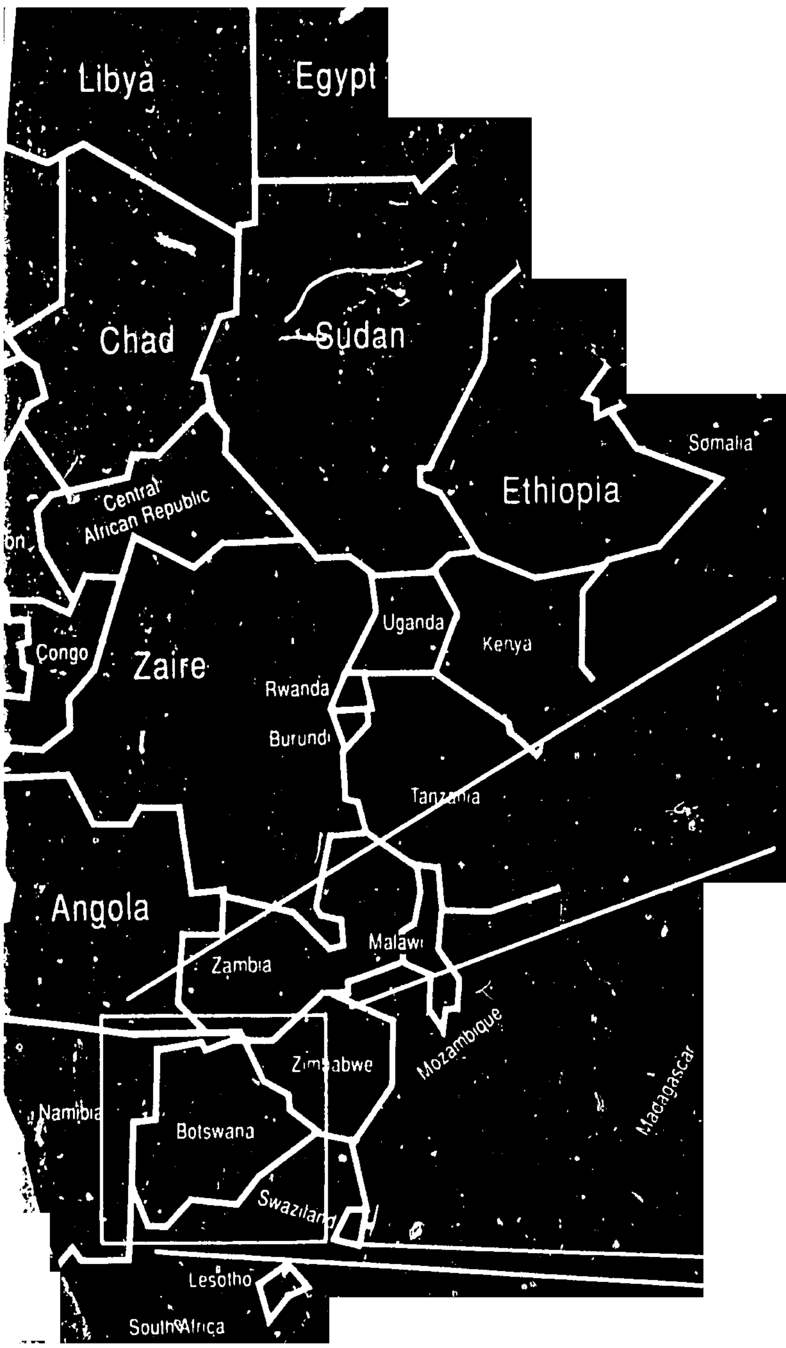
THE AGENCY FOR INTERNATIONAL DEVELOPMENT PRESENTS

# Critical Issues For American Investors in Botswana

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PRESENTS

# Critical Issues
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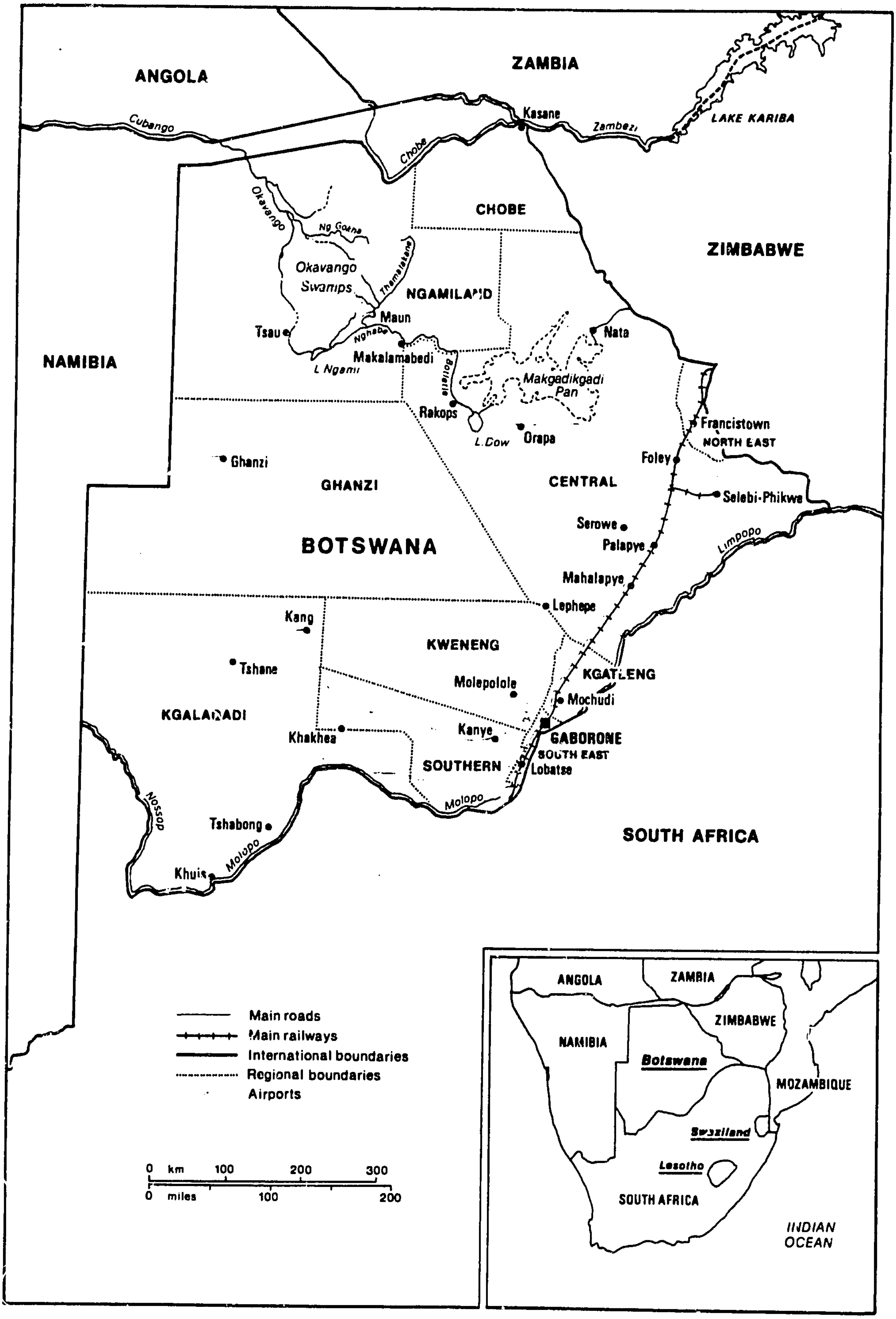
Business International
40 Duke Street, London W1A 1DW
United Kingdom

# Botswana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NGAMILAND
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Pan
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Francistown
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Orapa
NORTH EAST
Ghanzi
Foley
GHANZI
CENTRAL
Selebi-Phikwe
Serowe
BOTSWANA
Palapye
Limpopo
Mahalapye
Lephepe
Kang
KWENENG
Tshane
KGATLENG
Molepolole
Mochudi
KGALAGADI
Kanye
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SOUTH EAST
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Tshabong
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Main roads
Main railways
International boundaries
Regional boundaries
Airports
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0 miles 100 200
ANGOLA
ZAMBIA
ZIMBABWE
NAMIBIA
Botswana
MOZAMBIQUE
Swaziland
Lesotho
SOUTH AFRICA
INDIAN
OCEAN

| | |
|---|---|
| **BASIC DATA:** | **BOTSWANA** |
| Land Area: | ·581,730 square kilometers |
| Population (1989),<br>Growth rate: | 1,255,749<br>3.7% p.a. |
| Capital Gaborone: | population 125,000 |
| Climate: | Sub-tropical. Hot and dry |
| Languages: | English (official) and SeTswana |
| Currency: | Pula (P) = 100 thebe |
| Exchange Rate:<br>(Jan 1991) | One pula equals 54 US cents. |
| Time: | Two hours ahead of GMT |
| GDP per capita (1990): | SDR 1,830 |

# Contents

# Executive Summary

During the 1980s, the Botswana economy grew at an annual rate of 10.2% according to the World Bank - making it not just Africa's fastest-growing economy but putting it on a par with South Korea (10.1%). This performance should not be exaggerated; it started from a very small base; it is a small country with a population of only 1.26 million and its growth was substantially dependent on the exploitation and export of diamonds.

Unlike most African countries, Botswana has maintained an outward-oriented economic strategy with minimal state intervention and low levels of protection. The government is committed to a free enterprise economy, maintains the most liberal exchange and payments system in Africa that guarantees ready access to imported inputs and unfettered remittance of profits and dividends. It is one of just two successful multi-party democracies in Sub-Saharan Africa - the other being Mauritius - holding free, fair and peaceful general elections at regular intervals, with a record of political stability.

It will, however, be difficult to maintain the economic momentum in the 1990s which could mark a watershed for the country. The two main sources of economic growth - diamond exports and government spending - will not be sustained. Indeed, the 1991/2 budget presented in February 1991 reveals a decline in diamond exports during 1990, while projecting a deterioration in the country's balance of payments position and the first budget deficit since 1982/3.

The pattern of future economic growth is bound to be substantially influenced by developments in neighboring South Africa - the regional economic superpower. While Botswana needs to diversify its economy, reducing dependence on diamonds and finding new non-traditional exports, its capacity to do so will be inhibited by competition from South Africa - the more so since Botswana is a member of the Southern African Customs Union (SACU).

The crucial constraint on investment in Botswana is not the regulatory environment - which is very favorable - nor economic policy, which has always been pragmatic, but the narrow resource base.

### Relations with the United States

Relations with the United States have always been close and cordial. Washington has supported Botswana financially and politically especially when the country was under threat from South Africa for allegedly giving refuge to guerilla fighters. But because of its financial strength, its relatively high per capita income and small population, Botswana is not a major recipient of US aid. The US has aid disbursement targets averaging just over

$8 million annually during the 1991/95 period.

The US aid program targets human resource development, especially education and training, fostering private enterprise, including workforce and self-help and population programs. Particular attention is also paid in aid programs to financial sector development and the expansion of non-traditional exports. The US also contributes to regional programs through Southern African Development Coordination Conference (SADCC).

**Prospects for the Economy in the 1990s**

Economic prospects in the 1990s will depend on two main considerations:

* the performance of the world diamond industry; and
* geopolitical developments within southern Africa.

National Development Plan 7 covering the period from 1991 to 1997, projects a marked slowdown in the growth rate of the economy from the recent average of 9% annually to 5%. Government, with a projected growth rate of 14% will be the lead sector followed by manufacturing with 7%. But mining growth is projected to slow to only 1% (at constant prices) while agriculture, with an expansion rate of just 2% a year, will continue to fall behind population growth.

Given the mining sector's dominance, the most important single determinant of future economic growth is the outlook for diamonds and - to a substantially lesser degree - other minerals such as copper-nickel and gold. No new major diamond mine has been discovered in recent years, nor are there plans for any major expansion in output. Most forecasts suggest that for the rest of the century, diamond prices are unlikely to do much more than keep pace with the rate of OECD inflation - no more than 5% a year.

Agricultural development will continue to be constrained by the scarcity of arable land and the limited scope for irrigation. Continued growth in small-scale agricultural production is probable due to improved infrastructure, better incentives and enhanced extension services, but large-scale improvements are unlikely except in isolated areas.

A crucial contributor to the forecast slowdown in economic growth will be the tapering off in the growth rate of public expenditure and the declining public sector surplus.

This suggests that Botswana's twenty-year spectacular boom is unlikely to extend into the 1990s, unless important new mineral deposits are discovered and developed, or there are significant and unexpected increases in diamond prices. In this situation, the underlying development strategy will remain that of recycling the diamond surplus to broaden the economy and develop new sources of growth. Manufacturing industry will be expected to fulfil a key role as a source of employment and non-traditional exports. Given this background, the growth rate of the economy through the year 2000 is forecast to stabilize at approximately 4% to 5% annually. This assumes that further - modest - diamond production gains are feasible and/or that there is some improvement in the real price of diamonds. Such production and/or terms-of-trade gains are essential since, without them, the 60% of the economy comprising mining and government will not expand. This follows from the fact that government is heavily dependent on mining sector revenues and if these fail to grow, its activities will have to be curtailed.

**The Role of Private Enterprise**

Government sees its role in the economy as an enabling one - providing a stable environment, efficient infrastructure and trained and skilled workforce, leaving private enterprise to undertake directly productive investment. All the published development plans contain the same essentially similar commitment to a private enterprise economy.

In the mid-1980s, it was calculated that the private sector contributed roughly three-quarters of GDP, government 14% and parastatals 10%. However, when account is taken of the diamond sector, in which the government has a fifty percent stake, this almost certainly understates the state's role. Traditionally, the government has avoided direct state participation in productive ventures preferring instead to create incentives to the provide sector to generate employment opportunities and output growth.

To promote the private sector the government provides technical and financial assistance to individuals and firms. Since entrepreneurship is seen as a major constraint on development, particular emphasis is laid on developing entrepreneurial skills among the Batswana. Foreign investment is also crucial to the development strategy - as evidenced in mining, manufacturing and banking.

**The Case for Investing in Botswana**

Botswana has some powerful investment attractions:

* It has the most liberal foreign exchange and payments system in sub-Saharan Africa underpinned by massive foreign reserves equivalent to more than 30 months import cover. There is, therefore, no risk - certainly for the rest of the century - of the country being forced to impose exchange restrictions. There are no exchange control restrictions on current transactions - profits and dividends are freely remittable - while controls over capital movements are being gradually liberalized.

* It has an investor-friendly environment in terms of the regulatory environment, reasonable tax regime and rates of taxation, and industrial relations regulations, including those applicable to expatriates.
* Geographically,it is well situated for market penetration of South Africa (through SACU membership) and also Zimbabwe (via the bilateral trade agreement).

* Because of the liberal trade and payments system, it is easy to maintain and service industrial plant and machinery in Botswana. There are no delays in seeking import licenses and approvals for spare parts or replacement equipment. It is possible to import costly, state-of-the-art machines, where these are needed to maintain international competitiveness.

* There is a plentiful supply of unskilled labor, though this is not cheap by international (especially Asian) standards.

* Industrial relations are good and labor disputes rare

* There is a range of incentives - tax holidays, reimbursement of training costs, subsidies on job generation - designed to attract new investment.

* There is a sound basic infrastructure in terms of transport, telecommunications and energy.

* There is a fast-developing and increasingly sophisticated financial infrastructure.The existence of a large private sector savings surplus generated by pension funds and life assurance companies, means it is possible to raise domestic capital readily via the fledgling Botswana Stock Exchange.

* The country has a long record of political stability and multi-party democracy, underpinned by harmonious race relations.

**The Regulation of Foreign Investment**

The regulatory environment is essentially investor-friendly. Botswana does not require foreign investors to offer equity participation, though there is a preference for joint ventures, either through the government, the Botswana Development Corporation (BDC) or - more recently - the domestic capital market. The government expects foreign companies to:

1. Regard themselves as full participants in Botswana's economic life and take a long-term view of their contribution to the country. Investors should take steps to

ensure that their operations in Botswana become as independent as feasible in respect to performing their own technical services, adaptive research, purchasing of inputs etc.,

2. Foreign investors should recognize the need to train Botswana citizens at all levels of technical expertise and reduce the non-citizen share of their workforce over time. Specific incentives are provided for this. Foreign firms who are maintaining appropriate levels of training activities receive cooperation in meeting their remaining requirements for work permits for non-citizens.

3. Foreign investors are encouraged to offer shareholdings in their ventures to citizens.In some sectors, the government will expect to be a direct shareholder while in others the BDC will take an equity interest. In most sectors, individual Batswana should be sought as partners.

While Botswana does not have a one-stop investment center, there are plans to establish such a body. At present businessmen say it takes between three and six months - at best - and often between six months and a year to obtain all the necessary approvals, including expatriate work permits, to set up a venture in Botswana.

**Constraints**

Investment opportunities in Botswana are limited by :

* The size of the market. Although there is a GDP of $2.5 billion, a significant proportion of this does not represent domestic spending power since interest payments abroad and dividend/profit remittances represent an outflow of more than one billion pula or almost one fifth of GDP. The total import bill of $1.6 billion (1989) gives a better indication of the market size.

* The country's narrow resource base. Because of this, there is limited scope for processing domestic raw materials.

* Constraints on the availability of essential inputs for production - serviced industrial land, but more importantly skilled labor and, most severe of all, water. Utility services - water, electricity - are relatively costly.

* Limited scope for exports, given the natural domestic resource base and the distances over which exports must be moved

* Membership of SACU which means that domestic production must be competitive with South African-produced goods. South Africa has obvious advantages especially in terms

of access to raw materials, skills, a highly sophisticated physical and financial infrastructure, a powerful private enterprise sector, lower transport and capital costs and, above all, very substantial scale-economy advantages.

* The workforce is unskilled and frequently poorly-motivated. Entrepreneurial, administrative and managerial skills are also scarce.

**Investment opportunities**

The main investment opportunities would appear to be :

* Light manufacturing - producing consumer/producer goods to replace imports, mainly from South Africa or Zimbabwe. Possibilities include items for the booming construction sector ( building materials, tools etc); consumer essentials (toiletries, pharmaceuticals, healthcare products).

* Infrastructural investment - products or industries catering for investment in infrastructure - road and rail transport, housing, water resource development, energy etc.

* Tourism. There is scope for new hotels and associated tourist services (taxis, tour and safari operators) to exploit the new tourism strategy and benefit from the construction of the new international airport at Kasane. At present, there are insufficient hotel beds to justify the new airport.

* There are unexploited opportunities for the by-products of the cattle ranching sector - the most obvious being the development of a tanning and leather products industry for export and domestic sale.

* The Selibi-Phikwe regional investment incentives are designed to encourage investment in export-oriented activities, especially textiles. Some foreign companies are already manufacturing textiles there for export to the EC and North America. Because Asian producers have run up against quotas on their textile/garment exports to these markets, they are looking for new locations in quota-free countries from which they can penetrate overseas markets.

* Vertical/backward integration. One canvassed possibility is the development of a small cotton ginnery using cotton grown under irrigation in the Tuli Block area. This would be a genuine case of exploiting domestic raw materials for export in processed form. Similarly, an investigation into developing a silk industry is under way.

* There is scope too for some high-tech manufacturing activities. Because Botswana has such a powerful foreign exchange position, it is able to purchase the plant and machinery needed for such high-tech activities. The downside is the scarcity of skills needed to maintain and use such equipment.

* Opportunities exist for niche manufacturing and export projects.The use of hardwoods in the north of the country is one such obvious niche opportunity,already being exploited in both Zimbabwe and Mozambique.

* Privatization. In NDP 7, Botswana is committed to ensuring that the developmental thrust lies in the private sector. The BDC has already embarked on a strategy of selling off some of its equity in its successful ventures, thereby freeing up funds for new projects. While the main thrust of this privatization activity is aimed at Botswana citizens, there will be some opportunities for foreign companies to purchase equity in existing businesses from the state.

* Franchising - there is an obvious gap for franchise activities - especially fast-foods, utilising Botswana beef.

* Services - there is an acute shortage of skills. Accordingly there is a wide range of openings for consultancy services, manpower training programs, the development of management information systems etc., All forms of technical, financial and managerial training are undeveloped, and there is scope to develop service activities across a broad front.

* Healthcare services - there are limited opportunities for establishing private hospitals/clinics to provide a service for those willing to pay for medical attention rather than use state-provided facilities.

* Banking and financial services - the Botswana government is determined to increase competition within its increasingly-sophisticated financial sector. There are openings for new banks, insurance companies and other financial institutions.

The prospect of an opening up of the South African market as economic sanctions fall away, and a rapid increase in the buying buyer of black consumers in South Africa, could well attract US-based firms to establish a manufacturing presence in Botswana as a launch-pad for exploiting the South African market when the time comes.

## US Investment in Botswana

Most foreign investment in Botswana is South African, but there is a growing US presence, including H J Heinz in edible oils, through its Zimbabwean subsidiary, Olivine Industries, and Colgate-Palmolive in consumer products. Amax is a major shareholder (30%) in the copper-nickel sector and Phelps Dodge has gold mining interests. Interkiln is developing a brick and pottery operation and St Paul Insurance is active in the insurance sector.

There are few sizeable investment opportunities available in Botswana though the development of the Morupule power project being investigated by Bechtel, is one of a small handful of exceptions. Botswana is more likely to appeal to the medium-sized or small US multinational corporation, rather than the major players, though the recent Heinz investment and that by Sheraton, which has opened a new hotel in Gaborone, shows that there are openings for larger players. Above all, major US multinationals may decide that Botswana is an appropriate location for penetrating the South African market. Given that there is no US banking presence in Botswana, this is an obvious opening in the light of the government's determination to increase competition in the financial services sector.

## Joint Ventures

Finding a joint-venture partner in Botswana is not difficult. The BDC is usually willing to find a partner, or indeed to participate on its own behalf. There is a rapidly-growing financial sector and the commercial banks and the Botswana stockbrokers are ideally placed to offer guidance on the selection of investment partners and the sourcing of local finance. In fact, it is probably more difficult to find suitable projects -given the size of the market and the narrow resource base - than partners.

# Introduction

Botswana is sub-Saharan Africa's most successful economy. Since independence in 1966, it has grown at a spectacular average annual rate of 13% a year, boosting per capita incomes from a mere $110 to $2,250 in 1989. Today it is the third most prosperous economy in the entire region after Gabon (oil exporter) and South Africa.

Its success owes much to good fortune - the discovery and exploitation of rich diamond deposits - but also to sound, if conservative, economic management and an enlightened administration. Its achievements are all the more impressive given its narrow natural resource base, the climatic setbacks it has suffered - two very severe droughts in the 1960s and again between 1981 and 1987 - and economic and political strains imposed by the Rhodesian liberation war in the 1970s and South Africa's destabilization policies during the 1980s.

At the same time, it has successfully avoided the problems experienced elsewhere in sub-Saharan Africa; it has not been forced to adopt an externally-designed structural adjustment program - though it did implement its own policy reforms after the collapse of the diamond market in 1981. It has not been forced to reschedule its foreign debt, nor to become heavily reliant on aid inflows. Instead, it has managed to pursue economic policies that achieved rapid output, exports and employment growth while keeping inflation in check. Its economic record is one of intelligent and pragmatic management of mineral wealth, avoiding the dangers of excessive public spending and of milking the diamond cow to the point where new investment is discouraged.

Botswana has been an island of political stability in a politically turbulent sea. It is one of just two successful multi-party democracies in sub-Saharan Africa - the other is Mauritius. Like Mauritius, it has pursued outward looking, trade-oriented development strategies. It has held free, fair and peaceful parliamentary elections at regular intervals and has a proud record of political stability.

But the 1990s could well mark something of a watershed for the country. The two main sources of economic growth over the last 20 years - fast-growing diamond export earnings and rapidly-rising government spending - are unlikely to be sustained. Two major influences are likely to substantially determine both the pattern and the speed of future economic growth.

On the one hand, the signs are that the great diamond boom is over. After growing at an annual rate of 35% a year in pula terms between 1984 and 1989, diamond exports declined slightly in 1990, falling 11% to P1.8 billion in the first nine months of the year.

If - as is very possible - almost half the country's GDP (the diamond sector) experiences negligible volume growth, then the overall growth of the economy must fall. The World Bank believes that the most Botswana can expect is mining sector gains of no more than 4% annually - a marked reduction from the 15% to 20% experienced over the past 20 years. With no major new diamond - or other mining - projects in prospect, once the Sua Pan soda ash plant is completed, Botswana is seeking a new and different engine of growth for the rest of the century.

On the other hand, the fast-changing regional geopolitical situation is certain to influence the economy. The years of sanctions and confrontation with South Africa are being replaced by a new mood of cooperation and interdependence. It is still too early to tell whether political reform in South Africa will result in a smooth and relatively peaceful transition to majority rule and an end to policies of economic isolation imposed by the international community.

Whatever happens, the impact on Botswana in the 1990s will be far-reaching. Should the reform process in South Africa break down in faction-fighting, bloodshed and chaos, Botswana, which is highly integrated with the South African economy, relying on it for three-quarters of imported supplies, is bound to suffer. It might benefit - marginally - as South African, and multinational, firms relocate activities in Botswana to exploit its harmonious industrial relations environment and generally positive investment climate, but such gains are almost certain to be substantially outweighed by the deterioration in the regional geopolitical climate and the disruption of Botswana's sources of supply and transport links.

Alternatively, should South Africa move rapidly to a new social and political order, the overall impact will be favorable, though it might also result in some diversion of investment away from Botswana, as international firms seek to locate in South Africa with its superior infrastructure, its advanced technology and its massive scale economy advantages. With a GDP of some $80 billion, the South African economy is roughly forty times that of Botswana.

Whichever scenario eventually applies - or whichever intermediate outcome materializes - Botswana's economic future is inextricably linked with that of South Africa. Accordingly, investment decisions - not just in Botswana but in other countries in the region such as Zimbabwe and Namibia - cannot be made without factoring in the South African connection.

Fortunately, Botswana is less vulnerable than Zimbabwe or Zambia to the extent that it would not be directly competitive with South Africa in a post-apartheid environment to anything like the same extent. Its tiny manufacturing sector - with an estimated manufacturing value added of only $85 million - would not face the same kind of direct competition in third markets that Zimbabwean industry can anticipate. Nor is Botswana as viable an alternative to South Africa for the location of a new manufacturing facility as Zimbabwe. Undoubtedly, economic growth will benefit from the improving political climate in the region. Although Botswana itself was never a prime target of South African destabilization, it did suffer from incursions by the South African forces, leading to the formation of a defence force and increased spending on security. If the reform process in South Africa succeeds, then a strong, fast-growing South African economy will become an economic locomotive for the region - a development from which Botswana must benefit.

At the same time, it is possible - indeed likely - that an internationally acceptable South Africa will attract some investment flows that might otherwise have gone to the Frontline States, including Botswana. In particular, there will be less justification for establishing manufacturing facilities in Botswana to service regional markets - including South Africa - so as to avoid the political odium of direct investment in or trade with South Africa. However, this downside risk of political reform in South Africa should not be exaggerated, though it is very likely that multinational corporations considering establishing manufacturing facilities in the region will prefer to locate close to the main market in South Africa itself rather than in any of the peripheral economies. For Botswana to attract this kind of "satellite state" investment, there would need to be very substantial advantages - in the form of lower wages or tax rates - to offset the lower transport costs and the scale economy advantages of locating in South Africa itself.

Present indications are that Botswana is unlikely to provide the margin of competitive advantage necessary to divert investment from an internationally-acceptable South Africa.

Botswana has always actively encouraged foreign investment. There are no restrictions on profit and dividend remittances or capital repatriation. The exchange control regime is far and away the most liberal in Africa. It has never nationalized or expropriated any foreign-owned enterprise. There is an independent judiciary and the courts uphold contracts. Government corruption is rare and severely punished when uncovered.

The crucial constraint on investment - domestic as well as foreign - is not the regulatory climate, nor the government's macro-economic policies, but the country's narrow resource base. The small domestic market of 1.26 million people, scarce water resources, poor soils, a hostile climate and high-cost utilities, between them create a major natural barrier to investment. In this situation, government policy focuses on creating an enabling environment, recycling the diamond wealth to improve the efficiency of the infrastructure and the workforce, while pursuing tax and monetary policies designed to encourage entrepreneurial activity.

Chapter 1

# The Political Background

## 1.1 The Political Situation

Botswana, formerly the British protectorate of Bechuanaland, became independent on September 30, 1966. It is a multi-party democracy with elections held at regular - usually five-year - intervals. Sir Seretse Khama, leader of the Botswana Democratic Party (BDP) and hereditary chief of the Bamangwato, was president and head of state from independence until his death in July 1980. He was succeeded by Dr Quett Masire, co-founder of the BDP, who has been president since 1980.

Legislative power is vested in a 38-member National Assembly and a 15-member advisory House of Chiefs. The most recent elections were held in October 1989 in which the BDP increased its majority to win 31 of the 34 contested seats. The remaining four seats are nominated by the president for approval by the assembly. The main opposition party is the Botswana National Front (BNF), led by Dr Kenneth Koma. It held five seats during the 1984-89 parliament but lost two of them in the 1989 elections, when another opposition party, the Botswana People's Party (BPP) lost its sole seat.

The ruling party won 75% of the votes cast in the 1989 elections while the BNF's share of the poll fell to 15% from 20% in 1984. The BNF stands for more interventionist policies, including land reform and rapid industrialization, designed to generate more jobs and narrow the urban-rural income gap.

There are five other small opposition parties which agreed in 1990 to form an electoral alliance against the ruling BDP in the next elections. The opposition parties agreed to nominate a single member for each constituency so as to avoid splitting the anti-BDP vote.

**Parliamentary Representation**

| | 1984 Seats no. | 1984 Votes % | 1989 Seats no. | 1989 Votes % |
|---|---|---|---|---|
| Botswana Democratic Party (BDP) | 29 | 68 | 31 | 75 |
| Botswana National Front (BNF) | 4 | 20 | 3 | 15 |
| Botswana People's Party (BPP) | 1 | 7 | - | 5 |
| Other | - | 5 | - | 5 |

## 1.2 International Relations

Botswana's foreign relations have been dominated by regional political crises - first in Rhodesia (Zimbabwe) during the 1960s and 70s, then in Angola, Namibia and within South Africa itself. Relations with South Africa became increasingly tense during the 1980s, as Botswana came under pressure from Pretoria to sign a mutual security pact designed to prevent African National Congress (ANC) guerillas from infiltrating into South Africa from Botswana. Botswana insisted that it did not harbor guerilla camps and refused to sign the pact. In June 1985, South African commandoes killed eleven people in an attack on alleged ANC targets in Gaborone. There was a further attack in May 1986 when South African aircraft bombed alleged ANC targets inside Botswana.

Cross-border incidents during the late 1970s, mainly involving nationalist guerillas fighting the white minority government in Rhodesia, forced Botswana to establish a defence force. Previously, border security had been provided by the Police Mobile Unit (PMU), with a strength of 1,000 men. In 1977, the Botswana Defence Force was established with an initial strength of 2,000 men, but this has since increased to 4,500 men. There are three airforce squadrons and 13 combat aircraft. British military personnel have provided training assistance and defence spending now accounts for approximately 10% of the budget.

A new crisis erupted in 1987 when Bophuthatswana - one of the so-called independent homelands - imposed visa requirements on Botswana citizens that threatened to halt railway traffic across the border and to make it more difficult for migrant workers to travel between the two countries. The dispute was subsequently resolved by changing the operating arrangements for railroad crews.

The situation improved dramatically during 1990 with Namibian independence and the election of President F W de Klerk in South Africa. Close bilateral relations were established with the new government in Namibia and the reversal of South Africa's previous policy of destabilization by Mr de Klerk has opened the door to improved bilateral relationships throughout the region. Similarly, the peace talks in both Angola and Mozambique are indicative of a healthier regional geopolitical environment.

Chapter 2

# Economic Performance and Outlook

## 2.1 Background

At independence in 1966, Botswana was one of the poorest countries in the world with an annual per capita income of only $110. Development had barely begun and the mainstay of the economy was large-scale cattle ranching. The bulk of the population relied on income from livestock supplemented by subsistence agriculture. Agricultural potential is limited in a country two-thirds of which is desert, with poor soils elsewhere, subject to frequent drought and with only modest potential for irrigation.

During the early 1960s, one third of the national herd - the country's sole substantial economic resource - was lost in the severe drought. Half the government's recurrent budget and its entire capital expenditure budget were met by grants-in-aid from the British government. There were more Batswana employed in South Africa (52,000) than in formal sector jobs at home (23,000). Domestic savings were negative; the consumption requirements of the population were met by drought relief assistance. There was a large current account deficit financed largely by the inflow of remittances from workers employed in South Africa. Domestic investment was a mere 10% of GDP.

Despite these numerous constraints, Botswana became Africa's fastest growing economy during the 20 years to 1989. The economy was transformed in the 1970s and early 1980s from an agrarian country to a mineral-based one with the development of diamond mining and the exploitation of copper-nickel deposits. At the start of the 1990s, it is the third most prosperous country in Africa, after South Africa and Gabon, with a per capita income of $2,250.

The extent of the economy's dependence on mining cannot be exaggerated. Mining's share in GDP rose from zero at independence in 1966 to 51% in 1989. Over the same period, agriculture's share fell from 39% to only 3% and manufacturing's from 8% to 4%.

## 2.2 A highly-dualistic economy

Botswana's extraordinarily impressive growth performance masks the very serious underlying development issues that the authorities will have to tackle during the 1990s. At one level, it has simply proved impossible to digest the huge inflows obtained from diamond exports. The highly-dualistic economy lacks the absorptive capacity to utilize the funds, generated by the mining industry. The result has been the build-up of vast external reserves, adequate to cover more than two years of imports, generating powerful domestic inflationary pressures.

A basic characteristic is dependence on a single commodity - diamonds. While copper-nickel and beef account for 13% of exports, they are dwarfed by the diamond industry which contributes more than 75%. In addition, mineral revenue, primarily from diamonds, accounts for between 50% and 60% of total government revenue.

The result is an economy polarised between a modern, capital-intensive and extremely profitable mining sector, employing no more than 6% of the employed workforce, and a large, low-income, labor-intensive and unsophisticated family run agricultural sector. Dependence on diamond revenue is unhealthy given the vagaries of the market, while there are few linkages between the "enclave" diamond sector and the economy as a whole. Rapid growth of the mining sector notwithstanding, two-thirds of Botswana's population of 1.26 million people still relies on subsistence agriculture for a livelihood.

The failure to diversify the economy is evident from the declining share of GDP originating in both agriculture and manufacturing. Agriculture's share fell from almost 40% at independence in 1966 to 12% in 1980 and only 3% in 1989. Manufacturing's share halved to 4% in 1989 from 8% in 1966.

## 2.3 Economic Performance

### Economic Growth

| Years | Real Growth in GDP % per annum |
|---|---|
| 1965-1969 | 10 |
| 1969-1974 | 22 |
| 1974-1978 | 8 |
| 1978-1981 | 11 |
| 1981-1986 | 11 |
| 1986-1990 | 9 |

There have been five distinct phases of economic development:

(i) The late 1960s (1965-69), when GDP expanded at 10% a year - admittedly from a very low base - were dominated by agricultural recovery from the severe drought of the mid-decade.

(ii) The 1969-74 period, when GDP grew at 22% annually, saw the beginnings of the mining boom with the development of the Shashe and Orapa mines.

(iii) The economy slowed in the mid-70s (1974-78) in response to world recession following the first oil crisis. GDP growth slowed to 8% a year.

(iv) There was a strong recovery from 1978 onwards as the Orapa mine was enlarged and the new Jwaneng diamond mine developed. Output expanded at an average annual rate of 11% from 1978 to 1986.

(v) Growth continued to be diamond-driven but boosted also by the disposal of the diamond stockpile and by the temporary boost to copper-nickel prices between 1987 and 1989 and the recovery from the drought, especially in 1988.

## 2.4 Economic Structure

**Contributions to GDP**

| Years | 1966 % | 1976 % | 1986 % | 1989 % |
|---|---|---|---|---|
| Agriculture | 39 | 24 | 4 | 3 |
| Mining | 0 | 12 | 42 | 51 |
| Manufacturing | 8 | 8 | 6 | 4 |
| Trade and Hotels | 18 | 16 | 19 | 17 |
| Construction | 6 | 7 | 3 | 3 |
| Government | 13 | 14 | 15 | 13 |
| Other | 16 | 19 | 11 | 9 |

*Sources: Central Statistical Office: National Accounts and IMF*

The above table illustrates the enormous growth in mining's share of GDP and the declining importance of agriculture.

## 2.5 Prospects For The Botswana Economy

Economic prospects in the 1990s will depend on two main considerations:

* the performance of the world diamond industry; and
* geopolitical developments within southern Africa.

National Development Plan 7 (NDP7) covering the period from 1991 to 1997, projects a marked slowdown in the growth rate of the economy from the recent average of 9% annually to 5%. The Government with a projected growth rate of 14% will be the lead sector followed by manufacturing with 7%, but mining growth is projected to slow to only 1% (at constant prices) while agriculture, with an expansion rate of just 2% a year, will continue to fall behind population growth.

Given the mining sector's dominance, the most important single determinant of future economic growth is the outlook for diamonds and - to a substantially lesser degree - other minerals such as copper-nickel and gold. No new major diamond mine has been discovered in recent years, nor are there plans for any major expansion in output. Most forecasts suggest that for the rest of the century, diamond prices are unlikely to do much more than keep pace with the rate of OECD inflation - no more than 5% a year. Diamond prospects appear to depend largely on Debswana's ability to expand production through improved techniques or capture ever-smaller diamonds.

**Botswana's Position in Sub-Saharan Africa**

| | Botswana | Sub-Saharan Africa |
|---|---|---|
| GDP per head ($) | 2,300 | 300 |
| % Contribution to GDP | | |
| Agriculture | 3% | 34% |
| Mining | 50% | 15% |
| Manufacturing | 4% | 10% |
| Population Growth rate | 3.4% | 3.1% |
| Life expectancy at birth | 59 years | 51 years |
| Percentage School Enrollment | | |
| Primary | 85% | 73% |
| Secondary | 31% | 20% |
| Tertiary | 2% | 2% |
| Urbanized population | 22% | 27% |

*Source: NDP7 : Final Outline*

Both copper and nickel prices are expected to remain below recent real levels, implying that these activities are unlikely to make a material contribution to economic growth during the 1990s. Indeed, in the absence of a real increase in copper-nickel prices during the 1990s, the Selibi-Phikwe mining complex will operate close to the margin of viability. Development of the Sua Pan Soda Ash project will diversify the economy to some degree but its export potential at full production will amount to no more than 5% of current diamond exports.

Beef export prices are forecast to fall slightly in real terms and the growing pressure for liberalization of the EC's agricultural policy could adversely affect countries, like Botswana, that rely on a preferential quota within the EC. In any event, there is a question mark over the future of cattle ranching, arising from growing environmental concern about land degradation caused by overstocking and overgrazing.

Agricultural development will continue to be an constrained by the scarcity of arable land and the limited scope for irrigation. Continued growth in small-scale agricultural production is probable due to improved infrastructure, better incentives and enhanced extension services, but large-scale improvements are unlikely except in isolated areas such as the Pandamatenga project.

All of this suggests Botswana's twenty-year spectacular boom is unlikely to extend into the 1990s, unless important new mineral deposits are discovered and developed, or there are significant and unexpected increases in diamond prices.

A crucial contributor to the forecast slowdown in economic growth will be the tapering off in the growth rate of public expenditure and the declining public sector surplus. Indeed the base case scenario for NDP 7, projects the public sector slipping into deficit as early as 1992/3.

By contrast, the balance of payments position is forecast to remain in strong surplus throughout the plan period, though this projection is extremely sensitive to developments in the real price of diamonds and - to a very minor extent -copper- nickel price trends. The underlying strategy remains that of recycling the diamond surplus to broaden the economy and develop new sources of growth. In the words of NDP 7 : " The nation needs to transform non-renewable mineral wealth into renewable capital and human resource development. The strategy recognises that the real potential for future growth must be found in the development of human resources and in their productive utilization."

Given this background, the growth rate of the economy through the year 2000 is forecast to stabilize at approximately 4% to 5% annually. This assumes that further - modest - diamond production gains are feasible and/or that there is some improvement in the real price of diamonds. Such production and/or terms-of-trade gains are essential since, without them, the 60% of the economy comprising mining and government will not expand. This follows from the fact that government is heavily dependent on mining sector revenues and if these fail to grow, its activities will have to be curtailed.

Chapter 3

# A Sectoral Analysis of the Economy

## 3.1 Agriculture

Botswana's agricultural potential is severely limited by poor soils, a hostile climate and scarce surface water resources. Rainfall is low - less than 500 millimeters a year on average and less than 425 millimeters in cattle-ranching areas. Water supplies are a binding constraint on agricultural development. There are only two perennial rivers in the entire country - the Okavango in the north-west and the Chobe river on the northern border.

Rainfall is not only low, but also highly variable - from year to year and also within a single rainy season. This can mean that even when rainfall is above average, it is highly concentrated over a month or two, coming too late or too early for the crops. In the last 30 years the country has experienced two protracted droughts - one just prior to independence in the first half of the 1960s and the second from 1981 to 1987 - the worst this century.

At least two-thirds of the country comprises Kgalakadi sands and soils, making the areas suitable only for grazing cattle, sheep, goats, with the quality of the grazing dependent on the pattern of rainfall. Better land, suitable for cropping, is found in the east along the main railway line and in the Limpopo valley, where rainfall also tends to be higher.

### 3.1.1 The Economic Importance of Agriculture

At independence 90% of the population was primarily dependent on agriculture for a living, though farm incomes were supplemented by remittances from relatives working in the towns or in South Africa, by trading and producing small-scale handicrafts. By 1989, the proportion of the total population living in rural areas had fallen to three quarters, while sources of rural income had been diversified to the point where rural families were earning more than half their income from non-farm activities.

Even in a high rainfall year like 1974/5 livestock and crop earnings accounted for less than half family income, while in a drought year 1985/6, it was less than a quarter.

**Rural Household Incomes**

**Percentages of total income**

| Source | 1974/5 % | 1985/6 % |
|---|---|---|
| Wage employment | 21.5 | 34.5 |
| Livestock farming | 35.0 | 20.2 |
| Crop farming | 10.8 | 3.2 |
| Other activities | 18.5 | 13.4 |
| Private remittances | 14.2 | 23.8 |
| Public transfers | -- | 4.9 |

*Source: Rural Income Distribution Survey 1974/5 and Household Income and Expenditure Survey 1985/6.*

Agriculture's share of GDP, fluctuated with climatic conditions but remained above a third until the early 1970s. It reached its peak value - at constant prices - in 1974/5, declining for the rest of the decade before falling steeply with the severe drought between 1981 and 1987 to only 3% by 1989. It now accounts for 4% of formal sector employment.

The sector's declining share of GDP is not just the result of rapid mining development, but also of falling output and productivity within agriculture itself. Between 1974 and 1988, agricultural output (including forestry, hunting and fishing) declined by an average 3.3% annually, mainly because of the severe drought between 1981 and 1987. With the population growing at 3.4% a year, per capita farm production fell by almost 8% a year.

### 3.1.2 Production

During the past 20 years, cropping has not been a major source of farm income, and livestock production dominates farming contributing, on average, three-quarters of the value of production. Meat products are the third largest export - after diamonds and copper-nickel matte. Although cattle sales contribute about half of the gross output of agriculture, only a small proportion of the rural population draws its entire income from cattle. A large percentage owns very few, if any, cattle but keeps herds of sheep or goats, which fare better during times of drought.

### 3.1.3 Livestock

The livestock sector is dominated by the cattle industry. The national herd more than doubled from 1.4 million head in 1965 to almost three million in 1981, before declining steeply during the drought to 2.3 million by 1987. There has since been a partial recovery to 2.5 million (1989).

Two factors account for the sector's growth between 1966 and 1981:

* access to a well-developed infrastructure - extension in veterinary services, water supplies, processing and credit facilities and trek routes to cattle markets;

* tax and subsidy incentives; beef production is heavily subsidized with subsidies equivalent to 55% of livestock production costs, while producer prices are 25% to 30% above world market levels.

The pattern of ownership is highly skewed: the Ministry of Agriculture estimates that 10% of farming households own more than 60% of the national herd, while 40% own no cattle at all.

About 70% of the land area is available for grazing, but overgrazing is an increasingly serious problem. Under the Tribal Grazing Lands Policy (TGLP) introduced in 1975, farmers in communal areas were encouraged to rear livestock. Some 10% of the available land was classified as commercial grazing land where groups or individuals were granted 50-year leases. As a result, some 800 ranches were established, but because of inadequate water supplies, many commercial ranchers have been forced to transfer their herds to the already-overgrazed communal areas.

The goat and sheep herd which increased during the drought slowed from 14% expansion in the early 1980s to only 6% in 1989. In that year the national goat and sheep herd was estimated at 2.1 million head.

Botswana has been free of foot and mouth disease since 1980. It has a beef quota in the European Community of 18,916 tons per annum and under the Lomé Convention it benefits from a 90% levy abatement on these exports. Because there is some flexibility in the quota calculation, Botswana is able to exceed the tonnage.

### 3.1.4 Crop Production

Sorghum and maize are the two main crops accounting for 90% of output. Other crops include sunflowers, millet, pulses, and groundnuts. Production fluctuates widely with rainfall; reaching a record of almost 107,000 tons in 1987/8, when exceptional rains fell, compared with only 22,000 tons the previous year. Output has since declined to 77,000 tons in 1988/9 and 55,000 tons in 1989/90. Most of this variation in output is accounted for by changes in the production of sorghum which accounts for most of the area under cultivation.

**Crop Production 1984-1989**
**(tons)**

| Years | Total | Sorghum | Maize | Other |
|---|---|---|---|---|
| 1984/5 | 19,700 | 14,800 | 1,400 | 3,500 |
| 1985/6 | 21,900 | 16,000 | 3,600 | 2,300 |
| 1986/7 | 22,200 | 18,000 | 3,300 | 900 |
| 1987/8 | 107,700 | 94,000 | 7,300 | 6,400 |
| 1988/9 | 77,000 | 61,000 | 10,000 | 6,000 |
| 1989/90 | 55,000 | n.a | n.a | n.a |

*Source: Data provided by Botswana Authorities*

About three-quarters of arable output is produced by traditional small-scale farms with an average size of 2.3 hectares (ha). Yields in both traditional and commercial agriculture - 250 kilograms per ha and 500 kilograms per ha respectively - are low and there is potential for major increases, given improved extension and marketing facilities.

In 1988/9 some 310,000 hectares were planted out to crops, two-thirds to sorghum, 64,000 ha to maize (20%) and the balance to the minor crops. The most important minor crop is millet (3,000 tons in 1988/89) followed by beans and cowpeas (2,500 tons).

The Botswana Agricultural Marketing Board (BAMB) established in 1974 is responsible for marketing all cereal production. It buys from farmers at a guaranteed price, fixed annually. Its purchases vary with weather conditions falling from 14,000 tons in 1981 to 720 tons in 1985. Purchases reached a record of 62,000 tons in 1988/9 falling to estimated 36,000 tons in 1989/90.

### 3.1.5 Agricultural Policy

The guiding principle of agricultural policy has been self-sufficiency. In 1979, the Arable Land Development Program (ALDP) was introduced whereby small-scale farmers had access to subsidized agricultural implements, fencing, water catchment tanks and draft power. Marketing and storage facilities were also improved. This policy was subsequently supplemented by the Accelerated Rainfed Arable Program (ARAP) in 1985 and the Drought Recovery Program (DRP), launched in 1988. ARAP was a drought relief program that assisted farmers to recover from drought by providing them with draft power and seed. The DRP was targeted on the farm debt problem, writing off loans to farmers who had accumulated losses during the drought between 1981 and 1987. Recently, these policies have been criticized on the ground that farmers have come to rely on subsidies and productivity has fallen.

A new policy of food security, rather than self-sufficiency, has been adopted whereby the pricing of all crops will be determined on the basis of import parity from the 1991/92 season onwards. (Previously, prices for sorghum and maize were based on import parity and those for oilseeds on export parity). The new pricing policy will encourage local consumption and processing and promote diversification of the economy. In the future, subsidies will be closely targeted with the emphasis on achieving technological improvements.

The government is committed to developing commercial crop farming, mostly in the Pandamatenga area where the average farm is 500 ha (4 ha in the communal areas). Production is mainly export-oriented and with its more reliable rainfall the region is better suited to arable farming. But the scarcity of labor is a serious constraint. Drought relief programs are held partly responsible for this situation.

Government policies designed to encourage the beef industry have created three major economic problems:

* Households regard cattle as a means of wealth accumulation, encouraged by the high returns available and negative real interest rates in the banks.

* High levels of government spending on livestock have reduced the amount spent on arable farming where the job-creation potential is greater. Between 1983 and 1988 public spending on livestock accounted for half the total spent by the Ministry of Agriculture, while the share devoted to crop development was less than 3%.

* Because cattle are regarded as a form of wealth, offtake rates are low - 8% compared with an optimal 15% - resulting in a high rate of increase in the national herd. At current growth rates it will reach 3.9 million head compared with an estimated optimal carrying capacity of only 3.2 million. The combination of a low offtake rate and a high current growth rate causes overstocking and overgrazing with adverse long-run environmental implications.

### 3.1.6 Agricultural Development Strategy

In 1989, a new agricultural development strategy was adopted with a view to tackling:

* low agricultural productivity especially in arable farming;
* the inability of the rural sector to generate sufficient employment, and;
* range degradation caused by overstocking and overgrazing.

To address the first two issues, the policy focus has shifted from self-sufficiency in basic cereals to national and household food security. The national goal is to be achieved by encouraging adequate domestic production, storage and imports, but unlike the previous policy of encouraging production regardless of cost, the new policy encourages only those crops that are viable, while providing for imports where domestic costs are too high to justify local production.

At the household level the aim is to improve the earning capacity of the rural population, by diversifying sources of family income rather than encouraging domestic agriculture.

Range degradation will be tackled by changing the existing land tenure system and allowing the fencing of grazing land by individuals and communities.

## 3.2 Mining

In 1989, mining accounted for 50% of GDP and 90% of exports. Diamonds account for approximately 90% of mining value-added and 80% of exports, followed by copper-nickel matte and coal. But because mining is highly capital intensive, the industry accounts for no more than 5% of formal sector employment, NDP 7 warns against undue reliance on the industry, pointing out that short-term estimates of mineral exports and government revenues from diamonds and copper-nickel are uncertain and could turn out to be too high.

### 3.2.1 Diamonds

There are three diamond mines - the Jwaneng in the southeast, considered the best in the world, with a capacity of some 8 million carats annually; the Orapa in central Botswana which produces 6 million carats a year and the Lethlhakane with an annual output of 0.7 million carats. 1989 production figures were:

| Mine | Million Carats |
|---|---|
| Jwaneng | 8.4 |
| Orapa | 6.0 |
| Letlhakane | 0.77 |
| Total | 15.3 |

*Source: Debswana*

In 1989 Botswana was responsible for 15.5% of world output making it the third largest producer after Australia and Zaire. It is the world's second most important source of gem diamonds, after the Soviet Union, and its production is well above that of South Africa (8.7 million carats in 1989).

All three mines have extensive reserves expected to last well beyond their 25 year leases. All the mines are operated by De Beers Botswana Mining Company (Debswana), whose shares are equally held by the Botswana government and De Beers Consolidated Mines Ltd. After extraction, the diamonds are sorted into some 6,000 categories depending on size, color, shape and purity by the Botswana Diamond Valuing Company, a subsidiary of Debswana. They are purchased by the Diamond Corporation of Botswana (DICORBOT) and exported to the Central Selling Organization (CSO), which is the marketing arm of De Beers, located in London. The government receives three-quarters of Debswana's profits in the form of taxes, royalties and dividends.

Debswana had a capital employed of P1.3 billion in 1989 including fixed assets of P860 million. Its profits rose from P80 million in 1982 to a peak of P670 million in 1987. Production trebled during the 1980s from less than 5 million carats in 1981 to a peak of 15.2 million in 1988. Because of weak demand in the early 1980s, an estimated 15% to 20% of output was stockpiled during the 1982-85 period, but when the market recovered the stockpile was sold to De Beers in July 1987 for a cash sum, 20 million new shares in De Beers (just over 5% of its enlarged share capital) and two seats on the main board of the De Beers group.

Medium-term projections point to production of some 15 to 17 million carats annually. From 1991, a new recrush plant at Jwaneng (costing some P250 million) will boost output by some 30% in terms of carats, but the overall impact on the value of production will be no more than 5% since the average mix of gems will be of lower quality than in the past.

Known reserves are sufficient to maintain output at these levels for another 30 to 50 years and possibly for much longer. A new, small kimberlithic pipe has been discovered some 12 kilometers from Jwaneng and could be exploited separately or as part of the Jwaneng itself.

Since the market recovery started in 1986, the CSO has increased its selling price by 13.5% in 1988, 15.5% in 1989 and a further 5.5% in March 1990. In Botswana the actual price increases have been greater than this because of the decision to exploit higher-quality stones. In 1990, the effective price increase was estimated at 7%. The main markets are the US and Japan, each of which accounts for some 40% of world diamond purchases.

### 3.2.2 Copper-Nickel

Copper-nickel mining began in 1974 at Selibi-Phikwe in northeast Botswana. Ore deposits are estimated at 40 million tons - sufficient to sustain operations at current levels for some 700 years. The mine is operated by Bamangwato Concessions Ltd (BCL), which is 20% owned by the Botswana government and 80% by the Botswana Roan Selection Trust Ltd (BRST). The major shareholders are Anglo American Corporation (South Africa), and Amax Metal Inc of the US. With more than 4,000 employees, BCL is the country's largest private sector employer.

Production has averaged 50,000 tons a year but with its heavy debt burden, the mine was not a financial success until nickel prices rose sharply in 1988. The value of production soared from P120 million in 1986 to P509 million in 1989, although the volume of output rose by less than 5%.

BCL is heavily dependent on nickel prices which account for 80% of its revenue. The fall in prices in 1989/90 depressed earnings, while increased operating and labor costs, along with lower ore grades, pushed the mine close to break even point.

A new mine is being opened near Francistown by the Tati Nickel Company (TNC), and there are negotiations between TNC and the Botswana government for the exploitation of the Phoenix deposit at Selkirk.

### 3.2.3 Soda Ash

There are large deposits of soda ash at Sua Pan in the north and production is due to start in 1991 with an output of between 100,000 and 200,000 tons. Full capacity production of 300,000 tons annually will be reached in 1993. The soda ash will be used in the steel, glass, and paper industries mainly in South Africa, but also Zimbabwe and Zambia.

More than P900 million has been invested in the project which includes a railroad and rail spur, costing P100 million, and a township costing P78 million. A South African consortium led by African Explosives and Chemical Industries, part of the Anglo American Corporation group, provided 52% of the equity and the Botswana Government the remaining 48%. Sua Pan is expected to earn a revenue of at least P250 million at 1988 prices. It will employ 500 people.

### 3.2.4 Coal

Coal reserves are estimated at 17 billion tons, but production is presently confined to the Morupule mine, operated by the Anglo American Corporation. It produces low-grade coal for domestic consumption - the main users are Selibi-Phikwe mine and the Botswana Power Corporation (BPC). Until 1984 production averaged 400,000 metric tons a year but in 1985 capacity was increased to feed the Morupule power station. Production has since increased to 663,000 tons in 1989 and will be further raised to one million tons to supply the Sua Pan soda ash plant.

Shell Coal Botswana and the Government carried out a feasibility study into the development of a large coal mine for export at Kgaswe, but the project was shelved in 1985 because it was uneconomic at prevailing world prices.

### 3.2.5 Gold

After Mozambique, Botswana is ranked by the Washington-based Gold Institute as the world's fastest growing gold producer, having started from virtually zero output. A number of leases have been issued for gold mining and Shashe Mines is exploiting deposits at Map Nora. Production during 1989 totalled 67 kilograms, worth P1.8 million - a 254% increase during the year.

### 3.2.6 Oil and Gas

An aeromagnetic survey has identified sedimentary basins under the Kalahari, suggesting there is a possibility of discovering oil and gas in these deep basins. Petro Canada International carried out an initial survey in 1987/8.

## 3.3 Manufacturing

Manufacturing industry accounts for 4% of GDP and 10% of formal sector employment. Despite its central role in Government's strategy of economic diversification, it has grown no faster than the rest of non-mining GDP - about 7% a year. Because of the very rapid growth of mining, manufacturing's share of GDP declined from 12% in 1965 to 4% in

1989.

At independence, the state-owned Botswana Meat Commission accounted for an estimated 95% of manufacturing value-added (MVA). Its Lobatse abattoir produced chilled, de-boned beef for the international market. In 1972, the BMC still accounted for almost 80% of MVA, but over the next ten years, its share fell steeply to 28% and with a growing range of new industrial activities and the post-drought fall-off in meat production, the meat sub-sector's share of MVA had slipped to 10% by 1989.

The state-owned Botswana Meat Commission remains the largest single industrial enterprise, operating three abattoirs at Francistown , Lobatse and Maun. The new abattoir at Francistown which will process some 400 cattle and 150 small stock daily will virtually double the industry's capacity to about 300,000 head annually (36,000 tons).

**Manufacturing Sector 1984**

| Activity | No. of firms | Employment | Investment P. mill. |
|---|---|---|---|
| Meat and meat products | 2 | 1,997 | 19.2 |
| Dairy and agro-based | 8 | 55 | 7.3 |
| Beverages | 13 | 606 | 16.4 |
| Bakery products | 13 | 397 | 2.1 |
| Textiles | 48 | 2,519 | 21.5 |
| Tanning and leather | 7 | 442 | 3.8 |
| Chemicals and rubber | 16 | 425 | 15.7 |
| Wood and wood products | 12 | 470 | 1.9 |
| Paper and paper products | 6 | 250 | 2.0 |
| Metal products | 37 | 1,569 | 10.9 |
| Building Materials | 26 | 1,101 | 6.8 |
| Plastics | 8 | 278 | 4.6 |
| Electrical | 10 | 351 | 2.4 |
| Handicrafts | 3 | 56 | 0.4 |
| Totals | 209 | 10,526 | 115.1 |

*Source: Government of Botswana*

The second largest single enterprise after the BMC is the Kgalakadi Brewery in Gaborone, established in the mid-70s. Food processing - brewing and milling - textiles, clothing and light engineering production have expanded strongly.

In 1989, the gross value of industrial production - excluding BMC, BCL and Debswana - was P758 million.

**Survey of Industrial Production 1989**

| Sub-Sector | Pula millions | Percentage % |
|---|---|---|
| Electricity generation | 115 | 15 |
| Dairy and other agro-based products | 108 | 14 |
| Beverages | 107 | 14 |
| Textiles | 86 | 11 |
| Metal products | 84 | 11 |
| Chemicals and rubber | 50 | 6.5 |
| Bakery products | 37 | 5 |

Note: The BMC, BCL and Debswana are excluded.

*Source: Central Statistical Office*

Manufacturing activity is heavily concentrated in the Gaborone area which accounts for almost 50% of the total, followed by Selibi-Phikwe (19%) and Francistown (18%). BMC activity is excluded.

### 3.3.1 Sources of industrial growth

The bulk of industrial growth is attributable to domestic demand. Figures for the 1973/1985 period show that domestic demand accounted for 51% of industry expansion while import substitution was responsible for 26% and the balance of 23% was exports. However, if the meat industry is excluded, exports account for only 8%, domestic demand 54% and import replacement 38%.

**Sources of Manufacturing Growth 1973 to 1985**

| Activity | Domestic Demand | Exports | Import Substitution |
|---|---|---|---|
| Meat | 43 | 61 | -4 |
| Textiles/clothing | 40 | 41 | 19 |
| Metal products | 64 | 3 | 33 |
| Beverages | 26 | - | 74 |
| Chemicals | 6 | - | 94 |
| Totals | 51 | 23 | 26 |
| Total excluding meat | 54 | 8 | 38 |

*Source: Stephen Lewis, Jennifer Sharpley and Charles Harvey: Botswana in Manufacturing Africa (Roger C Riddell, Editcr).*

### 3.3.2 Industrial policy

Industrial policy is constrained by Botswana's foreign trade stance. As a member of the Southern African Customs Union (SACU), Botswana is entitled to protect new domestic industries from other SACU imports (almost entirely from South Africa), for a maximum period of eight years. Under the 1969 agreement if a new Botswana industry is unable to compete with imports even with this protection, so that imports continued, the additional revenue was paid into a common pool and not to Botswana itself. This made it very costly to protect industry since it meant that consumers in Botswana paid tariffs on imports from which Botswana received only a small share of the total revenue.

Because of this - and the strength of the farm and commercial lobbies in parliament - little use was made of tariff protection or quantitative restrictions on imports. Where tariffs were imposed - on imports of beer and soap - consumers ended up paying more for imports but the same price for the locally-produced items as had applied before protection was introduced.

Few applications for protection have been received in the light of the requirement that selling prices of local manufacturers be no higher than (duty-free) import parity of competing products.

Industrialization was also influenced by the free trade agreement with Zimbabwe. Zimbabwean exports, which supplied some 8% of Botswana's imports in the mid-80s, are duty-free. Disagreements between the two countries over Zimbabwe's imposition of quotas on imports from Botswana and accusations that Zimbabwe was "dumping" steel doors and window frames in the Botswana market resulted in the renegotiation of the agreement in

1988.

### 3.3.3 Specific Policies to Promote Manufacturing

**(i) Local Preferences**

A local preference scheme for domestic producers selling to the Botswana government was introduced in 1976. It gives a maximum 12.5% price preference on any commodity which has a minimum 25% local content. In 1982 it was extended to cover purchases by parastatals as well as central government.

**(ii) Financial Assistance Policy (FAP)**

FAP, launched in 1982, provides financial assistance for the promotion of labor-intensive activities producing exports or import substitutes. Eligible activities include small and medium-scale mining and agriculture (excluding cattle raising) as well as manufacturing. FAP takes two forms:

* capital grants to small-scale firms, and
* tax relief and labor-related grants for medium-scale businesses.

The medium-scale firm can either obtain "automatic" FAP in the form of:

(a) a five-year tax holiday on a declining share of its profits;
(b) reimbursement of part of documented wage costs for unskilled and semi-skilled citizen labor, also on a decreasing basis over a five-year period, and
(c) a grant for documented off-the-job training expenses.

Automatic FAP applies only to new ventures in manufacturing.

Alternatively, the medium-sized firm can obtain case-by-case support in the form of an initial capital grant based on the number of jobs being created, reimbursement of a diminishing amount of the wages of unskilled and semi-skilled employees, along with support for off-the-job training costs. There are also grants, declining over time, related to the value of sales from the project.

Large-scale projects - investments in excess of P1 million - may apply for FAP though applications may be rejected depending on the expected level of profitability. Published requirements that must be satisfied include a 6% real rate of return, evaluated at social costs.

FAP is a form of substitute for tariff protection. It provides additional cash flow in the early stages of a venture, subsidizes the employment of semi-skilled and unskilled workers, and offers a cash subsidy based on sales, regardless of whether these are exports or domestic. By 1985 a total of 6,250 jobs had been created in FAP-assisted projects at a cost of P3 million. A further P14 million had been committed to support FAP ventures.

**(iii) Trade and Investment Support**

The Trade and Investment Promotion Agency (TIPA) of the Ministry of Commerce and Industry acts as a center for information and advice for potential investors.

**(iv) Integrated Field Services Training Programs**

Integrated Field Services (previously the Botswana Enterprise Development Unit), located within the Ministry of Trade and Commerce provides training programs for small-scale businesses.

**(v) The Botswana Development Corporation (BDC).**

The BDC, established in 1970, has been a major player in the manufacturing sector with a total investment portfolio in mid-1989 of P112 million. However, only 29% of this was invested in commerce and industry, with estate management (36%) being the main sphere of BDC activity. A key function of the organization is the construction of factory shells for leasing to manufacturers.

In mid-1990, BDC approved a five-year strategic plan which includes the following targets:

* creating 10,000 new jobs;
* increasing the proportion of citizen participation in BDC companies from the current level of 33% to 50%;
* ensuring that 50% of BDC companies have a presence in rural areas.

In the 1990s, BDC will give preference to industrial rather than commercial activities, with the emphasis on promoting the use of local raw materials. The return on capital will increase by 50% to reach more than 11% by 1994/5 while the return on equity will double to 18%.

Projected disbursements over the five-year period are put at P470 million, 90% of which will be invested - roughly equally - in industrial/commercial projects and property development. The ratio of loans to equity will change from 52% loans to 48% equity at present to 65% loans and 35% equity.

Generally the BDC only finances projects with a total investment of at least P100,000, though smaller projects are considered. When it takes an equity stake, it prefers to have a minority shareholding of at least 20% and likes those responsible for the management of the project to have a minimum equity stake of 25%. It does not generally finance more than half the total capital cost, though in the case of projects costing less than P500,000, BDC can provide up to 75% of the total financing.

**(vi) Regional Incentive Packages**

A special incentive package for the Selibi-Phikwe area was introduced in 1988/9 as part of a program to reduce dependence on copper-nickel mining in the region. This program applies to manufacturing projects, by established international companies with a minimum ten-year history, that establish operations in the Selibi-Phikwe area.

Other requirements are that the project exports its entire production outside the SADCC and SACU regions, creates permanent employment for at least 400 Botswana citizens, within two-years of starting operations and invests at least 25% of its combined fixed and permanent working capital as equity. Under this scheme inputs can be imported free of customs duty.

**(vii) Tax concessions**

Individual tax packages have been negotiated for major new industrial investments. In the case of Lobatse Clayworks (October 1990), the agreement covers a period of ten years from July 1992 in respect of clay products produced for use in construction in Botswana or elsewhere. The business is granted additional tax relief as follows:

* in the first two tax years, no tax will be payable
* in year three, the tax payable will be reduced by 75%, falling to 50% in year four and 25% in year five.

In the case of Bevcan Botswana Ltd which will manufacture tin cans, a package of tax concessions was negotiated including a five-year tax holiday period.

## 3.4 Construction

With an acute shortage of both housing and office accommodation, construction has been a boom sector with growth of 12.5% in 1987, 18% in 1988 and a record 30% in 1989. In 1989, the sector's share of GDP was estimated at 3% - only marginally below that of manufacturing. It employs more people than manufacturing, with 24,700 employees or 13.6% of formal sector employment compared with 10% for manufacturing.

The number of building plans approved rose steeply from 1,200 in 1983 to more than 2,100 in 1989, while the value approved increased almost sixfold to P200 million in 1989.

Growth was constrained in the early 1980s by the shortage of water, but the lifting of the restrictions imposed on building, because of the drought and the launch in 1987 of the Accelerated Urban and Land Servicing and Housing Program (AULSHP), sparked a construction boom. The primary aim of AULSHP is to increase the availability of serviced plots, with basic amenities, for residential housing, and for commercial and industrial sites.

Activity was fuelled also by industrial construction including the Francistown abattoir, the metallurgical plant at the Orapa mine, the new recrush facility at Jwaneng, the Sua Pan Soda Ash project, including the 165 kilometer railroad and power line, the Gaborone International Hotel and road, schools and telecommunication development.

Increased construction activity has had serious inflationary results; building costs rose steeply reflecting high transport costs, and the shortage of skilled labor and other domestic inputs. These bottlenecks are likely to constrain construction growth in the early 1990s.

The Ministry of Local Government and Lands has embarked on an ambitious program to provide serviced plots for residential construction. The purchase of land normally takes about two years and it takes a further one or two years to complete the necessary surveys and install basic services, such as roads and water supply. During the 1990/95 period the ministry plans to provide some 50,000 serviced plots at a cost of P500 million.

The Self-Help Housing Agency (SHHA) has delivered 22,000 plots and made loans in excess of P100 million since its inception in 1973. It is designed to provide serviced land for low-income families and provide loan finance to cover the cost of home-building. Serviced plots of 450 square meters are provided to qualified individuals - employed persons with a monthly income of less than P3,500 - at no cost. Plot holders are required to meet loan service charges and a service levy to cover the cost of water supplies and refuse collection. The program has been only a limited success, as service charges have been very high (75%) and substantial arrears have accumulated.

The arrears problem is being tackled by channelling funds through the Botswana Building Society and allowing local authorities to levy rates to meet the cost of providing utilities for housing projects.

An upgraded SHHA scheme is available for middle-income families. Owners purchase plots over a four-year period at subsidized prices.

The state-owned Botswana Housing Corporation provides housing, mainly for government employees, in urban areas. The houses are either rented or sold at prices well below those prevailing in the market. It manages some 8,000 homes and in 1990 a further 4,000 units were under construction at a cost of P150 million, mainly in the Gaborone area. In order to phase out the subsidy element, the government has decided to increase rents at 15% a year until they reach market levels. However, because residential construction costs are rising more rapidly the gap between market and subsidized housing rents and prices continues to widen.

### 3.5 Tourism

The tourist sector is small with a total of 280,000 business and holiday visitors in 1989, excluding a further 234,000 day visitors. Until 1989, business visitors, mainly from South Africa, easily out numbered tourists, but in that year there was a huge 172% rise in reported holiday arrivals to 165,000. Almost half the visitors (45%) are from South Africa and Namibia. Zimbabwe is the second largest source (36%) though the vast majority of these are not genuine tourists but "day-trippers" on shopping visits. International visitors from outside Africa numbered some 80,000 during 1989.

The average length of stay in Botswana is about four and a half days. During 1989, estimated tourist spending was P74 million, though it rose sharply over the year from P11 million in the first quarter to P27 million in the final quarter. Once again this reflected the loosening of the open general import license regulations in Zimbabwe towards the end of 1989 and the massive increase in Zimbabwean "shoppers". The number of Zimbabwean visitors rose from 17,000 in the first quarter of 1989 to 110,000 in the final quarter after the country had eased its open general import license restrictions affecting purchases by individuals. This gave rise to substantial "hidden" exports from Botswana to Zimbabwe.

There are three national parks and five game reserves, with the two principal tourist attractions being the Okavango Delta - a vast area of waterways and islands with its superb birdlife - and game viewing in the Chobe reserve in the north-east.

In 1988, there were 24 urban hotels and motels in Gaborone, Francistown, Lobatse and Maun offering some 1,600 beds. There were also 40 lodges and permanent camps situated in National Parks with a capacity of 800 beds. There has since been considerable investment in the hotel sector with the construction of a conference center at the Gaborone Sun, increased capacity at the President Hotel in the capital and the opening of the 200-room Sheraton in August 1990. A new middle-income hotel has also been opened in Gaborone.

In mid-1990 there were 994 hotel bedrooms available and 1,930 beds. The occupancy rate averaged 56% in the first half of 1990, down from 63% in 1989.

Tourism is given increased priority in NDP 7 and a new Tourism Policy White Paper was approved by Parliament at the end of 1990. The key objectives of the new policy are:

* to generate employment, promote rural development and raise income in rural areas;
* to increase foreign exchange earnings and government revenues, and
* to improve the quality of national life by providing educational and recreational opportunities while projecting a favorable image abroad.

Tourism policy is designed to ensure that tourist activity is carried out on an ecologically sustainable basis. It is also designed to provide local communities with the direct and indirect benefits from tourism activities.

These objectives are being pursued within the constraints imposed by other government policies, specifically :

* The Wildlife Conservation Policy which calls for complete preservation in the National Parks and Game Reserves, which together account for 17% of the total land area of Botswana.

* The National Policy on Economic Opportunities which makes it clear that economic activities like tourism must aim to increase the participation of Batswana in the ownership and management of tourist enterprises. However such constraints are unlikely to have a material impact on foreign investment in hotels and tourist facilities of any size.

Under the provisions of a new Tourism Development Act to be administered by the Department of Tourism (within the Ministry of Commerce and Industry) a system of licensing and regulation is to be introduced for all hotels, lodges and safari operations, tour operators and travel agents. Long-term leases covering concessions on state or tribal lands will be made available to qualified operators, with each concession being advertised and subject to free competition. Rents on such concessions will accrue to the government of Botswana.

Botswana has participated in the London and Berlin tourism fairs, in an effort to boost international interest. The tarring of the runway at Maun airport and the introduction of regular flights from Gaborone has opened up the northwest region. There is scope for joint-marketing of package tours by Namibia, Zimbabwe and Botswana.

Chapter 4

# The State's Role In The Economy

## 4.1 Development Planning

Development planning in Botswana is carried out through a series of multi-year development plans. The sixth National Development Plan (1985/6 - 1990/91) was finalized in 1985 at which time the diamond boom was not envisaged. The growth target was set at 4.7% a year and it was thought that the country would run a budget deficit in the later years of the plan period. The plan was revised in 1988 to take account of substantially greater government revenues, though the GDP growth target remained below 5% a year. In the event, growth exceeded forecast in most sectors, though not in agriculture or manufacturing.

To date, only a draft outline of Plan 7 has been released; the document is due to be put before Parliament during 1991.

## 4.2 Attitudes towards private enterprise

The government's philosophy towards private enterprise is outlined in NDP 7 as follows:

> "It is the private sector which in the future will increasingly have to provide economic growth and income-earning opportunities, which will have to employ the major part of entrants to the labor market, and which will have to be a source of additional government revenues."

Rapid economic growth in the last 20 years has brought an increasing part of the economy into the sphere of government influence. Earlier this was a matter of necessity rather than choice, but this situation is changing with the faster expansion of the private sector.

At the outset of the 1991/97 plan period, the bulk of the country's financial resources are in the hands of government. It will be necessary to strengthen public sector investment criteria to ensure that the efficiency of government investment improves, while investing heavily in human capital and encouraging productive investment by private enterprise.

The development plan outline recognizes "that private entrepreneurs are better at identifying viable business opportunities than managers within the public sector". But NDP 7 stresses that government will continue to intervene in the economy to ensure that the price signals received by the private sector accurately reflect real costs to the nation. To that end:

* import parity prices will be adopted for pricing cereals;
* housing subsidies will be reduced with funds being used to build new homes rather than subsidize existing tenants;
* increased cost recovery in education, health and transport will be pursued;
* public utility tariffs will be amended to reflect long-term marginal or incremental costs;
* the gap between urban and rural water tariffs will be narrowed;
* there will be a phased move towards positive real interest rates.

### 4.3 The Role of Private Enterprises

Government sees its role in the economy as an enabling one - providing a stable environment, efficient infrastructure and trained and skilled workforce, leaving private enterprise to undertake directly productive investment. All the published development plans contain the same essentially similar commitment to a private enterprise economy:

"A rationally planned and guided economy is the objective of government policy. However, a balance must be struck where private initiative has ample scope within the general confines laid down by government. It is government's duty to set forth its objectives and priorities, to frame its policies accordingly and to assist the private sector in every way consistent with the attainment of these goals.

... Private enterprise will only be interested in investing in Botswana if there is a profit to be made... The government's policy will be, in the case of every proposal (for added incentives) to examine the balance of advantages to Botswana; the costs and benefits will be studied, and decisions made on that basis alone".

In 1970, the government established the Botswana Development Corporation (BDC) as its prime vehicle for promoting industrial and commercial development, either in partnership with the private sector, or if private investment were not forthcoming, on its own.

In the mid-1980s, it was calculated that the private sector contributed roughly three-quarters of GDP, government 14% and parastatals 10%. However, this almost certainly understates the state's role. When account is taken of the fact that the government owns half Debswana - far and away the largest single contributor to GDP - then the state share in GDP must be substantially higher than the officially-estimated 14%.

The private sector dominates production in agriculture but the public sector controls the marketing aspect and also financing. In mining, Debswana is 50% owned by the state

The central element of the government's economic diversification strategy has been recycling the surplus earned by the diamond sector into the expansion of the country's physical and social infrastructure. But it has avoided direct state participation in productive ventures preferring instead to create incentives to the private sector to generate employment opportunities and output growth.

To promote the private sector the government provides technical and financial assistance to individuals and firms. Since entrepreneurship is seen as a major constraint on development, particular emphasis is laid on developing entrepreneurial skills among the Batswana people. Foreign investment is also crucial to the development strategy - as evidenced in mining, manufacturing and banking.

Private enterprise in Botswana is organized within the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) which has a membership of 1,050. It is a private, non-profit organization representing the private sector in several fora, and especially in the field of labor relations and incomes policy. It has a full-time secretariat and operates offices in Francistown as well as the capital. It has recently established a Small Business Division.

Its activities include training, the Botswana Management Assistance Program (BMAP), designed to assist small-scale enterprise; and industrial relations - advising members on labor problems and disputes.

### 4.4 Economic Prospects 1991-97

The 1990s are seen in NDP 7 as a transitional period. While the economy will continue to be diamond-driven, the absence of major new mining developments - after Sua Pan - will reduce the rate of economic expansion. The basic planning objectives remain the same as in NDP 6:

* rapid economic growth;
* social justice;
* economic independence; and
* sustained development.

There will be increased emphasis on diversification and the promotion of new sources of growth, while ensuring that all Batswana share increasingly in the fruits of sustained development.

**Target and Actual Growth Rates (%)**

**NDP 6 and NDP 7**

| | 1985/86 - 1990/91 NDP 6 | | 1991/92 - 1996/7 NDP 7 |
|---|---|---|---|
| | Forecast | Actual | Forecast |
| Agriculture | 6.0 | 3.9 | 2.0 |
| Mining | 4.7 | 12.1 | 1.0 |
| Manufacturing | 8.7 | 6.7 | 7.0 |
| Construction | 1.8 | 20.1 | - 9.0 |
| Trade and Hotels | 5.7 | 10.5 | 6.0 |
| Banking/Insurance | 4.2 | 10.0 | 4.0 |
| Government | 4.4 | 12.0 | 14.0 |
| Total GDP | 4.8 | 10.9 | 5.0 |
| Non-mining GDP | 4.4 | 9.9 | 7.0 |

*Source: Ministry of Finance and Development Planning Plan 6 (1985-91 and National Development Plan 7.*

In order to ensure sustained - and equitable - growth a principal focus will be increased earned incomes and an improved pattern of income distribution. The strategy implies:

* reduced dependence on Government, and increased household self-sufficiency;
* higher earned incomes, thereby reducing the level of income transfers to low-income families;
* increasing cost recovery as a matter of equity and social justice, and not merely for budgetary reasons.

### 4.5 Sectoral Growth Assumptions

**Agriculture:** Botswana has a comparative advantage in few agriculture sub-sectors, other than livestock. Growth in the livestock industry may be hampered by droughts and environmental concerns. The base case scenario assumes growth of no more than 0.5% annually.

**Mining:** No new major mining projects are envisaged. Production at major mines will remain close to current levels with real growth limited to small projects. Growth is projected at 1% annually.

**Manufacturing:** Growth is projected at 7% with the focus on efficient import substitution, export promotion and regional cooperation.

### 4.6 Production Employment and Incomes

The core of Plan 7 is the emphasis on production, employment and incomes.

#### 4.6.1 Diversification

Four types of economic diversification will be pursued:

(i) greater emphasis on non-mining and non-agricultural sectors;

(ii) broadening the range of outputs within existing sectors - eg different kinds of mineral development;

(iii) increasing exports; and

(iv) the transfer of certain government activities to the private sector.

#### 4.6.2 Employment

Government sees its role in employment generation as indirect:

* creating an enabling environment for investment especially in labor-intensive activities;
* providing an efficient economic and social infrastructure; and
* ensuring appropriate and cost-effective education and training programs are available.

Other objectives for the NDP 7 include:

* increased emphasis on rural development including a strategy of rural industrialization;
* the promotion of enhanced public sector efficiency;
* accelerated development of the financial sector;
* slower growth of public sector spending, in line with the anticipated levelling-off in the rate of revenue growth.

The plan assumes that diamond sector expansion will flatten out during the seventh plan period. Increased emphasis will be placed on diversification with the private sector assuming the major role while the government creates an enabling environment conducive to savings and investment by households and businesses. Under NDP 7 the Government's role will be largely confined to providing the requisite social and economic infrastructure.

Reflecting this role of heavy investment in infrastructure, the government sector is forecast to be the fastest growing (14% p.a.), followed by manufacturing (7%) which will be the chief vehicle for diversifying the economy, along with trade and hotels (6%). Mining and agriculture are forecast to expand at 1% and 2% respectively.

GDP will grow at no more than 5% annually reflecting the slowdown in the diamond sector. There will also be a marked slowdown in construction in line with the government's plans to scale back large projects and increase spending on maintenance.

Chapter 5

# Foreign Investment

## 5.1 The Regulation of Foreign Investment

Botswana has published a Code of Conduct for Foreign Investors. It expects foreign companies to:

1. Regard themselves as full participants in Botswana's economic life and take a long-term view of their contribution to the country. Investors should take steps to ensure that their operations in Botswana become as independent as feasible in respect to performing their own technical services, adaptive research, purchasing of inputs etc., In return foreign investors can be expected to be treated fairly and equitably since the government recognises the requirement for foreign companies to earn a reasonable return on well-managed, economically viable investments.

2. Foreign investors should recognize the need to train Botswana citizens at all levels of technical expertise and reduce the non-citizen share of their workforce over time. Specific incentives are provided for this under FAP. Foreign firms who are maintaining appropriate levels of training activities will receive cooperation from the Commissioner of Labor in meeting their remaining requirements for work permits for non-citizens.

3. Foreign investors are expected not only to be law-abiding but also to identify with Botswana's development aspirations and national planning objectives. They are expected to share actively in Botswana's commitment to the maintenance of a democratic, open, non-racial society.

4. Foreign investors are encouraged to offer shareholdings in their ventures to citizens. In some sectors, the government will expect to be a direct shareholder while in others the Botswana Development Corporation will take an equity interest. In most sectors, individual Batswana should be sought as partners. Foreign investors wishing to sell their enterprises should give citizens a fair opportunity to purchase the business.

There is nothing in the investment code to which any foreign firm could take exception. Botswana does not require foreign investors to offer equity participation, though there is a preference for joint ventures, either through the government, the BDC or - more recently - the domestic capital market.

While Botswana does not have a one-stop investment center, there are plans to establish such a body. At present businessmen say it takes between three and six months - at best

- and often between six months and a year to obtain all the necessary approvals, including expatriate work permits, to set up a venture in Botswana.

Even so, the regulatory environment is very positive especially when set against that in neighboring countries where the hoops investors must go through are both more numerous and far more difficult to negotiate.

According to the NDP 7 plan outline, the most promising investment opportunities are in the manufacturing and service sectors, including tourism. The performance of these sectors has already been striking, albeit from a tiny base. While agricultural development remains vital to the overall rural development strategy, the sector is not seen as sufficiently dynamic to become an engine of growth for the rest of the economy. Rural and agricultural development is dependent on linkages being developed with other sectors.

### 5.2 Investment Potential

Investment opportunities in Botswana are limited by :

* The size of the market, although GDP is $2.5 billion, a significant proportion of this does not represent domestic spending power since interest payments abroad and dividend/profit remittances represent an outflow of more than one billion pula or almost one fifth of GDP. The total import bill of $1.6 billion (1989) gives a better indication of the market size.

* The country's narrow resource base limits the scope for processing domestic raw materials.

* The constraints on the availability of essential inputs for production - serviced industrial land, but more importantly skilled labor and, most severe of all, water. Utility services - water, electricity - are relatively costly.

* The limited scope for exports, given the natural domestic resource base and the distances over which exports must be moved

* Membership of SACU which means that domestic production must be competitive with South African produced goods. South Africa has obvious advantages especially in terms of access to raw materials, skills, a highly sophisticated physical and financial infrastructure, a powerful private enterprise sector, lower transport and capital costs and, above all, very substantial scale-economy advantages.

* The workforce is unskilled and frequently poorly motivated. There is no tradition or culture of a work ethic, though as development occurs, this is being increasingly inculcated in the workforce. Unskilled labor is not cheap, especially when poor productivity levels are taken into account. Entrepreneurial, administrative and managerial skills are also scarce.

## 5.3 The Case For Investing in Botswana

These important constraints notwithstanding, Botswana has some powerful investment attractions:

* It has the most liberal foreign exchange and payments system in sub-Saharan Africa underpinned by massive foreign reserves equivalent to more than 30 months import cover. There is, therefore, no risk - certainly for the rest of the century - of the country being forced to impose exchange restrictions. There are no exchange control restrictions on current transactions - profits and dividends are freely remittable - while controls over capital movements are being gradually liberalized.

* It has an investor-friendly environment in terms of the regulatory environment, reasonable tax regime and rates of taxation, and industrial relations regulations, including those applicable to expatriates.

* Geographically, it is well situated for market penetration of South Africa (through SACU membership) and also Zimbabwe (via the bilateral trade agreement).

* Because of the liberal trade and payments system, it is easy to maintain and service industrial plant and machinery in Botswana. There are no delays in seeking import licenses and approvals for spare parts or replacement equipment. It is possible to import costly, state-of-the-art machines, where these are needed to maintain international competitiveness.

* There is a plentiful supply of unskilled labor, though this is not cheap by international (especially Asian) standards. The government has expressed concern over current productivity levels warning of an "apparent lack of self-application, discipline and commitment to duty" (1991 Budget Statement). Accordingly the relative price-cost disadvantage of Botswana labor should be taken into account when considering labor intensive assembly or manufacturing operations.

* Industrial relations are good and labor disputes rare.

* There is a range of incentives - tax holidays, reimbursement of training costs, subsidies on job generation - designed to attract new investment.

* There is a sound basic infrastructure in terms of transport, telecommunications and energy.
* There is a fast-developing and increasingly sophisticated financial infrastructure.The existence of a large private sector savings surplus, generated by pension funds and life assurance companies, means it is possible to raise domestic capital readily via the fledgling Botswana Stock Exchange.

* The country has a long record of political stability and multi-party democracy, underpinned by harmonious race relations.

**5.4 Investment Opportunities**

The main investment opportunities would appear to be :

* Light manufacturing - producing consumer/producer goods to replace imports, mainly from South Africa or Zimbabwe. Possibilities include items for the booming construction sector (building materials, tools etc); consumer essentials (toiletries, pharmaceuticals, healthcare products).

* Infrastructural investment - products or industries catering for investment in infrastructure - road and rail transport, housing, water resource development, energy etc.,

* Tourism. There is scope for new hotels and associated tourist services (taxis, tour and safari operators) to exploit the new tourism strategy and benefit from the construction of the new international airport at Kasane. At present, there are insufficient hotel beds to justify the new airport.

* There are unexploited opportunities for the by-products of the cattle ranching sector - the most obvious being the development of a tanning and leather products industry for export and domestic sale.

* The Selibi-Phikwe regional investment incentives are designed to encourage investment in export-oriented activities, especially textiles. Some foreign companies are already manufacturing textiles there for export to the EC and North America. Because Asian producers have run up against quotas on their textile/garment exports to these markets, they are looking for new locations in quota-free countries from which they can penetrate overseas markets.

* Vertical/backward integration. One canvassed possibility is the development of a small cotton ginnery using cotton grown under irrigation in the Tuli Block area. This would be a genuine case of exploiting domestic raw materials for export in processed form. Similarly, an investigation into developing a silk industry is under way.

* There is scope too for some high-tech manufacturing activities. Because Botswana has such a powerful foreign exchange position, it is able to purchase the plant and machinery needed for such high-tech activities. The downside is the scarcity of skills in maintaining and using such equipment.

* Opportunities exist for niche manufacturing and export projects. The use of hardwoods in the north of the country is one such obvious niche opportunity, already being exploited in both Zimbabwe and Mozambique.

* Privatization. In NDP 7, Botswana is committed to ensuring that the developmental thrust lies in the private sector. The BDC has already embarked on a strategy of selling off some of its equity in its successful ventures, thereby freeing up funds for new projects. While the main thrust of this privatization activity is aimed at Botswana citizens, there will be some opportunities for foreign companies to purchase equity in existing businesses from the state.

* Franchising - there is an obvious gap for franchise activities - especially fast-foods, utilising Botswana beef.

* Services - there is an acute shortage of skills. Accordingly there is a wide range of openings for consultancy services, manpower training programs, the development of management information systems etc. All forms of technical, financial and managerial training are undeveloped, and there is scope to develop service activities across a broad front.

* Healthcare services - there are limited opportunities for establishing private hospitals/clinics to provide a service for those willing to pay for medical attention rather than use state-provided facilities.

* Banking and financial services - the Botswana government is determined to increase competition within its increasingly sophisticated financial sector. There are openings for new banks, insurance companies and other financial institutions.

Few of these are sizeable projects, though the development of the Morupule power project being investigated by Bechtel, is one of a small handful of exceptions. Botswana is more likely to appeal to the medium-sized international business, rather than the giant multinational corporation, though the latter firm might find Botswana an attractive location from which to exploit the South African market.

The prospect of an opening up of the South African market as economic sanctions fall away, and a rapid increase in the buying power of black consumers in South Africa, might attract US-based firms to establish a manufacturing presence in Botswana as a launch-pad for exploiting the South African market.

Investment in reverse direction trade by South African firms is also probable. South African firms are likely to seek manufacturing/representative facilities in neighboring territories as part of a program to exploit new export market opportunities in Africa.

Some indication of investment opportunities can be gleaned from the projects recently implemented or under investigation by the BDC. These include:

* two projects for the production of clay face bricks and tiles near Palapye and Lobatse;
* a cement roof tile project in Gaborone;
* biscuit manufacture in Gaborone;
* the expansion of a tannery plant at Pilane;
* various new and expansion of existing hotel projects;
* expansion of a light engineering business in Selibi-Phikwe;

Projects under study in 1990 included:

* a project to privatize and expand BMC's wet-blue tannery in Lobatse to produce leather products;
* a project to manufacture cloth shoes in Ramotswa;
* hotel expansion projects;
* a scheme to blow-mould plastic containers in Gaborone;
* a project to manufacture bathroom suites from synthetic marble at Selibi-Phikwe;
* a milk and vegetable enterprise on the Motloutse river;
* the rescue of a citizen-owned enterprise manufacturing school uniforms in Gaborone.

Chapter 6

# Infrastructure

## 6.1 Railroads

The surface transport system is concentrated in the east of the country. Botswana Railways (BR) runs north-south through this eastern corridor with the main railroad running for 641 kilometers from Plumtree on the Zimbabwe border to Ramatlabama on the border with South Africa, via Francistown, Gaborone and Lobatse. It carries the bulk of the country's copper-nickel and beef exports to Cape Town for onward shipment to overseas markets. It is also heavily used by Zimbabwe as a transit route to South Africa.

There are two branch lines - one connecting Serule with Selibi-Phikwe (59 kilometers) and the second of 15 kilometers from Palapye to Morule. A new 180 kilometer line linking Sua Pan with Francistown is under construction and due for completion during 1991.

Transit traffic accounted for 40% of total freight traffic of 2.07 million tons in 1988/9. Although the north-south road runs parallel to the railway, the nature of the freight traffic - bulk goods - is such that there is little direct road/rail competition. An estimated 500,000 passengers used the railway in 1988/89.

The railroad was originally operated by Rhodesia Railways (subsequently the National Railways of Zimbabwe (NRZ)) but was taken over by Botswana Railways from 1987. A track improvement program is underway and additional assets - rolling stock, signalling and telecommunications equipment, are being purchased to improve operating efficiency. Additional managerial and technical personnel have been employed to supplement the NRZ personnel taken over in the course of the transfer. Although strong emphasis has been placed on the training of Batswana, expatriate staff continue to fill most key managerial positions.

A railways traffic and tariff study was completed in November 1988 which recommended a new system of cost-based tariffs designed to recover full costs. The existing tariff structure has resulted in poor cost recovery with the result that there were deficits of more than P8.5 million in both 1987/8 and 1988/9. The new tariff structure is due to be introduced in 1991.

## 6.2 Roads

At independence, Botswana had a gazetted road network of 5,000 kilometers of which only 10 kilometers were paved. Since then road development has been rapid and the existing network now comprises 8,204 kilometers of gazetted roads of which 2,360 kilometers are paved and about 8,000 kilometers of ungazetted roads and tracks Most of the paved roads are in the eastern part of the country. The quality of the main roads is generally good and while the coverage of the network is adequate for the country's present needs, most of the roads in rural and remote areas are heavy sand and earth tracks, only passable with four-wheel drive vehicles. Ungazetted rural roads which comprise some 50% of the total are very poor and often impassable during the rainy season. Road construction and maintenance are difficult as a large part of the country is semi-desert with poor sandy soils, and suitable stone and gravel are scarce. Substantial upgrading of the road system is needed.

The private vehicle fleet is growing rapidly, with more than 8,000 new vehicles registered in 1988 alone taking the total to 55,000. Vehicle density has risen from 33 per thousand residents in 1981 to 55 in 1987.

There are some 2,500 licensed goods vehicles, roughly half of which are foreign-owned, mainly in South Africa, but also by Zimbabweans.

**Classification of Gazetted Roads**

| Year | Bitumen | Gravel Sand | Earth | Total |
|---|---|---|---|---|
| 1984 | 1,848 | 1,285 | 4,893 | 8,026 |
| 1989 | 2,360 | 790 | 5,054 | 8,204 |

Note. Ungazetted network is estimated to be 8,000 kilometers, all earth and sand.

*Source: Roads Department, 1989.*

In 1989, construction work started on the first 80 kilometers of a new 630 kilometers trans-Kalahari highway from Jwaneng to Mamuno on the Namibian border. Work also started in 1990 on a new 340 kilometers road from Nata to Maun. The gravel road linking Kasana in Botswana with Katima Mulilo in Namibia, via the Ngoma bridge, is scheduled to be upgraded as an SADCC project.

### 6.3 Air Transport

Air transport plays a crucial role due to the long distances between towns and the inadequacy and quality of the roads in some parts of the country. There is one international airport (Gaborone) three regional ones (Francistown, Maun and Selibi-Phikwe) and about 30 secondary and minor airstrips, as well as 122 private licensed airstrips.

Air traffic increased 62% at the four main airports between 1983 and 1988 to reach 185,000 passengers. Domestic traffic accounts for about two thirds of this growth. The national airline, Air Botswana, was established in 1972 as a profit-oriented parastatal, wholly owned by the BDC. It incurred substantial losses and in 1988 became a parastatal controlled by the Ministry of Works, Transport and Communications. It operates regular international services to Johannesburg, Harare, Lusaka, Manzini, Maputo, Maseru, Nairobi and Windhoek. There are regular domestic flights between the main centers and charter flights serve 22 airstrips around the country. A twice-weekly direct long-haul service to London, via Lusaka, is operated by British Airways in conjunction with Air Botswana. However, the airline has no plans at present to launch its own long haul flights but intends to concentrate on strengthening its regional links.

The airline presently operates four aircraft - a Dornier 228, two ATR 42s and a recently-acquired BAe 146. Passenger traffic grew strongly in 1989 when the load factor rose from 41% to 51%. Air Botswana earned a small profit in 1989 but this was before the new aircraft arrived. Government financial assistance is likely to be necessary for the immediate future.

### 6.4 Transport Policy

The Botswana National Transport Plan (1983) is the basis of the government transport policy through to the year 2000. The main objectives of the plan are to:

* reduce high transport costs;
* improve transport services in rural areas;
* increase economic benefits from transit traffic;
* where feasible, reduce dependence on the transport services of neighbouring countries.

In NDP 6 more specific goals were listed:

* focus on maintenance as the first priority with new construction restricted to what the government can afford to maintain;

* improve access to rural areas, especially those with known agricultural potential or employment-generating capacity;

* revise tax and pricing policies to improve the overall level of cost recovery;

* continue manpower training programs and indigenize posts where suitably trained and qualified Botswana citizens are available.

The government's overall priorities are identified in the five-year public sector investment program. Total investment in transport increased from P38 million in 1984/5 to P175 million in 1988/9. Of the P400 million invested in transport over the period, P225 million (56%) went into the railways and P113 million (28%) to the road system.

Planned public investment in transport during the 1989/91 period is estimated at P410 million of which P264 million (64%) is earmarked for road development.

## 6.5 Energy

The Botswana Power Corporation (BPC), established by an Act of Parliament in 1970, commenced operations in 1971. It is required to operate on commercial lines with powers to set tariffs at rates that will ensure a reasonable return on its assets.

There are two main operating divisions - a Southern division with its headquarters in Gaborone which supplies the capital and also Lobatse and Jwaneng, and the Shashe division which supplies the other main mines and also the towns of Francistown, Mahalapye and Palapye.

Botswana generates almost all its electricity requirements, with the bulk of the power being provided by the coal-fired Morupule Power Station. The country is also linked into the South African grid which provides back-up energy in the event of local faults. The national grid is being extended to Tuli Block farms to provide energy for irrigation schemes, and also to Sua Pan.

Electricity tariffs are higher than in several neighboring countries reflecting the absence of any hydro-electric power sources within the country and the need for a far-flung distribution system in a large, sparsely populated country. BPC has a policy of raising electricity tariffs by no more than 5% a year which is substantially below the inflation rate and implies that energy costs are falling in real terms.

## 6.6 Water Resources

Water is one of the most severe constraints on economic development. Surface water resources are estimated at 16,500 cubic meters per annum, of which 95% represents the Okavango and Kwando river systems in the north. These resources are concentrated in regions remote from the main areas of economic activity and population. There are two sizeable dams but evaporation rates are extremely high due to the intense heat and the shallow nature of the dams.

Underground water resources are increasingly difficult and costly to exploit. There are some 5,000 operating boreholes but average depths are increasing. A plan to draw water from the north of the country to the main areas of economic activity is under discussion but is bitterly opposed by environmental groups.

## 6.7 Telecommunications

The on-going modernization and extension of the telecommunications system is a major priority. Modern digital PABX and key exchange systems are available and pushbutton tone telephones are the normal equipment for installation. Fax services and equipment are also available. International direct dialling covers more than 80 countries.

## 6.8 Education

In 1972, there were less than 200 Batswana with post-secondary qualifications. the vast majority of managerial, professional and skilled positions were filled by expatriates who represented less than 9% of the employed workforce.

Education spending has a high priority, averaging 20% of the recurrent budget and more than 17% of the overall budget. The number of Batswana with post-secondary qualifications exceeded 6,000 in 1987. While the number of expatriates rose from 3,400 in 1972 to 5,350 in 1986, as a proportion of employment the expatriate ratio declined from 8.5% to 4%.

In 1989 there were some 275,000 children at primary school in Botswana. The minimum entry age is seven years and tuition is free. Secondary enrollments were only 44,000 in 1989 of whom two-thirds were at government or grant-aided schools and the remainder at private schools. In 1988, there were 560 primary schools, 93 secondary schools and 25 vocational institutions.

The government hopes that 70% of all primary school children will have access to secondary education from 1991. To that end, a major secondary school construction program is underway. School fees for state secondary schools were abolished in 1988.

The language of instruction for the first four years of primary education is Setswana but thereafter classes are conducted in English. In terms of the sixth development plan, technical and vocational education has a high priority. In 1988, there were 1,800 students at 27 vocational and technical training centers and 1,400 at four teacher training colleges. The University of Botswana which offers four-year undergraduate programs and some postgraduate courses has 2,600 Botswana students.

### 6.9 Health

Some 85% of the population is estimated to have access to health services. In 1988 there were 14 general hospitals with 1,800 beds, 14 health centers, 162 clinics and more than 700 health posts around the country. In 1987, life expectancy was 59 years, though malnutrition became a serious problem during the drought years of the 1980s.

Chapter 7

# Foreign Trade and the Balance of Payments

## 7.1 Foreign Trade

Despite substantial deficits on invisible items, Botswana is one of a tiny handful of African countries with a surplus on the current account of the balance of payments. The country registered modest balance of payments surpluses throughout most of the 1970s when diamonds, copper-nickel matte and meat contributed more or less equally to merchandise exports. Diamond exports grew very rapidly from the late 1970s, though there was a brief downturn in 1981 when the world market weakened. The current account moved into surplus in 1982, averaging SDR 250 million annually during the 1985-89 period. In the late 1980s, the combination of a large trade surplus and substantial official transfers - including Botswana's share of SACU receipts - comfortably exceeded the deficit on invisible payments and investment income.

Except for 1987, there has been a net inflow of long-term capital - primarily foreign direct investment - and a surplus on capital account as well. During the six years from 1984 to 1989, Botswana accumulated an overall surplus on external account of more than SDR 1.8 billion. Its gross official reserves rose from SDR 482 million in 1984 to SDR 2.1 billion in 1989, equivalent to 27 months import cover.

## 7.2 Exports

Three commodities - diamonds, copper-nickel matte and livestock have dominated the country's exports for more than 20 years, accounting for 93% of merchandise exports in 1989.

Merchandise Exports - SDRs millions

| Years | 1985 | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|---|
| Diamonds | 553 | 547 | 1 038* | 804 | 1 100 |
| Meat | 51 | 45 | 39 | 40 | 57 |
| Copper-nickel matte | 63 | 55 | 55 | 173 | 168 |
| Other | 62 | 90 | 93 | 84 | 95 |
| Total | 730 | 737 | 1 224 | 1 101 | 1 419 |

* includes sale of diamond stockpile in 1987 worth SDR 420 millions

*Source: IMF*

**The Balance of Payments**

**SDRs millions**

| Years | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|---|---|
| Exports | 669 | 722 | 731 | 1228 | 1101 | 1419 |
| Imports | 576 | 490 | 522 | 622 | 740 | 957 |
| Trade surplus | 93 | 232 | 209 | 606 | 361 | 462 |
| Non-Factor Services | -51 | -43 | -33 | -49 | -81 | -90 |
| Factor Income | -133 | -148 | -125 | -186 | -196 | -225 |
| Transfers | 100 | 89 | 96 | 131 | 121 | 138 |
| Current Account | 10 | 130 | 147 | 502 | 205 | 285 |
| Direct Private Investment | 62 | 52 | 61 | -114 | 90 | 100 |
| Other long-term capital | 54 | 46 | 33 | 65 | 29 | 43 |
| Long-term Capital (net) | 116 | 98 | 94 | -49 | 119 | 143 |
| Short-term capital* | - | 33 | 18 | -19 | -38 | 22 |
| Overall Balance | 126 | 261 | 259 | 434 | 286 | 450 |
| Gross Official Reserves | 482 | 715 | 981 | 1421 | 1684 | 2127 |

Figures have been rounded.
* includes adjustments for unrecorded flows
*Source: IMF 1990.*

Diamonds are exported in rough form for marketing by the CSO in London. During the 1985-89 period diamonds grew at an annual average rate of 19% reflecting strong world market demand, increased output and an improved quality mix from the Jwaneng mine. However, the market weakened towards the end of 1989 and export earnings fell 2% (in dollars) during the first nine months of 1990 to $988 million from $1,011 million in the comparable period of 1989.

After averaging SDR 60 million in the mid-80s, copper-nickel exports trebled in 1988/89 in response to surging nickel prices internationally. This was followed by a steep decline in nickel prices during 1990 when exports fell more than 40% to $103 million in the first nine months of 1990.

Because of the drought, beef exports fell during the 1985-87 period to a low of SDR 39 million, but there was a strong recovery in 1989/90 reflecting improved weather conditions in Botswana and firmer prices in the EC market. Botswana's annual beef export quota of 18,916 tons has remained fixed for more than a decade. But due to the drought and low-offtake rates, exports have averaged only about one half of the quota tonnage. The value of beef exports at $46 million in the January-September period of 1990 was 6% lower than in 1989. Exports of the three major items fell 8% from $1.24 billion in the first nine months of 1989 to $1.14 billion in the same period of 1990.

Non-traditional exports to African countries outside SACU - mainly Zimbabwe - grew rapidly in the mid-80s with textile exports virtually doubling between 1985 and 1987 to reach SDR 27 million. A package of export incentives for non-traditional exports was introduced in 1989.

### 7.3 Imports

After growing at 3% a year (in SDR terms) in the 1985-87 period, imports expanded at almost 25% annually in 1988/9. With the rate of import price inflation slowing during the latter period to 10% a year, the surge in imports reflected the boom in residential construction, strong expansion of consumer goods imports (especially automobiles) and heavy purchases of capital equipment for the expansion program at Jwaneng mine and the development of the Sua Pan Soda Ash project.

### 7.4 Direction of Trade

Data on the direction of Botswana's foreign trade are unhelpful. The bulk of exports are sold to Europe, reflecting the marketing arrangements for diamonds. Figures for 1987 show that 90% of exports went to Europe - though their ultimate destination is unknown. The rest of Africa purchases less than 5% of exports while just over 4% is sold to SACU partners. By contrast, SACU - essentially South Africa - supplies 80% of imports, while other African countries provided almost 8% and the balance of 12% comes from the rest of the world, primarily Europe (9%).

### 7.5 Services and Transfers

The traditional deficit on services has widened in recent years due to the freight and insurance expenses associated with increased import volumes. Tourism receipts benefitted from the opening of the Sir Seretse Khama International Airport in 1984, but these have been offset by increased travel abroad by Batswana.

Factor income outflows have also accelerated reflecting higher dividend payments by the mining sector - especially diamonds - and increased interest payments abroad by BCL. However, these were partly offset by Botswana's interest income on its rapidly-growing foreign reserves. Labor income remittances from Batswana employed in the South African mines have continued to grow despite the decline in the number of migrant workers, as a result of wage increases.

The main transfers item is Botswana's share of SACU receipts which grew from SDR 48 million in 1984 to SDR 75 million in 1989. Even so, the deficit on invisibles more than doubled during the late 1980s from SDR 83 million in 1984 to SDR 176 million in 1989, mainly reflecting the strong rise in dividend payments abroad from SDR 105 million to SDR 246 million.

**Services and Transfers - SDRs millions**

| Years | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|---|---|
| Nonfactor Services: | | | | | | |
| Credits | 106 | 76 | 86 | 96 | 79 | 94 |
| Debits | -157 | -118 | -119 | -145 | -160 | -184 |
| Net | -51 | -42 | -32 | -49 | -81 | -90 |
| Factor Incomes Interest: | | | | | | |
| Receipts | 50 | 59 | 71 | 91 | 118 | 149 |
| Payments | -102 | -94 | -87 | -98 | -152 | -152 |
| Dividends (net) | -105 | -127 | -124 | -202 | -184 | -246 |
| Labor Remittances (net) | 25 | 14 | 15 | 24 | 22 | 24 |
| Net Factor Incomes | -132 | -135 | -125 | -185 | -196 | -225 |
| Transfers SACU | 48 | 45 | 47 | 57 | 57 | 76 |
| Other | 52 | 44 | 48 | 64 | 65 | 63 |
| Net transfers | 100 | 89 | 95 | 121 | 122 | 139 |
| Net Invisibles | -83 | -88 | -62 | -113 | -155 | -176 |

*Source: IMF*

## 7.6 Capital Flows

Net private direct investment in Botswana was positive during the 1980s except for 1987 when there was a net outflow of SDR 49 million attributable to Botswana's purchase of shares in De Beers, using part of the proceeds of the diamond stockpile sale. Foreign investment in the recrush plant at Jwaneng and Sua Pan accounted for the sharp rise in investment inflows in 1988/9.

## 7.7 Regional and International Organisations

### 7.7.1 Southern African Development Coordination Conference

Botswana is a member of both the Frontline States (FLS) and the Southern African Development Coordination Conference (SADCC), whose headquarters are housed in Gaborone. SADCC was established in 1980 charged with promoting development in the nine member states - Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. Namibia became the tenth member in 1990. It was also designed to reduce external dependence, specifically on South Africa.

Its first ten years were a major disappointment. Average per capita incomes in the nine original member states fell between 1980 and 1989, primarily because of civil war in Angola and Mozambique and severe economic setbacks in Zambia and Tanzania. There is a small secretariat based in Gaborone and each member state has responsibility for a particular regional function. In Botswana's case, this responsibility is that of hosting the organization's secretariat and administration.

### 7.7.2 Southern African Customs Union (SACU)

SACU is a customs union embracing South Africa, Botswana, Lesotho, Namibia and Swaziland. Administered by South Africa, SACU collects customs duties on member states imports from outside the union and excise on local production. Tariffs are very high - in some cases 100% - to protect domestic industry within SACU, including South African firms. These high tariff barriers have tended to discourage the smaller member states from seeking extra-union sources of imports and favor trade with South Africa which supplies at least three-quarters of Botswana's imports. SACU revenues are distributed amongst the members on an agreed formula. Currently, they account for 15% of Botswana government revenue.

### 7.7.3 The Lomé Convention

As a member of the Lomé Convention, Botswana is entitled access to the European Development Fund (EDF), the Stabilization of Export Proceeds (Stabex) and investment by the European Investment Bank (EIB). It is a major beneficiary of the beef quota scheme under which it is entitled to export 18,600 tons of beef to the EC each year.

### 7.7.4 Organisation of African Unity (OAU)

Botswana has been a member of the OAU since independence. However, it has never been a member of the more radical, militant elements within the OAU, partly because of its proximity to South Africa which deterred extremism and partly because its post-independence governments have been moderate and pragmatic.

### 7.7.5 Trade Agreements

Botswana is considering becoming a member of the General Agreement on Tariffs and Trade (GATT). The Generalized System of Preferences (GSP) applies to Botswana exports and the country is one of 109 states eligible for duty-free treatment of some 4,100 products. To be considered as originating from Botswana, manufactured goods must satisfy a minimum 35% value-added condition. GSP does not apply to textiles and clothing.

### 7.7.6 Zimbabwe Trade Agreement

The most important bilateral trade pact is that with Zimbabwe, dating back to 1956, and renegotiated in September 1988. The new agreement retains the important concessions already embedded in the original agreement but improves the method of implementation. Goods grown, produced or manufactured in Botswana or Zimbabwe qualify for duty-free entry into the other country and are generally exempt from quota restrictions. To be considered as originating in either country, manufactured goods must have a minimum 25% local content. Local content is defined as the cost of direct labor and materials.

Chapter 8

# External Debt and Aid

## 8.1 Debt

At the end of 1989, Botswana's disbursed public foreign debt totalled $517 million (19% of GDP), having increased only $8 million over the two previous years. More than two-thirds was owed to multilateral organizations, notably the World Bank and the African Development Bank group. Debt service payments were 6.8% of exports of goods and nonfactor services in 1989, down from 9.8% in 1988.

**Public Sector External Debt**

**$ Millions**

| Years | 1984 | 1986 | 1989 |
|---|---|---|---|
| International Organizations | 146 | 260 | 356 |
| (of which: World Bank Group) | 104 | 163 | 169 |
| Bilateral | 69 | 84 | 121 |
| Supplier Credits | 19 | 33 | 32 |
| Other | 22 | 7 | 8 |
| TOTAL | 256 | 384 | 517 |

Source: IMF

Debt-service payments are not a material burden on the balance of payments. Total interest payments amounted to P93 million in 1989 while amortization was P172 million, giving a total of P265 million or 6.8% of exports. This has to be viewed against foreign earnings on Botswana's foreign reserves estimated at almost P400 million. In other words, interest income on Botswana's foreign reserves comfortably exceeds debt-service payments - capital amortization as well as interest outflows.

### 8.2 Aid

Because of its high level of per capita income and its very strong external payments position, Botswana is not a major recipient of aid. Between 1985 and 1989, net disbursements of official development assistance from all sources totalled $761 million - an average of $152 million annually.

The United States has aid disbursement targets, covering both regional and bilateral programs, averaging just over $8 million annually over the 1991/95 period. The US program focuses on human capital development - education and training - population programs and fostering private enterprise, including workforce and self-help programs. The regional program includes support for SADCC.

The centerpiece of the US aid program is the Botswana Private Enterprise Development Project (BPED). Its aim is to increase productive private investment, especially among citizens in selected labor-intensive, non-traditional sectors. The US program is consistent with the main thrust of the government's underlying development strategy and integrates well with the programs of other major bilateral and multilateral donors. Indeed, donors have avoided duplication by identifying niches within which each operates. Thus, vocational training is targeted by the UK, Germany and the World Bank and infrastructure by the African Development Bank and the World Bank.

There is a heavy emphasis in donor programs on two crucial aspects of development strategy:

* the UNDP, EC, World Bank, Norway, Sweden and the US have targeted foreign investment and exports as a priority, while

* the US, Germany, World Bank, EC and UNDP have identified financial market development as a major goal.

Chapter 9

# Foreign Reserves and Exchange Rate Policy

## 9.1 Foreign Reserves

Botswana's international reserves increased from ten months import cover (SDR 482 million) at the end of 1984 to 27 months cover by the end of 1989 (SDR 2.1 billion). Reserve cover has averaged 26 months since 1988. The most recent figure - for September 1990 - was P5.9 billion, (SDR 2.24 billion) an increase of 14% compared with a year previously.

## 9.2 Exchange Rate Policy

The currency, the pula, was introduced in August 1976 pegged to the US dollar. In June 1980, the peg was changed to a currency basket comprising the SDR and the South African Rand, both with equal weights.

Exchange rate policy is designed to :

* maintain external competitiveness, and
* mitigate imported inflation from South Africa.

These goals have been pursued both by changing the weightings of the currency basket and also by adjusting the pula exchange rate against the basket. Thus, in November 1980, the pula was revalued by 5.3% against the basket to contain imported inflation, especially from South Africa.

There were no further adjustments until 1984 when the rand started a two-year decline against the SDR. The pula was devalued against the basket by 5% in mid-1984 and a further 15% in January 1985. This was done to prevent it from falling too far against the rand thereby undermining the competitiveness of non-traditional exports.

**Exchange Rate Movements**

**period averages**

**Foreign currency per pula**

| **Years** | **Rand** | **US dollar** | **SDR** |
|---|---|---|---|
| 1982 | 1.06 | 0.9788 | 0.8853 |
| 1983 | 1.02 | 0.9122 | 0.8532 |
| 1984 | 1.13 | 0.7789 | 0.7583 |
| 1985 | 1.17 | 0.5296 | 0.5216 |
| 1986 | 1.22 | 0.5353 | 0.4564 |
| 1987 | 1.21 | 0.5960 | 0.4609 |
| 1988 | 1.25 | 0.5507 | 0.4094 |
| 1989 | 1.30 | 0.4968 | 0.3876 |
| 1990 (Sept) | 1.36 | 0.5298 | 0.3800 |

*Source: IMF*

In January 1985, the basket weighting was changed to increase the rand's weight from 50% to 75%. It was also designed to prevent too great a divergence between the two currencies. The rand weighting was altered again in January 1986 when it was lowered to 65%. It was subsequently decided to keep the basket weightings confidential.

Because inflation has been considerably lower than in its main trading partner - South Africa - it has been possible to increase competitiveness by reducing the real effective exchange rate, while still allowing the nominal exchange rate to appreciate. During the 1980s, while the nominal exchange rate appreciated 7.6%, the real effective rate depreciated some 14%.

The fact that the authorities allowed the real rate to fall at a time of a growing balance of payments surplus and rapidly-rising foreign reserves reflects their determination to maintain the competitiveness of non-diamond - and especially non-traditional exports. At the same time, there is increased acceptance of the role exchange rate policy can play in damping down inflation. To that end, the authorities have been willing to allow the nominal rate to appreciate.

**Trade Weighted Exchange Rate Index**
**1980 = 100**

| Years | Nominal | Real |
|---|---|---|
| 1982 | 99.7 | 99.7 |
| 1983 | 96.5 | 96.5 |
| 1984 | 101.6 | 99.9 |
| 1985 | 95.7 | 89.4 |
| 1986 | 98.6 | 87.9 |
| 1987 | 101.5 | 87.1 |
| 1988 | 102.9 | 85.2 |
| 1989 | 107.6 | 85.7 |
| 1990 (March) | 117.1 | 90.3 |

*Source: IMF*

The fall in the rand has meant that Botswana has enjoyed substantial terms-of-trade gains, purchasing some three-quarters of its imports in a weak currency (the rand) while selling almost all its exports for hard currency (US dollars).

## 9.3 The Trade and Payments System

Exchange control, administered by the Bank of Botswana, applies to all foreign transactions, though current transactions are effectively free of exchange controls. Payments to or from residents of foreign countries must normally be made or received in foreign currency or through a nonresident-held pula account in Botswana.

However, exchange controls have been increasingly liberalized in recent years and almost all current account transactions are handled by the commercial banks, with very high limits for foreign travel and other allowances. Profits and dividends are freely remittable but there are exchange controls in respect of capital flows.

### 9.3.1 Payments for Imports

As a member of the Southern African Customs Union with Lesotho, Namibia, Swaziland, and South Africa, there are generally no import restrictions on the movement of goods between the five countries. However, import permits are necessary for most goods imported into Botswana from outside SACU. Items such as firearms, fresh meat, and horticultural and agricultural produce require permits regardless of country of origin. There are no restrictions or delays on payments for authorized imports. Goods of domestic origin may move freely between Botswana, Malawi and Zimbabwe in terms of the 1956 customs agreement, provided they are not intended for re-export.

### 9.3.2 Export Proceeds

Certain exports are subject to licensing, mainly for revenue reasons. Proceeds must be received in foreign exchange or from a nonresident pula account. Residents may apply to the Bank of Botswana for permission to retain export proceeds for up to one years to meet contractual commitments in respect of imported goods, particularly if such imports are for investment purposes. For some items, such as precious stones, permits are needed before exporting.

### 9.3.3 Payments For and Proceeds From Invisibles

Payments to nonresidents for current transactions, while subject to control, are not restricted and authority to approve a wide range of current payments is delegated to the commercial banks. There is a private travel allowance of P12,000 per adult a year and P35,000 for business travel are exempt.

### 9.3.4 Financial Limits for Authorized Dealers

Authorized foreign exchange dealers (banks) may grant permanent residents an annual private travel allowance of P12,000 per person and an annual business allowance of P35,000.

The annual remittable allowance of temporary residents is P25,000 or 50% of eligible pula earnings, whichever is the greater.

The delegated limits up to which authorized dealers may approve transfers of profits and dividends, without reference to the Bank of Botswana, is P75,000.

### 9.3.5 Capital Transactions

In order to broaden the country's earnings base, applications by businesses to make direct investments abroad are permitted if they will benefit Botswana. Foreign direct investment in Botswana is encouraged. Registered pension and life assurance funds may invest up to 50% of their long-term assets in foreign currency securities quoted on recognized international stock exchanges.

Moral suasion is used to discourage Botswana firms from borrowing abroad when local financing is available on similar terms. Any funds borrowed abroad must have a minimum three-month grace period and the general policy for external borrowing by the government and parastatals is that the terms should be concessional (i.e. a rate of interest below the average rate of return that could be earned on the same currency).

### 9.3.6 Local Borrowing by Nonresident Companies

Nonresident controlled companies (including branches of foreign companies) may borrow for working capital purposes and as part of their initial tranche of local financing up to a ceiling of P300,000. Applications for local finance in excess of this amount must be submitted to the Bank of Botswana, though the resulting debt-to-equity ratio should not exceed 4:1. However, higher limits may be considered in special circumstances (where the business provides a specialist skill or provides increased citizen employment).

### 9.3.7 Emigrants Allowances

Departing temporary residents are entitled to a basic remittable terminal allowance. In the case of departing permanent residents the allowance is P150,000.

Chapter 10

# Government

## 10.1 Public Finance

The public sector consists of central government, local government and a number of parastatals. The central government's annual budget covering the April-March period is presented annually to Parliament in February.

The local government system incorporates nine district councils and five town councils. These are responsible for primary education, basic health care, rural roads and water supplies. Local government revenue is obtained from local taxes and fees as well as subventions from the central government. The district and town councils receive the bulk of their revenue directly from central government.

During the 1980s, a large share of diamond earnings accrued to the government enabling it to increase spending on the physical and social infrastructure while building up substantial budgetary surpluses. By the end of 1989, the central government's balances at the Bank of Botswana exceeded P3 billion, equivalent to almost 18 months public sector spending. These surpluses have been a major factor in the government's anti-inflationary strategy.

Between 1985 and 1988, the budget was in surplus to the tune of 16% to 20% of GDP, reflecting the boom in mining revenue which accounted for almost one-third of GDP. Revenue is derived from three main sources, which in the 1990/91 fiscal year were expected to provide almost 90% of the total:

* mineral revenue - 63% of forecast revenue in 1990/91
* customs receipts - 15% of 1990/91 budget revenue, and
* other property income - mainly the government's share of the profits of the Bank of Botswana - 11% of forecast revenue.

**The Fiscal Balance 1989/91**
**millions of pula**

| Years | 1988/9 | 1989/90* | 1990/91# |
|---|---|---|---|
| Tax revenue | 1,308 | 1,409 | 1,996 |
| (of which) | | | |
| (SACU receipts) | 293 | 354 | 480 |
| (Mineral tax receipts) | 712 | 788 | 1,242 |
| Nontax revenue | 1,139 | 1,113 | 1,267 |
| of which: | | | |
| (mining income) | 704 | 657 | 814 |
| Grants | 110 | 79 | 55 |
| Total Revenue | 2,557 | 2,601 | 3,318 |
| Expenditure | | | |
| Current | 907 | 1,089 | 1,290 |
| of which: | | | |
| Wages | 346 | 455 | 515 |
| Capital | 797 | 850 | 1,286 |
| Net lending | 83 | 213 | 324 |
| Total Spending | 1,787 | 2,152 | 2,900 |
| Surplus | 770 | 449 | 418 |

* = preliminary    # = budget
*Source: IMF*

Other income taxes account for 7.5% and other tax and non-tax revenue, less than 4%. Efforts are being made to diversify the revenue base and reduce dependence on diamond receipts whose growth is expected to slow dramatically during the 1990s. The most important new tax is the sales tax, levied at a general rate of 5% with a higher "luxury" rate of 10%. Basic foodstuffs and other essentials are exempt. Sales taxation accounted for 2.3% of non-mineral revenue in 1989/90.

Since the mid-80s, there has been a distinct shift in the pattern of expenditure in favor of capital formation. Current spending which accounted for 60% in 1986 will absorb only 44.5% in 1990/91 while the share of the capital budget is up to more than 55% from 40%. Capital spending is split almost evenly between social services, where housing is the top priority with 14% of the total budget and economic services, dominated by transport and communications with 11%.

**Central Government Expenditure**

**1990/91 Budget**

**Percent of total expenditure and net lending**

| | Current | Capital |
|---|---|---|
| General Public services | 10.8 | 2.9 |
| Defense | 3.7 | 5.2 |
| Social Services | 15.0 | 23.4 |
| of which: | | |
| (education) | 9.5 | 6.7 |
| (health) | 2.3 | 1.7 |
| (housing) | 1.9 | 14.0 |
| Agriculture | 2.9 | 2.8 |
| Mining | 0.4 | 4.0 |
| Manufacturing/commerce | 1.1 | 2.0 |
| Transport/communications | 2.1 | 11.1 |
| Total: Economic svcs | 7.3 | 23.9 |
| Unallocated | 7.7 | - |
| Totals | 44.5 | 55.5 |

## 10.2 Public Enterprise

There are 22 public enterprises, of which nine are non-financial entities, and five departmental enterprises. Non-financial public enterprises are expected to be financially self-supporting with the exception of the Botswana Housing Corporation (BHC), whose revenues cover approximately one-quarter of its total costs. The sector's operating surplus rose from P17 million in 1984/5 to P127 million in 1989/90. Most of this surplus has been retained by the enterprises and not distributed to the central government in the form of dividends. Direct government subsidies to the non-financial parastatals are generally insignificant, averaging P80,000 annually, between 1982 and 1985.

The BHC incurred operating deficits for most of the 1980s due to the practice of subsidized rents. It received P5 million in government grants in 1987/89 and has been authorized to increase rents by 15% annually until they reach market levels. Because building costs have been rising even faster - 20% a year - the increased rents are unlikely to eliminate the deficit.

**Operations of Non-financial Parastatals** - pula millions

| Years | 1985/6 | 1986/7 | 1987/8 | 1988/9 | 1989/90 |
|---|---|---|---|---|---|
| Sales | 252 | 275 | 300 | 394 | 484 |
| Govt. Subsidy | - | 5 | 4 | 4 | 3 |
| Expenses | 202 | 212 | 218 | 281 | 361 |
| Operating Surplus | 50 | 68 | 86 | 117 | 126 |
| Non-operating flows (net) | -16 | -16 | -51 | -53 | -44 |
| Pre-tax income | 34 | 52 | 35 | 64 | 82 |
| Tax | 13 | 13 | 11 | 17 | 23 |
| Net profit | 21 | 39 | 24 | 47 | 59 |

*Source: IMF*

The Botswana Meat Commission (BMC), by far the largest parastatal, continued to achieve a surplus on its operations despite the setback of the drought. The Botswana Power Corporation (BPC), the second largest non-financial parastatal, incurred large deficits averaging more than P8 million in 1988 and 1989. These were caused by a one-off increase in depreciation charges, following the revaluation of assets and increased costs associated with the extension of electrification to more communities.

These consolidated results cover the performance of seven of the nine non-financial public enterprises (Botswana Agricultural Marketing Board, the Botswana Livestock Development Corporation, the Botswana Housing Corporation, the Botswana Meat Commission, the Botswana Power Corporation, the Botswana Telecommunications Corporation and the Botswana Water Utilities Corporation).

Their results demonstrate the relative success of state-owned enterprise in Botswana showing that the parastatals drew subsidies totalling P14 million in the five-year period, during which time they made income tax payments of more than P75 million.

Chapter 11

# Labor and Population

## 11.1 Labor

In 1989, 182,000 people were employed in the formal sector inside Botswana while a further 18,000 had jobs on the South African mines, making total employment of 200,000. Central government is the largest employer with 54,000 workers followed by trade and hotels and construction.

**Formal Sector Employment 1989**

| Sector | Workers |
|---|---|
| Agriculture | 8,400 |
| Mining | 7,600 |
| Manufacturing | 17,900 |
| Construction | 24,700 |
| Trade and Hotels | 27,300 |
| Transport/communications | 7,800 |
| Finance | 11,900 |
| Local Govt | 10,800 |
| Central Govt | 54,200 |
| Other services | 11,600 |
| Total | 182,200 |
| Employed on SA mines | 17,900 |

Source: Central Statistical Office

The private sector's share of total employment is estimated at 58% (105,000), while parastatals employ some 12,000 people.

In 1984/5 Botswana's labor force was officially estimated at 368,000 (38% of the total population) while unemployment was put at 25% (93,000). 110,000, or 32% of the workforce, were in formal sector jobs in Botswana and a further 19,000 employed on the mines in South Africa. The balance of 146,000 including subsistence farmers, were engaged in agriculture.

With the labor force growing at 3% a year, the workforce in 1990 was estimated at 400,000, half of whom were engaged in formal sector employment, including migrant workers on the South African mines. It is estimated that Botswana needs to create a minimum of 20,000 to 25,000 jobs annually to keep pace with the fast-growing population and to absorb the backlog of unemployed. In the five years to March 1989, a total of 65,000 new jobs were created - an average of 14,000 a year.

## 11.2 Population

Botswana's population, estimated at 1.26 million in mid-1989, is one of the fastest-growing in the world with an estimated annual growth rate of 3.4%. More than half of the population is under 16 years of age implying a heavy dependency ratio in terms of social service spending on education, health and housing. Urbanization accelerated during the period of rapid economic growth, with the population of Gaborone rising from 18,000 in 1971 to more than 120,000 in 1989. The fastest-growing town is Selibi-Phikwe whose population is currently estimated at more than 50,000.

More than 80% of the population reside in the eastern half of the country close to the borders with South Africa and Zimbabwe. Over half the population are of Tswana origin, with eight sub-groups, of which the largest is the Bamangwato, which comprises 40%. About 30% are non-Tswana minority communities - the Kalanga, Kgalagadi, Mbukushu and Yei. The white population is estimated at 15,000 of whom only about 4,000 are citizens.

**Population**

| Town | 1971 | 1989* |
|---|---|---|
| Gaborone | 17,700 | 120,200 |
| Francistown | 18,600 | 52,700 |
| Selibi-Phikwe | 5,000 | 49,500 |
| Lobatse | 12,000 | 26,850 |
| Palapye | 5,200 | 17,000 |
| Jwaneng | - | 13,900 |
| Total Urban Including others | 64,000 | 301,000 |
| Total Rural | 511,000 | 955,000 |
| Total Population | 575,000 | 1,256,000 |
| % urbanization | 11% | 24% |

*Source: Central Statistical Office*

* Estimate

## 11.3 Wages and Salaries

An incomes policy was first introduced in 1972, and revised in 1976 and 1983. The original intention was to keep formal sector wage levels in line with rural incomes, avoid wage rises that would deter investment and maintain a realistic link between public and private sector wage levels. In recent years, however, private sector wage increases have outstripped those of public employees and there has been a widening differential with rural incomes as well. This coincided with falling productivity throughout the economy, suggesting that the scarcity of skills was to blame.

The incomes policy is based on voluntary compliance, but the government has made clear its willingness to resort to legislation should the voluntary approach fail. It sets wage and salary levels for civil servants and these are usually followed by the parastatals. Public service wages are reviewed annually and every four or five years a Salaries Review Commission is appointed to examine the structure of compensation in the civil service.

The government also sets minimum wages for private sector employees in construction, manufacturing, road transport, hotels and distribution. The National Employment, Manpower and Incomes Council (NEMIC), with representatives of the government, employers and workers, provides a forum for formulating wage and salary recommendations. NEMIC bases its advice on wage increases, on inflation rates and the ability of employers to pay. In recent years, wages and salaries of government employees have kept pace with inflation with awards of 7% in 1988/89, 10% in 1989/90 and 11% in 1990/91.

**Minimum Wages**

| | Previous thebe/hour | Apl 1990 thebe/hour | Pula per month |
|---|---|---|---|
| Building, construction mining | 83 | 92 | 190 |
| Garages/motor trade | 83 | 92 | 190 |
| Hotels/catering | 83 | 92 | 190 |
| Wholesale trade | 77 | 86 | 180 |
| Retailing | 73 | 81 | 170 |
| Watchmen | 65 | 72 | 150 |

### 11.4 The Challenge of Job Creation

The key economic challenge facing Botswana extends beyond that of diversification to embrace employment generation. With the population expanding at some 3.4% annually and unemployment already estimated at 25% or 100,000 people, rapid job creation is essential if a serious crisis of unfulfilled expectations in the late 1990s is to be avoided. At least 20,000 new jobs must be created each year - a one third increase on the 15,000 annual rate of job generation achieved in the recent past. Job creation is most likely in manufacturing and services. In the former case, exports will be essential since the domestic market is not large enough to sustain significant increases in industrial employment.

Job creation will depend on the growth of manufacturing industry which in turn will have to be fuelled by the development of non-traditional exports.

If a growth plateau - and growing unemployment - is to be avoided, Botswana will need to boost its manufacturing and service activities. Already, some textile manufacturers have been successful in penetrating neighboring and overseas export markets, while there is scope for substantial development of a low-volume, high-value tourist industry.

Mindful of the weak performance of the finance sector in sub- Saharan Africa - other than South Africa - Botswana is paying close attention to developing a broad and sophisticated capital market infrastructure that could become a source of export revenues, though this will become increasingly difficult once South Africa's capital markets are free of sanctions and exchange controls.

Chapter 12

# Prices

## 12.1 National Cost of Living Index

(September 1985 = 100)

| Years | Food Beverages tobacco | Clothing and footwear | Household effect and fuel | Other goods | All Items |
|---|---|---|---|---|---|
| Weights | 40.1 | 10.8 | 26.8 | 22.3 | 100.0 |
| 1982 | 71.5 | 79.3 | 76.9 | 85.0 | 75.0 |
| 1983 | 80.8 | 85.1 | 83.0 | 91.6 | 82.8 |
| 1984 | 87.7 | 93.8 | 89.9 | 98.7 | 89.9 |
| 1985 | 96.1 | 99.2 | 97.3 | 101.2 | 97.2 |
| 1986 | 105.3 | 107.3 | 106.7 | 108.0 | 106.9 |
| 1987 | 116.0 | 122.7 | 116.0 | 115.5 | 117.3 |
| 1988 | 126.0 | 144.3 | 129.4 | 118.0 | 128.2 |
| 1989 | 138.8 | 163.0 | 146.6 | 131.6 | 148.2 |
| 1990* | 154.0 | 183.0 | 166.0 | 139.0 | 167.0 |

* provisional

Source: Bank of Botswana Bulletin

Inflation has be[illegible] increasingly serious problem in recent years with the rate of price increases accelerating from 9% annually during the 1982-85 period to 11.3% between 1986 and 1989. Provisional figures for 1990 point to inflation of 13%. Given the very open economy - with imports accounting for 55% of total spending - inflation in Botswana closely reflects price trends in neighboring South Africa, which supplies at least 75% of imports, and exchange rate variations between the pula and the rand.

In fact, inflation in South Africa has consistently been several percentage points higher than in Botswana and the 1989/90 upsurge in inflation was attributable more to domestic demand pressures than imported inflation. Shortages of skilled labor and of serviced land were major sources of inflation during this period.

## 12.2 Price Controls

The government fixes prices of a range of essential goods - petroleum products (petrol, diesel and illuminating paraffin), sugar, soap, maize-meal, bread and flour, tea and meat. Trade margins at wholesale and retail level are set for a wide range of goods ranging from 7.5% at the wholesale level for essential foodstuffs to 10% for most other items. Retail margins vary from 10% to 50%, but the Ministry of Trade and Commerce does not have the manpower to implement these margin controls, which do not apply much of the time. It is the government's long-term intention to eliminate such controls but only after consumer awareness has been increased. Government policy is designed to achieve:

* free and unrestricted entry (and exit) of firms into the market;

* consumer awareness of market conditions, and

* reasonable consumer access to retail outlets.

## 12.3 Mergers and Monopolies

The September 1990 White Paper on Incomes Policy advocates the creation of a Monopolies, Mergers, Takeovers and Fair Trade Practices Commission. It says the government has no institutional mechanism for curbing monopolies and restrictive trading practices. It called for the establishment of an authority to block or approve takeovers and mergers and protect the interests of consumers.

Chapter 13

# The Financial System

## 13.1 The Banking System

The banking system comprises a central bank, the Bank of Botswana, four commercial banks, two state-owned financial institutions and six specialized financial intermediaries. There is also a stockbroking firm, pension funds and insurance companies.

The financial system is dominated by the government and Central Bank. The latter performs the role of "deposit taker of last resort" and holds deposits substantially in excess of those of the commercial banks. Similarly, the Ministry of Finance and Development Planning (MFDP) performs an important lending role within the economy, operating two funds - the Revenue Stabilization Fund (RSF) and the Public Debt Service Fund (PDSF). Loans from these two funds exceed commercial bank lending. In addition, the government operates a Financial Assistance Policy (FAP) which makes grants to local entrepreneurs.

The money supply has grown very rapidly in recent years - an average annual rate of 35% in the five years to 1989. The fastest growth (66%) occurred in 1987 following the sale of the diamond stockpile, reflecting the huge increase in external assets.

The impact of external surpluses on the economy has been partly sterilized by increased government deposits with the Bank of Botswana and the foreign reserves held by the central bank. The authorities responded to this situation of excess domestic market liquidity by imposing ceilings on commercial bank lending, allowing nonresident companies to borrow domestically, and allowing pension funds to invest abroad. The Bank of Botswana progressively raised its call money deposit rate from 3.5% in May 1989 to 9.5% in January 1991. Even so, the real interest rate remained negative with inflation estimated at more than 13%. Further rises in interest rates are anticipated during 1991.

The bulk of bank lending in Botswana is to commerce and individuals - accounting for about half the total - while construction and manufacturing account for 6% and 10% respectively. The banks mainly lend for working capital requirements and their capacity to make longer-term loans is constrained by the short-term character of their deposits.

In August 1989, the World Bank released a comprehensive study of the financial sector including a far-reaching reform program. It criticised the policy of negative real interest rates and the lack of competition between the commercial banks. It suggested that parastatals be allowed to borrow directly from the financial sector, rather than through government, and urged the Bank of Botswana to issue rediscountable paper to absorb excess market liquidity. It urged the central bank to increase interest rates to two or three percentage points above the inflation rate and to encourage competition and innovation within the banking system.

The government is also anxious to increase competition in the industry in the hope of improving efficiency and securing better coverage of the country as a whole. Since the report was submitted one new commercial bank (Zimbank Botswana) has opened its doors and a second (First National Bank of South Africa) has been granted a license to operate in Botswana. It is understood that another South African bank, Standard Bank SA has applied for a License in 1992.

### 13.2 Leading Banks

**The Bank of Botswana (BOB)**, established in 1975. It fulfils the usual functions of a central bank. It examines and supervises the activities of the country's financial institutions and manages the exchange rate and foreign reserves.

Its assets rose by P5 billion during the 1980s from only P266 million in 1980 to P5.3 billion in December 1989. Virtually all of this - P5.25 billion - was held in the form of international reserves.

By far the largest component of the Bank's liabilities is deposits by the Botswana government - P3 billion in December 1989. In addition to taking deposits from the government - on which no interest is paid - the central bank takes deposits from the commercial banks at an interest rate of 3.5%. Current account and call deposit facilities are also offered to parastatals and other selected clients, such as Debswana.

**The Commercial Banks:** There are four commercial banks, all locally incorporated but foreign controlled. Barclays and Standard Chartered, the two biggest, have been operating since the 1950s - Barclays with 48 branches, agencies and cash points and Standard Chartered with 41. The Bank of Credit and Commerce, Botswana, began operations in 1982 and the most recent entry is Zimbank, a subsidiary of the state-owned Zimbabwe Banking Corporation, which opened its doors in 1990.

The banks have not been able to lend enough to match the growth of their deposits, reflecting both the sheer magnitude of the inflows of funds during the 1980s and the economy's inadequate absorptive capacity. The banks redeposit their funds with the Central Bank on which they earn 9.5% interest which is well below the inflation rate estimated at 13% at the end of 1990.

There are three distinct categories of customer in Botswana:

(i) The very large firms - Debswana, BCL etc - whose needs must often be met from outside the banking system (eg: the government) or from abroad.
(ii) Medium-sized firms with loan demands that can exceed prudential limits for loan concentration and thereby pose a problem to the system.
(iii) The mass of small borrowers

With the rapid buildup of deposits and limited outlets for funds, the system has become overly liquid. Despite this, many small borrowers find it difficult to raise funds because of the highly risk-averse attitude of the banks. At the same time, the largely communal nature of land ownership in Botswana limits the use of land for collateral.

**Financial Services Company (Pty) Ltd (FSC):** This was a wholly-owned subsidiary of the parastatal National Development Bank and the Botswana Development Corporation. Its main function is the provision of hire-purchase and leasing facilities, but recently it has moved into property financing as well. A second finance house has been given a license to commence operations. It was partially privatized in 1990 when shares were sold to the public through the Botswana share market.

**Botswana Development Corporation (BDC):** This is a development-oriented parastatal providing equity and loan finance for new ventures and business expansions. Traditionally, it has tended to invest mainly in larger projects - such as Sua Pan - which generate jobs, replace imports, utilize local raw materials and create new business openings.

It is also engaged in three financial parastatals- Tswelelo, FSC and the Botswana Insurance Company. In an effort to encourage Batswana investors to participate in its ventures, the BDC established Sechaba Investment Trust to sell "Sechaba shares" - equity holdings in its eight most profitable subsidiaries. It was also a prime mover in the establishment of Botswana Stockbrokers.

The most important stockbroker is the state-owned Botswana Development Corporation (BDC), established in 1970, with the task of promoting development in all sectors of the economy other than large-scale mining. As of March 1989, it had total assets of P196 million total capitalization, including reserves, was P88 million. Many of the companies it has promoted have proved highly profitable, and it is now government policy to privatize them over time. It obtains its funds from government loans or government equity participation, on-lending these resources at 4% to 5% over its average cost of funds.

**National Development Bank (NDB):** This was established before independence to provide finance not available from the commercial banks - farm credit, long-term funding and small enterprise finance. It is a wholly-owned parastatal and the bulk of its funding emanates from the Ministry of Finance's PDSF. It grew rapidly during the 1980s, but this expansion coincided with the sever drought resulting in a serious weakening of its loan portfolio, which is substantially invested in agriculture. It also experienced serious management and administrative problems.

**Botswana Building Society (BBS):** Originally a subsidiary of the South African-based United Building Society, BBS was established in 1970. When Botswana withdrew from the Rand Monetary Area in 1977, it became a parastatal. It is the largest lender for home ownership accounting for more than 80% of home lending. It draws funds from the sale of shares and taking deposits, though share sales are far and away the main source of income.

**Botswana Savings Bank (BSB):** Established in 1911 as an arm of the South Africa Post Office Savings Bank, BSB is now run as a department within the Ministry of Finance. Using local post offices, it has become the most important vehicle for mobilizing small-scale savings in rural areas.

**Botswana Cooperative Bank (BCB):** This provides financial services to the cooperative movement with the aim of channelling resources from a surplus coop to those operating in deficit. It has not, however, succeeded in mobilizing funds from the cooperative movement, which itself was hard hit by the 1982-87 drought and plagued by financial and managerial problems. Its lending portfolio is only small - P5 million - and its capital base has been eroded by high default rates and the build-up of arrears.

**Tswelelo (Pty) Ltd:** Tswelelo is a private company, owned by two parastatals (NDB and the BDC) and the Dutch company, Nederlandse Financierings - Maatschappis Voor Ontwekkelingslanden N.V. (FMO). It operates as a development finance company providing financial and technical assistance to small-scale Batswana entrepreneurs. It is financed by its three main shareholders and although it has grown rapidly since its establishment in 1984, it has experienced growing losses.

## 13.3 The Insurance Sector and Pension Funds

There are three insurance companies - the Botswana Insurance Co (BIC), IGI Botswana Insurance Ltd (IGI) and Botswana Eagle Insurance Co (BEIC). All three offer short-term insurance and the two larger ones -(BIC and IGI) provide life assurance and pension fund management. IGI is the oldest, established as a subsidiary of its South African parent in 1974. In 1980, it became the first company to make a public share issue in Botswana. The Botswana Insurance Co, established in 1975, is the largest. It was originally owned by the BDC and the London-based J H Minet and Co Ltd. The BDC has since sold some of its shareholding to the Sechaba Investment Trust.

Excess market liquidity in the 1980s forced the pension and provident funds to invest a growing proportion of their premium income in real estate. In 1988, the central bank liberalized the exchange control regulations to allow the insurance companies to invest half their assets offshore.

There are also a number of privately-managed pension and provident funds, such as those operated by the commercial banks and Debswana. Indeed, in 1987 their funds (P25.5 million) were not substantially less than the P33 million of the insurance companies. This means that there is now well over P70 million held by the these funds for investment in Botswana and abroad. Real estate remains the chief investment vehicle given negative real interest rates in the capital market.

## 13.4 The Botswana Stock Exchange

The share market, established in 1987, is attracting significant institutional investment from these funds. There are currently seven companies listed on the exchange - IGI Botswana, Sefalana SA Botswana, Botswana Game Industries (BGI), Barclays Bank, Financial Services Co, Standard Chartered Bank and the Sechaba Investment Trust. Market trading began in June 1989 when five stocks were listed and the market was capitalized at P132 million. By the end of 1990, market capitalization had increased to P424 million. The Botswana share market price index ( June 1989 = 100) rose to 149.3 by the end of 1989 reaching 230.6 on Jan 4, 1991.

**Botswana Share Market** (as at Jan 4, 1991).

| Company | Market Cap P mill | Dividend Yield % | P/E Ratio | After-Tax Profits P mill |
|---|---|---|---|---|
| Barclays | 134.5 | 4.1 | 10.9 | 12.3 |
| BGI | 6.0 | 6.5 | 6.6 | 0.9 |
| FSC | 32.4 | 4.6 | 15.2 | 2.1 |
| IGI | 16.9 | 9.0 | 10.7 | 1.6 |
| Sechaba | 66.3 | 4.6 | 11.3 | 5.9 |
| Sefalana | 68.0 | 5.9 | 6.0 | 11.2 |
| Standard Bank | 99.9 | 4.2 | 11.7 | 8.5 |

*Source: Stockbrokers Botswana Ltd*

Secondary market turnover has increased from a monthly average of P342 million in the final quarter of 1989 to P372 million in the comparable period of 1990. The Government is determined to widen the market and at least three new listings are anticipated during 1991, including the PEP Stores retail clothing chain.

The market is being used for privatizing state-owned enterprises. The Financial Services Company issue in 1990 was a case in point when more than 40% of the equity in the parastatal was sold to the investment public. The BDC has also used the market to dispose of some its equity stakes in local companies.

There has been limited international investment interest in the market with foreign portfolio investment inflows estimated at P1.5 million during the first year of operations - about 16% of secondary market turnover.

Market development is inhibited by the narrow secondary market and the fact that there is an excess demand for investment opportunities. This means that investors tend to purchase shares and lock them away rather than trading them actively.

### 13.5 Strengths and Weaknesses of the Financial System

Botswana's financial system has some notable strengths; the commercial banks and most of the other financial intermediaries in the system are financially sound. The prudential supervision and regulation of the Bank of Botswana is in line with international standards. The government does not interfere with the selection of banking clients nor the setting of loans term. The Botswana banks operate within a market environment.

There are also some notable weaknesses:

* Major financial flows are channelled outside the system. The parastatals are mainly funded either by the government or from abroad. The largest depositor, Debswana, places its funds directly with the Bank of Botswana. The government and the Bank of Botswana are the major financial lender and deposit-taker respectively. This means that the volume of financial business subjected to market forces is low.

* The banking system has become excessively liquid in recent years with the rapid build-up of deposits and the limited outlets for investment.

* Despite this high liquidity, the access of smaller clients to formal credit is limited by the conservative procedures of the banks, and the low level of business and accounting expertise of small-scale potential borrowers.

* The largely communal nature of land ownership is a serious constraint on access to finance, because land is not owned individually, it cannot be used as collateral.

* The range of financial instruments is very limited

* The system has failed to provide farm credit and rural finance in the form and on the scale necessary for broad-based rural development to take root.

Chapter 14

# Taxation

## 14.1 Corporate Income Tax

A tax on company profits earned during the tax year (July 1 to June 30). Tax is normally payable within 30 days of assessment, following submission of a tax return within two months of the tax year end. Larger companies pay tax quarterly. In 1990, the company tax system was restructured whereby :

(i) Dividends payable to both resident and nonresident shareholders are now deductible from company profits before taxable earnings are assessed. This eliminates the previous double taxation of nonresident dividend income.

(ii) The previous 40% company tax rate was split into a new 30% base rate and a 10% additional rate, with the latter serving both as a substitute for the 15% withholding tax and also as an upper limit to the deduction of withholding tax from company tax.

The effective tax rate remains 40%, but - dependent on the level of dividend distribution - the amount paid by the company and by the shareholders varies. Thus, a company declaring a 66.6% dividend, on a taxable income of P100,000, would pay P30,000 in basic tax (30%) and 10% additional company tax (P10,000) - a total liability of P40,000 (40%). The withholding tax of 15% of the P66,667 dividend (P10,000) would be exactly equal to the amount of the additional tax.

In the 1991 budget the corporate tax rate for companies going public on the Botswana Stock Exchange was reduced to 35% from the normal rate of 40%. This incentive tax rate applies for a five-year period provided there is a minimum equity participation by the general public of 25%.

## 14.2 Exemptions and Deductions

Except for farming, mining and prospecting, losses are deductible from profits for five subsequent tax years. The cost of machinery and buildings are written off on an equal annual basis, while an initial allowance of 25% is granted in respect of new industrial buildings.

Nonresident companies are taxed at 40% while nonresident contractors pay 25% of cost (net of costs of materials used); there are special tax and royalty arrangements for the mining companies.

### 14.3 Capital Gains Tax

Capital gains on business assets, on shares or debentures and residential property are subject to tax, though the principal private residence of individuals is exempt. There is an adjustment for inflation for immoveable property purchased after July 1, 1982.

For companies, chargeable gains are included in taxable income, while for individuals net gains (gains minus losses) are taxed under a separate formula with a zero tax band rate of P5,000, and a maximum rate of 50% over P50,000.

Capital transfers are taxable at rates rising from 3% on the first P30,000 of a gift or inheritance, to a maximum of 7% on amounts in excess of P200,000. Gifts of less than P2,000 are exempt.

### 14.4 Personal Income Tax

There is a PAYE withholding system on employee income. Married persons are taxed separately. The tax rate for residents has a zero band of P9,000 and thereafter rates progress from 2.5% to a maximum rate of 40%, thereby equating the top marginal rate with that for companies. The top rate applies to taxable incomes in excess of P50,000 per annum. There are exemptions for the first P1,000 of interest earned and also for up to P6,000 or 15% of earned income, whichever is the less, on contributions to approved pension schemes. Fringe benefits (vehicles, housing, education etc) are taxable.

There are special arrangements for farmers allowing them to offset losses or to average income over a three-year period. There are exemptions for income generated on dryland farming on an area of up to 100 hectares and on cattle income where the farmer owns less than 300 head and they are not reared for commercial purposes.

There are no payroll or social security taxes. Local rates are payable on the market value of property in the major towns.

A transfer duty is payable by the purchaser on transfers of real property with an exemption limit of P20,000 for citizens, including any company in which more than half the shares are owned by citizens. The rate for citizens is 5% on the value in excess of P20,000. Non-citizens pay 5% for urban property and 10% for rural property.

## 14.5 Sales Tax

There is a sales tax on a range of goods - petrol, diesel, beer, wine, spirits, cigarettes and tobacco products, cosmetics and a wide range of durable consumer goods including motor vehicles.
Essentials and basic necessities (food, textiles, medicines) and raw materials and plant and machinery used in production.

The basic rate is 10% - 5% on traditional beer, and 6% on diesel fuel. The rate for petrol is 11% and there are higher specific rates for wines, spirits and beer.

## 14.6 Customs Union Pool

A three column tariff applies to all goods imported into Botswana, with preferential treatment for items from the EC, the US and Canada. The taxes are contributed to the common customs pool (SACU) shared with Lesotho, Namibia, Swaziland and South Africa. Both specific and ad valorem rates are applied, with ad valorem rates ranging from zero to 75%. SACU also stipulates selective excise duties on items such as alcoholic and non-alcoholic beverages.

## 14.7 Double Taxation Agreements

There are double taxation agreements with the UK and South Africa.

Income tax is charged on all amounts accrued or deemed to be accrued from sources in, or deemed to be in, Botswana. The tax is payable annually on income earned in the tax-year ending June 30. Employees are subject to pay-as-you-earn taxation. Married persons are taxed separately.

## 14.8 Taxable Income

Tax is payable on "taxable income", defined as that part of gross income remaining after deducting "exempted amounts", "allowable deductions", and certain "personal reliefs"

Taxable income is determined as follows:

| | |
|---|---|
| Gross income | |
| less | any amounts exempt from tax |
| equals | assessable income |
| less | cost of producing assessable income |
| equals | chargeable income |

| | |
|---|---|
| less | (a) personal allowances (resident individuals only), or |
| | (b) dividends paid by resident company to resident shareholders |
| equals | taxable income. |

As far as foreign companies are concerned, taxable income and chargeable income are the same.

Tax rates applicable to individuals from June 1, 1990:

**Residents**

| **Income Band Pula** | **Tax Rate** | **Cumulative Tax** |
|---|---|---|
| 0 - 9,000 | nil | nil |
| 9001 - 20,000 | 5 | 550 |
| 20,001 - 30,000 | 10 | 1,550 |
| 30,001 - 40,000 | 20 | 3,550 |
| 40,001 - 50,000 | 30 | 6,550 |
| 50,001 - 60,000 | 40 | 10,550 |

The top marginal rate of 40% applies to income above P50,000.

**Nonresidents**

| | | |
|---|---|---|
| 0 - 30,000 | 20 | 6,000 |
| 30,001 - 42,000 | 30 | 9,600 |
| 42,001 - 60,000 | 40 | 16,800 |

Chapter 15

# Intellectual Property Rights

Botswana does not have industrial property legislation and does not grant patents. The Office of the Registrar of Companies protects owners of UK patents by registering them automatically, without any fee. Owners of South African patents may receive automatic registration in Botswana upon application and payment of a fee of P20. The local legislation is purely a protection act. An industrial property bill is being drafted with the assistance of the World Intellectual Property Organization (WIPO)

Botswana is a member of the African Regional Industrial Property Organization (ARIPO) which has an office in Harare, Zimbabwe. Under the ARIPO system, the Botswana Patent Office carries out a preliminary examination of any application for patent protection. The ARIPO office then investigates for novelty, inventiveness and industrial applicability. The Harare office then grants the patent, advising Botswana, which is then free to accept or reject the grant. The applicant is able to specify a number of states, that are members of ARIPO, in which he wants the patent to be protected.

# Appendices

**Appendix One**

**Setting up a Business in Botswana**

There is a Companies Act which distinguishes between private, public and external companies - the most common form being the private company. The authorised capital most widely used is P3,000, the level at which the minimum capital duty is payable. A minimum of seven shareholders is required for a public company, while application must be made to the Bank of Botswana for Exchange Control approval for external ownership
of shares.

The memorandum and articles of association must be submitted to the Registrar of Companies who will ascertain that they satisfy the provisions of the Companies Act. A copy must also be lodged with the Commissioner of Taxes. Registration costs are P50 for a company with an authorized capital of P3,000 or less with an additional P10 for the Certificate of Incorporation.

All companies are required to have a registered office in Botswana, and each company must have at least two directors, except private companies where one director is sufficient.
There is no legal requirement that Botswana citizens be appointed as directors. Each company must have a secretary responsible for the statutory affairs of the company, though he need not be resident in Botswana. But there must be a Public Officer, responsible for the tax affairs of the company, who must be a Botswana resident.

Public companies must lodge annual audited and certified balance sheets, together with a signed copy of the auditors report with the Registrar. Private companies do not normally have to appoint auditors.

## Appendix Two

### Industrial Licensing

In terms of the Industrial Development Act (1988), all locally-owned manufacturing enterprises employing ten or more people and/or using 26.8 horsepower (20 kw) of any form of energy, require an industrial license from the Industrial Affairs Division of the Ministry of Commerce and Industry. Applicants are advised to submit proposals through the Ministry's Trade and Investment Promotion Department (TIPA).

The application should be submitted, with a fee of P40, and is then published in the Government Gazette for two consecutive weeks. There is a 14-day period during which objections may be lodged, with a copy of the objection provided to the applicant.

The application is then reviewed by the licensing board and submitted to the Minister of Commerce and Industry for final approval. Once approved a license fee of P100 becomes payable, renewable annually. If an application is rejected, an appeal to the Minister may be lodged within 30 days.

Applications for manufacturing licenses must specify the product to be made and a new license is needed when a product range is extended. In special circumstances the Minister will issue an exclusive license precluding the establishment of a competitive manufacturer in Botswana. Such exclusive licenses may be granted for an initial period of four years with the possibility of an extension thereafter.

To create economic opportunities for Batswana people and encourage citizen entrepreneurs, certain activities are reserved for citizens and citizen-owned enterprises. These are largely small-scale commercial activities ( butcheries, small general traders, filling stations, bottle stores and bars, taxi services, takeaway restaurants and clothing boutiques) and some industrial activities such as the manufacture of school furniture and of uniforms. Other small-scale activities listed include baked brick manufacture, bakeries and the milling of sorghum. Certain road and railroad maintenance contracts are also reserved for citizen enterprise.

### Land Tenure

There are three legally recognized categories of land tenure:

* state land, controlled by central government;
* tribal land, allocated by the Tribal Lands Board; and
* freehold land, which is concentrated in the main urban areas (Gaborone, Francistown and Lobatse) but also applies in the Tuli Block and other rural areas.

## Appendix Three

### Labor Legislation

The 1982 Employment Act specifies conditions of employment, including hours of work, overtime, leave conditions apprenticeship, and industrial training, and periods of notice and payment in lieu of notice. The act also lays down conditions of unlawful termination of employment. Appeals may be lodged against dismissal within 14 days of termination and if the labor officer feels the dismissal was unfair, he is empowered to insist that the dismissed employee receives compensation to a maximum of two months pay. There is a further appeal to the Commissioner of Labor who may amend or overrule the original decision.

All non-managerial and non-professional staff are entitled to a gratuity provided they have worked for the employer for at least five years.

Tax rebates are available in respect of approved training expenditures.

There is a Trade Union Act (1969) requiring the registration of all labor unions, while a Trade Unions and Employers' Organization Act took effect from 1984. The Trade Disputes Act of 1982 provides statutory procedures for the settlement of industrial disputes. Strikes are legal in Botswana and workers in most industries have access to industrial action.

### Employment of non-citizens

The Employment of Non-Citizens Act (1981) specifies that non-citizens must hold a work permit before becoming employed. This applies to company directors as well as other employees. Work permits are issued by the Labor Commissioner and will normally be granted only when there is no suitable Botswana citizen for the position. Posts must first be advertised in the Botswana press and details for the training of a local replacement must also be supplied when application is made for a work permit.

Non-citizens must also possess a valid residence permit.
Potential investors are given temporary permits for a three-month period during which they are negotiating with the Ministry of Commerce and Industry. Factory legislation covers health and safety requirements at factory premises and places of work.

**Appendix Four**

**Industrial Incentives**

**1. Selibi-Phikwe Projects**

Projects that meet the following criteria may apply for the package:

* project must be located within Selibi-Phikwe;
* 100% of project output must be exported outside the South African region (SACU and SADCC);
* the project must employ at least 400 Batswana within two years of start-up and maintain employment at or above that figure thereafter;
* the project must be promoted by an established international company in existence for at least 10 years investing a minimum of 25% of its combined fixed and working capital as equity.

The following incentives are available:

(i) A capital grant towards the fixed costs of the project up to a maximum of 65% of the capital investment or P1,000 per citizen job created, whichever is the lesser;

(ii) A "step-down reimbursement of unskilled labor costs over five years as follows: 80% in years one and two; 60% in year three; 40% in year four and 20% in year five.

(iii) a training reimbursement grant of 50% of the off-the-job and approved inhouse training costs of citizen employees in the first five years of the project;

(iv) a nominal rate of 15% corporate tax for the first 20 years of the life of the project and exemption from withholding tax on dividends paid from after-tax profits for the first ten years.

In addition, projects are also eligible for:

* a five year step-down grant up to a maximum of 8% of invoiced sales in each of years one and two of the project; 6% in year three, 4% in year four and 2% in year five. This applies provided the total value of all the grants summed over five years does not exceed 120% of unskilled labor and training costs in the same period, or 50% of the project's value-added whichever is the lesser.

**Appendix Five**

**Financial Assistance Policy (FAP)**

FAP applies only to productive activities excluding cattle ranching and large-scale mining. Small and medium-scale mining - investments of less than P900,000 - are eligible as is agriculture other than cattle (small stock, poultry, dairy, fishing etc). Dryland farming is covered only at Pandamatenga. The brewing/distilling industry is excluded as are service activities like banking and tourism.

Both new and expansion projects are eligible for FAP. All assistance takes the form of non-repayable grants with projects divided into three categories:

* small-scale business - investment in fixed assets with a value of P25,000 or less.

* Medium-scale business - investments from P25,000 to P900,000;

* large-scale business - investments over P900, 000.

**The FAP Package for Medium-Scale Businesses**

Two packages are available for medium-sized business:

(a) New investments in manufacturing qualify for Automatic Financial Assistance (AFA)

(b) Expansion projects are eligible for negotiated or case-by-case Financial Assistance (CFA).

**A. Automatic Financial Assistance**

This has three components:

(i) Tax holiday, with the tax relief in urban and peri-urban areas being scaled down from 100% in years one and two to 25% in year five. In rural areas the scale is 100% for years one to three, 75% in year four and 50% in year five. Specific straight-line depreciation rates are applied to various business assets

(ii) Unskilled Labor Grant - there is an 80% reimbursement of unskilled labor wage bills in years one and two, falling to 60% in year three, 40% in year four and 20% in year five. Unskilled labor is defined as that earning below the lowest notch of Industrial Class Group One in the government wage scale.

(iii) Training grant - fifty percent of all training costs incurred during the first five years of the project are paid by FAP. Only training at institutions licensed by the government of Botswana Ministry of Education is eligible provided costs do not exceed P2,500 a year. In-house training is also eligible while training outside Botswana or off-the-job training costing more than P2,500 per trainee per year must receive special permission.

**B. Case-By-Case Financial Assistance**

This applies to both new and expansion investments provided that they have an expected real economic rate of return of at least 6%. The project evaluation process favors projects using unskilled labor, rather than capital or skilled labor, and projects where profits accrue to Batswana. There are four components:

(i) Employment Grants - grants of P1,000 per job created for non-citizen owned or joint venture projects and of P1,500 per job for 100% citizen owned ventures. The total capital allowable ranges from 40% of total fixed investment in urban areas, to 50% in peri-urban areas, 55% in non-urban primary centers, 65% in rural areas (east) and 85% in rural areas (west).

(ii) Sales Augmentation Grant - these grants will be for a maximum of 8% of sales revenue in the first two years, declining by two percentage points each year thereafter to 2% in year five.

(iii) Unskilled Labor Grant - these are identical to the unskilled labor grants under AFA (above).

(iv) Training Grant - these are identical to the training grants under AFA (above).

## Appendix Six

### Acronyms

| | |
|---|---|
| AE and CI | African Explosives and Chemical Industries |
| AFA | Automatic Financial Assistance |
| ALDP | Arable Land Development Program |
| ARAP | Accelerated Rainfed Arable Program |
| ARIPO | African Regional Industrial Property Organization |
| AULSHP | Accelerated Urban and Land Servicing and Housing Program |
| BAMB | Botswana Agricultural Marketing Board |
| BBS | Botswana Building Society |
| BCB | Botswana Cooperative Bank |
| BCL | Bamangwato Concessions Ltd |
| BDC | Botswana Development Corporation |
| BDP | Botswana Democratic Party |
| BGI | Botswana Game Industries |
| BHS | Botswana Housing Corporation |
| BIC | Botswana Insurance Corp |
| BMC | Botswana Meat Commission |
| BMAP | Botswana Management Assistance Program |
| BNF | Botswana National Front |
| BOB | Bank of Botswana |
| BPC | Botswana Power Corp |
| BPED | Botswana Private Enterprise Development Project |
| BPP | Botswana Peoples' Party |
| BR | Botswana Railways |
| BRST | Botswana Roan Selection Trust Ltd |
| BSB | Botswana Savings Bank |
| CFA | Case-by-Case Financial Assistance |
| CSO | Central Selling Organization |
| DEBSWANA | De Beers Botswana Mining Co |
| DICORBOT | Diamond Corporation of Botswana |
| DRP | Drought Recovery Program |
| EC | European Community |
| EDF | European Development Fund |
| EIB | European Investment Bank |
| FAP | Financial Assistance Policy |
| FLS | Frontline States |
| FSC | Financial Services Company |
| GATT | General Agreement on Tariffs and Trade |
| GSP | Generalized System of Preferences |

| | |
|---|---|
| IMF | International Monetary Fund |
| MFDP | Ministry of Finance and Development Planning |
| MVA | Manufacturing value-added |
| NDB | National Development Bank |
| NDP | National Development Plan |
| NEMIC | National Employment Manpower and Incomes Council |
| NRZ | National Railways of Zimbabwe |
| OAU | Organization of African Unity |
| OECD | Organization for Economic Cooperation and Development |
| PDSF | Public Debt Service Fund |
| PMU | Police Mobile Unit |
| RSF | Revenue Stabilization Fund |
| SACU | Southern African Customs Union |
| SADCC | Southern African Development Coordination Conference |
| SDRs | Special Drawing Rights |
| SHHA | Self-Help Housing Agency |
| TGLP | Tribal Grazing Lands Policy |
| TIPA | Trade and Investment Promotion Agency |
| TNC | Tati Nickel Corp |
| UNDP | United Nations Development Program |
| WIPO | World Intellectual Property Organization |