UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
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report on the implementation of the investment policy review

BOTSWANA

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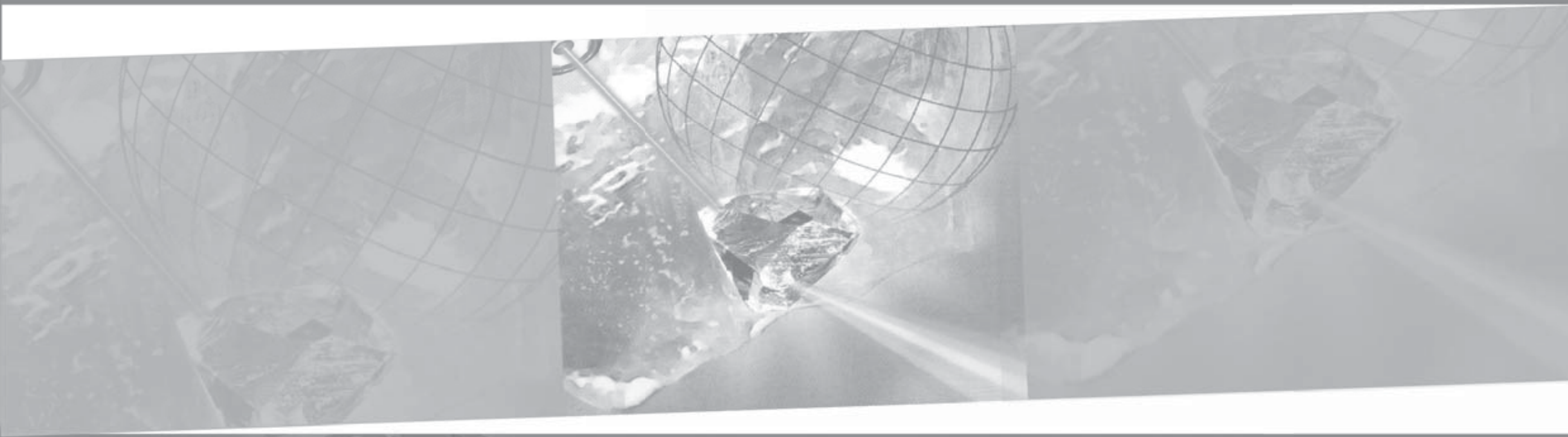

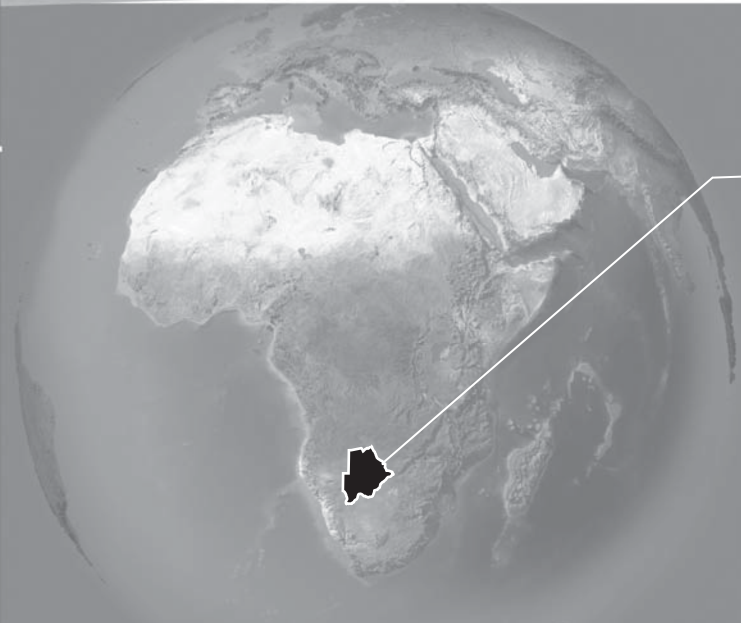

BOTSWANA

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Notes

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- **A dash (-)** indicates that the item is equal to zero or its value is negligible.
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Abbreviations

BITC	Botswana Investment and Trade Centre
BPC	Botswana Power Corporation
CEDA	Citizen Entrepreneurial Development Agency
FDI	foreign direct investment
GDP	gross domestic product
GFCF	gross fixed capital formation
ICT	information and communications technology
IPR	investment policy review
LAPCAS	Land Administration Procedures, Capacity and Systems in Botswana
LEA	Local Enterprise Authority
MITI	Ministry of Investment, Trade and Industry
MLH	Ministry of Lands and Housing
PEEPA	Public Enterprises Evaluation and Privatization Agency
SME	small and medium-sized enterprise

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1. Introduction

The Investment Policy Review (IPR) of Botswana, published in 2003, analysed the legal and institutional framework for investment. It made concrete policy recommendations to improve the general business environment and maximize the benefits from foreign direct investment (FDI), in line with Botswana's national development objectives. The IPR also proposed concrete elements for a coherent FDI strategy rooted in the investment attractiveness of the country. These included encouraging the development of a competitive local private sector, strengthening human resources and ensuring a proactive and targeted approach to investment promotion to support economic diversification and sustainable development.

In 2015, the Government requested UNCTAD assistance in preparing a report on the implementation of the IPR recommendations. A fact-finding mission took place in April 2016 to complement desk research undertaken in Geneva, Switzerland.[1]

2. Key economic and foreign direct investment trends

More than 10 years after the publication of the IPR, Botswana maintains its reputation as a development success story, with robust gross domestic product (GDP) growth averaging 6.6 per cent between 2010 and 2014, solid governance, sound macroeconomic and fiscal management, a generally positive and open investment climate, and a strong track record in attracting FDI. Major reforms have been undertaken in line with the IPR recommendations, including the establishment of a well-functioning competition authority and a fully-fledged investment promotion agency – the Botswana Trade and Investment Centre (BITC). Other landmark reforms, including streamlining business permits or reforming the land administration, are ongoing, as discussed in more detail in this report.

Diversification remains a primary economic development objective, as reflected in the Government's short- to long-term strategies between 2010 and 2016. Since the IPR, progress has been achieved towards that goal, and FDI has played a key role in it. For instance, the share of mining in GDP decreased from over one third of GDP in 2003 to about 18 per cent in 2015. The contribution of the services sector to GDP has increased, particularly in those activities led by FDI, such as trade, hotel and restaurants as well as banks, insurance and business services (figure 1).

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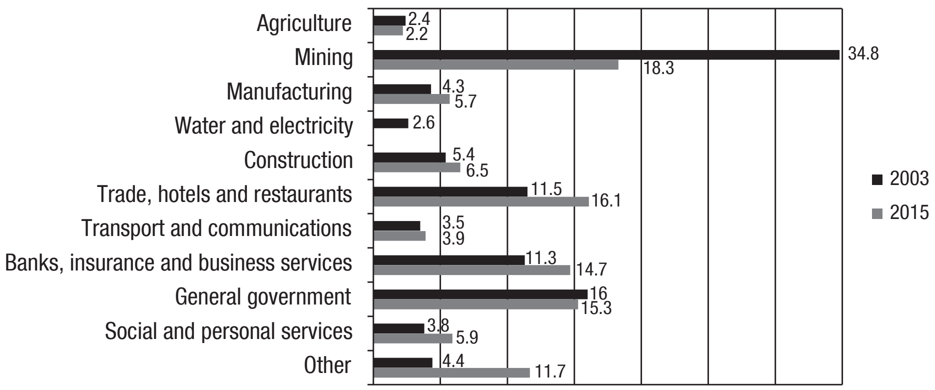
[1] This report was prepared by Stephania Bonilla-Féret and Massimo Meloni under the direction of Chantal Dupasquier, Chief of the Investment Policy Review Section, Division on Investment and Enterprise (DIAE). Overall guidance was provided by Joerg Weber, Head of the Investment Policies Branch and James Zhan, Director, DIAE. Comments were received from Richard Bolwijn, Elizabeth Gachuiri, Joachim Karl and Elizabeth Tuerk. Data were provided by the Trends and Data Section, DIAE. Support was provided by Jovan Licina, Opeyemi Obe and Linli Yu.

The country's impressive economic accomplishments, however, contrast with its key social and human development indicators, which continue to lag behind other countries in the same income group. Also, the external aspect of diversification, i.e. seeking new sources of sustainable foreign exchange earnings beyond diamonds, has proven difficult to achieve. Since 2003, Botswana has had the third highest export product concentration in Africa, behind Angola and Guinea-Bissau.[2] The contribution of diamonds to exports stood at over 85 per cent at the end of 2014, slightly higher than the 80 per cent registered in 2000, a figure largely unchanged since 1990. The economy's over-reliance on the mining was revealed again in 2015, when GDP contracted by 0.3 per cent, in response to a lower demand for diamonds.

Figure 1. Composition of gross domestic product in Botswana, 2003 and 2015

(Percentage)



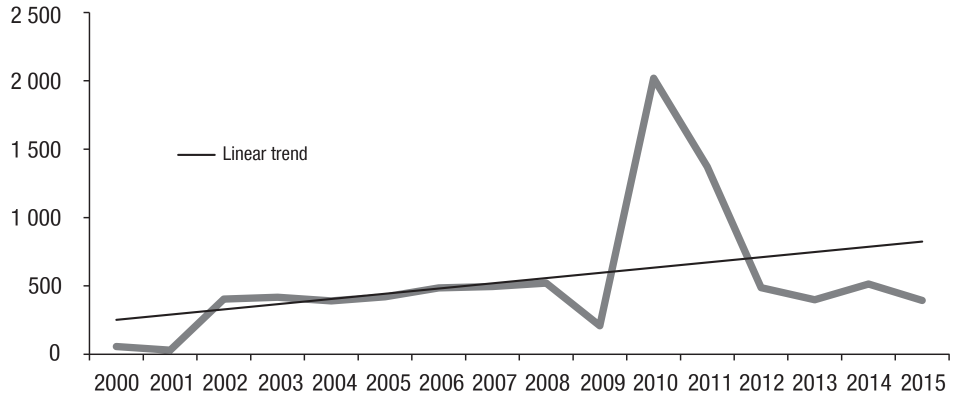
Source: Calculations based on data from the Bank of Botswana (2003 and 2016)

2 This is based on the Herfindahl-Hirschman index, a measure of the degree of product concentration (see unctadstat.unctad.org, accessed 7 November 2016).

In terms of FDI attraction, inflows have increased by almost tenfold from an average of $72 million per year in 1996–2000 to $633 million in 2011–2015. FDI stock has more than doubled since the completion of the IPR, reaching $4.8 billion in 2015. This, however, is largely the result of improved demand and prices of diamonds in two peak years (2010 and 2011). Since then, volatility has increased, due to global economic weakness and depressed diamond prices.

Figure 2. Inflows of foreign direct investment into Botswana 2000–2015

(Million dollars)



Source: UNCTAD (2016), FDI/TNC database.

Botswana's strong track record in attracting FDI is particularly evident in comparative terms (table 1). Since 2006, FDI inflows per capita, as well as relative to GDP and gross fixed capital formation (GFCF), have consistently stood above the average for the countries in the Southern African Development Community or for the group of high-income developing countries. They were also well above the average of the Group of 20 countries in 2011–2015.

The composition of FDI has, however, not changed significantly since the completion of the IPR. Over 70 per cent of total inflows target mining activities, and just a few source countries dominate both in terms of inflows and stock, including Australia, Canada, Luxembourg and South Africa (KPMG, 2013). Nevertheless, other activities have become more attractive to investors since the IPR, including finance as well as communication, real estate, and hotels and tourism.

The impact of FDI, while significant in terms of contribution to GDP as well as fiscal revenues, remains limited, in particular, with respect to developing linkages with the local private sector. Weak absorptive capacities continue to reduce the potential benefits from valuable components of the FDI "package", including employment as well as transfer of skills, knowledge and technology.

Already at the time of the IPR, the low level of development of the local private sector had been identified as an important challenge in the investment climate in Botswana. The IPR noted that FDI had significantly contributed to robust economic growth in the country, but that the local private sector had lagged behind, as reflected by a narrow small and medium-sized entreprise (SME) base, a lack of local suppliers to foreign companies and a high graduate unemployment rate.

Consecutive years of high economic growth and an overreliance on the diamond sector delayed the implementation of key reforms necessary to strengthen the local private sector in the country. Numerous obstacles hampering the development of the Botswanan private sector persist, including high turnaround times and difficulties in obtaining different kinds of business permits; limited access to serviced land; a severe skills gap, compounded by a difficulty in hiring skilled foreign workers; and inadequate access to utilities, most notably energy.

Those most adversely affected by these obstacles are individual entrepreneurs and small businesses. This is because large investors, including foreign ones, have easier access to the public administration in charge of the various permitting processes and to ministerial orders and exceptions offering them special treatment or allowing them to circumvent some restrictions, including with regard to hiring foreign workers.

In this context, several of the recommendations contained in the IPR remain relevant today and some, even more so. As discussed in the following section, since 2003, the country has made concerted efforts to address many of the recommendations brought forward by the IPR. However, the Government's approach to private sector development has not changed. The focus of the citizen economic empowerment policy and initiatives is on promoting local private sector development through protective measures and guaranteed markets, as opposed to facilitation and enabling measures aimed at increasing local competitiveness. This approach, largely supported by mining revenues, may crowd out private sector opportunities.[3]

3 Botswana has one of the highest central government wage bills relative to GDP among high income developing countries. The Government (central and local) contributed about 13.8 per cent of GDP and 18 per cent of total employment in 2011. In 2013, the public sector was responsible for 52.5 per cent of formal employment in the country (Bank of Botswana, 2016 – p.122).

In the context of weak mining activity due to depressed prices and increasing pressure on government resources, an alternative approach would be desirable. Such an approach would foster economic citizen empowerment through facilitating measures to strengthen the role of the private sector. This would reduce dependency on the public sector, as recommended by the IPR.

3. Summary of main findings

Significant progress in implementing the recommendations of the IPR was recorded, in particular in the following areas:

- **FDI entry.** An investment code, which would have represented a significant tightening of the FDI regime, was scheduled for adoption at the time of the IPR. The proposed code sought to introduce several new general restrictions on the entry of FDI, including prohibiting projects below a certain size. The Government's objectives behind the code were to attract only serious and bona fide foreign investors, curb the entry of economic refugees who may take away jobs from citizens and protect small local investors and, at the same time, open investment opportunities for them. The IPR assessed that the adoption of the code would be counterproductive to achieving the stated objectives and detrimental to the diversification of the economy. The code was abandoned and a negative list approach, including those activities reserved for nationals of Botswana was retained, as recommended in the IPR.
- **Investment promotion agency.** BITC was established with a mandate that encompasses investment attraction, export promotion and development, including the management of the national brand – *Go Botswana*. As recommended in the IPR, it engages in proactive and selective investor targeting based on research aimed at identifying growth sectors in the economy. In 2014, it set up the Business Facilitation Services Centre, which offers a range of services to investors and undertakes investor aftercare activities. BITC has representations abroad and works closely with the country's foreign diplomatic missions. It has developed an advocacy framework to push forward key recommendations to improve the investment climate. The work of BITC is regularly evaluated on the basis of performance targets. Its latest annual report states that the BITC was responsible for the attraction of over $135 million of FDI, the generation of over $126 million in business expansion and the creation of 3,000 jobs in 2014–2015 (BITC, 2016).
- **Competition.** The Competition Authority of Botswana has been operative for several years. It monitors, controls and prohibits anticompetitive trade or business practices in the economy. In 2014–2015, it investigated over 30 merger and acquisition cases, many in the mining and retail sectors. Its latest annual report estimated that the Authority facilitated the injection of over $13 million into existing businesses (Competition Authority, 2015).

- **Tax regime**. Botswana maintained a competitive tax regime across all sectors, as recommended in the IPR. The general company tax rate was revised from 25 per cent to 22 per cent. The tax regime remains transparent and relatively easy to comply with. A proliferation of special tax regimes has so far been avoided, with only two special regimes aimed at stimulating activities in finance and manufacturing having been established.

In other areas, significant reforms are under way, but are either incomplete or their implementation is lagging. In several cases, the recommendations proposed in the IPR of 2003 remain relevant and, in some cases, have become more urgent. Among them are the following:

- **Company licensing and permits.** A streamlining and simplification process is under way to limit licensing requirements to activities that pose health and safety concerns, directly implementing a key IPR recommendation. The number of trading licences is also scheduled to be reduced from 45 to 7. In manufacturing, a similar process to reduce the number of licences has recently begun. Nevertheless, the private sector continues to cite long turnaround times in obtaining different types of permits as a major bottleneck for business. This issue has also been highlighted by BITC, as it has a negative impact on its facilitation role with investors and the efficiency of its Business Facilitation Services Centre (BITC, 2016). As a result, at the time of writing of this report, the Government was considering a business facilitation law that would introduce a fast-track permitting mechanism for investors with access to the BITC Business Facilitation Services Centre (i.e. for investments above $1 million for Botswanan investors and $4 million for foreign ones). However, this would risk creating a two-tier system, which would leave smaller, primarily domestic investors at a disadvantage.

- **Access to land.** The main ongoing reforms involve land title digitalization and a simplification of the procedures to access land, as recommended in the IPR. A process of decentralization in land management is ongoing. This has resulted in a duplication of some procedures between the local land boards and the Deeds Registry in Gaborone. Access to serviced lands, particularly in the peri-urban areas in demand by investors, continues to be problematic.

- **Human resources development.** Access to skilled labour remains one of the biggest concerns for both national and foreign investors, and it continues to be identified as the main reason for the country's competitiveness gap. This has not been due to a lack of public spending, as Botswana invests more than 9 per cent of its GDP in education, one of the highest rates of education spending in the world. Rather, it stems from a policy approach which has not sufficiently focused on the relevance and quality of education. The skills gap has been compounded by the increasing difficulties of accessing foreign labour with scarce skills since the IPR was conducted. However, current reforms are now heading in the right direction, notably through the development of the National Human Resources Development Strategy by the recently established Human Resource Development Council. In addition, as recommended by the IPR, the Ministry of Labour and Home Affairs is currently working on refining a list of scarce skills to help target skilled foreign labour.

- **Entrepreneurship development.** While there are numerous institutions in the country that provide support to entrepreneurs and SMEs, their impact is limited by the fact that they remain largely uncoordinated with each other. In addition, a recent impact assessment conducted by the Local Enterprise Authority (LEA) – the main institution in charge of enterprise development – demonstrated that although there is a positive impact from its interventions in terms of company sales and job creation, very few of the SMEs that it serves go on to become large enterprises (LEA, 2015). The agency partly attributes this to a low uptake of those more advanced business development services that have greater impact, due to the high costs they imply for SMEs. These include product and process quality certifications, as well as export facilitation that requires substantial investments to maintain regular and consistent supply quantities to meet export market requirements. A related challenge, which has persisted since the IPR was completed, is access to finance. Although the financial system has grown significantly in the past decade, intermediation remains low compared with other upper middle-income countries. An entrepreneurship policy to address some of these issues and propose a more holistic approach to entrepreneurship development is currently being finalized (Republic of Botswana, 2016).

- **Fostering business linkages.** The IPR considered this an important mechanism for increasing the benefits derived from FDI. The Government's approach to promoting business linkages has focused primarily on providing preference to local supplier companies in government procurement, as reflected by numerous policies including the Economic Diversification Drive and the Procurement Act of 2008. However, the impact of this approach on the size and quality of the local supplier base has been limited. In this context, stakeholders from both the public and private sector report a widespread use of "fronting", i.e. citizen companies brokering their procurement contracts with foreigners, some of whom import supplies from abroad.

- **Privatization.** One policy area which has seen little progress since the IPR was completed is the provision of competitive business inputs (such as electricity and telecommunications). The IPR had recommended considering the potential competitiveness advantages of injecting private capital and competition into the management and delivery of services such as energy and telecommunications through the privatization of several State-owned enterprises. However, despite the launch of two privatization master plans in 2005 and 2012, the privatization debate has reached a standstill. Delays in the privatization process have resulted in a persistently uncompetitive and unreliable delivery of key business inputs for the local economy. The privatization debate remains narrowly focused on ownership issues and not enough on efficiency gains in terms of access and cost that can be derived from the process. It is telling, in this regard, that the only partial privatization that has taken place since the IPR was conducted is the recent public offering of a 45 per cent stake of Botswana Telecommunications Corporation, which involved the selling of shares to individual Botswanans as a means to encourage citizen empowerment.

The following section provides more details on the implementation status of each IPR recommendation.

Table 1. Comparative net inflows of foreign direct investment to, and stock of, selected countries, 2001–2015

Country	Average inflows of foreign direct investment									Stock of foreign direct investment		
	Absolute figures			Relative figures						Absolute figures	Relative figures	
	Million dollars			Per capita (dollars)		Per $1 000 gross domestic product		As a percentage of gross fixed capital formation		Total millions dollars	Per capita (dollars)	Percentage of gross domestic product
	2001–2010	2011–2015	2015	2001–2010	2011–2015	2001–2010	2011–2015	2001–2010	2011–2015	2015		
Botswana	359.4	633.1	393.6	190.9	313.2	38.3	43.0	13.3	13.7	4 760.4	2 315.0	37.0
Lesotho	72.7	148.2	169.0	37.6	71.4	52.5	64.6	19.5	19.1	251.0	118.4	12.4
Malawi	87.3	130.1	142.5	6.6	7.9	20.0	20.4	11.6	17.3	1 486.3	85.9	23.2
Mozambique	454.2	4 795.1	3 710.8	21.3	185.6	56.5	314.9	34.6	92.7	28 768.2	1 060.7	192.2
Namibia	444.5	912.6	1 077.8	217.2	396.1	62.5	71.1	27.7	25.6	3 707.3	1 549.7	28.9
South Africa	4 372.8	4 929.0	1 772.4	90.1	93.4	18.0	13.4	9.4	6.8	124 940.2	2 335.7	39.9
United Republic of Tanzania	756.3	1 739.4	1 531.5	19.1	35.3	37.9	41.4	14.2	13.1	18 452.6	352.9	41.1
Zambia	536.4	2 040.2	1 653.0	45.9	140.1	49.6	80.9	18.6	30.6	16 543.7	1 066.0	75.6
Southern Africa	7 248.5	12 742.8	17 900.1	55.2	83.4	21.5	22.1	11.5	11.4	194 846.0	1 224.2	38.6
Southern African	9 161.1	17 206.2	21 507.9	40.3	63.5	24.1	25.9	12.8	13.0	239 748.0	844.0	39.8
Group of 20	627 319.4	811 354.6	926 166.6	152.9	185.2	16.3	14.1	7.0	5.7	14 393 398.6	3 233.9	25.2
High-income developing economies	349 296.8	653 748.1	704 019.6	150.5	263.3	30.2	26.5	12.2	9.3	7 821 539.6	3 097.0	31.7

Source: UNCTAD (2016), FDI/TNC database.

4. Implementation matrix

What	Why	How	Status	Findings
I. Improve the regulatory framework for investment	**FDI entry and establishment** Since independence, Botswana has been substantially open to FDI. A new foreign investment code was being considered at the time the IPR was being conducted. This code aimed to introduce new restrictions and effectively ban all FDI under a certain size to curb economic migration and protect the local economy. The IPR concluded that this policy stance would do little to address the concerns for economic migration, but there was a risk that it would affect Botswana's strong track record in dealing with FDI and lead to a sharp slowdown in FDI inflows.	**I.1** Abandon the introduction of the proposed foreign investment code of 2003		As a direct implementation of the IPR recommendation, the proposed investment code was dropped.
		I.2 Maintain a negative-list approach to FDI restrictions		The negative-list approach has been retained. Additional reserved activities for nationals have been added since completion of the IPR. In trading and services, the number of reserved licences for small-scale activities has increased from 5 to 13. In industry, a few small-scale manufacturing activities have been added to the list, including small-scale meat processing. In tourism, following the Tourism Regulations of 2011, the following activities are now on the reserve list: accommodation in guesthouses, campsites and caravan sites, mobile safari activities, motor boat activities, transport services and mekoro canoe activities. Joint ventures between a citizen and a non-citizen continue to be possible in a reserved trade or business where the citizen has a minimum beneficial ownership of 51 per cent of the joint venture. Exceptions to the reserved activity list are interpreted and decided by the Minister for Investment, Trade and Industry through a ministerial order. There are currently no minimum-size thresholds for FDI.
		I.3 Consider introducing a post-investment audit system		The points-based system for work and residence permits (see III.4 below) includes post-investment audit mechanisms to confirm that proposed investments by foreign investors have taken place.
	Business licensing At the time the IPR was being conducted, a business licence was required for almost every type of business activity and the process to obtain them was time consuming. Industrial licensing, in particular, was slow and, at times, used as a mean to screen FDI out of specific activities.	**I.4** Reduce the number of licences and simplify the business-licensing process		Notable advances have been made in trade and services to move from a system of ex ante licensing to ex post checks. Further to a risk assessment, out of 45 licensed activities under the Trade Act, only 7 were identified as posing health and safety risks, and therefore require licensing. A draft bill to amend the Trade Act of 2003 to reflect these changes was submitted to the Attorney General's Chamber in 2015. In industry, the process to reduce the number of licences is less advanced. According to the implementation status report of the *2015 Doing Business Reform Action Plan for Botswana,* led by the Ministry of Investment, Trade and Industry (MITI), changes to the Industrial Development Act were being considered, and a draft revision was scheduled for submission, but had not yet been submitted as of October 2016.

= implemented; = substantially implemented; = partially implemented; = not implemented.

What	Why	How	Status	Findings
				However, some efforts have been made to improve the industrial licensing process. The 2006 revision of the Industrial Development Act introduced a decentralized licence review system. In addition, the Department of Industrial Affairs, in charge of industrial licensing, recently signed a service-level agreement with BITC, in which it commits to hold meetings of the Licensing Authority on a weekly basis, provided there are applications that meet all requirements, and to issue a licence within five days (down from one month). Finally, the process to develop an e-system to register for an industrial licence online through the MITI website has begun.
I. Improve the regulatory framework for investment	**Access to land** Botswana's fast-growing economy put pressure on the land allocation system. Peri-urban land scarcity was an issue, and the processes for re-zoning, development planning and title registration were considered too slow.	**I.5** Facilitate access to land by: Addressing bottlenecks in land administration. Publishing and analysing performance data. Improving re-zoning policy and practice, as well as the land allocation approvals system. Developing a freer market with more private sector involvement in site development and commercial construction.		Important reforms are under way in land administration, led by the Ministry of Lands and Housing (MLH). One major initiative has been the Improvement of Land Administration Procedures, Capacity and Systems (LAPCAS) in Botswana Programme, which began in collaboration with the Swedish National Land Survey in 2009 and currently continues with public funding. It is expected to be completed by the end of 2016. The Programme includes the computerization of records and the development of an online cadastral information system that will be accessible to other government agencies. Land banks have also been created for BITC, the Botswana Tourism Organization, the Ministry of Agriculture and the Selebi Phikwe Economic Diversification Unit, which in turn can lease to investors. Notwithstanding these initiatives, according to interviews conducted by UNCTAD with stakeholders, the lack of serviced land in the capital and peri-urban areas remains an issue. Most recently, with the support of the LAPCAS project, and as part of the country's Economic Stimulus Programme, the servicing of 37,000 commercial, industrial, residential and other plots has been scheduled to begin in 2016. A process of decentralization of land administration has also started, which aims to simplify land registration and land transfer outside the capital through the creation of local land boards. However, since decentralization has not been finalized, there is a duplication of processes and people required to register at the local land board and then again at the Deeds Registry. MLH is currently amending and consolidating the relevant land acts to address this issue. In addition, through the Doing Business Reforms Road Map initiative, the process for construction permits has been simplified.
	Competition At the time the IPR was being conducted, there was no competition law or authority in charge of regulating dominant positions in the market, to the detriment of consumers and industrial customers.	**I.6** Accelerate the introduction of a competition law and policy, overseen by an autonomous agency with investigative and enforcement powers		The Government of Botswana, with assistance from UNCTAD, launched a national competition policy in 2005. The Competition Act was enacted in 2009, and the Competition Authority was established in 2010. Between 2012 and 2015, the Authority handled 93 cases of mergers (Competition Authority, 2015). Its latest annual report estimates that the Authority facilitated the injection of over $13 million into existing businesses. As of October 2016, a revision of the Competition Act had been submitted to the Attorney General's Chambers. Beyond addressing potential conflict of interest issues, the amended Act would also merge competition and consumer protection issues. In view of the Competition Authority's limited resources relative to its mandate and work load, it will be important to ensure that its capacity is not overstretched by the broadened mandate.

What	Why	How	Status	Findings
I. Improve the regulatory framework for investment	**Fiscal competitiveness** In view of the increasing competition for FDI, maintaining a simple and competitive fiscal regime is essential, particularly in sectors such as manufacturing, characterized by highly mobile investments.	**I.7** Maintain a simple and competitive fiscal system		The tax regime remains simple, and the proliferation of incentives seen in other countries has been successfully avoided. Since 2003, the general company tax rate decreased from 25 per cent to 22 per cent. There are two special tax regimes for companies in finance and in manufacturing, which remain unchanged since the completion of the IPR. The Minister of Finance and Development Planning can issue income tax concessions on a case-by-case basis to any project considered beneficial to the development of the economy or to the economic advancement of its citizens, but these are used sparingly. Efforts have been made to further simplify and streamline the tax process. The introduction of electronic tax filing is well under way. Testing has been carried out and internal training on e-service is ongoing for corporate and withholding taxes. E-filing of individual tax returns has been piloted and the expectation is that for the next filing season of 2015/16, clients will be able to electronically file their tax returns. The next steps will involve transitioning from a voluntary to an obligatory e-tax filing and an e-payment system (Republic of Botswana, 2015a). In addition, in April of 2016, the E-communications Act, which permits e-signature, was passed. As part of the Doing Business Reform Action Plan, the number of payments for corporate income tax is being reviewed. In addition, corporates can now make payments quarterly, based on a self-assessment regime. To date, according to interviews conducted by UNCTAD, there is no cost–benefit analysis of incentives, but the Government is open to considering them in the future.
II. Enhance overall competitiveness	**Competitiveness** Following the completion of the IPR, Botswana's diversification objective required the attraction of more efficiency-seeking, export-oriented FDI for which there is strong international competition. Public sector focus on the provision of basic infrastructure and social services needed to be complemented by a focus on high-quality, cost-efficient and reliable service delivery. The scope of the privatization debate was narrowly focused on ownership issues rather than on the potential for improving national competitiveness. Finally, no systematic benchmarking of the competitiveness of business costs and services was undertaken.	**II.1** Enhance international competitiveness in the provision of business inputs		Botswana's overall competitiveness in the provision of infrastructure services has declined. Its rank based on the quality of infrastructure index has slipped from position 60 in 2006 to position 96 in 2016 out of 144 countries, behind Mauritius (position 37), Namibia (position 66) and South Africa (position 68) (World Economic Forum, 2016a). Some infrastructure subsectors, such as information and communications technology (ICT), have seen notable advances. Between 2000 and 2011, Internet access grew by more than 400 per cent, and mobile cellular subscriptions increased by 2,653 per cent (Statistics Botswana, 2013). Botswana also has one of the highest mobile penetration rates in Africa and in the world, at close to 170 per cent (International Telecommunication Union, 2016). Improvements in international connectivity due to additional cables in the region in 2011 and 2012 led to a fall of 70 per cent in connectivity costs and contributed to the increase in the Internet penetration rate (BuddeComm, 2016). However, with 27.5 per cent of individuals in Botswana using the Internet in 2015, it continues to lag behind countries such as South Africa that stand at more than 50 per cent (International Telecommunication Union, 2016). If addressed, issues that could further improve the Internet penetration rate include power supply problems, low information technology literacy, lack of local Internet content and a perception of low-quality services (BOCRA, 2008). Despite progress in access, costs remain high and this has contributed to a relatively slow adoption of mobile services such as financial services, compared with countries like Kenya.

What	Why	How	Status	Findings
				Energy still represents one of the most important bottlenecks for the Botswanan private sector (LEA, 2015). As a result of tariff subsidies, costs are low, but reliability and access are inadequate. The Botswana Power Corporation (BPC) has sole responsibility for the generation, transmission and distribution of electricity. In 2007, the Government allowed independent power producers to participate in the investment and supply of electricity, and to date there is one such producer in operation. Generation capacity is low, which leads to persistent electricity shortages. In 2013, an additional power plant expected to satisfy the national demand began operations, but was unable to perform at full capacity due to technical problems. The energy deficit is filled by using imported energy, which constituted 53 per cent of supply in the 2013/14 financial year. The rising import bill has put pressure on the Government's budget, and BPC's losses amounted to $110 million between 2013 and 2014 (Botswana Power Corporation, 2014). Several ambitious, cross-border power, water and transport projects have been planned, but it is unclear how these will be financed. A public–private–partnership policy was developed in 2009, but a dedicated unit had not yet been established at the time of the fact-finding mission for this report, and no accompanying legislation had been adopted.
II. Enhance overall competitiveness		**II.2** A central ministry should take the lead role in benchmarking competitiveness as a tool for prioritizing policy changes.		In 2013, in collaboration with the World Bank, the Government of Botswana reviewed the legal and regulatory framework as well as the institutional and governance structures affecting the business environment in the country. The Doing Business Reform Road Map and Implementation Plan produced key recommendations that were validated at a workshop in 2014 and implementation began in 2015. The national Doing Business Committee was set up, chaired by MITI, and five subcommittees were created, each chaired by the private sector. Their focus is on the following areas: (a) starting a business, (b) construction, (c) paying taxes, (d) trading across borders and (e) global competitiveness. Progress is reported on a quarterly basis to the Office of the President and the High-level Consultative Council.
		II.3 Implement a privatization programme		Despite the adoption of a privatization policy (2000), followed by a first (2005) and second (2015) privatization master plan, the process in Botswana has not yet started. There are several reasons behind this, including a lack of political support. The definition of privatization is very broad and includes private participation in almost every form, with a particular emphasis on the sale of individual public shares to citizens of Botswana that does not alter the control or management of the public enterprise and therefore has no impact on the efficiency of its service delivery. This has been the mode of divestiture implemented in the privatization of Botswana Telecommunications Corporation, the only State-owned company that has undergone privatization to date. It involved the sale of 49 per cent of its shares to individual citizens, and their allocation was ongoing at the time of the fact-finding mission for this report.

What	Why	How	Status	Findings
II. Enhance overall competitiveness				The agency in charge of managing the privatization process, the Public Enterprises Evaluation and Privatization Agency (PEEPA), has recently been moved from under the supervision of the Ministry of Finance to the Office of the State President, which should give it higher visibility and a direct channel to communicate its findings and recommendations. Until now, however, PEEPA's ability to manage the privatization process has been hampered by a lack of legislation to enforce the process and a dependency on ministerial approval for the decision to privatize and the timing of the process. In 2010, PEEPA's mandate was expanded to include leading the implementation of approved privatization transactions.
III. Support local private sector development	**Strengthening entrepreneurship and business linkages** The local private sector is underdeveloped and oriented to the Government as its main market. The country's entrepreneurial class is small. Access to local suppliers is among the most difficult aspects of daily business by foreign firms. FDI should be thought of as a complement to local enterprise development, not as a threat. It can bring skills, expertise and access to new technologies, and new markets that can reinforce domestic enterprise promotion efforts.	**III.1** Improve institutional support to entrepreneurship		While numerous institutions provide support to entrepreneurs and SMEs, their impact is limited, as their actions are largely uncoordinated. In the 2014–2015 financial year, 1,596 entrepreneurs benefited from the services of LEA, the main government institution in charge of business development services (LEA, 2015). The Citizen Entrepreneurship Development Agency (CEDA) continues to focus on providing financial and technical assistance to SMEs and as of 2012, its total portfolio investments amounted to $235 million, with over 4000 projects (CEDA, 2012). Both institutions are under MITI and, despite their achievements, could benefit from consolidation or at least rationalization of their functions and improved synergies. The Government is aware of these challenges, and LEA is currently finalizing an entrepreneurship policy that is expected to be tabled in Parliament in 2016, which aims for a more holistic approach to entrepreneurship development.
	Human capital development The IPR Investor Survey identified access to qualified personnel as the most significant problem faced by investors. The country was facing a considerable shortage of skills, experience and aptitude for private sector business, and the IPR called for more targeted human resource investments as a pre-condition for addressing Botswana's supply-side constraints and ensuring that investment generates spillovers across the economy.	**III.2** Foster business linkages between local SMEs and large investors		As with entrepreneurship development, too many government entities currently have the promotion of business linkages in their mandates, including LEA, CEDA, The Economic Diversification Drive Unit, the Innovation Hub, BITC, among others, and better coordination would maximize impact. Some examples of successful business linkages initiatives have developed since the IPR, the most notable being the development of the downstream diamond sector. Following an agreement between DeBeers and the Government of Botswana, DeBeers shifted its aggregation and sorting operations from London to Gaborone in 2013, effectively making Gaborone the major sales point for the company's diamonds. The 20 cutting and polishing companies were set up as part of an agreement to supply the local diamond industry with $800 million worth of diamonds annually and, as of July 2016, have generated 2,271 local jobs. Other successful examples exist, whereby large companies operating in Botswana have been put in contact with local suppliers, with the assistance of LEA, and the suppliers have received technical assistance from experts from abroad in order to be able to upgrade and attain the quality requirements needed by the large companies. LEA is working on several such projects through its Francistown Light Industrial Incubator, which among others, focuses on low-technology mining equipment for Debswana, including leather gloves. It is one of four business incubators operated by LEA.

What	Why	How	Status	Findings
III. Support local private sector development	Botswana's supply-side constraints and ensuring that investment generates spillovers across the economy.	**III.3** Adopt more focused policies to ensure that education meets the needs of the private economy		Botswana's human resource base remains its main weakness in terms of competitiveness. The latest Africa Competitiveness Report identifies "poor work ethic in the national labour force" and "inadequately educated workforce" as the top two most problematic factors for doing business in the country (World Economic Forum, 2016b). UNCTAD interviews with stakeholders from the private sector confirm not only that access to skilled labour is still a major challenge, but that the problem has worsened since 2003. There is often a pool of graduates in the most demanded sectors looking for jobs, but they do not meet the quality and productivity required by the private sector. This has contributed to a persistent unemployment rate of 20 per cent and a youth unemployment rate of 34 per cent.[2] Although Botswana is one of the biggest public spenders on education worldwide, curricula are not sufficiently oriented at meeting market needs. It is telling, for instance, that skills surveys have not been conducted, even at a sectoral level, for over 25 years (Centre for Employment Initiatives, 2013). However, the Government has recently embarked on a series of important reforms. The Human Resource Development Council was established in 2014 to provide policy advice on all matters of human resource development and to develop and carry out the implementation of a national human resource development strategy. Among its main projects is a full country skills survey, focusing on 12 sectors identified as a priority for the private sector. Human resource development plans are being developed for each of the 12 sectors, and at the time of the UNCTAD fact-finding mission, the first three had been approved for mining, tourism and agriculture. The plans aim to accomplish the following goals: identify the different types of skills in demand in a sector, analyse the current supply across different education segments, and recommend strategies to make the supply more responsive to the specific needs of the sector. In addition, several funds have been set up and are managed by the Human Resource Development Council. These include the Human Resource Development Fund financed by a levy imposed on employers of 0.2 per cent of their turnover; the Student Sponsorship Fund, which includes the funding of the National Internship Programme; and the Public Tertiary Education Institution Fund, which offers grants to universities. The Council is also working towards industrial research collaborations and teacher training programmes abroad.

What	Why	How	Status	Findings
III. Support local private sector development	**Work and residence permits for foreigners** The IPR found that investors' needs to recruit non-citizen staff to fill skills gap were frustrated by substantial delays in the processing of work and residence permits. In practice, work and residence permits were being used as a means to restrict FDI.	**III.4** Introduce more flexibility in the work and residence permit system. In particular, consider a 5 + 5 + 5 policy as follows: • Introduce a key worker scheme that would entitle the employer to five non-citizen employment positions for all investments over a given amount, for the duration of the investment. • Allow new investors in any industry and all investors in priority sectors to recruit up to five additional managerial, supervisory and technical non-citizen posts. • Extend the validity of work and residence permits to up to five years, depending on the duration of employment contract.		Slow turnaround times for work and residence permits and uncertainties regarding the outcome of the process remain a major concern for investors, forcing several companies to put their expansion plans on hold (BITC, 2016). The Ministry of Labour and Home Affairs recently completed a mapping exercise of the process related to work and residence permits, which takes from 73 to 136 days (Republic of Botswana, 2015b). The Government is aware of the need for reform and has already taken a number of initiatives: • The 2011 Immigration Act introduced a single application for work and residence permits. Permits are now issued for up to 10 years for investors and up to 5 years for employees. • A multi-stakeholder consultation in 2015 launched a new process to consolidate the Work and Residence and Visa Units and adopt one single permit through an integrated electronic system. • A points-based system was introduced in 2012. It applies to investors and employees and considers whether they should bring in needed skills. However, the scarce skills list used to score candidates does not fully reflect the needs of the market. The list is currently being fine tuned. • A key worker scheme has been put into place for Tier 1 Investors or sponsored investors. These include investors whose projects are sponsored by a recognized government institution such as BITC or the Botswana Tourism Organization. Approvals for these applicants are automatic, conditional on a security check. • Ministerial exception orders have been introduced, which allow for additional managerial, supervisory and technical posts to be recruited on a more flexible basis. These include: expatriate employees of companies recommended by BITC holding the following positions: chief executive officer, production manager, technical manager, operations manager, sales and marketing manager, financial manager. However, the BITC 2015 annual report stated that in the financial year 2014–2015, only 45 per cent of requested permits were granted to BITC investors, 18.7 per cent were rejected and 28 per cent were pending (BITC, 2016).

What	Why	How	Status	Findings
IV. Systematic, sector based investment promotion	**Investment promotion** At the time the IPR was being conducted, investment promotion efforts lacked sufficient drive. Different agencies conducted investment promotion with little coordination, and no systematic, sector based or targeted investment promotion was carried out.	**IV.1** Establish a fully fledged investment promotion agency, adequately mandated and funded to carry out the following tasks: • Careful assessment of investment potential by sector. • Professional investor targeting. • Organized marketing. • Benchmarking and policy advocacy		The Botswana Investment and Trade Centre was created in 2012, following the merger of the former Botswana Export Development and Investment Authority and the Botswana International Financial Services Centre. As per the BITC Act of 2011, it has an encompassing mandate of investment promotion and attraction, export promotion and development, including the management of the national brand. At the time of the fact-finding mission for this report, 90 staff were working at BITC; Government subventions, which accounts for 90 per cent of BITC funding, stood at over $10 million in 2014–2015. Among its activities are the following: • Targeted investment promotion: the BITC's focus on investment promotion involves undertaking research to identify growth sectors, packaging them and developing strategic go-to-market value propositions. Recent value propositions include the cargo/logistics, leather and leather products and automotive components manufacturing sectors. • National image building and global awareness creation: this is achieved by major marketing campaigns such as the Doing Business in Botswana programme on CNBC Africa. BITC also has three international offices located in Johannesburg, London and Mumbai. • Business facilitation: A one-stop shop Business Facilitation Services Centre was launched in 2014; it operates through several service-level-agreements and works with liaison officers within various ministries. • Development of special economic zones: The Special Economic Zones Bill was passed in December 2015 and the Board has been formed since. Eight sites for special economic zones were identified, and a master plan was developed for one site near Sir Seretse Khama International Airport. • Investor aftercare: In its latest review period for 2014–2015, a total of 83 companies were visited through the BITC Investor Aftercare Programme. • Advocacy: Among the functions of BITC is advocacy of an environment conducive to business in Botswana. It recently developed an advocacy framework, which was informed by issues highlighted in the October 2014 Investor Consultative Forum and the BITC's aftercare visits to companies.
		IV.2 Adopt target and performance-based evaluations and accountability		BITC engages in regular reporting at the highest level, including on a quarterly basis to the Board of Directors as well as to the Minister of Investment, Trade and Industry and the President. Its reporting is based on key performance targets.

What	Why	How	Status	Findings
IV. Systematic, sector based investment promotion		**IV.3** Ensure institutional coordination in investment promotion		Through the creation of BITC, the Government of Botswana has largely addressed the issue of formerly having too many institutions in charge of investment promotion. A partly decentralized approach remains, as agencies such as the Diamond Hub, through the Ministry of Minerals and the Tourism Development Board, engage in investment promotion in the mining and tourism sectors respectively. Collaboration between the different agencies is informal, and at the time of the UNCTAD fact-finding mission, a memorandum of understanding between BITC and the Ministry of Minerals was under discussion. As regards business facilitation, BITC has signed multiple service-level-agreements with various stakeholders. BITC noted that it was unsatisfied with this approach, as turnaround times continue to be slow, requiring significant relationship management. As a result, BITC has requested the drafting of a business facilitation law that would increase efficiency and coordination. Discussions are also under way to centralize all investment promotion and facilitation functions at MITI, under which BITC works. In April 2016, the Ministry of Trade and Industry changed its name to the Ministry of Investment, Trade and Industry. Since then, BITC has been entrusted with spearheading the review of the national investment strategy of Botswana.

5. Conclusions and the way forward

The reform effort undertaken by the direct implementation of the IPR by the Government of Botswana has been remarkable. It includes the establishment of a well-functioning competition authority and a fully-fledged investment promotion agency. These institutions have contributed to a more competitive and investor-friendly business climate. The country has also made tangible improvements in other policy areas, for example, by reducing the number of business licences required for trade activities, benchmarking competitiveness and maintaining a competitive fiscal regime. In addition, Botswana has sustained a strong track record in dealing with foreign investment, and the restrictive investment code under consideration while the IPR was being conducted in 2003 has been abandoned. Major reforms are also under way in land administration, human resource development and local private sector development. They are in line with the direction recommended by the IPR as well as the UNCTAD Investment Policy Framework for Sustainable Development (UNCTAD, 2015).

The imperative of sustainable development will, however, involve addressing a number of recommendations that have only been partially implemented and are prerequisites for economic diversification. The following recommendations in particular are considered crucial:

- **Strengthening inter-institutional coordination.** The mechanisms and channels for inter-institutional coordination may need to be strengthened to maximize the impact of reforms currently under way, particularly in areas that are affected by multiple agencies and stakeholders, such as entrepreneurship and human resource development and, to some extent, investment promotion.

- **Refocusing the citizen economic empowerment objective on building a facilitative and competitive environment for local businesses.** The country's policies and reforms are underpinned by the concept of citizen economic empowerment as an approach focused on offering a guaranteed market to citizens and firms of Botswana, as opposed to an enabling approach geared towards upgrading their skills and capabilities and enabling them to compete and enter into value chain opportunities with foreign investors. In particular, this would involve:

    1. **Skills – moving from a protective approach to a proactive approach**. The current reforms aimed at narrowing Botswana's skills gap are moving in the right direction. However, its impact will take time to materialize. In the meantime, and to complement these reforms, the Government should proactively seek those talents that are needed in the economy of Botswana from abroad and facilitate their entry; at the same time the Government should encourage knowledge and skills transfer so that the local economy can benefit and become more competitive. The entry of skills that are widely available in the country should continue being restricted. This has been the approach adopted by countries such as Rwanda, which introduced a

successful skills attraction and diffusion programme based on the recommendations suggested by UNCTAD in the IPR for that country.

2. **Privatization – moving from ownership to competitiveness**. As noted in this report, the privatization process has stalled, and the discourse on privatization has focused exclusively on the private ownership of shares of public companies, rather than the benefits in terms of efficiency gains resulting from the injection of private capital and private management in State-owned enterprises. The local economy will stand to gain much more in terms of economic empowerment from the efficient delivery and competitive cost of key business inputs than from the ownership of individual shares of public companies.

3. **Entrepreneurship and business linkages – moving beyond guaranteed procurement**. The current approach to entrepreneurship development is focused on the Government as the main market, and procurement contracts as the main tool for empowerment of local suppliers. The Government should also build and encourage successful examples of targeted linkages initiatives between local suppliers and large companies. Several of these initiatives focus on identifying the supply needs of large companies and supporting local producers to attain the quality required to become their suppliers. Such initiatives should be further strengthened and encouraged to move towards a more targeted approach to the promotion of business linkages. Better prioritization and coordination of the resources of the various agencies that are responsible for the promotion of entrepreneurship and linkages can lead to the development of multiple clusters of local suppliers in key economic sectors.

Although they were beyond the scope of the original IPR, two new recommendations are proposed. These specifically address concerns brought forward by investment stakeholders during the UNCTAD fact-finding mission. They aim to support the Government's efforts in making the country's investment promotion system more efficient and are proposed as a potential alternative to the business facilitation law that is currently under consideration.

- **Streamlining business procedures and making them transparent for all**. Interviews with stakeholders revealed private sector frustrations with the long turnaround times for obtaining different types of permits. In response, the Government is considering a business facilitation law, whose main objective is to reduce the processing time of different permits. This objective, nonetheless, can only be partially addressed by law, as the roadblocks to streamlining the permitting processes are, as in most countries, largely related to a misapplication of the law, ingrained practices and institutional territoriality. The experience of the UNCTAD e-regulations programme, which has successfully assisted several countries in streamlining business entry and operation processes (e.g. in Guatemala, Morocco or Rwanda), shows that mapping, streamlining and advertising the processes are the most effective steps in administrative simplification and procedural transparency. In this regard, rather than opening a "red carpet" track, which would make it easy for a certain category of investors to obtain permits and set up a business, the Government should consider improving the procedures that apply to all, by making better use of e-government solutions. Botswana is already taking steps towards a one Government electronic approach, and the recent passing of the electronic signature law is a case in point. UNCTAD stands ready to provide technical assistance in this area; its recent Global Action Menu for Investment Facilitation can provide further guidance on measures to enhance the consistency and predictability of the policy environment for investors, including through improvements in transparency and information available to all investors and efficient and effective administrative procedures (UNCTAD, 2016).

- **Increasing the efficiency of the current system of incentives and reducing room for discretion**. The existing regime for the allocation of fiscal incentives is highly discretionary and involves a significant amount of relationship management on the part of investors or BITC on their behalf. Beyond establishing an improved, more streamlined and more transparent system of business procedures for all investors, as discussed above, the Government could consider establishing a strategic project window for investment projects that can make a significant contribution to sustainable development as determined by a set of pre-established criteria (such as projects in sustainable development sectors (i.e. energy, infrastructure, education and so forth). The explicit objective of the approach would be to reduce discretionary incentives and to focus them on priority projects only. Discretion would be reduced by pushing the decision process to the highest level of Government. An interministerial committee, which could be located at BITC, would propose a comprehensive package of fiscal and/or other incentives for such strategic projects. Given the exceptional nature of the package and the concessions contained therein, the package would require approval at the highest level, either by the Cabinet or the Parliament. This approach would avoid having the investor and BITC approach each ministry to obtain special treatment. It would also replace the current Development Approval Order, which only refers to fiscal incentives, and can be granted upon the discretion of the Minister of Finance and Development Planning. When considering the strategic project window, the policy guidelines presented in the UNCTAD Investment Policy Framework could serve as a useful reference to ensure that investment incentives are based on set criteria and are compatible and conducive to sustainable development (guidelines 2.4.12 and 2.4.19, UNCTAD 2015).

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