



BIDPA

Briefing

Sponsored by



ISBN 1560-5817

2nd Quarter 2005

Overview

This edition of the BIDPA Briefing discusses three broad topics of Outsourcing, Competition within the car dealership sector and the recent devaluation of the pula. On the backdrop of some confusion surrounding an outsourcing relationship between the Gaborone City Council and a local cleaning company, the Briefing discusses the concept of outsourcing and provides a step by step guide to outsourcing. The need to have in place a solid contract management arrangement to avert conflict is stressed. Government recognizes the need for encouraging competition within all sectors of the economy. As a result, a Draft Competition Policy has recently been presented to parliament. Thus, this edition of the BIDPA Briefing attempts to assess competition within the motor dealership sector in Botswana. Despite data limitations, the Briefing concludes that indications are that there exist some uncompetitive practices within the motor dealership sector. Lastly, following the devaluation of the pula, and after the dust on the issue has settled, the Briefing discusses, albeit briefly, the expected winners and losers from the devaluation of the pula. While the major winner is Government through increased mineral revenues, consumers stand out as major losers.

Outsourcing Needs Careful Planning¹

Outsourcing may be defined as the delegation of internal processes or functions of an organization to an external entity. It is where functions previously performed by an organization are supplied or performed under contract by a third party. It involves letting non-core activities (such as cleaning, catering, maintenance, customer sales and support, engineering services, human resources, financial functions, and the largest area of all, information technology) be undertaken by specialists within such areas, with the key objective of allowing the outsourcing organization to focus on its core functions. For example, a bank could outsource cleaning to a cleaning company and channel its energies to providing banking services.

Outsourcing is not new in Botswana, as many Government departments have embarked on outsourcing of their non-core functions, and many more are gearing towards engaging private companies to take over the non-core functions. Courtesy to the Privatisation Policy of Botswana, Government Paper No.1 of 2000, which cites outsourcing as one of the many methods of privatisation to be employed in the Botswana privatisation programme, it seems there is more interest in the subject and practice than ever before.

However, recent developments reported in the local press may have made some commentators skeptical as to whether outsourcing is the way to go for Botswana. This includes the Daisy Loo and Gaborone City Council de-bussing contract that was given to the company but the two could not agree on the amount to be paid for the work. The case ended up in court.

While the full details of this case are not readily available to BIDPA, the BIDPA Briefing is of the opinion that the normal outsourcing processes may not have been properly followed. It is against this background that, we attempt to highlight internationally accepted steps that should be followed in any outsourcing exercise. They must be the same no matter what you are outsourcing and how big or small the contract is. Just the level of detail could differ. They include the following seven² key steps:

1. Identification of organizational needs - Once the

decision to outsource the non-core activities has been made, the next step is to put together the scope of work, which defines exactly the organization needs, including performance requirements, specifications, etc.

2. Develop the Request for Proposal (RFP) - At this stage you spell out in excruciating detail all of the terms and conditions, further elaborate your scope of work, develop the evaluation criteria as well as the anticipated pricing structure. The development of an anticipated pricing structure is particularly important in a government setting where budgetary allocations (votes) are predetermined. This will ensure that bidders are within budget. In big contracts, companies will use sub-contracts. It is at this stage that you ask for explanations on the relationships between the main bidder and its subcontractors.
3. Evaluation Process - The evaluation process is normally in two stages. The technical evaluation process and the financial evaluation process. The technical evaluation process involves ranking tenders on the basis of the metrics developed for the purpose. The financial evaluation process involves establishing the bidders' cost competitiveness. At this stage, those that meet all the requirements go on to the next stage. Normally, this stage reduces the bidders to just a few good ones.
4. Selection Process - This involves ranking bidders according to the scores obtained at the evaluation stage. If you have two best bidders, you let them go through the "Best and Final Offer" (BAFO) stage. This is where you follow up and seek clarifications. This process is especially critical when you are seeking to outsource services that are hard to quantify such as labour³ and research and development.
5. Contract Execution - This is when the organization signs the contract and the deal is sealed.
6. Administrative Functions - Outsourcing should not be seen as an end in its own. In most cases, once a particular function has been outsourced, the tendency is to assume that the private sector will automatically deliver on its promises. This is not necessarily the case. In fact, if not followed and monitored closely, there is an incentive for the private company to cash on the deal without delivering as requested and expected. It is therefore critical to have the function of contract management well equipped to monitor the contract to ensure that the private sector delivers. The contracting organization should therefore appoint a project manager (a manager and his/her team) to measure progress through, among others, undertaking monthly audits on the deliverables to ascertain their timeliness. If the product/service is late, the project manager should find out why and how the private company intends to ensure timely deliverables. If there is a conflict, the project manager should attempt to have it fixed as soon as possible. Essentially, the project manager should try to always avert conflict.
7. Close Out - This happens when the outsourcing arrangement is totally completed. At this point the project manager must ask for a report detailing, among others, what changed, why, and how the changes were accommodated. This should then be kept for future reference and used as a basis for the next deal with possibly the same company or a different company.

Unless these steps are transparently and properly followed,

the results of outsourcing are likely to be disappointing to dismal. Thus, outsourcing requires careful planning and execution.

Competition within the Car Dealership Industry

In early August, the long awaited Competition Policy for Botswana was presented to Parliament. The policy is expected to help prevent anti-competitive practices such as price fixing, resale price maintenance, market sharing, exclusive dealing etc., within the Botswana economy. The draft policy was presented at an opportune time, two months after the South African Competition Commission published a report in which it revealed that DaimlerCrysler South Africa (Pty) Ltd, BMW South Africa (Pty) Ltd and Nissan Africa (Pty) Ltd and their dealers entered into franchise and dealer agreements which contained a number of restrictions that impact negatively on competition in the market within which they operate. The restrictions that were reportedly placed on dealers relate to, inter alia, the selling of new motor vehicles to unauthorized agents and the selling of new motor vehicles to exporters, imposition of minimum resale prices and price fixing.

Since the South African Competition Commission is territory bound, its investigations were limited to South Africa. However, the findings have a potential effect on all SACU members in which the South African car manufacturers have dealers, including Botswana. The key question then is, is the Botswana car dealership industry free from such anti competitive practices? Limited information and the fact that Botswana does not as yet, have a Competition Commission empowered by law to investigate anti competitive practices in the market make answering this question difficult. One does not have access to the dealership agreements to determine whether they have anti-competitive clauses or not. However, there are a few indicators that may point to possible existence or non existence of such practices, and they include attributes such as changes in the dealers' market share and market share held by a certain number of the largest firms (concentration ratio).

Changes in dealers' market share⁴

Botswana has about 8⁵ major new⁶ car dealerships. These are Motor Centre, Lesedi Motors, Gaborone Autoworld (formerly Delta), Naledi Motors, Broadhurst Motors, Kia Auto Distributors, Barloworld and Capital BMW.

Data on the number of new vehicles registered per year shows that for the last four years, Toyota (from Motor Centre) has consistently been the market leader. Barloworld⁷, Broadhurst Motors, and Gaborone Autoworld have, over the four years under review, consistently maintained the second, third and fourth slots respectively.

Table 1: Registered Vehicles by year by Dealer (%)

Dealer	2001	2002	2003	2004	Rank
Motor Centre	38.4	37.9	38.5	39.1	1
Barloworld	15.8	16.9	15.2	12.4	2
Broadhurst Motors	10.1	11.2	11.1	10.9	3
Gaborone Autoworld	9.8	8.15	7.39	8.3	4

Source: Department of Road Transport and Safety, BIDPA estimates.

Not only have these dealers maintained consistency in terms of the order of the market share rankings, they have also consistently maintained almost the same level of market share. As shown in table 1 above, Motor Centre has consistently maintained the market share of around

38%, Barloworld (15%), Broadhurst Motors (11%) and Gaborone Autoworld (8%) over the period 2001 – 2004. Such consistency is strikingly abnormal and may suggest the existence of uncompetitive practices such as market sharing and entry barriers to protect the incumbent dealers' market share.

Concentration Ratios

Within the industrial economics literature, market competition is measured by, among others, the concentration ratio (CR). This is simply establishing the market share of the largest firms in the market. For our purpose, we will use the market share of the three largest dealers (CR3) to measure market competition within the Botswana dealerships. It is universally accepted that a CR3 of above 40% signifies high likelihood that the market is un-competitive, and if the CR3 is below 40%, the market is potentially competitive. As depicted below, the CR3 for the Botswana dealership industry stood between 64.3% in 2001 before an insignificant drop to 62.5% in 2004.

Table 3: CR3 for the period 2001 - 2004

Year	2001	2002	2003	2004
CR3	64.3	66.1	64.8	62.5

Source: BIDPA calculations

The top three dealers have accounted for over 60% of all new motor vehicle sales in Botswana between 2001 and 2004. Such continued dominance, despite the seemingly profitable dealership sector⁸ casts doubts on free entry into the Botswana motor dealership market. Thus, competition seems to be very limited in the market. In recent years, there has been some suggestions that imported used vehicles from Japan and Singapore may be providing needed competition to the new vehicle dealership sector in Botswana. While there may be some thread of truth in this as shown by the decline in key profitability indicators as shown in the next section, and the fall in concentration in 2004, the competition seems insignificant, as the concentration ratio has remained high (over 60%) despite these imports. It appears used imported vehicles only provide needed competition within the used vehicles market.

Is the New Car Dealership Industry Profitable?

Has this market dominance been translated into significant profits? Answering this question is difficult because data on the profitability of this industry in Botswana is confidential. One also needs to have an idea about the cost structure of the motor industry in order to infer on the profitability of this sector with a fair degree of accuracy. Getting such information on Botswana's dealers is also difficult if not impossible as the dealers and their manufacturers are loath to divulge information on their cost structure.

However, given notable advances in technology in the last decade, manufacturing costs⁹, are unlikely to have gone up significantly in recent years. In fact, they may have gone down. For an example, according to the Manufacturing and Technology News of May 12, 2000, Vol. 7 No. 9, Honda experienced reduced manufacturing costs by 87% due to advances in technology. There is no reason why other manufacturers cannot harness technology to reduce their costs, and it is only logical to assume that they have done so.

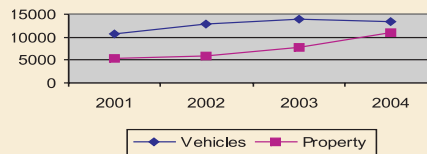
It follows, therefore, that due to technology induced cost gains and the profitability indicators discussed below, one can not immediately point to any credible reason to dispute the view that the new car dealership industry in Botswana may have enjoyed substantial profits in recent years.

Indicators for Industry Profits

Economic Growth - Save for 2002, when the economy recorded a 2% growth rate, the other three years under review have been characterised by high economic growth. In 2001, the economy experienced a robust growth of 8.6%, and also did well in 2003 (7.8%) and 2004 (5.7%), suggesting that the motor dealership sector, and many other sectors may have had positive spin-offs from this economic performance.

Household Credit - An analysis of household credit statistics from the Bank of Botswana shows that over 50% of commercial bank credit to households is directed to property and vehicles. As chart 1 below shows, over the past four years, credit extended for vehicle purchases has always been substantially more than that extended for property purchases. In fact in 2001, vehicle credit was 67.1% of the combined vehicle/property credit. This further suggests that vehicle dealership is likely to have been profitable over the last few years. However, the gap has narrowed in 2004, suggesting that the profits may have been slightly squeezed in 2004.

Chart 1: Commercial Bank Credit for Vehicles and Property



Increase in the number of new vehicles - The increase in the number of new vehicles registered over the four years is testimony to the fact that the dealership industry has done fairly well over the years. For example, in 2001, 7,600 new vehicles were registered. The number increased by about 150% to 19,045 in 2002, before falling to 14,330 in 2004, another suggestion that except for a slow down in 2004, dealers may be making substantial profits.

Substantial Increase in vehicle prices - A random selection of a few vehicle makes from different dealers reveals that vehicle prices have increased substantially over the past five years. This may be due to a number of reasons, including that vehicle manufacturing costs went up and/or substantial improvements have been made in the vehicles.

The cost structure for manufacturers supplying the Botswana dealers are unavailable. But as we have noted elsewhere, advances in technology suggests that costs may have not gone up significantly, and improvements on vehicles may not justify increases in motor vehicle prices of the magnitude shown on Table 2.

Table 2: Vehicle price increases (Pula), 2001 – 2005.

Make	2001	2002	2003	2004	2005	% Change 2001 to 2005
Isuzu KB 250	69,222	*	79,083	99,238	120,896	74.60
Mazda B2600i	68,868	73,304	79,877	102,097	105,932	53.81
Nissan Almera 1600i	56,765	64,327	*	65,402	73,936	30.20
Toyota Hilux 2.7	88,391	95,326	103,786	107,157	148,127	67.6
Toyota Corolla 1.600i	55,086	60,746	*	75,012	106,353	93.1

* Data not available

This suggests that the vehicle dealerships in Botswana may be making substantial profits.

For example, as table 2 shows, the Toyota Corolla 1.600i (Motor Centre) has had a staggering 93.1% increase in price between 2001 and 2005. The Isuzu KB 250 (Gaborone Autoworld) has also had a substantial 74.6% increase in price during the same period. Other notably high increases have been recorded by the Toyota Hilux (67.6%) and Mazda B2600i (53.81). The Nissan Almera 1600i from Broadhurst Motors has however recorded a relatively modest 30.2%.

The analysis on competition within the motor dealers in Botswana has revealed that:-

1. Consistent market share positions of the four top dealers is cause for concern and may suggest the existence of market sharing within the top four dealers.

2. Substantial market dominance by three dealers is cause for concern and may suggest the existence of barriers to entry into the market.
3. Substantial increases in prices in the face of technological advancement may suggest little competition within the market and possibilities of high artificial entry barriers.

While the Government is commended for its work so far on the development of the competition policy, the process must be speeded up, and once in place, it must be ensured that the policy is implemented well and as soon as possible.

12% Pula Devaluation: Who are the potential winners and losers?¹⁰

On May 30th 2005, the Government of Botswana devalued the pula by 12%. The wisdom behind the devaluation was that as the value of the pula depreciates (falls), Botswana goods would become internationally competitive. A two country illustration below attempts to explain this point. Assume the exchange rate between the Botswana pula and the South African rand is (1:1) and the price of identical T-shirts in Botswana is P10.00 and R10.00 in South Africa. If the Botswana pula is devalued such that the exchange rate falls to P0.5 per R1, this will mean that P10.00 is now worth R5.00, hence a P10.00 T-shirt in Botswana is offered for R5.00 in South Africa. Consequently, a South African can now purchase for R10.00, two Botswana T-shirts instead of only one before devaluation of the pula. Thus, the purchasing power of the South Africans with respect to the Botswana T-shirts has doubled, but their purchasing power with respect to their South African T-shirts stays the same. This means that Botswana T-shirts are competitive in the South African market. Accordingly, a devaluation is expected to lead to international competitiveness.

On the flip side of the coin, the local prices of imports will increase causing domestic demand for these imported goods and services to fall. Thus, consumers of imported goods and import intensive industries are the likely losers. We attempt to briefly look at who are the likely winners and losers following the 12% pula devaluation. Measuring the extent to specific industry benefits or losses requires details that this Briefing is not intended to go into.

In this Briefing, we look at possible winners and losers of the devaluation. Such an analysis is broad, and this Briefing does not attempt nor claim to look at the topic in its totality. Instead, the choice of discussion areas is guided by Government Policy on economic diversification and welfare, two key areas that have received significant attention in recent years. On the diversification front, tourism and the manufacturing sectors, particularly textiles sector have been identified in the National Development Plan Eight (NDP 8) as potential engines of economic growth. Diversification and other Government programmes can only be adequately addressed if Government finances are healthy. In any developing country, consumer issues are important at all times, and any policy that any Government undertakes should take into account consumer welfare issues. Therefore, the impact of the devaluation on tourism and textiles sectors, Government revenues and on consumers is discussed below.

Winners

Government - The Government will probably be the key short term beneficiary of the recent devaluation. As shown in Table 6 below, Government's dependence on mineral (diamonds) revenues is high. In 2001/02, minerals accounted for about 55% of Government revenues. While this figure has fallen in recent years, government's dependence on mineral revenues is still high, and pre devaluation estimates are that mineral revenues will contribute 48.3% of Government revenues.

Table 6: Government Revenue – 2001/02 – 2005/06 (%)

	Actuals			Revised Estimates	Budget Estimates	14Post Devaluation Estimates
Period	2001/02	2002/03	2003/04	2004/05	2005/06	2005/06
Mineral Revenue	55.0	52.4	50.4	44.6	48.3	50.7
Non Mineral Revenue	45.0	47.6	49.6	55.4	51.7	49.3
Total Revenue	100.0	100.0	100.0	100.0	100.0	100.0

Since diamond sales are dollar denominated, it means that the pula denominated diamond revenues accruing to Government are expected to increase by at least 12% for the remaining 10 of the 12 months of the fiscal year, from the budget estimate of P9.93 billion to about P10.93 billion and from the budget forecast of a 48.3% mineral revenue contribution to Government revenues to 50.7%. Thus, the devaluation is expected to avail more funds for Government to provide the nation (citizens) with the needed infrastructure such as roads, hospitals etc. However, a word of caution has to be made that these are primarily short term gains, as any appreciation of the pula will diminish the revenue benefits to Government in the long term.

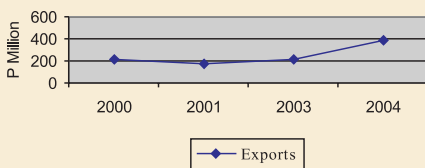
Textiles Sector

General Competitiveness: The devaluation of the pula is expected to improve the country's textiles' competitiveness in all the major markets (see example above).

This is more so that Botswana has preferential access to several important markets for garment and textile products, including the European Union (EU) through the EU/ African Caribbean and Pacific (ACP) agreement, the Southern African Customs Union (SACU), and the African Growth and Opportunity Act (AGOA).

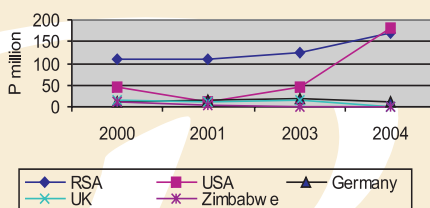
The devaluation of the pula, is therefore, expected to help the textile sector take advantage of these agreements and increase its exports to these markets. Even before the devaluation, the textile sector's exports had been increasing (Chart 2).

Chart 2: Textiles and Apparel Exports, 2001 - 2004.



In fact, since Botswana was granted LDC status and the special trade preference under AGOA, there has been a steady increase in exports to the USA. This is particularly marked in the 2004 where year to date export figures show USA exports exceeding RSA exports for the first time (Chart 3).

Chart 3: Textiles and Apparel Exports by Country



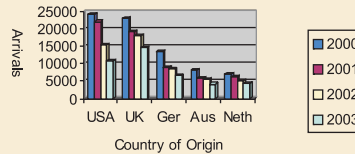
Labour Competitiveness: Relative to regional competitors, the devaluation of the pula is expected to also considerably increase the competitiveness of labour within the textile sector. At a minimum wage of ¹²P2.90 per hour, monthly minimum wages of the textile sector stand at around P550. At current exchange rate¹³, this is equal to R655, which is cheaper than the pre-devaluation level of R741¹⁴. This has the potential of attracting

foreign investment within the textile sector into the country to take advantage of Botswana's regional labour competitiveness.

Tourism Sector

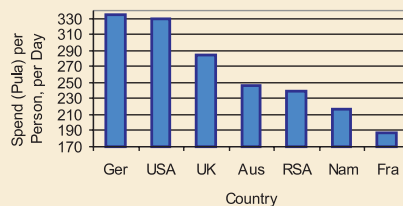
Given the country's current dependency on mining and the increasing pressure on employment creation, tourism is particularly well suited as a priority sector for economic diversification. However, recent trends on arrivals have been of major concern. For example, as Chart 4 indicates, there has been a continuous decline in tourists arrivals from all major overseas source markets, with the USA market being affected most and suffering the greatest and most significant market declines.

Chart 4: Botswana - Overseas Tourist Arrivals by Selected Country of Residence, 2000 - 2003



There are many reasons why this may be the case. These include global events such as the September 11 events in the US, the SARS, the Iraq War, the weakening of the dollar following the Iraq war, the political instability in Zimbabwe and competition from neighbouring tourist destinations such as South Africa and Namibia. Such declining trends needed some immediate action that would make Botswana more cost/price attractive to visit. Therefore, provided the authorities adequately control inflationary pressures associated with currency devaluation, the devaluation of the pula is likely to boost demand for Botswana's tourism products by hard currency holders from key markets such as the United States and the United Kingdom. This view is supported by tourist expenditure analysis (Chart 5), which reveals that hard currency holding tourists spend more per day in Botswana than other tourists, and since the devaluation is to their advantage, they are expected to arrive in large numbers, which will in turn be translated into increased tourist expenditures and employment creation in Botswana.

Chart 5: Average Spend per Day in Botswana by Country Market, 2003



However, for both the textile and tourism sectors, one needs to insert a word of caution that for Botswana to fully take advantage of the devaluation, there will be a need to extend the benefit beyond the exchange rate gains to production gains. This can be done by increasing the sectors' outputs so as to meet the expected increase in demand. If the sectors have been operating below capacity, they can immediately do so. If they have been operating at full capacity, they will have to increase their capacity, which may take some months before enjoying the benefits

of devaluation. In addition, the devaluation should be accompanied by increases in the sectors' productivity and quality levels. Furthermore, one needs to caution that since the devaluation of the pula leads to increase in the price of imports, imported inputs into these sectors will become expensive. The benefits of devaluation would therefore be realised only if the increase in the imported input prices is outweighed by the devaluation export price advantage. This seems likely, especially that the manufacturing sector, to which textiles sector belongs, and the hotels and restaurants sectors are significant contributors to non-mining value added.

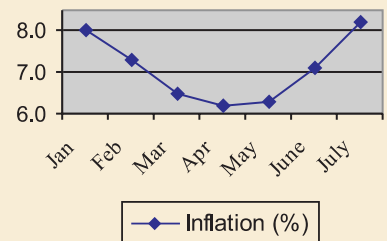
The Losers

There are likely to be some losers from the devaluation of the pula. Since devaluation leads to increases in the prices of imports, all import intensive sectors of the Botswana economy are the likely losers. In particular, the health sector, as it imports the bulk of its medicines and equipment, the wholesale and retail sector, as it imports the bulk of its inventory, the energy sector, as over 70% of Botswana's energy needs (electricity) and all the petroleum needs are imported etc. However, behind the scenes of all these loser sectors lies the real short term loser from the devaluation, the consumers.

Consumers: Consumers will be the major losers in the recent devaluation of the pula. Since the devaluation of the pula on May 30th, inflation rose sharply after exhibiting a declining trend in the first quarter of the year to 7.1% in June, an increase of 0.8 percentage points over the May 2005 inflation level. This trend has continued into July as the year - on - year inflation level for the month stood at 8.2%, up by 1.1 percentage points on the June rate of 7.1%.

Further break down of the Consumer Price Index (CPI) shows that four group indices recorded increases of over 1.0% between June and July. Safe for alcohol and tobacco which grew by 2.1%, these are essential commodity groups of Fuel and Power (3.2%), Household operations (2.4%), and Food (1.7%). This shows that consumers will be severely affected by the devaluation.

Chart 6: Inflation, January 2005 - July 2005



In an attempt to arrest the inflationary pressures brought about by the devaluation of the Pula, on the 5 August 2005, the Bank of Botswana increased the bank rate by 25 basis points from 14.00 to 14.25 percent. The commercial banks, as it has become the tradition, followed by increasing their lending rates by the same margin. This effectively transferred the devaluation induced increase in interest rates to the consumers. Thus, once again, the brunt of the devaluation has been borne by the consumers.

¹BIDPA strongly recommends that all outsourcing activities be undertaken in close consultation with the Public Enterprises Evaluation and Privatisation Agency (PEEPA).

²Adopted from Outsourcing Institute (OI), a neutral professional association dedicated solely to outsourcing.

³If you outsource your recruitment services, you may get the best qualified person who may turn out to be a non performer. It is difficult to blame the recruiting company for this particular employee's non performance because on paper he appeared to be a good performer.

⁴There are other vehicle makes/dealers such as Peugeot not sold by any of the dealers here. While their sales have been taken into account in the calculations, they are not shown on the table because they individually account for negligible proportion of the national vehicle numbers.

⁵It is recognised that there are many other outlets selling the same vehicle makes like those sold by these dealerships. These dealerships therefore represents such outlets.

⁶Excludes second hand vehicles, including those imported from Japan and Singapore.

⁷or its predecessor.

⁸See next section.

⁹Dealer costs are expected to be very much a function of the manufacturers' costs, such that technology gains would be transferred to the dealers.

¹⁰In the medium to long term, a devaluation of any currency, if the mechanisms work out as anticipated is a good thing because it induces consumers to buy more domestic goods instead of imported goods, thus increasing domestic demand. The increased domestic demand would then induce domestic producers to produce more tradables for both the domestic market (import competing) or for exports. In the short term, however, there is bound to be winners and losers, and this section tries to discuss who we see as key short term winners and losers. Thus, the Briefing does not claim, nor attempts to be exhaustive on the benefits and costs of devaluation.

¹¹BIDPA Estimates

¹²As at end of 2004.

¹³1 pula = 1.1911 Rands on the 15th August 2005.

¹⁴1 pula = 1.3485 Rands on the 26th May, 2005.

ECONOMIC FACTS AND FORECASTS

(end of period)	Quarterly											
	2002		2003				2004				2005	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Interest rates (%)												
BOBC (3 month)	12.54	14.03	13.99	13.92	13.84	12.74	12.62	12.99	12.98	12.50	12.00	11.25
Prime	15.75	16.75	16.75	16.75	16.75	15.75	15.75	15.75	15.75	15.25	15.25	15.75
Inflation (%)												
Rand-Pula	1.675	1.580	1.540	1.520	1.509	1.488	1.354	1.346	1.357	1.323	1.358	1.193
US\$-Pula	0.159	0.183	1.940	0.204	0.210	0.225	0.215	0.214	0.211	0.234	0.217	0.184
BSE index	2,480	2,497	2,283	2,223	2,346	2,499	2,641	2,844	2,903	2,889	3,021	3,373
Annual												
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
Growth (%)												
GDP (real)	<i>d</i>	5.5	5.6	8.1	4.1	6.6	8.6	2.0	7.8	5.7	2.3 <i>f</i>	2.9 <i>f</i>
Non-mineral GDP (real)	<i>d</i>	6.1	5.5	7.3	7.8	4.0	4.1	5.1	4.8	2.6	3.0 <i>f</i>	4.0 <i>f</i>
Exports (nominal)	<i>b</i>	23.1	39.7	-15.4	41.2	11.0	-1.0	9.8	0.9	8.7	8.5 <i>f</i>	15.5 <i>f</i>
Imports (nominal)	<i>b</i>	9.6	44.0	19.3	3.4	4.4	3.6	10.6	1.6	26.6	11.3 <i>f</i>	11.3 <i>f</i>
Govt. spending (nominal)	<i>c</i>	17.3	21.6	22.4	15.0	10.6	18.5	14.9	3.6	12.1	11.3 <i>e</i>	5.9 <i>f</i>
Govt. revenues (nominal)	<i>c</i>	35.3	12.0	-7.2	55.8	18.0	-10.0	12.7	13.1	4.9	15.6 <i>e</i>	11.9 <i>f</i>
Formal employment	<i>s</i>	2.2	-4.5	6.1	6.2	2.3	1.5	3.1	2.3	1.3	1.7 <i>e</i>	2.0 <i>f</i>
Unemployment rate	<i>u</i>	20.9	20.4	19.8	17.8	15.8	19.6	21.7	23.8	24.5	25.0 <i>e</i>	25.2 <i>f</i>
Domestic (bank) credit	<i>b</i>	1.1	5.6	56.1	41.3	17.7	10.7	21.3	10.0	16.1	10.2 <i>f</i>	11.3 <i>f</i>
Interest rates (%)												
BOBC (3 month)	<i>a</i>	12.23	11.40	10.66	11.98	12.71	12.51	14.03	12.74	12.50	11.50 <i>f</i>	10.00 <i>f</i>
Prime	<i>a</i>	14.50	14.00	14.00	14.81	15.75	15.75	16.75	15.75	15.25	14.25 <i>f</i>	14.00 <i>f</i>
Inflation (average, %)												
Rand-Pula	<i>a</i>	1.284	1.278	1.318	1.329	1.411	1.719	1.580	1.488	1.323	1.184 <i>f</i>	1.197 <i>f</i>
US\$-Pula	<i>a</i>	0.274	0.263	0.224	0.216	0.187	0.143	0.183	0.225	0.234	0.199 <i>f</i>	0.183 <i>f</i>
Real Effective Exchange Rate	<i>a</i>	100.0	102.8	97.4	104.3	108.0	111.7	118.1	125.4	125.7	113.4 <i>e</i>	104.3 <i>f</i>
BSE index	<i>a</i>	352	709	947	1,399	1,454	2,455	2,497	2,499	2,889	3,184 <i>f</i>	3,543 <i>f</i>
Balance of Payments (Pm)												
Exports (diamonds)	<i>b</i>	5,272	7,675	6,004	9,843	11,420	11,395	12,499	11,704	13,107	13,949 <i>e</i>	16,130 <i>f</i>
Exports (other goods)	<i>b</i>	2,100	2,620	2,704	2,449	2,230	2,124	2,344	3,266	3,161	3,694 <i>e</i>	4,255 <i>f</i>
Imports (goods, cif)	<i>b</i>	4,879	7,026	8,380	8,664	9,047	9,370	10,365	10,529	13,330	14,834 <i>e</i>	16,510 <i>f</i>
Current account balance	<i>b</i>	1,644	2,634	860	2,859	2,782	3,491	1,245	2,288	3,985	2,057 <i>e</i>	2,820 <i>f</i>
Foreign Reserves												
Pula m	<i>a</i>	19,076	21,619	26,485	28,852	33,880	41,182	29,926	23,717	24,200	28,456 <i>e</i>	31,854 <i>f</i>
US\$ m	<i>a</i>	5,234	5,675	5,941	6,229	6,317	5,897	5,474	5,339	5,653	5,650 <i>e</i>	5,819 <i>f</i>
Govt. spending (Pm)	<i>c</i>	6,092	7,406	9,065	10,427	11,536	13,671	15,710	16,276	18,251	20,311 <i>e</i>	21,504 <i>f</i>
Govt. revenue (Pm)	<i>c</i>	7,395	8,281	7,681	11,963	14,115	12,709	14,318	16,197	16,987	19,639 <i>e</i>	21,966 <i>f</i>
Budget surplus/(deficit) (Pm)	<i>c</i>	1,302	875	-1,385	1,536	2,579	-962	-1,392	-78	-1,264	-672 <i>e</i>	463 <i>f</i>
Govt. balances at BOB	<i>a</i>	7,204	15,364	19,212	20,199	24,740	27,880	16,548	10,530	9,418	8,694 <i>e</i>	10,380 <i>f</i>

Notes: *a* end of period; *b* calendar year; *c* financial year (starts March); *d* statistical year (starts July)
e BIDPA estimate; *f* BIDPA forecast; *p* preliminary data; *s* year to September; *u* % of labour force
 Details of assumptions underlying the forecasts can be obtained from BIDPA.

Sources: CSO, Bank of Botswana, MFDP, BIDPA

This edition of BIDPA Briefing was written by Monnane Monnane
 (e-mail: monnanem@bidpa.bw)
 Published by BIDPA, Private Bag Br 29, Gaborone, Botswana

Tel: (+267) 3971750 Fax: (+267)3971748. Website: <http://www.bidpa.bw>
 While every attempt is taken to ensure the accuracy of the information contained in this document, no responsibility can be assumed for any action based thereon.
 The Botswana Institute for Development Policy Analysis (BIDPA) is an independent, non-government research institute with two main areas of interest: development policy analysis and capacity building. BIDPA's functions include carrying out research and consultancy in the fields of economic and social policy, as well as monitoring the performance of the economy and the management of public policy. BIDPA's clients include government, international organisations, NGO's and companies.

BIDPA's Briefing is sponsored by bifm, Botswana's largest manager of pension and insurance fund assets with over P4 billion under management. Bifm encourages greater public understanding and awareness of Botswana business and economic issues and is therefore delighted to support BIDPA's Briefing, providing independent analysis and economic forecasts to business and policy makers throughout Botswana. The views expressed in this edition of BIDPA's Briefing are those of BIDPA and are not necessarily those of bifm.