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## Executive summary

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## Executive summary

**S**tarting in the late 1990s Botswana has made concerted efforts to attract FDI into export-oriented manufacturing and services, so as to reduce reliance on diamond exports and to diversify its supply-side capacities. Given that indications are that Botswana's diamond mines will be depleted within the next 20 years, diversification is becoming indispensable to safeguard growth, development and fiscal sustainability. Today the reform efforts of the authorities are consolidated under the Economic Diversification Drive (EDD), which emphasises the critical role to be played by the private sector in stimulating balanced and sustainable growth.

**The government has been closely engaged in improving the business climate for both foreign and domestic investors.** Most recently, formerly distinct bodies responsible for financial and business services and for investment promotion have been merged into a single investment and export promotion agency, the Botswana Investment and Trade Centre (BITC). While Botswana also has sound laws providing for adequate investor protection these laws are not referred to in a single document and many investors are insufficiently aware of their rights. Likewise remaining restrictions on foreign investment, including preferences for citizen-owned companies, remain dispersed across different policies and regulations. This lack of clarity, which may underlie some of the recent declines in business climate rankings, should be comprehensively addressed.

**Channels for public-private dialogue on investment policy could be rendered more efficient.** While Botswana has an elaborate structure of public-private consultation, the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) is put under heavy strain to undertake the majority of policy advocacy on behalf of the business community. This may explain why the EDD Strategy is largely focused on public interest objectives such as job-creation and citizen empowerment, while private sector priorities like export promotion and investment attraction have initially taken more of a back-seat. In close consultation with private investors, Botswana could benefit from elaborating a dedicated national investment strategy geared towards the long-term investment attractiveness of "niche" economic sectors.

Several markets remain heavily dominated by the public sector – particularly infrastructure sub-sectors where the playing field for private

operators vis-à-vis public enterprises is often uneven. Moreover price rigidities complicate cost recovery for public utility providers, which are growing dependent on costly government subsidies as a result. Yet Botswana's infrastructure financing gap cannot be met through the public purse alone – especially in the energy sector, where further private participation, together with regional co-operation on cross-border power projects, will be necessary in order to tackle the energy generation challenge. Attracting and structuring private participation in infrastructure will also require more independent regulation of infrastructure markets, and a strengthened legal and institutional framework for public procurement and PPPs.

**A labour force with specific and specialised skills** will also be crucial in order to diversify the economy away from mining and attract investment into the services sectors. Unemployment remains high (at 17.8%), and takes a particularly heavy toll on the young – even at higher levels of education. The rate of graduate unemployment reflects a mismatch between skills and industry demand. This hampers the ability of domestic entrepreneurs to tap into business linkages with larger firms. Alongside infrastructure development, better-targeted human resource investments are a pre-condition for addressing Botswana's supply-side constraints and ensuring that investment generates spill-overs across the economy. Such challenges are increasingly being taken on board by government notably through the Citizen Economic Empowerment policy (see Chapter 3).

## Key policy recommendations

### **Clarifying the legal framework for investment**

- Group and streamline all sector restrictions on FDI within a regularly updated negative list. This rationalisation exercise should include regular assessments of the rationale behind each restriction, verifying whether the associated economic empowerment or employment goals could not be better met through alternative means.
- Consider putting together an Investor's Guide or Investment Code, which would group all relevant legal instruments for investment in Botswana (including laws granting protection provisions for investors and available systems of commercial dispute resolution, among others).
- Undertake a nation-wide assessment, broken down by geographic area and sector of investment, to diagnose barriers to land access across Botswana's different localities. This should notably aim to facilitate transfer of land titles and accelerate transformation of land type.

### **Targeting investment towards “niche” sectors**

- Create a national investment strategy, with a greater focus on sectoral competitiveness and export potential than currently exists in the EDD Strategy.
- Build on existing institutional structures for investment policy to ensure that such an investment strategy is aligned with human resource and infrastructure development strategies and targets.
- Introduce more transparency and coherence in the national system of investment incentives, possibly by listing all available incentives within a common document (see above). Alongside, ministerial discretion in awarding incentives should be reduced, notably by providing clear guidance concerning investor eligibility.
- Establish a mechanism for systematic cost-benefit analysis of tax incentives for investment, which would consider alternative uses of fiscal revenue (such as structural policies to enhance infrastructure and human resources) for investment attraction.

### **Creating a level playing field in infrastructure markets**

- Engage in a gradual attempt to open the electricity market to companies other than Botswana Power Corporation, including by making space for more independent power provision.
- Support and accelerate efforts towards establishing the Botswana Energy and Water Regulatory Authority (BEWRA) as an autonomous agency tasked with regulating tariffs and overseeing the competitive functioning of the water and energy markets. A Botswana Energy and Water Regulatory Authority Bill has been drafted and is currently being considered by Cabinet, which is a positive first step.
- Develop a PPP Act and Regulations in coherence with the broader public procurement framework. This will require nurturing government capacity within relevant parts of the public administration (particularly the Ministry of Finance and the Public Procurement and Asset Disposal Board), and reinforcing Botswana’s PPP Unit with experienced, full-time staff.

### **Encouraging employment and business linkages**

- Build analytical and statistical capacity for human resource development, notably by capacitating the HRD Advisory Council to conduct sector-specific surveys of “skill gaps”. Moreover elaboration of the Education and Training Strategic Sector Plan presents an opportunity for Botswana to adopt a more deliberate sectoral approach to HRD, geared towards available business linkage opportunities.

- Clarify BITC's role in promoting business linkages between small and large investors, in relation to similar responsibilities for other agencies (such as the Local Enterprise Authority or the EDD Unit). The rationalisation exercise between LEA and the Citizen Entrepreneurial Development Agency (CEDA) would deserve effective implementation in this regard.