The Objectives of the Study (Sector Mapping and Validation)

The terms of reference for the study was expressed essentially as the objective for the calling for proposal for a comprehensive consultancy study for the creation of a database and validation of small, medium and large enterprises.

The Terms of Reference

The tasks to be performed by the consultants under the Sector Mapping and Validation component of the study are to determine:

- Firms per sector in the regions
- Sectors found in different regions of Botswana
- Sub-sectors found in the region
- Natural resources found in the regions- for SMME beneficiation opportunities.
- Concentration of firms.
- Identify Value Chains.
- Potential of raw material beneficiation.
- Potential of the following sectors in each region:
  i. Manufacturing
  ii. Tourism
  iii. Services
  iv. Agriculture
- Based on the above potentials, and indeed the gaps identified in the Value Chain analysis, SMME based sector development strategies have been developed.
**Understanding of the Terms of Reference**

Our definition of the terms of reference (TOR) is an inclusive one covering the focus and the objectives of the study as well as the tasks to be performed as outlined above.

**General Comments on the TOR**

Economic diversification is a major policy objective of the Government of Botswana and has been a key determinant of both macro- and micro-economic policy. It is so important that the Ninth National Development Plan (NDP9) covering the period April 2003 to March 2009, adopted as its theme “international competitive sustainable economic diversification”.

Small, Medium and Large Enterprises have the capability to cause sustainable employment generation and economic diversification, but timely information on the activity sectors of the economy can influence policies that have the potentials to fast track both employment opportunities and economic diversification. And of course, these two objectives are closely related and mutually consistent. However, the requirements for achieving these are many and complexly related. They include growing competitive industries, which in turn require in-built efficiency mechanisms with the proper incentives and institutional paraphernalia; promoting business and industrial innovation – restructuring and reorganisation; development of a conducive regulatory environment; provision of adequate technological capacity and capabilities backed by adequate enforcement of intellectual property rights (IPRs) and promotion of research and development; advancing supply-chain management; and adequate investment in socioeconomic infrastructure and municipal utilities – water, electricity and sanitation among others. The existing state of affairs does not indicate that there exists timely and reliable information on the SMLEs in Botswana, which is of course one of the justifications for commissioning this study. Reliable, consistent and up-to-date official statistics on SMLEs in Botswana is lacking. The first ever, and most comprehensive nation-wide household survey of micro and small-scale enterprises (MSEs) was conducted by Daniels and Fisseha (1992). The study estimated the MSEs sector to consists of 48,000 enterprises, employing over 88,000 people.

This was followed by another estimate in 1998 by the Task Force Report on the Policy on SMMEs in Botswana, indicating that there were approximately 56,300 Small, Micro and Medium Enterprises (SMME) businesses operating in Botswana, employing 125,000 people including business owners (Task Force Report on the Policy on SMMEs in Botswana, 1998). The report also estimated the SMME sector’s contribution to be in the range of 30-45% of GDP, while that of large firms stood at 38-48% of GDP. The Central Statistical Office (CSO) conducted a survey of the informal sector in 1999/2000, which identified 28,726 household enterprises
employing a total of 222,611 persons but the working definition of the informal sector adopted by the CSO effectively excludes these enterprises from the purview of the prospective study.

The Government of Botswana provided financial support to the SMLEs through various schemes, such as: citizen economic empowerment as exemplified by BEDU; Financial Assistance Policy (FAP); the Small Medium and Micro Enterprises (SMME) Policy; reservation of certain businesses for Batswana; Central Tenders Board preferences, and the Citizens Contractors Fund (CCF). A number of reasons motivated these assistance programmes, which among others, included the role of SMLEs in employment creation; diversification of the economy away from mining and traditional agriculture; support for economic activities in the rural areas; support for the production of goods for export or import substitution, and to support citizen participation or ownership of economic activities.

To be able to assess the impact of both public policy and resources committed to SMLEs in Botswana in achieving the above objectives it is vital, to periodically identify the roles that SMLEs are playing in Botswana, how those roles are changing over time by means of number of enterprises, employment generated, turnover, value added and labour costs, by industry and size-class across the country.

Regarding the sector mapping and validation exercise, our understanding is that the tasks to be performed are to determine (a) firms per sector in the regions; (b) sectors found in different regions of Botswana; (c) sub-sectors found in the region; (d) natural resources found in the regions for SMME beneficiation opportunities; (e) concentration of firms; (f) identify value chains; (g) potential of raw material beneficiation; and (h) potential of the following sectors in each region with particular emphasis on (i) Manufacturing, (ii) Tourism, (iii) Services, and (iv) Agriculture. Finally, the Consultants are required based on the above potentials produce a tangible SMME based sector development strategies.

**Key Findings**

- The population of the country is about 1.7 million.
- At Independence in 1960, Botswana was one of the world’s 24 poorest countries with per capita income US$60 but is currently ranked as an upper middle-income country with per capita income in excess of US$5,000.
- The economy has experienced one of the highest real rates of GDP growth in the world since the mid-1970s averaging 10.1% a year during the last three decades. But, the performances of the industrial sectors have varied greatly for the same period of time with significant structural changes.
However, GDP growth has been decelerating. It is down 4.5% in 2006 from 18.4% in 1975/76. However, Vision 2016 aims at eradicating absolute poverty by 2016, which requires growth of at least 8% (instead of 4 – 5%).

The growth and development experience of Botswana is powered by mineral rents, in particular, diamond revenues, which accounted for 35% of GDP in 2003. Diamond export accounted for 83% of total merchandise goods export in 2003. Mineral taxes and royalties accounted for 45-48% of total government revenue in budget years 2003-2006.

Agriculture which was the mainstay of the economy at Independence accounting for 42.7% of GDP has declined to only 1.7% of GDP. The sector is still very important to the rural poor. It is estimated that about 80% of the population remain dependent on livestock activities. Agriculture with all its potentials is seriously constrained by drought and other weather related conditions, foot and mouth disease and other diseases.

Manufacturing which accounted for 5.7% of GDP in 1966 rose to 7.6% in 1975/76 but has declined below its 1966 level. It is still largely underdeveloped.

Water and electricity which accounted for 0.6% of GDP has increased consistently to 2.4% of GDP.

Construction which accounted for 7.8% in 1966 and rose to 12.8% of GDP in 1975/76 has since declined below its 1966 level.

Trade and hotels, which accounted for 9% of GDP in 1966 had grown albeit with oscillation to 10.3%.

The tourism sector, which initially contributes about 3% of GDP has climbed up to 12% of GDP but is one of the fastest growing sectors of the economy. Environmentally sensitive, low-volume, high-price tourism is potential source of growth to reduce dependence on diamonds.

Transport which contributed 4.3% of GDP in 1966 dropped to only 1.1% in 1975/76 and has since began recovery but is below its 1966 level. However, it was the fastest growing sector for the period 1975/76 to 2004/05.

Banking contributed 20.1% of GDP in 1966 but it share has since fallen below the 1966 mark.

Social service which was non-existent in 1966 was 2.85 of GDP in 1975/76 and since climbed to 4% of GDP.

General government has climbed from 9.8% of GDP in 1966 to 16%.

There has been a far-sighted use of foreign exchange reserves.

FDI is dominated by South African investments followed by Luxembourg, UK, and the US, which pars with Middle East. However, FDI has been flat at 6% of GDP for a while.
Business Climate
• Business friendliness is very favourable (incentives for foreign-owned business, receptiveness of government to policy inputs, low corruption), but red tape is a problem and Botswana is sliding down the scale of business climate and investment destination ranking.
• FDI incentives – foreign exchange controls are abolished in 1999, corporate tax is 15% (for manufacturing companies and IFSC), no prohibition on foreign ownership, maximum personal and marginal tax rate is 25% compared to regional average of 35%, VAT of 10% is also the lowest in SADC.
• Private-public relations on sound footing.
• Strong confidence in the courts.

Main Constraints
• Dominant role of government indirectly flags cost of utilities, unfair competition from parastatals.
• Lack of lustre performance outside mining
• High confidence in fiscal prudence and sound macroeconomic management policy.
• Market size most critical (high per capita income is a misleading index or indicator)
• Highly skewed income and wealth distribution (24% under US$1 a day, 50% under US$2 a day).
• Payment difficulties – highly indebted society (mineral surpluses are misleading)
• Access to finance difficult (prime rate 15 – 17%)
• Economy still largely cash driven
• HIV and AIDS, drought and foot and mouth disease
• Lack of skilled labour

Vulnerabilities and other Conditions
• A small, landlocked, open economy such as that of Botswana is highly vulnerable to developments in the global economy and in the region, in particular in being very close to a giant economy.
• Despite strong economic growth since independence, not significant increase in jobs creation (sound macroeconomic environment but less successful microeconomic environment.
• Quality of investment outside mining is disappointing (faces constraints typical of many African economies, not integrated into global production hubs).
• Goals set to reduce number of people living in poverty to zero by 2016 require investment of 41% of GDP per annum.

Role of SMMEs and Problems in Botswana
Small and Medium Enterprises (SMEs) play a crucial role towards achieving industrial and economic development objectives of an economy. While their diverse nature makes their actual contribution to the economy somewhat different, SMEs play an
important role in employment creation, especially for the unskilled and semi-skilled and, they also possess the potential to earn foreign exchange. However, for SMEs to realize their full potential as an engine of growth, it is important to create a favourable environment that allows them to expand and prosper. In Botswana, it is said that SMMEs contribute 75% of formal sector employment. The SMME Policy document identifies the following as constraints:

- Lack of access to finance;
- Lack of entrepreneurial skills;
- Bias of the education system against self-employment;
- Lack of business start-up training;
- Shortage of business premises;
- Excessive government laws and regulations;
- Lack of information on government assistance programmes;
- Lack of marketing skills;
- Lack of data on SMMEs; and
- Inherent biases against SMMEs.

**Recommendations**

- Resource-based economic diversification should be the key agenda. The mineral sector and livestock industrialization have lots of potentials. SMMEs should have preferential access to mining sector procurement and beneficiation programmes.
- HIV and AIDS are cross-cutting issues and should never be dropped in any policy discussions.
- Further institution building and consolidation such as strengthening BEDIA, CEDA, LEA, etc should be pursued.
- The issue of employment of skilled expatriate staff as compliments to locals should be looked into critically.
- Competitiveness should be based productivity and not the exchange rate.
- Cost of utilities should be lowered
- SMMEs should receive top policy priority. Their problems should be addressed. Use public procurement to empower the SMMEs through the market mechanism.
- Property and banking sector regulations should be strengthened.
- Red tape should be removed.