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Deepening Integration in SADC

Botswana - a Benchmark for the Region

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FRIEDRICH EBERT STIFTUNG

A study conducted for the Friedrich Ebert Foundation

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Preface

Regional integration can be a key force for sustainable development. It can promote economic growth, reduce poverty, foster social development or protect the environment. But, it can also have negative economic and social impacts, notably when the domestic regulatory framework is inadequate or not implemented effectively.

The Southern African Development Community, SADC is committed to deepening the integration processes amongst its members and has adopted the Regional Indicative Strategic Development Plan (RISDP) in order to provide strategic direction in the design and formulation of SADC programmes, projects and activities in order to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged, through regional integration.

Amongst the various measures governments can implement to further such integration, ensuring sound macroeconomic management is vital. Given the commitment to deepening SADC integration through macroeconomic policies, it is important that policy makers in SADC and its Member States assess the impacts that such measures will have on the social well-being of its people, both in the short term and the long term.

In view of the above, the Friedrich Ebert Foundation through its office in Botswana and in close consultation with the Planning Unit of the SADC Secretariat initiated a regional research programme on "Deepening Integration in SADC – Macroeconomic Policies and their Impact".

From the very beginning the programme was designed as a collective effort of the leading economic research institutions of the region. A total of 14 institutes from 11 SADC member countries followed the call to join the programme. In two workshops held in December 2004 in Gaborone, Botswana and in April 2005 in Stellenbosch, South Africa the team developed detailed terms of reference for the research programme. Phase 1 was to begin at the country level with a comprehensive study on the present status of the economies, their congruence with SADC convergence targets, the respective policy frameworks as well as a social impact analysis. This more theoretical desk study was complemented by an empirical survey of the perceptions of Businesses and non-state actors vis a vis SADC. A study on

South Africa's international trade diplomacy and its implications for regional integration was to give a contextual perspective.

All members of the research team have spent a lot of time and energy and produced excellent reports. The ideas and recommendations contained therein have induced some lively as well as controversial discussion among the participating institutions as well as with other experts. The content of each study reflects of course solely the views of the authors. I commend all of them for their great commitment as well as their great team spirit in this endeavour. I also wish to acknowledge the substantial input we received from the SADC Secretariat, especially the Head of the Strategic Planning Unit, Dr. Angelo E. Mondlane, the then Technical Advisor on Finance, Dr. Moeketsi Senaoana as well as other SADC experts. Other external experts have also contributed to the final documents as part of the various reference group meetings in all the participating countries. I wish to extend my greatest thanks to all them.

In order to make the results of this research programme known to a broader public, especially among the relevant policy and decision makers of the SADC region, the Friedrich Ebert Foundation then decided to publish a series of volumes entitled "Regional Integration in Southern Africa".

The 5th volume, presented here, contains the findings of the Country Study and Survey from Botswana by the *Botswana Institute for Development Policy Analysis, BIDPA* in Botswana. My special thanks go to the authors, to Grace G. Tabengwa and Jay Salkin for writing and revising the document, to Mompoloki Bagwasi for editing as well as to Peter Maina Kamiti and MacDonald Gotora for the design and layout.

Gaborone, October 2006

Dr. Marc Meinardus
Resident Representative
Friedrich Ebert Foundation
Botswana Office

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Executive Summary

The basic objective of the study, which draws upon already existing and readily available information, is to provide a broad stock-taking of the status of the policy frameworks of Botswana, especially with respect to the targets set out in the Memorandum of Understanding on Macroeconomic Stability and Convergence, with a view to providing policy advice to SADC and national policy makers. The study is intended to enhance the SADC Secretariat's capacity for facilitating SADC integration. The study provides some background information on the various national policy constraints that Botswana faces, which could help to inform better national policy makers in their efforts to harmonise national interests with integration processes. Such information is useful in overcoming local resistance to SADC integration and resolving policy that might thwart integration inconsistencies in the SADC countries. The Botswana country study seeks to identify the main linkages (and causality) between the policy frameworks and their economic and social impacts on Botswana. The country study also seeks to identify where Botswana has been achieving successes in attaining the macroeconomic convergence targets, and where there have been problems. The assessments made with respect to Botswana are compared to the agreed policy and strategic frameworks provided by the Regional Indicative Strategic Development Plan.

SADC's Regional Indicative Strategic Development Plan presents a number of ambitious goals and objectives that the Community seeks to achieve. Basically, these entail greater regional economic integration with a view to reducing poverty and fostering more harmonious social and economic development. On the economic front, SADC aims to establish a Free Trade Area (FTA) by 2008, a custom union by 2010, a regional common market by 2015, and a monetary union by 2016. SADC is developing a Finance and Investment Protocol (FIP), which entails a number of specific Memoranda of Understanding that focus on areas, such as fiscal and monetary policies, financial markets, central banks, investment, taxation, development finance, and non-banking regulators. The Memorandum of Understanding on Macroeconomic Stability and Convergence is one of the elements of the Finance and Investment Protocol.

The RISDP is designed to provide strategic direction with respect to SADC programmes, projects and activities. The RISDP aligns the strategic objectives and priorities of SADC with the policies and strategies to be pursued towards achieving those goals over a period of ten to fifteen years. The RISDP is indicative in nature and outlines the necessary conditions that should be realised towards the attainment of SADC's regional integration and development goals. In view of the need to monitor and measure progress, the RISDP sets targets that

The Memorandum of Understanding on Macroeconomic Convergence specifies that Member States should converge on stability-orientated economic policies in a co-operative manner. This is in recognition that in order to accelerate growth of economic activity, investment and employment in the SADC region, there is need for increased co-operation and co-ordination in the formulation and implementation of macro-economic policies. In adopting the Memorandum of Understanding, the SADC leaders expressed their concerted view that regional economic integration and macroeconomic stability are preconditions for sustainable economic growth and for the creation of a monetary union in the SADC Region. For them, Macroeconomic Convergence means that Member States move towards having low and stable rates of inflation and sustainable levels for budget deficits, public and publicly guaranteed debt, and current account balances. Thus, under the agreement, each Member State agrees to adopt stability-orientated economic policies aimed at restricting inflation to low and stable levels, maintaining a prudent fiscal stance based on the avoidance of large budget deficits, monetisation of deficits and high or rising ratios of public and publicly guaranteed debt to GDP, avoiding large financial imbalances in the economy and minimising market distortions.

It is therefore, the purpose and aim of this study that is also being conducted in the various SADC countries, to assess the performance of Botswana in attaining the SADC Macroeconomic convergence targets, as well as to highlight the main challenges that the country faces in attaining some of the convergence targets.

Botswana's Macroeconomic Convergence Programme and Performance Botswana has not formally adopted a Macroeconomic Convergence Programme in line with the Memorandum of

Understanding on Macroeconomic Stability and Convergence. Nevertheless, Botswana has already made great strides in moving towards and achieving most of the targets set for the Memorandum of Understanding. Indicated below is a summary, of the basic status and performance of Botswana with respect to the targets, along with some general discussion of the policy frameworks and issues regarding the target variables. A more detailed discussion of these frameworks and issues is taken up in Section VI of the report.

Inflation

Since a serious episode of escalating inflation that peaked at 17.7 percent in 1992, Botswana's monetary policy has given highest priority to achieving and maintaining monetary stability, which encompasses the objective of a low and stable rate of inflation. Botswana brought its average annual rate of inflation to within the SADC target by 1997; and, apart from an aberration in 2003 caused by the introduction of VAT, Botswana has been able to stay within the target level since then till 2005 when inflation started going up again following the change in the exchange rate policy and the devaluation of the currency. However, Botswana strives for an even lower upper limit for inflation, which is more in line with that in South Africa and other more developed countries.

Budget Deficit

Because of the high variability of its major revenue source (i.e., mineral revenues from diamonds), and to avoid having a pro-cyclical fiscal policy, the Government has traditionally adopted a fiscal strategy of achieving a balanced budget over the medium term horizon; e.g., a national development plan period. Botswana has had deficits in five of the 12 years (1998, 2001, 2002, 2003 and 2004); but only in 1998 did the deficit exceed the 5% upper bound of the SADC macroeconomic convergence target. Over the entire period, there has been a small budget surplus as a percent of GDP (1.2%).

Debt

The Government has traditionally espoused a policy of only taking on an external debt that it has good prospects of being able to service; i.e., serviced by the proceeds (additional incomes) deriving out of the projects financed by such a debt. Once the country graduated from being a least developed country, and had accumulated substantial levels of international reserves, very little additional debt was taken on; and that was typically of a concessional nature. Botswana, with debt to GDP ratios ranging from 11 percent to 5 percent, has remained well within the macroeconomic convergence upper bound of 60 percent for debt to GDP. The Government, did not attempt to borrow from the domestic market once revenues from diamonds became significant,. However, in 2003, Government initiated a programme of issuing three Government bonds in order to develop the domestic capital market, create a long-term yield curve, and provide an investment vehicle for insurance and pension funds, the latter of which had been generously endowed through the establishment of the Public Officers Pension Fund.

Current Account

Botswana has not adopted any explicit targets for the current account balance in recent years; in part because the country has recorded current account surpluses since the early 1980s, mainly due to the healthy performance of mineral export and thus, Botswana has consistently achieved the SADC macroeconomic convergence target of having a current account deficit not greater than 9 percent of GDP.

Growth Rate

Botswana's long-term Vision 2016 has a target growth rate of real GDP of 8% p.a. for the 20 year period from 1996 to 2016. Botswana has not achieved that rate of growth on average for the period from 1996 to 2003; although it was achieved on three occasions since 1996, mainly due to rapid growth of mineral production and Government expenditure. The projected growth rate for the National Development

Plan 9 was only 5.5% p.a. The Mid-Term Review of NDP 9 forecasts that an even lower average rate of growth will be achieved for the Plan period. Compared to the SADC target growth rate of at least 7 percent per annum, Botswana has been experiencing problems. Thus, Botswana is challenged by sluggish growth, which poses further problems for Botswana's strategies for economic diversification, employment creation, poverty eradication and a more equitable distribution of income.

Foreign Exchange Reserves

Since the early 1980s, Botswana has been able to accumulate substantial levels of international reserves, well in excess of the SADC macroeconomic convergence target, and well in excess of the target level felt to be appropriate for Botswana, given the structure of its economy and the risks-fluctuations to which it is subject. In past National Development Planning exercises, target levels for international reserves were estimated at 9-11 months of import cover for goods and services in the 1980s and 7-9 months of import cover in the 1990s. Such targets are used in guiding the allocation of the investment of the international reserves into short term assets (the Liquidity Portfolio) and long-term assets (the Pula Fund). While still in excess of the SADC macroeconomic convergence target of at least four months cover, there has been a notable drop in Botswana's level of import cover due to a decline in the level of official international reserves and rising imports in recent years.

Central Bank Credit to Government

The Bank of Botswana Act sets a limit on the extent to which Government can borrow from the central bank. In general, in fact the Bank of Botswana has not lent any money to Government or any parastatals during its 30 years of existence. Thus, over the last 12 years, Botswana has satisfied the macroeconomic convergence target of having central bank credit to Government not exceeding 10 percent of the previous year's tax revenue. In contrast, the Government has maintained substantial cash balances (deposits) at the Bank of

Botswana, which have constituted the major portion of the country's official international reserves until recently.

Domestic Savings Rates

Botswana has not established an explicit target savings rate, comparable to the SADC macroeconomic convergence target of 25% of GDP. But, one can be derived for Botswana from the target investment rate of 40% of GDP and the target ratio of foreign direct investment relative to GDP (which averaged 0.052 in NDP 9). Thus, Botswana's target savings rate would be about 34.8% of GDP, something the country has been able to achieve over the past 10 years. Hence, Botswana has been able to achieve the SADC target savings rate of 25 percent of GDP.

Domestic Investment Rates

In order to achieve the target growth rate set in Vision 2016, of 8% p.a., with an estimated incremental capital-output ratio of 5.0, Botswana needs to have an investment of about 40% of GDP. That target investment rate has not been achieved in recent years. Botswana's investment rate averaged 25.3 percent from 1994 to 2003.

Prevailing Macroeconomic Policy Framework and Economic Challenges Botswana's macroeconomic policy framework is generally supportive of the private sector and market-oriented development. Government has maintained a sound and stable fiscal position, running budget surpluses over most of the past two decades and accumulating substantial long-term savings, which are reflected in the nation's relatively high level of foreign exchange reserves. The country has maintained a relatively stable and, in the view of many analysts, a reasonably competitive real exchange rate vis-à-vis its major trading partners. The Government has devalued the Pula exchange rate twice in the past 16 months in order to restore the international competitiveness of local producers. Positive real interest rates, comparable to those in major international markets, have supported sound investments and allowed for progressive liberalisation and eventual abolition of exchange controls (Leith, 1997b, 2000). Sound monetary policy has kept inflation fairly low and stable. The Incomes Policy has attempted (with some success) to restrain wage increases to be in line with productivity. Trade policy has been oriented towards having a relatively open-economy, with prices and costs in line with international norms. Shortages of skilled labour, while a cause for concern, have been ameliorated through recruitment of expatriates and generous government support for education and training programmes (BOB, 2000). Because the local market is so small, manufacturing and other industries in Botswana cannot expect to derive most of their growth or achieve large scale economies from just domestic demand (Jefferis, 1997a). The major challenge will be to promote manufacturing and other non-traditional exports, since they will face increasing competitive pressure in both domestic and foreign markets as regional and global trade barriers come down and the flow of international goods and services becomes freer.

There are still a number of critical development challenges that Botswana faces which the economy needs to deal with decisively in order to realise sustainable development in the 21st century and to continue sustaining the level of stability the economy has attained so far, which has played a crucial role in the good performance Botswana has on attaining convergence in most of the macroeconomic targets discussed above. These challenges include poverty, unemployment, HIV/AIDS and development of human capital, as well as speeding up the process of economic diversification.

Poverty

It still remains important and urgent for the diversification strategy to bear fruit so that the unemployment problem can be reduced and that the industries and sectors that should play a role on Botswana's development be expanded in order that the poverty problem can be addressed. This is quite a challenge for the country, especially in view of the relatively slow pace of diversification to date and the continuing high rate of unemployment over the years. With these dynamics, the realisation of the goal of Vision 2016 to reduce the proportion of the population living below the poverty datum line to 23% by the year 2008, and to zero by 2016 is thus a great challenge for Botswana.

In dealing with the challenges of poverty in Botswana, strategies for poverty reduction and its eradication need to recognise some of the prevalent poverty dynamics in Botswana where many people in rural areas are poorer than those in urban areas, with female headed households being generally poorer than male headed households. The relatively low impact of economic growth on poverty is also straining Botswana's development. Most countries with per capita GDP comparable to Botswana's have income poverty rates of less than 10%. Yet for Botswana, nearly one-third of the population subsists below the poverty line. One of the aspects of the dynamics of poverty in Botswana also involve Involves how to deal with the battle against poverty in the era of HIV/AIDS, which has implications for the population's health and other socio-economic indicators, as well as the viability of the country's institutions, especially public institutions. Indications are that HIV/AIDS could very easily generate governance failures of catastrophic proportions. A 2000 BIDPA study on Poverty and HIV/AIDS indicates that with HIV/AIDS, poverty could increase by as much as 10 percent as opposed to a situation without HIV/AIDS, and the number of orphans and dependents could double.

HIV/AIDS

One of the major developmental challenges that Botswana faces is the HIV/AIDS pandemic. The spread of HIV/AIDS represents a serious threat to Botswana's development and the attainment of the nation's vision objectives. Planning for human development in the context of HIV/AIDS poses serious challenges for Botswana, not only because of the high rate of prevalence which leads to human suffering and death, but also because of the macroeconomic impacts that HIV/AIDS has on the labour market, human development processes and public finances. The high economic growth rates and progress on the human development front are being threatened by the pandemic, which affects progress made on health. Poor health easily translates into poverty for sick people who seldom earn an adequate income. The HIV epidemic threatens to reverse the gains in public health and has implications for the progress made on human development indicators such as life expectancy, infant mortality and others.

The pandemic also poses a threat for the sustainability of government expenditure on health which has risen sharply as a result of the growing demands on the health system and in the provision of anti-retroviral therapy. While there are efforts that are currently underway in Botswana to curb the spread of the virus through the provision of antiretroviral drugs and counseling services to those affected to prolong their lives, as well as the provision of prevention of mother to child transmission services, it still remains critical for the government to implement the various programmes and policies rigorously and effectively to ensure that the macroeconomic balance and progress made on the development front are not seriously affected. The NGOs that have responded positively to working hand in hand with government in the fight against the scourge also need to continue playing their role and ensuring their continued support with more rigor so that the fight against the HIV/AIDS pandemic is won.

Lack of Human Capital and Capacity

While there have been some positive achievements and plans to continue promoting skills and education to achieve one of the ambitious vision objectives; "to have an Educated, Informed Nation by 2016," it remains a challenge for Botswana to fill the existing gap in terms of the lack of educated and skilled personnel which forms one of the major constraints to Botswana's economic development. In enhancing human capital and capacity, it remains important for Botswana to train its labour and match it with the skill requirements of the market. This would go a long way in reducing dependency on imported labour and the high incidence of high level posts being held by expatriates. While some notable progress has been achieved in attaining local expertise that are capable of holding top positions that were originally held by expatriates, Botswana still faces an education policy challenge that should ensure that all training institutions, from primary to tertiary level, are set up in such a way that they address the skills gap that exists in the economy. Human resources need to be geared towards the needs of the country and to the job market in particular, so that many citizens may enter the labour market with appropriate skills that match the employment opportunities. In this regard, Botswana faces the challenge of matching the human resource requirements and provision across sectors by establishing proper frameworks and management processes and developing a culture of life-long learning. The effect of HIV/AIDS upon the future availability of skilled and experienced personnel must also be fully taken into account in the planning process.

Lack of Economic Diversification

While Botswana's diamond industry has experienced rapid growth over the past three decades, it is unlikely that it will continue to grow so rapidly in the future. Botswana cannot expect to continue to find the richest, most profitable diamond deposits in the world within its boundaries. Finding new engines of growth outside mining will be crucial for further rapid growth in real incomes. This has proved to be quite a challenge within this landlocked economy and small domestic market.

In implementing the Vision 2016 strategies, Botswana will need to develop the capacity of small, mostly female operated and often rural based enterprises. The greatest challenges faced by businesses generally are access to capital, a shortage of adequately trained personnel and lack of business management expertise. Government has made economic diversification a priority. However, such an endeavour continues to progress slowly, despite government's efforts to woo foreign investors, or develop indigenous entrepreneurship through efforts such as the Citizen Entrepreneurial Development Agency (CEDA).

Special Issues for Future Research

Implications and Impact of Regional Integration

Given the commitment to deepening SADC integration through macroeconomic policies aimed at achieving certain agreed macroeconomic convergence targets, it is important that policy makers in SADC and its member states assess the impacts that integration will have on the social wellbeing of its people, both in the short term and long term. Individual countries need to conduct research on the implications of the various integration initiatives they are pursuing and balance them in accordance with economic priorities. Botswana is a member of various regional integration blocks and trade agreements, including SACU, SADC, the Cotonou Partnership Agreement and AGOA. The objectives of regional integration in the various agreements overlap and, as such, it is imperative that research be carried out on the possible benefits and the impact of the agreements on the country's long term trade aspects and developmental aspirations. Such research will also identify which issues should be aligned and pursued within a certain agreement, and more importantly, where the benefits are higher. Such research and information would help to ensure that countries reap the benefits of integration and are also guided by what they stand to benefit in any agreement.

Multiple Membership, Overlaps and Implementation Capacity

Botswana is a member of various trade agreements that are at different levels of negotiations. The implementation of the agreements overlap and this poses costs in the negotiation process and in fulfilling membership obligations. It is also a complex task to ensure that the negotiation mandates in the various arrangements do not conflict with economic objectives and those of the integration process. Also, the negotiation process requires capacity and expertise to handle the complex issues involved. It is, therefore, important for research to be conducted on the costs of membership and implementation of the various trade arrangements. Having trained experts in the negotiation process could also enhance the benefits that can be derived from the integration process and also ensure that the agreements are in harmony, both in their pursuit of regional objectives and national objectives of development.

Research on the Trade and Poverty Links

While Botswana has made substantial progress on the development front, it still faces widespread poverty and unemployment. Various efforts and policies have been put in place to address the high incidence of poverty and unemployment, but the incidence of both still remains high. It is, as such, important that research on identifying the possible links between trade, employment and poverty be conducted and ways in which regional integration through trade can be exploited to address the poverty and unemployment problems. Such research will not only give us information on why the linkages may have been weak, but it will also shed insight on how to maximise the benefits and how to strengthen the linkages.

Diversification and Industrial Development

While Botswana is making efforts at the national level to diversify the economy, it still remains critical for the industrial sector to develop to a level where the industries can effectively play a role in expanding trade at a regional level as envisaged in the SADC FTA. Focused research on how these industries will be affected, especially at the early stages of development, is critical. Without such research and information, some countries may end up as losers from the integration process. Also, issues on how economies may protect their industries as they open up markets to more free trade is important. For Botswana, with a limited industrial base and lack of a diversified export base, more competition may thwart the diversification exercise and result in greater dependency on imports.

Data Issues

There are important data needs in Botswana to facilitate research work on the impact of regional integration on the broader economy. The aspects that need particular attention in as far as data collection, compilation and dissemination are:
- the frequency of the data
- the timeliness of the data
- the level of dissaggregation
- broadness and coverage
- consistency of the data
- accuracy of the data

Areas where data is needed to facilitate research work in the special issues identified in the previous section include: data on poverty which is currently being compiled on a ten year cycle basis; trade data (which is often late) not disaggregated to allow for more focused sectoral analysis; data on employment where labour force surveys are conducted after 10 year periods; relevant data on fiscal, monetary, education and training health and capital market-related data. Harmonisation of data collected in the region will also allow for meaningful comparisons on what effects regional integration will have in the individual countries, as well as on monitoring the convergence programme. Further, more research can be easily carried out on some of the important links between trade and other important regional issues such as poverty and unemployment and its impact on social and economic development.

Conclusions

Botswana's success lies in the prudent macroeconomic management of resources through the national planning process, which is linked to the national budgeting process and the Vision 2016 aspirations, which emphasise and focus on themes that are in line with the SADC RIDSP goals and objectives of achieving sustainable and equitable growth and socio-economic development through efficient productive systems and good governance. Botswana's growth, has been mainly driven by the mining sector which coupled with the good macroeconomic policy framework that has existed have led to Botswana's good performance. It is through prudent policy making and the availability of diamond revenues that Botswana has had good fiscal and monetary policies that have contributed towards the achievement of high growth rates and the attainment of most of the SADC macroeconomic convergence targets. The economy has not formally adopted a Macroeconomic Convergence Programme in line with the Memorandum of Understanding on Macroeconomic Stability and Convergence, since it has made great strides in moving towards and achieving most of the targets set for the Memorandum of Understanding.

Botswana is already compliant with most of the set SADC macroeconomic convergence targets. The economy has low external debt, as a result of many years of running budget surpluses and accumulating substantial levels of international reserves. The budget surpluses are mainly the result of the Government fiscal policy of avoiding pro-cyclical fiscal policy and adopting a strategy of having a balanced budget over the medium term. Since the 1980's, Botswana's current account has been in surplus and as such the country has not had to adopt any explicit target for the current account balance in line with the SADC macroeconomic convergence programme. Botswana's monetary policy has also given highest priority to achieving and maintaining monetary stability, which encompasses the objective of a low and stable rate of inflation. This has brought and maintained inflation within the SADC target by 1997, and, apart from an aberration in 2003 which was caused by the introduction of VAT, the country has stayed within the target range since then until August 2005.

The two targets that Botswana is still not complying with are the growth rate which has remained lower than the SADC average target of 7% and the rate of investment. Botswana's GDP growth rate has fluctuated mainly in response to developments in the mining sector and generally has been lower in recent years, less than the Vision 2016 target of 8% p.a, as well as the SADC target of 7%. NDP 9 projects an average annual growth rate of of 5.5%, while the Mid-Term Review of NDP 9 forecasts even lower growth.

Investment has also been lower than the SADC target of 30% of GDP and has also been concentrated in the mining and government sectors. Many efforts have been put in place to continue attracting higher levels of investment particularly in the non-mining sectors of the economy. This is expected to contribute to the nation's diversification strategy.

Botswana has also not enjoyed the full benefits of trade emanating from a diversified export base, since one sector has dominated its export profile. Botswana exports a few products, notably diamonds, beef, soda-ash, copper-nickel and textile products. The industrial base remains small and the manufacturing sector is still in the early stages of development. The domestic market is also small, limiting expanded trade opportunities and effective participation in the integration process within the trade front.

While there are quite a number of good policies that have contributed towards Botswana being a success story in the SADC region, there is still widespread poverty in Botswana. Many Batswana are still poor implying that the benefits of growth have not been equitably distributed or re-distributed and targeted to effectively address the widespread poverty. Also linked to poverty is the prevailing high level of unemployment in the economy. The high incidence of HIV/AIDS also poses a challenge in attaining high growth rates and addressing policy priority areas such as poverty and unemployment.

Recommendations

Botswana Specific Recommendations

Botswana has made efforts and continues to refine some policies and initiatives to address the areas where it is lagging behind in the SADC macroeconomic convergence programme and its long term development. The economy pursues policies that are in line with the SADC vision of promoting sustainable growth and promoting more productive systems. Policies have also been formulated to address the low investment, boosting GDP growth and promoting growth of the non-mining sectors and enhancing private sector development. It is a commonly expressed view in Botswana that the problems that exist are mainly not due to poor policies, rather they are largely the result of a failure to implement the existing policies. For Botswana to realise its vision, there will be a need to address implementation problems, and to introduce stringent monitoring mechanisms at every level of the public sector. There are policies that are targeted at the challenges that Botswana faces, mainly, the high poverty levels, high unemployment and the HIV/AIDS problem. In this regard, the recommendations drawn below emphasize areas where these efforts need to be strengthened and issues where Botswana can use the regional integration interface to enhance some of its policy aspects to become an effective player in the integration process, while also promoting its national interests. On the basis of this background and conclusions, for Botswana to be competitive, more productive and effective in the regional integration process in the SADC region, it is recommended that:

Botswana should build capacity in the existing institutional structures to effectively implement policies that can address the problem areas that may reverse the achievements made on the SADC macroeconomic convergence targets and also identify areas where further regional integration can be used as a vehicle to achieve more growth and development. This is important in ensuring that issues of poverty reduction and high unemployment are given a stronger focus and that the institutional mechanisms for policy implementation are adequate. In particular, Botswana should develop monitoring mechanisms and clear punishment and reward systems for both labour and management. There is also a need to speed up processes so that decisions do not take longer than necessary to be implemented.

It is imperative for Botswana to strengthen its diversification strategy so that other sectors of the economy, besides the mining sectors can play a more significant role in GDP growth. Regional integration in SADC is one avenue that Botswana can explore to enhance its growth and tap on the growth opportunities that are available. Given the current challenges of the economy, there is need to have industrial targeting policies rather than the past ones that were not specifically targeted. Government efforts to promote investments, both local and foreign, should be more selective, focused on investments that are local-resource based or whose outputs are targeted at export markets. As such, investments should be sought for such industries as tannery, leather products, meat processing, diamond processing and jewellery, etc. Such industries will enhance the values of those local resources that are currently exported in less valuable raw state. In addition, they would create employment opportunities', diversify the country's industrial base, and enhance Botswana's export earnings. An effective implementation of this strategy requires a detailed inventory of input materials (hides and skins, diamond, livestock etc) available in the country, the possible outputs from them, and the markets for such outputs. Efforts by BEDIA and other investment promotion agencies to promote local as well as foreign investments should then be directed at those aimed at utilizing such available resources. The country should also be identifying niche markets for some of its products.

The private sector has to play a role in Botswana's development given the potential the sector has in generating more employment opportunities and growth and, as such, it needs to be strengthened. The private sector also needs to participate fully in the integration process and explore markets and other growth prospects that the processes of regional integration of SADC may avail. This requires that the private sector be taken on board in all negotiations and decision making. The Botswana Government has already committed itself to playing the role of a facilitator, while allowing the private sector to take the lead. The government's facilitative role requires a closer relationship with and understanding of the private sector. In order to foster such understanding and relationship, government needs to be more knowledgeable about the private sector. Such knowledge is best provided by periodic studies on the challenges industrialists face which may constitute barriers to their growth or even survival. For example, there is a concern on the low labour productivity in Botswana. The Botswana National Productivity Centre (BNPC) should research that problem, establish its dimensions, causes and what could be done to solve the problem.

Botswana should integrate its trade policy into its planning process, since this will help to ensure that trade is given priority and that resources are committed towards pursuing trade initiatives that will benefit the economy. In this regard, Botswana should align its trade development strategy to the SADC trade objectives, which aim to deepen integration while at the same time balancing it with national interests and long term development objectives of the economy.

Efforts and initiatives aimed at attracting foreign investment need to be pursued with more rigour. FDI can play a significant role in the long term growth of the economy through the technology, skills and product innovation that it brings to the economy, which can impact positively on Botswana's diversification policy. Some elements of the SADC Finance and Investment Protocol can be integrated into Botswana's investment strategy to allow the country to tap into some of the benefits that may be derived from pursuing regional investment initiatives. Some of the identified solutions to the constraints to FDI inflow should be implemented as a matter of urgency. For example, the issue of work permits which has been a challenge in terms of getting and keeping needed skilled labour in the country. Government realizes that in view of the small size of Botswana's domestic market, the required economic growth and development can come only from vigorous and sustained growth in international trade in goods and services. Consequently, reform policies are being aimed at raising productivity and efficiency of domestic resources, aligning the exchange rate of the domestic currency and thereby improving the international competitiveness of Botswana producers. In addition to local resource-based industries, export-oriented industries promote growth and create employment opportunities. Because they add value to any inputs they might have imported, they are usually favoured with incentives and exemptions from import restrictions. The drive for FDI in particular should accord greater priority and efforts to industries that are engaged in production for the export market.

Botswana needs to continue to deal with the HIV/AIDS challenge, particularly on its impact on the broader economy, such as on the supply of skilled labour, government resources, and positive developments made on the human development front. The war on dealing with the attitudes and stigma associated with the disease in particular needs to be given a high priority. There is need to intensify education regarding the diseases so that the country can slow down the rate of new infections.

Industrial development should also form one of the priority areas for Botswana. This can contribute to more production and products in the market and enhance Botswana's export profile, which is imperative if Botswana is to compete successfully in the regional integration process and benefit from trade. Also, promoting industries that can form linkages with others is quite important. The proximity to South Africa constitutes both an opportunity and a threat to Botswana. Potential investors in productive enterprises in the southern African region tend to favour South Africa, rather than Botswana, as their destination for a number of reasons—proximity to seaport, large domestic market, low cost of utilities, affordability and availability of investible funds, better infrastructure, higher technological skills and facilities. On the other side of the coin these are the higher tax rate, the high crime rate and relative social instability, which constitute South Africa's weaknesses. A proactive reaction to these two dimensions of the proximity to South Africa can turn both into an advantage. Botswana can turn its relative disadvantage of size and lower level of technological development into an opportunity by integrating its industrial activities into those of South Africa. Integrated manufacturing agreements could be negotiated with selected major manufacturers under which Botswana would produce and supply component parts to South African producers, instead of establishing production units of competing brands. Such agreements seem viable in such industries as motor vehicle manufacturing, electronic and household appliances, agricultural equipment, etc. The initiative for such contractual arrangements can be facilitated by a government to government approach and negotiation, involving the ministries of Foreign Affairs, Trade and Industries, Finance and Economic Development and the private sector organisations such as BOCCIM.

Botswana has to strive to improve its labour productivity to become more competitive in the region. The efforts to this aspect have several dimensions, some of which are embedded in the education system, the system of rewards and general incentives in the labour market, the general attitude towards work, etc. These issues need to be dealt with urgently. Some of the solutions have already been identified and it is now a problem of slow implementation. For example, the Performance Management System in government is moving at a pace that is very slow. There is a general need for the country to implement structural reforms that have been agreed upon in a timely manner. The privatisation policy, for instance, has been in place since 2000, and even though it was approved, to date not a single enterprise has gone through the steps of privatisation. With deeper integration, productivity improvements will become increasingly important for the country's survival and success in the global market.

It also remains important for Botswana to remove obstacles to trade and investment and ensure that there is a conducive regulatory environment that would facilitate a smooth integration process. A review of current laws and regulations that may prevent local or foreign investments in several sectors is necessary. For example, the Botswana Meat Commission Act, which confers monopolistic rights to export fresh meat on the Commission, needs to be reviewed if new investments are to be attracted to the meat industry. Similar laws in other sectors need to be reviewed if there is to be new investments in those sectors.

General Recommendations

While there are specific issues that Botswana needs to deal with at the national level, as indicated above, for effective participation in deepening integration in SADC, there is need for a concerted effort by all SADC member states to make this a reality.

It is imperative that all SADC members states adopt stability-oriented policies in a cooperative manner. This is in recognition of the fact that in order to accelerate the growth of economic activity, investment and employment in the SADC region, there is need for increased cooperation and co-ordination in the formulation and implementation of macro-economic policies. It is upon each member state to eliminate all obstacles on trade, investment and movement of labour that may hinder the integration process, allowing for other countries to also participate effectively to achieve the benefits of deeper integration in SADC.

This calls for increased cooperation, co-ordination and management of macroeconomic stability and implementation of monetary and fiscal policies in the region that are vital in accelerating growth, trade and investment, employment creation, and achieving reductions in poverty and high unemployment. Without a collective effort in dealing with the challenges that face the individual member countries in striving towards deeper SADC regional integration, the regional integration process may be a failure, with some of the important RISDP objectives not being met.

1 Introduction

1.1 Background

The Friedrich Ebert Foundation Botswana, in close consultation with the SADC Secretariat, played a pivotal role in supporting this research by organising a workshop on "Deepening Integration in SADC – Macroeconomic Policies and their Impact". The workshop was held on the 6th-7th December 2004 in Gaborone, Botswana. It brought together regional macroeconomic researchers and policy analysts, with a view to developing the concept and the terms of reference for a region-wide study on deepening integration in SADC; one study for each SADC country. The purpose of the various studies on Botswana and the other SADC countries is to provide the SADC Secretariat and national policy makers with macroeconomic policy advice on how the processes of SADC integration can be facilitated, as well as information on the various options that could be pursued on the path of integration. In the process of formulating the Terms of Reference for the study, it was agreed that the SADC Regional Indicative Strategic Development Plan (RISDP) would serve as the basic reference document for the study.

The workshop agreed that country studies would be carried out to describe and analyse the present status of the implementation of the various SADC protocols and legal instruments aimed at deepening SADC integration, especially the Memorandum of Understanding on Macroeconomic Convergence. The focus of the studies would be on trade and macroeconomic convergence measures, along with labour market policy frameworks, and the economic and social impacts that policies in this respect might have. The workshop felt that the country studies would serve to identify key areas for deepening SADC integration, as well as additional studies that could then be undertaken to further analyse the challenges and policy options. Subsequent to the country studies, an overall assessment of the findings on impact was sought and further areas to be addressed were identified. In addition, the workshop proposed that surveys of civil society perceptions regarding the costs and benefits of SADC integration be carried out, along with a study on the regional and international context affecting SADC integration.

Botswana has long viewed regional integration in Southern Africa as a key force for sustainable development that can promote social and economic development, as well as reduce poverty. Fostering such integration in while voiding negative economic and social impacts has remained a formidable challenge, not only for Botswana, but for all the member states. In order to help meet that challenge, SADC has adopted a Regional Indicative Strategic Development Plan (RISDP), which seeks to provide strategic direction in the design and formulation of SADC programmes, projects and activities. The Plan sets out clear guidelines on SADC's approved social and economic policies and priorities. It also provides Member States with a coherent and comprehensive agenda for social and economic policies. The ultimate objective of the Regional Indicative Strategic Development Plan is "to deepen the integration agenda of SADC with a view to accelerating poverty eradication and the attainment of other economic and non-economic development goals." (SADC, RISDP, p7)

The Regional Indicative Strategic Development Plan sets out ambitious goals and objectives, such as SADC has to establish a Free Trade Area (FTA) by 2008, a Custom Union by 2010, a regional common market by 2015 and a monetary union by 2016. SADC's Finance and Investment Protocol (FIP), which commenced in 1998, entails the development of a number of specific Memoranda of Understanding that focus on the areas of fiscal and monetary policies, financial markets, central banks, investment, taxation, development finance and non-banking regulators.

As noted by Gaolathe (2002), SADC is committed to deepening the integration processes amongst its members as part of its strategic plan to "achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged, through regional integration." Ensuring sound macroeconomic management is vital to the integration process, which is reflected in the Memorandum of Understanding (MOU) on Macroeconomic Convergence, which was adopted in 2001. Four macroeconomic indicators were identified for monitoring the implementation of the MOU, viz.: a member state's rate of inflation; the ratio of the budget deficit to GDP; the ratio of public and publicly guaranteed debt to GDP; and the balance and structure of the current account. SADC has set convergence targets for these indicators and maintains that adopting the macroeconomic policy frameworks needed to achieve such targets is crucial for the economies of Southern Africa to be able to integrate into a fully-fledged economic union smoothly, while successfully achieving the Millennium Development Goals.

As noted by Senaoana (2005), "the essential aim of macroeconomic convergence is to create regional levels of macroeconomic stability". The basic elements of macroeconomic stability include low and stable inflation, sustainable levels of debt, exchange rates that are stable and sustainable, prudent and efficient fiscal management and sound and credible monetary policies. Macroeconomic stability is a crucial pre-condition for long-term sustained development, low and stable real interest rates, increased investor confidence in the economies of SADC Member States and job creating productive investment, which, in turn, is not only important in enabling many people to raise their standards of living above the poverty line, but also is critical in enabling increased spending on poverty reducing social programmes.

Through the MOU on Macroeconomic Stability and Convergence, Member States agreed that a substantial degree of macroeconomic convergence is necessary for effective policy coordination and regional integration. The MOU covers the following issues:

- The principles of macroeconomic stability and convergence;
- Indicators to measure macroeconomic stability and convergence;
- The provision of data and information by Member States;
- The establishment of a collective surveillance procedure;
- The presentation of annual convergence programmes by Member
- States to the Committee of Ministers; and,
- The allocation of responsibility for implementation.

When adopting the MOU on Macroeconomic Convergence, identified a set of economic indicators for measuring macroeconomic convergence and the numeric targets they believed would be appropriate for the chosen indicators. These are reflected in the table below.

Table 1: Numeric Values of Target Indicators for SADC MoU on Macroeconomic Stability and Convergence

Target Indicators	2008	2012	2018
Core Inflation	9%	5%	3%
Budget Deficit as a percentage of GDP	5%	3%	1%
External Debt as a percentage of GDP	60%	60%	60%
Current Account Deficit as a percentage GDP	9%	9%	3%
Growth rate	7%	7%	7%
External Reserves (Import Cover in months)	3	6	6
Central Bank Credit to Government	10%	5%	5%
Domestic Savings Rates	25%	30%	35%

Source: Senaoana (2005)

Other macroeconomic targets covered by the MOU include: raising domestic investment levels to at least 30% of GDP by 2008; interconnection of the payments and clearing system in SADC by 2008; finalising the legal and regulatory framework for dual and cross listing of shares on the regional stock exchanges by 2008; and liberalising exchange controls on current account transactions between Member States by 2006 and on the capital account by 2010.

Given the commitment to deepening SADC integration through macroeconomic policies aimed at achieving certain agreed macroeconomic convergence targets, it is important that policy makers in SADC and its Member States assess the impacts that such measures will have on the social well-being of its people, both in the short term and the long term. This study seeks to provide an assessment of the economic and social impacts that macroeconomic policy initiatives have on Botswana.

This report provides the country study for Botswana's macroeconomic policy framework, including the fiscal, monetary, trade and labour market policy frameworks, as well as the social impact assessment of these policy frameworks.

1.2 Objectives of the Study

The basic objective of this desk study, which draws upon already existing and readily available information, is to provide a broad stock-taking of the status of the policy frameworks of Botswana, especially with respect to the targets set out in the MOU on Macroeconomic Stability and Convergence, with a view to providing policy advice to SADC and national policy makers. The study is intended to enhance the SADC Secretariat's capacity for facilitating SADC integration. The study provides some background information on the various national policy constraints that Botswana faces, which could help to better inform national policy makers in their efforts to harmonise national interests with the integration processes. Such information can help in overcoming local resistance to SADC integration and can also help to resolve policy inconsistencies in the SADC countries that might thwart integration. The Botswana country study seeks to identify the main linkages (and causality) between the policy frameworks and their economic and social impacts on Botswana. The country study also seeks to identify where Botswana has been achieving success in attaining the macroeconomic convergence targets, and where there have been problems. The assessments made with respect to Botswana are compared to the agreed policy and strategic frameworks provided by the Regional Indicative Strategic Development Plan.

1.3 Structure of the Report

Section II of the study considers the RISDP Goals and Objectives, especially with respect to the issues of poverty reduction, economic and social development, as well as establishing a free trade area, customs union, a common market and eventually a monetary union. Section III briefly touches on the Memorandum of Understanding on Macroeconomic Stability and Convergence and SADC policy, in the context of the Finance and Investment Protocol, the Trade Protocol and labour market policies. Section IV broadly consider the Macroeconomic Stability Indicators, especially with respect to inflation, budget deficit, debt, the current account and other indicators, such as growth rates, foreign exchange reserves, central bank credit to government, domestic savings rates and domestic investment rates. In this section, some consideration is given to data sources and data issues, such as the need for consistency with internationally acceptable standards and the quality, relevance, consistency and comparability of the data used.

Section V then considers the basic elements and targets of Botswana's Macroeconomic Convergence Programme, reviewing the basic macroeconomic policy framework as reflected in the current national development plan. In general, the section reviews Botswana's development goals and objectives and gives a qualitative overview of the domestic economy. Government's expectations about future economic developments are considered, along with the country's broad policy approach and priorities. The section also includes a brief review of Botswana's fiscal and monetary policies, its trade policy framework and its labour market policy framework. In addition, the study gives some indications of Botswana's successes in achieving macroeconomic convergence targets, some of the problem areas Botswana has encountered in achieving the macroeconomic convergence targets and some of the broad social impacts of the policy frameworks.

Section VI then provides a detailed assessment of Botswana's macroeconomic convergence programme with a view to identifying the main linkages between the policy frameworks and their economic and social impacts. This involves taking a more detailed look at the macroeconomic conditions prevailing in Botswana, in terms of the economic structure, economic growth, employment and unemployment, investment flows to and from Botswana, the basic approaches used in determining budgetary frameworks, the fiscal trends, the causes of budget deficits and debt, where appropriate, the functional allocation of expenditure, monetary and exchange rate policies and trends (with a view to their impacts on macroeconomic stability), central bank and government monetary-fiscal policy interrelationships, as well as the macroeconomic functions of the central Bank. The detailed assessment also looks at the institutional arrangements that prevail within Botswana, the country's capacity to design and implement programmes for macroeconomic convergence, and, where there are capacity constraints, what can be done to remedy them. Some consideration is given to Botswana's trade policies, e.g., the country's existing multilateral commitments that may impact upon macroeconomic stability, especially Botswana's membership in SADC, and how that may influence the country's macroeconomic policy framework, and/or whether it creates any macroeconomic policy contradictions at the national level. The section further highlights issues that will need to be addressed at both country level and at the SADC level in order to meet the various goals set out in the RISDP, such as areas where there is need for improved coordination with other SADC member states.

The detailed assessment also looks at the major elements of Botswana's labour market policy framework, which includes an analysis of labour market trends, with a view to identifying the causes of the low the country has been experiencing, the causes of rising unemployment and inadequate income growth, and the key labour market policy issues that need to be addressed in order to promote deeper SADC integration. In doing this, the study identifies the key policy interrelationships between Botswana's labour market policies and other macroeconomic policies.

Section VII presents the social impact analysis, which entails an in-depth analysis of the changes that are likely to be induced by Botswana's macroeconomic policies aimed at deepening SADC integration. This involves quantification of the potential economic and social costs that might arise for Botswana if the RIDSP's strategies for deepening integration with SADC are followed, as well as the counter-factual costs of non-integration, if Botswana does not adhere to the SADC targets. The section considers how the social, economic and environmental aspects of SADC integration interface with Botswana's national policies, as well as how decisions on trade policy and macro-economic management are taken, and the extent to which the views of civil society are taken on board in the decision-making process. A variety of economic, environmental and social indicators are analysed in carrying out the social impact assessment, including: GDP per capita, employment, unemployment rates by gender, by age, by educational attainment, the human development index, life expectancy, under-five mortality rate, HIV prevalence in the adult population, adult literacy rate, the net primary enrolment rate and the incidence of poverty.

The section also identifies several mitigation and enhancement measures that may enhance the overall impact of SADC integration on Botswana's development.

Section VIII discusses the major macroeconomic challenges facing Botswana, including HIV/AIDS, poverty, lack of human capital, lack of implementation capacity, lack of economic diversification, lack of economic infrastructure, lack of finance, environmental degradation, gender discrimination and disparities and governance problems, while Section IX, considers special issues for Botswana, including other critical policy issues, data requirements and areas for future research. Finally, Section X contains the recommendations for the changes needed in Botswana's macroeconomic policy framework and its institutional structures, along with some indications of the winners and losers, and costs and benefits associated with such changes. The section considers the strategies for implementing such changes in Botswana, along with advice on the monitoring and evaluation of Botswana's strategies for macroeconomic convergence in SADC.

2 Regional Indicative Strategic Development Plan (RISDP) Goals and Objectives

2.1 The SADC Vision and Mission

SADC has a vision of a shared future within the regional community, which serves to chart the region's direction for development. This vision provides the basic foundation for the Regional Indicative Strategic Development Plan (RISDP). The SADC Vision of a common future seeks to ensure that all the people of Southern Africa will enjoy economic well-being, decent standards of living and quality of life, freedom and social justice, and peace and security. This vision is founded on the common values, principles, historical relationships and cultural affinities that exist between the peoples of Southern Africa.

The SADC mission statement is "to promote sustainable and equitable economic growth and socio-economic development through efficient productive systems, deeper cooperation and integration, good governance, and durable peace and security". This is intended to enable the region to emerge as a competitive and effective player in the international economy. The mission statement also provides a basic underpinning to the Regional Indicative Strategic Development Plan. Five principles guide SADC in its pursuit of this mission:

- Sovereign equality of all Member States;
- Solidarity, peace and security;
- Human rights, democracy, and the rule of law;
- Equity, balance and mutual benefit; and
- Peaceful settlement of disputes.

There is a Common Agenda of policies and strategies aimed at achieving SADC's goals, which include promoting:

- Deeper economic co-operation and integration, on the basis of balance, equity and mutual benefit, providing for cross border investment and trade, and freer movement of factors of production, goods and services across national borders;
- Common economic, political, social values and systems, enhancing enterprise and competitiveness, democracy and good governance, respect for the rule of law and the guarantee of human rights, popular participation and alleviation of poverty; and

- Strengthened regional solidarity, peace and security, in order for the people of the region to live and work in peace and harmony.

SADC's RISDP presents a number of ambitious goals and objectives that the Community seeks to achieve. Basically, these entail greater regional economic integration with a view to reducing poverty and fostering harmonious social and economic development. On the economic front, SADC aims to establish a Free Trade Area (FTA) by 2008, a custom union by 2010, a regional common market by 2015 and a monetary union by 2016. SADC is developing a Finance and Investment Protocol (FIP), which entails a number of specific Memoranda of Understanding that focus on areas, such as fiscal and monetary policies, financial markets, central banks, investment, taxation, development finance and non-banking regulators. The MOU on Macroeconomic Stability and Convergence is one of the elements of the Finance and Investment Protocol.

The RISDP is designed to provide strategic direction with respect to SADC programmes, projects and activities. The RISDP aligns the strategic objectives and priorities of SADC with the policies and strategies to be pursued towards achieving those goals over a period of ten to fifteen years. The RISDP is indicative in nature and outlines the necessary conditions that should be realised towards the attainment of SADC's regional integration and development goals. In view of the need to monitor and measure progress, the RISDP sets targets that indicate major milestones towards the attainment of agreed goals. In this connection, the RISDP sets out a logical and coherent implementation programme of the main activities necessary for the achievement of the region's broader goals with a reasonable, feasible and agreeable time frame that takes into account resource constraints.

The RISDP provides SADC Member States with a coherent and comprehensive development agenda on social and economic policies over the next ten to fifteen years. It also provides the SADC Secretariat and other SADC institutions with clear guidelines on SADC's approved social and economic priorities and policies. The RISDP, therefore, enhances the effectiveness of the SADC Secretariat and other institutions in discharging their facilitating and coordinating roles. In the light of the SADC vision of a common future within a regional community and its mission to promote sustainable and equitable economic growth and socio-economic development, the ultimate objective of the RISDP is to deepen the integration agenda of SADC, with a view to accelerating poverty eradication and the attainment of other economic and non-economic development goals.

3 Macroeconomic Convergence and SADC Policy

The Memorandum of Understanding on Macroeconomic Convergence specifies that Member States should converge on stability-orientated economic policies in a co-operative manner. This is in recognition of the fact that in order to accelerate growth of economic activity, investment and employment in the SADC region, there is need for increased co-operation and co-ordination in the formulation and implementation of macro-economic policies. In adopting the Memorandum of Understanding, the SADC leaders expressed their concerted view that regional economic integration and macroeconomic stability are preconditions for sustainable economic growth and for the creation of a monetary union in the SADC Region. For them, Macroeconomic Convergence means that Member States move towards having low and stable rates of inflation and sustainable levels for budget deficits, public and publicly guaranteed debt, and current account balances. Thus, under the agreement, each Member State agrees to adopt stability-orientated economic policies aimed at restricting inflation to low and stable levels, maintaining a prudent fiscal stance based on the avoidance of large budget deficits, monetisation of deficits and high or rising ratios of public and publicly guaranteed debt to GDP, avoiding large financial imbalances in the economy and minimising market distortions.

Article 3 of the Memorandum of Understanding identified a set of Indicators of Macro-economic convergence to be used in monitoring the Memorandum, these include:

- The rate of inflation in the Member State;
- The ratio of the budget deficit to GDP in the Member State;
- The ratio of public and publicly guaranteed debt to GDP in the Member State; and
- The balance and structure of the current account in the Member State.

In the MOU, it was agreed that Member States would identify common guidelines for each of the above indicators (such as those set out in Table 1), and such other complementary indicators as may be agreed, including structural performance and financial conditions. In addition, in the MOU the Member States agreed to co-operate on their fiscal and monetary policies, especially with a view to formulating and implementing sustainable fiscal and monetary policies that would minimise negative spillover effects to other Member States.

Moreover, Member States agreed to establish a collective surveillance procedure to monitor macroeconomic convergence, help to determine specific targets, assess progress relative to those targets and provide advice on corrective actions. It was also agreed that the Committee of Ministers for Finance and Investment will evaluate and monitor the annual macroeconomic convergence programmes submitted by Member States, determine whether such Macroeconomic Convergence programmes satisfy the common guidelines, advise on possible changes, compare outcomes with previous programmes and make recommendations where necessary.

3.1 Finance and Investment Protocol

The SADC Finance and Investment Protocol, of which the MOU on Macroeconomic Stability and Convergence is a component, was developed using the Regional Indicative Strategic Development Plan as a road map for enhancing socio-economic development and deeper regional integration. The Member States recognised that such a protocol was needed to achieve economic growth and balanced intra-regional development, as well as to foster compatibility among national and regional strategies and programmes. The Finance and Investment Protocol was aimed at developing policies that could lead to the progressive elimination of obstacles to the free movement of capital and labour, goods and services, and of the residents of the SADC Member States. This would involve improving economic management and performance through regional co-operation, and help to create appropriate institutions and mechanisms for the implementation of programmes and operations in the SADC Region. Increased co-operation, coordination and management of macroeconomic, monetary and fiscal policies was needed to establish and maintain macroeconomic stability, which is viewed as a vital precondition for accelerating growth, investment and employment creation in the SADC Region, as well as for the creation of a monetary union. The Finance and Investment Protocol was also viewed as important in developing and strengthening financial and capital markets, as well as in fostering private sector investment. The Finance and Investment Protocol was also designed in recognition of the importance of the link between investment and trade, and the need to enhance the attractiveness of the SADC Region as an investment destination. Ultimately, the Finance and Investment Protocol is intended to facilitate regional integration, co-operation and co-ordination within the finance and investment sectors. The aim is to diversify and expand the productive sectors of the economy, and enhance SADC regional trade in order to achieve sustainable economic development and eradicate poverty. Thus, the Finance and Investment Protocol aims to:

- Create a favourable investment climate within SADC with the aim of promoting and attracting investment in the SADC Region;
- Achieve and maintain macroeconomic stability and convergence within the SADC region;
- Promote co-operation in respect of taxation and related matters within SADC;
- Encourage co-operation and coordination by Member States regarding exchange control policies;
- Establish principles which will facilitate coherent and convergent legal and operational frameworks of central banks;
- Create co-operation and co-ordination in the operations of central banks;
- Establish a framework for co-operation and co-ordination between central banks on payment, clearing and settlement systems;
- Foster co-ordination of the activities of development finance institutions in the SADC region so as to stimulate greater cross border flows of finance for projects;
- Establish a SADC project preparation and development fund;
- Facilitate the development of capital markets in the SADC region; and
- Promote co-ordination of the regulation of financial markets in the SADC region

3.2 The SADC Trade Protocol

Botswana is a member of the 14-nation SADC, which started implementing a Free Trade Agreement (FTA) on 1st September 2000. The accord will cut tariffs on 12,000 defined product areas in the SADC region. By 2008, implementation of the liberalisation of products considered less sensitive will lead to freeing 85 percent of intra-SADC trade from tariffs. From 2008 to 2012, the sensitive products will be liberalised, creating a free trade area by 2012. The protocol covers 12 SADC countries: Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. The Democratic Republic of the Congo has indicated its intention to ratify the protocol. However, Seychelles has given notice that it is withdrawing from SADC.

The SADC FTA is governed by principles of asymmetry, which allows the weaker economic partners to have more time to implement onerous obligations of the agreement than the stronger ones. In terms of time frame, the pace of tariff reduction and the coverage of the SADC FTA, the agreement is structured in such a way that the Southern African Customs Union (SACU) Member States will front load their tariff reductions (open their markets faster), Mauritius and Zimbabwe (the non-SACU SADC developing countries) will mid-load their tariff reductions, while the least developed member states (Angola, Malawi, Mozambique, Tanzania and Zambia) will backload their tariff reductions.

The protocol is structured into four categories of trade liberalisation: Immediate liberalisation: Effective September 1, 2000, tariffs on non-sensitive products were reduced to zero on products that attract less than 17% import duty. Products in this category include copper, iron products and steel, wood and articles made of wood, machinery and appliances and paperboard and printed materials, hides, skins and leather.

Gradual liberalisation: Tariffs would be removed within three years of implementation on non-sensitive products that attract between 18% and 25% of import duties (by 2003). Products in this category include furniture, bedding, selected chemicals, paper products, machinery and appliances.

Non-sensitive Products that attract duties above 25% would be duty free within 5 years of the implementation of the FTA (by 2005). Products in this category include articles of leather, rubber, selected textiles, vehicles, selected footwear, cutlery, ceramic kitchen and tableware. Sensitive list: Sensitive products are to be liberalised more gradually, starting in 2008 and fully liberalised by 2012. These are largely textiles, clothing and footwear products that were the subject of disagreement and outstanding negotiations among the SADC member states at the time of drafting the SADC Trade Protocol.

Disagreements regarding the scope of liberalisation among the member states arose over the production, manufacture and retailing of fabrics and how they ought to be traded, and the origin of fabrics and what quantity should be imported. A new formula, resolving the rules of origin, was agreed upon, allowing SADC's least developed countries (Malawi, Mozambique, Tanzania and Zambia) to apply a less stringent system of rules of origin for clothing and textiles for 5 years. A quota arrangement was agreed on during the transition phase to govern trade in the clothing and textile industries. Within this period, the least-developed SADC countries would be expected to invest in the capacity to meet the stricter rules of origin. Other members have agreed to a stricter regime, requiring elaborate processing (substantial transformation) of clothing and textiles being traded within the region. The SADC FTA has to be notified to the World Trade Organisation (WTO). For a trade protocol to be acceptable under the rules of the WTO, it must cover substantially all goods, which is usually interpreted as over 80%.

3.3 SADC Labour Market Policies

SADC's main strategic objective in the area of employment and labour is to promote employment creation and efficient human resource utilisation by stimulating demand for labour in the SADC economies, while ensuring acceptable levels of labour standards and social protection. In pursuing this objective, SADC seeks to address the challenges of high levels of unemployment and underemployment, low productivity, low labour standards and significant differences in regulatory frameworks and the degree of social protection in the region.

The focus of the SADC's Programme of Action for employment and labour is on the formulation and harmonisation of employment and labour policies with a view to contributing to SADC's agenda for deeper integration and reduction of poverty. The key employment and labour programme areas include: occupational health and safety; social dialogue and social protection; productivity improvement; labour standards; developing a database on employment and labour issues; and labour migration.

There are a number of important SADC policy documents on employment and labour, including: the Charter of Fundamental Social Rights in SADC; the Declaration on Productivity; the Policies, Priorities and Strategies on Employment and Labour; the Code on HIV/AIDS and Employment; the Code of Practice on the Safe Use of Chemicals; and the Code of Conduct on Child Labour. Almost all SADC member states have ratified the International Labour Organisation (ILO) Core Conventions, covering areas of Freedom of Association and Collective Bargaining (C.97 and C.98); Elimination of Forced Labour (C.29 and C.105); Abolition of Child Labour (C.138 and C.182); and Elimination of Discrimination (C.100 and C.111).

Closely related to the objectives sought by SADC's labour market policies are the Community's human resources development goals and strategic objectives. As part of its Directorate on Social and Human Development and Special Programmes, SADC established the Human Resources Development (HRD) Unit, with a view to coordinating all human resource development activities in the various SADC Member States, and identifying the needs and priorities of Member States in this area, while developing the necessary mechanisms and strategies to meet these requirements. Raising productivity and standards of living and moving people out of poverty is sought by implementing the provisions of the Protocol on Education and Training and the Regional Indicative Strategic Development Plan (RISDP). Implementation of this Protocol is focused primarily on skills development and development management issues.

4 Macroeconomic Stability Indicators

Within the context of the Memorandum of Understanding on Macroeconomic Convergence, the Committee of Ministers for Finance and Investment made two distinct decisions, namely: they identified the key economic indicators which will be used to measure macroeconomic convergence; and secondly, they decided on appropriate numeric targets needed to be set for the chosen indicators. Since these numeric target indicators need to be internationally credible to yield the full fruits of macroeconomic stability, they were bench-marked as shown in chart 1.

4.1 Numeric Values of Target Indicators

The core inflation target was set to decline from 9% in 2008, to 5% in 2012 and to 3% by 2018. The budget deficit as a percentage of GDP was not to exceed 5% by 2008, and be kept below 3% and 1% by 2012 and 2018, respectively. External debt as a percentage of GDP was set not to exceed 60% by 2008, and remain below that target thereafter. The current account deficit as a percentage GDP was not to exceed 9% by 2008, and by 2018 it should be no greater than 3%. The current account deficit target of 9% of GDP by 2008 and 3% by 2018 should be considered in conjunction with the country's economic growth rate, its import cover and should exclude official transfers in its calculation. The real growth rate should be at least 7% by 2008 and at the least remain at least that high throughout the period to 2018. External reserves, in terms of import cover of goods and services should be at least 3 months by 2008, and 6 months by 2012 and thereafter. Central bank credit to government should be no greater than 10% of government tax revenues in the previous year by 2008; and by 2012 and thereafter, it should be no more than 5%. The domestic savings rate should be at least 25% of GDP by 2008, rising to at least 30% by 2012, and to at least 35% by 2018.

Other macroeconomic target variables include having domestic investment levels of at least 30% of GDP by 2008; a gradual interconnection of payments and clearing systems in SADC by 2008; finalising the legal and regulatory framework for dual and cross listing on the regional stock exchanges by 2008; liberalisation of current account transactions between Member States by 2006 and the capital account by 2010.

4.2 Data Sources

Data for monitoring the economic and social impacts of policies aimed at fostering macroeconomic convergence exist within each of the individual SADC Member States, as well as at the websites of international organisations, such as the Secretariat for the SADC Committee of Central Bank Governors (CCBG), the International Monetary Fund's African Department and the World Bank's World Development Indicators.

Botswana has adopted statistical reporting standards for national accounts, employment and human resources, government finance statistics, money statistics and international trade statistics that are consistent with the internationally acceptable standards as defined by the IMF and the UN System of National Accounts. Thus, this study has used officially available data from the Central Statistics Office, the Bank of Botswana and the Ministry of Finance and Development Planning. In general, Botswana has achieved a reasonably reliable level of official statistics, of good quality, relevance, consistency that is comparable to that reported by the international statistical sources. However, there are concerns about the timeliness of the data, and there are some compatibility problems due to differences in the calendar year used for financial and trade statistics, the fiscal year used for government statistics, the national accounts year used for GDP and output statistics and the different periods (March and September versus August) used for employment and labour statistics versus population statistics, respectively.

5 Botswana's Macroeconomic Convergence

5.1 Basic Elements and Targets

Botswana has not formally adopted a Macroeconomic Convergence Programme in line with the Memorandum of Understanding on Macroeconomic Stability and Convergence. Nevertheless, Botswana has already made great strides in moving towards and achieving most of the targets set in the Memorandum of Understanding. This section highlights the basic status of Botswana with respect to the targets, as well as discusses some policy frameworks and issues regarding the target variables. A more detailed discussion of those frameworks and issues is taken up in Section VI.

5.1.1 Inflation

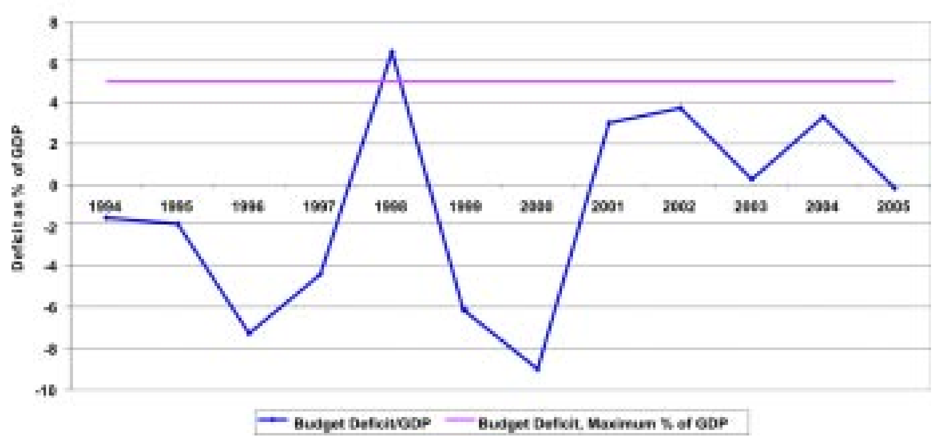
The Bank of Botswana, in consultation with the Ministry of Finance and Development Planning, adopts a monetary policy framework, which is reported in the Bank's annual Monetary Policy Statement. The monetary policy framework sets out a target range for inflation. For 2005, the range was 3%-6%; but this was prior to an exchange rate devaluation of 12% implemented on 30th May 2005. Since a serious episode of escalating inflation that peaked at 17.7 percent in 1992, Botswana's monetary policy has given highest priority to achieving and maintaining monetary stability, which encompasses the objective of a low and stable rate of inflation. As shown in Chart 1, Botswana brought its average annual rate of inflation to within the SADC target by 1997; and, apart from an aberration in 2003 caused by the introduction of VAT, Botswana has been able to stay within the target level since then till 2005 when inflation started going up again following the change in the exchange rate policy and the devaluation of the currency. However, Botswana strives for an even lower upper limit for inflation, which is more in line with that in South Africa and other more developed countries.

Chart 1: Botswana Performance for SADC Macroeconomic Convergence Target for Inflation, 1994 - 2005

5.1.2 Budget Deficit

Because of the high variability of its major revenue source (i.e., mineral revenues from diamonds), and the need to avoid having a pro-cyclical fiscal policy, the Government has traditionally adopted a fiscal strategy of achieving a balanced budget over the medium term horizon; e.g., a national development plan period. As shown in Chart 2, Botswana has had deficits in five of the 12 years shown (1998, 2001, 2002, 2003 and 2004); but only in 1998 did the deficit exceed the 5% upper bound of the SADC macroeconomic convergence target. Over the entire period, there has been a small budget surplus as a percent of GDP (1.2%).

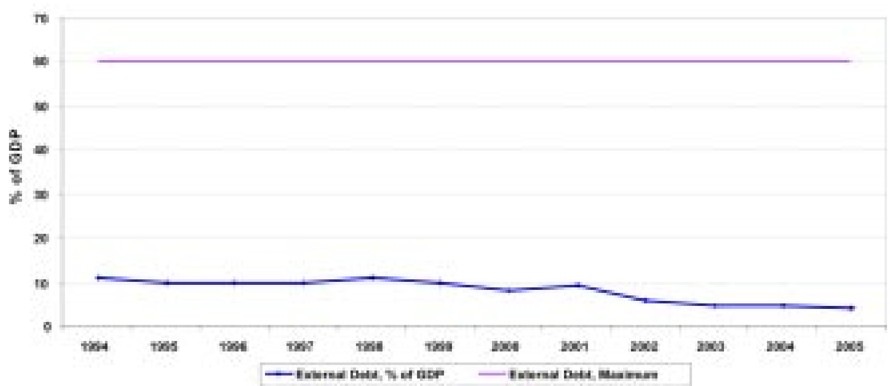
Chart 2: Botswana Performance for SADC Macroeconomic Convergence Target for Budget Deficit, 1994 - 2005



5.1.3 Debt

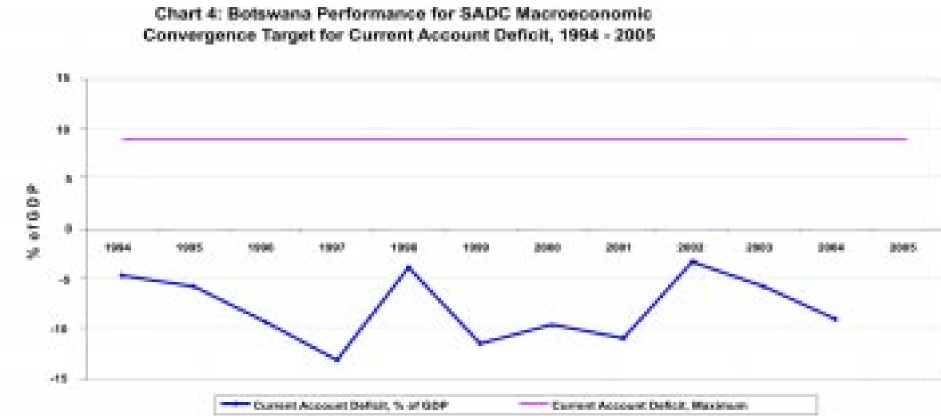
The Government has traditionally espoused a policy of only taking on external debt that it has good prospects of being able to service; i.e., serviced by the proceeds (additional incomes) derived out of the projects financed by such debt. Once the country graduated from being a least developed country, and had accumulated substantial levels of international reserves, very little additional debt was taken on; and that was typically of a concessional nature. As shown in Chart 3, Botswana, with debt to GDP ratios ranging from 11 percent to 5 percent, has remained well within the macroeconomic convergence upper bound of 60 percent for debt to GDP over the entire period. Once revenues from diamonds became significant, the Government did not attempt to borrow from the domestic market. However, in 2003, Government initiated a programme of issuing three Government bonds in order to develop the domestic capital market, create a long-term yield curve, and provide an investment vehicle for insurance and pension funds, the latter of which has been generously endowed through the establishment of the Public Officers Pension Fund.

Chart 3: Botswana Performance for SADC Macroeconomic Convergence Target for External Debt, 1994 - 2005



5.1.4 Current Account

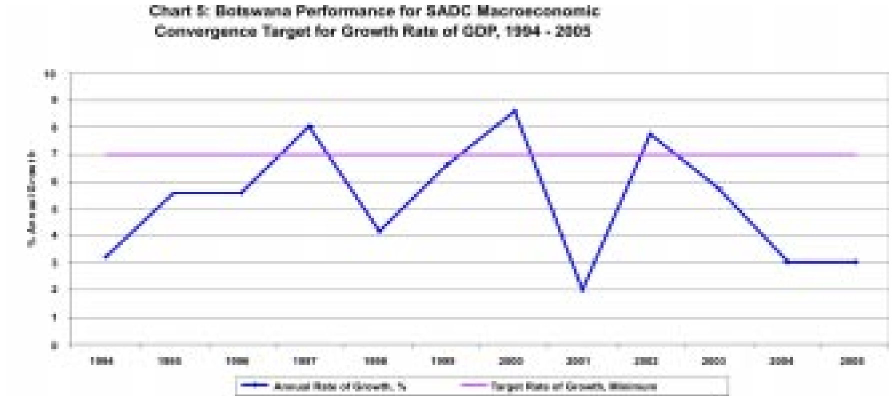
Botswana has not adopted any explicit targets for the current account balance in recent years; in part because the country has recorded current account surpluses since the early 1980s, mainly due to the healthy performance of mineral exports. Thus, as shown in Chart 4, Botswana has consistently achieved the SADC macroeconomic convergence target of having a current account deficit no greater than 9 percent of GDP.



5.1.5 Other Indicators

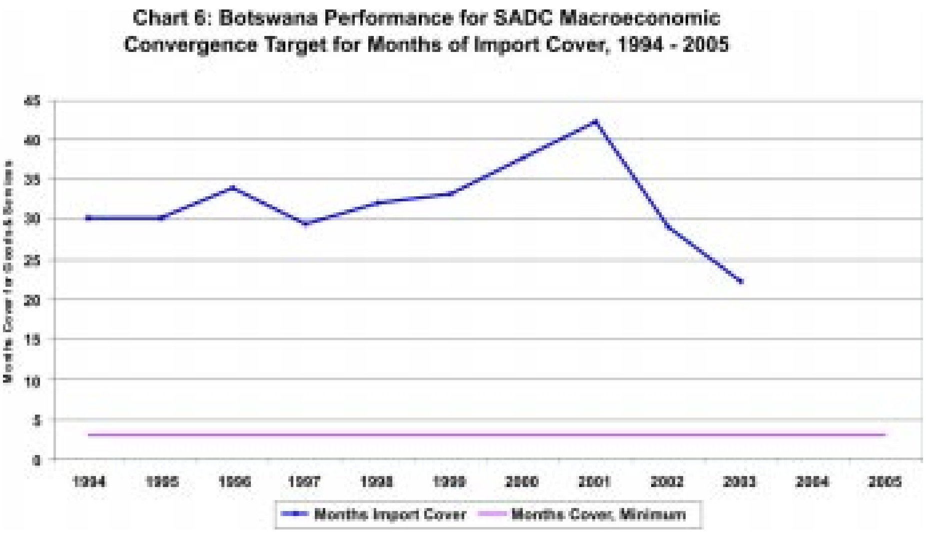
Growth Rate

Botswana's long-term Vision 2016 has a target rate of growth of real GDP of 8% p.a. for the 20 year period from 1996 to 2016. On average Botswana has not achieved that rate of growth between 1996 and 2003; however it was achieved on three occasions since 1996, mainly due to rapid growth of mineral production and Government expenditure (see Chart 5). The projected growth rate for the National Development Plan 9 was only 5.5% p.a. The Mid-Term Review of NDP 9 forecasts that an even lower average rate of growth will be achieved for the Plan period. Compared to the SADC target rate of growth of at least 7 percent per annum, It is clear that Botswana is experiencing problems. Thus, Botswana is challenged by sluggish growth, which poses further problems for Botswana's strategies for economic diversification, employment creation, poverty eradication and a more equitable distribution of income.



Foreign Exchange Reserves

Since the early 1980s, Botswana has been able to accumulate substantial levels of international reserves, well in excess of the SADC macroeconomic convergence target (see Chart 6), and well in excess of the target level felt to be appropriate for Botswana, given the structure of its economy and the risks-fluctuations to which it is subject. In past National Development Planning exercises, target levels for international reserves were estimated at 9-11 months of import cover for goods and services in the 1980s and 7-9 months of import cover in the 1990s. Such targets are used in guiding the allocation of the investment of the international reserves into short term assets (the Liquidity Portfolio) and long-term assets (the Pula Fund). While still in excess of the SADC macroeconomic convergence target of at least four months cover, there has been a notable drop in Botswana's level of import cover due to a decline in the level of official international reserves and rising imports in recent years.



Central Bank Credit to Government

The Bank of Botswana Act sets a limit on the extent to which Government can borrow from the central bank. In fact, the Bank of Botswana has not lent any money to Government or any parastatals during its 30 years of existence. Thus, as shown in Chart 7, in the last 12 years, Botswana has satisfied the macroeconomic convergence target of having central bank credit to Government not exceeding 10 percent of the previous year's tax revenue. In contrast, the Government has maintained substantial cash balances (deposits) at the Bank of Botswana, which have constituted a major portion of the country's official international reserves until recently.

Chart 7: Botswana Performance for SADC Macroeconomic Convergence Target for Credit to Government, 1994 - 2005

Domestic Savings Rates

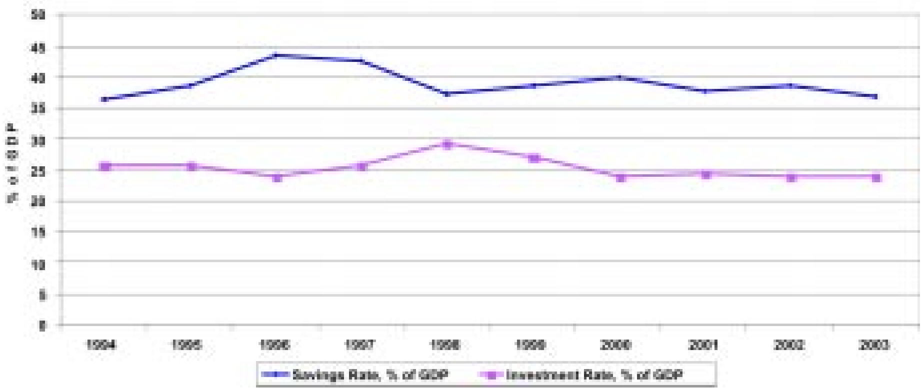
Botswana has not established an explicit target savings rate, comparable to the SADC macroeconomic convergence target of 25% of GDP. But, one can be derived for Botswana from the target investment rate of 40% of GDP and the target ratio of foreign direct investment relative to GDP (which averaged 0.052 in NDP 9). Thus, Botswana's target savings rate would be about 34.8% of GDP, something the country has been able to achieve over the past 10 years. Hence, Botswana has been able to achieve the SADC target savings rate of 25 percent of GDP.

Chart 8: Botswana Performance for SADC Macroeconomic Convergence Target for Savings Rate, 1994 - 2005

Domestic Investment Rates

In order to achieve the target of growth rate set in Vision 2016, of 8% p.a., with an estimated incremental capital-output ratio of 5.0, Botswana needs to have an investment of about 40% of GDP. As shown in Chart 9, that target investment rate has not been achieved in recent years. Botswana's investment rate averaged 25.3 percent from 1994 to 2003.

Chart 9: Botswana Performance for SADC Macroeconomic Convergence Target for Savings and Investment Rates, 1994 - 2005



5.2 Botswana's Policy Framework

5.2.1 Current National Development Plan or Strategy

Government policies in Botswana have consistently aimed at providing an enabling environment for the development of the private sector. From the earliest development plans, as reflected in a panoply of development projects and programmes, and as stated in numerous national policies, creating and sustaining an enabling environment for private sector development have been amongst the highest priorities of Government. This emphasis is reflected in the theme for NDP 8 of "Sustainable Economic Diversification", and the theme for NDP 9 of "Towards Realisation of Vision 2016: Sustainable and Diversified Development through Competitiveness in Global Markets" (MFDP, 2002b).

The focus on promoting private sector development is also reflected in legislation and regulatory practice governing the security of private property, including land and other assets, as well as in the freedoms enjoyed by the population to trade anywhere in the country. A key element in the enabling economic environment in Botswana is having an effective judicial system that allows for the enforcement of contracts, as well as suitable regulatory structures to allow for effective regulation of monopolies. While Botswana continues to improve such institutional arrangements, there is widespread consensus that Botswana has established reasonably efficient processes and procedures that support having a private sector-friendly environment (UNDP, 1998). The Botswana Government's macroeconomic and fiscal policies have likewise been directed at promoting business start-up and development, for both citizen and foreign investors.

5.2.2 Botswana's Development Goals and Objectives

Multi-year economic planning in Botswana dates back to the time of Independence, when the Government drafted a Transitional Plan for Social and Economic Development. Since then, there have been nine successive National Development Plans aimed at guiding the development of the economy and setting out programmes of public expenditure on recurrent budget items and development projects. The public expenditure programmes have been based on the projected revenue resources of Government, including expected inflows of external assistance in the form of grants and concessional loans. Botswana's basic approach to national development planning, founded on the national principles of democracy, development, self-reliance, and unity, has remained largely intact. The only major change that has been made as a result of the adoption of Vision 2016, has been the inclusion of an additional national principle; that of 'Botho', which is engrained in Botswana's culture, and refers to a state of being human, courteous and highly disciplined.

Effective planning has contributed to the transformation of Botswana from one of the poorest countries in the world at Independence to a middle income country, with a per capita GDP of P22 000 (or nearly US$5 000) in 2004. Since independence, Botswana has been transformed from being essentially a cattle-rearing and rural based economy to one of the most consistent rapidly growing economies in the world. The planning system has played a very important role in the past development of the country; and it is well-positioned to play an equally important role in the future.

The preparation process for a national development plan, such as NDP 9, which covers the period from April 2003 to March 2009, is guided by a multi-sectoral reference group, which is comprised of Government officials from the Ministry of Finance and Development Planning, the Office of the President, the Ministry of Local Government, and representatives of the private sector, trade unions, non-governmental organisations, the Vision 2016 Council, and the Bank of Botswana, among others. The most recent Plan, which started with the preparation of the Macroeconomic Outline and Policy Framework for NDP 9, involved extensive consultation with the line Ministries, Local Authorities, the NDP 9 Reference Group, and the all-Party Parliamentary Caucus, and was approved by Cabinet in March 2002. The drafting of other Chapters of NDP 9 started thereafter and went through similar stages of consultation and revision. A national planners' seminar of Local and Central Government Planners was held in June 2002 to discuss issues of common interest, particularly to ensure that Local Authority concerns were incorporated into the National Development Plan, as well as discuss the distribution of national projects amongst the various Local Authorities. Subsequently, a Special National District Development Conference (NDDC) was held to consult further on the draft NDP 9. The NDDC offered another opportunity for stakeholders, such as Local Authorities, the private sector, trade unions and NGO to comment on the draft Plan and ensure that their views were taken on board in NDP 9. The draft Plan was subsequently discussed by the Economic Committee of Cabinet in August and later by Cabinet in October 2002. National Development Plan 9 was approved by Parliament in November 2002; and implementation of the Plan commenced on 1st April 2003.

The National Development Plan seeks to advance achievement of the pillars of Vision 2016; namely, ensuring that by 2016 Botswana is: educated and informed prosperous, productive and innovative compassionate, just and caring safe and secure open, democratic and accountable moral and tolerant and a united and proud nation.

The Plan recognises that given the small size of the Botswana market, global competitiveness is critical for achieving sustainable and diversified development. The theme of National Development Plan 9 is Towards Realisation of Vision 2016: Sustainable and Diversified Development through Competitiveness in Global Markets. The Plan, thus, supports efforts aimed at enhancing Botswana's competitiveness within the global economy through initiatives aimed at increasing the supply of educated and trained manpower, intensifying research and development, and fostering the development of financial markets. The Plan also seeks reforms that will improve the efficiency with which domestic resources (that is, labour, capital and natural resources) are utilised. The Plan recognises that continued sound macroeconomic policies will be essential prerequisites for effective engagement in the international market.

NDP 9 highlights issues of economic diversification, employment creation and poverty alleviation, maintaining macroeconomic stability, financial discipline, public sector reforms, environmental protection, rural development, human resource development, including the fight against HIV/AIDS, science and technology development, and disaster management. Policy strategies to address these issues are crucial if Botswana is to achieve sustainable and diversified development through competitiveness in global markets.

Botswana's national vision, Vision 2016, sets out seven pillars of what Botswana aspires to be by the time the nation is 50 years old. These include:

- **An Educated, Informed Nation**
  In 2016 Botswana should be an educated, informed society, with opportunities for lifelong human resources development, whether in academic fields or in vocational and technical subjects. The country will have joined the information age, with full access to the media of communication and information flows.
- **A Prosperous, Productive and Innovative Nation**
  Botswana should, in twenty years after 1996, be a prosperous, productive and innovative society. It should have a diversified economy with an average income level per person of three times the 1996 level, the equivalent of US$8,500 in 1996 prices. There

should be full employment, so that the job opportunities are in balance with the number of people seeking work.

- **A Compassionate, Just and Caring Nation**
  In the year 2016, the Vision expects Botswana to be a just and caring society, with an equitable distribution of income, and no people living in poverty. A strong social safety net should support those who are disadvantaged.
- **A Safe and Secure Nation**
  In the year 2016, Botswana should be a safe and secure society, with Batswana confident of their physical well-being and human rights.
- **An Open, Democratic and Accountable Nation**
  By 2016, the Vision aspires for Botswana to be an open, democratic and accountable society, where the traditions of community oriented and decentralised democracy will be on a sound foundation. All citizens and those in positions of leadership will hold themselves accountable for their actions, and to those they represent.
- **A Moral and Tolerant Nation**
  In 2016 Botswana, should be a moral, ethical and tolerant society, with standards of personal morality of the highest quality. No citizen will be disadvantaged by gender, age, religion, ethnic origin or political opinions.
- **A United and Proud Nation**
  The seventh pillar foresees Botswana, by the year 2016, being a united and proud nation, sharing common goals based on a common heritage, national pride and a desire for stability. The country will possess a diverse mix of cultures, languages, traditions and peoples sharing a common destiny. The country will have achieved ethnic integration and full partnership to create a nation in harmony with itself.

5.2.3 Qualitative Overview of the Domestic Economy

Botswana's economy has been driven by a diamond boom for a long time (nearly 35 years), which has allowed provision of many social services for free or at a nominal fee. Over much of that period, social expenditures by Government on education, health, water, etc., have been taken for granted by society, even though some individuals could easily have paid for such services. The second half of National Development Plan 9 appears to signal a period of real transition from budget surpluses to budget deficits that previous plans, at least since NDP 6, have warned would be coming. After 16 years (1982-1998) of consistent budget surpluses Government has recorded budget deficits in the last two years of NDP 8. This has led to emphasis now being placed on achieving greater cost-recovery for the provision of Government services, improvements in productivity in the public service and the parastatal sector and the need to privatise some of the parastatals.

HIV/AIDS still remains a serious challenge for the country. At the national level, providing anti-retroviral (ARV) drugs to a substantial part of the population which is infected, estimated at 17.3 percent of those over 18 months of age, will require increasing proportions of the limited resources available. While recent surveys indicate that the level of infection may have stabilised, there is still a major problem of ensuring that a substantial proportion of the affected individuals live long and productive lives.

Government has, quite prudently, used the earnings from the diamond mines to develop the nation's economic infrastructure, which helped to create the environment needed for long-term development. Government has had a major role to play in ensuring that macroeconomic conditions supported the objective of diversified development. This has included managing the exchange rate with a view to maintaining the competitiveness of domestic producers, especially producers of non-traditional exports (Leith, 1996, 1997b). Other supporting economic policies have included a liberal exchange control regime, which culminated in the abolition of all exchange controls in 1999, and low rates of direct taxation, which were intended to encourage foreign direct investment and business development.

Despite the stable economic and political environment in which business operates in Botswana, the economy still faces major challenges. Poverty and unemployment remain high and productivity is relatively low. Linkages among economic sectors are still very weak. The new engines of growth (Manufacturing, Tourism and Financial Services), which the Government has targeted for rapid growth, are not growing rapidly enough to propel the economy forward fast enough.

Government has supported particular economic sectors from time to time, such as agriculture, manufacturing, tourism and, more recently, the international financial services centre. Government has also supported the development of small, medium and micro enterprises through a number of programmes, since such enterprises are viewed to be critical for the socio-economic development of the country (BIDPA, 1999). But the general thrust of development policy since the early 1980s has been directed at the establishment of a viable manufacturing sector (Leith, 2000). Unfortunately, the manufacturing sector in Botswana has not turned out to be the engine of growth hoped for (BIDPA, 2000b).

In Botswana's policy making, there has been a general acceptance of the view that the underlying policy framework for diversified development should be broadly neutral across sectors (ROB, 1998b; World Bank, 1989). This includes having a politically and economically stable system, with a business-friendly environment, including transparent, credible policies, fiscal balance, low tax rates, lack of corruption, harmonious industrial relations, an educated and disciplined workforce, and a sound financial system.

However, Government has often been pressured to intervene and steer the economy towards some desired outcomes, on the basis that the private sector is too small and underdeveloped. The small size of the domestic economy has, indeed, worked against development in several ways. While Government must provide the needed physical public infrastructure, as well as an efficient legal and administrative system, if the private sector is to develop and become more diversified, more Government intervention in the economy must be exercised with caution and assessed on its merits very carefully. Part of the problem is that Government intervention can foster a culture of dependency, in which Batswana will become excessively dependent on Government subsidies for their continued well-being. Such dependency is not sustainable, and risks creating other problems of inefficiency, lack of innovation, abuse and corruption (BOB, 2001).

Botswana's macroeconomic policy framework is generally supportive of the private sector and market-oriented development. Government has maintained a sound and stable fiscal position, running budget surpluses over most of the past two decades and accumulating substantial long-term savings, which are reflected in the nation's relatively high level of foreign exchange reserves. The country has maintained a relatively stable and, in the view of many analysts, a reasonably competitive real exchange rate vis-à-vis its major trading partners. The Government has devalued the Pula exchange rate twice in the past 16 months in order to restore the international competitiveness of local producers. Positive real interest rates, comparable to those in major international markets, have supported sound investments and allowed for progressive liberalisation and eventual abolition of exchange controls (Leith, 1997b, 2000). A Sound monetary policy has kept inflation fairly low and stable. The Incomes Policy has attempted (with some success) to restrain wage increases to be in line with productivity. Trade policy has been oriented towards having a relatively open-economy, with prices and costs in line with international norms. Shortages of skilled labour, while a cause for concern, have been ameliorated through recruitment of expatriates and generous government support for education and training programmes (BOB, 2000).

Because the local market is so small, manufacturing and other industries in Botswana cannot expect to derive most of their growth or achieve economies of scale from just domestic demand (Jefferis, 1997a). The major challenge will be to promote manufacturing and other non-traditional exports, since they will face increasing competitive pressure in both domestic and foreign markets as regional and global trade barriers come down and the flow of international goods and services becomes freer.

5.2.4 Government's Expectations about Future Economic Developments

Unquestionably, the mining sector has contributed substantially to the transformation of Botswana, with the large mines serving as nodes for development. However, only the diamond mines have yielded large positive net economic and financial returns to the nation. Because of the capital-intensive nature of the mines, they have relatively few linkages with the rest of the private sector. Government has been the major economic actor, using the returns from diamond mining and donor assistance to develop the country, employ large numbers of workers and provide public goods and services. However, government has become excessively dependent upon diamond revenues, which are not expected to grow much in the future. Since other sources of revenue are unlikely to be as buoyant as the diamond revenues have been, the relative size and scope of government in the economy will need to change in the future.

Manufacturing, financial services and tourism are viewed as key sectors for the success of Botswana's strategies for sustainable economic diversification. Manufacturing can employ large numbers of relatively less skilled Batswana, and have substantial linkages to the rest of the economy. Botswana's stable economic and political environment, its sound public finances, liberal market-oriented policies and relatively well-educated young workforce gives the country a comparative advantage in the financial services sector. Similarly, those factors, along with the rich wildlife populations and pristine nature reserves, gives the country a substantial advantage in developing its tourism industry, which could have important positive spillover effects on the income generating opportunities of rural communities. But, all three sectors are constrained by impediments to development, including regional economic instability, inadequate telecommunications, shortages of skilled manpower, sluggish bureaucratic processes, shortages of serviced land, etc.

Thus, any serious review of the Botswana economy will easily conclude that the theme of NDP 9, "Towards Realisation of Vision 2016: Sustainable and Diversified Development through Competitiveness in Global Markets" is still relevant in 2005. In order to sustain growth Botswana must invest in human resources development, so that Batswana can acquire needed skills, work more efficiently and be innovative enough to be able to compete effectively in both regional and global markets.

5.2.5 Botswana's Broad Policy Approach and Priorities

The Government sees its primary role in the diversification process as being able to provide an environment that is conducive for private sector initiatives and innovations to take effect and be successful. In this respect, Government seeks to maintain favourable macroeconomic conditions in terms of competitive exchange rates, low tax rates, an environment free of exchange controls, easy access to credit and price stability. Policies and programmes, such as the Privatisation Policy, the International Financial Services Centre and the review of the National Policy on Incomes, Employment, Prices and Profits, among others, are intended to help Government to achieve these objectives.

Government believes that long-term solutions to the problem of poverty will be found in efforts to enhance job creation, along with further expansion of relevant education and training. In the short-term, Government is implementing and improving the effectiveness of existing programmes aimed at poverty alleviation. Government is formulating a National Strategy for Poverty Reduction, taking into account the 2002/03 Household Income and Expenditure Survey, which will provide updated information on the nature and extent of poverty in Botswana.

5.2.6 Overview of Economic Policy

Maintaining macroeconomic stability as one of the strategies to create a conducive environment for rapid private sector development has been the of government policy,. Accumulating international reserves and government savings during good years to allow smooth adjustments to the contingencies to which the country is subject is another key strategy. Re-investing the returns from mineral sector development into economic and social infrastructure that could allow private firms to diversify the economy was also a principal element of public policy.

Government has also played a pivotal role in influencing private sector development. This is because government policies, in both their design and implementation, significantly affect the performance and development of the private sector. Achievement of the NDP themes, such as the NDP 8 theme of "Sustainable Economic Diversification", was predicated on the development of the private sector. The Government has put in place programmes and policies aimed at promoting the development of the private sector, by helping the sector to develop its managerial capacity and scale of operations in order to meet competition. These initiatives have included, inter alia, the FAP, the Industrial Development Policy, the SMME Policy and CEDA.

The drafting of a Privatisation Policy in 1998 was intended to foster private sector participation in the development process through withdrawing government from certain business activities as a means to provide greater scope and markets for local entrepreneurship and private sector initiative. The major theme of the White Paper on the Industrial Development Policy is the need to increase the scope for the growth of the private sector which also requires that government withdraw from certain activities that can be better provided by the private sector. Such privatisation will have positive effects on private sector ownership of assets and responsibility for the provision of goods and services. In the privatisation process, some of the services that government requires for its operation, such as transportation services, cleaning and computer services, are to be provided by the private sector.

Despite the rapid and broad-based development achieved, unemployment has remained a serious problem. The growth of the mining sector has created relatively few jobs directly similarly the rapid growth of the rest of the modern economy has not been able to absorb all the workers wishing to move out of traditional, subsistence agriculture, as well as all the new workers entering the labour force (less attrition). The agriculture sector has experienced a long-term secular decline, despite intense efforts by government to design, fund and support programmes that could raise productivity and incomes in the sector. Nonetheless, many Batswana are still engaged in the sector, deriving significant portions of their livelihoods there; and the sector has widespread linkages throughout the economy, especially to meat processing, dairy production, beverage manufacturing and bakeries.

5.2.6.1 Macroeconomic Policy

The Ministry of Finance and Development Planning has a primary responsibility to formulate a of macroeconomic policy in consultation with the Bank of Botswana and other stakeholders. Key to the formulation of such a policy are the objectives of achieving and maintaining macroeconomic stability in the context of an economy that is prone to large, unanticipated exogenous shocks (e.g., global recessions and drought). Botswana's major sectors have typically experienced large fluctuations in output and prices, which, in turn, have resulted in large fluctuations in incomes, foreign exchange earnings, government revenues and even the need for compensatory government expenditures (e.g., drought relief).

Another primary objective of macroeconomic policy is to create an environment that is conducive for private sector development that could lead to rapid employment growth and rising standards of living. The main elements of Botswana's economic management strategy are articulated in the National Development Plans; and in generally, Government has generally been successful in avoiding an extreme boom and bust economic cycles.

A key element of Botswana's macroeconomic strategy has been the accumulation of government savings during the good years Government can draw from these savings during economic downturns which usually entail sharp falls in government revenues. These savings also sustain Government expenditure levels, while adjustment measures are designed and put in place to achieve a credible medium term public expenditure programme that is viable. Much of the government savings go into foreign exchange reserves, which are managed by the Bank of Botswana. But a substantial portion is also lent through the Public Debt Service Fund to parastatals to finance their capital expenditure programmes.

Another key element in Botswana's economic management strategy has been the policy to re-invest most of the returns from the mining sector to develop the rest of the economy. This strategy was clearly spelt out in early national policy statements, such as the 1972 Incomes Policy (see Botswana Government, 1972) and the 1973 Rural Development Policy, and was monitored through simple analytical tools such as the Sustainable Budget Index. The funds reinvested by Government, combined with external resources contributed by donor agencies, along with funds from foreign investors, enabled Botswana to achieve and maintain investment rates as a percent of GDP that were very high by international standards. This policy of reinvesting the returns from mining was extended beyond just investment in physical capital (e.g., roads, schools, hospitals, serviced land, etc.); it also included investment in human capital (Bank of Botswana, 2001).

The accumulation of healthy levels of foreign exchange reserves which boosted investor confidence is another critical element in the economic management strategy. The international reserves allowed for an open trade regime, within the framework of the Southern African Customs Union Agreement, that facilitated Botswana having an exchange control regime that was not only quite liberal in developing country standards at the time, but also one that was progressively liberalised and eventually abolished. The strategy of accumulating international reserves led to foreign exchange earnings that became a major source of recurring revenues to Government: in essence, the strategy amounted to converting one non-renewable, depleting asset (diamonds) to another sustainable income generating asset (profitable foreign investments).

There are a number of other government policies that are complementary to, and an integral part of, the macroeconomic policy framework.

5.2.6.2 Fiscal Policy

Fiscal policy concerns Government's management of revenues and expenditures in ways that are directed at satisfying the needs of the population for public goods and services on a sustainable basis. A major concern of fiscal policy is to ensure that public resources are efficiently and effectively used to provide the economic and social infrastructure needed for rapid private sector development, including that which is needed for economic diversification and growth of enterprises producing for export.

A major element of fiscal policy is the objective to balance the budget over a medium term horizon, such as the six years of NDP 9. Failure to achieve such a balanced budget objective would result in the depletion of Government's cash balances and would soon result in Government having to borrow in order to finance its recurrent expenditures. If that were to happen, payment of debt service obligations would become the first claim on Government's revenues, which would then constrain or reduce the resources available for recurrent expenditures and new development projects.

During NDP 8, Government revenue exceeded expenditure (excluding net lending) by a small positive amount of 0.5 percent of GDP on average. Due to substantial year to year fluctuations in Government's revenues, the range of the difference between revenues and expenditures was enormous, fluctuating from a surplus of 8.7 percent of GDP to a deficit of -7.1 percent of GDP. The positive balances accumulated on average over the earlier years of NDP 8 permitted Government to set aside funds for future contingencies, including drought and the funding of the Public Officers' Pension Fund.

The Government recognises that the high year to year variability of revenue must be taken into account in its planning. Temporary increases in government revenue should not lead to increases in spending, since temporary revenue increases can be expected to be reversed in the near future. In the other direction, Government should not respond to temporary decreases in revenues by cutting expenditures, since that could be destabilising to the rest of the economy. Because Government expenditure is such a large share of total GDP expenditure, Government has an important stabilising role to play in the macroeconomy. In light of this, Government has set an objective that the budget must be balanced over the medium term. This implies that in good years, the extra revenue is not spent, but saved and added to Government's balances, to be available for the difficult years, when Government's cash balances are drawn down.

The variability of revenues is not the only fiscal policy concern. On recent years, Government has been taking a bigger and bigger share of the national pie, crowding out other uses and users of the goods and services produced in the country. Government consumption as a share of GDP has edged upwards from 27 percent of GDP in 1993/94 to 34 percent of GDP in 2003/04, while household consumption expenditure, investment expenditure, and net exports of goods and services have all dropped as a share of GDP. This trend is not sustainable. More importantly, the crowding out of investment expenditure and the declining net exports threaten the achievement of NDP 9's diversified growth and employment targets, and ultimately the attainment of Vision 2016 objectives.

5.2.6.3 Monetary Policy

Monetary policy is formulated with the objective of maintaining a low and stable rate of inflation and a stable balance between the growth rates of aggregate demand and aggregate supply. It also seeks to achieve a stable real exchange rate at a level which is supportive of the international competitiveness of local producers. Thus, monetary policy aims at creating and maintaining a business environment which is "friendly" towards producers of exports and other tradeable goods. A key aspect of this approach is to have the rate of inflation in Botswana below that of the average of its trading partners. Thus, with an exchange rate pegged to a basket of currencies reflecting the relevant trading partners, the real effective exchange rate would depreciate, and local producers of exports and other tradeable goods would become increasingly competitive. In addition, the monetary policy aims at maintaining healthy and prudential levels of international reserves and unrestricted access to foreign exchange for international transactions.

5.2.6.4 Exchange Rate Policy

Exchange rate policy, which relates to both the monetary policy and the trade policy (and even the fiscal policy) is directed at achieving an equitable balance between maintaining the competitive position of domestic producers, especially producers of non-traditional exports, and avoiding monetary instability and high inflation. Sustainable economic diversification, the creation of productive employment opportunities and expanding economic opportunities for Batswana entrepreneurs, which are high development priorities, means that greater emphasis in the formulation and implementation of the exchange rate policy must be given to maintaining the international competitiveness of domestic producers of exports and tradeable goods.

5.2.6.5 Trade Policy

Achieving the broadest possible free and reliable access to markets for Botswana's exports of products and services, especially within the Southern African region, is a major objective of Botswana's trade policy. Also, enabling producers and consumers to have access to the widest choices of international goods and services on the best possible terms is another key objective of the trade policy. Such policy is limited by the international trade agreements to which Botswana accedes, such as the Southern African Customs Union Agreement and the World Trade Organisation.

In light of Botswana's membership to the Southern African Customs Union (and accession to the Southern African Development Community Trade Protocol), the market of South Africa is a logical extension to the Botswana market for many Botswana firms. This means that business practices in South Africa are likely to have direct implications on the Botswana economy and the ability of Botswana firms to compete effectively in this large market.

In order to provide additional market access for Botswana goods and services, the Government has participated and/or participates in the negotiations of a number of trade agreements, such as the ACP-EU Economic Partnership Agreements, the EU/SACU Free Trade Agreement, and the USA/SACU Free Trade Agreement, as well as in the implementation of the new SACU Agreement.

A related trade policy issue involves Botswana's investment policy. The Botswana Export Development and Investment Authority has been established and mandated to actively promote investment flows into the country. It has developed a strategy for attracting Foreign Direct Investment (FDI), especially manufacturing activities that can utilise the country's raw materials, such as leather, jewellery, glass and beef by-products, as well as service industries, like information technology and tourism.

5.2.6.6 Labour Market Policy Framework

Incomes Policy

A major element of Botswana's labour market policy framework has been the Incomes Policy. Government wage and incomes policy is intended to cover areas where the market forces determining prices, wages and incomes may not result in efficient and/or equitable results. Thus, minimum wage regulations are intended to prevent exploitation and achieve other social policy objectives, while parastatals' wages and salaries are kept aligned with Government wages scales to forestall excessive wages and cost structures that could make the economy uncompetitive. Thus, the incomes policy aims at making the business climate attractive for investors, especially for investments in enterprises that could produce exportable goods and services.

Botswana's Incomes Policy was adopted in 1972 with a view to avoiding rapid wage escalation that could lead to growing income disparities and social discord. At that time, the Incomes Policy emphasised rural development and employment creation, which were viewed as key operational targets for achieving the national development goals and objectives. With most of the population living in rural areas and engaged in subsistence farming as their main livelihood, there was concern that mineral developments underway and the urbanisation processes that were occurring, especially in Gaborone, would lead to manpower shortages, rapid wage escalation, widening income disparities, urban migration, growing urban unemployment and social tensions. Government was concerned that the emergence of such problems could thwart its strategies for economic and social development. While Government would develop skilled manpower as rapidly as possible, it viewed wage restraint as a crucial ingredient in its overall macroeconomic policy framework. Wage restraint was considered important for promoting employment creation and enabling Government's resources available for development to be spread as widely as possible. At the same time, Government recognised the need to protect workers and consumers from monopolistic exploitation.

Apart from statutory minimum wages and price controls, enforcement of the Incomes Policy was left to institutional structures; i.e., the National Employment, Manpower and Incomes Council, its sub-committees and the Wages Policy Committee, which sought voluntary compliance with the Policy.

The major features of the Revised National Policy on Incomes, Employment, Prices and Profits, Government Paper No. 1 of 1990 included:

- Statutory minimum wages in the private sector as a means of protecting Batswana workers from monopsonistic exploitation.
- Deregulated private sector salaries for skilled labour, since market forces, the need to remain competitive and the profit motive are "expected to constrain the degree to which salaries can be raised in the private sector."
- Regulating parastatals' salaries through a linkage to those of Government, because parastatals have been given special positions, some even monopoly positions, in order to serve social, as well as economic objectives.
- Recognition that salaries should reward personnel for increasing responsibility in order to provide suitable incentives to enhance productivity and efficiency, and allocate and retain labour where it is most productive.
- Government accepts responsibility for general training of the population, since relying on the private sector for non-specific training would tend to result in too little training. Employers are expected to train for their specific needs.
- Businesses are required to prepare and implement localisation plans, but there should be competition amongst Batswana for each of the expatriate posts to be localised.
- Manpower planning in order to provide important input for planning education and training facilities and programmes.
- The Bursaries system should aim for cost recovery and appropriate incentives for the development of the scarce manpower, the nation needs more skilled man power for its continued development.
- Expatriate remuneration should be based on employers getting "value for money", and localising posts at the earliest opportunity.

- Government policy on prices and rents is to encourage competition, which will curtail unjustified increases in prices and excessive profits. •Where prices need to be regulated because of actual or potential monopolistic exploitation, prices should reflect costs. Government support for particular groups (e.g., remote area dwellers) will be done directly, not through price controls, which have distorting effects throughout the economy.
- Housing should be provided and allocated by the private sector, using market prices as signals to encourage its efficient production, acquisition and allocation by firms and individuals. Government's main goal is to ensure that an adequate number of serviced residential plots are available for sale. As a transitional measure, Government will provide finance for house construction, preferably by channelling funds into house financing institutions, such as BBS.
- Increasing productive employment in both the formal and informal sectors is the preferred way to raise social welfare. That would be more sustainable and most likely to spread the benefits of development widely throughout the country, as well as reduce the interrelated problems of unemployment, poverty and income inequality.

The Revised National Policy on Incomes, Employment, Prices and Profits was reviewed in 2003/04 with a view to aligning Botswana's Incomes Policy with best international practices, as well as with the country's Vision 2016 and other national policies. As a result of the review, Government is at advanced stages of adopting a new incomes policy.

Labour Law

Botswana's business environment is conditioned by the country's primary labour legislation, including, inter alia: the Employment Act, the Workers Compensation Act, the Trade Unions and Employers' Organisations Act, the Employment of Non-Citizens Act, the Factories Act and the Trade Disputes Act. Other sources of labour law include Industrial Court decisions, which create case law, collective agreements which bind the parties to the agreement, contracts of employment which specify the relationship between the employer and the employee, and custom and practice which are employment practices which have come to be used and accepted over a period of time.

The amended Employment Act of 1982 lays down minimum conditions of employment for employees, including, inter alia, working hours, overtime, paid public holidays, leave, sick leave, maternity leave, minimum wages, employment records, probation, notice, suspension and termination, severance benefit: the 5 year service award, and repatriation. The Worker's Compensation Act of 1998 requires an employer to pay compensation to any employee who is incapacitated through a work-related injury or occupational disease. Employers are also required to take up an insurance policy to cover liability under the Act. The amended Trade Unions and Employers' Organisations Act of 1984 makes provision for, and sets out the rules for, three categories of organisation relating to the labour market: trade unions, federations of trade unions and employers' organisations. The Employment of Non-Citizens Act serves to regulate the employment and other engagement in occupations for reward or profit of certain persons who are not citizens of Botswana. The Factories Act, which is administered by the Factories Inspectorate of the Department of Labour and Social Security, provides for the regulation of the conditions of employment in factories and other places regarding the safety, health and welfare of persons employed. It also provides for the safety and inspection of certain plant and machinery with respect to employee health and safety. The Trade Disputes Act provides for settlement of trade disputes generally, as well as the settlement of trade disputes in essential services. It also provides for the control and regulation of industrial action and related matters.

Botswana's labour laws including the enactment of a new Trade Disputes Act, and the Trade Unions and Employers' Organisations Act were amended recently. These amendments were intended, partially at least, to bring labour laws in Botswana fully into compliance with relevant international labour standards. From as far back as 1990, the Government has adopted a policy of reviewing labour legislation with a view to strengthening collective bargaining and the development of Trade Unions. Ratification of a number of conventions in 1997, including the core Conventions on the right to organise and bargain collectively was part of the implementation of the policy. Since then, Government has embarked on a programme to give effect to its international obligations. This has been a long process, but one in which Government has been determined to secure the fullest possible consensus between the social partners - business and labour - on the proposed changes, and to ensure that, as far as possible, the necessary infrastructure was created to ensure the smooth implementation of the new laws.

The international standards Botswana has adopted represent the fundamental rights necessary in any modern society to ensure social stability and economic progress, both within States and between States. This is particularly so in the Southern African community, where international labour standards have formed the basis of recent labour law reforms throughout the region. While these reforms acknowledge the social dimension of globalisation and the universality of certain labour rights, they also acknowledge the economic and social interdependence of the various nations in our region, and they reaffirm the principle that fundamental labour rights must be secured if economic and social progress is to be made. This process of reform has resulted in closer harmonisation of employment laws within SADC than ever before, and will ensure that fair labour standards prevail throughout the region, and that the rights of employers and employees, respectively, will be safeguarded.

The labour laws in Botswana recognise the fundamental right of employers and employees to join organisations of their own choosing, to bargain collectively, and to establish conditions where the free exercise of those rights is guaranteed. As a policy matter, collective bargaining is the preferred means by which, in full autonomy, employers on the one hand and workers and their representatives on the other hand, should together establish working conditions and terms of employment. While Government will continue to play its role in determining minimum terms and conditions of employment at work, the legislation promotes free collective bargaining, not only as a means of establishing terms and conditions of employment beyond the minimum provisions, but also as a mechanism through which employers and workers exchange views and resolve differences of opinion on a wide variety of issues through a process of dialogue.

The labour laws acknowledge that conflict is inherent in and a reality of the employment relationship. More importantly however, the labour laws reflect that this conflict is best dealt with within the confines of that relationship. Where the parties are themselves unable to successfully resolve disputes, the legislation creates a system of dispute resolution aimed primarily at assisting parties to resolve their own disputes with the help of third parties. Mediation and conciliation are accorded primacy by the legislation as the means by which disputes might be resolved, and comparative experience suggests that timeous and skilful intervention by a neutral third party can contribute significantly to reducing levels of industrial conflict.

Another important point to be made in this respect is that the overhaul of the statutory dispute settlement system is intended to ensure expeditious access by both employers and employees to an efficient and inexpensive system of dispute resolution. Unfortunately, implementation of Botswana's dispute settlement system has experienced some difficulties, and delays have occurred as a consequence. However, the Government has stated that it is committed to continuing to address these hindrances in order that the system operates as was intended.

The labour law also recognises that parties to an employment relationship may not always be able to resolve their differences; and that, on occasion, they may need to resort to industrial action to pursue their demands. Botswana's legislation recognises the legitimacy of industrial action, both by employers and employees, and entrenches the rights to strike and to lock out, respectively. As with all rights, neither of these rights is absolute, and must yield to competing rights when this is necessary. The labour legislation achieves this by limiting the issues that might be the subject of industrial action by requiring a meaningful attempt at resolving the dispute giving rise to the action, and by protecting the interests of third parties affected, for example, disputes involving essential services employees.

It is Government's view that the right to resort to industrial action is a right that must be exercised with caution, and with due regard to the damage that it is capable of inflicting, not only on the parties involved in the dispute, but also on the broader society. This is particularly so in those sectors on which Botswana is dependent for its economic well-being. The more expansive rights that have been extended to employers and employees by the new legislation demand a corresponding sense of responsibility from both parties.

The model of labour relations that is promoted by the legislation is not one of hostility and unnecessary conflict. It is a model that promotes co-operation and partnership, and the recognition that the relationship between employers and employees is ultimately one of interdependency. If either employers or employees, simply for short-term gain, exploit unwisely the rights established by the new legislation, the goals of the new labour law will not have been achieved. The institution of collective bargaining is intended to guarantee serious and committed engagement, and outcomes that account for the interests of both parties. This is the best guarantee of industrial peace, which in itself is a basis for sustainable economic progress.

Botswana's new labour laws reaffirm the significance of tri-partism. This recognition finds expression in a number of structures, such as the Labour Advisory Board and the Minimum Wage Advisory Board, on which government, employers and employees are represented. These Boards are appointed primarily to advise the Minister of Labour and Home Affairs on employment-related matters. The tripartite nature of the Boards not only gives institutional expression to the principle of tri-partism, but also acknowledges that good labour relations are best achieved by way of a partnership at national level, between government, business and labour. These tripartite structures enable the parties, through a process of social dialogue, to debate how their respective interests might relate to the broader challenges of the society as a whole. Such social dialogue has been a long-standing part of Botswana's tradition; and therefore, it is appropriate that it should apply to labour relations.

5.2.6.7 Human Resources Development

With respect to human resources development, Government has long recognised the importance and significance of human capital as a key element in achieving economic development, and, thus, in reducing levels of unemployment and poverty. During the current Plan period, NDP 9, human resources development is focused on the creation of a strong manpower base with the right knowledge, skills, attitude and values, which will enhance productivity and competitiveness. It is, therefore, important that manpower planning and human resources development focus on developing appropriately trained labour for the labour market.

Priorities for the human resources development sector during NDP 9 involve: ensuring universal access to 10-years basic education; increasing access to senior secondary education; expanding vocational and technical training; promoting life-long learning; increasing tertiary education participation and attainment rates; improving access to education services by children and youth with special needs; and improving the quality of education.

5.2.6.8 Employment Creation and Poverty Alleviation

Employment creation has long been a high priority in Botswana's national development planning strategies. While formal sector employment has grown rapidly over the past 3½ decades, unemployment in Botswana, with a national rate of nearly 24 percent in 2003, is a serious problem. Unemployment is concentrated among the youth and those who are unskilled; while, at the same time, the economy continues to suffer significant manpower shortages in higher skilled occupations; shortages which act to constrain development. The unemployment problem springs from a number of different sources, and the challenge is to understand those sources and how best to tackle them. One clear message that has emerged from studies of the labour market and the manpower situation is that the country's human resources development system needs to be improved so that the education and training provided matches the needs of the economy. Development of the vocational education and training system is viewed as having an important role in this regard.

However, even if unemployment is significantly reduced, there will still be segments of the population (e.g., destitutes, orphans, the disabled) for which other poverty reduction strategies will be needed. Government is committed to intensifying its efforts to achieve the Vision 2016 target of eradicating poverty through implementation of the National Poverty Reduction Strategy. As part of implementation of the overall strategy, the different social safety net schemes are being reviewed with a view to improving their efficiency and targeting.

5.2.6.9 Government's Approach to Sequencing

Government's approach to the sequencing of reforms has typically involved first undertaking comprehensive studies (often by consultants) to thoroughly analyse the issues involved, identify the relevant alternatives, their costs and benefits, and provide some initial recommendations on the preferred course(s) of action. This is then followed by extensive consultative processes, sometimes involving presidential commissions and national symposia, to ensure a widely understood and broadly supported consensus that can be achieved. Subsequent to that, the recommended action(s) is(are) considered by Cabinet and ultimately the National Assembly. Associated with the introduction of the policy reform is the need to get the appropriate institutional structures in place, for actually doing the implementation, for supervising the implementation and/or regulating the operation of the reform, for monitoring and evaluating the implementation of the reform, and for being able to make any revisions that may be necessary.

5.3 Successes and Problems in Achieving Macroeconomic Convergence Targets

As noted above, Botswana has been generally successful in achieving the macroeconomic convergence targets for deepening integration in SADC, when viewed from a medium term perspective. In terms of the target GDP growth rate Botswana has not been able to achieve, on average, the specified 7 percent per annum rate of growth. While in the past, prior to 1992, Botswana was able to achieve an average annual rate of growth of GDP in excess of the SADC target, recent years have seen a slow down in the average growth rate, with current expectations indicating a growth of only 4%-5% for the coming years. This is not only below the SADC target, it is also far below Botswana's Vision 2016 target, implying that the country is unlikely to achieve the Vision objectives for per capita incomes and full employment. Projections for GDP growth from the NDP 9 Mid-Term Review for 2006/07, 2007/08 and 2008/09 are 4.3%, 4.4% and 4.4% for the respective years. The lower growth rates have implications for the attainment and sustainability of the other SADC macroeconomic convergence targets that Botswana has achieved so far. If growth does not recover, Botswana may face difficulties in sustaining the record it has on the convergence targets.

6 Detailed Assessment of the Macroeconomic Framework

6.1 Main Linkages between Policy Frameworks and Socio-Economic Impacts

Macroeconomic policy plays a critical role in creating and maintaining an environment that is conducive for private sector initiatives and innovations. Such an environment is vital in achieving economic diversification, job creation and rising standards of living. A number of related policy frameworks complement basic macroeconomic policy in achieving the desired economic and social objectives set out in the National Development Plans and Vision 2016. These include fiscal policy, monetary policy, trade policy, industrial development policy, employment policy, incomes policy, human resources development policy, privatisation policy, etc., which seek to maintain favourable macroeconomic conditions in terms of low tax rates, monetary stability, competitive exchange rates, an open economy, an environment free of exchange controls, easy access to credit and programmes to empower citizens to participate in the processes of economic development.

6.2 Macroeconomic Conditions Prevailing in Botswana

6.2.1 Gross Domestic Product

Chart 10: Real GDP Growth 1993/94 - 2003/04

The preliminary National Accounts estimates for 2003/04 indicate that Gross Domestic Product in current prices reached P39.9 billion, an increase of 8.6 percent over the P36.7 billion recorded for 2002/03. GDP per capita was P22,013 in 2003/04 equivalent to about USD 4955 at the US dollar-pula exchange rate prevailing at the end of 2003 (the mid-point of the 2003/04 national accounts year). In real terms, growth was more modest, with GDP measured in constant 1993/94 prices rising from P18.2 billion in 2002/03 to P19.2 billion in 2003/04, a real increase of 5.7 percent. Apart from a sharp dip in 2001/02, real GDP growth has been reasonably robust in Botswana, averaging 5.7 percent per annum since 1993/94.

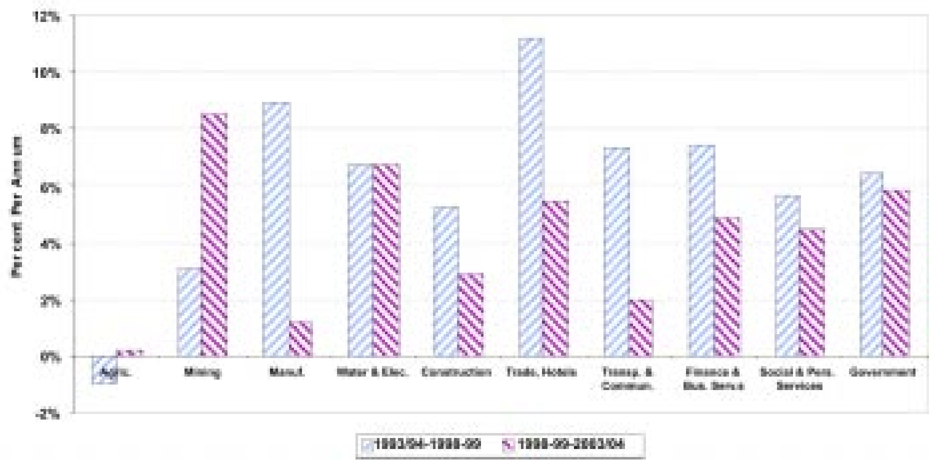


Chart 11: Sectoral Real Growth Rates 1993/94 - 2003/04

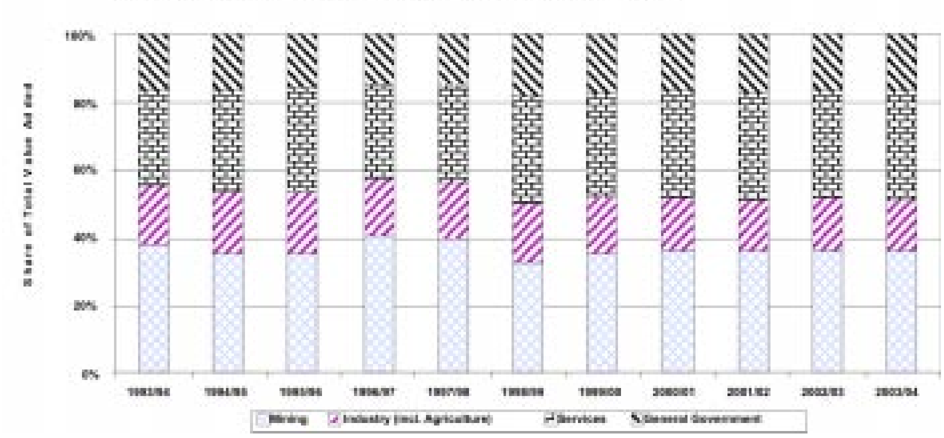
However, most of that growth has been due to the strong performances of the Mining and Government sectors, which grew at an average rate of 5.7 percent per annum and 6.2 percent per annum, respectively, over the decade to 2003/04. There are signs that the economy has been slowing down, decreasing from an average annual rate of growth of 6.5 percent for the period from 1993/94 to 1998/99 to just 4.6 percent for the period from 1998/99 to 2003/04 with the growth of other sectors, excluding Mining and Government. Within those two episodes, strong growth was recorded in the first period by the Manufacturing (9.0% p.a.), Water and Electricity (6.8% p.a.), Trade, Hotels and Restaurants (11.2% p.a.), Transport and Communications (7.3% p.a.) and Finance, Real Estate and Business Services (7.4% p.a.) sectors.

In the latter period, of the non-mining, non-government sectors, only the Trade, Hotels and Restaurants sector registered an average annual growth of above 5 percent. A notable weak performance was recorded for the Agriculture sector, which contracted at an average annual rate of 1.0 percent over the period from 1993/94 to 1998/99; and only managed a growth of 0.1 percent per annum for the period from 1998/99 to 2003/04. Despite substantial government support for the Agricultural sector (public expenditure on Agriculture for the period 1993/94 to 2003/04 which amounted to P4,149 million), performance has been adversely affected by recurring drought and the outbreak of pests and animal diseases, especially Contagious Bovine Pleuro-Pneumonia (CBPP), which necessitated the slaughter of over 300,000 cattle in Ngamiland in 1996. Other sectors with lacklustre performance in the latter period were Manufacturing (1.1% p.a.), Construction (2.8% p.a.) and Transport and Communications (2.0% p.a.). The Manufacturing sector was negatively affected by the closure of the Motor Company Botswana, while the slowdown in Construction was mainly due to the completion of several major Mineral sector and shopping centre projects and the tapering off of growth in the Government Development Programme. The Transport sector's weak performance can be attributed to 9/11 and the switch of Southern Africa rail traffic to the Beit Bridge route through Zimbabwe.

In the period between 1993/94 and 2003/04, the Mining sector, which grew at the same average rate as the economy as a whole, albeit more rapidly in the second half of the period, was able to maintain its share of total value added at 38 percent. Agriculture, in contrast, saw its share of value added decline steadily over the period from 4.5 percent in 1993/94 to 2.5 percent in 2003/04. A number of other sectors with modest growth over the decade also registered decreases in their shares of value added, including Manufacturing (4.1% to 3.9%), Construction (6.8% to 5.8%), Transport and Communications (3.9% to 3.5%), and Social and Personal Services (4.5% to 4.2%). The Water and Electricity sector saw its share of total value added rise from 2.3 percent to 2.6 percent over the decade, while that of the Trade, Hotels and Restaurants sector grew from 8.5 percent to 10.8 percent over the same period. The share of the Finance, Real Estate and Business Services sector rose modestly from 11.0 percent in 1993/

94 to 11.4 percent in 2003/04, while that of General Government increased from 16.4 percent to 17.1 percent over the same period.

Chart 12: Structure of Gross Domestic Product, 1993/94 - 2003/04



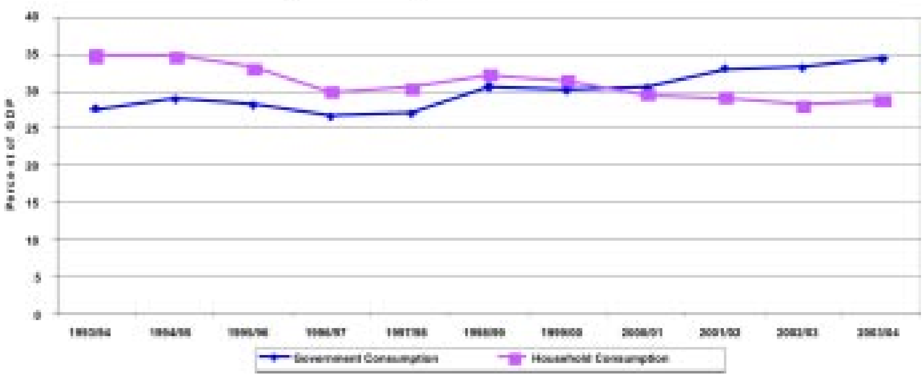
The changes in sectoral shares also reflected the contribution that individual sectors made to total GDP growth over the period, with the Mining sector's growth accounting for 38.3 percent of the total growth in value added; and the Government sector accounting for another 18.2 percent of that growth. The Trade, Hotels and Restaurants sector's performance contributed 14.0 percent of the total growth in value added; and the Finance, Real Estate and Business Services sector accounted for a further 12.1 percent. The growth in those four sectors explained nearly 83 percent of the growth in value added, dwarfing the contributions made by the other sectors over the decade.

Table 2: Sectoral Contribution to Growth in Value Added, 1993/94 - 2003/04

	Value Added 1993/94 Prices 1993 Pula million	Change in 2003 Pula million	Contribution Value Added Pula million	Growth in Total Value Added
Agriculture	467.2	446.1	-21.1	-0.3%
Mining	3,956.2	6,896.8	2,940.7	38.3%
Manu-facturing	430.5	699.8	269.3	3.5%
Water and Electricity	240.3	461.7	221.4	2.9%
Constru-ction	710.1	1,054.5	344.4	4.5%
Trade, Hotels & Restaurants	882.3	1,956.5	1,074.2	14.0%
Transport & Commu-nications	406.5	639.1	232.6	3.0%
Finance & Business Services	1,144.4	2,071.4	927.1	12.1%
Social and Personal Services	470.1	769.1	299.0	3.9%
General Government	1,706.7	3,102.4	1,395.8	18.2%
Value Added	10,414.3	18,097.6	7,683.3	100.0%

Source: Central Statistics Office, National Accounts.

Chart 13: Shares of Government and Household Consumption in GDP, 1993/94 - 2003/04

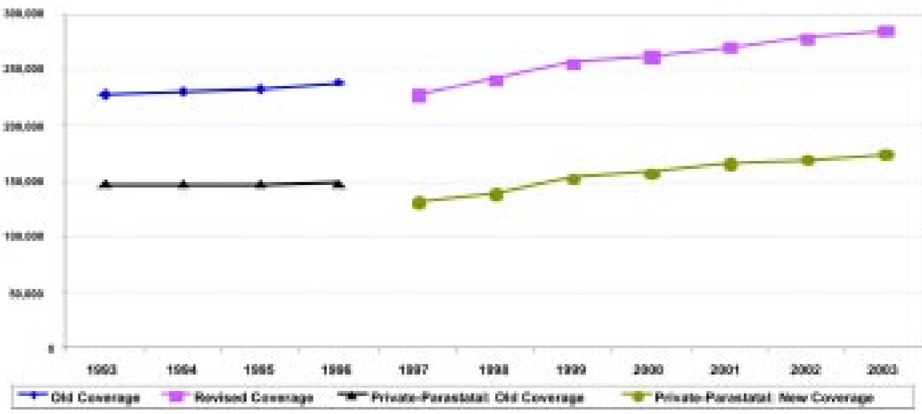


In the period between 1993/94 and 2003/04, there has been a marked shift in the shares that government consumption and household consumption contribute to Gross Domestic Product. As shown in Chart 13, because of the relatively rapid growth of government in the economy, the share of government consumption in GDP has exhibited a steady increase, rising from 27.6 percent of GDP in 1993/94 to 34.3 percent in 2003/04. At the same time, the share of household consumption in GDP has trended downward, declining from 34.8 percent of GDP at the start of the period to 28.8 percent at the end. Over the decade to 2003/04, real government consumption expenditure (measured in 1993/94 prices) increased at an average annual rate of 7.9 percent, while real household consumption only averaged an increase of 3.4 percent per annum. However, looking forward, the tapering off of the rate of growth of government expenditure, which is necessary if government is to adhere to sustainable budgeting and remain fiscally sound, will reverse this trend and lead to government consumption becoming a smaller share of GDP.

The share of Gross Fixed Capital Formation in GDP has been relatively stable in the period between 1993/94 to 2003/04, averaging 25.3 percent of GDP. In the period between 1993/94 and 2003/04, GDP measured in 1993/94 prices increased by P8,195 million, while Gross Fixed Capital Formation (also in 1993/94 prices) over the period amounted to P37,572 million. Thus, each pula of investment in Gross Fixed Capital Formation gave rise to 0.218 pula of additional real output over the period to 2003/04. Alternatively, each additional pula of real output required 4.6 pula of additional investment in Gross Fixed Capital

Formation. In economics jargon, the incremental capital-output ratio of the economy in the period between 1993/94 and 2003/04 was 4.6.

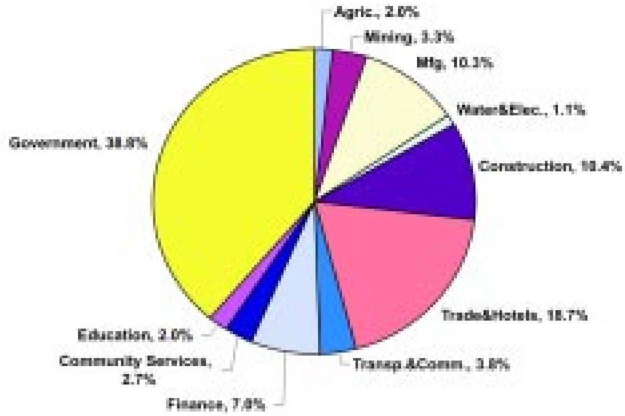
Chart 14: Formal Sector Employment 1993 - 2003



6.2.2 Employment, Productivity and Unemployment

Over the decade from September 1993 to September 2003, formal sector employment increased from 227,600 to 285,383, an increase of 25.4 percent. However, there was a change in statistical coverage in 1997, which reduced the sampling and non-sampling errors associated with the statistics on the small enterprises, especially in the Retail Trade and Repair Services (Community Services) sectors. As noted by the Central Statistics Office (Labour Statistics 1999), this resulted in a noticeable decline in overall employment between 1996 and 1997, which makes comparing aggregate employment before and after that date a bit misleading. However, as shown in Chart 14, employment has been growing in both periods, with relatively modest growth up to 1996 and more rapid growth after the new statistical coverage was introduced. For the latter period, from 1998 to 2003, formal sector employment grew from 241,700 to 285,383, an average increase of 3.4 percent per annum. Over the period from 1998 to 2003, employment in the private and parastatal sectors increased from 139,700 to 174,483, an increase of 4.5 percent per annum, while employment in government, both central and local government, grew from 102,000 to 110,900, an increase of 1.7 percent per annum.

Chart 15: Share of Formal Sector Employment by Sector, 2003



With data on value added and employment by sector, it is possible to provide some estimates of labour productivity for the period between 1998 and 2003. Improvement in labour productivity is key to Botswana's strategies for international competitiveness, economic diversification, poverty reduction and raising standards of living. Improvements in labour productivity can be brought about by increases in the capital employed per worker (e.g., automation), improvements in workers' skills and their application, improvement in management and improvements in the institutional and regulatory frameworks under which private sector enterprises operate. Table 3 presents the estimates of value added per employee, excluding Agriculture, which is complicated by the large proportion of the workforce that is not captured in the statistics on formal sector employment. A substantial increase in labour productivity was recorded in the mining sector, where employment contracted 1.5 percent over the period from 1998 to 2003, while real output expanded by 40.5 percent. As a consequence, value added per employee in the mining sector grew from P533,545 in 1998 to P865,567 in 2003, an increase of 62.2 percent. Such productivity improvements can be attributed mainly to the substantial capital investments made by Debswana in the Fully Integrated Sorting House (FISH) and the Completely Automated Recovery Plant (CARP), the adoption of Continuous Operations at the mines, and the continued upgrading of the skills of the workers and managers.

Table 3: Labour Productivity, 1998-2003

	Value Added Per Worker 1998	Value Added Per Worker 2003	Change 1998/99 to 2003/04
Mining	533,545	865,567	62.2%
Manufacturing	28,756	23,198	-19.3%
Water and Electricity	123,513	163,425	32.3%
Construction	36,677	35,446	-3.4%
Trade, Hotels & Restaurants	34,687	35,388	2.0%
Transport & Communications	68,080	62,185	-8.7%
Finance & Business Services	103,560	108,880	5.1%
Social and Personal Services	158,392	132,694	-16.2%
General Government	22,876	27,975	22.3%

Source: Central Statistics Office, National Accounts, Labour Statistics.

Notable increases in value added per employee were also recorded in the Water and Electricity and General Government sectors, with productivity growth of 32.3 percent and 22.3 percent, respectively. However, for the Government sector, there is an inherent problem in estimating productivity, since value added is estimated by the cost of the inputs used in producing government goods and services, not by the market value of the outputs produced, since there is typically no market for most public goods and services. There were only modest increases in value added per employee in the Trade, Hotels and Restaurants (2.0%) and Finance, Real Estate and Business Services (5.1%) sectors. Decreases in value added per employee were registered in the Manufacturing (-19.3%), Construction (-3.4%), Transport and Communications (-8.7%) and Social and Personal Services (-16.2%) sectors. In the case of the Manufacturing sector, the drop in productivity is likely to be due to the closure of the Motor Company Botswana (Hyundai) plant, where relatively high levels of value added per worker were achieved.

The data on employment and output also allow estimation of sectoral employment elasticities, a measure of how much employment creation is associated with output growth (i.e., the percentage change in employment in a sector over some period divided by the percentage change in the sector's value added over the same period). Employment elasticities can be useful in identifying where initiatives can be focused to accelerate the growth of jobs and incomes: the higher the employment elasticity of a sector, the greater the increase in jobs created by increasing output in a sector by a given percent. Table 3 above shows the percentage changes in employment and output for various sectors (excluding Agriculture and Government) over the period between 1998 and 2003, and the estimated employment elasticities to which they give rise. Over the six year period from 1998 to 2003, formal sector employment in the Mining sector contracted 7.3 percent, while real sectoral output expanded 50.3 percent. Thus, each percentage change in output was associated with a 0.146 percent reduction in employment. The mining sector was shedding jobs, even as it was growing substantially.

Table 4: Sectoral Employment Elasticities 1998 -2003

	% Change in GDP	% Change in Employment	Employment Elasticity
Mining	50.31%	-7.35%	-0.146
Manufacturing	5.81%	31.17%	5.362
Water and Electricity	38.44%	4.63%	0.120
Construction	15.00%	19.00%	1.266
Trade, Hotels & Restaurants	30.27%	27.69%	0.915
Transport & Communications	10.44%	20.91%	2.003
Finance & Business Services	26.60%	20.41%	0.767
Social and Personal Services	24.50%	48.62%	1.984

Source: Central Statistics Office, National Accounts, Labour Statistics.

In contrast, the Manufacturing sector, which recorded a growth output of 5.8 percent in the period between 1998 and 2003, was increasing employment by 31.2 percent. Thus, the sector was increasing employment by almost 5.4 percent for each percentage increase in output, indicating a very high employment elasticity. Other sectors with relatively high employment elasticities included the Transport and Communications (2.0), Social and Personal Services (2.0), Construction (1.3) and Trade, Hotels and Restaurants (0.9) sectors. The Water and Electricity sector had a relatively low employment elasticity, with each percentage increase in value added giving rise to only 0.14 percent increase in employment. Tackling Botswana's unemployment problem should consider removing the impediments to growth in those sectors with relatively high employment elasticities.

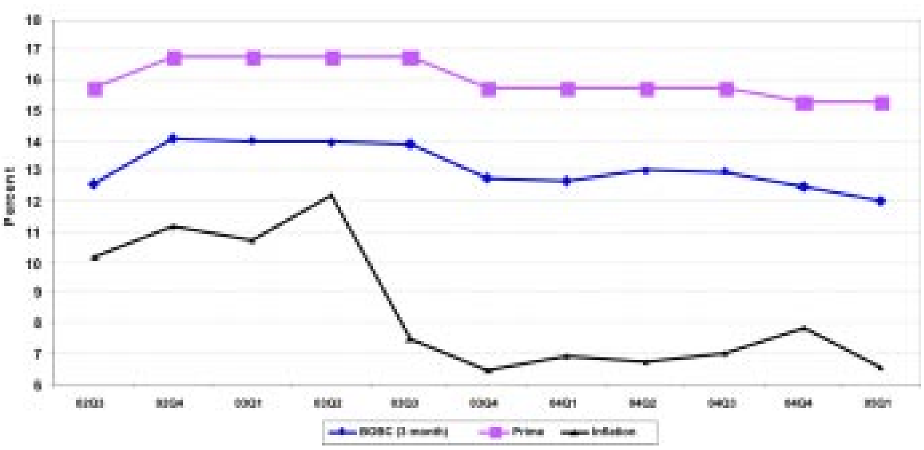
Chart 16: Labour Force Unemployment Rates, 1993 - 2003

Because employment, especially formal sector employment, is not growing rapidly enough, the Botswana economy continues to be plagued by high unemployment, which is a major contributing factor to a number of social problems, including poverty, HIV/AIDS, crime and income inequality. The 2002/03 Household Income and Expenditure Survey estimated the national unemployment rate at 23.8 percent of the labour force, with especially high unemployment rates recorded for the urban villages (29.6%) and rural areas (23.1%). Unemployment was concentrated amongst the youth, and amongst those with Junior Certificate and Cambridge qualifications. The national unemployment rate for females (26.3%) was markedly higher than that for males (21.4%). With the slowdown in the economy registered in 2003/04, especially for non-mining GDP, which only grew 2.6 percent, and only modest growth of about 3 percent expected for 2004/05 and 2005/06, very little employment growth (1-2% p.a.) is projected for the next few years. With the labour force expected to continue to grow at over 2 percent per annum, unemployment is likely to worsen, rising to over 25 percent this year and next (see Chart 16).

6.2.3 Inflation and Interest Rates

Inflation, which had risen to over 12 percent in 2003, mainly due to the introduction of VAT, has come down to 6.5 percent in March 2005, and further to 6.2 percent in April 2005. The tight monetary policy stance adhered to by the central bank, as evidenced by the high yields on Bank of Botswana Certificates and the high prime rate of interest, along with less expansionary fiscal policy, is credited with the success achieved in moving towards the target of a low and stable rate of inflation in the range of 4-6 percent. Real rates of interest in Botswana (as reflected in the gap between the Bank of Botswana Certificate yield and the rate of inflation) have increased sharply over the past year and a half, from 1.6 percent in June 2003 to 5.2 percent in March 2005.

Chart 17: Interest Rates and Inflation



The increase in inflation during 2004, culminating in a rate of inflation of 8 percent in January 2005, was mainly due to the 7.5 percent devaluation in February 2004 and sharp increases in fuel and power (+12.1%) and transport prices (+14.2%), as well as substantial increases in a number of non-tradeable good prices (e.g., water and telecommunications). Of the 7.8 percent national rate of inflation recorded in the year to December 2004, increases in housing costs accounted for 16.9 percent, increases in transport accounted for 34.8 percent and increases in fuel and power accounted for 3.9 percent.

The Bank of Botswana announced a reduction in the Bank Rate on April 25th 2005 by one quarter percentage point (25 basis points) to 14 percent, reflecting the generally positive outlook it perceived for lower inflation. This expectation was based relatively benign international inflationary pressures and the lower rates of growth of commercial bank credit and government expenditure that have been recorded recently. However, the Bank of Botswana cautioned the public that it would continue to monitor financial and inflationary developments with a view to taking whatever actions may be necessary to meet its monetary policy objective of maintaining inflation at a low and stable level.

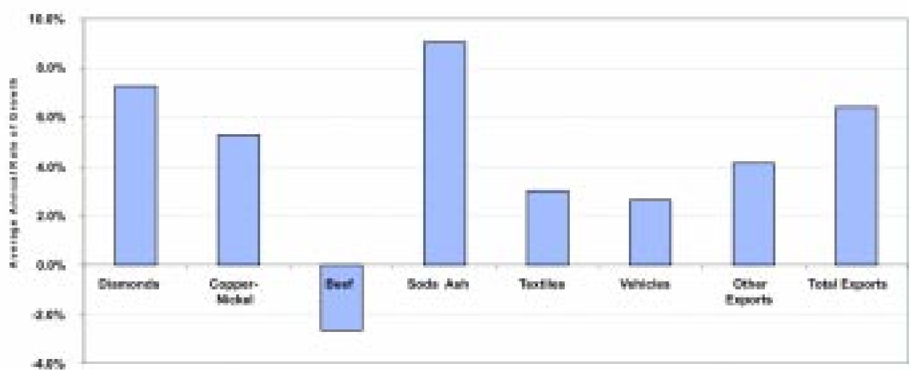
6.2.4 Exchange Rates and Trade

The exchange rate of the pula against the South African rand came down sharply in the early part of 2004, decreasing from R1.488 in December 2003 to R1.379 in February 2004 as a result of the 7.5 percent devaluation. But since then, the rand-pula exchange rate has exhibited more stability than it did during 2003, hovering in the range of R1.39 to R1.32 per pula. The pula depreciated by 4.3 percent against the euro and the British pound during 2004. But, against the US dollar, the pula, which appreciated sharply during 2002 and 2003 by 27.7 percent and 23.1 percent, respectively, recorded a small gain of 3.8 percent in 2004; in part because of the 7.5 devaluation in February 2004. The pula's gains against the US dollar reflected the continuing weakness of the greenback. During the course of the year to the end of December 2004, the US dollar depreciated by 7.8 percent against the euro and the British pound, and by 14.3 percent against the South African rand.

Chart 18: Real Effective Pula Exchange Rate 1996 - 2004

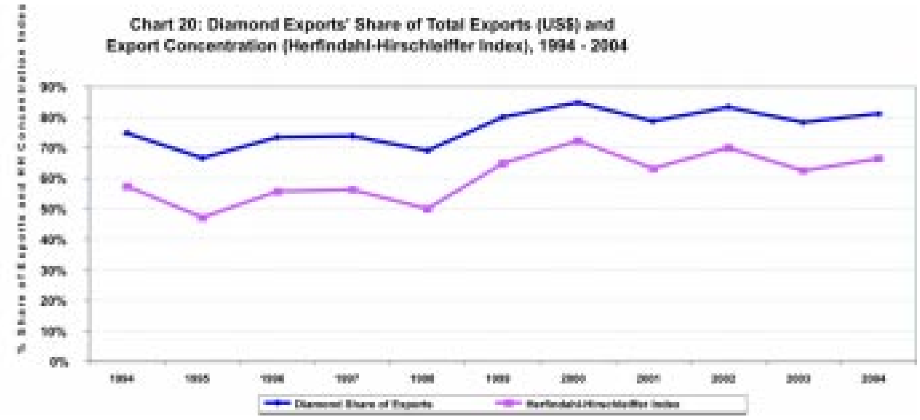
Despite the Pula's depreciation against the South African rand, the euro and the British pound as a result of the 7.5 percent devaluation, and the fast rising of prices in Botswana its major trading partners, the real effective exchange rate only depreciated by 3.8 percent during 2004. Compared to a benchmark period of 1996, the real effective exchange rate had appreciated by nearly 21 percent at the end of 2004, making it very difficult for Botswana exporters to compete in foreign markets and for domestic producers to compete with imported goods and services. The devaluation of the currency by 12% in May 2005 was meant to promote the competitiveness of producers.

Chart 19: Rates of Growth of Major Export Categories in US Dollars 1994 - 2004

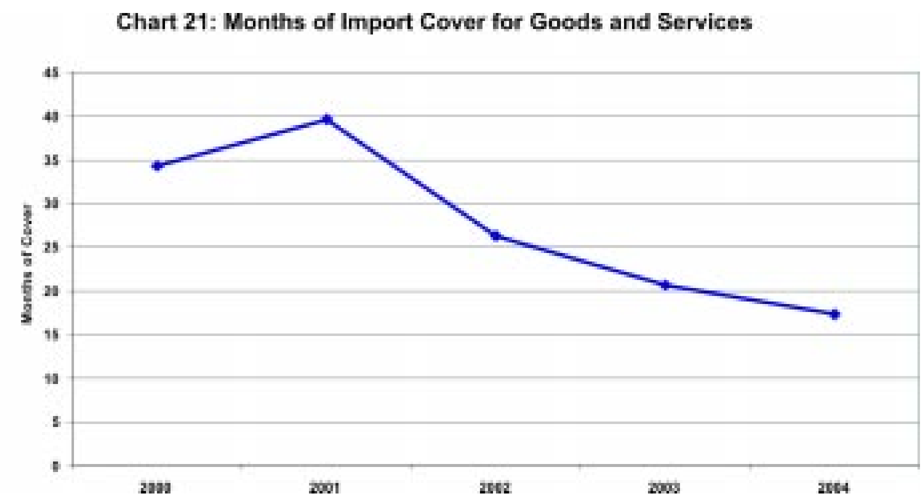


On the trade front, Botswana has continued to register a healthy balance of trade through 2004, mainly due to the growth of diamond exports, which increased 12.0 percent from P11.7 billion in 2003 to

P13.1 billion in 2004. Other exports recorded a lacklustre performance, declining from P3,266 million in 2003 to P3,161 million in 2004, a decrease of 3.2 percent.



Imports of goods grew sharply from P10.5 billion in 2003 to P13.3 billion in 2004, an increase of 26.6 percent. Nevertheless, the country registered a merchandise surplus of P2,939 million and an overall current account surplus of P3,985 million. While the merchandise surplus in 2004 was smaller than the P4,477 million surplus recorded in 2003, the current account surplus was larger than the P2,288 million surplus achieved in 2003. Despite capital outflows that totalled P3,609 million in 2004, Botswana's international reserves increased from P23.7 billion (USD5.3b) in 2003 to P24.2 billion (USD5.7b) in 2004. These reserves continue to provide the country with a very healthy level of import cover, although it is clear the level was on a declining trend.



6.2.5 Investment Flows in Botswana

To a certain extent, Botswana has succeeded to attract investment in manufacturing activity linked to the mining sector. For example, the private sector has shown considerable interest in cutting and polishing diamonds. The economy has also done well in attracting export-oriented foreign investment in textiles (mainly from Malaysia, South Africa and Zimbabwe) and auto industries (assembly of Volvo buses and trucks). Being a member of SACU has also played a major role in attracting investors to Botswana. This is notable in the establishment of an assembly plant for buses and trucks in Botswana by Volvo to cater primarily for the South African market and also to tap emerging car markets of neighbouring Namibia and the Democratic Republic of Congo.

Table 5: FDI Inflows to Selected Countries in Africa, 1989-2001 (Millions of U.S. Dollars)

Country	1989-1994 (annual average)	1995	1996	1997	1998	1999	2000	2001
Botswana	-29	70	70	100	96	37	57	57
Lesotho	169	275	286	269	262	163	119	118
Mauritius	24	19	37	55	12	49	277	-
Mozambique	21	45	73	64	213	382	139	-
Namibia	70	153	129	84	77	111	124	-
Swaziland	67	44	22	15	165	100	-19	69
South Africa	-	-	-	3817	561	1502	888	6653
Uganda	23	121	121	175	210	222	254	5
Zimbabwe	34	-	-	-	-	59	23	-

World Investment Report, 2001

FDI inflows to Botswana by industry and country of origin have grown steadily in value from 1997 to 2000. The total stock of FDI (equity and non-equity) increased from P3.5 billion in 1997 to P7 billion in 2000, an increase of 100 percent. Most of the FDI has been concentrated in the mining sector, which has averaged 56% (Figure 1) of the total equity investment in Botswana by foreigners.

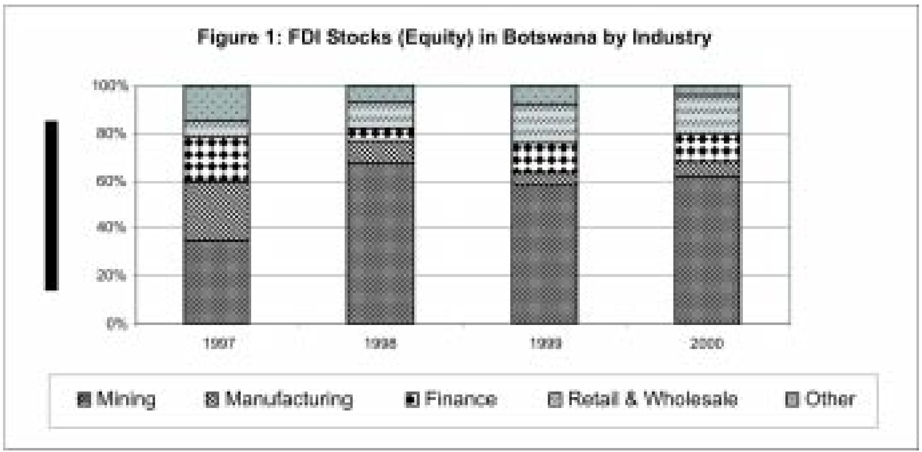


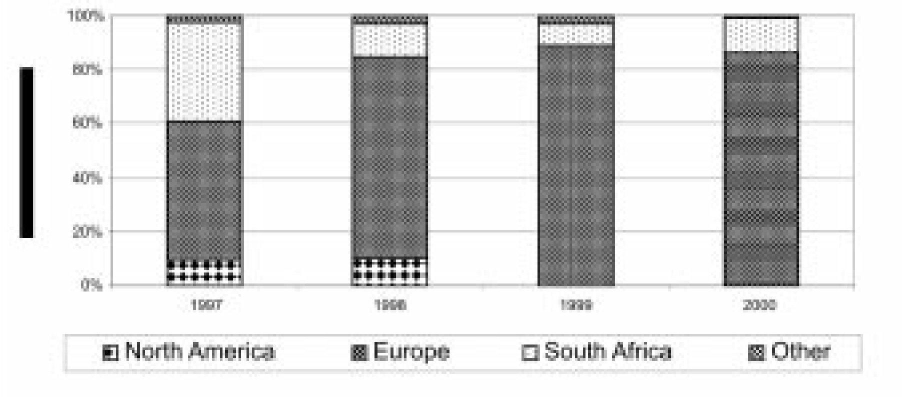
Figure 1: FDI Stocks (Equity) in Botswana by Industry

Source: Bank of Botswana Annual Reports (1997-2001)

The manufacturing sector accounted for an average of 11% of total FDI in equity over the same period, while the finance and trade sectors accounted for 12% and 13% of total equity investments, respectively. Of particular importance is the fact that other sectors besides mining, for example, manufacturing, finance, retail and wholesale trade, have started attracting investment, though still at a very modest level. This, to some extent, shows that the Government, through its policies and programmes, has played a pivotal role in influencing investment in non-mining sectors of the economy, which is critical in the diversification process.

In terms of the origin of the investment, Europe remains the main source of Botswana's FDI, contributing, on average, 75% of the total level of FDI in Botswana in the period between 1997 and 2000 (see Figure 2). South Africa takes second position after Europe, contributing, on average, 18% of the FDI in Botswana between 1997 and 2000. Botswana has also received substantial FDI from North and Central America.

Figure 2: Stocks of FDI (Equity) in Botswana by Country



Source: Bank of Botswana Annual Reports (1997-2001)

Although FDI investments in the primary sectors (notably mining) have earned high rates of return, investment in other sectors of the economy has been constrained by the size of the domestic market. Notwithstanding the Government's recent efforts to promote manufacturing activities by attracting FDI, foreign investment in manufacturing and services has averaged 10% of the total amount of FDI in Botswana over the period. In the light of this, efforts to sustain economic growth through FDI in other sectors of the economy will need to focus on removing impediments that deter further inflows of FDI. This will include, inter alia: reducing the cumbersome industrial trade licensing procedures, streamlining the processes for the issuance of work permits, reforming other regulatory practices and addressing the scarcity of skilled labour and shortages of serviced industrial and commercial land. This would promote diversification of investment activity in other sectors and, as such, contribute to long term growth. While the quality of Botswana's infrastructure is reasonably good, the problems of very high utility rates compared with other countries in the region and of slow progress in privatisation of public enterprises need to be addressed to encourage foreign investment.

The formulation and adoption of competition policy legislation needs to be speed up, since such legislation is one of the pillars required to create a favourable and competitive environment that could foster private investment. Through the privatisation process, the Government should also aim to reduce its direct involvement in a number of business activities. This would stimulate market activity and provide scope for local entrepreneurship and private sector initiatives in the investment process.

The Government should also continue to improve its promotional efforts. Collaboration with other countries could play a major role, both in mounting collective promotional initiatives and in establishing sub-regional markets that are more attractive to potential investors. Government should also exploit opportunities available under various trade agreements and programmes offered by developed countries; e.g., the Cotonou Agreement with the EU to promote trade and investment in African countries and the USA's African Growth and Opportunity Act.

6.2.6 Basic Approaches used in Determining Budgetary Frameworks

Through the national development planning processes, government budgets are set taking into account the expected resources (revenues, grants and loans) available to Government, the existing commitments for Government expenditures, the priorities established over the allocation of the resources available, the recurrent budget implications of development expenditures and the sustainability of the expenditure frameworks, given the reliance on mineral revenues, which come from the exploitation and sale of a non-replenishable asset.

"Meeting the Millennium Development Goals and Vision 2016 through a Self-Reliant Approach to Development" was the theme for the 2005 Budget Speech. The call for greater self-reliance reflected the growing awareness that not only were the Government's existing and prospective resources already stretched to the limit, but also that the dependency syndrome that had evolved over the past decade or so was becoming increasingly unsustainable. While the public sector still has major roles to play in the economy, Government signalled that members of the society must take greater individual responsibility for their economic and social development. The Budget Speech theme also stressed that while Botswana was committed to achieving the goals of the Millennium Declaration and its own Vision 2016, it was also committed to pursuing sound and sustainable financial management. For the fiscal year 2005/06, Government presented a some what balanced budget, expressing the commitment the Government has to living within its means, at least over a medium term horizon.

In the course of the period between September 1973 and September 2004, prices (as reflected in the national cost of living index) rose at an average annual rate of 10.63%. Adjusting the nominal levels of revenues and grants by the cost of living index allows the calculation of constant price figures for the major sources of funds that the Government received over 33 years for which comparable data are available from the Cash Flow Presentation of the Budget. The figures for the major categories of revenues and grants in constant 2004 prices for selected years are shown in Table 6.

For 2005/06, mineral revenues (from tax, royalties and dividends) are expected to constitute 48.3% of total revenues and grants, SACU revenues 16.6%, non-mineral income tax 12.6% and VAT 10.2%. The other revenues and grants would contribute 13.8% to the total.

Table 6: Cash Flow Presentation of Budget Revenues (in Constant 2004 Prices)

	1973/74	1995/96	2004/05 Revised	2005/06 Estimates	2005/06 Share	Real Rates of Growth 1973/74-2005/06	Real Rates of Growth 1995/96-2005/06
Revenue (Pula Million)	957	10,812	17,094	19,194	98.9%	9.8%	5.9%
Mineral Tax, Royalties & Dividends	122	5,163	7,713	9,364	48.3%	14.5%	6.1%
Customs Pool	480	1,652	3,292	3,214	16.6%	6.1%	6.9%
Non-Mineral Income Tax	149	711	2,068	2,453	12.6%	9.1%	13.2%
Sales Tax/VAT (I)	0	437	2,000	1,981	10.2%		16.3%
Other Taxes	37	45	119	117	0.6%	3.7%	9.9%
Interest	45	461	165	71	0.4%	1.4%	-17.1%
Other Property Income of which	20	2,119	476	435	2.2%	10.1%	-14.6%
BOB revenue	0	2,093	434	396	2.0%		-15.3%
Fees, Charges and Sundry	103	197	929	1,275	6.6%	8.2%	20.5%
Sale of Property	0	26	333	283	1.5%		26.7%
Grants	144	74	200	208	1.1%	1.2%	10.9%
Total Revenue and Grants	1,100	10,886	17,294	19,402	100.0%	9.4%	5.9%

Source: Financial Statements, Tables and Estimates of the Consolidated and Development Fund Revenues, Ministry of Finance and Development Planning. A 6% rate of inflation is assumed for 2005.

From 1973/74 to 2005/06, total revenues and grants, in real terms, grew at an average annual rate of 9.8%. However, real growth has slowed over the past decade to 5.9% p.a. In the period from 1973 to 2005, real mineral revenues increased twenty fold, averaging an annual increase of 14.5%. However, over the past decade from 1995/95 to 2005/06, growth has slowed to 6.1% p.a. Indeed, excluding the 2005/06 estimate, which may have been boosted by the negotiations for the new mining leases, the real rate of growth of mineral revenues from 1990/91 to 2004/05 has been a modest 0.4%.[1] With only modest increases in diamond production expected over the next decade, after which operations will need to go underground, resulting in less production and higher costs, future real revenue increases from the diamond sector are likely to be quite modest. Other mineral sector revenues to Government, however optimistic one might be, will be small compared to the diamond revenues.

SACU revenues have maintained a strong real growth of over 6% p.a. from 1973/74 up to 2005/06; although the growth in real terms from 2004/05 to 2005/06 is expected to be negative. With trade liberalisation between SACU and other regional groups (e.g., EU, Mercosur, SADC, USA, etc.), as well as WTO agreed tariff reductions, this revenue source should not be expected to contribute much, if anything, to increased Government revenues in the years ahead. With economic diversification and improved upstream and downstream linkages in the economy, SACU revenues should grow less rapidly than Non-Mining GDP. Non-mineral income tax has registered strong real growth, both over the longer period from 1973 (9.1% p.a.), as well as from 1995/96 to 2005/06 (13.2% p.a.; although as noted above, the figure for 2005/06 may be somewhat over-optimistic). However, non-mineral income tax should not be expected to grow much faster than Non-Mining GDP, since the most highly profitable business ventures have already established themselves here, yielding the highest sources of company income tax. Other investments that might be undertaken in Botswana, while profitable, are likely to be less profitable than those that have already occurred; and thus, they are likely to yield lower taxes per unit of GDP than the already established enterprises. In economics jargon, the newer investments are likely to be moving down the marginal efficiency of investment curve, yielding lower taxable incomes.

[1] In constant 2004 prices, real mineral revenues in 1990/91 amounted to P7,280 million. By 2004/05, they had grown to P7,713 million, an average increase of 0.41% p.a.

VAT, which took over from the Sales Tax, has grown rapidly (16.3% p.a.) in real terms over the past decade. But, in future, such growth should be more in line with the real growth of the economy, now estimated at about 4%-5% p.a. Other property income, mainly revenues from the Bank of Botswana, peaked in real terms in 1996, and have decreased substantially (-15.3% p.a.) since then. Future revenues from the Bank of Botswana, mainly based on the earnings on the Government Investment Account, will continue to be modest. Fees, charges and sundry revenues have grown about 8.2% p.a. in real terms since 1973, and more rapidly at 20.5% p.a. since 1995, reflecting success in improving cost-recovery measures. As emphasised by the Honourable Minister of finance, this is an area where Government hopes to make substantial progress in the coming years. There has also been substantial real growth in revenues from the sale of Government property, averaging 26.7% p.a. in the period between 1995/96 and 2005/06. However, the budget for 2005/06 estimates a real decrease in such revenues.

6.2.7 Recurrent and Development Expenditures and Net Lending[2]

The 2005/06 Budget provides for Expenditures and Net Lending to increase from an expected P18.7 billion in 2004/05 to P20.5 billion in 2005/06, an increase of 9.3%. Recurrent expenditures are estimated to increase by 7.5%, from P14.6 billion to P15.7 billion, while Development expenditures are forecast to grow by 12.3%, from P4.3 billion to P4.9 billion. Net lending is estimated to continue to be negative, as repayment of PDSF/RSF loans is forecast at P124 million; and no new PDSF loans are expected. Recurrent expenditures are expected to constitute 77% of total Expenditure and Net Lending; and of that, Personal Emoluments are forecast to comprise 27%, Other Charges to be 49%, and Public Debt Interest to be 2%. Development Expenditure is estimated to amount to 24% of total Expenditure and Net Lending, while the Net Lending will subtract about 1% from the total.

The breakdown of the budget into the expenditure components of the Recurrent Budget, Development Budget, PDSF/RSF Loans,

[2] The Recurrent Budget covers the continuing administration and service costs of government. Specific projects (e.g., capital expenditure) are financed from the Development Budget, which generally covers any addition to the stock of government assets. Net Lending refers to loans (less repayments) made by Government to parastatals and local authorities, mainly from the Public Debt Service Fund, but also from the Revenue Stabilisation Fund and, in the case of local authorities, the Development Fund.

Repayment of PDSF/RSF Loans and FAP Grants has been changing over the past two decades, with a greater share going to the Recurrent Budget, and smaller shares going to the Development Budget, PDSF/RSF Loans and FAP Grants (which were terminated in the 2003/04 budget).

Table 7: Government Expenditure and Net Lending, Selected Years.

Pula Million, Constant 2004 Prices (percent of total expenditure and net lending in brackets)						
	1983/84	**1990/91**	**1995/96**	**2000/01**	**2004/05**	**2005/06**
COLI (Sept. 2004 = 100)	14.4	27.5	50.2	75.1	100.0	106.0
Recurrent	1,877.3 (58.8)	5,142.7 (48.1)	6,848.6 (66.2)	11,158.8 (72.7)	14,624.7 (78.1)	14,830.2 (76.9)
Development	976.1 (30.6)	3,957.3 (37.0)	3,331.0 (32.2)	4,172.5 (27.2)	4,326.7 (23.1)	4,583.0 (23.8)
PDSF/RSF Loans	365.7 (11.5)	1,648.8 (151.4)	226.0 (2.2)	171.3 (1.1)	0.0 (0.0)	0.0 (0.0)
Less Repayments	-40.9 (-1.3)	-145.9 (-1.4)	-200.2 (-1.9)	-306.1 (-2.0)	-232.0 (-1.2)	-117.0 (-0.6)
FAP Grants	14.3 (0.4)	79.9 (0.7)	143.4 (1.4)	159.7 (1.0)	0.0 (0.0)	0.0 (0.0)
Total Expenditures and Net Lending	3,192.4	10,682.9	10,348.7	15,356.3	18,719.3	19,296.2

Source: Financial Statements, Tables and Estimates of the Consolidated and Development Fund Revenues 2005/06

Adjusting the Government expenditure figures for changes in the price level that have occurred provides some measure of how much has been channelled through the budget to the different categories of expenditure. In constant 2004 prices, in the period from 1983/84 to 2004/05, the average annual real rate of growth of Recurrent Expenditures was 10.3%, while that of Development Expenditures was 7.4%. The real growth rate from 1983/84 to 1995/96 was especially high for both Recurrent Expenditures and Development Expenditures, at 11.4% p.a. and 10.8% p.a., respectively. The rates of growth of both these major categories of expenditure slowed in the subsequent periods from 1995/96 to 2000/01 and 2000/01 to 2004/05, with Recurrent Expenditures growth going from 8.8% p.a. in the former period to 7.0% p.a. in the latter period, while Development Expenditures recorded 3.0% p.a. and 0.9% p.a. growth rates in the two respectively periods.

In real 2004 constant price terms, Total Expenditure and Net Lending over the period from 1983/84 to 2004/05 amounted to P242 billion (see Table 7), of which Recurrent Expenditures were P159.0 billion (65.7%), Development Expenditures were P77.2 billion (31.9%), Net Lending was P4.1 billion (1.7%) and FAP Grants were P1.7 billion (0.7%). The share of Recurrent Expenditures in Total Expenditure and Net Lending has risen steadily from 56.0% over the period from 1983/84 to 1994/95, to 66.5% for the period 1995/96 to 2000/01, to 75.5% for the period between 2001/02 and 2004/05.

Table 8: Cumulative Total Expenditure and Net Lending (Pula million, Constant 2004 Prices)

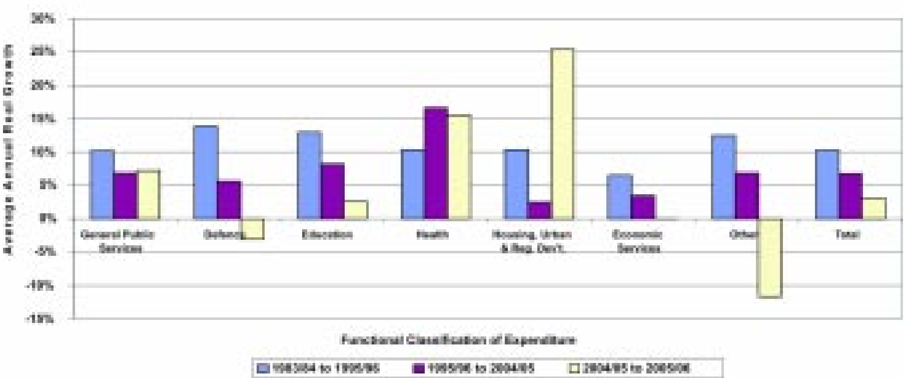
	1983/84 to 2004/05	1983/84 to 1994/95	1995/96 to 2000/01	2001/02 to 2004/05
Recurrent	159,042	51,689	41,979	65,374
Development	77,230	33,225	21,497	22,508
PDSF/RSF Loans	9,577	8,782	578	218
Less Repayments	-5,510	-1,976	-1,736	-1,798
FAP Grants	1,712	642	773	297
Total	242,050	92,361	63,090	86,599
Shares of Total				
Recurrent	65.7%	56.0%	66.5%	75.5%
Development	31.9%	36.0%	34.1%	26.0%
PDSF/RSF Loans	4.0%	9.5%	0.9%	0.3%
Less Repayments	-2.3%	-2.1%	-2.8%	-2.1%
FAP Grants	0.7%	0.7%	1.2%	0.3%

Source: Financial Statements, Tables and Estimates of the Consolidated and Development Fund Revenues 2005/06

In contrast, the shares of the other components of Expenditure and Net Lending have trended downwards, with that of Development Expenditure falling from 36.0% of the total over the period from 1983/84 to 1994/95, to 34.1% for the period from 1995/96 to 2000/01, to 26.0% for the period from 2001/02 to 2004/05. The share of Net Lending has also declined, from 7.4% of Total Expenditure and Net Lending for 1983/84 to 1994/95, to -1.9% and -1.8% for the latter two periods, reflecting the ending of new PDSF lending and the repayment of previous loans outstanding. Similarly, the share of FAP fell as that programme was eventually wound down in 2001.

The changing shares of Recurrent and Development Expenditures reflect and signal the attempt by Government to maintain a prudent fiscal policy stance. With the slowdown in the growth of Government revenues, sound and sustainable fiscal policy requires that Government slow down the rate of growth of its expenditures. Curtailing the rate of growth of total Government expenditures, while maintaining and operating the existing government facilities, means the Government must slowdown the rate at which new government facilities are brought on stream. It is Development Expenditures which bring forth new government facilities, which have Recurrent Budget implications if they are to be operated satisfactorily. Thus, by reducing the share of Development Expenditures in Total Expenditure and Net Lending, Government is trying to slow down the rate of growth of both Recurrent Expenditures and Total Expenditures; hopefully to rates of growth that are consistent with the expected long-term rate of growth of Government revenues, especially the rate of growth of recurring revenues that do not derive out of the sale of assets (e.g., the non-replenishable diamonds).

Chart 22: Real Rates of Growth of Government Expenditure 1983/84 to 2005/06



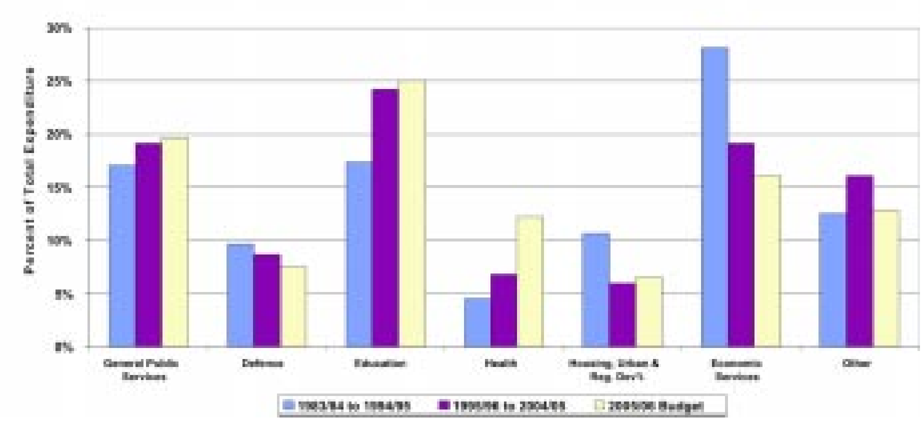
6.2.8 Functional Expenditure Categories

Chart 22 shows the real rates of growth of Government expenditure on various functional budget categories for selected periods from 1983/84 to 2005/06. Growth in Total Expenditure and Net Lending measured in 2004 prices is shown to slow down from 10.3% p.a. for the period from 1983/84 to 1995/96, to 6.8% p.a. for the period from 1995/96 to 2004/05, to 3.1% for the budget estimated for 2005/06 (assuming a 6% rate of inflation in 2005). But, behind those aggregated figures were some notable differences in the growth rates for different functional areas of the budget.

In real terms, growth of expenditure on General Public Services has generally been in line with growth of total expenditures; although the budget estimate for 2005/06 shows substantially higher growth (7.2%) than that for the total. In contrast, growth of real expenditure on Defence has been exhibiting a downward trend over the two periods from 1983/84 to 2004/05, and will be negative in 2005/06. Education, which recorded the second highest growth rate from 1983/84 to 1995/96, has also been exhibiting a downward trend in recent years, with the budget for 2005/06 projecting real growth of just 2.6%.

As would be expected, the rate of real growth of expenditure on Health has been amongst the highest of all the categories, and has been rising over the past decade, increasing from 10.4% p.a. for the period from 1983/84 to 1995/96 to 16.63% p.a. for the period 1995/96 to 2004/05; and remaining quite high, at 15.6%, in the budget for 2005/06. Housing, Urban and Regional Development, which grew modestly at 2.5% p.a. over the period from 1995/96 to 2004/05, is set to grow 25.5% in the budget for 2005/06, with large recurrent budget increases provided for Housing, Local and Regional Development and Urban Infrastructure. The expenditure category for Economic Services, which covers Agriculture, Forestry and Fishing, Mining, Electricity and Water Supply, Roads, Air Transport, Rail Transport, Post and Telecommunications, Other Transport and Promotion of Commerce and Industry, has exhibited a declining growth trend since 1983/84, with the period to 1995/96 registering real growth of 6.5% p.a., and that from 1995/96 to 2004/05 recording 3.5% p.a. For 2005/06, the budget holds real expenditure constant. The declining share of expenditure and net lending going to Economic Services may reflect that most of the high priority investments in developing Botswana's economic infrastructure have now taken place, and that greater priority should be directed at the other functional categories of public expenditure. However, given the ongoing concerns about the need for economic diversification and more rapid growth in productive and sustainable jobs and income, it is reasonable to question whether there should be such a marked decline in priority attached to this functional category of expenditure.

Chart 23: Changing Budget Shares 1983/84 to 2005/06



The Other functional category of expenditure, comprising budget items such as Food and Social Welfare Programmes, Other Community & Social Services and Unallocated Expenditure (e.g., Public Debt Interest, Revenue Support Grants to local authorities and FAP Grants), have also shown slower real rates of growth over the past two decades, with real growth decreasing from 12.6% p.a. over the period from 1983/84 to 1995/96 to 6.9% p.a. from 1995/96 to 2004/05. The budget for 2005/06 estimates a further real decrease in this category of expenditure of 11.7%.

The changing budget shares over the past two decades give some indications of the changes in priorities that have occurred as Government has responded to new challenges, e.g., HIV/AIDS, and adopted new initiatives (or terminated old ones as in the case of PDSF lending and FAP grants). General Public Services[3], measured in 2004 constant prices, have recorded a growing share of Total Expenditure and Net Lending, rising from 17.1% for the period 1983/84 to 1994/95, to 19.2% for the period 1995/96 to 2004/05, and 19.7% in the budget for 2005/06. The share of Defence in total expenditure has declined from 9.7% over the period 1983/84 to 1994/95, to 8.7% from 1995/96 to 2004/05, and further to 7.6% in the 2005/06 budget. Education, on the other hand, has been a big winner in the budget allocations, with its share of total real expenditures rising from 17.3% for the period 1983/84 to 1994/95, to 24.2% for the period 1995/96 to 2004/05, and to 25.0% in the budget for 2005/06.

[3] This covers expenditure on the Legislature, Foreign Affairs, Financial Administration, Government Construction, Services and Buildings, Government Transport Services, Immigration, Courts and Legal Administration, Police, Prisons, etc.

The fight against HIV/AIDS and other diseases is reflected in what happened to the share of Health budget allocations. Health's share has grown rapidly, from 4.6% for the period from 1983/84 to 1994/95, to 6.8% for the period from 1995/96 to 2004/05. The 2005/06 budget allocates 12.2% of Total Expenditure and Net Lending to Health. The share of the budget going to Housing, Urban and Regional Development decreased from 10.7% for the period 1983/84 to 1994/95 to 6.0% over the period from 1995/96 to 2004/05. It is expected to increase slightly to 6.6% in the new budget year. Because of the modest increases in real expenditure by Government on Economic Services, that category of expenditure has recorded the largest drops in budget shares, falling from 28.1% of Total Expenditure and Net Lending for the period 1983/84 to 1994/95, to 19.1% for the period 1995/96 to 2004/05, and to 16.1% for the 2005/06 fiscal year. The share of total expenditure going to the Other functional category recorded an increase to 16.1% during the period from 1995/96 to 2004/05, compared to 12.5% for the period from 1983/84 to 1994/95. However, the budget for 2005/06 sees that share dropping back to 12.9%.

6.2.9 Other Policy Issues

There are a number of critical issues that need to be addressed if Botswana is to be successful in achieving the Millennium Development Goals and Vision 2016 through a Self-Reliant Approach to Development. Some of these issues directly impact upon the Government budget, and its ability to fund development projects and the provision of public goods and services. Others have their main impacts on the private sector and its ability to supply the goods and services needed to raise the standards of living of Batswana profitably on a sustained basis. For both the public and private sectors, raising the real productivity of Batswana workers, managers and entrepreneurs remains the crucial challenge if the real standard of living and quality of life of Batswana is to continue to rise. Without real productivity increases, any increases in consumption that Batswana get to enjoy in the short term cannot be sustained in the longer term. Without productivity improvements, short term gains for some Batswana can only come at the expense of the welfare of other Batswana, either in the present or in the future. It is for that reason that Government must always press for efficiency, for value for money, for cost-effectiveness and for living within its means, lest it ends up reducing the welfare of Batswana in the aggregate.

From the Government side, given the limited resources, greater cost-recovery on the basis of ability to pay becomes an increasingly important issue, not only because it helps to put the public finances on a sounder footing, but also because it is efficient and socially just. Botswana has been keen on avoiding the debt trap, something many other developing countries, especially in Africa, fell into. Government policy is that Botswana should only borrow for projects that can yield a high enough return to first be able to service the debt and then provide some net benefits that can be enjoyed by Batswana in the future.

One of the major reasons that Botswana's economy is slowing down, and thus jeopardising attainment of the Millennium Development Goals and Vision 2016, is that the investment occurring in Botswana is not as productive as it should be. Low productivity investments, investments with low or negative real return rates, result in small or even negative increases in real incomes for Batswana. The slowing down of the economy is a clear indication that high productivity projects are not being identified and invested in.

6.2.10 Monetary and Exchange Rate Policies and Trends

Botswana's monetary policy is anchored by having the Pula exchange rate pegged to a basket of currencies comprising the South Africa rand and the IMF's unit of account, the SDR (which is comprised of the US dollar, the euro, the British pound and the Japanese yen). As clearly articulated in the central bank's annual monetary policy statement, the country's monetary policy aims to support the national objectives of economic diversification and export competitiveness by attempting to keep the real effective exchange rate of the Pula broadly stable at a competitive level. This is to be achieved with a pegged nominal exchange rate by having inflation in Botswana no greater than the average inflation rate of its trading partners.

The 7.5 percent devaluation of the pula in February partly offset the real effective exchange rate appreciation that had been registered over the period from 2000, as prices in Botswana rose faster than prices in trading partner countries. The 12 percent devaluation effected in May 2005 is believed by the authorities to have returned the real effective exchange rate to a level consistent with the fundamentals of the economy. Along with the devaluation, the authorities introduced a crawling peg exchange rate mechanism to ensure that the real effective exchange rate does not get out of line with the economy's fundamental in the future. The authorities now feel that issues of competitiveness must focus on broader issues affecting Botswana's prospects for economic diversification, including the need to maintain a prudent fiscal policy and to press ahead with pending structural reforms.

As part of its monetary policy framework, the central bank sets an inflation target range that is mainly based on the average inflation rate in trading-partner countries. It was the role played by higher domestic inflation than the average inflation in trading partner countries that generated a real effective appreciation of the Pula over the last several years. This suggests that the central bank may need to adopt and achieve a more ambitious inflation target in order to sustain the policy of having a pegged nominal exchange rate, while improving the competitiveness of local producers, especially of non-traditional exports.

The monetary policy authorities have followed a cautious approach in reducing interest rates as inflation subsided, because of the uncertainty about the fiscal situation. The central bank feels that the feasibility of reducing Botswana's relatively high real interest rates will depend ultimately on containing the rapid growth in government spending, which has averaged 12 percent per annum over the last five years and 15 percent for the two years to the current fiscal year 2005/06. With the ongoing financial sector reforms and the eventual loss of monetary independence that a pegged exchange rate entails, the current exchange rate regime would need to be supported by appropriately tight credit policies. Under the current peg system, the central bank retains some monetary independence because financial markets are not adequately developed to permit full arbitrage. This situation is, however, not likely to persist for long, given various ongoing reforms by the authorities.

The central bank is implementing a number of reforms to strengthen the conduct of monetary policy, including, inter alia: (a) introducing greater transparency in monetary management; (b) enhancing understanding of the policy transmission mechanism; and (c) improving the functioning of the money market; and (d) strengthening the effectiveness of monetary policy. The need for these reforms has arisen, in part, because of: (a) the large transfer of financial resources from the government to private fund managers for the Public Officers Pension Fund; (b) the establishment of an International Financial Services Centre (IFSC); and (c) the introduction of government bonds. The introduction of the 2-year, 5-year and 12-year government bonds in 2003, which are now listed on the Botswana Stock Exchange (BSE), has allowed for the derivation of a domestic yield curve.

Botswana's banking system continues to be assessed as broadly sound; and supervision of the sector is generally viewed as adequate. The commercial banks maintain a capital adequacy ratio of 15 percent or above, and the proportion of non-performing loans in their loans books is small. However, Botswana has a sizable number of non-bank financial institutions (NBFIs), including some that operate in the International Financial Services Centre and the private pension funds, which are not adequately supervised by a regulatory body. Responsibility for regulating and supervising banks lies with the central bank, whereas responsibility for the NBFIs currently falls under the Ministry of Finance and Development Planning, which has a limited capacity to supervise them. Given the concerns about money laundering and considering the size of the pension funds, efforts are underway to reform the existing prudential framework. A review of the 1987 Pensions Act has been initiated, and authorities are working on a revision to the Stock Exchange Act. In addition, authorities are moving towards setting up an autonomous Financial Supervisory Authority to regulate and supervise the NBFIs.

6.2.10.1 Central Bank and Government Monetary-Fiscal Policy Interrelationships

As stated in the Bank of Botswana Mission Statement, the primary objective of the Central Bank is to promote and maintain monetary stability. The Bank is also responsible for ensuring that Botswana has an efficient payments system and that the banking system is sound. These functions of the Bank support the broad national macroeconomic objectives, including the promotion of sustainable economic diversification. As set out in the Bank of Botswana Act, 1996, the major responsibilities of the Bank include the conduct of monetary policy; provision of banking services to the Government, banks and selected public sector organisations; regulation and supervision of banks and other financial institutions; issuance of currency; implementation of exchange rate policy; management of foreign exchange reserves; and provision of monetary and financial policy advice to the Government.

The implementation of monetary policy is directed mainly at achieving the primary objective of the central bank; i.e., the promotion and maintenance of monetary stability. The Bank implements monetary policy, using instruments such as the Bank Rate, the Repo Rate, engaging in open market operations, setting reserve requirements, etc., with a view to achieving a low and stable rate of inflation, which contributes to the stability and sustainability of Botswana' domestic monetary and financial system. This objective, together with fiscal, wage, trade and exchange rate policies, fosters macroeconomic stability, which is a crucial precondition for achieving sustained development, high rates of employment and raising standards of living for Batswana.

The Bank of Botswana implements Botswana's exchange rate policy on behalf of the Government in the overall context of sound macroeconomic management. The key objective of exchange rate policy is to promote export competitiveness without compromising macroeconomic stability. The Bank of Botswana also manages Botswana's official foreign exchange reserves on behalf of the Government. The Bank ensures their safety and return by diversifying the investments within a framework of acceptable risks. The Bank also provides economic analysis and policy advice to Government and the public more generally through regular economic and financial reports, published research papers and statistical documents.

6.2.10.2 Institutional Arrangements Prevailing within Botswana

As noted previously, the political environment in Botswana, with its free and fair democratic elections every five years, where various political parties compete for power, provides an environment that is supportive of private sector development. Government policies have been formulated with a view to providing an enabling environment for the private sector to develop and prosper. Creating and maintaining an environment that promotes private sector development have been amongst the highest priorities of Government, as reflected in the theme for NDP 9 of "Towards Realisation of Vision 2016: Sustainable and Diversified Development through Competitiveness in Global Markets" (MFDP, 2002b).

Botswana has adopted legislation and regulatory practice governing the security of private property, including land and other assets, as well as economic freedoms to trade and do business anywhere in the country with a view to promoting private sector development. Botswana has also established an effective judicial system that allows for the enforcement of contracts, as well as suitable regulatory structures to allow for effective regulation of monopolies. Botswana has received favourable assessments and ratings by Transparency International, Moody's, Standard and Poor's, the World Competitiveness Report, the Economist Intelligence Unit and the World Bank that attest to the fact that Botswana has established reasonably efficient processes and procedures that support having a private sector-friendly environment (UNDP, 1998). Botswana's macroeconomic and fiscal policies have been generally directed at promoting business start-up and development, for both citizen and foreign investors.

The Government of Botswana has developed open and systematic procedures for public consultation, with all of its stakeholders, including local authorities, private sector representatives and independent community service organisations (CSOs), regarding government policy and legislation. The four main national consultative mechanisms have included the Rural Development Council, the National Employment, Manpower and Incomes Council, the High Level Consultative Council and the Vision 2016 Council (Botswana Government, 1997). A number of other national councils have been established to address key stakeholder issues, such as population and development, women and development, youth, HIV/AIDS, tertiary education, etc. The Government also consults bi-annually with the private sector (and other stakeholders) at the National Business Conference held in Francistown. There are also a number of other consultative processes that have been regularly used to ensure widespread, active participation in the policy formulation processes. For many key policy areas, Government has established commissions with tripartite membership and mandates that include holding meetings and taking evidence from around the country regarding the topic(s) of the respective commission. Such procedures for consultation serve to ensure that all relevant interests and views are taken on board in formulating policy and legislation, which improves the effectiveness of policy implementation in practice.

In order to ensure strict adherence to proper financial management practices and combat corruption, Government established the Directorate on Corruption and Economic Crime (DCEC) in 1994, in addition to the Auditor General that is provided for in the Constitution. Both institutions have strong legal mandates and powers to investigate and report on possible violations of the Finance and Audit Act and financial regulations, which are two of the major legal frameworks designed to protect the public interest.

The Directorate is responsible for investigating any alleged or suspected contraventions of the fiscal laws of the country. It also assists other law enforcement agencies in investigating public officers suspected of dishonesty. In addition, it assists government departments, local authorities and parastatals in identifying weaknesses in their operating procedures that may give rise to opportunities for corruption, and in developing systems that may enable those institutions to detect and prevent corruption better.

The Auditor General is mandated by the Constitution to audit and report to Government and Parliament on the public accounts of Government and most statutory authorities and agencies. The Auditor

General seeks to ensure that ministries, departments and agencies, as well as parastatals and other public bodies, adhere to best financial and performance practices (Botswana Government, 1997). The Auditor General is required to be satisfied that all reasonable precautions are taken to safeguard the collection, custody and use of public funds and assets. The Auditor General is also mandated to ensure that the stipulated laws, financial regulations, instructions and directions relating to public funds and assets are duly observed.

6.2.10.3 Botswana's Capacity is to Design and Implement Programmes for Macroeconomic Convergence

Botswana has already demonstrated it has the capacity to design and implement programmes that can achieve the macroeconomic convergence targets set for SADC (see Table 1). The systems for strong governance that Botswana has established and adhered to since independence, which provide for democracy, transparency and accountability, provide much of the framework needed by responsible government officials to develop and implement policies and programmes that are consistent with achieving and sustaining the macroeconomic convergence targets. Botswana's national development planning process plays a critical role in the formulation of economic strategies that are credible, sound and sustainable from a macroeconomic point of view. Botswana's Vision 2016 also plays a key role in engendering the formulation and adoption of development policies and strategies that have a long-term focus, and that are consistent with achieving the long-term goals and objectives that are broadly supported by the population.

However, there are areas where the capacity constraints continue to impede Botswana's progress, and thus act to thwart Botswana's efforts to achieve some of the macroeconomic convergence targets set by SADC, especially achieving a 7 percent per annum growth rate. Botswana continues to suffer serious manpower shortages, especially technical and professional manpower, which means government and parastatal programmes are not implemented as timeously and/or effectively as intended, which further serves to constrain, delay and/or discourage private sector development. In addition, manpower shortages in the private sector make various economic activities more costly and uncompetitive in Botswana, which serves to thwart Botswana's efforts to grow rapidly and diversify the economic base.

A related, problem area involves the issue of productivity, especially labour productivity in Botswana, where many employers report and lament about the poor work habits and work ethics of many members of the workforce, including those in the public and parastatal sectors. This problem also retards Botswana's development, and its efforts to internationally, create productive jobs and profitable opportunities and for Batswana entrepreneurs.

Botswana has in the past initiated a number of programmes and strategies to remedy the above capacity constraints in Government. These include national manpower development planning and human resources development strategies that ameliorate the manpower shortages, and institutional reforms and productivity improvement programmes that remedy the productivity problems. Key among these initiatives is the introduction of the Performance Management System within Government, along with the introduction of the Performance Based Reward System. The Botswana Government has invested heavily in human resources development programmes, with the education budget taking up 25 percent of the total budget. Government has also adopted a National Privatisation Policy, which is aimed primarily at achieving productivity improvements in the economy. A National Privatisation Master Plan has been approved by Government. In addition, Government has been moving ahead with the establishment of new regulatory authorities, which aims to produce the best international practice in the areas where government intervention and/or regulation is needed in order to ensure an efficient and equitable enterprise environment.

As noted above, Botswana's institutional reforms, including legal reforms, which it has proposed to implement during NDP 9, are aimed at enhancing the country's ability to achieve the SADC macroeconomic convergence targets. These reforms are likely to impact on the efficiency of the public sector and the international competitiveness of the private sector. However, there is concern that delays in implementing the reforms will also delay Botswana's ability to accelerate its growth rate up to the SADC target, as well as up to the rate needed to achieve the Vision 2016 target for per capita incomes.

6.3 Botswana's Political Priorities

Botswana has a multiparty constitutional democracy, free and fair elections are contested every five years with civil and political rights that are entrenched under the Constitution. One of the political priorities is to ensure that there is freedom of association, of worship and of expression in a competitive, multiparty system, with universal adult suffrage. The voting age is a minimum of 18 years. Botswana emphasizes an open and free electoral process in which all citizens, irrespective of gender, social background, race, colour, or economic status, are able to contest political office at both the national and local government levels as one of its top political priorities.

In order to ensure that the political priorities that the economy pursues are not overtaken by time and global dynamics, Botswana has, since 2000, amended various Acts, to remove discrimination, and enhance the position of women. This follows from the inauguration in 1999 of the Botswana National Council for Women (BNCW), which advises the government on matters relating to women. As one of its priorities, Botswana shows respect for the rights of women through the existence of both official (Division of Women's' Affairs in the Ministry of Labour and Home Affairs) and unofficial women's associations (such as Women, Law and Development in Southern Africa) that operate freely in the political system. Women's representation in parliament has also been increasing. Special election has boosted women's parliamentary representation, and their elevation to ministerial positions has ensured their enhanced participation in national (political) decision-making.

The foregoing indicates that Botswana follows a liberal democratic political tradition despite the fact that single party dominance has characterised the political system since independence, which is non-discriminatory and socially inclusive.

6.4 Botswana's Trade Policies and the Processes of SADC Integration

Botswana is an active member of the Southern Africa Development Community (SADC) and the Southern Africa Customs Union (SACU), as well as the African Union. Botswana has traditionally enjoyed good relations with the EU and values its participation in the Cotonou Agreement and the ACP group. Botswana is a signatory to the successive Lome' Conventions and to the Cotonou Partnership Agreement. The sections below give a brief highlight of Botswana's membership in these agreements and the effects they have on Botswana's macroeconomic performance, as well as their implications for the regional integration process.

6.4.1 Southern Africa Customs Union (SACU)

Botswana is a member of the SACU agreement, this agreement has governed its Botswana's trade policy for the past four decades. The Agreement provides for the free movement of goods and the right of transit among and through member states. The members of SACU comprise of South Africa and its smaller BLNS neighbours (Botswana, Lesotho, Namibia and Swaziland). The original SACU agreement of 1910 has undergone a series of revisions to ensure that the needs of the BLNS countries are met, as well as to take into account changes that have occurred in the trade patterns of the member countries, such as the revisions which aimed to increase the share of the revenue that other SACU members were getting from the revenue pool, the effects of concentrated production in South Africa, and the loss of sovereignty over the trade and excise policy.

Within this agreement, Botswana faces challenges in as far as revenue from the pool is concerned. SACU revenue may decline and may be further reduced by new preferential trading agreements, notably the EU-SA FTA and the implementation of the SADC FTA and by reductions in the common external tariff of SACU. The Agreements which Botswana is a member to will also increase competition in the South African market, which will reduce some of the benefits Botswana enjoys by being in a customs union. These dynamics obviously have implications for the macroeconomic environment of Botswana as they stand to affect the revenue that Botswana has been gaining from its membership to SACU. This revenue has been used to pursue Botswana development objectives.

European Union-South Africa Free Trade Agreement (EU-SA FTA) On January 1, 2000 the EU-SA FTA went into practice (apart from continuing disagreements over wine, spirits and fisheries, which do not affect Botswana). Because of the strong economic ties to South Africa through SACU, the Agreement means that the BLNS countries are obliged to accept de facto free trade with the EU. The Agreement is asymmetrical in both timing and content. The EU will liberalise 95 percent of its imports from South Africa within a 10-year transitional period, while South Africa will liberalise 86 percent of its imports from the EU within a 12-year transitional period. It provides for the protection of South Africa's and the BLNS's sensitive sectors and commits the EU to provide support for SACU adjustment to the FTA.

There are implications of this agreement for Botswana which translate into macroeconomic impacts. Since the SACU countries share a common external tariff, reductions in tariffs will reduce customs revenue, and cause transitional unemployment and idle capacity in industries due to competition from the EU in the South African market. The Agreement has the potential to create substantial welfare gains through "dynamic" increases in total factor productivity and higher levels of investment. However, such benefits are only attainable in the long run and are a function of many other macro-economic adjustments. The benefits are unlikely to offset the loss in revenue.

6.4.2 SADC Free Trade Agreement

Botswana is a member of SADC, which started implementing a free trade agreement on September 1, 2000. The intention of the free trade agreement is that by 2008, trade in products considered less sensitive will be liberalised. This will free 85 percent of intra-SADC trade from tariffs. From 2008 to 2012, trade in the sensitive products will be liberalised.

Botswana, by being a member of SACU, will have to front-load implementation of the FTA (open markets faster). The impact on

Botswana's macro economy involves the potential for the agreement to increase intra-SADC trade. Also, producers are expected to benefit from a larger export market of the combined population of over 200 million people in the SADC region. The agreement is also expected to lead to increased interest in Botswana as a gateway to the region. The country's economic and political stability should attract foreign investors who want to export to the region.

The SADC FTA will reduce customs revenues upon which many SADC countries are heavily dependent. The direct impact on SACU is minor, since imports from non-SACU SADC members form a small proportion of total SACU imports. The most serious implication of the agreement for the BLNS countries is the increased competition in the SACU market (especially from Zimbabwe and Mauritius). The business community has expressed concern that there are non-tariff measures that impede the movement of cargo by land transport. The SADC countries have not yet committed themselves to removing non-tariff barriers. The continued presence of non-tariff barriers has a potential to contribute to the for failure of establishment of an FTA.

6.4.3 Trade Relations with the European Union

Botswana has had long standing trade relations with the EU. But now these trade relations with the EU have been complicated by the EU-SA FTA. As a signatory to the Lomé Convention (now Cotonou), Botswana has access to the EU market for most of its products on non-reciprocal terms. Because of the EU-SA FTA and the strong economic ties with South Africa, Botswana ends up participating in a reciprocal FTA with the EU. However, the Lomé Convention expired on February 29, 2000. On June 23, 2000 the EU and ACP countries (excluding South Africa) signed a new partnership agreement in Cotonou, Benin, replacing the Lomé IV Convention. The agreement specifies arrangements for negotiating how to replace the non-reciprocal preferential (Lomé) regime with WTO-compatible (reciprocal) Economic Partnership Agreements (EPAs). The new agreement is a 20-year accord under which the current Lomé trade terms will be extended at least through 2008 (see Table 9).

Table 9: Cotonou Agreement Timetable

Feb. 2000 - Sept. 2002	Preparation for negotiations maintained if	• Lomé trade terms granted waiver by the WTO
Sept. 2002 - Dec. 31, 2007	EU-ACP negotiations	• Lomé trade terms maintained if granted waiver by the WTO If granted, waiver on Lomé trade terms expires on Dec. 31, 2007
Jan. 1, 2008 - 2020	Implementation of EPAs	• ACP signatories of EPAs to open their markets to EU imports leading to reciprocal free trade between the EU and ACP states. • LDCs who do not sign EPAs keep Lomé trade terms(a) Non-LDCs who do not sign EPAs get GSP(b)
From 2020	Reciprocal EPAs	• EU-ACP FTA for signatories of EPAs

Note: (a) Least Developed Countries; (b) Generalised System of Preferences

The Cotonou Agreement retains three of the four commodity protocols: sugar, beef and veal. The only immediate changes are the abolition of STABEX (which limited the harmful effects of instability of agricultural commodity export earnings), SYSMIN (financing facility for states with significant mining sectors), and the rum protocol. Botswana has benefited from SYSMIN finance for the copper-nickel mine at Selebi-Phikwe.

The Agreement will make regional integration among the SADC countries, which Botswana is a member of, more complicated because of the different treatment to be given to LDCs in SADC (Angola, Lesotho, DRC, Malawi, Mozambique, Tanzania and Zambia) and non-LDCs (Botswana, Mauritius, Namibia, Seychelles, Swaziland and

Zimbabwe). The ongoing reform of the European Commission, in the context of changing economic and political priorities of the Union, may also influence (negatively) future EU trade negotiations with the ACP. Also, like the other SADC countries, Botswana has inadequate capacity in negotiating for such a complex trade arrangement.

6.4.4 Trade Relations with the United States of America

The USA accounts for around 1 percent of Botswana's exports and under 2 percent of its imports. It should, however, be noted that although the bulk of Botswana's diamonds go initially to the UK, it is estimated that half of global diamond sales in recent years have been sent to the USA. Trade with the USA was governed by the Generalised System of Preferences (GSP). However, on May 18, 2000, President Clinton signed into law the African Growth and Opportunity Act (AGOA). The Act extends GSP for eligible Sub-Saharan African beneficiaries until September 30, 2008. Eligibility is based on countries having established, or making continued progress toward establishing, among other things: (i) market-based economies; (ii) elimination of barriers to U.S. trade and investment (i.e., provision of national treatment to US investment); (iii) protection of intellectual property; (iv) policies to reduce poverty; (v) protection of human rights and worker rights; and (viii) elimination of certain child labor practices. In addition, the designated country should not engage in activities that undermine US national security or foreign policy interests.

Though Botswana has benefited in that it has been able to export some of its textile products under the AGOA umbrella, market access will not be limited and textile exports would be carefully regulated. Duty-free and quota-free access for apparel is restricted to products made from U.S. fabric, yarn, and thread. Apparel imports made with regional (African) fabric and yarn are subject to a cap of 1.5% of overall USA apparel imports. AGOA specifies only one cap, which is not further sub-divided. It is conceivable that a beneficiary country or countries with a strong apparel manufacturing sector could monopolise the benefits available before others are able to establish the infrastructure and the required visa system (documentation to prevent illegal transshipment and procedures to prevent use of counterfeit documentation).

6.4.5 World Trade Organisation

In principle, WTO membership allows countries to participate fully in the WTO process and in decisions about the future development of the global trading system. In practice, however, SADC countries, which Botswana is a member of, face a number of obstacles the impede effective participation. Most of the countries in the region, including Botswana are unable to: (i) fully understand and internalise the implications and constraints of WTO Agreements; (ii) formulate and pursue trade and development strategies consistent with their WTO obligations; and (iii) assert and defend their trade-related rights against infringements.

The lack of capacity makes it difficult to draft appropriate legislation and regulations, meet the requirements for procedural notifications, staff government institutions with technical personnel able to implement the policies and commitments undertaken, and monitor trading partners' implementation of WTO obligations.

6.5 Impact of WTO Rules on Botswana's Integration

Botswana attaches great importance to its WTO membership and is committed to a liberal and fair trade regime. This is reflected in the various notifications that Botswana made to the WTO that it recognizes the need to implement legislation on anti-dumping, safeguards and countervailing measures. Enhancing Botswana's capacity to develop such rule-based trade measures may help reduce the scope for disruptions and reforms. It can also contribute to stable and predictable trade policies within the SACU region. Botswana needs assistance in identifying measures that are WTO consistent, and that do not introduce inefficiency in its export and FDI promoting policies that are not currently harmonized across SACU. In this regard, assistance in developing a WTO-consistent set of policies amongst members will contribute to strengthening SACU by ensuring that its members do not engage in practices that could cause injury to regional partners.

As noted above, Botswana, like other SADC countries, faces a challenge to implement trade agreements that it is a signatory to, while at the same time, ensuring that the agreements are WTO compatible. The required rules in the WTO system emphasize the removal of all trade obstacles progressively and this has effects for developing countries like Botswana, which at times need to protect their industries which are at the early stages of development and face tariff losses and revenue shocks from fast liberalization. The erosion of trade preferences for developing countries in WTO negotiations is quite a challenge which impacts on the macroeconomic and development fabrics of developing countries like Botswana which have benefited from the trade preferences offered but are now declining as a result of liberalization. For Botswana to benefit from the liberalization process as required by the WTO system, it is imperative that the resources, capacity and expertise to negotiate a beneficial liberalization for Botswana be made available.

Related to this issue is the complexity involved in the negotiation processes on the time frame envisaged for progressive removal of trade obstacles which may not necessarily favour Botswana. While the WTO rules and objectives in their generality and principle favour Botswana's macroeconomic policy objectives on its liberalization process and the need to attract productive FDI inflows, their pursuit of assisting developing countries with their integration into the world trading system, enhancing and increasing supply and production capacities of developing countries, as well as the competitiveness of their products in world markets, the negotiation process is quite complex and requires expertise to maximize the benefits that Botswana's integration into the global system may confer. One of the major implications for Botswana's integration within the region is to ensure that the implementation of the agreements to which it is signatory to are not in violation of the WTO rules of origin where there are already complexities in the application of WTO rules of origin. More flexibility and ease of understanding in the application of the rules would surely increase the benefits of trade for developing countries such as Botswana.

Also, a balanced and more transparent trading system would enhance the benefits of trade for all participants and within the WTO rules. An analysis of the implementation of agricultural subsidies, that the playing field was not fair as WTO was protecting agricultural activities in developed countries through high tariffs. These dynamics reflect the importance of having expertise and capacity to handle trade negotiations with the WTO and also to have concerns that affect developing countries being addressed effectively and timeously in the global trading system.

6.6 Botswana's Progress Regarding the Implementation of the SADC Trade Protocol

Botswana has achieved significant progress in the attainment of most of the objectives of the SADC Trade Protocol, notably on the gradual reduction of tariffs. Botswana's achievements have largely been driven by the liberalisation process and faster pace in the SACU Agreement. The SADC trade protocol aimed to reduce tariffs within a period of eight years, commencing in 2000. Botswana and other members of the Southern African Customs Union (SACU) have undertaken to implement the SADC Trade Protocol as a unit and have emerged as countries at the top of the liberalisation process through tariff reductions, with over 50% of products now being traded duty free.

For the implementation of the Trade Protocal to be a success that need to be resolved, not only for Botswana, but also for other SADC countries in the region there are still some issues such as; rules of origin and definitions.

6.7 Trade Flow Analysis

Botswana's trade pattern is dominated by South Africa, mainly as a result of the SACU Agreement, which has governed its trade policy since independence. The SACU Agreement has had a major impact on Botswana's trade structure, where South Africa more developed country among the other SACU members has acted as the major market for exports of the BLNS countries, as well a the major source of imports. Other markets that Botswana has accessed include the EU market. This was as a result of the preferential access that the then Lome Convention and now the Cotonou Agreement offered developing countries. Following the implementation of the African

Growth and Opportunity Act, Botswana's trade with the USA, particularly on textile products, has increased. These trade agreements have played a role in the pattern of trade and its flow among the various countries that Botswana either export to or import from.

Diamonds dominate exports, accounting for 85% of the exports in 2001. Other exports include mainly meat, copper/nickel, soda ash, textiles and vehicles (mainly Volvo tractors after the Hyundai assembly closed in 2000). Exports are also heavily concentrated in two geographical regions. Europe, especially the United Kingdom, accounted for 85% of exports in 2001, while SACU members, mainly South Africa, accounted for 10% of merchandise exports in 2001.

Table 10: Exports by Major Commodity and Destination, 1996 and 2001 (US$ million and percent)

Commodity/ Destination	1996		2001	
	Value	**Share**	**Value**	**Share**
Commodity	**1745**	**85.7**	**2047**	**90.1**
Mining:				
Diamonds	1597	78.5	1937	85.2
Nickel/Copper	125	6.1	70	3.1
Soda Ash	23	1.1	40	1.8
Non-mining	291	14.3	-	9.9
Meat	85	4.2	73	3.2
Textiles	59	2.9	43	1.9
Other	147	7.2	110	4.8
Total	**2035**	**100**	**2274**	**100**
Destination				
SACU	372	18.3	236	10.4
Other Africa	75	3.7	80	3.5
Zimbabwe	63	3.1	54	2.4
Europe	1564	76.7	1925	84.7
United Kingdom	1106	54.3	1512	66.5
United States	19	1.0	16	0.7
Other	5	0.3	17	0.7
Total	**2035**	**100**	**2274**	**100**

Source: Botswana Trade Policy Review

Imports come mainly from the Southern African (SACU) region and largely include food, vehicles, fuels, chemicals, wood, textiles, metals and other goods.

Table 11: Imports by Commodity and Source, 1996 and 2001

Commodity/ Destination	1996		2001	
	Value	Share	Value	Share
Commodity				
Food, beverages and tobacco	294	16.9	264	14.0
Wood and paper products	127	7.3	153	8.1
Textiles and footwear	129	7.4	112	5.9
Chemical and rubber products	178	10.2	176	9.3
Fuel	111	6.4	81	4.3
Metal and metal products	153	8.8	164	8.7
Machinery and electrical equipment	280	16.1	401	21.2
Vehicles and transport equipment	245	14.1	257	13.6
Other	221	12.7	282	14.9
Total	**1739**	**100**	**1891**	**100**
Destination				
SACU	1356	78.0	1448	76.6
Other Africa	107	6.1	79	4.2
Zimbabwe	100	5.7	74	3.9
Europe	118	6.8	174	9.2
United Kingdom	45	2.6	51	2.7
Republic of Korea	76	4.4	49	2.6
United States	22	1.3	35	1.8
Other	60	3.4	106	5.6
Total	**1749**	**100**	**1891**	**100**

Source; Trade Policy Review

6.7.1 Trade within SADC

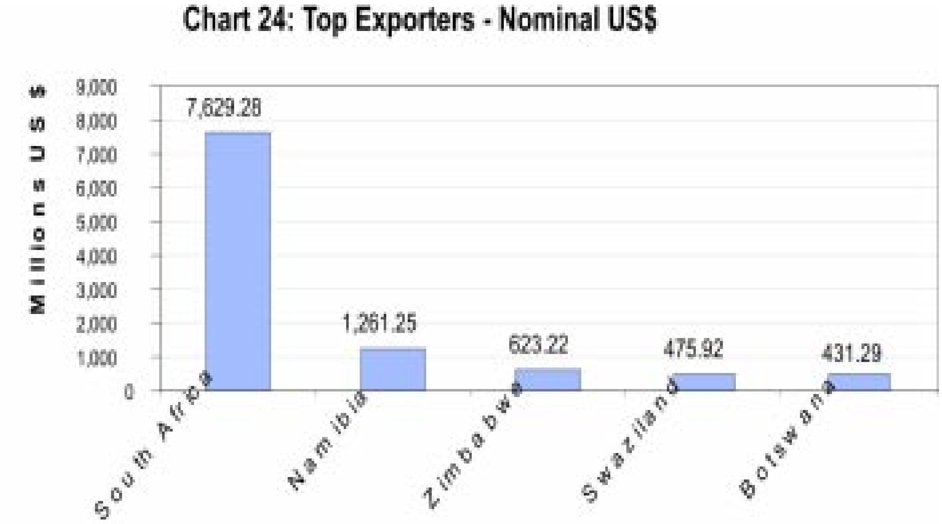
An analysis of intra-SADC trade flows indicates that South Africa, Zimbabwe, and Botswana dominate the bulk of intra-SADC trade. There is little trade among the other SADC countries. The low value of intra-SADC trade is because SADC countries are producers of similar agriculture and mineral exports for world markets (with little domestic value-added), which is reflected in the export pattern in the region. Even within the more established SACU, trade centers only around South Africa.

Table 12: 1998 Intra-SADC Exports

	Nominal US$		
Country	**South Africa**	**Total**	**Position**
South Africa	-	7,629,278,605	1
Namibia	1,174,512,525	1,261,251,192	2
Zimbabwe	251,719,678	623,215,656	3
Swaziland	475,916,560	475,916,560	4
Botswana	349,236,716	431,288,885	5
Malawi	98,828,301	130,356,041	6
Zambia	50,718,605	127,952,336	7
Lesotho	86,985,041	87,192,736	8
Mozambique	41,568,956	67,762,739	9
Angola	51,425,673	51,815,707	10
Tanzania	6,731,051	27,811,934	11
Mauritius	8,352,353	21,176,037	12

Source: BIDPA, 1999.

Table 12 gives 1998 total values of exports in the region and to South Africa (the main regional export destination) from individual SADC countries in nominal US dollar values. The top exporters in the region are South Africa, Namibia, Zimbabwe, Swaziland and Botswana. South Africa is by far the largest exporter in the region. In 1998 it exported a total of US$7.6 billion. The bulk of its exports went to Botswana (US$1.8 billion) and Namibia (US$1.3 billion). Namibia was the second largest exporter in the region with total exports valued at US$1.3 billion.



Most of Namibia's exports went to South Africa (US$1.2 billion) and Swaziland (US$61 million). As the third largest exporter to the region, Zimbabwe exported US$623 million, out of which US$251 million was exported to South Africa and US$133 million to Zambia. Swaziland and Botswana exported US$475 million and US$431 million, respectively. Both countries exported largely to South Africa.

Table 13 shows the extent to which individual SADC countries are dependent on the region for their exports. Swaziland emerges as the country that is most dependent on the region for its exports. In 1998 it exported 60 percent of its total exports to the region (entirely to South Africa). The second is Lesotho (which exported 56 percent to the region), followed by Namibia (39 percent), Zimbabwe (31 percent), South Africa (26 percent), Mozambique (25 percent), Botswana (20 percent), Malawi (21 percent), and Zambia (14 percent).

Table 13: Intra-SADC Trade Dependency

	Angola	Botswan	Lesotho	Malawi	Mauritiu	Mozamb	Namibia	RSA	Swazilan	Tanzani	Zambia	Zimba
Angola		0.02%	0.00%	0.01%	0.00%	0.11%	0.52%	0.67%	0.00%	0.01%	0.01%	0.26%
Botswana	0.00%		0.12%	1.03%	0.03%	0.23%	0.01%	6.26%	0.00%	0.05%	0.31%	4.22%
Lesotho	0.00%	0.01%		0.00%	0.03%	0.00%	0.00%	2.91%	0.00%	0.00%	0.00%	0.03%
Malawi	0.00%	0.07%	0.00%		0.10%	2.34%	0.04%	0.75%	0.00%	0.65%	2.36%	3.44%
Mauritius	0.00%	0.00%	0.01%	0.01%		1.78%	0.00%	0.64%	0.00%	0.00%	0.01%	0.28%
Mozambi	0.00%	0.03%	0.00%	0.85%	0.02%		0.09%	1.65%	0.00%	0.03%	0.01%	1.68%
Namibia	0.00%	0.52%	0.00%	0.00%	0.00%	0.00%		5.46%	0.00%	0.01%	0.24%	1.16%
South A.	0.90%	16.55%	55.83%	16.09%	0.49%	15.31%	35.98%		60.25%	1.14%	5.36%	12.59%
Swaziland	0.00%	0.03%	0.00%	0.00%	0.00%	0.00%	1.88%	2.74%		0.00%	0.00%	0.08%
Tanzania	0.00%	0.02%	0.00%	0.34%	0.18%	1.83%	0.01%	0.64%	0.00%		1.63%	0.72%
Zambia	0.00%	0.32%	0.00%	1.83%	0.01%	0.13%	0.02%	1.31%	0.00%	0.62%		6.70%
Zimbabwe	0.01%	2.86%	0.00%	1.06%	0.39%	3.22%	0.09%	3.36%	0.00%	2.22%	3.59%	
Total	**0.90%**	**20.43%**	**55.97%**	**21.23%**	**1.24%**	**24.96%**	**38.64%**	**26.40%**	**60.25%**	**4.73%**	**13.51%**	**31.16%**

Source, BIDPA 1999

The countries that are least dependent on the SADC region for their exports are Angola, Mauritius and Tanzania. In 1998 their exports to the region as a proportion of total exports were 0.9 percent, 1.2 percent and 4.7 percent, respectively.

It is evident from Table 12 that the SADC countries that export significantly to the region (with the exception of Zambia) are dependent on the South African market (which is by far the largest market in the region). This is particularly true for the smaller countries, Swaziland and Lesotho. Of the major exporters to the region, only Zambia displays an export profile that is more diversified than the rest. While most of the SADC countries that trade significantly within the region are dependent mainly on one market (South Africa) or at most two markets (and Zimbabwe to some extent), Zambia is the only country in the region whose exports to the region are divided among more than two countries (South Africa, Zimbabwe and Malawi).

Outside SACU, Zimbabwe is the only country in Southern Africa that trades significantly with the other SADC countries. The SADC region accounts for about 31 percent of Zimbabwe's exports (Table 12). Exports to South Africa account for about 13 percent of its total exports. Other important regional trading partners include Zambia, Botswana and Malawi. The growth in trade with Botswana and Malawi is due to the trade agreements signed with these countries.

The key features of trade within SADC can, therefore, be identified as follows:

- There is very low intra-SADC trade. Intra-SADC trade centers on South Africa with each SADC country trading more with South Africa than with any other SADC country. This is a result of the relatively sophisticated manufacturing sector in South Africa.
- Intra-SADC trade is important for Swaziland, Lesotho, South Africa, Namibia, Zimbabwe, Mozambique, Botswana, Malawi, and Zambia (in order of importance).
- Intra-SADC trade is not significant for Angola, Mauritius and Tanzania, who trade mainly with the EU and USA.

6.7.2 Trade with the Rest of the World

Table 14 gives the value of 1998 exports to the USA, Europe and rest of the world in nominal US$. Europe is by far the major export destination for the SADC countries. The European destination is largely due to the preferences under the Lome' Convention and to some extent colonial ties to Europe. The only exception is Angola, which exports largely to the USA. This is due to oil exports, which is by far Angola's largest export commodity.

Table 14: SADC Exports to the Rest of the World (US$)

	Europe	USA	ROW	Total (minus SADC)
Angola	591,425,627	2,227,909,091	2,871,150,425	5,690,485,143
Botswana	1,224,645,880	21,816,881	432,908,251	1,679,371,012
Lesotho	346,550	67,399,411	853,594	68,599,554
Malawi	171,115,006	58,818,182	253,747,601	483,680,789
Mauritius	1,224,110,221	284,884,693	173,932,385	1,682,927,299
Mozambiq	113,420,000	25,000,000	65,310,000	203,730,000
Namibia	499,470,685	52,136,847	1,451,624,960	2,003,232,492
South Africa	8,429,422,602	2,007,034,295	10,835,343,470	21,271,800,368
Swaziland	n/a	n/a	n/a	313,949,366
Tanzania	239,112,915	13,454,967	308,040,870	560,608,751
Zambia	283,175,212	43,454,545	492,519,600	819,149,357
Zimbabwe	677,985,790	128,752,180	569,785,626	1,376,523,596
Total	13,454,230,487	4,930,661,092	17,455,216,782	36,154,057,727

Source: BIDPA, 1999.

The major exporters to the rest of the world are South Africa, Angola, Mauritius, Botswana and Zimbabwe (Table 13). South Africa is the largest exporter outside SADC. In 1998 her exports reached US$21 billion, followed by Angola (US$5.7 billion), Mauritius (US$1.7 billion), Botswana (US$1.68 billion) and Zimbabwe (US$1.4 billion).

6.7.3 SADC Trade Projections

Table 15 indicates trade projections among the SADC countries from the year 2000 to 2006. 5 percent is the growth rate used to project the growth of exports.[4] The projections indicate that intra-SADC exports are expected to increase from US$8.5 billion in 1998 to US$9.1 billion in 2000 and to US$12.2 billion in 2006.

Table 15: Intra-SADC Export Projections - US$

	2000	2002	2004	2006
Angola	55,494,623	61,182,821	67,454,061	74,368,102
Botswana	461,910,396	509,256,212	561,454,973	619,004,108
Lesotho	93,383,420	102,955,221	113,508,131	125,142,715
Malawi	139,611,320	153,921,480	169,698,432	187,092,521
Mauritius	22,679,536	25,004,188	27,567,118	30,392,747
Mozambique	72,573,894	80,012,718	88,214,021	97,255,958
Namibia	1,350,800,027	1,489,257,030	1,641,905,875	1,810,201,228
South Africa	5,579,419,682	6,151,310,199	6,781,819,495	7,476,955,993
Swaziland	29,786,582	52,839,706	36,205,776	39,916,868
Tanzania	29,786,582	32,839,706	36,205,776	39,916,868
Zambia	137,036,952	151,083,240	166,569,272	183,642,622
Zimbabwe	667,463,968	735,879,025	811,306,625	894,465,554
Total	**9,119,869,035**	**10,054,655,408**	**11,085,257,384**	**12,221,496,062**

Source: BIDPA, 1999

Of course it is unrealistic to assume that all the countries' exports will be growing at the same rate of 5 percent per annum. With the implementation of the SADC free trade area in the year 2000, especially given the fact that the SACU countries will reduce their tariffs faster than the rest of the SADC countries, the non-SACU SADC countries may increase their exports to the SACU member countries (particularly South Africa) faster than the SACU countries. Growth in exports for individual countries will also depend on the extent to which the countries deal with supply constraints (see constraints addressed in the conclusion). In that respect the projected rate of increase used in this report should be considered as a baseline.

6.8 Summary of Trade Facilitation Initiatives

Import trends indicate that the import of machinery constitute a significant part of imports. Botswana also relies heavily on imported

[4] A 2% increase in exports was used for 1999 and 5% for subsequent years consistent with the requirements of the assignment (BIDPA, 1999).

inputs to produce manufactured exports. Given the importance of imports in the success of the export-led growth strategy and the need to develop competitive export products, delays and inefficiencies in transport and clearance of goods may adversely affect production, increase costs and thwart efforts to achieve sustainable economic growth and diversification. Timely delivery of imported goods, particularly for a country that significantly depends on imported inputs and machinery is crucial for export-oriented industries. While NDP 9 is not specific on what measures should be put in place to create an enabling business environment, it does point out the need for the private sector to be competitive and to penetrate global markets. It is increasingly being acknowledged that as international trade increases, it is crucial to have among other measures, efficient customs clearance to ensure a cost effective business environment.

Like other countries in the region which consider trade facilitation an important factor in attracting FDI, a number of trade facilitation initiatives on trade are ongoing in Botswana. Institutions, such as the Botswana Export Development and Investment Authority (BEDIA) and the Botswana Export Credit Insurance and Guarantee Company (BECI), have been formulated mainly to facilitate the trade and investment initiatives of the country.

The Botswana Trade and Poverty Programme is at its formative stages with the main objective being to identify the trade and poverty links that may be explored in trade facilitation. Some developments that are still underway that should ultimately lead to a smooth trade environment include the development of the Competition Policy, which would play a role in fostering a competitive trade environment. Research work that focuses on identifying the regulatory and administrative costs of doing business in Botswana by the World Bank Foreign Investment Advisory Service in conjunction with BIDPA, has been completed and various recommendations on improving the cumbersome regulatory and administrative issues, such as on licensing, work and residence permits, as well as export and import restraints, are being considered by Government. Botswana is also currently in the process of revising various policies, programmes and regulations that act as impediments to trade and development, such as in the Department of Customs and Excise which plays a crucial role in trade facilitation. Botswana has streamlined its customs procedures and has adopted the Automated System for Customs Data (ASYCUDA) system. A total of 14 customs stations (all commercial border posts and 5 regional offices) have been computerized, allowing for clearance of commercial goods to take a shorter time. A number of other initiatives include achieving transparency in customs procedures and attaining a reduction in the cumbersome paper work at borders which are still not computerized. In August 2005, the Department of Customs and Excise was merged with the Department of Taxes to form the Botswana Unified Revenue Service as a way of enhancing the collection of tax revenue and effectiveness of the system and procedures. A pilot project on the use of a computerized system for goods on transit is also currently in progress.

There are still a number of trade facilitation initiatives that Botswana has to undertake with regard to the permit systems, restrictions on capital and financial services in areas such as Animal Health and Production, health and safety, crop production and forestry and, more importantly, on quality standards.

6.9 Barriers to Trade with Other Countries in the Region

Botswana's trade has largely been with South Africa within the SACU agreement arrangement and, to a significant extent, has reflected heavy reliance on imports from the South African market. The lack of a developed industrial sector and formation of sectoral linkages has acted as a major constraint on Botswana's trade with other countries. The limited industrial base is a barrier to the ability and capacity of the economy to exploit other trade opportunities with other SADC countries in the region. Botswana's productive capacity is quite small and the export profile is quite limited and dominated by diamond exports, which are not exported to SADC countries. The low productive capacity constrains Botswana from exploiting the benefits of trade in the region, since it ultimately translates into a lack of supply potential.

Another important barrier on Botswana's trade capacity is the small domestic market which has negative implications for more productive investments that could play a role in enhancing the nation's trade profile with other countries in the region. Research on the business environment in Botswana has identified the lack of a competition policy as a one of the major barriers to trade. The change in the international and regional business environment, especially the continued reduction of trade barriers between countries, means that there is greater need to improve productivity and efficiency to maximise the benefits from trade and exchange. Competitive market pressure encourages firms to operate efficiently in order to survive and, as such, competition policy plays a crucial role in ensuring the proper functioning of the economy. Competition policy should also be consistent with other policies, such as industrial development policy, privatisation policy and SMME policy.

Other barriers to trade that have been identified include the high transport costs and cumbersome regulatory and administrative procedures and undeveloped infrastructure. Lack of experienced and trained manpower is one of the barriers to trade in Botswana. A summary of the barriers from the World Bank/BIDPA 2004 survey of 200 firms in various sectors of the economy identified a number of sector specific barriers to entering or for effective trading in the Botswana market as shown in Table 16 below.

Table 16: Barriers to Trade and Market Entry in Botswana from a Firm Level Survey

	Finance	Whole-sale	Manufac-turing	Trans-port	Construction	Hotel & Restaurants	Total
Technological	0%	17%	67%	8%	0%	8%	100%
Finance	10%	23%	37%	17%	7%	7%	100%
Shortage of Skills	12%	21%	38%	18%	6%	6%	100%
Legal Restrictions Regulatory	29%	14%	29%	14%	0%	14%	100%
Restrictions	63%	13%	0%	13%	0%	13%	100%
Price Control High Start-up	50%	0%	50%	0%	0%	0%	100%
Costs	15%	27%	38%	8%	8%	4%	100%
High Equipment costs	8%	8%	56%	8%	12%	8%	100%

Source, BIDPA, 2004.

Table 15 shows that prevailing regulatory and legal restrictions, shortage of skills and inadequate infrastructure and the high costs of doing business are among the major barriers to trade in the economy. In this regard, these barriers affect Botswana is potential on trade by first deterring trade in the domestic market which can ultimately be a growth engine to trade with other countries with a varied range of products from more market entrants.

There are however, efforts that need to be acknowledged on the part of the government to address the barriers highlighted above. Of particular importance is the national development planning process which emphasizes the need to promote other industries besides mining so that they can contribute to Botswana's trade. The development of the competition policy legislation is currently on going as well as the national export strategy policy. Other important research work aimed at enhancing Botswana's trade is the investment on research that identifies possible trade opportunities that Botswana can venture into.

6.10 Implications of Membership Overlaps

There are a number of challenges that Botswana faces as a result of the changes that have occurred on its external trading environment. The global trading environment has changed dramatically since the 1980s with proliferation of regional trading arrangements, the increased role of the World Trade Organisation (WTO) and IMF/World Bank imposed structural adjustment programs that have accelerated the process of opening developing countries' domestic markets to imports and reducing tariffs. In the context of Botswana and Botswana's membership to regional and multilateral trading organisations the country is required to negotiate and implement six trading agreements simultaneously as summarized in Table 17 below. The impacts of the negotiations on the macroeconomic fabric of the economy and the extent of overlaps are also indicated in the table. It is envisaged that the agreements will reduce the prices of imported raw materials and other imported goods, and may have other longer-term benefits that will benefit Botswana. Also, there would be negative impacts that will arise from the agreements, such as the possible negative impacts on Government revenue and on employment. Overall, the successful implementation of the agreements will ultimately have a positive impact on increasing competition.

Table 17: Trading Agreements of Interest to Botswana, Status and Impact

Agreement	Status	Impact
1. SACU	• Agreed framework for revenue sharing and institutional arrangements	• Democratisation of SACU • Reduction in income from the SACU revenue pool
2. SADC FTA	• Implementation Services negotiations to start	• Minor revenue loss • Increased market competition in the South African market Expanded market Lower prices
3. EU-SA FTA	• Implementation (most parts) • Wine and Fisheries Agreements not yet concluded	• Revenue loss • Market share loss in SACU • Lower prices
4. Cotonou Agreement (post Lomé)	• Negotiations to start in September 2002	• Revenue loss • Increased market competition in Botswana and the EU
5. AGOA (African Growth and Opportunity Act)	• Product list announced in Dec. 2000 Implementated in January 2001	• Increased exports to the USA • May weaken Botswana's rights in the WTO on issues such as TRIPs(a), TRIMs (b), labour standards and environment
6. WTO	• Implementation (TRIPs(a), TRIMs(b), Customs Evaluation, etc.) • Negotiations (Agriculture and Services) • New round of negotiations	• Increased Government expenditure for implementing the agreements • Elimination of government support and incentives

Note: (a) Trade Related Intellectual Property Rights; (b) Trade Related Investment Measures

Source: BIDPA 2002.

As demonstrated above, Botswana is involved in trade negotiations at a number of levels. These include the EU-ACP Cotonou Agreement, SADC, SACU, including the SACU-US FTA and the Doha Development Agenda. The overlapping negotiating agenda entails a need to develop and coordinate negotiating positions. Since negotiations are often a means of strengthening and "locking in" domestic reforms, capacity building should focus on formulating negotiating positions and strategies that are anchored in the domestic reform process.

In relation to multilateral trade negotiations under the Doha Development Agenda, the Government has highlighted services as being a key area for technical assistance and capacity building. Three priority areas for Botswana are financial services, telecommunications and tourism, which have been identified as having a key role in Botswana's economic diversification. Assistance is, therefore, needed to craft offers that are integrated, and to reinforce the Government's strategy in these three sub-sectors in the regional integration and negotiation process involved in the various agreements, which can be quite difficult without the right capacity and expertise.

In the process of harmonizing trade agreements, participating in the various trade agreements and building the necessary capacity and expertise required in trade negotiations, Botswana incurs high costs for negotiations by being a member of overlapping agreements. There are also the costs of time and resource allocations that occur when balancing issues where the agreements are in conflict. This has been notable for Botswana when South Africa was negotiating the EU-South Africa FTA which Botswana and the other smaller SACU members ended up being de-facto members of the agreement since they were members of SACU. The BLNS suffered revenue losses and the costs of adjustments to the new trading relationships, as well as the additional competition that their industries would have to face from EU products that would now compete with their products. This shows that results of overlaps in membership in various trade agreements may have significant resulting in adverse effects on industrial development, competition and growth of industries implications in the regional integration of other countries if they not conducted effectively.

A common result of overlapping membership is conflicting liberalization obligations and requirements in various agreements which can be complex to handle but that a country has to fulfil; for example, in the case of Botswana, where there are liberalisation requirements and schedules under the SADC and Cotonou agreements, as well as the obligations set out under the SACU agreement that have to be met by being a member.

6.11 Botswana's Labour Market Policy Framework

Botswana's labour market has been guided by a number of policies mainly emanating from the 1972 Incomes Policy. In the initial stages of the development of the economy, the market was not allowed to play a major role in the determination of earnings, as almost all formal sector wages and salary earnings were determined by Government through a consultative process. The private and parastatal sector's wages and salaries were tied job to job to the public sector, and these sectors were expected to practice voluntary restraint in terms of wage increases. The incomes policy was revised in 1990, on the basis of the country's changed economic conditions compared to the 1970's. As an outcome of that revision, the new incomes policy had, as its major change, the freeing of private sector wages from being tied to Government pay structure. The only remaining Government intervention for the private sector was the maintenance of minimum wages, which is still applicable. The parastatal sector pay structure was still to be tied to Government in terms of the upper and lower bounds. In between these limits, parastatals were allowed to determine their own pay structure. The revised incomes policy of 1990 was reviewed in 2002/2003 and, if most of the recommendations are taken on board, there will be further liberalisation of the labour market. Among the major recommendations are the need to allow parastatal pay to be determined by productivity and to no longer be pegged the wages and salaries of Government as per the current incomes policy.

As part of the incomes policy, a number of institutions were developed as part of the tripartite system to bring together workers, employers and Government. Some of these institutions are: the National Employment, Manpower and Incomes Council (NEMIC), the Wages Policy Committee (WPC) and the Minimum Wages Advisory Board. NEMIC's terms of reference include monitoring and periodically making recommendations concerning the general levels of Government wages, taking into account the wider impact on employment creation. In addition to NEMIC and in keeping with the undertaking to review public sector wages and salaries periodically, government has reviewed public sector wages and salaries through a series of Salary Review Commissions.

The impact of these salaries reviews commissions on Botswana's industrial relations scene have been far reaching. In formulating the wages policy, Government undertook to review the wage and salary situation regularly, whilst at the same time cautioning the private sector not to anticipate the outcome of such commissions. This meant that the private sector have to wait for the recommendations of the salaries review commission before they could review their own wages and salaries. It was only after the Government had released its White Paper on the agreed changes in the level of public sector wages that the private sector had responded, adopting the same percentage with little or no consultation with the workers' organisations (Mogalakwe 1997). Since pay increases were not a result of either productivity or negotiations between the employers and the employees, collective bargaining was not done. It was only at the beginning of the 1990s that the labour market was deregulated; and it is only now that collective bargaining is being institutionalised. As a result there is still a lot of mistrust between employers and employees, a mistrust that is compounded by the absence of a requirement on the part of the employer to disclose to the workers, information relevant to collective bargaining. This is notwithstanding the fact that Section 50 of the Trade Unions and Employers Act compels an employer to recognise a legally registered trade union as a bargaining partner.

In December 1997, Botswana ratified ILO Convention No. 87 which concerns Freedom of Association and Protection of the Right to Organise; Convention No. 98 concerns the Right to Organise and Collective Bargaining and Convention No. 151 on the Protection of the Right to Organise and the Procedures for Determining Conditions of Employment in the Public service. However, for workers in the public sector to start organising, the government has to amend those aspects of the national laws that curtail the rights and freedoms of public sector workers to give effect to the spirit of Convention No. 151. The necessary amendments to law have been taken to parliament and the process of turning public service associations into unions is still at a negotiating level. In the meantime, wages and terms of conditions of service continue to be dealt with through consultative bodies and there is a complete lack of collective bargaining in the public sector. Labour unions in Botswana are still very weak compared to others in the region. The positive outcome of weak labour unions has been more stable industrial relations with few industrial strikes. That should have served to attract more foreign direct investment, but it has not. Firms still prefer to locate in South Africa despite the militant labour movement and, frequent strikes.

The effectiveness of the tripartite structures of industrial relations is further undermined by the fact that all of them are advisory. That is to say that, although the structures are comprised of the representatives of all the social partners, it is the Ministers that make final decisions. Tripartite structures can only make recommendations to various ministries. The tripartite structures are, therefore, consultative bodies and not negotiating bodies. The difference between consultation and negotiation is an important one. Consultation refers to a process where one party (or partner) seeks the views of the other parties, but retains the right to decide the final outcome without subjecting it to joint agreement with the other parties (Salamon, 1987: 243). On the other hand, negotiation refers to a process whereby parties (or partners) come together in the spirit of collective bargaining, in order to resolve their differences and reach an agreement (ibid). In Botswana, the tripartite structures operate in such a way that they are forums to articulate views of the two main stakeholders, namely, the employers and employees, so that Government, in making a decision, is aware of the views and expectations of the two partners. In other words, the tripartite structure debates issues and generates useful information to enable Government to make informed decisions, but it is Government that makes final decisions. Although the tripartite structures are in place, it seems that there is still room for improvement.

6.11.1 Labour Market Trends

One of its features (which is typical of most developing countries) is that the Botswana economy has a shortage of skilled manpower and a surplus of relatively unskilled labour. Unemployment co-exists with vacant posts, and many skilled labour positions are filled by expatriate personnel. The impressive growth in employment in the 1970s and 1980s was followed by a slowdown in the 1990s, resulting from a combination of a slump in the construction industry, drought, and reduced Government sector growth. The small, medium and micro-enterprises (SMMEs) and the agricultural sector failed to absorb the growth in the labour force. Consequently, unemployment went up from an estimated 14 per cent of the labour force in 1991 to about 21 per cent in 1997 and is estimated at 23.8 percent in the 2002/03 HIES (the unemployed being defined as those who are actively seeking for work). Table 18 shows the reported rates of unemployment in Botswana from 13.9 percent in 1991 to 23.8% in 2002/03.

There is concern that a significant amount of labour is underutilised, including the discouraged unemployed and the underemployed (i.e., those working less than 35 hours a week). Adding the former group to those unemployed and actively looking for work produced an unemployment rate of about 35 percent in 1996; and underemployment was estimated at 8 per cent of those employed. There is also concern that not enough new private sector engines of growth are being developed to create additional jobs and diversify the economy away from the dominance of the diamond industry.

Table 18: Trends in Total Labour Force and Unemployment

Year	Unemployed	Employed	Total Labor Force	Unemployment Rate(%)
1991	61, 625	379, 938	441, 293	13.9
1993-94	107, 723	391, 804	499, 527	21.6
1995-96	94, 528	345, 405	439, 033	21.5
1998	115, 703	441,187	556,890	20.8
2000	90, 729	483, 432	574, 161	15.8
2001	109, 518	449, 235	558, 753	19.6
2002-03	144, 424	462, 401	606, 826	23.8

Source: Calculated/computed from HIES, Census, and LFS

As can be observed in Table 19, unemployment among females is more severe: in 2001, unemployment rates for males and females were 16.37 and 23.85 percent, respectively. Unemployment among females is much higher even though the labour force participation (LFP) rate for females is far lower than that for males. This indicates that if the LFP rates were equal for both males and females, the rate of female unemployment would likely to be much worse than the current situation. In terms of regional distribution, unemployment is highest in urban villages (24.60%), followed by rural areas (17.73%) and lowest in urban towns (15.59%). Thus, although unemployment is a social concern across the country, it is more problematic in urban villages compared to other areas. Moreover, unemployment is most prevalent among the youth aged between 15 and 24 years, indicating that unemployment is a youth problem in Botswana as elsewhere in most developing countries.

Table 19: Unemployment and Labour Force Participation Rate by Gender, Areas and Youth

	Unemployment Rate	Labor Force Participation Rate
Total	19.60	46.97
Gender		
Male	16.37	55.95
Female	23.85	38.78
Area types		
Urban town	15.59	64.62
Urban village	24.60	46.64
Rural	17.73	37.85
Youth (15-24)		
All youth	40.86	36.53
Male youth	34.57	40.46
Female youth	48.03	32.89

Source: calculated from the 2001 census

There are various issues that have been identified as major causes of unemployment in Botswana. Of major concern is the fact that Botswana relies heavily, on for both foreign exchange and growth, on a single sector, whose direct contribution to employment has been small and declining in relative terms over time. The diamond sector is capital intensive, and since no major processing of the mineral was done, until recently the sector has no progressive linkages with the rest of the economy. On the other hand, some of the other sectors that were earmarked for diversification have not lived up to expectations as the country has witnessed a number of business failures and relatively sluggish growth for many of the survivors. Some of the factors found to contribute towards unemployment are shortages of skills, especially entrepreneurship, wrong attitudes towards work, which contributes to low productivity, and lack of finance (BIDPA, 1997; Siphambe, 2003). Studies done on productivity in Botswana indicate that workers have a relaxed attitude towards work; they lack motivation and generally take it easy at work. There have been numerous efforts to address these problems, some of which have been the main task of the Botswana National Productivity Centre. In terms of indirect employment creation, several schemes and programmes have been developed in the past. Some of the previous schemes include the 1982 Financial Assistance Policy (FAP) and SMME programme. However, the survival rate of such firms has been low due to lack of technical, management and marketing skills. The FAP and SMME programmes were, therefore, replaced with the Citizen Entrepreneurial Development Agency (CEDA). Unlike the previous schemes, CEDA is an interest subsidy scheme and not an outright grant. In addition to approving and providing subsidised loans, the agency aims at developing citizen's entrepreneurial and managerial skills. CEDA has so far registered some success in terms of the number of sustainable jobs created. Since its inception, CEDA has approved 1,364 loans valued at P753 million and the projects supported are estimated to have employed 7212 people (Budget Speech 2006). The cost of a single job is, therefore, about P0.1 million. This is a significantly high cost of creating a single job and may not make the country competitive in a regional competitive environment.

There is also a problem emanating from the supply side. The labour force, especially of the youth, has been growing at rates of about 2.4 percent per annum, while employment has been growing at rates between 2.8 percent and 3.1 percent; just slightly above the rate of growth of the population. A large proportion of this labour force is made up of the educated youth, who have attained junior certificate and Cambridge certificate levels of education. They are usually not interested in working in agriculture, and would rather migrate to the urban areas, even though they know that there are limited job opportunities in those areas. The other issue is that they do not have adequate skills, given that the education syllabus is geared towards white collar jobs, that are now very limited in number. It is only in the last 10 years that the country has made major efforts towards developing vocational education to equip the youth with the skills needed in the labour market as the economy transforms from being diamond dependent. We are yet to witness the fruits of the vocational and technical education institutons.

Although statistics show unemployment to be a serious problem in Botswana, it does not seem to be a major social problem compared with the situation in other countries. For instance, until recently, the informal sector appears to have been less developed in Botswana compared to other African countries. Many of the lower paid jobs, such as gardeners and domestic workers, are filled by illegal migrants from other countries, especially Zimbabwe. This could also be a result of the relative strength of Botswana's currency, the pula, against the Zimbabwean dollar, as well as the desperation of the Zimbabweans, given the dire economic situation in their country. The fact that the Botswana population generally maintains high reservation wages, despite high unemployment, seems to suggest that there must be something missing from the picture. One explanation is that many of those who openly declare themselves as being unemployed probably have family support, which allows them to continue looking for a suitable job without revising their reservation wage downwards in the face of unemployment. Many workers are not willing to work for anything significantly below the minimum wage, even if they are unemployed. This has also been exacerbated by the existence of Government relief programmes and social safety nets in general. Workers can afford to remain unemployed and not take up work in agriculture because Government programmes are enough to sustain their day to day living.

6.11.2 Labour Market Policy Issues for Deepening SADC Integration

A major issue in Botswana's economy is the lack of absorption of a growing young labour force into the labour market. From a demand side, one could increase labour absorption through increasing the demand for the product produced by labour. Deepening SADC integration has the potential to increase the market for goods and services produced in Botswana, especially given the small market that Botswana currently provides with a population of just 1.8 million. A second way of increasing labour absorption is through increasing the number of firms operating in Botswana. Government is currently pushing that objective through the provision of an enabling environment (good macroeconomic policies, including stable and low inflation, tight fiscal policy, competitive exchange rate, etc.) and through programmes such as CEDA. To complement this effort, BEDIA has been endeavouring to attract FDI into the country so as to boost employment and non-mineral output in the economy. An additional effort aimed at increasing labour absorption is through initiatives to increase productivity of labour. Efforts are ongoing in Government and the private sector to implement programmes that are geared towards increasing labour productivity. Some of the major efforts include the introduction of Performance Management Systems (PMS), which will ultimately lead to Performance Based Pay. It is recognised that the long term success of the Botswana economy in competing regionally, especially with the deepening of integration of the economies, will lie in its ability to raise labour's productivity. Such productivity improvements may also result from education and training in skills that are necessary for the diversification of the economy. But there will also be need to ensure that the labour market incentives are right and in line with the need to enhance productivity of the workforce. To complement the other macroeconomic policies that the country has already put in place, there will be a need to also strengthen labour as one of the social partners so as to get the maximum cooperation and output from it. There is therefore a need to speed up the process of labour reforms, including the promulgation of laws that have been taken through parliament. In terms of labour market policies geared towards meeting the SADC target growth rates, there is an urgent need to speed up the reforms needed to improve productivity of labour in order to make the country more competitive.

6.12 Causes of Inadequate Income Growth

Botswana's growth has been heavily dependent on the performance of the diamond sector. The non-mining sector has generally grown at rates which are lower than those envisaged for attaining both the Millennium Development Goals and the country's Vision 2016. Some of the major explanations for the inadequate growth of the economy are: poor performance of the private sector; low productivity in general; lack of business entrepreneurship; inability to attract adequate foreign direct investment due to certain impediments like high utility costs; small market, etc. These are the general problems and concerns captured in the main studies investigating the problems associated with the lack of economic diversification. There is an urgent need to address these problems if the SADC convergence goals are to be met in a timely manner.

6.13 Major Risks for Attaining the Macroeconomic Convergence Programme

Botswana's heavy dependence on minerals, especially diamonds, dominates the country's projected outcomes with respect to achieving and maintaining compliance with the macroeconomic convergence targets. Diamonds are sold in international markets which determine the price and demand for Botswana's diamonds. It is for this reason that Botswana still remains vulnerable to external shocks and large fluctuations in the growth of GDP. Other variables such as the growth in the economy's revenues and its budget and foreign exchange reserves have also to a large extent been determined by the performance of the mining sector. The macroeconomic convergence programme for Botswana as such will be heavily influenced by developments in the mining sector. There are efforts underway in the form of accelerating the diversification process to promote growth of other sectors so that the vulnerability and sensitivity of the country is reduced as other sectors play a more important role in Botswana's performance. While Botswana has been mainly on the right track in terms of achieving the SADC macroeconomic convergence targets, the positive progress made in maintaining a sound budget, low debt, high GDP and per capita growth as well as in achieving progress on human development indicators has depended mainly on the performance of one sector. As such, Botswana's macroeconomic convergence programme is quite sensitive since changes in many of the other variables are highly aligned to the mining sector's performance.

The sound and prudent economic policies on the fiscal and monetary policy front have also allowed the country to maintain spending patterns that would not result in high debts, deficits and high inflation rates that would ultimately result in authorities missing their targets and having the key indicators at unmanageable levels. It is within this framework that it is reasonable to assume that Botswana will continue managing its resources prudently, and that the macroeconomic convergence programme targets will be achieved.

7 Social Impact Analysis

7.1 Social Impact Information Needed for Development Decisions

Social impact analysis of Government policies is usually monitored through various economic indicators of human welfare and, where feasible, also of environmental indicators. Some of the older indicators commonly used are GNP per Capita and employment growth. These aggregates are, however, known to have major limitations when it comes to assessing the human development. It is for these reasons that countries now use various other measures of Human Development including, inter alia, the Human Development Index (HDI), poverty indicators, demographic indicators, health indicators, and education indicators. These are indicators that show the changes in the quality of life of people and not just the potential consumption change as was indicated by income indicators. This section summarizes the changes in the various socio-economic indicators, as well as provides some analysis of the forces behind the changes.

Table 20: Indicators for Human Development

Indicator	Value	Year	Value	Year	Change
Population	1,326,796	1991	1,680,863	2001	2.39-annual
Life Expectancy at birth	65.3	1991	56	2001	-9.3
Adult literacy	54	1991	78.9	1997	24.9
Real GDP per capita (USD)	3,343	1991	8,714	2003	5.3- annual
Botswana HDI	0.681	1990	0.565	2003	-0.116
Botswana HDI position	95	1991	131	2003	
Infant mortality rate (per thousand births)	99	1970	82	2003	
Under 5 mortality rate (per thousand)	142	1970	112	2003	
Population without access to safe water	23%	1993	12.10%	2001	
Rate of income poverty	47%	1993	30%	2003	-17%
Income inequality	62.3	1993/94	65.4	2002/03	
Prevalence of HIV/AIDS (15-49)	35.40%	2001	17.10%	2005	
Net enrolment in primary education	85	1990/91	95.3	2001	
Unemployment Rates	13.9%	1991	23.8	2002/03	10%

Source: Figures from UNDP Human Development Reports and Botswana Human Development Report.

GNP per capita

Botswana has recorded impressive growth rates over time, even though the growth rates in the late 90s and new millennium are lower at about 5 percent per annum. The growth was mainly from mining, especially diamond mining. The non-mining sector has been growing at lower rates than those anticipated, posing a serious challenge for the economy in terms of its ability to diversify its growth from diamonds. The overall growth has also been lower than the anticipated 7 percent needed for the fulfilment of the MDGs and the 8 percent required for fulfilling the Vision 2016 goals. The current (2004/05) period recorded an impressive growth of 8.3 in real terms compared to 2003/04. The mining sector grew by 18.2 percent, while the non-mining sector grew by only 1.9 percent during the 2004/05. The challenge to achieving sustainable human development is about achieving economic diversification beyond the mineral sector, especially since that sector is capital intensive.

Employment and Unemployment

Due to the capital intensive nature of the mining industry and the inability to substantially diversify the economy substantially from it, Botswana has had serious unemployment problems. Unemployment has generally been rising, and was estimated at 23.8 percent in 2003, which was an increase of about 10 percent from the 13.9 percent figure recorded 12 years earlier. The unemployment rate is higher for youths with secondary education. Given the lack of diversification and the increase in labour force over time, it is likely that the unemployment rate may have increased since the last survey in 2002/03. The country, therefore, has a major challenge of fostering growth that is employment intensive.

Poverty

The incidence of absolute poverty has been declining over the past 20 years, and is now estimated at about 30 percent of the population, which a fall of 17 percent from 1993/94, when it was 47 percent. There are, however, concerns that the incidence of poverty is not declining at an rate, especially in terms of meeting the Vision 2016 goal of eradicating poverty by 2016. The year 2016 is not too far off, and yet, the poverty rate is still as high as 30 percent. There is, therefore, a big challenge of not only making the country's growth employment intensive, but also making it pro-poor. There are indications that the growth of the economy between 1993 and 2003 was not very pro-poor, as the gini coefficient rose slightly over the period.

Access to Education and Other Services

Botswana's prudent use of the diamond revenue has served to greatly increase access to education and other public services, including water and health. The country has invested heavily into the development of the health and education sectors. Were it not for the HIV/AIDS pandemic, the country would have recorded substantial returns to the large investments. The Ministries of Education and Local Government (primary education falls under local government) have continued to get the lion's share of both the development and recurrent budgets. As a result, the net enrolment rate for primary education increased from 85 percent in 1990 to 95.3 percent in 2001. Adult literacy also increased from 54 percent in 1991 to 79 percent in 1997. Enrolment in all levels of education is almost 50 percent male and 50 percent female. The percent of the population without access to safe water also declined from 23% in 1993 to 12.1 percent in 2001.

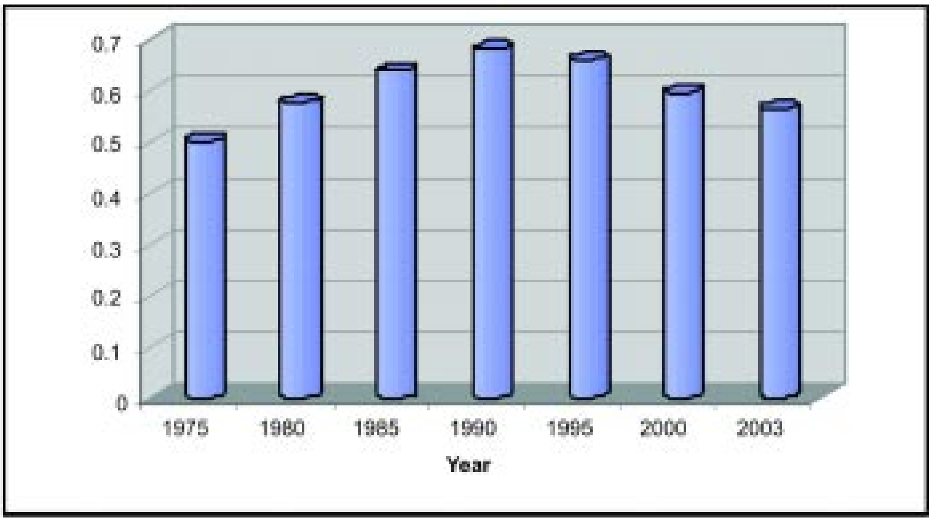
Health and HIV/AIDS

As a result of large investments in the health sector over the 25 years of her independence, Botswana was able to reap good returns in terms of improved life expectancy and reduced mortality rates. Life expectancy rose from a low of 55.5 in 1971, reaching a high of 67 years in 1999, before beginning to decline to 56 in 2001. The decline was mainly due to the HIV/AIDS pandemic. Mortality rates for many age cohorts were, however, still declining despite the HIV/AIDS pandemic. The HIV/AIDS prevalence rate was quite high in earlier periods, estimated at about 35% and has now stabilized at about 17 percent[5]. Part of the stabilization may have come from concerted efforts by Government to combat the disease. The Botswana Government was, for instance, one of the few in the region to roll out antiretroviral drugs to its entire population early. Its budget allocation to the Health sector began to increase quite rapidly in response to the pandemic. The war against the disease was taken up by the State President's office through NACA and other agencies. Currently, the budget funding for HIV/AIDS is through the Office of the State President.

Human Development Index

Before the advent of HIV/AIDS, Botswana experienced very impressive progress in terms of its Human Development Index. It was, in fact, one of the best performing countries in Africa and was, at one point, ranked 95th in the world. The HDI rose to a level of 0.659 in 1995, before declining to about 0.55 in 2003. The 2005 Human Development Index estimates life expectancy to have fallen to about 36 years in 2003. Even though there may be debates on what the actual figures are, it is clear that the disease has had very serious debilitating effects and has led to a reversal of much of the progress achieved in the two decades before 1990. As a result of the damage to human development caused by the disease, Government has found it fit to make combating HIV/ AIDS a priority in terms of its development strategy.

Chart 25: Changes in Botswana's HDI over Time.



7.2 Likely Changes Induced by Macroeconomic Convergence Policies

As noted in other sections of this paper, except in respect to maintaining a sustainable rate of growth and investment, Botswana conforms well to the SADC macroeconomic convergence targets. The country has been a major part of a customs union with the major SADC player, South Africa, and has had free trade within that union for a long time. The country has already pursued a sound monetary policy that has kept inflation at low and stable rates. The country's inflation target has been set at 3-6% and only adjusted to 4-7% when exogenous shocks made that necessary. This target, which is less than the SADC target of 9 percent, has been met over most of the period, although there have been occasions when the target boundary was breached due to changes in macroeconomic policies and external shocks. A case in point is the 2005 devaluation of the Pula that was a result of the country moving to a crawling peg exchange rate mechanism, which resulted in the annual rate of inflation rising to 11%. On an annual basis, the average inflation rate of 8.6% is still lower than the SADC target upper bound. The country has also maintained a sound fiscal policy stance geared towards having low budget deficits and low debt to GDP ratio. The country has maintained a strong balance of payments with the level of international reserves well above the 4 months imports cover target. The current account deficit has never been greater than the 9 percent of GDP target limit. It has reserves that can cover imports of goods and services for 29 months currently compared to the 4 months minimum required for SADC convergence. The country's external debt as a percentage of GDP is below 10 percent and has been declining over time. Unlike other countries in the region, the Government has not at any point borrowed from the central bank. Botswana has also been able to achieve the 25% of GDP target for saving, with a savings ratio of about 35 percent.

Botswana has been unable to achieve only a few of the SADC targets for macroeconomic convergence over the past decade. The two main areas where the SADC targets have not been met are domestic investment, with an investment ratio of 25% of GDP instead of the 40% needed to achieve the 8% per annum growth required in order to achieve the Vision 2016 goal for per capita income. Related to that, the other target that has been elusive is the growth target. GDP growth for most years has been lower than the 7 percent SADC convergence target. Raising growth and domestic investment are two of the main challenges facing the country as it strives to achieve targets required for macroeconomic convergence.

Botswana already conforms to the various SADC targets for macroeconomic convergence and deep integration not only in terms of the numbers, but also in terms of policies. The country has been pursuing policies that were meant to enhance the participation and performance of the private sector in the economiy. A number of policies are already in place to consolidate the achievements. These include the privatization policy, competition policy, investment policy, new incomes policy, poverty reduction strategy, etc. The country, therefore, does not need to pursue any major new policies as a means of achieving the SADC targets. Moreover, the country has always been pursuing a relatively liberal framework as a member of SACU. Therefore, there should be very little economic and social costs for Botswana as it strives to achieve the SADC targets, since that will require only minor policy shifts since the country already meets most of the targets.

A major area that will need new direction and emphasis is economic growth, which as indicated, has on average been below the 7 percent per annum target. One of the main ways to enhance that growth within the evolving competitive environment is through enhancement of labour productivity. This will enable Botswana's goods and services to be more competitive in foreign markets. This is particularly important given Botswana's small market. Further, trade liberalization is likely to lead to tariff reductions, which should result in increased competition. If efforts to increase productivity are enhanced, the country is likely to increase the growth rate, reduce unemployment and poverty and be able to meet the SADC targets. Widening of markets from the further trade liberalization may result in the economy being able to achieve economies of scale, especially with the larger SADC market. But all these gains do depend on the country becoming more competitive through major improvements in labour productivity. Given that the country is already integrated into the SADC market, especially with the major market of South Africa, there are, however, likely to be relatively few new benefits from further integration. On the other hand, there are likely to be some revenue losses from the tariff reduction. Given that the revenue from SACU is the second largest source of revenue for government after diamonds, there is likely to be pressure on Government to cut down its expenditure as it faces lower revenues.

7.3 Social Impact Issues and the Decision-Making Process

Since independence, Botswana has had a comprehensive system of planning for development in a consultative manner that was entrenched in the National Development Plan formulation processes. All policy proposals tended to follow the same principles in terms of consultation with the various stakeholders. There are structures in place from the local villages up to the national assembly that are geared towards allowing every citizen to participate effectively in policy formulation and implementation. At the apex of the local structures are the Kgotla and the Village Development Committees (VDCs). In some occasions, the Chiefs and Members of Parliament and councillors use the Kgotla to discuss publicly and gather views on matters affecting their communities before Government makes policy decisions. This forum, together with the freedom square, has been used extensively for getting inputs from the locals, as well as communicating new policies.

For most policy decisions, there is generally a consultative process, as well as debates on what the social impacts are likely to be, before a decision to proceed with implementation is made. Sometimes, however, the public is not capable of comprehending some of the major policy issues; and therefore, the consultative process becomes a mere formality. But there are also times when consultation with the general public is skipped in the interest of speedy action in terms of implementation. A case in point was the 2005 twelve percent devaluation and the shift to a crawling peg. But for most of the proposed policy changes, stakeholders are consulted and their views taken on board. In some cases, private sector is included in the formulation of trade policy, as part of the team to go and negotiate new trade issues. Most proposed new policies go through a process of consultation with the major key stakeholders in order to not only get their views, but also to take into consideration the possible social impacts and, if necessary, to find ways of mitigating any serious negative impacts.

7.4 Adequacy of the Existing Regulatory Framework for Monitoring and Evaluation of Impacts

Botswana has over the years developed very strong institutions that are capable of monitoring and evaluating impacts of deeper regional integration. Unfortunately, some of the activities are scattered amongst the different ministries, which leads to coordination problems. There are also major problems in terms of the lack of capacity to monitor and evaluate impacts of new policies timeously, which sometimes leaves room for programmes and policies to go on for a while without necessary corrections and adjustments being made. This is also related to the common implementation capacity problem that the country faces. There is, therefore, need to address some of the implementation capacity problems as the country moves towards being more deeply integrated into SADC.

8 Macroeconomic Challenges Facing Botswana

As noted in earlier sections, Botswana's economic development strategy has been to exploit the economy's mineral wealth, and invest the proceeds from mining to improving social and economic conditions and creating new economic opportunities and additional employment. This strategy recognises both the importance of taking advantage of available opportunities for economic growth, and the need to use such growth for the benefit of all. The need to provide for equity, the development of education and health services and other social services, and the provision of transport and communications infrastructure, has been based on making a defined level of services available to people living in all parts of the country. In Botswana, a review of the national development plans over the past 25 years indicates that macroeconomic policies have been conducted on the basis of two main objectives: achieving sustainable economic growth, and diversification on the economy away from dependence on mineral led economic development. The current National Development Plan (NDP 9) features a third main objective- sustainable and diversified development through competitiveness in global markets. The addition of global markets recognises the role of globalisation in achieving the country's economic and social goals.

Based on this strategy, Botswana formulated a simple transparent set of national policies and priorities for improving economic and social conditions, and established a national commitment to pursue these consistently for a sustained period. After three decades, many of these plans have been realised and there have been substantial improvements in people's standards of living of and level of economic development. However, there are still a number of critical development challenges that Botswana faces which the economy needs to deal with decisively in order to realise sustainable development in the 21st century. These challenges include poverty, unemployment, HIV/AIDS and development of human capital, as well as speeding up the process of economic diversification. The dynamics of these challenges, which are alluded to in some parts of this report, are discussed below.

8.1 Poverty and Unemployment

Poverty and unemployment have been subjects of considerable policy attention and resource commitment since the early 1980s. They are, quite naturally, key objectives of Vision 2016, which sets ambitious targets for poverty reduction and employment creation, halving the proportion of Batswana living below the poverty line by the year 2006, reducing it to zero by the year 2016 and securing full employment.

Despite the progress made by Botswana in achieving high rates of per capita income growth in the past decade, poverty still remains widespread. There are three primary sources of poverty in Botswana. The first is Botswana's adverse physical and climatic conditions, which have limited the role of agriculture in addressing the most basic of human needs - the need for food. The second is the country's narrow economic base, comprised mainly of diamond mining, which directly employs only a small number of people. In addition, with domestic population of only 1.8 million, Botswana has a small domestic market, which constrains the capacity for inward-driven economic growth. Botswana is also landlocked, and this creates high export and import costs due to the considerably more expensive road haulage and air transport when compared to shipping costs. Also, the size of the country and sparse distribution of the population make service provision to this fragmented market costly and difficult.

The impact of these economic factors is exacerbated by a range of socio-economic problems that adversely affect the poor. With this background on the nature and dynamics of the causes of poverty in Botswana, it is clear that there is need for the Government to have a well thought out and encompassing policy strategy that would deal with poverty reduction and eradication as envisaged in the long tern vision of the country.

There are some efforts already underway aimed at mitigating the worst effects of poverty, such as the range of relief schemes and social safety nets that Government has implemented through the new National Strategy for Poverty Reduction. A number of policies, projects and programmes, such as the Destitutes Policy, the Old Age Pension, the Arable Lands Development Programme, the Services to Livestock Owners in Communal Areas project, the Financial Assistance Policy, various drought relief programmes, etc., have been designed with a view towards their poverty reduction impacts. A number of arrangements have been put in place for social security, with a focus mainly on poor people. These include: programmes for people living in a poor family, programmes for orphans, the Remote Area Dwellers Programme (RADP) and the destitute persons policy for low income earners, drought relief programmes for those vulnerable to the adverse shocks of drought, policies for home-based care support and for people with disabilities, who are unable to work; the old age pensioners and World War II veterans allowances. At the same time, the Government continues to explore every available avenue to diversify the economy, upgrade the skills of the workforce and reduce unemployment. The Government's approach to poverty reduction has always encompassed three complementary elements, being:

- **Aggressive investment in human capital**
  This is essentially the Government's basic empowerment strategy. It entails public investment in building essential capabilities such as knowledge, skills and health to enhance human agency and empower people to earn a living. The main interventions are universal access to education, training and health, universal provision for basic needs through public and private means and extension services for small, medium and micro enterprises, including farmers.
- **Infrastructure Development**
  Infrastructure development may be seen as part of the broader strategy to expand local productive capacity by linking producers to markets and sources of inputs and creating locational incentives for investors in order to create jobs.
- **Employment Creation**
  Interventions in this area seek to address the underlying structural causes of poverty: a narrow economic base, lack of access to formal sector employment and the low economic potential of agriculture given local and environmental constraints. These measures seek to diversify the economy towards sectors with high labour absorption capacities. To this end, they create opportunities for people to create employment for themselves and others. The most prominent of these are run under the Industrial Development Policy and the SMME Policy. They include the now defunct FAP and its successor, the Citizen Entrepreneurial Development Agency.

- **Social Safety Nets**
  These measures are intended to address chronic poverty resulting from social disadvantage or adverse circumstances resulting from shocks such as drought, other natural disasters, disease, and infirmity. The programmes include systematic Government support for the destitute, the aged, orphans and people with disabilities. They also include direct food transfers to vulnerable groups such as pregnant women, nursing mothers and school children. Drought relief, a measure intended to help people cope with temporary poverty induced by drought, falls in this category.

It still remains important and urgent for the diversification strategy to bear fruit so that the unemployment problem can be reduced and that the industries and sectors that could play a role in Botswana's development are expanded so that the poverty problem can be addressed. This is quite a challenge for the country, especially in view of the relatively slow pace of diversification to date and the continuing high rate of unemployment over the years. With these dynamics, the realisation of the goal of Vision 2016 to reduce the proportion of the population living below the poverty datum line to 23% by the year 2008, and to zero by 2016 is thus a great challenge for Botswana.

In dealing with the challenges of poverty in Botswana, strategies for poverty reduction and its eradication need to recognise some of the prevalent poverty dynamics in Botswana where many people in rural areas are poorer than those in urban areas, with female headed households being generally poorer than male headed households. The relatively low impact of economic growth on poverty is also straining Botswana's development. Most countries with per capita GDP comparable to Botswana's have income poverty rates of less than 10%. Yet for Botswana, nearly one-third of the population subsists below the poverty line. This surmise is based on the BIDPA 1997 analysis of 1985/86 and 1993/94 household Income and Expenditure Surveys. According to the 2002/03 HIES surveys that the incidence of poverty declined by only 12 percentage points from 59% to 47% between 1985/86 and 1993/94 and by 17 percentage points to 90 percent in 2002/03.

One of the aspects of the dynamics of poverty in Botswana Involves how to deal with the battle against poverty in the era of HIV/AIDS, which has implications for the population's health and other socio-economic indicators, as well as the viability of the country's institutions, especially public institutions. Indications are that HIV/AIDS could very easily generate governance failures of catastrophic proportions. A 2000 BIDPA study on Poverty and HIV/AIDS indicates that with HIV/AIDS, poverty could increase by as much as 10 percent as opposed to a situation without HIV/AIDS, and the number of orphans and dependents could double.

8.2 HIV/AIDS

One of the major developmental challenges that Botswana faces is the HIV/AIDS pandemic. The spread of HIV/AIDS represents a serious threat to Botswana's development and the attainment of the nation's vision objectives. In 1997, Botswana had one of the highest rates of HIV prevalence in the world. After adjustment for the possible impact of HIV/AIDS, UNDP's 1997 Human Development Report ranked Botswana 97th in the world and 4th in Sub-Saharan Africa in terms of the human development index.

Planning for human development in the context of HIV/AIDS poses serious challenges for Botswana, not only because of the high rate of prevalence which leads to human suffering and death, but also because of the macroeconomic impacts that HIV/AIDS has on the labour market, human development processes and public finances. The high economic growth rates and progress on the human development front are being threatened by the pandemic, which affects progress made on health. Poor health easily translates into poverty for sick people who seldom earn an adequate income. The HIV epidemic threatens to reverse the gains in public health and has implications for the progress made on human development indicators such as life expectancy, infant mortality and others.

The pandemic also poses a threat for the sustainability of Government expenditure on health which has risen sharply as a result of the growing demands on the health system and in the provision of anti-retroviral therapy. The World Summit on Sustainable Development in Johannesburg espoused the view that a country in crisis should lead other nations in providing solutions. While there are efforts that are currently underway in Botswana to curb the spread of the virus through the provision of antiretroviral drugs and counselling services to those affected to prolong their lives, as well as the provision of prevention of mother to child transmission services, it still remains critical for the Government to implement the various programmes and policies effectively and rigorously to ensure that the macroeconomic balance and progress made on the development front are not seriously affected. The NGOs that have responded positively in working hand in hand with Government in the fight against the scourge also need to continue playing their role and ensuring their continued support with more rigour so that the fight against the HIV/AIDS pandemic is won.

8.3 Lack of Human Capital, Capacity

Botswana has achieved notable success in human development, transforming the population from being largely uneducated, illiterate and unskilled to being literate, with a basic 9-10 years of education and some training in basic skills for the world of work. There have been dramatic, rapid increases in the numbers of Batswana with secondary and tertiary qualifications, as well as with technical and professional qualifications, although the latter are still in short supply (BIDPA, 2001a).

Botswana's labour force has grown rapidly since independence due to rapid population growth and increases in labour force participation rates. This latter factor reflects a number of contradictory forces at work within the socio-economic environment. The improved access to education has served to reduce the labour force participation rates for the youth, while the higher levels of educational attainment achieved have served to increase labour force participation rates more generally, especially for females. The rapid growth in formal sector employment opportunities has also served to raise labour force participation rates, especially in rural areas, where in earlier periods many people of a working age would be classified as not economically active, or just "sitting at home". While the rapid growth in formal sector employment opportunities during the 1980s was enough to absorb the growth in the size of the labour force, however it was not enough, to absorb all the rural dwellers who wanted to get out of subsistence agriculture (BIDPA, 2001a).

While there have been some positive achievements and plans to continue promoting skills and education to achieve one of the ambitious vision objectives to have an Educated, Informed Nation by 2016, it remains a challenge for Botswana to fill the existing gap in terms of the lack of educated and skilled personnel which forms one of the major constraints to Botswana's economic development. In enhancing human capital and capacity, it remains important for Botswana to train its labour and match it with the skill requirements of the market. This would go a long way in reducing dependency on imported labour and the high incidence of high level posts being held by expatriates. While some notable progress has been achieved in attaining local expertise that are capable of holding top positions that were originally held by expatriates, Botswana still faces an education policy challenge that should ensure that all training institutions, from primary to tertiary level, are set up in such a way that they address the skills gap that exists in the economy. Human resources need to be geared towards the needs of the country and to the job market, in particular so that many citizens may enter the labour market with appropriate skills that match the employment opportunities. In this regard, Botswana faces the challenge of matching the human resource requirements and provision across sectors by establishing proper frameworks and management processes and developing a culture of life-long learning. The effect of HIV/AIDS upon the future availability of skilled and experienced personnel must also be fully taken into account in the planning process.

8.4 Lack of Economic Diversification

Past efforts to diversify the economy have not been fully successful to the extent that Botswana's economy is still heavily dependent on the mining sector. Botswana does not have a well developed private sector and diversification away from the diamond sector is a necessity. It is imperative to strengthen efforts to enhance private sector development and speed the process of diversification. The last three development plans focussed on developing the capacity of the private sector to become the main engine of growth. In 2002, the Government put in place the Public Enterprises Evaluation and Privatisation Agency (PEEPA) as the body responsible for the orderly privatisation of parastatals and other public sector entities and activities. Alongside developing a robust private sector, the Government has been promoting economic diversification through a number of schemes such as the Financial Assistance Policy, the Small, Medium and Micro Enterprises Policy, and currently CEDA. Earlier focus on developing a manufacturing base, followed recently by development of the services sector, particularly tourism and the concept of the International Financial Services Centre, all point to the Government efforts in recognition of the need for diversification.

The degree of inter-sectoral linkages amongst the various sectors is important for an economy like Botswana's, since such linkages can have significant implications for economic diversification and employment creation as a sector grows, as well as for the vulnerability of the economy to external shocks. Botswana is heavily dependent on imports for final consumption and as inputs to production. As a result, linkages between the economic sectors in Botswana are generally weak.

Successful implementation of the strategies for sustainable economic diversification is crucial for Botswana. The importance of the mining sector, especially diamond mining, in GDP, and the dependence of Government on mineral revenues leaves the country vulnerable to the vagaries of developments in the sector. Such vulnerability is neither healthy nor prudent. Being highly dependent upon the performance of one economic activity exposes the Botswana economy to greater risks of fluctuations in GDP, export earnings and the balance of payments, Government revenues and the budget balance than would occur with a more broadly based economic structure. Botswana's mineral based economy, heavily dependent on diamonds, faces risks due to fluctuations in prices and demand patterns. The notoriety of "conflict diamonds" has recently highlighted the potential risk Botswana faces from changes in consumer demand (BIDPA, 2001e). In Botswana's case, the nature of the export commodity, a luxury good, exposes the country to greater risks associated with fluctuations in market demand, since such goods tend to have higher income and price elasticities of demand.

Countries that are primary commodity producers are not only vulnerable to instability of prices and export earnings, they are also subject to long-term adverse movements in terms of trade of their commodity the prices of their exports have typically risen less than the prices of their imports. While this has not happened to diamonds, it has happened to Botswana's other main minerals, e.g., copper-nickel, coal and soda ash. A relatively undiversified economy also typically has greater difficulties adjusting to external shocks, such as a downturn in the diamond market, or a global economic recession (Hill and Knight, 1999). More diversified economies are generally better able to respond and adjust to shocks. In addition, the more diversified the economy is, the more likely it is to create a broader spectrum of income generating opportunities, which, in turn, will lead to a more equitable income distribution (BoB, 2001). Mining, while being a major component of GDP, is highly capital intensive, creating relatively few direct jobs for the many Batswana who need employment. Economic diversification beyond mining would almost invariably be more "employment-intensive", resulting in faster employment growth, less unemployment and reduced poverty levels (NDP 8, 1997). Another advantage of sustainable economic diversification is that the more diversified an economy, the greater will be the domestic inter-sectoral linkages will be, and the greater the impact that an increase in output of any one sector will be on the rest of the economy.

While Botswana's diamond industry has experienced rapid growth over the past three decades, it is unlikely to continue to grow anywhere that fast in the future. Botswana cannot expect to be able to continue to find the richest, most profitable diamond deposits in the world within its boundaries. Finding new engines of growth outside mining will be crucial for further rapid growth in real incomes. This has proved to be quite a challenge with the landlocked economy and small domestic market.

In implementing the Vision 2016 strategies, Botswana will need to develop the capacity of small, mostly female operated and often rural based enterprises. The greatest challenges faced by businesses generally are access to capital, a shortage of adequately trained personnel and lack of business management expertise. Government has made economic diversification a priority. However, such an endeavour continues to progress slowly, despite Government's efforts to woo foreign investors, or develop indigenous entrepreneurship through efforts such as the Citizen Entrepreneurial Development Agency (CEDA).

8.5 Lack of Economic Infrastructure

Much of the investment in the early years was directed at building basic infrastructure and major mineral projects, e.g., diamonds at Orapa and copper-nickel at Selebi-Phikwe. Since independence, Botswana has sustained high levels of investment relative to GDP, comparable to the rates of investment achieved by the East Asian Tigers. As a result, the country has built an impressive stock of economic and social infrastructure, including tarred roads to virtually all parts of the country, an electricity system, a telephone system, water systems to most communities, schools and health clinics, Government offices, and a substantial stock of modern sector housing.

A key element of the economic management strategy for development was the heavy investment in building basic infrastructure and major mineral projects. The prudent economic management practised by Government in reinvesting the returns from the sale of diamonds to develop the nation's economic infrastructure helped to create the economic environment needed for long-term development. Other supporting economic policies included a liberal exchange control regime and low rates of direct taxation, which were intended to encourage foreign direct investment and business development.

8.6 Lack of Finance

Lack of finance is one of the challenges that Botswana faces, particularly in the development of small enterprises. While there have been policies and programmes that have been put in place to assist in the provision of finance, such as the Financial Assistance Policy, Citizen Entrepreneurial Development Agency, National Development Bank, Botswana Export Credit Insurance and Guarantee Company Botswana Development Corporation and others, operations of small scale enterprises have been affected to a large extent by the lack of finance.

Commercial bank conditions and requirements have been cited as stringent and costly for small scale businesses, mainly due to the risks with regard to their sustainability and lack of collateral. There is no doubt that Small and Medium Scale Enterprises (SMEs) have an important role to play in Botswana's development. As in other developing countries, they provide a significant proportion of total employment, and in most cases do so at a smaller capital cost per job created than larger businesses. The SME sector also creates potential for the growth of locally-owned private sector businesses, by providing an entry point and relevant experience for Batswana entrepreneurs. In the past, local people had little experience in business other than in agriculture, while other sectors have been dominated by foreign ownership since independence.

For these reasons, Government policy towards SMEs is of exceptional public interest. Much of that public interest has focused, and still does focus, on the availability and cost of SME credit. There is a widespread belief that not enough credit has been made available to SMEs, that the banks impose lending conditions which wrongly exclude most SMEs, and that whatever credit is available is so expensive that it damages SME prospects of survival and growth. This belief is supported by surveys of SME owners and managers, who invariably cite high credit as one constraints that they face, and, in fact, usually identify credit as the dominant constraint.[6] The Government has, therefore, been urged to make more credit available to SMEs, with subsidy as required. This has been done in a number of ways. In addition, there has been a small number of private sector and donor initiatives. The National Development Bank and the Botswana Cooperative Bank were initially well managed and relatively sound, but were eventually overwhelmed by bad debts.

8.7 Environmental Degradation

Botswana faces a challenge in dealing with the problems of environmental degradation. It is important that the country's resources are used sustainably, but this becomes problematic with the low unreliable rainfall which characterises Botswana. Botswana's natural resources consist of range and arable land, water, air, woodlands and

[6] See for example the 1992 survey of 1140 micro-enterprises in seven urban centres and villages in Botswana. Even though all possible constraints were discussed, 74% identified lack of finance as the primary constraint. Next was marketing [Morewagae et al, 1995].

wetlands, veld products, wildlife and mineral resources. The dramatic changes that have occurred in Botswana since independence have placed many of these resources under increasing stress and strain. Botswana's population has more than trebled since independence and the country is characterised by low and unreliable rainfall and relatively infertile soils. The increasing population has raised the rate of use of the natural resources, while the adverse climatic conditions impact negatively on the rate of growth of the resources and their renewal. Botswana's environmental problems are categorised as follows:

- The degradation of rangeland pastures
- The depletion of water resources
- The over-use of woodland and veld products
- Pressure on wildlife
- Pollution, waste and sanitation
- The potential impact of global climate change on weather patterns, especially on temperatures and rainfall in Botswana.

In view of changes that have occurred which have impacted negatively on Botswana's environmental resources, the Government has committed to the sustainable utilisation of the country's resources, as well as ensuring that the environment is taken care off. Civil society organisations are also playing an increasingly important role in raising public awareness of the environmental issues and problems which the country now faces. One of the vision objectives aspires to ensure that by 2016, renewable resources will be used at a rate that is in balance with their regeneration capacity and that Botswana's wildlife will be managed for the sustainable benefit of the local communities, and in the interests of the environment as a whole. Also, the national vision envisages that by 2016 the country will take strong measures to limit pollution that has resulted from rapid industrialisation. Various policies on sustainable resource use and environment-related legislation are in place to avoid depletion of resources and environmental degradation. These include:

- The National Policy on Natural Resource Conservation and Development of 1990, this policy is concerned with the overall coordination of natural resource management.

- The Tourism Policy which promotes low-volume, high value tourism
- The Agricultural Policy (1991), which advocates for food security and sustainable methods of production
- The National Water Master Plan (1992) which guides the development of the water sector
- The National Settlement Policy, aimed at rationalising the distribution and development of settlements
- The Water Act (1968), which defines water use rights and establishes a regime over all surface and ground water
- The Tribal Land Act (1970), which provides for the establishment of tribal land boards with the responsibility of managing tribal land
- The Agricultural Resources Conservation Act (1974), which provides for the conservation and improvement of soils, water, flora and fauna
- The Wildlife Conservation and National Parks Act (1992), which provides for the conservation and management of Botswana's wildlife resources and the enforcement of international treaties and conventions to which Botswana is party.
- The Waste Management Act (1998), which provides for efficient waste management on a national basis.

Botswana is also party to several international conventions, protocols and other agreements on environment and natural resource use which aim to protect the environment. While there are efforts underway to avoid the worst states of environmental degradation, it remains a challenge for Botswana to ensure that necessary public awareness campaigns for the public who are users of natural resources and the environment, are conducted. Regional integration among SADC countries and the mounted effort on dealing with the environmental problems are essential and can be used to enhance the public awareness campaigns.

8.8 Gender Discrimination

Women in Botswana have made great gains in education, health and employment since independence. However, there are a number of economic and socio-economic cultural practices, as well as laws, which work against women's empowerment and full participation in society. Of particular concern are issues of unequal access to training and employment, rising levels of violence against women, and higher levels of poverty amongst women than men. Women are also greatly affected by the HIV/AIDS epidemic: young women have higher levels of HIV infection than young men, and female-headed households have more dependants than male headed ones. Female-headed households also have fewer income earners and and are charged with the responsibility to take care for the sick.

One of the key problem areas for women is their unequal treatment under the law, compared to men. It, therefore, remains a challenge for Botswana to ensure that these laws are continually reviewed and revised to ensure that all parties receive equal treatment in the face of the law. In the area of education, female enrolment is generally slightly higher than that of males at primary school and at junior secondary school and higher levels of education female enrolment has been increasing. But there are still disparities in terms of participation in science and engineering courses, with women still highly unde-represented.

Many women live in rural areas, where employment opportunities are most limited. Women also account for three quarters of informal sector enterprises, and tend to occupy activities with the lowest returns and limited opportunities for credit, skills training and materials. They have limited access to productive resources, particularly cattle, land, cash, labour and credit. The formal sector offers the most reliable and best-paid job opportunities, but this sector is dominated by men.

Violence against women is a serious problem in Botswana: reports of rape, domestic violence, battering, incest and emotional abuse are increasing year by year. The Government has responded by amending the Penal Code to carry stiffer sentences for rapists, including a compulsory HIV test, with higher sentences for those who knew their HIV-positive status prior to the assault. Several NGOs in different parts of the country actively campaign against violence against women, and a women's shelter has been opened in Gaborone. The Government acceded to the International Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in August 1996, but there are other conventions relating to women that Botswana has not yet signed.

Female representation in parliament improved somewhat after the general 1999 election of but is still relatively low. A political education project was launched to mobilise more people to vote and to increase the number of women in parliament. This achieved some success since the representation of women in parliament increased and the representation of women on boards of parastatals has also improved.

Following the UN Fourth World Conference on Women held in Beijing in September 1995, a new collaboration between the Botswana government and NGOs concerned with women's issues began. In the year that followed, the Government formulated a new policy on Women in Development, which identified critical areas of concern, namely, women and poverty, women and health, the girl-child, and violence against women. The policy has since been translated into the National Gender Programme, launched in November 1998. The Department of Womens Affairs is in the process of developing a comprehensive advocacy and mobilisation strategy for gender and development, and will be working closely with NGOs in its implementation.

8.9 Governance Problems

The impacts of economic management in Botswana, and the related aspects of governance, are reflected in a number of economic and social indicators; both relatively objective indicators, such as GDP and the Government budget, and other more subjective indicators, such as people's perception of public sector performance and accountability. Botswana has an enviable reputation for good governance and is regarded as the least corrupt nation in the African continent. Of the total number of countries listed in Transparency International's Corruption Perception Index, Botswana ranks significantly higher (less corrupt) than any other African country. Botswana also compares well with developing countries in other parts of the world. The Country Risk Report for 2000 published by the Economist Intelligence Unit rated Botswana as the seventh least risky country out of 93 "emerging market economies" surveyed.

Botswana has its own Directorate on Corruption and Economic Crime, established in 1996. A review of legal policies, laws and institutional capacity to combat corruption are generally adequate though there is still room for improvement in the administration of justice relating to cases of corruption. Carried out in conjunction with the newly formed Botswana Chapter of Transparency International, the review highlights the need for more openness about Government programmes and activities, particularly with regard to implementation of plans and policies. It also calls on politicians to enunciate clear cut policies related to corruption. Botswana's processes of economic management and governance have not only resulted in rapid and sustained economic growth, they have also contributed to the major structural transformations that have occurred in the economy since 1966, which have created favourable conditions for public and private sector development.

With a population of about 1.7 million people in 2001, dispersed over a large semi-arid area that is subject to low and erratic rainfall and prone to drought, Botswana has recorded remarkable success in improving both economic and social indicators of development. The progress Botswana has achieved is due to many factors – good economic management and governance, cultural and political – these have combined favourably to create conditions that have yielded past achievements and will set the stage for future success.

Botswana's procedures and practices of economic management and governance have evolved over time, in line with perceived needs and best international practice. The formulation of macroeconomic policies on the basis of solid multi-disciplinary policy analysis has been a key input to the decision making processes. The strict adherence to sound financial management processes and procedures has also been key to ensuring that decisions, once taken, are implemented effectively, and that the resources required are efficiently allocated and properly accounted for. The economic management and governance processes provide for broad consultation and consensus building before decisions are made and policies, programmes and projects are implemented. This serves to further ensure that better outcomes are reached; ones that accord with the best information available and are broadly supported by stakeholders. The review and evaluation mechanisms in place provide means to identify needed changes, not only in the development strategies to be pursued, but also in the procedures and processes needed for effective economic management.

9 Special Issues for Future Research

9.1 Implications and Impact of Regional Integration

Given the commitment to deepening SADC integration through macroeconomic policies aimed at achieving certain agreed macroeconomic convergence targets, it is important that policy makers in SADC and its member states assess the effects that the integration will have on the social wellbeing of its people, both in the short term and long term. Individual countries need to conduct research on the implications of the various integration initiatives they are pursuing and balance them in accordance with economic priorities. Botswana is a member of various regional integration blocks and trade agreements, including SACU, SADC, the Cotonou Partnership Agreement and AGOA. The objectives of regional integration in the various agreements overlap and, as such, it is imperative that research be carried out on the possible benefits and the impact of the agreements on the country's long term trade aspects and developmental aspirations. Such research will also identify which issues should be aligned and pursued within a certain agreement, and more importantly, where the benefits are higher. Such research and information would help to ensure that countries reap the benefits of integration and are also guided by what they stand to benefit in any agreement.

9.2 Multiple Membership, Overlaps and Implementation Capacity

Botswana is a member of various trade agreements that are at different levels of negotiations. The implementation of the agreements overlap and this poses costs in the negotiation process and in fulfilling membership obligations. It is also a complex task to ensure that the negotiation mandates in the various arrangements do not conflict with economic objectives and those of the integration process. Also, the negotiation process requires capacity and expertise to handle the complex issues involved. It is, therefore, important for research to be conducted on the costs of membership and implementation of the various trade arrangements. Having trained experts in the negotiation process could also enhance the benefits that can be derived from the integration process and also ensure that the agreements are in harmony, both in their pursuit of regional objectives and national objectives of development.

9.3 Research on the Trade and Poverty Links

While Botswana has made substantial progress on the development front, it still faces widespread poverty and unemployment. Various efforts and policies have been put in place to address the high incidence of poverty and unemployment, but the incidence of both still remains high. It is, as such, important that research on identifying the possible links between trade, employment and poverty be conducted and ways in which regional integration through trade can be exploited to address the poverty and unemployment problems. Such research will not only give us information on why the linkages may have been weak, but it will also shed insight on how to maximise the benefits and how to strengthen the linkages.

9.4 Diversification and Industrial Development

While Botswana is making efforts at the national level to diversify the economy, it still remains critical for the industrial sector to develop to a level where the industries can effectively play a role in expanding trade at a regional level as envisaged in the SADC FTA. Focused research on how these industries will be affected, especially at the early stages of development, is critical. Without such research and information, some countries may end up as losers from the integration process. Also, issues on how economies may protect their industries as they open up markets to more free trade is important. For Botswana, with a limited industrial base and lack of a diversified export base, more competition may thwart the diversification exercise and result in greater dependency on imports.

9.5 Data Issues

Data is needed to facilitate research work on the impact of regional integration on the broader economy in Botswana. The aspects that need particular attention in as far as data collection, compilation and dissemination are:

- The frequency of the data
- The timeliness of the data
- The level of dissaggregation
- Broadness and coverage
- Consistency of the data
- Accuracy of the data

Areas where data is needed to facilitate research work in the special issues identified in the previous section include: data on poverty which is currently being compiled on a ten year cycle basis; trade data (which is often late) not disaggregated to allow for more focused sectoral analysis; data on employment where labour force surveys are conducted after 10 year periods; relevant data on fiscal, monetary, education and training health and capital market-related data. Harmonisation of data collected in the region will also allow for meaningful comparisons on what effects regional integration will have in the individual countries, as well as on monitoring the convergence programme. Further, more research can be easily carried out on some of the important links between trade and other important regional issues such as poverty and unemployment and its impact on the social and economic development.

10 Conclusions and Recommendations

Botswana's success lies in the prudent macroeconomic management of resources through the national planning process which is linked to the national budgeting process and the Vision 2016 aspirations these aspirations emphasise and focus on themes that are in line with the SADC RIDSP goals and objectives of achieving sustainable and equitable growth and socio-economic development through efficient productive systems and good governance. Botswana's growth, has been mainly driven by the mining sector, which coupled with the good macroeconomic policy framework that has existed, have led to Botswana's good performance. It is through prudent policy making and the availability of diamond revenues that Botswana has had good fiscal and monetary policies that have contributed towards the achievement of high growth rates and the attainment of most of the SADC macroeconomic convergence targets. The economy has not formally adopted a Macroeconomic Convergence Programme in line with the Memorandum of Understanding on Macroeconomic Stability and Convergence, since it has made great strides in moving towards and achieving most of the targets set for the Memorandum of Understanding.

Botswana is already compliant with most of the set SADC macroeconomic convergence targets. The economy has low external debt, as a result of many years of running budget surpluses and accumulating substantial levels of international reserves. The budget surpluses are mainly the result of the Government fiscal policy of avoiding pro-cyclical fiscal policy and adopting a strategy of having a balanced budget over the medium term. Since the 1980's, Botswana's current account has been in surplus and as such the country has not had to adopt any explicit target for the current account balance in line with the SADC macroeconomic convergence programme. Botswana's monetary policy has also given high priority to achieving and maintaining monetary stability, which encompasses the objective of a low and stable rate of inflation. This has brought and maintained inflation within the SADC target by 1997, and, apart from an aberration in 2003 which was caused by the introduction of VAT, the country has stayed within the target range since then until August 2005.

The two targets that Botswana is still not complying with are the growth rate which has remained lower than the SADC average target of 7% and the rate of investment. Botswana's GDP growth rate has fluctuated mainly in response to developments in the mining sector and generally has been lower in recent years, less than the Vision 2016 target of 8% p.a, as well as the SADC target of 7%. NDP 9 projects an average annual growth rate of of 5.5%, while the Mid-Term Review of NDP 9 forecasts even lower growth.

Investment has also been lower than the SADC target of 30% of GDP and has also been concentrated in the mining and Government sectors. Many efforts have been put in place to continue attracting higher levels of investment particularly in the non-mining sectors of the economy. This is expected to contribute to the nation's diversification strategy.

Botswana has also not enjoyed the full benefits of trade emanating from a diversified export base, since one sector has dominated its export profile. Botswana exports a few products, notably diamonds, beef, soda-ash, copper-nickel and textile products. The industrial base remains small and the manufacturing sector is still in the early stages of development. The domestic market is also small, limiting expanded trade opportunities and effective participation in the integration process within the trade front.

While there are quite a number of good policies that have contributed towards Botswana being a success story in the SADC region, there is still widespread poverty in Botswana. Many Batswana are still poor with the implications that the benefits of growth have not been equitably distributed or re-distributed and targeted to effectively address the widespread poverty. Also linked to poverty is the prevailing high level of unemployment in the economy. The high incidence of HIV/AIDS also poses a challenge in attaining high growth rates and addressing policy priority areas such as poverty and unemployment.

Botswana Specific Recommendations

Botswana has made efforts and continues to refine some policies and initiatives to address the areas where it is lagging behind in the SADC macroeconomic convergence programme and its long term development. The economy pursues policies that are in line with the SADC vision of promoting sustainable growth and promoting more productive systems. Policies have also been formulated to address the low investment, boosting GDP growth and promoting growth of the non-mining sectors and enhancing private sector development. It is a commonly expressed view in Botswana that the problems that exist are mainly not the result of poor policies, rather they are largely the result of a failure to implement the existing policies. For Botswana to realise its vision, there will be a need to address implementation problems, and to introduce stringent monitoring mechanisms at every level of the public sector. There are policies that are targeted at the challenges that Botswana faces, mainly, the high poverty levels, high unemployment and the HIV/AIDS problem. In this regard, the recommendations drawn below emphasize areas where these efforts need to be strengthened and issues where Botswana can use the regional integration interface to enhance some of its policy aspects to become an effective player in the integration process, while also promoting its national interests. With this background and conclusions, for Botswana to be competitive, more productive and effective in the regional integration process in the SADC region, it is recommended that:

- Botswana should build capacity in the existing institutional structures to effectively implement policies that can address the problem areas that may reverse the achievements made on the SADC macroeconomic convergence targets and also identify areas where further regional integration can be used as a vehicle to achieve more growth and development. This is important in ensuring that issues of poverty reduction and high unemployment are given a stronger focus and that the institutional mechanisms for policy implementation are adequate. In particular, Botswana should develop monitoring mechanisms and clear punishment and reward systems for both labour and management. There is also a need to speed up processes so that decisions do not take longer than necessary to be implemented.
- It is imperative for Botswana to strengthen its diversification strategy so that other sectors of the economy, besides the mining sectors

can play a more significant role in GDP growth. Regional integration in SADC is one avenue that Botswana can explore to enhance its growth and tap on the growth opportunities that are available. Given the current challenges of the economy, there is need to develop industrial targeting policies rather than the old ones that are not specifically targeted. Government efforts to promote investments, both local and foreign, should be more selective, focused on investments that are local-resource based or whose outputs are targeted at export markets. As such, investments should be sought for such industries as tannery, leather products, meat processing, diamond processing and jewellery, etc. Such industries will enhance the values of those local resources that are currently exported in less valuable raw state. In addition, they would create employment opportunities', diversify the country's industrial base, and enhance Botswana's export earnings . An effective implementation of this strategy requires a detailed inventory of input materials (hides and skins, diamond, livestock etc) available in the country, the possible outputs from them, and the markets for such outputs. Efforts by BEDIA and other investment promotion agencies to promote local as well as foreign investments should then be directed at those aimed at utilizing such available resources. The country should also identify niche markets for some of its products.

- The private sector has to play a role in Botswana's development given the potential the sector has in generating more employment opportunities and growth and, as such, it needs to be strengthened. The private sector also needs to participate fully in the integration process and explore markets and other growth prospects that the processes of regional integration of SADC may avail. This requires that the private sector be taken on board in all negotiations and decision making. The Botswana Government has already committed itself to playing the role of facilitator, while allowing the private sector to take the lead. The Government's facilitative role requires a closer relationship with and understanding of the private sector. In order to foster such understanding and relationship, Government needs to be more knowledgeable about the private sector. Such knowledge is best provided by periodic studies on the challenges industrialists face which may constitute barriers to their growth or even survival. For example, there is a concern on the low labour productivity in Botswana. The Botswana National Productivity Centre (BNPC) should research that problem, establish its dimensions, causes and what could be done to solve the problem.

- Botswana should integrate its trade policy into its planning process, since this will help to ensure that trade is given priority and that resources are committed towards pursuing trade initiatives that will benefit the economy. In this regard, Botswana should align its trade development strategy to the SADC trade objectives, which aim to deepen integration while at the same time balancing it with national interests and long term development objectives of the economy.
- Efforts and initiatives aimed at attracting foreign investment need to be pursued with more rigour. FDI can play a significant role in the long term growth of the economy through the technology, skills and product innovation that it brings to the economy, which can impact positively on Botswana's diversification policy. Some elements of the SADC Finance and Investment Protocol can be integrated into Botswana's investment strategy to allow the country to reap some of the benefits that may be derived from pursuing regional investment initiatives. Some of the identified solutions to the constraints of FDI inflow should be implemented as a matter of urgency. For example, the issue of work permits which has been a challenge in terms of getting and keeping needed skilled labour in the country. Government realizes that in view of the small size of Botswana's domestic market, the required economic growth and development can come only from vigorous and sustained growth in international trade of goods and services. Consequently, reform policies are being aimed at raising productivity and efficiency of domestic resources, aligning the exchange rate of the domestic currency and thereby improving the international competitiveness of Botswana producers. In addition to local resource-based industries, export-oriented industries promote growth and create employment opportunities. Because they add value to any inputs they might have imported, they are usually favoured with incentives and exemptions from import restrictions. The drive for FDI in particular should accord greater priority and efforts to industries that are engaged in production for the export market.

- Botswana needs to continue to deal with the HIV/AIDS challenge, particularly on its impact on the broader economy, such as on the supply of skilled labour, government resources, and positive developments made on the human development front. The war on dealing with the attitudes and stigma associated with the disease in particular needs to be given a high priority. There is need to intensify education regarding the diseases so that the country can slow down the rate of new infections.
- Industrial development should also form one of the priority areas for Botswana. This can contribute to more production and products in the market and enhance Botswana's export profile, which is imperative if Botswana is to compete successfully in the regional integration process and benefit from trade. Also, promoting industries that can form linkages with others is quite important. The proximity to South Africa constitutes both an opportunity and a threat to Botswana. Potential investors in productive enterprises in the southern African region tend to favour South Africa, rather than Botswana, as their destination for a number of reasons—proximity to seaport, large domestic market, low cost of utilities, affordability and availability of investible funds, better infrastructure, higher technological skills and facilities. On the other side of the coin are the higher tax rate, the high crime rate and relative social instability, which constitute South Africa's weaknesses. A proactive reaction to these two dimensions of the proximity to South Africa can turn both into an advantage. Botswana can turn its relative disadvantage of size and lower level of technological development into an opportunity by integrating its industrial activities into those of South Africa. Integrated manufacturing agreements could be negotiated with selected major manufacturers under which Botswana would produce and supply component parts to South African producers, instead of establishing production units of competing brands. Such agreements seem viable in such industries as motor vehicle manufacturing, electronic and household appliances, agricultural equipment, etc. The initiative for such contractual arrangements can be facilitated by a government to government approach and negotiation, involving the ministries of Foreign Affairs, Trade and Industries, Finance and Economic

Development and the private sector organisations such as BOCCIM.

- Botswana has to strive to improve its labour productivity to become more competitive in the region. The efforts in this aspect have several dimensions, some of which are embedded in the education system, the system of rewards and general incentives in the labour market, the general attitude towards work, etc. These issues need to be dealt with urgently. Some of the solutions have already been identified and it is now a problem of slow implementation. For example, the Performance Management System in Government is moving at a pace that is very slow. There is a general need for the country to implement structural reforms that have been agreed upon in a timely manner. The privatisation policy, for instance, has been in place since 2000, and even though it was approved, to date not a single enterprise has gone through the steps of privatisation. With deeper integration, productivity improvements will become increasingly important for the country's survival and success in the global market.
- It also remains important for Botswana to remove obstacles to trade and investment and ensure that there is a conducive regulatory environment that would facilitate a smooth integration process. A review of current laws and regulations that may prevent local or foreign investments in several sectors is necessary. For example, the Botswana Meat Commission Act, which confers monopolistic rights to export fresh meat on the Commission, needs to be reviewed if new investments are to be attracted to the meat industry. Similar laws in other sectors need to be reviewed if there is to be new investments in those sectors.

General Recommendations

While there are specific issues that Botswana needs to deal with at the national level, (as indicated above,) for effective participation in deepening integration in SADC, there is need for a concerted effort by all SADC member states to make this a reality.

It is imperative that all SADC members states adopt stability-oriented policies in a cooperative manner. This is in recognition of the fact that in order to accelerate the growth of economic activity, investment and employment in the SADC region, there is need for increased cooperation and co-ordination in the formulation and implementation of macro-economic policies. It is upon each member state to eliminate all obstacles on trade, investment and movement of labour that may hinder the integration process, allowing for other countries to also participate effectively to achieve the benefits of deeper integration in SADC.

This calls for increased cooperation, co-ordination and management of macroeconomic stability and implementation of monetary and fiscal policies in the region that are vital in accelerating growth, trade and investment, employment creation, and achieving reductions in poverty and high unemployment. Without a collective effort in dealing with the challenges that face the individual member countries in striving towards deeper SADC regional integration, the regional integration process may be a failure, with some of the important RISDP objectives not being met.

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Deepening Integration in SADC

Part: 2

Perception of Business and Non-State Actors in Botswana

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Executive Summary

The report focuses on an analysis of the responses from a survey of perceptions of businesses and non-state actors on SADC regional integration. The analysis centers on the major sections of the questionnaires which sought to capture the respondents' general information. It also evaluate perceptions of non-state actors and businesses on the impact of regional integration within SADC, possible impacts on the domestic economy and the businesses, the benefits and losses that could be realised from integration and lastly, the extent of the public debate on regional integration and the involvement of respondents in the SADC policy debate.

The survey reveals that, to a larger extent, both businesses and non-state actors share common views on the impacts of regional integration within SADC. The broader conclusion that emanates from both quarters of respondents in the Botswana survey is that there are some benefits and losses that are likely to occur from greater regional integration of SADC countries. Countries, such as Botswana, where there is no strong industrial base as well as a favourable business and economic climate for investment and business growth, may not realize such benefits in the near term. Some respondents, especially from the manufacturing sector, have cited the new diversification strategy in Botswana and its infancy and the slow growth process by businesses in taking up trade and investment opportunities as challenges. As such, there are fears that freer trade may find them not ready to compete with more efficient producers.

The views of both non-state actors and businesses overlap on what impact regional integration would have on business operation and activities. Both anticipate that regional integration will result in more trade with cheaper inputs and more new business activities. At the same time, not all see regional integration playing a major role in opening up more employment opportunities, raising domestic production and the level of investments abroad. The views of non-state actors and businesses on the anticipated changes to the costs of labour, and access to cheaper inputs and the impact on domestic production vary.

The results from the analysis of the quantified estimated percentage changes on employment, production, trade, investment, exports and imports to some extent tally for both businesses and non-state actors. Regional integration will have a positive impact on trade through an increase in imports and exports among the SADC countries. Both indicate that there will be a positive change on investment and production, while the effect on employment is largely not positive. That is, a significant proportion of businesses and non-state actors report that regional integration may not necessarily result in more employment.

With regard to the ongoing policy debate on SADC regional integration, non- state actors have not been involved to a significant extent on SADC regional integration issues. The same applies to businesses. The NSAs and the business community believe that their involvement and participation on SADC regional integration issues, either through membership to SADC umbrella organisations or invitation to workshops and seminars on relevant matters, may enhance their understanding of integration and how they can position themselves to exploit, to the maximum, the benefits and opportunities of greater SADC integration.

1 Introduction

In the past decade, countries in the SADC region have been striving to achieve greater regional integration. The main overriding objective for greater integration among SADC countries is to promote sustainable and equitable economic growth and socio-economic development through efficient productive systems, deeper cooperation and integration, good governance, and durable peace and security. This is intended to enable the region to emerge as a competitive and effective player in the international economy.

This study is an initiative of the Friedrich Ebert Foundation in Botswana, in close consultation with the SADC Secretariat, to conduct research that largely aims to assess the extent of regional integration among SADC countries through a series of country studies that focus on the impact of various macro-economic policies on the individual countries in as far as greater integration is concerned. A central aspect of the study is to conduct a survey of non-state actors and businesses in each of the SADC countries, with a view to identifying the perceptions of businesses and non-state actors on regional integration. Also, the survey is intended to identify priority areas that need to be addressed to accelerate the process of regional integration in SADC and to make it a success In addition. The analysis is intended to reveal factors that act as barriers to trade and highlight factors that businesses and non-state actors perceive as the possible impacts of regional integration in the broader economy and on their production activities, as well, as identify the costs and benefits of SADC integration.

The remainder of the report is structured as follows: Section III of the report details the methodology adopted in the survey, Section IV focuses on the analysis of the data compiled from the business sector and the non-state actors on their perceptions regarding regional integration in SADC. This section is divided into three subsections that discuss the impact of regional integration as perceived by the business and non-state actors, the perceived impact on domestic businesses and the factors that act as barriers to trade in the SADC region. Section V analyses responses on respondents' involvement in policy debates and the policy making process in SADC, while Section VI gives the conclusions drawn from the analysis of the survey in Botswana.

2 Methodology

A survey instrument with coded questions was developed for both the non state actors and business community. The terms of reference stipulated that the survey cover a minimum of 30 companies and 10 non-state actor organisations or associations. The mode adopted for dispatching the survey instrument and for communication or reaching the respondents was the e-mail system. The sample of companies was selected from the various BIDPA project data bases such as the Global Competitiveness Survey Data Base, the Manufacturing Companies Data Base and the World Bank/BIDPA Survey Data Base. The list of non-state actors covered in the survey was compiled from the Botswana Council of Non-Governmental Organisations (BOCONGO) membership list, the BOCONGO Business Directory and the national telephone directory, the Vision 2016 list of stakeholders and companies, as well as the list of unions, associations and civil society organisations provided by the FEF office in Botswana.

The response rate from the business sectors was low despite the numerous follow up attempts through phone calls, re-sending the e-mails as well as faxing. Previous surveys that our institute has conducted in the business sector, have been more successful, due to the fact that interviews or survey were done on a one to one basis. In this study, the response rate was very low in Botswana because of the use of email. Phone and faxing. We have had numerous error messages from the e-mails that were sent to the businesses but despite the rigorous follow up made with the contact persons, the rate of response was still disappointingly low. This is attributed the fact that e-mail is relatively a new mode of communication in the community and some companies have difficulty with accessing their mails or server problems that prohibited the efficient communication between ourselves and the business which adversely affected our ability to obtain more responses. It is therefore, imperative that in analyzing the sample and drawing the conclusion, one bears in mind the small size of the sample.

The non-state actors response rate was very high, 3 times the targeted number compared to that of the businesses. This was achieved through a close interaction with FEF office in Gaborone which has been running some workshop activities that provided a close working relationship with the non-state actors. The poor communications system made it difficult to cover other areas outside Gaborone due to lack of a proper functional e-mail system.

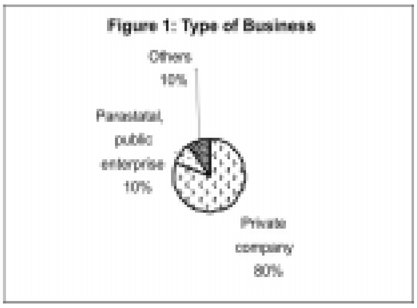
3 Characteristics of Respondents

3.1 Businesses

80% of the companies covered in the survey are private companies, 10% are parastatal, public enterprises, while 10% fall into the other category. The major activity of the companies surveyed includes manufacturing (40%) wholesale (20%), transport and communications (10%) and others (20%). The survey covered different company sizes, both small, medium and large. Using employment levels as an indicator of company size, 50% of the businesses enumerated were large companies employing more than 100 employees, 20% employed between 50 and 99 employees, 20% employed 25-49 employees, while 10% had employees ranging between 11 and 24 in number.

Table 1: Main activity of company

	Frequency	Percent
Manufacturing	4	40
Wholesale	2	20
Transport and communication	1	10
Others	2	20
Total	**10**	**100**



The annual turnover of all the businesses covered in the survey exceeds US100,000 per annum and the majority of them (90%) have been operating for more than 10 years. Only 10% of the companies have been in operation for a period of less than five years.

The companies trade with other countries in the SADC region through sourcing imports for their production activities and also exporting some of the goods they produce to other SADC countries. 80% of the companies indicated that they obtain more than US$100,000 of their imports per annum from SADC countries. 40% import less than US$25,000 from non-SADC countries, 10% import about US$25,000-US$50,000 and 40% import more than US$100,000 per annum from other non-SADC countries. With regard to exports, 50% of the businesses export less than US$25,000 to SADC countries annually, 30% export more than US$100,000 to SADC countries. Not many companies in the sample of companies covered export to non-SADC countries, those that reported exports to other non-SADC countries indicate that they export move to end goods valued at less than US$25,000 on an annual basis. The major export countries identified are South Africa, Namibia, Swaziland, and EU. The second tier countries of export are South Africa, Zimbabwe and EU. Third tier countries that businesses in Botswana export to include Lesotho, Namibia and South Africa. South Africa emerges as the major export destination, as well as a major source of imports.

70% of the companies indicate that they face strong competition from South Africa and 20% indicate the existence of moderate competition from South Africa. The analysis reveals that 40% of the companies face strong to moderate competition from BLNS countries. The competition faced by Botswana firms from other SADC excluding the BLNS, rest of Africa, EU Asia, USA, and the ROW is relatively weak. This analysis is consistent with trade statistics which have shown that Botswana imports most of its goods from South Africa and that Botswana firms do most of their business in South Africa.

3.2 Non-State Actors

The survey covered 29 non-state actor companies with 41% being organised labour organisations, 3% being other professional associations, 35% being other civil society organisations and 6% being others as indicated in the pie chart below. 55% of the organisations have been in operation for more than 10 years, while 21% had been operating for a period of between 6 and 10 years. About 24% of the organizations reported to have been operating for a period of 2-5 years.

A very low number of the organisations, 10%, covered in the survey are members of the SADC National Committee, while 52% reported that they had have membership to a regional umbrella organisation.

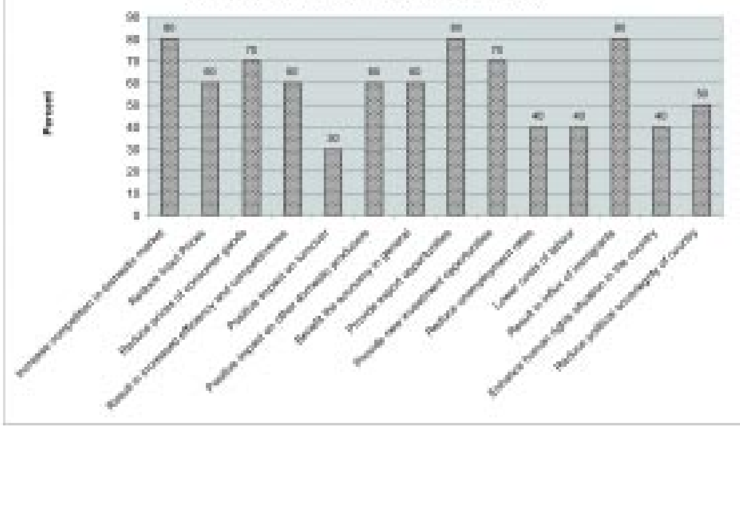
4 Perceptions on SADC Regional Integration

4.1 Impact of Regional Integration

The survey asked quite a number of questions aimed at assessing the perceptions of both the businesses and non-state actors on SADC regional integration. The following discussion highlights what emerged from the analysis of responses given by the business community and non-state actors with regard to SADC regional integration in Botswana, mainly what possible impact regional integration may have on various factors.

A significant proportion of businesses, 80%, feel that regional integration in SADC will result in increased competition in the domestic market, provide new export opportunities and result in an influx of immigrants. From the figure below, it can be seen that 70% agree that regional integration will result in a reduction in prices of consumer goods and provide new investment opportunities. A reduction in input prices, increased efficiency and competitiveness, positive impact on other domestic producers, benefit the economy in general were some of the benefits that 60% of the companies believe will emanate from SADC regional integration. A lower proportion of businesses, 40%, agree on the potential benefits of regional integration to reduce unemployment rates, lower costs of labour, as well as improve the human rights and political situation the country. Only 30% agree that regional integration will have a positive impact on turnover.

Figure 2: Perception of Regional Integration by Businesses (Percent of Businesses that Agree/Agree Strongly)



A closer look at the responses given by the non-state actors reveal the same views held by businesses on the potential impact of regional integration on the same factors indicated above. The figure below maps the response by non-state actors. What emerges from the graph is that a significant proportion of the non-state actors (91%) believe that regional integration in SADC would increase competition in the domestic market, provide new export opportunities (83%) and result in an influx of immigrants (83%).

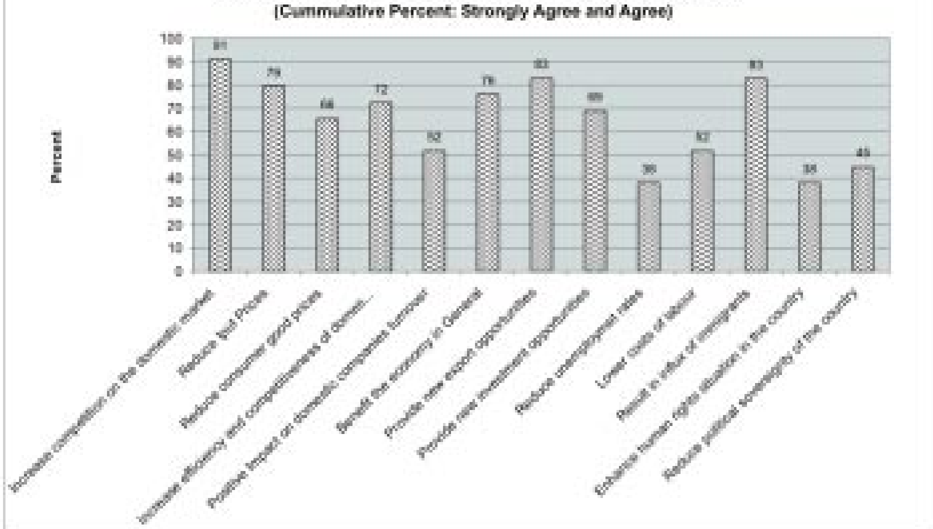


Figure 3: Perception of Regional Integration by Non-State Actors (Cummulative Percent: Strongly Agree and Agree)

The summary table below presents a comparison of the businesses' and non-state actors' views on the impact of regional integration.

Table 2: Impacts of SADC Regional Integration on Various Aspects

	Businesses (Percent)	Non-State Actors (Percent)
Increase competition in domestic market	80	91
Provide export opportunities	80	83
Result in influx of immigrants	80	83
Provide new investment opportunities	70	69
Reduce prices of consumer goods	70	66
Reduce input prices	60	79
Benefit the economy in general	60	76
Result in increased efficiency and competitiveness	60	72
Positive impact on other domestic producers	60	
Reduce political sovereignty of country	50	45
Lower costs of labour	40	52
Reduce unemployment rates Enhance human rights situation in the	40	38
country	40	38
Positive impact on turnover	30	52

The businesses, the non-state actors share the common view held by businesses that regional integration will reduce unemployment rates and enhance the human rights situation in the country. What emerges from the analysis of both the business and non-state actor perceptions, is that there are some benefits and losses that may be derived from greater regional integration of SADC countries but, at the same time, there are fears that in countries where there is no strong industrial base, as well as a favourable business and economic climate for investment and business growth, such benefits may not be realized in the near future.

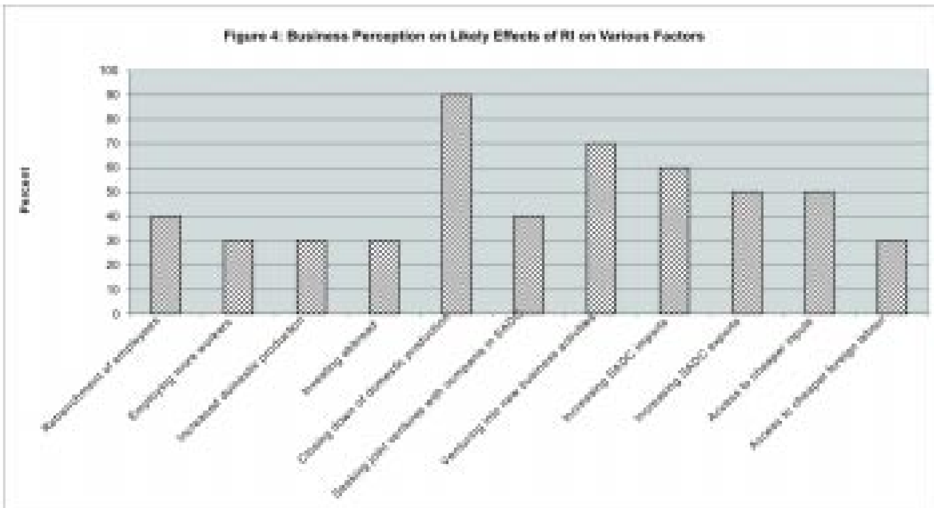
4.2 Impact on Domestic Businesses

The regional integration process in SADC ultimately aims to achieve a free trade area among the SADC countries, more trade and a reduction in the barriers for efficient trade among firms and countries.

It is, therefore, imperative to assess its impact on firms and domestic business as they move towards freer trade.

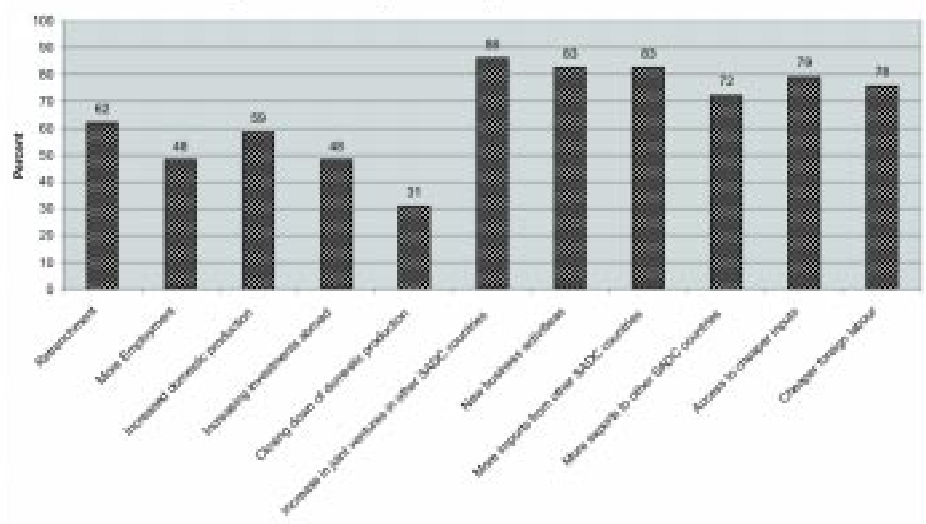
A first step of the study was to evaluate whether the existing business environment was favourable for businesses. 50% of the business community indicated that the business environment was not favourable for doing business. Businesses also found the business climate in the BLNS countries to be less favourable for doing business, while the climate in South Africa was viewed as more favourable for businesses by (70%) of the business community. In as much as not many companies in the sample indicated that they traded with the EU, USA and Asia, they indicated that the business environment there was favourable or that they did not know if it was less favourable or favourable.

A further analysis of what companies felt would be the likely effect on various factors affecting their activities and operations revealed that regional integration is likely to result in the closing down of domestic production (90% of firms). Other likely effects indicated by the firms that may arise as a result of regional integration include possibilities of firms retrenching their employees, venturing into new business activities, increasing imports and exports in SADC, access to cheaper inputs. Only 30% of firms indicated that regional integration is likely to result in access to cheaper foreign labour, investing abroad, employing more workers as well as an increase in domestic production. The figure below illustrates the responses in percentages of firms on what they felt were the likely effects of regional integration on various factors.



The non-state actors were also given the opportunity to highlight how the business community may be affected by SADC regional integration. Unlike the businesses, the majority of the non-state actors did not feel that regional integration would result in the closing down of domestic production. As depicted in the chart, non-state actors in high proportions (86%) believe that regional integration will result in an increase in joint ventures in SADC lead to new business activities and more imports from other SADC countries (83%) and more exports to other SADC countries. Also, regional integration would result in cheaper inputs (79%) and cheaper foreign labour (76%). 62% believe that there would be retrenchments as a result of regional integration, while 59% indicate that it will result in an increase in production.

Figure 5: NSD Perception on Likely Effects of RI on Various Factors



The views of both non-state actors and businesses overlap on what impact regional integration would have on business operations and activities. It is clear that both anticipate that regional integration will result in more trade with cheaper inputs and more and new business activities. At the same time, not all see regional integration playing a major role in opening up more employment opportunities, raising domestic production and the level of investments abroad. The non-state actors and business views on the costs of labour, and access to cheaper inputs and the impact on domestic production vary as can be seen from the two charts.

A further step in assessing the impact of regional integration on the domestic market was to seek a quantification of the anticipated impact of regional integration on employment, production, trade, investment and prices of goods and services. The tables below show estimated percentage changes by businesses and non-state actors on employment, production investment, and exports to SADC, imports from SADC and import prices that are likely to occur as a result of regional integration.

Table 3: Estimated Percentage Changes on Employment, Production, Trade and Investment by Businesses

Employment		Production		Investment		Exports to SADC		Imports to SADC		Import Prices	
% Change (+/-)	Percent	% Change (+/-)	Percent	% Change (+/-)	Percent	% Change (+/-)	Percent	% Change (+/-)	Percent	% Change (+/-)	Percent
-10	10	-20	10	-15	10	0	40	0	30	-20	10
-15	10	-15	10	0	30	4	10	4	10	-10	40
-20	20	0	20	4	10	10	10	15	10	-5	10
25	10	4	10	15	10	15	10	20	20	0	30
0	10	10	10	20	20	20	10	25	20	4	10
10	10	25	10	30	10	25	10	30	10		
25	10	33	10	100	10	30	10				
4	10	50	10								
50	10	100	10								

40% of the firms indicated a negative impact on employment ranging between 10-20 percent. 10% of the firms predict no change in employment, while 40% anticipate a positive effect on employment with percentage ranges of 10-25%. The businesses expect the change in production to be positive (50%) with percentage values ranging from 4-50% while 20% expect regional integration to bring no change in their production, 20% predict a negative change in production (range of 15-20%). With regard to investment, 10% of the firms report a negative impact of 15%. 60% predict positive changes on investment ranging between 4-100%, while 30% of the firms do not think that regional integration would result in any change in their investment.

40% of the firms expect import prices to be affected positively, while 60% predict a negative effect on import prices. Of particular interest is that all the firms expect SADC regional integration to result in more exports and imports among SADC countries, that is, a positive effect or change on exports and imports in the region.

For those non-state actors that responded to the questionaire, the general indication is that regional integration would have a positive effect on production, imports from SADC, exports to SADC and investment. Like the business sector non-state actors predict that, the effect on employment would be negative.

Table 4: Estimated Percentage Changes on Employment, Production, Trade and Investment by Non-State Actors

Production		Import from		Employment		Export to SADC		Investment	
% Change (+/-)	Percent	% Change (+/-)	Percent	% Change (+/-)	Percent	% Change (+/-)	Percent	% Change (+/-)	Percent
-50	3	-50	7	-55	3	-25	3	-50	3
-20	3	-34	3	-50	7	-10	3	5	3
-15	3	-30	3	-40	3	1	3	10	24
3	3	8	3	-30	7	5	3	15	3
5	3	10	7	-20	3	10	21	20	14
10	10	15	10	-10	7	15	3	25	3
15	3	20	3	5	3	20	10	30	3
20	14	25	3	10	10	25	7	50	3
30	7	30	7	20	14	30	7	Don't know	41
40	3	40	7	30	3	Don't know	38	..	..
50	3	50	3		Don't know	38	..	..	..
65	3	80	3	..	..	..	..	..	..
Don't know	38	Don't know	38	..	..	..	..	..	..

The results from the analysis of the quantified estimated percentage changes on employment, production, trade, investment, exports and imports to some extent tally for both businesses and non-state actors. Regional integration will have a positive impact on trade through an increase in imports and exports among the SADC countries. Both indicate that there will be a positive change in investment and production, while the effect on employment is largely not positive. That is, a significant proportion of businesses and non-state actors report that regional integration may result in a negative effect on employment.

The Firms in this survey were also asked to quantify the benefits and losses from regional integration on an annual basis. The table below summarises the annual gains that firms indicated could arise from regional integration of SADC countries, which range from P0.00 to P4 million.

Table 5: Annual Gains from deeper Regional Integration in SADC (Pula)

	Frequency	Percent
0	4	40
360000	1	10
500000	2	20
1000000	2	20
4000000	1	10
Total	**10**	**100**

40% of the Businesses expect the benefits from deeper integration to be positive. 20% of the businesses expect the annual gains from deeper integration to be P500,000, while another 20% expect the annual gain to be P1 million. Though the respondents were not many, the response and indication from the business community predicts positive gains, this is consistent with the expectations that regional integration will benefit the economy in general.

4.3 Barriers to Trade

The table below gives a summary break down of factors that emerged as barriers to trade that were identified by businesses and non-state actors in order of importance.

Table 6: Relevant Barriers to Trade within SADC by Businesses and Non-State Actors

Businesses	Percent	Non State Actors	Percent
High regional communication costs	80	High regional communication costs	86
High transport costs	70	Lack of information about foreign markets	83
Import duties and taxes paid in cash	70	High transport costs	83
Weak regional transport infrastructure	70	Export/import licenses and permits required	76
Lack of information about foreign markets	60	Bureaucracy	76
Exchange rate uncertainty	60	Time consuming customs procedures	72
Poor regional communication infrastructure	60	Exchange rate uncertainty	72
Visa requirements for traveling abroad	60	Import Duties and taxes	62
Customs tariffs	60	Poor regional communication infrastructure	55
Risk of non payment by customs abroad	60	Weak regional transport infrastructure	55
Export/import licenses and permits required	50	Non-transparent rules and regulations abroad	55
Substantial paper works and bureaucracy	50	Visa requirements for traveling abroad	55
Time consuming customs procedures	50	Customs tariffs as trade barriers	52
Weak law enforcement in export destination	50	Risk of non-payment of customs abroad	52
Lack of transparency of rules and regulations abroad	40	Export Insurance to cover for exports abroad	45
Corruption of officials	40	Corrupt officials	41
Rules of origin	30	Rules of origin	41
No export insurance to cover payment risks of exports	20	Weak law enforcement in export destinations	38
SPS regulations	20	Sanitary and phyto-sanitory regulations	35

Both businesses (80%) and non-state actors (86%) found high regional communication costs to be a major barrier to trade in the region. The other important barriers to trade identified by a high percentage of businesses and non-state actors, as indicated in the table above are the high transport costs and weak regional infrastructure, lack of information about foreign markets, export/import licenses and permits required and the time consuming customs procedures. The factors identified as barriers to trade are similar to those that were identified in a country-wide study in Botswana that sought to identify the administrative and regulatory costs of doing business in Botswana. The high transport costs, high costs for licenses and permits as well as the cumbersome and time consuming procedures, emerged as the major barriers to doing business in Botswana (BIDPA/World Bank, 2004). Exchange rate uncertainty was also found to be a major barrier to trade in Botswana; and this is currently a major topic of debate following the two currency devaluations and the introduction of a new exchange rate policy (7.5% devaluation in February 2004, 12% devaluation in May 2005 and introduction of the crawling peg).

5 Policy Debate on SADC Integration and The Way Forward

As already alluded to in the above sections, only 10% of the non-state actors indicated that they were members of the SADC National Committee. Businesses reported that they were not involved in the SADC debate and there were no workshops and seminars to which that addressed issues pertaining to SADC regional integration that they were invited to participate . The non-state actors in general felt that regional integration in SADC would slightly strengthen their involvement in policy making slightly. 12% of the non-state actors believed that their involvement in policy making would be stronger as a result of regional integration. 10% indicated that their involvement would weaken slightly, while 19% did not expect regional integration to bring any changes to their involvement in policy making. 30% did not know whether regional integration would have any impact on their involvement in the policy making sphere.

The Non-state actors also share the same concerns as the businesses on the lack of involvement in SADC meetings, workshops and the policy making/design. In Botswana, both respondents indicate no active participation in COMESA or EAC regional integration issues and most of them did not have knowledge about the ongoing policy debates in as far as the integration of EAC and COMESA is concerned.

Despite the lack of active participation in the SADC regional policy debate that is ongoing, businesses and non-state actors are in favour of SADC regional integration.

Taking the cumulative percentages for those that agree strongly and agree slightly as reflecting the position of the parties on the implementation of regional integration in SADC, it can be concluded that generally the support for regional integration is positive although there are costs as indicated in the previous discussion which alluded to the fact that the benefits for regional integration will be higher in countries where the industrial and production base is already stronger. 30% of the businesses indicate that they are strongly in favour of regional integration, while 14% of the non-state actors are strongly in favour of SADC integration. 50% of businesses are slightly in favour.

Higher percentages are reported by both businesses (50%) and non state actors (69%) on their being in favour of regional integration in general.

While the respondents support regional integration within SADC, there are a host of factors that they wish regional integration to address and there is variation in the extent to which they want regional integration to go. All businesses (100%) and about 85% of the non-state actors want regional integration to reduce tariffs within the SADC region. Other factors deemed important for regional integration include removal of restrictions on the free movement of services within SADC, design of competition policies for SADC as a whole, removing tariffs and establishing a common external tariff with all other countries. The two charts below map out these factors in order of importance as reported by the respondents from the businesses and non-state actors.

The views of both businesses and non-state actors regarding what regional integration should entail within the SADC region are not significantly different. The factors that are deemed the most important overlap for the first top 5 factors.

The respondents emphasise the need for capacity building for them to be able to understand regional integration issues, its benefits and what role they can play to maximize the benefits of SADC regional integration. The type of capacity building should include assistance with critical information that would enhance the roles that organizations and businesses have to play. The importance of raising awareness through workshops and seminars, as well as the involvement of businesses and non state actors in SADC National Committee meetings and national policy making, are critical issues that should be considered in promoting the role played by businesses and non actors in SADC regional integration. Transparency and access to information pertaining to SADC issues and assistance with the necessary funding are among the important factors that the respondents indicated as vital if they are to exploit the benefits of regional integration and make it a success in SADC.

6 Conclusions

What emerges from this survey is that there is general support for SADC regional integration by both businesses and non-state actors in Botswana. Both expect deeper SADC integration to benefit the economy in general, bring new trade and investment opportunities. The views of both non-state actors and businesses overlap on what impact regional integration would have on business operation and activities. Both anticipate that regional integration will result in more trade with cheaper inputs and more and new business activities. At the same time, not all see regional integration playing a major role in opening up more employment opportunities, raising domestic production and the level of investments abroad.

The results from the analysis of the quantified estimated percentage changes on employment, production, trade, investment, exports and imports to some extent tally for both businesses and non-state actors. Regional integration will have a positive impact on trade through an increase in imports and exports among the SADC countries. Both indicate that there will be a positive change in investment and production, while the effect on employment is largely not positive.

A further analysis of what companies felt would be the likely effect on various factors affecting their activities and operations revealed that regional integration is likely to result in the closing down of domestic production. Other likely effects, indicated by the firms, that may arise as a result of regional integration include of firms retrenching their employees, venturing into new business activities, increasing imports and exports in SADC, access to cheaper inputs. Only 30% indicated that regional integration is likely to result in access to cheaper foreign labour, investing abroad, employing more workers, as well as an increase in domestic production.

The survey reveals that the businesses and non-state actors are not actively involved in the SADC regional integration policy making process. This is one area where policy makers need to enhance public awareness mechanisms to ensure information sharing either through workshops or seminars that will engage both non-state actors and the business community. Such a step will go a long way in ensuring that non-state actors and businesses play a role on issues that are relevant to them and allow them to position themselves effectively to explore the benefits of regional integration.

The respondents emphasise the need for capacity building for them to be able to understand regional integration issues, its benefits and what role they can play to maximize the benefits of SADC regional integration. Transparency and access to information pertaining to SADC issues and assistance with the necessary funding are among the important factors that the respondents indicated as vital if they are to exploit the benefits of regional integration and make it a success in SADC.

Appendix:

1 Questionnaire for Non-State Actors

Please be assured that all information will be treated strictly confidential!

The survey refers to regional integration within SADC - the Southern Africa Development Community that consists of: Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.

Details of organisation
Organisation's name:______________________________
Contact details:______________________________
Person's name:______________________________

Please circle the code of your answer! One response only unless otherwise stated.

1 Please indicate the type of organisation

Type	Code
Organised labour	1
Organised employer	2
Industry association	3
Other professional association	4
Other civil society organisation	5
Others, please state…….	6

2 How long has your organisation been in operation?

	less than 2 years	2-5 years	6-10 years	more than 10 years
Code	1	2	3	4

3 Are you a member of the SADC National Committee?

	Code
Yes	1
No	2

4 Are you a member of a regional umbrella organisation?

	Code
Yes	1
No	2

Perceptions on regional integration within SADC

5 How would you rate the following statements? Regional integration within SADC will...

Question		Agree strongly	Agree	Disagree strongly	Disagree	Don't know
5.1	… increase competition on the domestic market	1	2	3	4	5
5.2	… reduce prices of inputs	1	2	3	4	5
5.3	… reduce prices of consumer goods	1	2	3	4	5
5.4	… result in increased efficiency of domestic production to stay competitive	1	2	3	4	5
5.5	…have positive impacts on domestic companies' turnover	1	2	3	4	5
5.6	…benefit the economy in general					
5.7	…provide new export opportunities	1	2	3	4	5
5.8	…provide new investment opportunities	1	2	3	4	5
5.9	…reduce unemployment rate	1	2	3	4	5
5.10	…lower costs of labour	1	2	3	4	5
5.11	…result in influx of immigrants	1	2	3	4	5
5.12	…enhance human rights situation in the country	1	2	3	4	5
5.13	…reduce political sovereignty of my country	1	2	3	4	5

6 Would your answers have differed if we had asked about regional integration within Comesa or EAC?

	Code
Yes, a lot	1
Yes, some	2
No, hardly any	3
No, not at all	4
Don't know	5

Note: *Comesa Common Market for Eastern and Southern Africa*

EAC East African Community

7 How relevant do you think are the following barriers to businesses in your country?

Question	Barrier	Very relevant	Relevant	Hardly relevant	Not at all	relevant know
7.1	Customs tariffs currently employed	1	2	3	4	5
7.2	Import duties and taxes have to be paid in cash	1	2	3	4	5
7.3	Sanitary and phyto-sanitary regulations	1	2	3	4	5
7.4	Rules of origin	1	2	3	4	5
7.5	Export / import licenses and permits required	1	2	3	4	5
7.6	Lack of transparency of rules and regulations abroad	1	2	3	4	5
7.7	Time consuming customs procedures	1	2	3	4	5
7.8	Substantial paper works, bureaucracy	1	2	3	4	5
7.9	Corruption of officials	1	2	3	4	5
7.10	Lack of information about foreign markets	1	2	3	4	5
7.11	Visa requirements for travelling abroad	1	2	3	4	5
7.12	Exchange rate uncertainty	1	2	3	4	5
7.13	Risk of non-payment of customers abroad	1	2	3	4	5
7.14	No export insurance available to cover payment risks of exports	1	2	3	4	5
7.15	Poor regional communication infrastructure	1	2	3	4	5
7.16	High regional communication costs	1	2	3	4	5
7.17	Weak regional transport infrastructure	1	2	3	4	5

7.18	High transport costs	1	2	3	4	5
7.19	Weak law enforcement in export destination	1	2	3	4	5
7.20	Others (please indicate)	1	2	3	4	5

8 What do you think are the three most relevant barriers to imports and exports?

Please enter the row number (for instance 7.3 from question 7.)

Question	Level of relevance	Please enter code from the list above
8.1	Most relevant	
8.2	Second most relevant	
8.3	Third most relevant	
8.4	Don't know	999

9 How do you think regional integration will impact on businesses in your country?

Question	Statement	Likely	Unlikely	Don't know
9.1	…retrenching employees	1	2	3
9.2	…employing more workers	1	2	3
9.3	…increasing domestic production	1	2	3
9.4	…investing abroad	1	2	3
9.5	…closing down production in the country	1	2	3
9.6	…seeking joint-venture with companies in other SADC countries	1	2	3
9.7	…venturing into new business activities	1	2	3
9.8	…importing more from other SADC countries	1	2	3
9.9	…exporting more to other SADC countries	1	2	3
9.10	…having access to cheaper inputs	1	2	3
9.11	…having access to cheaper foreign labour	1	2	3

10 More specifically, please indicate by how much could … increase/ decrease in your country.

10.1	Employment			999
10.2	Production			999
10.3	Investment			999
10.4	Exports to SADC			999

10.5	Imports from SADC	999
10.6	Input prices	999

11 How do you think regional integration within SADC will impact on the policy involvement of Non-State Actors in your country?

Impact	Code
Strengthen strongly	1
Strengthen slightly	2
Weaken slightly	3
Weaken strongly	4
No changes expected	5
Don't know	6

12 Has your organisation been involved in the design of domestic policies?

	Code
Yes	1
No	2

13 Has your organisation been involved in the design of SADC policies?

	Code
Yes	1
No	2

14 How do you think regional integration will impact on your organisation's policy influence in your country?

Impact	Code
Strengthen strongly	1
Strengthen slightly	2
Weaken slightly	3
Weaken strongly	4
No changes expected	5
Don't know	6
Does not apply	7

Policy debate concerning SADC integration

15 Is regional integration a topic in the public debate in your country?

Question		Integration in general	SADC integration	Comesa integration	EAC integration
15.1	Yes, very much	1	2	3	4
15.2	Yes, but not very prominent	1	2	3	4
15.3	No	1	2	3	4
15.4	Don't know	1	2	3	4

Note: Comesa Common Market for Eastern and Southern Africa
EAC East African Community

16 Have you discussed the impacts of regional integration in your organisation?

Question		Integration in general	SADC integration	Comesa integration	EAC integration
16.1	Yes, regularly	1	2	3	4
16.2	Yes, sometimes	1	2	3	4
16.3	No	1	2	3	4
16.4	Don't know	1	2	3	4

17 Has your organisation organised public workshops and/or seminars to discuss regional integration?

Question		Integration in general	SADC integration	Comesa integration	EAC integration
17.1	Yes, regularly	1	2	3	4
17.2	Yes, sometimes	1	2	3	4
17.3	No	1	2	3	4
17.4	Don't know	1	2	3	4
17.5	Does not apply	1	2	3	4

18 Has your organisation taken any other measures such as press releases to raise the issue of regional integration?

Question		Integration in general	SADC integration	Comesa integration	EAC integration
18.1	Yes, regularly	1	2	3	4
18.2	Yes, sometimes	1	2	3	4
18.3	No	1	2	3	4
18.4	Don't know	1	2	3	4
18.5	Does not apply	1	2	3	4

19 Has your organisation attended workshops and/or seminars discussing regional integration?

Question		Integration in general	SADC integration	Comesa integration	EAC integration
19.1	Yes, regularly	1	2	3	4
19.2	Yes, sometimes	1	2	3	4
19.3	No, because no workshops were offered	1	2	3	4
19.4	No, but workshops were offered	1	2	3	4
19.5	Don't know	1	2	3	4
19.6	Does not apply	1	2	3	4

20 Has your organisation been invited to SADC National Committee meetings?

	Code
Yes, regularly	1
Yes, sometimes	2
No	3
Don't know	4

21 Has your organisation participated in SADC National Committee meetings?

	Code
Yes, regularly	1
Yes, sometimes	2
No, but was invited	3
No, was not invited	4
Don't know	5

22 Do you think there is a need to increase the capacity among Non-State Actors to participate in committees on regional issues?

	Code
Yes	1
No	2

23 If you think there is a need for capacity building, what kind of capacity building would you suggest?

____

____

____

24 Are you overall in favour of regional integration?

Question		Integration in general	SADC integration	Comesa integration	EAC integration
24.1	Yes, strongly	1	2	3	4
24.2	Yes, slightly	1	2	3	4
24.3	No	1	2	3	4
24.4	Don't know	1	2	3	4

25 How far would you like regional integration to go?

Question	Degree of regional integration	Yes	No	Don't know
25.1	Reduce tariffs within SADC	1	2	3
25.2	Remove tariffs within SADC, establish Common External Tariff to all other countries	1	2	3
25.3	Remove all trade restrictions within SADC	1	2	3
25.4	Remove restrictions on the free movement of capital within SADC	1	2	3
25.5	Remove restrictions on the free movement of labour within SADC	1	2	3
25.6	Remove restrictions to the free movement of services within SADC	1	2	3
25.7	Implement same level of taxes within SADC	1	2	3
25.8	Design competition and trade policies for SADC as a whole	1	2	3
25.9	Create single currency within SADC	1	2	3
25.10	Create political union with parliament and executive	1	2	3
25.11	Create regional umbrella organisation of Non-State Actors			

2 Questionnaire for Businesses

Please be assured that all information will be treated strictly confidential!

The survey refers to regional integration within SADC - the Southern Africa Development Community that consists of: Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.

Company details:
Company name:______________________________________
Contact details:______________________________________
Person's name:______________________________________

Please circle always the code of your answer! One response only unless otherwise stated.

1 Please indicate the type of your business

Type	Code
Private company	1
Parastatal, public enterprise	2
Private-Public Partnership	3
Others, please state....	4

2 Please indicate the main activity your company is involved in:

Sector	Code	Sector	Code	Sector	Code
Agriculture	1	Construction	5	Tourism	9
Fishing (Marine, Inland)	2	Wholesale & retail trade	6	Others, please specify	10
Mining	3	Transport &			
Manufacturing	4	communication Financial services			7 8

3 What is the total number of employees in your company (including yourself, contracted and casual labour)?

Number of employees	1-5	6-10	11-24	25-49	50-99	100+
Code	1	2	3	4	5	6

4 How long has your company been in operation?

	less than 2 years	2-5 years	6-10 years	more than 10 years
Code	1	2	3	4

5 What is your company's annual … in US dollars?

Question		Value in US dollars			
		<25,000	25,000 to50,000	50,001 to 100,000	>100,000
5.1	Turnover	1	2	3	4
5.2	Imports from within SADC	1	2	3	4
5.3	Imports from out side SADC	1	2	3	4
5.4	Exports to other SADC countries	1	2	3	4
5.5	Exports to countries outside SADC	1	2	3	4

6 Please list the three main countries your company is exporting to in order of relevance:

Question	Country	Code (entered by interviewer!)
6.1		
6.2		
6.3		
6.4	Don't know since export agent is involved	999

7 What share of the total turnover does your company receive from sales on the local market - excluding sales to export agents - and from sales to each of the main export countries?

Question	Market	Sales in percentage
7.1	Domestic market	
7.2		
7.3		
7.4		

Note: Enter the names of the three main export destinations of the company in rows 7.2 to 7.4.

8 Are you facing competition on the domestic market from foreign companies?

Question	Country	Yes strong	Yes, moderate	Yes, weak	No	Does not apply
8.1	Republic of South Africa	1	2	3	4	5
8.2	Botswana, Lesotho, Namibia, Swaziland	1	2	3	4	5
8.3	Other SADC excluding above mentioned	1	2	3	4	5
8.4	Rest of Africa	1	2	3	4	5
8.5	EU	1	2	3	4	5
8.6	Asia	1	2	3	4	5
8.7	USA	1	2	3	4	5
8.8	Rest of the World	1	2	3	4	5
8.9	Don't know country of origin of competitor	1	2	3	4	5

Perceptions on regional integration within SADC

9 How would you rate the following statements? Regional integration within SADC will...

Question		Agree strongly	Agree	Disagree	Disagree strongly	Don't know
9.1	… increase competition on the domestic market	1	2	3	4	5
9.2	… reduce prices of inputs	1	2	3	4	5
9.3	… reduce prices of consumer goods	1	2	3	4	5
9.4	… result in increased efficiency of own company in order to stay competitive	1	2	3	4	5
9.5	… have positive impacts on my company's turnover	1	2	3	4	5
9.6	… have positive impacts on other domestic producers	1	2	3	4	5
9.7	… benefit the economy in general					
9.8	… provide new export opportunities	1	2	3	4	5
9.9	… provide new investment opportunities	1	2	3	4	5
9.10	… reduce unemployment rate	1	2	3	4	5
9.11	… lower costs of labour	1	2	3	4	5
9.12	… result in influx of immigrants	1	2	3	4	5
9.13	… enhance human rights situation in the country	1	2	3	4	5
9.14	… reduce political sovereignty of my country	1	2	3	4	5

10 Would your answers have differed if we had asked about regional integration within Comesa or EAC?

	Code
Yes, a lot	1
Yes, some	2
No, hardly any	3
No, not at all	4
Don't know	5

Note: Comesa Common Market for Eastern and Southern Africa
EAC East African Community

11 Do you experience barriers for exporting and importing goods to and from SADC countries?

	Code	Instruction
Yes	1	**Continue with Question 12**
No	2	**Continue with Question 14**
Does not apply, since I'm not exporting/importing to SADC	3	**Continue with Question 14**

12 If you experience barriers, how relevant are the following barriers?

Question	Barrier	Very relevant	Relevant	Hardly relevant	Not at all relevant	Does apply
12.1	Customs tariffs currently employed	1	2	3	4	5
12.2	Import duties and taxes have to be paid in cash	1	2	3	4	5
12.3	Sanitary and phyto-sanitary regulations	1	2	3	4	5
12.4	Rules of origin	1	2	3	4	5
12.5	Export / import licenses and permits required	1	2	3	4	5
12.6	Lack of transparency of rules and regulations abroad	1	2	3	4	5
12.7	Time consuming customs procedures	1	2	3	4	5
12.8	Substantial paper works, bureaucracy	1	2	3	4	5

Question	Barrier	Very relevant	Relevant	Hardly relevant	Not at all relevant	Does apply
12.9	Corruption of officials	1	2	3	4	5
12.10	Lack of information about foreign markets	1	2	3	4	5
12.11	Visa requirements for travelling abroad	1	2	3	4	5
12.12	Exchange rate uncertainty	1	2	3	4	5
12.13	Risk of non-payment of customers abroad	1	2	3	4	5
12.14	No export insurance available to cover payment risks of exports	1	2	3	4	5
12.15	Poor regional communication infrastructure	1	2	3	4	5
12.16	High regional communication costs	1	2	3	4	5
12.17	Weak regional transport infrastructure	1	2	3	4	5
12.18	High transport costs	1	2	3	4	5
12.19	Weak law enforcement in export destination	1	2	3	4	5
12.20	Others (please indicate)	1	2	3	4	5

13 What are the three most relevant barriers you are facing in foreign trade?

Please enter the row number (for instance 12.1) from question 12.

Question	Level of relevance	Row number from the list above
13.1	Most relevant	
13.2	Second most relevant	
13.3	Third most relevant	

14 How would you rate the current business climate in…?

Question	Market	Very favour	favourable	Less favour	Unsatisfactory	Don't know
14.1	Domestic market	1	2	3	4	5
14.2	South Africa	1	2	3	4	5
14.3	Botswana, Lesotho, Namibia, Swaziland	1	2	3	4	5
14.4	Other SADC excluding above mentioned	1	2	3	4	5
14.5	Rest of Africa	1	2	3	4	5
14.6	EU	1	2	3	4	5
14.7	USA	1	2	3	4	5
14.8	Asia	1	2	3	4	5
14.9	Rest of the world	1	2	3	4	5

15 Increasing regional integration could result in my company…

Question	Statement	Likely	Unlikely	Don't know	Does not apply
15.1	…retrenching employees	1	2	3	4
15.2	…employing more workers	1	2	3	4
15.3	…increasing domestic production	1	2	3	4
15.4	… investing abroad	1	2	3	4
15.5	…closing down production in the country	1	2	3	4
15.6	…seeking joint-venture with companies in other SADC countries	1	2	3	4
15.7	…venturing into new business activities	1	2	3	4
15.8	…importing more from other SADC countries	1	2	3	4
15.9	…exporting more to other SADC countries	1	2	3	4
15.10	…having access to cheaper inputs	1	2	3	4
15.11	…having access to cheaper foreign labour	1	2	3	4

16 More specifically, please indicate by how much would … increase/ decrease in your company.

Question		Increase in %	Decrease in %
16.1	Employment		
16.2	Production		
16.3	Investment		
16.4	Exports to SADC countries		
16.5	Imports from SADC countries		
16.6	Import prices		

17 What do you think would be the annual gains your company could derive from deeper regional integration within SADC - because of improved market access, lower import costs, less bureaucracy, etc.?

Gains in Pula (P)

18 What do you think would be the annual losses your company could incur from deeper regional integration within SADC - because of increased competition, etc.?

Losses in Pula (P)

Policy debate concerning SADC integration

19 Is regional integration a topic in the public debate in your country?

Question		Integration in general	SADC integration	Comesa integration	EAC integration
19.1	Yes, very much	1	2	3	4
19.2	Yes, but not very prominent	1	2	3	4
19.3	No	1	2	3	4
19.4	Don't know	1	2	3	4

Note: *Comesa Common Market for Eastern and Southern Africa*
EAC East African Community

20 Have you attended workshops and/or seminars discussing regional integration?

Question		In general	SADC integration	Comesa integration	EAC integration
20.1	Yes, regularly	1	2	3	4
20.2	Yes, sometimes	1	2	3	4
20.3	No, because no workshops were offered	1	2	3	4
20.4	No, but workshops were offered	1	2	3	4
20.5	Does not apply	1	2	3	4

21 Are you overall in favour of regional integration?

Question		In general integration	SADC integration	Comesa integration	EAC integration
21.1	Yes, strongly	1	2	3	4
21.2	Yes, slightly	1	2	3	4
21.3	No	1	2	3	4
21.4	Don't know	1	2	3	4

22 How far would you like regional integration to go?

Question	Degree of regional integration	Yes	No	Don't know
22.1	Reduce tariffs within SADC	1	2	3
22.2	Remove tariffs within SADC, establish Common External Tariff to all other countries	1	2	3
22.3	Remove all trade restrictions within SADC	1	2	3
22.4	Remove restrictions on the free movement of capital within SADC	1	2	3
22.5	Remove restrictions on the free movement of labour within SADC	1	2	3
22.6	Remove restrictions to the free movement of services within SADC	1	2	3
22.7	Implement same level of taxes within SADC	1	2	3
22.8	Design competition and trade policies for SADC as a whole	1	2	3
22.9	Create single currency within SADC	1	2	3
22.10	Create political union with parliament and executive	1	2	3

About the Authors

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