



Budget Briefing

BOTSWANA INSTITUTE FOR DEVELOPMENT POLICY ANALYSIS

2018 BIDPA BUDGET BRIEFING

Trade Infrastructure and the Budget: Briefing Note

Background and Context

Infrastructure facilitates trade by reducing trade costs, that is, the costs of moving goods and services from an exporting country (place of production) to the importer (point of consumption). Empirical evidence suggests a strong link between infrastructure and trade¹. Infrastructure includes both physical infrastructure (roads, bridges railway lines, energy, etc.) and soft infrastructure such as business environment, border procedures, logistics, etc. (UNCTAD, 2009). Addressing trade costs is an imperative for landlocked countries. Due to their long distances and lack of direct access to the sea, landlocked countries face particular challenges such as high transport costs, poor infrastructure, time needed to trade and inadequate logistics (Hallaert, et al., 2011). All these contribute to low trade performance in landlocked countries

and make these countries a less favourable destination for foreign direct investment. Botswana has improved its logistics performance ranking from 68 in 2012 to 57 in 2016 (out of 160 countries), and compares favourably with other countries in the region. However, its trading across borders ranking and the logistics quality and competence rank has remained unchanged at 75 (out of 160 countries) between 2012 and 2016, and this suggests that more needs to be done to improve quantity and quality of trade-related infrastructure.

Under the Pillar of Sustainable Economic Development of Vision 2036, Botswana aspires that “..... by 2036, Botswana will be a high-income country, with an export-led economy, underpinned by diversified, inclusive and sustainable growth driven by high levels of productivity”. NDP 11

identifies export-led growth strategy as key to achieving sustainable economic development through the realization of sustainable economic growth and creation of substantial employment opportunities. Given the strong link between trade and export performance in particular and infrastructure as well as the role of infrastructure on trade, investment in transport, information and communication and energy infrastructure is an integral part of the export-led growth strategy as outlined in NDP 11. The 2018/2019 National Budget is the second of the six that will be implemented during NDP 11. The focus of this Briefing is the extent to which the 2018/19 Budget responds to the need to develop infrastructure which supports trade. It looks at budgetary allocations to major projects on the provision of physical and soft infrastructure to enable trade (see Annex 1).

¹ See Ismail and Mahyideen (2015) for a review on literature on trade and infrastructure.

Expenditure on Trade-Related Infrastructure

Physical Infrastructure

Poor transport (roads, rail and air), information and communication technology (ICT) and energy infrastructure increase trade costs. Investment in infrastructure reduces trade costs and is likely to boost trade performance. The 2018/19 Budget allocates P2.66 billion to the Ministry of Transport and Communications as development funds to finance the construction and maintenance of infrastructure for road, rail and air transport. Notable projects that are catered for by this Budget allocation include the construction of roads and bridges such as the development of three intersections in Gaborone, the Gaborone-Boatle dual road and the construction of the Kazungula and Mohembo bridges. Other projects include the Modernised and Centralised Traffic Control System for the greater Gaborone area. Together with the intersections along the Western By-Pass, the planned Modernised and Centralised Traffic Control System should be expected to ease traffic congestion in the city.

The Budget Speech's commitment of P1.5 billion from the Road Levy Collections Fund to finance the maintenance of roads is commendable. It demonstrates Government's commitment to keeping infrastructure in usable condition and ensures that transportation for passengers and freight traffic is safe and efficient. Investment in transport infrastructure is likely to lower transport costs and boost trade. The need for maintenance of road infrastructure, especially in urban industrial and commercial centres has over the years become apparent and it is hoped that these roads will benefit from this year's budget allocation.

The 2018/19 development budget allocation to the Ministry of Transport and Communication represents more than 50% increase from the previous year's P1.74 billion. Increased investment in infrastructure development shows Government's commitment to support an export-led growth strategy. The construction of the Kazungula bridge is of particular importance to regional integration. The cost of construction of this important bridge is shared between the governments of Botswana and Zambia but will benefit trade in the Southern African region. Kazungula Bridge, will go a long way in easing goods transport congestion through the Botswana and Zambia border, which is a gateway to the trade corridor connecting several countries in Southern Africa. Once completed, the bridge should be expected to put more pressure on the connecting road network between major commercial cities feeding into the bridge. The refurbishment of the Francistown-Nata road and the maintenance of the Nata-Kazungula stretch should be a priority in order to keep up with the demand for requisite road infrastructure along this commercial route and hence maximize the benefits of the bridge.

The budget allocation for aviation infrastructure is mainly towards the development of the Maun and Kasane airport passenger terminals. The expenditure also includes the aviation

security and safety infrastructure. The development of the Maun and Kasane airport facilities are particularly important for the support of the tourism activities in these major tourist locations. Aviation and other infrastructure development in these areas could also support movement of goods from these areas to the national, regional and international markets. The infrastructure development in the Kasane area, for instance, is also likely to benefit the planned special economic zone in that area.

The P461 million allocated to the development of ICT infrastructure is fairly substantial. This amount is intended to support the development of affordable broadband connectivity and improve internet access. ICT infrastructure promotes trade through applications such as e-commerce, automation of border posts, and transport management. The extent to which service providers such as those responsible for immigration, tax, customs, companies' registration, licensing and regulation and others avail their services online will maximize the returns from Government's investments in ICT infrastructure.

Improvements in ICT infrastructure and broadband connectivity are likely not only to contribute to lower trade costs but may also boost exports of services such as tourism, finance and business services which depend on ICT infrastructure as inputs into their production. World Bank (2014) identifies deficiencies in the high cost of broadband, and inconsistent access to high speed internet services as significant constraints to the development of these services. It must be noted that the cost of broadband Internet has been declining in Botswana, for example, from PPP\$114.48 in 2014 to PPP\$73.04 in 2016. However, the cost of broadband Internet is still relatively higher than in other countries in the region². There is need to continuously implement measures to address the currently relatively high cost and quality of Internet services to businesses (especially SMMEs) and individuals in order to improve the uptake of the services.

Energy is not only an input in the production of goods and services, but is also a component of trade with the potential to contribute to export diversification. Availability of water and electricity is therefore key to the

operations of existing businesses and attraction of new investment. The 2017 and 2018 Budget Speeches explicitly acknowledge water and electricity as critical enablers and pre-requisites for development generally and their role in the attraction of investment in particular. The stability of supply of water and electricity has been realized following a period of disruptions in the past two to three years. The improvements in water availability were due to the relatively good rains, and the subsequent significant inflows into the dams in early 2017. The full operation of Morupule B in 2016 contributed to the stabilization of electricity supply. The development budget allocations for the ministries responsible for water and electricity are significant, ranking first and third respectively in the development budget allocations.

The development budget allocation for the Ministry of Mineral Resources, Green Technology and Energy Security decreased from P2.94 billion in 2017 to P2.52 billion in 2018. The major development projects are for electricity generation and transmission, the most significant being the installation of the North West Electricity Transmission Grid. Morupule A Power Station rehabilitation is also allocated development funds. These projects are expected to have a significant impact in enhancing the reliability

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of supply of electricity into the future. The North West Transmission Grid will contribute to improving transmission of electricity in the North Western part of the country. The project should be expected to support the planned development of a special economic zone on agriculture in Pandamatenga in the Chobe District.

² Botswana ranked relatively low (101 out of 139 countries) in 2016 in terms of affordability of fixed broadband Internet. For instance, the fixed broadband Internet tariffs were higher in Botswana than in some SADC countries. At PPP\$73.04 per month, the cost was significantly higher than in Mauritius (PPP\$42.35), Seychelles (PPP\$26.80), South Africa (PPP\$30.60), Mozambique (PPP\$39.98), Tanzania (PPP\$72.15) and Lesotho (PPP\$23.47). Further, the percentage of individuals using Internet and that of households with Internet access were relatively much higher in key regional competitors, Mauritius and South Africa (see the 2015 Global Information Technology Report by the World Economic Forum).

Further, the electricity transmission project will support tourism and mining activities in the North West region.

The development of power generation and transmission should also focus on measures to improve access to electricity by SMMEs in order to improve their productivity and competitiveness. The cost, especially of electricity connections, is considered prohibitive for SMMEs, especially those in rural areas as well as agricultural and tourism productive areas due to the relatively longer distance from the existing transmission infrastructure. The National Electrification Standard Cost (NESC) subsidy programme which supports and promote connection to households has brought about positive results with just over 90,000 households having benefitted from the subsidy and connected as at November 2017 (SONA, 2017)³. Extending the subsidy to SMMEs could alleviate the cost of electricity connections to SMMEs, lower trade costs and improve SMME productivity and competitiveness. An initiative like the NESC subsidy programme, targeting

SMMEs, could be a significant boost in supporting the export-led growth strategic thrust of the Budget, NDP11 and Vision 2036. Consideration should also be made, where feasible, to increase the role of renewable energy sources as a complementary source that offers low cost off-grid solutions to SMMEs especially in areas where the cost of transmission from the national grid is prohibitive.

Government has shown commitment in the development of renewable energy sources, especially through the involvement of the private sector. Recently, Government has floated a tender for the construction of solar plants. This should spur participation of independent power producers in the supply of electricity and promote energy supply mix from both renewable and non-renewable sources. In subsequent budgets, the newly established Botswana Energy Regulatory Authority (BERA) should build on this commitment to promote private sector participation, diversify sources of electricity and support the attainment of the sustainable development goal of affordable and clean energy.

Soft Infrastructure

Soft infrastructure, which refers to the efficiency of infrastructure services, customs, logistics and other trade facilitation services, business and regulatory environment have an important role in export performance. Inefficient customs procedures and logistics resulting in long export and import times undermine export competitiveness and international trade capabilities. The Budget Speech addresses the deteriorating doing business rankings for Botswana and emphasizes the critical need to improve these to attract foreign direct investment (FDI). FDI is key to expanding production capacities, growing and diversifying exports and in turn reinforce efforts to grow and diversify the economy. The issues covered by ease of doing business encompass among others, laws, policies, regulations and processes for the management and governance of business entities and business persons. They also include low levels of productivity, in particular 'poor work ethic' which has consistently ranked highest among issues of concern in Botswana. Further, restrictive immigration systems have made it difficult to attract and retain investors and foreign employees with skills and experience that are in short supply in the local market.

To address the restrictive immigration processes, the Immigration Act was reviewed in 2011 with a view to promote FDI. Notable developments in the review of the Immigration Act include the extension of the validity periods of work and residence permits and reduction of qualification periods for permanent residence. Competition for foreign skills and investment has intensified as countries continuously address constraints

to doing business to attract foreign direct investment. For instance, Rwanda, an acknowledged progressive and reformist country has positioned itself well as one of the most investor-friendly economies in Africa. This has been achieved through continuous implementation of reforms, among others, the introduction of very flexible immigration policies such as 30-day visas issuance upon arrival in Rwanda. Therefore, the impact of the

³ The National Electricity Standard Cost (NESC) programme is currently under review with a view to extend electricity connection to households that are beyond the current 500 metre limit from the transmission infrastructure (SONA, 2017).

immigration reforms can only be felt if they are fully implemented. There is also need to continuously gauge the extent to which these reforms are effective and delivering results, and ensure the immigration legislation considers flexibility to spur FDI and attract foreign employees in areas where the need is greatest.

An annual Budget allocation of P10 million during the 2017/18 and 2018/19 financial years shows the Government of Botswana's commitment to implementing doing business reforms and to this effect, Government has developed the 2015 Doing Business Roadmap. However, there is genuine concern among the business community and other stakeholders that implementation of these reforms has been slow. The implementation of the Roadmap should be accelerated. OECD (2015) estimates indicate that streamlining border procedures, automating customs processes and availing of trade-related information are likely to have the greatest impact on trade costs for upper-middle income countries. The SONA (2017) indicated that the computerization of ports of entry at three border posts in Botswana was in progress. Subsequent Budgets should aim to sustain progress made in the automation of borders and consideration should be made to automate border procedures for other border agencies such as those responsible for standards, transport, veterinary, sanitary and phytosanitary measures etc, especially where commercial activity is significant. Further, periodic reviews of initiatives of this nature are important in order to continuously respond to the challenges as they emerge. NDP 11 cautions about the impact of low levels of labour productivity on attaining the high income status aspiration for Vision 2036. However, the 2018/19 Budget Speech does not explicitly mention productivity as a major concern and does not pronounce measures to be taken to improve productivity. The necessity to identify and implement initiatives to improve productivity cannot be over-emphasized.

Conclusions

The 2018/19 Budget allocations for the construction and maintenance of road and air transport infrastructure and cross-border bridge projects are significant and show Government's commitment to improving the quality and quantity of transport infrastructure. Upon completion, these are likely to address some aspects of high trade costs and facilitate trade and investment. To ensure that investments in transport infrastructure have the largest impact, the road maintenance programme should focus on trade routes and industrial and commercial areas.

The budget also sets aside a substantial amount for the development of ICT infrastructure. This is likely to improve connectivity and reduce trade costs. Investment in ICT should be accompanied by a deliberate programme to promote uptake of business applications such as e-government, e-commerce and others to improve the quality of service provision. Concerns regarding the relatively high cost of broadband and inconsistency of internet speed need to be addressed.

Commitment to the development of energy infrastructure is demonstrated by allocation of financial resources to a major transmission grid and rehabilitation of an existing power station. Government has also demonstrated commitment to improve supply of renewable energy sources through the participation of independent power producers. Going forward, the energy regulator should build on this commitment to promote private sector participation, diversify sources of electricity and increase the share of renewable energy sources in an endeavor to achieve the sustainable development goal of affordable and clean energy.

With regard to soft infrastructure, the allocation of financial resources to doing business reforms is expected to reduce trade costs and boost trade and investment. Immigration reforms should be accelerated beyond current levels since flexible immigration policies, particularly for skills that are not available locally is likely to support investment and enhance trade. While computerization of border posts is in progress, automation of customs procedures should extend to other border agencies such as those responsible standards, transport, veterinary, sanitary and phytosanitary measures. It is noted that measures to improve productivity have not received adequate attention in the Budget despite that low productivity is a major concern to doing business. Subsequent budgets should pay attention to this issue.

References

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Annex 1: NDP 11 Allocated Expenditures on Trade and Investment Related Infrastructure – 2017/18 – 2018/19 in Millions

	2017/18	2018/19
Road Transport	1,763	1,845
<i>Roads</i>	<i>1,463</i>	<i>1,545</i>
<i>Bridges</i>	<i>300</i>	<i>300</i>
Aviation	210	190
Rail	0	0
Electricity Projects	3,368.1	3,412.3
<i>Electricity Generation, Transmission and Distribution</i>	<i>1,368.1</i>	<i>1,412.3</i>
<i>BPC Budget Support and Debt Service</i>	<i>2,000</i>	<i>2,000</i>
Land Development Projects	998.3	1,047.5
<i>Land Servicing</i>	<i>800.8</i>	<i>850</i>
<i>Land Servicing for SEZs</i>	<i>130.8</i>	<i>130.8</i>
<i>Village Infrastructure Development (Commercial and Industrial Plots)</i>	<i>66.7</i>	<i>66.7</i>
Water and Sanitation Development Projects	2,554	3,082.3
ICT	424.9	414.9
Doing Business Reforms	10	10
Computerisation of borders (Immigration)	1.7	1.7
Total	9,330	10,003.7



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Written by:


Margaret Sengwaketse and Johnson Maitetso


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Published by BIDPA


 BIDPA House, International Finance Park
Plot 134, Tshwene Drive, Kgale View

Postal:  Private Bag BR-29, Gaborone, Botswana

Telephone:  (+267) 397 1750

Fax:  (+267) 397 1748

E-mail:  webmaster@bidpa.bw

Website:  <http://www.bidpa.bw>