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PROMOTION OF FOREIGN DIRECT INVESTMENT IN ZIMBABWE AND BOTSWANA

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I. INTRODUCTION

1. It is increasingly recognized that the response of private investment is central to the effectiveness of adjustment measures in bringing about structural change and sustained growth. There is, however, very little analysis of this issue for Africa. The depth of the private business sector varies enormously across African economies.

2. Both Zimbabwe and Botswana are located in the Southern African Region which covers Angola, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Tanzania, and Zambia as well as Botswana and Zimbabwe. The positive and negative aspects of the regional cooperation for FDI promotion have been discussed.

3. In the Southern African Region, there are different macroeconomic environments, while there are also distinct similarities in certain key macroeconomic problems. Chief among these are: 1) persistent negative resource balances (i.e. gross domestic investment exceeding domestic savings) combined with a weak relationship between investment and growth; 2) open but unbalanced trade and capital accounts with the developed world; 3) weak international reserve positions and hence lack of funds to permit convertibility of domestic currencies into tradeable currencies, which does not apply to Botswana; and 4) excessive government deficits resulting in high inflation.

4. With regard to market size, Zimbabwe had a population of ten million, while Botswana had only 1.3 million people in 1990. GNP of South Africa dominates the region, representing around 75 percent of the total for the region. GNP per capita of South Africa and Botswana is the highest in the region being more than $2,000. Angola and Zimbabwe have per capita incomes of between $600 and $650. The Southern African Region countries are characterised by wide variations in their rates of economic growth. Botswana, Namibia, and Swaziland continued to grow rapidly during the 1980s, while Zimbabwe, Lesotho, Malawi, and South Africa grew sluggishly, at rates barely sufficient to accommodate their increasing populations.

5. The inflation rates of the Southern African Region vary between the countries. South Africa has been around 14-15 percent. While the inflation rate of Botswana has been about 12 percent, that of Zimbabwe, however, after being steady at 13-15 percent in 1989 and 1990, reached 24 percent in 1991.

6. The current export-import ratios to GNP of Botswana is over 100 percent in some sectors. Its openness was attributable largely to its membership of the Southern African Customs Union. Zimbabwe is also open though less so than Botswana. Apart from Botswana, all the Southern African Region countries have very low levels of foreign reserves.

7. Public finances have also been more or less under control across the Southern African Customs Union. Botswana is in a uniquely strong budgetary situation because of diamond revenues and sound economic management. Structural Adjustment Programmes are now reducing the deficits but progress is slow. Botswana and Zimbabwe spent more, as a percentage of total expenditure, on defence and education than the other countries in the region. The external debt as a percentage of GNP is less than 50 percent in Botswana and falls between 50-100 percent in Zimbabwe.

II. PROMOTION OF FOREIGN DIRECT INVESTMENT

A. Zimbabwe

a) Background

8. Zimbabwe's business is relatively well-developed by African standards. However FDI is very weak, showing less than $10 million although some flows were observed in 1984, 1985 and 1986 during the 1983-1990 period. The causes of weak in-flows are quite complex. There would be five areas that could contribute to the development of a supportive overall framework for private investment recovery: the macro economic and financial framework; foreign exchange and supply-side constraints; investment appraisal; financial sector development; and the tax and incentive framework for investment and the environment for FDI.

9. First, the macroeconomic framework must have three features if business investment is to recover: 1) sufficient growth for firms to experience growth in capacity utilization and thereby increase investment promotion; 2) adjustment in domestic resource imbalances to ensure adequate domestic savings for investment; and 3) to the extent that is feasible, assurances of reasonable stability in overall macroeconomic conditions.

10. Second, investment recovery will require increased supply of its three main components: foreign exchange for imported investment goods; domestic capital goods; and domestic construction goods. The third area of policy focus should be on facilitating the private sector's decision-making process over investment. The Government could organize the approval system through clarifying and publicizing the criteria to investors, and utilizing the technical capability and skills that already exist in the financial system.

11. Fourth, the financial sector could contribute more actively to the economy, playing a larger role in investment appraisal and finance. Fifth, the government policy is more likely to reduce the cost of investment through cutting down or eliminating the tax on imported capital goods. The Government has two distinct objectives vis-a-vis foreign capital: to increase national

ownership of productive capital and to encourage investment by existing and new foreign firms where there are clear gains to the economy.

b) Promotion of FDI

12. The regulatory framework for foreign companies needs to be cast in a broad context. Because Transnational Corporations control the dominant share of assets in the Zimbabwean corporate structure, they have unavoidably become targets of public policy debate. The debate has centered, particularly, around three issues: (i) the degree of autonomy and flexibility over project approval and appraisal; (ii) dividend remittability; and (iii) management of financial surplus funds.

13. There have been a number of changes in the regulatory environment for foreign investors in the 1980s. Despite the Government's public concern over the proportion of the economy owned by foreign capital, there was initially an improvement in the terms for most investor categories after independence.
Those firms whose remittances had been fully blocked were allowed to remit up to 50 percent of their post-tax profits. The concept of "venture capital" was introduced for new investments. However, new investors were reluctant to invest in Zimbabwe requesting further protection of FDI by the Government, which were more likely to change the FDI regulation. 1/

14. The May 1987 reduction of remittability was accompanied by other measures designed to encourage foreign-controlled firms to invest in Zimbabwe. This focused on the blocked and surplus funds of established companies.

15. The relevant issue to FDI regulation concerns the potential impact of other aspects of the regulatory system to investment decisions. Job security regulations raise the expected fixed costs associated with any investment and increase the likely risk of losses, especially in the recession period. Introduction of the price freeze in mid-1987 has also had an adverse impact on expected profits and investment intentions.

B. Botswana

a) Background

16. Few developing countries have been as fortunate as Botswana, enjoying over 25 years of political stability and democratic rule. Since independence Botswana has been the fastest-growing

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1/ The World Bank (1989) <u>Zimbabwe: Private Investment and Government Policy</u>, Report No. 7646-ZIM.

economy in the world, in contrast to the economic stagnation of much of Africa. As a result, Botswana has not faced the problems typical of sub-Saharan Africa. Botswana has consistently run surpluses on both the balance of payments and government budget. It has accumulated substantial foreign exchange reserves and has no external debt problems, with manageable inflation.

17. Underlying these developments is Botswana's emergence as the world's second largest producer of diamonds, after the Russian Federation. Although diamonds dominate, the minerals sector also includes large-scale production of copper-nickel, which has been particularly important in employment terms. 2/

18. Botswana has significant advantages in access to regional and world markets. Membership in the Southern African Customs Union (SACU) has given Botswana free access to a wide range of consumer and capital goods produced in the South African market with over 35 million consumers. Zimbabwe has been another major trading partner for Botswana manufacturers. Botswana also enjoys preferential access to markets in Europe and North America as a member of the Lome Convention and under the General System of Preferences.

19. Between 1974/75 and 1991/92, real Gross Domestic Product (GDP) grew at an average annual rate of 10.7 percent. Over the same period mineral sector growth averaged 18.4 percent per year and that of the rest of the economy 8.5 percent. Growth has, however, slowed in the last three years. GDP per capita in 1991/92 was P5700, equivalent to approximately $2700.

20. However, the economic environment for investors is not necessarily best in Botswana, since the population density is just two persons per sq km and it is a land-locked country with a small market. FDI in Botswana, however, reached a peak of $113.6 million in 1987, declining to around $38 million in 1990, one-third of the peak. The Government of Botswana has been trying to attract further FDI by establishing several institutions, in order to stimulate the economy as a whole. One of them is Selebi-Phikwe Regional Promotion Programme Unit.

b) Promotion of FDI

21. Since 1988 the Selebi-Phikwe Regional Development Promotion Unit has been conducting a special programme to diversify the economy of Selebi-Phikwe into non-mining activities. Selebi-Phikwe is Botswana's third largest urban centre. Its economy depends on the copper-nickel mining activities of Bamangwato Concessions Limited (BCL). Due to poor financial performance by BCL, the scope for diversifying the Selebi-Phikwe economy has

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2/ Ministry of Finance and Development Planning (1993), <u>Planning for People</u>.

been modified, establishing a regional development strategy.

22. In 1987 the Government obtained a World Bank loan of $7.6 million for the regional development strategy, of which $2.2 million was allocated for the establishing and operation of the Selebi-Phikwe Regional Development Promotion Unit for a five-year period. The unit was required to design and implement two main promotion programmes covering industry development and irrigated agriculture, as well as monitoring a related regional road access programme.

23. The overall objective of the unit was to increase non-mining economic activity and employment in Selebi-Phikwe and thereby provide a viable future for the town. After conducting research on investment promotion in South Africa and Zimbabwe, it was decided to initiate promotion in Hong Kong, mainly aimed at the clothing industry which was seen to offer potential for establishing large-scale, labour-intensive projects.

24. The Special Incentive Package (SIP) 3/, which was based mainly on the Financial Assistance policy (FAP), was introduced to attract FDI and compete with other host countries. The promotion work has been extended to other Asian countries, Mauritius and South Africa. It is planned to establish an investment promotion office in Germany.

25. Initially industry promotion was to include FDI, encouraging expansion of existing firms and support for small-scale enterprises, but the latter two aspects were reduced after their prospects were found to be limited. The present focus on large, reputable, international clothing companies is consistent with the aim of creating substantial numbers of new jobs and getting new technologies.

26. The success in Mauritius, which mainly depends on the Export Processing Zone, had some similarities with Botswana (i.e. establishing a large clothing industry and introducing a special incentive package), although prospects for replicating its industrialization strategy needed to be treated with some caution.

27. In comparison with the investment incentives available in Mauritius, the SIP is relatively generous. Both offer a reduced tax rate of 15 percent, and a 10 year exemption from withholding tax on dividends. The grant elements of Botswana's incentive package are considerably more generous than in Mauritius, although that country does have other attractions, particularly access to long term and export finance.

3/ See Annex 1 for SIP.

28. Among Botswana's effective competitors in southern Africa, more generous benefits are possibly available in areas of South Africa which have been targeted for decentralisation. However, the South African package has been formulated for largely political rather than economic reasons and is an integral part of its homelands policy. (table 1)

III. CONCLUDING REMARKS

29. African policy makers could learn from their Asian counterparts the techniques necessary to create macroeconomic stability, provide infrastructure, improve education and training, and identify market opportunities.

30. Although Zimbabwe's business is relatively well-developed by African standards, FDI is still very weak, showing less than $10 million although some flows were observed in 1984, 1985 and 1986 during the 1983-1990 period. The causes of weak in-flows are quite complex.

31. Although FDI in Botswana reached a peak of $113.6 million in 1987, it declined to around $38 million in 1990, one-third of the peak. The Government of Botswana has been trying to attract further FDI by establishing several institutions including Selebi-Phikwe Regional Promotion Programme Unit. After conducting research on investment promotion in South Africa, Zimbabwe and Hong Kong, the success in Mauritius, which mainly depended on the Export Processing Zone, could have some similarities with Botswana (i.e. establishing a large labour-intensive clothing industry and introducing a special incentive package), although prospects for replicating its industrialization strategy needed to be treated with some caution.

32. For land-locked countries like Ethiopia, Botswana and other countries, the clothing industry in EPZs, whose profit margins are generally low due to the high transportation cost, should provide 1) preferential access, i.e. access to the EU and USA markets, 2) relatively cheap and good human resources to attract FDI. The success of Mauritius with its export processing zone (EPZ) was, therefore, unlikely to be repeated in African countries except in exceptional cases. There was little evidence to suggest that African countries would attract FDI using the region as a manufacturing platform for international exports. Africa should attract FDI for its own regional market, rather than establishing many EPZs or introducing fiscal incentives.

33. With respect to targeting of regional markets, South Africa, and possibly other countries in the region such as Zimbabwe and

Table 1: Comparison of Investment Incentives in Botswana and Mauritius

Botswana (SIP)	Mauritius (EPZ)
• 15% company tax for first 20 years of project (normal rate 40%)	• 15% company tax during the life of the company (normal rate 35%)
• exemption from withholding tax on dividends for first 10 years (15% thereafter)	• exemption on withholding tax on dividends for first 10 years (15% thereafter)
• capital grant of up to P1,000 per job created	
• reimbursement of 50% of costs of off-the-job training, over first 5 years	
• sales grant averaging 5.6% of turnover over first 5 years	
• unskilled labour grant averaging 56% of wages over first 5 years	
• availability of factory buildings for lease/rent	• availability of factory buildings for lease/rent
• rebate of duty paid on imports of materials and goods for re-export	• complete exemption from duty on imports of machinery, spare parts and goods for re-export
	• export finance at preferential rates
	• eligibility for export credits and export guarantees
	• issue of permanent residence permits to promoters and shareholders as warranted by the size of the project

Source: Ministry of Finance and Development Planning (1992) Review of the Selbi-Phikwe Regional Promotion Programme

Botswana should be major targets for investment in regional markets. 4/

34. Southern Africa possesses a multiplicity of regional institutions embracing different groups of countries and performing different functions. Four main institutions have responsibilities for promoting regional integration: the Southern Africa Development Community (SADC); the Southern African Custome Union (SACU); the Southern African Multilateral Monetary Area (MMA); and the Preferential Trade Area for Eastern and Southern Africa (PTA).

35. However, the Southern African region still suffers from an acute shortage of investment finance, and in particular finance for intra-regional cross-border investment. In fact, there has been very little cross-border investment in the sub-region, with the exception of some investment in Southern Africa, mostly out of South Africa.

36. There are a number of constraints to the free flow of FDI in the sub-region: 5/

(i) exchange control regulations in most member States severely restrict the outward transfer of capital. Furthermore the PTA Clearing House has not been used for transfer of capital in national currencies, even though this is technically possible.

(ii) Exchange rate disparities act as a disincentive to investment in a country which has an overvalued currency.

(iii) The bureaucratic procedures which potential investors need to follow in most countries in the sub-region act as a major deterrent. Even though 'one-stop-shops' have been established in several countries, they have not yet made a significant impact in overcoming this constraint.

(iv) Political risk in Africa has been high, with the result that there is a great reluctance to invest.

(v) There is an absolute shortage of investment capital in the sub-region. Real interest rates have usually been negative.

4/ The World Bank (1993), Botswana: Opportunities for Industrial Development in Botswana Report No. 11267-87.

5/ Richard Hess (1992), Desk Study on Regional Integration in eastern and Southern Africa: Constraints to Intra-regional Payments, Trade and Investment, imani development (pvt) ltd.

(vi) High corporate tax, little investment promotion in the sub-region, and tight restrictions on movement of persons.

37. The success of Mauritius with its export processing zone (EPZ) was unlikely to be repeated in the Southern African Region except in special cases. There was little evidence to suggest that countries in the Southern African Region would attract FDI using the region as a manufacturing platform for international exports. The Southern African Region should attract FDI for its own regional market. The Southern African Region countries should, therefore, be cautious before investing in EPZs.

38. There were many arguments on Selebi-Phikwe's development. In Selebi-Phikwe, six assisted companies were established in 1989, providing 135 jobs. In 1990 two more companies started their operation, creating a further 903 jobs. In 1991 the employment at these companies rose by 503, but in 1992 some 720 jobs were lost, partly as a result of several company closures.

39. By mid-1991 the tentative target of creating 2,000 manufacturing jobs within five years had largely been met. However, results from promotion in Hong Kong have been disappointing, although one large clothing company is currently negotiating with the Government (possibly to locate in Gaborone instead of Selebi-Phikwe). In the clothing industry, the profit margins are generally low, due to the high transportation cost and relatively high labour cost in Botswana. However, it is expected that Botswana's preferential access to the EU and USA markets will improve such a negative aspect of Botswana producers.

40. The cost per job of assisted industry projects is quite high, but it was said that this was probably unavoidable in the early stages of a long term strategy. Financial Assistance Policy (FAP) may be sometimes misused to support investors who may not provide permanent jobs. It was suggested that there was also a need to develop training which could contribute towards improving productivity in the clothing industry.

41. Movement towards regional integration would make the Southern African Region as a whole more attractive to foreign investment rather than establishing many EPZs. The economic integration process must accord priority to FDI in production, to expand productive capacity in all sectors and build the necessary infrastructures, rather than placing emphasis only on trade liberalization.

42. The current conventional wisdom in economics is that growth-oriented governments should concentrate on providing a salutary macroeconomic environment within which private enterprise can grow. Much of it comes from experiences from the East Asian success story: Japan followed by NIES (Taiwan, South Korea, Hong Kong, and Singapore), and more recently some of the ASEAN countries (Malaysia, Thailand, and Indonesia). The progressive

development of different parts of East Asia involved export-oriented industries and later more sophisticated capital- and skill-intensive activities with market-oriented growth. The only example of successful export-led growth in Africa is that of Mauritius and it is interesting to note that the East Asian economy (Hong Kong and Taiwan) has played an important role in that success.

43. Among the cases of regional integration in the world, the main lesson to be learned, for example, from the Association of Southeast Asian Nations (ASEAN) is, that given a favourable economic climate for enterprise, sound regional cooperation, and healthy and sizeable economies in which private enterprise plays the dominant economic role, a fruitful development of trans-national production links between the countries of a sub-region may possibly be produced, even without formal institutional support of regional economic integration.

Annex 1

CURRENT INDUSTRIAL INCENTIVE PROGRAMS IN BOTSWANA

A. FINANCIAL ASSISTANCE POLICY

1. Botswana enacted its Financial Assistance Policy (FAP) in 1982 in recognition of the need to generate employment opportunities and to diversify the economic base away from its reliance on diamonds and cattle. Specific objectives of FAP were to:

(a) create sustainable employment for unskilled workers;
(b) produce goods for export or to substitute for imports;
(c) diversify the economy to lessen dependence on large scale mining, beef exports, and growth of the public sector;
(d) improve citizen skill levels through training.

2. Given the emphasis on employment generation, FAP incentives were structured so as to encourage maximum employment of unskilled and semi-skilled workers. The FAP Capital Grant, for example, is based on the number of actual or projected employees, and the FAP Labor Grant on wages paid to unskilled and semi-skilled workers. FAP also seeks to achieve geographical diversification of industry by offering greater incentives to those companies locating in rural areas or in the Selebi-Phikwe region.

B. SMALL-SCALE FAP

3. The overall FAP program includes two distinct programs, one of which is targeted exclusively at small-scale, citizen-owned businesses, with a total fixed investment of P25,000 or less.

4. By the end of 1990, an estimated 1270 projects, 85 per cent of them in rural areas, had received FAP small-scale assistance. The cumulative total investment in these projects was about P9 million, of which some P3.6 million consisted of FAP grants. FAP small-scale assistance during 1982 to 1990 supported the creation of some 3800 jobs. Projects were concentrated in knitting and sewing, carpentry, bakeries, brick-making, and metal working.

5. It is difficult to say how many of these projects ultimately survived. The 1988 evaluation of small-scale FAP, conducted by the Ministry of Finance and Development Planning (MFDP), reported that, of a total of 747 small-scale FAP projects approved from 1982 to 1986, 142 failed or were cancelled. That report cautioned, however, and anecdotal evidence suggests, that the actual failure rate is likely to be much higher, and that some 50 percent of small scale enterprises fail. Although this may appear high, a 50 percent success rate among entrepreneurs with little or no prior business experience and a work force with minimal wage-earning experience is impressive. While small-scale FAP clearly will not provide the sole solution to Botswana's unemployment problems, it is providing necessary assistance to entrepreneurs and workers who otherwise would have few opportunities in the formal sector. When combined with the technical assistance provided by Integrated Field Services to small-scale enterprises, small-scale FAP appears to make a useful contribution to future industrial development.

C. MEDIUM AND LARGE-SCALE FAP

6. FAP assistance to medium-scale (total investment between P25,000 and P900,000) and

Annex 1 (continued)

large-scale (total investment greater than P900,000) enterprises provides a wider range of grants and tax holidays, spread over the first five years of a project's operation, than is the case with small-scale FAP. It is intended to assist entrepreneurs who are assumed to have greater resources of capital and greater technical and managerial ability than those receiving small-scale FAP. Open to citizens and non-citizens alike, medium and large-scale FAP is, at least in part, an incentive to foreign businesses to invest in Botswana rather than in other countries. As such, it must be evaluated in comparison to other countries offering a combination of financial and tax incentives and economic and business conditions that compete directly with those Botswana has to offer. Like the small-scale program, medium and large-scale FAP offers greater incentives to projects in rural areas and the Selebi-Phikwe region, and calculates grants based on total employment and wages paid to unskilled and semi-skilled workers. Unlike small-scale FAP, it does not discriminate on the basis of sex.

7. In the first five years of FAP, to March 1987, 193 projects employing 3135 people had received medium and large-scale FAP assistance, with total disbursements of P9 million. Based on projections submitted with their FAP applications and approved by the FAP Committee, these projects would ultimately employ 7776 people, and would receive more than P30 million in FAP grants. Grants paid at the time of this evaluation had amounted to P2,870 per job created; this would increase, however, according to the projections, to P3,850.

8. By the end of 1990, 391 projects had received medium-scale FAP assistance and 5 had received large-scale FAP. A total of about P55 million in medium- and large-scale FAP grants had been disbursed, and another P40 million committed but not yet disbursed. Total employment in medium- and large-scale FAP projects was an estimated 16 000 as of June 1990. Total medium- and large-scale FAP commitments therefore have amounted to some P6,000 per job created. According to the 1992 Budget Speech, FAP-approved projects created some 3500 jobs in 1990, and were expected to create 5900 jobs in 1991.

D. FINANCIAL ASSISTANCE PROGRAM CAPITAL GRANT

9. Under Case-by-Case FAP Assistance (CFA), a grant of P1,000 per job created is paid to foreign-owned or joint venture companies, and P1,500 to 100 percent citizen-owned companies. This grant, which is based on projections submitted by the company to the FAP Committee, is paid before the project commences, and is intended to supplement borrowed funds and share capital invested by the project promoters. The capital grant is not paid to the firm in cash, but is used for the purchase of capital equipment, and is paid directly by the National Development Bank (NDB) to the equipment suppliers.

10. Perhaps no other element of the FAP program is so readily subject to fraud and misrepresentation. Since in most cases the suppliers of capital equipment are located outside Botswana, the potential for over-invoicing, shipment of machinery of lesser value than that indicated on the invoice, and other abuses is enormous, potentially involving collusion between the company in Botswana and the overseas equipment suppliers.

E. FINANCIAL ASSISTANCE PROGRAM LABOR GRANT

11. Under both Automatic FAP (AFA) and CFA, a company is reimbursed a percentage of the wages it pays to unskilled and semi-skilled workers, starting at 80 percent in the first two years and

Annex 1 (continued)

descending to 60 percent in Year 3, 40 percent in Year 4, and 20 percent in Year 5, the final year. This component of FAP was intended to compensate for the low productivity of Botswana workers, the expectation being that by the time the grants expired the workers would have received enough training and experience to become competitive with workers in other countries. Experience, however, does not support this.

F. FINANCIAL ASSISTANCE POLICY SALES AUGMENTATION GRANT

12. CFA provides a sales augmentation grant of 8 percent of a company's total sales in Years 1 and 2, 6 percent in Year 3, 4 percent in year 4, and 2 percent in Year 5. The Sales Augmentation Grant is often justified as a compensation for the high cost of utilities, land, construction and transport in Botswana, since it increases with sales volume just as most direct costs and overheads do. It also is represented as a sort of export incentive, compensating exporters for the high cost of inland transport to South African ports and for the exceptionally high wharfage charges assessed.

G. TRAINING GRANT

13. The FAP Training Grant provides for reimbursement of 50 percent of off-site training expenses incurred during the first five years of operation. In a country as short of skills as Botswana, a grant of this kind has substantial merit. There have been suggestions that the training grant be expanded to include on-site training as well, or that 100 percent of the cost be reimbursed by Government. However, it is difficult to differentiate between on-site training and normal technical supervision, since in any manufacturing environment, technicians and managers constantly train and transfer skills to workers If on-site training is covered by the FAP training grant, then all technicians' and managers' salaries could potentially be eligible for reimbursement, leading to employment of unnecessary personnel and a virtual absence of controls on the cost of the program.

14. Similarly, if FAP were to cover 100 percent of off-site training costs, then companies would not be subject to any cost discipline of their own and might send too many workers to training courses of questionable value. By continuing to bear a substantial portion of the cost of training, FAP recipients will be encouraged to select the most cost-effective forms of training and to send only those workers most likely to benefit.

H. TAX HOLIDAYS

15. Companies receiving AFA, while ineligible for the FAP Capital Grant, qualify for tax holidays that are not available to CFA recipients. Although it is called a tax holiday, it is, in fact, a reimbursement of taxes paid on a company's profits. In urban and peri-urban areas the reimbursement is 100 percent in years 1 and 2, 75 percent in Year 3, 50 percent in year 4, and 25 percent in Year 5. In rural areas it is 100 percent in Years 1-3, 75 percent in Year 4, and 50 percent in Year 5.

I. SELEBI-PHIKWE REGIONAL DEVELOPMENT PROGRAM

16. As early as 1983 the Government began to consider policy measures, strategies and plans for diversifying the economy of Selebi-Phikwe and its surrounding area away from dependence on the copper-nickel mines. This culminated in 1986 with the drafting of terms of reference for the Selebi-Phikwe Regional Development Project (SPRDP), which began operation in March 1988. In January 1990

Annex 1 (continued)

a Special Incentive Package for Selebi-Phikwe was instituted. Based on the existing case by case (CFA) FAP incentives, it provided additional benefits for 100 percent export manufacturing companies locating in Selebi-Phikwe. In order to receive the special incentive package, a firm was required to:

(a) establish a factory in Selebi-Phikwe;
(b) export 100 percent of its output outside the SACU or SADCC region;
(c) employ at least 400 Botswana citizens within two years of start-up;
(d) have been in operation elsewhere for at least 10 years;
(e) contribute at least 25 percent of the total project cost, including working capital, as equity.

17. For companies meeting these criteria, the special incentive package offered consists of:

(a) normal CFA FAP grants over five years of up to the lesser of 120 percent of unskilled labor and training costs in the same period or 50 percent of the project's value added in the same period;
(b) a 15 percent corporate tax on profits for the first 20 years of the project's life;
(c) a ten-year exemption from the withholding tax on dividends paid to non-residents.

18. In its first four years of operation, the SPRDP has had considerable success. Eight new projects went into production, two of which subsequently failed. As of February 1992, the six remaining projects employed 1472 citizens, and were projected to employ 1886 at full production. An additional six projects were considered "Category A" pipeline projects, which had already applied for manufacturing licenses, FAP, and/or factory building sites, and were considered highly likely to go into production. Projected employment in these Category A projects was 2060. 56 companies in all had made site visits to Selebi-Phikwe, and promotional efforts continued in Southern Africa, East Asia, and Europe, where discussions continue with a large number of interested potential investors.

J. TRADE AND INVESTMENT PROMOTION AGENCY (TIPA)

19. When Government, in 1990, upgraded TIPA from the status of a unit within the Ministry of Commerce and Industry (MCI) to that of a fully-fledged Department (formally known as the Department of Trade and Investment Promotion, but still popularly referred to by its former name, TIPA), it signalled the increased emphasis it intended to place on promoting foreign direct investment into Botswana and on active promotion of Botswana's exports. Sadly, TIPA did not receive increased resources and authority commensurate with its enhanced status and increased responsibilities.

20. The 1984 Industrial Development Policy called for the establishment of TIPA, which it charged with the following tasks:

(a) 'Provision of a "one-stop" service to local and foreign investors to speed up the establishment of productive activities (channeling of application forms, etc.),
(b) 'Provision of information on investment opportunities,
(c) 'Provision of trade information,
(d) 'Maintaining an "Industrial Land Register".

21. TIPA, by the admission of its own Director, has not succeeded in carrying out these

Annex 1 (continued)

functions. While the Commercial Attachés at Botswana's Embassies and High Commissions overseas, who nominally report to TIPA, have generated some trade and investment enquiries, TIPA overall has not become a "one-stop-shop" for investors, and is unable to provide the kind of assistance in obtaining licenses, land, housing, visas and work permits, financing, and Government incentives that many of its counterpart agencies in other countries do. TIPA's performance is here reviewed by function:

22. **Trade and Investment Promotion.** TIPA's promotional activities consist of three parts: 1) overseas promotion carried out on a regular basis by commercial attachés; 2) overseas trade and investment missions or delegations; and, 3) organizing trade fairs within Botswana (Gaborone International Fair and Botswana International Trade Exhibition). No real effort has ever been made to assess the effectiveness of TIPA's performance of these functions, in generating either trade and investment enquiries or consummated trade and investment transactions. In the cases of one-off missions or delegations on the one hand, and trade fairs on the other hand, clear measures of effectiveness are hard to devise.

23. It should be possible, however, to develop clear measures of the effectiveness of promotional activities undertaken by the commercial attachés. While neither TIPA nor the embassies and high commissions compile statistics on such activities, all evidence suggests that they are, at most, marginally effective. Few, if any, of the commercial attachés have devised and carried out any concerted promotional campaigns, tending instead only to respond to enquiries. There are several reasons for this failure: 1) the commercial attachés function without much strategic guidance or support from TIPA, so that they have little notion what industries, sectors, regions or specific companies should be targeted; 2) the commercial attachés lack the resources needed to conduct extensive promotion campaigns; 3) the commercial attachés have diplomatic duties that detract from the time they have to devote to trade and investment promotion; 4) as civil servants, commercial attachés are recruited and rewarded according to criteria that may have little to do with their effectiveness in trade and investment promotion; 5) commercial attachés are placed in countries and cities where Botswana has a diplomatic presence, with little or no consideration of the location's trade and investment potential; 6) even in locations, such as Brussels, where a promotional presence is warranted, commercial attachés may spend most of their time in bilateral or multilateral trade negotiations rather than on promotion.

24. **Provision of "One-Stop" Service to Investors.** TIPA, were it to function as intended, would serve as a one-stop-shop where investors could obtain all necessary information and approvals. An investor should be able to apply to TIPA for visas and work permits, land, manufacturing licenses, and even to rely on TIPA's help in obtaining financing for a project. SPRDP, in fact, provides most of these functions for investors in Selebi-Phikwe, providing initial information, coordinating site visits, securing land or factory shells, guiding an investor through all the steps required for a project to be implemented and, most important, acting as the investor's advocate in negotiations with other Government, parastatal and private sector bodies.

K. LOCAL PREFERENCE SCHEME

25. Many countries give preference to local companies in awarding Government procurement contracts. Botswana's Local Preference Scheme (LPS) seeks to do this by applying a preference formula to bid prices that is meant to give companies a cost advantage based on the percentage of local content in the product being procured. While this is unobjectionable, the formula in use appears excessively complicated. It is unclear whether Government has the capacity to develop an accurate measure of local content, particularly where a company has purchased intermediate goods from another Botswana company, which would entail calculating that company's local content percentage. Also, it is not clear why purchases from a Botswana company which is majority foreign-owned but which operates in Botswana with Botswana workers should not count as local content.

Source: The World Bank (1993) Botswana: Opportunities for Industrial Development in Botswana, Report No. 11267-BT