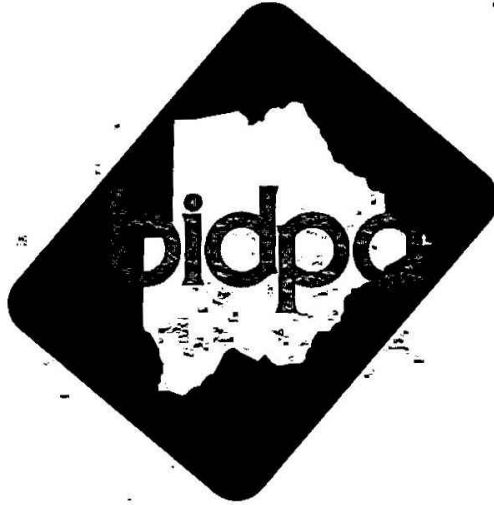


# WORKING PAPER



## BOTSWANA INSTITUTE FOR DEVELOPMENT POLICY ANALYSIS

### REGULATION, PRIVATISATION AND COMMITMENT IN BOTSWANA

A paper presented at BNPC's first Stakeholder Consultative Conference on Productivity:  
Productivity - Key to the future (November 6, 1996).

*Abdalla Gergis*  
BIDPA Working Paper No.6  
August 1997

4753

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Regulation, Privatisation and Commitment  
Gergis, Abdalla; Botswana Institute for  
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### Abstract

This paper briefly highlights the challenges facing Botswana today giving particular attention to the changing role of the state and the need to improve the regulatory environment in order to promote competition among all economic agents and increase productivity. The topical issue of privatisation is briefly touched upon. The paper covers recent economic developments in Botswana, international competitiveness and the search for new engines of growth and the changing role of the state in the economy.

### Keywords

Privatisation  
Productivity  
Competition

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**in**  
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Abdalla Gergis

Botswana Institute For Development Policy Analysis  
(BIDPA)

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## 1. Introduction

1. The conference theme, "*productivity-key to the future*", echoes the national development objective, "*Sustainable Economic Diversification*", stated in Botswana's NDP 8. Sustainable economic growth can only be achieved by efficient allocation of resources among new economic activities (diversification) and efficient use of these resources (producing the most possible output) in the chosen activities.
2. It is widely believed that productivity improvement was not high on the agenda either in the public sector or the private sector during the diamond-led economic growth period. During this period a number of parastatals enjoyed soft budget constraints and became heavily dependent on soft loans from the Government through the Public Debt Service Fund (PDSF) or grants from the development budget. This has led to deteriorating performance and wasteful use of economic resources. Witness, the liquidation of Botswana Co-operative Bank (1995) and restructuring and re-capitalisation of NDB. The Botswana Housing Corporation is also being restructured and reported to be owing P893 million at March 1996 to the PDSF. The slack in productivity could also account for the relatively high cost of utilities in Botswana compared to other countries in the region.
3. The concern over the low (and possibly deteriorating) productivity was manifested by the establishment of Botswana National Productivity Centre to launch a national productivity movement to increase awareness of the problem and to help find the right solutions to it.
4. Arguably, Botswana's future economic development depends mainly upon successful expansion of manufactured products into export markets. Increased productivity is the main key to access new markets and survive the pressures of global competition. The new political situation in South Africa has brought new opportunities and challenges for the Southern African region. Competition is likely to intensify both regionally and internationally during the second half of the 1990s.

5. This paper briefly highlights the challenges facing Botswana today giving particular attention to the changing role of the state and the need to improve the regulatory environment in order to promote competition among all economic agents and increase productivity. The topical issue of privatisation is briefly touched upon. The remainder of the paper is arranged as follows. Section 2 presents recent economic developments in Botswana. International competitiveness and the search for new engines of growth are briefly discussed in section 3. Section 4 summarises the changing role of the state in the economy. Some concluding remarks are presented in Section 5.

## 2. Recent Developments in the Economy

6. Having experienced an annual average real rate of growth of 10% over the period 1981 - 1991, the Botswana economy has slowed down in recent years. The slow down in economic activity can be attributed to both international and domestic factors. On the international side, the world recession in the early 1990s adversely affected the demand for diamonds. Persistent draught in Botswana since 1991 and the contraction of the construction industry in 1992 also have had a negative impact on GDP growth. In fact, a negative rate of growth was recorded in 1992/93. Nevertheless, the economy has recovered moderately, recording positive growth rates of 4.1% and 3.1% in 1993/94 and 1994/95 respectively<sup>1</sup>.

7. The moderate recovery in 1993/94 was attributed to the slow recovery in the world economy and the improvement in commodity prices during that period. Increased international demand for diamonds lead to an improvement in the performance of the mining sector. The mining sector, which accounts for more than a third of GDP, grew by 5% over the period. Following improvements in the international prices of metals in 1993/94, production of copper and nickel also increased significantly.

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<sup>1</sup> Republic of Botswana, Ministry of Finance and Development Planning, "Annual Economic Report, 1996", p. 5.

8. Other sectors contributed to the overall growth of the economy in 1993/94. These included water and electricity, which increased by 9%, trade and hotels by 5%, and financial services by 9.5%. The construction and the manufacturing sectors remained depressed. Output of the manufacturing sector fell by 1.3% while the construction sector grew by only 1% over the period. The construction sector growth represented a significant improvement over the previous year when the sector actually contracted by 15% in 1992/93.

9. However, the overall rate of growth declined in 1994/95. As a result, per capita incomes decreased marginally by 0.3%. The fall was due to a decline in the mining sector, whose value added fell by 1.5% during the year. In contrast, the non-mining GDP grew impressively by 5.5% in 1994/95, compared to 3.6% in the previous year. Apart from agriculture which suffered a decline of 4.6% as a result of drought, all other sectors recorded positive rates of growth. The meagre contribution of agriculture to GDP is likely to shrink further if the Uruguay round of GATT and the European agricultural reform policy ultimately reduce the special privileges which our beef exports enjoy under the Lome arrangement.

10. The manufacturing sector achieved a positive growth rate of 4.3% in 1994/95. Most of this increase was due to rapidly rising exports of non-traditional commodities to South Africa. This consisted mainly of soda ash, textiles, motor vehicles, and foodstuffs. The increase in non-traditional exports to South Africa will to some extent help to redress Botswana's trade imbalance with that country.<sup>2</sup> However, any sustainable expansion of our exports to South Africa is likely to depend heavily on that country's economic performance.

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<sup>2</sup> 80% of Botswana's imports come from South Africa.

11. Although the economy recorded positive growth rates during the last two years, the growth rate was not matched by a significant expansion of employment opportunities. Total formal sector employment stood at 234,500 in March 1995, compared to 231,200 in March 1994. This represents a 1.4% increase over the period, which is less than the GDP growth rate of 3.1% from 1993/94 to 1994/95. Although the employment growth rate would be lower than the GDP growth rate because of increased labour productivity in some sectors of the economy, in the above case it is mainly due to slow growth or decline in sectors which are major contributors to formal sector employment. Two major sectors accounting for this decline were construction and manufacturing. However, employment in the manufacturing sector recovered in 1994/95, when it actually increased by 7.8 %, after three consecutive years of decline. But employment in the construction sector fell again significantly by 15.4% during 1994/95, continuing the trend of decline that began in 1992. The recent drive to improve efficiency by the Botswana Housing Corporation and its consequent retrenchment of employees will certainly dampen any significant further growth in formal sector employment in 1996.

12. Nonetheless, the above figures indicate that the economy is recovering from the depressed conditions of 1992/93, which is likely to be further strengthened by the recent reform measures aimed at resuscitating the economy and providing a firm basis for economic diversification. These measures include the liberalisation of exchange controls, the reduction of corporate tax rates, wage restraint, and the restructuring of parastatals.

### **3. Sustainable Growth and Competitiveness**

13. Economic development in Botswana during the last two decades, though much stronger than in most African countries, has revealed some basic weaknesses of the economy: firstly, the dependence on large mineral projects for further growth; secondly, the vulnerability to changes in world export markets; and thirdly, the dependence on climatic factors.



14. Despite positive growth rates recorded in the last two years, the economy remains comparatively undiversified, with mining and the public sector continuing to dominate. The government's ability to finance major infrastructure projects as well as big improvements in welfare provision continue to be from revenues earned from diamond exports. Sustainable budgeting is likely to be constrained by the ratio of non-investment expenditure to non-mineral revenues which projections show will be above unity by 1996/97.

15. While the mining sector has served Botswana well in terms of wealth accumulation and provision of government revenue, it is clearly unable to address the entire population's development needs. Its indirect benefits to the population in terms of education, health and the development of other infrastructure and social amenities have been great, but it has had little direct impact on employment generation for the majority of Botswana. Mining has only limited linkages with the rest of the economy and it employs a relatively small number of people.<sup>3</sup> In this respect, the failure to diversify the economy rather than relying heavily on diamonds and meat constitutes the most fundamental bottleneck that undermines future growth.

16. The Bank of Botswana argues that Botswana's future economic development depends mainly upon successful expansion into export markets. The domestic market, while prosperous, is too small to provide the necessary impetus for sustained development. Therefore, the health of external markets is of great importance to the economic development of Botswana.<sup>4</sup>

17. However, the international market is becoming global in nature and increasingly competitive. Competitiveness is the rule of the game in today's global market place as a result of the new GATT agreements and the creation of the World Trade Organisation (WTO). Competitiveness, however, does not only mean competition between firms but also competition between systems. The firm is an integral part of a system of linkages which includes its suppliers of goods and services, the financial, educational, technological, energy, transport, telecommunications and other systems, the infrastructure, and the quality of the public sector and of relations within the firm itself.

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<sup>3</sup> The industry tends to be capital intensive. It provided only 3% of formal employment in 1994. See: Sunny, G. and V. Babikanyisa, *The Second Best: The Role and Constraints of the Non-formal Sector in Botswana*, Publication funded by Research and Publication Committee, University of Botswana, Gaborone, Botswana, 1994, pp. 7-12.

<sup>4</sup> Bank of Botswana, *Annual Report 1995*, p. 25.

18. Aiming for a high degree of cost competitiveness requires institutional reforms to cut the cost of doing business. Just as good roads, ports, telecommunications, and other elements of the hard infrastructure reduce transport costs, appropriate institutions form a "soft infrastructure" that reduces transaction costs. Both hard and soft infrastructures are essential if one wants to compete successfully in global markets. Government (and the informal institutions in society) should in this context be treated as a production factor, because the quality of government has a major influence on the productivity of all production factors.<sup>5</sup>

19. The National Development Plan 8 draft targets the expansion of the financial service sector, tourism and export-led manufacturing as new engines of growth that will contain the unemployment problem. Although tourism has been identified as a possible way of diversifying the economy, its potential may be rather limited. The current focus on high cost (high value low volume) tourism, geared towards preserving the fragile natural beauty (the Okavango Delta), entails limited scope for substantial growth. The potential for exporting financial services to the sub-region as an alternative way of economic diversification is also limited by the underdeveloped nature of Botswana's financial market. Much attention has therefore been paid to the potential of the manufacturing sector as the right candidate for becoming the main engine of future growth.

20. Botswana's SACU agreement and her free trade agreement with Zimbabwe made it extremely difficult for her to use either tariffs or quantitative restrictions to protect and promote local industry. SACU is said to have frustrated the industrialisation of its smaller members including Botswana. The depreciation of the Zimbabwe dollar against the pula has destroyed exports to that country.<sup>6</sup> The liberalised environment in which manufacturing firms have to operate entails therefore that they have to be competitive within SACU in order to survive.

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<sup>5</sup> See: Kasper, W., "*Global Competition, Institutions, and the East-Asian Ascendancy*", International Centre for Economic Growth, Occasional Papers, No. 50, 1994, pp. 4-18.

<sup>6</sup> Kanyenze, G., "*Macro and Micro Economic Performance of the Botswana Economy [1980 to 1993/94]*" Friedrich Ebert Stiftung, Botswana Office, 1995, p. 25.

21. In this respect, both the Government and the private sector should co-operate not only with regard to the development of a strategic industrial policy, but also by promoting an entrepreneurial, risk-taking culture that fosters successful start-ups in internationally traded sectors. The existence of large foreign exchange reserves gives Botswana a relative advantage over its neighbours. Its economic and political stability provide additional advantages. However, further economic reform is needed to enhance the country's competitiveness. The role of Government in the economy should be re-evaluated and measures should be taken to improve the performance of the public sector in general and parastatals in particular. Domestic competition ought to be promoted through deregulation and private sector development.

#### 4. The State and the Market

22. The sound and effective management of the economy by the Government of Botswana has been widely acclaimed.<sup>7</sup> The country has pursued a strongly market-oriented development strategy with liberal exchange control rules, freely available import licences and little control over the private sector. Development planning has been a central part of macroeconomic management and Government intervention has been a major factor in speeding up development efforts.

23. A major justification for government intervention in the economy, through either legislation or expenditure, is the view that consumer welfare will not be maximised in all circumstances by leaving private firms to pursue their individual profit-maximising strategies and that costs of government intervention are likely to be offset by the social benefits.

24. Government intervention in the market has also been justified on a variety of non-economic grounds related to the public interest, such as maintaining conditions of equity within the country that are compatible with the values of the society, to develop or maintain a particular industry for reasons of national security or ensure a nation-wide network of services or to protect and encourage the development of a new industry, or, in the case of banking and insurance, to maintain prudential supervision of people's savings.

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<sup>7</sup> See for example:  
 Lewis et. al, "Botswana" in Riddell, R. C., *Manufacturing in Africa: Performance and Prospects of Seven Countries in sub-Saharan Africa*, James Currey, London, 1990.  
 Harvey, C., *Botswana: Is The Economic Miracle Over?*, Institute of development Studies, University of Sussex, DP 298, 1992.

25. The most direct form of Government intervention in the market is the operation of public enterprises. They have been used whenever governments decided to be directly involved in the provision of marketable goods or services.

a.            Public Enterprises<sup>8</sup>

26. Public Enterprises (PEs) are defined as government owned and/or controlled economic entities that generate the bulk of their revenues from selling goods and services. This definition encompasses enterprises directly operated by a government department or those in which the government holds the majority of the shares directly or indirectly through other State Owned Enterprises. It also encompasses enterprises in which the State holds a minority of the shares, if the distribution of the shares leaves the government with effective control.<sup>9</sup>

27. In Botswana, the establishment of PEs or parastatals started after independence and could be justified by the natural monopoly argument. At independence in 1966, Botswana was a very poor country with a very small population of about half a million people and with very little or no economic base except for the meat industry<sup>10</sup> and there was almost no prospect for private investment.

28. With the discovery of diamonds and copper-nickel, the revenue from the mining sector was used by government to provide social amenities. Besides its normal functions<sup>11</sup>, the Government had to provide public utilities: electricity, water and telecommunications. This led to the establishment of the Botswana Power Corporation (BPC), the Water Utilities Corporation (WUC), and the Botswana Telecommunication Corporation (BTC). Later, the Botswana Housing corporation was established to provide urban mass housing and the Botswana Agricultural Marketing Board (BAMIB) was created as an agricultural marketing network. The need to develop the transport network led to the formation of Botswana Railways in 1987 and Air Botswana in 1988.

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<sup>8</sup> Henceforth, the term Public Enterprises (PEs), State-Owned Enterprises (SOE) or Parastatals will be used interchangeably.

<sup>9</sup> The World Bank, *Bureaucrats in Business: The Economics and Politics of Government Ownership*, Oxford University Press, 1995, p. 26.

<sup>10</sup> The only significant formal sector of economic activity prior to independence was the Botswana Meat Commission (BMC) abattoir, which had been established by the colonial Government in 1954.

<sup>11</sup> Provision of public goods such as roads, education, national defence, police, and health services.

29. To speed up development efforts, with very little private sector presence in trades and other commercial activities, the government found it also necessary to develop and support these functions within its own organisation. Repair and maintenance operations, construction services including architectural services, publishing, and many office services and functions were developed within the Government sector. In short, Government played a dominant role in the economy and was the main employer. Private sector development was not given a top priority.<sup>12</sup>

#### Size and Importance of PEs in Botswana:

30. It has been noted that "non-financial parastatals play an extremely important role in the economy, and aside from two mining companies - Debswana and BCL (the copper/nickel mining company) - are some of the largest institutions operating in Botswana".<sup>13</sup>

31. Has this role changed over time and how big is the PE sector?

32. The answer depends somewhat on which measure is used. The number of PEs does not take into account variations in size and may in fact be misleading. A better indicator would be PE investment, but this is also problematic in that it does not capture the effect of past accumulation of capital along ownership lines. On the other hand, the number of PE employees as an indicator masks capital intensity of PEs and the extent of labour redundancy. The best indicator of the relative size of PEs is probably value-added.

33. Since there is no single exact measure of the relative size of PEs in the economy, it would be wise to consider more than one measure in assessing the importance of the public enterprise sector in economic activity. Following this wisdom, table (1) below presents an overall picture of the relative size of PEs in Botswana based on the available data.

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<sup>12</sup> Nevertheless policies and programs such as FAP and RIPCO were put in place to attract private investment.

<sup>13</sup> The World Bank, "Botswana: Financial Policies for Diversified Growth", Report No. 7690-BT, August, 1989., p. 134.

Table (1)

## Size and Importance of Public Enterprises in Botswana

(Percentage)

Years	Share in GDP	Share in Gross Domestic Investment	Share in Total Employment	Share in Domestic Credit	Share in External Debt
1978	7.3	9.1	n. a.	4.5	1.1
1979	7.3	6.6	n. a.	0.3	2.1
1980	3.2	6.4	n. a.	1.6	2.3
1981	4.5	11.6	n. a.	3.3	9.1
1982	6.6	14.1	n. a.	5.3	10.7
1983	5.7	23	n. a.	8.3	8
1984	4.7	26.9	n. a.	7.7	9.3
1985	6.1	43.6	7.6	11.3	20.6
1986	7.7	9.5	6.2	12.5	29
1987	9.1	18.4	5.8	7.9	30.3
1988	9.1	28.6	6.6	7	27.6
1989	8.1	20.8	6	10.4	25.6
1990	7.7	17.7	5.7	7.5	22.2
1991	9.7	20.6	5.3	5.8	21.5

Source: The World Bank, *Bureaucrats in Business: The Economics and Politics of Government Ownership*, Oxford University Press, 1995, Tables A1 - A10, pp. 268-309.

34. From table (I), it is clear that PEs in Botswana account for about 10% of GDP while their share in total employment is less than 6%. However, their shares in total investment and external debt exceed 20%. Furthermore, a closer look at the data would reveal that, by almost all measures, the size of the public enterprise sector has doubled in ten years between 1981 and 1991.

35. Nonetheless, the size of the PE sector in Botswana is relatively small by African standards. The size of the PE sector is typically larger than this in many other African countries. The African average contribution of PEs in total employment reached 23 % in 1991, and averaged 14% of GDP and 27% of total investment over the period 1978-91<sup>14</sup>.

36. The role of PEs in the economy of Botswana has been increasing over time despite public policies adopted to create an enabling environment and to encourage private sector development such as the Financial Assistance Policy (FAP) and the Rural Industrial Promotion Company (RIPCO).<sup>15</sup> Future Government policies should therefore focus more on promoting a competitive environment (disciplined by necessary regulations) and less on ownership of business and provision of goods and services through the expansion of the public sector.

#### Performance of PEs:

37. While not all PEs in Botswana are pursuing commercial objectives, their successes (or failures) have generally been judged by their financial profitability. For example, Kanyenze (1995) identifies successful parastatals by their ability to report positive net income. Based on that criterion alone, scattered evidence suggests that the profitability of Botswana's public enterprise sector is a considerable achievement given that a high proportion of PEs in developing countries are loss makers.<sup>16</sup> One reason for this success has been the policy that, in general, parastatals should be run according to commercial principles. Pricing policies in the larger parastatals (BMC, public utilities, Air Botswana, and Botswana Railways) have been aiming at covering costs and making a target rate of return on capital.<sup>17</sup>

<sup>14</sup> For further discussion of the importance of the PE sector world-wide, see: *Ibid.*, pp. 28-33.

<sup>15</sup> See more on that below.

<sup>16</sup> See: Jefferis, K., "Public Enterprise and Privatisation in Botswana" in Clarke, T., "International Privatisation Strategies and Practices", Walter de Gruyter, Berlin, 1994.

<sup>17</sup> Two of these commercially-oriented parastatals (Air Botswana and Botswana Railways) are currently loss makers.

38. Financial profitability as an indicator of performance, however, is not a measure of efficient allocation of resources. PEs typically pursue many non-commercial objectives that may not be quantifiable. Furthermore, a large proportion of parastatal financing in Botswana has been provided by the Government (through the Public Debt Service Fund loans) at relatively low, sub-commercial interest rates. Their cost of capital is therefore underestimated and their financial profitability would be overstated in this case. That Botswana's utilities provide relatively expensive products is not surprising either since prices reflect both the monopoly power of those parastatals in addition to the cost of inputs. Thus while like a private enterprise, a public enterprise must be evaluated, a public enterprise must not be evaluated like a private enterprise. To distinguish good from bad performance of PEs, additional indicators such as productivity and saving-investment gaps should be used.

39. Improving performance evaluation is a critical component of any systematic PE reform package to improve operational efficiency. Without performance evaluation, one cannot provide incentives, delegate autonomy, or consider alternative policy actions.

#### D. The Regulatory Environment

40. In mixed economies, Government intervention in the market may also be indirect. That is, the government may try to correct for market failures through regulation of economic activities undertaken by private firms or individuals. In Botswana, regulatory issues fall into five main areas:

- Price Regulations
- Provisions under the Non-Citizens Act which require that foreigners hold valid work and residence permits in Botswana.
- Licensing through the Licensing Boards in the Ministry of Commerce and Industry.
- Regulations for obtaining land through the land boards.
- Restrictions on employment under the Employment Act.

41. Each of these areas will in turn be discussed briefly.

#### **Price Regulations**



42. The price policy that existed in 1989 was governed by the goal of protecting consumer interests whenever there was insufficient competition to control traders profit margins, and whenever widely consumed commodities such as paraffin, blankets, clothing and basic foodstuffs were involved. The main components of price policy were, by implication, the promotion of competition and the regulation of profit margins where competition was inadequate to protect consumers. The main instrument of price control where competition was judged to be inadequate was the *Control of Goods (Trading Margins) Regulations (1975)*, which authorised the Ministry of Commerce and Industry to control consumer prices in such cases through the regulation of profit margins.<sup>18</sup>

43. The Incomes Policy Commission of 1989 found that the existing price policy had been interpreted in a much more restrictive way than originally intended. It had been assumed that the 'normal mechanism of competition' was absent not just in some special cases, but for practically every good sold in Botswana. The regulations had therefore been used to restrict the wholesale and retail mark-ups on almost all commodities traded. Moreover, margins had been established with a view to achieving a particular distributional outcome. Under the regulations, permissible mark-ups varied widely from one category of goods to another depending on their importance in satisfying the basic consumption needs of low income households.

44. Examples of Government interventions in pricing decisions of parastatals are also widespread. The rents set by the Botswana Housing Corporation (BHC) have to be approved by Government. The re-balancing of Botswana Telecommunications Corporation (BTC) tariffs is under Government consideration. The Agricultural Marketing board (BAMB) sets prices which are subject to Government approval. Changes in the fees and tariffs charged by Botswana Railways have to be approved by Government.

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<sup>18</sup> Charles Perrings, "Sustainable Development and Poverty Alleviation in sub-Saharan Africa: The Case of Botswana", ILO Studies Series, ILO 1996, P. 116-118.

45. The 1989 presidential commission accepted the underlying principle in the original Incomes Policy that product price should not be regulated by the Government except where there existed evidence of monopolistic exploitation of consumers, or where the Government had itself granted a monopoly. It also observed that in most industries, and in most areas, the primary conditions for competitive pricing of goods and services did exist in Botswana. Accordingly, it recommended that price controls be lifted on all commodities at the wholesale level, and that prices be directly controlled at the retail level only where there existed hard evidence of monopoly exploitation. It argued that prices should be regulated indirectly whenever possible, by encouraging competition. Indeed, it was argued that the first responsibility of government was to create the conditions for competitive pricing including free and unrestricted entry and exit of firms into the market, the promotion of consumer awareness of market conditions, and the provision of adequate infrastructure particularly rural transport.

46. What is important about the commission's findings is its conclusion that intervention in the price mechanism to deliver support to low income people was fundamentally flawed. It argued, quite correctly, that if the Government wished to support groups such as remote area dwellers, it should do so directly, and not by the introduction of generalised price controls which had distortionary effects across the whole economy. In addition, it argued that if it was desirable to deliver income support, then that support should be closely targeted.

#### **Work and Residence Permits**

47. There is some concern over the slow bureaucratic procedures regarding the work and residence permit system for expatriates in Botswana. The regulatory environment remains highly restrictive although some streamlining procedures have been adopted. These include matching work permits to the period of the worker's contract; exempting expatriates in parastatals from applying for work and residence permits; increasing the maximum duration of a residence permit from three to five years; making permanent residence available to those who have been residents for ten or more years; providing six month waivers for expatriates so that they can commence working while waiting for a work permit; and, providing potential investors with longer term visitors permits (three months).

48. Given the current need for expatriate skills to speed up economic growth, these regulations have an important impact on investors because of the limited supply of skilled labour among the citizens of Botswana. The very high relocation costs in addition to bureaucratic constraints on work and residence permits cause companies to try and minimise their use of expatriate workers.<sup>19</sup> A restrictive labour permit allocation and regulation system may also have a negative impact on potential foreign investment.

#### Industrial and Commercial Licenses

49. Industrial property legislation covers laws regarding copyrights, patents, design protection and trade marks. Under the Botswana laws, an investor or a trader, whether a Botswana citizen or not, is obliged to apply for and be issued a patent or industrial design or trade mark registration in the United Kingdom or South Africa. Only then, he or she may be registered in Botswana. The local legislation simply extends the protection provided in those countries. New legislation has been developed to permit the original registration of intellectual property in Botswana and to bring the coverage into line with international standards. As a result, "a new Industrial Property Act has just been passed, and a new Companies Act and a new Copyright Act are planned before the end of NDP 7. These are expected to fulfil Botswana's obligations under Treaties with the World Trade Organisation and the World Intellectual Property Organisation."<sup>20</sup>

50. The Ministry of Commerce and Industry administers the Industrial Development Act of 1968 and the infant industry protection clause of the Southern African Customs Union Agreement (SACUA). The ministry also inspects manufacturing industries to ensure that licenses are used for their intended purpose. It also checks against illegal manufacturing practices. During the NDP 6 and prior to 1988 all manufacturers with more than twenty-five horse power of installed equipment were required to have a manufacturing licence.

<sup>19</sup> This may also be considered an unintended source of inefficiency.

<sup>20</sup> Special National District Development Conference Papers on NDP 8, Ch. 7, para 7.15.

51. The Industrial Development Act of 1968 was comprehensively reviewed in 1988 and extensively modified. The main change was the establishment of an independent National Industrial Licensing Authority with membership appointed by the Minister of Commerce and Industry. The Authority is responsible for the issuance of licenses to manufacture any product for sale anywhere in Botswana and, where necessary, the suspension or cancellation of such licenses. It is also responsible for the inspection of industrial enterprises to ensure that they comply with regulations made under the Act and the labour law.

52. The 1988 Act required that all locally-owned manufacturing enterprises employing ten people or more and/or using 20 kw or more of any form of energy, to obtain an industrial license from the Ministry of Commerce and Industry. For non-citizens, such a license is required irrespective of the number of employees or the horse power of their machinery. The applicant must be specific in the description of the product to be manufactured. Should a manufacturer wish to extend the product range, or introduce a new product, a new license is required.

53. Granting an exclusive license in special circumstances was permitted under the 1988 Act, thereby preventing the establishment of any competitive business. Such licenses were granted for a maximum period of four years but could be extended for an additional four years.<sup>21</sup>

54. Under the industrial reservation policy, a number of industries which require relatively simple technological skills and low levels of capital were reserved for citizens. These include the manufacture of school uniforms and school furniture, burglar alarms, protective clothing, cement and baked bricks, and the milling of sorghum and the baking of bread. Such a policy is also anti-competitive but only against foreigners.

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<sup>21</sup> Three firms were given such a license during NDP 6. See: The World Bank, *Opportunities for Industrial Development in Botswana: An Economy in Transition*, Report No. 11267-BT, April 1993, p. 27.

55. The Trade and Liquor Act 1986, requires that individuals who engage in any trading activity must operate under a license. Trading licences and liquor licenses are differentiated in the Act. As in the case of manufacturing licences, some activities are reserved for citizens. These include fresh produce, general dealers, butcheries, and bars and bottle stores. The National Licensing Authority is responsible for the issue and renewal of licenses for agents, hotel liquor, auctioneers, drillers, exporters/importers, and external representatives. Local authorities, which are located at city, district and town council offices, issue and renew licences for dry cleaners, filling stations, fresh produce, pharmacists, garage/workshops, general trading, hair dressers, motor dealers, travel agents and other local businesses.

56. The existing licensing system has been widely used to inhibit competition. The Licensing Authorities were required to publish all applications and to consider any objections to these applications, and existing producers were thus encouraged to object; to verify that applications did not contravene zoning or planning regulations; that the applicant had no more than three other licenses, and was not an unrehabilitated insolvent, a minor, or convicted of an offence involving dishonesty. In addition, the Licensing Authorities were required to determine whether an application was 'in the public interest' - a requirement which provided enormous scope for inhibiting competition. On top of this, they were required to ensure that licenses are only issued to Botswana where the activity was 'reserved'.

57. To promote competition, the existing system of licensing should be reviewed so as to prevent licensing being issued to grant monopolies, to relieve the Licensing Authorities of the obligation to make commercial judgements about applications, to make it impossible for existing license-holders to object to the granting of a license to a business rival, to separate the granting of licensing from the protection of the public interest, and to eliminate delays in the granting of licensing.

### Land Regulations

58. Regulations in obtaining land through the various land boards add a further layer of regulatory bureaucracy to an already cumbersome process. Even though the 1990 Incomes Policy Paper recommends an improvement in the efficiency of the departments responsible for the allocation of land, the implementation of the proposal may remain problematic.

59. The Ministry of Commerce and Industry, Tswelelo, and some local authorities have attempted to alleviate the shortage of serviced industrial and commercial plots by providing factory shells for small and medium scale enterprises. The Botswana Development Corporation also provides factory shells although the rents are considered high by small local investors.<sup>22</sup>

### **The Employment Act and Labour Policy**

60. The original Incomes Policy of 1972 adopted a clear position of wage restraint in the labour market. The aims of Government intervention, with respect to wages, were to promote the objectives of rural development and employment creation and to limit monopsonistic pricing in the labour markets and monopolistic pricing in the product and housing markets. Structural limitations, such as the small size of the market and the underdeveloped infrastructure, have restricted competition.

61. However, as the economy grew and became more diversified by the end of the 1980s, it was appropriate to revise the Incomes Policy. The review culminated in Government Paper No. 1 of 1990, *The Revised National Policy on Incomes, Employment, Prices and profits*<sup>23</sup>, which outlined revised policies in five broad areas:

- Relative wages between urban and rural areas, and salaries among Government, parastatals and the private sector, were allowed to reflect market forces.
- Parastatals were allowed some wage freedom within broad limits set by Governments.
- The salary structure within the Government was decompressed in order to retain highly qualified personnel:
- The modified wages and salaries structure rewards greater responsibility and offers attractive incentives to develop professional and technical skills.
- Higher rewards would induce students to choose vocational, technical and professional courses of study thereby increasing the supply of scarce skills.

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<sup>22</sup> Ibid., p. 62.

<sup>23</sup> Prior to this revision, the *National Policy on Incomes, Employment, Prices and profits* was revised and reviewed two times, in 1976 and in 1982/83. Ibid., p. 21

62. The minimum wage system establishes differentials according to major industries and occupations. These wages are only applicable to employees in the formal sector. The application of a minimum wage in the informal sector is hard to enforce and could limit job creation. Minimum wages have increased steadily between 1980 and 1991 largely to adjust for changes in the cost of living.

63. It has been the Government policy to encourage the participation of employers and employees in formulation policies on labour issues. This is reflected in the composition of the Labour Advisory Board, the National Employment, Manpower and Incomes Council (NEMIC), the Minimum Wages Advisory Board and other bodies. Government also considers it an important responsibility to maintain industrial peace between employers and employees. It assists the process of collective bargaining, encourages the formation of representative organisations, and acts as arbiter of last resort.

64. This policy has been reasonably successful and Botswana has enjoyed a relatively high degree of industrial peace. The Government has involved itself directly in the maintenance of adequate levels of wages, industrial labour protection, industrial safety and other aspects of labour protection. Management interests are represented by the Botswana Confederation of Commerce, Industry and manpower (BOCCIM). The Botswana Chamber of Commerce and Industry (BCCI) has also been established to represent the interests of small locally owned businesses. The interests of labour are represented by the Botswana Federation of Trade Unions (BFTU).

65. While the number and extent of Government regulations on the business sector have been significantly reduced in recent years, the regulatory environment requires further improvement. There continue to be possibilities to reduce and rationalise regulatory procedures. The bureaucracy surrounding work and residence permits for expatriates continues to be slow; the waiver systems are still not operating adequately; and, there is a lack of efficiency in the departments responsible for the allocation of land. All these issues need to be addressed.

66. Furthermore, there is a need to monitor the industrial and commercial licensing system and simplify procedures. Continued efforts should be made to eliminate, simplify, or where possible combine application forms and permits so that they could be provided at the same place. Public sector monopolies for both domestic and export markets should be eliminated where possible. Such measures would provide further freedom and scope for the private sector to grow.

### c. Privatisation and Private Sector Development

67. Botswana's success in the 1980s - its phenomenal growth and wealth accumulation due to the revenue contributions from the mining sector - illustrates that the country has a significant development potential. The mini-boom in manufacturing investment in the late 1980s goes some distance to proving that there is an opportunity for future prosperity by capitalising on successes and minimising failures. Today, with relatively well developed infrastructure and social services, the strategy for continued economic development entails the reliance on an enterprising and dynamic private sector. The liberalisation of markets will promote competition thereby improving productivity and reducing production costs.

68. A number of public sector organisations and programs have been created to support private enterprise development. These include the Financial Assistance Policy, the Local Preference Scheme, the Integrated Field Services, the Rural Industries Promotion Company, the Botswana Technology Centre, the Industrial Extension co-ordinating Committee, the Industrial Development Advisory Committee, the Botswana Development Corporation and the National Development Bank. There is also a continued dialogue between representatives of the private sector such as BOCCIM and Government representatives to discuss private sector concerns and develop policies to enhance private sector development.

69. Current Government policy also seems to be focused on creating an environment conducive to private sector development and expansion. Moving in that direction, the macroeconomic outline for NDP 8 states<sup>24</sup>:

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<sup>24</sup> Republic of Botswana, Ministry of Finance and Development Planning, "Macroeconomic Outline For National Development Plan 8", July, 1996, p. 33.



A review of the size and structure of the current public service will allow for decisions to be taken on which parts of the public service should be privatised. Government will institute a scheme for privatisation during NDP 8. Privatisation of some parts of Government will be undertaken methodically through the establishment of targets. As some parts of Government are privatised, Government will encourage the development of new private firms in order that they can expand and undertake productive investment on their own. It is through continued private sector investment that long run economic growth can be assured.

70. Privatisation<sup>25</sup>, therefore, should be considered as a complement to, and not a replacement for the other aspects of the development of the private sector. Several elements of reform policies are addressed in the draft NDP 8 and the draft New Industrial Development Policy. However, both documents stop short of clearly defining a specific strategy for privatisation and improving the performance of Government departments and parastatals in Botswana.

71. The current debate on privatisation in Botswana seems, however, to focus on a solution to a problem that is not well defined. Before talking about privatisation, one needs to answer the question: what is wrong with State-Owned Enterprises and have they outlived their missions? Privatisation is not an end in itself. Rather it is one instrument available to the policy maker aiming at increasing efficiency and productivity. Monitoring the performance of parastatals and reviewing their mandates with a view to reforming them is perhaps the right starting point in any serious attempt at public enterprise reform.

72. At the present state of the debate over privatisation in Botswana, it would perhaps be useful to draw on accumulated wisdom and lessons from international experience with regard to public enterprise reform and privatisation. Failed reform attempts can be very costly. For example, money spent to restructure bad debt is wasted if the enterprise fails to improve. Empirical evidence suggests that<sup>26</sup>

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<sup>25</sup> Privatisation can be defined as the transfer of ownership and /or management of State-owned enterprises to the private sector. Transfer of ownership is done by the sale -- full or partial -- of ongoing concerns, or sale of assets following liquidation. Privatising management but not ownership is done through management contracts, leases, and concessions.

<sup>26</sup> The following list is not exhaustive. For more, see for example:  
 Yuen, N. C. and N. Wagner, "Privatisation and Deregulation in ASEAN: An Overview", ASEAN Economic Bulletin, March 1989, pp. 209-223.  
 The World Bank, "Bureaucrats in Business", op. cit.  
 Shirley, M. and J. Nellis, "Public Enterprise Reform: The Lessons of Experience", Economic Development Institute, The World Bank, 1991.  
 The World Bank, "Privatisation: The Lessons of Experience", Country Economics Department.

- the primary goal of privatisation should be the promotion of competition, increasing productivity and fostering a supportive environment for entrepreneurial development.
- the success of privatisation efforts entails the implementation of a complete economic policy reform program. This includes market liberalisation by removing trade and foreign exchange restrictions, removing barriers to entry and promoting competition, financial sector reform, eliminating wage and price distortions and reducing bureaucracy and improving the incentive structure in the public sector.
- a well-functioning legal framework is essential to successful privatisation. This entails developing important aspects of business legislation (such as property law, competition law, corporate law, dispute settlement, etc...) defining property rights, modifying the legislation of State-owned enterprises to be privatised, and developing laws for organising the privatisation process.
- weak capital markets make it imperative that the financial prerequisites for privatisation be assessed carefully and included in the design of sales. The participation of foreign investors may enhance the possibilities of raising maximum revenue, but may also cause nationalistic sentiments to increase.
- privatisation of enterprises producing tradables in competitive or potentially competitive sectors such as agriculture, manufacturing and airlines is easier and likely to bring rapid economic benefits.
- privatisation of enterprises operating as natural monopolies (utilities) in countries where capacity to regulate is low is likely to have an adverse effect on consumer welfare. But even when monopolies are retained in public hands, competitive activities can be separated out (such as cellular services and equipment production in telecommunications) and services provided in-house can be competitively bid. For example, a private company collects tariffs for a public water company in Venezuela and in Thailand, the Petroleum Authority leases cars and drivers under competitive markets.

a. Commitment to Reform

73. In the three decades since independence, the Government's role in the economy has changed subtly. Many of the goods and services that were provided by the Government in the early years continue to be provided in that way, but far less effectively or at higher costs. For example, the average waiting time for a telephone line remains several months; post office boxes are difficult to obtain in Gaborone; the deficit of the Agricultural Marketing Board is 24% of sales; the Botswana Housing Corporation is unable to cover its costs; and the presence of the Central Transport Organisation's fleet of vehicles and maintenance facilities has precluded the development of private alternatives<sup>27</sup>.

74. The task of Government in co-ordinating activities to promote economic development is becoming far more complex, but the Government of Botswana seems to be somewhat committed to public sector reform. Recognising the deteriorating performance of parastatals, it has established a Public Enterprise Monitoring Unit (PEMU) as a first step in the process of PE reform.

75. When the finance minister, Festus Mogae, presented his budget on February 12, 1996, he sent a fierce warning to parastatals to improve their efficiency and productivity. He threatened to sack board members and chief executives who fail to pull their weight, and announced that the days of freely available loan funds from the Public Debt Service Fund were over. The fund is to be turned into a revolving facility without any new injection of cash. This will force parastatals with large cash needs to the private sector for finance, and they will have to demonstrate efficiency and capacity to service debt in order to obtain that finance.

76. The minister reiterated his commitment to the maintenance of a stable macroeconomic environment, including the reduction in the share of Government expenditure as a proportion of GDP from its current 40% and a guarantee of positive real interest rates.<sup>28</sup>

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<sup>27</sup> Bank of Botswana, *op. cit.*, p. 48.

<sup>28</sup> The Economist Intelligence Unit, "Country Report: Botswana & Lesotho" 2nd quarter 1996, p. 9.

77. The economic environment is paving the way to PE reform in Botswana, but the country's readiness to undertake the necessary reform actions hinges upon political desirability. The World Bank identified two indications that reform has become politically desirable to the leaders and their constituencies:<sup>29</sup>

- *A change in regime or coalition.* If the governing regime or coalition changes, there may be a window of opportunity but only if the new governing group does not depend so much on PEs that its survival would be threatened by reform.
- *A fiscal or economic crisis.* Even governments that rely on PEs for support may still reform if a severe crisis makes the status quo un-affordable. How serious does a crisis need to be for a change to become desirable? This of course entails subjective judgement.

78. Neither of these two indications currently exist in Botswana. This may explain why the reform process has been very slow despite increasing recognition of the need to start it.

## 5. Concluding Remarks

79. Economic development in Botswana during the last two decades, though much stronger than in most African countries, has revealed some basic weaknesses of the economy: firstly, the dependence on large mineral projects for further growth; secondly, the vulnerability to changes in world export markets; and thirdly, the dependence on climatic factors.

80. In this respect, both the Government and the private sector should not only co-operate to develop a strategic industrial policy but also to promote an entrepreneurial, risk taking culture that fosters successful start-ups in internationally traded sectors. The existence of large foreign exchange reserves gives Botswana a relative advantage over its neighbours. Its economic and political stability provide additional advantages. However, further economic reform is needed to enhance the country's competitiveness.

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<sup>29</sup> The World Bank, "Bureaucrats in Business", op. cit., p. 234.

81. While the number and extent of Government regulations on the business sector have been significantly reduced in recent years, the regulatory environment requires further improvement. There continue to be possibilities to reduce and rationalise regulatory procedures.

82. The role of PEs in the economy of Botswana has been increasing over time despite public policies adopted to create an enabling environment and to encourage private sector development. Future Government policies should therefore focus more on promoting a competitive environment (disciplined by necessary regulations) and less on ownership of business and provision of goods and services through the expansion of the public sector. Measures should be taken to improve the performance of the public sector in general and parastatals in particular. Domestic competition ought to be promoted to improve productivity. Privatisation should only be considered as an instrument (out of many) available to the policy maker aiming at increasing efficiency and productivity.

83. Finally, there is a need for a strong commitment on the part of Government to embark upon comprehensive economic reform including even unpopular measures. The economic environment has paved the way to public enterprise reform, but political desirability seems to be lacking at least for now.

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