The Dynamics of Investment in Botswana

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Abstract: This paper analyses the dynamics of investment in Botswana from 1960 and 2015. The paper analyses of the forms of investment in the country, policy initiatives impacting investment, investment trends and challenges faced in boosting investment. The study finds that the private investment rate is significantly higher than the public investment rate due to Botswana's heavy dependence of foreign direct investment. Boosting domestic investment is essential but challenging for a number of reasons. Firstly, Botswana's economy lacks in diversity and is highly dependent on mineral extraction. In addition, poor access to financial services, high levels of inequality and a high unemployment rate, among others, lead to stifled growth in domestic private savings, gross domestic savings and ultimately low domestic investment. The study recommends, among other things, the strengthening of policy interventions that particularly promote domestic private savings and domestic private investment including economic diversification.

Keywords: Public Investment; Private Investment; Investment; Botswana

JEL Classification: E22

1. Introduction

A number of authors concur that investment is a crucial driver of Botswana's economy (Amusa, 2013; Bint-e-Ajaz & Ellahi, 2012; Acemoglu et al., 2001; Elbadawi & Mwega, 2000; Barro & Sala-i-Martin, 1999; Solow, 1986; 1974). Amusa (2013) states that the more capital goods a nation has at its disposal, the more goods and services it can produce and the higher the level of economic growth. Acemoglu *et al.* (2001) highlighted that Botswana had the highest rate of per capita growth in the world in the past 35 years (since independence). Prior to independence, little was spent on investment, with over 75% spent on administrative costs (Acemoglu et al., 2001). According to Acemoglu *et al*. (2001), there was an increase in investments ranging between 20% and 30% of GDP by 2001 due to significant investment in human capital. More recently, statistical data show that the high

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investment level is due to a high private investment rate of about 40% of GDP (World Bank, 2017). This is due to a massive dependence on foreign direct investment, a phenomenon that needs to change (Republic of Botswana, 2017).

The studies cited above, including studies on investment in Botswana by Hope (1997), Lesotlho (2006), Ahmed (2007) and Collier (2013), though valuable, are only a handful and are outdated. They no longer give a holistic picture of investment dynamics in the country. As a result, the study attempts to do a detailed analysis of Botswana's domestic investment between 1960 and 2015. By so doing, this study attempts to foster an in-depth understanding of the dynamics of investment in Botswana while adding to the existing body of knowledge on investment in Botswana. This will be achieved through an analysis of the forms of investment; policies initiatives impacting investment, investment trends, and a discussion of the challenges faced. Recommendations will also be discussed. Therefore, this study will prove valuable to policy makers, investors and academics.

The rest of the paper is organised as follows: Section 2 provides an overview on investment in Botswana, while section 3 discusses the forms of investment in the country. Section 4 discusses reforms that had an impact on investment. Section 5 elaborates on the trends of investment and the challenges hindering the further growth in investment. Section 6 concludes the study.

2. An Overview on Investment in Botswana

Investment in Botswana is derived from two sources, domestic or international. International investment is received as Foreign Direct Investment "FDI" (Makoni, 2015). While FDI is not within the scope of this study, it is essential to note that FDI (significantly derived in the mining sector) has a positive impact on economic growth in Botswana (Makoni, 2015). FDI is so high that it significantly exceeds that domestic investment, much to the concern of Government of Botswana (Republic of Botswana, 2017). In 2016, for instance, of the total capital investment achieved, FDI companies contributed P1.49bn, while business expansions and domestic investments contributed P377.05m and P1.25bn respectively (BITC, 2016, p. 19). Moreover, the bulk of the FDI is from Europe, particularly Luxemburg, followed by Africa, particularly South Africa (United States of America, 2011). As much as making the country conducive for international investment is essential, domestic investment cannot be overlooked (Botswana Investment and Trading Centre "BITC", 2016; Schmidt, 2001).

3. Forms of Investment in Botswana

3.1. Public Investment in Botswana

Botswana is a resource-based country and its economy is significantly dependent on the extraction of mineral resources. Mining is, by some measures, the largest contributor to gross domestic product (GDP) (Lewin, 2011). Makoni (2015) finds that diamond mining in particular contributes 50% to GDP. According to the African Development Bank "ADB", Botswana (2016:7) diamond mining generates the majority of export earnings and has made a major contribution to government revenues in the past 35 years. Unlike most resource-endowed countries, Botswana has invested most of its mineral revenue in socio-economic uses, such as education and health, among others, through effective macroeconomic, exchange rate and fiscal policies (Hillbom, 2012; ADB, 2016, p. 7). Botswana has succeeded in being a developmental state, thus conforming to the Hartwick-Solow rule for sustainability. This rule states that the depletion of mineral resources needs to be compensated by an increase in other forms of capital (Hartwick, 1977; Lange & Wright, 2004).

The investment in social infrastructure is achieved predominantly through government or public investment. Broadly speaking, Botswana has transformed from being one of the poorest countries in the world at the time of independence in 1966 to an upper-middle income country with a GDP per capita of almost US$ 8 000 by 2015 (ADB, 2016, p. 20). Since 1966, the Government of Botswana "GOB" prioritised infrastructure development, leading to the economic growth and development. According to the ADB (2017), 97% of Botswana's mineral revenues have been devoted to asset accumulation. Of this, only 10% has been devoted to financial assets, with the remaining 87% split almost equally between physical infrastructure (43%) and human capital (skills and education, 46%). Much physical investment has been made in health and education facilities. Other investments in social infrastructure have been in electricity and water (21%), housing and urban infrastructure (15%), and roads (12%).

Table 1 summarises the investment progress made in Botswana since the country gained independence in 1966.

Table 1. Provision of selected public services and infrastructure

Indicator	1967	1991	2009-2014
Primary education			
Number of schools	252	626	821
Number of pupils	71 577	298 812	340 065
Number of teachers	1 713	9 833	15 042
Pupil/teacher ratio	42	30	23

Secondary education			
Number of schools	9	172	283
Number of pupils	1 854	73 909	172 669
Number of teachers	111	4 312	14 081
Pupil/teacher ratio	17	17	12
University			
Number of students (degree courses)	100	3 567	41 051
Health			
Nurses	194	2 679	5 816
Doctors	17	252	819
Hospitals	9	29	31
Infrastructure			
Roads (tarmac in km)	7	4 200	6 616
Electricity consumption (kWh per capita)	-	527.9	1 602.7
Improved sanitation facilities (% of population with access)	-	35.7	64
Improved water facilities (% of population with access)	-	-	96.8
Telephone lines (fixed) (per 100 people)	0.6	0.8	7.5
Economic Indicator			
GDP per capita (current 2005 US$)	177.3	1 038.2	7 896.4

Source: ADB (2014:20-22)

As shown in Table 1, there has been a massive increase in social and economic investment over time. This has led to Botswana being hailed as an African Developmental State (Hillbom, 2012). The GOB is of the mind that more needs to be done as far as socio-economic investment is concerned in order to eradicate poverty and inequality (Republic of Botswana, 2017).

Moreover, it is worth noting that there is still a significantly large socio-economic infrastructure backlog in Botswana as compared to its neighbour, South Africa (ADB, 2009).

3.2. Private Investment in Botswana

Private sector investment too has been found to be a necessity for a stronger economy that is not only dependent on government investment (Ahmed, 2007; Hope, 1997). The NDP 11 looks at means of promoting private sector investment, from households, small to medium-scale businesses, to attracting foreign direct investment (Republic of Botswana, 2017).

Although Botswana presents an open posture toward foreign investment, it reserves some business sectors solely for citizen participation (United States of America "USA", 2015, 5). The Botswana Trade Act of 2003, section 15 and section 31(2)(b) make provision for the certain trades and businesses to be reserved for citizens of Botswana (Republic of Botswana, 2003). The Trade Regulations of 2008, in section 28, state that trades include butcheries, general trading establishments, gas stations, liquor stores, supermarkets (excluding chain stores), bars (other than those related to hotels), certain types of restaurants, boutiques, auctioneers, car washes, among others (Republic of Botswana, 2008).

The subsequent section will discuss reforms made in Botswana and their impact on public and private investment.

4. Policy Initiatives Impacting Investment in Botswana

Despite the challenges faced in investment, Botswana is hailed for good governance (Lewin, 2011; Leith, 2005; Acemoglu et al., 2001). Acemoglu *et al.* (2001) state that the success of Botswana is most plausibly due to its adoption of good policies. These policies have promoted rapid accumulation, investment and the socially efficient exploitation of resource rents. Lewin (2011) specifically states that Botswana's polices have had the impact of protecting the economy from the erosion of domestic productivity and competitiveness that can result from the appreciation of the real exchange rate.

4.1. Institutional Development for Trade and Investment

Initially, the GOB established the Trade and Investment and Promotion Agency (TIPA) which had the responsibility for promoting trade and attracting foreign investment. However, TIPA had its weaknesses as it lacked the autonomy and properly trained staff to effectively carry out its mandate (Hope, 1997). The TIPA was later succeeded by a better-capacitated Botswana Investment and Trade Centre (BITC). The BITC is an institution that oversees investment and trade, ensuring that the environment remains conducive for private investment provides assistance to both domestic and local investors. The BITC is responsible for promoting foreign direct investment, investor aftercare, and the promotion of locally manufactured goods in export markets. It assists investors with company registration, land acquisition, factory shells, utility connections, and work and residence permits for essential staff (Republic of Botswana, 2017; Makoni, 2015; Ahmed, 2007). It was felt that firms that retain BITC investment services save more time in finalising immigration documents (USA, 2015, p. 11). This provides an incentive for foreign investment.

Through the BITC, the GOB provides a number of incentives for investment in the country. However, based on the work of the BITC, it is clear that the BITC's inclination to attracting foreign investment is greater than that of domestic investors.

4.2. National Development Plan 11 of 2017

Development in the country is guided by the National Development Plan compiled every 5-7 years. The current National Development Plan 11 (NDP11) for the period 2017-2023 focuses greatly on investment as a means of achieving a number of outcomes and outputs (Trade Law Centre "TRALAC", 2017; Republic of Botswana, 2017).

For instance, there are three core outcomes with expected outputs. Outcome One is a Diversified Economy. Its outputs are Infrastructure Development, Business Environment, and Diversified Industries. With respect to Outcome Two is Competitive and Productive Human Resources, the outputs are Education and Training, Human Resource Development and finally Research and Development. Outcome Three is Sustainable Employment Creation with Domestic and Foreign Direct Investment and Development of Entrepreneurship Culture as the outputs (Republic of Botswana, 2017, p. 109).

The NDP11 shows that the strategies the GOB seek to implement in the area of Economy and Employment are not only diverse, but also foster multi-faceted investment. This ranges from investment in human resources to infrastructure (both social and economic infrastructure); from the agricultural sector, manufacturing sector and tertiary sector (Republic of Botswana, 2017, p. 109). Both foreign and domestic investment, for instance, are seen as imperatives for eradicating the high unemployment level in the country in order to attain Outcome Three which is Sustainable Employment Creation (Republic of Botswana, 2016, p. 123).

A host of policies and initiatives have been instituted to boost foreign direct investment in order to address unemployment, such as the National Entrepreneurial Policy and Strategy (which focuses on entrepreneurial culture among Batswana, especially the young emerging business entrepreneurs); Co-operative Transformation Strategy; Citizen Economic Empowerment; Investment Strategy; Economic Diversification Drive Initiative; Cluster Development; and the creation of Special Economic Zones (Republic of Botswana, 2017, p. 124).

4.3. Economic Diversification

Botswana seeks to diversify the economy in order to shift dependency from diamond extraction to the production of goods such as pharmaceuticals, textiles, clothing, and leather products, as well as services such as tourism, financial products, business process outsourcing, and research (United States of America, 2011, ADB, 2016).

The GOB's stance with regards to economic development and addressing is elaborately discussed in the NDP11. The GOB is clearly aware of the limitations of dependence on economic driver and is addressing this (Amusa, 2013 and Lewin, 2011, p. 11).

Manufacturing Sector

One area of focus with regards to diversification of the economy is the manufacturing sector. A financial assistance policy was introduced in 1982 that offered investment incentives to manufacturing firms leading to an increase in real manufacturing GDP. More recently, the current NDP11 through the Economic Diversification Drive strategy entails compelling parastatals and government agencies to purchase locally manufactured products. Secondly, the NDP11 provides for the creation for export processing zones aimed at manufacturing for exportation (Hope, 1997, p. 12; Republic of Botswana 2017).

4.4. Liberalisation

As a means towards implementing financial liberation, the Botswana Share Market was established in 1989, which later became the Botswana Stock Exchange (BSE) in 1995 (Jefferis & Harvey, 1995; Hope, 1997; Ahmed, 2007). Establishing the BSE was one thing, but attracting investment on the BSE another. Due to sluggish progress in attracting investment on the BSE, privatisation of parastatals soon became an option. Privatisation of parastatals started, overseen by the Public Enterprise Evaluation and Privatisation Agency "PEEPA" (Woodrow, 2017). Privatisation was not only limited to parastatals, but was also applied to banks since the early 1990s (Ahmed, 2007).

Interest Rates

The GOB maintained positive interest rates that boosted investment and ultimately investment (Motsomi, 1997). The National Development Plan 8 of 1997 for the period 1997/98-2002/03 sought to maintain positive real interest rates as a way of ensuring that private savings rates are increased in order to boost investment.

Exchange Rate Controls

The GOB also implemented exchange controls in 1995 which led to increased liquidity in the country. Through exchange controls, domestic savers have generally been prevented from investing funds overseas and, as a consequence, they have not been able to gain real wealth protection by diversification into foreign assets (Jefferis & Harvey, 1995). That restriction forces the private sector to concentrate their savings portfolio on a limited range of domestic returns corresponding to the prevailing low interest rates as a result of excess liquidity (Jefferis & Harvey, 1995).

Table 2 summarises the various financial liberalisation policy initiatives taken by the GOB that had an impact on investment.

Table 2. Summary of Various Measures of Financial Liberalisation in Botswana

1. Interest Rate Liberalisation 1986 - Initial removal of controls of interest rates (authorities recognized the critical role financial sector and began to implement reform measures). 1989 - Authorities announce a gradual move towards positive real interest rates. 1991 - (May) - introduction of Bank of Botswana Certificate (BoBCs) with the objectives of making short-term interest rates market determined. 2001 - Introduction of weekly auction of BoBCs to strengthen price discovery in the money markets.
2. Exchange Rate Liberalisation 1989 - Exchange rate become a policy variable (discrete adjustment to the rate of Pula relative to basket of currency was allowed). 1994 - Pula was effectively linked to Rand. 1995 - Substantial reduction of controls on current account as the country prepared to pledge to Article VIII. 1999 - Complete removal of foreign exchange controls (both on capital and current account transactions). 2000 - Rand targeting was abandoned and the basket mechanism was allowed to operate.
3. Reduction in Reserve Requirement 1993 - (November) - Required reserve reduced to 3.25% of average daily balance deposits.
4. Authorisation of New Banks and Privatisation of Banks 1990 - Liberalisation of commercial bank licensing requirements. 1991 - First entry of new commercial bank. 1992 - Further entry of more new banks. 1995 - Modernisation of banking legislations 2000 - Bank of Baroda was licensed and International Financial Service Centre launched. 2001 - (June) - Government's presence in the financial sector significantly reduced as long term Financial Assistance Policy (FAP) substantially redefined.
5- Securities Markets 1989 - Establishment of Botswana Stock Market (BSM).

2001 - Privatisation of pension scheme.
2003 - Introduction of 2, 5, and 12 years government bonds.

Source: Adopted from Hope (1997:217; Genesis Analytics, 2003; and Ahmed 2007)

5. Investment Trends and Challenges in Promoting Investment in Botswana

5.1. Investment Trends in Botswana

Botswana has made significant infrastructural investment, since its independence in 1966, in health, education, transport infrastructure and social infrastructure such as water, sanitation and electricity (Lewin, 2011; ADB, 20162, p. 1). Because of this high investment in infrastructure, the country has warded off the dreaded Dutch disease that arises in developing countries with a high dependence on mineral extraction for economic growth and stability. This had led to Botswana being commended for good governance (Lewin, 2011; Acemoglu et al., 2001; Leith, 2005).

Figure 1 shows trends in actual investment measured in millions of $US and the gross capital formation as a share of GDP, also known as the investment rate.

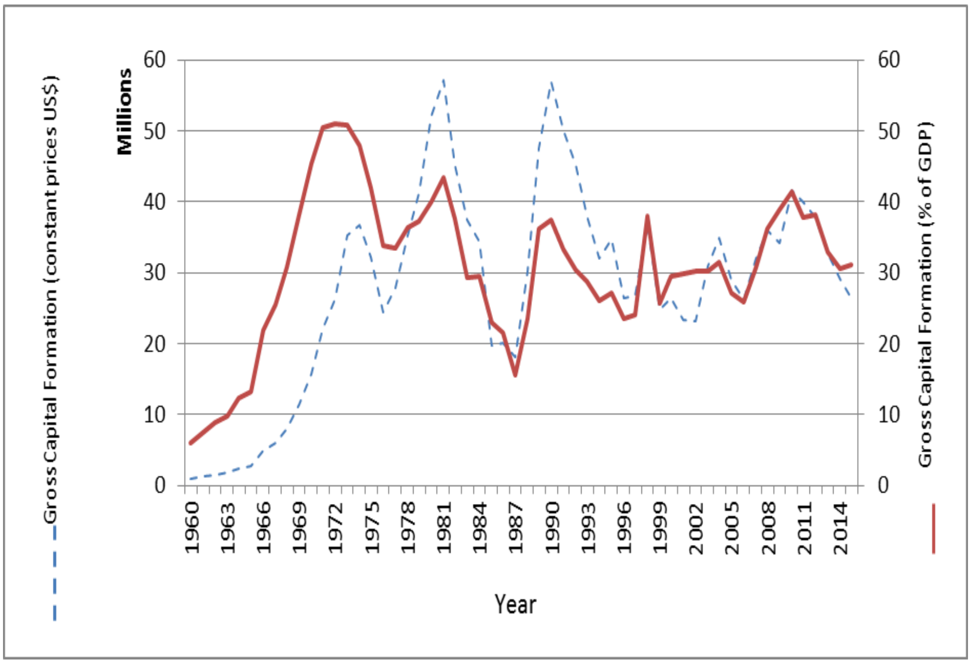

Figure 1. Investment Trends in Botswana (1960-2015)

Source: WorldBank, 2017

As shown in Figure 1, there has been a gradual increase in investment from 1960 (US$ 924 000) to 1981 (US$ 57.2 million) followed by a period of contraction in investment levels till 1985. From 1986 to 1990, there was a rapid increase in investment. From then onwards, investment fluctuated, peaking in 2011 at US$ 41.5 million, the highest ever (WorldBank, 2017).

The gross capital formation as a share of the GDP (investment rate) peaked in 1972 at 50.9%. The investment rate declined to 33.5% and then rose again 43.3% in 1981. There was a period of decline in the investment rate since then to 15.5% in 1987. Since then the investment rate has risen, with much fluctuation. In 2015 the investment rate was recorded at 31.1%. The average investment rate from 1960 to 2015 is quite high at 30.7%.

Time series data on the disaggregated private and public investment is difficult to obtain. The study by Lesotlho (2006) analysed private investment and public investment between 1976 and 2003.

Figure 2 shows that the average level of private investment to GDP ratios during that period.

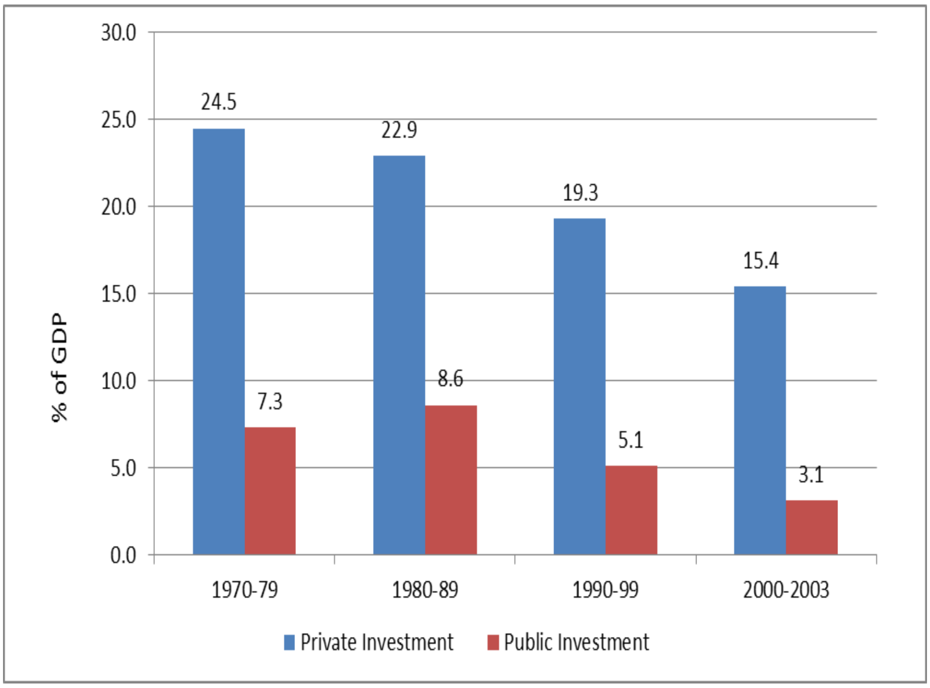

Figure 2. Private and Public Investment Trends in Botswana

Source: Lesotlho, 2006

Figure 2 shows that the private investment to GDP ratio ranged between 15% and 25% throughout the period. In addition, the private investment to GDP ratio by far exceeded that of the public investment to GDP ratio between 1976 and 2003.

5.2. Challenges in Investment Promotion in Botswana

Despite the high investment levels, investment rates still could be potentially higher. There are, however, a number of hindrances to growth in investment, according to Lesotlho (2006).

One challenge in Botswana is that there is a private domestic investment trend. This is partly because private savings in the country are low. If private savings increase, more capital is availed for private domestic investment, boosting gross domestic capital formation. There is room for increase in both private savings and consequently private investment (Hope, 1997; Boestel, 2000; Ahmed, 2007; Hillbom, 2008; Lewin, 2011).

A major challenge faced in Botswana is that its economy is largely dependent on minerals extraction (Makoni, 2015). This, by default, makes it essential for deliberate efforts to diversify the economy through investment in other sectors. But Botswana has, so far, had good leaders who have seen the need for increasing diversification in its economy (Lewin, 2011; Republic of Botswana, 2016). This is likely to eventually boost the economy through investment in other industries.

Another challenge to investment is the high incidence of HIV and AIDS (Lewin, 2011; Acemoglu et al,.2001). HIV/AIDS has the economic impact of reducing the labour force, labour productivity and consequently reducing exports and increasing imports. In Botswana, HIV/AIDS had the effect of reducing the life expectancy from 65.3 years in 1991 to 55.6 years in 2001, killing the economically active population (Dixon et al., 2002). The economically active population would be essential input (labour) required for investment and hence economic growth. A reduction in labour *ceteris paribus* negatively impacts productivity and investment (Dixon et al., 2002).

The persistence of poverty and inequality is also a challenge that ultimately impacts investment (Acemoglu, et al. 2001; Republic of South Africa, 2016). Inequality in the distribution of income and wealth between and within the urban and rural areas negatively impacts investment (Hope, 1997). More than half of the rural population, and a considerable proportion of the urban population, have incomes which are inadequate to meet basic needs (Hope, 1997). Furthermore, there is a tendency by government to invest in urban areas as opposed to rural areas, where the return on investment would be higher (Hillbom, 2008). This further compounds the problem of inequality, and hence low private investment (Hope, 1997).

Because saving is essential for investment (Tang & Chua, 2009; Schmidt, 2001; Matsheka, 1998; Solow, 1956), the fact that private savings are low in Botswana is problematic (Ahmed, 2007). This had to do partly with customary preferences with regard to savings where there is a preference to save through livestock (Mmopelwa & Seleka, 2011; Radipotsane, 2006). This needs to be addressed and initiatives put in place to boost private savings in the country (Hope, 1997; Ahmed, 2007). Some of these could take the form of educational campaigns creating awareness of the benefits of financial savings as a store of wealth.

6. Conclusion

This study has analysed the dynamics of investment in Botswana during the period from 1960 to 2015, focusing on the composition of investment, policy initiatives impacting investment, investment trends, and the challenges faced in promoting investment.

This study found that since independence, there was remarkable socio-economic infrastructural investment in the country. However, most of the investment was in urban areas, meaning that there are high levels of inequality in terms of access to financial services (savings, investment, credit and transactions), infrastructural development, and economic opportunities in rural areas. There is still a large socio-economic infrastructure backlog that needs to be met. Therefore, there is still more room for more public sector investment. However, care should be taken not to crowd out private investment.

Botswana’s economy is characterised by high private investment that significantly exceeds public investment. A huge component of this is FDI in the mining sector. Investment in Botswana has been subject to a number of obstacles, such as the low private investment households, high poverty and inequality, and high dependency on mining extraction.

Addressing levels of inequality, poverty and inequality through education would grow the country’s skilled labour force, increasing the labour force’s ability to participate in the economy and ultimately boost private investment. Needless to say, there is a need for more socioeconomic infrastructure in the rural areas, thereby boosting economic activity there. Moreover, the country’s workforce needs to be protected through emphasis on preventative measures against HIV/AIDS in addition to the increased access to medication.

Promoting private domestic savings in monetary form would also ultimately boost investment, especially since the Batswana are known for their preference of livestock, especially cattle, as savings and a store of wealth. This may even involve the use of initiatives that result in a change of savings patterns, particularly a shift towards financial savings as opposed to non-financial savings in the form of livestock. This may be done through educational campaigns on the benefits of financial savings and investment by households. Unfortunately, it is evident that promoting domestic savings does not get nearly as much attention in the national policy document (the NDP11) as promoting domestic private investment.

The Government of Botswana needs to further incentivise domestic private investment since it is crucial to investment. This can be achieved through strategic support of entrepreneurial activities for small-scale to medium-scale enterprises.

It is essential for Botswana to enhance initiatives for diversification of the economy. The government is well on track with this, as evidenced in the NDP11. This is commendable evidence of responsiveness to contextual issues and thus good governance. This would lead to a stronger economy less dependent on the mining sector. By so doing domestic private investment is boosted. This will also reduce Botswana's economic dependency on FDI, further insulating the country from external shocks.

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