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**MANUAL FOR ACTION IN THE PRIVATE SECTOR**

**PHASES I-V**

**Adaptation for**

**USAID/BOTSWANA**

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## Executive Summary

### Overview of MAPS Process

In July 1989, USAID/Botswana will submit its FY 1991-1996 Country Development Strategy Statement (CDSS) to Washington. To help it develop this strategy document, USAID recognized the need to assess the extent to which private sector mechanisms and activities exist or can be developed and incorporated into this new strategy.

USAID/Botswana requested the Office of Market Development and Investment (AFR/MDI) of the Africa Bureau of A.I.D. to organize and sponsor such a private sector strategy assessment utilizing the Manual for Action in the Private Sector (MAPS) framework. This was done, with work being accomplished in collaboration with the A.I.D. Bureau for Private Enterprise (AID/PRE). The MAPS effort was initiated on January 23, 1989.

MAPS is being used in this strategic planning process along with a number of other studies recently completed or now being undertaken with Mission guidance and involvement, such as a major Agriculture Sector Assessment. The MAPS process, as described in the MAPS manual, was adapted to conform to the needs of the Mission, timeframe for work completion, and Botswana data availability. These modifications are described in the MAPS Phase I Report of March 1989.

### Summary of USAID's Present Overall Strategies

The following mission statement, goals, and objectives underlie all of USAID's present operations, not just private sector support.

#### *Mission Statement*

Promote improvement in the quality of life through broad-based, private-sector-led economic growth emphasizing skills development, technology transfer, and promotion of local enterprises—all leading to increased income and employment generation in a democratic environment.

#### *Mission Goals and Objectives/Strategies*

<b>Goal</b>	Increased market-force-based, private-sector-led economic growth, development, and employment generation
<b>Objective</b>	Encourage policies which reduce constraints, opening the economy to market forces
<b>Objective</b>	Directly increase citizen knowledge of and ability to participate in the private sector
<b>Objective</b>	Increase GOB efficiencies and ability to provide inputs to productive sectors
<b>Objective</b>	Encourage work skills development and related curriculum improvements in basic education

- Goal** Improved quality of life through skills development and better management and delivery of goods and services in areas vital to development
- Objective** Support effective expansion of the basic education system
- Objective** Expand population efforts; strengthen agricultural research and linkages to effective extension; and participate in urban development through housing guarantee programs
- Objective** Increase support to natural resource development
- Objective** Provide assistance to help alleviate drought and food emergencies
- Objective** Increase private sector involvement in basic goods and services delivery

### **Description of the Private Sector**

A data base was created from existing sources of information. The description exercise had two objectives:

- To provide statistical information which would help address CDSS and new project development issues, and contribute to the next steps of strategy development; and
- To support broader and longer-term USAID activities in favor of the Botswana private sector.

Key findings are as follows:

- The private sector dominates Gross Domestic Product (GDP) (76 percent) and employment (82 percent).
- Foreign-dominated, larger firms provide about 35 percent of total formal sector employment (excluding General Government), but expatriates comprise only 4 percent of this workforce.
- Identified high-employment growth potential segments contribute only 25 percent to total employment, and projected 1992 contribution is only 33 percent (the latter because of Agriculture's decrease).
- There is insufficient economic diversity for assured, sustainable growth.
- Agriculture is unproductive and is a quickly diminishing contributor to employment and GDP.
- The present official unemployment estimate of approximately 25 percent is probably underestimated, as labor force estimates do not include nonworking married women.
- Future projected GDP growth is forecast to be insufficient to reduce unemployment.

- The nonfarm informal sector contributes only 15 percent of total employment, and only 70 percent of formal-sector firms have 10 or fewer employees.
- Important gaps in available data are employment by economic subsegment (e.g., garment manufacturing) and splits between parastatal/private-sector employment and GDP contribution.
- Only 39 percent of employment is female, 78 percent is urban and only 12 percent of Junior Secondary (JS) school leavers in 1987/88 found jobs that year.
- The private sector is unable to productively convert the funds available from mineral and cattle exports to activities resulting in productive employment and economic diversification.

### **Diagnosis of Issues Affecting the Private Sector and Dialogue With Businesspeople Over Possible USAID Strategy Elements**

The MAPS team modified this survey phase because of the availability of information taken from recent discussions with private sector members and studies conducted by the Mission in collaboration with the Government of Botswana (GOB), which obviated most of the need for a new survey of constraints and opportunities. Five focus groups, comprised of "experts" knowledgeable about the problems and requirements for business success in private sector, yet not motivated by business objectives, assisted the MAPS team to set the agenda for the private sector dialogue discussions to follow.

Nine focus groups of business people were held in two cities and two rural towns. Representatives were from manufacturing, construction, commerce, and service firms. Major business constraints which the discussions revealed are:

- There are significant gaps in business information and dissemination to both rural and urban businesspersons.
- There is a lack of skilled manpower, difficulty with expatriate work/residence permits, and an emphasis on education rather than training.
- The quality and penetration of business training and advisory services is low.
- There is a small domestic market for most goods and services.
- Local equity sources lack scope and depth.
- Financial institutions are conservative and lack diversified instruments.
- Business incentives and policies do not meet private sector needs and require further study and consensus building through dialogue.
- There is a lack of serviced land available for new businesses and business expansions.
- The cost of electricity is high, and there is a shortage of water in many rural areas where business development might be otherwise possible.

- There is a lack of business infrastructure, pertinent training, and purchasing power in rural areas.

Subsectors which the groups identified as having significant present employment and good future growth prospects are general manufacturing (especially exports, garments, and cattle by-products), selected trade categories (e.g., export trading), construction, business services, tourism, specialized agriculture distant from the South African border, game farming and selected parts of the nonfarm informal sector (e.g., handicrafts).

In addition, there are possibilities for rural formal-sector opportunities such as airfreight, road transport, funeral services, sewing and business machine repair, local newspapers, radio telephones, spare parts services and competition with inefficient public-sector providers (e.g., chicken feed and condom suppliers, and business advisory services).

The real cost of capital for firms which can borrow near prime or receive significant Financial Assistance Policy (FAP) grants is negative, providing a significant advantage for entrepreneurs and firms which can take advantage of this negative rate.

Implications for donor assistance which came out of the discussions are:

- Entrepreneurship development rather than short-term employment generation should be the objective of small-scale enterprise (SSE) support;
- Impact on employment would appear to be greater, in the short-term, if employment generation programs are directed at medium and large-scale firms;
- Programs should isolate and focus on segments with high employment-growth prospects, particularly those which also leverage high derived employment;
- Training and associated delivery systems are preferable to formal education efforts;
- Initiatives in capital market development can help build supply of and demand for more sophisticated services (e.g., increase venture capital supply and promote asset-based lending);
- Promoting export and other foreign links must involve easing firms' use of expatriates and encouraging the use of local specialized service providers;
- Policy studies must be sponsored and conducted by disinterested parties and include consensus-building mechanisms (e.g., business incentives, land allocation, business premises, power supply, pricing of inputs from parastatals, effect of The Southern Africa Customs Union (SACU) on local business development);
- Participation of the private sector in donor and Government development decision-making should increase.

## **Design of USAID Private Sector Strategy**

Selected members of the "expert" groups reviewed drafts of the above findings. The MAPS team took their comments into account, as well as recommendations from recent private-sector studies and the just-completed World Bank study (*Botswana: Financial Policies for Diversified Growth*, August 1989), whose team members recommended that USAID's most useful role would be to support innovative training and advisory services.

The team also reviewed other donors' private-sector support activities and consulted with concerned Ministry representatives on Government priorities for the private sector's role, both general and in particular for donor support. Finally, the team reviewed A.I.D. general development and private-sector support guidelines.

The following recommended private-sector support mission statement, principal objectives, and strategies options resulted:

### ***Private Sector Mission Statement***

Support the private sector's contribution to broad-based, sustained economic growth and development, increased incomes, and job creation in a democratic environment by:

- Encouraging longer-term structural changes through increased Botswana participation in the private sector, increased economic diversity, and the spread of market forces throughout the economy; and
- In the shorter term, catalyzing a reduction in unemployment by contributing to increases in citizens' skills, foreign investment, and trade links.

### ***Objectives and Strategies***

1. *Support the overall growth of market forces throughout the economy by promoting dialogue among the GOB, the private sector and donors, and supporting the spread of education which readies students to enter the workforce.*

a. Conduct a continuing policy dialogue on national economic strategy which will emphasize the removal of market force constraints and promote growth in key segments of the private sector. In addition, encourage the GOB to include the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) and other elements of the private sector, and especially rural businesspersons, in the dialogue process.

b. In conjunction with the GOB and private entities, design and perform policy studies and expose key GOB officials and leaders in the private sector to areas important to the spread of market forces and growth in key segments of the economy.

c. Promote and assist in the study of policy and regulatory constraints to private sector development in areas which have been identified by the private sector.

d. Continue to promote changes in pre-university formal education, especially at the junior secondary level, which will provide young students with private sector career orientations and extracurricular work experiences which will better prepare them for entering the labor force.

2. *Make a significant contribution, over the planning period, to the reduction of unemployment in Botswana through direct stimulation of employment in selected, labor intensive, high-growth potential segments of the private sector.*

a. Concentrate employment (both direct and derived) generation efforts in components of the private sector which have been identified to hold the most promise for growth and significant employment generation.

b. Stimulate growth in subsegments identified for employment generation interventions through promotion studies tailored during a dialogue process which includes all participants in the promotion process (bankers, GOB officials, entrepreneurs, etc.) and which examines the existence and extent to which key constraints retard growth in each subsegment.

3. *Contribute to the spread of entrepreneurship, work and management skills, and other key business inputs which support the establishment and growth of Botswana-owned firms in diverse segments of the private sector.*

a. Entrepreneurship. Cooperate with the Peace Corps in its effort to add enterprise-development elements to the programs of existing training organizations. Support BOCCIM's efforts to increase the interaction between established and potential businesspeople through the establishment of regional chapters and short-term courses.

b. Work and management skills. Support short-term courses through institutions such as BOCCIM and Institute of Development Management. Provide foreign expert help for feasibility studies in areas of unrealized business opportunities. Stimulate university and senior secondary work-study programs.

c. Access to appropriate types of capital. Continue and expand the commercial-bank loan-guarantee facility. Provide short-term banker-client training in key regions of the country. Promote the availability of diverse capital facilities (e.g., asset-based lending, bonded warehouses, receivables, and inventory financing).

d. Government support. Strengthen GOB institutions of key importance to the private sector—such as the Trade & Investment Promotion Agency (TIPA), FAP, Ministry of Finance and Development Planning (MFDP), tendering offices and the Regulations Review Committee—by providing foreign expert assistance and related training of counterparts.

4. *Help to provide foreign investment and trade links to local, especially citizen-owned, businesses which may be able to increase exports, generate employment, and increase economic diversity via joint/co-ventures or other associations.*

a. Identify relevant policy areas and provide expert and disinterested support to studies.

b. Identify existing local resources for facilitating foreign business links—such as consultants, business brokers, other donors' services, Botswana Development Corporation (BDC), TIPA, banks—and determine their needs to gain effectiveness.

c. Identify common weaknesses across a large number of local companies desiring foreign links and provide foreign expertise to help to alleviate the problems.

d. For individual ventures promising especially high contributions to program objectives, directly participate in the funding of needed feasibility studies, business plans, or other key activities.

e. Facilitate tie-ins with existing offshore services, such as Overseas Private Investment Corporation (OPIC), Entrepreneurs International, Southern Africa Development Coordinating Commission (SADCC) programs, Lome, and the Africa Project Development Facility.

f. If funds are available, become an active node of A.I.D. regional foreign-link promotion facilities.

## **Concluding Remarks and Next Steps**

The MAPS Phase I report documents the case that USAID has been enterprising over the past two years at implementing a new strategy of encouraging private-sector mechanisms to address important development problems. USAID has accomplished this in spite of its budget's and most of its management's being pre-committed to other strategies.

The above recommended private-sector mission statement, objectives, and strategic options, coming as they do at the beginning of a new CDSS planning cycle, present an opportunity for USAID to take more aggressive, coordinated, and broad measures to support the private sector's contribution to economic development. However, as it is highly likely that USAID's resources will still be strictly limited, the Mission faces a challenge to improve its ability to leverage resources.

In particular, increased dialogue with the private sector itself must join USAID's continued successful relations and private-sector-expert role which it plays with the GOB and other donors. The Mission's success at taking maximum advantage of centrally funded and regional A.I.D. facilities should increase, primarily through USAID's efforts but also through A.I.D. regional and Washington management's appreciation of the critical role which USAID's private-sector support plays in Botswana and the importance which Botswana's private-sector-led growth plays in promoting U.S. regional interests.

Next steps in USAID's strategy-development process are already under way:

- *CDSS preparation:* A draft of the portions of the CDSS relating to private-sector support, principally addressing the problem of inadequate economic growth and diversification, will be ready by mid-May.
- *MAPS Phase VI—Development of private-sector support PID:* By the above date an outline should be ready.
- *MAPS Phase VII—Evaluation of MAPS process:* The above CDSS and project-development steps will test the usefulness of the MAPS findings and strategy recommendations, and will likely call for revisions or more information.

## Acronyms

A.I.D.	U.S. Agency for International Development
AFR/MDI	Office of Market Development and Investment, Africa Bureau, U.S. Agency for International Development
AID/PRE	Bureau for Private Enterprise, A.I.D.
BBS	Botswana Building Society
BDC	Botswana Development Corporation
BMC	Botswana Meat Commission
BOCCIM	Botswana Confederation of Commerce, Industry and Manpower
CDSS	Country Development Strategy Statement
EEC	European Economic Community
FAP	Financial Assistance Policy
GDP	Gross Domestic Product
GOB	Government of Botswana
IDM	Institute of Development Management
IFC	International Finance Corporation
JS	Junior Secondary
MAPS	Manual for Action in the Private Sector
MFDP	Ministry of Finance and Development Planning
NDB	National Development Bank
NDP6	Sixth National Development Plan
OPIC	Overseas Private Investment Corporation
PDSF	Public Debt Service Fund
PIR	Project Implementation Report
RSF	Revenue Stabilization Fund
SACU	Southern Africa Customs Union
SADCC	Southern Africa Development Coordinating Commission

<b>SIDA</b>	<b>Swedish International Development Agency</b>
<b>SSE</b>	<b>Small scale enterprise</b>
<b>TIPA</b>	<b>Trade and Investment Promotion Agency</b>
<b>UNDP</b>	<b>United Nations Development Programme</b>
<b>USAID</b>	<b>A.I.D. Mission in Botswana</b>
<b>VTC</b>	<b>Vocational Training Center</b>

# **I. Overview of MAPS Process and Articulation of Present Mission Strategies: Summary of Initial Phase Report**

## **A. Overview of MAPS Process**

In July 1989, USAID/Botswana will submit its FY 1991-96 Country Development Strategy Statement (CDSS) for Washington approval. To help it to develop this strategy document, USAID wishes to assess the extent to which private sector mechanisms and activities exist or can be developed and incorporated into this new strategy.

A.I.D.'s private-sector strategic planning process, Manual for Action in the Private Sector (MAPS), is a means to do this. Therefore, USAID is using MAPS, along with a number of other studies and reports recently completed or now being undertaken with Mission guidance and involvement, such as a major Agricultural Sector Assessment. The recently completed MAPS Phase I report (Annex H—under separate cover) gives full details of progress so far and describes steps to come.

The MAPS process, which clarifies Mission objectives and seeks to identify means to accomplish those objectives through the private sector, is a particularly useful tool at the time a Mission is designing a new or revised strategy. It will be useful in policy discussions with the Government of Botswana (GOB) and will promote understanding within the Government of the effect of public policy on private sector activity. It will also provide the private sector with a forum in which to express its own development priorities to the Mission, to other donors, and to the GOB, so that more cohesive and comprehensive policies and projects may be developed.

## **B. Summary of USAID's Present Overall Strategies**

As the articulation details in the Phase I report show, private sector development has played an increasingly important role in the Mission's overall strategy for supporting Botswana's development. The MAPS team reviewed USAID's recent project papers, Project Implementation Reports (PIRs), its existing CDSS, and other documents. It also consulted with USAID officials. This background work shows that, while the largest portion of USAID's resources have gone to or through the public sector, there is growing attention to assistance directly to and through the private sector, with the cooperation of the GOB.

The following mission statement, goals, and objectives underlie all of USAID's present operations, not just private sector support. The Mission feels that its two present goals, relating to the development of the private sector and the overall quality of life, are of equal priority. Attainment of the first will not be possible without success in building the foundations for growth included in the second. Conversely, success in reaching and sustaining the second will only be possible with accomplishment of the broad-based growth aimed for in the first.

## **Mission Statement**

To promote improvement in the quality of life through broad-based, private-sector-led economic growth emphasizing skills development, technology transfer, and promotion of local enterprises—all leading to increased income and employment generation in a democratic environment

### **Mission Goals and Objectives/Strategies**

**Goal "PS"** Increased market-force-based, private-sector-led economic growth, development, and employment generation.

**Objective PS1** Encourage policies which reduce constraints, opening the economy to market forces.

**Objective PS2** Directly increase citizen knowledge of and ability to participate in the private sector.

**Objective PS3** Increase GOB efficiencies and ability to provide inputs to productive sectors.

**Objective PS4** Encourage work skills development and related curriculum improvements in basic education.

**Goal "QL"** Improved quality of life through skills development and better management and delivery of goods and services in areas vital to development.

**Objective QL1** Support effective expansion of the basic education system.

**Objective QL2** Expand population efforts; strengthen agricultural research and linkages to effective extension; and participate in urban development through housing guarantee programs.

**Objective QL3** Increase support to natural resource development.

**Objective QL4** Provide assistance to help alleviate drought and food emergencies.

**Objective QL5** Increase private sector involvement in basic goods and services delivery.

## II. Description of the Private Sector: Its Contribution to Income and Employment Generation

### A. Objectives of This Phase

1. *Provide statistical information which will help address CDSS and new project development issues, and contribute to the next steps of strategy development—diagnosis and dialogue.*

This phase makes the following contributions:

- Quantifies the major problems of lack of economic diversity and growing unemployment;
  - Gives first indications of whether there is a manageably small number of labor-intensive, high-growth potential segments whose employment-increase prospects are large enough to make a significant dent in the employment gap;
  - Illustrates the economy's sensitivity to diamond revenues;
  - Highlights the entrepreneur-development problem of a small nonfarm informal sector and foreign-dominated formal sector;
  - Identifies segments which are projected to increase in share of total employment in the next five years;
  - Identifies special problems for women and youth.
2. *Support broader and longer-term USAID activities in favor of the Botswana private sector.*

Examples of such activities are project evaluation, strategy modification and dialogue with the GOB and with private sector groups. This phase provides an easily understandable statistical base, especially suited to public/private-sector policy discussions. This base also gives a means to measure income and employment changes which projects induce. See Annex A for the tables and graphs upon which the findings in the next section are based. To remain useful, the Mission should keep the tables up to date and add new data where this report has identified gaps. MAPS phase VII will return to this subject.

USAID has already produced several studies adding to available private-sector information and has supported experts who have helped the GOB to assemble a statistical base and planning system which is much more comprehensive, accurate, and timely than those of many developing countries. A qualitative discussion of the private sector, produced as background for the 1987 *Private Sector Strategy Study* but never published, forms Annex B. Further, the World Bank is just completing a comprehensive study of the financial sector. Its table of contents and executive summary form Annex G. Draft findings will be available for the MAPS strategy-setting, CDSS preparation and project design phases. Some tables are already available and are included in Annex A. Finally, the results of the Financial Assistance Policy (FAP) evaluation, which USAID partially financed and which benefitted from interviews with some 90 local firms of all sizes, provides part of this report's information base. The evaluation document fully describes FAP's concept and operation. Briefly, it is the GOB's chief instrument to support

economic diversification and employment growth, making grants (which are in effect equity investments) in nontraditional businesses which are likely to grow.

Despite this abundant background information, a benefit of the MAPS process is that it has identified the need for some specific information to back future detailed project design, evaluation, and policy dialogue. First, national accounts do not distinguish between parastatal and private sector segment-by-segment contributions to GDP and employment. Such information would be useful, for example, in the transport segment to help judge whether the productivity of the parastatal portion (Air Botswana and Botswana Railways) is significantly different from that of the private portion (e.g., trucking and private air services). In turn, this could influence project assistance to the segment and policy dialogue concerning privatization of parastatals.

Second, no employment information is available by subsegment (e.g., garment manufacturing). This makes it difficult to design or set evaluation standards for project components supporting promising subsegments.

## **B. Findings**

### **1. Importance of the Private Sector in Botswana's Economy**

#### **a. Share of total GDP**

Table 1 shows the contribution by economic segment to GDP. Using Table 7, which distinguishes between private and parastatal employment, we can roughly determine the parastatal contribution to GDP in 1986, making the assumption (necessary, as explained at the end of the last section, because a primary data-gathering effort would have been necessary to obtain GDP contribution of parastatals) that it is in proportion to contribution to employment, and thus estimate that, in 1986/7, the private sector accounted for 76 percent of GDP:

Table 7: Parastatal employment (1986): 7,755  
Total formal-sector employment: 79,966  
Parastatal employment: 10 percent

Table 1: Total real GDP (1986/7): P1446.0 millions  
General Government contribution to GDP: P202.9  
Total nongovernment formal-sector contribution to GDP (Grand total GDP less lines 1a, 1b, 9, and 11): P1185.8  
Of which 10 percent is parastatal: P118.6  
Therefore, total public sector: P321.5 (24 percent).

Figures 1 and 2 graphically show the contributions of the private sector but without correcting for the parastatal portion. They show clearly the economy's imbalance. Mining and Cattle, plus General Government, have produced over half of total GDP over the surveyed period, and more importantly, will become increasingly important (from a 59 percent contribution in 1988/89 to a 62 percent share in 1992/93) role in the future. *This highlights the need to take special measures to support economic diversification, which otherwise will likely not occur.*

## b. Share of total employment

In a similar fashion to the last section, we can use Table 7 and Table 2 (Contribution to Employment by Sector) to estimate *the private sector's contribution at 82 percent*:

Table 7: Percent parastatal formal sector employment, September 1986 (see above): 10

Table 3: Total employment, 1987: 330,638  
General Government: 52,982  
Nongovernment formal sector employment (see above for definition),  
1987: 81,316  
Of which 10 percent is parastatal: 8,131.  
Therefore, total public sector employment: 61,113 (18 percent).

As above, Figures 3 and 4 show the contributions by major sector to employment without correcting for parastatals' role.

## c. Share of investment and credit utilization

Table 9, from the forthcoming World Bank Financial Markets Study, shows the breakdown of commercial bank lending by sector. Table 12 shows details of 1988 GOB lending to parastatals. Table 9 figures show that *the private sector receives 92 percent of commercial bank lending (1987), versus its 76 percent contribution to GDP*. Government's ability to finance itself and most (94 percent) of parastatals' credit needs accounts for this difference. Table 12 also indicates that much of Government finance to parastatals (specifically that of BDC, Botswana Housing Corporation, and the National Development Bank, which claim 52 percent of 1988 Public Debt Service Fund financing) likely goes to the private sector (industry, housing, and agriculture, respectively).

Despite commercial banks' concentration on financing the private sector, the GOB has recently become the country's biggest lender, via its Public Debt Service Fund (PDSF) and Revenue Stabilization Fund (RSF). These two funds, which originally had distinct functions, now are essentially channels for the GOB to finance parastatals and, to a lesser extent, town councils, at prime or slightly below and for terms much longer than those which commercial banks offer.

**PDSF/RSF and Commercial Bank Lending, 1981-88**  
(P million)

End of Fiscal Year	PDSF/RSF Loans Outstanding	Commercial Bank Lending Outstanding	Total Lending	Comm. Bank Percent of Total
1981/82	80.1	142.9	223.0	64
1982/83	105.6	148.5	254.1	58
1983/84	158.9	185.6	344.5	54
1984/85	217.1	235.5	452.6	52
1985/86	268.3	248.7	517.0	48
1986/87	287.0	274.7	561.7	49
1988 Sept.	371.9	332.4	704.3	47

Thus, public sector institutions receive an increasing majority of total credit outstanding, and the GOB is a bigger lender than commercial banks. See section B7 below for further details on the financial sector.

**2. Importance of Private Sector by Economic Segment**

Neither contribution to GDP or segment employment figures distinguish between parastatals and the private sector. Therefore, the following section contains qualitative remarks, noting where parastatals play prominent roles.

**a. Agriculture**

The private sector dominates production in this segment, but the public sector dominates its financing via the following major parastatals: National Development Bank (NDB), Agricultural Marketing Board, Botswana Development Corporation (BDC), Livestock Development Corporation, Botswana Meat Commission (BMC), and Botswana Vaccine Institute.

**b. Mining**

Debswana, half GOB-owned, with the balance in de Beers hands, dominates this segment with its substantial diamond production.

**c. Manufacturing**

BMC handles about half of the meat packing and all of its exporting. It appears that GDP figures seriously understate the economic importance of this parastatal because GDP does not include the value added (margin) which BMC makes on its foreign sales.

**d. Water and Electricity**

Parastatals provide all of the traded portions of these commodities.

#### e. Construction

The private sector accounts for the productive activities of this segment, but Government, through the Building Society and the Housing Corporation, contributes heavily (83 percent) to its financing.

#### f. Trade and Hotels

With the major exception of the Botswana Agricultural Marketing Board, which handles grain purchases and sales, the private sector predominates. BDC plays a major role in hotel financing. Table 8 shows that trade's share was 92 percent of this segment's total 1984/5 GDP contribution.

#### g. Transport

With the exception of the railways and Air Botswana, the private sector dominates.

#### h. Financial Services

The financial parastatals mentioned above play a major role. In addition, Tswelelo, a BDC affiliate, provides small-scale enterprise financing. For a detailed discussion of this sector, see section 7 below.

#### i. Business Services

Postal and telecommunications services are in Government hands. The private sector dominates in other areas, such as insurance and real estate.

### ***3. Role of State-Owned Enterprises***

Table 12 gives names of parastatals now receiving Government financing.

Table 7 estimates that parastatals account for about 10 percent of formal-sector employment excluding General Government, or about 6 percent of 1986 nonagricultural formal-sector employment.

### ***4. Impact of Public Policy***

Chapters III and IV of this report summarize the policies which experts and businesspeople consider as constraints to private-sector expansion. The forthcoming World Bank study will provide a critical assessment of policies affecting the financial sector. The *Private Sector Strategy Study* discusses the impact of public policies on private sector growth. Finally, the FAP Evaluation recommended many policy changes. GOB's discussion of each, its reasons for acceptance, amendment, or rejection, and its conclusions on further investigations needed—forms Annex I. All of the above recommendations are in part B of Chapter V.

### ***5. Performance of Private Sector Over Time***

#### a. Economic growth

Figures 1 and 2 are graphic representations of Table 1's GDP growth statistics. They show an overall performance which, while spectacular by international standards and sufficient to reduce unemployment in the past (from 28.5 percent in 1980 to 15.1 percent

in 1987, both figures including estimates of nonfarm informal sector employment), is not projected to be enough to generate sufficient future employment (unemployment will still be 13.7 percent, or 62,000, in 1992). Major conclusions are as follows:

- *Rapid but slowing overall growth:* Total real GDP grew in 1977/78-1986/87 at an outstanding 11.2 percent compound annual rate, driven mainly by the dominant (45 percent of 1986-7 GDP) mining segment's 16.0 percent annual growth. Since this segment is projected to grow at only 5.8 percent per year in 1986/7-1992/3, it is not surprising that total GDP will grow at a slower 5.9 percent. The relative performance of nonmining, private-sector-dominated segments (particularly agriculture's spectacular decrease and the small relative contribution of all of the other segments except trade) is apparent from the following figures showing percent contribution to GDP:

Segment	1977/78	1986/87	1992/93
Trade, hotels	16	18	16
Financial & business services	5	7	8
Manufacturing (n/cattle)	4	3	4
Other services	3	3	3
Construction	4	2	2
Transport	2	3	2
Agriculture	15	2	2
Total	49	38	37

*These figures clearly indicate the declining contribution of the nonmining private sector over time, as well as the present and projected weakness of "productive" sectors such as manufacturing, strongly calling for special efforts to stimulate them.*

There is some question about the accuracy of the GOB economic model upon which we base the projected GDP contributions. World Bank data on commercial bank credit by segment (Table 9) indicates a sharply increasing trend for construction, manufacturing, and transport (all of which registered 1987/88 increases above 60 percent, versus the 29 percent total increase)—likely a leading indicator of more rapid growth in these sectors than the above figures imply.

- *Lack of economic diversity:* In 1986/87, mining and government together accounted for 59 percent of GDP, projected to rise to 60 percent in 1992/93. Considering the less-than-spectacular performance projected for labor-intensive segments such as agriculture, manufacturing, and construction, *the economy clearly lacks sufficient diversity, and if no one takes special steps, the situation will become worse.*
- *Dangerous dependence on a amond production:* Table 3 and Figure 5 show International Monetary Fund estimates of what might happen if diamond production and exports softened by 40 percent in 1989 and remained at such a depressed level through 1991/92. Sales actually fell by 46 percent in 1981, so this scenario is possible. The baseline case, in which diamonds maintain a dollar price in line with the GDP deflator of industrial countries, is apparently the same as the Government's model, upon which our figures are based. In the "soft diamond" case, net official reserves would fall from 25 months of imports in 1987/88 to 11 in 1991/92, and the Government budget surplus of 14 percent of GDP would change to an 11 percent deficit, clearly unsustainable. If the budget were cut, GDP would grow even slower

than projected. Our estimate of the resulting 1991 unemployment increase, even without the effect of this extra GDP deterioration, is an increase from Table 2's 13.8 percent to 20.0 percent (the result of 28,100 and 1,000 increases in nonmining and mining unemployment, respectively). This danger is real, and Botswana must reduce its dependence on diamonds.

b. Employment generation

Table 2 contains the basic employment data. Figures 3 and 4 show graphically the contribution of selected segments to employment. Figure 7 is a graphic estimate of how much GDP would have to grow from 1989 through 1992 to close the employment gap (the difference between the size of the labor force and total employment) by the latter year. These figures permit the following conclusions:

- *Total employment is growing barely fast enough to hold the unemployment rate constant:* The latest official unemployment figure is about 25 percent. Our 1988 figure of 14.9 percent implies that this is an underestimation, considering that official figures do not include nonfarm informal sector employment. Our 1988 figure becomes 28.1 percent if employment in this category is ignored. In 1992, the "officially comparable" unemployment rises to 28.8 percent, while our figures (including the nonfarm informal sector) show a minimal decrease to 13.7 percent. There are about 19,000 Botswana working in South African mines and 4,000-12,000 (say 8,000) on foreign farms, mostly in South Africa. If all of these returned to the Botswana labor force by 1992, then our unemployment figure would rise to 18.5 percent, and the "officially comparable" one to 32.7 percent.
- *Unemployment may be significantly higher than our or official estimates:* Kann (Kann, Ulla, *Education and Employment in Botswana*, British Council and University of Botswana, 1988, p. 21) presents various estimates which make it clear that official (and our) labor force estimates are likely to be low. There are probably 200,000 more Botswana outside of the official labor force who would take jobs if they were available. Under this assumption, our figure for 1988 unemployment would rise to 43.1 percent, with the "official" one (not counting nonfarm informal sector) rising to 52.0 percent. This major difference is not a Government oversight but rather its conservative definition of who is in the labor force, in particular its exclusion of housewives (Kann p. 76).
- *High female and youth unemployment:* Kann (p. 75) presents various unemployment figures by gender and age. For all, unemployment peaks in the 15-19 age bracket. In 1985, women of this age suffered 31 percent unemployment, while men experienced 19 percent. By age 65+, female unemployment fell to 2 percent and males to 8 percent. Studies of Junior Secondary (JS) leavers indicate that in 1987/88, 10,000 left school for whom no jobs were created; only 12 percent of JS leavers found jobs that year. Although the unemployment rate for women is lower in rural than in urban areas, the economic activity rate (those 12 years old or above who were employed, or "not employed during the reference week but who wanted to work and were available to work") is also much lower, calling again into question the size of the labor force and thus the figure for unemployment (Kann, p. 76):

Area	Economic Activity Rate	Unemployment Rate
Urban		
Males	82.9	9.8
Females	53.4	20.2
Rural		
Males	70.4	10.2
Females	38.4	14.1

- *Although agriculture is by far the biggest employer, its contribution to employment is falling, and it is economically unproductive: Its contribution to employment falls from 50 percent (1980), to 45 percent (1987), to 39 percent (1992). The next biggest contributor in 1992 is General Government (17 percent), and the largest private-sector-dominated segment is nonfarm informal sector (17 percent). Further, despite agriculture's still-high employment contribution, it makes an almost negligible 2 percent GDP contribution in 1992/93, explaining why so many want to leave it. Contribution to employment figures comparable to the GDP ones in section a, above, are:*

Segment	1980	1987	1992
Trade, hotels	5	7	7
Financial & business services	2	2	3
Manufacturing (n/cattle)	1	3	5
Other services	2	2	2
Construction	6	5	6
Transport	1	2	2
Agriculture	50	45	38
SUB TOTAL	67	66	63
Nonfarm Informal Sector	14	15	17
TOTAL	81	81	80

- *Segments with promising economic and employment growth prospects.*

Table 8 shows the contribution to GDP of selected subsegments. Looking both at employment contribution by segment and contribution to GDP by subsegment, it appears that *promising areas for USAID attention are general manufacturing (village industries in particular), selected trade categories (perhaps export trading), construction, and business services (perhaps management consulting and nonbank financial institutions). In addition, the table in the text above indicates potential for the nonfarm informal sector.*

As mentioned in the GDP analysis, "promising" private-sector employment segments must grow much more quickly than presently projected if they are to make significant employment contributions.

- *Small informal sector:* A rule of thumb in many developing countries for the nonfarm informal sector's contribution to employment is 40-60 percent, vs. the above Botswana figures of 14-17 percent. The problem is more serious than it appears because this sector is the breeding ground for citizen entrepreneurs, provides informal apprenticeship for youth, particularly rural, and is less prone than other segments to macroeconomic shocks (such as diamond price weakening).
- *Economic growth is unlikely to be high enough to close the employment gap:* In Figure 7, we generated employment increases, starting in 1989, great enough to close the employment gap by 1992. Then, based on previously projected relations between employment and nonmining GDP, we produced the GDP figures which would be required to make the needed employment happen. The 1990-88 nonmining GDP growth rate was 8.1 percent per year. That required for 1988-92 is 7.5 percent, versus the "basecase" rate of 4.4 percent (this slowdown versus historical rates is heavily influenced by the drop in trade/hotels' growth rate from 7 percent per year to a projected 2 percent). *This analysis indicates, again, that projected growth is inadequate to absorb the expansion of Botswana's labor force. An implication for national economic strategy, therefore, is the need to identify and stimulate segments which have promise of much greater employment gains than are presently projected.*

## 6. The Labor Force

### a. Composition of employment and labor force

Tables 4 and 5 show the composition of the labor force. Conclusions are as follows:

- *Female employment is low:* Among citizens, only 39 percent of employment is female. In the unproductive traditional agriculture segment this figure is 46 percent, while it is 30 percent in the formal sector.
- *Noncitizens form a small proportion of total employment:* They provide only 4 percent of formal-sector employment.
- *Private and parastatal employment is heavily urban:* Urban employment is 78 percent of the total.
- *The labor force lacks education:* 89 percent have primary education or less.

### b. The skilled workforce

Table 6 shows manpower requirements versus labor availability by educational level, taken from Colclough (*Investment Options in Post-secondary Education*, Ministry of Education, 1988). This study uses workforce figures which roughly agree with ours but with manpower requirements which are lower, probably because employment in the nonfarm informal sector is not considered. In 1988, there is a total surplus (unemployment) of 33 percent, with only senior-certificate job seekers in net undersupply. By 1992, even they are in oversupply. These figures underline Kann's point that *efforts to directly increase employment are much more important than those to increase general educational opportunities.*

The importance of skilled management at all company size levels is apparent from Figure 8. It shows the major problems of Botswana companies which inhibit their employment generation, taken from the FAP evaluation. Marketing is the greatest problem, with obtaining and managing investment and working capital close behind. General management and obtaining supplies at reasonable prices are also important.

### c. Employment concentration by firm size

Table 7 and Figure 6 compare the concentration of number of firms versus total employment by firm employment range. An important caveat is that the nonfarm informal sector is not included. Conclusions are as follows:

- *Unlike the norm in many developing and some developed countries, small firms do not generate much employment:* Only 70 percent of firms have 10 employees or fewer, versus 90-95 percent in many developing and some developed countries. These smaller firms account for only 18 percent of total employment. The FAP evaluation found that, although 70 percent of assisted firms were SSEs (few had over five employees), only 18 percent of jobs created were among SSEs, despite the job-creation rate (the percent of grantees which created any jobs) among SSEs of 60 percent versus about 33 percent for larger grantees. *Considering scarce technical assistance and administrative manpower, assisting SSEs is not a sound short-term strategy for creating employment, although it is a sound long-term means of encouraging the spread of market forces throughout the economy by promoting citizen entrepreneurship and employment growth.*
- *Employment is concentrated among the largest firms:* Although they account for only about 3 percent of all formal-sector firms, those employing more than 75 employees provide 44 percent of total nonfarm formal sector employment.

### 7. Capital Markets

The main source of information for this section is the forthcoming World Bank/GOB report, *Financial Policies for Diversified Growth*. The full text will be available in late June, but a draft executive summary (Annex G) and selected tables (Annex A) are available now.

#### a. Structure

The central bank (Bank of Botswana), three commercial banks (Barclays, Standard Chartered, and Bank of Credit and Commerce), three insurance companies, several pension funds, and seven specialized lenders comprise the financial system. The specialized lenders, many of which are parastatals or have large Government ownership components, include the Botswana Building Society, Botswana Cooperative Bank, Botswana Development Corporation, Financial Services Company (a finance company), National Development Bank, Botswana Savings Bank, and Tswelelo (providing finance and advice to small and medium-sized firms). In addition, there is a newly formed stock brokerage company and an investment trust company (both subsidiaries of and dealing with BDC securities). Finally, GOB's Financial Assistance Policy provides grants which play some of the functions of equity. Tables 9 and onwards of Annex A provide key indicators of the above players' activities and strength.

The Bank of Botswana is the largest deposit taker. The Ministry of Finance and Development Planning, through its Public Debt Service Fund, is the largest direct lender. Thus, *the public sector dominates the financial system; further, recent innovations come mostly from the BDC, a parastatal*. Examples of such innovations are the establishment of a stock brokerage and a mutual fund.

## b. Strengths of the system

Continued strong cattle and diamond exports have caused money supply to grow quickly, for example, increasing by 66 percent in 1987. Inflation has been lower than that of South Africa. A result is that, for firms which can borrow at about prime (7.5 percent; some firms can borrow below this), the real cost of capital is negative (-6.5 percent at prime, versus +5.7 percent in South Africa), an advantage which companies in few other free-market countries share. For manufacturing and some service or agricultural firms of all sizes, the availability of FAP grants constitutes no-cost equity. However, as the table in section B1c shows, commercial bank lending has grown much more slowly than money supply, for example, by 10.4 percent in 1985/6-1986/7. Further, over the last five years, FAP has made only about 338 medium/large-scale grants and 841 to small-scale and agricultural enterprises—about half the GOB's target. Finally, the negative real interest rate has the unfortunate effect of discouraging savings and encouraging borrowing for consumption.

Because of the low cost of capital, a Botswana operation has the built-in advantage of requiring less cash flow generation than elsewhere to service its capital base. For example, in South Africa the real cost of capital is 5 to 6 percent. However, as the above Bank and FAP figures show, Botswana's low-cost capital is not sufficiently available to local firms. The FAP evaluation and commercial bankers' comments indicate that part of the problem is lack of development of lending facilities based on collateral other than real estate. But a more profound problem is the shortage of "bankable" projects. This, in turn, is partly a real shortage of sound business opportunities, an effect of the many constraints described above and in Chapter III. But it is partly the result of entrepreneurs' inability to identify opportunities and to prepare realistic, achievable business plans.

*Thus, businesses in Botswana have a major potential comparative advantage of low cost of capital, if only they could mount "bankable" projects.*

The system's second major strength is that it is, with the exception of a couple of parastatal lenders (e.g. the NDB and Botswana Cooperative Bank), sound and stable. The GOB has not distorted it for political ends, major players are profitable and used to operating in a market economy, and bank regulation and large-company auditing standards are high.

## c. Weaknesses of the system

Financing of major segments of the economy, including all parastatals and major minerals projects, falls outside of the regular system. Therefore, *the above strengths, particularly market-oriented discipline, do not necessarily apply to these major financings, which the Government largely undertakes.*

As the previous section mentioned, bank credit is expanding much more slowly than the growth of money supply and only slightly faster than the growth of GDP (about 8 percent per year recently—see Table 1). The roots of this problem lie partly outside of the financial markets. The lack of business opportunities, according to surveys such as the FAP Evaluation and the interviews which the next two chapters report, come mainly from lack of management and worker skills, a small local market, and marketing and raw materials problems. Lack of finance is an important problem but, in many cases, may be only a symptom of the above deeper weaknesses.

Nevertheless, the World Bank evaluation team found that the commercial banking system "...is not entrepreneurial, and provides few long-term resources to fund

investments. Furthermore, with only three banks (and one very small), competition is low, and the quality of services generally poor." A particular weakness affects smaller firms. This is the narrowness of collateral which banks accept, usually limited to urban real estate, a particular problem in a country with widespread communal or Government land ownership and assets largely in the form of roving cattle herds. Highly negative interest rates for savings and the almost complete lack of professionally managed investment vehicles or modern financing instruments such as inventory-, receivables-, or contract-backed credit—all make the concentration on overdraft financing particularly onerous. Table 11 shows that 37 percent of the value of all commercial bank lending in June 1988 was for overdrafts, and 49 percent was overdrafts or at less than six months' term.

As the FAP Evaluation and other studies report, attempts outside of the capital market to provide widespread advice to entrepreneurs so that they can prepare "bankable" new-business or expansion projects, have had limited success. Further, as the next chapter reports, Government administrative barriers seriously reduce the major business-development resource of foreign-company or individual expatriate intervention—an important growth and modernization catalyst which many now-developed countries enjoyed when they were at Botswana's stage of development.

*Thus, Botswana suffers from a vicious circle of an unsophisticated capital market, limiting business creation and expansion, which in turn limits opportunities for management and labor to gain experience, which reduces the demand for sophisticated capital-market services.*

Selected World Bank recommendations which might improve private-sector capital market performance are in Chapter V.

#### 8. Foreign Control of Larger Firms

A major policy issue is the proper balance between promoting foreign investment in local operations and other types of foreign business links, versus promoting locally controlled business growth by protecting it from foreign competition. Considering the importance of this issue, it is interesting that the Government apparently has stopped compiling data on foreign equity in local firms. The last information, that in the 1987 *Strategy Assessment and Evaluation*, is as follows:

Foreign Ownership of Firms Employing 10 People or More

Category	1980	1984	Percentage Change
Locally Owned	10	32	320
Foreign Owned	45	122	171
Joint Ventures	26	55	122
Total	81	209	158

*Thus, in 1984, 85 percent of larger firms had at least some foreign participation, but this was down slightly from 1980's 88 percent.*

### **III. Diagnosis of Issues Affecting the Private Sector and USAID's Strategy Development**

#### **A. Objectives of This Phase**

1. Identify a manageably small number of labor-intensive, high-growth potential segments whose employment-increase prospects are large enough to make a significant dent in the employment gap, and some major unrealized business opportunities within these segments.
2. Identify key policy and other constraints to employment growth in these segments. Search for indications of constraints and market forces in these segments being similar enough and amenable enough to USAID project interventions to justify prospects for a reasonably small and manageable USAID program.
3. Identify major skills needed, especially by citizen workers, managers and entrepreneurs.

The five Phase III "expert" focus groups comprised reputable people who know the constraints and requirements for business success in major groups of private sector segments (e.g. agriculture, industry, services, commerce) yet are not motivated solely by desire for business success. They came from Government, donor agencies, business intermediaries and companies with successful foreign links. As the objective of this phase was to get an overview of the obstacles to private sector growth, the chosen experts are people qualified to discuss overall private sector constraints.

In contrast, the nine Phase IV focus groups comprised business people with different business backgrounds. Participants came from relatively labor-intensive segments of the economy: construction, handicrafts, small cottage industries, electrical installation, rural industries, and small and medium size manufacturing enterprises in urban areas.

Phase IV focus groups were held both in urban and rural areas in order to get views representative of businesses in the whole country. Gaborone and Lobatse were selected to represent urban areas, and Kanye and Maun represented rural areas.

Discussion guides for both phases are in Annex C. As some of the findings from the business groups are relevant to Phase III issues, opinions of both business people and "experts" on these topics are summarized in this chapter. In cases where the consensus of "expert" and business groups differed, we note both opinions.

#### **B. Findings**

The views and recommendations expressed below and in Chapter IV represent a consensus of the focus groups; they are not necessarily the views of the authors.

##### **1. Major Private Sector Segments With Good Potential for Employment Growth**

Both the "experts" and the business people focus groups thought that many opportunities for growth exist both in the urban and rural areas. They agreed that in order for the economy to grow and create enough employment opportunities, growth opportunities should be opened up to both citizen and noncitizen entrepreneurs to

stimulate competition. The noncitizen entrepreneur brings into the country investment capital and the expertise which is not available locally.

Considering that the real, market cost of debt capital in Botswana is negative (at least for firms which can borrow near prime), unlike almost everywhere else, one "expert" suggested that attractive segments (at least for exporting or import substitution) might be those which require high debt financing but are also labor intensive. An example might be year-round production for seasonal demand, such as Christmas decorations, or seasonal production which must be held for sale over the whole year, such as tomato canning.

Some of the labor-intensive, high growth potential segments which can create employment opportunities are:

a. *The manufacture of goods for export especially to the SADCC countries.* The by-products of the Botswana Meat Commission—e.g. hides and bones (for gelatin), if sold at truly negotiated and not necessarily world prices—can be turned into products for which domestic or export demand is high. Other items that can be manufactured include jam from morula, garments and furniture. A significant minority of the participants doubted that other SADCC countries had sufficient foreign currency to interest Botswana exporters. Some experts called for better sources of exporting expertise, especially in the private sector. No participants brought up the possibilities of barter or countertrade.

b. *The construction of residential houses, schools, roads and industrial premises.* In both the urban and rural areas government is building many secondary schools. The Maun and Namibia roads, as well as Sua Pan spinoffs, are opportunities. A related opportunity is manufacturing building supplies. Requirements for success are low value per ton or very bulky (in areas close to the South African border) and products for which production is not already saturated (e.g. there is probably little room for more concrete block manufacturing). There are special opportunities in items produced in small quantity in scattered markets (e.g. special concrete shapes).

c. *Tourism.* As it is still in the infant stage, there is potential for growth. There are many game reserves which tourists can visit to view wildlife. The safari companies employ a relatively large number of unskilled people who would not find jobs in urban areas. GOB could provide opportunities for citizen entrepreneurs by privatizing campgrounds and encouraging small lodges on public land through a bidding process. If local investors could receive expert advice on project preparation and contracting foreign managers, more of the industry could be locally controlled. However, there is some evidence that few qualified Botswana want to live in the "bush." If this is true, attitudes may have to change as far back as junior secondary school before Botswana will realize this opportunity.

d. *Specialized niches in agriculture.* Growing vegetables, provided there is a sufficient water supply, is a simple business to manage, requiring very small capital outlay. In the Maun area, where there is plenty of water, and transport from other parts of Botswana and South Africa is expensive, some villagers have made a start and are producing good quality vegetables. Game farming and fish farming, plus downstream processing and manufacturing, might also have links to tourism by establishing lodges and campsites on game farms.

e. *Handicrafts.* Citizen participants, in particular, felt that this field has potential for development without requiring large capital investment. The skills required to manage this sector are passed on from generation to generation through "on-the-job" training. There is a considerable pool of unskilled labor which can be put into this "training

program" to obtain the necessary skills within a short period of time at very low expense. Marketing experience is available in nearby countries, making this a possible SADCC project. Experts were not so optimistic, citing Botswanacraft's marketing problems and its difficulty in convincing producers that its high markups are justified.

f. *Business brokers or intermediaries and other professional services.* These are needed to find foreign business partners with technical expertise on manufacturing processes, research, and export markets which many citizen small entrepreneurs lack. There is a special opportunity for accounting services which small firms can afford.

g. *Garment manufacture.* There is already some industry knowledge here (although not many foreign contacts except in Zimbabwe), potential for SADCC trade as well as quota-free exports to developed countries, space to take up slack in markets which RSA exporters have lost because of sanctions, and the possibility of training unskilled workers in just a few weeks. Major employment increases are possible. For example, one exporting firm now employs 1000 workers and plans to expand to 4000. However, bank financing of raw material imports and finished goods exports is a problem, requiring up to 120 day credit on inventories or receivables.

## 2. *Unrealized Business Opportunities*

Rural areas tend to suffer more than urban areas in the inadequacy or nonavailability of certain services. Although focus group discussions were held in only two rural centers (Kanye and Maun), some of the findings can be accepted as a fair representation of all the rural areas of the country. Air Botswana reportedly does not aggressively promote airfreight. Since about 35 percent of the cost of many goods in, e.g. Maun, is land transport, there may be opportunities for airfreight firms. In each major village there are opportunities for modern services (e.g. morticians, sewing and business machine repair, local newspaper to disseminate local business events, radio telephone, sophisticated spare parts "finder" service), which create few jobs per village but perhaps a substantial number when multiplied by all villages. There are no feasibility studies done to determine the level of demand for the mentioned services.

There may be opportunities for entrepreneurs to provide goods and services which the public sector is supposed to but often does not. Examples are chicken feed (Ministry of Agriculture stocks are often old and spoiled), condoms (local health posts are often out of stock), and radio telephone services. GOB agricultural and small business advisors are often either not available or lack business experience, a possible opening for the group purchase (perhaps through BOCCIM chapters or International Executive Service Corps) of for-profit business advice.

This is an area where USAID could perhaps sponsor the feasibility studies for those entrepreneurs who may want to go into this sector. Both experts and business were generally unable to visualize opportunities which have not yet come to Botswana.

## 3. *Major Skill Needs*

Major skills needed by citizen workers, managers and entrepreneurs are in the following fields:

- Bricklaying
- Electrical installation

- Financial management
- Machine mechanics
- Production scheduling
- The selection of the best sources of finance
- Market research.

There is a serious shortage of skilled manpower in Botswana. This shortage extends from managerial and financial/accounting skills to the technical skills required in manufacturing and construction.

In the construction industry in particular, the Government has recently allowed the employment of expatriates in skilled trades such as bricklaying and electrical installation because the number of trained citizens is insufficient to meet the requirements of this rapidly expanding industry.

The shortage of local skilled manpower places a number of constraints on economic and industrial development in general, and private sector development in particular. Principal among these constraints are the following:

Few citizen entrepreneurs are qualified to undertake the basic feasibility studies necessary to promote applications for finance. Limited business advisory services are available to assist small-scale entrepreneurs in this task, and professional business advisers are generally unwilling to take on small-scale clients as the risk of nonpayment is considered high.

Citizen entrepreneurs, particularly in the small-scale sector, are often unable to cost their operations, and hence set prices, on a realistic basis. This results in some small-scale entrepreneurs' going into liquidation because they seek to win business by unknowingly setting their prices below the break-even level. This happens particularly among rural-based construction contractors, whose major customers are the local councils. Contracts tend to go to the lowest bidder because the councils do not employ staff with the skills necessary to detect serious flaws in the tenders submitted. For example, it is generally considered that council contract managers do not prepare cost estimates for projects to enable them to appraise tenders for reasonableness.

Skills shortages comprise one of the most serious constraints to private sector development in Botswana. Current skills shortages pervade most managerial, commercial and technical areas. Participants generally had a low opinion of Integrated Field Service (IFS) help (inexperienced officers and too infrequent visits), complained that Brigades courses were too long to be useful for their present employees and did not cover management topics, observed that the regional Vocational Training Centers (VTC's) did not cater to local opportunities (e.g. the one in Maun does not support the tourist industry), and noted that local university graduates generally felt that "they have it made" and were not willing to work hard to learn on-the-job skills. However, they highly praised the USAID-sponsored short-term financial management courses and suggested that they be available in other parts of the country and for other business disciplines. BOCCIM, Institute of Development Management (IDM) and the Brigades appear to be the three institutions with the best prospects for addressing the skills shortage. *Many participants recommended that USAID increase its support of them. However, some participants*

*criticized USAID's practice of sending people abroad for degree or graduate education, saying that job-oriented training here or on-the-job training abroad would be more cost-effective.*

The obvious short-term solution to the problems arising out of critical skills shortages is to employ expatriates with the required skills. However, before an expatriate can be employed, he/she must secure work and residence permits. The processing of applications for such permits can take more than six months. Moreover, permits are issued for only two years at a time, and have to be renewed on expiration. Renewal of permits is not automatic, and this uncertainty makes skilled expatriates reluctant to move to Botswana. This seriously limits the creation of long-term employment for citizens by external investors.

Government proposes to introduce measures designed to eliminate some of the problems caused by the restrictive work and residence permit laws. Some participants welcomed the new GOB policy allowing investors who have lived in Botswana to receive an initial five-year permit, followed by a five-year renewal, and thereafter indefinite residency (Government has accepted in principle that this will replace the present two-year permit). However, they expressed concern over the chances for its smooth implementation. They proposed that certain occupations of specific professions and technical skills be identified for which work and residence permits should be approved without delay; and that expatriates occupying specified positions within parastatals be exempted from requiring work and residence permits.

The Government has already begun building more Vocational Training Centers to address the shortage of technical skills, particularly in the technical trades, but as mentioned above, most participants had low opinions of the present ones' quality.

In the short term, skills shortages among personnel who are currently employed in managerial and technical positions, or who are currently engaged in their own enterprises, must be addressed. Some participants suggested that cooperative ("sandwich") work-study programs, which would be short and specific, would help, particularly with senior secondary or university students. An issue is how students could gain experience in rural as well as urban areas.

Participants also suggested that a positive attitude towards risk taking and other aspects of entrepreneurship needed to be part of primary school curricula because it is not a widespread cultural norm.

#### ***4. Key Growth Constraints to High-potential Segments and Prospects for USAID Projects***

Participants identified some of the constraints which limit the willingness of citizen entrepreneurs, multinational corporations, foreign individuals and small firms to invest in Botswana.

Discussions with the expert groups highlighted a number of categories of constraints which will need to be addressed if the private sector is to play an enhanced role in the economic development of Botswana. The major constraints categories identified are:

##### **a. The size of the local market**

Botswana, with a population approaching 1.2 million people (only 115,000 in cash economy), is a very small economy. As a consequence, although Botswana imports the

majority of needed commodities and capital goods at present, the size of the local market is insufficient to justify the development of large scale industry to meet domestic demand.

Participants pointed out two alternatives, which are not mutually exclusive, which may help to develop local industry:

- Develop small and medium-scale enterprises to meet the needs of the local market only;
- Develop medium and large-scale enterprises to service both the local and export markets.

One constraint on the development of export-oriented enterprises, particularly among citizen entrepreneurs, is a lack of knowledge of external markets, in terms of market size, pricing, credit terms, quality standards and import procedures in foreign countries. This lack of knowledge places Botswana exporters at a competitive disadvantage, particularly compared to the sophisticated international marketing expertise employed by exporters based in South Africa.

A participant reported that TIPA is setting up a data bank to provide essential trade information to exporters. However, there are at present no research facilities provided by either the Government or BOCCIM to gather and disseminate such information.

*USAID could help medium and large scale enterprises, through the IESC, to serve both local and export markets by finding foreign business partners with marketing expertise to assist local businesses.*

The export market is a relatively new concept to small and medium-scale citizen entrepreneurs. In addition to the data bank which TIPA is setting up, citizen entrepreneurs will require instruction in export marketing activities and procedures. In some cases, they will also need help to improve the quality of their products, if they are to be accepted in foreign markets.

#### b. The availability of finance

The number of financial institutions providing equity finance to support the establishment of new businesses is currently limited to two, namely the Botswana Development Corporation and the National Development Bank. Commercial banks do not provide long-term capital and are conservative in their policy on short-term borrowings. Many entrepreneurs fail to provide the security for loans needed to start new businesses. Usually the security required is freehold or leasehold property. In rural areas there are no professional property valuers readily available. Moreover, participants report that significant delays occur in the processing of credit applications even when they have already met security requirements. There is an urgent need for receivables discounting.

Business people generally are dissatisfied with the lending attitudes of commercial banks, particularly towards small businesses which do not have resources to meet the security requirements. Government has always encouraged the commercial banks to ease their stringent loan security requirements with limited, if any, success.

Respondents were also unhappy with the NDB. The majority of participants do not view NDB as being significantly different from the commercial banks. While it is more amenable to credit requests than the commercial banks, NDB's interest rates tend to be above current commercial bank rates. A Government participant pointed out, however,

that NDB's rates should be higher because it lends for longer terms and on less secure collateral than do commercial banks. Government subsidies have gone to cover bad agricultural debts, some of which were partly the result of the recent six-year drought.

Government is constantly reviewing the interest rates of the National Development Bank. Government subsidizes NDB interest rates to ease the cash flow burden on borrowers. Despite most experts' opposing such subsidies, many small business people favor the policy.

Through its bank loan guarantee scheme, USAID guarantees 50 percent of the security on bank loans to smaller businesses. Although it has officially been operating for five months, problems with the US intermediary bank delayed the facility's effective startup date to only a short time before the focus groups met. Therefore, it is not surprising that few participants were aware of the scheme. One or two of those who had heard of it reported that their bankers claimed that they were not eligible.

In order to overcome the constraints faced in raising finance for the establishment of businesses, the business focus groups generally felt that Government should negotiate with commercial banks in order to relax their lending policies, and thus make more small businesses eligible for commercial bank financing. Another need is to speed up the processing of loan applications. Business people also recommended that NDB interest rates should fall to commercial bank rates or lower. Many "experts" opposed this position and felt that lack of entrepreneurs' business skills, particularly the ability to prepare sound business plans, and the underlying limited market size were closer to the real problem.

Participants generally agreed on the need for a merchant bank, which would help to finance large scale trading and industrial enterprises. We understand that this issue is currently being investigated. It was not clear from the focus groups how this merchant bank would be different from BDC.

*Most participants agreed that USAID has an opportunity to continue or expand the present guarantee facility and also to provide training and advice to those trying to diversify the capital market.*

#### c. Insufficient incentives for new businesses

Smaller entrepreneurs felt that the present five year limit for FAP grants is too short to support their new businesses to a stage where they can operate profitably without financial support. They suggested an extension to 10 years with a more gradual taking off of support. A feeling was expressed that many small businesses established with the support of FAP grants go into liquidation on termination of this support. However, there is no statistical evidence to support this assertion. Other participants noted that even if it is true that many businesses fail on the termination of FAP grants, that this might simply be a sign of poor management, so that even if the grants were available for 10 years, many businesses would still fail.

Smaller entrepreneurs proposed, but many experts disagreed, that Government introduce selective protection of infant industries which cannot compete with sophisticated manufacturers from the more developed SACU member states.

Several entrepreneurs suggested that FAP labor and sales augmentation grants, which they now receive every six months, would ease their almost universal cash-flow problems if they could get them every two months. Some business people also recommended that the FAP tax holiday rates, which are high in the start-up years when businesses are less

likely to be earning taxable profits and reduce when businesses start earning taxable profits, should be reviewed. A structure which commenced at say 50 percent, rose to 100 percent by the third year and then reduced back to 50 percent would be likely to be of more benefit to small businesses. A further recommendation was to allow a 100 percent first-year deduction for investments in plant and machinery, now ranging from 10 percent to 25 percent. However, several experts countered that this would encourage capital-intensive instead of labor-intensive business. There was stronger consensus on the need for more FAP and tax incentives supporting in-house training.

#### d. Lack of infrastructure

Physical infrastructure—roads, rail, electricity, water, telecommunications etc.—are generally good in towns. In the rural areas, however, power and water service is not so good, and telecommunications services are reportedly expensive and unreliable. The effect of this infrastructure imbalance is to discourage companies from setting up in the rural areas where employment is most needed.

Many participants report that in some areas (Maun, for example) the Land Board is allocating very little land for private development. Applications for industrial land are often rejected, despite there being no shortage of land in the area. Where this occurs, it is a source of frustration to the business community.

At the same time, there is a lack of sufficient serviced land to allow for substantial industrial development in the urban centers. As a consequence, the price of urban industrial and commercial land is very high, and rental charges for factory space are significantly greater than elsewhere in the developing countries in the region.

In order to alleviate some of these problems, the Government has recently launched an accelerated land development program. This will make land available for both factories and employees' housing.

*There is a real need for policy studies, which USAID could finance—but more important, provide disinterested experts.*

#### e. Cost of utilities

The cost of utilities, particularly the cost of power-line connection, is often prohibitively high. Moreover, connection costs have to be paid as a lump sum prior to installation, which is extremely discouraging because of the adverse cash-flow effect, particularly for small companies.

The unit charges for electricity and water are regarded as among the highest in the world. Moreover, it is perceived that electricity is priced on the basis of a progressive tariff structure, so that the unit charge increases with consumption. However, this perception appears to be the result of widespread misunderstanding, as the BPC tariffs do not vary as consumption rises. There are no indications that in the near future Government intends to lower utility costs. Experts and business people disagreed strongly on the issue of utility rate subsidies.

It was suggested that, in the case of connection charges, these should be spread over a period of, say, five years to alleviate the negative cash flow impact on new businesses. If the utilities authorities were willing to do this, they would have to charge interest over the repayment periods, but this would be preferable to businesses from the point of view of cash flow.

Equally, as these costs can be capitalized in the accounts of businesses, they may continue to make a lump sum payment to the utility authorities, but seek loan financing to cover these costs. This, again, will require commercial skills which are generally lacking at present, and must be addressed by both short and long-term training initiatives.

*Some participants proposed that USAID help to finance utility hook-up costs, but it could probably provide more fundamental help by, again, supporting policy studies.*

f. Pricing policy adopted by Government corporations

Many business people felt that this policy does not provide sufficient incentives to private business, especially small ones. In particular, the Botswana Meat Commission charges world market prices for by-products such as hides whether or not the BMC has an opportunity to sell at those prices, which constrains the growth of the tanning industry. BDC charges commercial rates for factory space. These rates are very high, and this provides an obstacle to establishing new businesses, particularly to small-scale citizen entrepreneurs.

While Government Corporations do have the responsibility to operate commercially, and generate maximum benefit for the nation, business people suggested that the single-minded pursuit of commercial objectives harms private sector industrial development. They suggested that Government should consider relaxing some of those commercial objectives to facilitate the establishment of new enterprises. It was felt that the benefits of employment generation in new enterprises and increased tax revenue could outweigh the costs of reduced profitability in already existing Government corporations. Most experts disagreed, arguing that such policy changes would be, in effect, an income transfer from individual taxpayers to business.

*As even some participating representatives of Government corporations did not seem too sure of the impact of some policy alternatives, USAID-supported policy studies or help in specific project planning, would be useful.*

g. Botswana's membership in the Southern African Customs Union

This allows manufactured items to be brought into Botswana from South Africa free of duty, which makes it difficult for local manufacturers to compete in the domestic market. However, it also allows capital equipment, raw materials and components to be imported from South Africa duty free. Withdrawal from SACU would increase the price of these items in Botswana, and make local manufacturers less competitive in export markets. Larger business representatives and most experts held this position, but many smaller business people favored Government's taking a more aggressive role of invoking "infant industry" protection under the rules of SACU.

## **IV. Dialogue With Businesspeople Over Possible USAID Strategy Elements**

### **A. Objectives of This Phase**

- 1. Widen USAID's network of private sector contacts*
- 2. Confirm findings of Phase III*
- 3. Identify high-potential possible USAID interventions, including training and long-term technical assistance, which the private sector has suggested and will support*
- 4. Identify implementing agents*

A key MAPS strategy is that dialogue with representatives of all segments of the private sector is necessary, not only in the strategy planning process (the present one) but also during implementation, evaluation and revising. The Phase IV interviews, therefore, not only covered representatives of larger Gaborone businesses, with which USAID is already familiar, but also smaller firms, both in Gaborone and in representative provincial towns. We conducted two focus groups in the Setswana language to ensure that the micro-entrepreneurs involved faced no language barriers. Attendees' names are on file so USAID can easily plan follow-up interviews.

As reported in Chapter III, we asked some of the same questions in both phases to identify differences in "experts" and business people's views. Differences are identified and contrasted in Chapter III.

Neither "expert" nor business groups (nor, for that matter, Government representatives) were very successful at spontaneously suggesting possible USAID interventions. They also had trouble prioritizing a list of possible ones. Therefore, we combined the responses of both Phase III and IV groups in this chapter.

Groups had a similar problem in identifying possible implementing agents or rating the effectiveness of suggested ones. Many respondents opted for support directly from USAID or GOB. Therefore, as above, all groups' responses are in this chapter.

### **B. Activities and Findings**

- 1. Focus Group Spectrum*
  - a. Locations*

The focus groups discussions were held in Gaborone, Lobatse, Kanye and Maun. Gaborone and Lobatse represented urban businesses, while Kanye and Maun represented the businesses in rural areas.

## **b. Types of firms and experts consulted**

The businesses selected ranged in size from two-person operations to medium/large firms employing more than fifty people. These were in the manufacturing, construction, commerce and service industries.

The smaller businesses were mostly in rural areas because few Gaborone entrepreneurs appeared at the discussions. In the urban areas, firms tended to be comparatively bigger and competition was more intense. A few firms were actively considering export markets in order for their businesses to operate at full capacity.

The participants were managers of medium and large businesses, and in the case of small businesses, owners.

## **c. Impact of holding meetings**

The participants in the rural areas (Kanye and Maun) appreciated the opportunity to meet with the consulting team to discuss their common business problems and constraints. It appeared that they felt it was worthwhile to continue such meetings and to work jointly to alleviate growth constraints.

## **2. Possible USAID Interventions and Their Priorities**

The business focus groups mentioned the following possibilities for USAID-supported programs:

- Industry-specific training packages for high-employment potential segments. For example, such support of the construction industry would include policy studies (e.g. Land Board policies, mortgage lending), training to GOB and local tendering boards and planners, loan guarantee scheme for small-contractor bonds and asset-based construction-equipment purchase or leasing, organization help for setting up a BOCCIM industry group, training for managers (e.g., costing, contracting) and workers (e.g. replacing expatriate artisans), support to local specialized consulting firms to continue the above services after the project ends.
- Identifying and documenting (perhaps by videos) the scattered "success stories," especially among locally owned businesses, then inspiring other citizens to replicate these successes, perhaps through secondary-school presentations or business training courses. Conferences between local private sector and education leaders would be useful. An example is the success of modern baked products in villages. Rural respondents suggested that an implementing mechanism might be the establishment of chamber of commerce (they were not familiar with BOCCIM) branches in each main town.
- Training of potential citizen investors how to do feasibility studies and in financial management. A first step might be to help strengthen BOCCIM industry-specific groups, then using them as channels for industry-specific, practical training courses. Although course fees might be subsidized, publicity should mention the full cost of the courses so that local firms will later be able to give such courses for profit and clients will insist on high quality and practicality.
- Strengthening the Brigades, as they are perceived to be good at training people to be self-reliant. Rural respondents cited as specific need to include in any training an orientation towards the attractiveness of careers in villages. This may require

liaison with primary schools. Peace Corps volunteers attending rural group meetings were enthusiastic to work through the Brigades but suggested that training does not stop with the Brigades but must continue after the employee or entrepreneur starts working. This follow-up requires vehicles, which must be lined up before a project starts. The central motor pool cars are not a solution.

- Continue the bank loan guarantee scheme but closely monitor it to ensure that businesses get the full benefit of the scheme. For example, Kanye respondents say that local branches do not publicize the scheme. There should be linked assistance to help entrepreneurs prepare business plans and follow-up "handholding," perhaps partly financed out of the guaranteed loans.
- Marketing traditional crafts in overseas markets.
- Policy studies. If qualified local consultants are not available for the studies, a requirement must be that the foreign contractors work with and train local firms so that they may eventually do such studies alone. The businesspeople identified some key areas for studies, which they felt needed resolution if businesses are to grow:
  - Lack of serviced land to build new factories;
  - Need to grant selective protection to small businesses which cannot compete in the domestic market with cheaper imports from SACU;
  - High interest rates on loans from the National Development Bank;
  - Need for more Vocational Training Centers.

### **3. High Potential Implementing Organizations**

The focus groups were not sure which of the existing organizations have high potential for implementing USAID-supported assistance programs. The organizations mentioned were the Brigades, BOCCIM and IDM, but none was singled out as the best. It appears that this general lack of knowledge of, and confidence in, implementing organizations is a major impediment to USAID project development. Smaller business representatives, in particular, felt that USAID should run its projects without implementing agencies. Many business people and experts felt that Government should play a strong role in supporting business. On the other hand, as reported above, a major benefit of the business focus groups, at least in rural areas, was participants' realization that they could help to solve each others' problems by simply meeting occasionally. This implies (although participants did not overtly suggest it) that USAID should support self-sustaining local BOCCIM chapters.

Comments about specific organizations were as follows:

- The Brigades. They have widespread, low-level production skills training capabilities. However, they lack the ability to teach management and marketing skills.
- Institute of Development Management. IDM has improved recently, but it should give part-time, short-term courses outside of Gaborone.

- **Botswana Polytechnic and Vocational Training Centers.** They need to be more responsive to private sector needs, those of small firms as well as large, as well as those outside of Gaborone. Some experts warned that the basically European vocational training and apprenticeship system which Botswana has imported may not be appropriate for the smaller, more weakly managed companies here. The system also lacks living accommodations for trainees who do not live close to the centers and fails to attract female trainees.
- **IESC.** A barrier to its use is that the client firm must be majority locally owned. Most medium and larger firms are not. An alternative might be the ABLE U.S. business-link service, which does not have such requirements. There is some potential for one IESC to advise a group of noncompeting business people in the same industry, such as regional truckers. Further, a volunteer might provide advice on one specialized function to firms in different industries.
- **Botswana Development Corporation.** BDC should more actively promote links with foreign firms, including licensing and including Zimbabwean companies.
- **BOCCIM.** Their labor advisory service is well known, but not much else. One respondent suggested that established, formal sector members, particularly those outside of Gaborone, might act as volunteer advisors to smaller firms, perhaps with some donor support.
- **Tswelelo.** Surprisingly few respondents had exposure to this organization. Those who commented said interest rates are too high and that the business advisory service is not good enough.

## V. Design of USAID Private Sector Strategy

An updated schedule for the entire MAPS and CDSS exercise forms Annex E.

### A. Expert Reaction to Draft Report

Experts have already reacted to the first draft of Chapters III and IV. The revised text reflects their comments. In addition, USAID may want to ask key people (e.g. representatives of BOCCIM, MFDP and business-oriented OPEXERS) to comment on the full (Chapter II-V) text.

### B. Recommendations From Recent Studies for Support of Private Sector

#### 1. *Private Sector Strategy Study*

- Value of Pula: Correctly set; the Government has other, more effective means to encourage exports and regulate imports.
- Financial Assistance Policy: In 1988 USAID contractors participated in a major evaluation of FAP. In brief, FAP's overall strategies for encouraging employment generation and economic diversification are sound, but the evaluators recommended many changes. The Government accepted about three quarters of them. The inclusion of service businesses, formulation of separate export- and foreign-investment-promotion policies, and improvement of administration so that microenterprises can receive more generous benefits are outstanding issues.
- Capital gains and income taxes: More incentives for noncattle investment are necessary.
- Minimum wage: Acceptable, as Government does not enforce it at the micro-enterprise level.
- Investment, residence and work permits: In the 1989 Budget Speech Government promised to simplify and liberalize treatment of foreign investors, particularly by lengthening the validity of work and residence permits. However, a major issue is whether the executing agencies will follow Government policy.
- Tourism: The lack of a clear policy inhibits both foreign and local investment, and it encourages executing agencies to act slowly on residence and work permits.
- Access to land and housing: *This is probably the major policy problem and one of the top three or four impediments to employment growth.* A recent government study ("Report of the Working Group to Facilitate the Provision of Serviced Land," Ministry of Local Government and Lands, 1987) indicated that every new house has four ready buyers in Gaborone and three elsewhere, and every industrial plot two applicants. Indications are that the situation has worsened since the report was compiled.

#### 2. *World Bank Report: Botswana: Financial Policies for Diversified Growth*

- Bring the terms of PDSF/RSF loans closer to commercial, competitive ones and capitalize some longer-term ones, all to allow more competition in the

parastatal-financing field, encourage parastatals to issue bonds (which will diversify local investment opportunities) and to foster competition between parastatals and private firms.

- Increase savings mobilization by raising the Bank of Botswana call rate and issuing government paper of various denominations and terms, with provision for a secondary market.
- Encourage commercial banks to increase delegation of lending authority by the Bank of Botswana's participation in lending officer and branch manager training schemes.
- Increase commercial banking competition by encouraging the entry of a foreign but regionally headquartered bank, setting up a new locally owned bank with international management support, encouraging an institution such as the Financial Services Company to enter a management and training relationship with a foreign institution so that it could take on more banking functions, and/or allowing well-managed nonbank financial institutions to take on such functions as short-term lending and foreign exchange transactions.
- Enhance access to financial services by:
  - Separately funding training and advisory activities for prospective smaller clients of any financial institution; do not expect lending spreads to finance such activities;
  - Reducing legal impediments to posting collateral, especially for female entrepreneurs;
  - Providing a loan guarantee scheme for term loans in which Government's exposure would decrease over the term of the loan;
- Encourage commercial financing of larger projects by supporting loan syndication and cofinancing with both commercial and parastatal institutions, and by brokering share sales.
- Increase the financial strength and development potential of specialized financial institutions (BDC, NDB, Botswana Building Society, Botswana Savings Bank and Tswelelo) by expecting earnings to cover lending costs but explicitly subsidizing activities which have external benefits, such as project preparation, client training and project supervision; in addition, rationalize performance objectives among institutions and translate these into staff incentives, within the guiding principle that the institutions serve development best when they are financially strong.
- Increase SSE access to complete packages of project preparation, equity and credit by offering services through the Integrated Field Services and FAP through a variety of lenders, including the BDC.
- Improve agricultural credit by offering it on commercial terms but with the backing of a government guarantee scheme, for which borrowers would be eligible only if they had a good record of repayment during nondrought years. Eligibility should also encourage the use of pro-environment management standards.
- Accelerate housing availability by Government's concentration on providing sites and services, leaving financing to the Botswana Building Society (BBS) and private

lenders. BBS itself should raise funds from the private sector, and, to allow this, housing subsidies should be eliminated and property-right instruments should allow mortgaging all types of building plots. Government should encourage the emergence of a second building society.

- Further promote capital market development by:
  - Encouraging sound parastatals to issue bonds;
  - Partially privatizing BDC, or some of its stronger subsidiaries;
  - Amending company and securities laws, plus securities regulation;
  - Establishing tax incentives such as eliminating the capital gains tax on the sale of listed shares, raising the tax on nonpublic company income, and exemptions for dividends income;
  - Improving training of and standards for auditors and accountants.

*In a discussion with the World Bank team, they recommended that USAID's most useful role would be to support innovative training and advisory services, for example, stimulating the growth of the local management-consulting industry.*

### **3. FAP Evaluation**

Annex I discusses all recommendations—accepted, amended or rejected. Those particularly relevant to CDSS preparation are the ones which still require policy studies or other assistance before policy issues can be resolved. These are:

- Make SSEs eligible for expanded financial support. Grants to medium and large firms are about three times those to SSEs per new job created. The source of this difference is mostly the policy of giving SSEs a one-time grant, vs. both up-front and six-monthly grants to larger firms. The main rationale for retaining this difference is the lack of qualified GOB manpower to work with SSEs and administer the system.
- Make productive service firms eligible for grants. These are firms which support other companies' manufacturing competitiveness. Examples are machinery repair shops and industrial designers. The reason for continuing to exclude these firms is the difficulty of determining which classes of service firms enhance national productivity.
- Expand grant coverage of such pre-operating costs as business planning and management/worker training. GOB approved fewer cost categories than recommended for eligibility because of uncertainty how to predetermine which costs could be included in individual cases and how to prevent abuse.
- Perform a systems analysis of the FAP monitoring procedure. GOB does not have people to do this and will require an external consultancy.
- Tie a new GOB loan-guarantee fund into the FAP system, and expand the fund to promote leasing and renting of capital equipment. GOB requires expert assistance to do this.

## **C. Steps in Design of USAID Private Sector Strategy**

### **1. Summary and Conclusions: Phases II-IV**

#### **a. Findings**

#### **• General findings**

- Private sector dominates GDP (76 percent) and employment (82 percent);
- Foreign-dominated larger firms provide about 35 percent of total formal sector employment (excluding General Government), but expatriates comprise only 4 percent of this workforce;
- Identified high-employment growth potential segments contribute only 25 percent to total employment and projected 1992 contribution is only 33 percent (the latter because of Agriculture's decrease);
- Insufficient economic diversity for assured, sustainable growth;
- Agriculture is unproductive and is a quickly diminishing contributor to employment and GDP;
- Present official unemployment estimate (25 percent) is probably underestimated, as labor force estimates do not include nonworking married women;
- Future projected GDP growth insufficient to reduce unemployment;
- The nonfarm informal sector contributes only 15 percent of total employment, and only 70 percent of formal-sector firms have 10 or fewer employees;
- Important gaps in available data are employment by economic subsegment (e.g., garment manufacturing) and split between parastatal/private-sector employment and GDP contribution;
- Only 39 percent of employment is female, 78 percent is urban and only 12 percent of JS leavers in 1987/88 found jobs that year;
- The private sector is unable to productively absorb the funds available from mineral and cattle exports, converting these to productive employment and economic diversification;

#### **• Business constraints**

- Gaps in business information and dissemination;
- Lack of skilled manpower, difficulty with expatriate work/residence permits and emphasis on education rather than training;
- Low quality and penetration of training and advisory services;
- Small domestic market for most goods and services;

- Local equity sources (e.g. FAP and BDC) lack scope and depth;
  - Financial institutions are conservative and lack diversified instruments;
  - Business incentives and policies do not meet private sector needs and require further study and consensus building through dialogue;
  - Lack of serviced land;
  - High cost of electricity and shortage of water;
  - Lack of business infrastructure, pertinent training and purchasing power in rural areas.
- **Business opportunities**
    - Subsectors identified as having significant present employment and good future growth prospects are general manufacturing (especially exports, garments and cattle processing by-products), selected trade categories (e.g. export trading), construction, business services, tourism, specialized agriculture far from the South African border, game farming and selected parts of the nonfarm informal sector (e.g., handicrafts);
    - In addition, there are possibilities for, and entrepreneur interest in, rural formal-sector opportunities such as airfreight, road transport, morticians, sewing and business machine repair, local newspapers, radio telephones, spare parts services and competition with inefficient public-sector providers (e.g., chicken feed, condoms, business advisory services);
    - Real cost of capital for firms which can borrow near prime or receive significant FAP grants is negative.

**b. Implications for private sector support**

- Entrepreneurship development rather than short-term employment generation should be the objective of SSE support;
- Programs should isolate and focus on segments with high employment-growth prospects, and especially on those which also leverage high derived employment;
- Training and associated delivery systems are preferable to formal education efforts;
- Impact on employment would appear to be greater, in the short term, if employment generation programs are directed at larger firms;
- Initiatives in capital market development can help build supply of and demand for more sophisticated services (e.g., increase venture capital supply and promote asset-based lending);
- Promoting export and other foreign links must involve easing firms' use of expatriates and encouraging the use of local specialized service providers;
- Policy studies must be sponsored and conducted by disinterested parties and include consensus-building mechanisms (e.g., business incentives, land allocation,

business premises, power supply, pricing of inputs from parastatals, effect of SACU on local business development);

- Increase participation of the private sector in donor and Government development decisionmaking.

## 2. *Dialogue with Donors, GOB and USAID*

### a. Private-sector support activities of other donors

USAID convened a meeting of its informal Private Sector Donors Group, which it had organized about two years ago, to provide the following information, for MAPS/CDSS, on the status of their activities:

- Progress on private sector regulatory and dialogue issues which the United Nations Development Programme (UNDP) sponsored National Conference on Strategies for Private Sector Development developed in July 1988. The package of recommended policy changes and permanent consultation mechanisms is currently before Cabinet. Government has already adopted some recommendations, such as a package reducing residence and work permit difficulties which foreign investors or employees face.
- Improving work permit decision process. UNDP is providing an expert to the Labor Department for this purpose.
- Commercial attache training. UNDP and the International Trade Commission are sponsoring a course, which will also include TIPA people.
- Trade expansion and diversification. UNDP and Denmark are providing a four-year assistance package to TIPA. It includes a librarian, a SSE advisor, a software expert to tie in UNCTAD's trade information network, a team leader (Dutch-supported), and local counterparts for each foreign expert. The European Economic Community (EEC) is financing trade journals, etc., for TIPA.
- Africa Management Service Company. UNDP is supporting more local activities of this regional International Finance Corporation (IFC) agency, which assists larger new or troubled companies to organize their managements.
- Chamber of commerce visits. The UK is sponsoring visits from various British cities.
- Technical assistance to SSE lenders. Germany is providing technical assistance and training to Tswelelo and Botswana Savings Bank.
- German-Botswana textile joint venture. DEG is supporting this project, which will employ 200.
- Support to Norwegian firms for joint-ventures. Norway is supporting such feasibility studies and investment missions. In process are projects for cement, foundry, dairy and bricks.
- Trade links. The Swedish International Development Agency (SIDA) supports trade links between Botswana entrepreneurs and Swedish businesses. SIDA also provides OPEXers for the Brigades.

- Lines of credit for business lending. EEC provides a line of credit to NDB for SSE lending through Tswelopele, and the European Development Bank provides a line through BDC for lending to seven larger local enterprises.

b. Identification of possible implementing institutions

*An important limitation to assisting the private sector is the lack of effective implementing institutions. Conversely, it is a worthwhile objective in itself to help these institutions to strengthen themselves. Brigades (with increased Peace Corps assistance), BDC and BOCCIM appear to be the most promising intermediaries. Previous studies have analyzed each institution and allow the above conclusion. The following brief comments typify each organization as a private-sector support channel. References in parentheses cite the principal sources of the conclusions.*

- Commercial banks. The three existing ones are highly profitable and conservative. The Bank of Botswana favors the banks' playing a more innovative role in strengthening the private sector, but it is reluctant to apply undue pressure on them to do so. Therefore, the banks generally react coolly to suggestions that they participate in novel projects. As in many countries, such projects find their way into banks' core business operations rarely and thus depend on continued donor monitoring and support.
- National Development Bank. NDB has performed satisfactorily as a FAP grant disbursing agent (FAP Evaluation), in which the only required decision is whether grantee documentation is in order. However it has not successfully acted in cases where it must make loan decisions, e.g., in World Bank industrial lines of credit (Annex G). Its overall financial soundness and management ability are also in doubt.
- Brigades. With 24 registered brigades, a proposed training enrollment of 1500, concentration on primary school leavers with the worst employment potential and a community-based, partially self-sustaining organization structure—Brigades is probably the best intermediary through which to deliver rural informal-sector training. Peace Corps volunteers have helped individual brigades to reduce their organizational problems and to deliver business skills along with purely technical training. However, Brigades has three key weaknesses: concentration on traditional skills rather than those for which there is a demonstrated local market potential, a three-year course length (making it irrelevant for most businesses needing employee training or trainees needing rapid employment), and low proportion of female trainees (Annex K).
- Integrated Field Services and Industrial Officers. These branches of the Ministry of Commerce and Industry advise small and medium/large businesses, respectively, on business matters, primarily relating to preparing business plans for FAP grants. Business people complain that the officers do not usually have enough hands-on, industry-specific experience and are stretched too thin to visit business often enough. MCI finds it difficult to recruit competent, motivated citizen officers, especially to rural locations. Part of the problem may be insisting on excessive educational credentials, but another weakness appears to be a reluctance to promote promising assistant officers into positions which expatriate officers vacate (FAP Evaluation, Annex K).

- **Botswana Development Corporation.** BDC provides both investment capital and management assistance to larger ventures (minimum investment P100,000). It is a parastatal but operates almost entirely to commercial standards. It is sensitive to business-community accusations that it resists selling shares of successful investments, having recently established a mutual fund and brokerage operation trading in such shares. It has not had enough trained staff to take a sufficiently proactive role in commercializing innovative business opportunities so has suffered from a lack of acceptable business plans coming "over the transom."
- **BOCCIM.** In the last year the old Botswana Employers Federation (mostly concerned with labor-management relations) has begun to evolve into a national chamber of commerce and industry. It has already played a successful intermediary role for the USAID-sponsored financial management courses. A key development issue for BOCCIM is how to organize regional branches, specifically what membership benefits to offer to induce small firms to join and medium/large present members to become more active.
- **Ministry of Education.** USAID has successfully supported MOE's efforts to make primary and junior secondary curricula more relevant to employment realities. Secondary schools may provide a channel to spread already identified but scattered successes at career counseling and extracurricular entrepreneurship development. Botswana Polytechnic and regional Vocational Training Centers draw business criticism for not offering training relevant to modern business opportunities and problems (e.g., marketing management) and for not offering part-time or night courses for present employees or owners.
- **Private-sector management consulting firms.** This field is underdeveloped. The major accounting firms offer consulting services, which, outside the financial area, generally lack sufficient specialization. They and most individual professionals are too expensive for small firms. Some of the more modern specialized service firms (e.g., construction contractors) are interested in branching into management consulting relevant to their specialties.
- **Other potential intermediaries.** See Annex K for descriptions of the Rural Industries Innovation Centre, Botswana Cooperative Union, and Institute of Development Management.

### **3. *Development of Strategy Options***

#### **a. *GOB private sector development objectives and strategies***

The February 1989 Budget Speech is GOB's latest development strategy statement. Relevant comments are as follows:

"In order for our people to enjoy further substantial increases in their standard of living, we must increase the productivity of our labour, expand our private sector, and diversify our economic base. That is the challenge we face as we leave the 1980s. . . One of the important conclusions that has clearly emerged from discussions of the economic future of Botswana is that sustained economic development and economic diversification can not be achieved without greater private sector development and private initiative. . . Over the years Government has accorded high priority to programmes that promote industry and trade, recognising the importance of these sectors in the diversification of the economy and productive employment creation."

The Midterm Review of the Sixth National Development Plan (NDP6) gives a more comprehensive Government private sector strategy statement:

- Government energy will be focussed on policies and programmes to further stimulate growth and diversification of the productive sectors of the economy, so that when the growth of the mineral and government sectors can no longer keep the economy moving forward satisfactorily, these sectors can become engines of growth (p. 76).
- In view of the seriousness of this situation, employment creation must remain the top priority of Government for the next several Plans. This means that virtually everything Government does will be subservient to the employment creation objective (p. 132).

In an effort to learn Government reactions to specific private-sector support actions which USAID or others might take, an interministerial group (plus a BOCCIM and Peace Corps representative) discussed the list in Annex L. The general result was that Government found all listed activities useful, and, unexpectedly, proposed to use the list as an input to the Seventh National Development Plan. Specific comments were in the following areas:

- Support to BOCCIM has higher priority than that to BDC because the latter has more of its own resources.
- Loan guarantee programs have high priority. The Government already has a business-premises mortgage guarantee scheme and would like to see donors besides USAID enter this field. Accompanying short-term, part-time banker-client financial management training, perhaps offered outside of Gaborone, also had high priority. BOCCIM would like to see similar courses in specific business areas, e.g., printing.
- There was general agreement that the secondary, and even primary school curricula should attempt to change students' aspirations from administrative to entrepreneurial and technical careers.
- As expected, there was strong interest in support for GOB institution building. TIPA has high priority, and participants also mentioned the Department of Commerce & Consumer Affairs, plus IDM and the University of Botswana.
- Promoting local private sector participation in regional planning appears to be more a Government or BOCCIM responsibility than a possible USAID activity.

b. Private sector support activities of other donors

Section 2a, above, gives details. Supporting the private sector as a strategy for promoting broad-based economic growth is new for most donors. USAID has played an informal but effective leadership role over the past two years. Therefore, there is a good chance that during the next year or two, donors can take the next step of developing complementary activities.

c. A.I.D. guidelines for private sector strategy

- CDSS guidelines. In the outline (Annex F) A.I.D. calls for an overall Mission "foundation for success" of "both broad-based economic growth that provides productive employment as well as higher per capita incomes for an increasing

proportion of the population; without this foundation, progress in other elements of the framework—hunger, health, population and education—cannot be sustained, and our foreign policy objectives cannot be achieved."

A.I.D. Africa priority-country guidelines reported in MAPS manual (p. 54ff)

- Short term: remove policy impediments to private sector growth, and provide fast disbursing aid to increase foreign exchange and local currency credit to the private sector.
  - Medium term: Improve the working of competitive markets, in particular agricultural and financial markets.
  - Achieve a balance between project and nonproject aid.
  - Review the needs and strategic balance between agricultural and nonagricultural initiatives.
  - Assess the need to change strategic emphasis from agricultural and nonagricultural initiatives.
  - Explore the balance between food self-sufficiency and export crop strategies.
  - Consider strategies utilizing decentralized and private sector or NGO delivered social services.
  - Review development advantages of shifting aid from a rural to an urban focused strategy.
  - Consider various forms of cooperation and co-financing with the World Bank in developing policy reform strategies and programs.
- Recent Africa Bureau cables and directives. "We expect Africa Missions to focus in particular on their analyses of constraints to economic growth, including various resource gaps—foreign exchange, investment, budgetary, etc.—and the role which U.S. assistance from all sources (Economic Stabilization Fund, Development Assistance and Public Law 480) can play in encouraging sustainable economic growth through the use of market systems so that there can truly be an end to hunger in Africa." (AFR CDSS Guidance, 1989)

d. USAID draft mission statement and currently planned initiatives

In order to decide which data to gather in Phase II and to develop the questionnaires for Phases III and IV (Annex C), the Mission approved an interim (working) private-sector mission statement and principal objectives. These are:

*Assumed USAID Private Sector Mission Statement for New CDSS Period:* Support broad-based, sustained economic growth leading to increased income and job creation—especially by encouraging the spread of market forces throughout the economy—strengthening Botswana participation in the private sector, contributing to skills development and encouraging foreign investment and trade links. In particular, make a significant contribution, over the planning period, to the reduction of Botswana's annual employment gap (the difference between the number of new labor force entrants and the

economy's net new job creation) through an increase in private sector job creation in a democratic environment.

*Assumed Principal Objectives:*

1. Support the overall growth of market forces throughout the economy by dialogue with GOB in policy areas which have been identified as constraining the spread of market forces and growth in key segments of the private sector.
2. Directly stimulate job growth in selected, labor-intensive, high-growth potential segments of the private sector by assisting management to address key nonpolicy constraints which frustrate otherwise-promising growth prospects.
3. Support the establishment and growth of Batswana-owned firms in diverse segments of the private sector.
4. Contribute to the spread of work and management skills, especially among actual and potential Batswana entrepreneurs, providing foreign-expert support to critical positions in the private sector and to those in Government which strengthen market forces.
5. Help to provide foreign investment and trade links to local, especially citizen-owned, businesses.

e. Implications of Phase II-IV findings on draft mission statement and currently planned initiatives

- *Encouraging structural changes*

The results of phases I-IV indicate that there are serious structural problems inhibiting broad-based, sustained economic democracy, growth and diversification through the spread of market forces throughout the economy. For example, 78 percent of total formal-sector employment is concentrated in urban areas, and this proportion is growing. Other major problems include the lack of rural women's participation in the cash economy, disproportionately high and growing youth unemployment, weak linkage between private-sector demand for skilled workers and the institutions which could provide the necessary training, and lack of sufficient forces to encourage widespread citizen entrepreneurship development.

Given the scope and severity of these problems, as well as the lack of clear progress in resolving the even more fundamental weaknesses underlying them (e.g., agriculture's decline, rapid population growth, great distances between population centers, environmental fragility, and mobility of family members among many economic activities), it is highly unlikely that USAID's efforts in this field will result in measurable employment growth or economic diversification during the CDSS period. In the case of married rural women, for example, it appears that most are not even included in official labor force statistics, much less benefit from specific employment programs.

Therefore, strategies should aim at producing measurable indications or examples of how the problems might yield to private-sector forces, such as success at attracting some representative businesses which employ mostly rural women to sites which rural women can reach.

For rough planning purposes, we assume that total CDSS private-sector-support spending is \$15 million, and that half should go towards achieving the above structural change goal. If USAID divided its \$7.5 million evenly among all five problems mentioned above, spending against each problem would be only \$1.5 million over five years or \$300 thousand per year. This would not be enough to address each one in a comprehensive way, that is starting with problem-definition surveys or statistical studies, leading to a long-term residential expert with short-term technical assistance, and ending with major activities culminating in pilot implementation projects.

Nor is it appropriate, considering that comprehensively addressing these problems goes far beyond the scope of private-sector support activities. Therefore, activities must concentrate on reducing specific barriers which inhibit market forces from linking the disadvantaged segments with job opportunities.

However, even with this limit, the available budget is only enough to identify and provide one or two missing ingredients to efforts mostly financed from other sources. Other Mission projects, centrally-funded or regional facilities, other donors' efforts or GOB programs will have to provide the majority of spending necessary before private-sector forces themselves actually create the needed jobs.

This area is, thus, a higher-risk one than the following one, but A.I.D. guidelines clearly call for the effort, as does the need to spread into less advantaged segments of the economy the benefits which activities in the second area will produce.

- *Catalyzing significant reduction in unemployment*

It would be a mistake for USAID to choose as a goal the reduction of unemployment by a specific amount. Estimates of what the labor force comprises are too imprecise, and too many intervening variables (e.g. the economic effects of a change in diamond price) could overwhelm the effects of USAID's activities, even at the individual industry level. Therefore, the following discussion merely explores the feasibility of activities supporting unemployment reduction. It does not suggest goals.

Based on the employment projections in Annex A, Table 2, 1992 unemployment will be about 62,000. If, somewhat arbitrarily, USAID considers that a "significant" contribution to reducing this figure during the CDSS period is 20 percent, then this would imply the creation of 12,400 jobs.

The table showing percent contribution to employment in IIB5b (p. 19), and the discussion which follows it, show the priority segments for USAID attention in its effort to stimulate overall employment generation and economic diversification. Assuming that USAID's efforts during the CDSS period can directly increase employment in about half of the trade/hotels segment, about one third of nonfarm informal sector, and affect all of the financial/business services, noncattle manufacturing, other services, construction and transport—then USAID activities will cover subsegments projected to constitute one third of 1992 total employment. As 1992 total employment is about 395,000, the above subsegments represent about 130,000 jobs.

The above 12,400 target thus represents a 10 percent increase over that now projected for target-sector employment.

Considering that the rough budget for this area is \$7.5 million, the budget per target job is about \$600.00. The FAP evaluation indicates that the grant per job actually created ranged from P2,000 for SSEs to P13,000 for medium/large firms. About 30 percent of

total new jobs were in the former category and 70 percent in the latter, giving a rough weighted average of \$4,900. This means that USAID efforts must be confined to those which highly leverage job creation. For example, USAID spending of \$6,000 to enable an entrepreneur to prepare a business plan which attracts a bank loan of \$49,000, the needed investment to create 10 jobs, would be on target.

The conclusion is that highly leveraging activities such as business-plan help, management training, encouraging links with foreign firms and loan guarantees—are acceptable under USAID's budget constraints, but actually providing all or part of the job-creating investment is not.

f. Private sector mission statement

Support the private sector's contribution to broad based, sustained economic growth and development, increased incomes and job creation in a democratic environment by:

- Encouraging longer-term structural changes through increased Botswana participation in the private sector, increased economic diversity and the spread of market forces throughout the economy; and
- In the shorter term, catalyzing a reduction in unemployment by contributing to increases in citizens' skills, foreign investment and trade links.

*Principal Objectives:*

1. Support the overall growth of market forces throughout the economy by promoting dialogue among the GOB, the private sector and donors, and supporting the spread of education which readies students to enter the workforce.
2. Make a significant contribution, over the planning period, to the reduction of unemployment in Botswana through direct stimulation of employment in selected, labor intensive, high growth potential segments of the private sector.
3. Contribute to the spread of entrepreneurship, work and management skills, and other key business inputs which support the establishment and growth of Botswana-owned firms in diverse segments of the private sector.
4. Help to provide foreign investment and trade links to local, especially citizen-owned, businesses which may be able to increase exports, generate employment and increase economic diversity via joint/co-ventures or other associations.

g. Private sector strategy options

1. *Support the overall growth of market forces throughout the economy by promoting dialogue among the GOB, the private sector and donors, and supporting the spread of education which readies students to enter the workforce.*

a. Conduct a continuing policy dialogue on national economic strategy which will emphasize the removal of market force constraints and promote growth in key segments of the private sector. In addition, encourage the GOB to include the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) and other elements of the private sector, and especially rural businesspersons, in the dialogue process. A specific example is sponsoring a public/private sector conference to follow the 1988 National Conference on Strategies for Private Sector Development.

b. In conjunction with the GOB and private entities, design and perform policy studies and expose key GOB officials and leaders in the private sector to areas important to the spread of market forces and growth in key segments of the economy. Activities may include:

- Exposure tours of key decision makers to countries which have been successful in the area at issue;
- Strengthening in Botswana of policy study capabilities in private organizations;
- Promotion through other USAID projects the increased use of private sector mechanisms;
- Evaluations of important institutions and their activities; and
- Assistance in the conceptualization of planning documents such as the coming National Development Plan 7.

c. Promote and assist in the study of policy and regulatory constraints to private sector development in areas which have been identified by the private sector. These areas include:

- Availability of land and housing;
- Residence and work permits;
- The cost of utilities;
- Pricing policies of parastatal corporations;
- Botswana's membership in the Southern Africa Customs Union;
- Changes in the GOB Financial Assistance Policy;
- Review of capital gains and income tax structures;
- Tourism sector policy and its transparency;
- Commercial bank and GOB credit policies and rates; and
- Privatization and stock issues.

d. Continue to promote changes in pre-university formal education, especially at the junior secondary level, which will provide young students with private sector career orientations and extracurricular work experiences which will better prepare them for entering the labor force.

*2. Make a significant contribution, over the planning period, to the reduction of unemployment in Botswana through direct stimulation of employment in selected, labor intensive, high growth potential segments of the private sector.*

a. Concentrate employment (both direct and derived) generation efforts in components of the private sector which have been identified to hold the most promise for growth and significant employment generation, such as:

- Construction (residential housing, industrial premises and schools);
- Tourism;
- Specialized agriculture;
- Agribusiness with links to local raw materials;
- Handicrafts and their export marketing;
- Business brokering and other professional services such as management consulting;
- General manufacturing;
- Selected trade categories; and
- The nonfarm informal sector.

b. Stimulate growth in subsegments identified for employment generation interventions through promotion studies tailored during a dialogue process which includes all participants in the promotion process (bankers, GOB officials, entrepreneurs, etc.) and which examines the existence and extent to which the following may constrain growth in each subsegment:

- Domestic market size;
- Knowledge about target or potential markets;
- Marketing procedure information;
- Quality/competitiveness of products;
- Availability of appropriate finance;
- GOB incentives under the Financial Assistance Plan;
- Availability of infrastructure;
- Business services; and
- Supply of inputs.

**3. *Contribute to the spread of entrepreneurship, work and management skills, and other key business inputs which support the establishment and growth of Batswana-owned firms in diverse segments of the private sector.***

a. Entrepreneurship. Cooperate with the Peace Corps in its effort to add enterprise-development elements to the programs of existing training organizations. Support BOCCIM's efforts to increase the interaction between established and potential

business people through the establishment of regional chapters and short-term courses. Some possible activities are:

- Training of Botswana course presenters;
- Support of course planning and marketing (e.g. through OPEXERS);
- Training of selected Peace Corps Volunteers.

b. Work and management skills. Support short-term courses through institutions such as BOCCIM and IDM. Provide foreign expert help for feasibility studies in areas of unrealized business opportunities. Stimulate university and senior secondary work-study programs. Possible implementing actions are:

- Build diverse intermediaries' abilities to field relevant courses (e.g., private/voluntary agencies, Integrated Field Services, Brigades, VTC's);
- Provide expert help in the identification of rural-based business opportunities (e.g. agribusiness with backward linkages, agricultural inputs, market point development, business services, economic and responsible exploitation of natural resources) and of opportunities for the private sector to improve the delivery of goods and services in fields which the public sector now dominates (e.g. condoms, specialized training, power generation, telecommunications).

c. Access to appropriate types of capital. Continue and expand the commercial-bank loan-guarantee facility. Provide short-term banker-client training in key regions of the country. Promote the availability of diverse capital facilities (e.g., asset-based lending, bonded warehouses, receivables and inventory financing).

d. Government support. Strengthen GOB institutions of key importance to the private sector—such as TIPPA, FAP, MFDP, tendering offices and the Regulations Review Committee—by providing foreign expert assistance and related training of counterparts.

**4. Help to provide foreign investment and trade links to local, especially citizen-owned, businesses which may be able to increase exports, generate employment and increase economic diversity via joint/co-ventures or other associations.**

a. Identify relevant policy areas and provide expert and disinterested support to studies. Examples are:

- Other countries with successful policies and exposure of key decision makers to them;
- Pricing policies of parastatals such as BMC;
- Tax and incentive structures;
- Tourism policy.

b. Identify existing local resources for facilitating foreign business links—such as consultants, business brokers, other donors' services, BDC, TIPPA, banks—and determine their needs to gain effectiveness.

c. Identify common weaknesses across a large number of local companies desiring foreign links and provide foreign expertise to help to alleviate the problems, such as:

- Foreign market analysis and identification of opportunity segments;
- Knowledge of quality standards and quality control;
- Trade fair attendance; and
- Entree into relevant foreign industry associations.

d. For individual ventures promising especially high contributions to program objectives, directly participate in the funding of needed feasibility studies, business plans or other key activities.

e. Facilitate tie-ins with existing offshore services, such as OPIC, Entrepreneurs International, SADCC programs, Lome, and the Africa Project Development Facility.

f. If funds are available, become an active node of A.I.D. regional foreign-link promotion facilities.

#### **D. Concluding Remarks and Next Steps**

The MAPS Phase I report documents the case that USAID has been enterprising over the past two years at implementing a new strategy of encouraging private-sector mechanisms to address important development problems. An example is support for educational reforms which promise to improve students' readiness to enter the workforce. Another is improving the availability of debt finance to small business through a commercial bank loan-guarantee scheme. USAID has accomplished this in spite of its budget's and most of its management's being pre-committed to other strategies. It has leveraged its limited funds well in cooperation with central and regional A.I.D. programs and has made optimum use of Project Development & Support (PD&S) allocations.

The above recommended private-sector mission statement, objectives and strategic options, coming as they do at the beginning of a new CDSS planning cycle, present an opportunity for USAID to take more aggressive, coordinated and broad measures to support the private sector's contribution to economic development. However, as it is highly likely that USAID's resources will still be strictly limited, the Mission faces a challenge to improve its already documented ability to leverage resources.

In particular, increased dialogue with the private sector itself must join USAID's continued successful relations and private-sector-expert role which it plays with the GOB and other donors. The Mission's success at taking maximum advantage of centrally funded and regional A.I.D. facilities should increase, primarily through USAID's efforts but also through A.I.D. regional and Washington management's appreciation of the critical role which USAID's private-sector support plays in Botswana and the importance which Botswana's private-sector-led growth plays in promoting U.S. regional interests.

Next steps in USAID's strategy-development process are already under way:

- *CDSS preparation*

Annex F gives details of this report's contribution to CDSS development and Annex E a complete schedule. A draft of the portions of the CDSS relating to private-sector support, principally addressing the problem of inadequate economic growth and diversification, will be ready by mid-May.

- *MAPS Phase VI—Development of private-sector support PID*

By the above date an outline should be ready. This will contain goal and purpose statements, strategies and activities selected from the above options and first estimates of activity costs and timing. Efforts, both in Gaborone and Washington, to enable the project to start in FY 1990, rather than waiting for the FY 1991 start of the CDSS period are desirable and feasible. This will allow USAID to increase the momentum which its private-sector support efforts have already built. It is feasible if planned regional and centrally funded facilities are available to USAID and if appropriate, existing USAID projects are slightly modified to help implement the new strategies.

- *MAPS Phase VII—Evaluation of MAPS process*

The above CDSS and project-development steps will test the usefulness of the MAPS findings and strategy recommendations, and will likely call for revisions or more information. Two already apparent benefits of the MAPS process are the development of the Mission Economist in preparing the data base upon which this report is based, as well as new private sector contacts which the Phase III and IV focus groups have opened.

The MAPS summary report preparation is under way. This will support the CDSS and project preparation, but it will also help other missions to learn from the problems and successes of the Botswana MAPS development process.

## **Annexes**

- A Phase II Exhibits and Notes—by Goitsemodimo Mokgwathi, Mission Economist**
- B Composition of Major Elements of the Private Sector**
- C Discussion Guides—Phases III and IV**
- D Focus Group Participant Lists**
- E Updated Schedule**
- F CDSS Outline**
- G Table of Contents and Executive Summary of the World Bank/GOB Financial Sector Review (Botswana: Financial Policies for Diversified Growth, August 1989)**
- H MAPS Phase I Report**
- I FAP Evaluation List of All Accepted Recommendations**
- J Bibliography**
- K Small Enterprise Development: a Sector Strategy and Plan—Peace Corps**
- L Opportunities and Potential Areas of Assistance—Briefing Paper to Government of Botswana**