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EMPLOYMENT CREATION IN BOTSWANA

Proceedings of the
Fourth Private Sector Conference
Thapama Lodge, Francistown
26-28 May 1996

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INTRODUCTION

The Fourth Private Sector Conference was held at the Thapama Lodge, Francistown from 26 to 28 May 1996. The private sector conference is a biennial event that brings together executives from the private sector and senior officials from government and the parastatals. It's overall focus is on private sector development and the private sector contribution to issues of overall national interest. After being initiated in 1988, the conference has become one of Botswana's most valued fora for dialogue between the private sector and government.

The theme of the conference was *employment creation.* This reflected the national importance attached to creating jobs, together with recognition of the key role of the private sector as the creator of additional wealth and employment opportunities. At the time of the conference, the government was in the process of preparing the Eighth National Development Plan, 1997-2003 (NDP 8). Government had chosen *sustainable economic diversification* as the overall theme for NDP 8.

The main objective of the conference was to help develop a more practical vision of how to create jobs through sustainable economic diversification, including the establishing of consensus and commitment over the sharing of responsibilities between government and the private sector. Issues of national vision, strategy and policy featured prominently in the conference programme. A further objective was to review the status of implementation of government policies and past conference resolutions, and to discuss additional ways of strengthening the partnership between government and the private sector. It was expected that the outcomes of the conference would have an important influence on the formulation of NDP 8.

At the time of the conference the need for economic diversification was widely appreciated. When the main expansion phase of the diamond mining industry was completed in the early 1990s, Botswana entered a period of uncertainty about future sources of economic growth. With only limited scope for development of the country's fragile agricultural resource, it was evident that new sources of growth would have to be found through the development of non-traditional activities by the private sector. This gave rise to considerable discussion about economic diversification; and to the realisation that improvement in productivity would be one of the basic prerequisites for diversification into competitive international markets. In view of rising levels of unemployment, especially among youth, and the experience of company closures and job losses during the short economic recession of 1992-94, the task of diversifying the economy and creating jobs was widely seen as a matter of urgent priority.

However, less was known about precisely how diversification and employment creation might take place, and what might best be done to stimulate and facilitate such a process. One factor that was being increasingly recognised was the importance of the South African market for the development of export industries in Botswana. Another was that, although offering no panacea, the experience of the newly industrialising countries of East Asia might contain some relevant lessons for Botswana. But much still remained to be done in order to formulate a more tangible way forward and to reach agreement on what would be required of government and the private sector.

About 130 people took part in the conference. The participants included His Excellency the President, His Excellency the Vice-President, cabinet ministers, His Worship the Mayor of Francistown, permanent secretaries, chief executives of large companies, representatives of small and medium sizes businesses and labour leaders. Among the diplomatic community, the conference was attended by His Excellency the United States Ambassador, His Excellency the Ambassador of Sweden, His Excellency the Ambassador of Norway and the UN Resident Coordinator. An impressive list of speakers shared their ideas and knowledge, including leading members of the local business community and senior civil servants, together with international speakers from Great Britain, Malaysia, South Africa and Zimbabwe.

The conference was chaired jointly by Kenneth Matambo, Permanent Secretary, Ministry of Finance and Development Planning (MFDP) and Iqbal Ebrahim, Vice-President, BOCCIM.

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Welcome address
Neo Moroka

Introduction of chairpersons
Modiri Mbaakanyi

Introductory remarks of chairpersons
Kenneth Matambo

Opening address
His Excellency the United States Ambassador, Howard F Jeter

Vote of thanks
Neo Moroka

Closing address
His Excellency the Vice-President, Republic of Botswana, Festus Mogae

This record of proceedings was edited by Tyrrell Duncan.

SUMMARY OF CONFERENCE PROCEEDINGS

The Fourth Private Sector Conference was an important milestone in collaboration between the private sector and the government. Characterised by a spirit of shared concern over national issues, energetic debate and constructive compromise, the conference made important contributions towards defining how Botswana should go about sustainable economic diversification and employment creation. The major outcomes of the conference were the call for Botswana to establish a shared long term national vision and strategy; and the general recognition that implementation of government policies and programmes - and the performance and ethical standards of the private sector - must be improved.

The first day of the conference focused on the existing setting for employment creation in Botswana, and on the wider global and regional context.

Following the opening address by His Excellency the United States Ambassador, Howard F Jeter, the conference opened with a presentation by three schoolchildren who explained their hopes and fears about employment. The originality and forthrightness of the children's presentation showed that policymakers had much to learn from the youth, and helped to focus the minds of participants on why employment creation was so important.

Clem Sunter, Anglo American (South Africa), presented future scenarios for the world and the Southern African region for the next 30 years. Within the scenarios described by Mr Sunter, the major overall forces would be rapid globalisation, changes in technology, demographic trends and changes in value systems. Along with expanded trade opportunities there would be heightened global competition. There was enormous social and cultural change taking place around the world, with many of the differences between countries being reduced. If Botswana was to enjoy growth in employment it would have to steadily improve it's ability to compete in international export markets. High quality, relevant education and the championing of entrepreneurship would be important determinants of success.

The panel discussion on defining the challenge of employment creation first considered past employment creation performance. Formal sector employment had grown by an average of more than 10% per annum between 1966 and 1991; but had declined during the recession of 1992-94, and only increased slightly thereafter. Public sector employment had been a major contributor to past employment growth, but further public sector expansion was no longer sustainable. Consequently, the major source of new jobs would have to be the private sector. Concern was also expressed about recent rises in unemployment, especially among youth, and over the projected rate of growth in the labour force caused by rapid population growth.

There was general acceptance that the prospects for employment creation were intimately linked to how well Botswana performed in human resource development and development of profitable private enterprises, including large scale ventures and small and medium sized enterprises (SMEs). Botswana had many strengths to build upon and maintain. These included sound macroeconomic management, the Financial Assistance Policy, a stable exchange rate, positive real interest rates, membership of the Southern African Customs Union, good infrastructure, a commitment to deregulation, stable

democratic governance and general wage restraint. However, Botswana would also have to address a series of existing problems, including an inefficient, over-sized public sector, the prevalence of 'rent-seeking', bureaucratic and regulatory bottlenecks affecting private investors, the lack of an efficient investment promotion agency, weaknesses in the private sector, the high cost of utilities, shortfalls in government's implementation performance and ambivalence among some citizens over whether foreign investors should be made welcome.

In his presentation, Professor Tony Hawkins, University of Zimbabwe, drew attention to the difficulty of the challenges ahead for the countries of Southern Africa. Many already had pressing problems of poverty and unemployment. Globalisation and rapid technological change threatened to leave them behind. These countries would have to adopt a twin-track strategy of externally-oriented development - driven by export activities - and expansion of the medium and small scale enterprise sector through development of sub-contracting and other supply linkages. This would require increased levels of investment, especially in improving the quality of the labour force.

A panel and floor discussion considered the implications of Botswana's global and regional setting. There was general agreement that economic diversification should initially focus on developing exports to the Southern African region, extending to global markets once international competitiveness had been achieved. Botswana needed to develop a long term national vision to provide overall direction for this process. While Botswana's approach would have to be tailored to it's own circumstances, there was much to be learned from the experiences of East Asian countries that had rapidly diversified their economies in the past three decades.

In his presentation, John Parsons, Botswana National Productivity Centre, traced the links between employment and sustainable business development, identifying productivity as the key to company profitability and sustainability. Experience in other countries suggested that development of SMEs was the most effective way of increasing employment. In Botswana there was a need to assist SMEs to become more capable of improving productivity, for example through schemes to assist them introduce regular productivity measurement and monitoring.

The presentation by Pax Gaobakwe, Garona Investments, described how strategies for employment creation required a sound analytical basis. Existing strengths and weaknesses had to be taken into account, and the roles of the private and public sectors needed to be clearly identified.

The subsequent panel and floor discussion examined how Botswana should pursue productivity-based economic diversification. There was general support for the principle that pay increases had to be tied to productivity gains. It was felt that SMEs should be a major focus in efforts to raise productivity. Better management and better dialogue and sharing of information with the workforce were essential ingredients for raising productivity. In the public sector there was also an urgent need to improve productivity and change attitudes towards business.

In her presentation, Connie Moremi, Ministry of Commerce and Industry, briefed participants about the draft new industrial development policy. The main focus was on development of export industries supported by local sub-contracting. During the floor discussion that followed, participants emphasised the need for full, open consultation over the draft policy. They also called for restructuring of the Trade and Investment Promotion Agency (TIPA).

The workshop on recent experiences in the expansion and diversification of medium and large scale manufacturers confirmed that there is emerging evidence of Botswana manufacturing firms exporting to South Africa. Further success would depend on introducing better and more affordable ways of assisting firms to raise productivity. TIPA also had to be strengthened.

The workshop on job creation through SMEs confirmed the overall importance of developing SMEs. There was a need to improve, extend and expand the existing support for SMEs, including better market intelligence information and providing access to the Internet. Programmes were needed to improve SMEs' entrepreneurial and business management skills. There was some support for the idea of reserving some industrial activities for Batswana only. It was also generally accepted that past performance in this regard had been very disappointing and that a strategy of promoting the formation of joint ventures between Batswana and foreign investors might have better results.

The workshop on rural employment found that the existing policy of rural development and rural job creation was becoming outdated. The policy had been so successful that many of the former major villages - having been the focus of sustained investment and development activities - had become established centres of economic activity that were now predominately urban in character. At the same time, unemployment was high in these 'urban-villages' so there was an urgent need to create more jobs. The workshop concluded that the time had come for government to focus on national rather than rural employment creation. To support employment creation the government and the private sector would need to establish a national human resources plan to address shortfalls in key professional and technical skills, and generally make the workforce more productive and employable.

The final day of the conference was devoted to the issues of establishing a national vision and improving implementation of government policies. Bob Hodgson, Segal Quince Wicksteed Ltd (Great Britain) drew upon international experience to discuss how Botswana might go about developing it's long term vision and strategy. A vision provided the way of mobilising all interest groups to pursue a common national purpose on the basis of an inclusive partnership. It had to build upon existing structures and strengths, including the system of national development planning. The vision would set targets for the scale of development sought, the direction of development (especially the strengthening of human resources) and the intended participants and beneficiaries. Since it would take many years to fully realise the vision, it would need to evolve and be refined on the basis of experience. This process had to be made transparent and inclusive by being widely publicised and publicly monitored.

Preparation of a vision would be hard work. This could be undertaken in two parts. The first would be to prepare a package of immediate actions to have rapid impacts on pressing current problems, such as youth unemployment. The second would be to develop a widely supported long term national vision for inclusion in NDP 8 and subsequent national development plans. The High Level Consultative Council (HLCC) would provide high visibility leadership for the process. A young, energetic task team would be established to carry out most of the practical work of preparing the vision. Private-public partnership groups would also be needed to develop key collaborative elements of the vision. These might include enterpreneurship, technological upgrading and productivity growth; promotion of lifetime learning; and development of collaborative networks within and between the private and public sectors.

Jaafar Ahmad, Bank of Namibia, described how Malaysia's development policies had evolved over the past four decades. Long term visions had featured prominently in Malaysia's national development plans. At independence in 1957 the overall development challenge had been to consolidate national unity and reduce poverty. Economic policy had focused on rural development, emphasising expansion in production of primary commodities. With the New Economic Policy of 1971, Malaysia entered a new phase, with a change in policy to give greater emphasis to addressing socio-economic imbalances and inequalities. There was a shift towards more interventionist policies and the creation of parastatals. After a difficult period of recession and adjustment in the 1980s, Malaysia adjusted it's vision again in 1991, focusing on the promotion of free enterprise, improving competitiveness and diversifying the economy into higher value production. This was encapsulated in Vision 2020, the national vision for achieving the overall objective of becoming a developed country by the year 2020.

During the subsequent panel and floor discussion, there was consensus that Botswana did not have a clear vision for sustainable job creation and that such a vision was urgently needed. During the first two decades after independence Botswana did have a vision, based on it's sustained commitment to developing basic infrastructure and services, rural development and raising living standards. Now that many of the original aims of that vision had been achieved, Botswana needed a new long term national vision to guide development over the next 20 or 30 years. Such a vision would need to be fully integrated with NDP 8 and subsequent national development plans. A variety of possible objectives for the new vision were suggested. These included becoming a developed society, establishing a diversified export manufacturing base, becoming internationally competitive on the basis of productivity improvement and becoming a fully educated society. There was general recognition that effective human resource development would be a critical ingredient of the vision. There was also agreement that the process of establishing and implementing the vision, and monitoring performance over time, would have to be inclusive and transparent, with the widest possible consultation and publicity. A much closer partnership between the private and public sectors was essential, together with a more concerted commitment to improving implementation performance and strictly linking pay increases to improvements in productivity.

In his presentation on improving implementation of government policies and resolutions, Neo Moroka, BOCCIM, commended government for implementing many of the resolutions from the Third Private Sector Conference. He drew attention to various continuing private sector concerns. He identified the need for a much closer and more constructive partnership between government and the private sector. In order to tackle the implementation problem, he proposed that government should conduct an audit of civil service implementation capacity. This would serve as the basis for establishing a vigorous programme for improving implementation. During the panel and floor discussion that followed, concern was expressed over civil service secretiveness, inefficiency and untimely performance; and over the unhelpful attitudes of civil servants towards productivity and private business, and their tendency to act as regulators instead of being facilitators. There was general agreement that much needed to be done to improve civil service implementation performance. The private sector also needed to take steps to improve business ethics by establishing a code of conduct.

The workshop on creating jobs through tourism found that the full potential for expanding tourism had yet to be realised. It proposed the establishing of a public-private task force or commission to recommend how to make better use of this opportunity. A National Tourism Board was required. The Department of Tourism had to be strengthened.

The workshop on the regional situation for foreign investment concluded that Botswana had to make more use of regional opportunities. This would require systematic training, business development and advocacy activities to encourage the diversification of the Botswana private sector into manufacturing and services.

The workshop on new opportunities for employment creation identified key changes that were needed in order to provide a more supportive environment for diversification. Existing inefficiencies and delays with respect to telecoms and land allocation had to be eliminated. Incentive schemes needed to focus on upgrading productivity, technology and innovation; and to move away from the previous emphasis on subsidies since this encouraged laziness and inefficiency. There was also a need for an updated assessment of exchange rate policy.

In his presentation, Jan Isaksen, Botswana Institute for Development Policy Analysis, summarised the main requirements for Botswana to establish a long term national vision and strategy. With no prospect of further 'automatic growth' from expansion of diamond mining, Botswana needed a new long term vision to guide it's approach to economic growth and development. Botswana would need to make wise choices about what sort of long term objectives should have precedence within the vision. Existing strengths would need to be retained, notably the country's favourable infrastructure, it's stability and order, and the system of national development planning. New strengths would have to be built up, supported by key adjustments in the policy framework, changes in attitudes towards enterprise and productivity, and a much closer partnership between government and the private sector.

The process of developing the vision could be led by the HLCC, supported by private-public task groups. The process would require extensive public education, information and promotion. There was a need for widespread consultation, including holding a national conference to consider the draft version of the vision. The main ingredients of the vision would be developed by a series of sectoral task groups, consisting of private and public sector representatives. A series of immediate actions were also needed to address existing deficiencies in the delivery of services by government and parastatals. There was a need to streamline bureaucratic procedures and cut out delays affecting the approval of licences and permits and the provision of essential infrastructure and utility connections.

In the final panel and floor discussion the conference participants strongly supported the idea of preparing a new national vision to guide Botswana's development for the next 25-30 years. The vision would be integrated within NDP 8 and subsequent national development plans. A key purpose of the vision would be to guide the long term development of the private sector as the means of sustainable economic growth and job creation, especially private manufacturing and service exports. This would require a much more open, constructive and equal partnership between government and the private sector, together with substantial changes in attitudes to productivity, providing service and in business ethics. To be successful the vision would need to be widely shared by all main interest groups. The process of preparing and implementing the vision would

therefore need to be made inclusive and transparent through widespread publicity and public consultation.

The conference approved a package of 26 resolutions. One of the main resolutions was that Botswana should prepare a long term vision for the year 2020, together with a national strategy for implementing this vision through successive national development plans. Other resolutions proposed that Botswana should establish a medium term goal of becoming an educated society; and that employers, employees and government should prepare a human resources development plan to be integrated within NDP 8. These resolutions reflected a widespread appreciation that the quality of Botswana's human resources, and the effectiveness with which these are used, will very strongly influence success in economic diversification and job creation.

The conference called for consultation over the draft revised industrial development policy. It also urged that export and investment promotion efforts should concentrate on Southern Africa, at least until internationally competitive export industries have been built up. TIPA had to be restructured. It called for the private sector to be made a full and equal partner with government; for it to become more constructive and accountable; and for government to conduct an audit of it's implementation capacity.

The final conference resolution was that government and the private sector, through the HLCC, would agree on the prioritisation, assigning of responsibilities, achievable targets and deadlines for implementation of the conference resolutions. This reflected the concern on all sides to ensure that the conference resolutions will be implemented quickly and efficiently, and that implementation should be monitored in relation to agreed targets and timeframes.

In his closing address, His Excellency the Vice-President, Republic of Botswana, Festus Mogae praised the Private Sector Conferences as an important vehicle for the private sector and government to exchange views on key development issues. The theme of this year's conference, employment creation, was of great importance. It had been identified as the top priority issue for NDP 8. The conference had made important contributions towards preparation of employment creation policies and strategies for NDP 8.

In the past, government had done much to support job creation, both directly and indirectly. In future the private sector would be the major source of new jobs. Government's role would be to provide the enabling environment.

Mr Mogae explained that government had implemented most of the recommendations of the Third Private Sector Conference, included having established the HLCC.

Mr Mogae outlined a vision of Botswana in the next thirty years as a stable multi-party liberal democracy, with an open economy, minimally regulated, based on tourism, diamonds, international trade and serving as a financial services centre. For such a vision to be realised, there would need to be changes in people's attitudes, including attitudes to work, dependency, demands for subsidies, and misplaced values among the youth. In view of increasing international competition, firms would have to improve the productivity of their labour forces, invest in modern production techniques and make use of new technologies. Management would have to reward employees fairly and make them feel valued members of their organisations.

Employment creation was best way of addressing rural poverty. Government had invested substantially in providing infrastructure and services in rural areas, and it was hoped that this would attract more private sector employers to these areas.

In concluding, Mr Mogae assured participants that the resolutions proposed by the conference would be carefully considered by government. Government would endeavour to implement the agreed resolutions as quickly as possible.

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ABBREVIATIONS

BCCI	Botswana Chamber of Commerce and Industry
BDC	Botswana Development Corporation
BHC	Botswana Housing Corporation
BOCCIM	Botswana Confederation of Commerce, Industry and Manpower
BTC	Botswana Technology Centre
FAP	Financial Assistance Policy
GDP	Gross Domestic Product
GATT	General Agreement on Tariffs and Trade
HLCC	High Level Consultative Council
IFS	Integrated Field Services
IT	Information technology
MCI	Ministry of Commerce and Industry
MFDP	Ministry of Finance and Development Planning
NDP	National Development Plan
NDP 7	Seventh National Development Plan
NDP 8	Eighth National Development Plan
NGO	Non-governmental organisation
OECD	Organisation for Economic Cooperation and Development
SACU	Southern African Customs Union
SADC	Southern African Development Community
SCOPI	Standing Committee on Project Implementation
SIDA	Swedish International Development Cooperation Agency
SMEs	Small and medium sized enterprises
TIPA	Trade and Investment Promotion Agency
UN	United Nations
USAID	United States Agency for International Development

WELCOME ADDRESS

by Neo Moroka, BOCCIM

Your Excellency The State President, Sir Ketumile Masire, Your Honour The State Vice President, Mr Festus Mogae, Honourable Ministers here present, Honourable Members of Parliament here present, Your Excellencies, Members of the Diplomatic corps, Your Worship the Mayor of Francistown, Councillor Molapise, Hon. Councillors here present, Our Distinguished Guests from home and abroad, Fellow Participants from Government and the Private Sector, Ladies and Gentlemen.

In my salutation, you would have noted that I addressed His Excellency the President and His Honour the Vice President by adding the adjective State deliberately so as to distinguish them from the President and Vice President of BOCCIM and other "Presidents" who may be here tonight.

Your Excellency, Ladies and Gentlemen, I would like to warmly welcome you to this our 4th BOCCIM Private Sector Conference which starts in earnest tomorrow morning as indicated in the Programme. I would like to particularly welcome you to Bank of Botswana Northern Branch. It is appropriate that the Governor of the Bank of Botswana proposed to host this Reception which I believe will warm up the participants for the tight schedule ahead and give them an opportunity to get to know each other before the Conference. I thank you Mr Governor for this wonderful Reception. Special welcome to His Excellency the President who has just arrived from the Economic Summit in Cape Town but found time to join us tonight. May I also take this opportunity Ladies and Gentlemen to welcome our Guest speakers - Professor Renosi Mokate of the University of Pretoria, Dr. Jaafar Ahmad, Governor of the Bank of Namibia, Mr Bob Hodgson of Segal Quince Wicksteed in the UK, Professor Tony Hawkins of the University of Zimbabwe and somebody not new to BOCCIM, Mr Clem Sunter of Anglo American Corporation, South Africa.

The introductions would not be complete if I did not introduce and extend a special welcome to Ambassador Jeter who will perform the Official Opening of our Conference tomorrow. I am sure it is no surprise to anybody here tonight that Ambassador Jeter has been asked to officially open our Conference tomorrow. The Government of the United States of America has been our partner in development through USAID. The US-funded BPED Project has for the last five years supported BOCCIM in it's endeavour to develop the private sector in this country and Ambassador Jeter was instrumental in the re-negotiation of this project two years ago.

Mr Ambassador, please convey BOCCIM's many thanks to your Government. We look forward to a continued partnership in the region with the USAID Regional Centre for Southern Africa.

Ladies and Gentlemen, the coming of the Private Sector Conferences or the Francistown Conferences as they are commonly called, often brings a sobering feeling in the hearts of leaders of the private sector as we realise that since the previous Conference, our accomplishments invariably fall short of our expectations of the private sector as we realise that since the previous Conference, our accomplishments invariable

fall short of our expectations. We often pride ourselves as doers rather than theoreticians, but to do what we must, requires the full co-operation of the entire national machinery, which is often not easy. However, it is pleasing to note that there are concerted efforts on the part of both Government and the Private Sector to tackle problems that bedevil our economy. I believe the gathering here tonight is a clear manifestation of the commitment to this co-operation.

Ladies and gentlemen, BOCCIM and indeed the private sector in Botswana has come a long way in meeting challenges that seem to grow bigger by the day. Since 1988 when the first Private Sector Conference was held here in Francistown, BOCCIM has always ensured that at these conferences the experiences and intellect of our own people, those of our colleagues in the region and indeed those of renowned professionals from the rest of the world, are combined to help us address a selected theme that focuses on a major issue of national importance.

We do this with the understanding that as private sector, we are an indispensable partner in the development of this country. The Government of Botswana and the Private Sector in Botswana share a common destiny and as such must share a common vision for the future.

In 1988, the first Private Sector Conference surveyed the internal environment and recommended many changes in order to make Botswana an attractive destination for the highly mobile foreign investors. It is no secret that today Botswana stands out as one of the most attractive investment destinations in this Region. The Conference also established the first step in the formalisation of working relations between Government and BOCCIM. I have no doubt in my mind that we all appreciate the good results which have to date been achieved because of the continuous dialogue between Government and the private sector in our country.

In 1991, the second Private Sector Conference was held again here in Francistown under the Theme "The Private Sector as the Engine of Growth in Botswana - Key Constraints and their Removal". Presenting his Keynote Address to the Conference, Eddie Cross of Zimbabwe told us that Botswana had a window of opportunity if it speeds up the removal of all identified constraints with a sense of urgency. Five years down the line, we are still talking about the removal of constraints. The Question is - Is the Window of Opportunity still open for us? My view is "Yes" it is still open but closing rather fast.

In 1994, the third Private Sector Conference was held under the theme, "Botswana Developing a Competitive Advantage". This theme was in recognition of the competitive world we live in and that Botswana cannot ignore rapid global changes around it. His Excellency the State President Sir Ketumile Masire set the tempo of the Conference by observing in his opening Statement that Botswana's continued economic success depended on the private sector's ability to establish and operate firms that are competitive both locally and regionally as well as in the international markets. In this regard, Ladies and Gentlemen, I would like to agree with Tony Manning of South Africa when he says "To compete anywhere today, companies must accept certain non-negotiable - They have to be innovative; They must be fast to market their products and services, They must maintain high quality and productivity standards. They must deliver great customer service, and they must drive down costs and prices". If our firms can be competitive, then they will survive to create wealth, growth and the much needed jobs in

this country. The Conference identified some areas in which Botswana can and does have a comparative advantage.

At the close of our third Private Sector Conference, a number of recommendations were passed and presented to Government. These included:

- Establishment of a High Level Consultative Council
- Phased abolition of Remaining Exchange Controls
- Reduction of Corporate and Personal Marginal Tax Rates
- Privatisation of some Public Services
- Strengthening of Regional Trade and Investment Linkages
- Promotion of Productivity Enhancing Policies

With the adoption of these policy recommendations, the Private Sector saw a chance of Botswana jump-starting it's economy. Whilst there has been steady progress in the development and formulation of policies from these recommendations, the problem of slow implementation in certain cases still daunt us. I am sure you will agree with me that this conference is timely, in view of the fact that preparations for National Development Plan 8 whose thrust is sustainable economic diversification, are underway. Sustainable diversification will in my view, lead to creation of sustainable employment for our citizens. It is timely indeed because large numbers of Batswana are today roaming the street in search of job opportunities, and it is timely because everyday we see Batswana being retrenched due to poor performance of business operations. As if these were not enough, natural disasters such as the Cattle Lung Disease which has affected the North West District of our country, have seen thousands of farmers and those who earned a living from cattle farming, losing their major and sometimes only source of livelihood. It can therefore not be overemphasised that the theme of this Conference is critical for us. We at BOCCIM believe it is by bringing together the experienced and intellectual brain power, as evidenced by your presence this evening, that Botswana might find a solution to the thorny problem of unemployment.

It is our belief at BOCCIM that employment is a fundamental condition for the physical and spiritual well being of the individual, the essential basis of the individual's dignity and the *sine qua non* of citizenship. As such, job creation must be in the forefront of our national priorities. An analysis of BOCCIM's Industrial Survey carried out in 1994, showed unemployment standing at over 20%. The situation must have worsened following continued closures of businesses and retrenchments.

Ladies and gentlemen, Government's role in job creation is limited. It is the private sector that needs to create jobs provided of course that Government fully supports the private sector. One way in which Government can support the private sector is through purchasing from locally established businesses. By this I mean companies that have invested in Botswana and are employing Batswana and not "brief case" companies which come here for the sole purpose of winning tenders with no investment in this country. Government should lead by example and "Buy Botswana". Government's impatience with the rate of improvement in the quality of locally produced goods and locally provided services, can no longer be justified. We see goods produced in Botswana exported to neighbouring countries and being re-imported under different labels. I am just mentioning some of these in passing and I am sure the conference over the next two

days, will deliberate on a wide range of issues pertaining to essential support that Government can give the private sector to create the much needed jobs in the economy.

Your Excellency, Ladies and Gentlemen, job creation is a challenge that cannot be postponed. It has to be dealt with here and now. The Botswana unemployment situation although not as bad as in other countries, is a cause for great concern as it might challenge the tranquillity and the peace loving culture of our people.

Lastly and once more Your Excellency Sir Ketumile Masire and distinguished guests and friends, Welcome to the BOCCIM 4th Private Sector Conference.

Thank you.

INTRODUCTION OF CONFERENCE CHAIRPERSONS

Co-chairpersons: Kenneth Matambo, MFDP
Iqbal Ebrahim, BOCCIM

Modiri Mbaakanyi introduced the conference co-chairpersons, Kenneth Matambo and Iqbal Ebrahim.

Kenneth Matambo began the proceedings by welcoming His Excellency the President, His Excellency the Vice-President, cabinet ministers, members of parliament, His Excellency the United States Ambassador, the president of BOCCIM, members of the diplomatic corps, distinguished participants, ladies and gentlemen. Mr Matambo expressed appreciation that the President had been able to attend, and that the Vice-President would be attending the conference throughout.

Mr Matambo drew attention to the importance of the conference as a valued national forum for constructive discussion between the private sector and government. He noted that the conference theme of employment creation was a particularly important one, especially in view of prevailing levels of unemployment. In his capacity as Permanent Secretary, MFDP, he said that the conference was most timely since the NDP 8 was under preparation. He hoped that the outcomes and resolutions of the conference would provide important inputs to be taken into account by policy makers in the formulation of NDP 8. In this context, the conference provided an opportunity for leaders from the private and public sectors to contribute significantly to the formulation of Botswana's future development strategy.

OPENING ADDRESS

By His Excellency the United States Ambassador, Howard F Jeter

Your Excellency The President, Sir Ketumile Masire, The Right Honourable Vice President, Mr Festus Mogae, Honourable Ministers present, Your Worship, the Mayor of Francistown, Mr Neo Moroka, President of BOCCIM, Excellencies, Heads of Diplomatic Missions, Distinguished Guests, Ladies and Gentlemen.

Welcome one and all, to a very important and, I anticipate, a very informative and exciting event.

I appreciate the opportunity to address you this morning, at the outset of the Fourth Private Sector Conference. None of us can doubt the relevance or the timeliness of the topic to be addressed over the next few days.

When my dear friend Modiri Mbaakanyi asked me to make this "introductory address," I told him I though he had asked the wrong person, that such a singular honour should be given to a distinguished business person or a senior member of government. However, it only took me seconds to realise how foolish my initial judgement was. Almost everything we do as an Embassy, in our bilateral relationship with Botswana, in one guise or another, is related to the theme of this conference.

Therefore I am supremely honoured to stand before you this morning to give my thoughts on this profoundly critical issue.

Employment creation is, I think it is fair to say, the paramount economic challenge facing Botswana today. It is, in fact, a momentous economic and political challenge throughout Southern Africa. The creation of jobs and livelihoods is the permanent goal of all economies, an age old problem that, in varying degrees, remains elusive for all countries, developing and developed.

This challenge - to politicians, Central Bankers, to labour leaders and entrepreneurs - has been around for so long, in fact, that pessimists are likely to have despaired over finding a solution. Optimists like myself, however, tend to believe that our knowledge is increasing, and that solutions can be found.

Ultimately, you will have to decide whether the distinguished and stimulating array of speakers put together for this conference bears me out. I will leave it to them to provide the answers; as for me, I will take the easy way out and state my faith in their ability to do it.

Of one thing I am certain however: If workable solutions to job creation can be conceived, then Botswana is a place where they can be put to work. The remarkable record of this young country merits this full confidence.

I need not review, before this audience, the achievements of Botswana in it's nearly 30 years of independence. It is enough to note that, unlike so many developing countries blessed with natural resources and wealth, Botswana has invested it's resources in a future.

Your leaders, and especially you Mr President, deserve credit for this achievement; and as a people, all Batswana deserve credit for the prudent strides that they have taken on the path to development.

You have built an infrastructure, educated your children, provided health care, saved impressive amounts of your national income, and created a "living space" for the private sector. The challenge now is to see that these accomplishments come together to produce jobs. That is the challenge that we all want to see surmounted here in Francistown, at the Fourth Private Sector Conference. Let me, however, emphasise the need for speed in the implementation of those policies that will emanate from the conference recommendations. In the competitive world in which we live in today, speed is an important component of the process of development.

In a very real sense, this is a very sad occasion for me personally. As most of you know, my tenure in Botswana is ending. As my time as the American Ambassador to Botswana comes to a close, I begin to realise how much I will miss this country - it's people, it's climate, it's ecological wonders.

I will miss the open dialogue, the unrelenting search for solutions, that I think characterise Botswana. Your serious, collaborative and committed approach to the hard challenges of development really make Botswana stand out. It always has, and I sincerely hope it always will. Botswana is a small country in a big neighbourhood, but, in my view, you will always be very, very "special".

So, I will miss all of these things, but most of all - and I say this with utmost sincerity - I will truly miss each and every one of you. Many of you have become my best friends; you have taken me in and made me a part of you. I would like to take this opportunity to tell you how grateful I am, and how much I have treasured this time with you. Thank you very very much for your openness, your kindness and for making me feel at home.

I have had the privilege over the past three years to represent a Government committed to partnership with the people and the Government of Botswana. A key element in that partnership, I believe, has been the efforts we have made to assist and foster the private sector.

For, whatever the nuances of economic strategy or mixes of policy that you settle on here, I am certain that the private sector will be called on to play the central role.

My Government's support for private sector development in Botswana has been built on the solid basis that private enterprise is the only viable engine for growth in the future. In pursuit of that goal, we have contributed to a number of important achievements.

Most notably, we are proud of the assistance we have provided to BOCCIM over the years. BOCCIM is playing a catalytic role, the leading role here today, in addressing the economic challenges facing Botswana, and we are very proud of it's accomplishments.

BOCCIM's leaders and it's general membership deserve credit for the foresight they have shown in critiquing government policy and proposing new initiatives. And through the US Agency for International Development, we are proud to have contributed to it's efforts.

BOCCIM's studies and recommendations on such issues as renegotiation of the Southern African Customs Union, the liberalisation of foreign exchange controls, privatisation, and on the prospects for establishing Botswana as a regional and international financial services centre, demonstrate thoughtfulness, foresight, and patriotic dedication to Botswana's future. As a result of BOCCIM's efforts, and it's close collaboration with Government, we are not coming at this issue of job creation cold.

Most fundamentally, however, BOCCIM has become the vehicle through which business can inform Government about what the private sector needs to become the engine of growth for this country.

And your Government, Mr President, has shown that it can listen. I congratulate you, Mr President, for the recently convened first High Level Consultative Group meeting. By all accounts, that meeting was a great success. I understand that the second Consultative Group Meeting will take place immediately after this conference. It is this kind of Government-business collaboration that has created a highly favourable investment climate in Botswana.

I say this recognising that there are further steps to take; but I do not say it idly. The continually increasing interest shown in Botswana by my compatriots, the representatives of American business, is evidence that Botswana has got many of the fundamentals right.

I count it as one of my most important achievements, in fact, to have aided in the establishment of the American Business Council (ABC). The mere presence of the ABC is an inducement to new US interest, in this economy. I wish to congratulate and thank the ABC for the wonderful job that it is doing, especially in advertising business successes and opportunities in Botswana.

Since it's inception just over a year ago, we have seen the ABC's membership grow and the presence of American firms in Botswana expand. IBM and General Motors are two prominent new arrivals. And while we may have lost Sheraton, we have gained Best Western, and new American firms are not far behind.

Importantly, these American firms, investing in management and technology, have proven that Botswana as a location, and Batswana as a people, can be competitive. Owens Corning Pipe Botswana, Lobatse Clay Works, and Lazare Kaplan Botswana have been riding an ever rising wave of productivity and it is a broad wave with plenty of room for others.

Botswana has generated this sort of interest from American firms, despite some disadvantages, through a well conceived mix of government policies, and through it's linkage to the region of Southern Africa. And I mention the region for a reason.

As many of you are aware, my Government's bilateral assistance to Botswana, at least through USAID, is coming to an end. In it's place, we have intensified our efforts to promote growth and development in the whole of Southern Africa.

The Clinton Administration's Initiative for Southern Africa (ISA) represents an ambitious attempt to tap the potential and the synergy of this region. It is a strategy that I have fully supported and endorsed. As someone who has served the greater part of his professional career in Southern Africa, I know the great potential that exists in this region.

Of greatest relevance to this gathering, the Initiative for Southern Africa represents a major effort to promote the development of small and medium-sized business. The Southern Africa Enterprise Development Fund will target an initial $100 million to improve access to capital and credit for such businesses, especially enterprises that have been denied access to capital in the past. A companion USAID programme will provide technical services and assistance to companies that show real promise, but need that extra boost to see that promise realised.

Evidence shows that small and medium-sized enterprises are the right vehicles for producing economic growth and jobs. They are also important vehicles for political and

economic empowerment. We believe that the Enterprise Fund will be an important factor in the region's promising economic future.

Although the Fund itself will be managed out of an office in Johannesburg, the larger stream of programs under the Initiative for Southern Africa will be managed by our Regional Centre for Southern Africa (RCSA), operating out of Gaborone.

I should emphasise that Gaborone was advanced as the site for the RCSA for two crucial reasons.

One, Gaborone was selected because it is home to the Southern African Development Community, and, Mr President, we wanted to be close to your leadership. We view SADC as a viable partner to many of our own development programs, now and in the future.

But even more importantly, Botswana was chosen as the focus of our regional economic assistance efforts because it continues to be a regional leader, by example, in such areas as economic policy, democracy and good governance, and prudent development planning.

And there should be no doubt that, for all of Southern Africa's advantages as a region, it's leadership will be sorely tested in the years to come.

Just as transformation in South Africa has brought with it a new array of complex, fundamental political and economic challenges, so too, the liberation of Southern Africa from decades of conflict has not quite brought with it the millennium.

As if overnight, the region has emerged from uncertainty and economic isolation into a fiercely competitive new global economy, a global economy where close collaboration, co-operation, and indeed, integration among the countries of clearly defined regions have become important factors in the national well-being and competitiveness of individual regional states.

Unfortunately, in many of the former Front Line States, commercial relations with the new South Africa have come to be seen as a factor in shop closings and economic challenge. Ladies and gentlemen, this need not be the case.

Our unshakeable belief is that the new political landscape of Southern Africa must, and will, generate benefits for all the peoples of this region. Fair and equitable trade liberalisation will be an important factor in making the new Southern Africa work for all of it's people.

It was for this reason that Vice President Gore, during his brief visit to Botswana in December last year, signed a Memorandum of Understanding with SADC's Executive Secretary to provide focused technical assistance in the development of a regional Trade Protocol. For SADC, there can be no higher goal, and no greater calling. The adoption of that Protocol will require great wisdom and political will from all SADC member-states. No one doubts, however, that it must be done.

We believe that liberalised trade in Southern Africa as a whole is as critical as it is urgent, a means of overcoming persistent concerns that trade, as it now flows, is not benefiting all countries equally.

But, we are under no illusions. Achieving a far-reaching Trade Protocol among 12 separate countries is no easy task. Some of our European colleagues here today can surely attest to that fact.

But we remain optimistic. Southern Africa as a region can work, and as it works it can create jobs.

The late Secretary of Commerce, Ron Brown, came to Southern Africa on one of his very last official visits. Many of us came to know him well, and we all feel his loss.

Secretary Brown came to Gaborone on business, but he also came here to help.

Ron Brown saw opportunity here, opportunity that could be taken up by American business, not just in South Africa, but in the region. Please do not underestimate the significance of what he was trying to do. As our national budgets become smaller and smaller, leaner and meaner, Ron Brown saw trade and investment as the best means for American engagement in this region. This was a major new policy initiative, one that carried the full weight and confidence of the US Government.

American business both preceded and followed Secretary Brown's call to look at Southern Africa. Business, as most of you know, is unsentimental. It has come to Southern Africa because there are opportunities, opportunities that are still out there for future investors to discover.

About Southern Africa, however, it is fair to say that Ron Brown was sentimental. He considered it his mission, as a crusader for American trade and investment, to bring the benefits of expanded commerce to this region. As a son of Africa, he loved this continent.

Secretary Brown's vision was not a one-way street, but of one where American business and African business could create mutual benefits, and together generate more jobs and greater prosperity on both sides of the Atlantic. That vision of the benefits of expanded and liberalised trade is, I believe, an important one to consider as this conference proceeds. I can assure you that market access, trade, and investment will become the pillars of American-Southern African relations in the future. Ron Brown knew that, and he was trying to make it happen, sooner rather than later.

Let me close by quoting the late Secretary of Commerce. These are words he spoke during his African Trade and Investment Mission, and they are words that directly address the roles of business and government in promoting economic growth, and creating jobs:

"It is the private sector that fuels the engine that pulls the train of economic growth and job creation. But we in government have an important role to play as well. And that role is to help clear the track, so that that train can run quickly and smoothly so it can get to it's destination".

Mr President, Honourable Ministers, Distinguished Guests, let us also all do what we must to make that train run on time. I wish you a most successful and productive conference.

Reading of schoolchildren's essays

OUR FUTURE EMPLOYMENT: HOPES AND FEARS OF TODAY'S TEENAGERS

(organised with support from UNICEF)

Chair:	Kenneth Matambo, MFDP
Schoolchildren:	Maleshwane Mauco
	Zenzele Hirschfeld
	Boingotlo O Marope

First essay

Good morning distinguished guests, ladies and gentlemen. I am called Maleshwane Mauco, an 18 year old Tirelo Sechaba Participant serving as a teacher at Camp Primary School in Gaborone.

Employment creation is a problem that affects the well being of all Batswana, old, disabled, male or female as well as youth. Lack of job creation leaves the whole nation disorientated. Youth in particular because they are the labour force of tomorrow, for instance in 1995 20,000 Junior Certificate leavers could not get a place at any Senior Secondary School and still in the same year more than 300 University graduates experienced frictional unemployment. That is why more emphasis should be given to the creation of employment particularly to cater for unemployed youth. Additionally there is need to improve guidance and counselling in formal, non-formal and home based education.

Information that is imparted through career guidance departments in schools is more theoretical than realistic to the job market requirements. We should be advised on appropriate subjects to take in order to meet employment entry requirements of institutions in Botswana in order for us to be marketable.

When we the youth are faced with the pressure of lack of employment we easily divert into such immoral activities as drug trafficking and abuse, organised crime, youth gangs and even prostitution. Such activities are headed by manipulative and malicious organised criminals who abuse youth, or take advantage of them for economic and political gains. These activities thus will leave our government at a loss since a lot of money will be allocated to arrest their occurrence. However, the methods that are used unfortunately seem to be more curative than preventive.

If you may please allow me to quote the speech that I presented at the 1995 SADC summit "you cannot build a house without a foundation" and as I have earlier stated the youth of today are tomorrow's work force and thus they require to be prepared for the hard world they will be facing.

At another level, the Tirelo Sechaba (National Service) can be re-directed to prepare us for our chosen careers rather than, for example, being allocated a job to a Customary Court instead of a health clinic when one wants to be a doctor or a nurse. This would in

turn motivate us to further our desired future careers with more determination and later on benefit us as productive employees.

Finally ladies and gentlemen, good policies do exist in Botswana but what seems to be lacking are well directed, action orientated programs to address the few problems which I have earlier mentioned. A journey of a million miles begins with one step so lets make this conference the beginning of bigger things to come.

Second essay

Good morning distinguished guests, ladies and gentlemen. My name is Zenzele Hirschfeld, a 15 year old Form 2 student from Marang Community Junior Secondary School in Gaborone.

The question on the minds of today's teenagers is, "Are there going to be enough jobs for all of us when we complete our studies?" The answer to this question would be yes to some people and no to others.

Looking at the negative side of things, one is most likely going to conclude that the job market is unable to absorb all school-leavers because the economy of the country is growing at a slow pace. This problem is going to be with us for quite some time and what needs to be done is to train today's youth in such a way that they can make a living in the informal sector; instead of equipping our teenagers with only academic skills, let us give them technical skills as well.

Teenagers with technical skills are most likely going to create jobs not only for themselves, but for other members of society. The Government and Private Sectors can never create enough jobs for all of us. The Government will try to create the right atmosphere for those with foresight to develop self-employing projects. The problem with today's youth is that they believe at the end of their schooling the Government owes them jobs, this is not the case. All that the Government does is to prepare us to be competitive in the job market. As today's teenagers, we have to realise that the population of Botswana is increasing faster than the jobs available. We have to start looking at the future from a broad angle. We must choose courses that are internationally competitive. The job market is not confined to Botswana, we have SADC, the Commonwealth and the United Nations. We must concentrate on getting technical qualifications and not just administrative ones. The whole world has a shortage of technically qualified people, our Government and the Private Sector must help in this respect by sponsoring more students in these fields. It is also up to teenagers to develop more interest in subjects such as mathematics, Science, Technical Drawing etc. Without the youth, the life-span of both the Government and the Private Sector is limited, so we need your attention in the same way as you need ours, not today, but yesterday.

As teenagers, we have to make up our minds at this early stage about what we want to do in the future. We should stop despising other sectors of the economy like Agriculture, a lot of jobs can be created in this sector as long as Botswana can take Agriculture seriously. We must keep ourselves informed of what is happening around us. The world is changing. Some of the jobs we wish to do today might not be there tomorrow. We should not look at tomorrow with fear, but with hope. Let us prepare for tomorrow by deciding <u>now</u> what we want to be in the future.

Third essay

Good morning distinguished guests, ladies and gentlemen. I am called Boingotlo Marope, a 17 year old Form V student at Gaborone Secondary School in Gaborone.

The world is slowly changing. In other parts it is deteriorating and in others it is excelling. These factors affect our lives greatly especially when it comes to employment. Teenagers are living in fear of the future but they have hopes for the future too.

People with Masters Degrees cannot find employment. In the past a person with such qualifications could be a minister. Nowadays they are roaming the streets in search of employment. In ten years time, people with these qualities will most probably be cleaning the streets.

Corruption is slowly but steadily on the increase. People are being bribed. Botswana is a developing country and it is still going through different phases. Right now bribery is still at an infant stage. In the future if left unchecked, it will mature. When we start applying for jobs, those with money will be able to get unique positions through bribery. A mere citizen who will have just completed at University and does not have money will just be stuck there.

Apart from bribery on the category of corruption there are fears of nepotism. If for example a Bank is in need of an accountant and there are ten applicants, if one of them is a relative to the person conducting the interview, then definitely the job is his. The spiralling crime wave that has been gripping the nation is costing us a lot. Such kind of behaviour is not acceptable to the investors, it chases them away. These investors help in job creativity; they create employment for us and at the same time developing our country. If crime is not controlled or reduced then there will be a reduction in employment.

Discrimination is another fear grabbing today's teenagers. It has been stated in newspapers that some organisations do not hire people with the Aids virus, they want virus free departments. This is total discrimination and it brings down the standards of living. A person with HIV virus can live for another ten years and he may be the best and most hardworking.

Discrimination due to politics has also gripped the nation of Botswana. If a person opposes the ruling party and an employment application comes in and the application is for the ruling party, he might not get the job just because of political differences. If another party gets into power, our expectations may be shattered. Different political parties have different ruling styles. This may definitely affect our future employment. For instance, one of the opposing parties might win the forthcoming elections and the promises that we are given by the present government might not be implemented.

Machinery seems to be hitting the human race. They are replacing people in their jobs, they seem to have better brains than us who invented them. Our fear is that in future, computerised machinery will be the one's employed.

As today's teenagers and future leaders we hope that Technical Students will be given some priority. Students from Vocational Training Schools are not given much attention as University students. University students who are doing Humanities definitely know that when they complete their course the government will automatically employ them. What about VTCs? Not one category has a ready job awaiting them on their completion provided by the government.

Teenagers drop out of school daily because of pregnancies. Majority of these students do not get a chance to continue with school after giving birth. Drought Relief Projects should be broadened so that the unskilled/uneducated can also make a living.

We hope that there will be plenty of opportunities for different or a variety of careers and that these jobs will be of great dignity and well paying.

Lack of employment, discrimination, corruption, politics and less investors are our fears and we hope that employment opportunities will be made available and discipline taken on our fears.

Keynote address

GLOBAL AND REGIONAL SCENARIOS FOR THE FUTURE

By Clem Sunter, Anglo American Corporation

Good morning your Excellency the President, your Excellency the Vice President, the first Lady, ministers and distinguished guests. It is a great privilege for me to open this conference with the keynote address. I shall try to give you as much useful information for the rest of the conference as I can.

I felt that the preceding speeches by the three schoolchildren were absolutely brilliant. They brought out all the issues that you should be discussing at this conference. I did note that they were three girls - I've always thought that girls are the smarter ones.

The purpose of scenarios is to look at the future through possibilities. As you look forward so the future gets more uncertain. There are certain rules of the game for the world economy which you do not control, South Africa doesn't control, no particular country controls. This constrains the possibilities that you can pursue within your own economy. Much of my address this morning will focus on trying to identify the rules of the game for the world economy over the next 20 years.

Within that reduced set of possibilities you can write certain scenarios. These are stories of what *can* happen for your country, as opposed to what is necessarily going to happen. It is stupid to try and forecast the future when life is so uncertain. So many forecasts turn out to be wrong. It is much better to write a scenario of what can happen.

My talk will be in two parts. First I will look at Anglo American's global scenarios. These were produced by a team of outside experts. We have a team based in London and they are linked into a network of specialists in demography, technology and value systems; and into particular countries around the world, like China, Russia, and America. Second I will talk a little bit about the South African scenarios that we produced in the mid 1980s, and how we see South Africa today.

The first driving force which constrains us is population and population growth. As far as rich countries are concerned the most important thing to say is that they are getting older. The three zones we call the Triad - the United States, Western Europe and Japan - are going from a position now where about 20% of their population is over 60, to a situation in 2030 where a third of the population is going to be over 60. In other words there is going to be a geriatric boom in Europe, America and Japan. If you are marketing goods into those countries you have to take account of the demographics. Obviously there is going to be a market for medical products - anything which helps people prolong their lives. But equally there are going to be consequences in terms of stretching the social fabric. Already there are pressures on Medicare systems in the United States and on pension funds. Somebody is going to have to come up with ways of reducing the liabilities of those funds, which means that there are going to have to be changes in the welfare system. In China too - because of the one child policy - there will be dramatic demographic change. At present less than 10% of Chinese are over 60 years age, but by 2025 this will have risen to a quarter of the population.

Yet age is one of those really basic things that companies often fail to look at when they are deciding what are the 'hot' markets in other countries. It is interesting to examine what is happening as a result of countries ageing in the Western world. In the Triad countries, immigrants are being brought in to try and redress the age imbalance. In that sense these countries are going to be competing for your most skilled doctors, engineers and other professionals. Unfortunately it is usually the skilled people who go from developing countries to the developed world.

The scenarios for Africa indicate hardly any changes of this kind. This is because there is still a high population growth rate, which means that the ratio of young people still remains high.

There is one "up side" to this particular problem: there are going to be more high savers. More people of the people of the Triad countries will be between the ages of 45 and 54. This age group tends to save more than either the youth or the elderly, who are spending money to stay alive. In the case of the United States from 1995 to 2010 there is going to be a three-to-one increase in people of 45 to 54. There will also be significant increases in Canada, Germany and France. The Asian Tigers, including Hong Kong, Malaysia, Singapore, Thailand, Korea and South Korea, are going to have great increases in their number of middle age savers too. This is a critical ingredient for making free enterprise work. Savings equals investment, and the most important thing that has been identified by most economists as necessary for a high economic growth rate is a high rate of domestic saving.

As far as we are concerned I think that the most important thing that Southern Africa has to look at is HIV and how it is going to affect our population growth rates. In the urban areas of Botswana we are looking at over 20% HIV amongst adults, but in rural areas the corresponding figure is about 7%. In South Africa we have a figure of 7.5% HIV for both rural and urban areas (separate rural and urban figures have not yet been distinguished). That figure has just been revised up to 10%. At Richards Bay, which has been intensely sampled, the HIV rate is now 40%.

HIV/AIDS is going to completely change demographic patterns over the next 20 years in our region. It is going to reduce our population growth rate to be closer to Western levels. There is not going to be an absolute decline in population, but the annual population growth rate is going to fall from 2-3% to the 1%.

There is only one country which is expected to contract because of HIV/AIDS between 1994 and 2010. That country is Thailand. The continent that is destined to have the most new HIV cases between 1995 and the year 2000 is in fact not Africa but Asia.

What this analysis reveals is that we are going to have a very skewed population, with lots of very young people and lots of old people. The population is going to be devastated in the middle age groups. That is going to be a constraint on the possibilities for the Botswana and South African economies.

Just one other point on health. It is about an epidemic of resistance. There are so many common bacteria in the world which have been overcome by the 160 antibiotics which are available. So we have lived in the "golden age" of antibiotics for the past 20 or 30 years. But this is coming to an end. Viruses, microbes and bacteria are very clever and are becoming multi drug resistant.

There is one particular thing which scientists will tell you could create a nightmare scenario for the world, That is the enterococcus virus. It is resistant to a drug called

vancomycin; crosses with a staphyloccus aureus virus, which is resistant to all the other antibiotics except for vancomycin; and you can have cross species transfer such that you could end up with a virus that is resistant to all the antibiotics available in the world. That could set off a completely new epidemic in a very common form of bacteria.

As you know in the north of Botswana (and in northern Natal) we are encountering a multi drug resistant malaria. That is our problem. Nature is beginning to strike back and we must consider that too.

What is happening vis-à-vis markets in the world? If we look at shares of world output in 1984, developing countries were only 34% and industrial countries 57%. Even by 1994 developing countries were 40% and the Triad or the Western countries were 55% (I am including Japan in the Western countries). But look what happens in 2004. By then developing countries, including the Asian Tigers, are 48% of world output and industrial countries are 47%.

What this means for Botswana is that it must not just focus on Western countries for markets. Because beyond the turn of the century there will be just as much buying power in developing countries.

Now we come to technology. Technology is one of the key factors determining a country's future destiny and constraining it's possibilities. These countries that bring in the latest technologies are likely to be the most successful, because most modern technologies are easily usable and allow you to benefit from the best practice in the world very quickly.

Let me give you two examples to show how much technology is changing the world. The first is a company in London that is contracting it's secretarial and record keeping to a company in Beijing. It doesn't employ typists any more. It simply downloads all the documentation by e-mail to Beijing. The Chinese record keepers and secretaries process the data as instructed by the company, and then download it the next morning back to London. This is cheaper than hiring secretaries in London.

This means that every single job in the world is now contestable. It doesn't matter if you are a white collar or a blue collar worker, the latest electronic technology means that somebody overseas can compete for your job. Andy Grove, Chief Executive Officer of Intel (which employs 40,000 people), recently said to his staff, "I want to tell you that every one of you is competing with the rest of the world." He's right. That is how technology has changed the world.

My second example about technology is that an idea in one country can be spread around the world instantaneously using the Internet. You needn't have a problem with markets if you have a really good idea. I came across a little company based just north of Tel Aviv, in a place called Hertzlia. For many years it produced a laser instrument which peeled paint off jet aircraft. Then it modified the laser to be able to remove varicose veins from women's legs, and marketed this product in the United States using the Internet. The market capitalisation of the company has gone from $3m three years ago to over $500m today. That is because of one bright idea which via the Internet managed to reach the whole United States market. People are clamouring for this machine, which means that the company is doing very well. That is how powerful technology is.

So what are the chances for technology over the next 20 years? Well, we went to probably the best institute in the world, the Global Business Network, based in California. It is run by Peter Schwartz who used to be the top scenario planner of Royal

Dutch Shell in London. The institute came up with two possibilities: "lock-in" and "perpetual transition".

Lock-in is a world where people seek a standard in technology and hold to it for a long time. An example is the 33 1/3 long-playing record. The technology was locked in so that everyone could listen to music. When the CD arrived on the scene, for a long time long playing records continued to provide strong competition. Then suddenly the CD took over as the dominant technology and now we are locked into musical CDs. It was the same with Betamax versus VHS in video cassette recorders. After fierce competition in the 1970s, VHS became the world standard. When that happens things become fairly stable and orderly, and people can make money out of the technology that has been chosen as the standard.

The real problem is that so many people around the world are coming up with bright ideas on new technologies. This leads to a scenario called "perpetual transition". This is where you don't have time to make money out of a particular new technology because by the time that you have set it up and start to market it somebody else has come along with something smarter.

At Royal Dutch Shell the scenario team have come up with a superb concept the call it "bubbles of value". More and more entrepreneurs in the world are going to have to exploit bubbles of value during the limited period they can obtain a high rent for their idea - before everybody else in the world discovers it and copies it. So, because of the way information is diffused around the world, it is going to be much more difficult to earn a high rent on a particular idea for a very long time.

Now let me turn to how value systems are changing. We have looked at the Far East to see what it is that creates economic growth. What we came up with was that the Far East experience offers something for everyone. That is why in South Africa we have debates between, for example, Cosatu and business, where both sides are able to point to an example of success from the Far East. For example Japan and South Korea have fairly interventionist economic policies, but Hong Kong and Thailand are non-interventionist. Malaysia has explicit redistributive policies between the Chinese and ethnic Malays, but other countries such as Indonesia and Thailand maintain a stance of redistributive neutrality. There are close links between government and business in Korea, with large, strong conglomerates; in Taiwan the emphasis is on small entrepreneurial firms.

But there are certain common features to these countries. I think the most important one is that the governments have a passion for business. When the government intervenes it gives it's complete support to business. These countries know that everything else flows around business. This is very different from the old socialist type of intervention where the assumption is that business is evil and capitalists are profiteers; you intervene to stop these crooks from trading.

Another major change that is taking place is what we call "post modernism". Post modernism is a concept being used by value specialists around the world to define the era which began in the 1980s, and to distinguish it from "modernism" which had applied since the Industrial Revolution in the mid 18th century. Modernism offered a sense of certainty about life. There were production lines, economies of scale, collections of people produced great wealth, and all these things created a fairly certain world. Now we are moving into a totally different world where, for example, kids are continually questioning all the old certainties. Because we have an authority gap, mothers can't say,

"Mother knows best" anymore. Their children are watching the Internet and they say, "Mummy you say that, but Internet says you're wrong." This is creating very big problems for values because kids can actually become aware of every idea in the world through watching the Internet. There is now a constant questioning of the "hand-me-down" concepts of the last 200 years.

There is also an ethics gap in the world. Kids don't know what morality is about any more. Consider the top seven disciplinary problems in US schools in 1940 and 1990, as reported in the Congressional Quarterly, November 1993. In 1940 these were: talking out of turn, chewing gum, making a noise, running in hallways, queue jumping, dress code and litter. In 1990 they were: drug abuse, alcohol abuse, sexual behaviour, attempted suicide, rape, sexual assault, robbery, theft and physical assault. In 40 years school problems in the United States have gone from minor indiscretions to criminal behaviour.

Some teenagers in the United States are beginning to realise there is an ethics gap and are reverting to fundamental religion. Because lots of kids are turning to religion, the four fastest selling CDs in the United States are gospel music.

Returning to the subject of what is shaping the business environment, it is important to recognise that information is now the major source of wealth creation. Botswana and South Africa have to be "plugged-in". We have to be connected to the Internet. We have to be connected to all the information systems in the world. Information is what is giving countries the competitive edge - helping them to know what other people want and what is going on.

There is the birth of a global culture. Everybody is beginning to want the same things. They may have very different views about ethics and religion, but they all drink Coca Cola or wear a Grateful Dead T-shirt.

The old socialism versus capitalism debate is being replaced by absolutism versus pluralism. Absolutists say, "My idea is correct and should be more important than any other idea." This applies to some environmentalists. It also applies to some feminists. There are plenty of groups in the world who think that their ideas should dominate over every other idea. But then there are also a lot of pluralists around, who say, "Actually there are lots of competing ideas which have validity, and you have to find the right combination to muddle through." That is where the debate lies - between the extremely powerful lobbies, particularly NGOs, who are pushing the absolutist line, and the pluralists, who try to seek a compromise between the various competing ideas.

Now I want to talk about companies that people believe in. That is what people are searching for. They don't just want a company that produces goods. When they read the chairman's statement, they want to be able to believe in that company. The reason for that is what we call "the Wizard of Oz revealed". In the film, Wizard of Oz, Dorothy goes behind the curtain and discovers that the huge wizard is actually very small. When she says he is very naughty for deceiving everybody, he replies, "I am just a little wizard with a big microphone." The point of this is that the media around the world is now demystifying every institution. If you do something wrong in Botswana you will soon have a CNN reporter on your doorstep, and it will be on the TV news all over the world almost instantaneously. There is no such thing as backstage anymore. Everything is front stage. That is why you need customs and, of course, governments that people believe in.

This all shows that reality is not what it used to be. In the modern society wealth creation depended on manufacturing. In post-modern society it depends on information and service. You used to have restricted capital movements and people movements. Now people move everywhere in the world. Capital also moves everywhere in the world. If it stops in your country its because you attracted it.

Authority used to be vested in stable institutions. Now it is being questioned and replaced by media power. You used to have hierarchical social orders and deferential social orders, but now these are breaking down.

National lifestyles are being exchanged for a mixture of global lifestyles. Passive consumers have become moral consumers - they look into the ethical standards of a company before buying it's products. In the marketing world, mass marketing is being replaced by relationship marketing. A recent survey of US car companies showed that the most important factor in increasing sales was after sales service - what the local dealer is going to do for you when you have bought your car. More and more people now are looking beyond the product, to say, "What am I going to get with the product." In America the quality defects in American cars have been drastically reduced over the last six years, to the extent that they are now just about as good as Japanese cars. So the difference now is in things like service.

What is the effect of globalisation through market systems? Royal Dutch Shell probably produces some of the best scenarios in the world. Until recently it used to say there was a scenario called "Barricades", where countries could barricade themselves off from the rest of the world. That was five years ago. Now they talk about "Hurricane Tina". Tina means: There Is No Alternative (an expression used by the Margaret Thatcher, the former British prime minister). Hurricane Tina is blowing through the world in three ways, namely globalisation, technology and liberalisation. It is blowing

Reality isn't what it used to be

Industrial (modern) society	*Post industrial (postmodern) society*
Economic:	
Wealth creation: manufacturing	Wealth creation: information/ service
Restricted capital and people movements	Unrestricted capital and people movements
Social/ consumers:	
Authority vested in stable institutions	Institutional authority questioned
" "	Transference to 'media power'
Hierarchical, deferential social order	Egalitarian social order 'tribes'
Handed down, inherited values	'Discovered' individual values
Status reflected by things/ externals	Status reflected by experiences/ internals
National lifestyles	Mixture of global lifestyles/ bazaars
'Controlled/ closed' media	'Open/ free access' media
Passive consumers	Active/ educated/ 'moral' consumers
Marketing/ business:	
Business activities backstage (covert)	Business activities frontstage/ transparent (overt)
Mass media	Fragmented specialist media
National markets	Global markets
'Mass' marketing	'Mass customisation'/ relationship marketing

down the barricades of every country. Even countries like Burma, Albania, North Korea and Cuba are having to open up their markets because the hurricane is so strong.

Shell says there are only two alternative economic models capable of surviving this hurricane. One is the American model. This is called "Just-do-it". It is a very individualistic model. Americans like to get on with things, they have a bias for action. The other alternative is the Far East model. This is called the "Towo model". In Cantonese *towo* means big meat. If you have a proper government and a proper society, this model says that the individual becomes more effective when part of the team.

Shell says it doesn't know whether the Far East model or the American model is going to win out over the next 20 years. But what they do know is that Hurricane Tina is going to blow down all the barricades around the world.

There is another thing that can bring all this to a grinding halt. That is the greenhouse effect. The world is warming up because certain gasses in the earth's atmosphere - like carbon dioxide, methane, nitrous oxide and chloroflurocarbons - have increased dramatically. It could well be that by the beginning of the next century there will be definite scientific evidence linking these emissions with the world warming up. In that case we are going to see environmentalists setting limits on economic growth, because we will not want to kill the world for the next generation. That is the one wild card for any future economic scenario.

What are the other key uncertainties in the world today? Well, in politics the question is who is going to maintain world order? In the past we had the Americans and the Russians acting as global policemen. Now we only have the Americans. The problem is that the American press makes a lot of noise if American soldiers die in peacekeeping operations. Its getting more and more difficult to send your own troops to foreign soils to keep order. But that then leads to nightmare visions where rogue countries will develop nuclear weapons or something else and start trying to take over the

Predetermined elements: potential for stronger global growth

- **Technology** - rapid change, rapid diffusion
- **Globalisation** - through market systems
- **Demography** - window for lower real interest rates; long term ageing
- **Values** - complex; supportive but capricious in OECD; power of NGOs
- **Interdependence** - for good and ill
- **Environmental concerns** - risks and opportunities for business
- **Winners & losers** - increasing penalties for failure
- **Colombianisation** - insidious, global

Key uncertainties: coping with change

- **Geopolitics**
  - maintaining world order. Who?
  - nightmare visions
- **Geonomics**
  - TRIAD tensions
  - OECD versus NOECD
- **Societal**
  OECD:
  - the underclass & insecure employed
  - loss of social cohesion
  - Japan regression

  Russia and China:
  - capacity for modernisation

world or build up empires.

On the economic side, there are still tensions within the Triad countries, but the dispute that is consuming everyone's interests is that between China and America over intellectual property rights and other trade issues.

On the society side, you not only have the underclass, the unemployed. You also have the insecure employed, people who feel insecure because they know their job can be taken over by anyone else in the world.

Finally, there are Russia and China. What is their capacity for modernisation? There are still some very negative scenarios for both Russia and China, because they still haven't really entered the modern age.

This all leads to two global scenarios over the next twenty years. On the one side you have got the incredible forces of globalisation, deregulation and liberalisation driving the world towards a universal model and high world economic growth. Its a possibility that Shell thinks is going to happen.

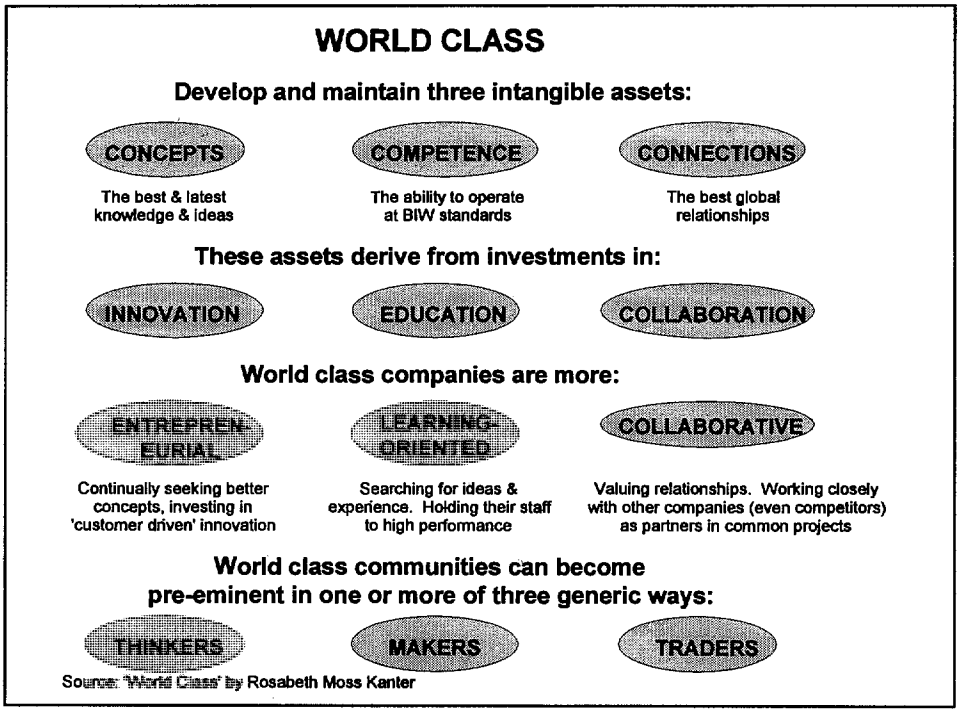
We, however, say that there are certain pressures for resistance or reversal because of crime, corruption and so on. These things could actually lead the world in the other direction. All you need is China deciding it wants to increase it's own power in the Far East, and that is going to throw the world into confusion again.

So you can actually write an extremely negative scenario for the next 20 or 30 years as well. That is why you do scenarios. You can't bet your whole company on one future, you have to look at the other futures as well.

Now what makes a winning nation under these scenarios? First you have to define what one means by world class. This has been done by a woman called Rosabeth Moss Kanter in the United States. She says that a world class country develops and maintains three intangible assets (notice the word intangible). First is concepts, the latest and best ideas. Second is competence, the ability to put those ideas into practice using best in the world standards. Third is connections, the best global relationships ensuring that your country is linked into the best countries in the world.

What drives one to achieve these? First is innovation. You want to set an atmosphere in the country where people can become creative. Probably one of the most important things for a government to do is to get rid of blanket bureaucracy and allow people to be innovative. Second, you need education, and it has to be a good education. The education system must be relevant, capable of teaching kids to be entrepreneurs. This means completely re-examining the way you teach. Being an entrepreneur is not just about making lots of money. Its about the whole mindset that you are going to challenge the establishment. So many kids are taught in an extremely authoritarian way, and never learn to question authority. They never say, "I am going to produce a product that's going to take over the market", because school hasn't provided them with the self confidence they need. Its all about how you teach enterprise and enterprising spirit in education.

Finally you have got to have collaboration and social harmony in society. If you have a huge gap between the haves and have-nots, there is no way you can have economic success. Obviously there is going to be some hierarchy, and there will be an elitist part of society, but the gap between the elite and the rest of society must never stretch to a level where people feel that the society is totally unjust.



What about world class companies? Well, firstly, they are more entrepreneurial now and they are continually seeking concepts that are customer driven. They look at the customers first before they say what should be produced. Secondly, they are learning-oriented. They spend their whole lives learning more. They never stop learning and they never allow success to make them complacent. Thirdly, they are collaborative in the sense of having relationships with other companies - even to the extent forming partnerships with their competitors to pursue common projects.

Finally, there are world class communities. These become prominent in one of three generic ways. First they can be "thinkers", such as in Boston, Massachusetts, a big university town. Second they can be "makers", manufacturing things, such as in Detroit. Third they can be "traders", like in Hong Kong and Singapore, being the entrepreneur for everybody else.

The last topic I would like to discuss is the scenarios for South Africa. When Anglo American prepared it's previous set of scenarios in 1985, these included possibilities of high growth, low growth, negative economic growth (see slide below). There was a situation where the group dominated over the individual, a racist kind of state. There was a positive possibility of entering a transitional phase, leading to a final phase of becoming a non-racial society where the individual would matter more than the group.

In 1985 the National Party was in power, still with a dream of an all white South Africa. We told them that they were going to have to launch themselves into the transitional phase if disaster was to be avoided for the country. There were two ways in

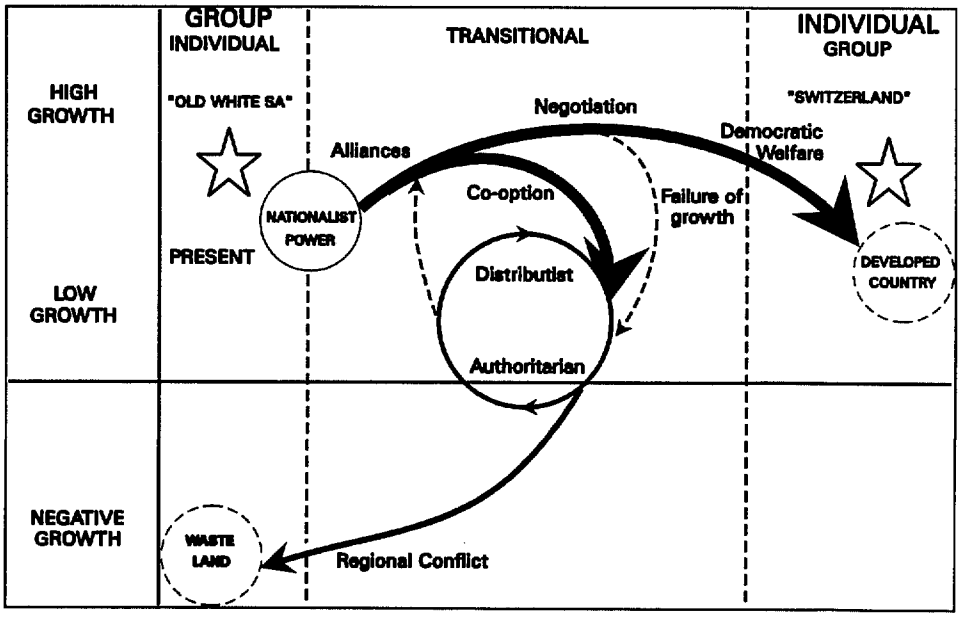
which they could go. First they could try to retain power without major change. This would involve forming alliances by co-opting blacks into government. But this scenario would not have solved the country's problems, there would have been increasing social tensions, increasing authoritarianism and negative economic growth. Second, they could try to negotiate the future. At that time people said this was impossible but it happened, and President Mandela and Deputy President De Klerk must be credited with having taken us this far.

In one scenario we outlined how failure to achieve economic growth and create jobs could undo all this good work. Economic growth and employment creation are prerequisites for future success.

That takes us to the point where South Africa is today. We are at a crossroads. We have to develop a coherent economic policy in order to avoid the trap of failure of growth which would lead us back towards a sort of racial society. There is a risk of entering a vicious circle of authoritarianism and distributism, whereby rising unrest due to lack of jobs is accompanied by a combination of security clamp-down and government trying to appease people by giving hand-outs. If things go really wrong, this can lead to conflict and South Africa could become an economic wasteland.

While that scenario is still possible, the preferred scenario is to find the right formula for economic growth, spread a lot of the fruits of that economic growth into investment and social welfare provision, and finally end up as a developed country.

The last point I wish to make is that Europe is the wrong model to follow. The United States is a more promising model. Between 1960 and 1995 the United States created far more new jobs that Europe. This is because it uses a totally different model for labour. Europe has so many regulations governing labour that it has become a very inflexible market. America, while having exacting standards in terms of health and safety and so on, has managed to keep it's labour market flexible. That is what enables it



to create so many new jobs. A further point is that growth in real wages in the United States has been kept down to the level which matches productivity growth. In Europe real wages have risen faster than that, with the result that there has been a trade-off between wage rates and employment.

If there is one thing I can say to sum up, it is that if you want to create jobs take a serious look at the American model. Examine how you can keep your labour market flexible. Also make a serious effort to support small business development, since entrepreneurs and small businesses are the cornerstones of employment growth. While big businesses can help, their activities often focus on big projects that are relatively capital intensive.

I hope that you have enjoyed this presentation and that it contributes to the rest of the conference. Thank you very much.

Panel and floor discussion

DEFINING THE CHALLENGE OF EMPLOYMENT CREATION IN BOTSWANA

(referring to schoolchildren's essays and keynote address by Clem Sunter)

Chair: Kenneth Matambo, MFDP
Panel: Taufila Nyamadzabo, MFDP
Leta Mosienyane, Mosienyane & Partners
Quill Hermans, Bank of Botswana

Taufila Nyamadzabo outlined some of the main challenges of employment creation in Botswana. He said that, apart from brief setbacks in 1981-82 and 1992-94, Botswana had enjoyed sustained and rapid employment growth since independence in 1966. Over the period 1966-91 the annual rate of growth in formal sector employment had averaged more than 10%, while growth in output had averaged 11.7%. Formal sector employment had grown from 14,000 persons in 1996 to 228,800 in 1991. It had fallen to 227,500 in March 1992 and 226,200 in March 1993, before recovering to 231,200 in March 1994 and 234,500 in March 1995. Private sector employment had declined from 142,500 in March 1991 to 136,200 in March 1994 but had recovered slightly to 136,600 in March 1995. In comparison, public sector employment continued to grow rapidly, rising from 68,500 in March 1991 to 85,000 in March 1995. Mr Nyamadzabo noted that without the growth in public sector employment the rate of unemployment would have been worse. While there were issues of sustainability to contend with, the government's policy of counter-cyclical interventions had helped to maintain employment and avoid worsening of economic and social problems in the early and mid-1990s. He pointed out that, drawing upon past experience, the macroeconomic framework for NDP 8 had assumed that formal sector employment would grow at 3.6% per annum. The employment challenge for Botswana was therefore to find ways of raising employment growth to the higher levels that were achieved in the past, and to be capable of sustaining such growth.

Mr Nyamadzabo continued by explaining how the magnitude of the unemployment problem had also changed significantly over time, with some marked fluctuations. In 1971 some 91,036 (23.7%) of the workforce were unemployed. Subsequently unemployment declined to 32,226 persons (10.2%) in 1981, increased to 93,100 in 1984/85, declined to 61,265 (13.9%) in 1991 and increased to nearly 100,000 (about 21%) in 1994. He said that unemployment was especially concentrated among the youth (12-24 years), females and the least educated and least skilled. The unemployment challenge for Botswana was to reduce the unemployment rate below 10% or even to attain full employment as in Mauritius, Singapore and some other countries in East Asia. He asked whether it might be possible for Botswana to target efforts to reduce unemployment on the worst affected groups that he had mentioned.

A related challenge mentioned by Mr Nyamadzabo was the high rate of population growth. At a rate of 3.5% per annum, population growth was contributing to rapid increases in the labour force, worsening of the unemployment problem and increased costs of providing social services. It was also having detrimental effects on the environment. Because of high population growth there had been an annual average of 18,700 new entrants on the job market over the period 1981-91. An annual average of 22,000 new entrants was projected for the period 1991-2001.

In concluding his comments, Mr Nyamadzabo identified poverty as one of the main problems and challenges faced by Botswana. Although the 1993/94 Household Income and Expenditure Survey indicated that poverty had not worsened in overall terms, a great many Batswana continued to be poor. Mr Nyamadzabo suggested that employment creation was the most effective way to reduce poverty.

Referring to the preceding addresses and the schoolchildren's essays, **Leta Mosienyane** said that Botswana's employment challenge was 'to promote growth and employment with equity.' Economic growth alone would not be adequate. Equity concerns needed to be taken into account in determining the most appropriate path for national development. Equity required that people be given access to opportunities and finance.

Mr Mosienyane outlined several requirements for bringing about growth in employment. First, Botswana needed policies to encourage human capital formation. In particular there was a need to establish a cadre of highly skilled artisans and professionals. Second, appropriate types of training were essential for improving skills and making people more employable. Third, small and medium sized enterprises (SMEs) were likely to be the leading source of new jobs. Existing evidence suggested that the highest potential for employment growth was in companies with less than 20 employees. However, he said that such enterprises faced various problems that needed to be addressed.

Regarding the problem of unfair competition from larger firms and multinationals, Mr Mosienyane suggested that independent competition boards should be established. There was also a need to promote linkages between SMEs and larger firms, to use government procurement to support the expansion of SMEs, and to help them to improve their competitiveness and quality standards. He also suggested that in order to promote competitiveness, existing monopolies, particularly the parastatals, should be removed and replaced with free and open private sector competition.

Quill Hermans began by saying that the challenge of employment creation in Botswana could be easily defined. Jobs would only be created on a sustained basis by the private sector; and then only if two conditions were met. First, companies or businesses had to be profitable and had to be encouraged to expand and invest. Second, the policy environment had to support, but not require, labour-intensive rather than capital-intensive business activity. Factors that would support robust, profitable, labour-intensive business development had to be maintained and strengthened. Constraints that reduced the profitability of private investment or inhibited business activity had to be removed.

Mr Hermans identified nine positive factors to be maintained and strengthened. First, corporate and personal income tax levels had to be kept as low as possible relative to other countries in the region, in order to make investment in Botswana more profitable. Fiscal policy needed to ensure that investors would have confidence that

taxes would not have to be raised to previous levels again. The principle of sustainable budgeting was to be adhered to in order to give confidence to the business community, as well as to maintain an appropriate macroeconomic balance.

Second, he said that the Financial Assistance Policy (FAP) should be retained and expanded to cover more areas of business activity. It's emphasis on employment creation and citizen training needed to be retained but it's administration needed to be streamlined.

Third, the real effective exchange rate between the Pula and other currencies, particularly the Rand, must remain stable and predictable, so as to encourage non-traditional export industries. The Pula should not be allowed to appreciate significantly against the currencies of it's potential export markets. He cautioned that an over-valued currency would bias investment towards capital intensive business activity and encourage consumption rather than saving.

Fourth, interest rates must remain positive in real terms in order to encourage domestic household savings, to prevent the outflow of capital and to discourage borrowing for unproductive or speculative purposes.

Fifth, he said that Botswana's membership of the Southern African Customs Area had been important in preserving access to a larger regional market for it's non-traditional exports. The government must persevere with it's efforts to improve the Southern African Customs Union (SACU) Agreement and to accelerate the integration of Southern African economies, perhaps playing a leading role in the process.

Sixth, Botswana's excellent existing physical and social infrastructure must be maintained. In future infrastructure development should focus on meeting the needs of the business community. The desire to subsidise rural consumers or households must not penalise business users.

Seventh, Mr Hermans said that commendable efforts had been made to de-regulate the economy, citing the liberalisation of exchange controls as an example. These efforts had to be intensified.

Eighth, Botswana's commitment to multi-party democracy, the rule of law, an independent judiciary and freedom of speech had been an important source of confidence for the private sector. Political stability had also made a major contribution to Botswana's success. This had to be preserved, although not by avoiding unpopular decisions.

Ninth, wage restraint had been another virtuous factor that had contributed to economic growth and job creation in the past. Pressure for higher real wages had to be resisted. At the same time, measures to improve labour productivity had to be expanded.

Mr Hermans then identified ten negative factors that Botswana had to be overcome. First, the share of Gross Domestic Product (GDP) consumed by the public sector was too high. This had to be reduced, liberating resources for private sector use. This was the corollary of keeping taxes low.

Second, he said that the bureaucracy is too large, inefficient and resistant to change and modernisation, acting as a constraint on profitable business expansion, rather than a facilitator of it. Urgent steps had to be taken to 'downsize' the civil service, to increase it's efficiency, and to improve it's attitude and service to the business community.

Third, Botswana's financial affluence and the government's dominant role in the economy has led to excessive rent-seeking behaviour. Mr Hermans said that, with a supportive policy environment, there was no need to succumb to the lobbying of special

interest groups, or to favour some groups over others. The government must firmly resist hand-outs, bail-outs and special privileges that encourage rent-seeking rather than entrepreneurial activity.

Fourth, he said that delays in issuing work, residence and other permits, in registering companies, or approving applications for FAP grants, prevented established firms, as well as investors, from conducting business profitably in Botswana and inhibited job creating business expansion. These and other bureaucratic or regulatory bottlenecks had to be removed urgently.

Fifth, the thrust of labour legislation and public policies continued to be biased in favour of those already in employment and against employers and the unemployed. The willingness of politicians to intervene in individual labour disputes, and the tendency of the media to side with the 'oppressed workers' exacerbated the situation. Poor industrial relations made large employers feel insecure and disinclined to expand operations in Botswana, and frightened off foreign investors. They also militated against efforts to achieve greater business efficiency and productivity, which were essential if Botswana was to compete in the international marketplace. Policy makers and labour unions must recognise that the right of the unemployed to work is just as important as the rights of those already employed.

Sixth, after years of bureaucratic wrangling, Botswana still lacked a conventional one-stop investment promotion agency of the kind that investors have come to expect in developing countries. Political intervention was needed to resolve the long-standing impasse and to create a genuine one-stop agency with full powers to issue licences, negotiate tax and other dispensations, allocate land, etc.

Seventh, Mr Hermans said that we must accept the fact that the private sector as it is presently constituted is unlikely, for structural and attitudinal reasons, to respond efficiently to new business and investment opportunities. Citizen-owned businesses lacked the capital and commercial management skills to play a major role. The foreign-controlled companies and their expatriate managers tended to have a short-term outlook and were strongly influenced by developments elsewhere in the region. Non-regional foreign investors were likely to be interested only in a few large projects, and then only if they received special dispensations from the government. We should therefore make a special effort to encourage firms already established in the region to invest in Botswana as part of the increasing commercial integration of Southern Africa. Investment promotion efforts should focus on South Africa and Zimbabwe.

Eighth, the cost and quality of services provided by several parastatals and government agencies hindered profitable business activity. More urgent consideration should be given to privatising government or parastatal functions which could be undertaken more efficiently by the private sector, if necessary under the supervision of regulatory bodies established to prevent profiteering from monopolies. Improvement of telecommunications was a high priority.

Ninth, he said there was not a great need for new policies or additional financial subsidies to attract regional investment in employment-creating activities in Botswana. What was necessary was for the government to implement the existing policies and reform programmes more vigorously, effectively and openly, consulting the private sector continuously, and making greater use of private business knowledge and capabilities.

Tenth, the business community in any country was very sensitive to the political climate and to the friendliness or hostility of the bureaucracy. Business leaders were easily discouraged by xenophobic speeches, negative bureaucratic attitudes or excessive localisation pressure. Investors wanted to feel welcome by labour unions, civil servants and the media, as well as by the political leadership. In Botswana the gap between the official pro-private sector rhetoric and the reality of everyday business life was very great. Until every Motswana understood the importance of supporting the private sector, and genuinely welcomed foreign investment, such investment would not occur on the scale necessary to reduce unemployment. Changing public attitudes towards business in general, and foreign investors and expatriates in particular, was perhaps the greatest challenge of them all.

The chairperson, **Kenneth Matambo**, concluded the discussion by indicating that the panellists had succeeding in defining the main challenges for employment creation in Botswana. This had helped to established the overall context for the remainder of the conference proceedings.

Keynote address

EMPLOYMENT CREATION AND THE NEW WORLD ECONOMIC ORDER: LESSONS AND CHALLENGES FOR SOUTHERN AFRICA

by Professor Tony Hawkins, University of Zimbabwe

The most important challenge facing the countries of sub-Saharan Africa is poverty reduction. The World Bank believes that by the turn of the century some 300 million people - approximately half the regional population - will be living in poverty. That 50% figure is double the proportion for developing nations as a whole, and sub-Saharan Africa is the only region in the world where poverty is getting worse, with a further nine million people slipping into the poverty trap every year.

The main instrument of poverty reduction is, of course, job creation, though not jobs of last resort in the informal sector, but jobs that enable workers and their families to live relatively decently, and certainly above the poverty line. Job creation can never be seen, except possibly by politicians and donor agencies, as an end in itself. The bottom line for investors and business people is the rate of return on their capital, not how many jobs they have created. Indeed, it is the boast of General Electric in the US that over the past 15 years it has trebled it's output while halving it's workforce. In the UK, manufacturing output per worker has doubled since 1980 - productivity has increased markedly and fewer people are producing much more. Such success has it's downside; last year, Robert Reich, the US Secretary for Labour, noted angrily that when companies announced major job cuts, their share prices soared on the New York Exchange. Cutting jobs means cutting costs which is good for profits and dividends.

The oil price crisis of the early 1970s marked the end of the golden age of rapid global economic growth, during which manufacturing industry grew sufficiently rapidly in developing countries to create enough new jobs to keep pace with labour market entry in most parts of the world. As global economic growth slowed from over 5% in the 1960s to no more than 3% over the next 20 years so too did employment generation, which became increasingly delinked from output expansion - known today as "jobless growth".

The term is misleading, since, up to a point, it is merely a reflection of one aspect of the changing world economic order - the partial shift in the centre of global economic gravity from the first world to the newly industrialising economies of East and South-east Asia. Since 1980, developing countries have increased their share of global GDP, chiefly at the expense of the countries in transition in East and Central Europe. Today, Asia's share of world GDP, at 23.1% (excluding Japan) exceeds that of the US and the European Union together (21.1%).

Because developing countries have grown faster than the industrialised countries, starting from a smaller industry base, industrial development there has taken place at nearly twice the rate. In the industrialised countries GDP growth of some 3.4% a year translated into a roughly similar rate of industrial expansion, but in the developing

economies - including China - GDP growth of 4.6% a year generated increases in manufacturing value added (MVA) averaging 6.4% annually between 1960 and 1994.

As a result, the third world's share in global MVA has more than doubled since 1970, reaching 21.5% in 1995 and forecast to reach 30% by the year 2005. The bulk of these gains were at the expense of the developed market economies whose share shrank to 76% last year from over 85%, a quarter of a century ago. In general the fastest growing regions and countries were those that succeeded in building market share in global export markets

This is just one facet of the new world economic order - in which globalisation is increasingly the driving force in the world economy. Globalisation is the result of the liberalisation and opening up of economies, - the removal of trade barriers, the lowering of taxes and tariffs, the liberalisation of exchange controls, and the deregulation of the domestic economy including the commercialisation and privatisation of state-owned enterprises.

At the strategic level, globalisation has taken the form of new and different ways in which multinational companies manage their affairs. It's outward manifestations are the widening gap between world trade and world output growth the explosion of foreign direct investment, especially since the mid-1980s, the rapid growth of global portfolio investment and the proliferation of non-equity cross-border business links - alliances, licensing agreements, and management and technical contracts. This new order has four main implications for policy makers in Southern Africa:

(i) the single most important prerequisite for participating in the globalisation process is an outward-oriented, open economy that fosters foreign trade, foreign capital inflows and cross-border links with international companies. The role of the multinationals is important - the sales of their foreign affiliates totalled $5.3 trillion, exceeding the total global exports of both goods and services of $4.6 trillion;

(ii) no African country - not even South Africa - can go it alone in terms of establishing an efficient industrial base on the strength of it's domestic market. Import substitution industrialisation is not a viable option;

(iii) with the phasing out of protected domestic markets, competitiveness - a word conspicuously absent from many, indeed most, World Bank/IMF structural adjustment programmes in Africa -is the springboard of economic progress;

(iv) macroeconomic policy, on it's own, cannot deliver the investment, growth, exports and jobs that this region so desperately needs. As deregulation and liberalisation take root so governments have fewer and fewer policy instruments with which to manage their economies. By limiting the use of tariffs, export incentives and trade-related investment rules, the Uruguay Round World Trade Agreement has set the pace. Exchange control liberalisation means that exchange rate policy is seldom an active policy variable, while the severe fiscal constraints on governments in this region have made tax policy a less flexible instrument today than hitherto, forcing governments to become single club golfers, reliant on monetary policy, with all it's limitations, to stabilise their economies.

All this means that governments committed to job creation policies have precious little room for manoeuvre. In the new order jobs are created when countries globalise, thereby stepping up the extent to which they are integrated with the global economy. Today's fast lane economies are also fast integrators, measured by rising trade to GDP ratios, and especially a high ratio manufactured exports to total exports, along with increased ratios of foreign to total investment. In the World Bank ranking of fast integrators, South and East Asia lead the field with Africa far behind.

Globalisation means that the private sector and, in Southern Africa, more often than not, foreign private enterprise, rather than indigenous business is likely to play the lead role. Key employment and wage decisions are no longer in the hands of the politicians and bureaucrats, and if a multinational company doesn't like the investment environment in South Africa it will try Botswana, Zimbabwe or Kenya.

Unfortunately, even where governments succeed in creating a competitive enabling environment, there can be no guarantee that investment and jobs will follow. One reason for this is that the nature and sources of competitive advantage have changed. Japanese companies became world leaders in many industries, not because their country was richly endowed with natural resources like Australia, Canada, Zaire, Nigeria or Zambia, but because Sony, Nissan, Fuji and Mitsubishi built global market share, initially by producing at a lower cost and underselling the competition and subsequently, by producing the quality, the design and style that users and consumers prefer. It is companies and enterprises that produce and sell goods and services, not governments. Ultimately competitiveness must be driven by the business sector, by management and workers in companies.

Oversimplifying somewhat, there are two main routes to competitive advantage. Some firms get there because they are the cheapest - the lowest-cost manufacturers. Others, because they produce a better, a different, a unique product. Very occasionally - and usually not for very long - a firm comes along that manages to manufacture products that are both high quality and relatively cheap. In essence that was - but no longer - the Toyota story. It was able to produce cheap, high quality motor cars, but the combination of rising wages in Japan and an overvalued Yen have ended that chapter in Toyota's history.

Following the Uruguay Round World Trade Agreement, it has become increasingly difficult for inefficient firms to survive. No longer can businesses take refuge behind import controls and high tariffs - they must compete, or die. Invariably this means cutting costs whenever and wherever possible, while simultaneously seeking to improve quality, style and design, delivery dates and credit terms. Firms have created competitive advantage in two main ways:

(a) by driving down their real wage bill; and/or

(b) upgrading technology so that an increased volume of output can be achieved with a given level of inputs of labour, raw materials and capital.

In Southern Africa most, if not all, of us are being driven down the first of these two roads - that of declining real wages. The region's comparative advantage lies either in exploiting natural resource potential or exploiting surplus labour that can be put to work at lower and lower real wages. In Zimbabwe, over the last five years, real earnings have

fallen by about a third and today are no higher than they were 30 years ago in the mid-1960s. Nor is this exceptional - average real wages in the US have only just started to recover after a decade of decline.

In the new order, industry can no longer rely on "lower order" competitive advantage in the form of natural resources and low-cost labour to win orders and contracts. Increasingly competitive advantage is based on technological capability, on the continuous upgrading of production techniques, on quality and design, on human skills, flexible production systems and aggressive marketing.

Because labour costs are a small, and these days a declining, proportion of the total expenses of most businesses, the competitive advantage of cheap labour is invariably transitory. The Japanese vehicle manufacturer Nissan's UK plant in Sunderland, estimates that 70% of it's total costs are parts and components, many of which are imported. Labour, energy and other costs each account for a further 10% each.

Where labour accounts for no more than 10% to 15% of total production costs, then a firm, an industry, a country that relies on cheap, low-cost labour to give it a competitive edge needs to keep it's wages very substantially below those of it's competitors. More often than not, the competitive edge derived from cheap labour is more than offset by lower material costs or transport costs and, above all, by much higher productivity in high-wage economies.

Some idea of the difficulties encountered in applying this low-wage strategy can be gleaned from the situation in the clothing industry worldwide. In 1992, using the hourly wage in Germany as the basis for comparison, the lowest cost producers were in India and Vietnam where wages were 2% of those in Germany. In many other developing countries, wage levels were less than 10% of the German rate. But because productivity in Vietnam was only half that in Germany, the 50-to-one gap in wages between Germany and Vietnam, reduces to only a four-to-one Vietnamese advantage in unit labour costs.

Furthermore, manufacturing activities based on low technologies seem to be on the decline everywhere, while the high technology component is growing very rapidly. The share of high-tech manufacturing to total manufacturing seems to be rising fastest in Japan followed by other OECD countries and the East Asian NICs. It is very low in South Asia and Tropical Africa.

All of this means that Southern African countries that are being advised to follow this intuitively appealing low-wage route to competitiveness that enables them to exploit their natural comparative advantage while also generating jobs, must accept it's very serious limitations. Clearly, there are industries, where labour's share of total costs is very significant, and it is these job-intensive activities where some Southern African countries - though not South Africa because of it's high wages and it's powerful labour unions - ought to be able to develop a competitive advantage.

But the scope for this type of growth strategy should not be exaggerated. The industries in which the region is best placed to develop comparative advantage - processed foods, beverages and tobacco, clothing and textiles, footwear and some intermediate products - account for no more than one-quarter of world MVA. Fast-growth industries - such as electrical and non-electrical machinery, transport equipment, and chemicals - are dominated by industrialised and newly industrialising countries and account for more than 40% of global output.

Late industrialises amongst the developing countries are thereby disadvantaged by the widening differential between the growth rates of high-tech activities which are

expanding rapidly, and the slow-growing low-tech, employment-intensive sectors. Developing countries are at a disadvantage too because the fastest growing sectors of manufacturing are skill- and technology-intensive industries, such as scientific goods and plastics.

Indeed, all industries, even the so-called "mature technology" ones like clothing, footwear and textiles, are undergoing the same radical change, albeit to a different extent. One consequence has been a decline in the employment elasticity of industrial growth in developing countries reflecting the explosion of computer-related and computer-driven techniques, and the diverging rates of growth between slow-expansion, low-technology labour-intensive industries and rapid-growth, high-tech sectors where employment elasticities are low. In the 1970s, a 10% increase in industrial output generated a 5% to 7% rise in employment, but today the figure is substantially lower, except in a handful of labour-intensive operations.

This delinking of output growth and employment generation, especially in manufacturing, means that employers need fewer, but better-trained, better-educated, pairs of hands to increase production. Indeed, a recent World Bank report concludes, rather gloomily, that a large pool of unskilled workers is more likely to hinder industrial development than to foster it. Low-cost labour is invariably low-productivity labour and potential investors are more interested in the quality of a country's workforce than it's cost.

Today, Southern Africa faces a genuine dilemma between the need to create jobs on the one hand and the need to upgrade technologically on the other. Creating more jobs often means driving real earnings down, because low labour productivity, inefficient infrastructure, high taxes and clumsy, bungling governments force firms to rely on low labour costs to compete in global markets. On the other hand, while technological upgrading will increase productivity and competitiveness, it may also lead to higher levels of unemployment.

The dominant feature of the labour market situation in the SADC countries is the very high rate of labour supply growth. Over the next 30 years, the labour force in the twelve SADC countries, defined as people aged between 15 and 64 years and currently estimated at some 51 million people, will grow at an average annual rate of 2.75%. This means that over the next five years, approximately seven million new job-seekers will flood onto the SADC labour market. The largest single number, approximately 350,000 people, will join the job market annually in South Africa while in Zimbabwe, the net gain in the work force - after adjusting for retirements and allowing for a low female participation rate of around 40%, will exceed 100,000 a year. In Mozambique, the number is over 200,000 annually while in Botswana it is only 12,000 a year.

This 2.75% rate of labour supply growth is way above the average for most of the rest of the world except for the Middle East and a few countries in Asia. The lowest rate of labour force growth is in Mauritius - 0.75% a year - a country that has a very different problem from the rest of SADC -full employment. So much so in fact that it is being forced both to import workers on the one hand, and export jobs, by relocating factories in Madagascar, on the other.

The demand side of the labour market equation is very difficult to calculate. In the past, it appears that employment in the SADC region grew at about half the rate of economic growth. This implies that GDP expansion of between 5.5% and 6% annually would be sufficient to absorb all labour market entrants. But the apparent decline in

employment elasticities suggests that today the number of jobs created when real GDP increases 10% has fallen to 4% or even less. In other words, output must expand at around 7% annually to absorb a 2.75% increase in the labour force. With the exception of Botswana, no country in the region has achieved economic growth of this magnitude. Indeed, in South Africa only 7% of labour market entrants are finding formal sector jobs, and the situation is probably as bad in countries such as Mozambique and Zambia.

The regional unemployment - and underemployment - crisis is grim enough in itself, but when one turns to solutions, the prospect is equally bleak. Successful job creation policies are those that increase the demand for labour, while simultaneously raising productivity. One Asian economy that has done this most successfully is Malaysia, where the number of people in wage employment rose rapidly while the number of self-employed - the informal sector, if you like -fell steeply. In 1957 one in every two workers was employed in agriculture on the rubber plantations but by 1989, this proportion had fallen to only one in ten. Over the same period wage employment trebled while the share of the workforce employed in agriculture declined from 60% to a quarter.

This employment pattern is a familiar one. In poor countries, the bulk of the workforce is engaged in relatively low-productivity self-employment in smallholder agriculture or services. In the three Southern African countries for which comparable data are available, the predominance of low-productivity non-wage farm employment is striking - over 80% of the workforce is engaged in non-wage agriculture in Malawi, in Botswana it is 51% and Zambia 30%.

As countries grow richer, so more workers move into higher productivity, better-paid wage employment. Thus, those who cite informal sector employment as a solution to the job creation crisis are essentially perpetuating a system that provides jobs, but more often than not, very low paid, low-skill and low productivity positions whose contribution to economic growth is minimal.

In Southern Africa the challenge is not just that of raising the quantity of employment - itself a seemingly hopeless task - but also of improving quality, which is why the informal sector solution is so unappealing. South African data, for instance, show that informal sector employees earn less than 60% of their counterparts working in the non-primary formal economy. Furthermore, within the informal sector, income distribution in the informal sector is highly skewed towards the low income end.

Lessons and solutions

The challenge for the next decade is that of adjusting to the new order, rather than seeking to deny it's existence and retreat into the past. There can be no going back to the import-substitution policies used by many countries in the 1960s and 70s to create employment and increase incomes. That option is no longer available, certainly for Southern African economies with small domestic markets and heavy dependence on commodity exports.

In all probability, many firms in the region whose economies are being opened up to globalisation will have to shrink their workforce and boost productivity by employing fewer, but more highly-skilled, workers. There will be very little room for large-scale employment generation, except where such firms succeed in breaking into global export markets, and as suggested earlier, this implies either real wage reductions, possibly fuelled by currency depreciation, or significant gains in productivity per head.

The 1960s and 70s were the high-tide era for state intervention in the economy. In the new order, where there the scope to use tariffs, import controls and trade-related investment measures, has been much reduced by the Uruguay Round agreement, and where - in Southern Africa - the government has little opportunity to use public spending and tax incentives to foster employment, the state is being forced to rely upon measures that will create an enabling environment, leaving private enterprise to run with the ball.

For it's part, the private sector will have to accept that world standards of quality, productivity, customer service and customer response are the norm. As the telecommunications industry has discovered, being located in Africa does not insulate the business from international competition. To become -or stay - competitive, firms will have to invest heavily in the software of productivity improvement - the acquisition of technology, and training and skills development - as well as the hardware in the form of state-of-the-art equipment. This underscores the role of labour quality as a magnet for foreign investment.

With integrated international production, manufacturers establish individual value-adding activities in different locations leading to greater labour market interdependence and a new international division of labour. Greater cross-border interdependence between the affiliates of multinationals means that best-practice business activities are located in different countries and, in some instances, outsourced to subcontractors.

The resulting relocation and interdependence of jobs highlights the much-enhanced role of education and training in the attraction of FDI. Labour quality is increasingly influential in investment location decisions, and the countries - in this region - best able to provide the high-level skills required are much more likely to attract investment in high value-adding activities than these countries still reliant on low-cost, low-productivity personnel.

Clearly, this is one area where the state should - indeed must - intervene. Governments must improve national education and training systems to supply private enterprise with the basic skills it needs and also to supplement firm-specific training programmes with appropriate industry or sector-based schemes. These two functions - ensuring an adequate supply of basic skills, while supplementing the private sector's own on-the-job in-house training programmes, should not extend to the duplication of effort.

Internationally intensified pressures for cost reduction are forcing firms to focus on core competencies and to contract out more work and requirements, resulting in increased reliance on supplier firms and less dependence on vertical integration. In some cases this has meant the replacement of core jobs by lower-cost labour in small-and-medium scale enterprise.

Furthermore, as a number of countries in this region have discovered since they embarked on structural adjustment programmes and with the return of South Africa as an aggressive competitor in regional markets, the composition of the manufacturing sector is changing with industrial restructuring. Trade liberalisation is diverting orders from local to offshore suppliers, resulting in some job losses and some de-skilling of work.

Economic growth

On the whole, economies that expand more rapidly will generate more jobs than their slower-growth competitors. But rapid economic growth is no more than a partial answer. Taking Zimbabwe as an example, to absorb 100,000 new job-seekers each year - a bottom drawer estimate of the net number of job market entrants -employment needs to

grow at 8% annually, which implies GDP expanding by at least 16% each year and probably rather faster. Its difficult to be sanguine about the region attaining that kind of growth trajectory, given sub-Saharan Africa's track record of GDP growth of less than 1.5% annually since 1981.

That said, clearly stronger economic growth would alleviate, rather than solve the job creation problem. The World Bank believes sub-Saharan Africa is set to grow substantially faster over the next decade with output rising 3.8% annually. That projection is based on the belief that regional governments will climb abroad the globalisation bandwagon, expanding and diversifying their export base, primarily by attracting increased inflows of foreign direct investment. There are powerful links between integration and economic growth.

Increased levels of investment are the key to faster growth, though with the necessary caveat that measures to boost investment by lowering interest rates and by cutting import duties on capital equipment - may have the perverse effect of fostering investment in capital-intensive rather than job-intensive projects. Often this is a theoretical - rather than a practical - issue because today we know that to be competitive we must invest in state-of-the-art technology and if that means relatively few jobs, then so be it. How much a country can invest will depend on two key issues:

- how much the country saves, and
- how much foreign investment it can attract

To grow at 5% a year, a typical Southern African country needs to invest 25% of it's GDP each year. That 25% has to be financed by savings - either local or foreign. In recent years, African countries have been saving approximately 15% of their GDP and investing 18% - the gap being closed by foreign aid and foreign investment which makes up the 3% difference. This means either:

- raising savings rates by about 10% of GDP, which is unlikely to be feasible in the medium-term except in atypical countries such as Mauritius and possibly also Botswana; or
- attracting more foreign aid and investment.

With the aid industry is in it's sunset phase, aid inflows are expected to diminish over time, leaving the third option of attracting more foreign investment. The snag here is that the global foreign investment market has become intensely competitive. Sub-Saharan Africa accounts for less than 2% of the global market at present, and the SADC region, less than half of one percent. Furthermore, within Southern Africa, all the countries are locked into a zero-sum game, competing for the same investment dollar.

All the governments in the sub-region are trying to smarten up their investment images, but all have their disadvantages - escalating crime and labour militancy in South Africa, a rundown infrastructure and a lack of skilled personnel in Tanzania, Zambia and Mozambique. Small markets in Botswana, Swaziland and Malawi, and in Zimbabwe a combination of high corporate and personal tax rates and an ambivalent government which is not sure that it really likes foreign investors.

On the job generation side, the drawback of foreign investment is that - in this region, with the exception of South Africa - it tends mainly to target capital intensive, primary product activities that create relatively few jobs. I am thinking mainly of mining which is where much of the action is these days, though there are opportunities for substantial job generation in the tourism and services sector. On the whole, however, these tend to be relatively lower-skilled and lower-paid jobs.

Exports

The recent history of East Asia demonstrates that export industries, especially in manufacturing, are highly job-intensive. Whether a version of this model - and there is no single, unique version - can be transplanted to Africa is problematic. In the near-term, it would have to be driven by foreign capital and entrepreneurs, possibly from Korea, China, Taiwan or Malaysia rather than the more traditional sources of African foreign investment - North America and Europe.

Unfortunately, it appears that the most successful exporters are those that have made most progress up the technological ladder. An Asian country's export market penetration ratio appears to be directly correlated with the high-tech component of it's manufacturing industry, which is disconcerting for Southern Africa, where comparative advantage is much more likely to be found in low tech - and of course, job-intensive - activities. East Asia achieved export growth of over 11% annually during the 1981-1993 period compared with effective market growth of less than 7% - in other words the Asians were successfully building market share. Contrast this with the Southern Africa's loss of market share - export growth of 2.4%, only half the effective market growth rate of 4.6% a year.

Sub-contracting for, and cross-border vertical integration with, multinationals could become a major source of job generation, especially in the lower-technology sectors. For example, Nike, the US footwear manufacturer, subcontracts almost all it's production of shoes, employing only 9,000 people directly, but using over 75,000 people employed in it's subcontracting units around the world.

A General Motors car, seemingly made in the US, is much more cosmopolitan. About 30% of it's value is added in South Korea anther 18% comes from Japan in components. Much smaller amounts from Germany, Hong Kong, Taiwan, also for components. The advertising and marketing is centred in the UK and data processing in Barbados and Ireland.

Countries that target this cross-border global integration - subcontracting to supply General Motors with brake systems, tyres or upholstery - generate substantial numbers of new jobs. Mexico is a classic case. But this won't - cannot - happen in countries where cross-border business is smothered by import taxes and duties, by inefficient customs departments, by exchange control regulations and by government insistence that certain activities and industries be reserved for particular ethnic groups. Jobs of this cross-border kind depend on maintaining a liberal, flexible international trading system.

Deregulation

All the countries in the region would generate more jobs if they deregulated the labour market and also deregulated the overall business environment - which would include privatising parastatals. It is no coincidence that the US and UK have done better in terms of lowering unemployment and creating jobs recently than continental Europe where the

Social Chapter and other EU regulations have certainly had adverse repercussions on job creation. The fact that, in South Africa for instance, there is a 40% gap between wages paid to unionised workers and those in non-unionised industries illustrates the threat to job creation of regulated markets that allow labour unions to enjoy monopoly power through centralised collective bargaining procedures.

Training

Productive employment - as distinct from informal sector jobs of last resort - is a function of BOTH education AND training. With the rapid advance of technology, labour quality is crucial to job creation, rather than labour cost alone. The task of the education system is to supply industry and business with trainable workers. Specialised training should be left to the firms for on-the-job training and to specialised institutions like polytechnics, professional institutes and universities

Most countries in this sub-region have either under-invested in education or invested in the wrong kinds of education, with an emphasis on education for education's sake rather than for catering for the market. That, however, is only part of the story. Education systems in the region are under stress because teachers are poorly paid, classrooms and facilities neglected and syllabus choice and course content driven by socially and politically correct agendas rather than the need to combat and reduce poverty.

A warning is necessary here. Recent research questions the conventional wisdom that high levels of investment in education guarantee rapid, subsequent, economic growth. Education certainly does pay off where the other basic prerequisites for development are present. No single activity - not even education - can provide a solution when other crucial elements are absent.

Conclusion

It is clear that the challenge facing Africa is more daunting than that overcome in other parts of the world. Africa not only has the world's worst poverty record and highest rate of population growth, but it is well behind most of the rest of the world in terms of industrialisation, technology and skills.

There is no quick fix, no magic formula. Its high time the simplistic injunction to copy the East Asians was put to rest. The world has moved on since the first generation of East Asian economies made their breakthrough. New problems require different solutions.

World Bank protestations to the contrary, there is no gainsaying the fact that the African supply response to policy reform has been extremely disappointing. There is no shortage of explanations and excuses, but we cannot get away from what Professor Paul Collier calls creating a "minimum adequate environment". Unless certain minimal conditions are satisfied, the necessary platform for economic growth - and thereby job generation - will not exist. These conditions are self-evident - peace, the rule of law, macroeconomic stability, a sound infrastructure, appropriate market-driven incentives in terms of exchange rates, taxes and interest rates and, often overlooked, the institutional capacity to manage a modern outward-oriented economy. There are strong linkages between this minimum adequate environment and rapid integration with the global economy.

I finish where I came in; job generation is the best solution to the region's worsening poverty problems. No panacea exists. With population growth of 3% and more in the region, and with a huge backlog of unemployed, there is always the danger that policy-makers will turn a blind eye to the formal sector's failure to generate anything like enough jobs to prevent an eventual socio-political catastrophe, seeking solace in, often spurious and wildly exaggerated claims for the success of the informal sector.

That's the easy, myopic, way out; on the whole, the larger the informal sector, the more backward the economy. The informal sector may create jobs, but they tend, on the whole to be low-skill, low-pay and low-job-security activities. The bulk of it's members will continue to live in relative poverty, posing an ever-present threat of social and political instability. Problems don't go away simply because they are swept under the carpet, and, as South African experience illustrates so vividly, it is impossible to insulate the formal from the informal sector. A successful job creation strategy for Southern Africa must adopt a twin-track approach of:

- externally-oriented development driven by export-dominated activities, integrated; with
- a vibrant medium and small-scale sector focusing on subcontracting and other supplier linkages with the external sector while also satisfying domestic demands for goods and services. Because small firms are typically more labour-intensive, this small-scale sector, as well as providing an essential element in the value-added chain of manufacturing industry, can play a vital role in poverty alleviation by generating jobs and income for the most vulnerable communities.

Panel and floor discussion

IMPLICATIONS OF THE CHANGING GLOBAL AND REGIONAL ECONOMIC ORDER FOR EMPLOYMENT CREATION IN BOTSWANA

(referring to keynote address by Professor Tony Hawkins)

Chair: Iqbal Ebrahim, BOCCIM
Panel: Lawrence Lekalake, Kgalagadi Management Services
Bruce Blewitt, Tyre Services
Jay Salkin, Bank of Botswana

The chairperson, **Iqbal Ebrahim**, began the discussion by drawing attention to some of the key issues raised by Professor Tony Hawkins. He referred to the trend of globalisation, the need to attain world standards of competitiveness, the importance of having a properly educated and trained workforce and the need to concentrate on core competencies.

Lawrence Lekalake began by referring to Professor Hawkins' comment that - in view of widespread poverty, the slow pace of industrialisation and lack of sufficient skills development - the challenge for Africa was more daunting than for the rest of the world. Mr Lekalake said that Botswana was better equipped than most African countries to meet this challenge. It had a good enabling environment, political stability, good social services, good infrastructure, reasonable financial services and a facilitating approach to governance. He felt that, in view of the escalation of global competition, Botswana must move quickly to diversify it's economy. It should concentrate on areas with growth potential, such as tourism, financial services, infrastructure and other services. Initially, it should focus on exporting to the Southern Africa region, but eventually it should be able to compete in global markets. For this to be possible, more sophisticated skills would have to be developed among the workforce. Other important factors were good labour relations and streamlining of immigration formalities.

Bruce Blewitt said that Botswana needed a national vision for where it wanted to be in the year 2020 - a '2020 vision for Botswana'. He said that this should be included as part of NDP 8.

Jay Salkin said that Professor Hawkins had identified many of the key issues regarding the challenge of employment creation in Botswana and other Southern African countries. Sustainable employment creation was essential if prevailing high levels of poverty were to be alleviated.

Mr Salkin agreed that informal sector employment was no panacea for solving Botswana's unemployment problem. While the informal sector had a role to play, what was needed was real productive formal sector type jobs and incomes. He also supported Professor Hawkins emphasis on being outward-looking and export-oriented; the need for competitiveness and macroeconomic stability; the requirement that wage rises must be based upon productivity improvements; and the importance of foreign investment.

Mr Salkin then referred to some technical issues regarding Professor Hawkins' presentation. He said that it was an oversimplification to say that the declining overall share of labour in global production costs there would be little scope in future for countries to industrialise on the basis of competitive unit labour costs. He also questioned the relevance of having a capital-output ratio of 5:1 (on the basis of a 5% rate of growth and a 25% rate of investment), when much lower capital-output ratios had applied, and still did, in the successful development of manufacturing and services in East Asia, as well as in the OECD countries.

Mr Salkin then proceeded to explain the key aspects of Professor Hawkins' paper that he disagreed with. First, Professor Hawkins had said that if labour costs are a small and declining proportion of total costs, a low wage policy will be less relevant. Mr Salkin felt that might apply if the amount of employment itself was not especially relevant, but said this was not the case in Botswana. Second, he said that Professor Hawkins' contention regarding low employment elasticity was not a foregone conclusion - especially in Botswana's case where formal sector employment had grown almost as rapidly as GDP for many years. This relationship was not unchangeable and could be influenced by policy. Third, he felt that Professor Hawkins had underestimated the scope for Botswana to use public spending and tax incentives to foster employment, as it had done in the past. Fourth, he questioned Malthusian predictions of worsening poverty in the Southern African region in future. He said that the countries of the region were at various different stages of development and had a range of opportunities for creating jobs and raising incomes. Success would depend on 'getting the prices right,' in order to use free markets to distribute resources to those activities that can use them most efficiently and profitably.

In concluding his commentary, Mr Salkin recalled some important lessons from the successes of East Asia. First, East Asian countries did not start with high technology. They began by producing whatever was profitable and could fully employ their labour forces. Only after achieving full employment could they afford to move up the 'technological ladder.' Second, they kept prices low, gave good value-for-money to consumers in international markets, and thereby gained market share. Third, they saved high proportions of their income, even when they were poor. Fourth, they attracted foreign direct investment, not so much to augment their savings, but more to modernise and become integrated with the global economy. He cautioned that any country that did not integrate globally would be left behind in ignorance, poverty and stagnation. Fifth, the critical role for government was that of facilitator. In Botswana it was clear that the government had to do better in performing this role. In this regard, he criticised the existing delays in issuing of work permits to investors and expatriates. The cost of these delays was paid for primarily by Batswana, in the form of a slower rate of job creation, and through extra operating costs that companies had to take into account in deciding wage levels. Mr Salkin expressed concern over the lack of urgency in government about improving and streamlining immigration and other procedures that affect investment in job creating activities. The task of correcting this weakness was one of the major challenges faced by Botswana.

Referring to the comments of the three panellists, the chairperson, **Iqbal Ebrahim**, suggested that one of the main contributions that the conference could offer was to begin the process of discussing where Botswana wants to be in the year 2020.

At the start of comments from the floor, **Raphael Sikwane** said that the debate so far had been rather abstract and generalised. He asked participants to try to frame their contributions with reference specifically to employment creation in Botswana.

Harish Chotani referred to the importance of supply and sub-contact linkages, especially between SMEs and big companies. He mentioned the leather industry as an example. In support of such linkages, he suggested that the Department of Supply should do more to procure locally from SMEs.

Joseph Lisindi said that people often have good ideas at conferences and seminars but then failed to put them into practice. It was time to shift towards a focus on implementation performance and monitoring. **Emang Maphanyane** expressed support for Mr Lisindi's contribution, indicating that better implementation would entail the establishing of better relations between government and the private sector, so that the good ideas that existed were brought to fruition.

Eitlhopha Mosinyi drew attention to the critical importance of training, especially in-house training. She said that the costs of appropriate training were well worth paying.

Joseph Mabutho referred to the need for people to adopt a more constructive attitude, for government to be less suspicious of the private sector, and for everyone to work together according to a common purpose. He also said that SMEs suffered from lack of access to information, and suggested that their costs of production should be lowered by reducing customs duties on imported inputs.

With regard to improving implementation, **Lesang Magang** said that government must adopt strict deadlines for performing agreed tasks. This would help to increase private sector confidence in government and provide a basis for better cooperation between business and government.

In concluding the discussion, the chairperson, **Iqbal Ebrahim** said that there was considerable consensus over the fact that Botswana must rise to the challenge of globalisation and increasing global competition, that it must build on it's strengths and it's access to the regional market, and that while it had many good policies and ideas for development it had to improve and speed-up implementation performance.

Presentation

EMPLOYMENT CREATION THROUGH SUSTAINABLE BUSINESS DEVELOPMENT

by John Parsons and Ephraim Setshwaelo, BNPC

1. Introduction

In the future, the private sector in Botswana is expected to be the main driver of economic development and, therefore, a major long-run creator of employment. This outcome depends on private sector organisations being viable and competitive under the increasingly demanding conditions that will almost certainly prevail. To be both competitive and profitable requires high and increasing levels of productivity and these, in turn, depend on having well-run and responsive businesses.

Productivity growth will tend to generate employment as businesses take advantage of opportunities in both local and global markets. The greatest potential for employment creation often resides in small to medium enterprises (SMEs) since the capital investment requirements are relatively smaller than for larger organisations. According to a new International Labour Organisation (ILO) report, most new job creation in the future in developed countries can be expected to come from SMEs. Lower capital requirements and adaptability of products and production to local market needs are cited as important factors favouring SMEs. Census data in the United States show that the smallest firms created virtually all the new jobs in the country between 1989 and 1991. A similar situation obtained in eight other OECD countries between 1983 and 1992.

The same seems to be true of a number of developing countries. In Singapore the proportion of total employment in manufacturing to be found in SMEs is increasing rapidly. In Kenya it is estimated that employment in small scale enterprises rose more than threefold between 1981 and 1991. In the Czech Republic SMEs provided nine per cent of all jobs in 1993 and an incredible 34% a year later. However, establishing and growing SMEs has it's problems and typically SMEs have high failure rates. Two special difficulties arise. The first is associated with a lack of business experience and resources so that small enterprises run up against many technical and managerial problems. Owners are therefore much in need of productivity enhancing approaches, tools and techniques. This seems to be a particular problem in Botswana. A statistical study conducted by the School of Accounting and Management Studies at the University of Botswana concluded that the level of entrepreneurship in this country is low. While business skills generally must be improved, finance and planning need special attention. A possible effect of this condition has been the reported slow growth within the SME sector so that the job creation potential has not been realised.

The second is concerned with the dilemma that arises from SMEs not being able to offer the same social benefits, quality of worklife and support available from larger organisations. The European Union reports that SMEs provide less attractive jobs than large organisations in terms of salaries, fringe benefits, job security, mechanisms for participation in decision making and career development. An ILO study in eight Asian

countries showed provision of medical services, workplace layout, incidence of heavy lifting, working time, rests, and vacations all generally improve with the size of the organisation. Some compensation within SMEs is often to be found, however, in larger margins for initiative or more satisfying personal relations in the workplace. The study concludes that a delicate balance exists between productivity, job creation and adequate social standards. This provides a tough challenge for the social partners involved.

This paper sets out to demonstrate the positive relationship between productivity and employment and reviews international and company experiences from which we can learn. It concludes with practical suggestions as to how Botswana might proceed to sustain the conditions in which SMEs in particular can flourish.

2. Productivity and employment

Productivity is generally defined for measurement purposes as the ratio of output to input. At a macroeconomic level this translates into a measure of real gross domestic product (GDP) in relation to inputs of either labour (employees), capital stock, or both. The ratio of GDP to employment, or labour productivity, is the most commonly used measure in the literature - although, as a partial measure, it has limitations compared to total factor measures which show the combined productivity of labour and capital. Also, the empirical evidence that exists regarding productivity and employment is largely confined to the formal sector.

In answer to the question "Does productivity growth destroy jobs?" the National Productivity Institute of South Africa (NPI) replies "Probably not, in the long run...". Freeman et al writing in *International Labour Review* state "...new technology can create the basis for a **virtuous circle of growth** in which investment is high, labour productivity grows fast but output grows faster, so that there is a net growth in employment."

The references tend to concentrate on the productivity enhancing effects of investment and technology. However, since these have been the preferred methods of improving labour productivity, they are relevant. NPI acknowledges that increasing capital intensity can have a mixed impact on employment and this is supported by Appelbaum and Schettkat who demonstrate, in industrialised societies, a strong *positive* relationship between labour productivity and employment between 1924 and 1950 but a *negative* relationship for the decade from 1979. There seems to be widespread support for the virtuous circle phenomenon whilst there is increasing demand for manufactured items such as consumer durables. However, Appelbaum and Schettkat point out that "demand for consumer durables has declined over time as household wealth and, consequently, the stock of durable goods have increased". NPI qualifies it's position by stating that "If [labour markets] are efficient and flexible, even countries with slow productivity growth can have low unemployment" - although at least one ex-ILO executive disagrees, finding such "old prescriptions" unimaginative and tiring. Most productivity centres accept that changing technology will bring about dislocations in the labour market and, although employment is likely to increase overall, certain classes of employees will suffer in terms of both lower real wages and job losses. Asian productivity centres in particular have drafted guidelines that call upon their governments to ease the plight of anyone displaced as a direct result of productivity growth. And this can take several forms - social benefits, retraining, or relocation.

In many industrialised countries the sectors with *small* increases in productivity are the expanding ones - particularly services. Although this carries an important message

which supports the findings of Appelbaum and Schettkat, it must be remembered that productivity here refers to *labour* productivity only. For technical reasons, productivity measurement is ordinarily difficult in service and knowledge industries and, because they tend to be labour intensive, productivity levels and growth are low. Thus, labour productivity may be a poor indicator of performance and, if total factor productivity is increasing (with all it's cost reducing effects), then the expansion of output and employment are still following the traditional virtuous circle growth pattern.

3. The position in Botswana

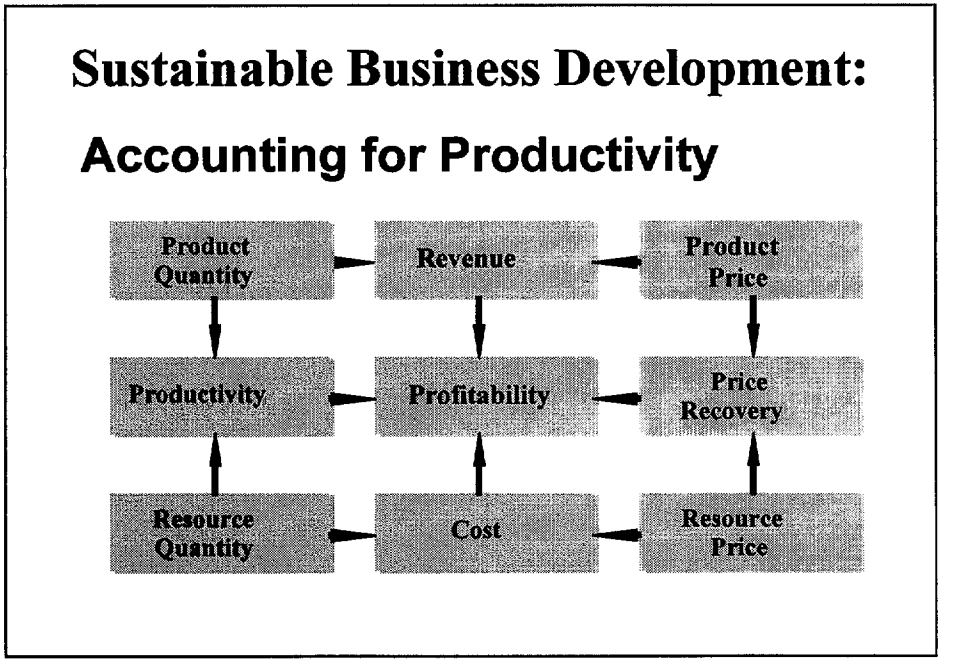
Trends available for Botswana show some similarity to those of the international community. Impressive increases in output have been accompanied by almost equally impressive increases in employment albeit against a backdrop of only modest labour productivity growth. However, economic growth in Botswana has been resource driven rather than productivity driven and the rapid creation of employment opportunities has had a profound and beneficial impact on living standards notwithstanding the low productivity. What is clear is that, once labour productivity began to decline in the early '90s, employment growth slowed and then reversed. From the very limited data available it seems that unemployment was affected much sooner and an *inverse* relationship between productivity and unemployment exists especially when total factor productivity is used as the measure rather than labour productivity.

4. Productivity and business success

Business success is usually measured in financial rather than productivity terms. However, there is a wealth of both theoretical and empirical evidence to support the strong and *positive* relationship between productivity (especially total factor productivity) and profitability. It is possible for businesses to become more profitable *in the short run* by manipulating the prices of their products and services. Ultimately, even in a monopolistic situation, this will lead to consumer resistance and loss of sales or market share. Increasing productivity will lead to either lower real costs of production or increasing quality at the same cost or both. Thus the only *long run* driver of profitability is productivity.

SMEs have a reputation for creating employment more easily and with less investment than larger ones. For a number of reasons they are often more cost effective. These features have been recognised by many successful nations. Recently, Japan's ambassador to Botswana stated that **99% of all Japanese companies were SMEs**. The figures for Taiwan, Korea, and Malaysia are of the same order. Although Taiwan's SMEs contribute only slightly more than half of the nation's GDP they account for around 70% of total employment.

In Botswana, the average investment for each job projected in SMEs receiving assistance under the Financial Assistance Policy was just over P5,000 in 1993/94 according to the Department of Industrial Affairs Annual Report. For the economy as a whole the gross capital formation required for each additional job created was P546,000. Whether all the projected jobs materialised or not is largely academic. The difference in the job creating performance of small, private sector, organisations and the rest is of great significance. Unfortunately, the failure rate of SMEs also tends to be very high as entrepreneurial zeal is a necessary but insufficient condition for long run success. Recognising both the opportunities and the dangers attendant on the establishment of



SMEs, many governments offer a range of support schemes designed to facilitate the process. These are usually of two kinds: firstly assistance with financing and formation and secondly assistance with maintaining and improving performance. What is clear is that, unless and until SMEs are able to mature and flourish in increasing numbers, the private sector's desire to create employment will not be fulfilled.

5. What is possible?

What follows will review options from a productivity centre perspective only, although this does not mean that the other aspects are not important. The emphasis will be on what can be done to maintain and improve the performance of SMEs so that they grow and the likelihood of failures is reduced. Examples of what has been done in other countries abound. This review will be confined to three countries - the United Kingdom, the Netherlands, and South Africa. The similarities will be immediately obvious.

In the United Kingdom, the Department of Trade and Industry (DTI) has been very active in it's support of SMEs. It even styles itself the *department for enterprise!* The latest support package promises to "be flexible and responsive to local needs and include diagnostic and consultancy brokerage services, consultancy support and technology-related advice". The word that crops up time and again in DTI newsletters is **benchmarking**. In cooperation with the Confederation of British Industry (CBI), DTI published a wide ranging report on *Innovation Best Practice* which links business success to innovation.

One component of DTI's program is called *Inside UK Enterprise* in which visits are arranged to companies demonstrating best practices. Dutton Engineering has already received over 400 DTI sponsored visits. Despite the company's resounding success after

a complete organisational transformation, CEO, Ken Lewis, always welcomes the endless visits: 'you always learn something new yourself, but for benchmarking to work its important to get out and see best practice for yourself'. Network groups at local and regional level have become a feature of the move to spread best practice about materials management and purchasing, quality, design, and manufacturing management.

The Netherlands is a country where outside of Philips, DAF, and Fokker small businesses abound. The nation still makes the bicycles it's citizens proudly ride to work. Harm Bennink is an engineer who recognised that one of the key requirements for any business (but especially SMEs) is timely management information. Sponsored by the local Chamber of Commerce, he set up a program with around 50 SMEs in the province in which 12 critical pieces of data were supplied each week. The data were worked up into eight key performance indicators (KPIs) and for each KPI a norm had been set. Deviations from the norm were flagged when the results were returned to the companies *within 48 hours*. The information was sufficiently robust and accurate to be useful for managing the companies but the real benefit was the frequency and immediacy of the feedback. Previously, the SMEs had waited until after their financial year ends to receive their final accounts - far too late to be of any use at all.

The South African Decentralisation Board has been providing financial support for several thousand SMEs in the rural areas for decades and, for a long time, there was little or no information regarding their performance. Using a suite of KPIs set out in a simple and elegant measurement instrument called the Objectives Matrix (OMAX), the performance of 3 500 SMEs was monitored every six months. Failure to maintain a specified level of performance automatically triggered a short audit of the company's operations. Failure to correct the shortcomings identified and get performance back on track risked withdrawal of financial support.

6. The way ahead

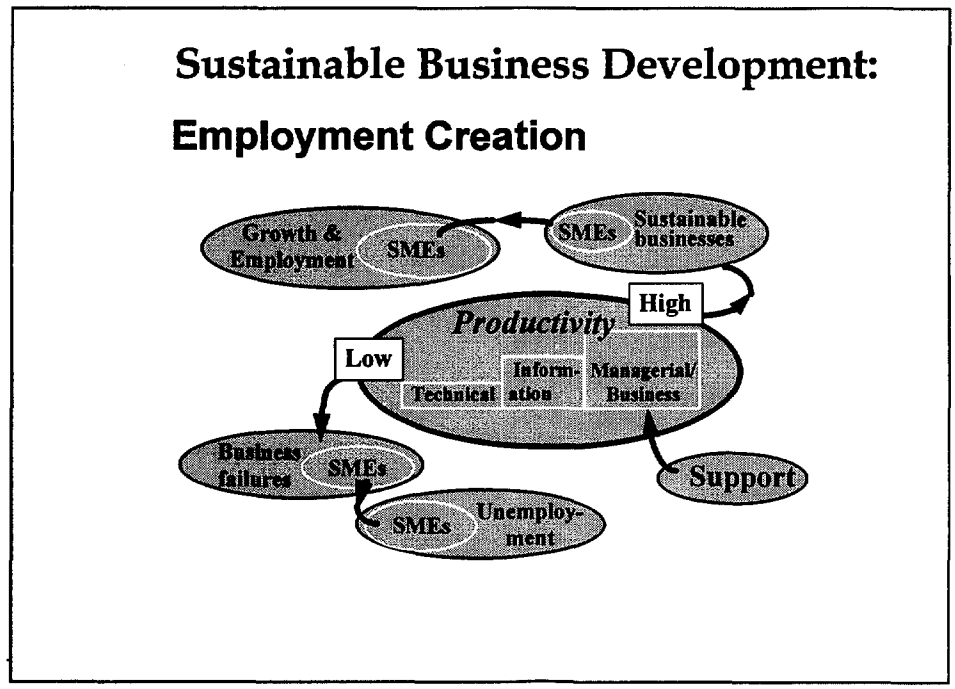
The difficulties facing newly-established SMEs in Botswana are as great or even greater than in other countries. The little statistical information that is available shows that the education level of most entrepreneurs is low - many are either illiterate or have only primary school education - and the majority of businesses seem to be located in residential premises. However, the problems encountered do have a familiar ring to them. Most of them are managerial in nature and include issues such as low productivity, high operating and input costs (particularly utilities), low quality, inadequate cash flows, insufficient marketing, and poor management-labour relations. The difficulties of many SMEs are unlikely to be resolved by the entrepreneurs themselves but, of course, solutions do exist.

Conventional consulting assistance is ordinarily out of the reach of SMEs - it is simply too expensive. However, there are imaginative ways to mobilise consulting and other support which will make assistance both effective and affordable. Practical support services for SMEs (apart from financial services) have been established in many countries around the world. The ILO operates *Improve Your Business (IYB)* programs in 50 countries in Africa, Asia, the Arab states, Latin America, the Caribbean and eastern Europe. It is a system of interrelated training packages and support materials which help entrepreneurs cost and price their products properly, increase sales, buy resources competitively, improve stock control, reduce costs, plan for the future and increase profitability.

After 100,000 entrepreneurs had passed through the program, the Swedish International Development Cooperation Agency (SIDA) noted that "firms that have taken part tend to have higher growth rates than the national averages for the small scale industry sector. Most of them employed more people during the last year". Other assistance offered in various countries has included franchising, internationalisation, sectoral programs, productivity and quality of worklife improvement, promotion of social protection, and specific assistance to women entrepreneurs.

In South Africa full recognition is already being given to the present and future status of SMEs through legislation, a national SME body and practical support organisations. This is evidenced by last year's White Paper on "National Strategy for Development and Promotion of Small Business in South Africa" with the Minister of Trade and Industry responsible for it's implementation. In Botswana many diverse groups exist without the benefit of an overarching strategy or body. The responsibilities of such a body might include identifying best practices and adapting them for local use, learning from the South African experiences, creating one voice for all SME interests by building on existing institutions, and establishing a business centre/broker for advice and help.

A neutral organisation (such as the Botswana National Productivity Centre) could act as a broker for support services, possibly using information based on some form of regular reporting from SMEs as the basis for action. The appraisals of SMEs could be worked up from a small, but readily available, number of inputs as in the case of the



Dutch program or through planned visits or both. Since SMEs have a need for current information (even if it is not 100% accurate), it would make sense for the reporting frequency to be high. With the advent of fax machines, the distances involved become irrelevant and quick turn around is still possible.

Whatever support flowed from the appraisals would probably still need to be subsidised - although "sunset clauses" which limit it's extent would be mandatory to avoid unhealthy support of chronic low productivity. Governments with serious intentions about developing the private sector generally and SMEs in particular have typically offered 50:50 deals where the consulting work is subsidised on a Pula for Pula basis. This is certainly the case in South Africa, the Netherlands and Britain. For the most part, the skills required to address the problems SMEs typically encounter (and Botswana does not seem to be an exception) are available within the country.

Employment creation is eminently possible through sustainable business development. Ensuring the viability of SMEs would be an entirely appropriate allocation of government and consulting resources.

Presentation

DEFINING THE CHALLENGE OF EMPLOYMENT CREATION IN BOTSWANA

Pax Gaobakwe, Garona Investments

Introduction

Distinguished guests, Ladies and Gentlemen, I would like to thank the President and the Board of BOCCIM for granting me this privilege of speaking at such an important gathering as the one being held today. My acceptance of this invitation re-affirms my commitment and support of BOCCIM. Mr President it goes without saying that, unemployment is the most important challenge facing our nation. How we of this generation tackle this problem will determine the future of our nation and the survival of our people. There are many ways one could look at this problem. Some of us look at it as an economic problem, others as a social or political problem and so on. Whatever way we look at it, the approach taken to solve it must be logical and not emotional. Any problem is best examined logically. And to do this one has to follow four definite logical steps, as follows:

- ***step one*** is to define the problem
- ***step two*** is to analyse the causes that create the problem
- ***step one three*** is to identify the solutions that would eradicate those causes
- ***step four*** is to apply the appropriate solution or solutions

Mr President at this stage I would like to elaborate briefly on the steps that I have already mentioned.

Definition of the problem

Mr President, unemployment is too general a term. The term must be quantified and analysed. To do this we need to ask ourselves certain questions in order that we receive clear and unambiguous answers irrespective of where they come from.

Lets look at quantification. In order to understand the magnitude of the problem the questions we need to ask are:

- how many people are unemployed or underemployed as at today?
- how many people will join this unfortunate group each year? Answers to these questions will reveal the extent of the problem we are dealing with.
- when we are gathering data to quantify the problem we must also be able to analyse the data collected as follows:

We should ascertain the quality and skill levels of the unemployed. A stratification of skill levels must be made. They should be grouped into levels of skills i.e. from the unskilled to the highest skilled. This should be done both in terms of academic achievement and work experience. Age and sex classifications should be done.

A further analysis should be made according to geographic areas. We should also determine the level of mobility of such persons. e.g. is it possible to provide employment in a different location or should they be provided with employment in the same area they are living in?

An analysis according to family groups may be useful especially in rural areas where the concept of the extended family is fortunately still strong. In such cases if one member of the family is provided with employment that could sustain a full family until other members find employment.

Answers to these questions should provide us with a clear definition of the problem. To seek information for these questions, an unemployment register may have to be compiled. It may be possible that this information is presently available in a Government Department. This would make our work much easier.

Finally, in this context, I would like to add that to me unemployment is not a concept or a statistical factor which is thrown around by economists and political scientists. Unemployment is a human being with a face. The kind of face and body we see daily on TV screens during world news carrying weapons and causing havoc. This we must never forget when we define the problem. Our data must be gathered in respect of individual persons not imaginary groupings. We must personally identify the unemployed. Classifications can come later. That is why I feel an unemployment register is urgently needed.

Analysis of the causes that create the problem

The next step is to analyse the cause/or causes that creates unemployment. Unemployment to the layman simply means that persons who need jobs are unable to find them and therefore are not gainfully employed. We all know that the lack of jobs is due to the lack of employers. The lack of employers is due to limited economic activity. Mr President, I wish to emphasise that the cause of the problem facing us today is the lack of economic activity - not only the lack of manufacturing and industrial enterprises. Economic activity is a much broader term and includes within it's fold manufacturing and industrial enterprises and even takeaways, restaurants, musical bands, schools etc. We must therefore keep our vision as broad as possible.

Identifying the solutions that would eradicate those causes

The third step is to find the solutions. Employment can be created by:

(a) the government:

- providing jobs directly by expanding the public sector i.e. increasing the jobs in Government Departments or creating more parastatals. But creating artificial jobs in the public sector does not create economic activity. The danger is that it can and does create inflation.

- providing jobs indirectly by giving contracts for development expenditure to departments and parastatals. This may lead to employment in the short term only, but not to productivity and is therefore not meant to be encouraged. This method merely circulates governmental income and while it may be a temporary solution it cannot be considered as a long term one.

- creating an enabling environment for persons to be self employed by setting up medium and small scale businesses. This is a long term objective and should involve training of Batswana. This process is already underway and needs to be strengthened also. This solution may require the setting up national or citizen oriented banks that provide assistance to Batswana. This solution needs in depth consideration and attention. This could prove to be successful if managed carefully.

(b) the private sector:

- large enterprises in the private sector can also increase their activities by expanding existing operations or establishing new ones. This may not be possible in the present economic climate since most businesses are struggling to survive.

We have defined two major problems, Mr President, namely the current level of unemployment and the annual increase in the unemployment pool. The solutions to the first problem is different from the second in the sense that immediate solutions are required for the current problems. Long term solutions need to be found for the annually recurring problem. In this speech, I intend addressing only the first problem i.e. creating gainful employment may be, within the next two to three years.

If we look at the present economy, it is clear that the major force driving our economy is the mining sector. Mining and other non mineral revenues flow into a large reservoir that I call Government. It is only when that reservoir discharges it's funds annually through the consolidated and the development votes that the country begins to bloom. If the water is not released then the economy begins to dry up, stagnate, whither and shrink.

It has already been stated over and over again by eminent officials and analysts such as Mr Q Hermans, who is present today that the present engine of growth i.e. the mining sector and the Government can no longer provide a long lasting solution. The mining income as a catalyst of Government growth is expected to slow down in the near future. I do not mean to say that the old scenario is dead. That is far from the truth. Mining and

Government will be the mainstay of the existing economy for some time to come. But it is not the future growth area. A rapid growth area has to be found somewhere else.

At one time the Government was attempting to form large joint ventures with private sector companies. Mr President, I am of the opinion that the Government should not get involved in such large joint ventures. Because if the venture is to fail the Government could suffer large capital losses. The Government should not lose the income it gained from minerals and taxes. In the long run diamond money cannot be replaced.

There are advantages if Government provides tax exemptions against direct investment. If an imaginary capital loss by government of P500 million over a period of six years is assumed to be a tax exemption then the net profit needed to pay a tax of P500 million, assuming 25% tax rate, is equal to 2 billion Pula of taxable income. The turnover required to produce P2 billion net profit would be P20 billion i.e. sales. Assuming wages to be 30% of turnover, the wages and salaries paid would have been P6 billion i.e. spread out over 6 years it would have meant at least 1 billion Pula moving into local employees annually as salaries and wages which would have in turn created other economic activity that would create jobs in wholesale, retail and service industries.

Mr President, the solution seems to lie in identifying enterprises that can provide large numbers of persons with jobs. These persons may have varying levels of knowledge and skills. Some may be totally unskilled. They all need jobs, *not tomorrow but yesterday*. If the private sector is to do this, then those enterprises should already possess:

(a) capital;

(b) expertise/technical know-how; and

(c) markets.

If the government is not to be involved, then the only organisations that can match the muscle of Government are the multi-national enterprises (MNEs). Most of these have a world-wide turnover much larger than the annual revenue of the Government of Botswana. They have the ability to re-locate all or some of their operations anywhere they wish to. The magnet that drags them are simply the ability to make super profits. The best example of such a re-location in Botswana is Hyundai. Let us make no mistake about MNEs. They are not charitable organisations. They will move in quickly to make profit similarly they will also move out just as quickly if they are losing profits.

The marriage between MNEs and the less developed countries have never had a fairy tale ending. These are marriages of convenience. They will last only as it is mutually beneficial. The divorce, if it happens, will come with the normal acrimony. But one should not go into a marriage ready to divorce. Nothing will be achieved by such a negative approach. Our approach must be positive and optimistic. Because in the ultimate analysis, Governments have enough ways of safeguarding themselves from being cheated.

MNEs come in various sizes, shapes and colours. To attract MNEs to relocate in Botswana a package of incentives should be provided. These should include land concessions, work permits, utilities, tax concessions, banking, transport, communications etc. It is clear that if we were to exempt the MNEs from local taxes they will make a

large contribution to the expansion of the employment base. By exempting MNEs what we are in fact saying is that it is better to put the money in the hands of private sector employers than of Government to solve a social problem.

The arrival of MNEs will have other beneficial results. It could stimulate small and medium enterprises to meet the requirements of the new class of employees. Restaurants, takeaways, supermarkets, hair dressing saloons etc. (to name a few) will spring up almost overnight. Small firms may even link with the MNEs and one might even find a graduation occurring of small and medium enterprises to being enterprises. There is therefore a need to identify the MNEs most suitable to Botswana. Having identified them, the concern is who is going to bring them into Botswana? Two organisations (one government and the other quasi government) have been identified i.e. TIPA and BDC.

There is presently a public outcry that delivery of services in the public sector is unsatisfactory. Attention should be focused on the introduction of reforms in the public sector in order to upgrade the level of performance. Efficiency and effectiveness could be achieved through introduction of new performance management systems. In view of this, it is my opinion that TIPA staff should go through intensive training before they can be charged with the responsibility to carry out foreign investment promotion.

TIPA is not yet geared to play this role. It is my contention that they cannot play it effectively since their expertise should and does lie in a different direction. TIPA is a one-stop-shop for investors who have already been identified and who want to work with the Government and other agencies of Botswana.

Bearing in mind the dictates of bureaucracy TIPA should play the PR role and become a facilitator rather than a promoter of foreign investments.

BDC is an investor who may come into direct competition with other foreign investors and as such may experience conflicts of interests with the very investors that they wish to encourage. But the BDC can in fact get involved with some investors on a joint venture basis.

At the moment BDC is playing the role of being a promoter of local business entrepreneurs. It assists local businesses by entering into joint ventures with private sector enterprises. This role of the BDC is a fundamental one and will be it's main role in developing the Botswana economy.

However I would like to add one more suggestion. The Batswana should think not only of training themselves to manage local enterprises but also to manage international businesses. To do this the BDC must think of investing outside Botswana either on it's own account or in joint ventures with multi-nationals or foreign investors. To meet such challenges it may be necessary to identify foreign business opportunities and train young graduates to take up the employment opportunities that will come up.

Who then should take the responsibility? I think this is where BOCCIM must play a more significant role. BOCCIM must take the responsibility because this is not only about foreign investment promotion but also about business promotion, both by locals and foreigners. Business promotion surely is the main aim and objective of BOCCIM. BOCCIM with the assistance of Government needs to set up a special research group. I think such a group should be headed by business people and that is another reason why it is best formed under the auspices of BOCCIM. It's role should include:

(a) gathering world-wide information on:
- *products and services* suitable for relocation and development in Botswana
- *markets* for such products around the world

(b) *research* into the MNEs that control these markets, products and services and identify those that are willing to invest in the country.

(c) *advising* the MNEs of the concessions available in Botswana and how they could benefit from them.

(d) *advising* the Government on the feasibility of the projects and on the amounts of jobs it can create.

(e) *informing* TIPA of the requirements of the MNEs in order that they might relocate or invest in Botswana. e.g. land, work permits, utilities, tax concessions etc.

(f) *negotiating* with BDC on the amount of financial involvement, in the case of investors who wish to enter into joint ventures.

Applying the appropriate solution or solutions

I have so far discussed the first three steps of the logical approach. The final step is that of applying the right solution. This is possibly the most difficult. The best logical solution may not necessarily be the one to be applied. When trying to solve a problem like unemployment a host of other considerations come in such as ecological, cultural, religious, emotional, social, moral and political attitudes. Some of these may in fact prevent the purely logical solution being applied. The logical solution therefore may not be the best or the most desirable. Logic can assist us to itemise the possible solutions. The application is often prone to human error. Applying the solution or solutions may in fact be most difficult of all the steps.

If the MNEs are to be invited to come to Botswana then careful consideration must be given to their selection. It would also mean that their relationship with the Government needs to be clearly defined. The Governments contribution to their operations and their contribution to the unemployment problem should be clearly laid down so that there is no room for misunderstanding in respect of the different roles played by the two partners i.e. the State and the MNEs. At the end of the day it must be a marriage that is beneficial to both partners and not necessary only to one.

Mr President I would finally like to conclude my speech by saying that no problem is insurmountable. The Batswana as a nation should be able, not only to meet the challenge of unemployment, but also rise above it.

Panel and floor discussion

THE MAIN INGREDIENTS AND TIMEFRAMES FOR BOTSWANA TO PROGRESS ALONG THE PATH OF PRODUCTIVITY-BASED ECONOMIC DIVERSIFICATION

(referring to the presentations by John Parsons and Pax Gaobakwe)

Chair: Kenneth Matambo, MFDP
Panel: Elias Mbonini, BCL
Joseph Lisindi, Debswana
Emang Maphanyane, BHC

Elias Mbonini began the discussion by calling upon people to recognise the critical role to be played by SMEs in creating jobs in Botswana. He supported the main arguments put forward in the presentation by John Parsons, and said that government, the private sector and the trade unions should work together to forge a new direction in national efforts to improve productivity.

Joseph Lisindi said that the missing ingredient for employment creation was an environment in which all parties could take part and do so with confidence. Employers had to accept that they must put back into society what they take out. They should do this by training people, and doing so in a way that empowers and improves life skills. Larger firms should support SMEs both materially and in-kind, particularly by establishing sub-contracting relationships. He also made the point that more could be done to help retired people to go into business.

Mr Lisindi indicated that employers could best support employment by having profitable businesses that were sustainable. It was unavoidable that sometimes companies had to re-structure and lay off workers in order to restore profitability, but by taking such remedial action their long term prospects and employment potential were strengthened. He referred to what he described as the 'half-by-two-by-three' rule, whereby a company that restructured might halve it's work force, double production and thereby realise a three-fold improvement in profitability. In such a case, jobs would be lost in the short term but increased profitability could provide the basis for sustainable increases in investment and job creation over the medium and long term.

The chairperson, **Kenneth Matambo**, drew the attention of participants to the general consensus of the conference over the importance of human resource development and training as key determinants of Botswana's potential for employment creation.

Emang Maphanyane added support to the idea that there was consensus over many of the elements needed in order to increase employment. What was lacking was a clear formulation of how to apply these ideas in the specific circumstances of Botswana. A major part of this challenge lay in changing people's attitudes, including reducing dependency on the state.

Mr Maphanyane said that Botswana must now prepare a national vision and strategy to guide sustainable economic diversification and employment creation. This should be

implemented according to a clear plan, with an observable timetable. Such a vision could only succeed if it was an inclusive one, shared by the whole country. Once it had been established, the vision would then provide direction for such things as Botswana's international and regional relations and the type of education to be provided in schools.

On the subject of managing productivity, Mr Maphanyane said that in future pay must be strictly linked to performance. He offered the example of how BHC staff had recently been told there would be no pay increase this year because the performance of the corporation, as measured by it's management accounts, was not good enough. He said that staff had been able to accept this because they had been shown the management accounts and could therefore understand the situation for themselves.

He continued by saying that there was also a great need for better business management practices in the public sector. The civil service needed to be managed with the aim of achieving better results. Without better management, it would be an obstacle to further progress.

Mr Maphanyane said there was an urgent need to improve the relationship between the public and private sectors, and to establish a set of common national goals for them to jointly pursue. In order to break down the barriers of suspicion and secrecy between people in the public and private sectors, he suggested there was a need to promote freer movement of personnel between the two, together with greater sharing of knowledge.

The chairperson, **Kenneth Matambo**, drew participants attention to the importance of free movement of labour, and the need for Batswana to learn to depend on themselves and not on government.

Emelda Mathe expressed support for Mr Maphanyane's views. She said that suspicion between the public and private sectors must be ended. What was needed was a constructive relationship that would enable the public and private sectors to work together for the common good.

Morteza Abkenari said that many of the ideas being discussed were not new. What was needed was to make progress in deciding how Botswana can implement these ideas, what should be the plan of action and how performance would be monitored.

His Excellency the Vice-President, Republic of Botswana, Festus Mogae took the opportunity to inform participants that most of the resolutions from the Third Private Sector Conference had been implemented, including the establishing of the High Level Consultative Council (HLCC), reduction in tax rates, liberalisation of exchange controls and regulations regarding company borrowing.

He continued by saying that, as he had made clear during the last election campaign, he was not prepared to offer pay increases simply in order to appeal to voters. Pay increases were to be determined by performance.

Mr Mogae told participants that government's existing policies and programmes already offered substantial support for economic diversification and employment creation. He drew attention to the role of FAP and technical support for SMEs through the Integrated Field Services (IFS). Moreover, after investing P650m under the Accelerated Land Servicing Programme, government had alleviated the previous constraints regarding availability of serviced land. He said that if there were weaknesses in the performance of government policies and programmes then people should identify these and help to rectify them. He cautioned against making resolutions that ignored the policies and programmes that already existed. He added that the private sector was sometimes not honest in the way it pursued it's interests, referring to the example of

private investors buying land for the purpose of speculation. Standards of honesty in the private sector had to be improved.

Joseph Mabutho suggested the idea that companies should make awards to the employees who perform best, for example by having a 'worker of the year' competition. In order to change workers' attitudes it might be useful to establish a secondment scheme, whereby each year up to 5,000 workers would be attached to firms in South Africa or Zimbabwe.

Presentation

STATUS REPORT ON PREPARATION OF A REVISED INDUSTRIAL DEVELOPMENT POLICY FOR BOTSWANA

Connie Moremi, Ministry of Commerce and Industry

A. Reasons for preparing revised industrial development policy

Botswana's industrial development is currently based on Government Paper No. 2 of October 1984 which gave equal emphasis to import substitution and export promotion in an overall industrial growth strategy. Import substitution has had a considerable degree of success due to the demand generated by Central Government, parastatals and Local Authorities. As far back as the 1970s, Government instituted promotional instruments among which was the Local Preference Scheme, to bias the procurements of government, parastatals and local authorities, in favour of local manufacturers. It is also worth noting that some progress has been achieved on the export side in terms of diversifying Botswana's exports away from the traditional minerals and beef. To date Botswana's major exports include motor vehicles, textiles and garments. The industrial sector is now more diversified than what it was ten to fifteen years ago. We are nonetheless aware that much potential also remains untapped. For instance, in spite of the abundant leather resources, the leather industry remains virtually untapped.

Since 1984 when the last Industrial Development Policy was published, there have been new developments in the domestic scene. The external environment has also changed quite considerably. All these changes have necessitated the review of the Industrial Development Policy. On the domestic front, the revenue generated from the diamond industry which has hitherto fuelled economic growth, is unlikely to grow significantly in the future. Opportunities for rapid industrial development through import substitution have diminished on account of past successes in industrialisation, while the unemployment problem has continued to escalate as past strategies have not been able to generate sufficient jobs places in the economy. The rapid expansion of infrastructure including educational institutions has raised expectations for better life among Batswana. Joining the ranks of the unemployed are also degree holders, something which was not foreseen when the current Industrial Development Policy was formulated in the early 1980s. Botswana has continued to experience a rapid pace of urbanisation. The challenges of rural development meanwhile also continue.

On the international scene, the successful conclusion of the Uruguay Round of negotiations of the General Agreement on Trade and Tariffs (GATT), have far reaching implications for the world economy. In the present day, sustainable industrial development can only be achieved through concerted effort to improve the competitiveness of Botswana's industries. The political transformation that has occurred in Southern Africa, has ushered in a new era of peace, and competition for foreign investment and markets. Some of these countries in the region enjoy considerable comparative advantages over Botswana as they have more developed infrastructures, a richer and wider raw material resource base, and larger domestic markets.

The on-going renegotiation of the Southern African Customs Union Agreement of 1969 which disadvantages junior partners in the union by polarising industrial development in favour of South Africa, provides an opportunity to seek a more equitable agreement. In anticipation of a positive change, Botswana industry must be well poised to take advantage of the new situation. Rapid advancements in technology have a dramatic effect on the production processes throughout the world and have also generated opportunities for a variety of new products. Timely and quick responses to these developments is essential if Botswana is also to meaningfully take advantage of these developments.

All these unfolding changes call for an appropriate and adequate response on the part of Government. In particular a new Industrial Development Policy has become necessary to fully take account of the new situation.

B. Process of Developing the new industrial development policy

Against this backdrop, in 1991 the government requested the services of the World Bank to re-examine the premises and features of industrial development in Botswana. The study team submitted it's report in 1993. The Ministry reviewed the recommendations and formulated Government's position which was subsequently presented to Cabinet in August 1994, with the understanding that a comprehensive White Paper on Industrial Development will be prepared following completion of various related studies that were on-going at that time. Meanwhile, a number of studies were undertaken by Government and some institutions including BDC. Perhaps the most important was the review of the FAP. Meanwhile the Ministry of Commerce and Industry requested UNIDO to assist with a consultant who would sift various study reports and isolate acceptable recommendations of these studies into a single document that would be used as a basis of a new industrial development policy. This work was done during 1995 and indeed the resultant document was circulated and discussed widely, within and outside government circles.

The process of consultation and discussion on the document written by the UNIDO consultant that led to the second stage of writing the draft industrial development policy, which is now available in draft form.

C. Major themes and issues of the policy

What emerges from the new draft industrial development policy is the need to reorientate strategies towards highly efficient export industries that can stand their ground in the face of intense international competition. Developing the capacity of Botswana's industries to penetrate and compete effectively in international markets is the single most important challenge. This is one of the themes of a three-pronged strategy propounded in the proposed industrial development policy.

The second major issue of the strategy is the development of the small and medium scale industries. Experience throughout the world shows that small and medium scale enterprises play a very important role in the economy, particularly through the creation of employment opportunities and utilisation of local raw materials. They also provide an important seedbed for local entrepreneurship to participate in business, given that their capital requirements are relatively more affordable to the indigenous entrepreneurs. Small scale enterprises have an important role to play in both urban and rural areas

through their contribution to generating employment and meeting the needs for goods and services of a significant proportion of our population.

In a vibrant economy, there is a large degree of vertical integration with a healthy crop of small and medium scale enterprises emerging, to service the requirements of the larger enterprises. This phenomenon is strongly and deliberately encouraged in order to maximise the spin-offs that emerge from new large scale enterprises. In the case of Botswana this is particularly urgent given that this form of relationship between small and medium enterprises and large scale enterprises is virtually lacking. The effort to develop business linkages between the small scale enterprises and the large scale enterprises is, therefore, the third major theme of the new industrial development policy.

It is envisaged that the role of Government will remain unchanged. It will continue to be that of providing a more enabling environment in which the private sector will actively pursue gainful investment opportunities. To support private sector initiatives and sustainable economic development in Botswana, a number of measures are proposed. Below I highlight the key issues.

D. Shift away from labour intensity

In the past Botswana's industrialisation strategy tended to emphasise the creation of job opportunities for the abundant manpower resources available within the country, most of which are unskilled. Incentives such as FAP, were created for labour-intensive industries. The World Bank study observed that due to the relatively lower levels of labour productivity achieved in Botswana, and the pressure to raise incomes as a consequence of the large revenues generated by the minerals sector, labour costs are relatively high as compared to those of other competing countries. Consequently, Botswana's industries are not internationally competitive against more efficient exporters, especially from the South East Asian sub-continent. The challenges to which industries in Botswana must respond to are such that labour-intensive strategies of the past are no longer variable and suitable. Only the most efficient industries that are able to cost effectively produce good quality goods and services are likely to be competitive in the international markets and, therefore, sustainable in the long run.

The World Bank study recommended that Botswana should capitalise on the relatively high level of education of some of her labour force and exploit opportunities offered by the skill-intensive tradable services such as banking services, printing and publishing and postal expediting and the most efficient industries that employ high levels of capital. This shift in emphasis to achieve international competitiveness implies that Botswana should encourage the adoption of the most efficient and productive technology regardless of it's implications on the employment of labour. Botswana's industrial development strategy, therefore, must focus less on the labour intensive strategies.

Botswana's industrial development policy must, therefore, be modified to emphasise international competitiveness as opposed to it's present labour intensive strategies.

E. Investment protection agreements

Batswana are still experiencing many constraints to play a leading role in industrial development. To a very large extent, export-led industrial growth that Botswana aspires to achieve, will depend on our success in attracting foreign investors who have the necessary capital resources, access to the most efficient technologies, a sound knowledge of the markets as well as the production and management skills to develop competitive

industries. In recent years it has emerged that one of the major requirements by foreign investors is assurance that their investments will be safe particularly from political risks. Investment Protection Agreements are now commonly used to provide this assurance. In future Government will negotiate investment protection agreements with those countries which seek re-assurance that their investments will be safe.

F. Training of human resources

It is felt that training in Botswana has for the most part not taken into account the skill requirements of industry. This has, for example, resulted in industry running short of critically required skilled manpower, which led to recruitment of expatriate personnel in the face of unemployment among citizens. It is noteworthy that individual firms on their own have also shown reluctance to undertake significant training of staff due to, among other things, the danger of losing employees to their competitors. On the other hand, the desired industrial development is premised on the availability of manpower that is sufficiently educated and has the required technical skills. Government will, therefore, bear the primary responsibility for providing training throughout industry. To address this problem, there will be a fund administered by the Botswana Training Authority to provide for training of human resource in industry. Initially this fund should be financed wholly by Government.

G. Cost of land

The speed with which land is made available as well as it's cost are some of the current impediments for attracting and facilitating investment. In an effort to ensure that land is made available as cheaply as possible to investors, two issues must be considered. The first is whether to recover fully or partially the cost of servicing the land. The second is the price that must be attached to virgin land. The idea is that Botswana should, at the very least be competitive against neighbouring countries in providing land to prospective investors. To this end virgin land should only command a nominal price. In order to increase availability of land at competitive prices, private developers should participate in servicing and selling of land to investors.

H. Freedom of choice of location

The location of industry is one of the major contributory factors to it's production cost structure. Location in relation to the major markets as well as sources of raw materials is one of the principal considerations in determining the location of an enterprise. Government for very good reasons, has on occasion tried to influence the location of industry. Until 1995 when corporate tax levels were brought down to the same level as the tax rate previously applicable under the Selebi Phikwe special incentives package, Selebi Phikwe was a favoured destination for industry. Reducing the tax level to a low uniform rate throughout the country was an important move towards leaving the choice of location to the investor. The draft industrial development policy recommends that Government should not try to influence the locational decision of investors through any incentives. Instead, investors should choose the location of their projects purely on economic and strategic considerations. The role of Government in this respect will continue to be that of providing the infrastructure in those areas with the potential to attract investors. It is considered that the Lobatse to Francistown corridor has the most

potential for attracting investors. Therefore, the provision of infrastructure will concentrate on this area, among others.

I. The role of local authorities

Experience of other countries indicates that Regional Development is an effective approach for developing various parts of the country. In Botswana such an approach has also been tried. For example the Selebi-Phikwe Town Council which was involved in the effort to attract investment through the Selebi-Phikwe Regional Development Project, came to appreciate more the need to create an enabling environment for investment at the local level. In this connection, it is expected that the Local Authorities will also assume the responsibility to attract investors by building factory-shells and providing other services that investors may require in their areas of jurisdiction. Local Authorities will be encouraged to play a more active role in attracting investors to their localities, particularly by providing factory-shells as well as being generally sensitive to the needs of the business community.

J. Development of small and medium scale enterprises

Throughout the world small and medium scale enterprises (SMEs) play a crucial role in the economy. Indigenous entrepreneurship skills are developed and vital employment opportunities are created. These enterprises also offer an opportunity for citizen participation in business on account of their lower level of capital requirements thereby contributing to social stability. In Botswana, Government launched programmes for the development of small and medium scale enterprises a few years following independence. There is now concern that the results achieved are meagre in relation to the resources and effort expended in developing these enterprises. A number of constraints account for the poor performance of the programmes to develop small and medium scale enterprise. Statistics compiled by the Integrated Field Services in 1994 indicates that more than 52% of the enterprises assisted consist of one person businesses that have no potential for growth because of a number of critical constraints such as the total lack of specialisation, etc. The current crop of entrepreneurs are first generation entrepreneurs who still devote a large proportion of their time to subsistence cattle and crop farming as well as taking care of other household chores. Furthermore, a large proportion of these enterprises are without suitable business premises. They, therefore, conduct their business operations from their homes. In these circumstances, there are many disruptions that are experienced that manifest themselves into low levels of productivity. Yet another major blow to the effort to develop small and medium enterprises is the low level of education among the majority of enterprise owners. There is great difficulty in keeping basic business records. As a result, good management is the exception rather than the rule. In order to achieve results from government efforts, a number of measures are proposed in the new industrial development policy. These include the following:

Screening of trainees

The current assistance programmes tend to take a blanket approach that tries to assist all entrepreneurs who request assistance regardless of their aptitude or potential to benefit from such assistance. This tendency is reinforced by the attitude that these are government sponsored activities which are not to be denied anybody. Consequently much of the assistance that has gone into the small scale sector has not borne fruit. The

extension services will in the future, screen persons who seek assistance in accordance with criteria that will be developed for the purpose. It may be expected that, for example, the one person businesses that have so far exhibited little or no growth potential will be given lower priority. Scrutiny on the basis of potential for growth, implies preparedness to reject those that do not qualify regardless of the consequences.

Contribution by entrepreneurs

All along government has provided all the resources required towards training of entrepreneurs. An important indicator for the value attached to training provided is the extent to which trainees are themselves prepared to pay for the training. There is currently, serious concern among most organisations providing assistance to small scale enterprises that many entrepreneurs do not take training seriously nor do they utilise the skills that they acquire during training. This is largely attributed to the free training provided at Government expense. A few organisations that attempt to charge a fee for courses that they provide invariably complain of poor turnout to courses. Apparently only few entrepreneurs who are motivated and committed, make use of such courses. It may be anticipated that a small fee will be introduced that will apply to all training activities of the Ministry's extension service. This will be intended to prove commitment and to ensure that entrepreneurs attach the necessary value to the training they receive. This will also create a market for training services provided by the private sector.

Linking training to assistance

Under the present arrangement, assistance to small scale enterprises is generally extended to all entrepreneurs irrespective of their ability to utilise the assistance optimally. Although some of the Production Development Committees insist on some form of bookkeeping training before extending FAP assistance to entrepreneurs, not all Committees are strict about this. There is no requirement that entrepreneurs should pass specific tests to check whether or not they possess adequate technical and managerial skills. For these reasons, the programmes have often led to failure on account of business owners with insufficient skills. Assistance to entrepreneurs including FAP will be extended on the basis of sufficient evidence that the recipient is proficient in the relevant technical and management skills. Failure to pass the tests should result in the denial of assistance until sufficient skills have been acquired.

Extending assistance to urban small and medium scale enterprises

In the past the Ministry's extension services tended to devote most of their attention on rural small scale and informal enterprises at the expense of their urban counterparts. There are important differences between rural and urban enterprises, in terms of opportunities and challenges that they face. These differences need to be fully appreciated in order to develop relevant assistance packages that are responsive to the specific requirements of the enterprises. The rural industries which are an integral part of the rural economy face the constraint of limited demand for their products and generally need training in basic management and some production skills. They face somewhat limited opportunities in comparison with their urban counterparts.

There is more potential for urban-based small scale enterprises to grow to become medium sized enterprises that are able to export. Their requirements in terms of training are motivated by a need to satisfy a more discerning consumer. Their quality control

should be of a much higher standard. They also require access to fairly sophisticated level of technology. Opportunities for business linkages with larger scale industries are more available for them. Government will, therefore, continue to extend the extension services to include urban areas. Care will also be exercised to develop relevant training packages for urban enterprises as their requirements are different from those of rural enterprises.

Collaboration with non-governmental organisations

The Integrated Field Services Division in the Department of Industrial Affairs, is the main institution providing extension services to small and medium enterprises and currently has offices spread throughout the country in some eighteen stations. Most of the stations have a staff complement of two or three officers apart from the support staff made up of drivers, cleaners, messengers etc. There are limitations of outreach on account of staffing constraints which make it necessary for Government to further strengthen it's complementary and collaborative working relationship with Non-Governmental Organisations. Already there is currently a working relationship that has been developed with a number of institutions. For example, in the area of business management training a number of organisations, such as Women's Finance House, are also providing training to entrepreneurs using the IMPROVE YOUR BUSINESS training package adopted by the Government from ILO. It is anticipated that where feasible, Government will hire the services of NGOs to assist the Integrated Field Services in the remotest parts of the country by providing training and processing FAP applications. A fund will be created for such a purpose.

Business assistance centres

The extension services provided by the Integrated Field Services, Local Authorities (Social and Community Development) and other organisations are often constrained by the fact that officers serve too many clients. This considerably diminishes their impact on the business knowledge, attitudes and productive skills of the entrepreneurs. For greater impact, officers must maintain regular contact with entrepreneurs to provide timeous advice. The current complement of Integrated Field Services staff is inadequate for these requirements. Beside the question of number of officers who are assigned to a particular area, there is also the aspect of training materials and equipment that is used to provide skills and knowledge to entrepreneurs. Resource Centres for the development of entrepreneurship are an important requirement to facilitate regular contact between entrepreneurs and extension officers. For example, the Ministry of Education developed throughout the country Educational Resource Centres that backup teaching services with a view to enhancing the quality of teaching. The Ministry of Agriculture has also developed Rural Training Centres to support their extension services. In relation to the business extension services provided by the Integrated Field Services and other organisations, there is a dire need for training facilities and a variety of materials for teaching business skills from strategically located centres. Some of the material available for training will include videos and various printed materials, for entrepreneurs at various levels of business sophistication. A few strategically located Centres to be called Business Assistance Centres will be created to provide necessary training facilities for the Integrated Field Services. To create these facilities, a few of the Integrated Field Services stations may be upgraded and provided with additional manpower and resources

to a level where they can serve as resource centres for entrepreneurship development. From the Business Assistance Centres, a multi-faceted assistance programme involving other institutions will be launched to provide a much wider range of services to the entrepreneurs.

Risk capital/credit guarantee scheme
One of the major constraints experienced by local entrepreneurs is the difficulty of obtaining adequate loan financing from local financial institutions. Banks are said to be reluctant to extend loans to entrepreneurs on grounds that their business proposals are not bankable. Instead, entrepreneurs are required to provide unaffordable levels of collateral for their loans. To address this problem adequately, a Task Force will be established to examine possible mechanisms of dealing with the financial problems of projects. Among other things, the Task Force would consider the establishment of a credit guarantee scheme as well as the establishment of a venture capital fund.

K. Developing down stream industries from beef
The Botswana Meat Commission (BMC) enjoys exclusive rights to export beef, a monopoly it is accorded by existing legislation. The rationale for this arrangement is purportedly to maintain a high standard of hygiene that is demanded by the European Union Market a major market for Botswana's beef. In recent years, there has been an increasing number of investors who would like to process meat for the export market some of which is outside the European Union. Such companies have been denied the opportunity to invest because of legislation that protects the BMC. The relevant statutes will be amended such that other companies can also engage in the meat export business specifically for the non-European Union Market.

L. Privatisation of selected services of government and parastatal organisations
The proposed industrial development policy assumes that there will be a dynamic private sector made up of both foreign investors who are attracted to Botswana and indigenous entrepreneurs. It is noted that since independence, Government tended to provide a wide range of services which could have been provided by the private sector had there been a vibrant private sector. With the current state of development, it is now felt that there is potential for Government to privatise some of the services that it provides. In fact, it is believed that Government is crowding out the private sector. It is argued that by withdrawing some of it's services, Government would provide scope for private sector development. In order to systematically identify those services that can be privatised an inter-ministerial Task Force will be set up to look into this matter. This Task Force will also consider the timing, terms and conditions of privatisation. The Task Force will also consider the privatisation of some services provided by parastatal organisations.

M. Devolving the investment promotions functions to the Botswana Development Corporation
Botswana's success in industrial development depends, to a large extent on achievements made in attracting foreign investment. The national institution that is expected to spearhead investment promotion is the Department of Trade and Investment Promotion (TIPA). TIPA was established on the basis of the National Policy on Economic Opportunities, which recognised the need to set-up an Investor Assistance Centre Agency for investors. From the outset, the institutional frame work of TIPA differed

considerably from what was envisaged by the National Policy on Economic Opportunities. Instead of setting up a truly Investor Assistant Centre under the policy direction of the Ministry of Commerce and Industry, and giving it operational independence, TIPA was set up as a Unit then later upgraded to a Department in the Ministry. Several studies and conferences have cast serious doubt on the effectiveness of TIPA if it continues to operate within the Ministry of Commerce and Industry. Several reasons are mentioned as accounting for this failure. Bureaucratic delays, inability to retain officers of a good calibre and lack of resources for investment promotion feature very prominently. Commercial attaches posted to Botswana's Missions abroad depend on the funds of the missions to carry out their investment promotion functions. Such funds are not enough for the effectiveness of these officers. TIPA also lacks adequate staff with appropriate training to carry out what is essentially a marketing function. Experience from other countries indicates that investment promotion is best undertaken by institutions that operate outside the Government bureaucracy for the reason that this function requires flexibility which is often not available within Ministries and Departments.

In the case of Botswana the ineffectiveness of TIPA has prompted the Botswana Development Corporation (BDC) to also participate in investment promotion with a view to identifying potential partners for it's new projects. Consultations between the Ministry and the BDC are on-going to transfer the investment promotion function carried out by TIPA to BDC. If this can be achieved, TIPA will be restructured to become a One-Stop-Service Agency for investors. This will entail providing investors an effective liaison function with all the key service departments from a single location.

The new industrial development policy envisages that the investment promotion role of TIPA will be transferred to the Botswana Development Corporation. TIPA will concentrate efforts at providing the business community with effective liaison with all the relevant authorities to facilitate investments.

N. Exclusive licences

The Industrial Development Act empowers the Minister of Commerce and Industry to grant exclusive licenses for a maximum period of eight years to manufacturing companies that can satisfy at least 60% of national consumption of a particular commodity. Often there are companies that seek to obtain such exclusive licences in order to enjoy a monopoly. In line with the Revised Policy on Incomes, Employment, Prices and Profits, the Ministry has taken a general position that it will not support protection of the industry unless it can be proved that protection can be beneficial to the economy. The original motivation for exclusive licences, the development of import substitution industries has been made obsolete by the growth of strong competition among firms servicing the domestic market. Botswana's accession to the World Trade Organisation also makes this legislation untenable.

The new industrial development policy proposes that the Industrial Development Act be amended to transfer the authority for granting exclusive licences to Parliament. This will ensure that exclusive licences are granted to deserving companies under very transparent conditions. In these circumstances only deserving cases would find it fitting to apply thereby reducing some of the pressure on the Ministry from companies who want to be a monopoly.

This brings to the conclusion the main issues that the new industrial development policy proposes.

O. Final stages of producing the policy

As already stated, this is a draft which is yet still a subject of consultations, especially within Government. Your comments at this conference would, therefore, be an important input that will be taken on board if necessary. The cabinet memorandum on this policy is now being circulated for comments by all the interested parties including all Ministries.

The next steps will be to present the proposed policy to the Economic Committee of Cabinet. After the appropriate debate and amendment as deemed necessary, the final stages will involve taking the policy to Cabinet and Parliament. Most of the ground work has already been done and within the next six months the new policy should be finalised.

Mr Chairman, Ladies and Gentlemen, I thank you most sincerely for your attention.

Floor discussion

ISSUES AND CHALLENGES FOR PREPARATION OF A REVISED INDUSTRIAL DEVELOPMENT POLICY FOR BOTSWANA

(referring to presentation by Connie Moremi)

Chair: Iqbal Ebrahim

The chairperson, **Iqbal Ebrahim**, began the discussion by saying that the revised industrial development policy had been under preparation for two years. He said that it was regrettable that few in the private sector had been allowed to see the draft policy document. This concern was re-iterated by **Emelda Mathe**, who said that the private sector was a key stakeholder in industrial development and therefore had to be allowed to take part in the policy revision process. **Emang Maphanyane** also shared this view, saying that formulation of national policy had to involve all parts of society, not just government. He added that Botswana needed to give more priority to developing it's regional relations to support the development of export industries.

In response, **Connie Moremi** said that it was not correct that the private sector had been kept out of the process of preparing the draft revised policy. She said that the document had been sent twice to BOCCIM and the Botswana Chamber of Commerce and Industry (BCCI), as well as to the Bank of Botswana and the University of Botswana. She also said that the draft still had to be finalised, and had yet to be circulated to other ministries and presented to cabinet.

Modiri Mbaakanyi expressed concern about the possibility of government restricting the provision of serviced land and other infrastructure for industry to the Lobatse-Francistown corridor.

Jan Isaksen drew attention to the fact that most of the important decisions affecting industrial policy, such as foreign exchange regulations and agricultural policy, were not the responsibility of the Ministry of Commerce and Industry (MCI). This made it especially important that other key decision makers should be involved in preparing the draft revised policy. In response, **Ms Moremi** said that the draft revised policy included proposals for establishing an inter-ministerial committee that would involve all the key decision makers.

Neil Armstrong referred to the need for training to be relevant. When a particular industrial activity was to be promoted, it was essential that MCI and the private sector develop the types of training facilities needed by that industry. All firms involved in that industry would have access to the training facilities (eg, a hotel school). After becoming established, such industry training facilities would become self-financing through charging of fees.

His Excellency the Vice-President, Republic of Botswana, Festus Mogae directed several questions to BOCCIM and BCCI. He asked whether they were representative organisations, whether they had not been sent copies of the draft revised

policy for comment and why they had not made up further copies for distribution among their membership. With regard to improving the relevance of the education system, Mr Mogae said that government had established the Education Commission which had consulted widely throughout the country, including with representatives of BOCCIM and BCCI. This had led to changes in the education syllabus in favour of maths and science subjects, and to recruitment of additional teachers from overseas. He said that it would clearly take time to change attitudes and implement the agreed changes in the education system, but in this regard government had nothing to apologise for.

The chairperson, **Iqbal Ebrahim**, did not agree with Ms Moremi's explanation of the consultation process for preparing the revised policy. He said that he had been sent the document on the conditions that he would not show it to anybody else, that he would respond in his personal capacity, and that he would do so within 48 hours. In his view this was unnecessarily restrictive, and the time allowed for review of the draft was much too short. He said this served to illustrate the need for a closer working relationship between government and the private sector. **Raphael Sikwane** provided a further example on this subject. He had recently been sent a two volume report on the proposed SADC trade and investment protocol, but had been given less than a week to submit his comments. This had made it impossible for him to seek out the opinions of the BCCI membership. In general, government limited the distribution of such documents on a 'need-to-know' basis. This ruled out widespread consultation.

At the conclusion of the session, it was agreed that the conference should pass a resolution requesting MCI to conduct widespread consultation over the draft revised industrial development policy, including seeking comments from all interested persons, in order that the revised policy that is eventually agreed should be widely representative.

Workshop 1

LESSONS FROM RECENT EXPERIENCES IN THE EXPANSION AND DIVERSIFICATION OF MEDIUM AND LARGE SCALE MANUFACTURERS IN BOTSWANA

Keith Jefferis, University of Botswana

1. Introduction

The theme of the 1996 BOCCIM Private Sector Conference is Employment Creation, reflecting the crucial need for jobs in a society with rapid population growth and substantial rural-urban migration. For employment creation to be successful however, the economy must grow, and this growth must be sustainable. Hence the theme of NDP 8, "Sustainable Economic Diversification". In meeting these related objectives - sustainable diversification, growth and employment creation - it is now generally accepted that the manufacturing sector has an important role to play. The sector has a number of characteristics and advantages which give it this important role; for instance it is relatively labour intensive (compared, say, to mining or cattle ranching), and it produces easily tradable (exportable) outputs. Furthermore, international experience shows that with the exception of a few exceptionally well-endowed oil producers, the development of an export manufacturing sector is an essential component of sustainable real income growth, employment creation, and economic development.

The objective of this paper is to review the experiences of some of Botswana's larger export manufacturing firms, with a view to establishing the factors which have accounted for their success, and to examine the extent to which these factors can be replicated to promote the growth of other manufacturing firms. On the basis of this analysis, we make some policy recommendations for measures which will help to further the development of the export manufacturing sector. The research results are based upon a survey of nine large manufacturing firms carried out during March 1996.

The paper is arranged as follows. Section 2 presents some general arguments regarding manufacturing and export-led growth. Section 3 discusses Botswana's needs in more detail. Section 4 provides information on the companies selected for interview, while Section 5 presents the results of the survey. Section 6 presents conclusions and policy recommendations.

2. The role of trade and manufacturing in economic development

Development economics has long held that industrialisation is an essential component of development and growth, in that industrial production is thought to provide greater potential for long term income growth as compared to an economy based predominantly on agriculture. Support for industrialisation is common across different schools of thought within the development field; there are major differences, however, with regard to the *type* of industrialisation that should be pursued, and the *methods* that should be used to promote it. Although there are a number of different approaches, they can be broadly divided into export-oriented (outward-looking) industrialisation and import-

substituting (inward-looking) industrialisation. While there are some complementarities between the two approaches - in that perhaps a country might pursue import-substituting industrialisation as a prelude to a more export-oriented approach - in general the two policies impose different and conflicting policy requirements, and a choice is needed between one and the other.

Import substituting industrialisation (ISI), as it's name implies, is based upon production for the domestic market with the aim of substituting for or replacing imports. Domestic industries typically need to be established behind high tariff barriers in order to be protected from competition from (cheaper) imports. Export-oriented industrialisation (EOI) by contrast sees production for export markets as the driving force.

However there is more to distinguish the two approaches than simply the market - domestic or export- at which production is aimed, and these differences have become apparent in the experiences of countries following each strategy. The ISI approach was adopted by India and many countries in Latin America and Africa, often stimulated by a belief that the international trading system was structured in a way that discriminated against developing countries, and that at least a partial national self-sufficiency with regard to international trade would be beneficial[1] . Their experience has however been highly disappointing. In retrospect, ISI encouraged inefficient domestic producers, shielded from international (and often domestic) competition, which contributed to an uncompetitive industrial structure, difficulties in developing exports, balance of payments problems and disappointing economic growth rates. Many of the current problems of the South African economy provide an prime illustration of the disadvantages of ISI. Almost all countries which originally followed an ISI strategy have now abandoned it.

The examples of the South-East Asian Newly Industrialised Countries (NICs - South Korea, Taiwan, Hong Kong and Singapore) provide a stark contrast. Their industrialisation policies have traditionally been export-oriented, and of course these have been amongst the fastest growing countries in the world over the past two decades. They are now seen as the countries to emulate. More recently, the success of the NICs has been echoed by other Asian countries following similar strategies - Malaysia, Thailand, Indonesia and the Philippines etc.[2] .

Development policy now emphasises an outward-looking orientation and export-led growth, due to both the experience of the NICs as compared to the poor performance of many other developing countries, and a reconsideration of theoretical economic arguments in favour of exports. These include:

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1 The structuralist school of Prebisch and his colleagues at the UN Economic Commission for Latin America was particularly influential here. Their arguments in favour of ISI included (i) a long term decline in the Terms of Trade for countries exporting primary commodities and importing manufactured goods, and (ii) the instability of export earnings.

2 By way of illustration, in 1965 Thailand had a lower GNP per capita than Ghana, but by 1993 Thailand's GNP per capita was $2110, while Ghana's was $430 - the latter showing virtually no change in real terms since the 1960s. Further comparisons between the experiences of Africa and Asia are made in the World Bank publications "Adjustment in Africa" and "The East Asian Miracle".

(i) ***Static gains from trade.*** Export orientation and hence specialisation in the production and export of particular products enables a country to produce according to it's comparative advantage which entails a more efficient allocation of resources. Producing for import substitution is likely to involve a less efficient allocation of resources and hence a lower level of real income.

(ii) ***Dynamic gains from trade***, which include (a) the efficiency benefits of competition, and (b) technology transfer. It is generally accepted that the dynamic gains from trade yield greater benefits than the resource reallocation static benefits.

Efficiency benefits of competition. International markets are highly competitive, and successful exporting therefore requires that a country achieves international levels of competitiveness. This in turn forces a country to become more efficient and productive, again contributing to higher real income levels. By contrast, protected import-substituting producers often face little or no competition, which discourages efficient production (leading to what is termed "X-inefficiency"[1] and higher than necessary costs of production).

Technology transfer. Trade, especially when accompanied by foreign investment, encourages technology transfer and the adoption of modern production techniques.

(iii) ***Economies of scale benefits.*** In many industrial processes average production costs drop as the scale of output increases. Import substituting production for relatively small, domestic markets prevents the realisation of economies of scale benefits, leading to high cost products and inflated domestic prices. Production for much larger export markets often enables companies to reap the benefits of economies of scale and hence achieve higher levels of efficiency.

Points (ii) and (iii) lead to higher levels of productive efficiency. This is extremely important as there is widespread international evidence that technical change, higher productivity and improvements in the quality of capital and labour are the main long run determinants of the rate of economic growth. It is not surprising, therefore, that export-oriented countries have experienced higher and more sustained rates of economic growth than those emphasising import substitution.

(iv) ISI policies typically rely heavily on direct controls (such as import licences, quotas, etc.). Those in possession of import licences will profit from the higher prices which result from such controls. The existence of these profits (or "rents") encourages individuals to spend time or resources trying to secure these rents, for instance through lobbying or bribing politicians or civil servants. Such behaviour is unproductive in economic terms, and the rents essentially represent rewards for monopoly power (such as possessing an import licence). Thus, the incentive structure which results from direct controls generates rents and encourages

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1 X-inefficiency was first described by Leibenstein (1966) to denote the "slack" or inefficiency which often characterises firms which do not face effective competition, resulting in unnecessarily high costs, lack of innovation etc.

unproductive activities and an inefficient and often inequitable distribution of resources.

(v) ISI relies upon the protection of infant industries which should, in theory, mature to become competitive. In practice, this seems often not to happen, and such industries become dependent upon continued protection for survival. They do not, therefore, become efficient (by international standards), and protection becomes politically difficult to remove.[1]

The choice of an export-oriented as opposed to import-substituting growth strategy has implications for the types of policies which need to be adopted. By altering the relative prices of domestic and foreign goods (through tariffs, quotas, etc.), ISI strategies discriminate against both imports and exports; by contrast, EOI strategies require as a minimum an even-handed approach, which does not penalise exporters. However, experience shows that an effective strategy to support the expansion of manufactured exports must go some way beyond this:

> *Creation of a free-trade regime for exporters and their suppliers allowing them swift, easy access to imported inputs has turned out to be crucial. Other challenges have also had to be met relating to infrastructure and port facilities, a disciplined and suitable labour force ready to be used flexibly and work hard for realistic pay, and suitable financial and credit institutions offering both pre-shipment credit for working capital and term-loans for investment. Export expansion has also depended on suitable industrial and investment policies, for example, arrangements for approving investments expeditiously, helping investors obtain suitable sites and infrastructure, and channelling investments into needs of exports, including, especially, industries making inputs competitive with imported inputs. Systematic incentives and assistance have been provided for improvements in industrial technology, productivity, and quality control, as well as access to capital goods at prices near world trade prices. All this is additional to the suitable management of exchange rates, macroeconomic policies and incentives for exporting compared to production for the domestic market*[2].

These requirements provide a benchmark by which we can judge the suitability of Botswana's policies for encouraging manufactured exports. Prior to that, however, we consider below the role of trade and manufacturing in Botswana's development.

3. Trade and manufacturing in Botswana's development

3.1 The need for export manufacturing growth

The need for economic diversification is now well established and need not be repeated in detail here, as it has been extensively discussed in NDP 7, the Mid-Term Review of NDP 7, and the preparatory documents for NDP 8. However, it is as well to summarise

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1 For more discussion of these points see e.g. D. Greenaway and C. Milner, "Trade and Industrial Policy in Developing Countries".

2 D.Keesing & S.Lall "Marketing Manufactured Exports from Developing Countries", p.181.

the key arguments as to why the role of the export manufacturing sector is particularly important for Botswana (in addition to the general arguments noted above regarding the role of export manufacturing in industrialisation and development).

1. "The highest priority of development policy today is the generation of adequate employment opportunities for citizens of Botswana, both those who are already in the labour force and those who will join it in future" (NDP 8 Keynote Policy Paper, p.1).

2. Although the mineral sector has led Botswana's development in the past, and remains the largest single sector of the economy, it is generally considered that it does not have the potential to do so in the future; real mineral growth is expected to be much less than in the past, and is unlikely to lead to much additional employment.

3. The second largest sector, government, has also played an important role in stimulating economic growth, but this has largely been on the basis of revenues received from the minerals sector. The slowdown in mineral sector growth and consequent budgetary pressures on government, combined with widespread evidence that government is in any case overstretched and unable to implement some current programmes effectively, suggest that government's leading role will also not be sustainable into the future.

4. New leading sectors of the economy need to be found. Because the Botswana economy is small (and hence cannot offer the benefits of economies of scale), it can only produce a limited range of the goods and services which firms and consumers require. It will, therefore, remain heavily dependent upon imports, and hence requires export earnings in order to be able to afford those imports. Future leading sectors must produce exportable goods (or services); like most small economies, the Botswana economy is and will remain highly open, in that exports and imports make up a large proportion of GDP. This conclusion is reinforced by the relatively slow economic growth rates experienced in the first half of the 1990s and projected through the NDP 8 period, and hence the slowing down of the growth in domestic demand.

5. Agriculture is important in many developing economies where it has played a leading role in the early stages of development. In many African countries, agriculture has substantial potential to lead growth and is central to the success of reform efforts. In Botswana, however, the existence of unfavourable climatic and soil conditions means that arable agriculture has virtually no potential to generate significant growth, a conclusion which is reinforced by the extremely disappointing performance of the sector over the past 25 years despite substantial and extensive government expenditures. The cattle sector is more important, but it is yet to be demonstrated that the sector can be transformed to the higher productivity levels, which in the face of currently high stocking rates and concerns about overgrazing and environmental degradation, will be necessary to boost exports and output. Furthermore, the cattle sector creates relatively few additional jobs and has a history

of paying very low wages, and there is also considerable uncertainty over the future of current preferential export markets.

6. The service sector basically serves the domestic economy, and, as such, is a following rather than a leading sector. It's growth depends upon income and output growth generated elsewhere (in the past, by mining and government). There is some potential for export earnings in tourism and (perhaps) financial services. The tourism and wildlife sector may be an important source of jobs in the future, especially in the rual areas, but overall it is unlikely that services-led growth can create employment on the scale that Botswana requires.

7. The construction, electricity and water sectors also depend upon government expenditure and the growth of domestic demand.

8. Manufacturing is, therefore, the only sector which has the potential for substantial and prolonged output growth, through exports, and hence for generating the kinds of new jobs which are needed - whether directly or indirectly through the impact of manufacturing growth on following sectors. Given the small size of the Botswana economy relative to the regional and international economies, the potential growth of manufactured exports is virtually unlimited; the key is to be able to produce products which are competitive in terms of both price and quality, and to be able to get these products to the market.

3.2 Past experience: the manufacturing sector in the 1980s

The 1970s and 1980s saw very rapid manufacturing sector growth in Botswana, in contrast to the extremely poor performance of manufacturing throughout most of sub-Saharan African over most of this period[1] . Manufacturing growth averaged 10.8% a year between 1965 and 1985[2] , and although this was from a very small base, such sustained growth is quite impressive. It also marked a substantial diversification of the manufacturing sector away from meat processing (intially the Botswana Meat Commission contributed a very high proportion of manufacturing output). Despite this rapid growth, the manufacturing sector failed to increase it's share of GDP beyond 5%. This was largely because the rest of the economy was growing rapidly as a result of the expansion of minerals output and exports[3] , and the increase in the mineral sector's share of GDP from zero to over 50% at it's peak tended to squeeze out the shares of other sectors.

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1 See Riddell, R. "Manufacturing Africa" for a more extensive discussion of the experiences of Botswana and other SSA countries.

2 See C.Harvey & S.Lewis "Policy Choice and Development Performance in Botswana", p.160.

3 It is worth noting that the manufacturing sector contributes approximately the same amount of economic output as the agricultural sector; this is a major contrast to other African countries where manufacturing is generally much smaller than agriculture.

Table 1
Manufacturing Sector: Output, Employment and Exports

			1986	1987	1988	1989	1990	1991	1992	1993	1994	1995*
Output	Current prices	*P mn*	124	168	192	289	324	362	412	449	500	594
	Constant prices	*P mn*	124	146	190	242	254	270	288	285	281	293
	Real growth	%		18%	30%	27%	5%	6%	7%	-1%	-1%	4%
Employment	mfg		10600	12900	15300	18100	23300	26000	25500	22100	21700	23400
	growth			22%	19%	18%	29%	12%	-2%	-13%	-2%	8%
	total private		66900	80300	93800	104900	124200	142500	141500	131800	136200	136500
	mfg/private	%	16%	16%	16%	17%	19%	18%	18%	17%	16%	17%
Productivity	output/wkr	*P/wkr*	11698	11318	12418	13370	10901	10385	11294	12896	12949	12521
	3 yr m.a.	*P/wkr*			11811	12369	12230	11552	10860	11525	12380	12789
Exports	textiles	*P mn*	43	59	60	80	112	123	76	95	177	103
	vehicles	*P mn*	0	0	0	0	0	0	0	91	301	604
	other	*P mn*	122	144	143	181	197	213	240	334	261	221
	total non-trad	*P mn*	165	203	203	261	309	336	316	520	739	928
	total	*P mn*	1619	2665	2678	3743	3319	3738	3675	4179	4964	4300
	NTX/TOTX	%	10%	8%	8%	7%	9%	9%	9%	12%	15%	22%

1995 figures are for January to September only

Source: Central Statistics Office and own calculations

An analysis of the sources of manufacturing sector growth has been carried out for the period 1975 to 1985[1]. This found that approximately 51% of the growth came from rising domestic demand, 26% from import substitution, and 24% from exports. If meat and meat products are excluded (so as to focus on "non-traditional" exports) the shares are domestic demand 54%, import substitution 38%, and exports only 8%. Therefore manufacturing growth was largely led by sales in the domestic market (due to import substitution or market growth) and exports played a relatively minor role.

The rapid growth of the manufacturing sector - especially during the second half of the 1980s when real output more than doubled between 1986 and 1990 - can be traced to a number of factors:

1. A rapidly growing domestic economy (economic growth averaged 12% a year between 1985/6 and 1990/91). This was especially marked in the construction sector, where growth was fuelled by the ending of the drought in 1987 and rapid growth in government revenues and spending on the basis of sharp increases in diamond earnings. Construction sector growth generated heavy demand for building materials etc.

2. Growth in exports, especially to Zimbabwe, due partly to preferential access under the Botswana-Zimbabwe Trade Agreement. In addition, due to Zimbabwe's economic problems, a number of firms from that country faced an incentive to relocate to Botswana and then export back to Zimbabwe.

3. The impact of Financial Assistance Policy (FAP), which had been introduced in 1982 and offered substantial investment incentives to manufacturing firms.

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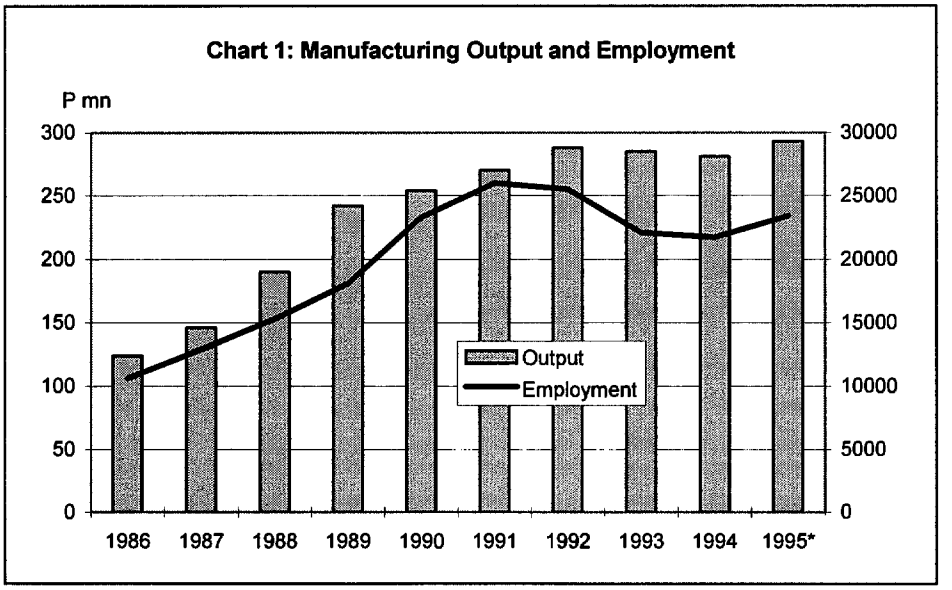
1 See S.Lewis and C.Jenkins "Botswana's Industrialisation", and the Botswana chapter in Riddell (1991).



Employment in the manufacturing sector also increased rapidly over this period (see Table 1 and Chart 1).

3.3 Recent experience: the early 1990s' recession

With hindsight, the three factors noted above which contributed to manufacturing growth in the late 1980s were not sustainable, and the downturn which hit the manufacturing sector (and the economy more generally) in the early 1990s was not entirely surprising.

Economic growth rates in excess of 10% per annum were brought to an end by the international recession which impacted on diamond exports, and consequently on government revenues and expenditure. Furthermore, government had itself become overstretched during the late 1980s boom and proved increasingly unable to implement it's policies and spending plans efficiently and effectively - even if mineral revenues had not fallen, government was incapable of continuing to expand so rapidly. But even without this implementation constraint, many of the large infrastructure projects (expansion of primary schools, major road projects, housing and urban development schemes) which featured in NDP 6 and the first half of NDP 7 had largely been completed by the early 1990s, and the demand which they created for building materials, etc. declined rapidly. The latter problem was exacerbated by the exposure of corruption at the Botswana Housing Corporation which resulted in the temporary suspension of it's housing construction programme in 1992.

Exports. Zimbabwe's implementation of a structural adjustment programme largely brought to an end the artificial circumstances which encouraged imports from Botswana. Firstly the Zimbabwe dollar was devalued, ending it's overvaluation which had earlier made Botswana goods artificially cheap. Secondly, economic liberalisation ended some of the other distortions (such as lack of access to imports and foreign exchange) which had encouraged the migration of Zimbabwean firms to Botswana. Thirdly, the

recessionary impact of structural adjustment in Zimbabwe cut real incomes and hence aggregate demand.

The **Financial Assistance Policy (FAP)** scheme was initially successful at creating jobs, but not necessarily in a sustainable manner. Recent reviews of the FAP have concluded that the policy was overly biased towards the encouragement of short term job creation, but with insufficient incentives for investment in training and productivity improvements[1]. Therefore, although many jobs were created in the short term, these were not sustainable when the FAP grants ran out (after five years) as firms were no longer viable without subsidies due to a failure, amongst other things, to secure productivity improvements. The relatively high level of FAP grants and their payment on a cash basis also encouraged investors (whether domestic or foreign) to come with a short term outlook; at best, many of them were opportunists, at worst, they were engaged in fraud.

The result was that many of the firms established in the late 1980s faced one or more crises by 1992: for exporters, the Zimbabwean market had collapsed; for those selling domestically, economic growth had slowed, Botswana was facing a recession, and the construction sector had been further hit by the corruption scandal at the Botswana Housing Corporation which led to the temporary suspension of it's house building programme. Furthermore, many firms were reaching the end of the five year FAP grant period. Under this weight of problems, many of them collapsed. The result was a contraction of the manufacturing sector; between 1992 and 1994 output fell by 2.5% and employment by 15% (see Table 1 and Chart 1).

3.4 Recent experience: the mid-1990s' recovery

Indications are now that the worst of the recession is over and that a recovery in the manufacturing sector is now under way. Manufacturing output rose by 4.3% between 1994 and 1995, while employment rose by nearly 8%. More striking is the growth in "non-traditional" exports[2], which increased from around P290m in 1992 to over P700m in 1994. This recovery has come at a time when traditional exports have been more or less stagnant, and as a result non-traditional exports more than doubled their share of total exports from less than 10% in 1992 to over 20% in 1995 (see Chart 2).

The recovery has been particularly strong for the textile and garment sector, which was hard hit by the collapse of the Zimbabwean market, but which has since successfully diversified into new markets (both regional and international).While textile and garment exports collapsed from P123m in 1991 to P46m in 1992, by 1994 they had recovered to P177m. However, there are also a number of new export products, of which motor vehicles from the Hyundai assembly plant are the most important.

Trade data also illustrates that the export recovery has been associated with a change in the destination of exports. As noted above with textiles, the relative importance of Zimbabwe has declined while that of South Africa has increased. Although some firms are successfully selling into international markets, the most important trend -

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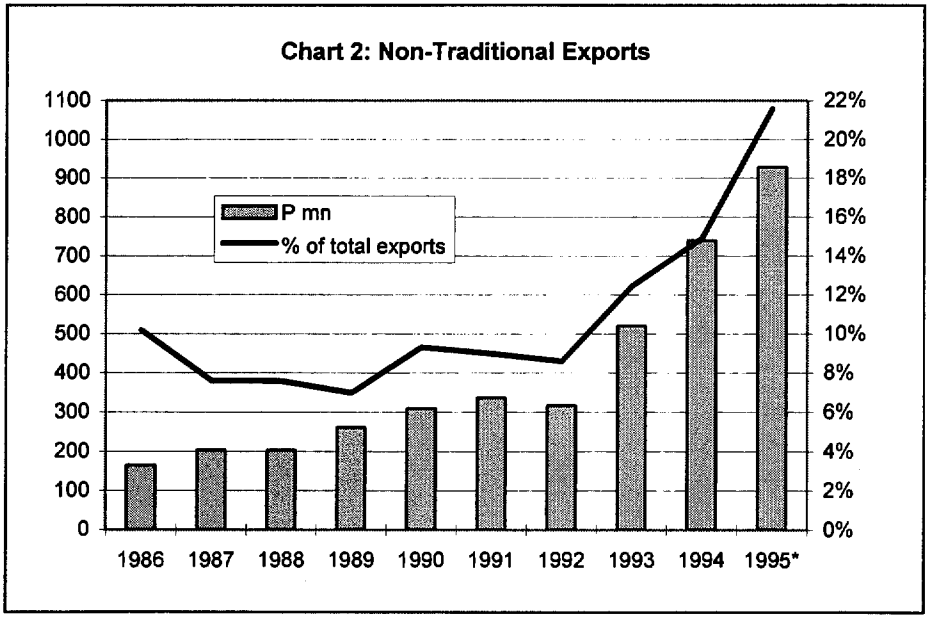
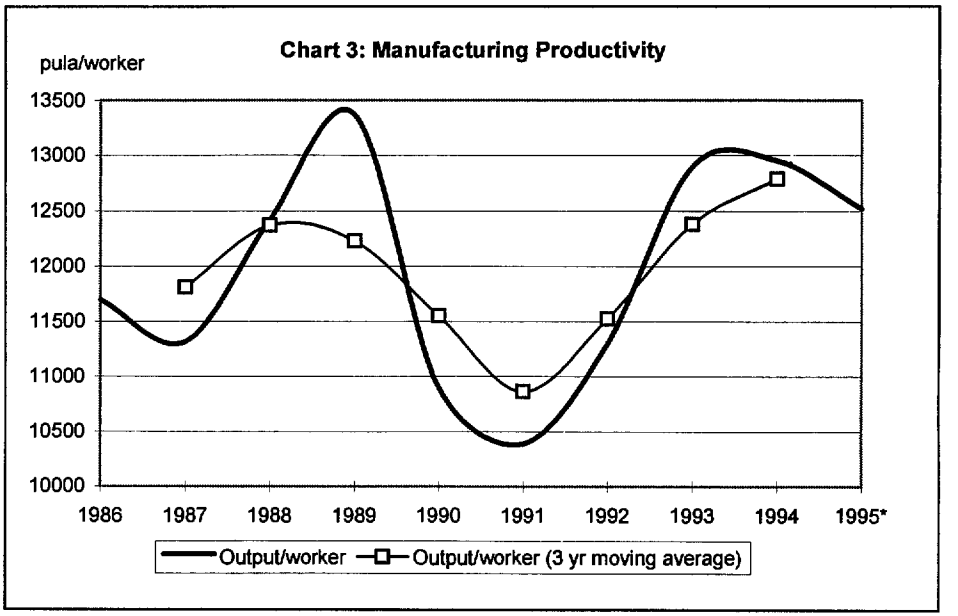
1 See, for example, the Third Evaluation of the Financial Assistance Policy (Phaleng Consultancies for the Government of Botswana, 1995).

2 Non-traditional exports include all exports apart from diamonds, copper-nickel and beef, and represent mainly manufactured goods. The most important of these are motor vehicles, foodstuffs, and textiles.

confirmed by the case studies below - is the new focus on South Africa. The rise in manufactured exports to South Africa has gone some way towards redressing Botswana's historically large trade deficit with that country.

One interesting angle on the manufacturing recovery is the trend in productivity. Although accurate productivity data are still not available, a crude indicator of labour productivity can be obtained by dividing output (from GDP data) by employment. On the basis of a moving average series (to smooth out short term fluctuations) it can be seen that manufacturing productivity fell between 1989 and 1992, but has been rising since 1992 (Chart 3). One interpretation is that the manufacturing expansion of the late 1980s paid too little attention to productivity - competitiveness did not matter a great deal either in the rapidly growing domestic market or in the distorted Zimbabwe market, and the nature of FAP incentives encouraged employment of unskilled workers rather than skills development and training. So it is not surprising that productivity started to fall, nor that uncompetitive firms could not survive when economic conditions turned against them. The recession - like recessions everywhere - had the effect of "shaking out" those unproductive firms, that is, uncompetitive firms with low productivity could not survive when times got tough. As a result of the removal of low productivity firms the average level of productivity started to rise. Furthermore, in the more competitive conditions of the mid-1990s (both in the domestic market and in South Africa) only firms which were efficient (and increasing their efficiency) could survive. One positive result of the recession is that it has helped to sort out the sustainable from the unsustainable investments.





4. Case studies: export manufacturing companies

In order to further investigate the factors behind this recovery in the manufacturing sector, and especially the sharp growth in exports, a number of firms were interviewed. The aim of the survey was to determine the factors accounting for the success of the major private sector manufacturing exporters. It therefore excluded BMC (Botswana's largest manufacturing firm) as it is government owned. It also excluded firms (such as Kgalagadi Breweries) which primarily serve the domestic market. Due to time and resource constraints the survey was restricted to firms in and around Gaborone (and it therefore omitted some of the large exporters based in Francistown and Selebi-Phikwe). The survey took place in March 1996 and the following nine firms were interviewed:

Firm	Location	Business	Employment
Algo Spinning & Weaving	Gaborone	Production of denim cloth	250
Bic/Tau	Mogoditshane	Ballpoint pen assembly/match packaging	100
Bolux	Ramotswa	Flour milling;, biscuit, pasta production	1,000
Finedec	Gaborone	Production of plastic flowers	270
Hyundai	Gaborone	Motor vehicle assembly	511
Lazare Kaplan (LK)	Molepolole	Diamond cutting and polishing	543
Owens-Corning (OC)	Phakalane	Production of GRP water, etc. pipes	95
Ramotswa Garments (RG)	Ramotswa	Jeans and denim garments	335
Western Textiles (WT)	Gaborone	Weaving; production of towels, etc.	360

The nine firms employ a total of nearly 3,500 workers. This compares with 23,400 workers employed in the manufacturing sector in March 1995 (the most recent date for which employment statistics are available). Excluding BMC, therefore, the firms surveyed represent about 16% of the manufacturing labour force, and a considerably larger proportion of the labour force in the export manufacturing sector. They also cover all of the major sectors which have been responsible for the increase in Botswana's manufactured exports since 1992, i.e., motor vehicles, foodstuffs, and textiles/clothing. Although the number of firms covered was relatively small, they nevertheless more than adequately represent the export manufacturing sector. In fact, with the exception of the northern (Selebi-Phikwe and Francistown) clothing firms, all of Botswana's major export manufacturing firms were included.

The term "successful" is applied to these firms rather loosely. Firstly, these firms are relatively large (by Botswana standards), which may be taken as one measure of success. Secondly, they have all either survived the recession or become established since then. Thirdly, almost all of the firms are either in the process of expanding, have recently expanded, or are planning to do so. More generally, all of these firms are part of the recent wave of expansion of the manufacturing sector.

In addition to the firms, representatives of some of the key institutions having a role in the development of manufacturing exports were interviewed; that is, the Ministry of Commerce and Industry, TIPA, BDC and NDB.

5. Survey results

One aim of the survey was to uncover any common factors which could be identified as having made major contributions to the success of exporting firms. Some common characteristics have indeed been identified, and these are discussed below. At the same time, there is also a great deal of variety in other firm characteristics, which is a positive indication that a variety of different types of firms can thrive in Botswana. The results are summarised in Appendix 1.

5.1 Origins, ownership and management

Origins: seven of the firms were new businesses established by the present owners; one was a takeover of a firm facing bankruptcy; and one was a relocation from South Africa. An interesting finding was that six of the firms had some prior connection with Botswana, whether personal or through some other business link.

Ownership: five of the firms were joint ventures between local (Botswana) and foreign interests; three of these involved the Botswana Development Corporation, while four involved individual Batswana (some involved both). Four firms were entirely foreign owned. Only two firms had majority local ownership.

Management: management was split more or less equally between owner-managers and employee managers. However, the division depended upon the size of firm: as would be expected, the four largest firms (by turnover) were all employee managed, while the smaller firms were owner-managed. In two cases, the owner-managers were Batswana.

5.2 Products and Production Techniques

Type of product: the firms produce a variety of different products - three are in the textiles/garments, sector but the others are all in different industries. Some were in what might be termed "commodity" markets, where the products are competing with other

products with almost similar characteristics (e.g., some textiles/garments products; plastic flowers; Bolux's "own label" pasta products for supermarket chains). In these markets, competition is essentially on the basis of price, and margins tend to be low. At the other extreme are highly distinctive products where there is no direct competition from other manufacturers of the same product; an example is Owens-Corning's GRP pipes. Most producers fall somewhere in between these two extremes, so that competition is partly on the basis of both price and distinctive product characteristics (such as brand names) or quality; in other words, there is significant product differentiation across producers. Examples are Bic pens (where brand name is important); Hyundai cars (where brand name and features as well as price distinguish Hyundai from it's competitors); Lazare-Kaplan diamonds (the firm has it's own distinctive style of diamond cut); and even Algo's denim cloth (whose quality is at the top end of the range).

Production techniques/capital intensity: again, there is a variety, ranging from highly automated capital intensive techniques (Owens-Corning) to very labour intensive, hand assembly operations (plastic flowers, biros). A number of firms occupy an intermediate position, operating in relatively labour intensive industries, but with modern, state-of-the-art, semi- or fully automated machinery (Bolux's milling and pasta lines, Algo's spinning and weaving mill; Lazare-Kaplan's diamond cutting).

A point to note is that in general the more labour intensive the operation, the less distinctive is the commodity, the more competition is based upon price, and the lower are profit margins. The more capital intensive operations compete on both product quality/characteristics as well as price.

5.3 Markets and competition

5.3.1 Markets

Botswana firms face four different markets - the domestic market; South Africa; the Southern African region (excluding SA) and international markets. Each of these has different characteristics regarding size and growth rate, distance, the level of protection against imports, price level, product requirements and type of competition. These characteristics influence the ease with which the markets can be successfully served by Botswana firms, and the profits which can be made there.

For most of the firms surveyed the main market is South Africa. Only one firm has the domestic market as it's main market (Owens-Corning). For Bolux, the domestic market is quite important (at least for the milling operation), but for others selling locally (Hyundai, Bic, Algo) it is a very small proportion of total sales. Sales to other countries in the region are important in some cases (Owens-Corning, Bic, Bolux). Only one company (Lazare Kaplan) has it's main market outside of Southern Africa.

Although in economic terms Botswana is small relative to South Africa, some of the Botswana exporters have secured significant market shares in South Africa. Hyundai claim 8% of the passenger vehicle market, Bolux have 25-30% of the pasta market, and Owens-Corning are aiming at 20% of the pipe market.

5.3.2 Marketing arrangements

One of the most important aspects of export sales - and one of the most difficult to get right - is marketing. As compared to domestic sales, exports require information and

intelligence on markets at a distance, and a different type of contact with buyers. Relative to the Botswana market, export markets are generally large and more competitive. They also have stricter requirements with regard to quality (covering a variety of aspects, such as product quality and permissible defect rate, packaging, and delivery schedules). Meeting these requirements can be difficult for a small company which only has prior experience of the domestic market, and failure to meet them can be disastrous for the future of the company. As a result, few of the companies surveyed had independent, Botswana-based marketing operations. Instead, one of two different approaches tended to be used. The first is to use the expertise of the larger group of which the company is a part, either by simply providing products/output which feed into the group's international marketing operation (Lazare Kaplan and Bic) or by bringing expertise from outside to establish marketing in Botswana (Owens-Corning). The second is to use a marketing operation located to be in close contact with buyers (most commonly in Johannesburg) - this applies to Ramotswa Garments, Hyundai and Bolux. Marketing may be handled by a separate division of the main company or by a independent marketing agent working on commission. Only three of the nine companies handled their marketing independently from Botswana, and these tended to be dealing with a small number of large buyers.

5.3.3 Competition

In most cases, the main competition was from other South African companies - which is to be expected, given that South Africa is the main market and it still remains somewhat isolated from global competition by high tariff protection (although these barriers are gradually coming down).

5.4 Productivity, training and wages

5.4.1 Productivity

Some of the most important, and perhaps unexpected, findings from this survey related to productivity. Given the frequent comments made regarding low productivity in Botswana, this issue is extremely important.

Although several of the firms commented that productivity was low by international standards, all except one also said that it had improved over the years. All of these concluded that productivity was acceptable, or was anticipated to be acceptable within the near future, in the sense that at current wage rates, labour costs were not seen as a factor jeopardising the viability of the operation. The one exception was for a firm which had been operating in Botswana for less than one year, so that it is perhaps too early to make definitive judgements. In general, productivity was not seen as a problem.

Three factors appear to be important in raising productivity to acceptable levels:

- **Training**: eight of the firms had devoted considerable effort to the training of employees, using specialised trainers (who were also often supervisors). In most cases this was predominantly on-the-job training, although three firms also made use of external training programmes. Several employers commented that Batswana workers were "very trainable".
- **Supervision**: the majority of firms agreed that close supervision of production employees was crucial in ensuring adequate productivity levels.

- **Bonus schemes**: eight of the nine firms made use of productivity-related pay schemes, in that workers received bonuses for exceeding target productivity levels. Essentially this involves piece-rate payments on top of a guaranteed minimum flat rate (usually close to the minimum wage). In most cases, the bonus was calculated and paid on an individual basis, although in one case it applied to work teams. Some firms also paid an attendance bonus, aiming to reduce absenteeism. All firms agreed that bonus schemes had an important incentive effect and were effective in raising productivity.

Firms used different methods of dealing with workers who failed to reach acceptable productivity levels; in some cases, these workers were retrenched after receiving warnings, while others simply transferred these workers to other less important functions within the company[1] .

It is striking that, in five of the nine firms surveyed, the vast majority of the workers were women, while only two had a majority of men. Employers noted that women had greater manual dexterity than men, and were also more dependable and regular in terms of attendance at work. This suggests that in employment terms, women may be benefitting more than men from the expansion of the manufacturing sector.

5.4.2 Labour relations

None of the firms reported any significant labour relations problems; where there had been difficulties, these were seen as isolated incidents rather than a general trend. Several firms reported that trade unions were recruiting workers, although only one had a recognition agreement. There was a general perception that Botswana's trade unions were not particularly effective, and that by comparison the Labour Department was much more active and relevant in resolving labour issues. Firms generally reported good relations with the Labour Department, but stressed the importance of early consultation and the following of correct procedures to avoid labour problems.

Many firms commented that Botswana's relatively good labour relations as compared to South Africa were one of the most important reasons for investing here.

5.4.3 Wages

Most of the companies paid above the minimum wage, except for new recruits. Wages depend upon a variety of factors, including skills, experience and productivity (which may be directly rewarded through bonus schemes). Production workers are typically paid in the range of P250-P400 per month (compared to a minimum monthly wage of P235 for a 44 hour week), although some companies pay significantly more than this. Several companies noted that they pay above the minimum wage in order to retain experienced

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1 Although the Selebi-Phikwe firms were not included in this study, informal discussions suggest a similar experience. Of the firms currently in operation, Backpacker (camping products) and Oro-Bot (jewellery) are reported to pay serious attention to training and tight supervision; both are successful and are expanding. In contrast, Tex (garments) apparently pays much less attention to training and supervision and is experiencing productivity problems. Furthermore, Sportsline (garments), which went bankrupt in 1995, appears to have been extremely badly managed, with training and supervision largely ignored.

workers (i.e., there is a danger of "poaching" of such workers by other companies), indicating a degree of labour shortage immediately above the "unskilled" level.

5.4.4 Labour costs

Labour costs reflect both wage levels and productivity; labour costs (per unit of output) will rise as wages rise, and fall as productivity rises. A consistent picture emerging from the companies interviewed is that Botswana's labour costs are competitive by South African standards; although productivity is generally at or below South African levels, wages in Botswana are significantly lower, giving Botswana a significant overall labour cost advantage. However, Botswana's labour costs are reported to be high by world standards (especially when compared with other "new exporting countries" in Asia, such as Indonesia, Vietnam, India, etc.[1]).

5.5 Finance

Financial issues did not have a very high profile amongst the firms surveyed, although there were some comments regarding the level of interest rates and of security demanded by banks (too high in both cases). However, none of the firms appeared to be seriously constrained by availability of finance - perhaps reflecting that for successful firms, finance is available without too much difficulty in Botswana. Financial issues are discussed in more detail in the conclusions below.

5.6 Problems

Firms were asked what were the main problems they encountered operating in Botswana. In general few problems were mentioned, but the three most prominent were high interest rates, problems with the immigration department regarding expatriate employees, and duties on materials imported from outside of the SACU area. Contrary to expectations and "received wisdom", neither utilities costs nor productivity were cited as major problems. Nor was Government bureaucracy seen as a problem (at least not outside of the Immigration Department) once firms were successfully established, although the bureaucracy does seem to be a problem for firms getting started2 .

5.7 Botswana's advantages

Firms were asked what were the main advantages to them of operating in Botswana. The most consistent were unrestricted (duty-free) access to the South African market, a positive economic climate, political stability, and a low company tax rate. Also important were low labour costs and good labour relations. FAP incentives do not appear to be a major factor in firms' considerations - several noted that they assessed the viability of their investment in Botswana without taking FAP into account and only saw it as a bonus. From the point of view of sustainability, it is preferable to have firms attracted by

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1 For further details of comparative productivity levels, see the 1992 World Bank/Government of Botswana report, "Opportunities for Industrial Development in Botswana".

2 For instance, in an interview last year Hyundai noted major difficulties in getting co-operation from Customs and Excise and the CID in promptly clearing imports and exports, especially at weekends. This year, however, such problems appear to have been resolved following negotiations between the company and senior officials in both departments.

a favourable overall economic and political climate (including low taxes) than by time-limited investment incentives[1] .

6. Conclusions and recommendations

6.1 Conclusions

Perhaps the most important conclusion is that export manufacturing in Botswana can be competitive, at least by regional standards. We have identified a number of successful firms, in a range of industries, which underpin the rapid expansion of Botswana's exports of manufactures in recent years. Beyond this, the factors relevant to their success appear to be as follows:

6.1.1 Markets

South Africa is the most important market for the firms surveyed, and is likely to remain so for Botswana's exporters into the foreseeable future. It is relatively large, and the economic revival which has accompanied political transformation has opened up new opportunities. The South African economy has been growing at an increasing rate each year since 1992, in sharp contrast to the years of recession which preceded this[2] . It is much easier to penetrate a growing market than a declining one, not only because real incomes (and expenditure) are rising, but also because there is more "space" to compete with existing firms. It is close to Botswana, especially the Gauteng region which generates 40% of SA's GDP and which is less than 400km from Gaborone. This proximity eases both marketing and transport, making it easier to penetrate the market and to deliver products on schedule. Years of protection have made the SA market much less efficient and competitive than global markets; as a result, it has a higher cost level and many industries which are dominated by large, monopolistic firms which have been insulated from real competition. Both of these are factors which open up opportunities for Botswana firms[3] . In the longer term, however, Botswana should be looking towards serving broader, global markets (or at least achieving global competitiveness and efficiency), as the South African market is itself becoming gradually more integrated into world markets.

6.1.2 Products and competitiveness

Establishing the right competitive position in the right market is crucial for export success. The firms surveyed demonstrate a variety of experiences in this respect. However, some conclusions can be drawn.

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1 Although this does not mean that there is no role for time-limited incentives such as FAP, as these may still be important in assisting new or expanding firms to survive during the critical early years when they are most vulnerable.

2 Recent SA GDP growth has been as follows: 1992: -2.2%; 1993: 1.3%; 1994: 2.7%; 1995: 3.3%; 1996 (forecast): 3.5%. (Nedcor Monthly Economic Profile, 22 April 1996).

3 Firms exporting to SA are judged by less stringent cost and efficiency criteria than firms exporting to global markets; this makes the SA market easier to penetrate. The dominance of large firms can be a mixed blessing. On the one hand, the fact that they have not faced effective competition in the past makes them vulnerable to new competitors; but, at the same time, these large firms have the financial resources and market power to fight a price war or undertake other aggressive tactics to drive a new competitor out of the market.

It is unlikely that Botswana will be able to compete effectively in industries using highly labour-intensive production techniques. While Botswana has a combination of wages and productivity which is competitive by South African standards, it is not competitive by global standards, and it is unlikely that it can ever compete with south and east Asian countries (such as India, Vietnam, Indonesia, etc.) which offer much lower money wages and higher productivity[1] . This suggests that it would be a mistake to target the most labour-intensive industries (even though this might be tempting because of the current unemployment problem) where competition is mostly on the basis of price rather than product quality.

As a result, Botswana should encourage investment in a slightly different market/product area, where competition is not predominantly on the basis of very low labour costs. Instead, emphasis should be on industries which are relatively labour intensive but with Botswana firms targeting the more capital intensive end of these industries. This has a number of advantages:

(a) increased capital investment will raise labour productivity, skills and wages;

(b) more capital intensive production techniques enable higher and more consistent product quality, and enables products to compete on the basis of both superior quality characteristics as well as low costs of production;

(c) Botswana has the financial resources to enable it to import state-of-the-art production machinery, an option which is not available to many other developing countries; and

(d) capital intensive operations require a greater initial financial investment by firms as compared to labour intensive operations; the greater the financial investment the more tied the firm is to a particular location. Given that Botswana will be reliant for the foreseeable future on foreign investment (for reasons of access to markets and managerial skills rather than financial needs) encouraging investment in more capital intensive production will help to avoid the kind of footloose, highly mobile firms which are more tempted to relocate after the expiry of initial grants, subsidies or other time-limited investment incentives.

There are some examples of this type of investment already happening successfully in Botswana. Algo now has modern spinning and weaving equipment which enables it to produce denim cloth at the highest end of the quality spectrum; similarly, Bolux operates milling and pasta-making machinery which is claimed to be as good as any in use anywhere in the world. Both textiles and food processing are relatively labour intensive industries, but these firms are successfully trading on the high quality products which result from investing in the high-tech end of these industries. Hyundai's proposed CKD assembly plant will be using highly automated robot-controlled welding lines which will be more advanced than those in use in South Africa's vehicle assembly industry. These

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[1] Politically it is almost certainly impossible for Botswana to reduce real wages to Indian/Indonesian levels - for instance by abolishing the minimum wage - which would be necessary to compete in these markets even if Asian levels of productivity could be achieved.

conclusions reinforce similar suggestions made in the Ministry of Commerce and Industry's Sectoral Keynote Issues Paper for NDP 8.

6.1.3 Productivity

The study has revealed important and encouraging productivity findings - that although productivity is rarely up to international standards, (i) it is adequate for firms to produce competitively, **given current wage levels**, and (ii) productivity levels are typically low when a firm starts production and recruits new workers, but can be easily improved by the right policies. These policies revolve around training, supervision and bonus schemes, which appear to be crucial to attaining acceptable levels of productivity; training to develop the necessary skills; supervision to provide discipline; and bonus schemes to provide an incentive. As a result, productivity does not appear to be a problem amongst well run manufacturing companies; where it is a problem, it is due to a neglect of these three important factors. This also suggests that low productivity is mainly a management problem, to the extent that although there may be problems which cause initial levels of productivity to be low (culture, education, attitudes towards work, etc.), these can be overcome if management implements suitable policies.

The recent reforms to FAP are therefore a move in the right direction, in that they now give greater incentive for firms to invest in training, and the importance of on-the-job training is recognised. The old system where only off-the-job training was subsidised was highly inadequate, as most skills are firm- or job-specific, and hence only on-the-job training will suffice; as the survey results show, this is the most important method of training for most firms.

The findings regarding productivity are also important with regard to income determination. The wages received by many people in Botswana are low relative to the cost of living, and poverty and inequality remain serious problems. At the same time, there is very limited scope for wage increases without undermining the competitiveness of many firms. However, if productivity can be increased - and the evidence here suggests that it can be - then this enables both incomes to rise and labour costs to remain competitive at the same time. This reinforces the point that real wages need to be much more closely linked to productivity, and ensuring that workers get some of the benefit of productivity increases. It is also important to bear in mind that although Botswana labour costs are competitive at present levels by South African standards, they are not very competitive by the standards of some Asian countries

It is also worth noting that increased productivity is unlikely to lead to fewer jobs, except perhaps in the very short run. In the medium term, increased productivity will lead to more employment by ensuring the survival and expansion of existing firms (due to enhanced competitiveness) and by attracting new investment.

These conclusions about productivity apply specifically to the manufacturing sector, and it may be a different story in government and in the service sector. In services, because output is comprised of intangibles rather than physical products, productivity is difficult to identify and measure, and thus supervision and incentives are more difficult to apply. Similar arguments can also be applied to government. However, these arguments should not be taken too far, and there is plenty of scope for improving productivity in government by implementing the same trio of measures - training, supervision and

incentives - as have been shown to work in manufacturing[1] . This depends upon senior government managers recognising that there is a productivity problem, and having the determination to deal with it - which may be a problem as it requires managers at all levels to work harder. If productivity is essentially a management problem, then it may well be that low productivity in government mainly reflects poor management there. It is also worth noting that in many services and in government there is little or no effective competition, and thus efficiency is not essential for survival; for manufacturing firms this is not the case.

6.1.4 Management and ownership

The survey confirmed the commonly-held view that foreign ownership dominates the manufacturing sector, especially amongst larger firms. It was quite difficult to find large, manufacturing exporting firms which were actively owned and managed by Batswana. However, there is no evidence that Batswana are in any sense deliberately excluded from this sector; instead, exporting requires a level of skills and experience which most Batswana do not have as yet. As compared to the domestic market, export markets are larger, more competitive, and have much stricter requirements with regard to product quality, reliability, and delivery schedules; it is also more difficult to acquire market intelligence and to establish the necessary marketing links. While producing for the domestic market may be a valuable first step to exporting, that step up is a large one.

It is also apparent that although the firms surveyed were quite varied in many respects, the one common factor was the **quality of their management**. They had managers who had succeeded in bringing the right product to the market at the right price at the right time - often penetrating markets in quite difficult conditions - and had overcome the skills, productivity and availability of finance problems that are often said to bedevil firms in Botswana. Good quality management is in short supply, and indeed **management is arguably the major single constraint to the success of new and expanding firms in Botswana.**

This reinforces the importance of external links of various kinds. Few of the firms surveyed were completely independent, and the majority used other companies (to which they were typically linked as part of a larger business group) for a variety of purposes, including finance, technology and technical expertise, markets and marketing, and management. A Botswana firm stands a much greater chance of successfully penetrating export markets if it has access to these links (whether through direct ownership ties or some less formal link). And it should be recognised that - although in some quarters foreign investment is still seen in a negative light - Botswana will for the foreseeable future remain highly dependent upon inward foreign investment for technical and managerial expertise, and access to foreign markets (although not so much for access to finance, as is the case in many other developing countries).

On a related issue, there is also substantial potential in encouraging the relocation of South African firms. Besides offering unrestricted access to the South African market,

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1 Low productivity is especially frustrating in those government departments or units where there is direct contact with the public, and yet in many of these departments output is easily quantifiable. For instance, in the motor vehicle licensing office it would be easy to monitor the number of customers served in a day, and the average length of time it takes to do so. A similar argument applies to immigration and permit processing.

and a good geographical position for access to other countries in the region, Botswana has a range of advantages over South Africa, including lower labour costs, better labour relations, a stronger currency, much lower taxes, lower interest rates, and a generally more favourable macroeconomic environment. There are some disadvantages, including higher utilities costs (although this is less of a problem now as real utility tariffs have steadily fallen), more restricted access to a range of sophisticated financial and other services, a shortage of locally available skills and a government bureaucracy which can at times be stifling. But for many South African industries - of which the textile and clothing sector must be the prime candidate - Botswana's lower labour costs and taxes must offer a huge incentive to move. Although there have been a few isolated instances of this happening so far (such as Backpacker in Selebi-Phikwe), there has been no concerted effort from the Botswana side to attract such companies[1].

6.1.5 Finance

Although there are frequent complaints about the difficulties faced by firms in raising finance in Botswana, it is not clear that these are always justified. Certainly it is much easier for large firms to raise finance than smaller ones. Finance is also much easier to raise for subsidiaries of foreign companies, especially when foreign parent companies can either provide finance directly, or provide the guarantees necessary to raise finance from either foreign or local banks. Such companies also have access to long term loans from BDC[2].

There are complaints about interest rates, but these are largely unjustified - large companies can get loans from the banks or BDC at 17.5%, or 3% above prime and about

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1 At present TIPA is the government agency charged with responsibility for attracting inward foreign investment to Botswana (its investment promotion function). A recent evaluation of TIPA concluded that it "is not perceived as being successful in attracting and encouraging new investors, and overall, the results it has achieved have not been significant". A similar impression was gained from the firms covered in this survey - none of them had been assisted in any way by TIPA, nor had TIPA had any influence on their decision to locate in Botswana. In its investment promotion role at least, TIPA is largely ineffective. This failure is attributable to its establishment as a government department within the Ministry of Commerce and Industry. It does not have the ability to recruit suitable personnel (civil servants are appointed to TIPA by the DPSM) and it operates with a bureaucratic rather than a business/entrepreneurial culture. It lacks staff with relevant expertise, and especially those with business experience. Secondly, it has little budgetary discretion, and does not have the spending flexibility to operate an effective investment promotion function. TIPA's failures contrast with the successes of the Selebi-Phikwe Regional Development Project, which operated much more independently (partly because it was externally funded) and managed to set up an effective investment promotion operation, which marketed Botswana as a whole rather than just Selebi-Phikwe. Despite having a much smaller staff than TIPA, the SPRDP has been much more successful in attracting investment and jobs into Botswana.

2 Although BDC has been praised for its good performance in the past, its recent record has been less impressive. Several comments were made that BDC was "out of touch" and it certainly appears poor decisions in the past are at the root of current problems (BDC made a loss of P100m in the 1994/95 financial year once revenue from asset sales is excluded). There are also doubts about BDC's ability to effectively monitor investments or provide managerial inputs or interventions where these were needed. All of this could be a reflection of too rapid expansion and overstretching of limited professional resources within BDC.

7% in real terms. This is far below South African interest rates in both real and nominal terms (the SA prime rate is around 19%). Given the risks involved in lending to manufacturing companies, it is difficult to claim that interest rates in Botswana are excessively high - the complaints are due more to a history of artificially low interest rates. If large established firms are concerned about interest rates, they always have the option of a stock market flotation. International evidence also indicates that small changes in interest rates have little influence on investment, and that other factors are typically much more important.

However, the situation is more difficult for smaller, less well connected companies. Botswana does not have a well developed range of financial institutions and markets, and the local financial system is dominated by commercial banks, which are highly risk averse and not particularly interested in lending to small companies (small loans are costly to administer and too risky to be profitable) or in long term lending. Where banks do lend money, their collateral requirements are typically extremely strict (security of 200%+ of loan value). BDC provides long term loans and equity finance to larger companies, but does not deal with smaller firms. The National Development Bank, after reform and restructuring, is specialising in providing long term (5-15 year) loans to businesses, but has to operate commercially and it too imposes strict collateral requirements.

It is arguable that there is a gap in the availability of risk capital to small and medium enterprises. This may include medium sized companies, which are quite highly geared, and which the banks are reluctant to lend to. It may also include small companies which have reached the upper limit of small scale FAP assistance, but which have good prospects for expansion. In a more developed financial system, this would be met by venture capital operations, which specialise in lending to high risk new and emerging enterprises. Besides providing equity finance (which is more suitable for a risky venture), such operations may also provide access to skills for companies which are lacking in certain areas. At present, there is no venture capital operation, and yet the need in this area needs to be carefully evaluated, along with the possible justification for a subsidy on finance costs for ventures which are risky but with good long term prospects, and which are not adequately catered for by existing financial institutions. However a solution to the equity problem for citizen firms also requires Batswana entrepreneurs to be more prepared to commit their resources (cattle or property) as equity finance in business ventures; expecting banks to completely finance the costs of new or expanding businesses is quite unrealistic.

6.1.6 Industry targetting

It has been suggested above that Botswana should focus on specific industries, or types of industries, in it's industrial promotion efforts. This is a controversial approach, and goes against current trends which emphasise getting the investment environment right and then letting the market select which firms and industries invest and survive. While "getting the environment right" is a necessary part of investment promotion and industrial development, it is questionable as to whether it is sufficient. The experience of the "East Asian Miracle" (South Korea, Taiwan, etc.) suggests that targeting, in addition

to a favourable general environment, can pay dividends under certain circumstances[1]. In Botswana's case it is suggested here that targeting is especially relevant to investment promotion efforts. The need for this lies in what are termed "imperfect information" problems - the fact that information and knowledge about Botswana, especially outside of the country, is incomplete. A good general investment environment is insufficient if potential foreign investors are not aware of it's existence, which, for a small country like Botswana, is likely to be the case. While some general marketing of Botswana can be carried out regionally and internationally, the costs involved (in terms of both financial and human resources) suggest that a more targeted approach may be preferable. The importance of contacting specific firms, or industry groups of firms, in investment promotion requires a focus on targeted industries or geographical areas, which have been chosen after a proper evaluation of their potential against that of alternatives. A more general, "scatter-gun" approach is likely to be haphazard, uncoordinated, and ineffective. The choice of targets is obviously crucial. Civil servants are probably not the right people to do it - it requires skills and experience which they do not have - but this kind of expertise is available internationally. Botswana is in a position to purchase these skills, and develop an appropriate programme for passing these skills on the Batswana at the same time as promoting the development of the manufacturing sector.

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1 One of the requirements for successful targeting is that it is carefully evaluated and monitored (against the criterion of long term viability for the industries concerned), and if not successful any subsidies or favourable treatment should be withdrawn. Associated with this is the requirement that governments can take the tough decisions to withdraw such support when firms or industries fail to perform, and can remain aloof from the interest groups who may be adversely affected. This is exceptionally difficult to achieve (and is one of the main reasons for the relative success of industrial policy in Asia as opposed to South America) and may not be transferable to Africa.

6.2 Recommendations

RECOMMENDATION	COMMENT	ACTION
Investment and Markets		
Botswana should make determined efforts to encourage firms to relocate from South Africa to Botswana.	*There are many industries which would benefit from Botswana's lower labour costs, better labour relations, and lower taxes; but at present Botswana's advantages are little-known and need to be publicised.*	MCI, TIPA, BDC
Investment promotion activities need to be strengthened, either by complete reform of TIPA or by transfer to BDC. Government should implement the recommendations of the recent evaluation of TIPA's investment promotion activities, and should in particular concentrate on freeing TIPA from the restrictions imposed by the civil service.	*The activities of the SPRDP can be taken as a model in this respect.*	MCI, MFDP, TIPA, BDC
There must be a focus on certain industries which can be targeted by investment promotion efforts. These should concentrate on the capital intensive end of labour intensive industries.	*Although there is a danger in trying to "pick winners", investment promotion efforts have to operate at the firm/industry level if they are to be effective.*	MCI, TIPA, BDC
Botswana exporters should initially concentrate on selling into the South African market.	*The market is large, close by, gives Botswana duty-free access, and yet is still protected from and less efficient than the world market. In the long run however firms must be ready to adjust to world prices.*	Firms
Botswana's trade attaché's abroad should concentrate on developing a market intelligence function; recruitment into these posts should focus on the specialised skills required.	*This would help Botswana firms, especially smaller ones, to break into the export market*	MCI, TIPA, Foreign Affairs
If specialised skills are not available in Botswana (trade attaché's, investment promotion), professionals should be hired internationally.		MCI, TIPA, DPSM
SACU renegotiations must ensure continued unrestricted access to the SA market for Botswana.		MCI, MFDP, BOB
Productivity		
Emphasis should be given to increasing productivity through improved managerial techniques		Firms, BNPC

Suitable statistical data must be made available to measure productivity and track developments over time.	*Data on productivity is very poor at firm, industry and economy levels. Industry data is particularly week, and CSO need to develop their Census of Production to provide data on output, employment, assets, etc. at the firm and industry levels.*	CSO, BNPC
Incentive Schemes		
Companies should be assisted in the development of payment incentive schemes, including means of monitoring and measuring individual worker output. Attempts should be made to extend the use of such incentive schemes to the service sector and to government.	*The introduction of payment incentive schemes entails closer supervision of worker output, which is in itself a benefit.*	BNPC, Labour Department, BFTU, DPSM
Training		
All possible attempts must be made to encourage greater training of workers, and to provide more training in industrial skills.	*The recent reforms of FAP (increasing the training grant element and allowing some of the costs of on-the-job training to be included) is a major step forward.*	MCI, MoE, BNPC, firms
Procedures for the employment of expatriate trainers/supervisors must be made much easier.	*The importance of having qualified/experienced trainers and supervisors cannot be overstressed if productivity is to be improved.*	Immigration Dept./ MLHA
The feasibility of a training centre for the textile & clothing industry should be evaluated.		MCI, MoE, firms
The effectiveness of FAP and tax allowances for training must be constantly monitored and if necessary adapted and improved.	*Given the externality benefits of training, (which can yield much wider social and economic benefits than those enjoyed by the individual worker and firm) approved training allowances and subsidies should be generous.*	MFDP, MCI
Wages		
Emphasis must be on linking wage increases to productivity improvements.	*Any significant wage increases which are not productivity driven (e.g., a major rise in the minimum wage) would cause potentially serious adverse impacts on labour cost competitiveness.*	
Firms should be encouraged to share the benefits of productivity and profit increases with workers.	*This will help to achieve the objective of higher incomes without the negative impact (on competitiveness and employment) of conventional nominal wage increases.*	
Finance		
The 15% profits tax rate for manufacturing companies should be extended to companies in engaged in assembly operations. Implementation of this tax provision should be streamlined.		MFDP

Appendix 1: Survey Results - Company Characteristics

		O-C	Algo S&W	Western	Finedec	L-K	Ram. Gar	Hyundai	Bolux	Bic/Tau	TOTAL
Year est'd		1994		1991	1995	1992			1985/ 1990	1988/ 1990	
Turnover		B	D	E	F	B	D	A	A	F	
Employ-ment		95	250	360	270	543	335	511	1000	100	3464
Origins	*Connection with Botswana*	✦	✦	✦			✦	✦		✦	6
	New business	✦		✦		✦	✦	✦	✦	✦	7
	Relocation				✦						1
	Takeover		✦								1
Ownership	*Local*	✧	✧	✧		✧				✧	2.5
	Regional				✦			✦			2
	International	✧	✧	✧		✧	✦		✦	✧	4.5
Market	*Domestic*	✧	✧						✧	✧	1.5
	South Africa	✧	✧	✦	✦		✦	✦	✧	✧	5.5
	Regional	✧							✧	✧	1
	International					✦					1
Product	*Distinctive*	✦	✧		✧	✧		✧	✧		3.5
	Commodity		✧	✦	✧	✧	✦	✧	✧	✦	5.5
Competition	*South Africa*	✦	✧	✦			✦	✦	✦	✦	6.5
	Regional										0
	Global		✧		✦	✦					2.5
Links to wider group		✦	✦			✦		✦		✦	5
Manage-ment	*Owner*		✦	✦	✦		✦			✦	5
	Employee	✦				✦		✦	✦		4
Training	*None*									✦	1
	On-the-job	✧	✦	✦	✦	✦	✦	✧	✧		6.5
	External	✧						✧	✧		1.5
Capital	*High*	✦									1
Intensity	*Medium*		✦			✦			✦		3
	Low			✦	✦		✦	✦		✦	5
Incentives used	*FAP*		✦	✦	✦	✦	✦	✦	✧	✦	7.5
	LPS	✦									1

Notes: ✦ feature is wholly applicable to the company ✧ feature is partially applicable

Turnoverr (annual): A: more than P100m; B: P50-P100m; C: P25-P50m; D: P10-P25m; E: P5-P10m; F: less than P5m.

		O-C	Algo S&W	Western	Finedec	L-K	Ram. Gar	Hyundai	Bolux	Bic/Tau	TOTAL
Product-ivity	*Low*		✧		✧	✧			✧		2
	Acceptable	✧	✧	✦	✧	✧	✦	✦	✧	✧	6
	International	✧								✧	1
Product-ivity	*None*								✦		1
bonus scheme	*In place*			✦	✦	✦	✦	✦		✦	6
	To be introduced	✦	✦								2
Trade union		✦									1
Problems	*Productivity/ abour costs*				✦	✧			✧		2
	Utilities costs/service	✦									1
	Other overhead costs				✦						1
	Duties on materials				✦		✦	✦			3
	Ending of FAP										0
	Immigration			✦	✦		✦				3
	Exchange rate										0
	Exchange controls										0
	Finance (availability)										0
	Interest rates		✦	✦			✦			✦	4
	Labour relations										0
	Bureaucracy	✦	✦								2
Botswana's	*Low taxes*	✦	✦	✦	✦		✦	✦			6
advantages	*FAP/incentives*			✦			✦				2
	Economic climate	✦		✦	✦	✦	✦	✦	✦		7
	Political stability	✦		✦	✦	✦	✦	✦	✦		7
	Currency							✦			1
	Exchange controls	✦						✦			2
	Access to SA market	✦	✦	✦	✦		✦	✦	✦	✦	8
	Regional location	✦							✦		2
	Local raw materials					✦					1
	Labour costs		✦		✦		✦	✦		✦	5
	Labour relations		✦		✦			✦			3

Capital intensity (K/W)	463	100		6	83	6	16	150	5
Output/worker (P'000)	947	64	28	15	101	45	978	120	20

Appendix 2: List of Persons Interviewed

COMPANIES

Name	Company	Position
A S Dada	Algo Spinning & Weaving	Managing Director
K K Molosiwa	Bic	Managing Director
D MacIntyre	Bolux	Managing Director
F Lai	Finedec	Managing Director
N Vos	Hyundai	Assembly Plant Mgr.
J Hendry	Lazare Kaplan	General Manager
B Lemar	Owens-Corning	General Manager
S Wickramasinghe	Ramotswa Garments	Managing Director
M S Ghafoor	Western Textiles	Managing Director

INSTITUTIONS

Name	Company	Position
D Kgosietsile	Botswana Development Corporation	Manager, Industry Div.
J Rohan	National Development Bank	Lending Manager
J Beirne	Trade and Investment Promotion Agency (TIPA)	Investment Adviser
F Chambers	Ministry of Commerce and Industry	Economic Consultant

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Discussion of Workshop 1 at plenary

LESSONS FROM RECENT EXPERIENCES IN THE EXPANSION AND DIVERSIFICATION OF MEDIUM AND LARGE SCALE MANUFACTURERS IN BOTSWANA

(referring to presentation by Keith Jefferis)

Chairperson at plenary: Iqbal Ebrahim, BOCCIM
Rapporteur: Taufila Nyamadzabo, MFDP

In reporting the outcomes of Workshop 1 on medium and large scale manufacturing, **Taufila Nyamadzabo** focused on the four main recommendations that had been agreed.

First, investment promotion activities should concentrate on South Africa in order to attract firms that might otherwise locate there. Export promotion should also focus primarily on the South African market, extending to overseas markets when Botswana exporters have become globally competitive. The workshop paper by Keith Jefferis had shown how some Botswana manufacturers have succeeded in developing export markets in South Africa.

Second, the workshop participants felt that the investment promotion ability of TIPA should be strengthened by enabling it to recruit experienced investment promotion professionals and ensuring it has sufficient budgetary resources and flexibility in the use of such resources. Certain activities, such as market intelligence and investment promotion, should be sub-contracted to suitable private sector firms such as management consultants.

Third, the workshop had concluded that the 15% company tax rate should be extended to include firms engaged in assembly and packaging, and that approval procedures should be simplified.

Fourth, the workshop had recommended that, in order to improve productivity, manufacturers should adopt incentive based payment schemes. These would involve improving training and supervision, and introducing productivity bonus schemes. Mr Nyamadzabo noted that the training courses currently offered by the Botswana National Productivity Centre (BNPC) were too costly to be affordable to most SMEs, and suggested that there might be a case for government subsidy. He also mentioned that government also needed to introduce incentive based payment schemes in order to improve civil service productivity.

At the beginning of the floor discussion, **Baledzi Gaolathe** endorsed the idea of Botswana manufacturers first targeting the South African market and later, after improving their competitiveness, extending their focus to overseas markets.

Eitlhopha Mosinyi said that MCI was an important ministry and that it's performance needed to be strengthened. She suggested that one option might be to establish a second permanent secretary position in MCI.

Emelda Mathe reminded participants that TIPA not only required more resources, but it also needed more authority to make decisions.

Keith Jefferis said that TIPA needed more flexibility over recruitment of the required calibre of staff and in the way that it could spend money. For example, it should be possible for a TIPA official to take a prospective investor to dinner. He added that TIPA's role as a one-stop shop for assisting investors with application and approval procedures should be given priority within the government bureaucracy.

Elijah Legwaila suggested that the problem with TIPA was simply that it needed to increase it's ability to promote investment.

Pax Gaobakwe expressed support for the idea of holding a seminar to discuss the draft revised industrial development policy.

The chairperson of the workshop, **Baledzi Gaolathe,** said that the workshop proposal concerning the 15% tax rate was intended to urge government to quickly overcome delays in defining eligible manufacturers. He also referred to the need for speed in relation to the allocation of available serviced land by the Ministry of Local Government, Lands and Housing. He said that while the workshop participants had appreciated the need for debate about TIPA, they also felt this should be accompanied by the setting and observing of deadlines to ensure that progress is made. He said there was a case for transferring TIPA's existing investment promotion activities to BDC - which had recently established a marketing wing - and for concentrating the work of TIPA on ensuring that services required from government by investors were made available in a timely manner.

His Excellency the Vice-President, Republic of Botswana, Festus Mogae clarified the matter of the 15% tax rate. He said there had been a legal problem regarding the definition of eligible manufacturers. There was evidence of fraudulent practices whereby some firms obtained manufacturing licences but did not actually manufacture the products they sold. He confirmed that this matter would be finalised at the July session of parliament.

Mr Mogae did not believe there were long delays in the issuing of industrial licences but accepted that investors did face problems regarding delays in approval of work and residence permits. He said that such problems reflected an ambivalence within government and among the electorate. Some sections of society, including the trade unions, questioned the idea of admitting more foreigners when there were already many Batswana unemployed.

Neo Moroka said that attempts by government to characterise the private sector as crooks were unfair.

Modiri Mbaakanyi expressed concern over the continuing delays in the approval of work and residence permits. He said that government, the trade unions and the private sector had already agreed that approval of permits in specific identified trades would be virtually automatic.

Neil Armstrong said that there were also long delays in the renewal of work and residence permits.

The Honourable Bahiti Temane agreed with the Vice-President's comments about delays in approval of work and residence permits. However, he also indicated that his ministry was making progress in improving efficiency. He referred to the introduction of a decentralised approvals process, with 200 applications being considered every two weeks. He also expressed concern about the risk of failing to screen out fraudulent applications if the emphasis on speed of approval was too great.

Elias Mbonini cautioned that productivity based incentive schemes would have to be negotiated with the workforce before they could be adopted.

Workshop 2

JOB CREATION THROUGH GROWTH AND EXPANSION OF SMALL SCALE ENTERPRISES: EVIDENCE, POTENTIAL AND NEEDS

Gaylard Kombani, Department of Industrial Affairs

Introduction

The Government of Botswana took keen interest in developing small scale enterprises a few years following independence with the creation of the Batswana Enterprises Development Unit (BEDU) in 1974. Government channelled a substantial amount of it's resources to creation of additional institutions like Business Advisory Services (BAS) and the Rural Industrial Officers (RIOs) cadre which have since been amalgamated to form the Integrated Field Services (IFS). It also set up the Rural Industries Promotions (RIP) which is popularly known as the Rural Industries Innovation Centre (RIIC), the Food Technology Research Services (FTRS) and Botswana Technology Centre respectively.

The purpose of setting up these institutions was primarily to:

(i) deliver additional assistance to the small enterprise sector;

(ii) increase the participation of Batswana in economic productive activities; and

(iii) create jobs through the growth and expansion of small scale enterprises.

It is, therefore, the question of creating jobs through the growth and expansion of small scale enterprises that this paper addresses. It approaches the task by:

(a) reviewing evidence which suggests that small scale enterprises create employment;

(b) identifying potential growth and expansion areas for small scale enterprises;

(c) discussing constraints to the growth and expansion of small scale enterprises;

(d) suggesting ideas for improving the growth and expansion of small scale enterprises;

(e) drawing a conclusion.

Employment Creation by Small Scale Enterprises

There are a number of surveys on the contribution of small scale enterprises to employment. Three of them which distinctly contribute to the understanding of the extent to which small scale enterprises create jobs in Botswana are:

(a) The 1992 Survey carried out by Daniels and Fisseha on the Small Scale and Informal Sector;
(b) The Producer Survey carried out by the Department of Industrial Affairs in 1994; and
(c) A study carried out by Rempel, Aand, Sunny, Babikanyisa, Siphambe and Morewagae of the University of Botswana, Department of Economics (March 1994) entitled "The Place of Non-Formal Enterprises in Botswana: A Study of Selected Urban and Semi-Urban Areas:.

It is on these studies that this paper relies upon for it's evidence.

The Study by Daniels and Fisseha (1992)

This study was based on a sample of 1,243 enterprises interviewed. It made an attempt to estimate the size of the small scale enterprise sector in Botswana. It estimated an upper limit of approximately 48,000 enterprises employing over 88,000 people. It put the absolute minimum number of enterprises at 30,000 which were estimated to employ 53,000 people. The average number of workers per enterprise in Botswana was estimated at 1.8 only. The study found out that 66% of the enterprises are one person operations. Another 16% engaged two persons including the owner.

The study put the annual employment growth rate of small scale enterprises at 7.8%. Employment in urban based SSEs were said to grow at 10.2% while rural SSEs had an employment growth rate of 6.7%. These rates were said to be similar to the rates in Zimbabwe, Swaziland and Lesotho. The study however, concluded that SSEs in Botswana employed fewer people per 1,000 inhabitants than Swaziland and Zimbabwe. In these countries the SSEs were said to employ twice as many people as do the SSEs in Botswana.

The 1994 IFS Producer Survey

The survey covered some 2,513 manufacturing enterprises of which 837 were financed by the FAP programme and the rest self financed. It is noted that these 837 enterprises account for 3,330 actual jobs from a total of 5,975 jobs created by all enterprises that were enumerated. The enterprises that benefit from the FAP programme, therefore, do better than those that have not benefitted in terms of employment creation. While they account for 32% of the surveyed enterprises, they contribute 56% of the total employment.

The average employment for this sector based on this survey is 2.4 jobs per enterprise. The corresponding figure for the subset of enterprises that benefitted from FAP is 4.0 jobs per enterprise. A further analysis of the data from the IFS producer survey indicates that the majority of the small scale enterprises have no employees other than the owner. As many as 52% of the enterprises are more of income generating activities, providing a living presumably for the owner alone, rather than businesses created with a growth objective.

The Study by Rempel et al (1994)

The study which enumerated all enterprises in Gaborone, Francistown, Mogoditshane, Tlokweng, Maun, Kanye and Molepolole, provides further light to this problem. The study covered 1,140 enterprises of which 333 (29%) were engaged in production, 733

(65%) in trade and 69 (6%) in services. From this study, we note that 878 (approximately 80%) of the 1,140 enterprises only created one job each.

It also indicates that 258 enterprises had additional employment whose total was 527 employees. This means that these 258 enterprises on average have 2 employees each. Taken together, each of the 1,140 enterprises has an average employment of 1.2 people.

The conclusions from the three studies suggest that while the small scale enterprises do create some employment, their total contribution to national employment is small and the majority only employ one person or very few. All the above studies taken together indicate an average employment level of 2 employees per enterprise.

Potential Growth and Expansion Areas for Small Scale Enterprises

The creation of additional employment by small scale enterprises will depend on their growth and expansion prospects. It is, therefore, important for the small enterprise owners to identify areas which offer opportunities for potential growth and expansion.

In doing this, they have to take into consideration the paucity of the domestic market and the intensifying regional competition, especially from Zimbabwe and South Africa. The logical question that may be asked is, "where should they look"? The answer that this paper suggests is that small business owners should seriously consider the following:

(a) identifying niche markets whose needs can be satisfied by goods and services they can cost-effectively produce;
(b) targeting low income consumers whose needs are generally satisfied by low cost goods and services;
(c) targeting organisational consumers whose needs can be satisfied by goods and services which do not require sophisticated technologies to produce;
(d) attempting to provide goods and services through contracting and sub-contracting arrangements; and
(e) improving customer satisfaction because the profits of every business come from satisfied customers.

With respect to (d) above, private sector agencies can play a crucial role in promoting business to business linkages.

Constraints to the Growth and Expansion of Small Scale Enterprises

Small Scale Enterprises are confronted by many complex problems. The constraints can generally be defined in terms of:

(i) stagnation, due to indiscipline, poor management skills and lack of innovative ideas;

(ii) low level of education which is responsible for:
- ✦ limitations in the absorption of business skills training and capacity building;
- ✦ limitations in analysing customer needs and the ever changing business environment;
- ✦ the tendency to copy what others are already doing; and
- ✦ inability to develop bankable plans that can make access to credit facilities easier.

(iii) lack of broad-based marketing strategies.

Stagnation
The stagnation of small scale enterprises is largely caused by lack of poor technical and management skills which can also be attributed to the failure of business owners to analyse market trends and to competitively respond to market challenges.

Low Level of Education
The low level of basic education amongst small entrepreneurs creates a serious problem to both entrepreneurs themselves and to the providers of business assistance problems because it limits the extent to which entrepreneurs can learn and apply the critically needed skills for successfully running a business. Since this detrimentally inhibits entrepreneurs from analysing the ever changing business environment and developing bankable business plans, it is obvious that financial institutions will for a long time to come, find it difficult to risk the depositors' money to small scale entrepreneurs.

Lack of Broad-Based Marketing Strategies
The role of marketing is critical to the survival, growth and future prospects of any business irrespective of size. This is so because marketing links the business with customers. It is, therefore, important for every business owner to realise that without customers, he or she has no business because sooner or later, he/she will come to terms with the harsh reality of simply closing down.

With this realisation, it is imperative for every business owner to develop a marketing strategy at the point he/she conceives a business idea. Such a marketing strategy should be broad-based to comprehensively encompass:

(a) the supply market where requirements such as loans, factory shells, machinery, spare parts, raw materials and consumables are obtained;

(b) the labour market where workers, especially skilled ones, are recruited; and

(c) the consumer market where fierce and brutal competition for both existing and potential customers rages unabated.

Ideas for Improving the Growth and Expansion of Small Scale Enterprises
The impediments confronting the small scale sector pose a major challenge to both Government and the private sector agencies to which some of the small enterprises are affiliated.

The challenge requires Government and the various private sector representative bodies to develop innovative ideas of improving the survival, growth and expansion prospects of small scale enterprises. The ideas generated should be thoroughly scrutinised with a view to facilitating the development of a new framework and infrastructure for promoting and nurturing citizen entrepreneurship. Some of the ideas this paper deems worthy considering include:

(i) The development of the Total Business Plan Programme (TBPP) to enable small scale enterprises to chart their expansion directions, to plan for development,

technology transfer, business diversification, business linkages and collaborations, mergers, and to implement their identified strategies.

(ii) The establishment of the Small Enterprises Finance Scheme (SEFS) to provide low-cost financing for investment in machinery and industrial facilities for new projects, expansions, technology transfer related projects, business diversification and business linkage activities, and contract manufacturing or sub-contracting arrangements.

(iii) The establishment of a Small Enterprise Technical Assistance Scheme (SETAS) to enable small scale enterprises to engage consultants to undertake improvements in their operational capabilities as well as strategic planning.

(iv) The establishment of a Small Enterprise Upgrading Programme (SEUP) to enable small scale enterprises to enter into joint venture programmes for achieving greater efficiency, effectiveness and competitiveness through the transfer of management skills and technological know-how from multinational corporations and large local companies. SEUP, which would tap the expertise and synergies of the pool of partners in the programme should be broad-based to include in addition to manufacturing, support industries, filling industry gaps and encouraging the development and production of end-products. It should also be extended to service activities. Through this programme, more business linkage opportunities could be opened.

(v) The establishment of a Small Retail Development Plan (SRDP) to chart the strategic direction of the traditional small scale retail sector to improve it's efficiency, performance, and profitability. SRDP should also provide hands-on assistance to small retailers, and spearhead the promotion of economic groupings in the sector.

Possible sources of funding for the above suggested schemes could be through:

- the modification of certain components of the FAP programme;
- the modification of the Relocation Loan Fund to expand it's uses.
- joint cooperation between the Government and the private sector with both parties contributing towards the fund.

Conclusion

Small scale enterprises create jobs but their total contribution to national employment is small as the majority of them employ only one person or just a few. The creation of additional employment by small scale enterprises will depend on their growth and expansion prospects. Niche markets, low income consumers and business to business linkages are most like to offer better opportunities and prospects for small scale enterprises.

The growth and expansion of small scale enterprises is however, constrained by a number of factors such as stagnation, low level of education amongst the majority of small business owners, and lack of broad-based marketing strategies.

Discussion of Workshop 2 at plenary

JOB CREATION THROUGH GROWTH AND EXPANSION OF SMALL SCALE ENTERPRISES: EVIDENCE, POTENTIAL AND NEEDS

(referring to presentation by Gaylard Kombani)

Chairperson at plenary: Iqbal Ebrahim, BOCCIM
Rapporteur: Mogolori Modisi, SP Construction

Mogolori Modisi presented the outcomes of Workshop 2 on SMEs. He began by pointing out that the workshop participants had strongly endorsed the idea that the development of SMEs is vital for job creation.

With reference to training of people in SMEs, the workshop saw a need for extending and expanding the operations of the Improve Your Business scheme and the Junior Achiever Programme. Mr Modisi noted that entrepreneurial skills and business management skills should feature in the education curriculum.

Mr Modisi reported that the workshop had advocated the establishing of additional forms of FAP to support small businesses that are not currently eligible. This might also involve establishing a special fund for SMEs that would offer low interest rates.

The workshop had also recommended that MCI should strengthen it's support for promoting small-scale enterprises, including providing market research and data banks and access to the Internet.

The workshop had also proposed that MCI should expedite implementation of a local procurement scheme to benefit Batswana enterprises. Concern had been expressed that Batswana SMEs needed to be protected by the law from competition from larger foreign-owned firms.

At the beginning of the floor discussion **Harish Chotani** said that it would not make sense to create an additional small business division within MCI, since IFS already covered this function.

Bruce Blewitt questioned the idea of offering subsidised interest rates for SMEs. If low cost loans were to be provided for SME's, why not also for middle and large sized companies?

Joseph Lisindi suggested that the need for information, communications and access was becoming a recurring theme of the conference. One way of addressing this issue would be to introduce a national television service.

Connie Moremi expressed concern over proposals for reserving some industrial activities for Batswana only. She said that past performance in this regard had been dismal, with widespread problems of Batswana 'fronting' for foreigners. Her ministry was reviewing the policy towards reservation, perhaps with a view to replacing it with a policy of support for formation of joint ventures. In response, **Mogolori Modisi** urged government to retain the reservation policy, and to improve capacity to identify and punish abusers of the policy.

Workshop 3

RURAL EMPLOYMENT

David Inger, Rural Industries Promotions Company

Synopsis
At the time of the 1991 census, there were about 312,300 Batswana in employment, including self-employment and non-cash earning employment.

Unemployment rates in the urban areas for persons aged between 15 and 19 of around 58% pose a serious socio-economic and political threat for the near future.

The pattern of population growth will increase the demand for employment. Population growth is about 3,5% p.a. and 44% of the population are under the age of 15.

Migratory patterns have changed over the years, and the largest movement is now from one urban area to another.

Household enterprises are an important source of income in both rural and urban areas.

Distribution of income in Botswana is very skewed, with a GINI co-efficient of .638 and .537 if income in kind is included. The median household income in cash is P897 in urban areas, P642 in urban villages, and P200 in rural areas. In the urban areas and urban villages female household income is about half that of male household income. In the rural areas it is the same. The poorest 10% of households receive only an average of P115 per month in cash and kind.

Given that 57% of households own no cattle, and 78% less than ten, livestock development cannot be the answer to problems of rural poverty and underemployment. Arable agriculture is also too uncertain and unproductive to provide any significant income.

The paper argues that, with changing migratory patterns in Botswana and the emergence of "urban villages," a global policy on job creation makes more sense than a policy designed specifically for rural development.

The view is presented that human resource development is the key to increasing production and jobs, and puts forward several specific proposals for action.

Various proposals for expanding the service sector are presented, together with a section emphasising the importance of investing in science and technology as a means of creating wealth.

In a short, but powerfully written paragraph, women are acknowledged.

1. A profile of rural employment

There is very little detailed information available on rural employment. The main sources of statistical information are the 1991 Census, and the Household Income and Expenditure Survey for 1993/94.

As can be seen from Table 1, it is estimated that there are about 312,000 people in formal employment, self-employment, and "none cash" employment. The latter includes family business and employment at the lands or cattle-post. Of these about 108,000 are

Table1: Employment, 1991

	Employee	Self-employed	Non-cash inc.	Total
Pop. 12 yrs. & over Males and females				
Urban	184,764	16,282	3,166	204,212
Rural	91,164	12,357	4,593	108,114
Total	275,928	28,639	7,759	312,326
% rural/urban	33	43	59	35
Males 12 & over				
Urban	113,676	8,526	1,524	123,726
Rural	62,058	6,209	2,601	70,868
Total	175,734	14,735	4,125	194,594
% rural/urban	35	42	63	36
Females 12 & over				
Urban	71,088	7,756	1,642	80,486
Rural	29,106	6,148	1,992	37,246
Total	100,194	13,904	3,634	117,732
% rural/urban	29	44	55	32

Source: Population and Housing Census, 1991, CSO

in the rural areas. 71,000 are male and 37,000 female. The ratio of female to male workers is similar in the rural and urban sectors, being 34% and 39% respectively. Table 2 shows that there are more females seeking employment in the urban sector than males, which can be expected given the rate of urbanisation and the tendency for females, as well as males, to move towards the towns. These statistics do not take account of underemployment, or those who have given up in their search for employment.

Information from the HIES shows that 41% of town males are paid employees, with 25.7% being women. In rural areas (excluding the urban villages) the percentages are 12.9% and 10.5%.

It is worth noting that in the urban areas unemployment rates for persons aged between 15 and 19 is around 58%. This is likely to have severe socio-economic and political implications in the near future. To give a recent example, RIPCO (B) recently placed one small advertisement for a clerk/receptionist, the qualification being a COSC including English and Maths. At the time of writing over 150 applications have been

Table 2: Job seekers over 12 years of age

	Male	Female	Total
Urban	17,969	19,925	37,894
Rural	13,883	9,488	23,371
Total	31,852	29,413	61,265

Source: 1991 Population and Housing Census, CSO.

received, and they are still pouring in. The Survey also shows a very high level of unemployment in the urban villages (30%) in comparison to 19% and 17% for rural areas and towns respectively.

2. Population and development issues

The pattern of population growth will increase the demand for employment. Population grew at 3.5% p.a. between 1981 and 1991. Although there is a modest decline in fertility, high teenage pregnancy remains a serious problem. According to the Botswana Family Health Survey of 1988, nearly 50% of all 19 year olds were either pregnant or mothers in that year. The 1991 Population Census figures indicate that teenage mothers as a percentage of the population aged 15-19 increased from 15% in 1971 to 18% in 1991.

Table 3: Migratory patterns of the population, 1990-1991

Migratory Movements	Male	Female	Total
Total Migrants	54,914	55,467	110,381
Urban to Urban	19,306	18,688	37,994
Rural to Rural	11,470	11,591	23,061
Rural to Urban	13,419	14,732	28,151
Urban to Rural	10,718	10,456	21,175

Source: Compiled by MFDP as part of the SKIP on Population and Development (using 1991 Census)

All of the last three census (1971, 1981, and 1991) indicate that Botswana's population is very young, with a disproportionately large number of females. The proportion of the population below age 15 has only declined four percentage points from 47.6% in 1971 to 43.6% in 1991. Such age structure of the population encourages consumption at the expense of production.

Migratory patterns are also of importance in considering employment policies. The largest movement is from one urban area to another, higher than the movement from rural to urban areas. Also of interest is that a substantial number of migrants, about 21% of the total, moved from one rural area to another.

The MFDP SKIP has this to say about urbanisation and the policy issues for rural development and employment:

> *"Rapid urbanisation of the rural population also has implications for rural development policy. The rural development policy adopted in the late 1970s which aims at promoting the development of the rural economic base is already generating characteristics of urban settlements. In addition to the reclassified villages, the CSO has identified 13 other villages with the potential of being classified urban in 2001.*
>
> *The issue that this development raises is whether the ultimate objective of the rural development policy is to turn rural villages into urban centres, and what are the implications of this process with respect to subsidies that are presently being enjoyed by the rural areas. Secondly, it would appear that one of the objectives of the rural development policy is to prevent the rapid movement of people from the rural areas to a few urban centres, thus preventing the few urban centres from*

growing beyond their carrying capacity. However, the significance of the urban-urban movement revealed by the last census introduces a new complication into this objective. Consequently, the strategies aimed at preventing the rapid growth of a few urban areas needs to be looked at again.

There is a planning concept that views urbanisation as a good phenomenon for Botswana. It argues that the size of the country and the dispersed nature of settlements pose serious problems for provision of necessary infrastructure and services on a cost effective basis, whereas urbanisation provides a cost effective basis for the provision of such services. This concept therefore decries the present policy on settlements which tends to make very small settlements eligible for provision of certain services, such as roads, health facilities, and schools.

Against this school of thought are the proponents of rural development. These argue that more than half of the population is rural, and migration from rural areas adversely effects the development of these areas, creating social and economic disparities. In order to redress this polarity, it is argued that facilities that promote development should be provided in order to stimulate the rural economy and encourage people to resist the urban attraction.

What is critical in this debate is whether agriculture, the mainstay of the rural economy, can be developed to the level that will support the rural population given the persistent drought. If this is not so, diversifying the rural economy away from agriculture makes sense. Nevertheless such a strategy invariably transforms the rural settlements into urban areas, given the definition of urban settlement."

3. A profile of rural incomes

An important source of employment and income in both urban and rural areas are household enterprises, most of which are in the informal sector. The Survey contains some figures, although these are likely to be underestimated. Of the total number of household enterprises in the rural areas the most popular areas are the brewing and selling of beer (38.42%), hawking (24.39%), building and plumbing etc. (7.28%) Other significant areas (scoring 5% or above) are gathering, craftwork, and property rentals. Unfortunately some of the information available in the 1974/75 Rural Income Distribution Survey are not obtainable from the 1993/94 HIES. For example, in the RIDS gathering was identified as second in importance as a source of income for the poorest 10% of households.

Table 4: Median household income in cash

	Male	Female
Urban	897	446
Urban villages	642	340
Rural	200	200

Source: Household Income & Expenditure Survey 1993/94, CSO.

We can however compare the importance of "transfers," although it is possible that there may be a slight variation in definitions between the RIDS and the recent HIES. In the RIDS, the poorest 10% received about a quarter of their income in the form of transfers. In the HIES, defining transfers as gifts, aid, and school meals, 56.2% is from this source, whereas for the richest 10%, only 17.65%.

Table 5: Median household income in cash and in kind

	Male	Female
Urban	1,012	513
Urban villages	642	482
Rural	413	421

Source: Household Income & Expenditure Survey 1993/934,CSO.

Table 4 shows the median income in cash, and Table 5 the median income in cash and kind. In the rural areas income in kind accounts for more than 40% of total income.

Table 6 shows the grim status of those households in the poorest 10%, "surviving", if that is the word, on an average of P115 per month, of which about half is in kind ! The balance required to sustain life is presumably made up from subsistence agriculture, a risky enterprise at the best of times.

To the best of the writer's knowledge, the most recent Poverty Datum Line was produced in November 1989. This was based in part on the 1985/86 HIES. The 1989 study showed that of the 222,338 households covered in the HIES survey, 55% had incomes equal to or below the new PDL, about 30% in the urban areas, and 64% in the rural areas. The UNICEF report on women and children in Botswana (1989) argues that PDL reflects a bare survival level, and that Effective Minimum Level (at 1.5 times the PDL) is a more accurate reflection of poverty in Botswana. "For 1986, this suggests an EML of P312 at current Pula, leaving 52% of all urban and 67% of all rural households under the EML (rural figures discount for own production). Fully 26% of all households in Botswana have a combined cash and in-kind income level of under P100 per month."

Development cannot be sustainable as long as great inequities exist in the ownership and control of resources. However human-centred strategies for development should not be regarded as a form of socialism. Botswana has one of the largest gaps between the rich and the poor in the world. Apart from curative strategies we need, and can afford, a social security net to address the chronic destitute problem. The recently introduced old age pension is a step in the right direction, but destitutes are not limited to the old.

The Government rejected the recommendation of the 1990 Presidential Commission on the Incomes Policy that all workers should be entitled to a minimum wage. This perpetuates a gap between two classes of workers - those who are entitled to a minimum wage, and the "lower" class of domestic and agricultural workers who are not. This is the group most open to exploitation, but afforded no protection under the Incomes Policy. A significant number of the servant class, especially in rural areas, receive no cash payment at all, but only food and clothing.

Table 6: Poorest 10% of households - income in cash & kind

	Male	Female
Urban	289	170
Urban villages	186	148
Rural	103	127

Source: Household Income & Expenditure Survey 1993/94, CSO

With regard to ownership of household items, 65% of households in the urban and rural areas own radios, whereas the figure in urban villages is 79%. Skewed ownership of cattle continues. About 57% of households do not own any cattle, and 78% own ten or less.

Distribution of cash income in Botswana is very unequal. One measure of inequality is the GINI coefficient. The coefficient ranges in scale from 0 to 1. If there is complete equality the coefficient = 0, and for complete inequality (where one person has all the income) = 1. the GINI coefficient at the national level is .638. If income in kind is added, the extent of inequality reduces quite significantly to .537. Taking the figures for the rural areas, the difference is even greater (.599 to .414). The gap between rich and poor appears to have narrowed slightly between the 1985/86 HIES (.703 for disposable cash income, and .556 including income in-kind) and the recent survey, (.638 and .537 respectively).

Another concept is maximum equalisation percentage, the percentage of income that should be taken from those who are rich in relative terms and given to the relatively poor to attain absolute equality. (A statistical, rather than political, concept !) About 40% of disposable income has to be re-distributed from the relatively rich to the relatively poor to attain equality.

Table 7 shows some comparisons with other countries.

Table 7: Percentage of total income received by the poorest, middle, and richest persons/households

	Poorest 40%	Middle 40%	Richest 20%
Botswana (93/94) persons	11.56	29.11	59.34
Botswana (93/94) households	9.36	29.4	61.24
Brazil (88-93)	7	25	68
South Africa (88-93)	9	28	63
UK (1979)	18.5	41.8	39.7
Japan (1979)	21.9	40.6	37.5

Source: Household Income and Expenditure Survey 1993/94, CSO

4. The limitations of arable agriculture

Given that 57% of households own no cattle, and 78% less than ten, livestock development cannot be the answer to issues of rural poverty and underemployment.

The new policy on import parity on the price of grain produced locally, whilst good news for the consumers, means a big drop in prices. The drought throughout Southern Africa has kept the prices artificially high, but this was of little benefit to Botswana farmers as so little was produced.

Young people with secondary education will be unwilling to return to farming, even if there are few other opportunities.

Commercial farming, with a few exceptions including some horticultural projects, will prove to be unviable.

There is some scope for "traditional" indigenous crops, but this should not be overestimated. Employment is probably limited to a few hundred at fairly low wage levels.

There may be some scope in biotechnology for creating hardy drought resistant plants, and also the possibility of bartering biogenetic resources. However, very little work is being done in this area.

The conclusion is that agricultural production is unlikely to grow, and far more likely to decline, especially if erratic weather patterns continue. The fact that several major insurance companies are now declining certain weather-related policies highlights the reality of global warming. Of course, in the very long-run Europe may become a desert and Botswana a rich farming area. In the meantime however, the failure of agriculture to provide income-earning employment will result in the continuing depopulation of the rural areas. It should be noted that this is a trend in many parts of the world, including those areas which are more productive agriculturally.

5. A global approach to employment creation, and urbanisation as a job creation strategy

It seems likely that with the changing migratory patterns in Botswana, and the emergence of "urban villages," a global policy on employment and job creation may make more sense than a policy specifically for rural employment.

It is true that programmes like FAP and the RIIC's Village Skills Training Programme (estimated 4,637 informal sector jobs created from the RIIC programme) have had some impact both inside the larger settlements and in more remote areas, but there are finite limits to such developments in terms of markets.

A comprehensive study of employment/unemployment should be carried out, as the five-year old census only provides limited information.

Five to six villages with sufficient water for urban upgrading should be designated as "growth points" and upgrading accelerated. The study would guide in the selection of these villages.

Fully serviced industrial parks would be put in place together with management staff housing. Companies locating in these villages would receive a tax-free status for five years in addition to FAP. Incentives for staff training and development would also be offered.

6. Human resource development

The recent conference organised by the Botswana Institute for Development Policy Analysis on lessons from the Asian success stories for Botswana, and Africa, seemed to conclude that there were few approaches that could be satisfactorily transferred. The writer believes that there are two common elements of focus in the Asian success stories which represent the key to success in business, and in a countries development. Those two issues are an obsession with customer service, and a total commitment to human resource development. The Japanese have referred to nations being cursed with plentiful natural resources. Their own country has few natural resources except it's people, and Japan's success story has been based largely on human resource development.

Improving human resource development improves productivity; higher productivity paradoxically increases job opportunities

A 1995 World Bank Report "Technological Capabilities and Learning in African Enterprises," examines technological issues and industry productivity in Sub-Saharan

Africa. The study examines the three functional groups of investment capabilities, production capabilities, and learning mechanisms.

Of the three groups, learning mechanisms were shown to have a remarkable effect on productivity, with on-the-job training both inside and outside the firm, have the largest impact. Specifically an increase of 1% in the number of workers trained potentially increases the value added of the sampled firms by as much as 60%. A similar picture emerges when only the very small firms and microenterprises are considered, with training of workers as the most important contributor to higher value added, followed by access to working capital.

A critical constraining factor was that most of the firms operated in an information-poor environment with few linkages with similar firms, limited access to training of consultancy services, and poor information services on technical and business matters.

Rural Industries Promotions Company hopes to initiate a programme of co-operation with SINTEF, the Norwegian Foundation for Scientific and Industrial Research, together with other local and foreign partners. The programme will draw on the strengths of the various co-operating agencies in providing services to improve technology, improve information flow, improve business planning, and improve staff training. Building up potential "winners" holds the promise of increasing employment.

Skills for survival

The excellent Design and Technology programme for senior secondary school should be extended to junior secondary school, and combined with a practical business learning programme, perhaps based on the successful "Junior Achievement" approach, used in 60 countries around the world and introduced to a number of schools and brigade centres in Botswana since 1994. The programme introduces students to the fundamentals of running a company. Through practical exercises the students experienced the decision-making process that occur within a company's management, production, and marketing departments. The programme includes the actual establishment and legal registration of a company; they sell shares, elect a board of directors, produce and sell a product or service, pay themselves wages and/or sales commissions, and finally liquidate the company and pay a dividend to shareholders if a profit was made.

If RIIC can get older people into self-employment on the basis of a six to eight week course, it may well be possible, perhaps with a lower success rate, to provide basic technical and business training to 15 to 19 year olds to get into self-employment or group employment. The scheme being run by the Trades Testing Centre could provide some guidelines. Small amounts of capital should be available to ex-trainees. Some of the skills could be "clustered" so that trainees learn a number of related skills. E.g. bicycle repair, and truck/car tyre puncture repair (a difficult service to find in rural Botswana), or radio and watch repair. The RIIC blacksmith and carpentry upgrading programmes have been successful with this approach.

Human resource development in management, science, and technology

Research done by Tafila Nyamadazabo points to the serious imbalance in the supply of skilled manpower for the future. Looking at the period from 1991 to 2001, Botswana will be short of the following skilled manpower.

Table 8: Manpower shortages, 1991 - 2001

Architects, engineers, related prof.	2,008
Co. Directors & corporate managers	3,015
Small business & managing supervisors	6,897
Business professionals	1,687
Technicians & paraprofessionals	39,695

A major goal of successful countries is to increase the number of what the Japanese call "knowledge workers," at each level from the top to the bottom. A good example is hotel maids in Singapore who have their own mission statement, clear job goals, and know where they fit into the success potential for the hotel.

Most organisations, including Governments, tend to overlook the power of the knowledge and experience locked up in their employees.

In 1960 Toyota received 5,001 suggestions from a total work force of about 32,000. 33% of these suggestions were implemented. Currently it is estimated that Toyota receives 5,000 quality suggestions per day, and implements over 90% of them!

The power of information technology

The Managing Director of Scandinavian Air Services once said that "people without information cannot take responsibility. People with information cannot help but take responsibility." In order to be competitive in the modern world, Botswana must constantly upgrade the information technology skills of it's people, as well as the hardware and software. Several low wage countries are already creating employment and making large profits through data processing for Western countries. This is an opportunity for Botswana as well. Transactions include cheque clearing, payroll processing, sub-contracting on computer programming, on-line transactions for air-lines, and many others. The use of information technology also encourages decentralisation as computers can access the Internet regardless of location.

There is a need for a *Human Resource Development Master Plan*, covering everybody from managers to waitresses.

7. Services

A recent survey by the Management Centre Europe, surveyed over a thousand senior managers across fourteen countries. 94% said that service will be a major business issue over the next 5 years 78% said that it is the key to competitive success.

Batswana are generally friendly, so that the poor attitude to customer service is perhaps difficult to understand. However, it is clear from the great improvements in the hotel industry that training pays dividends. Positive service attitudes need to be inculcated at an early stage, and should be included in the school curriculum.

Despite the rapidly weakening competitive advantage, Botswana still has some attraction as a secondary financial centre for the region. The provision of financial services is not usually seen as being labour-intensive. However, in Jersey for example, for every job created in the banking industry, a further eight jobs were created in other areas. There is also potential for insurance and re-insurance services and with the removal of foreign exchange controls there is every reason to believe that Botswana

companies, with their specialised knowledge of the region, would be competitive in the world market.

Despite recent increases, Botswana's postal rates are cheap. Companies sending out bulk mail such as promotion material or invoices/statements could air-freight the material to Botswana where it would be sorted and re-expedited.

As there is a paper on tourism to be presented at this conference, only two ideas are included here. Nobody to date seems to have recognised the potential of Botswana's dams for tourism and recreation. In other countries the area around dams is developed with chalets, restaurants, and sports facilities, including golf courses. The establishment of theme parks with related recreational, gambling, and hotel facilities have proved popular in other countries. With the Trans-Kgalagadi highway open, a "Lost City of the Kalahari" near Ghanzi could attract tourists, create jobs, and generate profits.

Botswana's central location and relatively good infrastructure make it a natural transport and cargo centre. The inland port facilities need to be marketed more aggressively.

8. Labour intensive public works and the environment

Labour intensive public works programmes are ideally suited to environmental projects, such as forestry and the control of degradation. such an approach not only creates employment, but helps contribute to the sustainability of our environment.

9. Science, technology, and innovation

Technology has an impact on all aspects of life including nutrition, health, and shelter; but perhaps the most important impact of technology is it's application to increasing production and creating wealth and jobs.

Policies in the past have either ignored technology, or underestimated the importance of technology in creating wealth. The most successful economies of the last decade, including Japan, Singapore, Taiwan, and Korea, have based their economies on the free market with minimal government intervention in the market place. However in addition, and unlike Botswana, those government have put huge injections of finance and manpower into technology development - at every level from government planning to the education system, research and development, and incentives for industry.

There is a direct relationship between the amount spent on science and technology, in both money and manpower, and economic growth. This is as true today as it was during the industrial revolution. South Korea, one of the rising stars of economic growth, spends 2.8% of it's GNP on research and development, and has 4,326 scientists per million of population. Bangladesh, in contrast, spends only .02% of it's GNP on research and development, and has only 135 scientists per million. The figures for Botswana are not known, but rough estimations would put the country in the same class as Bangladesh.

10. Women

No paper may be presented these days without a special section on women. This is it. I love them and wish them well. Female empowerment unleashes resources for economic growth.

Discussion of Workshop 3 at plenary

RURAL EMPLOYMENT

(referring to presentation by David Inger)

Chairperson at plenary: Iqbal Ebrahim, BOCCIM
Rapporteur: Blackie Marole, MMRWA

Blackie Marole began by presenting the main recommendation of Workshop 3 on rural employment. This was that employers, employees and Government should produce a national human resources development plan, which should be integrated within NDP 8. The plan should address the large anticipated shortfall of professional artisan and technical skills that is projected for the year 2000, and should develop strategies for training in customer service in key areas of the economy and in Government. Government should provide financial support for implementation of the plan.

Mr Marole explained that the workshop had selected this recommendation for two reasons. First, the workshop presenter, David Inger, had been advocating this idea for some time. The time now seemed right for it to be acted upon. Second, Mr Inger's discussion of changes in rural employment and unemployment had drawn attention to the need for improved approaches to human resource development in order to make people more employable.

He noted that the emerging phenomenon of urban-villages suggested the need for important policy adjustments. On one hand, such settlements tended to confirm that the previous rural development policy of promoting employment in rural areas had been successful. On the other hand, there were high levels of unemployment in the urban-villages, often because people had not obtained adequate education and training.

Mr Marole also mentioned that the workshop had agreed that employment prospects in rural areas remain poor and that the scope for improving arable agriculture was limited. It had been noted that more than half of rural households did not own cattle.

Along with human resource development, there was a need to improve access to information in rural areas. Often people had problems obtaining information about government programmes and had difficulties in completing application forms. Mr Marole also referred to a shortage of people capable of marketing what is produced in rural areas. He added that entrepreneurship should be an important focus for government support, since people needed to improve their ability to take advantage of available business opportunities.

Joseph Mabutho commented that creation of jobs in rural areas would help to contain migration to the towns. He also mentioned that in order to be successful rural development schemes needed to be undertaken on a decentralised basis.

His Excellency the Ambassador of Sweden, Rasmus Rasmusson said he was surprised that the workshop did not seem to have referred to the importance of self-help. In response, **Blackie Marole** confirmed that the role of self-help had been recognised by the workshop.

Baledzi Gaolathe supported the workshop recommendation. He noted that formulation of a national human resources development plan would be a considerable undertaking, and suggested that elements of the plan would need to be built into NDP 8.

Keynote address

DEVELOPING A REALISTIC VISION AND STRATEGY TO GUIDE NATIONAL EMPLOYMENT CREATION AND ECONOMIC DIVERSIFICATION

Bob Hodgson, Segal Quince Wicksteed Limited

1. Introduction

This paper goes to the heart of the BOCCIM conference and I am delighted, albeit daunted, to be asked to present it. What I am going to present is essentially a personal perspective based on experience of contributing to development debates in a wide variety of countries which are at different stages of development or redevelopment. It might also appear somewhat of an affront to presume to define the contents of a national development vision when this is my first visit to Botswana. I am, however, able to take the perspective of an informed outsider - not quite a man from Mars, but from far enough away.

In the paper I will emphasise principles but in the presentation I will seek to bring them alive with anecdotes. If nothing more I hope to convey four key messages:

- first, that mobilising all the independent national agents to pursue a common purpose requires that they all share the same development vision
- second, that the job of defining this common vision is going to be hard work in itself and require everyone to participate fully
- third, a successful vision must build as strongly as possible on existing foundations, structures and achievements to maximise the use of what has already been invested
- fourth, that the vision will take a long time to realise fully so that the process has to be transparent and inclusive, plus be publicly monitored to ensure momentum is cumulative, actions are recorded and achievements publicised.

Local context

While this is my first visit to Botswana I have several friends who know the country well and who all speak with considerable warmth and affection of a place of stability and achievement. Maintaining sound money, a record of sustained growth and macro stability encompassing financial, social and political dimensions have all contributed strongly to this positive reputation. The private sector has driven the exploitation of natural resources through carefully managed markets within an open economy largely necessitated by the Botswana's small scale.

The less positive story of recent years has been associated with both depression and turbulence in the world economy and attempts to diversify the national economic base.

The consequence has been a stronger questioning of fundamentals, so a response needs to be made to tensions arising from:

- increased urbanisation and the associated economic formalism
- the absence of major new mineral projects in the pipeline
- a growing appreciation that agriculture does not offer significant growth prospects
- new expectations from development, especially, from youth.

The need is urgent and the response will need to be brisk! For example, the scale of unemployment - where some 100,000 Batswana are already registered as without a job, which is more that the entire public sector workforce and where there is a disproportionate impact on the newly educated youth - some 55% of those under 25 years have no job. Responding to these challenges will still require Botswana to maintain it's traditional strengths which make it a serious and stable environment in which to invest and develop. These are, I believe: social, legal and political stability; a strategy of cautious and sound macro resource management; and the upgrading of infrastructure at an affordable pace.

Central tenets

I have been guided in drafting this paper by a number of basic tenets that are worth stating as much of what I am presenting follows from them. Briefly,

- first, that the world is increasingly a single economic community with important inter connections of markets, mobile resources and business units

- second, that this applies particularly to manufactured commodities for which there are increasingly applied high quality and performance standards

- third, there are a variety of alternate approaches to employment creation and economic diversification that are compatible with a private sector led economy

- fourth, that to be useful a vision should have a long term perspective, say twenty years, and should establish: goals for participants to share; processes to prepare, monitor and revise the vision as circumstances change; and initiatives to link the agreed vision to real activity

- fifth, to be effective a vision has to be firmly rooted in the prevailing national cultural values albeit seeking in part to evolve them to meet new challenges.

2. Why is a vision needed?

The most compelling recent example of the power of a vision has been the radical change achieved by the nations of central and eastern Europe over the past six years. I will draw on a number of examples in my presentation that typify both the power of the vision and the difficulties that arose because it was not thought through before being acted upon. These and other long term visions - like those found in the rapidly expanding economies of Asia Pacific - are useful demonstrations of what can be done. However, Botswana

must finds it's own way and struggle to define it's own future based on it's own considerable potential.

At it's most trite, a vision is needed because it enables the contribution of a range of independent agents to be harnessed in achieving a commonly agreed purpose i.e. a team is stronger than a collection of individual players however skilled they each may be. Extending the "game" analogy, the vision of victory can be achieved providing there is a clear statement of it's nature and that clear rules apply to it's pursuit.

At the level of a national economy this is associated with two key characteristics - security and contribution. Security, including continuity and certainty of behaviour to ensure that the rights of those participating are protected including, crucially, access to rewards for effort. It's corollary is contribution, which both ensures and requires that each participant is encouraged to bring their valuable skills to the activities and accepts their individual responsibility to participate fully.

To be effective those rights and responsibilities need to be linked at three levels:

- **macro level**, where the very broadest parameters are involved in continuing Botswana's steady and sound economic framework while continuing to change emphasis and where national leadership from all parts of the community is both expected and potentially very influential

- **micro level**, involving concrete action often best pursued in partnerships between public and private sectors but equally validly including individual energy and action

- **meso level**, which is perhaps the most difficult because it is the essential step linking the grand ideas of the macro vision to the concrete actions of the micro initiatives. It involves vertical aspects (such as sectors of interest) horizontal aspects (such as skills and education) and institutional aspects (bringing groups and communities together, to play their full part). Importantly, it has to be drawn up in a way that stimulates meso level agents to come forward and to make their own valuable contribution without being constrained to wait for permission from the macro level.

Another dimension that has to be integrated is the notion of ownership of the vision - who are the stakeholders and what is their rationale for participating and expectations of rewards?

The stakeholder word is becoming more widely adopted to convey the interest and ownership of broader groups than have typically been included in decision making. It does, however, pose the problem of integrating different rationalities, examples of divergent rationalities include the political, the economic, the environmental, the social and last, but far from least, the business and financial.

Resolution of these potentially divergent rationalities is achieved in a variety of ways - including exchanges like this conference - which vary from the quick but uncomfortable dictatorship to the slower but potentially longer lasting dialogue and democracy. A key characteristic of all successful examples is the adoption of a formal process, it's wide publicity and it's regular and honest monitoring in public.

To help this process along there is often an appeal made to sophisticated analytic tools that take the heat out of the debate and provide a "technical solution". Beware of these, recognise their value but also their limitations. I noticed that one of the other speakers is going to describe the Michael Porter model which is a very powerful analytic framework that can, if not used wisely, very accurately identify the nation's obvious economic weaknesses. I saw it used in the Basque region of northern Spain recently in just such an unhelpful way.

The purpose of the vision under discussion is the realisation of a strategy to create jobs and diversify the economy. These are goals being pursued by a wide range of countries and regions across the world in response to a wide variety of persistent problems. Before describing some of the approaches I have seen in action I would like to set the scene by describing some of the problems besetting economies round the world.

The definition of the problem, and some of the components of the perceived solutions, have, over the last decade at least, been couched in terms emanating from the liberal market economy model. This model has much to offer but, as with my comment on models is general, it has to be moulded and used rather than being adopted as an alternative to hard thinking.

3. World economic challenges

The key economic challenge for the world is sustainable development. I am using sustainable in both senses - long lasting in it's contribution, because the local competitive factors are in it's favour, and environmentally sustainable within the natural environment in which it is located. The former is crucial because the world is an open competitive economy where old protections to inefficiency of distance and national boundaries can be relied upon less and less. The latter is crucial because of our responsibility to nurture our heritage for future generations.

As mentioned earlier, the model that has dominated debate about economic development is the liberal market economy model. This at is simplest is based upon the powerful assertion that if individuals are all enabled to do the best for themselves then the sum of the individuals 'bests' is bound to be the best overall. Minimal regulations and public sector intervention to ensure fair play is all that is needed, as markets freely operating will provide the only required mechanism to enable individuals to exchange their products for those they value most highly.

This basic model is also applied at the level of the individual company, the national economy and eventually the global economy. The consequence has been a wave of withdrawal of the public sector - deregulation and cutting red tape, privatisation in all it's forms and a general downward pressure on taxation. Investment is increasingly pursued as a global activity and positive real interest rates are set to encourage savings.

The picture is not in reality so simple but the dominance of the model has led to most interventions being couched in terms of addressing market failures - they do occur! - and moving markets to being more liberal than has historically been the case.

The real challenge is how to harness the power of the market and to manage it's contribution to national economic development. A pertinent example at a world scale being the managed nature of the diamond market, from which Botswana has undoubtedly benefited greatly. The issue for the current economic development vision is the extent to which opportunities in non traditional activities can also be managed.

The globalism that ensues has been associated with substantial direct foreign investment (DFI), and transfers of technology, management skills and market access from very large corporations. This can be a major contribution to economic development but is rarely sufficient on it's own. With this growth there has concurrently been a fashion for 'downsizing' i.e. shedding labour and substituting more reliable machines that enable better quality and more competitive production. Downsizing has also been associated with 'outsourcing' where more and more of the components of final products - physical pieces and business services - are bought in from outside specialist suppliers. One of the net effects of these processes has been the emergence of what is being called jobless growth. This is where the overall economic growth is achieved through productivity gain from those in work so eliminating the need for additional employment.

Within the region, Mauritius provides the best example of an economy that has pursued the DFI route with success. It is now looking to build on the export oriented base that has resulted by extending technology and management improvements to indigenous private firms.

Linked to the challenge of downsizing and global competition has been the emergence of a powerful role for smaller businesses both as major contributors to the larger corporations and as agents of individual entrepreneurship at all levels. Again this goes back to the maximising vision of the individual as well as being a response to the reduced availability of secure jobs in larger firms.

Experience is growing that entrepreneurship can be stimulated even in infertile grounds and that much can be done to:

- encourage the formation of more new firms
- aid their survival in the first few difficult years, and
- stimulate their growth to play a full part in the economy

Some of this experience will probably need to be applied in Botswana and a key part will be to encourage the growth of attitudes that value entrepreneurship and celebrate it's success. I say more about this later.

A complementary area that has received substantial attention has been the workings of the labour-market which has in certain places been the main battleground of the deregulation movement. Elsewhere the problems of training and improving skill levels have received a higher priority as being necessary investments, to match capital investments, in moving to a higher productivity higher wage economy. Probably the most striking example being Singapore about which I say more later. While in Britain a dual track has been pursued with substantial new legislation to deregulate the market alongside policies to encourage training and skill upgrading among both employed and unemployed in the labour market.

It is likely in view of Botswana's small scale labour market that it needs to develop an upward productivity spiral rather than to depend on a low wage strategy. This will also provide the opportunity to build on the investment in basic education that has been made over the years since independence.

Two other aspects are worth noting for the challenge they represent and the potential contribution they might make. They are:

- **non traded interdependencies** - with outsourcing there has been highlighted the degree to which individual firms in any economy rely on outside factors in maintaining their competitiveness, these are often particular to a region and are susceptible to enrichment and deliberate provisions through value chain and industrial linkage initiatives. A key element here is the quality of the financial and business services community that needs to adopt development oriented attitudes and to break out of it's traditional narrow conservatism

- **youth participation** - a growing problem of legitimacy and expectations is being recognised at all levels of entry of new participants in the labour market and the need for positive action to avoid alienation and anti-social behaviour. This is as relevant at the level of those who have succeeded in the education system, new graduates, as for those who have not achieved.

All these features have come together in recent analyses of the challenge facing the European Union. If the best historic performance of growth is achieved by **all** the economies of the EU at the same time and for every year there will still be a substantial shortfall in jobs available for the population willing to work. The shortfall is estimated to be many times the entire population of Botswana!

This is a feature of success - productivity growth outstripping economic and demographic, growth - with geographic, gender and age specific concentrations of casualties of this success. Concurrent with this macro analysis there has been growing attention given to the performance of particularly dynamic and innovative regions that seem to be able to manage better to achieve growth without wasteful unemployment. How has this been achieved, what lessons can there be for others to emulate and can the performance be replicated? Some of the lessons that have emerged are described in the next section.

4. How do others do it?

While taking on board the caution about developing a local vision there is much to be gained by examining the approaches adopted by others and the lessons that have been learned in the process. The relevance of the detail of what follows has to be questioned but the variety of approaches and their contents are illuminating.

I have sought to put some order into the descriptions by grouping them by their predominant economic philosophy. Five distinct groups emerge as follows:-

First, is the liberal market model, described earlier, which is associated with minimal government and maximum dependence on the power of the market to deliver economic progress. The model held up as nearest to ideal is Hong Kong where raw entrepreneurial talent is driving one of the world's most dynamic economies which has, until recently, been easy to contrast with the neighbouring communist state of China to which it will soon return. Preparing for this return has given rise to many interesting adaptations in behaviour that suggest the real strength of Hong Kong's business is it's pragmatism and flexibility.

The United Kingdom has for the last decade and a half at least been moving in the direction of a liberal market solution and has presented itself as in the vanguard of this worldwide movement. The strategies have included high profile privatisation,

contracting out and establishing market mechanisms across government service, freeing labour markets by removing training levies and minimum wage legislation, deregulation in key sectors, (particularly finance) and encouragement of the growth of small firms. Much has been achieved, but there has been no marked change in fundamental economic performance so reappraisals are currently rife.

Second, is a set of countries that have been moving from a common ownership/central planned model through transition strategies to a mixed economy with market disciplines being the predominant economic paradigm. This seemed in the beginning (the end of the 1980s) to be the end of central planning but there are reactions setting in that may cause the pendulum to swing back again.

Poland is perhaps the most dramatic example where radical reform was embraced and a burgeoning small business sector has rapidly become the engine of job creation and economic diversification. The essential change was the granting of the straightforward right of individuals to set up and own business which resulted in more than two million new businesses being established in the first two years. It is interesting to note that in spite of the successes it now has a freely elected communist government back in control. The Czech Republic has had a much smoother ride, named the velvet revolution, but perhaps has so far only succeeded in avoiding the negative impacts that arose alongside the reforms in Poland. One of the components of the Czech success has been effective wage controls concurrent with a slower pace of labour shedding from a collectively privatised (if that is not a contradiction in terms!) economy.

Third, there are a hybrid group of countries where there is still a strong role played by the public sector in a variety of guises, to manage matters centrally. The guises vary from the clear strategic positioning adopted, for example, by Singapore which used a deliberate increase in minimum wage rates to crowd out low value added activities alongside a huge investment in education and training to achieve productivity gains required by the premium wage policy. Private capital and enterprise still lie at the heart of the Singaporean economy but within a strongly managed state. My fellow presenter will describe in more detail the Malaysian case where again the state played a strong active role in job creation and economic diversification.

Less clear but just as strongly state influenced is the French model which uses indicative planning tools with interlocking elite cadres in both public and private sectors plus major public projects as strong stimulants to development. Some of the plusses of this strategy, as opposed to the market model approach in the UK, emerge from an examination of the Channel Tunnel investments and upgrading of associated infrastructure. The French railways have been upgraded in time for opening of the tunnel while in the UK we are still arguing over the location of the stations and new lines.

Perhaps less clear, but undeniably distinctive, is the strong role played in Scandinavian countries, notably Norway, which has managed the good fortune of rich natural resource endowments with an emphasis on quality of life and equitable participation. Interestingly, this led to the choice to stay outside the European Union, albeit seeking at the same time to participate in some of the EU's economic market aspects.

Fourth, there are a smaller group of countries who have an explicit and more or less formal partnership approach between private and public sectors. There are some echoes of this approach in many countries but the two clearest examples are Germany corporatism and Japanese integralism. Both have been hugely successful economies and,

while having as many differences as commonalties in their approach, have demonstrated the potential of a partnership between different interest groups. Importantly, both work on the basis of clear leadership with strong participative structures to resolve differences and freedom of action within competitive markets where world class companies prosper.

They are not, however, without their problems and the depth and long duration of the recent world economic recession owes much to their recent economic sluggishness.

The fifth and final group are the multitude of hybrid approaches where a pragmatic mix of the four earlier categories are combined in different ways. Perhaps the most interesting here is the USA economy which at a Federal level has been moving to an even clearer liberal market philosophy, while at the individual state level there have been a wide variety of positive intervention strategies seeking to manage the decline of uncompetitive industries and to stimulate the growth of new sunrise sectors.

A particularly interesting policy area is the USA approach to encouraging small business through a mixture of legal duties and market opening regulations.

An equally intriguing example is Italy that has a booming private economy in the north which is one of the major dynamos of Europe while continuing with a public sector dominated economy in the south. It is, perhaps, too much of a juxtaposition of opposites from which to be able to draw general lessons, but it is interesting that ineffectiveness at the national government level can be overcome by effective local government and regional agencies. It is this meso level cohesion that has resulted, for example, in the major boom in garments sectors in the Carpi influenced areas of Emilia Romagna.

I think the key lesson from this brief overview is that there are a wide variety of approaches that can be adopted and that success can result from any of them. The solutions must, however, be rooted in national cultural values and economic approaches that must be respected. Respected does not mean leaving them unchallenged as even the most deep-seated approaches can over time be adapted. The best example of this is the changes being experienced in southern China, Guandong in particular, consequent on the expansion of business interests in Hong Kong into the mainland.

A second lesson is that the market is a crucial component of all strategies but it should be regarded as a powerful tool to be managed rather than as a master to be obeyed.

5. What form does it take?

Practical men of the world are often sceptical about exercises that seek to define a vision because too many end up being little more than hot air that changes nothing. The most essential requirement is that the vision is relevant to the choices open to Botswana and that it guides initiatives by selecting the right priorities to achieve the vision.

Motherhood statements that are either so bland as to be meaningless or are nothing more than elegant statements of the obvious should be avoided. It is essential that the grandly stated vision clearly cascades into actions that are able to contribute to the vision's achievement. These actions must emphasise an investment in competence, because it is through competence that sustainable development can be achieved, and should reward inclusiveness thereby encouraging participation.

A vision will be given legitimacy if it articulates clearly the alternatives and offers action that is:

- relevant, to the interests of the nation and all it's component communities

- practical, by containing clear initiatives that encourage participation and set out actions that are convincing in relation to the vision.

It must be defined at several levels. Much of the macro level components are traditionally found in a National Development Plan (NDP) but this typically focuses on the role of national government and offers less guidance to the contributions that the private sector, communities and private individuals are able to make. The vision needs to extend to include these groups either within or alongside the NDP process .

The idea of active partnership has again to extend to the meso level where a regional and community level perspective is important. Also, potentially cutting across this, are a variety of priority perspectives that are significant because of the contribution they might make, for example, sectoral strategies, or the special attention they need , for example, women's groups or rural industries.

All of this needs to end up with micro level initiatives that are the heart of any strategy. These are described more fully in the next section.

What has been emphasised throughout this paper has been the need for a process to be gone through as well as the activities and component that result from the vision creating exercise. I think that it is crucial that the process is formal and transparent as it is through publicly made commitments that the resulting vision will be judged to be a serious activity. For a process it is essential to have mechanisms in place that at the:

- **strategic level**
  - enable a vision to be developed and it's key features agreed, to be clearly articulated in terms of achievable targets and to be shared
  - then, publicises widely what is being attempted and links it to plans to which all are expected to contribute
  - sustains it's execution so that new initiatives and new problems can be monitored in public and reviewed, so that as appropriate the vision and action strategies can be modified

- **operational level**
  - identifying of agencies and partnerships that are charged with executing the priority initiatives and are appropriately resourced to carry them out successfully.

At both these levels there are distinct and shared roles for both public and private sectors. There is no international best model of the boundaries between the two as in all instances the public-private dichotomy is increasingly artificial and the real issue is how to achieve positive mutual support of initiatives from whatever party. Nevertheless to stimulate discussion I will offer the following suggestions.

Private sector

Here I will identify four components of the private sector which has to be the main engine of economic development. They are:

- **individuals** - who must take responsibility for themselves to ensure they develop their potential fully and contribute the maximum to achieve both the best for themselves and for the country, rather than seek to rely on either government or others to make all the efforts on their behalf;

- **small businesses** - are the backbone of most developed market economies which is a role that should be recognised and celebrated but needs also to contribute fully to innovation and competitivity in the formal economy as well as paying appropriate taxes;

- **large firms** - which must be given the support to be successful in an internationally competitive world because that is their main contribution while making a full contribution as a partner in the national development effort;

- **financial and business services** - that are the unsung heroes of most dynamic economies for the support they give to sustaining a strong economic performance. A particularly key role must be played by banks and financial intermediaries who should be encouraged to be more developmental than their usual conservative instincts allow;

- **representative bodies** - again need to develop a partnership philosophy that emphasises both the economic and social responsibilities of their members.

Two specific examples of large firm initiatives in which I have been involved illustrate the nature of the mutual benefits that can follow from acceptance of a wider definition of their responsibility. They are:

- Freeport McMoran in Irian Jaya, who mine copper and gold in the Drakernberg mountains and have in addition to being Indonesia's biggest tax payer developed infrastructure in a subregion and have established a foundation to foster small business development in the region. All with a clear commercial perspective both in terms of their local operation and back home in the USA in terms of being seen to be a responsible corporation in a politically turbulent region

- ICI in Teesside who restructured their very large agricultural chemicals division shedding thousands of jobs in the process. Concurrently, in partnership with a government agency developed a successful technology park to stimulate new small and medium sized firms to come to the region and rebuild the area's economic base. The ICI investment was justified in terms of morale and productivity of their continuing operation, use of spare resources no longer needed for core activities and retention of entrepreneurial talent within their zone of influence. It played an essential demonstration effect in introducing a new dynamism to the region's economy,

Public sector

The essential role of the public sector is to provide the right enabling environment for economic development with a call on national resources that is as large as necessary but

also as small as possible. Good government adds to economic efficiency while poor government hinders it.

At the macro level it is about maintaining the current stable and encouraging climate for business development. In this respect Botswana has much of which to be proud and the need is to maintain the existing level of effort. An additional dimension is to ensure that whenever government acts it conducts it's affairs efficiently. From much of what I have been told there appears a great deal of potential for improvement in this area.

At the meso level it is about providing leadership for the priority areas while delegating authority to a level that ensures effective. operations. This often means establishing special agencies that have specific responsibilities - such as investment promotion bodies or small business agencies - preferably with strong participation from private sector partners. It also means the creation of a positive enabling culture that encourages all those with potential to contribute their own initiatives and to take full responsibility for realising that potential.

The lessons from successful European regions might be particularly relevant and include the key role played by common purpose partnerships that involve business fully. Roles of the different agencies are agreed and responsibilities allocated to achieve jointly adopted objectives. The planning process is formal using business oriented methods and deliberate priorities are selected that attempt to create a critical mass in targeted areas through the selective use of resources.

At the micro level it is about making resources available to implement specific programmes to tackle priority needs. In terms of the job creating and economic diversification agenda, this might include:

- investment incentives at an internationally competitive level
- product quality and standards upgrading programmes
- vocational training and competence development, focused both at the current large numbers of unemployed youth and at reform of the core education curriculum to give adequate weight to relevant competencies
- entrepreneurship stimulating initiatives
- trade promotion and exporting schemes, particularly building on Botswana's advantages in the Southern African regional market
- information services.

All the initiatives selected as priorities must focus on the wealth generation process out of which flows sustainable jobs. Some suggestions of the vision's heart are elaborated in the next section.

6. What is at the vision's heart?

Business and government thrive on continuity and stability so the heart of any vision has to be an evolution of the present, albeit possibly a radical evolution. The degree of radicalism depends on the extent to which the new challenges requires substantial new approaches rather than small adjustments of present strategies.

At the heart of the vision has to be a shared ambition that builds on individual motives and deals with rewards in terms that are meaningful for each of the stakeholders. The ambition has to have priority targets that are set to be demanding but achievable. The targets need to cover:

- the scale of development - how much do we need to achieve, what can we afford to risk or, not afford to fail to achieve

- the direction of development - that gives particular emphasis to the nation's human resources as well as covering such priorities as improving market efficiencies, stimulating international investment, pursuing rural containment strategies and many others

- sets out the target beneficiaries, with clear indication of what is being expected and when it is likely to be realised.

Importantly the beneficiaries might include deliberate priorities given to groups within the population that are deemed to deserve special attention. Examples that have occurred elsewhere include women's programmes, youth initiatives, geographically focused efforts and specially disadvantaged groups. The targets can be set in terms of the accessibility of these groups to particular programs and the rewards that they are expected to receive and the contribution they are expected to give. Picking a few initiatives as examples they could include:

- **market efficiencies** - the extent of deregulation that is needed which identifies priority controls to be retained, measures to ensure those controls are operating efficiently, and areas that are to be freed up. In emphasis this has to create the vision of a positive government that automatically grants permissions with limited exceptions rather than providing a whole series of hurdles that deny action

- **stimulating enterprise** - concerning the promotion of attitudes and skills among the young, building the right infrastructure to stimulate new business creation and deliver assistance to aid growing successful firms. There is a huge body of knowledge that can be accessed to provide immediately applicable models to implement that over time can be monitored and improved upon rather than being delayed in implementation by the desire to define the perfect answer that is never reached

- **labour mobility** - improving skills in order to attract higher productivity investments and utilising the huge education investment already made by Botswana is the main priority. Then determining the balance between traditional job sectors (rural labour reservoirs, for example) and formal urban sectors, encouraging the repatriation of those with skills and networks developed while working elsewhere to return and use them at home, developing portable qualifications with a competence emphasis rather than academic knowledge all contribute further

- **export promotion** - to compensate for the small domestic market and to take advantage of the expanding regional economy.

These and many others can be aggregated into the partnership structures developed at community levels to build coherent active strategies that look to achieve the vision. And achieve sustainable (in market and ecological terms) development.

7. Conclusion

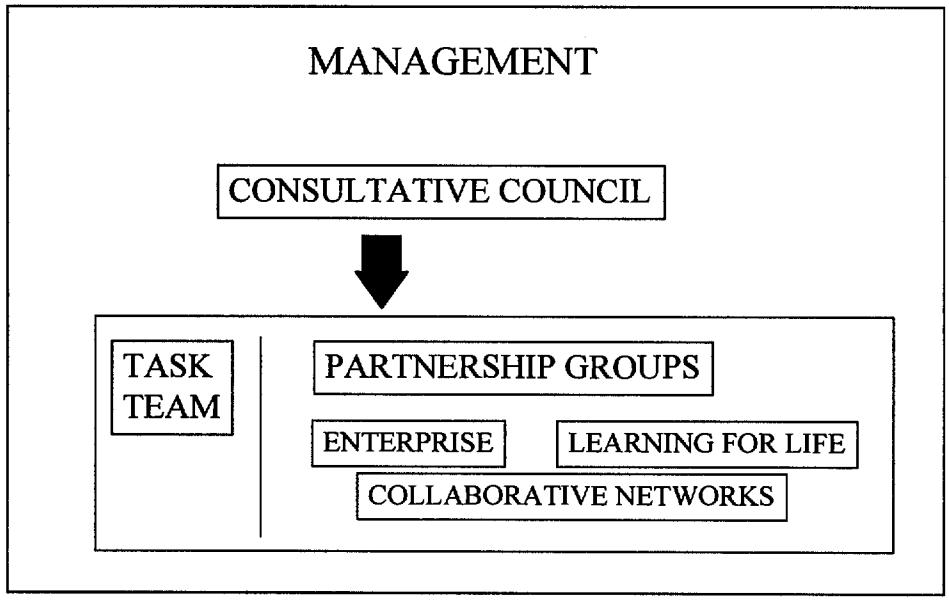
I hope that I have managed to maintain interest in spite of the repetition of several of the key messages. In essence, the most important element of the development of a national vision is the belief that Botswana can influence it's own destiny. Plus, that by working towards a shared goal the whole of what is achieved is greater than the sum of the parts.

The general level of unemployment, and concentration among youth in particular, is such that there is every merit in acting along two parallel lines. The first would set up a task group that will define immediate actions that have the objective of rapid effect. The second would build on the collaborative structures that have already been instituted and, involving business fully, would develop the shared vision that will serve to unite efforts in the longer term. This should set objectives and have a perspective for achievement by 2020. In both efforts there will be a need to emphasise an inclusive partnership which is, in any case, an established feature of Botswana life.

The joint consultative council that was established after the last private sector conference can provide the high visibility leadership for the process. It is composed of leaders who can add their full weight behind both immediate and longer term vision development activities. However, it needs to be underpinned by a series of partnership bodies that focus on key elements of the vision and prepare the analysis and recommendations that will subsequently be endorsed by the joint council. These should be conducted using business disciplines and be led on an equal basis by government and the private sector.

The first task group should be required to propose a series of new or amendments to existing initiatives to make them more effective within six months for immediate implementation. It should include:

- programmes to stimulation the formation of more new businesses
- programmes to select priority firms to be helped to grow quickly
- proposals for inverting key aspects of government into a more positive stance
- tools to offer integrated assistance to existing small and medium sized firms
- trade development priorities that target regional markets working with willing firms
- programmes to help informal sector enterprises graduate into the formal sector
- vocational training initiatives that build partnerships between schools and business.



The supporting task teams that feed proposals into the vision building exercise should also be established quickly with a longer time frame but still expected to reach the proposals stage within one year. They should include three main priority groups tackling:

- **innovation**: which has a remit that covers entrepreneurship, technological upgrading, productivity growth and investment for quality upgrading

- **lifetime learning**: which has a remit to develop a new vision of the integrated academic and vocational education system that emphasises life skills and competencies and to make proposals to stimulate businesses to invest more in their people

- **collaborative networks**: which has a remit to develop programmes to realise the vision of a cohesive system that improves links between: business and business; business and government; technology/education and commerce; and between Botswana and it's regional partners for investment and trade.

These efforts should all be integrated within the next National Development Plan and be widely publicised to encourage the fullest participation. The vision should include proposals for it's regular monitoring and review in public at which progress can be assessed against targets and changes proposed as appropriate.

Keynote address

THE DYNAMICS OF RAPID EMPLOYMENT GROWTH IN EAST ASIA

Jaafar B Ahmad, Bank of Namibia

1. Introduction

In many ways Malaysia is not untypical of the two other economically successful Southeast Asian economies of Indonesia and Thailand. They share vast natural resources, such as oil and gas in Indonesia and Malaysia; and tin in Malaysia and Thailand. The three also enjoyed a rich supply of tropical timber and continue to benefit from agriculture. Although East Asia generally had enjoyed better endowments of educated people at the start of their rapid growth trend, this was not the case for the three Asean countries which had to start with a poorer human capital base. The most successful group economically was the European expatriates who came with the colonial power (excepting Thailand which was never colonised), and controlled the rich plantations, farms and mines. The next successful group was the overseas Chinese, who throughout Southeast Asia filled the ranks of the merchant class. The indigenous population was mainly left backward, illiterate and poor.

All the three countries enjoyed a long history of political stability. Indonesia had seen no social upheaval since 1965, with the fall from power of Sukarno and the defeat of communism after a short bloody civil strife. Malaysia with it's parliamentary system had no change of government since 1957, and Thailand had been held together since World War II by it's revered monarchy, despite numerous military coups.

However, a possession of these factors are no guarantee of success for attaining rapid and sustained growth. There are too many important exceptions in East Asia. Among them are the Colony of Hong Kong and Singapore which have no natural resources but are extremely successful. Initially they capitalised on their unique geographical positions as entreport centres to promote trade, and later staged a successful bid to create centres of commerce, industries and finance on the two islands. Hong Kong had flourished with a laissez-faire economic system while Singapore lived in a highly regulated atmosphere. Neither is political stability an insurance for growth, if taken from the examples of NeWin's Burma and Marco's Philippines.

Lately, export orientation to gain sustained rapid economic growth gained a wide support, after the disappointing experience with import-substitution. The policy of South Korea and Taiwan was often mentioned to illustrate the success of the new strategy. However the story of Korea and Taiwan may not also be a relevant model. It was arguably a special case brought about by special circumstances.

Firstly, both countries had a long tradition of industrial organisation and economic structure unlike many developing countries. It was reinforced further by the Japanese occupation which established an armament industry for the Japanese army, that created the basis for export orientation. Secondly, after World War II they enjoyed special status accorded by the United States, which benefited the export sector. And thirdly, they

enjoyed a homogenous population, like Japan before it and Hong Kong and Singapore thereafter which allowed them to concentrate fully on capturing economic growth, without having to address the issues of poverty, income distribution and wealth ownership among diverse ethnic groups in a multiracial society.

The latter point relating to ethnic diversity is pertinent to Malaysia, which has to consider distribution issues besides the pursuit of growth objectives.

However, the Malaysian experience may not also be relevant within the general developmental context of growth models. Throughout the four decades since regaining it's independence, the strategy for each phase was dictated and tempered by the circumstances the country was in at the time. In the earlier days after independence the overriding issues were national unity and rural poverty which were tackled successfully through agriculture reforms.

In contrast, the approach taken in the following two decades was far more radical in the pursuit of socio-economic distribution objectives. The whole machinery of government became involved with mixed results. The targets were met approximately for the eradication of poverty, income and wealth distributions but at the cost of the proliferation of public enterprises which later became a burden to government. The response to it has again dictated the tempo, strategy and model of development for the decade of the 1990s, which emphasised on lesser regulation and more private sector initiatives. Among the most notable measures was the government forceful privatisation programme.

It is the aim of this paper to present briefly the Malaysian unique example of planning and the pursuit of growth and distribution objectives. It describes the legacy of colonial rule immediately after 1957, and the challenges to the country arising from this legacy. It relates the three distinct phases of developments with the first phase covering the early years after independence, followed by the interventionist policy of the New Economic Policy, and finally the shift towards a free enterprise economy. The paper concludes with a summary and assessment.

2. Legacy of colonial rule

An interesting feature of the Malaysian development experience was the set of common characteristics which it shares with many developing countries with a colonial past. At independence in 1957, Malaysia (until 1963, Malaya) inherited an economy that was completely dominated by foreign interests, mostly British. The British or British interests owned most of the rubber plantations and the rich tin mines, which formed the backbone of the economy, while British agency houses and institutions monopolised foreign trade, finance, banking and insurance. The ethnic communities, which were made up of Malays (referred to as Bumiputra, when the other indigenous communities were included in 1963), Chinese and Indians, were segmented by historical circumstances into three distinct groupings:

(i) The Malay community which made up almost half of the total population was confined to the rural subsistence sector, engaged in rice farming and fishing. Poverty and indebtedness among them were widespread. So was illiteracy where colonial policy provided for only 4 years of formal education in the Malay schools.

(ii) The Chinese community which comprised 37% of the population, lived mostly in the urban sector. They were engaged in trade, commerce and tin mining. As a group they were better educated and somewhat wealthier than the rest of the Malaysian communities, but fell far short of the European expatriate group.

(iii) The Indian community who came from South India to work on the rubber plantations and railroads remained in this sector and engaged mainly as labourers.

For the whole country, income per capita was US$266 (1960), against Thailand's of US$111, Korea's of US$100 and the Philippines' of US$157. The corresponding figure for Britain was about US$1,680. Although it's income per capita was somewhat higher by the standard of the developing countries, this figure had glossed over the extent of poverty among the Malay population and some sector of the migrant communities. The bulk of the income was in fact, accrued to the small group of British planters and miners, and to a lesser extent to the Chinese community.

It was becoming more apparent that with independence, the continued acute imbalances in income and wealth became increasingly more sensitive and grew to be a major political issue, especially among the Malays and Chinese communities. The situation had sometimes threatened to destabilise the political harmony which the leadership on both sides had tried to maintain.

During the colonial period, the Malays who owned much of the land became increasingly marginalised. In particular the passage of the Malay Reservation Act in 1913 condemned the Malays to the rural subsistence sector when their lands were proclaimed as Malay reserves and prohibited them from any transactions outside the Malay community. They were also prohibited to plant other crops, other than rice without the express permission of the authorities. At the same time alienation of new lands were often made to the British planters. The policy created widespread disparity in landownership. In 1953, the Malays owned 67% of the land in the subsistence sector mostly for rice cultivation while the bulk of the balance was owned by the Chinese, mainly for rubber smallholdings and market gardening.

In the plantation sector, 70% of the land area (mostly under rubber) was owned by the British, and 23% by the Chinese. The same pattern was repeated in the tin mines. The Malays and Indians were completely underrepresented as owners in both of these sectors. European interest accounted for 62% of tin output and the Chinese the remainder. Similarly over 75% of the processing and distributive trade were in British hands.

In short, expatriate European interest dominated the economy in pre- and early post-independent Malaysia in all the important sectors. The Chinese community had fared relatively better. Likewise they also had better access to education where most of the schools were located in the urban centres. Prior to 1970s, over 90% of university enrolments were filled by the Chinese community. This percentage seems to be out of proportion in comparison to their numbers. In contrast poverty and illiteracy were endemic in the rural subsistence sector where 75% of the Malay population lived.

Over 35% of the rural household lived below the poverty line (defined on an income per household of RM120 or US$40). The overall Gini ratio in 1957-58 was 0.412, indicating a wide disparity of income. The comparable figure for Thailand was 0.55 and the Philippines, 0.51.

The economy was however relatively prosperous, riding on the post World War II and the Korean War booms with strong external payments position. Much of it was from rubber and tin exports which the country excelled in the world markets. Domestic savings too were relatively high (about 17% of GDP) but failed to attract much investment. An equivalent of only 7-12% of GDP were invested locally, with the rest repatriated to Europe (Britain mainly). This pattern remained true in the immediate post independent period.

3. The challenges

In summary, in 1957 at the time of independence, the country was faced with a number of large obstacles that had appeared difficult to overcome.

1. It inherited a multi-ethnic society with two dominant communities, who occupied different economic, social and political niches. The Malays, politically powerful, had most of their numbers in the poor rural areas, with no claim to wealth. The Chinese, although politically weaker, were relatively wealthier and had shared monopoly with the European expatriates over commerce and the tin industry. The Chinese were confined mainly to the cities and major towns.

2. Enrolment in schools again reflected racial background with the Chinese monopolising tertiary level education (when poverty, location and cultural factors had their parts to play for this result).

3. Wealth distribution was sharply skewed. Among the Malaysian communities it became divided along racial lines with the Chinese owning the most and the rest of the communities owning the least. In the latter category were the Malay rice farmers and fishermen and the Indian plantation workers.

4. Foreign enterprises dominated and controlled the best farms and mining lands, as well as commerce and industries where management and senior appointments were mainly reserved for expatriates.

5. The economy however prospered, enjoying vast comparative advantages in the production of rubber and tin.

A reference to this background is important in order to appreciate the policy response to the demand for economic development in post independent Malaysia. Rapid and sustained growth with rising employment without positive results in addressing income inequality and skewness in wealth distribution was not viable and politically unacceptable. Neither would it be acceptable if no inroads were made to tackle poverty. The stark differences among the ethnic groups were becoming more apparent as the country prospered. They became a political issue as rising expectations were not matched with the real situation on education, employment, poverty, income, and ownership of wealth. Instead, they became clearly identified along ethnic lines.

The challenge to the country was to foster a unified and stable society, by correcting the economic imbalances and forging a workable power sharing formula. The three

development phases below were the response of the policy makers to the socio-political environment facing them at the time.

4. The three development phases

The three development phases spanned about four decades. The first was associated with the early post-independent years, 1957 to 1969; the second which covered approximately 1970 to 1990 was the New Economic Policy (NEP) years, and the third was the period after the NEP.

The early post independence phase

Much of the early period was spent on searching for the right formula for the three major ethnic groups to live together in peace and harmony. One of the most important pacts agreed upon was on power sharing which essentially bonded the three groups to a "social contract". Under this contract the immigrant communities had agreed to recognise the Malays as the indigenous race (later to include other indigenous communities), primus inter pares (as the first among equals) in exchange for the Malays to agree to the citizenship rights of residents on fairly liberal terms. That these issues relating to citizenship rights, power sharing formula, and economic disparity were not satisfactorily ironed out could be attested to with the outbreak of racial riots in May 1969.

Although the strategy for economic development in this phase had already reflected the country's concerns over economic disparity among ethnic groups, apparently no abrupt and rash decisions were undertaken as a matter of policy to wrest control over the machinery of government and commerce. Unlike some countries that achieved independence and nationhood there was no major shift to Malaysianise administration and ownership, and neither was there any deportation of expatriates. Instead, a non-interventionist system of government and a free enterprise system were followed. The policy focus was generally on rural development and promotion of import substitution industries.

The policy to industrialise partly stemmed from the concern that the agriculture sector might not be able to absorb all the expected increase in the labour force arising from the rapid population growth (3.3%, 1960). The other reason was attributed to the desire to broaden the country's narrow economic bases which were proned to fluctuate sharply due to the swings in primary commodity prices.

Import substitution was the chosen strategy as it involved simpler technical processes and having a ready market. These were in motor car assembly, food and beverages, and certain building materials. The other rationale was to save on foreign exchange. But the evidences on the foreign exchange front were contrary to expectations. The rise in import substitution industries had not led to any improvements in import flows. Instead the composition of import products changed from final products to intermediate materials to feed the local import-substitution industries. However there were significant gains on employment generation. Total share of the sector in GDP rose from 11% in 1957 to 17% by 1968, which was indeed a significant increase over a 12 year period. Employment followed suit from a share of nearly 6.5% in 1957 to 9% in 1968, and equivalent to almost 60% increase of people employed for the period.

Import substitution as an industrialisation strategy in Malaysia, however, had it's limitations. A primary one was the population size, which at 16-17 million people in 1960 was somewhat small for these industries to rely on exclusively. Products of import

substitution industries had saturated the local market by 1960s, so that no more scope was possible as a source of growth. The push for export orientation of the industries beginning in the 1970s was partly a response to these realities.

The focus on rural development was to address poverty and the perceived widespread underemployment of the rural Malay population. At the core of this policy was an intensive agricultural programme to raise farm productivity of the rural sector. Firstly by improving crop yields through the infusion of modern technology and research. Secondly by introducing crop diversification, primarily by the addition of high yielding palm oil crop in addition to rubber, and thirdly by raising the number of rural population participating in special agricultural schemes operated as plantations.

Implementation took several forms, as follows:

1. *Land alienation.* Land alienations were controlled strictly by the 1960s to prevent alienation of government lands to the established plantations. They were alienated instead to government supported schemes under the resettlement programs of the poor and the landless.

2. *Replanting programmes.* Rural farmers were encouraged through incentive schemes and subsidy to replant their crops with high yielding variety. The result was to raise rubber yields per hectar from under 700kg in 1950s to over 3,300kg by the 1960s. Replanting with better clones accelerated in the 1960s. In 1960, 52% of the rubber hectrage tapped was from old stock, but fell to only under 9% by 1970.

3. *Establishment of Agriculture Extension Services.* Agriculture extension services were outreach programmes to provide advisory and counselling services to rural households. The services supplied covered the use of modern planting technology, usage of fertilisers and better yielding seedlings.

4. *Crop Diversification.* Cultivation of palm oil and cocoa (as cover crop planted in between rubber and palm oil trees) were vigorously promoted to supplement rural income, in addition to rubber. By 1970 palm oil emerged as the major commodity and even surpassed rubber in latter years in export earnings.

5. *Establishment of Specialised Agencies.* Among them were Felda (Federal Land Development Authority, 1956) which proved to be the most effective and successful governmental agency to implement the national rural development strategy. Felda developed new farmlands from virgin jungles for the resettlement of the poor and landless from all sectors of the economy. Each settler was allowed a plot of about 4-5 hectares to work on, primarily to plant rubber and palm oil. The plots under rubber and palm oil were combined together and managed by Felda as a plantation. The programme had proven effective in raising farm yields and productivity of the rural sector to the levels of the modern plantations. By 1970 Felda, developed and operated 125,000 hectares of palm oil and rubber plantations, and by this period such schemes under palm oil was nearly 30% (47% by 1980) of the total palm oil hectarages nation-wide.

6. *Investment in Rural Infrastructure.* To improve on rural health care and productivity, some of the notable public investments were in health and education. By 1970, 47% of the rural households were supplied with running water and 44% with electricity.

The strategy to bring about a radical change in the living standards of the rural households was a notable achievement for this period. It was indeed a case of the Government investing heavily in an area to preserve and even enhance it's comparative advantage where it had already enjoyed an edge. Coupled with the global economic upswing, average annual GDP growth reached 6.4% in the 1960s, and per capita income from just over RM730 in 1960 to RM1029 in 1970. Correspondingly, unemployment rates were kept low, on average about 6% per year, and the inflation rate only at about 1-2% per year.

But the major disappointment to this otherwise successful policy was the economic imbalances among the races which persisted despite the substantial inroads made in improving living standards among the poor in rural villages, and opening of new employment opportunities in the urban sector. Poverty remained at unacceptable levels by the close of 1960, especially among the fishermen and the rice farmers. In other areas, progress was judged unsatisfactory in terms of wealth distribution, and employment targets in the corporate sector. By late 1960s it became more apparent to the authorities that more efforts were required to industrialise to match the dynamism of palm oil and rubber; and this issue became more pressing as the agriculture sector alone were judged insufficient to absorb the rapid growth in population.

It took the racial riot of May 1969 to give the Government the impetus to make a radical change in policy, as the rioting was perceived as an expression of dissatisfaction among the population with the economic achievements of the 1960s to address racial economic imbalances. The policy response to the event was the 20-year Outline Perspective Plan under the New Economic Policy which witnessed the unprecedented increase of state participation in the economy.

The NEP period (1971-1990)

The New Economic Policy (NEP) was articulated in 1971 in the Second Malaysia Plan (1971-1975). The Policy was the result of an assessment that the 1960 economic strategy of laissez-faire was not enough to close the economic gaps among the ethnic groups.

The heavy emphasis on rural development which resulted in dramatic rises in living standards had not been enough. It had not brought about an appreciable shift in the distribution of income and wealth. The same conclusion was reached regarding education and employment. In addition a large section of the population remained in poverty. In 1970, 59% of the rural population and 21% in the urban sector lived below the poverty line. These concerns were reflected in the twin objectives of the NEP:

(a) to eradicate poverty, irrespective of ethnic backgrounds; and

(b) to eliminate economic imbalances among the racial groups.

These objectives were to be achieved furthermore in the context of growth and national unity within a 20-year period. To go with the above objectives, ambitious quantitive targets were also set for the first time.

In terms of ownership, the Malays and other indigenous groups together, were to attain 30% ownership of share capital, and to manage and own at least 30% in the sectors of commerce and industries. The non Malays on the other hand can own up to 40% of the above, with the balance of 30% by foreign interest. Further, the composition of the workforce was to reflect the ethnic composition of the country.

For the poverty targets, a 23% limit was set for the rural population, which implied a cut by more than half of those living below the poverty line in 1970. Poverty for the urban sector was to be reduced by almost three folds from the 1970 figure, i.e. from 21% to only 9% by 1990.

The programmes which aimed directly at the target groups included resettlement of residents under the agricultural schemes; agricultural modernisation programmes; and resettlements of urban residents from squatter settlements to modern urban centres.

The importance attached to social stability and balance in realising the NEP targets were infact reflected implicitly by the Policy itself. A target of 30% equity ownership by the Malays by the year 1990 would mean the non Malay community would also continue to accumulate it's own equity at the rate of 12% per annum or equivalent in magnitude to nine times it's 1970 level by the year 1990. Foreign ownership would also be rising at 8% per annum, or equal in magnitude to five times it's 1970 level. Obviously these targets were not realisable unless rapid economic growth was sustained. It meant importantly sustaining the growth momentum in agriculture and promoting new sources of growth, mainly through rapid industrialisation.

Four major factors could be singled out to have played a vital role in the achievement of the NEP objectives and sustaining rapid economic growth. They were:

1. Active participation of the state in the economy;

2. Active promotion of Foreign Direct Investment;

3. Continued heavy emphasis in Agricultural Develpment; and

4. Macroeconomic stability.

Active and dominant role of the state in the economy

Of the measures taken to realise the NEP targets, active state participation in the economy was the most controversial. The concerns expressed by observers were that Malaysia's competitive position would erode because of state interferences in the economy. Among the questions raised were on the transparency of policy where the state became involved as participant as well as regulator; on increases in rent seeking behaviour; on the state crowding-out private investment; and on built-in structural rigidities in Government finances and the economy generally.

Several major obstacles stood in the way of realising the NEP. The first was the lack of an entrepreneurial class among the Malay population. This is not surprising since most of them were poor farmers in the rural subsistence sector, and Government bureaucrats. A corollary to it was their lack of capital, and skilled manpower which

effectively barred them from meaningful participation in the modern corporate and manufacturing sectors. It was against this background that active state participation, acting on behalf of the Malay community was seen by the Government as the only viable alternative to correct the imbalances. The change in policy was reflected in Government expenditure which rose sharply from 24% of GNP in 1966-1970 to 29% in 1971-1975, to 31% in 1976-1980 and to it's peak the following year at 48%.

On the educational front concerted efforts were taken to increase Malay enrolment in tertiary education where their participation was totally lacking. For this purpose the Malays were introduced to "head start" schemes to raise their educational standards to those in the urban sector. The scheme included placing rural youth in boarding schools and special colleges, and offering them financial aids for boarding and tuitions. Among others, specialised agencies were introduced for the training of Malay entrepreneurs with the basic skills. The result was remarkable. By 1980, 70% of the total enrolment at the university level was filled by Malays, a figure which was much higher proportionately than their numbers in the country; compared with 60% in 1960 for the Chinese.

To substitute against the lack of capital, the state created public sector agencies and state corporations (mainly under the umbrella of the State Development Corporations (SEDC), registered under the Companies Act, 1965), which were deemed to hold temporarily the equity stakes in trust on behalf of the Malays until such times when they could pay for them. Via this vehicle, Government's direct presence in the economy accelerated sharply throughout most of the NEP years.

At independence, there were only 21 public enterprises. These were the three public utilities, the five departments in transportation and communication, the two in culture activities and the eleven in finance. By 1985 the number of public enterprises, multiplied many folds, totalling about 900. They took the form of state owned companies and public corporations such as Heavy Industries Corporation (HICOM), the National Oil Corporation (Petronas), the International Shipping Corporation (MISC), Malaysian Airlines (MAS) and International Trade Corporation (Pernas), and minor ones under the SEDC's. Others were formed as statutory bodies, such as MARA (Council of Trust for Indigenous People), NPC (National Productivity Centre) and UDA (Urban Development Authority). Their roles in attaining the NEP objectives can be characterised as follows:

1. To assist the Malays accelerate their participation in the commercial and industrial sectors (as covered by MARA; UDA; Pernas and SEDC);

2. To act as trustees for the Malay community by holding on to their shares until such time when the shares were bought by them. (The National Equity Corporation (PNB) had been the major vehicle used to buy over these share capital on behalf of Malays. PNB had also been involved in the major acquisations of publicly quoted corporation in both the Stock Exchanges of London and Kuala Lumpur. Among them were the British owned plantation companies such as Sime Darby and Guthries);

3. To act as joint-venture partner with Malay entrepreneurs with the intention of relinquishing the state's shares to those with good track records;

4. To participate directly in ventures where the Malays were for the moment unable to participate (such as in heavy industries, telecommunication and automobile manufacturing); and

5. To act as catalyst by investing in the economically poor region of the country (for example in the east coast region of Peninsular Malaysia).

Until mid 1980s when they were consolidated, rationalised and privatised, these nonfinancial public enterprises were the primary instrument of the NEP. Their activities and numbers were closely correlated with public sector employment, which took a 12% share in total expenditure in 1970 to 14.5% by 1980, and public sector spending which rose by 13% per year in real term during 1970-1980; and foreign borrowings from 24% of total debt outstanding in 1970 to nearly 40% by 1982. During the same period public sector expenditure to GDP rose from 36% to 53%, with the rise in SEDC outlay being the most dramatic, from 4% of GDP in 1970 to 34% by 1982.

Foreign direct investment (FDI)

Capital flows in the form of FDI's were not new to the country. Most of the rubber plantations and tin mines were developed initially from foreign savings, particularly from Britain. The same was true for much of the import-substitution category of manufactured products. A significant number of these firms were attracted by the tax relief and breaks given under the Pioneer Industries Ordinance (1958). Until 1968, 146 "pioneer" firms were established accounting for half of it's growth in the preceding eight years. More incentives were introduced with the enactment of the Investment Incentive Act (1968) and the Free Trade Zone Act (1971), which drew in a large number of new industries, especially those with export orientation. The second wave were the Americans and Japanese and subsequently other East Asian investors from the Newly Industrialised Economies. The American concentrated in petroleum, chemicals and electronics, while the Japanese and others into a wide variety of industries, covering iron and steel, car assembly, food processing and electrical appliances. Later the list extended to electronics and electrical machinery. Unlike the American which showed a strong preference for a wholly owned operation, the Japanese and other East Asian operations were mostly in the form of joint ventures.

The successive waves of foreign capital inflows and massive public sector investment were reflected in the dramatic shift in the composition of the industries and industrial value added. There were also sharp changes in industrial employment profile and ownership distribution of equity. Total investment to GNP which was just above 16% in 1966-1970 period rose to over 25% by 1971-1975, and to nearly 36% by 1981-1985. Private investment rose sharply from just below 10% in 1966-1970 to stabilised at about 18% of GNP during 1971-1985.

The most surprising was the gains made in equity ownership. In 1984, of the 215 listed companies on the Kuala Lumpur Stock Exchange, covering seven categories (industrial, finance, hotel, properties, palm oil, rubber and mining) 90 of them were controlled by Malaysian, representing about 31% of the total capitalisation. Of this nearly 25% were Malay controlled manufacturing concerns. The figures were impressive when in the 1960s Malay equity interests were almost practically non-existence.

The Malay component in industrial employment was equally remarkable. In 1972 the Chinese constituted 54% of the workforce in the manufacturing sector, the Malays 36% and Indians 9%. Malay participation in employment rose to 53% by 1983 and the Chinese declined proportionally to 30%.

The strength of the net inflow of FDI's could be gauged on the magnitude that came in in the last 30 years. Annual flow in 1960-1970 averaged RM$200-300million, RM$1billion annually in 1974-1979 to reach a level of RM$3.3billion in 1982 (the comparable figures for 1992-1994 were RM$12.5billion annually -US$5billion - with over 30% of private investment accounted for by FDI's)

Reflecting this growth, manufacturing share in GDP rose from 14% in 1970, to 20% in 1980 and by 1982 it surpassed that of Agriculture. The dynamism of the tin manufacturing sector helped to reduce sharply the rate of unemployment from about 7.5% in 1970, to 5.3% in 1980 to about 3% by 1993. It had rapidly created however labour supply shortages, first in the agriculture sector when the supply started to flow to the more rewarding urban industrial sector and later nation-wide, until it was eased in selected sectors and labour categories by the admission of foreign labour.

Continued focus on agriculture

Two factors had made it possible for Malaysia to pursue aggressively it's industrialisation programme and NEP. Foremost had been on the strength and resiliency of the agriculture sector which had freed the country at the early phases of development from having to face with foreign exchange constraints. Agricultural earnings had provided the basis against which the various development plans were possible. The other factor was petroleum and gas which contributed from just under 5% of total export earnings in 1972 to a peak of 27% in 1984.

Despite the strong rise in manufacturing value added which dominated the economy by the early 1980s, primary commodities continued to account for a significant share of export earnings (40% in 1990, and 20% in 1995). During most of the NEP period commodities played a commanding role. Starting from 1972, commodity price boom led to sharp gains in the term of trade that was sustained until 1979; with a brief pause in 1975. It's importance was again re-emphasised in the next phase of the business cycle (1980-1986) when a fall in the term of trade in the face of a total collapse in commodity prices triggered the worse recession in Malaysian history.

The agriculture sector had shown however a remarkable resiliency. It's trend rate of growth of 5% per annum was sustained throughout the 20-year NEP period. This was partly because of the strong commitment to sustain it's growth, as reflected in the National Agriculture Policy .

Macroeconomic stability

During the first half of the NEP, 1970-80, Malaysia enjoyed a buoyant growth of 7%, and 6-8% between 1975 and 80. It was sustained further at 6.7% during 1981-84. Inflation was maintained at around 5-6% per year and unemployment at 6% throughout the 1970s with real capita income that increased at 5% per year.

The explanation for the robust performance was partly on account of commodity prices. As one of the world's largest producer of rubber, palm oil and tin, Malaysia benefited from the upswing in the prices of these commodities for most of the 1970s. Oil export, albeit small by world production standards had helped to add to export earnings.

In summary, the main objectives of poverty eradication and wealth redistribution under the 20-year NEP were reasonably within targets. It was only made possible with rapid growth of the economy that was sustained on average, with reasonable macroeconomic stability. It came about, initially from the expanded and enhanced agriculture sector and subsequently from rapid industrialisation. High savings and investment, as supplemented by strong capital inflows from FDI's were the primary contributing factors.

Reaching the targets of the NEP came with a price however. It had led to greatly increased government involvement in industrial projects through state enterprises and public corporations. The financial weakness of many state enterprises later became a burden on the government with the onset of global recession in early 1980s. Meanwhile the public enterprises were the principal vehicles for assisting Malays to participate meaningfully in the affairs of commerce and industries as owners and workers.

5. The post NEP period

Discussions on the next Outline Prospective Plan (1991-2000) to succeed the NEP started in the latter half of 1980s, immediately after the conclusion of a multi year fiscal retrenchment programme. The background to it was the performance of the NEP and the sharp deceleration in economic growth which was mostly unanticipated by the Fourth 5-Year Development Plan (1981-85).

Malaysia entered a new phase in it's cycle of rapid growth in early 1980s, when it faced with considerable weaknesses in global demand. Sharp fall in primary commodity prices was largely taken into account when the Fourth Plan made a lower 7.6% annual growth target. The premises were for manufactured exports to maintain it's rapid growth of 10% per year and domestic demand to be sustained at around 6%.

The actual out-turn was mostly the opposite. A changed world economic environment quickly altered the validity of many of the planning assumptions by the time it was launched in 1981. Private investment which was to play the key role failed to respond as expected and manufactured exports were hard hit by depressed demand from Japan and the United States. When combined with the impact of an adverse term of trade, it became clear by 1982 that unless aggregate demand was strengthened the economy would face an imminent economic slowdown which would imply a setback to the national development objectives.

The government policy response was to mount a counter-cyclical fiscal stance. The programme promoted mainly higher investment and expenditure of Non-Financial Public Enterprises (NFPE'S), which quickly grew to record levels. It also raised within a relatively short period of time the overall public sector deficit and external debt borrowings of these enterprises. During 1981-84 these deficits rose to a record average of nearly 18% of GNP, which was three times the average deficit projected in the Fourth Plan. On the external front spill-over of expenditures into imports without compensating export proceeds raised the average current account deficit to 10% of GNP compared with a projected balanced account in the Plan.

It was about this time that the political leadership changed hands; In 1981, Dr Mahathir Mohammed who was wellknown for his critical view of the performance of public enterprises, took over as the fourth Prime Minister. The new leadership began quickly to focus on fiscal reforms. One category of the reforms addressed the immediate structural issues surrounding the twin external and budgetary deficits, including the

unsatisfactory performance of public enterprises and their control. And the second category took to account the NEP and the role of the public sector in the pursuit of the NEP targets.

The first category became the multiyear structural adjustment package which was instituted in 1983. Essentially it focused on the reforms of NFPE's, which absorbed the brunt of the expenditure retrenchments. These cuts in both public investment and expenditure were on average equivalent to 4% of GNP per year over a 3-year span (1983-85). The massive cuts in government outlay restored public sector overall deficit to it's usual level of 6% by 1985 from the wide 18% gap in 1982. The balance of payments too responded with a narrower deficit of the current account to 2.5% of GNP in 1985 and an approximately balanced position in the following year.

However these gains in restoring financial sustainability came not without a great deal of costs and hardships in an economy which had grown so accustomed to a regular dosage of rapid rate of growth since 1957. It had brought to a standstill the numerous development projects of the public sector, and later precipitated the widespread collapse of the booming property market.

On the external front, the economy was hit hard by another sharp deterioration in the term of trade, which plunged by about 24% in 1985-86, owing largely to the drop in oil prices. As a result growth in total output decelerated and turned negative for the first time in 1985 and only marginally positive in 1986. Worker layoffs and growth of the labour force quickly raised unemployment from 5.5 % in 1983 to over 9 5 % in 1987.

The second category of the reform was framed firstly to restore economic growth and secondly to pursue a new development strategy. For the growth objective, the programme put together a generous policy package to revive private investment which included liberalisation in equity and relaxation of the employment requirements. More generous tax relief, especially for the export-orientated firms was also added in to attract FDI's. The other measure was the initiation of a comprehensive privatisation programme.

Reflecting these policies and assisted by the world economic upturn, the economy responded strongly by 1987 led by a resurgence of private investment. Over the next several years inflows of FDI's from Japan and other East Asian countries reached record levels. It led to an impressive performance of the manufacturing sector which grew at 15% per year over 1986-90 and real GDP to 8.3% in the same period.

The recovery contributed to a successive decline in unemployment rates which dipped below 4% by 1992.

The new 10-year National Development Policy (NDP) which was introduced in 1991, incorporated the major elements of the successful adjustment package. It reflected the more liberal policies to promote private investment, but did not compromise on the overriding distribution-and-poverty objectives of the NEP. The important departure from the NEP was the approach taken to achieve these objectives.

Public enterprises which proliferated during the first half of the NEP were no longer to play a pivotal role. Disappointment with their performances was the major factor, which led to a shift in emphasis to the private sector. This was initially to control public sector activity by making significant cuts in their spending and at the same time imposing a control over their borrowings at home and abroad. Later some of the major enterprises were restructured in order to improve on their financial performances and others were either sold or became candidates for sale. At the same time a special unit was established

to systematically gather information and monitor the performance of the 900 institutions that were classified as public enterprises.

Although the aims of privatisation in Malaysia were broadly similar to other countries that pursue such a programme, the Malaysian programme was expected also to address the NEP targets. In respect of equity ownership the Malays were expected to hold at least 30% of equity in all privatised projects. A number of vehicles were used for this purpose which included Management Buy-Out, Unit Trust Schemes and the participation of "trust agencies" and institutional investors.

In summary, it was the combination of a political change in leadership in 1981; an altered economic environment in early 1980s at home and abroad; and the disappointing performance of public enterprises which were the key factors that contributed to the NDP strategy.

The economic response to these multiyear programmes (as reflected in the Austerity Fiscal Package, The Sixth Malaysia Plan 1991-95 and the NDP) had been remarkable. Average real GDP grew during 1990-95 at 8.9% per year, (with growth in per capita income from RM6099 in 1990 to RM9,786 in 1995) while unemployment rate declined steadily to below 3%, and average inflation rate at a moderate 3.5% Growth had been driven largely be investment which grew from 33% of GNP in 1990 to over 40% by 1995 against and average savings rate of 32% of GNP during 1990-95. The dominant source of growth was the manufacturing sector which grew on the strength of growth in both the domestic and export-orientated industries. These developments had resulted however in acute labour shortages in many sectors of the economy.

The latter point relating to labour shortages and the economy facing full employment is an interesting phenomena in Malaysia. At the very early stage of industrialisation, covering the two decades of NEP, the preoccupation of policy was to resolve the problem of employment. Firstly on account of the rapid expansion of the labour force, secondly on it's distribution among the ethnic groups and thirdly on the problem of high unemployment during the recessionary period of the 1980s.

This slack in employment was turned into a comparative advantage when it was used to attract foreign labour-intensive industries to relocate. Although relative unit labour cost could be higher than in many other countries in the East Asia region this was compensated for by the country's relative security and political stability. An added factor was the efficient public administration, educated workforce, excellent infrastructure and a comfortable living environment.

The reflection in employment profile to the rapid growth of the economy could be observed in the last 5-year Development Plan (1991-95). Shortages of supply arose when labour demand (at 3.4% per annum) expanded at a much faster rate than the growth of the labour force (2.9%). During 1991-95 a total of about 1.2 million new jobs were created against the 1.1 million projected in the Sixth Plan.

The manufacturing sector accounted for one quarter of the total employment, and 60% of the new jobs created. Demand in the sector rose at a remarkable 9% per year during the Plan which led to acute shortages in all categories of labour; at both the skilled and semi-skilled levels. In some of the factories the shortages were relieved by the use of foreign labour; and others by labour saving devices such as computer aided machinery and robotics. But the shift into greater capitalisation had been slow because of higher costs and shortages of skilled manpower in the newer technology areas.

The services sector accounted for one half of total employment and 47% of the total job created during 1991-95. The major sources of employment were in finance, trade and tourism related subsectors.

The massive investment in infrastructure was reflected in the construction sector which led to a growth of employment by 9% per annum and accounted for 15% of the new jobs created. But not as surprising, the agriculture sector suffered a decline in agriculture employment of 3.6% per annum as a result of slower growth of the sector (2% per annum over 1991-95) and a more rewarding employment opportunities in other areas.

Several measures were taken to overcome the labour shortages problem during the Plan. Regulations for the employment of foreign workers were relaxed to allow for their employment across all sectors of the economy, while increased retirees and female participations were encouraged. Some of the measures included the provision of tax exemptions for the establishment of childcare centres, job training and transport facilities.

The shortages were reflected as well in the rapid rise in wages during the Plan. From the National Survey of Industries, average nominal wages between 1990 and 1994 rose by about 27% or 6.2% per annum; and real wages (as deflated by product prices) in the same period rose by nearly 14%, compared with an estimated productivity growth of only 7.3%. This phenomena where productivity was lagging behind wage growth had led to a considerable upward pressure on unit labour cost. The pressure was particularly marked in 1990-92.

In sum, for the next Plan (1996-2000), to realise it's potential growth path of 8% per annum, the economy would have to deal effectively with the labour constraint. The aim should be to encourage industries to shift to capital-intensive production methods and processes in order to rely less on unskilled foreign labour. Secondly greater local participation would be required by increasing the utilisation of female labour and retirees. Finally the thrust should be for the enhancing of labour productivity through greater mechanisation, and training.

The success of the pro-growth policy has led therefore now to another set of problems: one emanated from the resulting acute labour shortage and the other, a wide deficit in the external current account. Although admittance of foreign labour (estimated at 1.2 million by 1995) had given some measure of relief, this alternative was not however looked at as the long term solution. The promotion of capital-and-technology intensive industries were instead the favoured route as reflected in the country's Seventh Plan which was projected to grow at a more comfortable pace of 8% per year. The challenge to policy arising from the remarkable economic performance of the last 5 years (1991-95) are basically two folds. Firstly, it needs to sustain growth in per capita income with increased efficiency; and secondly it needs to resolve satisfactorily the acute labour supply shortages.

Both of the issues are related in certain ways. The first point alluded simply to the need to avoid from riding too long on a single production contour and be subject to diminishing returns. It could be avoided if there is growth in efficiency. This point is related to the second issue about labour shortages if for a lesser number of workers, growth is sustained.

All the above pointed to the need to obtain rapid technological progress that have yet to be experienced on a large scale by the country. In the Sixth Plan, total factor

productivity had accounted for 29% of the 8.7% growth in GDP, compared with an estimated 18% in the 20-year NEP (1971-1990). The Seventh Plan called for a 41% contribution which is by comparison about half of the technological contribution to per capita income in the United States. For this to happen broadly the general outline of the new strategy in the seventh plan was:

(i) to triple enrolment of students in science and technology courses, through larger investment by both the government and private sector in higher education (the largest allocation of RM10.2 billion was made compared with RM7.8 billion in the Sixth Plan);

(ii) to accelerate the pursuit of privatisation programme especially in infrastructure, utilities and transport, and the services related sector such as education and health;

(iii) to diversify investment by retaining high value-added operations in Malaysia and creating supporting overseas ventures to match the level of skill, labour supply and technology in those countries;

(iv) to broaden and strengthen the manufacturing base by developing capital and intermediate goods industries; and

(v) to raise investment in Research and Development to the target of one per cent of GNP in order to accelerate the country's technology capability.

The shift from the NEP strategy was indeed a dramatic change arising from an altered economic circumstance. The framing of the NEP was more by comparison dictated by socio-political events. Among them was the 1969 riot which was an expression of frustration among the social partners about power sharing and economic disparity which led to the NEP. The new policy, as embodied in the NDP was borned out on the other hand on the short lived but painful recession of the 1980s. This time the primary thrust of policy was more in harnessing the country's potential through the promotion of private sector initiatives.

6. Conclusion and assessment

It is difficult to generalise the Malaysian experience and adopt it into a model of sustained rapid growth. Natural resources and agriculture had played an important role in it's development phases, although in the third phase, especially by 1990 it had not been as prominent as in the period before it. A remarkable feature about the rich resource endowments (first tin, then petroleum) in Malaysia was that it had not been allowed to catch the familiar Dutch Disease through exchange rate appreciation from the rising export earnings. Malaysia in fact restrained it's production of petroleum in order to conserve and to moderate it's impact over the exchange rate value.

The other side of it's agriculture policy which has met with much success was the relatively large amount of energy spent and expenditure outlay made to improve productivity. In the case of Malaysia which took at various times the largest share of the world market in rubber and palm oil, such investment was a matter of staying ahead of competition. It was an investment either to preserve or even to enhance it's comparative advantage.

The policies of the 1960s which was one of laissez-faire and directed and focused development of the subsistence sector to alleviate poverty was not altogether an irrelevant experience. Many improvements can be observed in improving the lot of the rural peasantry in the form of better education, health and the supply of utilities. Felda especially, and followed by others, had succeeded to bring modern agriculture technology on a massive scale to the rural country side with their resettlement schemes. Such scheme was not always successful however as witnessed from the failed transmigration programme of Indonesia to resettle the Javanese poor to the Island of Borneo, at about the same period.

The 1960s is interesting in another respect. No attempt was made, in the heady days of achieving independence and growing nationalism to reject the colonial past. Much to it's credit, the leadership had not fallen into the temptation to expel expatriates and foreign residents from the country, as happened for example with Burma under NeWin. The elders concentrated instead to strive for national unity and nation building. The "social contract" agreed to among the ethnic groups was the cornerstone of the social harmony today, which had made it possible to develop the economy.

The policy of the 1960s had unfortunately proven to be insufficient. It was not sufficiently vigorous to address the deep seated economic imbalances among the major ethnic groups. In 1969 the relative positions of the Malays and Chinese in terms of poverty, income, education and employment had remained substantial, although much was gained to address rural poverty and income levels.

The progress under the NEP in gaining for itself improved poverty and distribution targets had been impressive by any standards. Rapid and sustained growth reduced the incidence of poverty from 49% in 1970 to only 15% by 1984, which were the results of the NEP and the intensive agricultural programme. Credits should go mostly to the NEP, under government intervention for the accomplishment of the other NEP targets which changed substantially the wealth, income, employment and ownership patterns by 1990.

The progress under the NEP in gaining it's self imposed poverty and distribution targets had been impressive by any standards. Rapid and sustained growth reduced the incidence of poverty from 49% in 1970 to only 16.5% in 1990 (9% in 1995) which were the results of the NEP and the intensive agricultural programme. Credits should also go to the NEP for the accomplishment of the other NEP targets which changed substantially the wealth, income, employment and ownership patterns of the population by 1990.

Government involvement in the NEP is more difficult to reconcile, if one is to use the experience and results of the NEP as a model for development. Government agencies and state economic enterprises were generally a poor and inefficient vehicle of policy. The ones in Malaysia with a few exceptions were no different. The economy could sustain such lower performances only on account of other more dynamic factors. Firstly, on account of the rise in technology and productivity that came with the waves of FDI's, and secondly on the contribution of the agriculture sector at the time where the commodity terms of trade was in Malaysia's favour. The rapid growth of the economy, and over a prolonged period of time, had glossed over the inefficiency of public enterprises, only to be exposed later when the economy was in a recession. Notwithstanding this fact about the performances of public enterprises it was arguably the only alternative opened to the government at the time. A prime example is Malay employment and ownership, which cannot easily be corrected otherwise in a period of 20 years, irrespective of growth.

What is also remarkable from the three phases of development was the flexibility shown by the policy makers to change strategies when they were perceived or proven to be inappropriate. The momentous change from a passive stance in the 1960s generally to a proactive policy was one of such examples when they were dictated by socio-political factors. The other one which can probably be considered more difficult to adopt was the equally dramatic change in policy from the more popular NEP type of government involvement back to a free enterprise mixed economic system.

The third part of this change was the more impressive in terms of economic management as it preceded with a multiyear programme of fiscal restraint that resulted in massive expenditure retrenchment and unemployment. But this was short lived as the economy, by 1987 responded with a strong upswing in activity. The recovery was indeed remarkable, as the policy reorientation in favour of liberalisation had proved to be another appropriate response to a potentially dangerous economic position for the country. This was achieved with a sustained and determined programme to sell off all the state owned enterprises. Such programme, much to the government's credit was adopted by 1990 in the NDP with privatisation of all the state owned enterprises given the highest priority.

The recovery, and sustained growth since 1986 with stability and full employment could be the best yet for Malaysia if it can contain the rising pressure for the economy to over-heat. At this rate of 8-9% growth per annum the economy could again undergo another transformation in favour of more depth in the industrial sector, with higher capital intensity. As the economy matures the services sectors should come to the fore as a source of growth. In addition the trend can be seen already from the rising global profile of Malaysian enterprises with their investment activities in both developed and developing countries.

For these to happen smoothly a greater focus would be required on the upgrading of skills and technology in all categories. This shift in strategy favouring capital-intensive and high-technology industries would be the next major policy challenges to the country. Time would be required naturally to upgrade skills, especially when they involve riding the technological frontiers such as in biotechnology, information systems, robotics and others. Meanwhile, Malaysia would need to import the required expertise from abroad to supplement it's available skilled human resources, in order to avoid the acute labour constraint, and, gain immediately on the overall technological productivity factor.

Strong upward pressure on unit labour cost is the vital factor which has to be resolved quickly if the country is to maintain it's commanding comparative advantages in both agriculture and industries. Without a resolution on this front, the growth targert of the Seventh Plan and the planned transformation of the economy might not be realised.

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Panel and floor discussion

DOES BOTSWANA HAVE THE VISION AND STRATEGY NEEDED FOR SUSTAINABLE JOB CREATION?

(referring to keynote addresses by Bob Hodgson and Jaafar Ahmad)

Chair: Kenneth Matambo, MFDP
Panel: Morteza Abkenari, Solar Power
Baledzi Gaolathe, Debswana
Mogolori Modisi, SP Construction

The chairperson, **Kenneth Matambo**, began the discussion by asking participants to resist the temptation to propose a proliferation of new institutions. Botswana already had many existing institutions. Often the real challenge was to make the existing institutions work better. He also drew attention to the importance of proposing targets and deadlines, but reminded participants that these must also be achievable.

Mr Matambo noted that Botswana had much in common with Malaysia. In both countries the first development challenge had been rural development. This had been followed by the need to diversify away from reliance on production of a single primary commodity. He reminded participants of the important role that foreign direct investment had played in Botswana's past economic growth. He also stressed the need for macroeconomic stability. The experience of Malaysia confirmed that periods of adjustment are sometimes necessary in order to maintain or re-establish macroeconomic stability.

Morteza Abkenari began his commentary by saying that Botswana did not have the vision and strategy needed for sustainable job creation. He suggested that the conference theme of employment creation was not new, and that he would have preferred the theme to be 'creation of a strategy in the context of a national vision.' Botswana urgently needed to move beyond current ad hoc approaches to national development. What was needed was the establishing a new, comprehensive and shared national vision. He said that long term investors would be attracted to a country with a clear national vision.

Mr Abkenari praised Botswana's development performance since independence. However he said that the country had reached a critical cross-roads and would have to make the right choices in order to progress further. Botswana's basic objective for the next 30 years should be to become a developed, just society, with a robust economy, good productivity and increasing self-sufficiency. The spirit of the new Botswana would be one of all people being 'shareholders' in 'Botswana Incorporated.'

Baledzi Gaolathe began by commenting on Jaafar Ahmad's presentation. He noted that Malaysia had initially created large numbers of parastatals, but later found many of these to be inefficient and had to scrap them. In Botswana's case, parastatals had originally been needed for provision of public utilities, since the option of private sector supply had not been available. Some of Botswana's parastatals might now have become

mature enough for privatisation. He also noted that in Malaysia the government had an important facilitating role in bringing about the transition from dependency on production of primary commodities towards a more diversified economy. This type of change in the role of government also seemed to be relevant in Botswana's case.

Mr Gaolathe expressed support for the type of long term vision described in Bob Hodgson's presentation. He said that this vision must be an integral part of Botswana's national development plans. The Seventh National Development Plan (NDP 7) had provided a beginning, by including a chapter on long term perspectives over the next 25 years. He suggested that NDP 8 should include a more ambitious chapter dealing directly with Botswana's long term vision and strategy. He also suggested the need to convene a national conference, of similar stature to the private sector conference, to promote debate and build consensus about the vision. At the same time, Botswana would also have to tackle the types of urgent immediate issues mentioned by Mr Hodgson.

Mr Gaolathe felt that although Botswana was continuing to advance, more had to be done to translate good ideas into action. He then listed a number of key factors that should be reflected in Botswana's long term vision. First, he stressed the critical importance of continued economic growth, since growth and job creation were closely related. Second, he said that it was too early to write off agriculture, and that more should be done to enable both livestock and arable farmers to modernise production. Arable farmers might increase their use of fertilisers if transport to the farm gate was also provided (and costed into the price they paid). Cattle farmers needed to double their offtake rates, and to support this they would need to modernise and improve breeding. Third, Mr Gaolathe drew attention to the overall importance of human resource development. Although Botswana had virtually achieved universal primary education, and would soon be able to offer education for all up to Form 3, this was not yet enough. He proposed that Botswana's long term vision should include having an educated labour force, not least because existing evidence indicated a strong link between education and getting a job. Botswana should aim to be the first country in Southern Africa to guarantee education up to Form 5 level and through equivalent vocational training streams. To address the problem of children leaving school without enough basic life skills, he proposed that all children that did not continue academic studies to Form 5 must be absorbed in vocational training. Within the curriculum more emphasis should be given to practical orientation. The Ministry of Education would need to mount a crash-programme to expand and improve training of teachers and vocational trainers.

A further concern raised by Mr Gaolathe was the need to adjust to Botswana becoming an urbanised society. He proposed that the urban-villages and other expanding villages, such as Mahalapye and Bobonong, needed their own form of local council, such as a Village Development Council, that would be capable of championing local interests and spearheading locally-based initiative.

Mogolori Modisi agreed that a new national vision was needed. This would provide an 'umbrella' to pull together the various elements of national development. Botswana had had a vision over the first two decades after independence, but much of this had been accomplished. Unlike Malaysia, Botswana had not yet developed a new vision for the next stages of development.

The people of Botswana had to decide what sort of future they wanted. At present the country had a lot of wealth concentrated in government, one pre-eminent mining company, and a mostly foreign-owned private sector which also commanded

considerable wealth. Some of this wealth needed to be transferred to Batswana. Some sectors such as transport, tourism, construction and agriculture needed to be targeted for promotion.

To make the transition, Botswana needed a sound human resources policy; changes in public attitudes, especially towards the importance of productivity; a sharper focus on empowerment of Batswana; and proper moral standards in business and government. The civil service would have to accept that it must change too. Changes were essential if Botswana was not to be left behind by the trend of increased global competition. At the minimum the changes would take 5-10 years to implement.

Mr Modisi said that the private sector had to take a more responsible attitude to it's role as partner in development with government. There should be improved institutional collaboration between the private sector and government in determining policies. Mr Modisi criticised government for having failed to establish the consultative councils recommended at the previous private sector conference, suggesting that government needed to be pressed to do so by the private sector.

In closing his commentary, Mr Modisi referred to the need for Botswana's vision to be widely shared, as had been pointed out in Bob Hodgson's paper. This would not be possible if it was kept a secret by government. Establishing a spirit of greater openness would be one of the key strategic shifts required for Botswana to make a successful transition.

At the beginning of comments from the floor, **Peter Molosi** expressed support for the ideas about vision and strategy that had been put forward by the keynote speakers and panellists. He said there was considerable consensus over the need for sustainability in doing business and the fact that human resources development must be at the core of Botswana's vision. It was also important to recognise that Botswana was not completely without vision and strategy, and that the national development plans represented an important vehicle for guiding development. He suggested that perhaps Botswana needed a clearer mission statement, rather than a new vision.

Mr Molosi indicated that the philosophy of the Revised National Policy on Education was to prepare Batswana for the transition from being a traditional agriculture-based country to becoming an industrial society. The Ministry of Education was in the process of increasing the emphasis of the curriculum on practical subjects, providing foundation skills and preparing Batswana for future employment.

During the discussion it was clarified that the Ministry of Education was already planning for half of all children to be able to proceed to Form 5, and for a quarter to have the option of vocational training. However, there were no plans to extend similar continuation of education and training for the remaining quarter of children.

Hossein Abkenari referred to the need for a paradigm shift in Botswana's approach to development. He warned that Botswana's skewed distribution of wealth could be a 'timebomb' if not addressed, and that Botswana's culture was being seriously eroded. He said that the practice of 'fiddling the system' by people in the private and public sectors was unacceptable. Botswana's future lay not in fiddling but in pursuing a widely shared national vision. Although of critical importance, education would only be one of the ingredients of the vision.

Joseph Lisindi continued the discussion about long term vision, suggesting that perhaps Botswana did have a vision but lacked the strategy and transparency to pursue it effectively. He said that Botswana had the necessary institutional structures but that, in

the absence of proper monitoring, these had outlived their effectiveness. Future innovation would depend on Botswana becoming more outward-looking. He said that the existing culture of the civil service was particularly inward-looking. To address this he suggested that some middle and upper level civil service positions should be open to recruitment from the private sector, mentioning TIPA as an organisation that should begin recruiting from the private sector. One of the tools for change would be the establishing of sound performance management systems to ensure that people's rewards will in future be based on performance.

Leo Tumaeletse said that a policy of empowerment of Batswana was needed. Most Batswana were not business people and most of the private sector was owned by foreigners. In the absence of empowerment, there was a risk of Batswana becoming hostile towards foreigners.

With reference to the discussion about human resource development, **Eitlhopha Mosinyi** proposed that programmes should be established for transfer of skills from older people to the young. With reference to the need for an improved partnership between the private sector and government, she indicated that ministers and politicians were reasonably open but that the civil service was closed and secretive, especially it's top management.

Pax Gaobakwe supported the call for establishing a national vision. The vision had to be developed without delay.

Martin Manathoko also saw the need for a national vision and strategy. He emphasised both the need for sustainability and the importance of building upon existing strengths and achievements, rather than abandoning these. Botswana's vision would generally entail using imported technologies to make better use of the country's natural and human resources. He also re-iterated the need for setting achievable targets, regularly reviewing performance against targets, and thereby being able to identify when changes are needed to improve performance.

Lesang Magang expressed support for the idea that a task force, consisting primarily of young or younger middle-age people, should be given responsibility for much of the practical work of preparing a national vision. He added that strict observance of performance deadlines would be critical in the process of developing and pursuing the vision.

The Honourable George Kgoroba said that the government had already made considerable efforts to promote empowerment, notably through FAP which had created large numbers of jobs. He expressed concern that Batswana tended to only take part in business if they were provided with special privileges by government. Rather than criticise government, Batswana should come up with new ideas for tackling this problem.

The chairperson, **Kenneth Matambo**, commended the conference participants on a most interesting and useful discussion. He drew people's attention to the elements of national vision that already exist in the national development plans. He also reminded participants that national development requires patience, since implementation takes a long time. In concluding, Mr Matambo indicated that the two presentations and the panel and floor discussion had provided a number of important ideas and recommendations which would drawn upon in the preparation of NDP 8.

Presentation

IMPROVING THE IMPLEMENTATION OF GOVERNMENT POLICIES AND RESOLUTIONS

Neo Moroka, BOCCIM

1. Introduction

The problem of implementation capacity constraints is well recognised by the Government. In the 1996 Government Budget Speech the Vice President and Minister of Finance and Development Planning, Mr F G Mogae, noted that Government had underspent in both the recurrent and development budgets as a result of continued implementation capacity constraints and the high vacancy situation in the public service. In some respects, Government has taken the first steps to addressing capacity constraints, for example, (i) the creation of a start-up unit in the Department of Architecture and Building Services (DABS), which will be responsible for undertaking pre-contract services that have been a source of delay in project implementation; (ii) the establishment of the Public Enterprises Monitoring Unit which is responsible for monitoring and supervising parastatals; and (iii) the Organisation and Methods Reviews of ministries introduced about three years ago. These initiatives are but the beginning of a very long and arduous journey. The conclusion reached at the end of this session should make clearer what next steps ought to be taken to deal with the capacity constraints experienced by the Government.

This paper builds on information contained in the "Status Report on the Implementation of the Recommendations from the Third Private Sector Conference" prepared by the NEMIC Secretariat. It's purpose is not so much to provide solutions to the capacity constraints faced by Government as it is to provoke debate, among the panellists and participants, about how these problems could be overcome.

2. Progress on implementation of resolutions from the previous conference as reported in the status report

A glance at the Status Report shows that Government has covered significant ground in the implementation of resolutions from the previous conference. Therefore I will not repeat here what has been achieved. Rather, I will highlight a few areas where action has not been taken, even though it is not clear what bottlenecks may have been encountered in the case of partial or non-implementation of some of those recommendations. The outstanding issues include the following:

- establishment of ministerial advisory committees;
- giving autonomy and authority to TIPA.

It is not easy to offer any meaningful solution to the problem of lack of implementation at this stage as the report does not make any mention of major constraints that may have been encountered.

Nonetheless, I propose to address the issue of improving the implementation of policies and resolutions by first identifying the possible causes and costs of delays in implementing these and then suggesting some general guidelines for a successful implementation plan. How to tailor these general guidelines to the specifics of each resolution or policy is an issue I would like to leave to the panellists and floor discussion.

3. Possible causes of delays in implementation

Quite often good policies and resolutions are passed, as indeed has happened in the past, but fail to be implemented because of lack of follow through. This could be attributed to several factors, among them the under-resourcing of Government entities; inadequately qualified personnel and/or lack of appropriate skills; lack of clearly defined human resource development plans backed by adequate resources; inefficiencies; and the lack of urgency among officials - the need to instil a sense of urgency in employees and managers alike about the timely execution of their tasks can not be overemphasised.

It is therefore necessary to ensure that implementing entities are held accountable for their actions or inactions. One way of ensuring this is to attach a plan of action to each resolution or policy that states clearly what is intended to be achieved through the resolution or policy, when, how and by whom. Progress in the implementation of the policy or resolution could then be reviewed regularly. Unsatisfactory performance on the part of the implementing entity would have to be taken to be failure to discharge it's duties and therefore subject to stern disciplinary measures.

Other times delays in implementation reflect ambiguity in the resolution or policy. Resolutions or policies that are all encompassing generally lose focus. It is necessary to translate broad policy statements or general recommendations into action plans. Action plans help to retain focus on the intended outcome, measure progress, detect weaknesses in the adopted strategy whilst there is still time for remedial or corrective action.

Co-ordination, supervision and monitoring are very important aspects of successful implementation of policies, especially where several implementing entities are involved. Government's coordinating, supervising and monitoring roles will become more critical in future as the private sector gets more involved in the management and execution of functions previously performed by the public or quasi-public institutions and agencies. Therefore, if there are any doubts about the capability of Government on these three areas, this is the time to act, to ensure such capability exists. This is the time to come up with concrete suggestions on how to improve the situation.

Delayed implementation of resolutions and policies puts a break on private sector activities that are dependent on the successful implementation of those resolutions and policies, slows economic growth, slows employment creation, lowers standards of living which may result in social ills such as increased crime. It is therefore important that every implementing entity executes it's activities efficiently and in a timely manner.

4. Cost of delays in implementation

Delays in implementing approved resolutions and policies result in forgone benefits, which, if it were possible to measure in financial terms, could turn out to be quite significant. Delayed implementation of resolutions and policies would, at the very least, be a cost in terms of the precious resources - money, human and, above all, time - that go into their making. Many people in this gathering would agree with me that the opportunity cost of us being here as opposed to us doing something else in our respective

jobs is indeed high. But the fact that we have made time for this occasion is testimony to perhaps the high value that we place not only on the outcome of this conference but also on the outcome of the implementation of the final resolutions agreed on today.

5. The way forward

In my view, the implementation of policies and resolutions could be improved if attention is paid to the following processes:

- ***consultation:*** all stakeholders (anybody who will be affected by new policy or resolution) should be fully informed about planned changes and should be part of the decision-making process that brings about the intended changes. And the key question here is: are the existing consultation mechanisms adequate?

- ***communication:*** there should be a free flow of information between interested parties. Are new institutional structures needed to improve information flow or are the existing structures adequate? If not, do they need strengthening or re-orienting?

- ***commitment:*** all interested parties must not only pledge support for policies and resolutions but should act in accordance with their pledges. How do we ensure commitment to implementation of policies and resolutions is the question I put to you.

- ***capability:*** implementing entities must have the necessary resources at their disposal to ensure successful implementation of policies and resolutions. How can their capacities be improved?

- ***accountability:*** implementing entities should be accountable for their actions or inactions. This is the most critical aspect of the implementation process because even with all the resources in the world an implementing entity could have at it's disposal, if there is no accountability of what and how inputs are used to generate outputs very little of the intended objectives could be achieved. How then do we ensure accountability of these entities - is the final question I would like this gathering to address.

My proposal to panellists and participants at large is that as we talk about how to improve the implementation of policies and resolutions, let us be realistic in our identification of sources of capacity constraints and offer practical suggestions in respect of each policy and resolution.

While this may not be an appropriate forum to draw up an action plan for the implementation of agreed policies and resolutions, I have, nevertheless, included in this paper suggested guidelines for a successful implementation plan appearing as Appendix A. This is for you to look at in your spare time.

My final word to you is that in order for the conference to be judged to have been a success, we must leave here having:

- prioritised recommendations and linked their implementation to specific outputs - that which is expected to be achieved as a result of the implementation of specific recommendations -and suggest appropriate time frames for their implementation.
- set clear and measurable targets.
- recognised the importance of implementing recommendations simultaneously or in some ordering, as each one of them constitute a cog in a wheel without which achievements from the implementation of others will be rendered meaningless.
- assigned tasks to individuals, teams, entities, and so on.
- specified the monitoring mechanism and frequencies of monitoring exercises.
- built into the implementation strategy, the flexibility to adjust it in light of the results of the monitoring exercises.

APPENDIX A

ELEMENTS OF A SUCCESSFUL IMPLEMENTATION PLAN

Goals, objectives, outputs	Defining the overall goal and objective of the resolution. The objective must be measurable or quantifiable in order to permit a meaningful evaluation of the implementation of the resolution later on
Assumptions	State the assumptions being made about the present state of the phenomenon to be changed or influenced through the implementation of the resolution as well as the likely outcome if the assumptions hold
Strategy	State clearly the approach or strategy to be adopted in order to achieve the objectives
Activities	Itemise activities to be undertaken in order for the strategy to be successful
Responsibility	Attach a name - could be the name of an institution, organisation, individual, department, unit community or some combination thereof - to each activity identified
Timing	Specify target completion dates for implementation of specific components of the resolution
Cost	If there are costs involved, draw up a budget and stick to it
Progress Review	Review progress in the implementation of the resolution at pre-determined intervals
Adjustments	Adjust the implementation strategy in line with the outcome of the progress reviews

Panel and floor discussion

IMPROVING THE IMPLEMENTATION OF GOVERNMENT POLICIES AND RESOLUTIONS

(referring to presentation by Neo Moroka)

Chair: Iqbal Ebrahim, BOCCIM
Panel: Martin Mannathoko, Botswana Meat Commission
Peba Sethantsho, Ghanzi District Council
Elijah Legwaila, Office of the President

In introducing the discussion topic, the chairperson, **Iqbal Ebrahim**, said that it was time to admit that there were problems in both the private sector and government, and that the way forward was to work together in solving them.

This sentiment was re-iterated by **Neo Moroka**. Based on his presentation, Mr Moroka made a proposal that the government should conduct an in-depth independent audit of implementation capacity in the civil service with a view to ensuring that the existing structures are conducive to speedy implementation. He said that this should be followed by a review of the recommendations of the audit, to be coordinated by the Office of the President; and then by vigorous implementation of the approved recommendations.

Martin Mannathoko said that government and the private sector needed to acknowledge some basic truths. Botswana had to become competitive if it was to retain and expand employment, and the pace of doing so had to be stepped up.

Mr Mannathoko also suggested that one of the reasons for poor implementation of government policies was that the people responsible for implementation of policies were often not included in the process of policy formulation.

He also emphasised the need for setting clear implementation targets and ensuring that implementors were held accountable for their performances. Mr Mannathoko said that there was a problem in Botswana of people not honouring agreed deadlines, and of not performing in the agreed manner and quality. He added that this problem existed in both the government and the private sector.

Mr Mannathoko pointed out that civil servants must begin to see themselves as facilitators, not regulators. Too often those who were supposed to assist the public ended up standing in their way. He also noted that it was not uncommon for middle level public officers to say that they did not support a particular policy and to be half-hearted about implementation. Such officers should be made to understand that their duty was to implement government policy whether they liked it or not. In concluding his contribution, Mr Mannathoko expressed support for the idea of extending television services, suggesting that access to advertising on television could provide a helpful stimulus to Batswana entrepreneurs.

In his commentary, **Peba Sethantsho** said that government implementation capacity was weak. This was partly attributable to the lack of openness of civil servants who

tended to refuse to release information to the public. He said that politicians sometimes made this problem worse by intimidating officials. In his opinion it was time for trained officers to be allowed to make their decisions on a strictly professional basis.

Mr Sethantsho also drew attention to the lack of free flow of information. People who wanted to find out about government procurement tenders had to subscribe to the Government Gazette. He suggested that government should distribute such information more freely and widely to the public.

He referred to a 'talk-and-sit' mentality within the civil service which needed to be replaced with an emphasis on action. There was a case for engaging private firms to strengthen the public relations and information dissemination functions of the civil service.

Mr Sethantsho concluded by saying that progress in implementation would require improved understanding and trust between the government and the private sector.

Elijah Legwaila said that he was happy with the thrust of Neo Moroka's paper. However, he cautioned against trying to solve problems by establishing a plethora of additional committees. He said there were already too many committees. Civil servants spent too much time at committee meetings and too little time attending to their own job responsibilities.

In response to concerns expressed by Baledzi Gaolathe over delays in approval of applications for fencing of farmland, Mr Legwaila said that the delays reflected the feeling among the electorate that there had already been enough fencing of farmland.

Mr Legwaila questioned the idea expressed earlier in the proceedings that the civil service suffered from 'in-breeding.' He doubted that proposals for exchanges of personnel between government and the private sector would be feasible. When government had recently advertised for recruitment of a new Director of Tourism, the response from the private sector had been disappointing.

Referring to Mr Moroka's paper, Mr Legwaila said that the General Orders were a necessary part of the basic administrative procedures of running the civil service.

Referring to a comment by Martin Mannathoko, Mr Legwaila said that there was definitely a human resource constraint in the civil service, both in terms of quality and quantity of available personnel. The private sector tended to attract away qualified professional and technical staff. He also mentioned that the process of recruiting for positions, even if advertised, often took a long time.

Mr Legwaila told participants that government had established a Standing Committee on Project Implementation (SCOPI) in order to identify and address project implementation problems.

In concluding his contribution, Mr Legwaila pointed out that democracy was often very demanding. Often the wider support of the people had to be obtained before it was possible to proceed. In this regard, the process for obtaining government agreement over the conference resolutions would involve these first being reviewed by government and then being submitted to cabinet for approval.

In response, **Neo Moroka** said that Mr Legwaila had not adequately addressed private sector criticism of the civil service. The chairperson, **Iqbal Ebrahim,** expressed agreement with Mr Legwaila about there being too many committees.

David Inger said that one of the reasons for poor implementation by government was that it had failed to make enough use of information technology (IT). Mr Inger suggested that government needed to urgently prepare an IT master plan.

Modiri Mbaakanyi agreed that there were too many committees. He also referred to problems of vacant positions in the Department of Architectural and Building Services. However, he suggested that what was really needed to improve implementation was for the civil service to establish firm performance targets, deadlines and implementation plans, and to regularly monitor progress.

Modisagape Mothoagae said that one of the main implementation problems was that the implementing ministry often did not sensitise other ministries about the supporting roles they were to perform. On the matter of General Orders, he suggested that the underlying problem might be the need to revise the Civil Service Act. He felt that the present Act did not allow politicians to have sufficient control over civil servants.

On the subject of business morals, Mr Mothoagae proposed that the private sector should establish it's own code of conduct.

On the subject of civil service capacity building, **Raphael Sikwane** pointed out that while lower and middle level officials enjoyed considerable training opportunities, most permanent secretaries had received no further training since obtaining their university degrees. He said this hampered both supervision and delegation of responsibility, and proposed that appropriate training should be extended to permanent secretary level. Mr Sikwane also mentioned that there was a case for reviewing the structure of the civil service, since it had been largely unchanged since colonial times.

In response to the preceding comments, **Elijah Legwaila** said that some participants had formed a false impression about the civil service. He referred to the important role performed by the continuing O&M exercise and to the progress government has made with IT. He also explained that there was an established procedure for a ministry to inform other ministries of it's policies and projects. Mr Legwaila expressed concern about the idea of ministers being allowed to hire their own top management to run the civil service. He said that this could lead to serious problems of nepotism.

The chairperson, **Iqbal Ebrahim** concluded the discussion by saying that improvement of implementation and establishing of a long term national vision were the key issues emerging from the conference.

Workshop 4

CREATING JOBS THROUGH THE DEVELOPMENT OF TOURISM

Adams Chilisa, HATAB

1. Introduction

The topic "Creating Employment through Tourism" should arouse public interest, in particular that of government, the investor and indeed the man in the street looking for a job.

The Hotel and Tourism of Botswana (HATAB) is therefore well aware of the need to act responsibly in it's presentation. We need to avoid raising expectations particularly for those "seeking employment" as we speak. By way of starting the presentation, we may ask what is employment? Employment in labour relations terms means a situation in which someone works for remuneration, and has a formal contract that stipulates the terms and conditions of the employment. Effectively this means doing work for pay and is a function of time. This is my macro economic understanding of "employment" and is based on labour economics principles by Ronald G. Ehrenberg/Robert Smith. The linkage between the government diversification policy and the sustainability of tourism in the long term, to create jobs and maintain employment growth is very central to this topic.

2. Background

As our topic is "creating JOBS THROUGH DEVELOPMENT OF TOURISM" let us look at what likely happened in Botswana with regard to levels of employment in the Tourism Industry between 1989 to 1995? It would appear in 1989 appropriately 5,350 people were directly employed by the industry and almost 27,000 persons were supported by the industry at that period, compared with approximately 6,350 persons which in 1995 were directly employed by the industry and almost 32,000 persons were supported. The growth has not been that impressive in view of the increasingly large size of the labour force, year after year.

The question can be asked that, if this kind of growth in employment happened, was it good enough or was it in line with the expectation of the industry, government and the country? What are the Tourism market trends?

Estimates from the World Bank indicate that African economies would experience an upswing with annual growth rates (G.D.P.) of 4-6% from 1995 to 2010. Associated with this growth rates, it is estimated that Africa in 1995, had about 19 million tourists arrivals, (2% increase in arrivals, and about 6% rise/increase in revenues to US$7 billion). South Africa's share of the market was a staggering 17% increase in tourists arrivals to 4.0 million and 10.5% increase in revenue. The same source expects that in 2010 South Africa would experience a total of 11.5 million arrivals per annum mostly from Europe, which on average represents a growth rate of 5.5%. Botswana has good governance, good tourism product and infrastructure, is stable politically, and all these

are factors which are not commonly available in most countries of Southern Africa. It therefore follows that with good tourism management, Botswana could experience the same tourists arrivals growth rate of 4.5% or so. At that rate, Botswana could expect about 1.5 million tourists arrivals around 2010. One day Botswana might have more tourists arriving in the country than there are people living in the country. This would be similar to the current cattle population, which is more than people, and this rises the question of whether that justifies the cattle in Botswana using more land than people, or wildlife.

Hatab on behalf of the Tourism Industry would have liked these figures to be much higher, reflecting a good proportion of the 17% growth rate that accrues to the RSA. This would mean, Botswana having 28,000 (4.5% of 630,000) of the additional tourists that arrive each year to South Africa. Botswana's additional 28,000 tourists per annum will require about 756 (800) rooms at a ration of 27 rooms per 1,000 tourists. The rooms growth rate of approximately 800 translates into approximately additional 378 (400) new jobs per annum, on the basis that 10 rooms, require 1 cook, 1 waiter, 1 barman, 1 room steward and 1 maintenance man receptionist/laundry attendant. To understand the basis for Hatab's expectation, we need to revisit the past, in order to understand what has been Hatab's stance on the form of the direction of our Tourism Industry.

In the 1980s Hatab intensified it's lobbying activities, and in 1990 there was a Tourism Symposium that brought government, the private sector and non-governmental agencies together to "talk about the future shape of the Tourism Industry" and this resulted in the creation of the:-

- Tourism Policy
- Wildlife Utilisation and Conservation Policy (July 1986)
- Tourism Act
- Policy Guidelines on Tribal Land Use and Allocation for Tourism Purposes
- Other related guidelines, such as Wildlife Conservation and National Parks Act (1992), and
- Establishment of the National Advisory Council on Tourism and a Tourism Industry licensing board, with broad public and private sector representation.

So, we may ask what is the current status of our Tourism Industry, given the creation of the above structures and this scenario.

3. Present Situation

A review of the progress made with respect to the tourism development goal

In our short review, we need to comment on the current status of the government policy with regards to:

(a) the diversification of the Botswana Economy and improvement of quality of life of indigenous population.

(b) tourism policy and NDP7 which aimed "to obtain, on a sustainable basis the greatest possible net social and economic benefits for Batswana (the indigenous people of Botswana) from their tourism resources".

(c) Government Tourism strategy of "high cost (value)-low volume". These policy statements would appear to directly or indirectly sought to prepare Batswana for a future economy without diamonds, i.e. a shift to dependency from non-replenishable resource, towards other viable, productive and sustainable economic activities.

Clearly Government has long recognised that tourism has the potential and ability to generate foreign exchange, and incomes from direct and indirect taxes, and importantly has the capacity "to create and increase employment opportunities, in particular in the remote rural areas".

The government objective to diversify the economy into Tourism would appear to have had modest success, as estimates indicate that only 2% of the labour force, or so, are employed in the tourism industry and that tourism contribution to the gross domestic product is again within the 2% range. We would like to believe that the situation is better than this, but we are told that these are the statistics - the facts.

Hatab believes the intention of the policy was indeed and still is a noble vision. The policy has created a reasonable expectation for results, in terms of the sustainability of the Tourism industry and the reliance in the industry to create additional jobs, and offer real growth in employment terms. I must hasten to say the realisation of this noble objective largely depended on a variety of interventions, such as:-

(a) the development of infrastructure that addresses needs of tourists. This requirement has been achieved except for Central Kalahari and Gemsbok game reserves. Our view is that Government has given the tourism physical infrastructure development "a shot in the arm" in most tourist areas. We now have good roads, airports, airline, telecommunications, etc., except that the rail infrastructure facilities and their marketing has to be reviewed in order to actively stimulate domestic tourism travel.

(b) increase public and private sector consultative bodies to help drive initiatives that seek to promote the development of Tourism.

(c) impact of the "high cost-low volume" strategy on the ability of the tourism industry to create jobs.

If we were to respond to the question on how successful have we been in our diversification effort, and on the sustainability of tourism, and the objective creating employment, our response would be that the country has made fairly modest progress. The Tourism Industry did not create large enough employment opportunities. And part of the reason might have something to do with the fact that mass tourism (while it has adverse environmental impact) it definitely has higher employment propensity, while low volume by it's nature does not necessarily result in high employment levels.

It would appear that between 1989 and 1995, employment in the Tourism Industry grew from approximately 5,350 persons (est.) to approximately 6,350 persons (est.) i.e. approximately 160 jobs per annum. Hatab believes that this figure ought to be higher.

We had difficulty in getting the exact figures from the government statistics department, and I do not hesitate at this early stage to call for a short term consultancy to collect and process data at central statistics office into tourism specific statistics.

Some countries have reported a growth rate of the Tourism Industry employment of around 15% - 25% annually. If that was to happen we could easily be talking of Botswana's tourism industry having created direct additional 350 - 500 jobs (on average) per annum. If our employment performance is less than what was expected, we therefore must ask why are these figures less and what should happen? The answer in part has something to do with the fact that NDP7, had omitted to give tourism a priority ranking and as such the whole of government machinery was not sufficiently sensitised about tourism, it's role in the economy of the country and the needs ("Tourism demand") of the tourist were not systematically addressed and managed.

4. Future of the Tourism Industry in Botswana

Botswana, has no doubt long realised that there is no one single recipe for success in complex matters such as economic diversification and it's impact on employment levels, and in particular the performance of one sector such as the Tourism Industry.

Clearly, the full extent of the growth potential of the Tourism Industry did not take place. Tourism investors believe the delays in land allocation for tourism business and assorted bottlenecks, and in particular the lease tenure and uncertainty of reallocation opportunities contributed to the lack of growth of the Tourism Industry. The industry believes that they were bogged on one issue or the other, and have not really had time to expand their tourist businesses. Investors believe opportunities for expanding Botswana's Tourism exist, specifically building of additional hotels/lodges and camps. I believe the following areas have the capacity for expansion:-

- Gemsbok Reserve - about six to twelve camps/lodges of 16 tents could be built.
- Central Kalahari up to twelve camps/lodges of 16 tents could be built.
- Tuli Block - one or two camps could be built with 12 rooms each.
- Makgadikgadi Swamps - three to four camps of 12 beds each or so could be built.
- Nxai Pans - three to six camps of 12 beds each could be built.
- Moremi Reserve - three or five camps of 12 beds each could be built.
- Khutse - three or six camps of 12 beds each could be built, and
- up to eight International hotels could be built in Gaborone, Francistown, Maun and Nata or even within the Gemsbok Game Reserve, Khutse and Central Kalahari, as long as an effective marketing strategy and plans are in place, e.g. by international tour groups.

The roles of Government and the Private Sector in realising tourism opportunities
The question has been, and still can be asked as to how we would fill all these additional beds being proposed. My response is that the answer lies in the ability of both government and the private sector in their roles to embark collectively on aggressive marketing and through the establishment of properly co-ordinated marketing structures, such as the Botswana Tourist Development Corporation. More importantly we could increase the available land mass of the country for wildlife from the current 17% to say 25%, and the wildlife management areas from 21% to say another 25%. Effectively we could have almost 50% of Botswana's land mass being utilised for tourism. We need to create a culture that would drive the economy in the absence of the diamonds i.e. "Botswana without the diamonds revenue" but "Botswana being driven by the Tourist dollar".

The reduction of the direct tax has no doubt benefited the industry and has contributed to the growth that has taken place, so far. The industry would be happy with a situation where the current 50 - 70% of the Tourism employment is not confined to the north west region of the country, but is evenly spread across the country i.e. broad based approach.

It has been argued that conscious decisions by both the private sector and government to diversify the tourist product base is certainly one way, we could achieve diversification of our economy.

The above are practical approaches of broadening the Tourist product, for example the investment facilitation study, identified tourists products that have the potential to succeed in Botswana.

A case by case decision to develop the broadened tourist product should yield results. Infrastructural development, tax concessions, non delta based tourism activities developed in partnership with the local communities are some of the ways to achieve the employment creation goal. In Hatab's view, Botswana's biggest obstacle to the expansion of tourism has been our own lack of creative management of our tourists resources, and in certain cases the lack of good management at the Wildlife and Tourism Department, emanating from the lack of skilled manpower.

The Botswana government has not devoted enough human and financial resources to the marketing of Botswana's tourism, to the same extent as they have done with diamonds and cattle. May be a provision of funds for marketing Botswana tourist attractions by government to it's agencies and Hatab, is a definite option.

We in Hatab believe the recipe for the success of the tourism diversification policy depends amongst other things, on:

- the creation of regional wildlife and tourism department in every local authority and in most major villages of Botswana, to solve investor problems on the spot;

- the empowerment financially and infrastructure wise of every village that has resources to develop these into tourist facilities, for example:
  - Bobonong being suppliers of their special stones to the tourist villages, and direct exporters of such stones to the world.
  - Nkange constituency, which has sparsely distributed hills with some form of ancient paintings could be supplemented with wildlife and for visits to places such as plateaus (Ndothu) of Nswasi and northern Goshwe, and

Dagwi to cater for domestic tourism, particularly education of geography students.

- Mochudi's Phuthadikobo's Museum and the Odi Weavers for example, could become a tourist village that is marketed by the regional Tourism Department together with a local hotel group in Gaborone.
- The establishment of Tourism skill based enterprises commonly known as the "job ownership enterprises" or "Madirelo a bojanala ke a rona" project, are a must. These projects are targeted to the unemployed individuals with skills that are needed by the Tourism Industry. The group is put together, in different parts of the country to service the Tourism Industry, and they are marketed as such. They could also open tourist establishments themselves, e.g. repair camping tents, they could become owners and suppliers of curio shops, etc. This is similar to the wildlife communities projects, except that the people involved are employed by their own company.
- The Government Financial Assistance Policy (FAP) could easily be extended to this group. Hatab has had some preliminary discussions with the National Development Bank and there was acceptance that the proposal had potential.
- Aggressive marketing of the country's domestic tourism and the provision of appropriate tourist infrastructure and programmes by the local authorities in a cost effective way, could result in creating jobs in the rural areas, for example the council's tourism and public relations and marketing personnel, planning officers, and facilities such as tourist combis, metered taxes for the single tourist passenger, tourists handicraft shops, dedicated tourists traditional dancers. All these are various ways that could result in additional employment opportunities for Botswana.

✦ Marketing of Botswana's rich cultural base within the country, and outside could be enhanced, if the art and museum galleries were linked to a cultural tourism programme driven by the local authorities.

✦ Development of our film industry could create employment. Kenya benefits from the "Out of Africa" film, as tourists are shown the popular shows in the movie. I could go on and on with these examples but on this occasion I shall stop here.

5. The Role and the Potential Benefits of the New Regional Tourism Organisation for Southern Africa (RETOSA)

RETOSA's mandate is to create public and private sector tourism interests. It endeavours to co-ordinate regional policy and strategy formulation and to offer assistance to member countries. RETOSA gives consideration to regional interests particularly when dealing with the outside world.

Furthermore, RETOSA recognises that the different nations of SADC should project a destination that is diverse, and that the tourist product needs to be complemented and enriched. RETOSA will take initiatives that enhance intra-regional and domestic travel, even if the parties are individually vying for a good share of the world tourism market.

In my view it is still to early to assess the full extent of benefits to be derived from the RETOSA organisation. Only time will tell.

6. Conclusion

In concluding we may ask what is the effective future strategy of tourism development, now that we have talked about the past and the present?

The future strategy must be assessed against the backdrop that government wants to make tourism the engine of growth. We believe such a strategy should involve the deliberate development of action plans that promote expansion and improvement of tourist facilities and tourist product, being given priority. Particularly generic areas of photographic safaris, sports and cultural tourism. We in Hatab believe too much of government money is being spent on other sectors such as beef and diamond industry and very little on the tourism industry, yet the industry is creative in nature as opposed to most consumptive government departments and/or ministries.

Experts in this field have long argued that the recipe for tourism development success includes the following specifics, which are also relevant in Botswana's tourism future success:-

(a) Implementation of sound policies on wildlife, environmental conservation that extends to ecotourism.

(b) Development of tourism oriented culture - the awareness of the benefits of tourism by our nation and the need to promote courtesy and the friendliness of our people.

(c) Maintenance of good tourist facilities and standards of service.

(d) Encouragement of tourism expansion through fiscal policies.

(e) Make Botswana a destination that is competitive in product quality, price, facilities, service and friendliness of our front line people.

(f) Good tourism management, governance and economic and political stability.

(g) Strengthening of private sector participation in decision making bodies on all issues of tourism development and marketing.

(h) Set up and pay subsidies to local industries that produce import-substitutions goods and services that are consumed by tourists.

(i) Encouragement of investment in capital and skills in the tourism sector.

(j) Joint marketing efforts and distribution of brochures at developed markets (80% government contribution and 20% private sector).

(k) Re-design of tourists services according to demand.

(l) Allow importation of expertise, financial and technical assistance (as necessary).

(m) Allow for tourism development that promotes bilateral and multilateral agreements with industrialised countries.

The above recipe for the success of our tourism should be read in conjunction with other recommendations that we in Hatab have made to the Botswana Government in different forums.

7. Resolution - Proposal in Respect of Creating Jobs Through Tourism

That a task force/commission be set comprising the private and public sector representatives to investigate ways in which Botswana could derive maximum benefits from it's diversification policy into Tourism, with particular reference to the employment creating opportunities.

That set up a short term consultancy be engaged to assist in the separation of tourism datum from that generic grouping kept by the Central Statistics Department.

Discussion of Workshop 4 at plenary

CREATING JOBS THROUGH THE DEVELOPMENT OF TOURISM

(referring to presentation by Adams Chilisa)

Chairperson at plenary: Kenneth Matambo, MFDP
Rapporteur: Bill Scott, Problem Solvers

Bill Scott reported the recommendations arising from Workshop 4 on tourism. First, it was proposed that a task force or commission consisting of public and private sector representatives should be established to investigate ways that Botswana can derive more benefits from tourism, with particular reference to tourism growth that can create employment opportunities and participation of Batswana investors in the tourism industry.

Second, a National Tourism Board should be established as a matter of priority.

Third, the Department of Tourism should be strengthened by enabling it to recruit experienced professionals and ensuring that it has sufficient budgetary resources and flexibility in the use of such resources. Certain activities should be sub-contracted to suitable private sector firms.

Workshop 5

IMPLICATIONS OF REGIONAL ECONOMIC TRENDS ON EMPLOYMENT IN BOTSWANA, INCLUDING THE IMPACT OF IT'S PARTICIPATION IN REGIONAL TRADE SCHEMES AND APPROACHES FOR ATTRACTING FOREIGN AND REGIONAL INVESTMENT

Professor Renate Mokate, University of Pretoria

1. Introduction

The phenomenal progress which Botswana has made over the past two decades has been heralded as one of very few successes in Sub-Saharan Africa and the Southern African Region (SAR). This success has been grounded on political stability and high rates of economic growth. Nonetheless, over the past years various leading figures in Botswana have raised concerns about the sustainability of these high economic growth rates if the country remains a "mono-culture" economy. The recent decline in the price of diamonds, has brought with it an increasing realisation that the country's dependence on the mining sector threatens the sustainability of Botswana's economic growth and stability, and cannot provide employment for the country's increasing labour force. This has led to an urgent call to look at policy alternatives for diversifying the economy and creating greater employment opportunities for the citizens of Botswana.

The purpose of this paper is to analyse the implications of regional economic trends on employment in Botswana. The paper takes several factors as its point of departure. First, economic trends within the region will be impacted significantly by events in the various SAR countries, particularly South Africa. Second, the fortunes of the region are affected by the positioning of SAR within the global economy. Finally, the internal policy dynamics within Botswana, will play an important role in how the country deals with the constraints and opportunities presented by the regional trends. This implies that, the factors which will impact of Botswana's capacity to diversify it's economy and generate employment opportunities are both internal and external - that is, those factors which pertain to Botswana's national policy dynamics as well as, those which are shaped by regional and global imperatives.

2. Internal Policy Dynamics

Botswana's economic buoyancy over the past decade has enabled the government to make significant investments in social and physical infrastructure, utilising diamond revenues. For example, [b]y 1990, nearly all children of primary school age were at school, 80% of rural villages had access to clean water, and 85% were within 15km of health care (Financial Mail, February 16, 1993: 62). Similarly, the percentage of pupils of secondary school age enrolled increased from 7% in 1970 to 54% in 1992, and for tertiary education from 1% in the 1970 to 5% in 1992 (World Development Report,

1995). These achievements were undertaken without any significant threats of budget deficits, although this is now changing.

.There are a range of internal policies which will impact on whether or not Botswana is able to attract significant investment toward other sectors of the economy other than mining. Included among these are it's macroeconomic and exchange control policies, the quality and reliability of it's workforce, political stability, and the availability of good infrastructure and investment support services. Botswana, with it's "favourable macroeconomic environment, liberal foreign exchange controls and generous incentive schemes" already has some of these policies in place (Financial Mail, February, 16, 1993). However, according to Jefferis, these are countered by low productivity, high utilities costs, limited raw materials and a small domestic market (Ibid.).

In addition, the domination of the economy by mining, and increased government expenditure in social and physical infrastructure has had other unintended effects. First, past "economic growth has been led by mining, construction and government sectors, with government playing a major role in directing resources." Financial Mail, February 16, 1993). Second, Botswana has not been able to develop a critical mass of local entrepreneurs or a significant pool of highly skilled personnel in the management echelon. This has led various analysts to point out that in the future, the private sector will have to play a more active and proactive role in the economy, while government plays an more enabling role. Furthermore, Botswana needs to develop the knowledge and expertise which will drive future efforts at diversification of the economy, within it's private sector.

The sectors of the economy which have been identified as part of Botswana's strategy for economic diversification are tourism, financial and other services and labour intensive medium technology industries, particularly those which build upon comparative advantages in the export of non-traditional exports. Given the above, one can conclude that while Botswana is certainly in a much better position than most SAR countries, it faces major internal challenges in it's drive toward diversification.

As indicated above, apart from the internal planning which Botswana undertakes in it's effort to diversify it's economy, the political and economic environment within the Southern African region (SAR) is another factor which will impact on employment generation in Botswana.

3. Regional Context

The democratisation of South Africa has opened up possibilities for new economic opportunities that could be of mutual benefit to it and it's neighbours. These opportunities are however, constrained by the structural features of the regional economy, the internal economic factors of the individual countries and the state of play in the global economy.

The structural features of the SAR economy have changed very little in spite of major shifts in the political character of the region. The SAR economy continues to be dominated by South Africa in spite of the strength exhibited by the economies like those of Botswana. This is by virtue of the size of the South African market and economy relative to those of it's neighbours, and the import-export trade movement within the region. Historically, South Africa was also able to dominate the region through it's military power.

The historical colonial factors which led to the balkanisation of Southern Africa and the creation of South Africa's dominance over the region cannot be reversed other than through a systematic process of addressing the problem. This legacy has created national economies whose internal markets and infrastructure cannot sustain economically diversified economies outside of an effective Regional Integration Arrangement (RIA). This was recognised well before the democratisation of South Africa with the establishment of the Southern African Development Coordination Conference (SADCC) in 1981. SADCC was an effort by the Southern African countries to take systematic steps to reverse their dependence on South Africa and create more sustainable national economies. In addition to SADCC, are efforts as early as the late 1960s by the BLS countries to decrease South Africa's stronghold over decision making in the Southern African Customs Union (SACU).

The restructuring economic relationships within SAR is an important determinant of the success of any one country's efforts at economic diversification. Thus, South Africa's membership and prominence in the Southern African Development Community (SADC) and the re-examination of the Southern African Customs Unions are important factors in this restructuring. Various studies on regional integration in Africa, have highlighted several factors which are important to consider, in identifying the impact of regional trends on employment generation.

First, given the limited extent of Botswana's market, it stands to reason that having effective access to the more sizeable markets within the region, e.g., South Africa and Zimbabwe, would render manufacturing and service production more viable. The capacity to access larger markets is also a factor which makes a country attractive to foreign direct investors.

Second, close interlinkages among the Southern African economies means that there is a great opportunity for them to share infrastructure, investment support services, knowledge and expertise through effective RIAs. Mistry (1996) points out that:

> *In Southern Africa, RIAs offer the opportunity for market functioning to be enhanced significantly in markets for goods and services as well as in factor markets (capital, labour), through: (i) enlargement and resultant economies of scale; (ii) improved factor mobility (iii) regional sharing of technology and of highly skilled human capital; and (iv) sharing of market supporting regulatory capacity and institutional systems and structures. There is little disagreement with view that in SAR, regional markets might offer better prospects for reducing market imperfections than national ones; particularly so in the smaller economies of the region (i.e., Botswana, Lesotho Malawi, Mauritius, Namibia, and Swaziland) but also in the larger, less developed ones (Angola, Mozambique, Tanzania and Zambia).*
>
> *[In addition] in the capital-short economies of SAR, whose geography and topography makes them particularly interdependent on regional river systems and regional ecology ... fiscal pressures as well as crowding out pressures on private investment can be substantially ameliorated by employing regional approaches to infrastructure investment and service provision.*

The structure of the SAR economy, in spite of South Africa having a sizeable manufacturing sector relative to it's neighbours, is characterised by dependence upon

mineral and agricultural exports. Thus, the need for diversification, is applicable on a region wide basis. Key sectors which have been identified for employment generation are construction, infrastructure development and the expansion of services, particularly transport, finance and tourism. Mistry points out that these sectors provide an opportunity for "upwardly mobile indigenous entrepreneurial start-ups and as a training ground for lower level manpower" as well as having a backward multiplier effect. In addition, they provide viable alternatives for the partnerships among, "SAR governments, regional construction firms and SAR conglomerates, and foreign investors."

Similarly, Robinson (1996) in his discussion on the Potential Gains from Infrastructural and Natural Resource Investment Coordination in Africa, points out that there is considerable scope for benefits to be derived from regional cooperation in the building of infrastructure, particularly energy, water, transport and telecommunications. These benefits derive from : (i) a reduction in direct costs and increased reliability in the service due to economies of scale,(ii) reduced opportunity of unserved demand, (iii) positive impact on trade, and (iv) cost savings associated with large investment projects. He also raises the possibility that the new orientation toward increased private sector involvement in the supply of infrastructure among Southern African countries, as well as a regional approach to funding of infrastructure projects could jointly increase economic benefits for the countries involved. These benefits will be in the form of increased opportunities for private sector investment and job creation.

Given the potential benefits which can be derived from effective RIAs it is important to examine trends in the regional organisations in which Botswana is currently involved - the Southern African Customs Union (SACU) and the Southern African Development Community (SADC).

While there are currently negotiations underway regarding the restructuring of the SACU, it is important to highlight how it's operations impact on Botswana's development in the short-medium term. Various presenters at the 1994 workshop on the reconstituting and democratising of the SACU succinctly summarised the major problems with the SACU. The major issues of contention, from countries such as Botswana pertain to: (i) the level and form of external of protection, (ii) the revenue sharing formula, (iii) provision for differential industrial promotion schemes in the agreement, (iv) the establishment of a Secretariat for the SACU, (v) dispute resolution procedures, (vi) expansion of membership, (vii) anti-dumping/subsidy controls, and (viii) relationship to other trade organisations.

South Africa on the other hand had begun arguing under the previous government that the revenue formula was unaffordable. This issue is of course disputed by the BLS countries on the grounds that in fact their share of the revenue pool should have grown because their economies are growing faster than South Africa's economy and that the formula has not presented any additional burden to South Africa's fiscus.

Either way, SACU has had the net effect of benefiting South Africa at the expense of the BLS countries. The new government of South Africa recognises that the current decision making and policy structure of the SACU is inappropriate and unsustainable in the long term. Hence, it can be expected to enter into negotiations with the BLS countries "with a different set of principles and a broader range of consideration. (Davies, 1994:37). According to Davies, the principles set out by the African Development Bank form an important to guide for the restructuring of the SACU. These principles include:

- A new SACUA should acknowledge and make provision for the major differences that have emerged in respect of the performance capabilities of the different SACU members. It should be flexible in adjusting compensation and stabilisation of payments to allow for such differences.

- In designing a new formula it might have to accommodate or join a broader common market or free trade area within the Southern African region in the longer run.

- Compensation and stabilisation arrangements should be reviewed with a view to examining their specific modalities and the amount of flexibility in the use of the returned resource that they permit. Their use could be directed at facilitating investment.

- Clauses which inhibit the industrial development of the BLNS countries should be amended to have the opposite effect.

- Closer cooperation in the formulation of policy, continuous consultation and a programme for regional industrialisation should be facilitated by a commission of the SACU as part of a new SACUA.

- A new SACUA should emphasise greater export orientation and more competitive efficiency in it's regional development strategy (ADP, 1993:17/45).

The resolution of the structure, institutional, and decision making processes pertaining to SACU will be a positive reinforcement for SADC's efforts of focusing on strategic sectoral arrangements to enhance development in the SAR. For example in 1995, SADC Finance Ministers agreed to "cooperate on financial matter including *inter alia* investment and trade financing, capital movements in support of cross border investment, monetary matters, regulation and supervision of financial institutions, development of payment and clearing systems, and human resource development" (Thomas, 1995: 89). In addition , there are standing arrangements for cooperation on regional transport and communication, the sharing of energy and water resources, and the development of a regional industrial location strategy.

Unlike the SACU the challenges faced by the SADC are of a different nature. Not least of these is not to repeat the mistakes of other RIAs which have been unsuccessful in Sub-Saharan Africa (SSA). There are a range of reasons which have been sighted for the failure of other RIAs in Africa (Aryeetey and Odoru, 1996: 18). One reason pertains to the inherent competing national and regional interests which any member of an RIA has to contend with. This tension is manifested apparent lack of political commitment to and non implementation of agreements reached. This situation becomes exacerbated when the institutional framework and sanctioning authority within the RIA is weak. Second, the distribution of benefits derived from RIAs is also a contentious issue. This is particularly the case when there are intra-regional inequalities and appropriate mechanisms for spreading costs and benefits are unclear. Third, overlapping memberships and the multiple objectives pursued by the regional bodies make the integration unfocused and puts a strain on the capacity of countries to become effective participants. Finally, in order for regional integration to be effective, there must be effective participation by the

private sector, in order to ensure that the policies adopted are appropriate and this sector is well informed about the potential benefits of integration.

In spite of the above, with the democratisation of South Africa, and the role it has taken within SADC many are hopeful that SADC will play a positive role in the development of the region. The pursuit of a new SACU agreement and the sectoral integration approach which has been adopted by SADC are an indication that the above pitfalls are being taken into account. However, one needs to point out that these factors remain an important determinant of the extent to which participation in regional organisations will actually benefit Botswana.

Among the other important issues which have to be addressed in setting up RIAs is the extent to which they can be used effectively to increase trade and investment. Specifically, how can they be used to encourage increased investment in physical and human capital and sound policy approaches, among their members, in order to increase investment and employment. The 1995 World Development Report indicates that nations which will succeed at generating sustainable levels of employment growth are those which are able to adopt the appropriate set of "public interventions [which] best support the efficient functioning of markets, encourage productive investment in plant, technology and people and assist disadvantaged workers." Furthermore, it states that the driving force toward global integration are: technological change and the decrease in the cost of communication and transport costs, and (ii) the shift in development strategies toward global competitiveness. In this scenario, those countries which are lagging behind in development, have a window opportunity to leap frog to higher levels of development through rapid increases in human and physical capital investment to take advantage of existing technological innovations. In addition, with the drive toward global trade liberalisation, they stand the chance to access larger and more stable international markets.

Given the above, it is clear that one of the regional trends which will impact on Botswana's employment generating capacity is the nature of public interventions which other member states adopt with respect to human and physical capital investment in line with the areas of growth which have been identified for the region. On the human capital dimension, Southern Africa already faces internal imbalances in the distribution of lower level and higher level human resources, with countries such as South Africa, and Zimbabwe being well ahead of other SADC countries. More importantly, however, the pool of human capital in the SAR needs to be made globally competitive. This is a problem for most of the SAR countries whose public expenditures on education and basic services have been curtailed by lack of funds and reductions in public spending arising out of participation in the Structural Adjustment Programs. Yet, unless, there is concerted effort at the regional level to address human resource development there is very limited chance of it participating effectively in leading global industries. Furthermore, as is already occurring, the brain drain from lower productivity countries to higher productivity countries will continue unabated, as will potentially destabilising population movements (e.g., the increased migration of Southern African populations to South Africa) within the region.

There are additional factors which have a direct barring on the extent to which regional economic trends will be conducive for investment in the SAR, and by implication to Botswana. Important economic factors which investors look towards in assessing investment potential are: the macroeconomic environment prevailing in the

regional economies, the quality and cost of factors of production, particularly labour, as well as policy stability regarding exchange controls and repatriation of profits.

All the Southern African countries have undergone varying degrees of structural adjustment programmes, whether voluntary or under the requirement of the International Monetary Fund and/or World Bank. South Africa, the largest economy in the region is yet to undergo a formal structural adjustments although it is trying to manage it's economy in such a way as to avoid a full blown adjustment programme. Due to the position of South Africa within the region, the extent to which it is able maintain a stable macroeconomic environment and evolve policies which foreign direct investors consider conducive for long-term investment in the region is a critical factor. Recent events have highlighted the fact that the South African economy is not on a sound footing, and that there are fundamental weaknesses in the structure of the economy and it's production base. This is compounded by significant backlogs in basic services, poverty and inequality within the society.

This raises several key questions regarding South Africa's future macroeconomic management and development strategy. Questions such as what is the extent of convergence among the priorities of meeting basic needs, reducing inequality and the type of public expenditure which fosters global competitiveness? What are the trade-offs in public spending which have to be made and what are their socio-political implications? In short, South Africa is facing significant challenges of it's own.

The current debate on a Growth and Development Strategy highlights the depth of the issues faced, and the distance the country has yet to travel to develop a consensus around an effective strategy. The main areas of intervention which have been identified by government, for achieving growth and development are: (i) creating employment on a large scale while building a competitive economy; (ii) investing in people as the productive and creative core of the economy (iii) enhanced investment in household and economic infrastructure; (iv) a system of social security and social development designed to draw the poorest and most vulnerable groups into the mainstream of the economy and society; and (v) transforming government into an efficient and responsive instrument of delivery and empowerment. There has yet to be consensus on how to achieve these objectives and where the emphasis of the policy framework should lie. Labour is arguing for an approach which focuses sharply on issues of equity, while the business sector is concerned about for keeping labour costs and taxation low, and a loosening of exchange control.

Within this scenario, it appears inevitable that as South Africa enters the global arena it will undergo some form of structural adjustment process, before significant progress in economic growth and development is achieved. If a structural adjustment process in South Africa leads to a decline in it's economy and creates instability and fluidity within the region, the result of this will be to limit the short-medium term potential for the region to benefit effectively from RIAs.

The above, together with unresolved issues on the political arena (eg, the participation of the Inkatha Freedom Party in the Government of National Unity and unrest in KwaZulu-Natal), make South Africa an unstable partner in the regional equation. This limits the potential for South Africa to act as a "regional pole" for attracting foreign investment as many had hoped, in addition to making the region appear generally unstable. On the other hand, it does mean that more stable countries like Botswana, have a comparative advantage on the basis of their economic and political

stability, particularly if the SACU begins to function as an association of equal partners along the lines discussed earlier.

4. Global Context

While the quality of the human resource base of the SAR, is a constraint on the ability of the region to be globally competitive, current global dynamics do provide a window of opportunity for countries like Botswana, to look at their individual potential to be competitive and operate in niche markets. Reich (1992) indicates that, competitiveness of nations is now determined primarily by the competitiveness of their labour forces, and not only by the size of their economies, resource endowments and their corporations. He states that (Ibid:3):

> *We are living through a transformation that will rearrange the politics and economics of the coming century. There will no national products or technologies, no national corporations, no national industries. There will no longer be national economies, at least as we have come to understand that concept. All that will remain rooted within national borders are the people who comprise a nation. Each nation's primary asset will be it's citizens' skills and insights. Each nation's primary political task will be to cope with centrifugal forces of the global economy which tear at the ties binding citizens together - bestowing ever greater wealth on the most skilled and insightful while consigning the less skilled to a declining standard of living.*

Furthermore, he makes the point that the businesses of the future are high-value rather than high-volume enterprises (Ibid.: 85). In the former businesses, profits come from the "continuous discovery of new links between solutions and needs." The key skills needed for these businesses are: (i) "problem-solving skills required to put things together in unique ways...[involving] a continuing search for new applications, combinations, and refinements capable of solving all sorts of emerging problems, (ii) skills required to help customers understand their needs and how those needs can best be met by customised products, [and] (iii) skills needed to link problem-solvers and problem identifiers ... [or] managing ideas. (Ibid.)

The new enterprises are structured as webs of interlinking units as opposed to pyramid structures of the past. These enterprises consist of a combination of business units which fall within the following categories (ibid,: (91-93): (i) independent profit centres which are responsible for product development and sales, with compensation being based on profits made by that unit, (ii) spin-off partnerships based on ideas generated by independent clusters within a large corporation funded with venture capital from headquarters, (iii) spin-in partnerships based on new ideas from independent clusters outside the company purchased by the headquarters, (iii) licensing involving contracting with independent businesses for the use of the company's brand name and products, and (iv) pure brokering which involves contracting with independent businesses, to provide problem solving, identification and production services.

The current study underway to develop a regional industrial location strategy for the SADC countries is designed to "produce list of viable targets for each country that would fit into a broad industrial strategy for the region - based upon international competitiveness, employment generation and resource beneficiation." (Thomas, 1995:

88) Nonetheless, the implications of the above are that Botswana's approach toward developing strategies for employment generation, should look at regional trends both in terms of the opportunities which RIAs provide, but as well in terms of what it's comparative advantage within the region is, taking into account global economic trends indicated. In short, the deficits in the quality of human resources within the region, place constraints on SAR's participation in the global economy. However, these dynamics equally provide opportunities for particular countries to operating within niche markets because their efforts need not be confined to regionally determined strategies only.

5. Conclusion

The main thrust of this presentation is that any discussion of the impact of regional trends on employment generation in Botswana needs to take into account not only what is happening in the region per se, but also how the region is positioned in the global arena.

The importance of the region to Botswana is to the extent that it provides the opportunity to create larger markets, effective and efficient infrastructure, the harmonisation of macroeconomic, trade, sectoral and exchange control policies in a way which provides an appropriate framework for foreign direct investment and intra-regional investment flows. The trends which are occurring with the SACU negotiations, as well as activities within SADC bode well for the region, because they provide a framework for achieving the above objectives effectively.

An important component in the SAR regional equation is South Africa. If South Africa is able to manage it's economic and political transformation without major economic disruptions, this will have positive "neighbourhood" effects within the region. It will also enable South Africa to be play a positive role within the SACU and SADC.

The positioning of the region within the global arena is however also important. In this regard, Botswana needs to take advantage of the opportunities which emerge from RIAs, but it also must consider how well positioned it is to take advantage of niche markets by virtue of it's stronger economy and political stability.

The World Development Report 1995, in projecting scenarios for the future for Sub-Saharan Africa states the following:

> *The plight of the African continent remains the most serious challenge for the emerging world order. The Uruguay Round agreement will raise food prices, which will hurt the urban poor in the short term but create important opportunities for peasants down the road. The agreement will also erode the region's trade preferences in the markets of some European states, and greater global competition will reduce returns to low-skill manufacturing. Even in primary commodities, an area of comparative advantage, Sub-Saharan Africa must raise productivity in order to compete the resource-rich countries of Southeast Asia and Latin America.*
>
> *...A credible strategy will require rising global demand for agricultural products and mining, as well as bold international actions that are commensurate with the challenge at hand. Measures such as greater and faster opening of agricultural markets in the industrial countries, debt reductions with strong conditionality, and a strong anchor to the rest of the world ...must be seriously considered. ...Much more important however, such agreements need to emphasise internal reforms and a clear time frame.*

The above is in sharp contrast to the strategies advocated for the other regions (e.g., East Asia, and Central and Eastern Europe and former Soviet Union) which decidedly put them on the path to greater participation in the global arena in sectors other than the primary product sectors. Botswana's opportunity, unlike most Sub-Saharan African countries, it has the opportunity to set itself a different development path which does not relegate it to the lowest rung on the totem pole of global advancement. It's challenge is to harness it's resources and advantaged position to seize the opportunity.

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ADDENDUM

PROPOSED DRAFT RESOLUTIONS

Government

Resolution 1
That the government of Botswana undertake an urgent audit of the strengths and weaknesses in it's human resource capacity in order to position itself to take advantage of opportunities for diversifying the economy through global competitiveness.

Resolution 2
That the government of Botswana working in conjunction with the private sector develop strategies for enhancing the development of a critical mass of local entrepreneurs in the manufacturing and service sectors.

Resolution 3
That the government of Botswana continue it's efforts to influence the direction of the Southern African Customs Union and the Southern African Development Community to undertake the appropriate policy interventions to increase their human and physical capital investments within the region.

Resolution 4
That the government of Botswana urge SADC to urgently undertake an audit of the human resource capacity of the region and find cooperative mechanisms to invest in human resource development in line with the key sectors of development which are identified for SADC.

Private sector

Resolution 1
That the private sector through organisations such as BOCCIM and the Botswana Development Corporation adopt systematic training, business development, and advocacy programmes which encourage the diversification of the private sector into the manufacturing and service sectors.

Resolution 2
That Botswana's private sector initiate a process of identifying opportunities for joint investment ventures with SADC partners in the area of infrastructure development.

Discussion of Workshop 5 at plenary

IMPLICATIONS OF REGIONAL ECONOMIC TRENDS ON EMPLOYMENT IN BOTSWANA, INCLUDING THE IMPACT OF IT'S PARTICIPATION IN REGIONAL TRADE SCHEMES AND APPROACHES FOR ATTRACTING FOREIGN AND REGIONAL INVESTMENT

(referring to presentation by Professor Renate Mokate)

Chairperson at plenary: Kenneth Matambo, MFDP
Rapporteur: Emang Maphanyane, BHC

Emang Maphanyane reported the four recommendations arising from Workshop 5 on regional issues. First, it was proposed that the government should urge SADC to urgently initiate comprehensive mechanisms for investment in human resources development.

Second, the government should intensify efforts to influence the direction of SADC and SACU to undertake appropriate policy interventions to increase investment in human and physical capital within the region.

Third, the private sector, through organisations such as BOCCIM , BCCI and BDC, should adopt systematic training, business development and advocacy programmes to encourage diversification of the private sector into the manufacturing and service sectors.

Fourth, the private sector should initiate a process of identifying opportunities for joint ventures with SADC partners in infrastructure development.

Workshop 6

STRATEGIC THINKING AND OPPORTUNITIES FOR EMPLOYMENT CREATION FOLLOWING MICHAEL PORTER'S 'COMPETITIVE ADVANTAGE' AS APPLIED TO BOTSWANA: AN UPDATE ON NEXT STEPS

Uttum Corea, Coopers and Lybrand

1. Introduction

The title of the Third Private Sector Conference held in Francistown in May 1994 was Botswana: Developing a Competitive Advantage. The conference included a video presentation by Professor Michael Porter of Harvard Business School specially prepared for Botswana, followed by a telephone link conference discussion with Professor Porter.

The concepts discussed were further explored, in the context of Botswana, at a conference sponsored by BOCCIM and the Botswana Institute of Accountants (BIA), in November 1994 when more than 100 representatives from the private, parastatal and public sectors assembled at the Mokolodi Nature Reserve. A copy of the report of findings and recommendations of that conference are annexed herewith, and presented as a background to this workshop discussion.

Some of these recommendations are revisited in this paper in the context of Botswana's present development policy.

2. Provision of high quality basic inputs

People, capital and infrastructure are considered to be the essential ingredients of a successful economy driven by an appropriate strategy.

3. Human capital

Human capital is the productive value of the people in an economy. The conference in 1994 generally agreed that the Governments' new Education Policy addressed the shortcomings of primary and secondary education and all that was required was to vigorously implement the new policy. However it was felt that tertiary education was an area that needed to be reviewed urgently as Botswana's education and training institutions are not adequately preparing Batswana for the needs of the economy. The University of Botswana was criticised for producing graduates with skills that were inappropriate for private sector work. It was felt that increased resources should be committed towards more vocationally oriented schools.

The following resolution is proposed:

(a) *Government's new Education Policy on primary and secondary education should be vigorously implemented.*

(b) *Governments' policy towards Tertiary education should be reviewed urgently and more investment should be made in vocationally oriented institutions so as to match the needs of the private sector.*

Action: Ministry of Education.

4. Financial capital

Financial capital especially long term finance has been considered to be lacking in Botswana. This is paradoxical in a country that is said to `suffer' from excess liquidity! It is understood that Government is progressing a study on "Long - term finance" and another on "Housing Finance". Concerns on lack of finance have been raised at previous conferences held in Francistown and this is now a matter for urgent attention and implementation.

The following resolution is proposed.

Government should accelerate progress on the studies on long term finance and housing finance, and give priority to promoting the provision of requisite finance through appropriate institutions without further delay.

Action: Ministry of Finance & Development Planning.

5. Infrastructure

Infrastructure development in Botswana was considered to be generally of a good standard acceptable to investors, subject to prohibitive costs of utilities and long delays in connections especially in the area of Telecommunications. The question of costs were partially addressed following representations made at the High Level Consultative Council. However the delays in the provision of services by Botswana Telecommunications Corporation is a continuing frustration. The following resolution is suggested:

The inefficiencies of the Botswana Telecommunications Corporation should be probed and addressed.

Action Ministry of Works and Transport and Communications.

6. Productivity incentives

Productivity has been an often mentioned buzz word in the vocabulary of Botswana and we even have a National Productivity Centre. Our National Goal is we trust to be a productive nation. What does this mean? There has been much debate about the efficiency of labour in Botswana and how this could be improved. The cornerstone of Botswana's Financial Assistance Policy, at present, is the subsidisation of labour costs. However, as Professor Porter says "Productivity is not just a function of efficiency." Just as important is the quality and sophistication of the product you can produce. Nations are productive if they can achieve a high value added factor. The National Goal should be high added value and rapid productivity growth. To put it simply high added value is a healthy margin of profit after providing for all inputs including labour, materials,

capital costs and other overheads. Companies with high added value are successful and generate sustainable employment.

It is interesting to note that Dr Keith Jefferis paper on the "Characteristics of successful manufacturing exporters: Botswana's experience" recommends that, *"Botswana should encourage investment in a slightly different market/product area, where competition is not predominantly on the basis of very low labour costs. Instead, emphasis should be on industries which are relatively labour intensive but with Botswana firms targeting the more capital intensive end of these industries."*

It is also interesting to note that Professor Hawkins paper observes that

> *"Firms have created competitive advantage in two main ways: (a) by driving down their real wage bill, and/or (b) upgrading technology so that an increased volume of output can be achieved with a given level of inputs of labour, raw materials and capital.*
>
> *In Southern Africa most, if not all, of us are being driven down the first of these two roads -that of declining real wages. The regions comparative advantage lies either in exploiting natural resource potential or exploiting surplus labour that can be put to work at lower and lower real wages.....*
>
> *In the new order, industry can no longer rely on " lower order" competitive advantage in the form of natural resources and low cost labour. Increasingly competitive advantage is based on technological capability, on the continuous upgrading of production techniques, on quality and design, on human skills, flexible production systems and aggressive marketing."*

Professor Porter argues for establishment of effective regulations and incentives that encourage upgrading and innovation. He further argues that programmes structured around subsidies nurture lazy and inefficient firms. It would be far better to offer incentives that promote investment, training, and productivity growth and combine them with regulations that are fair and transparent and which promote competition.

In the early nineteen eighties Botswana's planners, at that time, formulated the Financial Assistance Policy scheme which had a bias towards labour intensive industry perhaps in the belief that the more labour intensive enterprises are, these would contribute to mopping up unemployment at a quicker rate. This was an unfortunate `quick fix' approach which did not promote sustainable businesses and stable employment. It appears that many of the companies which enjoyed FAP subsidies were unable to continue after the end of the subsidy period and employees were left in the lurch. It was also unfortunate that with the introduction of the FAP incentives, the tax incentives for investment in new plant and machinery and buildings were withdrawn from the Income Tax Act in 1982. FAP assisted businesses were able to obtain capital grants (ie. cash grants) based on the number of jobs created, against the importation of second-hand plant and machinery. It is apparent that the FAP incentives and modification of existing incentives skewed development policy in favour of "lower order" low cost labour projects which have proved to be not very successful.

What is required is to review investment incentives in Botswana so as to promote high value added projects based on technological capability and to encourage the continuous upgrading of production techniques on quality and design and relevant human skills. Whilst this shift in strategy may produce a lower ratio of jobs per capital invested

such industry would be competitive, and sustainable, and would produce stable employment at higher wages. In relative terms this drop in ratio is not critical in the case of Botswana which only has a population of 1.6 million people in comparison to the countries with teeming millions who embraced the 'lower order' labour intensive route of yesteryear.

The upgrading of relevant human skills is however critical to the above shift in strategy and what is required is to consolidate on and improve the existing incentives for training contained in the Income Tax Act and the revised FAP policy to this end.

To achieve the required shift in strategy the following resolution is proposed:

Botswana's present investment policies should be reviewed so as to encourage industry in Botswana to innovate and upgrade production techniques continuously, with a view to improving productivity. In particular:

(a) Investment in new technology and new plant and machinery should be promoted;

(b) Existing training incentives contained in the Income Tax Act and FAP policy should be improved, consolidated and marketed so as to promote the upgrading of human resource skills.

Action: Ministry of Finance & Development Planning.
Ministry of Commerce & Industry

7. The fallacy of competitive advantage through currency devaluation

This is a popular misconception of those economists of yesteryear who favour the "lower order" route to competitive advantage. The reduction of the real cost of wages and other local inputs by devaluation as a strategy has been condemned by Professor Porter. Porter contends that devaluation consigns companies to cost-based competition and in fact inhibits competitiveness. He even goes further to say that the result of such a strategy is to impoverish a nation!

The Bank of Botswana has often stated that the reason for devaluing the Pula along with the Rand is to make Botswana's non-traditional manufacturers and exporters more competitive. The article on "Exchange Rates and Inflation in Botswana" by Mannathoko, Siwawa-Ndai, Jefferis and Atta, published in the Bank of Botswana Research Bulletin of July 1995, casts doubts on this statement. To put it simply, apart from local wages and other local inputs the majority of costs incurred by non-traditional manufacturers and exporters are imported in the form of raw materials and machinery. So that any benefit is of a temporary nature. The nominal value of any resulting increased profits, in the short term, is of an illusory nature as the real value of those profits and the capital investment itself has depreciated.

The beneficiaries, of a devaluation of the Pula, in nominal terms not real terms are:

(a) The Government of Botswana: who will probably produce another surplus of budget instead of the forecast deficit;

(b) The Bank of Botswana: who will realise greater Pula profits from it's overseas investments;

(c) Debswana: who has already realised a larger than expected Pula surplus based on it's dollar-denominated sales;

(d) Botswana Meat Commission: who should get more Pula's from "dollar" denominated sales;

(e) The Tourism Industry: to the extent that a greater proportion of their costs are incurred locally and not spent on foreign marketing costs etc.

However in real terms the cost of original investment is devalued in the case of the latter three. Furthermore the additional Pula's arising from a devaluation which cascade through such institutions including Government and Bank of Botswana promote a false sense of efficiency, competitiveness and success. Paradoxically this only mitigates against real competitiveness as inefficiencies which should be addressed are hidden by surpluses resulting from devaluation.

What of the employees and workers of the Nation including employees in Government, Bank of Botswana, Debswana, Botswana Meat Commission and the Tourism Industry. Their earnings are eroded in real terms and they are buffeted by inflation which follows on a devaluation. This is then followed by demands for wage increases, and unnecessary aggravation and unrest, which results in further inflationary pressures. The excess liquidity position is exacerbated.

What of foreign investors. According to the Chief Executive of the Botswana stock exchange, investors are not happy to see the value of their investment in Botswana and returns therefrom, eroded by an outmoded policy.

Such a policy does not make a Nation competitive but in Porter's words in fact "impoverishes a Nation".

The following resolution is proposed:

The Bank of Botswana should reconsider it's stated policy of depreciating the Pula in tandem with the Rand on the basis that this will help our non-traditional manufacturers and exporters to be competitive. Improved productivity and continuous innovation should be the foundation of competitive advantage in Botswana.

Action: Ministry of Finance and Development Planning
Bank of Botswana.

8. Procurement regulations

It is widely recognised that the size of Government procurement programmes makes it a major local consumer. It could assist business development in Botswana through set asides for local business on condition that local products are up to acceptable regional or international standards thereby challenging local business to upgrade, and prepare for competition in regional and international markets. Porter argues forcefully and the conference agreed, that Government should be a sophisticated consumer. The following resolution is suggested:

Whilst reviewing the Local Preference Scheme Government should ensure that any set aside of quotas for local procurement should be on the basis that local products are up to acceptable regional or international standards.

Action: Ministry of Finance & Development Planning

9. Facilitation of industry "cluster" development

"Clusters" are Porter's term for integrated production sectors. The beef cluster would include cattle raising, beef production, production of processed beef products and by-products including horn and leather products. Also included in the cluster would be industries that support beef production and marketing, such as packaging materials for beef products, veterinary products, and improved feeds.

The conference agreed with Porter's assertion that targeting of industries for support by Government was generally not a good policy in already developed countries. However in the case of Botswana where industry is developing from an almost zero base, it was agreed that government resources could be focused on areas in which Botswana already has the building blocks of a cluster.

10. The beef cluster

There is good potential for development of a beef cluster as described above. The existing experience of beef ranching could also be extended to develop game ranching and allied industry in game meat, hides, skins and trophies.

There has been much debate in past years concerning the excessive subsidies, incentives and assistance given to cattle farmers. Instead of withdrawing the subsidies and incentives completely as proposed from time to time, there is a case for redesigning incentives and regulations so as to challenge and encourage cattle farmers to upgrade, diversify and be innovative with their existing interests in the industry so as to develop a highly sophisticated beef (and game) cluster which would excel as one of the best in the world.

The threats and opportunities posed by changes in GATT and the ban on countries with contaminated herds makes this a priority for survival and an opportunity to be a world leader. Botswana has a proud cultural heritage of cattle farming and this could be honed to perfection in an environmentally responsible manner.

The following resolution is proposed:

Botswana's investment policies and subsidies to the cattle sector should be reviewed and revised with a view to challenging and encouraging farmers to upgrade, diversify and be innovative so as to develop a highly sophisticated beef (and game) cluster, in an environmentally responsible manner.

Action: Ministry of Agriculture
Ministry of Commerce (Department of Wildlife)

11. The mining cluster

Mining in Botswana has largely been a case of exploiting natural resource potential and low cost labour. There has been little effort made towards adding value to diamonds and copper-nickel until recently.

The recent example of the Lazare Kaplan Diamond cutting and polishing enterprise and other similar enterprises, is a good example of how high "added value" could be obtained before export of natural resources. High value added processes could also be considered for copper-nickel and such processes would generate higher wages and have a multiplier effect in creating demand for services and supplies to such new industry.

The existing mining operations should also consider sourcing of supplies and services from Botswana based suppliers as long as regional and international standards are complied with.

The following resolution is proposed:

(a) *A study should be conducted on the feasibility of establishing new industry which would produce high quality finished products and add-value to natural resources mined in Botswana;*

(b) *A survey should be carried out on supplies and services which could be obtained in Botswana to service the Mining Industry. The Mining industry should be given appropriate incentives to practise a 'set aside' programme for Botswana suppliers subject to standards being met.*

Action: *Ministry of Mineral Resources*
Ministry of Commerce and Industry

12. Regional headquarters for industry and services

Botswana has the reputation and advantage of being an oasis of relative calm, peace, stability and economic strength in a region which is struggling to recover from the effects of civil wars, anti-apartheid struggles and economic degradation.

Botswana's healthy foreign exchange reserves (except that the Pula needs to be stabilised), liberalisation of exchange controls, low income tax rate, relatively good infrastructure and relative low-level of violence make it an ideal location for regional headquarters of foreign investors investing in the region. The Regional Head Quarter's of SADDC and USAID have also been located in Botswana.

These attributes need to be aggressively marketed and impediments to establishing Regional Head Quarter's need to be removed, and incentives need to be formulated and publicised. For instance there should be:

(a) a withholding tax exemption on dividends paid out of foreign - source dividends of Botswana - resident companies; and

(b) a deduction for certain business relocation expenses associated with the setup of a Regional Head Quarter in Botswana.

Botswana should be marketed as the Switzerland and Singapore of Southern Africa. The following resolution is proposed:

Steps should be taken towards removing the few impediments against establishing Botswana as an ideal location for Corporate Regional Head Quarters in Southern

Africa. These impediments include the stabilisation of the Pula against hard currencies and certain amendments to the Income Tax Act.

An aggressive marketing campaign should be launched so as to attract foreign investors in the region to locate their regional headquarters in Botswana.

Action: Ministry of Finance and Development Planning.
Ministry of Commerce and Industry

13. Financial services centre

Financial services would be a logical adjunct to Regional Head Quarter's. There has been much publicity and energy expended towards the establishment of a financial services centre. The conference at Mokolodi however observed that whilst the idea of a Financial Services Centre had been put forward by government for a few years the major players who are the banks do not appear to be actively considering the idea themselves.

Representatives from local banks who participated in the conference pointed out that financial services in Botswana are relatively unsophisticated and unlikely to attract foreign interest at their present level of development. However they observed that this status could change under a liberal exchange control regime and with a deepening of the local financial market.

The following resolution is proposed:

The reference group who is overseeing the establishment of a Financial Services Centre should ascertain as to what needs to be done before the banks themselves are convinced that a Financial Services Centre would be a viable reality in Botswana.

Action: Ministry of Finance and Development Planning.

14. Transport services

Porters vision for Botswana included the use of it's central location in Southern Africa to develop Botswana as a sophisticated transportation hub for the region. He based this vision on Singapore's planned strategy of establishing itself as the pre-eminent free-port in South East-Asia. Dubai is another successful example.

The Mokolodi conference observed that the opening of dry ports in Gaborone and Francistown as well as the completion of the Trans-Kalahari Highway are key steps towards achieving this vision. The establishment of Motor Vehicle and Truck assembly plants in Botswana are additional ingredients. However the establishment of a highly sophisticated containerised dry port in Botswana free of duties would need to be the subject of a major feasibility study and if feasible a National commitment towards necessary infrastructure as in the case of Singapore.

The following resolution is proposed:

A feasibility study should be carried out to establish whether Porter's vision of Botswana establishing a sophisticated containerised dry port - free of duties to serve the Southern African region, could become a reality.

Action: Ministry of Works Transport and Communications

15. Tourism

Botswana has adopted a well thought out and carefully planned policy of High Cost - Low Impact Tourism which targets the high value-added sector of the regional market. This policy should in theory allow for better wages and employment conditions than prevail in the rest of the region.

The paper presented by the President of HATAB states that the full extent of the growth potential of the Tourism Industry has not taken place. "Tourism investors believe the delays in land allocation for tourism businesses and assorted bottlenecks, and in particular the lease tenure and uncertainty of reallocation opportunities contributed to the lack of growth of the Tourism Industry".

It appears that the problem is one of delays in implementation of a good policy. This is a great pity. Botswana has recently won an award as one of the most attractive destinations in the region at the Indaba conference held in South Africa. Botswana needs to maximise benefits from it's unique natural resources and it's stated policy on Tourism.

The following resolution is proposed:

In supporting the resolution proposed by the President of HATAB it is recommended that the reasons for delays in land allocation and assorted bottlenecks are established and dealt with so that the implementation of the Tourism Policy may be expedited.

Action: Ministry of Commerce and Industry

16. Marketing Botswana

All of the above initiatives require a strong element of marketing of Botswana. What is required however is differentiated marketing which highlights Botswana's special attributes, and targeting of organisations (not countries) which could fill in missing elements in local cluster formation.

Years have been spent on generic investment promotion missions which have yielded little, what is now required is a more focused approach whether carried out by TIPA or subcontracted private sector consultants. Porter's video presentation gives the example of Singapore who visited Boardrooms of companies who Singapore thought was suitable as ideal investors to complement the country's development policy.

The following resolution is proposed:

Botswana needs to adopt a more focused approach in implementing investment promotion efforts and target organisations which could successfully complement it's development policies.

Action: Ministry of Commerce and Industry

17. Developing a national vision

Botswana is at an important turning point in which all efforts will need to be focused on improving national productivity and diversifying the economy away from it's diamond dependence. There is an urgent need for government to take an active role in articulating a vision of Botswana at the dawn of a new century and then committing energy and resources to meeting the goals imbedded in that national vision.

This workshop could attempt to draft such a vision for consideration. A rough skeleton for this is proposed below:

Botswana's competitive advantage in Diamonds is a continuing major force which enables investment In Human Capital to produce a well educated and trained labour force who could complement investment in technologically advanced projects with high added-value and products which could compete in the sophisticated global market. Botswana will all also continue to invest in and upgrade relevant infrastructure to support such industry. Botswana will also establish itself as one of the leading producers of beef and game products in the world. Botswana has easy access to every country in the Southern African region. Botswana will develop a highly sophisticated transportation hub for the region and use it's healthy foreign exchange reserves coupled with a liberal foreign exchange policy to create a setting in which Financial, Business and Information services can flourish establishing Botswana as the ideal location for Regional Headquarters organisations for the Southern African Region.

Botswana's natural beauty in the Okavango Delta and Parks and Reserves and abundant wildlife offers a basis for responsible growth in Tourism based on a high cost low impact Tourism policy.

Action: High Level Consultative Council;
followed by relevant Government Ministries.

Discussion of Workshop 6 at plenary

STRATEGIC THINKING AND OPPORTUNITIES FOR EMPLOYMENT CREATION FOLLOWING MICHAEL PORTER'S 'COMPETITIVE ADVANTAGE' AS APPLIED TO BOTSWANA: AN UPDATE ON NEXT STEPS

(referring to presentation by Uttum Corea)

Chairperson at plenary: Kenneth Matambo, MFDP
Rapporteur: Professor J Clark Leith, Bank of Botswana

Professor J Clark Leith presented the three main recommendations arising from Workshop 6 on new opportunities for employment creation.

First, inefficiencies, delays and monopoly of telecoms and land allocation needed to be rectified urgently. Botswana's investment environment had been made more attractive by investment in human resource development and infrastructure, but there continued to be serious problems regarding telecoms services and land allocation. The telecoms situation was a matter of national concern, with long connection delays and a lack of Internet and cellphone services.

Second, the focus of incentive schemes should be on upgrading productivity, technology and innovation. It was felt that there was a need to shift away from the past focus on subsidies, since this had encouraged lazy and inefficient firms. Professor Leith also mentioned that some workshop participants had supported the re-instatement of tax allowances for capital equipment, which would support firms choosing to invest in new equipment as opposed to depending on FAP subsidies.

Third, an updated assessment of exchange rate policy should be prepared. Professor Leith said that recent exchange rate changes, especially for the Pula/Rand, Dollar/Rand and Dollar/Pula, had created some uncertainty for investors in Botswana. An updated assessment of policy could help to clarify Botswana's position on the exchange rate and, in so doing, reassure investors. The workshop had agreed that it would be inadvisable for the Bank of Botswana to try to dictate the value of Pula and that any attempt to link the Pula more closely to the Dollar would lead to erosion of Botswana's competitiveness in the Southern African region.

Armando Lionjanga suggested that the telecoms problem had been exaggerated. He said that a number of telecoms improvements had been implemented since the previous private sector conference. **Elijah Legwaila**, while accepting the need for change in telecoms, cautioned participants against making sweeping judgements on the subject.

Milidzani Majingo argued that the delay in land allocation was not due to inefficiency at the Department of Lands, but because of the backlog of work in the Attorney General's Chambers. The chairperson, **Kenneth Matambo**, pointed out that

the issue here was not merely to apportion blame between government departments. The concern was that legitimate investors still faced delays in obtaining land.

Presentation

MAIN INGREDIENTS FOR A NEW PUBLIC-PRIVATE STRATEGY FOR PRIVATE SECTOR EMPLOYMENT CREATION IN BOTSWANA

Jan Isaksen, Botswana Institute for Development Policy Analysis

Introduction

This paper deals with "a public-private sector framework for employment creation". Employment creation is considered largely synonymous with economic growth and industrialisation. The discussion of employment policies therefore largely becomes a discussion of growth policies. A resumption of rapid economic growth through diversification and industrialisation is seen as the most urgent need to accelerate employment creation in Botswana. Growth is also a precondition for other important employment promoting factors like choice of technology which is not dealt with in this paper. Employment through Public Works has played a considerable role in Botswana but is neither considered here as it is not likely to be more than a partial and short term antidote to unemployment. The paper attempts to draw lessons from policy experiences in Eastern Asia. On the basis of such lessons the paper suggests number of practical policy steps which hopefully would be relevant to the policy debate in Botswana.

Botswana at a watershed

Research through the late eighties and early 1990s has indicated that countries with sizeable mineral reserves tend to under-perform in comparison to other developing countries. Youthful, rapidly growing, mineral economies become mineral dependent and are subject to Dutch Disease. They tend not to exercise stringent macro economic policies and end up with very weak development in "non-resource" sectors of the economy (agriculture and manufacturing). Botswana has been cited as an example of how the resource curse can be *avoided.* Even though one may argue that the most harmful effects of the "mineral curse" has been avoided, Botswana has only just began to tackle the problem of sustainable growth. The question is then: how can Botswana make the transition to a mature economy with considerable emphasis on manufacturing and generally labour intensive industries?

Looking for policy successes

Since theory does not give much guidance, the policy maker will look at the empirical "facts" and draw policy lessons. The early models for economic growth in the third world were industrialised countries (in the West and in the East). The simplistic view adopted by many developing countries (often on the advice of foreign experts and IFI's) was essentially that they had abundant labour and only needed major injections of capital to get self sustaining growth going. The emulation of such strategies proved mostly very wrong, seriously so in some cases.

At present, the industrial latecomers are looking to the Eastern Asian countries for policy and strategy guidelines. We do not yet know whether any emulation attempts will be as unsuccessful as the earlier attempts at using the industrialised countries as models. What we can hope is that the considerable insight we now have into the "miracles" in some of these countries will contribute to avoiding misguided replication.

In large measure the rapid growth of the Eastern Asian countries has confirmed that textbook economics works - as far as it goes. These countries have had high savings and investment rates and a very marked upgrading in human skills. They have also upgraded their technological level very rapidly and improved their poverty situation. Exports have been used very intensively as an engine of growth. Among non-economic growth factors an efficient and orderly (if not totally uncorrupted) civil service, isolated to a great extent from undue political influence has been very important.

Recipes and underlying factors

We can observe that certain macro economic variables in the rapidly growing East Asian countries behave according to the textbook. However, such observations does not constitute a recipe for the policy maker. The question is really this: How have the various players in the economy, governments as well as private sector producers and consumers acted to *produce* the result that shows up at the macro level? We are talking about a large number of decisions, policy makers and decision makers being subject to a myriad of influences, economic, social and cultural. Economic research, attempting to create order and establish central cause-and-effect relationships has a very difficult task. The prevailing view is that the collective experience of the East Asian countries does not add up to a *model* of development.

It seems useful to *split* the results of research and observation so far into two categories: The first category is *the recipes,* i.e. those policies, measures and actions which are discernible and appear to approach the level of general validity. The second category are all the other factors, some of which perhaps will become part of the recipe and some which will forever just belong to the socio-economic, cultural, religious or attitudinal basis for the "miracle".

Chief among the *recipe* category are the macro economic policy tenets. There is now a considerable agreement that these are necessary (but not sufficient) conditions for growth and can be created by through government policy:

- manageable budget deficits.
- keep the external debt under control.
- keep exchange rates realistic.
- quick policy responses to macro-economic shocks.

Measured against these tenets (which fall in line with the policies promoted by the World Bank and the IMF), there can be no doubt that Botswana has done very well. The debate of whether good luck or good management has been the predominant factor in securing the present fortunate macro economic climate seems to come out with the answer "a bit of both". The important issue for the future is that the period of "luck" based on mineral expansion appears to be over. In future it will be more important for Botswana to keep to it's "good management" macro policy. One can expect that it will

also be more difficult to manoeuvre because the cushioning effect of diamond revenue on public budgets will be less significant.

Why were the East Asian countries able to stick to the tough macroeconomic and other policies which African countries, by and large, did not want to adopt or did not successfully manage? These were policies that led to considerable hardship, wage restraint, long working hours and environmental damage. Particularly in the early days of rapid development large groups of the East Asian populations paid a high price for these growth rates, why did not anybody protest under way? There must have been different interest groups, why does it look as if all groups had the same ends? A look at these questions may be of considerable value for Botswana in future when (as pointed out above) stringent macro policies may put more strain on Botswana's social and political fabric than they have so far.

This brings us to the level of *underlying factors*. Unlike the fairly clear macro-economic recipe they constitute a very complex web of economic, social and cultural factors. These are the more important and interesting factors, for several reasons:

- *firstly* because they provide a more fundamental explanation for the ability of East Asian countries to institute policies which made the transition possible.

- *secondly* because it is among this group of factors one will find the "traps" for those countries which are interested in emulating East Asian experience.

- *thirdly* because many of the policy measures they have given rise to are less in line World Bank (or western) orthodoxy and more difficult to accept and understand. Particularly fascinating, and I believe potentially useable for other developing countries, are the relations between state and the private sector. It is easy to find, however, that such relations are not built on a simple decision to set up certain institutions but are linked to a number of cultural and attitudinal factors.

- *fourthly*, since Botswana has done very well in terms of macro economic policies and still failed to diversify noticeably during NDP 7 it follows that we should look at the second set of factors rather than the first.

The difficulty is how to deal with such a mixed bag of factors in a practically useful way. I have chosen to do it by reference to what I call development philosophy.

Some important themes of the East Asian economic "development philosophy"

The examination of this philosophy, or perhaps more accurately, the motivating system of beliefs, concepts and principles, may appear a bit theoretical and far from the action. Considering however that it constitutes an important part of the foundation for an economic system that has seemed to work very well for developing countries seen to be basket cases 20-40 years ago, it merits investigation for to day's late industrialising countries like the African. This of course does not mean that the philosophy will have to be copied by these countries. Botswana will have to find it's own ways. Not only is this country very different from e.g. Malaysia at the time it started it's industrialisation

process. Perhaps even more important is the fact that Botswana will have to play on a international economic stage which is totally different.

In the following brief overview of important themes in the East Asian development philosophy I shall stick to a scheme presented by the American author James Fallows. In his book called "Looking at the Sun - The Rise of the New East Asian Economic and Political System" one section : "The idea of Economic Success" outlines the author's feeling about the essence of the differences between what he calls the "Anglo-American" economic philosophy and the philosophy of the Eastern Asian countries. (A side story is that he calls the latter the "German school" based on the fact that he sees the German economist Friedrich List as the foremost spokesman for this school of economic philosophy. He maintains that for the Japanese and other East Asians Friedrich List became what Adam Smith became for the Anglo-American line of philosophy.)

First: the idea of "automatic" growth versus deliberate development

Whereas the Anglo-American school emphasises the market and it's unplannability and unpredictability, the East Asian idea is that from time to time a *big push* has to be made by governments or other major players. The transition from an agricultural to an industrialised economy, it is argued, does not happen because millions of small units makes just the right decisions. If everybody put their money where the return is greatest, there is no guarantee that this would set development off in a way that is best for the nation in the long run. In Friedrich Lists own words:

> *"In England Edward the III created the manufacture of woollen cloth and Elizabeth founded the mercantile marine and the foreign trade. In France, Colbert was responsible for all that a great power need to develop it's economy. Following these examples every responsible government should strive to remove those obstacles that hinder the progress of civilisation and should stimulate the growth of those economic forces that a nation carries in it's bosom."*

Second: Consumers versus producers

Whereas the Anglo American school tends to measure the ultimate good of a nation by it's level of consumption, the East Asian view is that this will be self defeating in the long run. Their tendency is to say that a society's welfare in the long run is determined not by what it can buy but by what it can make. This is the corollary of the saying that: If you give a man a fish, you feed him for a day. Teach him how to fish and you feed him for life.

Third: Process versus result

Whereas the Anglo American philosophy emphasised *how* the game was played, the rules, the East Asian focus is much more on who *wins* and who *loses*. In the Anglo American system government intervenes mostly to guard that the *process* runs right, not to steer the system. The East Asian school is much more paternalistic. Another writer on the Japanese sociology, Ronald Dore, has said that the Japanese "like all good Confucianists" believe "that you cannot get a decent, moral society, not even an efficient society, simply out of the mechanisms of the market powered by the motivational fuel of self-interest".

Fourth: Individuals versus the nation
The Anglo American view focuses on how *individual decision making unit* fare as consumers or producers and how *the whole world* fares as a trading system, but it does not really care about the intermediate levels, the levels *between* the individual and all six billion - that is about communities and nations. The East-Asian system is more concerned with the welfare of people in groups, in communities, in nations. One example quoted by Fallows is that American managers live more opulently than their counterparts in Japan but they have to guard themselves physically and morally against the down and out people with whom they share the country.

Fifth: Business as peace versus business as war
The Anglo-Americans look at business as a positive sum game whereas the German school has a more sombre view at it, as a zero sum game. List even introduced the concept of "The Dominant Nation" and saw business not as a level playing field but as a hierarchical structure with the dominant power on top. It is clear that certain events like the mid 80s when the Japanese more or less took over the world's chip market could as easily be analysed by using an "economic war" model as by using a "free market" model.

Sixth: Morality versus power
Whereas the Anglo American "rules" of the market now have been exalted to represent the pillars of morality, the German / East Asian view is that economics is not a matter of right and wrong of cheating or playing fair but of whether you are strong or weak. If a nation decides to help itself by protecting it's own industries, by discriminating against foreign products then this is a *decision,* not a *sin.* The decision and it's implementation can of course turn out bad or good, but this is more a matter of the wisdom or the amount of circumspection with which the decision is taken.

Lessons for Botswana?
There are a number of areas where the Eastern Asian philosophy is very different from the "World Bankish" western that Botswana has adopted. The leadership by the state, the nationalistic fervour as well as the strong relationship between state and business we observe in so many of the East Asian countries appear to have been important keys to their rapid growth successes. However, having the history of African private -public sector cooperation in mind, it is a bit scary to propose that one should think about emulating this. To many who believe in the privatisation, commercialisation as well as arms length distance and well defined distribution of roles between government and the private sector, this is sure to be seen as a retrograde move.

Looking for parts of the East Asian system which we may adapt, it has to be remembered that it forms part of a societal and cultural pattern which is even different between the East Asian countries and which other countries would not be well advised to emulate in a straightforward manner. The differences comprise a large number of aspects: the outlook of political groups, behaviour of unions and professional associations, the media, the civil service and the whole civic society.

It is possible to adapt ideas without necessarily embracing the entire culture. Cultures and attitudes are not unchangeable. All cultures change in the long run. Cultures and attitudes in Botswana have clearly changed as the country has gone through

a period of immense economic growth. In the past, change was *caused* by rapid economic growth (replacing e.g.. rural with urban cultures). In the future the task may be to *actively promote* certain changes. I believe that such changes are possible and necessary in the long term, both because they have been important underlying factors in the Asian Miracle and because I see them, as a whole, simply to make sense.

If we carefully tried to change our ways somewhat more in line with the East Asian "philosophy", to what might that possibly lead?

*More **active** promotion of growth*

For at least twenty years Botswana has become used to *automatic* growth. The main emphasis of Government economic policy has been to handle and to distribute the proceeds of growth. For example, national development plans have largely been plans for handling the public sector economy. Much of the growth in the non-export private sector has also come more or less automatically because diamonds created the moving force of the economy. In the future, as diamond exports levels out, more emphasis has to be put on other "movers and shakers" in the economy, be they government or private.

The private sector operators and institutions, including the banks, ought to see it more as their *duty* to take initiatives, to create economic growth and employment for the nation. Through it's own platforms, hopefully spurred by Government, the business community ought to focus the importance of new investment and new production for their *long term* profits. Interest in only short term profits may be self defeating in the long run. The planning system ought to keep it's emphasis on orderly and serious planning for the public sector but in addition play a much more active role in the promotion of production and expansion of economic activities outside the public sector. There is a great need for changing attitudes in certain parts of the civil service.

Production orientation

The Anglo-American philosophy of consumption as main end of economic activities has certainly been accepted by Botswana. Some main features of Botswana's economic history has made it easy to come to the conclusion that production is no end in itself. The rural economy could only do so much to increase production, the main influence was the climate. The diamond age created an economy where the main resource flow came from a mineral rent which was directed through Government into various forms of consumption (and public investment).

Attitudes need to be changed towards one where producers, not the conspicuous consumers, are admired. But it is all to easy to suggest a "change of attitudes" and all too difficult to make it happen. Somehow, the official Botswana must start valuing production and productivity. A real change can only come about through a very broad front attempt involving the schools, all kinds of civic organisations, the business community as well as Government.

Result orientation

Quite clearly, Botswana has embraced a strategy of "letting the private sector do it". Governments' role is to set the rules, and to care for the "enabling environment". If the environment is considered appropriate and nothing happens, Government is not to be blamed. Government's interest ought to swing more towards *results*. This would mean at least two things, first that Government would be given it's part of the blame "when

nothing happens" in the private sector and second, the public sector would have it's "ear to the ground" watching the *result* of policies rather than formulating new policy pronouncements.

For instance, Government would have to be much more vigilant in demanding results from any concessions given to the private sector. In most East Asian countries a "carrot and stick" approach was used. If concessions were given, a concrete result was expected, if not achieved, this would cause stern penalties. Again, this means that civil servants will become more closely involved with industry. This calls for great attention to impartiality, efficiency and incorruptibility in the service.

More economic nationalism

A Botswana "Esprit de Corps" must be built, Batswana, as well as non-Batswana business, operating here must get the feeling that they are part of "Botswana Inc." Particularly, a large gulf between the public and private sectors is not consistent with such a strategy. As important, and a key lesson from East Asian experience, is to offer opportunities for people to escape excessive poverty and income inequalities. Without a widespread sense among people that they *share* the proceeds of growth, the idea of "Botswana Inc." will remain a hollow promise.

Cultural homogeneity and the small population size of Botswana are factors that would contribute to make the "Inc." a workable project. On the other hand, the economy has a number of players that may not centre their economic interest on Botswana and feel that they are part of the "Inc." Another point of caution is our place in and dependence on the region. Economic Nationalism Botswana style will not involve building unnecessary walls between ourselves and our neighbours.

Business, power and "economic war"

Botswana is neither by attitude nor by size very well suited to choose a "Business as War" path. Nor do we have a great measure of political power that may be converted into economic gains.

It is however possible to "outsmart" other economic powers because they are bigger and slower than us, or less "on the ball". I believe also that we have strong allies in those aid agencies, bilateral and multilateral, which have been active in Botswana since Independence. Several of them are now scaling down the traditional type of activities, but most have made private sector cooperation, or the like, an important part of their strategy for further cooperation. To utilise our small scale advantages and the good will of our friends there is need for cooperation and cohesion: between the various parts of the private sector, between various parts of the public sector and between private sector and government.

Practical steps

I believe that Botswana *can* use a measure of East Asian experiences. It is necessary that we, to a certain extent, adopt some of the attitudes without which it is hard to see Botswana industrialise and grow. Industrialisation is not going to be easy. Botswana has handled it's youthful mineral phase very well but has a lot to contend with to manage the transition from mineral dependent growth to industrialisation. Looking at the types of changes and emphases that emanate from East Asian philosophy it is striking how, in one way or another, all the philosophy elements mentioned above seem to place relations

between public and private sectors in a strategic position. Also, it is clear that the public-private sector relationship is part of a much larger partnership between virtually all organisations in the whole nation.

In the next section I shall *firstly* present a few modest practical examples of how these relations may be changed. The emphasis is on *relations* and not on policy. *Secondly,* I shall present some suggestions for what ought to come out of such a changed relationship in terms of policies and strategy. I would hope that implementation would be approached with due circumspection and that we follow the kind of pragmatism that runs right through the East Asian experience: "If it does not work, lets stop it and try something else."

Public private sector relations

First: Developing a common vision for the future

Perhaps first of all, there is a need for a common vision. Because of the extent of changes that will have to come it will have to be a long term vision. Because industrialisation concerns all of society, the vision will have to comprise the whole civic society, public and private sectors as well as NGOs, professional associations, external agencies, the whole civic society. A starting point may be NDP 8. In practice, this could take the form of a Plan chapter containing a long term vision for growth and employment, based on considerable consultation, particularly with the business sector and organised labour.

On the basis of this common vision one needs perhaps to review those present policies which are the key ones for industrialisation and growth e.g. Incomes Policy, FAP, Industrial Policy, Education and training, privatisation and liberalisation. Perhaps one ought to go back and look at the Economic Opportunities Commission. These reviews should also be conducted in close cooperation with the private sector enterprises and labour.

Second: Creating a wider platform for government / private sector contact

So far, the basic philosophy of government / business relations has been that government sets the enabling environment within which business invests and produces. The Government is mostly concerned with rules and regulations. The character of communication has largely *not* been one that has stressed the common aim of industrialisation and economic growth in Botswana. It has been one that, from the side of business, stresses the importance of more concessions from government "because it is so difficult to do business in Botswana" and from Government a somewhat suspicious attitude that Government is not getting anything back from the concessions that are given.

Can this state of affairs be changed? I believe it can, but it will take a change of attitude from both parties. I believe that Government on it's side could take business more into confidence, whereas business on their side will have to be more responsible so that when deals have been made and incentives have been given, *results* come forth and are clearly visible to government. The newly formed high level committee will certainly play a role, but one needs to get this down to the working level, both in central and local government.

Botswana's time tested planning system is a very good basis to build on. The modification that I would suggest is that there be formed joint private sector / government working groups for certain important economic sectors. Their function would be a bit like the Japanese Consultative Councils. Under NDP 8, if it is not already to late, it would be possible to have government / private sector groups discussing the outlook for different sectors, particularly certain manufacturing sub sectors, tourism and construction. These sectors are key ones in the strategy put forward in NDP 8. The idea would be that private sector and government would agreed to aim at certain goals for the sectors.

On the one hand, the private sector could apprise government about the barriers for reaching certain goals and the policies needed to remove- obstacles. On the other hand, government would have to have some kind of undertaking from the private sector that they would achieve the agreed (indicative) growth rate. The goals would be reviewed from time to time and reasons for under-achievement analysed. If the under-achievement was due to government not delivering, this would propel greater effort from Government to do so. If under achievement was due to failures on the private sector side, the private sector would be in danger of loosing any concessions they might have been given.

There are certainly difficulties attached to this approach: *Firstly*, there would have to be *capacity* on both sides to take on the task in addition to present activities. *Secondly*, there is lack of data and information for sectoral analysis. *Thirdly*, the composition of the working groups would have to be carefully thought through. There is for instance the danger that foreign based "big" business or other powerful groups would completely dominate decision making. Also, if it is true that about 95 % of business in Botswana has it's real centre of interest in *South Africa*, one might foresee difficulties in establishing groups with the necessary drive and loyalty towards the good of the *Botswana* economy. On the other hand, examples from East Asia tell us that it may be a better strategy to involve and take into confidence strong minority business groups (like the Chinese in East Asia) rather than to estrange them.

Elements of a joint strategy

Hopefully, the outcome of a more regular relation between Government and the private sector would be to create practical policies for growth and long term development in Botswana. It is difficult to pre-guess the specifics of these policies. Some of the elements that would be expected to come up would be the following.

A clearer focus on growth and industrialisation

Growth through industrialisation is the only way in which Botswana can solve it's unemployment problems. Although Botswana has a number of strong points initially and perhaps is the most likely African country to make the transition to a diversified economy, a number of formidable obstacles exists. To overcome the obstacles, as the East Asian countries demonstrate, it is hardly enough to have industrialisation as only *one* of a large set of government objectives. An all pervasive, obsession-like occupation with the industrialisation project will be necessary. A closer cooperation between Government and those private sector operators who get involved in industrial investment will hopefully serve to demonstrate the multitude and severity of obstacles and bring us closer to a joint approach to overcoming them. It will also serve to draw attention to any deficiencies in the bureaucracy when dealing with the private sector. Gaborone abounds

with stories about inefficiencies and lack of interest in that part of the administration. If we are serious about industrialisation, the MCI needs to made a first class and preferred place of work for the cream of the civil service.

Efficient mechanisms to deal with the "small" but important problems
From the private sector and would-be investors, much is made of the slowness and delays in Government, even when it comes to providing services which are not concessions but of a standard nature. The Bank of Botswana Annual Report 1995 has a number of striking examples of waiting times for public services:

- 1-2 years for allocation of a commercial or industrial plot,
- 1-2 years for a telephone
- 2-3 years for a post office box
- 6-9 months for a business licence
- 10-12 months to find out if they qualify for a low manufacturing tax rate
- 9-12 months for approval of FAP application
- hours for paying a water or electricity bill,
- days to get a vehicle licence
- 6-9 months for work permits

In a different category come charges for public goods and services that may be two to three times as high as those that efficient public enterprises elsewhere could achieve.

A more active cooperation between government and the private sector would perhaps help make the importance of efficiency clearer within Government and thus hopefully precipitate action to solve the problem. This would be likely to bring the quality and efficiency of the civil service generally under scrutiny. The "reward-for-output" principle of the private sector might "rub off" on the public sector. It must be said, however, that the above problems, as outlined by the Bank of Botswana seem to be candidates for swift action rather than clearer understanding.

Wooing big foreign investment
I believe that at this stage of Botswana 's development, the occurrence of what one could call "flagship investment" is very important. Examples of these may be Hyundai, Owens Corning Pipe, General Motors. Not only do these investments create jobs and capacity building opportunities, they also can have a considerable "knock-on" effect by demonstrating to other investors that Botswana is valued as a host country by well reputed international firms. To "angle" for such investment one needs close and efficient cooperation between the private sector as FDI partner and Government as a facilitator. Such cooperation is more likely to result from a situation where, in stead of *ad hoc* action, *regular* working relations exist and the parties are kept constantly aware of investment and market developments.

A social contract

Through working closely together, government and it's private sector partners are more likely to realise how interdependent they are. This is likely to lead to a better basis for negotiating factor shares profits, wages and salaries and consider them together with government taxation and spending policy. Mechanisms for dealing with the economic shares of the social groups without resorting to open conflict have often been called "social contracts" and have successfully been used to prevent major conflicts in the labour market which can throw development of course for a long time. Absence of labour unrest may be a competitive edge for Botswana as an investment location in the region.

The banks

The central role of the banking system in development is well known. Because of the relative secure financial position and the amount of liquidity and, on the other hand, the need for productive investment, the banks in Botswana have a particularly important role in linking up savers and investors. Criticism of the banks' lukewarm participation in productive investment comes particularly from the small and medium enterprises. Banks, business and government, (the latter represented by the Bank of Botswana) are necessary partners in trying to find a solution to the quite strongly perceived problems.

Information

There is little doubt that the nature of economic development is changing very rapidly from an emphasis on *manufacturing* to *information.* Access to information about markets and technologies are increasingly key factors to successful business. More and more relevant information can be accessed through electronic media. Botswana could gain a competitive edge from the information revolution. It's relatively high per capita income and high levels of education makes it more likely that firms and individuals can acquire and use computers. Well functioning infrastructure makes the use of electronic equipment less risky than elsewhere on the continent.

Still, Botswana is behind in terms of connection to the Internet. Much lower per capita income countries have suppliers of Internet services. Batswana individuals and firms still have to dial South Africa for connection and pay many times as much as they ought to. This situation prevents the very important learning process which any country will have to go through before efficient use of information technology can take place. The lack of domestic hook up facilities also represents a brake on business development. Even though there may be technical and legal obstacles, the procrastination by Telecoms in this area ought to be the object of public outcry.

A regional perspective

A joint strategy for growth and industrialisation may have the chance to be successful. Botswana, of all African Countries, has perhaps the best chance of making it. This can however not be a "one man show". An often heard complaint is that Botswana is such a small market. This is in fact not true, we just need to get out there and organise our selves to use the much larger SACU market. We are undeniably part of the Southern African economy, for better or for worse. Can we have our own goals and pursue them strongly as long as we have to adhere to the rules and regulations set up within SACU and SADC? There may be cases in which these rules constitute hindrances for highly

nationalistic policies and measures. Whether Botswana should try to change these will be a question about the gains and losses from breaking out of any of the groupings.

Despite it's size, Botswana has played a very central role in regional cooperation through SADC and albeit in a different manner, in SACU. I believe that it is important for Botswana to keep this role and use these organisations for building a sub-regional consensus on a vision for growth and development. Botswana depends much on the economic development of South Africa as well as the smaller economies in the region. An officially spelled out vision for economic growth and employment for the whole region could create a basis for more predictability for the smaller partners.

Suggested recommendations

1. *The planning system in Botswana, while retaining it's emphasis on planning for the public sector should allow for direct inputs from the private sector through public / private sector working groups for industries which are central to government growth strategies (manufacturing, tourism). BOCCIM and the MFDP and MCI should jointly consider the possibility of such working groups and, if found feasible, determine the mandate and functions of such groups. If practicable, such groups should play a role in the formulation of the appropriate parts of NDP 8.*

2. *A high level government/ private sector committee will be formed to investigate the following deficiencies in public services and propose action to deal with them swiftly:*

   - *years waiting for allocation of a commercial or industrial plot*
   - *years waiting for a telephone*
   - *years waiting for a post office box*
   - *months to obtain a business licence*
   - *months to find out if businesses qualify for a low manufacturing tax rate*
   - *months for approval of FAP application*
   - *several hours of waiting for paying a water or electricity bill*
   - *several days to get a vehicle licence*
   - *months to obtain work permits*
   - *local connection for Internet only available through South Africa at high cost.*

3. *The Bank of Botswana should take the lead in a joint private / public sector effort to make the Banking system in Botswana more development oriented. In it's next Annual Report the Bank of Botswana should introduce an assessment of the banking sector's activities to promote growth and industrial development.*

Additional oral presentation

KEY ASPECTS OF ESTABLISHING A LONG TERM NATIONAL VISION AND STRATEGY

Jan Isaksen, Botswana Institute for Development Policy Analysis

Ladies and gentlemen, my task today is to try to reflect on the papers and discussions over the past two days, so as to identify some of the key strategic elements for bringing the notion of a long-term vision down to earth.

First, some aspects of definition. I think it is quite important to have in mind that a vision is about *goals*. Strategy is about the broad lines of action to *achieve goals*. The *plan* is the crucial point where strategy meets reality. Implementation is about carrying out the plan. One important issue that has been mentioned many times here is that implementation should link up and feed back into the other elements (see slide no.1). To my mind, a vision isn't something that is set up once and forever. It has to be adjusted as you go along. Monitoring and feedback from implementation are therefore crucial.

When I first came to Botswana in 1975 visions and strategies were more straightforward. The country had a large diamond mine that provided enormous revenue, and government was engaged in using that money to build up the infrastructure of the country and improve the situation of the people. Now, twenty years later, it is very different. Botswana has come a long way both in increasing the level of incomes and in building up it's infrastructure. But now diamond production is no longer increasing, so there will be no more 'automatic growth'. It is this situation that has made us think about the need for a new vision and new strategies.

It is <u>not</u> so, as some argue, that Botswana has lacked a vision in the past. Rather, the challenges before were much more obvious. Botswana's previous vision was to uplift people to higher income levels and build infrastructure. That was a task for government and it was performed very well. Now, things are shifting. We can no longer rely on automatic growth, and government *alone* cannot diversify the economy. The private sector will have to play a more prominent role. Government therefore needs to come together with the private sector to establish a common vision.

What elements of the vision have emerged from the conference so far (see slide no.2)? First of all we had very good introductory presentations by Clem Sunter and Professor Tony Hawkins showing how the world around us is changing rapidly. What this suggests is that the vision has to be built on an awareness about what is happening around us. We have to develop *foresight*. We have to make up our minds as to what kind of scenarios we are looking at. We cannot construct a vision without considerable circumspection. This is important if, as many participants have mentioned, the vision is to be sustainable, and fit with reality.

What should be the driving force behind our vision? Employment creation must clearly be a key concern. Yet, there are other ways of looking at this. For example, we could instead focus on poverty alleviation or income distribution. The point is that we

will have to make a decision of our own volition as to whether employment creation or some other imperative should be the driving force.

There is a great deal of consensus that industrialisation must be a very important part of the vision, as is economic growth. We should be aware that the challenge of balanced industrialisation is bit like riding a bicycle: you need to move ahead quickly, and if you stand still it will be very difficult to keep your balance..

Concern has been expressed that we should not abandon agriculture. I think that this point is well taken. Even though agriculture now has only a small share of GDP, a large number of people are engaged in the sector and depend on it for part or all of their livelihoods.

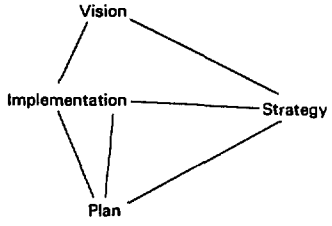
There must be something for everybody in the vision. If we want to get everybody to support it, then everybody must have a say in it and stand to benefit from it. I am thinking particularly of the poverty problem. This too needs to be considered in our vision.

Lastly and most importantly, I think there is a resounding agreement on the importance of the human resource element of the vision.

These are the points I can see that fit into the vision that we wish to create. Now we need to talk about how to make the vision work (see slide no.3). In this regard I have picked out five points. First, we must set clear and achievable targets. Second is the matter of ownership - the vision must be shared and not secret. Third, we must build upon our existing strengths, notably in terms of the country's system of national development planning. We must therefore develop our vision and strategy as an integral part of NDP 8. Fourth, the vision also has to be linked to the regional setting. Botswana is so much a part of the Southern African region that the region cannot be ignored.

1. Vision, strategy, plan and implementation

1. Vision about goals
2. Strategy: Broad lines of action
3. Plan: Strategy meets reality
4. Implementation: feeds back
5. Have we lacked vision and strategy?
6. Implementation, monitoring bottleneck



2. Elements of a vision

1. Awareness, circumspection, foresight
2. Employment as the driving force
3. Growth and industrialisation
4. Don't forget agriculture
5. A stake for everybody
6. Empowerment
7. Human resources development is key

3. To make it work

1. Clear, achievable targets
2. Ownership (shared, not secret)
3. The link to action - NDP 8
4. Vision linked to the region
5. Botswana Incorporated

4. Overall framework

- **Keep it up**
  - Infrastructure
  - Stability, order
  - Public sector planning
- **Are we doing enough in:**
  - Exchange rate policy?
  - Budgetary policy, taxation?
  - Incomes policy, min. wages?
  - Deregulation, privatisation?
  - Shrinking government?
  - Trade liberalisation?
  - Wage restraint?
  - Welcoming foreign investors?

Together with the other countries of the region, Botswana has to play a leading role in formulating the region's policies and visions. Fifthly and finally, when taken together these points lead to notion of 'Botswana Incorporated'. What this implies is that Botswana needs to act with a unity of purpose comparable to that of company. That is exceedingly difficult of course because a company has relatively narrow motives; that of earning profits, while a country like Botswana is likely to have a multitude of often conflicting aims.

Let us move on to the overall framework for reaching our vision (see slide no.4). I think there are two important parts to this. First Botswana must keep doing what it has done well so far, notably building up it's infrastructure, keeping stability and order and, not least, engaging in public sector planning in a meaningful way. We are ahead of many other countries - most countries in Africa - and we must keep this up.

A second aspect of the overall framework is that we must ask whether we are doing enough in certain areas, many of which were mentioned by Quill Hermans yesterday. We could look at exchange rate policy - is that right? Is the exchange rate to be used to support industry or other economic activities? Similarly there are issues about whether we have got taxation policy right and over the role of incomes policy and minimum wages. Another key issue is investment - are we investing enough? How is future investment going to be financed? We also have questions over deregulation and privatisation, and the related idea of shrinking the size of government. Another question concerns how best we can position ourselves in relation to the trend of trade liberalisation. We should go through all of these points and ask ourselves whether we are doing enough?

An important question is to what extent our strategy would rely on 'picking winners' (see slide no.5). Some participants seem to feel there is a need to decide which sectors and industries we should focus on. Internationally, there has been a mix of different experiences with this. In general I think that these experiences suggest that we should be

cautious about the success rate for governments that have tried this strategy. Some would say that a safer way would be to concentrate on getting our underlying fundamentals right and leave it to the market to decide on the right sectors and industries.

Should we be looking more intensively for a new mineral 'boost' for the economy? We need economic growth to be able to restructure and diversify. How do we achieve such growth in the nearer term, before industrialisation has come on strongly?

While the role of formal sector economic expansion and employment creation cannot be overemphasised in explaining Botswana's economic success to date, we should also ask whether more can be made of the informal sector. Are we giving it enough attention? Is there more we can do to make life a little bit easier for those poor people who still have no alternative to earning their livelihoods in the informal sector? A related point is that labour intensive public works also have an important role to perform in keeping people out of unemployment and poverty. This is also a way of sharing out the benefits of development and giving people a stake.

The manufacturing sector must play a pivotal role in future employment creation. No country in the world has managed to prosper for any length of time without having a sizeable manufacturing base. How does Botswana build such a base? This raises a series of new questions, of which I will highlight four.

The first one is the question about technology level. The East Asian experience

5. Sectoral choice

- **Is choice possible?**
  - Agriculture?
  - Another mineral boost?
  - Informal sector?
  - Labour intensive public works?
- **Manufacturing**
  - The technology ladder
  - Binding constraint management
  - 'Flagships'
  - Focus on South Africa
- **Tourism**
  - High priority rating
  - Review low volume high cost policy
  - FAP and linked industries
- **Transport**
- **Construction**
- **Other services**
  - Finance centre?
  - Exportable services?

6. Cross sectoral issues

- **Human resource development**
  - National HRD plan?
  - Can entrepreneurs be created?
- **SMEs**
  - Financial constraints
  - Linkages to large scale
  - Use government sector demand
  - Training, IFS support
  - Project ideas
  - FAP extension
- **Rural employment**
  - Global emphasis versus specific rural
- **Productivity, wages**
  - Do we do enough?
  - Negative effects of employment?
  - Incentive based pay?
  - Roles of unions?
- **Technology**
  - Information revolution
  - Development versus import
- **The enabling environment**
  - Local entrepreneurs?
  - Where do the 'good ideas' go?
  - Deficiencies in government services?
  - Are banks development oriented?

makes it is possible to conclude that low-skill, low-wage is the way to go. But we also have evidence that it may be both possible and necessary to move away from the low-skill, low-wage approach. An important consideration is the fact that Botswana's unit labour costs are high in relation to many developing country competitors. We may therefore have to climb a little higher up the technological ladder.

Secondly, we have to realise that *management* is a binding constraint in manufacturing and other sectors. There is a lot of evidence that this is the case. Better management is the key to increased productivity.

Thirdly, there is a need for 'flagships'. By flagships I mean big manufacturing ventures that become success stories. These are important not only for the direct economic activity and employment they support, but also as a means of *demonstrating* to the international business community that Botswana is a viable place to be. If some big companies come, others are likely to follow. We should therefore include the development of flagships as part of our strategy.

Fourthly, it is quite clear that we must focus on South Africa. South Africa is on our doorstep and offers the large market that Botswana needs. We should try to focus on South Africa as much as we can in terms of export development and investment promotion.

Regarding tourism, the key point is whether the sector needs to be given increased priority in the national strategy. There may also be need to review the effectiveness of the present high-cost, low-volume tourism strategy.

In concluding my commentary on sectors, I think it is important to mention that transport and construction continue to offer potential for expansion, and that export services may yet prove to be a growth area.

There are also some important cross-sectoral issues that should be high on the agenda (see slide no.6). First and foremost is human resources development. The conference has supported the idea of establishing a national human resources development plan. A further question is whether we can create more entrepreneurs in the way we go about human resource development.

There has been debate over the problems faced by SMEs. High is on the list of concerns are financing constraints. We have also mentioned the importance of linkages to large scale producers, using government procurement to boost demand for goods produced by SMEs, training and the possibility of extending FAP eligibility rules in favour of SMEs.

On rural employment, the main strategic question that has come up in the discussion is whether we need to shift emphasis from rural employment creation to national employment creation.

There are some other cross-sectoral issues that I would like to highlight. On productivity and on wages, the situation in future is that we cannot increase wages unless we increase productivity. This is an important part of the diversification puzzle. First of all we should ask ourselves whether we are doing enough to increase productivity. The public sector has come up with a number of suggestions for that. Also there is the question of whether increased productivity will have negative or positive effects on employment in the short and long term. The idea of incentive based pay has also been proposed as a conference resolution.

I would also like to highlight the role of unions. In many other countries unions have developed into organisations which not only focus the wage bargaining process; but

also have become effective institutions for the promotion of productivity. The role of unions in improving productivity will need to be strengthened.

Technology - especially the information revolution - is another critical cross-sectoral issue. I believe Botswana is being served very badly by the existing procrastination over providing a domestic Internet connection. We also have to talk seriously about whether we want to import technology or whether we want to develop it. I have noticed a number of suggestions about indigenous technology, although in my opinion imported technology will continue to predominate.

Is the enabling environment sufficiently supportive of local entrepreneurs? Do we pick up on our best ideas? Do we have a means of gathering them and giving them a fair hearing? Even wild ideas, such as a Lost City of the Kalahari resort or an aquaduct carrying gondolas and irrigating the land from Maun to Gaborone, sometimes contain the seeds of viable new activities.

Are banks sufficiently development oriented in their lending? There is evidence that banks do not assist entrepreneurs enough. The banks may have their reasons but I think that this is an area where the Bank of Botswana could do more in terms of monitoring and dialogue with the banks.

Now let us turn to the actions and institutions that are needed to support the vision (see slide no.7). While the HLCC has a vital leadership role to perform, I think that the conference has drawn attention to the need for another group to do the work of preparing the vision. This might take the form of a task group, to be charged with compiling a draft vision and presenting this to a national conference. Another point of consensus over

7. Action and institutions

- **High Level Consultative Committee**
- **Task Groups for vision and strategy, national conference**
- **TIPA**
  - Local entrepreneurs?
  - Where do the 'good ideas' go?
  - Deficiencies in government services?
  - Are banks development oriented?
- **Public education, information (tv)**
- **Village Development Councils, Business Councils**
- **The link to NDPs**
  - The long term Chapter
  - Sectoral consultations
  - Monitoring and implementation

8. Get going NOW !

- 1-2 years waiting for allocation of a commercial or industrial plot
- 1-2 years waiting for a telephone
- 2-3 years waiting for a post office box
- 6-9 months to obtain a business licence
- 10-12 months to find out if businesses qualify for a low manufacturing tax rate
- 9-12 months for approval of FAP application
- several hours of waiting for paying a water or electricity bill
- several days to get a vehicle licence
- 6-9 months to obtain work permits
- local connection for Internet only available through S Africa at high cost

institutions is that TIPA needs to be reformed in order to perform it's important role in investment promotion more effectively.

There is no way that one can establish a shared national vision without everybody knowing about it. This implies the need for public education, information and promotion.

I feel strongly that there is a need to link our vision and strategy to the national development plan. In this case we are not just talking about NDP 8, but about a succession of national development plans over the 20-30 year period of the vision. Some participants have suggested that the vision can be described in a self-contained chapter of NDP 8. I think that the vision must permeate *all* chapters of NDP 8 and subsequent national development plans.

I also want to mention an idea about sectoral consultations that I have described in more detail in my conference paper. The background is that when a national development plan is put together, one has to decide how fast various sectors will grow. However, the information upon which these assumptions are based is usually very scanty. This suggests the need to pursue sectoral consultations with the private sector in order to improve the accuracy of these assumptions for key sectors such as manufacturing and tourism. Is it possible to have a sectoral group consisting of public and private sector representatives that is linked directly to the planning process? Could such a group better identify what we need to do to make progress in realising the vision?

It has been suggested that we are not doing well enough in implementation. I want to link that with monitoring. I agree. I believe that a major reason for slow or faulty implementation is the lack of monitoring. We don't take stock sufficiently of what has happened, particularly in the private sector. If we can launch the sectoral consultations, with enough commitment from the private sector, I think that we should be able to set up a system that monitors movements in the development of the private sector. One would then need to regularly take the monitoring results to the country's politicians, policy makers and civil servants in order that they should be acted upon. That link to action is the key to effective monitoring. It doesn't help if one just records information. Monitoring has to feed back into the policy making apparatus.

Many areas of action can start now, without waiting for the elaboration of vision or strategies (see slide no.8). The latest Bank of Botswana annual report has identified a number of deficiencies in delivery of services which impede investment and economic activities. These include waiting time of as much as 1-2 years for allocation of a commercial or industrial plot; 1-2 years for a telephone; 2-3 years waiting for a post office box; 6-9 months to obtain a business licence; 10-12 months to find out if businesses qualify for a low manufacturing tax rate; 9-12 months for approval of FAP; several hours of waiting for paying a water or electricity bill; several days to get a vehicle licence; and 6-9 months to obtain work permits. To this list I have added the concern that local connection to the Internet is only available through South Africa at high cost.

These are very concrete points. I don't think there can be much debate over whether they are true. Why can't we put together a task group, consisting of people from the public and private sectors, to decide how to quickly address these various immediate problems. We can start that at once - and then next week we can start the work of preparing the long term national vision. If we do that I think people will feel that something new is going to happen.

Thank you very much.

Panel and floor discussion

HOW TO BRING ABOUT A NEW PUBLIC-PRIVATE STRATEGY FOR PRIVATE SECTOR EMPLOYMENT CREATION IN BOTSWANA

Chair: Iqbal Ebrahim, BOCCIM
Panel: Modise Modise, MFDP
Enoch Mbuya, Owens Corning
Raphael Sikwane, BCCI

The chairpersons, **Iqbal Ebrahim**, began by saying that the conference had helped to identify many of the ingredients for private sector employment creation. What remained was to put these together in the form of a national vision and strategy.

In his comments, **Modise Modise,** said that he supported much of what had been said about developing a national vision and strategy. He felt that the private sector could become Botswana's engine for sustainable growth and job creation. In order to do so, a closer working relationship needed to be established between government and the private sector. This would require the identifying of common goals and objectives, setting of quantitative targets and improving two-way information flows. However, he cautioned that change would not be easy, since it always involved both winners and losers.

Mr Modise said that some element of failure was inevitable in business. He explained that, according to the dictionary, the word 'enterprise' means an 'undertaking, especially one requiring courage and facing difficulty.' The critical relationship to observe over time was that successes should outnumber failures.

Referring to Jan Isaksen's presentation, Mr Modise said that early progress could be made to solve many of the smaller problems identified. He also talked of the need for changes of attitudes in the civil service, with a shift towards officials seeing themselves as facilitators. Mr Modise suggested that government might need to diversify it's international recruitment sources to obtain people with experience relevant to Botswana's new development challenges, such as from East Asia.

Mr Modise expressed support for the idea of the private sector establishing it's own code of conduct as a means of enforcing business ethics and adherence to quality standards. He also supported the call for promotion of sub-contracting and building of supply linkages by the private sector. In concluding his remarks, Mr Modise said that problems between the commercial banks and the private sector could best be tackled by direct discussions between businesses and the banks.

Enoch Mbuya said that he strongly supported the main ideas that had been put forward at the conference, drawing particular attention to the contributions made by Quill Hermans.

He expressed concern that some speakers seemed ready to abandon promotion of the informal sector. In his view, Batswana producers in the informal sector offered considerable potential. He talked of how many informal sector producers use indigenous

technologies. Continued government support would be needed if the potential of the informal sector was to be realised.

Mr Mbuya said that the focus of economic diversification and employment creation should be on manufacturing. If Botswana was not to fall further behind in terms of international competitiveness, government and the private sector needed to invest in research and development.

He also advocated the establishing of 'think-tanks', such as the Botswana Institute for Development Policy Analysis (BIDPA), to help to develop solutions for the new and complex issues that Botswana now faces. Such think-tanks needed Batswana staff. There would be problems of accountability and continuity if think-tanks depended on expatriates on short term contracts.

In concluding, Mr Mbuya reminded participants that investors would not come to Botswana for moral reasons. Their aim was to make profits. Government had to provide an environment that would be conducive to profitable investment, while ensuring that national interests were protected at the same time.

Raphael Sikwane drew attention to the need for improved partnership between government and the private sector. For this to be possible certain things would have to be put in place. First, the country needed a common national vision for the future. Second, some form of effective institutional machinery was needed to enable this partnership to oversee the implementation of the vision. Such machinery could be based upon making better use of existing structures or, if necessary, establishing new ones.

Mr Sikwane drew attention to the need for changes in attitudes in government if the private sector was to be expected to take the major responsibility for economic diversification and job creation. Past attitudes of suspicion between the private and public sectors had to be replaced with mutual trust and confidence. Government would also need to open up many of it's important committees to have private sector members, including the Central Tender Board and the boards of government credit institutions. Mr Sikwane expressed support for the idea (mentioned on the previous day) that government should look for private sector candidates when recruiting for senior positions.

Quill Hermans said that Botswana would need to establish priorities as a feature of it's longer term vision. Priorities were especially important in relation to allocation of budgetary and other resources. In addition, Mr Hermans referred to the need to communicate the vision as widely as possible throughout Botswana society. He referred to the major effort that government had made during the 1970s to publicise the national development plan. A comparable effort would be needed to publicise the national vision.

His Excellency the Ambassador of Sweden, Rasmus Rasmusson said that Botswana must now develop a closer relationship between government and business, as was the case in East Asia. While the HLCC was important, there was also a need for effective cooperation mechanisms involving lower levels of central government and local authorities. At local level the public and private sectors needed to get used to working together in order to realise that this was mutually beneficial. Civil servants had to be held accountable for delivering services to the public, and had to learn that if they performed badly they would be sacked.

Mr Rasmusson mentioned that the importance of parliament and parliamentary select committees in the process of establishing the national vision.

Mr Rasmusson also commended to Botswana an aspect of the Swedish system of government, whereby ministers selected their own advisers and top civil service

management. He said this system helped to ensure that the top civil servants supported the same policies and goals as their ministers, and meant that the government and the civil service could be held more accountable for implementing policies. **His Excellency the United States Ambassador, Mr Howard F Jeter,** indicated that a similar system was used in the United States. Mr Jeter informed participants that there were ongoing efforts on the part of his government to arrange study visits for senior Batswana civil servants to observe how the US system works in practice. The idea of political appointments in the civil service was also supported by **Raphael Sikwane.**

Eitlhopha Mosinyi emphasised the importance of continued support for the informal sector. She supported the idea of using the mass media to publicise the national vision. She also suggested that Radio Botswana should introduce advertising in order to enable SMEs to promote their goods and services.

Responding to a comment by Quill Hermans, **Modise Modise** agreed that there was a need for priorities as part of a national vision. However, he questioned whether Botswana was ready for the Swedish system of ministerial appointments, as advocated by Rasmus Rasmusson. **Lesang Magang** also supported the idea of having priorities as a feature of the national vision. In his view, the means of realising the vision would be as important as the nature of the vision itself.

Jan Isaksen said that the informal sector had an important role to perform, especially as a source of livelihood for the poor and as a starting point for entrepreneurs. In spite of this importance, the informal sector should not be the main focus of Botswana's vision. It should instead have a supporting role to perform. Mr Isaksen agreed with Quill Hermans comment about priorities, but suggested that these could be decided in due course, once progress had been made with establishing a task force to prepare a preliminary version of the national vision.

Elijah Legwaila referred to the list of delays in public services published in the Bank of Botswana Annual Report, saying that in a number of instances these had been exaggerated.

Joseph Lisindi supported the strengthening of the relationship between government and the private sector. Government would have to give the private sector a greater share of responsibility. The private sector would have to introduce a code of conduct to improve business ethics.

Keith Jefferies said that a further important ingredient of the vision was ensuring access to information. At present government officials often did not circulate reports sufficiently widely or release information to the public, even when such information was not of a confidential nature or was already in the public domain. There was a tendency in the civil service to classify information as confidential when it was not. Such problems would have to be addressed if a shared national vision was to be possible.

Gaylard Kombani indicated that government could assist the private sector more effectively if the private sector provided it with more information for assessing industrial performance. Equally, there was a good case for the private sector to independently establish it's own industry intelligence system.

Kealoboga Makhwade urged all concerned to now set aside the past difficulties in the relationship between government and the private sector. She said that they must now forge a strong, open partnership that would implement the important resolutions arising from the conference.

In conclusion, the chairperson, **Iqbal Ebrahim**, praised the participants for the constructive nature of the discussion about national vision. He said this had shown there was a clear consensus regarding the need for Botswana to establish a shared national vision to guide it in the next stages of development. In summary, the vision would be about 'one nation, one people and one goal.'

CONFERENCE RESOLUTIONS

Co-chairpersons: Kenneth Matambo, MFDP
Iqbal Ebrahim, BOCCIM

The following resolutions were adopted by the conference, for submission to government for consideration through the HLCC:

1. Government should continue to follow policies of prudent macroeconomic management, sustainable development and transparency, and agricultural development should continue to be accorded priority.

2. The BOCCIM biennial Private Sector Conference should be renamed the National Business Conference in order to better reflect it's national importance, and to reflect the positive collaborative relationship that is needed between the private sector and government. Under the auspices of BOCCIM, the private sector should continue to play the lead role in coordinating the conference.

3. Botswana should prepare a long term vision for where it wants to be in 2020, together with a national strategy for how this will be brought about through successive national development plans. The vision should be the subject of a national conference to be attended by representatives of the private and public sectors and other key interest groups. In this regard, NDP 8 should include a chapter addressing the preparation of the vision.

4. The draft new industrial development policy should be distributed widely among the public and private sectors. The Ministry of Commerce and Industry should invite all interested parties from the public and private sectors to take part in a seminar to discuss the draft policy and ensure that the policy will be fully representative of all key interest groups.

5. Investment promotion activities should concentrate on Southern Africa. While the ultimate objective is for Botswana exporters to penetrate overseas markets, export promotion should initially focus on the Southern African market.

6. TIPA should be strengthened by enabling it to recruit experienced investment promotion professionals and ensuring it has sufficient budgetary resources and flexibility in the use of such resources. Certain activities, such as market intelligence and investment promotion, should be sub-contracted to suitable private sector firms.

7. Employers, employees and Government should produce a national human resources development plan, which should be integrated within NDP 8. The plan should address the large anticipated shortfall of professional artisan and technical skills that is projected for the year 2000, and should develop strategies for training in customer service in key areas of the economy and in Government. Government should provide financial support for implementation of the plan.

8. The private sector must become a full and equal partner with Government in development, through institutionalised collaboration in the formulation of policies. In doing so the private sector should adopt a more constructive and accountable approach to partnership.

9. Botswana should establish a medium term goal of becoming an educated society, whereby all children will have the opportunity of being educated at least up to Form 5 or of opting for vocational training streams. In doing so, the Ministry of Education should develop crash-programmes for expanding teacher training to provide for the required increases in the quantity and quality of teachers and vocational trainers.

10. Government should conduct an in-depth independent audit of implementation capacity in the civil service with a view to ensuring that the existing structures are conducive to speedy implementation. Once this has been completed, there should be a review of the recommendations of the audit, which should be coordinated by the Office of the President, followed by vigorous implementation of approved recommendations.

11. In order to promote exchange of skills, knowledge and work culture and freer movement of personnel between the private and public sectors, the Government and the private sector should investigate the feasibility of establishing a scheme for exchange or secondment of middle and senior level personnel between the private and public sectors.

12. In order to improve productivity, employers should adopt incentive based payment schemes involving the establishing of improved training of the workforce, supervision and productivity bonus schemes. Government should, to the extent possible, implement similar measures to improve public sector productivity.

13. Training of small-scale enterprises should be improved by expanding the operations of the Improve Your Business scheme and the Junior Achiever Programme.

14. The Ministry of Commerce and Industry should strengthen it's capacity to provide support for promoting small-scale enterprises, including providing market research and data banks and access to the Internet.

15. The Ministry of Commerce and Industry should expedite implementation of a local procurement scheme to benefit Batswana enterprises.

16. Through BOCCIM, the private sector should establish a code of conduct for private business.

17. A task force or commission consisting of public and private sector representatives should be established to investigate ways that Botswana can derive more benefits from tourism, with particular reference to tourism growth that can create employment opportunities and participation of Batswana investors in the tourism industry.

18. A National Tourism Board should be established as a matter of priority.

19. The Department of Tourism should be strengthened by enabling it to recruit experienced professionals and ensuring it has sufficient budgetary resources and flexibility in the use of such resources. Certain activities should be sub-contracted to suitable private sector firms.

20. Government should intensify efforts to influence the direction of SADC and SACU to undertake appropriate policy interventions to increase investment in human and physical capital within the region.

21. The private sector, through organisations such as BOCCIM , BCCI and BDC, should adopt systematic training, business development and advocacy programmes to encourage diversification of the private sector into the manufacturing and service sectors.

22. The private sector should initiate a process of identifying opportunities for joint ventures with SADC partners in infrastructure development.

23. Inefficiencies, delays and monopoly of telecoms, and delays in land allocation, need to be addressed urgently.

24. The focus of incentive schemes should be on upgrading productivity, technology and innovation.

25. An updated assessment of exchange rate policy should be prepared.

26. Government and the private sector, through the HLCC, should agree upon the prioritisation, assigning of responsibilities, achievable targets and deadlines in order to operationalise and implement the conference resolutions, and to enable monitoring of implementation.

VOTE OF THANKS

by Neo Moroka, BOCCIM

In giving the vote of thanks, **Neo Moroka** contrasted the antagonistic relationship between private sector and government officials at previous private sector conferences with the new spirit of constructive dialogue and camaraderie that had been evident at the present conference. This offered considerable hope for the future. There was now a general recognition that the issues that Botswana faces are very complex and that close cooperation between the private sector and government was essential if Botswana was to advance further. The next stage of development would be a 'marathon' not a 'sprint'. Mr Moroka expressed satisfaction at the mature attitude of the conference participants who had learned not only to represent their various interests but also to compromise in order to make progress.

Mr Moroka congratulated all participants for their contributions which had led to the success of the conference. He expressed thanks to all participants. The importance of the conference had been reflected in the presence of His Excellency the President and His Excellency the Vice-President, who had attended all conference sessions, together with cabinet ministers, members of parliament, councillors and the Mayor of Francistown. He thanked His Excellency the United States Ambassador who had made the opening address and His Excellency the Ambassador of Sweden who had also made helpful contributions to the discussions. He recognised the attendance of the Director of USAID, the UN Resident Coordinator and the five international presenters. Special thanks were given to USAID, SIDA and the Bank of Botswana who had co-sponsored the conference with BOCCIM. In closing he thanked the conference co-chairpersons for their excellent chairing, the members of the conference task force, the BOCCIM management and the management of Thapama Lodge.

At the conclusion of the session on resolutions, **Iqbal Ebrahim,** in his capacity as co-chairperson, congratulated the participants upon having reached the end of the proceedings in such a positive spirit. The antagonism witnessed at previous private sector conferences had been replaced by a new attitude of constructive collaboration. Mr Ebrahim expressed hope that the conference had helped to break down the barriers that had been hampering cooperation between the private sector and government.

CLOSING SPEECH

His Excellency the Vice President, Republic of Botswana, Festus Mogae

Mr Chairman, Honourable Ministers, His Worship, The Mayor of Francistown, Mr President of BOCCIM, Distinguished Guests, Ladies and Gentlemen. It is with great pleasure and honour to perform the official closing of this very important conference, whose theme is "Employment Creation". My task this evening is a relatively easy one, that is, to close this conference. But perhaps before I do this I should make a few observations on the conference.

The Francistown Private Sector Conferences have become an important vehicle through which the private sector and Government exchange views on a number of important development issues facing the country. Government has come to value the contribution of these fora to deepen and enhance the policy discussions in the country. It is my view that, unless we have a common understanding on development priorities, it will be difficult to generate high rates of growth of income and employment within a reasonable time-frame.

Mr Chairman, the theme for the fourth Private Sector Conference is indeed relevant and timely from the Government's point of view. It is relevant because employment creation is a topical issue in the country. But it is also timely because Government has embarked on the preparation of it's Eighth National Development Plan and employment creation is emerging as one of the leading issues for the coming Plan. In fact, employment creation is at the top of the list of issues identified in the NDP 8 Macroeconomic Outline, which is currently under discussion within Government.

It is for this reason that I feel that the conference provides an ideal opportunity for the private sector to assist Government in coming up with sound employment creation policies and strategies which can be included in the coming Plan. I have no doubt after listening to the deliberations and discussions, as well as reading through some of the conference papers, that Government will benefit immensely from this Conference. The broad principles and strategies emerging from the conference should guide employment creation efforts by both the Government and the private sector in the medium to long term. I believe that the discussions we have held have defined the respective roles to be played by Government and the private sector in the employment creation drive.

Mr Chairman, Ladies and Gentlemen, Government believes that employment creation should be the responsibility of every citizen of this country who is in a position to do so and not just the Government. The private sector, non-governmental organisations and trade unions should all join hands with the Government to come up with employment strategies that will ensure that jobs are created in the economy. I am pleased to note that various papers presented to this conference looked at this issue of employment creation from a number of perspectives. The recommendations from these discussions will assist Government and all the other players to devise appropriate policies to combat this social evil.

I want to emphasise that Government attaches great importance to the issue of employment creation as evidenced by a number of policy interventions that have been adopted to stimulate employment in the economy. These measures include liberalisation of the foreign exchange regime, provision of grants through the Financial Assistance Policy, reduction of company and personal tax rates, maintaining a policy of wage restraint and implementing labour intensive public works programmes in rural areas. Government will continue to maintain a stable macroeconomic environment.

I am particularly pleased to note that papers presented at this Conference addressed issues of how to attract foreign investment, how to achieve long-run employment growth, the role of the tourism sector in employment creation and the need to increase productivity. These are the issues currently being debated in the context of the preparation of NDP 8. While Government is a major employer in the economy, I think we would all agree that the primary purpose of Government is NOT to create jobs through direct employment, thus adding to it's own expenditure and budget deficit. Instead, the Government should create an enabling environment through appropriate policies and legislation for the private sector to grow and, in the process, create employment. It is only jobs that are created by private firms, in their successful pursuit of profitable business ventures, that are sustainable.

I say this because I am not clear in my mind whether indigenous Batswana appreciate the absolute necessity for dedicated hard work, for capital accumulation through savings. Do we realise that you cannot be a successful entrepreneur if you go into business neither with capital, managerial skill nor willingness to work hard, harder than those who are already successful?.

The behaviour of our compatriots of Asian origin is very different and I think we should learn from them. They start small, they work hard at the business. Any day you go to their business, you will find them there. In the case of us, the indigenous Batswana, if you go to their business you will find he or she is away spending a week at his cousin's funeral, the next week at his nephew's wedding, the following week at the cattle post, the week after that at some conference or other.

While I have a vision of Botswana in the next thirty years, as a stable multi-party liberal democracy, with an open economy, minimally regulated, based on tourism, diamonds and international trade serving as a financial services centre, I sometimes feel daunted by the attitudinal constraints that we have to overcome before my particular vision can be realised. I find our people excessively dependent on Government and am sometimes discouraged by the incessant demands for more and more subsidies which the budget cannot sustain.

I am discouraged by the failure of the livestock industry to graduate out of thirty years of Governmental assistance, by recipients of FAP grants who fail to use them successfully and simply become critics of Government for it's failure to assist. I am, however, encouraged by the experts who are gathered here who say they are impressed with our youth. I say so because normally our youth takes the view that the world owes them a living, they want all the creature comforts now and yesterday. They are the now-generation, when they get jobs, they overcommit themselves in debt for the acquisition of consumer durables such as music systems, cars, videos and television sets, etc. So I agree that we will have to change our attitudes and those of our children.

Right now, fields ploughed and planted for us by Government, stand untended because Batswana are not prepared to work in agriculture. This is because they are

entitled to famine relief because they are Batswana. If you tell them they have to work in my Party, you will be advised that they will be alienated, the Opposition Party tells them they are entitled to everything free. So we, the politicians, for fear of not being elected abet and connive at the nauseating complacency of our people.

Regarding the equitable distribution of income, in my view, employment creation including self-employment is the only way to do it. I do not believe in attempting to impoverish those who are said to be rich. Privatisation is moving slowly because we want to carry the people with us. Hopefully some day we will be able to do something about a population growing at the near biological maximum of 3.5% per annum, resulting in a horrendous dependency ratio.

Sustainable economic growth requires both Government and the private sector to join forces. Government, for it's part, will continue to ensure that recommendations of these conferences are considered timeously. To this end, I am pleased to say that most of the recommendations of the third Private Sector Conference have been implemented by Government and concerned parastatals. The remaining ones should be implemented in due course. One of the important recommendations of the third Private Sector Conference was the establishment of the high level Consultative Council chaired by His Excellency the President. This has been established. The Council will enable the private sector to become more involved in policy formulation. It's establishment shows the commitment Government has towards assisting the private sector to become a major source of economic growth and hence employment creation.

Mr Chairman, private enterprises should strive to improve their competitiveness if they are to survive in the new world order, characterised by fierce competition among producers of goods and services. Companies should therefore strive to improve their productivity through training of their labour force, enhancing their skills and also employing modern production techniques so that they produce high quality goods that can compete internationally. We should accept that we live in the age of the information revolution. It will be critical that companies adapt to new technologies in their work places quickly. The management of companies should, however, not only be interested in raising the level of productivity of employees, but also ensure that they are provided with adequate and fair compensation, safe and healthy working conditions, and promotion opportunities. Management should work very hard to make employees feel that they are valued members in their respective organisations.

I note with interest that the issue of rural employment was one of your areas of focus. The achievement of our national objectives is dependent on the development of the rural areas where most Batswana live. Government has already made significant progress in the provision of social services and physical infrastructure in these areas, especially roads, water, education and health services. With these facilities in place, we hope to see more companies locating in these areas in order to generate adequate income earning opportunities for our people. This will greatly assist in alleviating rural unemployment and poverty.

Mr Chairman, Ladies and Gentlemen, I would like to assure you that the recommendations that you will forward to Government will be carefully considered. As I have noted before, most of the recommendations that were made in the past conference have already been implemented. And Government will endeavour to implement, as quickly as possible, those recommendations which have not yet been implemented, and those that will originate from this Conference.

Mr Chairman, Ladies and Gentlemen, with these remarks, I declare the fourth Private Sector Conference officially closed.

Thank you

Annex

BACKGROUND PAPER: BOTSWANA UNEMPLOYMENT AND EMPLOYMENT TRENDS

National Employment, Manpower and Incomes Council

1. Introduction

Unemployment poses as major policy challenge. It represents underutilisation of human resources. It reflects inadequate growth in employment opportunities relative to the supply of labour. Unemployment is not only a problem in Botswana - it is a global problem. Unemployment, combined with low productivity of labour and rapid population growth, is a major factor contributing to poverty. Finding solutions to achieve full employment has proved elusive. Creating sufficient employment opportunities for all the citizens of Botswana will still remain an essential Government policy objective.

In a developing country such as Botswana, the concept of unemployment is subtle and complex. It includes an element of underemployment - those without employment in the formal sense, and yet not totally unemployed since they engage themselves on marginal activities of low income and low productivity.

In the Botswana population census, the unemployed were defined as those people aged 12 years and above who were not employed during the reference period, but who wanted to work but work was not available. This definition therefore, includes those who were available for work, but were not actively looking for work because they thought there was no work available - "the discouraged job seekers." It should be noted that, for purposes of the census "the discouraged job seekers" were treated as part of the economically inactive population. Therefore, the definition of the unemployed used in the census was narrow - it considered only those who were actively seeking work as the unemployed. In contrast, the labour force surveys tend to capture the correct level of unemployment, since the questionnaires have more scope of coverage.

The economy of Botswana is market driven. Although the economy is based on the market system, this does not mean that workers should be left at the mercy of cold market forces. It should be underscored that effective Government policy ensures that, through interventions in the labour market, sustainable growth in incomes is achieved and that workers derive benefits from such growth.

The structure of this paper is as follows. Section 2 examines recent trends in unemployment. Section 3 reviews recent trends in employment while section 4 analyses Government policy interventions and issues. This final section delves into some reflections on policy issues on how to improve the rate of absorption of labour in the economy, and thus reduce unemployment.

2. Recent Unemployment Trends

Data on recent unemployment trends are based on three sources, Population and Housing Census of 1991, the 1993 Literacy Survey and the 1994 Household Incomes and Expenditure Survey (HIES), prepared by the Central Statistics Office. This raises the

question of comparability of the data in terms of methodology, seasonality, wording of questions, and geographic coverage.

The 1991 Census was a complete enumeration, while the literacy survey of 1993 covered a final sample of 18,751 households, and similarly, the HIES covered 3,608 households. In terms of seasonality, the Census was conducted in August 1991, the Literacy Survey in November 1993 and the HIES throughout 1994. The pattern of economic activity varies from dry to wet seasons. In interpreting the data, it is important to bear these facts in mind.

The data on economically active persons, participation and unemployment rates suggest that unemployment between 1991 and 1994 has worsened. In 1991, based on the population census, unemployment rate was 14%, and it is estimated to have increased to 21% in both 1993 and 1994. In 1991, 61,265 people were unemployed out of the workforce of 441,203. Similarly, it is estimated that 99,537 people were unemployed in 1994.

The structure of unemployment, between 1991 and 1994, has remained virtually the same. A high unemployment rate is concentrated in the age group 12 - 24 years, who are the youths. The most disturbing trend is that unemployment rate in this age group has been increasing. Between 1991 and 1994, unemployment in the 15 - 19 year old group increased from 31% to 51%. Similarly, for the age group 25 - 29 years, unemployment has risen from 22% to 36% over the same period. This is, indeed, a worrisome trend which requires policy attention.

Unemployment trends also vary by gender. In the age group 12 - 29 years, unemployment rate among females has been consistently higher than among males. This may be attributable to several factors such as education attainment, and socio-cultural considerations which impede entry of women into the labour market. Between 1991 and 1994, there has been a widening of the unemployment gap between males and females. For instance, for females in the age group 15 - 19 years, unemployment rose from 42% in 1991 to 55% in 1994. For males in the same age group, unemployment increased from 24% to 46% over the same period. On the overall, unemployment for males increased from 12% in 1991 to 20% in 1994. In contrast, overall unemployment among females rose from 17% to 23% over the same period.

Unemployment rate also varies by educational attainment. The higher the educational attainment, the lower the unemployment rate. There are dividends paid for investing in and improving the quality of human capital. There is much higher unemployment for the age groups at the junior secondary school level and below. Furthermore, there is also a disturbing trend between 1991 and 1994 in that on the overall youths with junior certificate(JC) education or less are finding it increasingly difficult to find jobs. For instance, unemployment for JC school leavers rose from 17% in 1991 to 32% in 1994. Reversing this trend is policy imperative.

Although males and females may have the same level of educational attainment, more females are unemployed than males. For instance, in the junior secondary school category there was 12% unemployment for the males, while there was 21% unemployment for females in 1991. Similarly, in 1994 for the same educational attainment, males experienced 30% unemployment while females unemployment was 33%. Policies and programmes should be formulated to address the gender gap.

Labour force participation rate (LFPR) - the measure of the number of persons in a particular age group who are economically active, expressed as a percentage of the total

population in that group - varies by age, sex and educational attainment. In general, LFPR is lower among the young people and higher for the older generation. It should be noted that participation in economic activity is influenced by several factors - demographic, economic and social. For instance, persons under a certain age cannot be formally employed. Marital status of females may hamper their participation in the economy. Societies attach different importance to work, leisure and education. Business cycles have a direct relationship with activity rates. During economic boom, there are more employment opportunities and the LFPRs increase. Correspondingly, during recession, economic activity rates are depressed and employment opportunities decline.

Participation rates have been higher among males than females. For instance, in 1994, the total participation rate for males was 63%, while for females it was 45%. Similarly, for males with the same level of education as females, they had higher participation rates. For instance, for those youths with primary 5 - 7 education, the participation rate for males was 91%, while it was only 61% for females in 1994.

Demographic and economic factors are major determinants of unemployment. The natural growth in the size of the labour force in Botswana - current and prospective - is the most important factor responsible for the current and future unemployment problems. Between the 1991 census and the 1994 HIES, the labour force is estimated to have grown from 441,203 to 473,986, an increase of 2.5% per year. The recent economic downturn is a major cause of unemployment. Moreover, the rapid population growth may also cause problems of human resource under-utilization. The perspective growth of the labour force is reflected by the fact that in Botswana about 50% of the total population is below the age of 15 years. To address the serious unemployment problems, job opportunities will have to expand at a fast pace in order to ensure that unemployment does not widen further. Attention will also need to be paid to rural-urban migration.

3. Recent Trends in Employment

Unfortunately, there is a considerable time lag in collection and publication of employment data by the Central Statistics Office. The latest available data on formal sector employment is for March 1995. Total formal employment increased by 0.6% from 231,200 in March 1994 to 232,600 in March 1995. Employment in Central Government rose by 4.5% from 66,400 in March 1994 to 69,400 in March 1995. Similarly, employment in Local Government rose from 15,400 to 15,600 during the same period, an increase of 1.3%. On account of recent retrenchments, employment in the parastatals declined by 0.75% from 13,200 to 13,100 over the same period.

Performance in the private sector has been mixed. Overall employment fell by 1.2% from 136,200 in March 1994 to 134,500 in March 1995. Four sectors - agriculture, construction, transport and communication, community and personal services - experienced sharp declines in employment. Major gains in employment were experienced in manufacturing, mining and quarrying and commerce, and to a much lesser extent in electricity and water.

The number of Batswana miners in South African mines increased by 8.9%from 12,286 in the fourth quarter of 1994 to 13,377 in the fourth quarter of 1995, compared to a decline of 3.7% between the fourth quarters of 1993 and 1994. It is, however, worth noting that even though the number of miners has slightly increased, the number of recruits continues to fall. The number recorded in 1993 was 18,134. It fell to sharply to 11,301 in 1994 and further down 11,176 in 1995. In view of the restructuring of the

South African economy, the number of Batswana recruited to South African mines is likely to decline further.

4. Government Policy Interventions and Issues

There has always been a general notion that the average productivity of labour in Botswana is low. This, coupled with the rising unemployment and the rapid population growth, results in deepening of poverty. Rapid economic growth can be achieved if both productivity and employment growth move together. This requires investment in productive capacity. Recognizing the need to raise productivity in the economy, Government established the Botswana National Productivity Centre. It's mandate is to design and formulate programmes that would enhance productivity both in the private and public sectors. Increasing productivity is a medium to long term goal. It requires, inter alia, introducing cost-effective education and training programmes in response to the changes in the labour market, and improving managerial and supervisory capabilities. In the final analysis, the quality of the labour force in Botswana in terms of financial, managerial, entrepreneurial and technological capabilities must improve to reach comparable best standard internationally.

Although Government places high priority on creation of productive employment, unemployment has remained the most pressing problem to be addressed. In many ways Government has been proactive in stimulating economic growth and encouraging employment creation. Key policy measures have included reduction of corporate and personal tax rates, liberalization of the foreign exchange regime, providing grants under Financial Assistance Policy, streamlining and minimising regulations, encouraging labour intensive public works programmes mostly in districts and rural areas, and maintaining a policy of wage restraint.

However, there are several unsettled issues. In view of the weakening of the extended family system, should some form of social welfare or unemployment benefits be introduced? If so, what would be the budgetary implications and prospects for it's sustainability? With many youth unemployed, what programmes should be designed to target them? Public works programmes have been largely implemented in the districts and rural areas. Should they be extended to the urban centres as well? With rapid urbanization, the informal sector will become an important source for employment creation. In view of this, what should be Government policy towards this sector? In view of high demand for low cost housing, what programmes should BHC introduce which are labour intensive which could be a vehicle for rapid employment creation? There are among the burning issues which require further debate and reflection.

5. Conclusion

Unemployment continues to pose as a major challenge to Botswana's development efforts and improvement of socio-economic welfare of the people. It is now evident that both the public and private sector should join hands to fight the problem of rising levels of unemployment. As such, the larger issue for consideration is what the private sector and Government can do together to reduce the pervasive adverse impact of unemployment and generate more income opportunities to increase the wealth of the nation.

Annex

BACKGROUND PAPER: STATUS REPORT ON THE IMPLEMENTATION OF THE RECOMMENDATIONS OF THE THIRD FRANCISTOWN PRIVATE SECTOR CONFERENCE

National Employment, Manpower and Incomes Council

Introduction

The third Francistown Private Sector Conference was held on 22nd - 24th May 1994 in Francistown. The theme for the conference was "Botswana: Developing a Competitive Advantage". Towards the end of the conference, eight (8) major recommendations were made and these were to be implemented by Government as well as the relevant parastatals. This report gives the status of implementation of those recommendations and it also highlights areas where follow-up action is still required.

Recommendation 1

A high level Consultative Council involving senior representatives of the public and private sectors chaired at the highest possible level should be established. The purpose of such a council would be to provide a forum through which the private sector can make a contribution to the formulation of national development policies and strategies, and serve as a vehicle for addressing the concerns of the private sector on a continuing basis. In addition, advisory committees should be established in all ministries with representatives from Government, and the relevant industry.

The Office of the President was given the responsibility of implementing this recommendation. The Consultative Council held it's first meeting in July 1995. The Council is chaired by His Excellency the President.

Outstanding issue: The issue of establishing ministerial advisory committees remains to be addressed.

Recommendation 2

The recommendations of the BOCCIM/BDC Foreign Exchange Control Liberalisation Study whose recommendations were accepted by the private sector, should be implemented as a matter of urgency. This recommendation was to be implemented jointly by the Ministry of Finance and Development Planning and the Bank of Botswana.

In January 1995, Government introduced major liberalisation measures in order to create an environment conducive for investment. These measures include:

(a) travellers in and out of Botswana carrying less than the equivalent of P5,000 in currency (including Pula) will not be required to declare their currency holdings;

(b) resident businesses can open foreign currency accounts to meet current account transactions;

(c) non-residents and temporary residents are also allowed to open foreign accounts without any limit;

(d) individuals are allowed to make direct investments abroad up to P100,000 annually; and

(e) companies can make direct investments amounting to P1m yearly, without advance approval of the Bank of Botswana.

During the 1996 Budget Speech, the VP announced that further reforms are to be introduced in 1996/97. Such reforms are intended to make the expansion of financial and business activities in the country increasingly attractive. These include:

(a) permanent residents will be allowed access to any amount of foreign currency for international transfers and payments;

(b) temporary residents will be able to remit their entire income (after deduction of taxes) earned in Botswana, the previous limit of 65% of gross earnings will no longer be applicable;

(c) foreign currency borrowing from non-resident sources by permanent residents will be given a limit of up to P100,000 for individuals and P1 million for companies; and

(d) banks will be authorised to make foreign currency denominated loans to their customers who are permanent residents of Botswana.

Recommendation 3

There should be a further significant reduction of company and personal tax to provide the needed impetus to stimulate local and foreign investment, and to help make Botswana competitive regionally and internationally.

The implementation of this recommendation is the responsibility of the Ministry of Finance and Dev. Planning. With effect from 1st July 1995, the effective company tax rate was reduced from 35% to 25%. Furthermore, for firms which are defined as "manufacturing firms" the effective tax rate was reduced to 15%, also with effect from 1st July 1995. With regard to personal taxation, the top marginal tax rate for individual income tax was reduced from 35% to 30%, also with effect from 1st July, 1995.

Recommendation 4

TIPA should be strengthened by giving it additional field experienced manpower and greater autonomy such as the Selebi Phikwe Development Authority or converting it into a parastatal. The implementation of this recommendation lies with the Ministry of Commerce and Industry (MCI).

A study on "Investment Promotion Strategy" for TIPA was carried out by International Development Ireland Limited during February and March 1995. It focused on the review of current functions, promotional plans and strategies of TIPA and those of other organisations engaged in investment promotion. The purpose of the study was to

outline an investment promotion programme for Botswana, as well as delineating activities and responsibilities for TIPA in relation to other institutions concerned with investment promotion. It recommended the staffing and other prerequisites needed for TIPA to successfully implement the proposed plan as well as areas in which all relevant institutions could coordinate their resources to maximise impact and avoid duplication of efforts. Furthermore, the study made other recommendations deemed necessary for the promotion and development of local and foreign private investment.

The study made 19 recommendations all together, the bulk of which were of an administrative nature and were either already being implemented, or plans were underway to implement them. For instance as part of this strengthening exercise, the investment promotion activities of the Selebi Phikwe Regional Development Project have been integrated into TIPA in order to take advantage of it's experience. The exercise is meant to upgrade the performance of the organisation's investment promotion. The strengthening of TIPA has also been addressed through a number of initiatives including parallel progression, manpower and financial budget for 1996/97 financial year. The institutional problem of TIPA is also a subject of review of the Industrial Development Policy particularly with regard to streamlining some of the apparently overlapping investment promotion activities of TIPA and BDC.

Furthermore, TIPA is being strengthened so that it can serve as a true One-Stop-Agency (OSA) for investors. To achieve this, TIPA has established links through "liaison officers" with other ministries in order to speed up provision of services to investors. Potential investors will reduce delays normally caused by investors having to approach different government agencies and institutions for necessary permits, lands, grants etc.

Recommendation 5

There should be an immediate study on the provision of venture capital, long term finance and export finance. MFDP and BDC are charged with the implementation of this recommendation.

Regarding "export finance", BDC commissioned a firm of consultants to carry out a study which would establish whether or not there was need for an export finance scheme in Botswana. The report of the consultancy recommended that a "Botswana Export Credit Guarantee Corporation" be set up. In August 1995, the BDC Board authorised an investment of about P5 million for the establishment of a company which would implement the "Export Insurance and Credit Guarantee Scheme".

"On venture capital", BDC engaged some consultants to carry out a study to determine the potential demand for a domestic venture capital fund. The major conclusion of the study is that there is a need for both equity and loan finance for small and medium sized companies in Botswana. The preferred sectors of the economy requiring finance were identified as the industrial sector, engineering, tourism and beverages, and hotels. The study recommends that an equity fund for small and medium sized enterprises should be established. The fund would target enterprises requiring seed capital, as well as established enterprises with a maximum capital of P1 million.

The terms of reference for a study on "long term finance" were approved at the last regular meeting of NEMIC held in November 1995. The main objectives of the study are:

- to determine the potential demand and supply of long term finance;
- analyse the existing financial institutions with a view to determining their ability and capacity to provide long term finance; and
- if the capacity of the existing financial institutions is inadequate recommend ways and means of expanding this capacity, or alternatively justify the need, if any, for additional banking infrastructure to complement the capacity of existing financial institutions.

The consultancy will be funded under the Botswana Private Enterprise Development, and is expected to start soon.

Outstanding issue: A report will be provided after the "long term finance" study has been completed.

Recommendation 6

The Local Preference Scheme (LPS) should be reviewed with a view to ensuring that the scheme is understood and implemented by all Government agencies including the District Councils. This issue is the portfolio responsibility of the Ministry of Commerce and Industry.

The Ministry of Commerce and Industry undertook a review of the LPS in 1994. The study has been completed and it's recommendations are being considered by Government. It has been proposed that LPS should be replaced by the Local Procurement Scheme. The main feature of the Local Procurement Scheme will be the requirement that Government, Local Authorities and Parastatals set aside a certain portion of their budget for domestic manufactured products.

Recommendation 7

There is an immediate need for Government to address the question of reducing the cost of services to industry particularly power, water and telecommunications. In this regard, where these services are provided as a social service, the cost thereof should be isolated and paid by Government instead of through cross-subsidisation which penalises industry. Furthermore, the relevant parastatals should be recapitalised and their accounting policies reviewed with a view to easing their loan repayment obligations and easing pressure on tariffs. In addition, the feasibility of opening the parastatal sector to private sector capital should be investigated.

The following ministries and institutions were assigned the responsibility of implementing this recommendation - Ministry of Mineral Resources and Water Affairs (MMRWA), Water Utilities Corporation (WUC), Botswana Power Corporation (BPC), Ministry of Works, Transport and Communications (MWTC) and Botswana Telecommunications Corporation (BTC).

With regard to BPC, a consultancy was commissioned in 1993/94 to advise on the tariff structure, to determine whether or not new generation should be planned for in the near future, to indicate the desirable level of self-sufficiency in power generated in the country and the level of power to be imported in order to supplement the available resources.

In the 1996 Budget Speech, it was stated that BPC will import cheap power from neighbouring countries in order to augment local supply. On the issue of tariff structure, the Corporation reduced power tariffs by 10% with effect from October 1995. (Tariffs

are based on cost recovery, and differ in accordance with direct costs attributable to the category of consumers. Capital projects are carried out based on a predetermined required return. If the projected operations of the project do not achieve a positive Internal Rate of Return, the project is not carried out. Where returns are lower than the average return achieved on total assets, which is usually the case in the earlier years of the scheme before the full load is achieved, it's impact on total return is immaterial, and has no effect on tariffs. If a project is required in terms of "social" requirements, such a project is funded by Government).

In addition to the reduction of tariffs, BPC changed it's policies on connection as well as payment methods with an intent to lower up-front payments by consumers. For instance, with regard to rural collective schemes, consumers pay a 10% deposit instead of 40%, while major consumers are now required to pay a deposit of 25% instead of 100%. Consumers will be expected to pay outstanding amounts over periods ranging from 1 year to 10 years, depending on connection schemes used.

Regarding capitalisation of loans, the current gearing of BPC is 20% debt and 80% equity. If Government were to capitalise it's loans, the liquidity and gearing of the Corporation would improve. However, this is not necessary since the Corporation has been able to maintain a healthy financial structure. Tariffs are set by BPC at levels to achieve a 5% return on revalued assets excluding finance charges. In this manner, the Corporation makes adequate provision to replace it's assets. Since the Corporation excludes financing costs from the calculation of Return on Revalued Assets, the method of funding, whether equity or loans is irrelevant, and does not have an impact on tariffs.

It could be argued that privatisation may result in improved efficiencies, and reduction in costs. However, BPC's trading philosophy is to operate on a commercial basis. The Corporation has developed a strategy to ensure that efficiencies are monitored and improved and is of the view that it's tariffs would not significantly change through privatisation. Where services can be carried out at a lower cost than by the Corporation, these are contracted out to private enterprises.

On water tariffs, the Water Utilities Corporation (WUC) will continue to maintain a block tariff structure. Some initiative has been taken by WUC regarding the issue of parastatal organisations gaining access to private capital. The Corporation has approached some local banks in a bid to seek financing for the North-South Carrier Water Project (NSCWP). However, given the amount of investment in NSCWP, there is no scope in the medium term for water tariffs to go down.

Government adopted a new Telecommunications Policy late 1995. This policy is designed to inter alia, address the issue of efficient provision of telecommunications services within Botswana in a liberalised market. It will dismantle the monopoly of BTC and provide for competition through the participation of the private sector. In addition to that, it will allow BTC to form joint ventures or subsidiary companies to compete in certain market segments. This avenue for opening up to private sector capital will be realised after the new legislation has been passed by Parliament in the July session this year.

Botswana Telecommunications Corporation (BTC) has initiated the process of identifying and isolating costs associated with the provision of service in non-profitable areas. These areas are characterised by a large geographical spread of villages with few potential customers for use of the service. This could therefore be classified as social

service as it extends the reach of the telecommunications services to remote areas. BTC is in the process of submitting these to Government for financing.

BTC development plans are mostly financed through borrowing. The total amount of outstanding loans is P331 million as at the end of March 1996. Included in this figure are donor grants for rural projects on lent to BTC by Government under Public Debt Service Fund (PDSF) terms. These projects are not profitable and are cross-subsidised through other profitable urban development projects. Capitalising these loans will not only improve the capital structure, but will ease repayment obligations and the cost structure of the Corporation. BTC is assessing the existing financing arrangements and developing proposals which will be presented as a financial strategy paper to Government for purposes of reviewing the overall financing structure and address the recapitalisation of the Corporation.

Recommendation 8

Government should urgently expedite the provision of serviced land and improve it's allocation machinery in both urban and rural areas. Government should also make serviced land available to a reconstituted TIPA for allocation to deserving investors. The Ministry of Commerce and Industry and the Ministry of Local Government, Lands and Housing were jointly assigned to implement this recommendation.

A committee has been formed for joint direct allocation of land. The committee comprises the Permanent Secretary in the Ministry of Local Government, Lands and Housing as the chairperson, Permanent Secretary in the Ministry of Commerce and Industry as the Deputy Chairperson, Department of Industrial Affairs as the secretariat and members from the Department of Lands and TIPA.

Annex

CONFERENCE PROGRAMME

Day One: Sunday 26 May

18:30 - 20:00	COCKTAIL RECEPTION	Hosted by Bank of Botswana
	Welcome address	D N Moroka, BOCCIM

Day Two: Monday 27 May

OPENING PLENARY SESSION

Session 1

08:00 - 08:05	Introduction of conference chairpersons	O K Matambo, MFDP I Ebrahim, BOCCIM
08:05 - 08:20	Official opening	H.E. Mr Howard F Jeter, US Ambassador
08:20 - 08:35	Presentation	*"Our future employment: hopes and fears of today's teenagers."* Schoolchildren's essays
08:35 - 09:05	Keynote address	*"The challenge of creating jobs: how the private sector can create employment and how governments can help this to happen."* C Sunter, Anglo American Corporation (SA)
09:05 - 09:50	Panel and floor discussion	*"Defining the challenge of employment creation in Botswana."* Panel: T Nyamadzabo, MFDP L Mosienyane, Mosienyane & Partners H C L Hermans, Bank of Botswana

09:50 - 10:05	TEA/COFFEE	
Session 2		
10:05 - 10:35	Keynote address	*"Employment creation and the new world economic order. Lessons and challenges for Southern Africa."* Professor T Hawkins, University of Zimbabwe
10:35 - 11:20	Panel and floor discussion	*"Implications of the changing global and regional economic order for employment creation in Botswana"* (with reference to preceding presentation). Panel: L D Lekalake, Kgalagadi Mgt. Services B Blewitt, Tyre Services J Salkin, Bank of Botswana
Session 3		
11:20 - 11:50	Presentation	*"Employment creation through sustainable business development."* E Setshwaelo, BNPC
11:50 - 12:20	Presentation	*"Defining the challenge of employment creation in Botswana."* B O Gaobakwe
12:20 - 13:05	Panel and floor discussion	*"The main ingredients and timeframes for Botswana to progress along the path of productivity-based economic diversification"* (with reference to the two preceding presentations). Panel: Mr Mbonini, BCL J Lisindi, Debswana E M Maphanyane, BHC
13:05 - 14:20	LUNCH	

14:20 - 16:20	CONCURRENT WORKSHOPS (1-3)	
	Workshop 1	*"Lessons from recent experiences in the expansion and diversification of medium and large scale manufacturers in Botswana."* K Jefferis, UB
	Workshop 2	*"Job creation through growth and expansion of small scale enterprises: evidence, potential and needs."* G Kombani, Dept. of Industrial Affairs
	Workshop 3	*"Rural employment."* D Inger, Rural Industries Promotions Company
16:20 - 16:35	TEA/COFFEE	
	PLENARY SESSION	
Session 4		
16:35 - 17:05	Presentation	*"Status report on preparation of a revised Industrial Development Policy for Botswana."* T C Moremi, MCI
17:05 - 17:20	Floor discussion	*"Issues and challenges for preparation of a revised Industrial Development Policy."*
17:20 - 19:20	Workshop presentations	Rapporteurs for workshops 1-3
	Adjournment	
Day Three: Tuesday 28 May		
	PLENARY SESSION	
Session 5		
08:00 - 08:10	Introductory remarks	Conference chairpersons

08:10 - 08:40	Keynote address	*"Developing a realistic vision and strategy to guide national employment creation and economic diversification."* B Hodgson, Segal· Quince Wicksteed
08:40 - 09:10	Keynote address	*"The dynamics of employment and economic growth: the case of Malaysia."* Jaafar B Ahmad, Bank of Namibia
09:10 - 10:00	Panel and floor discussion	*"Does Botswana have the vision and strategy needed for sustainable job creation?"* (with reference to the two preceding presentations) Panel: H Abkenari, Solar Power B Gaolathe, Debswana M Modisi, SP Construction
10:00 - 10:15	TEA/COFFEE	
10:25 - 12:25	CONCURRENT WORKSHOPS (4-6)	
	Workshop 4	*"Creating jobs through the development of tourism."* A Chilisa, Chairman, HATAB
	Workshop 5	*"Implications of regional economic trends on employment in Botswana, including the impact of it's participation in regional trade schemes and approaches for attracting foreign and regional investment."* Professor R Mokate, University of Pretoria

	Workshop 6	*"Strategic thinking on employment creation in Botswana, using the Michael Porter 'Diamond': an assessment of new opportunities for employment creation in Botswana."* U Corea, Coopers and Lybrand
12:25 - 13:40	LUNCH	
	PLENARY SESSION	
Session 6		
13:40 - 13:45	Introductory remarks	Conference chairpersons
13:45 - 14:05	Short presentation	*"Improving the implementation of government policies and resolutions."* D N Moroka, BOCCIM
14:05 - 14:45	Panel and floor discussion	*"Improving the implementation of government policies and resolutions"* (with reference to preceding presentation). Panel: M Mannathoko, BMC E W M J Legwaila, OP P Sethantsho, Ghanzi District Council
Session 7		
14:45 - 15:25	Workshop presentations	Rapporteurs for workshop 4
15:25 - 15:40	TEA/COFFEE	
15:40 - 17:00	Workshop presentations (continued)	Rapporteurs for workshops 5-6

Session 8

17:00 - 17:30	Presentation	*"Main ingredients for a new public-private strategy for private sector employment creation in Botswana."* J Isaksen, BIDPA
17:30 - 18:10	Panel and floor discussion	*"How to bring about a new public-private strategy for private sector employment creation in Botswana."* Panel: M Modise, MFDP E Mbuya, Owens Corning R Sikwane, BCCI

Session 9

18:10 - 18:55	Conference resolutions	Conference chairpersons
18:55 - 19:10	CLOSING SPEECH	H.E. Mr Festus Mogae, Vice President, Republic of Botswana

Annex

LIST OF PARTICIPANTS

PRIVATE SECTOR

Alemo Shoes	Mrs A Molefe
Algo Spinning & Weaving	Mr A S Dada
ANBA Investments	Mr M S Pule
ANBA Investments	Mr A Seeletso
Armstrongs Attorneys	Mr N W Armstrong
Barclays Bank	Mr H Hawkins, Deputy Managing Director
Barclays Bank	Mr T Sola. Manager, Francistown Branch
BCCI	Mr R L Sikwane
BCCI	Mrs B Segage
BCCI	Mr V Somolekai
BCCI	Mr. J Mabutho
BCL	Mr O P Mmopi
BCL	Mr Mbonini
BIDPA	Mr J Isaksen
Botswana Agricultural Union	Mr B S Masilo
BP Botswana	Mr D N Moroka
Continental Dry Cleaners	Mr J Nyamambi
Coopers & Lybrand	Mr D K U Corea
Debswana Diamond Company	Mr B Gaolathe
Debswana Diamond Company	Mr J Lisindi
Exporters Assoc. of Botswana	Mrs E I Mosinyi
Eland (Pty) Ltd.	Mr. A. Sodini
Gaborone Veterinary Clinic	Dr T Ndzinge
Garona Investments	Mr B O Gaobakwe

Ghanzi District Council	Mr P Sethantsho
First National Bank	Mr K Porter, Treasurer
HATAB	Mr M Mothoagae
HATAB	Mr A Chilisa
J R Watkins Botswana	Mr L Tumaeletse
J & M Investments	Mrs. M. Leepile
J & M Investments	Mr. Mophuting
Kgalagadi Management Services	Mr L D Lekalake
Kgalagadi Breweries	Mr T L Matlhaku
KSK Investments	Mr N Khumalo
Lesedi Stores/Lobatse Business Council	Mr M K Dithole
Marble Products Botswana	Mr C Willis
Maun Business Council	Mr J S Wellio
MBI	Mr B Doeser
Mosienyane & Partners	Mr L Mosienyane
Owens Corning Pipe	Mr Matsheke
Owens Corning Pipe	Mr E Mbuya
Owens Corning Pipe	Mr Makate
Phakalane Estates	Mr L Magang
Phakalane School	Mrs D Tafila
Price Waterhouse	Mr N Kader
Quick Print	Mr T Egner
RIPCO	Mr D Inger
RKM Investments	Mrs K Makhwade
Serowe Business Council	Mr S B M Kerebotswe
Sheeland Holdings	Mrs Sheela Mokobi
Shoe Fix (Pty) Ltd	Mr K Lebatha
Solar Power	Mr M Abkenari
Solar Power	Mr H Abkenari

SP Construction	Mr M Modisi
Stockbrokers Botswana	Mr M Makgatle
Tom (Pty) Ltd	Ms T Maribe
Trans Africa Wholesalers	Mr M B Mooney
Tswelelo (Pty) Ltd	Mr D Bayi
Tyre Services	Mr B R Blewett

PARASTATALS

Air Botswana	Mr J Gareforolwe
Bank of Botswana	Mr H C L Hermans
Bank of Botswana	Dr J Salkin
Bank of Botswana	Prof. C Leith
Botswana Development Corporation	Mr B Disele
Botswana Housing Corporation	Mr E M Maphanyane
Botswana Meat Commission	Dr M Mannathoko
Botswana National Productivity Centre	Mr J Parsons
Botswana Power Corporation	Mr A N Mokone
Botswana Railways	Mr B O Bojong
Botswana Savings Bank	Mrs E Mathe
Botswana Telecomms Corp.	Mr O Gaborone
Botswana Vaccine Inst.	Ms Dineo Pule
National Development Bank	Mr J Howell
NEMIC	Mr A G T K Malikongwa
University of Botswana	Dr B Mguni
University of Botswana	Mr K Jefferis
University of Botswana	Mr. A.M. Hawkins
Water Utilities Corp.	Mr B Mpho

GOVERNMENT

Office of the President

His Excellency The President	Q K J Masire
Permanent Secretary to the President	Mr E W M G Legwaila
Director of Public Service Management	Mr M Chakalisa
Commissioner of Police	Mr N S Moleboge
P.S. Development	Mr L Mothibatsela

Ministry of Agriculture

Deputy Permanent Secretary	Mr T M Taukobong
Director Agriculture & Planning Statistics	Mr H K Sigwele

Ministry of Commerce & Industry

Honourable Minister	Minister G Kgoroba
Permanent Secretary	Ms T C Moremi
Director, Industrial Affairs	Mr G Kombani
Director of Commerce & Consumer Affairs	Mrs N M Dambe
TIPA	Mr D Tsheko, Director

Ministry of Education

Permanent Secretary	Mr P O Molosi

Ministry of Finance & Development Planning

His Excellency The Vice-President	Mr F Mogae
Permanent Secretary	Mr O K Matambo
Chief Economist, Macro	Mr T Nyamadzabo
Employment Co-ordinator	Mr G K Kayira
Director Macro Planning	Mr M Modise

Dept. of Foreign Affairs

Acting Secretary	Mr B K Sebele

Ministry of Labour & Home Affairs

Honourable Minister	Minister B K Temane

Permanent Secretary	Mr E G M Mhlauli
Chief Immigration Officer	Mr S B Mowanei
Commissioner of Labour	Mr M B R Palai

Ministry of Local Government, Lands and Housing

Honourable Minister	Minister P Balopi
Actg. Permanent Secretary	Mr M A Majingo

Ministry of Works & Communications

Honourable Minister	Minister D Kwelagobe
Permanent Secretaries	Mr A V Lionjanga

Ministry of Mineral Resources & Water Affairs

Permanent Secretary	Mr B Marole
His Worship the Mayor	Mr M Morupisi
Town Clerk, F/T	Mr C Kelaotswe
District Commissioner F/T	Mr N M Macheke

OBSERVERS

American Embassy	H.E. Howard Jeter
American Embassy	Mr Ted Craig
USAID/RCSA	Ms Marcia Musisi-Nkambwe
USAID/RCSA	Mrs Valerie Dixon-Horton
British High Commission	Mr A Dent
Friedrich Ebert Foundation - Res. Dir.	Mr H Chotani
Problem Solvers	Mr Bill Scott
Royal Norwegian Embassy - NORAD	Mr J.A. Munkeby, Charge d'Affaires
Swedish Embassy	H.E. Rasmus Rasmusson
UNDP	Ms D Landey
Zimbabwe High Comm	Mr K B Chiutsi

GUEST SPEAKERS

Anglo American Corporation	Mr Clem Sunter
University of Zimbabwe	Prof. T Hawkins
Segal Quince Wicksteed	Mr B Hodgson
Bank of Namibia	Mr Jaffar B Ahmad
University of Pretoria	Prof. R Mokate

BOCCIM

BOCCIM	Mr M J Mbaakanyi
BOCCIM	Mr E M Dewah
BOCCIM	Mr. I Ebrahim
BOCCIM	Ms P Siwawa-Ndai
BOCCIM	Ms J Beckwith
BOCCIM	Mr N Moleele
BOCCIM	Ms S Brailsford

CONFERENCE CONSULTANTS

Maendeleo (Botswana) Pty Ltd	Mr T Duncan
Exsecon	Mrs L Ranasinghe
Exsecon	Mrs E Wood