000	19,300	10,615
20	13,380	33,000	19,700	10,825

¹ According to the survey, the private sector in Botswana does not reward advanced degrees differently than university degrees

Source: Mission estimates based on informal survey of private sector employees and Employment Policy Unit, Ministry of Finance and Development Planning

TABLE 1

PROBABILITY OF SUCCESSFUL USE OF REGENERATIVE (CRED) TECHNOLOGY
 (AS DESCRIBED IN THE ASSUMPTIONS)

LEAD TIME FOR THE USE
 DEVELOPMENT (CRED) PROJECT

Year	COSTS			TRAINING			COST AVOIDANCE	BENEFIT			LEAD TIME FOR THE USE DEVELOPMENT (CRED) PROJECT					
	1	2	3	1	5	6		8	9	10	11	12	13	14		
	USED	CONFER	TOTAL	DEGREE	BOYCOTT	ATTENDING	TO	TO	SR	START	FEASIBLE STUDIES	SUF	TOTAL	BENEFITS	COSTS	NET
1	212	1100	4012	0					18		77	440		440	1049	2509
2	136	1100	4286	0	256	1			18		794	872		1101	4780	-7179
3	109	1100	4386	24	524	1	500		18	1.4	11.5	1710		2522	4785	-2063
4	83	1100	4702	26	797	10	0.0		18	1.1	15.6	1730		7198	4382	-1184
5	57	1100	1207	25	1081	5			18	1.1	19.0	2177		7872	1207	-771
6		0		8	1729					1.1	19.0	2084		4108	0	4108
7		0		70	1722	5				1.1	19.0	2084		4110	0	4110
8		0		75	17.9		00			1.1	19.0	2084		4115	0	4115
9		0			17.9		00			1.1	19.0	2084		4115	0	4115
10		0		75	17.9	2	00			1.1	19.0	2084		4115	0	4115
11		0			17.9	6	0			1.1	19.0	2084		4115	0	4115
12		0		72	1061						19.0	1750		21.1	0	21.1
13		0		51	27	10					19.0	1750		2317	0	2847
14		0		70	121	6					19.0	1750		2570	0	2570
15		0		5	5	1					19.0	1750		2275	0	2275
16		0		74	0	0					19.0	1750		2071	0	2071
17		0		71	0	0					19.0	1750		2071	0	2071
18		0		3	0	0					19.0	1750		2071	0	2071
19		0		1	0	0					19.0	1750		2071	0	2071
20		0		8	0	0					19.0	1960		2042	0	2042
Total	1000	1500	1500											76820	1500	75320

TOTALS														76820	1500	75320

DISCOUNT @ 10%														77307	15765	2527

INTERNAL RATE OF RETURN															19.10%	

BENEFIT / COST RATIO														1.35 TO 1		

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129

TOTAL

1961-1966 U.S. DAIRY FARM DEVELOPMENT (BREED) PROJECT
(COSTS - EXTERNAL PROJECT ONLY)

1966-1971 U.S. DAIRY FARM DEVELOPMENT (BREED) PROJECT

YEAR	COSTS			TRAINING			COST CARRIED FORWARD	RETURN TO EMPLOYMENT (PERCENTAGE)				BENEFIT/COST RATIO		
	PLANT	CURRENT	TOTAL	EXTERNAL INCOME	SHORT TERM RECURRING	LONG TERM		TO TO	TO TO	TO TO	TO TO	ANNUAL	NET	INTERNAL RATE OF RETURN
1	09	571	617	0	0	0		10		0	10	18	147	-2599
2	27	521	1058	0	256	17		10		0	40	117	2852	-2541
3	0	71	1144	21	51	26		10	1.1	0	1	115	1164	-1818
4	0	571	1920	26	797	40	200	10	1.1	0	17	169	2769	-1779
5	0	111	0	26	1021	5		10	1.1	0	1	191	970	1018
6	0	0	0	28	1729	27	0		121	0	1.1	118	0	2140
7	0	0	0	70	1779	6	0		1.1	0	1.1	1	0	2159
8	0	0	0	75	1729	27	0		121	0	121	125	0	2155
9	0	0	0	77	1729	6	0		1.1	0	1.4	17	0	2155
10	0	0	0	75	1729	27	0		1.1	0	174	17	0	2155
11	0	0	0	77	1729	27	0		121	0	1.1	2175	0	2155
12	0	0	0	47	1061	5	0			0	0	1121	0	1121
13	0	0	0	51	797	40	0			0	0	897	0	887
14	0	0	0	60	514	2	0			0	0	610	0	610
15	0	0	0	66	16	1	0			0	0	775	0	775
16	0	0	0	74	0	0	0			0	0	74	0	74
17	0	0	0	71	0	0	0			0	0	74	0	74
18	0	0	0	74	0	0	0			0	0	71	0	74
19	0	0	0	74	0	0	0			0	0	74	0	74
20	0	0	0	82	0	0	0			0	0	82	0	82
TOTAL	1177.1	2805	14559						TOTALS			1511	14559	6982
									DISCOUNTED @ 10%			10775	10997	-2074
									INTERNAL RATE OF RETURN				8.5%	
									BENEFIT/COST RATIO			0.91 TO 1		

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150

TABLE 6

OSWANG PRIVATE ENTERPRISE DEVELOPMENT (PEED) PROJECT
 (COSTS FROM BOCCINI TRAINING = \$700/YR)

PRIVATE ENTERPRISE
 DEVELOPMENT (PEED) PROJECT

YR	COST			TRAINING				BENEFITS				BENEFIT/COST RATIO			
	1	2	3	4	5	6	7	8	9	10	11	1	1'	11	
	1	2	TOTAL	EXTERNAL DEGREE	SHORT TERM BOCCINI	EXTERNAL	COST SAVINGS LG TERM	0 TERM TRAINED TO	FEASIBLE STAFF	FEASIBLE STUDIES	SUB-TOTAL	BENEFITS	COSTS	NET	
1	700	1100	1749	0	0	0	0	49	0	797	440	140	4149	-7609	
2	0	1100	4290	0	512	17	0	49	0	797	577	1757	4280	-2927	
3	0	1100	4598	24	1049	26	0	19	124	1172	1711	707	1586	-1579	
4	0	1100	4782	26	1595	40	0	49	124	1740	2094	799	4792	-291	
5	0	1100	1007	26	2122	57	0	19	124	1960	2122	1972	4207	720	
6	0	0	0	28	2658	67	0	0	124	1960	2094	5477	0	5477	
7	0	0	0	30	2658	67	0	0	124	1750	2094	5479	0	5479	
8	0	0	0	35	2658	67	0	0	124	1200	094	5411	0	5411	
9	0	0	0	35	2658	67	0	0	124	1200	2094	5444	0	5444	
10	0	0	0	35	2658	67	0	0	124	1550	2094	5141	0	5141	
11	0	0	0	35	2658	67	0	0	0	1550	094	5144	0	5144	
12	0	0	0	47	1122	57	0	0	0	1960	1960	1182	0	4182	
13	0	0	0	54	1585	40	0	0	0	1950	1950	7570	0	7570	
14	0	0	0	60	1049	26	0	0	0	1960	1960	7095	0	7095	
15	0	0	0	68	512	17	0	0	0	1950	1950	2551	0	2551	
16	0	0	0	74	0	0	0	0	0	1960	1960	2074	0	2074	
17	0	0	0	71	0	0	0	0	0	1960	1960	2074	0	2074	
18	0	0	0	74	0	0	0	0	0	1960	1960	2074	0	2074	
19	0	0	0	74	0	0	0	0	0	1960	1960	2074	0	2074	
20	0	0	0	80	0	0	0	0	0	1960	1960	2042	0	2042	
TOTAL	1000	5500	21500									TOTALS	70062	21500	48562
												DISCOUNTED @ 10	29977	16266	6979
												INTERNAL RATE OF RETURN		27.12	
												BENEFIT / COST RATIO	1.81 TO 1		

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131

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BOTSWANA PRIVATE ENTERPRISE DEVELOPMENT (PED) PROJECT
 ECONOMIC ANALYSIS ASSUMPTIONS AND SENSITIVITY ANALYSIS

1. BASIC CASE - PROJECT AS DESIGNED PER ASSUMPTIONS BELOW

 ASSUMPTIONS AS OF DECEMBER 1990
 ARE BASED ON:

1. DATA FROM GOB NATIONAL DEVELOPMENT PLAN 1985 - 1991
- SHORTFALL OF UNIVERSITY TRAINED MANPOWER 1991-2001 = 2,500 PERSON
- NO SHORTFALL OF UNIVERSITY TRAINED MANPOWER AFTER 2001
- ANTICIPATED EMPLOYMENT GROWTH 1991-2001 = 112,500
- AVERAGE YEARLY CASH WAGE ALL SECTORS P2,429 = \$1,175
- SALESY /OFFER LEVEL PRIVATE SECTOR PROFESSIONAL = \$8,200
- SALESY /MID LEVEL GOB PROFESSIONAL STAFF = \$5,000
- BENEFITS TO TRAINING = 10% INCREASE IN SALARY OF WAGE
- GOB SAID BDC AND BOCCIM FAST PERFORMANCE
- FOR BDC AND BDC FEAS TY STUDIES FUNDED . WILL PRODUCE A VIABLE BU
- BDC VIABLE BUSINESS = 95 NEW PRIMARY JOBS (BDC DATA
- BOCCIM - BDC WILL ADD 150% TO TRAINED STAFF
- BENEFIT FROM BOCCIM S TERM IN COUNTRY TRAINING = \$150 YR TRAINEE
- BOCCIM S TERM OUT OF COUNTRY TRAINING = \$220 YR TRAINEE

SENSITIVITY ANALYSIS

	IRR	B/C RATIO
I. AS DESIGNED PER ASSUMPTIONS	19.4 %	1.46 TO 1
II. REMOVE COSTS BENEFITS OF BDC S TA. & AND BDC FEAS TY STUDIES	4.77 %	.75 TO 1
III. STRAIGHT TRAINING PROJECT REMOVE COSTS/BENEFITS OF BDC FEAS TY STUDIES AND TA. AND REMOVE GOB AND BOCCIM POLICY ADVISORS	9.48 %	.94 TO 1
IV. BOCCIM S/TERM TRAINING BENEFITS INCREASED FROM \$150 TO \$100, YR TRAINEE	27.12 %	1.84 TO 1

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133

E.4 BOCCIM ADMINISTRATIVE ANALYSISBotswana Confederation of Commerce, Industry & Manpower (BOCCIM)

(This analysis draws upon previous analyses, including one performed by Donald E. Greenberg, REDSO/ESA in September 11, 1989 as well as the BPED PID and additional analysis done by the Mission. This analysis was updated with current information about BOCCIM's operations through extensive interviews with BOCCIM staff and advisors. At the conclusion of the analysis, recommendations are made regarding requirements for BOCCIM in order to fulfill its responsibilities under the BPED project.)

1. History, Legal Structure and Objectives of BOCCIM

The parent organization of BOCCIM was formed in 1971 as the Botswana Employers Federation (BEF). BEF's mandate was to protect and promote the interests of employers and to participate in the economic development of the country. Because numerous attempts to set up a sister national chamber of commerce and industry failed, the BEF decided to take on some of the functions of such an organization. The larger firms agreed to contribute an extra four thousand Pula a piece to underwrite the expansion. To reflect this evolution of interests and objectives, BEF changed its name to the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) in August 1988. The constitution was also modified to reflect the broader interests of the organization.

BOCCIM is a registered non-profit, private association which is open to all individual employers, firms, companies, associations, confederations, or other bodies and authorities, whether incorporated or unincorporated. Its membership consists of most of the large local and foreign-owned firms in Botswana as well as a good percentage of the medium-sized firms. During the past two years, it has begun to strive to broaden its membership base by actively seeking membership and participation by small-scale businesses. Its constitution states the following objectives:

- a) To promote, improve, and encourage the development of commerce and industry and manpower resources,
- b) To promote the general business interests of all members of BOCCIM, including small and large enterprises,
- c) To work for the maintenance of good labor relations between employers and employees and for fair conditions of employment for both employers and employees in Botswana,
- d) To promote the general business interests of all members of the Confederation,

134

- e) To represent the views and policies of the Confederation or members of the Confederation concerning legislative and other matters affecting the interests of the Confederation or its members, to all authorities concerned therewith.
- f) To advise and inform members on all matters which may affect the interests of the Confederation and its members,
- g) To do all such things and other acts as are or may be conducive or incidental to the attainment of the objectives stated herein before, and
- h) To form such committees or other bodies as may be deemed necessary to achieve these objectives.

2. Membership

For many years, BOCCIM's (then BEF's) membership hovered around 530 members and was composed of the largest local and foreign-owned firms in Botswana and many of the medium sized firms. Its current membership is over 1,000 members, of which about 400 are micro/small-scale businesses. (For definition purposes, micro-scale businesses are considered businesses with 10 or less employees, small-scale as having 10 - 25 employees, medium-scale as having between 26 and 100 employees and large-scale businesses as having over 100 employees.)

Over the life of the BPED project, BOCCIM staff expect the membership to double to 2,000 members, with most of the increase composed of micro, small and medium-scale businesses. BOCCIM staff anticipate an average turnover rate of about 10% per year. BOCCIM's membership consists largely of urban-based businesses. Of its total membership, 497 members are located in Gaborone and 121 members are located in Francistown. Other, smaller concentrations are found in Lobatse (38), Selibe Phikwe (29), Maun (33), and Kanye (23), and Mochudi (20).

The Management Assistance Advisor has been helping BOCCIM to computerize its membership list and relevant data base. Since previous member questionnaires did not request data on citizen-owned or women-owned businesses, this information was not available for all members. New members recruited this past year have provided this information and steps are underway to obtain this information from old members. Meanwhile, proxy data was available regarding "contacts" with both members and nonmembers by field officers. The universe for this data included all individuals seeking services from BOCCIM over the first nine months of 1990. Out of 297 contacts, 98 (33%) were BOCCIM members, 184 (62%) were nonmembers, and 15 (5%) were unclassified. Of those same 297 contacts, 167 (56%) of the businesses were citizen-owned, 96 (32%) were noncitizen-owned, and 34 (12%) were unclassified. Furthermore, of the 297 contacts, 189 (64%) were male-owned businesses, 64 (21%) were female-owned, and 44 (15%) were unclassified. These percentages reflect the increased growth of micro and small-scale,

citizen-owned membership in the past two years and the anticipated trend is for these percentages to increase during the life of the BPED.

3. Organizational Structure and Staffing

A. Annual General Meeting

The Annual General Meeting (AGM) is the supreme authority of the confederation. BOCCIM members have one vote on issues raised at the AGM. Officers are elected at the AGM from the membership (although vacancies may be filled by the Executive Council in the interim between AGM's). Major policy changes and budget issues are brought before the AGM.

B. Executive Council

The Executive Council (Council) oversees all the business and affairs of BOCCIM and meets monthly. It is composed of the three elected officers of the confederation, one representative of each BOCCIM member with over 1000 employees and various members named as sector representative by the elected officers. The Council is currently composed of 28 members and includes representatives from the major players in the economy such as the key parastatals, mining interests, commercial banks, larger accounting firms. It also includes representative of key local chambers of commerce, farmers associations, and the small business division (an association of small-scale businesses which is a member of BOCCIM).

The Council administers most of its responsibilities through both standing and special committees. The standing committees include the following:

Finance and management

Has direct oversight over the BOCCIM secretariat and business affairs and is responsible for budget development, salary reviews and recruiting of BOCCIM executive staff.

Economic and legislative

Prepares BOCCIM inputs into key policy areas, e.g., tax, land development, import regulations, minimum wage rates, etc. This committee utilizes members from the major accounting firms and banks to analyze and formulate BOCCIM policy statements on issues/legislation/ regulations affecting the private sector.

Training

Coordinates overall training program agenda carried out by BOCCIM. This involves recommendations on scholarship candidates, training program design and content, and promotion of BOCCIM training programs.

B-MAP Operations

Coordinates BOCCIM activities in its B-MAP program, suggests of potential volunteer candidates and recommends management assistance outreach activities.

Membership and fund-raising

Responsible for membership promotion, retention and fund-raising activities. This involves coordination with international program funding and organization of membership functions. This committee established the endowment of the Business Foundation, a special fund from the larger members. In addition, it has solicited special donations from larger members. Emphasis will be made under BPED with this committee to promote BOCCIM activities on a fee basis in order to reduce the need for special donations and dependence upon the larger members.

Small business division

This committee was established after a group of small business owners approached BOCCIM in October 1989 to assist them. BOCCIM staff assisted this group to form a steering committee to form a small business division within BOCCIM. When this proposal was presented to the Executive Council, the idea was unanimously accepted. Five subcommittees have been formed under this division dealing with standards and ethics, credit and debt collection, membership, counselling and women-in-business. The committee has quarterly meetings to discuss special programs of interest to small businesses.

Northern region

This committee was recently established to coordinate BOCCIM outreach activities out of the northern regional office in Francistown. It serves to promote activities in the northern region and to help to identify particular needs of that region.

Industrial relations

Assists with labor negotiations, conducts salary and wage surveys and acts as government advisor on employment issues. This committee carries out the core function for which BEF, BOCCIM's predecessor, was created.

The Executive Director of BOCCIM has stated that the effectiveness of the work of these committees is constrained by the capacity of the secretariat to coordinate and implement certain aspects of their activities. Additional staff added over the past year has helped to alleviate this constraint. The BPED project will add three additional administrative staff to assist in the implementation of the project and a permanent policy analyst position be added to the secretariat.

The Council also appoints members to sit on various government and other boards and committees. These are covered under the section below on Programs and Services.

C. Officers

There are three officers elected by the members of the Council - the president and two vice presidents. These three positions are voluntary. The President chairs all meetings of the Council and the AGM and acts as chief spokesperson for BOCCIM. One Vice President is responsible for Commercial and Industrial Affairs (including the development of Chambers of Commerce in centers throughout Botswana). The other Vice President is responsible for Manpower Affairs and oversees industrial relations and manpower development matters.

D. Secretariat/Staffing

The secretariat is the staff of BOCCIM and implements the day-to-day activities and programs of the confederation.

The organizational chart for BOCCIM is shown on the next page. This includes all of the positions described in the BPED project. The chart below shows the current status of each position and the contemplated timetable for filling those which are currently vacant.

<u>Title</u>	<u>Status</u>
Director	Filled
Deputy Director Administration	Filled
Deputy Director Outreach	March 1991
Policy Analyst	July 1993
Personal Assistant to Director	Filled
Long-term Advisors	
Management Assistance	Filled
Training	Filled
Policy	June 1991
5 Secretaries	4 Filled 1 - Nov. 1990
Senior Industrial Relations Officer	Filled
Public Relations Officer	January 1991

<u>Title</u>	<u>Status</u>
Accounts/Admin. Officer	Filled
Credit Bureau Manager	November 1990
Credit Bureau Administrator	February 1991
Credit Bureau Clerk	January 1992
Training Officer	In US university Returning Jan. 1991
B-MAP Manager	Filled
Regional Manager - Francistown	Filled
Field Officer - Gaborone	Filled
Field Officer - Francistown	Filled
Receptionist	Filled
Messenger	Filled
Cleaner	Filled

The above chart shows that most of the positions are either filled or in the process of being filled. It is expected that the counterpart for the management assistance advisor will be hired in the next two months. The training officer is currently attending a university in the US and will return to Gaborone in January 1991. The local policy analyst counterpart will start working at the end of year 2 of the BPED project. The three additional administrative positions funded by USAID will be hired before the commencement of the project, i.e., an accountant, a program assistant and a secretary. It is anticipated that these additional three positions will become permanent at the end of project.

Most of the positions within BOCCIM have written job descriptions and although the salary scale is not competitive with private sector scales, it does compare favorably with government salaries.

Although some turnover is to be expected in any organization, interviews with a number of the professional staff of BOCCIM revealed a high degree of both satisfaction professionally and with remuneration received. BOCCIM is currently in a growth phase and the challenge to its staff of forging new links with local businesses and providing services to those businesses were viewed as exciting and rewarding.

The current staff members seem to be reasonably well-qualified for their positions, although more emphasis should be put on attracting employees with private sector rather than public sector experience.

The current long-term advisors funded under BWAST II appear to be making substantial contributions to the improvement of BOCCIM programs and overall management. Their continued success and the additional programmatic support to BOCCIM to be provided by the policy analyst will be critical to the success of the BPED project.

4. Physical Resources

BOCCIM has its principal office on half of one floor of Botsalano House, a building on the Main Mall area in central Gaborone. BOCCIM has recently rented a house in the central business area of Gaborone which will provide offices for the outreach staff. BOCCIM has applied for a plot to construct BOCCIM House, which will house all of BOCCIM staff when it is completed. The building will contain approximately 1000 square meters of office space, of which one third will be office space for BOCCIM staff, one third will be a training center which BOCCIM and the final third will be leased to other firms as office space (and be available for future expansion of BOCCIM staff). This building will be financed by donations from larger member firms and a long-term loan.

BOCCIM opened a regional office in Francistown in 1990 to serve the general business community in the northern region. This office is located in the central business district and is staffed by a regional manager, a field officer and a secretary. The office has furnishings donated by Price Waterhouse, a telephone and a fax machine and a front-wheel drive bakki (small pick-up truck). In addition, part-time field offices have been opened in Selebi-Phikwe, Serowe, Molepolole and Kanye. This effort has been supplemented in the short term by a Center for International Private Enterprise (CIPE) grant which covers about 30% of the operational costs for 18 months. During this project, BOCCIM will establish other part-time field offices in Palapye, Maun, Ghanzi, Kasane, Bobonong and Lobatse.

BOCCIM plans to add two more telephone lines to its main office as well as two lines for the house being rented for the outreach staff. It has a fax machine located at its main office. It has six computers, recently purchased under a grant from CIDA but will be provided with five more under the project - three for the offices in Gaborone and two for the Francistown office. BOCCIM/Gaborone has two vehicles at its disposal. The project will fund the purchase of four more vehicles - one four-wheel drive bakki based in Francistown, two front-wheel drive bakkies based in Gaborone, and one sedan based in Gaborone. These vehicles will permit the outreach staff to get into the field more often and easily.

5. Programs and Services

BOCCIM provides various services to its members and the general business community in Botswana. It has activities in five basic areas - policy and regulatory reform, outreach/management assistance, training, industrial relations, and membership communications/publications, and a credit bureau.

Policy and Regulatory Reform

BOCCIM has been very active in representing the private sector before government agencies and promoting policy reform to encourage private sector development. Most of this work has been performed on a voluntary basis by members. The Economic and Legislative Committee of the Executive Council has served to coordinate efforts in this area. BOCCIM has coopted employees and managers from various important firms in Gaborone on a voluntary and periodic basis to draft policy statements and arguments presenting the private sector viewpoint on important legislation and regulations as these have arisen. Thus, the BOCCIM's input has been highly regarded by both government and private business.

Furthermore, BOCCIM has representation on various government and other standing boards and committees. These include the following:

- Labor Advisory Board
- National Employment, Manpower and Incomes Committee (NEMIC)
- Incomes Subcommittee
- Manpower Subcommittee
- Institute for Development Management (IDM) Board
- Minimum Wages Advisory Board
- University Advisory Committee
- Rural Development Council
- State Land Allocation Advisory Committee
- Workmen's Compensation Appeals Board
- Apprenticeship and Industrial Training Board
- Factories Advisory Board
- Central Bursaries Committee
- Regulations Review Committee

The project will reinforce and bolster BOCCIM's efforts in this area by providing a long-term, expatriate policy analyst to assist the Executive Council and Director to develop an on-going system to monitor legislative and administrative impacts, to analyze and evaluate legislation and related private sector development issues, and to develop a long-term approach to private sector development in Botswana. A local Motswana will be identified in the first few months of the project to receive overseas training in an American university in policy analysis. Upon his/her return to Botswana in 1993, this individual will become the local policy analyst

counterpart to the long-term, expatriate policy analyst. Thus, the local policy analyst will become a permanent member of BOCCIM's staff and carry on the activities developed by the expatriate policy analyst.

Outreach/Management Assistance

BOCCIM provides management assistance to its members through an on-site, one-on-one approach, principally through its outreach and B-MAP programs. The Small Business Division and Women in Business section are instrumental in identifying special business needs for their members.

The outreach program involves visits by BOCCIM field officers to member business sites to provide managerial and general business advice. This assistance is specific to those businesses and is designed to help solve specific problems. Assistance may involve either one visit or a succession of visits. The type of assistance provided during these visits includes general business planning, labor relations advice, information of BOCCIM sponsored training programs, and information and assistance on the Financial Assistance Plan (FAP) offered by the GOB.

The long-term Management Assistance Advisor attached to BOCCIM will provide intensive training to his/her counterpart, the Deputy Director/Outreach. She/he will also provide advice and assistance to the other members of the outreach division. S/he also will provide overall office management advice to the Director and general support to office staff on management information systems. These activities are currently performed by the Management Assistance Advisor at BOCCIM funded under the BWAST II project and will continue under the BPED project.

The Botswana Management Assistance Program (B-MAP) was established within BOCCIM during a pilot project of USAID in 1990. The project is similar to the U.S.-based SCORE/ACE program and involves matching manager/counselors from large successful firms in Botswana with owners/managers of emerging and expanding enterprises.

BOCCIM also has recently established a Women in Business section within the SBD which will address the special needs of female entrepreneurs. A group of eight women are currently on the planning committee to develop a special program of management assistance and training through BOCCIM.

Training

BOCCIM has been conducting a number of training courses over the years. Programs have increased considerably over the past two years with the assistance of a full-time training advisor funded under BWAST II. BOCCIM now has a full complement of training courses and these will increase over the

148

LOP. Various courses offered are directed toward a broad spectrum of businesses including micro and small-scale productive sector entrepreneurs, supervisory and middle management, trainers, and senior management. The content of the courses is based on expressed needs of BOCCIM members and the general business community.

Under the BPED project, the long-term Training Advisor attached to BOCCIM will work closely with his/her counterpart, the BOCCIM Training Officer. The Training Advisor is currently in place under funding from BWAST II. When the BWAST II funding expires, the BPED project will continue funding an advisor for this position until the end the project.

It is important to note that most of the local training provided by BOCCIM is conducted by private training firms under contract to BOCCIM rather than by BOCCIM staff. This allows BOCCIM to offer an extensive training program with a minimum of staff and to strengthen private sector training delivery capability in Botswana.

BOCCIM has also administered an extensive scholarship program under both USAID and a CIDA grants. BOCCIM serves as the coordinating body to recommend and screen candidates for selection for long and short-term training - both locally and abroad.

Industrial Relations

This is the area in which BOCCIM's predecessor, BEF, provided most of their services. BOCCIM has continued to offer its services in this area. A full-time Industrial Relations Officer (IRO) responds to requests by member businesses to mediate labor disputes as well as acting on his own initiative to try to head off labor problems when he is made aware of particular problems. He also provides information to members on labor laws and regulations and gives advice on labor problems and disputes. Over the period of July 1989 to June 1990, the IRO mediated five wildcat strikes and provided assistance to 15 companies over labor disputes to prevent strikes. Most of his clients are small and medium-scale businesses since the larger firms usually have management personnel specialized in labor relations. The IRO suggested during an interview that BOCCIM could provide a course for expatriate managers on cultural and psychological factors in the Botswana workplace. This suggestion was well-received by other staff and is being considered by the Training Advisor.

Communications/Publications

This is the public relations function of BOCCIM. An IESC volunteer or short-term consultant in association management or public relations will assist BOCCIM to improve its monthly newsletter.

BOCCIM publishes an Annual Report each year describing the organizations activities and yearly growth. BOCCIM also publishes a bi-monthly newsletter for its members which includes information on current events, the Small Business Division and its subunits, training, industrial relations, new members and donor news. The newsletter is rather primitive and BOCCIM could use some assistance to publish a more professional newsletter.

BOCCIM developed a brochure in 1990 entitled "BOCCIM Means Business" describing the services offered to members. USAID provided funds for BOCCIM to assemble and publish two publications in 1990, a Manual for Small Business Assistance in Botswana and a Directory of Business Resources. These are offered to the general public for P5 and P10, respectively. BOCCIM also publishes other documents such as personnel record cards, "Know Your Labor Laws", and "Apprenticeship and Industrial Training Act." These publications help to increase its outreach to the business community and adds a source of funds.

Credit Bureau

One of the first items identified by the BOCCIM Small Business Division as retarding business growth in Botswana was the inability to access credit facilities and the lack of understanding regarding the issuing of credit and its effects on cash flow.

BOCCIM is in the process of establishing the Botswana Credit Bureau to provide information on "poor credit risks" to members, i.e., individuals and companies who issue bad checks or who default or are delinquent in paying their accounts. Additionally, the Botswana Credit Bureau will professionally research the subscribers own credit history and provide Certified Credit Reports on request.

Members who desire to receive this information will pay for this service. The monthly subscription fee will be P100 and subscribers will be charged P25 for each credit report requested. Furthermore, subscribers agree to provide information regarding their credit customers for use by the Botswana Credit Bureau in establishing a data base on customer credit. Subscribers will also be provided with booklets on various issues related to credit and business. It is anticipated that the project will provide technical assistance on the management of the credit bureau as more demands are placed on the operation.

6. Financial Analysis

During the project paper intensive review stage USAID/Botswana commissioned Deloitte Pim Goldby to conduct a financial analysis of BOCCIM. The review clearly demonstrated

the grantworthiness of BOCCIM and reconfirmed the Mission's opinion that BOCCIM has the capacity to coordinate the BPED activities. BOCCIM has annual professional audit of its records so its basic financial position is known. The Management Assistance Advisor to BOCCIM has helped them in converting over to a computerized accounting system. This conversion is still in process, but should be completed within the next 3 months.

According to an audit by Deloitte, Haskins and Sells, BOCCIM relies heavily on membership subscriptions for its income. Approximately 90% of its income of P172,909 in 1988 was from subscriptions. In 1989, total income increased to P401,625, of which 82% was from subscriptions. Meanwhile, total expenditures increased from P211,848 in 1988 to P248,384 in 1989. Salaries represented 52% of expenditures in 1988 and 56% in 1989. Office expenses were the next highest category of expenditures with 29% of the total in 1988 and 32% in 1989. BOCCIM had a operational deficit of P38,939 in 1988, but had a surplus of P153,241 in 1989.

Estimated program expenses for BOCCIM in 1991 total P1,102,420, based upon funding from USAID and other donors, e.g., CIPE, CIDA and UNDP. Of this total, P566,863 or 51% will go toward outreach activities. Training will total 22%, industrial relations 15%, and the credit bureau 12%.

In the past, BOCCIM has been able to rely on ad hoc contributions from larger members to make up any shortfall in revenues. It is doubtful that this dependency will ever diminish entirely. However, BOCCIM needs to broaden its base of financial support through increased reliance on fee-based service provision. BOCCIM's training program over the LOP will emphasize this approach and the establishment of the credit bureau is a good effort in this direction. If BOCCIM is to become a truly independent, representative business organization of national stature, it must continue to seek ways of generating revenues from delivery of services in addition to membership fees and special contributions. The technical assistance provided by the project should help BOCCIM to further broaden its income sources.

7. Relationship with the Botswana Chamber of Commerce and Industry

The relationship between advocates of BOCCIM's expanded range of activities and the Botswana Chamber of Commerce and Industry (BCCI) is strained. This strain has implications for the ability of BOCCIM to provide chamber of commerce services. To understand the situation, some background must be given. Discussions about forming a national chamber of commerce have been ongoing for years. A debate developed between two factions. One faction wanted to reorganize BEF so that it could take on chamber functions, arguing that it was already a reasonably well-run organization

and that Botswana resources were too few to support two healthy business associations. This faction was made up primarily of the larger members of BOCCIM, although some of the local chambers of commerce supported it as well. The opposing faction believed that BEF (at that time, BOCCIM had not been formed) should stick to its business of representing the large employers' interests, arguing that BEF could not, and should not. This faction attempted to form an independent chamber of commerce, integrating the local chambers of commerce.

The faction in favor of BOCCIM fulfilling both employers functions and chamber functions prevailed. The BEF membership endorsed the change to BOCCIM. The GOB recognized and encouraged BOCCIM and designated it as the national SADCC business council. The two major donors with an interest in the private sector, USAID and UNDP, continued to support BOCCIM and its activities, rather than BCCI. BOCCIM, bolstered by donor funding and the support of the larger members, has developed its chamber of commerce functions in Gaborone and the regions.

BOCCIM appears to have made and continues to make a genuine effort to become a representative business organization that will provide services of a national chamber of commerce. In contrast, BCCI has limited funding, no capability to help the local chambers of commerce or local businesses, and no full-time staff. Its core members are reported to have political motivations and seem to be more interested in protecting the rights of small and medium-sized businesses from foreign "exploiters" than in working to increase growth in all sectors.

8. Conclusions

On balance, BOCCIM is a relatively strong national business association that is the appropriate vehicle to support private sector business representation and services. USAID's experience with BOCCIM to date, through the BWAST II project, demonstrates that it has the capacity to effectively utilize project assistance and magnify its efforts in the areas of policy reform and providing services to both members and nonmembers in training and management assistance.

BOCCIM is well-positioned to serve as the coordinating institution for the BPED project since it is a truly private sector organization that represents private sector interests and appears to be supported and well-respected by both government and the private sector. The activities for which it is responsible under the BPED project are consistent with its mandate and will help BOCCIM to considerably increase its impact upon private sector business development in Botswana. The project linkages among the activities of BOCCIM, the Botswana Development Corporation (BDC) and the Ministry of Commerce and Industry (MCI) should increase the communication amongst these institutions and help to develop a coordinated approach to private sector development among these key private, government and parastatal institutions.

A key element of the BPED project is to develop Batswana-owned businesses so that they may participate in the private sector growth of the economy and increase household incomes as a result. At the same time, efforts must continue to attract foreign investment and to integrate both foreign investment and local white-owned businesses into the economy. BOCCIM has the basic capacity to accomplish this goal, with the cooperation of BDC and MCI, but must be strengthened to do so with the technical assistance and training provided by this project.

MEDP PASA

MEMORANDUM OF UNDERSTANDING

Annex F.1

~~BETWEEN~~
THE AGENCY FOR INTERNATIONAL DEVELOPMENT
AND

THE U.S. PEACE CORPS

FOR A JOINT MICROENTERPRISE DEVELOPMENT PROGRAM

I. Purpose of this Memorandum

This Memorandum of Understanding between the U.S. Peace Corps and the Agency for International Development (A.I.D.) continues the Microenterprise Development Program (MEDP), originally begun in 1988. It restates and partially modifies the terms under which the two agencies will continue to carry out this joint program.

II. Background and Authority

A Memorandum of Understanding (MOU) creating the MEDP was signed by the late A.I.D. Administrator, Alan Woods, and former U.S. Peace Corps Director, Loret Ruppe, in August 1988. That original MOU called for, and formed the basis of, a two-year program of joint collaboration in microenterprise development activities, including training, technical assistance, materials development and institution building.

Pursuant to section 632 (b) of the Foreign Assistance Act of 1961, as amended, the U.S. Peace Corps and A.I.D. will continue the MEDP for an additional four years. A.I.D. intends to provide \$300,000 for the initial year of this MOU, using FY 1990 funding. Subsequent-year funding is expected to be at approximately the same level, subject to the availability of funds and the mutual review of program progress by both agencies.

III. Objectives of the Program

The goal of the MEDP is to increase the overall development impact, in selected countries, of programs of A.I.D. and the U.S. Peace Corps that seek to promote microenterprise development, measured especially in terms of increased employment and income, and the productivity of small entrepreneurs.

Specifically, MEDP will have the following objectives:

1. to form a cadre of Peace Corps Volunteers (PCVs) and counterparts -- well-trained in small business skills and business advisory assistance -- who will promote the development of the communities and institutions in which they work;
2. to increase mutual cooperation between U.S. Peace Corps, A.I.D. and local leaders in activities that promote micro- and small-scale business development;
3. to strengthen intermediary institutions whose purpose is to assist small business;
4. to provide technical assistance in the targeted countries to improve and support microenterprise programming;
5. to make available resources in the form of educational materials and information which will improve small business performance; and
6. to cooperate with other programs -- within and outside A.I.D. and U.S. Peace Corps -- that have small business interests, which focus on natural resource development, women in development, and private sector development.

IV. Scope of Work

Through a Participating Agency Service Agreement (PASA), funding will be provided to the Office of Training and Program Support (OTAPS) of the U.S. Peace Corps to carry out training, provide technical assistance, and offer information resources in selected countries worldwide. This work extends and complements efforts already underway in the cooperative U.S. Peace Corps and A.I.D. Microenterprise Development Program.

The main activities to be carried out each year of the MEDP pursuant to this agreement are:

1. Identification of approximately five new countries -- where the U.S. Peace Corps and A.I.D. operate -- in which microenterprise development activities can effectively use MEDP assistance. Participating

countries must meet selection criteria adapted from those developed during the first two years of MEDP experience.

2. Provision of assistance to each new country in microenterprise project planning, design and programming support; technical assistance; communications resources and training materials; and support for specific training activities, such as pre-service training for volunteers and in-service training for PCVs and their counterparts.
3. Provision of assistance to other countries -- where both U.S. Peace Corps and A.I.D. operate -- which have relatively limited microenterprise activities but which could benefit from partial involvement in MEDP.
4. Promotion of collaboration among all MEDP-supported microenterprise country programs, through conferences, workshops, or in-service training. The MEDP will develop a means of exchanging information and educational materials on microenterprise activities supported by the MEDP PASA.
5. Promotion of collaboration between/among A.I.D. and U.S. Peace Corps staffs within the various country programs and in Washington.
6. Continuation of support for some activities in countries already participating in MEDP -- Costa Rica, Honduras, the Dominican Republic, Guatemala, Mali, Botswana, Ghana, Kenya, Fiji and Western Samoa -- to assist newer-country entrants and to increase the scale and effectiveness of their own microenterprise programs.
7. Staffing of the U.S. Peace Corps/OTAPS post of Small Business Development Specialist, the cost of which will be borne temporarily by MEDP, but not to extend beyond September 30, 1991.
8. Staffing of the post of U.S. Peace Corps/OTAPS MEDP PASA Coordinator, the cost of which will be borne temporarily by MEDP, but not to extend beyond September 30, 1992, or a date mutually agreed upon by the two agencies.

9. Collaboration with other U.S. Peace Corps-A.I.D. programs that involve microenterprise work, including those in natural resources, women in development, Africa enterprise needs assessment and project design

V. Anticipated Benefits

The success of the MEDP will be measured ultimately by the degree of impact on business development among microentrepreneurs in the countries where U.S. Peace Corps and A.I.D. are collaborating in this program. Measures of impact should include: increased jobs, income, productivity, participation of the poor, and institutional strengthening.

By the end of September 1994, approximately 30 countries -- where both U.S. Peace Corps and A.I.D. work -- will have participated in the Program, either running their own microenterprise activities with MEDP assistance or collaborating in various ways with other MEDP participating countries.

The more immediate benefits of the MEDP -- complementing the existing microenterprise activities of the U.S. Peace Corps and A.I.D. -- will be:

1. development of a cadre of well-trained PCVs who can assist with improvements in the communities and institutions in which they work;
2. training of local leaders in these communities and institutions and their colleague PCVs in areas of critical development importance; and
3. increased local capacity to utilize development resources from A.I.D. and other donors.

VI. Evaluation

U.S. Peace Corps/OTAPS and A.I.D.'s Office of Small, Micro and Informal Enterprise (PRE/SMIE) will arrange for an evaluation of program inputs and outputs approximately two years from the date of the signing of this memorandum, and an evaluation of program impact after four years. These evaluations should take into account the description of "Anticipated Benefits" presented above.

VII. Implementation

All program activities will be managed by U.S. Peace Corps/OTAPS, under the direction of the Small Business

Development Sector Specialist. Such program activities will be done in cooperation with PRE/SMIE, under PRE/SMIE's Growth and Equity through Microenterprise Investments and Institutions Project.

VIII. Required Reports

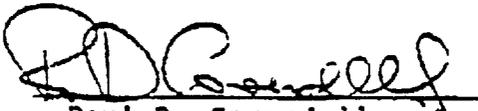
U.S. Peace Corps/OTAPS will prepare and submit quarterly financial reports to PRE/SMIE, and other A.I.D. offices as may be appropriate, on funds disbursed for MEDP activities. Copies of narrative reports on country activity, descriptions of training workshops, trip reports, etc., should be submitted by OTAPS to PRE/SMIE when completed. From time-to-time, U.S. Peace Corps and A.I.D. staff may mutually determine that other reports should be prepared and distributed.

IX. Effective Date

This Memorandum of Understanding shall be effective upon signature. It shall supersede any previous memoranda on MEDP activities.

X. Termination

This Memorandum of Understanding shall continue in effect until terminated upon thirty (30) days written notice of one party or the other.



Paul D. Coverdell
Director
U.S. Peace Corps



Ronald W. Roskens
Administrator
Agency for International
Development

July 26, 1990
Date

July 26, 1990
Date

Annex F.2

PEACE CORPS COLLABORATION IN BPED PROJECT

Peace Corps/Botswana has a very active small business assistance project and currently has approximately 20 volunteers working with small businesses throughout the country. An additional 80 PCVS are working with the Brigades, vocational training schools.

In accordance with the desire to integrate USAID and Peace Corps efforts in micro and small-scale business development, the BPED project will utilize Peace Corps Volunteers to work with BOCCIM to assist micro/small-scale businesses in the urban and peri-urban areas of Botswana.

The Peace Corps will provide three volunteers to assist BOCCIM in outreach to micro and small-scale businesses. One volunteer will be assigned to work with the Field Officer for the Gaborone area and another to work with the Field Officer for the Francistown area. These volunteers will assist in providing management assistance to micro/small entrepreneurs. Their work will also involve conducting surveys of entrepreneurs in their areas who have received training and technical assistance from BOCCIM to determine the effectiveness of that training and to provide valuable inputs into the redesign of training programs. The volunteers based in Francistown and Gaborone will work closely with the respective Field Officers and be responsible to the Regional Manager of the Francistown office and to the Deputy Director/Outreach in the Gaborone office, respectively.

A third volunteer will be assigned to work under the direction of the Deputy Director/Outreach in Gaborone to specialize in marketing assistance to micro and small-scale businesses. This volunteer will provide this assistance to businesses assigned by the Deputy Director/Outreach.

BOCCIM shall provide housing to all three volunteers. Although the volunteers shall be supervised by BOCCIM officers in the Gaborone and Francistown offices, they need not live in those two cities. Should the availability of housing require that they live in smaller towns in the peri-urban areas around Gaborone and Francistown, they might be based in those smaller towns. BOCCIM will also be expected to provide transportation for the PCV's under their direction in order to carry out their duties.

Although only three volunteer placements are identified at this time, it may be possible to expand Peace Corps participation during the life of the project as other areas are identified where volunteers could assist BOCCIM in extending their services. In fact, two studies are being budgeted in

BPED to be conducted during the first two years of the project to analyze the informal micro-scale business sector in Botswana and determine the appropriateness and feasibility of various interventions and institutions to assist these businesses as a part of a follow-on OPG. It is anticipated that PC/B will provide valuable inputs into those studies, and should a follow-on OPG be developed, PC/B participation in that project would most likely be sought.

Peace Corps/Botswana has access to USAID funds through the existing MED PASA, a centrally-funded program jointly administered by PC/OTAPS and PRE/SMIE. These funds may be used to increase the effectiveness of PCV's working on this project. An initial commitment of \$15,000 - \$20,000 from MED PASA funds has been received from the officer in charge in PC/Washington. Should additional funds be necessary to implement a follow-on project, as described above, the feasibility to obtaining additional funds either from the MED PASA or through a local PASA between USAID/Botswana and PC/Botswana would be explored.

155

ROLE OF VENTURE CAPITAL FUND

Demand for Financing from Botswana's Vibrant Small and Medium Size Firms

A. Demand

There is currently great demand for both equity and debt financing for small and medium size firms in Botswana. This demand has been outlined by representatives of BDC/Tswelelo, the commercial banks, the leasing companies, businesspersons at all levels and the venture capital feasibility teams from Scandinavia, USAID, and CDC. The demand for financing is for start-up companies, and companies seeking expansion and diversification funding in the manufacturing, service, transport, agricultural, and construction sectors. Demand is strong in all major urban areas of the country especially in Gaborone, Maun, Francistown and the areas surrounding the mining centers.

B. Type of Firms that Have Been Successful in Lining-up Financing

The type of firms most successful in lining up financing have been able to show many, if not all of the following characteristics, including: relatively low leverage, good management skills, proven market, (frequently in the import substitution sector), proven technology, and a solid and well written business plan with financial statements. Companies with easily resaleable assets are easier to finance as are urban based companies. These companies include transportation, engineering(construction), services to the mining sector, and property.

C. Firms Suffering from Unsatisfied Financing Requirements

A number of the previously mentioned characteristics are lacking in many small and medium size enterprises. The lack of business skills, management skills, and access to affordable business services is just as instrumental in preventing SMEs from receiving credit as the conservative financial markets. The quality of projects needs to be improved. The BOCCIM-BPED project will be instrumental in bringing these firms up to a level of competence that will make them financible by the formal financial institutions. However, many small and medium size firms will still lack adequate capital or equity in their venture to allow debt or lease financing of their firm. The lack of equity financing remains an identified cause of SMEs not receiving adequate financing.

D. Alternative Credit Mechanisms

Recently, the access to leasing finance has improved and competition has increased. Leasing companies can take greater risk with small businesses because they hold title to the assets they are financing. The two largest leasing companies Financial Services Company (FSC) and United Leasing Company (ULC) finance primarily transportation, construction and other readily resaleable assets.

FSC has been constrained by the company's capital base, not by lack of financable companies. FSC is considering several options to improve its capital base including going to the nascent stock market in November.

ULC has been forced to rely on the inadequate overnight borrowing market to gather needed funding. The obvious danger is that its lease portfolio term is longer turn than its funding leaving it with a dangerous funding gap. After opening for business ULC quickly developed a six month backlog of approved leases because of funding shortfalls. Both companies report very reasonable lease losses ratios and low delinquent payments. If the PRE/I loan guarantee program could be designed to cover ULC leases, it would be significantly easier for it to attract longer term funding and expand its leasing portfolio.

Asset Based Lending

Asset based lending has not taken off in Botswana although renewed competition among the commercial banks may lead them to begin accounts receivable discounting and inventory financing. A merchant bank would naturally fill this financial niche, assuming that it could effectively secure and perfect its collateral assets.

Reasons that Commercial Banks & BDC Have Not Been Extending Credit & Equity to SMES

It should be noted that commercial banks should, as a rule, not be lending long term risk capital to small and medium size business for a number of commercially defensible reasons.

First, the commercial banks rely on many small, short term demand deposits for much of their funding. . In short, commercial banks lending is governed by their fiduciary responsibility and by the tenor of their deposits. Bank depositors are generally the smallest and most risk-adverse savers in an economy, and banks are required to act in a fiduciary manner. As a result, commercial banks traditionally have relatively little long-term funding. Startup or growth companies need long-term financing. If the bank lends too great a percentage of its assets long term, it risks becoming illiquid when depositors require their short-term deposits.

Venture Capital Funds

Venture capital can play a role in relieving the lack of financing for small and medium businesses. The first section defines venture capital, the risk reward equation and the typical project review process. The second section briefly outlines the development of venture capital in the developed world. The third section illustrates the role that venture capital could play in the Botswana financial market. Finally, a list of recommendations follow outlining the steps that the mission would implement to affect improved access to financing for small and medium-size enterprises.

Venture capital can be defined as the financing of equity or near equity in startup or growth companies that acts as a bridge between the entrepreneur's own capital and financing obtainable from conventional sources, such as commercial bank loans.

Venture Capital Management Assistance

In addition to the long-term financing, the venture capitalist provides entrepreneurs with a great deal of practical business assistance. First, the initial review process weeds out the immediately unfinanceable proposals. Once a VCF has invested, it may place a businessman or a manager to ensure proper business planning and a methodical approach to management decisions. As long as the VCF has its money tied up, it will work diligently with the new company, modulating the entrepreneurial exuberance of the founder.

Role of Venture Capital in Botswana

The creation of venture capital firms in Botswana could serve to provide badly needed equity financing and make projects more bankable from a number of perspectives.

If a new entrepreneur can show that a venture capitalist has advanced 30% of total assets in the form of equity, leasing and commercial bank debt financing would become easier.

In addition to equity finance, a Botswana venture capital firm would add guidance in the initial stages, specifically providing recommendations on how to improve a business plan, management controls etc. These are the specific skills that are often lacking especially with small business finance proposals. If a business plan, backed by the BVCF, were presented to a commercial bank the banker would know that the venture capitalist had provided extensive due diligence and would continue to monitor its investment closely. In addition, the banker would be reassured that the BVCF would provide management consulting expertise if the new venture encountered inevitable difficulties. Therefore venture capital bridges the financing gap between an entrepreneur's capital and the credit the commercial banks are willing to lend.

150

Structure of Venture Capital Firms and the Need for Two Distinct Venture Capital Funds

There are two types of SME firms that would benefit from venture/risk capital, but which require two separate approaches, and two separate venture capital funds.

Medium Size Fund

The Medium Size Fund would invest in medium size firms, which have already established a minimum of prerequisites, including: financial statements, a business plan, management expertise, and a technical feasibility study. These projects could include both start-up and expansion projects ranging in size from between P100 and P500M in equity investment. This type of venture capital fund could conceivably be break-even in four or five years. A big impediment to the creation of this fund has been the initial high operating expenses that must be incurred during the first four to five years.

Smaller Size Fund

Providing risk/venture capital to the smaller firms will require much higher hands-on management involvement, and therefore higher operating expenses. Because its clients are less sophisticated, a venture capital fund serving smaller businesses would be required to provide business plan assistance, technical feasibility studies, business service support, and management training. It is doubtful that this fund could ever become fully profitable on a commercial basis. An attempt to combine the two funds would tend to muddle objectives of each and could lead to grid-lock. The type of personnel needed for each fund would be distinct as well. The medium size fund would require a more mainstream financial person; where the small size fund would require a person willing to spend time working with investors and make credit decisions that do not rest completely on the financial statements.

Recommendations for Changes in the Financial Markets

1. General

a. Encourage the Creation of Venture Capital Companies

The September 1990 joint CDC-USAID Botswana Venture Capital Fund feasibility study has preliminarily determined that a jointly supported VCF would be successful in Botswana. CDC has from the outset agreed to supply management expertise and initially up to 10 million Pula (P) in investment. USAID/MDI has verbally stated that it would be willing to support such an undertaking with some grant money to cover operating expenses and technical assistance. In addition, AVCP proposes approaching the Gaborone USAID Mission to request

buy-in assistance under the BPED five year project. AVCP therefore, recommended that it help coordinate USAID's input to the BVCF with CDC, and the USAID Mission.

Recommended Assistance from the AVCP

1. AVCP should consider making a grant to the BVCF to assist in meeting operating expenses of the fund in the first three years. AVCP proposes making a \$100M-\$300M grant available for this purpose.

2. AVCP should consider making technical assistance grants available to the BVCF, including the costs of technical assistance of the initial design and first three months of the project. (Six consultant months, estimated cost \$120M.)

3. AVCP proposes to conduct limited research and develop a limited database using resources available in Washington, D.C, specifically the IFC, APDF & World Bank.

Recommendations for USAID Gaborone Mission's Assistance

1. The Mission should consider buying-in to the AVCP operating expense grant in an amount equal to the AVCP's grant.

2. The Mission should consider buying-in to the technical and economic feasibility studies of a project that the fund has received: For example, the feasibility of aquaculture in southern Botswana. These studies are estimated to cost between P20-30M(\$10M-\$20M each). There may be need for between three and ten of these studies a year. Estimated cost for three years, \$315M.

o Covering the training and salary expenses of one or two citizen venture capital experts. Estimate \$300M.

Annex H

Changes in South Africa and their
Impact on Botswana -- Summary

The Republic of South Africa is undergoing sweeping changes which have had, and will have, a profound impact on development in Southern Africa. The dismantling of the basic cornerstones of the apartheid system, negotiations towards majority rule, the end of a nationwide state of emergency, and the unbanning of legitimate political parties has created the atmosphere where South Africa is no longer considered a pariah state. As informal and formal sanctions are lifted by South Africa's trading partners, even more dramatic changes can be anticipated.

The following analysis attempts to assess the impact these changes will have on the ability of BPED to achieve its purpose - but it is a maiden voyage on uncharted waters. To do justice to this topic is far beyond the scope of this project paper, but should and will be the focus of AID's research agenda for the Southern African region.

We focused on three critical aspects of the investment climate:

1. South Africa as a market for Botswana made goods.
2. South Africa as a competitor in regional and overseas markets.
3. South Africa as a source of development capital for Botswana, and as a competitor for development capital from overseas.

Two basic economic scenarios were developed. Scenario One has the black majority government adopt a high-growth, deregulatory, private sector oriented economic strategy, continuing the free market wing of the National Party's current strategy. Scenario Two is a slow-growth, redistributive, socialist strategy, basically the traditional ANC economic blueprint unmodified by recent world wide developments.

Common to Scenarios One and Two is continued evolutionary change, with a relatively smooth transition of political power to some form of majority rule. *1.

*1. This was the assumption that was made in the PID that was drafted in January 1990. As this project paper was drafted, the acceleration in the level of factional/tribal black on black violence in the townships and city centers, coupled with increased likelihood of white right wing terrorism, seemed to reduce the probability of a relatively smooth transition of power.

161

If significant import, fuel or transport disruptions occur, it would be disastrous to Botswana. Botswana is completely dependent on South Africa for most raw materials, intermediate and finished goods, fuel and transport; the one exception is electrical power. Alternatives are few. Shipping north through Zimbabwe to the Mozambique coast via the Beira corridor would be extremely costly and slow. The Trans Kalahari highway to Namibia is still on the drawing boards.

Some key policies will probably occur under both scenarios. One would expect a massive increase expenditures towards education, health, and housing for the black majority, spending the "post-apartheid" dividend.*2. Also, development and enforcement of vigorous antitrust legislation is compatible with both scenarios.*3.

These scenarios were developed as a tool for analysis; and they merely represent opposite ends of a spectrum of possibilities. The reality will be a complex and fluid mixture of both.

2. South Africa as a competitor in Export Markets

A. Regional Markets

South African products dominate regional markets in almost every sector, where they have legitimate access - that is, the members of SACU, Zimbabwe, Malawi, and to a lesser extent Zambia. Manufactures are only 4 percent of South African exports, but Africa is an important market for them - a full third of South African manufactured exports go to African countries. Africa is South Africa's fastest growing export market.

The advantages enjoyed by South African based firms are considerable; access to wide array of capital and trade credits; superior business services from government, private sector, and universities; a well developed transport and communications infrastructure; inexpensive power and water; economies of scale from a large domestic market; experience under African conditions; and an intimate understanding of black African consumer tastes.

*2. The post apartheid dividend is made up of savings that will flow from reduced expenditures on defense and security, and redundant "own affairs administrative structures; and gains from increased trade due to the end of sanctions. One (left-leaning) analyst recently estimated this to be about \$2 billion a year.

*3. Four South African companies control 80 percent of market capitalization on the Johannesburg Stock Exchange (JSE). In most industry sectors, cartel behavior is present.

Even where direct trade links do not exist, South African goods have penetrated regional markets, thanks to an extensive network of middlemen. Each middleman, however, adds on another 20 or 30 percent, so that goods are marked up considerably by the time they reach the consumer, and are less competitive.

The reluctance to trade openly with South Africa outside the dependent front line states is eroding in the region. Madagascar, Rwanda, and Zaire are openly trading and granting South African Airlines (SAA) landing rights. SAFTO, the trade promotion agency, has created an Africa Desk (with a focus on Southern Africa) and has opened an office in Zaire.

In general, South Africa's domination of regional markets will increase under either scenario one or two. As trade barriers come down, the role of the middleman will diminish, and South African goods will become far more competitive against goods imported from Europe or regionally.

If South Africa joined the PTA, with full privileges, then domination of regional markets would consolidate. Under PTA rules, goods from firms with majority foreign ownership are not normally entitled to tariff reductions. Many of the more competitive producers in the PTA are foreign owned. Most South African firms, while they might be white-owned, are not foreign owned, and would enjoy full tariff reduction benefits.

Specifically, Botswana's market opportunities in the region would not likely be crowded out by the newly dynamic South Africa.

Outside of cattle based products (soap, oils and fats, processed beef), and possibly textiles and garments, it is unlikely that Botswana can produce competitively in a major way for regional markets outside of isolated market niches. Also, many of the most competitive products that South Africa exports to the region; e.g. high quality consumer goods, wine, wool, and steel, will not be produced competitively in Botswana for many years to come, if at all.

Not surprisingly, the GOB's export policy is to aim for markets outside of the region, taking advantage of preferential access into overseas markets, and reducing dependency on South Africa. This is reflected by the lack of interest in the PTA, of which Botswana is not a member. Also, the Selebi-Phikwe zone incentives are available only to firms exporting 100 percent of output to markets outside of Southern Africa.

B. Overseas Markets

Barriers to South African products in overseas markets have been eroding since early 1990. This is especially true for unprocessed commodities. Conspicuously branded products, such as Cape wines still face informal boycott in many

countries, even if they are not excluded by formal trade sanctions. However in Europe, particularly Eastern and Southern Europe, open trade with South Africa has become acceptable.

The South African government is aggressively responding to the new openings. Trade Minister Ken Durr, a strong free marketer, has traveled extensively to Europe and South America laying the political groundwork for increased trade. The South African Foreign Trade Office (SAFTO) is opening offices in South America, and Europe.

As far as Botswana is concerned, the increased access by South Africa firms to overseas markets is likely to have little impact on Botswana's ability to crack these markets for the following reasons.

Botswana firms, like all firms, compete in industries, not countries. In many of the subsectors where Botswana can be competitive, at least over the near term, South Africa is not producing, or if it is producing, the markets are buoyant and differentiated enough so that South African competition may not be overwhelming. These subsectors include game and craft industries, and leather processing.

In other overseas markets such as textiles, Botswana's near and long term competitors are not based in South Africa, but in other developing countries that rely on incentive packages and cheap labor. South Africa, on the other hand, increasingly is relying on knowledge and capital intensive industries.

Tourism may be a possible exception to the lack of competition between South African and Botswana based business. South African game parks are better maintained, more accessible, less expensive, if not nearly as unspoiled or exotic as Botswana's. If stability is maintained, South Africa can expect to become increasingly part of the East and Southern African safari circuit, which may not necessarily work out to the benefit of Botswana.

3. South Africa's impact on Botswana's access to capital

A. South Africa as a competitor for overseas capital

Without sanctions, political violence, and the specter of nationalization/state control, South Africa would have a highly attractive investment climate. The largest domestic market in Africa is coupled with access to a large regional market, excellent infrastructure, strong business traditions, attractive investment incentives, a cost-effective (if not the cheap) labor force, plenty of power, water, and space for expansion, abundant raw materials and arable land, a developed industrial and university research network, and an efficient and incorrupt government (outside the homelands, at least).

The current government is continually improving the investment package. New export incentives, consideration of an EPZ in Capetown and other ports, are underway. The near giveaway incentives of the homelands or bantustans have been scaled back, nonetheless very attractive relocation incentives remain, especially in neighboring Bophuthatswana. Deregulation, privatization and import liberalization are also underway.

South Africa's sophisticated capital market facilitates foreign portfolio investment. Many South African stocks are traded on overseas exchanges, offering investors in South Africa unparalleled liquidity. If South African corporations begin floating bond issues overseas again, large institutional investors all over the world may soon be in a position to lend millions to South African firms.

Sanctions against investment in South Africa are crumbling along with trade sanctions, especially in Europe. While South Africa has nearly fulfilled the requirements of the Comprehensive Anti-Apartheid Act, U.S. public opinion would vitiate lifting sanctions for the time being.

Under high growth Scenario One, domestic and private capital will be attracted to South Africa, but this will not mean less capital for Botswana, rather more capital available for the region. Vigorous South African construction and financial sectors, for example, could aggressively package and seek financing for development projects in the region, including of course Botswana.

Under slow growth Scenario Two, many of the attractions for private investment in South Africa will erode, and one might expect considerable capital flight, mostly overseas. Botswana will benefit only slightly; small and medium size businesses serving the regional market may move to Botswana.

One of the more attractive aspects of Botswana is that firms can locate there in close physical proximity to South African markets without being tainted by actually being part of South Africa. Peugeot, who pulled out of South Africa several years ago, may relocate some assembly operations in Botswana. The Peugeot operation is likely to be one of the last of the "divestment dividend" deals that Botswana or the rest of the region will reap. Why locate near the best market when you can locate in the best market?

In sum, Botswana must prepare for the time when political stability, and physical proximity to South Africa, are no longer prime drawing cards for overseas investors. Increasingly, only in niche markets, where Botswana has or can create a compelling comparative advantage, will foreign capital be attracted - but South African expertise and capital will assist this process.

165

B. South Africa as a source of development capital.

Botswana mining and commerce, of course, is already dominated by South African capital, but in manufacturing as well. Breweries, plate glass, roof and floor tiles are some of the larger investors. The political stability, booming domestic market, strong pula, and FAP incentives are among the reasons for interest by the South Africans.

Unlike Swaziland or Lesotho, however, Botswana has never attracted much "sanctions busting" investment from South African firms. The expected fall off in sanctions busting investment from South Africa will affect Botswana only marginally.

Under high growth Scenario One, with free capital movements and no credit allocations, South African firms can be expected to continue developing selected sectors of interest in Botswana. On the public sector side, the Development Bank of South Africa (DBSA) will continue to aggressively finance regional projects.

Under slow growth Scenario Two, government policy will attempt to keep South African public and private sector capital in South Africa - with less available for Botswana. The more adverse business conditions under Scenario Two, however, may cause the more mobile and smaller businesses, particularly in commerce, to move to Botswana.

4. South Africa as a market for Botswana exports

A. Traditional Exports to South Africa

Over 90 percent of Botswana's exports are traditional. **4. Nontraditional exports as defined in the project paper; anything but diamonds, copper/nickel, and beef.* (73% diamonds, 16% copper/nickel, and 4% beef). Over 90 percent of exports go to Europe, so dependence on South Africa as a market appears minimal. However, most European exports are diamonds, sold exclusively to the Central Selling Organization (CSO) in Geneva, controlled by South African De Beers - which also owns half of Debswana, Botswana's diamond producer.

Botswana's dependence on the CSO, a monopsony buyer that maintains a worldwide cartel, is considerable. In fact, De Beers and the CSO have served Botswana extremely well. De Beers has already taken hived off non-South African assets (including CSO) to another company, so that nationalization may not effect marketing of Botswana diamonds.

Copper and nickel are exported for further refining to Norway and Sweden. Only severe transport disruptions would affect exports.

About a quarter of Botswana's chilled/frozen beef exports go to South Africa. Even under slow growth Scenario Two, the demand for beef could rise in South Africa (relatively less affluent whites would not cut back, and more affluent blacks would increase consumption).

B. Nontraditional Exports

Soda Ash The Sua Pan Soda Ash project (majority owned by South African firms AECI, Anglo American, and De Beers) will be a major new source of exports. South Africa will be the major customer; interestingly enough, largely at the expense of U.S. producers. Under slow growth Scenario Two, if the South African chemical industry or its downstream customers are not thriving, then export revenues could be jeopardized.

Manufacturing Botswana manufacturers enjoy duty free access to South Africa (as part of SACU), a low cost of capital, and low wage rates. But so do producers in Malawi (with lower wage rates) and Zimbabwe (with more sophisticated producers), not to mention the other SACU members Lesotho, Namibia, and Swaziland. As sanctions erode, other regional producers will also be clamoring for access to South African markets, which they will have on a preferential basis, especially if South Africa joins the PTA. A slow growth scenario Two, of course, would suppress demand for Botswana products in South Africa.

5. Summary of Conclusions

Botswana's exports to regional and overseas markets are not likely to be affected significantly, under either scenario, assuming no transport or supply disruptions.

Overseas and South African capital flows to Botswana will increase above current levels under the high growth scenario, and decrease below current levels under the slow growth scenario.

Botswana's traditional exports to South Africa will be static or slightly increase under either scenario. Botswana's nontraditional exports to South Africa will face much greater competition from regional suppliers under either scenario; and face depressed demand under a slow-growth scenario.

Annex I

DESCRIPTION OF RESEARCH STUDIES
RELATIVE TO THE DEVELOPMENT OF A PROJECT IN BOTSWANA
TO ASSIST URBAN AND RURAL MICRO-ENTERPRISE DEVELOPMENT

This describes two studies to be undertaken in 1991/1992 and financed by USAID under the BPED project.

At the time of the design of the BPED project, it was felt that insufficient information existed regarding the micro-enterprise sector in Botswana, particularly regarding the size, composition and characteristics of off-farm enterprises in rural areas as well as urban micro-enterprises. Likewise, the need and feasibility of a credit program for micro and small-scale enterprises was not clear. As a result, many very small micro-enterprises, particularly those in the trading and services sectors and those in rural areas, were not included as beneficiaries of the BPED project and credit was not included as a project element.

Consequently, the project has provided for two studies during the first two years of the project that will research this topic to determine if this is an area in which the Mission desires to intervene and, if so, the feasibility of providing potential interventions. Should the answers to these two questions prove to be positive, the Mission would design a micro-enterprise project utilizing the results of these studies. Such a project would most likely utilize an Operational Program Grant as a funding vehicle.

These studies could be under the direction of the contractor for the BPED project and would be undertaken with the cooperation and the assistance of BOCCIM and the Peace Corps.

Study #1 - Area Opportunity Assessments/Sub-sector Analyses

This study will be conducted during the first year of the project and will be performed in two phases. The first phase will begin with a general review of literature and research on male and female-owned/operated, formal and informal micro-enterprises in Botswana. Following this review, the team will do field research in three urban and surrounding rural areas, one will be the area around Francistown, another will be the area around Lobatse, and a third will be chosen by the team. This research will determine product and service areas with good potential for citizen-owned, micro/small-scale enterprise development. This phase should take approximately three weeks.

During the second phase, specific subsectors with good micro/small enterprise development potential, which were identified during the first phase, will be studied in depth. The research in the second phase will assess and delineate the opportunities and constraints to enterprise start-up and expansion in the geographic areas studied during phase one. A sampling of male and female-owned/operated local enterprises will be surveyed through intensive interviews to thoroughly understand the subsectors in which they operate. These studies will include market analysis (both local and export), production factors (including material, labor, capital and equipment requirements), financing needs and opportunities for credit, regulatory restraints, ease of entry, entry qualifications/training needs and the linkages between urban and rural enterprises and markets. In recognition of the general, world-wide tendency for women to run a substantial percentage of micro-enterprises, especially in trading, special attention will be paid to the constraints and conditions under which women entrepreneurs operate. This will include the effects of the legal and regulatory regimes on female-owned/operated enterprises and particular needs of women entrepreneurs. To the degree possible, all data will be disaggregated by gender.

The final report of this study will present an analysis of Botswana's micro-enterprises with an assessment of the feasibility of assisting this sector. If assistance to this sector is viewed as feasible, recommendations would be made regarding types of assistance that could be provided by USAID including credit, training and technical assistance. Particular attention will be given to the relative advantages and disadvantages of assisting urban versus rural micro-enterprises. Potential institutions for delivery of those interventions would also be identified.

This study would take place over a six week period and would require the services of three consultants. An expert in micro/small enterprise development would serve as team leader (six weeks), a social scientist/WID specialist (first four weeks), and a credit specialist (last four weeks).

Study #2 - Institutional Analysis

This study would be contingent upon the results of the first study. Should that study reveal that USAID assistance to micro-enterprises is feasible and the Mission finds it desirable to pursue activities in this area, this second study would be conducted during the second year of the project.

This study would identify and analyze potential institutions, both local and international, for implementation of a project for micro-enterprise development. Preference would be shown to private sector and non-profit, non-governmental organizations as the key executing institution(s) for project implementation. However, linkages

ANNEX J

RLA OPINION REGARDING LAUTENBERG

Based on my review of the Project Paper for the Botswana Private Enterprise Development (BPED) Project, and related discussions with Ray Baum, USAID/Botswana, PDO, it is my opinion that BPED is not in violation of the Lautenberg amendment (now consolidated in the FY 1991 Appropriations Act ("Act") as Section 521(c)), the Bumpers Amendment (Section 521(b) of the Act), Section 521(a) of the Act, or AID Policy Determinations 71 or 15.

This opinion is based on the following assumptions and analysis:

(1) Few, if any, BPED-financed activities will involve support for agricultural exports. Many activities, such as those under the policy development and implementation component, and general business skills training, BOCCIM strengthening, private sector network-building, and general investment promotion and support, will not be commodity- or industry-specific. Few BPED-financed activities will involve support for companies producing commodities for export, and even when they do, any increase in production of those commodities as a direct result of BPED financing is likely to be small or non-existent, and unlikely to cause substantial injury to, or be in direct competition with, U.S. companies exporting the same, similar or competing commodities.

(2) Funds will be provided to BDC and IESC under sub-grant agreements that will not reserve significant approval rights to AID for selection of specific activities to be supported under the sub-grants, and the activities eligible for grant funding will be described in the sub-grant agreements or implementation plans in general terms, such as "feasibility studies," without identifying commodity- or industry-specific activities to be so supported. AID does not intend that BDC or IESC grant funds should be used for any commodity- or industry-specific activities already identified by AID at the time the sub-grants are signed, and AID will permit the grantees to select the specific activities to be supported under their sub-grants, within the limitations of the general requirements of the sub-grant agreements. BDC and IESC will retain considerable autonomy in deciding which specific activities will be funded under their sub-grants, without significant AID control. Consequently, under the BDC and IESC sub-grants AID's assistance, if any, to support activities otherwise covered by Lautenberg or the related restrictions would be only indirect, and not prohibited by law. The RLA recommends that an RLA clear the BDC and IESC sub-grant agreements to ensure the agreements properly describe the activities to be supported under the sub-grants.

(3) Funds will be provided to BOCCIM under a cooperative agreement that will require approval by a Project Implementation Committee (PIC), and AID, of prospective implementation plans for activities to be funded under the cooperative agreement. The cooperative agreement will also state that AID will not approve any such plan (or other request for approval of an activity) that specifically identifies an activity that is foreseen at the time of plan submission to involve assistance in establishing or expanding production of a specifically identified commodity for export, if in AID's judgement such activity will violate Lautenberg or any of the related restrictions. (In fact, in many cases the BOCCIM implementation plans will not identify future activities with such specificity). The cooperative agreement will state that AID generally will not approve activities of the type identified in Lautenberg, i.e. feasibility studies, pre-feasibility studies or project profiles of potential investment involving textiles and other "import-sensitive" commodities for export. BPED will not provide assistance in the direct establishment of facilities specifically designed for manufacturing of such export commodities. A covenant similar to the covenant in the BOCCIM cooperative agreement will also be included in the project grant agreement signed with the GOB. The RLA recommends that an RLA clear any BOCCIM implementation plan or other request for USAID approval of funding for an identified activity if the plan or other request contemplates support for a company involved in exports.

(4) To elaborate on the analytic basis for the approval necessary under paragraph (3) above, USAID/Botswana need conclude that Lautenberg and related restrictions are not violated only in those few cases where AID's assistance is both (a) direct, in the sense that AID approves commodity-specific activities, and (b) involves commodities for export to the U.S. or third country markets in direct competition with U.S. exports. Because BPED assistance is unlikely to result directly in a significant increase in production of exports and because Lautenberg-type activities (feasibility studies for textile exports, etc.) generally won't be supported, it will usually be easy for AID to conclude that Lautenberg and the related restrictions are not violated. Nevertheless, in such cases, as in the case of approving a BOCCIM implementation plan identifying such an activity, USAID/Botswana must undertake the analysis necessary to reach this conclusion. For example, the Mission must determine whether feasibility studies or other Lautenberg activities are involved, whether the commodity is "import-sensitive" under Lautenberg or an agricultural commodity subject to Bumpers or the Policy Determinations, and whether any increase in production as a result of the BPED-financed activity is likely to be significant enough, in light of the volume of U.S. exports of the same, similar or competing commodity to the same markets, to cause substantial injury to, or be in direct competition with, U.S. exporters.

Few, if any, technical assistance, training, business linkages, investment promotion and support, or the activities financed under BPED are likely to lead, directly and by themselves, to a significant increase in production of export commodities, even where export commodities are being targeted. For example, although one eventual result of promoting a linkage between a U.S. business and a Botswana business might be an increase in the export of a particular commodity from Botswana, in most cases BPED support for such a linkage would be expected to be only distantly connected to an eventual increase in exports, given the numerous independent variables that will intervene and affect whether exports are actually increased. It would usually be difficult to conclude that AID's assistance in supporting the business linkage itself "causes" substantial injury to the U.S. producers, even if the linkage eventually results in a joint venture that significantly increases export production. For example, on the most fundamental level, at the time of such BPED assistance it may even be uncertain exactly which commodities or markets will be targeted. Similarly, general financial management assistance or other general management training provided to a business that exports several products to several markets cannot reasonably be credited with an increase in production of one of the company's exports to one of its markets. In many cases, an eventual increase in production of a particular export cannot be directly attributable even to AID assistance for that particular export, given that in most, if not all, cases AID's assistance will not be sufficient, and perhaps not even necessary, to cause such increase.

However, we cannot say that in all cases, as a matter of law, the causal link between AID's assistance under BPED and an increase in production is too tenuous to be illegal. It may be difficult, but a line must be drawn between those AID-financed activities that in fact do constitute "assistance for establishing or expanding production" of an export commodity and in fact "cause" such establishment or expansion (see Section 521(a) of the FY 1991 Appropriations Act), and those that are causally connected to such establishment or expansion in only an indirect, tenuous way. Furthermore, some of the restrictions, such as Lautenberg, do not require that AID assistance itself "cause" an increase in production or substantial injury.

Consequently, the analysis described above should be undertaken whenever the commodities, markets and existing or likely export volumes are already identified at the time of AID approval. If AID is to approve a specific business linkage trip, technical assistance or management training involving an export company, and it is clear what commodities, export markets and likely export volumes will be involved, then USAID/Botswana should be sure the commodity is not "import-sensitive" or an agricultural product, the commodity will not be in direct competition with U.S. exports, the

178

activity is not part of an AID-financed feasibility study, pre-feasibility study or project profile of potential investment, or for other reasons the activity does not create a problem under Lautenberg or the related restrictions. Most business linkage trips may in fact be at such an exploratory stage that specific commodities, export markets or export volumes cannot yet be identified with certainty. Also as discussed above, BPED assistance for any specific business linkage trip, technical assistance or training will usually be so limited that it will be easy to conclude that such assistance will not itself cause substantial injury to U.S. producers, which conclusion is sufficient to approve the activity if the assistance does not involve "import-sensitive" commodities or Lautenberg activities. Furthermore, most business linkage trips may be under the sub-BDC grant, in which case AID will not approve each specific trip, and AID's financing of such trips is permissible as indirect assistance. On the other hand, AID probably should not approve a business linkage trip specifically identified in an implementation plan for BOCCIM if the trip involves a meeting between a Botswana textile export company and a U.S. investor for the purpose of securing an investment from the U.S. company that by itself will allow the Botswana company to commence substantial exports to a country targeted by U.S. textile exporters.

To facilitate USAID/Botswana analysis of those few cases where the Mission is asked to approve an activity involving specific export commodities, attached is an outline of the activities prohibited under Lautenberg and related statutory and policy restrictions.

Tim Riedler, USAID/Swaziland, RLA
12/28/90

17B

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A. Project Description

The Botswana Private Enterprise Development Project (633-0253) is a six year, \$16.3 million grant project whose goal is increased private investment in non-traditional sectors and increased employment. To realize this goal the project will provide assistance at two levels, and therefore has a dual purpose: (a) to increase domestic and foreign investment in the non-mineral sectors of the economy, (b) broaden opportunities for citizen entrepreneurs, and (c) to increase the effectiveness of the policy dialogue between the private and public sectors to promote private sector development, reduce regulatory and procedural constraints and increase implementation capacity.

To achieve these objectives the project will:

- 1) Assist the operation and expansion of the country's major business organization, the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) through training, limited operational support, and long-term TA in training, policy issues and management issues.
- 2) Assist the Botswana Development Corporation (BDC) in developing medium to large businesses (40% citizen-owned) through TA in the project development field, feasibility studies, pre-production training, and developing business linkages through business promotional trips.
- 3) Provide long term training at graduate level to five Batswana in Government policies affecting private sector growth.
- 4) Provide long term TA through a policy advisor in the Ministry of Commerce and Industry.

B. Identification and Evaluation of Environmental Impact

The impact of this project on the environment is likely to be minimal in overall magnitude and essentially indirect. All project components primarily involve technical assistance, training and study activities which will not have a direct impact on the environment.

Feasibility studies for furthering export promotional businesses may be financed under the project, and some of these businesses have a potential impact on the environment. Each of the feasibility studies will establish environmental guidelines and design criteria for development of the relevant businesses. Such guidelines and criteria will provide guidance for prospective developers and the appropriate Ministry of the Government of Botswana involved in regulating such matters. Currently there is no such unit or body within the Government dedicated exclusively to environmental management and policy determination. Under NDP VII the GOB is proposing to form a

unit which would be responsible for issuing policy and environmental management guidelines to various ministries.

A.I.D. will not retain review and approval authority over any individual business activity not funded by the Project that is undertaken as a consequence of studies or other assistance provided under the Project. None of the project funds will be specifically used for start-up of high growth potential businesses. Where appropriate, training and technical assistance, including training of construction management experts, will include assistance regarding environmental impact planning.

Based on the above discussions and a more clearly defined scope of this project activity, and as recommended in the ECPR cable (State 135612), the PP recommends categorical exclusion for the BPED project. All project components will involve either education, technical assistance, training, studies or meetings and will not include activities directly affecting the environment. Consequently, the categorical exclusions in Regulation 16, Sections 216.2 (c)(2)(1) and (111), are applicable here.

17

with existing governmental institutions working in this sector would be sought. Linkages with the BPED project would be made; analysis and recommendations would be made regarding the feasibility of the expansion of BPED to include this sector as part of its focus.

The report for this study would include an analysis of each of the various institutions studied. Recommendations would be made as to the feasibility of implementing a micro-enterprise project utilizing existing institutions or creating new institutions. Upgrading requirements for project implementation would be made.

This study would require the services of an expert in micro-enterprise development with experience in institutional analysis for 4 four weeks. The micro/small enterprise development expert would also have experience in WID issues so that the special needs of female-owned/operated micro-enterprises would be addressed in the institutional plan.

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ACTION: A I D-2 INFO AMB DCM ECON (5)

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TAGS:

SUBJECT: IEE FOR PRIVATE ENTERPRISE DEVELOPMENT PROJECT
(633-0253)

REF: GABORONE 06156

1. BUREAU ENVIRONMENTAL OFFICER HAS REVIEWED REVISED IEE AND APPROVES CATEGORICAL EXCLUSION BASED ON PROJECT DESCRIPTION IN REFTEL. WOULD SUGGEST THAT REGIONAL ENVIRONMENTAL ADVISOR AND BEO BE COPIED WITH ANY ENVIRONMENTAL GUIDELINES AND CRITERIA AS THEY ARE DEVELOPED, ALSO SUGGEST THAT REO BE CALLED UPON TO HELP PROVIDE ASSISTANCE IN DEVELOPING GUIDELINES AND SCOPES OF WORK FOR FEASIBILITY STUDIES.

2. THIS CABLE HAS BEEN CLEARED BY AFR/GC. BARTHOLOMEW
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178