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DOCUMENT ON  
THE ECONOMIC POLICY AND THE  
DEVELOPMENT STRATEGY OF THE  
REPUBLIC OF BOTSWANA\*

prepared by

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9/42

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\* The views expressed in this paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO. This document has not been edited.

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## 1. INTRODUCTION

The Republic of Botswana became an independent nation on 30 September 1966. It is a landlocked country in the centre of the Southern African plateau with a land area of 582,000 square kilometres (224,724 square miles). Situated between 17 degrees and 27 degrees South latitude (it straddles the Tropic of Capricorn) and 20 degrees and 30 degrees East longitude its surface area is almost 70% covered by the arid sands of the Kalahari (Kgalagadi) Desert with a mean altitude of 1,000 m or 3,280 feet above sea level. The country shares borders with Zimbabwe to the North East, South Africa to the South and South-East, Namibia to the West and Zambia in the North whilst in the North-West it is separated from Angola by the Caprivi strip.

### 1.1. Geography and Environment

The climate is mainly arid or semi-arid with average annual rainfall ranging from 650 mm in the extreme North-East to below 250 mm in the extreme South West occurring during the summer months of October to April. The average temperature ranges from a maximum of 33 degrees Celsius to a minimum of 19 degrees Celsius in January and maximum of 22 degrees to minimum of 5 degrees Celsius in July with the lowest temperatures confined to southern and South-Western parts of the country.

In the North-West the Okavango River drains inland from Angola forming an extensive delta. In the central North-East are the calcrete plains bordering the Makgadikgadi pans whilst on the Eastern margin adjacent to the Limpopo drainage system cutting across the North South railway line with more fertile soils than elsewhere is where most Botswana live. High evaporation and transpiration rates and irregular annual rainfall have accentuated the existing problem of water shortage. Away from the Okavango Delta surface water is scarce and because of its absence or unreliability in most parts boreholes are an important source of supplies; there are an estimated 5,000 such boreholes in use.

### 1.2. Population

The population of the country is now estimated at 1,357,600 people most belonging to the Setswana speaking tribes, though English is the official language of Government business. The last census in 1981 put the population at 941,027 and growth over the past ten years has been 44.3% or an annual rate of 3.4%. The next census is due this year and already projections for 2001 are for 1,894,193 people. Although the population is small relative to the country's size it is growing rapidly, density having risen from 1.6 per square kilometre in 1981 to a projected 2.3 per square kilometre in 1991. Population density one of the lowest in Africa is low in comparative terms but most people live in the East of the country where land and water resources are best, and density for the non-desert land area is 7.9 per square kilometre. The structure of the population reveals a high proportion of children and young people with 52.8% in the 1-15 years age group in 1981 and 50.6% in 1991, and females outnumbering males in the ratio of 52:48.

### 1.3. Resources

#### 1.3.1. Natural Resources

As indicated earlier, arable land is scarce, less than 5% of the country's land area is estimated to be cultivable, mostly in the freehold farming areas in the East. Much more of the land area is suited to extensive beef production and cattle outnumber humans by two to one. Botswana also has an important tourist attraction in National Parks and Game Reserves - Chobe National Park which has large game and the Okavango Delta which has beauty and natural wildlife.

#### 1.3.2. Mineral Resources

The Eastern part of the country, having a good rock exposure, is adequately mapped, while the remaining 80% is not well mapped because of inadequate rock exposure. Copper-nickel is mined at Selebi-Phikwe and Selkirk though other potentially exploitable resources are known to exist. Coal is mined at Morupule and resources of billions of tonnes have been proved. Diamond pipes at Orapa, Letlhakane and Jwaneng are in production and a diamond manufacturing factory (i.e. cutting and polishing) will be established at Serowe. The Orapa pipe is reputed to be the second biggest producing pipe in the world in terms of area (after Tanzania's Madoi pipe), whereas the Jwaneng pipe is much smaller in terms of area than Madoi and Orapa pipes, its production is a lot higher. Salt and soda Ash deposits at Sua Pan are effectively unlimited.

Numerous other minerals such as chromate, silver, graphite, iron, kaolin, limestone, lead, uranium, zinc, semi precious stones and gold are known to occur in significant quantities.

### 1.4. Communications

Railway lines running North and South link Botswana with South Africa and Zimbabwe, and so with sea ports, important for a land-locked country, and also carry a substantial portion of the total freight traffic within the country. Regular air services connect Gaborone, the capital, with Johannesburg in South Africa, Lusaka in Zambia and Harare in Zimbabwe, Maseru in Lesotho, Maputo in Mozambique, Mbabane in Swaziland, Luanda in Angola and Windhoek in Namibia and Nairobi in Kenya. International flights are linking Botswana with continents other than Africa. Internally the capital is connected with Selebi-Phikwe and Francistown to the North-East and Maun in the North. The road network has been greatly improved since independence with 20,000 kilometres of good roads. International Telecommunications links exist with neighbouring and overseas countries as well as internally and these, especially the latter, are being improved.

### 1.5. The Economy

Botswana's economy is very open, with imports and exports each exceeding 50% of GDP. During the last years, the country's economic growth rate continued to be one of the most rapid in Africa.

The extraordinary economic performance was overwhelmingly due to the revenues from diamond exports, in large measure a windfall gain. Non-diamond exports during NDP6 were almost exactly at the forecast level, although copper-nickel exports were above, while meat and meat products and other exports (including expected soda ash production) were below plan projections. Accordingly, while the Botswana economy has been growing so rapidly, it has also become more depend on the minerals sector, which is dominated by diamonds.

The economic projections for the 7th National Development Plan (1992-1997) have come to be based upon the Macro-Economic Model of Botswana (MEMBOT). Accordingly, four scenarios were prepared and reported in the Macro Outline for NDP7. The four scenarios include: continued rapid growth of a government expenditures; tapering off of the rate of growth of government expenditures; optimistic mineral forecast with gradual real increase in diamond prices; and pessimistic mineral forecast with gradual decreases in diamond prices.

Botswana faces quantifiable and unquantifiable risks associated with the projections, some of which could have adverse effects on the economy, and others which could lead to more favourable outturns and future opportunities. The quantifiable risks include, for example, the possibility of deterioration in terms of trade or the onset of drought. Other risks are unquantifiable and they include the possibility of supply disruptions or the inability to obtain access to markets due to unfavourable developments in other countries. Risks of this nature are very real in Botswana's circumstances, and it is precisely because of such risks that Botswana needs to maintain a reasonable level of contingency reserves.

### 1.6. Education and Training

Although Botswana enjoys a high literacy rates as compared with those of the rest of Africa, there are problems related to shortages of scarce manpower which can be put in the context of rapid and sustained economic development and the paucity of such manpower at independence. With a view to solving such problems, one of the four stated objectives of the education programme for the 1985/91 Development Plan was "to prepare Botswana for useful and productive lives with emphasis on training to meet the manpower needs of the economy" recognizing that "one of the pre-requisites of sustained economic growth is the availability of skilled and productive manpower and, especially in Botswana, there is an increasing need for skilled manpower in all sectors of the economy ..."

Recurrent expenditure on education was planned to increase from 22% of the total to 27% and enjoy an annual growth of 11% in real terms, the highest for all sectors, at the end of the plan period, whilst development expenditure was projected to average P30 million per annum with priority being given to "improvement of the quality of education with particular emphasis on science education" and "growth of university enrolments related to the nation's

manpower needs." The number of degree students increased from 232 in 1985 to 458 in 1990. It is expected that the number of students enrolled at the University would rise to 3000 by year 1992/1993. The 1991/92 recurrent budget provides a total of P379 million or 21% of the total for all ministries, secondary and technical education accounting for over 32% of this provision.

#### 1.7. Money, Banking and Investment

There was a very high rate of monetary expansion during the 1980s, particularly during the second half of the decade, when expansion of the monetary aggregates averaged 40 per cent annually, fuelled by the inflow of diamond generated export income. The expansionary impact of the rise in external banking assets was neutralised to a large extent by the Government's accumulation of a cash balance of over P3 bn with the Central Bank, which increasingly was acting as the "deposit taker of last resort". The Central Bank is the Bank of Botswana. As of December 1988, the Bank's foreign assets totalled P5.3 bn, a rise of P900 mn over the year and more than double the 1985 figure, reflecting the large balance of payments surpluses recorded since 1985. There are four commercial banks with assets/liabilities totalled P1.082 mn at the end of 1989, a rise of 31 percent over the year.

The generally sluggish growth in bank credit and accompanying increase in excess liquidity within the commercial banking system led the Government to institute a series of monetary policy changes from 1986 onwards to stimulate demand for credits, including placing ceilings on bank interest rates, allowing each bank to determine its own prime rate, and relaxing exchange control rules governing domestic borrowing by foreign owned companies in Botswana. Consequently, there was a 29 per cent rise in commercial bank lending in 1988 and a further rise of 47 per cent in 1989 to a record P530 mn at year end.

The Government has in recent years made efforts to diversify the financial sector; a new commercial bank and a hire purchase finance company were licensed in 1989. A start was made towards the establishment of a money and capital market with the launch of Stockbrokers Botswana (BSM) in mid-1989. A significant demand from foreign investors, who have accounted for 16 per cent of BSM turnover, was registered in June 1990, at the end of its first year of operations.

##### 1.7.1. Savings and Investment

With the attraction of higher equity yields from an increasing number of public as well as private companies the investment climate is quite suspicious for both local and foreign investors. Foreign investment is welcomed by the Government which has provided a wide variety of tax and financial concessions and incentives including free flow of funds into and out of the country and financial incentives for new and existing qualifying companies operating in key sectors. Joint ventures and new businesses, especially those expected to achieve economic diversification away from non-renewable resources such as minerals are particularly encouraged and, as the Minister of Finance and Development Planning announced in his 18 February 1991 Budget Speech, public companies with at least 25% of their shares owned by the public will enjoy the lower corporate tax effective rate of 35% instead of the normal 40% for a period of five tax years, in the initial instance.

### 1.7.2. Credit and Investment

Despite recurrent balance of payments surpluses and a huge accumulation of foreign exchange reserves amounting to over P6 billion the Government and especially parastatals like the Water and Power Corporations continue to borrow overseas thus raising the public debt which at the end of 1990 reached P800 million with repayments at about P238 million; domestic savings and sources of finance must be tapped for development purposes. Botswana's fifth commercial bank, the First National Bank (FNB) of South Africa, is expected to commence operations in mid 1991. The Australian New Zealand Bank (ANZ) is also expected to commence operations. This along with the recent Government interest rate policy should enhance competition in the commercial banking sector and hopefully lead to more imaginative and productive investment in other (non-banking) sectors of the economy.

### 1.8. Trade and International Exchange

Apart from the lack of skilled manpower, one other constraint faced by Botswana businessmen is the smallness of the domestic market with many companies operating well below capacity. The quest for regional and international markets is therefore perennial. For diamond exports there are no problems getting into European markets; copper-nickel matte and, to a lesser extent, beef can also find entry into these markets on account of Botswana's adherence to the EEC Lomé Convention and the Generalized System of Preferences (GSP) Treaties. The country has had bilateral trading arrangements with Zimbabwe having signed an agreement with that country since 1956 and amendments in 1982 and 1988. It is a member of the 5-nation Southern African Customs Union (SACU); the pattern of trade is such that Botswana sends 89.4% of its exports to Europe and barely 4% of the total to South Africa whilst 79.6% of its imports come from South Africa according to 1987 figures. Of its regional trading 4.8% of its exports go outside SACU and 4.2% within it. Botswana is a member of the Southern African Development Cooperation Conference (SADCC) which places emphasis on development rather than on trade and in 1986 inter-regional trade was still only 5% of the total. It has, however, commenced trade promotion activities and recently introduced an Export Pre-Financing Revolving Fund (EPRF). All but two of the SADCC members are also members of the PTA (Preferential Trade Area for Eastern and Southern Africa).

### 1.9. Energy and Power

While the possibility of oil being found in the Kalahari Desert remains to be demonstrated Botswana depends for its needs on supplies from South Africa. It does, however, have 17 billion tonnes of proven and indicated reserves of coal in the colliery at Morupule producing over roughly 800,000 tonnes during 1990. For the year to 31 March 1989, 629,000 tonnes were actually produced but the whole output went to feed the Morupule Thermal Power Station and the BCL Limited Cooper-nickel mine at Selebi-Phikwe. For the time being the country must import some coal from Zimbabwe and South Africa since, although other coal reserves exist, they are being evaluated for profitable commercialization.

The Botswana Power Corporation can now generate 90% of the country's electricity requirements from the Morupule Thermal Power Station. The first

phase of the project costing P250 million was commissioned in February 1987; the second phase was completed in 1989 providing a total capacity of 132 megawatts (4 33-megawatts alternators). Under a SADCC regional energy project a link-up between the Botswana, Zimbabwe and Zambia national grids is being established.

## 2. THE FUTURE DEVELOPMENT STRATEGY

### 2.1. Review of Performance During NDP6 - 6th National Development Plan (1985/91)

Economic growth during the NDP6 period has been much faster than the 4.8% p.a. increase predicted in NDP6. The cumulative sum of GDP is expected to total P 37.4 billion in constant 1991/92 prices over six years of NDP6, compared to P 22.7 billion anticipated in the Plan. This represents above Plan GDP growth of 65%. This important achievement is mainly due to strengthening of the international diamond market so that Botswana's diamonds were sold at higher prices than had been foreseen (two and a half times). The non-mining sectors of the economy also recorded solid gains, which represented an increase of 75.6% over the Plan period. The growth in the economy, along with the consequent real increase in incomes, led to higher imports than forecast in NDP6. However, despite the rapid growth in imports, the balance of payments recorded surpluses, and foreign exchange reserves accumulated in excess of that forecast in NDP6. Real foreign exchange reserves in 1990, measured in 1991/92 prices, were more than 230% above the forecast. Consequently, import cover exceeded 16 months throughout most of NDP6, compared to the 10-12 months of cover forecast in the Plan.

As noted previously, the development of minerals (especially diamonds) has been the main engine of economic growth, with effects transmitted to the rest of the economy largely via government expenditures and net lending.

#### 2.1.1. Employment Generation

Other (non-mineral) sectors also grew at above plan levels when formal sector employment increased by 56% or about 10% per annum during the first four years reaching 182,200 for March 1989, from 28,100 in 1967/68. The construction industry recorded the most spectacular rise in formal employment during 1985/89 but the Government remained the main employer accounting for about 60% of formal wage employment. It is recognized, however, that the Government's ability to continue to generate employment depends on the rest of the economy being able to support the public expenditure this involves by contributing to national wealth creation.

The diamond sector offers relatively few jobs or direct linkages with other sectors. Therefore, as in NDP6, NDP7's strategy will be the re-investment of mineral revenues for developing other productive and employment generating sectors of the economy and thus transform non-renewable mineral wealth into renewable capital and human resources and their optimum utilization and development. The most promising sectors for future growth would accordingly seem to be manufacturing and services (including commercial and financial services and tourism).

Export orientation will also be crucial for creating opportunities for productive employment, generating foreign exchange and establishing self-sustaining industries; in this endeavour the volume and quality of Government expenditure will play a vital role.

## 2.2. Public Expenditure

"Decelerating the rate of Government expenditure growth" suggested in NDP6 and its mid-term review is reiterated for NDP7: there is to be a modest growth of expenditure sufficient to avoid large deficits, negative cash balances (debt) resulting in huge and dramatic cut-backs in spending, recession and structural adjustment regimes.

### 2.2.1. The Role of Public Expenditure

Public expenditure is an important part of the economic strategy, and ceilings proposed for agreement on the basis of strict criteria with Government Ministries and departments are consistent with, having derived from, the NDP7 patterns of public expenditure.

The Plan previews that "The volume of Government expenditure during NDP7 period will have a decisive influence on Botswana's medium-term economic growth path. At least as important to Botswana's growth prospects will be the long-term effect of the quality of Government expenditure during NDP7."

### 2.2.2. Balance of Public Expenditure

By 1990/91, budgeted expenditures were more than double those projected in NDP6 and this pace of expenditure is expected to spill over into NDP7 supporting further economic development but also causing draw-downs of the Government's foreign exchange reserves over the next few years. As revenues are not expected to rise at the same rate as expenditures it will become necessary to exercise restraint in public expenditure, practise more cost recovery in respect of social and commercial services and generally broaden the base and intensity of economic management, development and productivity. For the first time since 1982, the second year of the almost eight year drought period, the Recurrent Budget will get into a situation of imbalance and a deficit of P135.7 million is being projected for the 1991/92 fiscal year. This deficit level is however quite modest and represents a recurrent expenditure cost overrun of only 7.8% against the background of quite conservative revenue forecasts.

## 3. SEVENTH NATIONAL DEVELOPMENT PLAN (NDP7) PERSPECTIVES

### 3.1. The International Economic Background

After rapid expansion for several years at an average rate of 4% per annum, world economic growth slowed at an average rate of 2% in 1990 and many industrialized countries went into a recession of unknown depth and extent. For the developing countries growth declined from 3% in 1989 to 2.5% in 1990 affecting African countries more severely with reduced export earnings, high debt service outflows and the increasing cost of oil and oil-based imports.

If this trend continues unabated the prospects for 1991 are not bright and developing countries as a group will have to rely more on internal sources of investment funds and at appropriate cost. The need for more adroit management of thus depleted resources will be greater than ever.

### 3.2. The Domestic Economy

The chapter 1.5 on the economy of the country and the more detailed examination of the performances during the 6th National Development Plan (chapter 2.1) provide adequate information about the domestic economy. However, it is worth mentioning that Botswana's capita GDP in constant 1991/92 prices, increased from P 4,333 in 1985/86 to P 5561 in 1988/1989, despite population growth that exceeded 3.6% p.a. It should also be stated that Botswana is not a debtor nation and hence has escaped many of the difficulties of other countries, it has not had to undergo painful structural adjustment programmes.

#### 3.2.1. Balance of Payments

Imports are estimated to total P17.9 billion in 1991/92 prices, more than 67% over the forecast level, yet the balance of payments recorded surpluses, and foreign exchange reserves in 1990 at 1991/92 prices were 23% above the forecast, and import cover exceeded 16 months compared to the forecast 10-12 months. Actual Gross Fixed Capital Formation totalled P10.1 billion or 73% over the forecast for NDP6 of P5.8 billion in 1991/92 prices, about 27% of cumulative GDP over the plan period.

#### 3.2.2. Export Earnings

For 1990, there is a decline in export earnings for diamonds (despite the 5.5% price increase announced during the year) and copper-nickel, accompanied by an escalation in wages and other costs and higher investment costs for the new plant at Orapa. Export earnings from diamonds, copper-nickel and beef increased 28% in both US dollar and Pula terms during January and February 1991 compared to the same period last year. The increase is due to diamonds whose export earnings increased by 36% as against the same period in 1990 production.

### 3.3. External Public Debt

The external public debt of the country increased from P748 million at the end of 1989 to P800 million by the end of 1990. Debt service payments rose by 30.8% from P182 million in 1989 to P238 million in 1990 including the amortisation and interest of both public and private sectors debts. Debt service repayments are mainly in respect of foreign borrowing by parastatal organizations of concessionary loans from the African Development Bank, World Bank and similar obligations. The debt service ratio of payments to exports of goods and services increased from 4.2% in 1989 to 5.8% in 1990.

### 3.4. The Strategy

NDP7 is based on policy actions and initiatives designed to address the situation of mainly depending on minerals (diamonds) which makes the economy vulnerable and economic diversification a compelling imperative. The plan discounts the probability of further expansion of mineral resources beyond current levels, so that in future emphasis will be on economic development and independence, employment generation in urban and rural areas, income distribution on both economic and social justice grounds, and prudent management of resources for sustained development.

Projected long-term growth in GDP will be 4.5% to 5% per annum and with a projected growth in population of 3.5% per annum there should be a net growth in average per capita GDP of 1% to 1.5% per annum. It is expected that during the course of NDP7's execution the constraint for diversification of the economy would have shifted somewhat from manpower to finance. For NDP7 broad-based growth in production, employment and consumption is envisaged though caution is urged that the financial resources generated from minerals in previous periods "should not be eroded during NDP7 by excessive levels of public and private consumption, the financing of inflated construction costs, or by public and private investments which do not meet the test of long-term viability." The four planning objectives for NDP6 (paraphrased above) remain valid for NDP7 but there is to be a new emphasis on sustaining economic development by diversification, the creation of new sources of growth and increase in earned incomes, education and training for productive employment, containment of rapid population growth, encouragement of entrepreneurial initiatives in the private sector, and greater productivity in the public sector and efficiency in the market economy.

#### 3.4.1. Economic Planning

The centre piece of NDP7 is detailed planning for the public sector even if the challenge is growth and development of the national economy through the private sector; responsibility for getting the balance right lies with the public sector and here is where the Development Finance Institutions or financial parastatals have had and will continue to exercise a crucial and catalytic role in the balanced development of the economy and welfare of the people. The most expansive in terms of assets and sector coverage, apart from the Bank of Botswana, the nation's central bank, is the Botswana Development Corporation, whose activities are ably complemented by the other public enterprises operating in the various sectors of the economy.

## 4. PUBLIC FINANCIAL INSTITUTIONS

### 4.1. Botswana Development Corporation Ltd (BDC)

The Corporation has an Authorized Share Capital of P150 million and a paid up share capital of P68,199,462 and has 104 subsidiaries and associated companies in all sectors of the economy.

The primary task of BDC is to identify investment opportunities in Botswana for exploitation by both local and foreign investors. To achieve this, the corporation provides investment advice, loans, share capital, and industrial plots and buildings to investors. As far as possible, BDC wishes

to limit its involvement in new projects to a minority interest but will bear the major burden of development where this is in the national interest.

BDC assists by: providing long term loans; providing factories and serviced land; providing guarantees; equity participation when necessary; investment advice; project feasibility studies; helping citizens of Botswana in acquiring share-holding in BDC companies or from foreign owners willing to sell. In the year to 30 June 1990, the Corporation's consolidated turnover rose by 25% to P294 million, earning it a record pre-tax profit of P47.7 million. Total capital employed reached P289 million and equity capital rose from P39 million to P125.5 million and return on Capital Employed was 16.7%. Total direct employment in the Group increased by 16% to 10,100 and gross investments for the year totalled P169 million. It launched the first share market in Botswana and maintains a 53% equity shareholding. At its 100th Board Meeting the Corporation adopted its first Five-Year Corporate Plan (1990/91 - 1994/95) in which projected disbursements are valued at P469 million, P205 million or 44% of which will be in the industrial sector. By the end of the period of the plan gross investments would have equalled P560 million a substantial portion of which will be internally generated funds and formal employment would have risen by 10,000.

The National Development Bank which specializes in agricultural and development project loans but lends to Industry and Commerce as well, has run into operational problems and is currently the subject of re-structuring of its management and operational procedures and has not been able to publish final accounts for the past two financial periods. Despite large injections of Government funds (P24,5 million will be disbursed from the Development Budget under NDP7), growth has been restricted by massive agricultural bad and doubtful debts, but with the present re-organization and re-invigoration it should continue to play a vital role in the banking sector.

The Botswana Cooperative Bank maintained its business of providing facilities for deposits, loans and other credit facilities for primary cooperative societies and has now launched into motor vehicle and house mortgage loan schemes. It has for yet another year made appreciable profits for the benefit of its special shareholders. Its assets rose by 43% and advances almost doubled to P16 million. The Government will infuse P2.2 million into its finances during NDP7.

The operation of the Botswana Building Society whose assets rose by 39% and mortgage loans grew by 49% to P104 million in 1990, and the Botswana Savings Bank whose total assets rose by 9% in 1990 and loans and advances rose by 33% to P22 million are equally satisfactory. During NDP6 the assets of these five Government-owned development finance agencies increased substantially as can be seen from appendix O.

## 5. MONEY, BANKING AND CREDIT

The asset built up of the various public and private financial institutions and non-bank financial intermediaries is portrayed in appendix O. and shows that as at the end of December 1990, total assets of the Government's banker, the Bank of Botswana, were P6,276.1 million; of the five registered commercial banks P1,353.9 million, the five development finance institutions P623.8 million, of the two operating insurance companies P101.5

million, and of the other non-bank financial intermediaries, investment trusts and pension/provident funds P315.8 million.

As at the 10 May 1991, the share market index stood at 239.80 and market capitalization at P441.7 million with 118,216,581 shares in issue. Three further companies have applied for listing this year. An interim Stock Exchange Committee was set up last October and a draft Stock Exchange Bill establishing a fully autonomous institution is currently receiving the active consideration of the Government. Since commencing trading on 19 June 1989 and up to the end of January 1991, P1.6 million has been invested in the market from external sources.

#### 5.1. Bank of Botswana

The Bank of Botswana has accumulated reserves as at the end of December 1990 of P851,253,000 when it made an operating profit of P509,263,000. At 31 December 1990, its total assets were P6,251 million and international reserves, the main component of the assets (99.7%) stood at P6,234 million, an increase of 18.8% over the previous year and representing 24 months cover for merchandise imports and 16 months cover for goods and services - one of the highest levels in the world.

The Bank has been quite active in the execution of its role of monetary adviser to the Government to implement monetary policy and introduce and maintain stability in the fiscal and monetary situation to contain inflation at home, assure rational allocation of domestic financial resources, ensure the competitiveness of exports, reduce the cost impact of imports and manage the country's external assets and liabilities.

#### 5.2. Commercial Banks

There are at present four registered commercial banks, Barclays, Standard Chartered, BCC and Zimbank with a fifth first National Bank of South Africa registered but due to commence business around July 1991 and a sixth Standard Bank of South Africa seeking to establish in Botswana in the near future. Through Bank of Botswana initiatives such as three increases in 7 months, the interest rates now prevailing constitute positive real rates having regard to the rate of inflation. The present trend of interest rate adjustments by the Bank of Botswana can only further expand this source of investment funds for productive economic activities. Commercial banks and other private sector financial institutions will be expected to perform efficiently a growing range and depth of financial functions with due monitoring by the Government and by the public consumers of their services. Private and public institutions will strike a suitable balance between returns for savers and cost of credit for borrowers and provide adequate incentives for saving and the holding of financial assets without fear/risk of impairment over time by inflation.

## 6. MINERALS

### 6.1. Diamonds

The first diamond mine was opened in 1969/70 and since then the returns and earnings accruing to the country have steadily increased and in 1987, Debswana - the joint venture company between the Government and De Beers Mining Company for the commercialization of the mines - is reported to have made a net profit of over P1 billion (total sales proceeds in 1989 were P2.8 billion and for 1990 P2.6 billion). Further increases in production from the present capacity are not forecast and the only improvements in income would come from enhanced values through further investments and world market prices which are predicted to stabilize or decline.

#### 6.1.1. Diamond Value Added

Diamond production rose by 2.1 million carats or 13.7% over the previous year to 17.4 million carats at the end of December 1990, due to the recovery from an accumulation of fine material that accrued during October 1989-April 1990. Annual production from existing facilities is therefore not expected to exceed 16 million carats. In order to improve the present value of the export product the Government has decided to undertake cutting and polishing operations and has signed two agreements with Debswana (or De Beers) and with Lasare Kaplan International (LKI). In May 1990, the Resident Director of Debswana in Botswana had announced the setting up of a diamond cutting and polishing factory in Serowe, intended to create 500 jobs, in the near future. The second factory to be opened by the Lasare Kaplan initiative will be located at Molepolole, 40 kilometres from Gaborone, in 1992. The factory is reported to be a state of the art facility employing 500 nationals trained to skilled level. The Government will have a 15% equity state and a seat on the Board and Botswana will become a major diamond manufacturing centre. The potential capacity therefore exists for extending the value of the present production and probably, with little investment, the volume from the existing operations. As regards prices, at least nominally, the practice by the Central Selling Organization so far has been not to drop the nominal price of diamonds as this would injure the image of and confidence in the industry.

### 6.2. Copper-Nickel

For copper-nickel matte the production in 1988 of 58,000 tonnes dropped by 13.8% to 50,000 in 1989 and again by 4% to 48,000 in 1990. Whereas in 1988 the export earnings increase in copper-nickel (due to increased prices), in 1990 the sales performance of both diamonds and copper-nickel fell by 9% and 41% respectively. The metal has been plagued by rises in wages and other costs, production quality, falling market prices, availability of cheaper substitutes, excess supply and the management and financial problems of the operating company. At P246 million the total sales value of the metal was 40% lower than that for 1988. Unlike diamonds copper/nickel continued to show poor performance during January and February 1991.

### 6.3. Coal

Coal production from the Morupule colliery had been increasing annually throughout 1985/90 and recorded a 19.6% increase between 1986 and 1987 and 19.8% from 1989 to 1990 when the production was 794,000 tonnes. The increased domestic demand for coal mainly from the Soda Ash and Salt project at Sua Pan has led the company to expand its annual production capacity from 700,000 tonnes to 1 million tonnes. In pursuit of its established mineral policy to acquire equity in companies established to exploit resources in mines the Government of Botswana has initiated discussions with the Anglo-American Corporation, at present the sole shareholder in the colliery project.

### 6.4. Soda Ash and Salt

The Soda Ash and Salt project at Sua Pan is one of the government's major development initiatives comparable to copper/nickel and beef in terms of export possibilities. The Soda Ash Botswana plant is located at the Makgadikgadi Salt Pans 180 km North-West of Francistown and is due to be commissioned on 7 June 1991. The Botswana Government has 48% of the shares, Anglo-American Corporation and De Beers 25.5% and African Explosives and Chemicals 26.6%. Total cost of the project is P930 million, P736 million in capital costs and P250 million in infrastructure, and direct employment will be 540 and 2200 during construction. The production will be 300,000 tonnes of soda ash and 650,000 tonnes of salt per annum and will be mainly for export to South Africa and the SADCC regional market. Soda ash is a basic chemical used in the manufacture of glass, ceramics, steel, vanadium, soaps, detergents, paper pulp and other chemicals, and signals the first locally based chemicals company and industry in Botswana. The commercialization of the project products will constitute an important source of foreign exchange.

## 7. POPULATION

The population of Botswana, pending the outcome of the 1991 census currently under way, is estimated to be 1.3 million and density is expected to reach 3.1 per square kilometre by the year 2001. The current rate of population growth at 4% per annum is among the highest in the world and should double the population in 2012 but the rate of increase has been slowing down recently.

### 7.1. External Assistance for Population and Health Activities

Under an agreement signed with the United States Agency for International Development in August 1990, the sum of US\$1.8 million will be provided for the Botswana Population Health Programme. US\$1 million will be used for expanded family planning education and staff training.

### 7.2. Family Health and Population Management

During NDP7 the Government intends to enunciate a Population Policy to enhance family planning, health and education with the ultimate aim of reducing the rate of population growth and increasing per capita incomes. The Inter-ministerial Programme Steering Committee on Population and Development

will be transformed into a Standing Committee on Population and Development with Chairmanship and the Secretariat within the Ministry of Finance and Development Planning. It will also include private sector and NGO groups as members and will be required to make annual reports on its activities. The quality of future populations and labour forces is conditioned by the family planning and welfare and appropriate education and training for both public and private sectors of the economy.

## 8. EMPLOYMENT, INCOMES AND PRICES

### 8.1. Employment

The Government is the largest single employer in the country. In March 1989, the Central Government employed 49,700 persons, 28.1% of total formal sector employment. The Government also employs non-pensionable industrial class workers and 22,800 people were so employed in April 1990. Total formal sector employment grew by about 9% per annum from 25,000 in 1966 to 176,200 in March 1989. The growing shortage of scientific and technical personnel must be addressed at the roots by measures to divert training opportunities and bursaries converted into grants/loans to specific disciplines judged critical to development. The role and future of the National Industrial Training and Technical Education Council (NITTEC) will in all probability be transferred to the manpower sub-committee of the new National Employment Manpower and Incomes Council (NEMIC) for better co-ordination and matching of skills and vacancies. The Ministry of Finance and Development Planning has an Employment Policy Unit which prepares an annual National Manpower Development Planning Report as an aid to designing the most appropriate education and training programmes for both the public and private sectors.

The creation of employment opportunities must be directed at both the formal and informal sectors including self-employment in the private sector and the role of Government is an indirect one to be fulfilled by creating the requisite infrastructure and a facilitating environment. In this connection, the introduction of the Financial Assistance Policy (FAP) rightly described as "perhaps the most visible Government programme designed to encourage job-creating investment" is a far-reaching demarche. Since its inception in 1982 the FAP and its Automatic Financial Assistance (AFA) component has caused the disbursement of some P28 million with about P77 million committed and the creation of 9,000 jobs by June 1990. It is estimated that formal sector employment as a proportion of the economically active population will rise from 32% in 1991 to 46% in the year 2016 and the shortage of skilled manpower will change to a surplus over the period. The Government believes that "..... using mineral resources now to improve the quality of the future labour force by investing in better maternal, infant and child care and basic and relevant education and training is a sound and enduring use of those resources."

The growth of employment in the manufacturing sector was very rapid during NDP6 when formal employment rose from 9,000 in 1984 to just over 22,000 in 1990, an average rate of 15% per annum. Whereas manufacturing sector employment accounted for just under 7% of all formal sector employment the proportion in 1990 was 12%. The dominance of the Botswana Meat Commission in employment is being progressively diluted by the expansion of other manufacturing activities such as beverages, textiles and clothing. During NDP6 formal employment in the manufacturing sector exceeded value added

because of the labour-intensive technologies/industries involved. The 1990 size of the labour force is estimated to be 414,804 of which 50% are in formal sector employment. It is expected to rise to 502,520 by 1996, with 60% in the formal sector.

## 8.2. Income and Prices

The National Policy on Incomes, Employment, Prices and Profit (NPIEPP), adopted in 1972 and revised in 1976, was designed to enhance employment, productivity and competitiveness of labour and the equitable distribution of incomes. The Presidential Commission on Review of the Incomes Policy appointed in February 1988 submitted its report in March 1989 and concluded that market forces are increasingly determining and should be allowed to determine wage differentials, costs and prices.

### 8.2.1. Formal Earnings and Purchasing Power

The new salary structure for civil servants was introduced in November 1990 involving decompression of senior management salaries and enhanced entry with parallel progression for particular technical and professional skills and the increase of salaries by 12% across the board and a 50% rise for the higher posts. The overall effect of these measures was an increase of 18.6% in the Government's total wage bill which, unless matched by corresponding productivity, will exert greater pressure on domestic prices and the balance of payments. Policy changes relating to prices and profits are designed to encourage competition and thereby serve to regulate the levels of prices and profits. The Government will also assist the private sector in the creation of a Consumer Council to inform the public about price, quality and profit margin levels.

In the twelve months to March 1989, earnings in the private and parastatal sectors rose by 14% and by 23% in the Government. For non-government sectors it rose by 2.4% in the construction sector, 3.5% in the mining sector, 33% in the agricultural sector and 86% in the manufacturing sector.

The rate of inflation which was approximately 11.3% in December 1989 reached 12% in December 1990 thanks to the rise in oil prices.

## 9. FINANCIAL SECTOR DEVELOPMENT

The diversification of the economy and private sector development during NDP7 will call for a more developed financial sector in a market-oriented environment, more competition among commercial banks and between them and operationally improved development finance institutions and the promotion of domestic money and capital markets and more responsive international financial procedures. Financial activities should through interest rates adjustments effect a proper balance between the demand and supply of credit and exchange rates influencing the supply/demand situation of foreign exchange. In this way competitiveness in the international environment will be improved affecting decisions on savings and investment, borrowing and lending. The financial services must therefore be equipped and oriented to compete effectively on the basis of diversity, cost, quality and transparency of

services offered to domestic customers; and the Government must through its macro-economic management of policies, interacting with market forces, pitch interest and exchange rates at levels that will control inflation and market instability and infuse the confidence of the public in the system. In 1988/89 the World Bank sponsored a study to review Botswana's financial system and the outcome of the recommendations will form the basis for action during NDP7.

The Bank of Botswana has a central role to play as the Government's Central Banker and fiscal and monetary adviser and executing agency and the manager of the country's accumulated surpluses and foreign exchange reserves. The balance of payments surpluses averaged P700 million a year during the period 1985-1990. The household sector was the largest beneficiary of commercial bank credit, mainly for consumption expenditure, which increased from 15% to 30% of the total. The share of the Financial and Business Services sector rose from 6% to 16%. The total outstanding loans from the Government's loan portfolio - Public Dept Service Fund (PDSF) and Revenue Stabilization Fund (RSF) - rose from P218 million in 1985 to P702 million in 1990, almost equal to the rate of growth in commercial bank credit. In February 1991 the PDSF/RSF interest rate was raised from 8% to 9.5% per annum not only as an anti-inflationary measure but also and more importantly to introduce competitiveness in the domestic savings market.

Since Government recurrent and development expenditures and loan transfers will have to be curtailed, public institutions and private investors must be afforded alternative sources of funding within the private sector. PDSF/RSF reserves must be lent more competitively to earn better returns and to stimulate private investment and effective financial activity in the market. Adjustments in the structure of deposit and lending interest rates are necessary to protect domestic savers against inflation, control the liquidity of the banking system, improve the allocation of investable resources and curtail credit-financed speculative spending contributing to inflation. The Bank of Botswana has from 1 May 1991 commenced the issue of 92 days maturing Certificates through an auctioning system with part of the P200 million issue (12.5%) deliberately reserved by the Bank for active trading in the secondary market. The outcome was an interest rate of 11.51% simple and 12.02% effective rate. The issue marked the formal introduction of deregulated and market determined interest rates to relate the supply to the demand for funds.

## 10. THE STOCK MARKET

The Botswana Share Market is to be strengthened with more debt and equity dealings and more listings of local companies and subsidiaries of foreign based companies, as also greater privatization of shares in parastatals and companies with substantial Government equity and loan capital stakes. There will be regulation (self or otherwise) of market activities, an infusion of responsibility and accountability and tax incentives (or removal of tax disincentives). For instance as from the current taxation year the expenses of obtaining a stock market quotation will be allowable for tax purposes. With the imminent passing of a Stock Exchange Act private companies and investors will be all the more induced to obtain stock market listing and thereby obtain the facility to raise funds more competitively and permanently, especially in the face of rising debt costs and the relative ease of marketability of equity investments. This is another instance of diversification in the acquisition and management of resources.

## 11. AGRICULTURAL DEVELOPMENT

As indicated before, although agriculture is not the largest sector in the country's economy in terms of GDP 70% -80% of the total population live in the rural areas where agriculture is the predominant economic activity and the main occupations are subsistence farming and livestock grazing. Because of poor soils, shortage of surface water and droughts large-scale agricultural production has not been feasible and the sector's contribution to GDP in 1989 was only 3.5% compared to 11% in 1981/82 and 40% at independence. These dates coincide with the end and the beginning respectively of the last extended drought period. Because of the water problem studies on major dam sites have been completed and decisions are being formulated under the National Water Master Plan to develop the nation's water resources optimally having regard to needs for human, wildlife and crop consumption and relative scarcity and costs. Although livestock production seems more promising than crops the new agricultural policy focuses on increased and sustained farm production with emphasis on diversification of agricultural products, inputs, technologies and markets and greater linkages of the sector with other productive sectors of the economy. There will also be determined and informed efforts to develop early maturing cash crops the farming of which has been little practised, though the Botswana Development Corporation is investing in cotton and citrus fruits using irrigation from the Limpopo River. Food crops such as sorghum (79%); maize (13%) and millet (4%) percentage consumption pattern and also beans, cowpeas, sunflowers, melons, pumpkins, groundnuts and pulses will also be produced with great vigour, since normally an average of 53% of national food needs is imported (up to 90% in bad years).

### 11.1. Gainful Employment in Sector

Although the sector's contribution to formal employment dropped from 27% at independence to 4% in 1989 when only about 6,000 people were in paid employment another 260,000 were informally engaged in agricultural pursuits as against total formal sector employment of 150,200 in 1987/88 176,300 in March 1989 and projected to be 210,000 in March 1991. Agriculture is still a source of food, income, employment, capital and investment opportunities for the majority of the population and of raw materials for agro-based industries like milling, breweries, soap production, vegetable oil (P10 million is spent on imports of vegetable cooking oil, when sunflower can be produced for local oil extraction) furniture and leather making and beef industries.

### 11.2. Arable Agriculture

The production of the main cereal crops, such as sorghum, maize, millet, beans and pulses, represented only 35% of consumption but was still higher than the average of 9.3% during the drought years. Institutional support for increased arable agricultural production has been substantively provided by:

- (i) The Botswana Agricultural Marketing board - guarantee of equitable producer prices and supply of farm inputs as well as storage capacity for 140,000 tonnes of which 80,000 or over 57% is for the Strategic Grain Reserve. Cereal Crop purchases were 63,969 tonnes in 1989 and 45,921 in 1990. The Government had a P18.5 million equity share in the Board in 1988/89.

- (ii) The National Development Bank with a Government equity participation of P10.8 million in 1988/89 and balance of outstanding loans from the PDSE/RSF Reserves of P65.4 million in 1990 is the main source of agricultural credit.
- (iii) The Botswana Development Corporation invests in irrigated agriculture and dairy farming; the BDC farms in Tuli Block are the largest irrigated area in Botswana and it has a maize seed contract with the Department of Agricultural Research of the Ministry of Agriculture.
- (iv) The Co-operative Societies whose membership rose from 30,618 in 1985 to 64,258 in 1988, turnover from P29,442,000 to P40,353,000 and members' equity funds from P2 million to P4.5 million continue to provide the usual commercial agricultural production services especially in the rural areas through the Botswana Co-operative Bank, Botswana Co-operative Union, Botswana Savings Co-operative Association and the Agricultural Management Associations formed to help implement the Tribal Grazing Land Policy (TGLP). Development expenditure during NDP7 will be P1.8 million for Co-operatives Development and P2.2 million as financing for the Co-operative Bank.

The Accelerated Rainfed Arable Programme (ARAP) with an estimated development expenditure of P20 million in 1991/92 provides subsidies for cereal crops production. Self sufficiency in sorghum and maize at least might have been achieved but other factors such as the 250,000 (23%) increase in the country's population between 1985 and 1991 intervened, and resort had to be made to imports of these commodities and also of rice and wheat substitutes encouraged by the rise in incomes and an apparent general preference for imports over domestic products. Producer prices were falling in real terms, though rising in money terms, but were still higher than those in neighbouring South Africa where the area of arable land is more like 80%. Horticultural crops suffer from regional competition from South Africa and Zimbabwe and domestic production is 25% of total consumption and the proportion is growing. The Chobe forests are the country's only commercial timber resource with potential and promise once the management and environmental constraints have been removed. At present raw logs are exported to Zimbabwe and furniture made from them re-imported into Botswana. Vegetable production suffers from poor storage and crop loss; the possibility exists of processing and canning for at least domestic consumption and import substitution.

### 11.3. Pastoral Agriculture

Beef production is the largest portion of agricultural contribution to GDP and cattle is a major contributor to exports; in fact beef export earnings more than cover the cost of basic cereal imports. In spite of rising costs, new investments and declining activity the Botswana Meat Commission (BMC) managed to make a surplus of P8 million in 1990 compared to P15 million in 1989. It has an estimated annual slaughtering capacity of 300,000 cattle and 120,000 small stock. In 1988/89 though throughput was only 55% of capacity and slaughtering/processing and marketing operations had to be decentralized to cut down transportation costs. The Lobatse abattoir also has a cannery processing 100 tonnes of beef a week and a tannery set up in 1978 as a wholly-owned subsidiary of the Commission to process all its hides. Employment in

the industry rose from 1350 in 1976 to 1938 in 1990 and turnover from P118 million in 1984 to P171 million in 1989 a small fall of 9% in real terms. BMC has a meat marketing organization based in London and has contracts to market beef from Zimbabwe and Namibia to Europe. Its major markets are UK (30%), Germany (16%), Reunion (14%), Holland (9%) (1988/89), South Africa (14%) and the domestic market (7%).

With the solid support of the Botswana Livestock Development Corporation (BLDC) in the buying of cattle and supplying of breeding animals and the Botswana Vaccine Institute (BVI) (Government equity participation of P5 million in 1988/89) for the production and supplies of vaccines for both local use and exports the potential for revival of increased exports is considerable. Botswana has a good disease control service and is the regional co-ordinator for SADCC for this sector and exports monovalent vaccines to Namibia, Zimbabwe, South Africa and other SADCC countries.

The livestock industry in Botswana has benefitted from the special arrangements for beef exports to the EEC. Although South Africa is its second most important market this portion represents mainly live animals rather than processed beef. Botswana has taken up less than half of its EEC export quota especially during the 1980s drought years. The EEC Beef Protocol permits 90% of the tax normally attracted by beef imports to be retained for up to 18,916 tonnes. In 1988 Botswana made 30 million European Currency Units (ECUs) or about P68.7 million on less than half of the country's quota. It has been suggested that since 45% of rural households actually own no cattle the 55% subsidy of production costs should be better spent on non-cattle owners to promote their alternative income generating activities such as poultry meat and egg production which increased nationally from 920 tonnes in 1985 to 2700 tonnes in 1989 and 11.7 million to 37.9 million respectively, representing 95% self-sufficiency.

#### 11.4. Future Strategy

For the future the strategy will be for the Government to provide the infrastructure and enabling facilities that individuals cannot provide, the farmer and the private sector to supply the production and marketing and the market to determine the prices. Diversification would be by products, markets (both imports and exports) and production technologies. Emphasis will shift from cereals and cattle to poultry, dairy, piggery, fisheries, horticulture, forestry, apiculture (bee-keeping) and veld products to increase rural incomes and jobs. More effort will go into enhancing the competitiveness of local producers the home market for initially and progressively agro-businesses could manufacture for identified export markets; the importation of raw materials and appropriate food imports will also be subject to diversification with the object of achieving essential national food security. Production technologies to be applied must suit the ecology and particular group of farmers.

Both farmers and researchers will henceforth be involved in technology development, and research will be commodity and not discipline based, representative programmes being handled by multi-disciplinary teams. More appropriate pre- and in-service training of extension workers would improve their efficacy. The Botswana College of Agriculture hitherto part of the University of Botswana becomes a parastatal from the 1991/92 academic year catering for both public and private sector manpower needs. It started

awarding agricultural degrees in 1988/89 and will shortly start Diploma and Certificate courses in agricultural engineering, forestry range management and other agricultural science courses. The sum of P16.5 million has been provided from the Development Plan budget for its development during NDP7.

#### 11.5. Development Expenditure

During NDP7 a total of 30 projects will be executed by the Ministry of Agriculture at an aggregate cost of P126, 300,000 in constant 1991/92 prices. The Ministry of Agriculture's overall recurrent expenditure is planned to grow at about 8% per annum and the Botswana Development Corporation will continue to promote viable commercial farms, improved expertise in irrigation, marketing of horticultural produce, increase in dairy farming, cash crops and horticultural crop production.

### 12. COMMERCIAL AND INDUSTRIAL DEVELOPMENT

In the elaboration of its economic diversification policy much emphasis has been laid by the Government on the development of a non-traditional export base and rapid growth of production by the creation of an enabling environment and the necessary infrastructure for private sector development. Growth in manufacturing output in the last ten years has in spite of its relatively narrow base been impressive. In 1990 manufacturing export earnings contributed 7.3% to total export earnings; and the sector's share of formal sector employment reached 10% in March 1989 having grown at an average annual rate of 19% between March 1987 and March 1990. As an indication of the size and growth of the sector commercial bank lending to manufacturing grew from 7% of total loans and advances at the end of 1986 to 10% at the end of 1990 from P18 million to P75 million. The Ministry of Commerce and Industry's manufacturing Directory lists 14 manufacturing subsectors classified for licensing purposes by geographical distribution and contribution to GDP and degree of indigenous ownership as shown in annexures (i), (ii) and (iii).

#### 12.1. Industrial Production

It is estimated that there are about 500 medium to large scale companies producing mainly textiles, plastic goods, electrical and metal products, leather and rubber products as well as light industries like dairies, bakeries and beverages which are generally reserved for citizens. Botswana still imports most of its food, fuel, machinery, chemicals, clothing and footwear, 78% of imports coming from South Africa. Under the Southern African Customs Union Agreement there is provision for free interchange of goods without customs and tariff barriers and also for the protection for up to eight years of local infant industries. Botswana welcomes foreign investment for export oriented production, import substitution and labour intensive industries generating employment. There is a wide ranging package of incentives including free transfer of profits, after withholding tax of 15%, liberal foreign exchange practices and other incentives under the Financial Assistance Policy (FAP).

### 12.2. Production Policy/Strategy

Because of the limited local market and competition from imports Botswana has put in place a number of measures and arrangements to promote the production of goods in which it has a comparative advantage and with optimum utilization of domestic raw materials and technology. In 1987 the merging of three institutions including the Botswana Enterprises Development Unit (BEDU) into the Integrated Field Services (IFS) was intended to focus on entrepreneurial development training and marketing assistance to the private sector in both urban and rural areas to facilitate the production of goods which the Government deems is its role to produce. The Department of Trade and Investment Promotion of the Ministry of commerce and Industry was created to perform a promotional role and to act as a national focal point for all types of trade and investment information and a one-stop service agency for investors. The FAP is managed by a special Unit within the Ministry of Finance and Development Planning to assist entrepreneurs in industry and certain agricultural and small mining operations. The Selebi-Phikwe Regional Development Programme (SPRDP) was designed to encourage non-mining economic activity in the area of the Selebi-Phikwe copper mining operation employing 5000 people by diversifying activity away from reliance on copper-nickel. The establishment of competitive exchange rates and access to capital at competitive interest rates allied with selective production subsidies should help to give Botswana manufacturing industry a competitive edge in producing for both the domestic and regional markets. In this context it is important mentioning the following areas of activities: manufacture of school uniforms and school furniture; manufacture of burglar bars; manufacture of protective clothing; milling of sorghum; manufacture of cement and baked bricks; baking of bread. Manufacturing value added grew in real terms at an average rate of 6.8 per annum from P126 million to P164 million between 1984/85 and 1989/90.

### 12.3. Export-Oriented Production

The textiles/clothing industry has relied on production from imported raw materials by small to large scale companies employing several hundred people, the largest one in 1990 employing as many as 2000. Export markets were found in Europe and North America and these exports rose from P29 million to P75 million from 1985 to 1987 which proves that "the smallness of the domestic market need not be a binding constraint to industrial development if an export oriented strategy is adopted; and with business ingenuity and a willingness by all concerned to work hard, industry in Botswana can compete effectively in the world Market." (Chapter 7 NDP7 sectoral Plan on Industrial and Commercial Development, March 1991).

## 13. NATIONAL SCIENCE AND TECHNOLOGY COUNCIL

The 1982 UN Conference on Science and Technology for Botswana led eventually to the proposal in 1988 to establish a national Science and Technology Council to formulate and in due course monitor the implementation of policies to be executed by a separate agency. The Committee to chart the course for the implementation of this proposal will be located at the BIC and operational funds were provided by the Ministry of Finance and Development Planning last December; the sum of P30 million has been appropriated for about 20 projects in the area of science and technology and for priority sectors in the present development strategy. In addition to other institutional support

measures Science and Technology faculties are to be established within the University of Botswana and the Botswana Polytechnic to provide industrial training at postgraduate level for engineering and other science graduates.

#### 13.1. Promotion of Locally-oriented Technologies and Industries

The Rural Industries Promotion (RIP) Company and its subsidiaries the Rural Industries Innovation Centre (RIIC) based at Kanye and the Pioneer Rural Industries Centre (PRIC) at Palapye have developed technologies for use in rural environments and conducted theoretical but mostly practical training for self-employment in the informal sector. It is reckoned that under their programmes the IFS trained 3000 potential entrepreneurs between 1985 and 1990. Perhaps the most spectacular of the RIP Group's achievements was the development and launching for commercialization of the sorghum dehauler which has been exported to about 20 countries in Africa including South Africa, Zimbabwe and other SACU and/or SADCC countries. A wide variety of farm implements and machinery such as planters and multi-purpose threshers has been produced and it is estimated that a total of P1,531,373 was realized in production value for equipment under the RIIC Technology Transfer Programme in 1988/89. The Centre is engaged in a continuous process of research, design, testing prototypes and commercialization of innovative and practical ideas covering a range of about 25 products that generate production in a manufacturing situation, employment and income generation in a rural setting, and the basis for small- and large-scale manufacturing enterprises with considerable import substitution and export potential.

#### 14. TRADE AND INVESTMENT

The commercial sector embraces domestic and foreign trade, hotels, tourism, transport, banking, insurance and business services but the element with most generic linkages with the other sectors of the economy is trade.

Trade will assume greater significance with the broadening of the manufacturing base. Manufacturing firms accounted for 15 - 20 % of the newly established companies during NDP6. The strategy for NDP7 will be one of promoting exports of non-traditional products, encouraging private sector involvement in trade, manufacturing and investment and the application of science and technology to the manufacturing process. Exports must be of high quality and price competitive. During NDP7 the Government will enhance the role of the RIP Agency by providing funds for the development/adaption of appropriate technologies in rural areas and the development of renewable energy and water technology, and agricultural machinery. It will spend a total of P5 million and P741,000 from the development and recurrent budget respectively in the current fiscal year to fund the various activities of the RIIC in Kanye and by playing this catalytic role and responding to a better business environment, private sector investment, entrepreneurial creativity and technological innovation should increase both rural and urban productivity.

#### 15. TOURISM AND WILDLIFE

The first formal National Tourism Policy for Botswana adopted by the National Assembly in December 1990 states, inter alia, that "Like other

industries tourism can be described and analyzed in strictly economic terms ... The higher the rate of growth of Botswana's tourism industry the greater the diversification of the economy and the smaller its vulnerability to changing economic conditions elsewhere." At independence there were only three miles of paved road in the country; now the road is tarred all the way from the South to the Northern border with suitable arteries and branches.

Airports and air strips link tourist sites, and hotel accommodation facilities have been expanded with the construction of new hotels, providing an additional 3000 beds.

#### 15.1. Game Parks and Reserves

The central Kalahari Game Reserve with 52,000 km<sup>2</sup> in area is reputed to be the second largest reserve in the world. The Okavango Delta is 15,000 km<sup>2</sup> in area with 400 species of birds and about 30 varieties of wildlife and game both common and uncommon to East African Parks. The Chobe National Park covers almost 11,000 km<sup>2</sup> from the Okavango Delta to the Zambian border. Its gateway, the town of Kasane, is the site of a new airport to be commissioned in June 1991. For effective conservation purposes up to 17% of the land surface of the country has been set aside for wildlife conservation.

#### 15.2. Tourism Contribution to the Economic Development

In 1989 the tourism sector generated P100 million or 2.5% of GDP which compares favourably with GDP contributions by agriculture (3.5%) and manufacturing (3.2%). The industry provides jobs and 70% of such employees are in the rural areas. 40% of jobs in the North are produced by tourism related activities. This geographical distribution of employment in the tourism industry is in keeping with the Government's objectives regarding rural and remote areas. The concern for the environment which ensures that tourist activity is carried out on an ecologically sustainable basis is duly recognized just as local participation and benefits to the nation such as foreign exchange earnings, Government revenues, employment and investment opportunities are safeguarded. The Government has in appreciation of these considerations decided to invest a total of P83.5 million in wildlife conservation measures and activities during NDP7 and to elevate the Tourism and Wildlife Development Unit in the Ministry of Commerce and Industry to the status of a department.

## 16. ECONOMIC CO-OPERATION AMONG DEVELOPING COUNTRIES (ECDC)

Participation in the sixteenth Solidarity Meeting to be organized by UNIDO from 21-25 October 1991 will enable Botswana to benefit from the practical demonstration of Economic and Technical Co-operation among Developing Countries (ECDC/TCDC). The programme is expected to supplement and not supplant other efforts at collaboration within developed countries, the orientation in this case being more South/South than North/South relationships. Co-operation can take a variety of forms such as equity participation, joint ventures, technical assistance in the areas of equipment design, specification, installation and operation, marketing assistance to expand existing scales of operation, identification and penetration of new markets abroad, financial and managerial skills, education and training locally or overseas, consultancy services and so on.

The injection of private especially equity finance whether directly or as a joint venture package, into an undercapitalized but otherwise viable local enterprise can give it a new lease of life and firm boost towards development and expansion. It can also bring in new and beneficial contacts and recognition in the international business environment. Technical assistance will open up the facility to obtain an appropriate design and specification for the equipment most likely to provide the intended production on an optimal basis. Advice on technical specifications will generally lead naturally into technology appropriateness, price and supplier indications and sound decisions having regard to operation, maintenance, repairs and replacements as and when needed. On-the-job training and transfer of know-how facilities are also ample.

Many otherwise viable companies labour under the constraint of restricted markets which can be readily removed by assistance in identifying new markets both locally and abroad, including regional markets taking due advantage of established trading opportunities. Expanded marketing possibilities provide a considerable incentive for increased local production and employment generation. Financial and managerial expertise so regrettably absent and so crucial for the successful management of a company can be obtained either separately or as part of comprehensive foreign investment or joint venture arrangements. The optimal acquisition and utilization of financial resources and the skilful combination of other physical and human resources can make the difference between a successful enterprise and a failed one.

Education and training intervention should avail assistance in the formulation of better pure and applied science inputs into the curricula of both junior and secondary schools and sound preparation for university and other tertiary level formation. Training facilities can be provided either locally or else in suitable institutions in the providing agency's home country. Consultancy services in areas in which local skills are most lacking can be made available on satisfactory levels to undertake critical studies and assignments for relatively short periods of time. The undertaking of needs assessment, pre-feasibility and feasibility studies in potential growth sectors of the economy can be arranged on consultancy bases.

The external public debt of Botswana at P800 million as at 31 December 1990 is low enough to avert fears of capital flight and foreign capital investment can more easily be mobilized to invigorate a growing financial sector. Technical assistance from developing countries with more

sophisticated financial and business services could improve and diversify the financial sector in Botswana and render it more effective for local investors and more attractive for private foreign investors. Greater capital inflows would result, to stimulate national economic development and generally more lucrative investment returns given the prevailing favourable investment incentives and environment.

Technical assistance can also be obtained by and for the public sector to assist in the establishment on a firm foundation of the following:

- (a) The proposed National Productivity Centre, with institutional leadership being provided by the Institute of Development Management (IDM). Productivity being so vitally important for both the employed and under-employed as well as for the unemployed such a centre could be crucial for overall manpower development and employment fulfilment. Shortly it is intended to organize a national productivity conference to formulate policies and programmes for the centre.
- (b) The Botswana Share Market. An Act to formally launch a formal and independent stock exchange will soon be considered and approved by the National Assembly to cater for trading of shares and securities on a regular basis, an essential ingredient for a virile financial and business services sector under the economic diversification and sustained development strategy; henceforth the financing of Gross Fixed Capital Formation will become the legitimate responsibility of the vitalized financial sector rather than mining sector revenues.
- (c) The establishment of a contributory comprehensive National Social Security System will cater for the superannuation benefits of employees in both the public and private sector and the resulting accumulation of funds should be a source of considerable savings and investment resources in the country. At present management of the individual company funds/schemes is in the hands of private insurance companies that invest largely overseas. The Department of Labour and Social Security does not cater for these needs performing mainly welfare functions. The 1991/92 budget announced a 50% increase in the limit of contributions to superannuation funds for tax allowance purposes from P6,000 to P9,000 to encourage greater participation in these schemes and to compensate contributors for inflationary losses.
- (d) The setting up of a merchant bank in the country where the facilities of such an institution are so much in need and so much absent, to complement the other actual, potential and impending services of a greatly improved banking and financial sector.
- (e) The establishment and rendering fully operational of the National Bureau of Standards is a necessary condition for determining and ensuring adherence to internationally acceptable standards of manufacturing production and packaging. The Botswana Bureau of Standards (BBS) will be a fully independent quality control organization with the full complement of

scientifically trained staff and technologically sound techniques and procedures.

#### 17. SUMMARY AND CONCLUSION

With the projected halting of the rate of increase in government revenues it is prudent that there should be a slowing down in the rate of public expenditures which was in any case called for under NDP6 when the outturn was more than double the forecast. The structure of the Botswana economy, with the mining sector playing a decisive role, strongly supports a policy of diversification. Diversification does not imply abandonment of the traditional economic growth areas and sectors which have served the country well and created substantial accumulations of surpluses and reserves. It means the spreading of risks and venture capital so that when external shocks occur some resources can be preserved for continued investment, production, development and well being on a universal and sustainable basis for the present and future generations. Diversification will involve a strategic shift to non-mineral sources as well as to mineral but non-large-scale mining of diamonds and copper-nickel. In the area of livestock development it could be shifting emphasis from cattle, beef and beef products into by- and other products such as tanning, bone carving or else sheep and goats, poultry and fish; as regards arable farming a move may be made into horticultural crops and other cash crops which would help to reinforce the policy of strategic food security and rural income generation.

The parastatal sector and the Government's loan portfolio in general would be rationalized and distortions in their operations which subsidies and special terms constitute would be removed. Public owned financial institutions and private commercial banks will compete in the money and equity markets for the best lending and borrowing terms and the public and private sectors will compete on a more or less equal footing for trained manpower.

Diversification of the beneficiaries of development from urban to rural dwellers would complement the policy of rural development and income capacities would be more equalized as productivity is increased. As regards capital funding a suitable mixture of local and international loan and grant funds would be required. In the field of Education and Training an appropriate balance between academic and practical education, pure and applied research and literary and professional training would be invaluable and in Botswana the University, Polytechnic, College of Agriculture, Colleges of Education, the Institute of Administration and Commerce, Centre for Accountancy Studies and the present institutions of Science and Technology, (including the BTC, RIIC, PRIC, the Brigades, IFS and on-the-job training programmes) would make their individual and joint contributions to the total training effort.

The spectacular performance of the economy during NDP6 is as much due to the supplemental wealth creating activities of the various human operatives using available natural resources as to the returns realized from the further investment of cash surpluses and foreign exchange reserves which even by world standards have been huge. By even more imaginative investment policies and procedures, matching assets with liabilities in investments and comparing cost of external borrowing and opportunity cost of domestic capital and reserves and basing external borrowing decisions on the outcome, national financial assets can be substantially self perpetuating and given competent and

determined economic management, will grow by geometric rather than arithmetic progression.

Diversification is also applicable to the sources of private investment and trade away from South Africa and Zimbabwe in the areas of mining operations, financial services, manufacturing, imports and economic relations in general. In the area of banking and credit there is growing diversification away from the two main pre-independence European (British) banks. One of the four basic objectives of the current economic policy and strategy-economic independence-endorses this sub-strategy; the independence not of isolation but of variety, diversity and the recognition and active practice of genuine inter-dependence.

### Explanatory Notes to the Report

1. Sua (pronounced sowa) means salt in the local (Makgadikgadi) Sesarwa language.
2. Pula is the name of the national currency (divided into 100 Thebe) but it also means rain in the Setswana language.
3. The Government's financial year runs from 1 April to 31 March.
4. Acronyms and abbreviations are denoted in the text.
5. Exchange (mid) rates as at 28 June 1991 are as follows:

P1 - US\$ 0.4979  
- STGW 0.2881  
- SA R 0.3800  
- DM 0.8562  
- ZIM\$ 1.5335  
- CAN\$ 0.5720  
- SFR 0.7205  
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  - Chapter 3 - Economic performance and prospects, draft 22 March 1991.
  - Chapter 4 - Planning the Strategy for Development, draft 5 February 1991.
  - Chapter 5 - Public Expenditure and Manpower, draft 26 March 1991.
  - Chapter 6 - Financial Sector Development, draft 20 March 1991.
  - Chapter 7 - Industrial and Commercial Development, draft 13 March 1991.
  - Chapter 14 - Education and Manpower Development, draft 28 March 1991.
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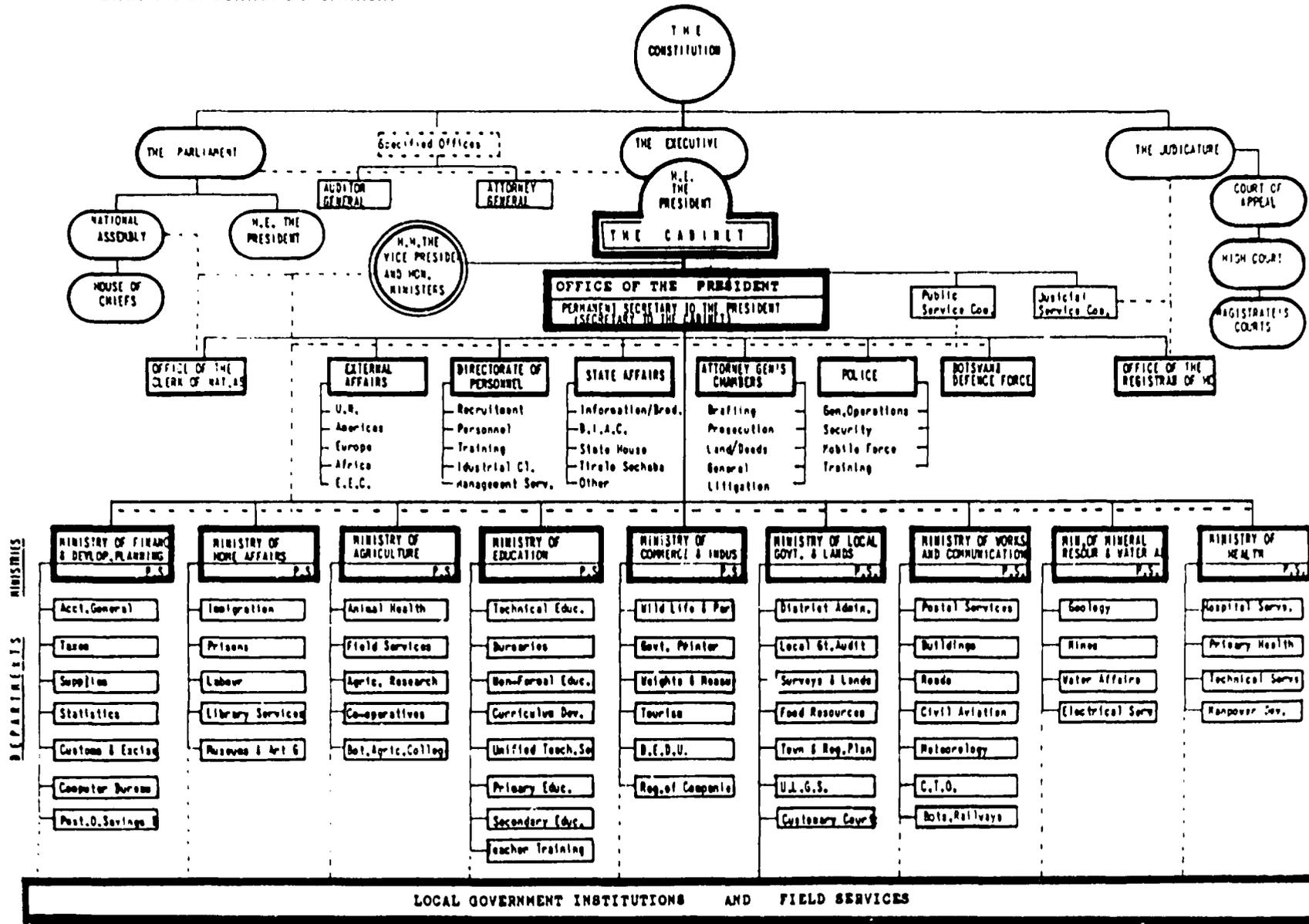
List of Organizations Contacted

1. Ministry of Finance and Development Planning
2. Ministry of Agriculture
3. Ministry of Commerce and Industry
4. Botswana Development Corporation Ltd.
5. National Development Bank
6. Botswana Technology Centre
7. Tswelero (Pty) Ltd.
8. Botswana Confederation of Commerce, Industry and Power
9. Southern African Development Co-operation Conference (SADCC)
10. SADCC Regional Business Council
11. Standard Chartered Bank Botswana Limited
12. Financial Services Company of Botswana Limited
13. Rural Industrial Promotions (Botswana) (RIP)
14. Rural Industrial Innovation Centre (RIIC)
15. Bank of Botswana
16. Barclays Bank of Botswana Limited - Small Business Unit
17. Stockbrokers (Botswana) Ltd.
18. Department of Trade and Investment Promotion Agency
19. Botswana Housing Corporation
20. United Nations Development Programme (UNDP)

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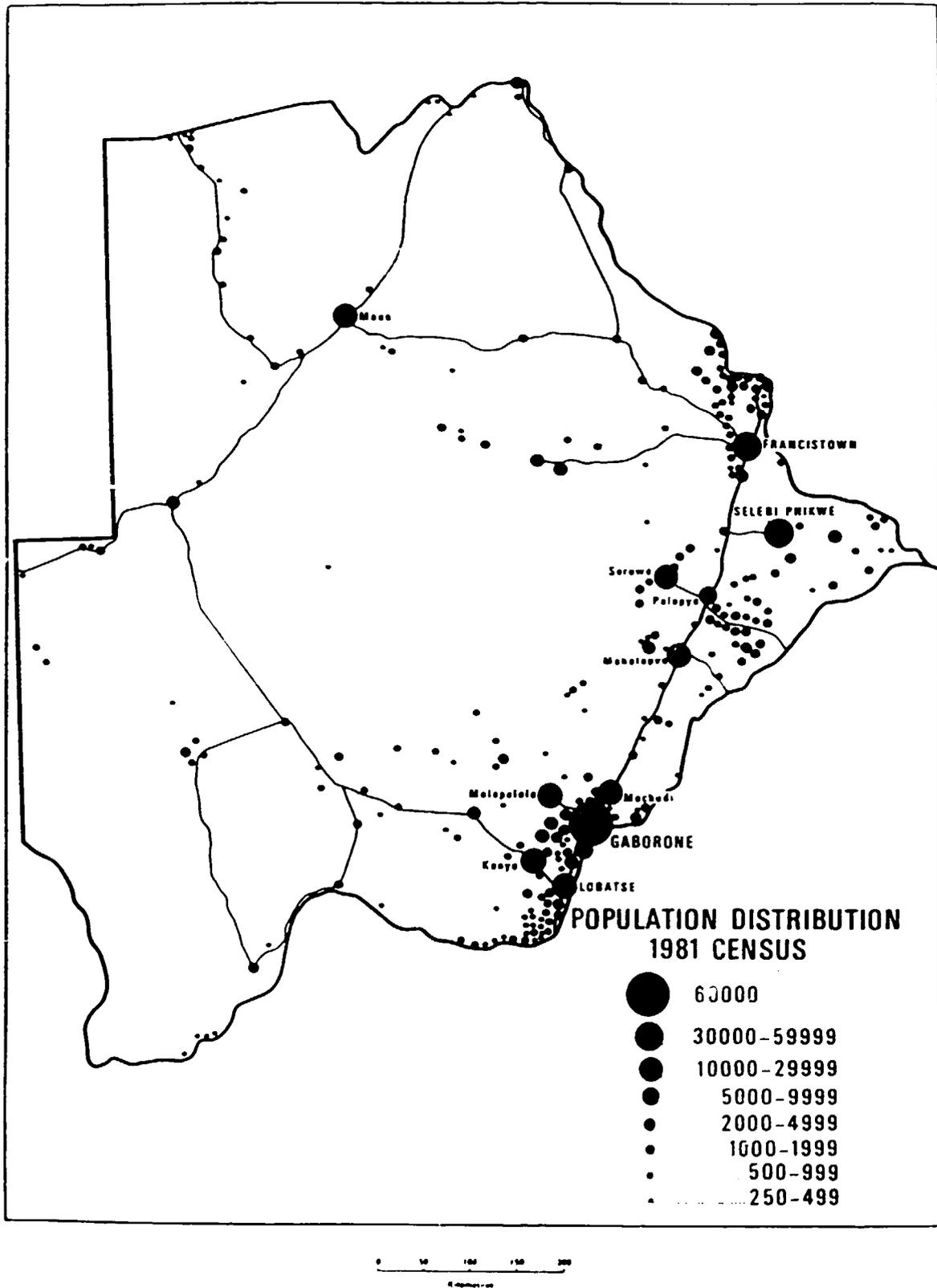
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Structure of Central Government





Distribution of the Population



Comparative Economic and Social Indicators			
	Averages for:		
	Botswana	Sub-Saharan Africa	OECD Members
<b>Economic Indicators 1987</b>			
GNP per capita (US\$)	1 050	330	14 670
<b>Economic structure</b> (% contribution to GDP):			
Agriculture	3	34	2
Manufacturing	6	10	27
Industry excl. manuf.	51	18	10
Services, etc.	40	38	61
Energy consumption per capita (Kg of oil equivalent)	429	105	6 573
<b>Social Indicators</b>			
Annual population growth (80-87)	3,4	3,1	0,6
Crude birth rate per 1 000	35	47	13
Crude death rate per 1 000	10	16	9
Life expectancy at birth (years)	59	51	76
Population per doctor (1984)	6 910	23 610	450
Daily calories per capita (1986)	2 201	2 097	3 390
<b>Percentage of age group enrolled (1986):</b>			
Primary level schools	80	73	102
Secondary level schools	31	20	93
Tertiary level	2	2	39
Urban population as % of total	21	27	77
<i>Source:</i> World Bank.			
<i>Note:</i> The primary level enrolment ratio in the source has been adjusted to concur with Botswana statistics. Date of Botswana statistics in brackets if different from 1987.			

## References in Chapter 1

### 1. Previous National Development Plans covered the following periods:

- Transitional Plan for Social and Economic Development (1966)
- National Development Plan (NDP1) 1968-1973 (1968)
- National Development Plan (NDP2) 1970-1975 (1970)
- National Development Plan (NDP3) 1973-1978 (1973)

## Development Indicators 1966-1991

Economic Indicators	1965	1975	1985	Most recent estimate	Year	Growth % p.a.
	GDP Pa, 1988/89 prices	284	1 284	3 660	4 988	88/89
GDP per capita, Pula, 1988/89 prices	537	1 793	3 364	4 115	88/89	8,8
Formal employment ('000)						
domestic	14	57	117	176	1989	11,1
abroad	31	n.a.	32	24	1990	-1,0
Infrastructure	1966	1975	1985	Most recent estimate	Year	Growth % p.a.
Km. of tarred road	20	219	1 885	2 664	1990	22,6
No. of motor vehicles	4 500	15 400	51 700	75 000	1989	13,0
Electricity generated, Million KWh	5	270	457	845	1989	25,0
Social Indicators	1966	1971	1981	1991	Year	Growth % p.a.
Total population ('000)	541	597	941	1 334	(Est.)	3,7
Life expectancy at birth	48,0	55,8	56,3	60,2	(Est.)	0,9
Death rate (per '000)	n.a.	14,5	13,9	11,5	(Est.)	-0,4
School enrolments:						
primary ('000)	72	116	234	274	1989	6,0
secondary ('000)	2	12	32	44	1989	16,0
teacher training colleges	293	489	1 188	1 356	1989	6,8
University	22	n.a.	1 022	2 837	1989	23,5
Health:						
doctors per 100 000 pop.	5	11	16	17	1989	5,7
nurses per 100 000 pop.	6	86	143	179	1989	15,9

## Gross Domestic Product, 1966-1988/89 (selected years)

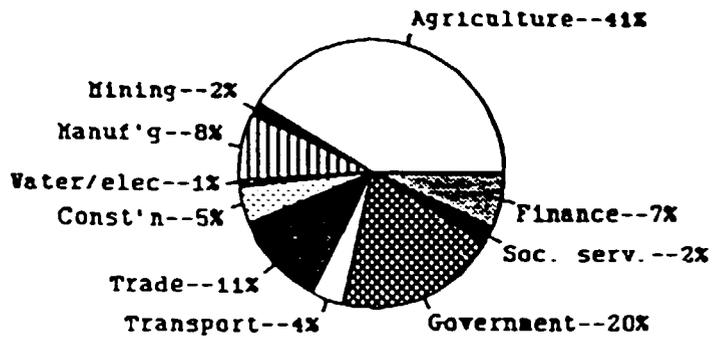
Constant 1988/89 prices

	1966		1977/78		1982/83		1988/89 <sup>a</sup>	
	Pn	I	Pn	I	Pn	I	Pn	I
Agriculture	124	39,6	309	19,9	153	5,8	149	3,0
Mining	-	-	241	15,5	815	31,2	2542	51,0
Manufacturing	25	7,9	106	6,8	165	6,3	209	4,2
Water & electricity	3	0,8	44	2,8	65	2,5	93	1,9
Construction	18	5,7	73	4,7	142	5,4	166	3,3
Trade, hotels	58	18,6	311	20,0	556	21,3	818	16,4
Transport	13	4,1	65	4,2	66	2,5	82	1,6
Finance	21	6,6	129	8,3	174	6,6	263	5,3
Government	52	16,7	253	16,3	451	17,2	638	12,8
Social services <sup>b</sup>	-	-	65	4,2	87	3,3	118	2,4
Dummy sector <sup>c</sup>	-	-	-42	-2,7	-58	-2,2	-91	-1,8
<b>Total GDP</b>	<b>313</b>	<b>100,0</b>	<b>1 554</b>	<b>100,0</b>	<b>2 613</b>	<b>100,0</b>	<b>4 988</b>	<b>100,0</b>
<b>GDP per capita, Pula</b>	<b>578</b>		<b>1 982</b>		<b>2 677</b>		<b>4 115</b>	

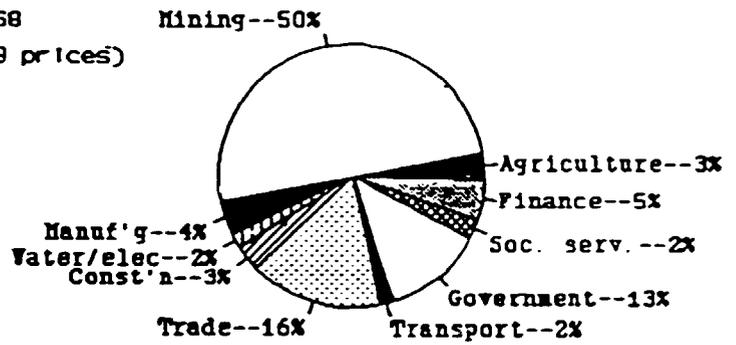
Sources: Ministry of Finance and Development Planning.

Notes: <sup>a</sup> 1988/89 figures may be subject to revision.<sup>b</sup> Included under Government in 1966.<sup>c</sup> The dummy sector is a correction for imputed bank service charges.

### GDP by Sector, 1967/68 and 1988/89



1967/68  
(P365m, 88/89 prices)

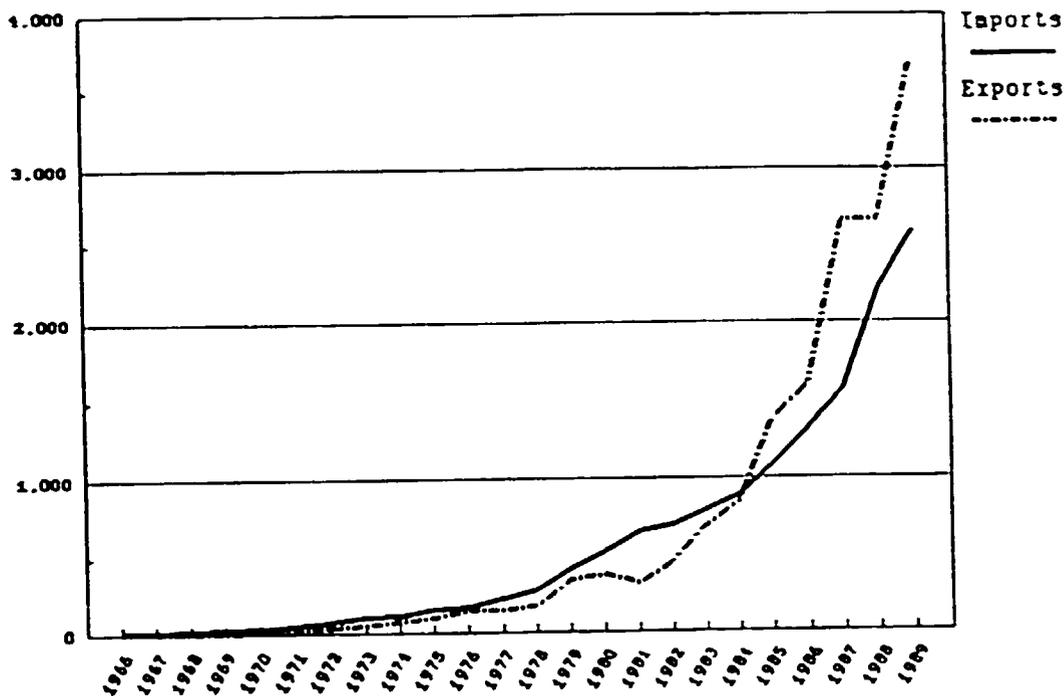


1988/89  
(P4 988m)

Source: CSO.

### Imports and Exports, 1966-1989

Pula, million

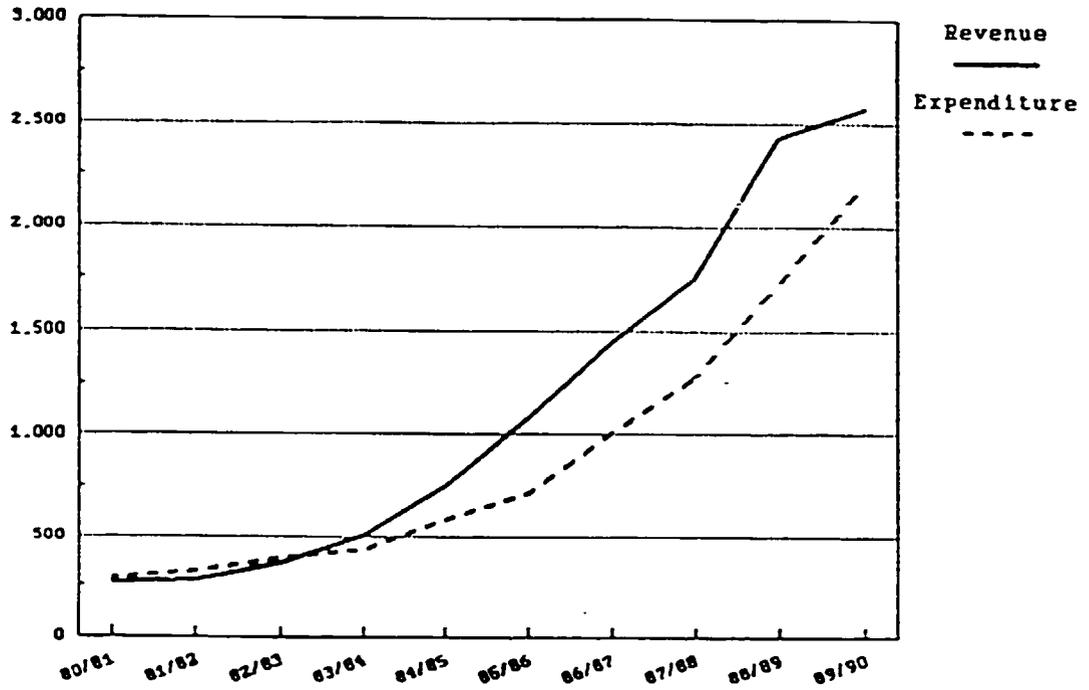


Source: CSO.

Note: 1988 and 1989 figures are provisional.

### Government Revenue and Expenditure, 1980/81-1989/90

Pula, million



Source: MFDP.

GDP BY TYPE OF ACTIVITY 1985/86-1988/89 (IN CONSTANT 1991/92 PRICES)

GDP by type of activity	85/86	86/87	87/88	88/89
Agriculture	199	211	220	220
Mining	1 802	2 083	2 176	2 537
Industry <sup>(a)</sup>	1 032	1 183	1 350	1 643
Government	674	732	862	946
Other <sup>(b)</sup>	1 007	1 112	1 231	1 395
Total	4 715	5 321	5 840	6 740
Rate of growth, % p.a.	4,7%	12,9%	9,8%	15,4%
GDP excluding mining	2 912	3 238	3 664	4 204
Rate of growth, % p.a.	5,2%	11,2%	13,2%	14,7%
Mining growth rate, % p.a.	2,3%	15,6%	4,5%	16,6%
Estimated population ( '000)	1 088	1 128	1 169	1 212
Per capita GDP (Pula)	4 333	4 717	4 996	5 561

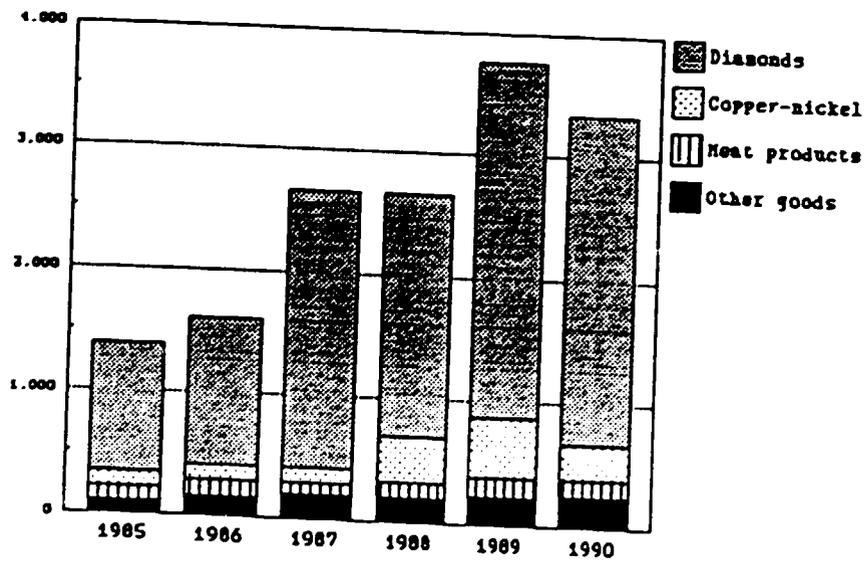
Source: Macro Unit, MFDP.

Note: (a) Includes Manufacturing, Water & Electricity, Construction, and Transport & Communications.

(b) Includes Trade & Hotels, Financial Institutions, and Household, Social & Community Services.

### Principal Exports, 1985-1990

Pm. current prices



Source CSO Exports.

Balance of Payments, 1985-1989

Pm. current prices

	1985	1986	1987	1988 <sup>(a)</sup>	1989 <sup>(b)</sup>
Visible Trade Balance	445	459	1 314	999	1 513
Imports, cif <sup>(c)</sup>	-940	-1 143	-1 350	-1 687	-2 148
Exports, fob <sup>(c)</sup>	1 384	1 602	2 664	2 686	3 661
Services	-364	-346	-505	-869	-1 066
Total Goods and Services	81	112	809	131	447
Transfers	170	210	284	296	357
Current Account Balance	251	323	1 093	427	804
Capital Account	239	207	-143	265	314
Overall Balance	501	566	942	815	1 164
Changes in External Reserves (- = increase)	-93	-556	-951	-1 216	-880
Adjustments for Exchange Rate Changes	-407	-10	9	519	-284

Source: Bank of Botswana.

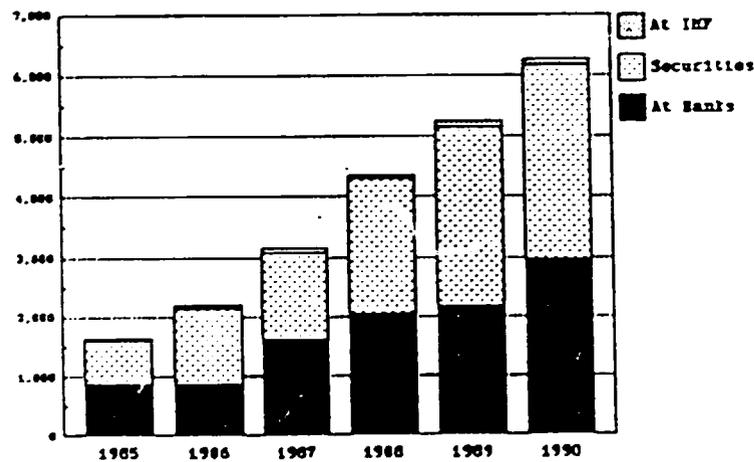
Notes: (a) Provisional.

(b) Preliminary.

(c) Including adjustments.

International Reserves, 1985-1990

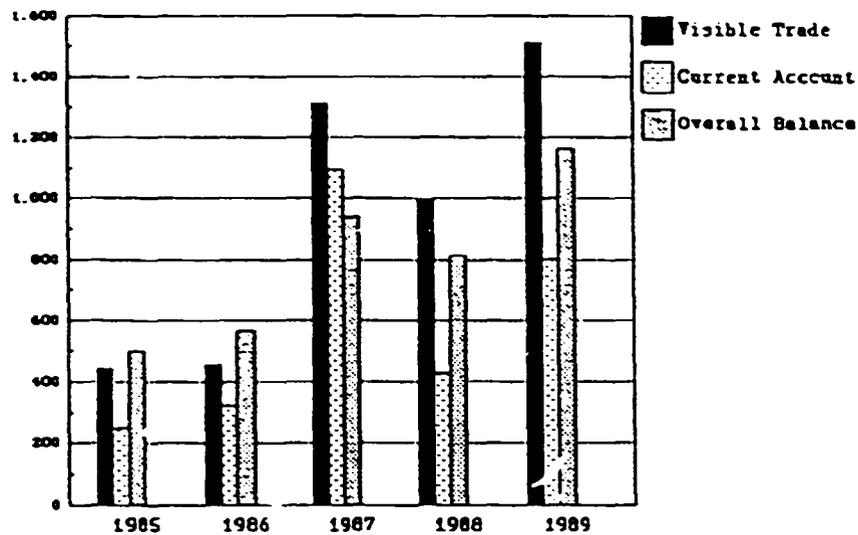
Pm. current prices



Source: Bank of Botswana, Review of Economic Developments, December, 1990.

Balance of Payments Indicators, 1985-1989

Pa. current prices



Source CSO. Statistical Bulletin, June 1990.

Terms of Trade 1985-1987

Unit value trade indices

	1985	1986	1987
<b>Exports (1985=100)</b>			
Beef	100,0	138,2	138,2
Diamonds	100,0	114,4	115,2
Copper/nickel	100,0	108,7	110,9
Other	100,0	138,7	184,9
Total	100,0	122,2	138,4
<b>Imports (1985=100)</b>			
Total	100,0	115,3	122,8
Terms of Trade	100,0	106,0	112,7

## Developments in the Banking Sector during NDP 6

	Fula million, year end			
	Assets		Liabilities	
	1984	1990	1984	1990
<b>Bank of Botswana</b>				
Forex reserves	735,7	6 259,9	Govt. deposits	353,6 3 965,8
Banks/IMF	631,9	3 073,3	Bank/other	88,1 617,4
Securities	104,8	3 186,6	deposits	47,6 189,3
Other assets	2,6	16,2	Botswana currency	
			Capital reserves &	250,0 1 503,0
			other	
<b>Total</b>	<b>739,3</b>	<b>6 276,1</b>	<b>Total</b>	<b>739,3 6 276,1</b>
<b>Commercial Banks</b>				
BOB deposits	75,7	245,9	Deposit	333,7 1 072,3
Loans/advances	222,7	757,5	obligations	29,5 118,6
Other assets	100,5	350,6	Capital/reserves	35,7 163,1
			Other liabilities	
<b>Total</b>	<b>398,9</b>	<b>1 354,0</b>		<b>398,9 1 354,0</b>
<b>Commercial Bank credit allocation</b>		<b>Percentage of total, year end</b>		
		1984	1990	
Households		15,3	30,1	
Trade/transport		37,0	20,1	
Manufacturing/mining		20,0	16,0	
Finance/business services		5,7	16,2	
Parastatals/local Govt.		7,8	7,6	
Construction/utilities		6,2	4,7	
Agriculture		6,9	3,6	
Other		1,1	1,7	
<b>Total</b>		<b>100,0</b>	<b>100,0</b>	

Source: Bank of Botswana.

**Evolution of Botswana's Financial Institutions  
during NDP 6**

Institution	Year Estbld	Total Assets	
		1984	1990 (Pula Million)
<b>Central Bank</b>			
Bank of Botswana	1975	739,3	6 276,1
<b>Commercial Banks<sup>1</sup></b>			
Barclays Bank of Botswana, Ltd.	1975	213,2	706,5
Standard Chartered Bank of Botswana, Ltd.	1975	148,3	458,1
Bank of Credit and Commerce (Botswana), Ltd.	1982	37,3	157,7
Zimbank Botswana, Ltd. <i>(started ops 17/5/90)</i>	Dec -1989	-	31,6
First National Bank of South Africa	1991	-	-
<b>Development Finance Institutions</b>			
National Development Bank	1963	43,6	63,3
Botswana Development Corp	1970	76,0	365
Botswana Cooperative Bank	1974	9,6	29,9
Botswana Building Society	1977	25,8	127,4
Botswana Savings Bank	1982	15,9	37,5
<b>Insurance Companies<sup>2</sup></b>			
Botswana Eagle Insurance Company, Ltd.	1976	n.a.	n.a.
Botswana Insurance Company (Pty), Ltd.	1977	7,6	62,5
IGI Botswana, Ltd.	1977	6,4	39,0
<b>Other Non-Bank Financial Intermediaries<sup>3</sup></b>			
Financial Services Company of Botswana, Ltd.	1974	8,0	116,8
Tswelalo (Pty), Ltd.	1984	6,6	15,9
Sachaba Investment Trust Company	1984	-	29,6
ULC (Pty), Ltd.	1989	-	33,5
Stockbrokers Botswana (Pty), Ltd.	1989	-	n.a.
Pension/Provident Funds <sup>4</sup>	v.d.		120,0 (est)

Source: Bank of Botswana and Ministry of Finance and Development Planning.

Notes: <sup>1</sup> Both Barclays and Standard Chartered operated in Botswana prior to 1975 as branches of South African banks, but they were not incorporated locally until April, 1975. The forerunners of some other present financial institutions (e.g., Botswana Savings Bank, Financial Services Company and Eagle Insurance) also operated in Botswana as branches or subsidiaries of South African parent companies prior to local incorporation.

<sup>2</sup> BIC and IGI are primarily engaged in the provision of life insurance and pension fund management. Their assets relating to life insurance were P5,1m and P24,5m respectively, in 1990; and those relating to pension funds under management were P57,4m and P14,5m respectively. BEI is engaged in providing liability coverages, does not manage pension funds, and has no significant assets of its own separate from obligations to its policy holders. In addition to these three private sector insurance companies there are two Government automobile insurance schemes, namely: the MVI fund which provides protection against damages inflicted by uninsured motorists; and, the Government Car Loan Insurance Fund. Also, there are numerous insurance brokers operating in Botswana.

<sup>3</sup> The leasing and hire purchase financing facilities provided by FSC and ULC are supplemented by credit arrangements available from various suppliers of durable consumer products such as automobiles, household furniture and appliances, etc.

<sup>4</sup> There are 83 employee pension and/or provident funds provisionally registered under the Pensions and Provident Fund Act of 1988, the largest of which is Debswana Pension Fund whose assets amounted to P64,8m in 1990. The assets of all pension and provident funds, including those managed by the insurance companies, are estimated at approximately P200m in 1990.

As at 30th June. n.a. indicates not applicable. v.d. indicates various dates. est. indicates estimated.

## Government's PDSF/RSF Lending During NDP 6

Borrower	Outstanding balances at 31 March, P=						
	1984	1985	1986	1987	1988	1989	1990
Air Botswana	-	-	-	-	-	31.9	86.5
BCL Shashe	7.1	8.2	5.2	5.2	5.2	5.0	4.2
B. Agricultural Marketing Board	5.0	5.2	5.2	2.6	2.3	17.3	28.7
B. Building Society	1.5	2.9	3.3	-0.3	1.2	12.2	14.4
B. Cooperative Bank	6.7	7.4	7.8	7.6	7.4	7.3	7.1
B. Development Corporation	5.0	9.4	12.7	17.1	25.2	19.8	45.5
B. Housing Corporation	61.8	75.7	89.7	93.5	123.5	149.5	196.4
B. Livestock Devt. Corp.	1.1	1.0	1.0	1.0	1.0	1.0	0.8
B. Meat Commission	1.9	1.8	5.2	2.2	1.9	2.1	1.4
B. National Sports Council	-	-	-	4.2	5.0	5.0	4.0
B. Power Corporation	27.6	66.9	111.7	146.3	202.2	196.0	91.2
B. Railways	-	-	-	-	-	-	22.9
B. Technology Centre	-	-	-	-	-	-	0.9
B. Telecomms Corporation	7.7	2.5	19.0	22.5	29.7	27.8	2.8
B. Vaccine Institute	3.2	3.3	3.8	3.4	2.9	2.3	1.1
Development House	0.1	2.4	2.7	2.7	2.7	2.7	2.7
Financial Services Company	-	-	-	-	1.2	4.3	21.8
Francistown Council	10.0	11.8	13.0	14.4	14.6	15.1	9.8
Gaborone Council	8.6	10.5	12.6	14.8	17.9	21.3	21.7
Jwaneng Council	0.6	1.7	1.9	2.4	2.8	3.3	3.2
Lobatse Council	2.4	6.3	6.8	7.9	9.6	12.9	8.6
National Development Bank	35.7	46.7	46.5	45.7	57.2	60.3	60.6
Postal Services	1.9	1.9	2.1	2.0	1.9	1.7	3.9
Selebi-Phikwe Council	6.0	7.3	14.2	15.1	16.5	19.3	10.9
University of Botswana	-	-	-	-	-	1.1	5.5
Water Utilities Corporation	23.9	34.2	39.3	38.6	67.0	62.8	44.9
Total	217.8	307.1	403.7	448.9	598.9	682.0	702.4

Source: Ministry of Finance and Development Planning.

## General Financial Sector Indicators, 1984-1990

Indicator	Pula million, year end							2 Growth pa -
	1984	1985	1986	1987	1988	1989	1990	
Foreign assets	751	1606	2207	3160	4387	5255	6345	42.7
Bank credit, net	-114	-357	-962	-1504	-1959	-2486	-3214	74.5
Government	-352	-614	-1236	-1789	-2328	-3016	-3971	49.8
Other public	18	25	34	23	27	56	57	21.2
Private sector	220	232	239	262	342	474	699	21.2
Money supply	354	521	596	988	1191	1756	1509	27.3
CD deposits <sup>1</sup>	170	361	455	840	977	1503	1220	38.9
S&T deposits <sup>2</sup>	183	160	141	148	214	253	289	7.9
Other items, net	283	728	649	668	1237	1013	1622	33.8
PDSF/RSP loans <sup>3</sup>	259	307	404	449	599	682	702	18.1
Parastatals	225	259	347	382	524	593	611	18.1
Local auths.	28	38	49	55	61	72	54	11.6
Other	6	10	8	12	14	17	37	35.4
	Per cent per annum, year end							Avg.
Inflation rate	9.0	10.4	10.8	8.1	10.4	11.3	12.0	10.3
Interest rates								
Deposit (savings)	8.0	8.0	7.5	7.5	5.0	6.0	7.5	7.1
(call)	3.5	3.5	3.5	3.5	3.5	6.0	7.5	4.4
Lending (prime)	11.5	11.5	10.0	10.0	7.5	8.0	9.0	9.6
(PDSF)	10.0	10.0	8.5	8.5	7.5	7.5	8.0	8.6
Exchange rates								
Rand:Pula	1.27	1.23	1.20	1.23	1.23	1.36	1.37	1.27
Dollar:Pula	0.64	0.48	0.54	0.64	0.52	0.53	0.53	0.55
SDR:Pula	0.65	0.43	0.45	0.45	0.39	0.41	0.38	0.45

Source: Bank of Botswana.

Notes: <sup>1</sup> Currency and demand deposits.<sup>2</sup> Savings and term deposits.<sup>3</sup> Outstanding amounts as at 31 March

• The average annual compound growth rates reflect the effects of inflation.

BDC Group Results, 1984/85-1988/89

	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Sales (Pm)	90,5	120,3	133,9	184,0	235,5	293,8
Capital employed (Pm)	71,6	86,7	114,8	148,8	195,9	283,0
Net profit <sup>(a)</sup> (Pm)	5,4	10,8	11,4	17,8	26,9	41,0
Return on capital (%)	11,0	16,1	12,6	14,7	16,0	16,7
No. of employees	4 800	5 600	6 800	7 500	8 700	10,100

Source: Botswana Development Corporation Annual Report, 1989. and Annual Report and Accounts to  
 Note: (a) Before unusual items and share of net profit of associated companies. 30/6/1990.

## MCI Development Expenditure, 1991-1997

P million. 1991/92 prices

Project name	No.	91/92	92/93	93/94	94/95	95/96	96/97	Total
Bureau of Standards	CI 406	0,08	0,06	0,06	0,05	0,05	-	0,30
Weights and Measures	CI 412	0,37	0,03	0,10	-	-	-	0,50
Local Enterprise Development	CI 504	0,87	0,73	0,30	0,30	0,40	0,40	3,00
Rural Industries Promotion	RIP 523	0,74	0,66	0,80	0,50	0,50	0,80	4,00
Food Research & Testing Centre	FTR 524	0,16	0,24	0,30	0,50	0,70	0,40	2,30
Trade & Investment Promotion	CI 607	0,81	0,79	0,80	0,70	0,70	0,70	4,50
<b>Total</b>		<b>3,03</b>	<b>2,51</b>	<b>2,36</b>	<b>2,05</b>	<b>2,35</b>	<b>2,30</b>	<b>14,60</b>

Source: MFDP.

## Code of Conduct for Foreign Investors

This Code of Conduct has been prepared by the Government of Botswana to publicise its attitude to foreign investors.

Botswana expects foreign investors to observe the following code of conduct.

1. Foreign investors should regard themselves as full participants in Botswana's economic life and should take a long-term view of their contribution to Botswana. As a consequence of taking a long view, foreign investors should take steps to ensure that their operations in Botswana become as independent as feasible with respect to performing their own technical services, adaptive research, purchasing of inputs, etc. In return, foreign investors can expect to be treated fairly and equitably in regard to such policies as taxation and exchange control, since Government recognizes the requirement for investors to earn a reasonable return on well managed, economically viable investments.
2. Foreign investors should recognize the need to actively train Botswana for positions at all levels of technical expertise, and should reduce the share of non-citizens in their work force over time. In this effort they must cooperate with the Commissioner of Labour in preparing an agreed training and localization programme. Government has various financial incentives to assist companies with their training programmes, and Government welcomes suggestions and other contributions from foreign investors on how the public sector can best assist with training and the promotion of opportunities for citizens to advance. Foreign companies who are maintaining appropriate levels of training activities and who are moving expeditiously to promote citizens will receive cooperation from the Commissioner of Labour in meeting their remaining requirements for work permits for non-citizens.
3. Foreign investors are expected not only to be law-abiding, but also to identify with the development aspirations of Botswana, and its national planning objectives, to assist in the implementation of national development plans, and actively to share Botswana's commitment, to maintenance of a democratic, open, non-racial society.
4. Foreign investors are encouraged to offer shareholdings in their ventures to citizens. In some sectors, Government will expect to be a direct shareholder; in others the Botswana Development Corporation will take an equity interest. In most sectors, individual citizens should be sought as investment partners, even if on a modest scale. Government believes that the long-run stability of the economic system will be greater if citizens share ownership of economic ventures in all sectors of the economy. In addition, foreign investors should, if they wish to sell their enterprises, give citizens a fair opportunity to purchase.

### Commercial and Traditional Agriculture in Botswana

The distinction between commercial and traditional agriculture is based on land tenure, technology and market integration.

**Land Tenure** Commercial farming is associated with freehold areas, but not confined to them. Traditional agriculture is exclusive to the communal areas, but there too commercial agriculture is increasing.

**Technology** Commercial agriculture is more likely than traditional to use modern technology, to apply purchased inputs such as hybrid seeds, agro-chemicals, and exotic livestock breeds. It is also more likely to require hired labour, while traditional agriculture typically uses family labour.

**Market Integration** This is measured by the extent to which inputs are purchased and outputs sold. The commercial sector is, by definition, fully integrated, but the traditional sector covers a spectrum from those who produce predominantly for the market, through those who are basically self-sufficient but experience surpluses or shortages depending on the weather, to those resource-poor farmers who own no cattle, are engaged in marginal crop production and suffer chronic food deficits. Such households supplement their own production through wage earnings, transfers, and off-farm activities.

Commercial farms are mainly freehold and leasehold and cover about 8% of the total land area, although the 540 commercial farms represented less than 1% of the total number of farms in 1988. These farms held 18% of all cattle and produced 27% of the total output of grain and pulses. Commercial farms tend to specialise in cattle production: in 1988 97% of them held cattle (with an average herd of 871), but only 31% grew crops.

Traditional farms cover a much larger share of Botswana's total land area. Two thirds of traditional farmers practise mixed farming, with individually managed arable holdings and communal grazing of livestock. Traditional farms number 85 900, hold 82% of all cattle, 97% of goats and 85% of sheep. They produced 73% of all basic food grains and pulses in 1988.

There is a great disparity in performance between the two sectors. Some indicators:

	Commercial	Traditional
<u>Livestock (cattle)</u>		
Annual calving rate	70%	50%
Annual offtake rate	17%	8%
Annual mortality	5%	11%
<u>Crops</u>		
Average yield	748 kg/ha	241 kg/ha

These differences reflect different technologies and resource inputs. However, higher yields do not necessarily mean that commercial farms are more efficient in their use of resources. The commercial arable farms at Pandamatenga, for example, have produced yields above traditional levels, but their costs of production have exceeded the value of their output.

### Self-Sufficiency versus Food Security

National food self-sufficiency implies producing within Botswana sufficient livestock, sorghum, millet, maize, and milled products of these grains to satisfy the food needs of everyone in Botswana, regardless of cost. Given the environmental constraints in Botswana, this cost would be very high. Furthermore, national food self-sufficiency is only indicative of the physical supply of food: it does not guarantee universal access to food, nor the end of hunger and malnutrition.

Food security, on the other hand, allows for production and income generation which follows the principle of comparative advantage through trade. The policy of national food security to be implemented during NDP 7 has the following three components.

1. At the *national level*, Botswana has a comparative advantage in producing livestock (particularly beef) and sorghum, as well as in the production of minerals and an increasing range of manufactures and services. Foreign exchange earnings from activities in which Botswana is competitive can be used for importing essential food items that cannot be produced so advantageously in Botswana, such as maize.
2. At the *household level*, it is the purchasing power of individual households which determines the quantity and quality of the food consumed. Purchasing power depends both on household income and on the prices of basic foodstuffs. The goal of household food security demands that each household has sufficient income generating opportunities and access to food to meet its nutritional requirements.
3. To lessen risks and dependence, it is wise to buy the imports from a number of countries and to maintain a *Strategic Grain Reserve* in Botswana. Currently it is planned to store up to six months' supply of food grains in such a reserve. This will also help to cushion Botswana against severe shortfalls in production resulting from drought, allowing time to arrange supplies from other sources.

## PROGRESS AND LONG TERM PROSPECTS

## The Past 25 Years

2.1 As illustrated in Box 1 below, Botswana has made extraordinary progress since Independence. Economic growth, as measured by Gross Domestic Product (GDP), has averaged 12.9% annually since 1965. The period covered by the Sixth National Development Plan saw continued growth in GDP at a much faster rate than had been anticipated.

Box 1. Development Indicators 1966-91

ECONOMIC INDICATORS	<u>1965</u>	<u>1975</u>	<u>1985</u>	Most Recent Estimate	Year	Growth % p.a.
GDP (Pula Million 1979/80 prices)	101	453	1308	1982	(1989/90)	12.9
Growth percent p.a.	16	11	9		-	
GDP (Pula Million Current prices)	32	277	2235	5850	(1989/90)	24.2
GDP per capita, Current prices	60	390	2060	4500	(1989/90)	19.7
Formal Employment ('000)						
Domestic	14	57	117	182	(1989)	11.4
Abroad	31	n.a.	32	n.a.		0.2
INFRASTRUCTURE	<u>1966</u>	<u>1975</u>	<u>1985</u>	Most Recent Estimate		
Km of tarred road	20	219	1885			27.0
No. of motor vehicles	4500	15372	51678			13.7
Electricity Generation, Mill. Kwh	5	270	457	1052	(1988)	32.0
SOCIAL INDICATORS	<u>1966</u>	<u>1971</u>	<u>1981</u>	<u>1991</u>		
Total population ('000)	541	597	941	1348	(Projection)	3.7
Life expectancy at birth	48.0	55.8	56.3	60.2	"	0.9
Death rate (per 1000)	n.a.	14.5	13.9	11.5	"	-0.4
Percent urban population	4.0	9.3	15.4	25.3	"	9.4
School Enrolments				Most Recent Estimate		
Primary ('000)	72	116	234	274	(1989)	6.0
Secondary ('000)	1.5	12	32	44	(1989)	16.0
Teacher Training Colleges	293	489	1188	1356	(1989)	6.8
University	22	xx	1022	2837	(1989)	23.5
Health						
Doctors per 100000	4.5	11	15.9			4.5
Nurses per 100000	6	86	143	176	(1989)	17.2

LICENCES ISSUED TO ESTABLISHMENTS IN THE FORMAL  
MANUFACTURING SECTOR 1985-1990

	1985	1986	1987	1988	1989	1990	Total	Expected Employment
Meat & Meat Prod.	1	2			1	1	5	2152
Dairy & Agro Based Prod	10	15	16	17	14	3	75	2996
Beverages		2	2	2	2		8	976
Textiles	4	13	22	24	6	7	76	6392
Tanning & Leather Prod.		3	1	2	1	2	9	538
Chemical & Rubber Prod.	4	3	11	13	10	5	46	2204
Wood & Wooden Prod.	4	4	7	6	4	6	31	1522
Paper & Paper Prod.	3	6	1	5	3	3	21	986
Metal Products	7	20	17	15	17	13	89	3656
Building Materials	4	10	7	14	12	11	58	2875
Plastic Products	4	6	5	7	4	6	32	1476
Electrical Products	2	5	4	4	3	4	22	786
Handicrafts	1	1			1		3	234
<b>Total</b>	<b>44</b>	<b>90</b>	<b>93</b>	<b>109</b>	<b>78</b>	<b>61</b>	<b>475</b>	<b>26793</b>

Source: Ministry of Commerce & Industry

GEOGRAPHIC DISTRIBUTION OF MANUFACTURING ISSUED LICENCES  
1985 - 1990

Sub-sector	Selebi-Francis-				Total
	Gaborone	Lobatse	Phikwe town	Others.	
Meat & Meat Prod.	-	1	2	1	5
Dairy & Agro Based Prod.	19	7	8	7	75
Beverages	1	-	4	1	8
Textiles	31	9	3	14	76
Tanning & Leather Prod.	2	-	-	3	9
Chemical & Rubber Prod.	20	1	4	7	46
Wood & Wooden Prod.	7	-	3	7	31
Paper & Paper Products	9	3	1	4	21
Metal Products	22	1	10	11	89
Building Materials	15	8	-	5	58
Plastic Products	12	2	2	9	32
Electrical Products	12	-	1	4	22
Handicrafts	-	-	1	2	3
<b>Total</b>	<b>150</b>	<b>32</b>	<b>39</b>	<b>75</b>	<b>475</b>

Source: Ministry of Commerce & Industry

## FAP Financed Projects By Size, 1982 - 1990

LOCATION	SMALL SCALE	MEDIUM SCALE	LARGE SCALE	TOTAL
Gaborone	87	142	2	231
Francistown	51	47		98
Lobatse	21	24		45
S/Phikwe	25	32	1	58
Jwaneng	2	6		8
Southern	148	22	1	171
South East	42	39		81
Kgalagadi	142	1		143
Ghanzi	80	1		81
Ngamiland/Maun	123	7		130
Chobe	34	1		35
North-East	52	4		56
Central- Tutume	28	0		28
Serowe	130	31		161
Bobonong	17	2		19
Mahalapye	45	4		49
Kgatleng	101	7	1	109
Kweneng	142	21		163
<b>TOTALS</b>	<b>1270</b>	<b>391</b>	<b>5</b>	<b>1666</b>
<b>% OF TOTAL</b>	<b>76.23</b>	<b>23.47</b>	<b>0.30</b>	<b>100.00</b>

Source: Ministry of Commerce & Industry