

An Assessment of the Investment Climate in Botswana

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Volume I: Main Report



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FOREWORD

The Investment Climate Assessment consists of two volumes. The first discusses and summarizes the main results. The second presents the more detailed analysis that underlies the results presented in the first volume. This includes detailed econometric analysis of several issues, more detail on many remaining issues and a discussion of some areas of the investment climate that do not appear to be a particular concern in Botswana. The goal of the second volume is to provide more detail to interested readers and to explain the statistical and econometric analysis that underlies the results described in the main volume.

EXECUTIVE SUMMARY

The objective of the Botswana Investment Climate Assessment (ICA) is to evaluate the investment climate in Botswana in all its operational dimensions and promote policies to strengthen the private sector. The investment climate is made up of the many location-specific factors that shape the opportunities and incentives for firms to invest productively, create jobs, and expand. These factors include macroeconomic and regulatory policies; the security of property rights and the rule of law; and the quality of supporting institutions such as physical and financial infrastructure.

The main sources of information for the ICA are two firm-level surveys. The first survey covered small, medium, and large enterprises (SMLEs) with five or more employees in retail trade, manufacturing, and other services. The second covered microenterprise with fewer than 5 employees in the same sectors. Information from the survey is supplemented with information from other sources, including the *Doing Business Report*; analytical reports by the World Bank, the International Monetary Fund, other international organizations and the Government of Botswana; and academic papers and reports.

One of the advantages that the World Bank's Enterprise Surveys have over other firm-level surveys is that similar surveys have been conducted in a wide range of countries. It is therefore possible to benchmark Botswana against other countries with respect to both firm performance and measures of the investment climate. Throughout the report, firm performance and the investment climate in Botswana is benchmarked against the other SACU economies and four high performing middle income economies: Argentina, Chile, Malaysia, and Mauritius.

As discussed in more detail in Volume 2, many aspects of the investment climate are favorable in Botswana. Firms have few complaints about some areas of the investment climate, such as regulation and infrastructure, and objective indicators of the investment climate suggest that Botswana compares relatively well in many of these areas with the comparator countries. In other areas, such as taxation, macroeconomic instability and corruption, although some firms report that they were concerned about them, the objective data suggest that Botswana compares relatively favorably to other middle-income countries in these areas.

Despite the relatively attractive investment climate, firms in Botswana are not as competitive as firms in many of the middle income comparator countries. Both labor productivity and total factor productive are relatively low. Although the median SMLE in Botswana is more productive than in most low-income countries in Sub-Saharan Africa and is about as productive as firms in the lower middle income comparator countries, productivity is lower than in most of the other upper middle income comparator countries. Moreover, relatively few manufacturing SMLEs in Botswana export and domestic sales are heavily concentrated towards government, especially for domestic firms. Together, this suggests that firms are not highly competitive.

One possibility is that problems in the investment climate constrain firm performance. Although the investment climate is mostly favorable, some areas are less favorable. One such area is access to finance. Although financial markets appear relatively developed, and access to

finance in Botswana is similar to access in other SACU countries, access in the SACU economies in general and in Botswana in particular is worse than in the most of the other middle-income comparator countries. Excluding credit from state-owned banks places Botswana even further towards the lower end in terms of the access to overdrafts, loans and lines of credit, even relative to other SACU countries. There is also evidence that the banking sector does not do a particularly good job of allocating credit—in contrast to most countries, neither productivity nor wages are higher in firms with access to credit.

Although tax rates are low in Botswana, tax compliance is poor. This is problematic for several reasons. First, it undermines tax revenues. Although the government relies mostly on revenues from the mining sector and SACU revenues to finance its expenditures, this could become a greater issue as SACU revenues decline. Second, firm owners and managers can become frustrated if they feel that other potential taxpayers are avoiding paying their fair share of taxes and this could potentially affect their views about tax rates.

Another area where Botswana compares relatively unfavorably with the middle income comparator countries—at least those outside of SACU—is with respect to the cost of crime. The median firm reports that the combined cost of crime and security is about \$112 per worker per year or 0.6 percent of sales (see Figure 18). The cost in US dollars is lower than in Namibia or South Africa, but is quite high compared to most of the comparator countries.

A 2004 report by FIAS noted that access to land was one of the largest regulatory concerns in Botswana. The report noted that difficulties in land administration and problems associated with land allocation in the major urban areas makes land a serious concern. Objective evidence from the investment climate assessment suggests that land is a problem relative to other middle-income economies—firms are less likely to own their own land and are more likely to have attempts at land purchases fail than in most of the comparator countries.

Although retail and service firms do not appear to be concerned about worker education and skills, manufacturing enterprises are worried about inadequately educated workers. About one-third of manufacturing firms report the shortage of skills as a major or severe impediment to their operations. Consistent with the idea that there is a skill shortage, returns to education appear relatively high—an extra year of education increases wages by 8 to 10 percent.

The problem does not appear to be entirely due to a shortage of educated workers. The average worker in Botswana is as well, or better educated, than workers in most of the middle-income comparator countries. This suggests that the problem might be with either the quality of education or the curriculum.

One way that firms can deal with a skills shortage is to provide firm-based training. But less than two-fifths of manufacturing firms in Botswana provide training. This is fewer than in most of the comparator countries (see Table 4). Over 70 percent of firms in Thailand, China and Chile provide training to their workers and over 60 percent provide training in South Africa and Mauritius. Botswana also lags behind Namibia and Swaziland in this respect.

One possible reason for the low level of investment in training is that returns to training might be low. Evidence at the individual worker level might be consistent with this—firms are

more likely to provide training to educated workers. This suggests that formal schooling is an important complement to firm-based training in Botswana.

A final issue is the impact of HIV/AIDS on the private sector. HIV/AIDS has the potential to be a severe burden on the private sector in Botswana—in a nationally representative survey, the Botswana AIDS Impact Surveys (BAIS), the national prevalence rate was estimated to be 17.1 percent in 2004 for persons aged 18 months and older.

Given this, the Government's active policy in this area—and preventative actions of the private sector—appears to be reducing the impact that HIV/AIDS has on the private sector. Although absenteeism due to AIDS is relatively high, it is not as high as it might be and overall absenteeism due to sickness (including HIV/AIDS) is not particularly high. Given that managers might not know why workers are sick (i.e., they might over- or under-attribute absenteeism to HIV/AIDS), this suggests that the Government's and firms' active policies might be reducing the overall burden of HIV/AIDS.

Although the analysis in this report suggests that there are some areas where the investment climate might be improved, it is important to note none of these problems—with the possible exception of worker skills—appear to be particularly debilitating. This suggests that other factors are probably also playing a role. One such factor is likely to be the small size (in terms of population) and remoteness of the economy. Another factor is the effect that is the macroeconomic effects of the large mining economy has on the competitiveness of the rest of the economy.

AN ASSESSMENT OF THE INVESTMENT CLIMATE IN BOTSWANA

1. Introduction¹

1. At independence in 1966, Botswana was one of the poorest countries in the world. But over the past 40 years, Botswana has grown at an average rate of 8.6 percent per year—one of the fastest growth rates in the world. As a result, it was an upper middle income country with per capita GDP of \$US9,652 in PPP-adjusted terms by 2006.²

2. Although Botswana's spectacular growth partly reflects its abundant natural resources—Botswana is the largest producer of diamonds in the world by value of production—natural resources have often proved to be a curse rather than a blessing.³ In addition to standard concerns about “Dutch Disease”, political—or actual—conflict over revenues can undermine economic management and hurt long-term economic growth, especially in weak institutional environments.⁴ Botswana's success in avoiding the ‘natural resource’ curse has been attributed to its good policies and strong institutions.⁵

3. Botswana's impressive growth, however, has been heavily concentrated in the mining sector, with diamond mining accounting for about one-third of GDP in 2004/05.⁶ Moreover, diamonds account for 80 percent of exports and mineral revenues account for about half of government revenue. Because diamond mining is highly capital intensive, it accounts for only about 5 percent of employment.

4. Manufacturing's share of GDP has declined modestly over time, reaching about 4 percent of GDP by 2005. Since the economy has been grown rapidly, its relative decline is not due to the sector shrinking in absolute terms. Rather, it is because manufacturing has grown more slowly over time than the rest of the economy. The decline in manufacturing has occurred despite the Government's concerted efforts to promote economic diversification. For example, economic diversification was one of the country's primary goals under the *Ninth National Development Plan* (April 2003-March 2009).⁷

5. In addition to the heavy dependence on diamond mining, some additional problems remain. One is that the government remains highly dependent upon diamond mining and revenues from the common customs pool of the South African Customs Union (SACU) for revenues, which together account for two-thirds of revenue. Since SACU revenues are likely to decline in the near future, this could affect public finances.

6. A second issue is that although many important social indicators have improved over time, some do not compare favorably with other countries at similar levels of income. One particular problem is that poverty is also high. Nearly 25 percent of the population lives on less than \$US1 per day. In comparison, less than 10 percent of the population of Argentina, another upper middle income country, is in extreme poverty.⁸

7. Finally, the HIV/AIDS epidemic has hit Botswana hard. According to estimates from 2004, the HIV infection rate was 17.1 percent for persons over 18 months. The Government has begun to integrate a strategy for HIV/AIDS into the budgetary process. HIV/AIDS Programs

were given an increase in the 2005/06 budget allocation and now equal 1.5 percent of GDP - an amount expected to increase in the coming years.

2. The Enterprise Survey and Investment Climate Assessment ⁹

8. The goal of the Investment Climate Assessment (ICA) for Botswana is to evaluate the investment climate in Botswana in all its operational dimensions, assess the constraints on private sector growth, and to promote policies that ensure that economic growth is broad-based and that encourage diversification. The main source of information is an enterprise survey that was conducted in June 2006. Information from the survey will be supplemented with information from other sources including the *Doing Business Report*; analytical reports by the World Bank, the International Monetary Fund, other international organizations and the Government of Botswana; and academic papers and reports).

*The Survey*¹⁰

9. The survey was conducted in two locations in Botswana, Gaborone and Francistown. Two samples were drawn, one for small, medium, and large enterprises (SMLEs) with 5 employees or more and one for microenterprises with fewer than 5 employees. The second survey includes informal firms. Both surveys covered retail trade, services and manufacturing. Because different sampling methodologies were used, mostly to ensure that informal firms were covered in the microenterprise survey, data from the two surveys cannot be merged.

10. Table 1 presents unweighted sample sizes by sector. The SMLE sample is evenly divided between manufacturing, retail trade, and other services. The microenterprise sample is dominated by retail establishments, which make up close to three-quarters of the sample. There are only a small number of light manufacturing firms and other service firms in the microenterprise sample.

Table 1: Unweighted Sample Size, by Sector

	SMLEs	Microenterprises
Total	342	102
Manufacturing	114	10
Retail	112	77
Other Services	116	15

Source: Enterprise Survey.

11. Because a near census was completed for manufacturing SMLEs, whereas only sub-samples were interviewed in the retail trade and other services sectors, manufacturing SMLEs make up a smaller share of the weighted sample (15 percent) than of the unweighted sample. Retail trade enterprises make up about 50 percent of the weighted sample, while other services make up the remaining 35 percent. About four-fifths of the sample is from Gaborone, with the remaining fifth from Francistown.

Comparator Countries

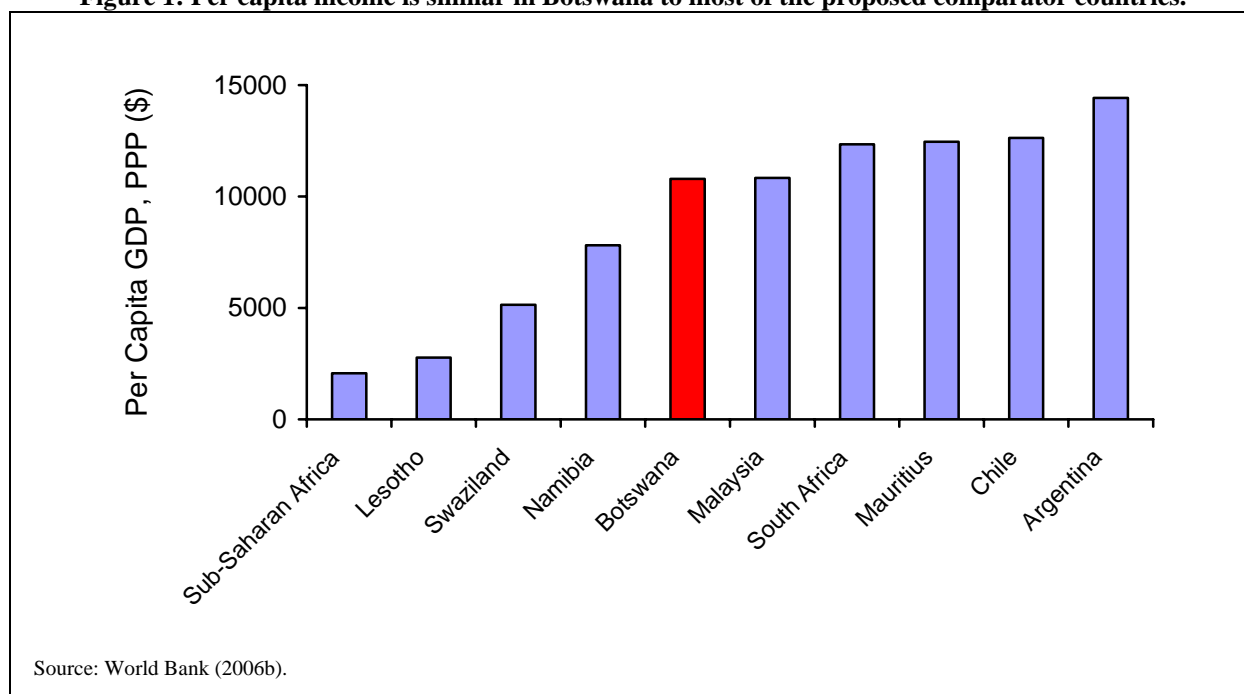
12. One of the advantages that the World Bank's Enterprise Surveys have over other firm-level surveys is that similar surveys have been conducted in a wide range of other countries. It is

therefore possible to benchmark Botswana against other countries with respect to both firm performance and measures of the investment climate.

13. The other countries in Southern African Customs Union (Lesotho, Namibia, South Africa and Swaziland) provide a natural set of comparator countries, because of their geographical proximity and because all are also middle-income. Surveys were completed in Lesotho and South Africa in 2004 and in Namibia and Swaziland in 2006.

14. Outside of SACU, it is more difficult to find relevant comparators for Botswana. Most countries in Sub-Saharan Africa where Enterprise Surveys have been completed are considerably poorer than Botswana (see Figure 1). Not surprisingly, as discussed below, firms are also considerably less productive in these countries than they are in Botswana (see Figure 3). Because of this, these countries are not used as comparators.

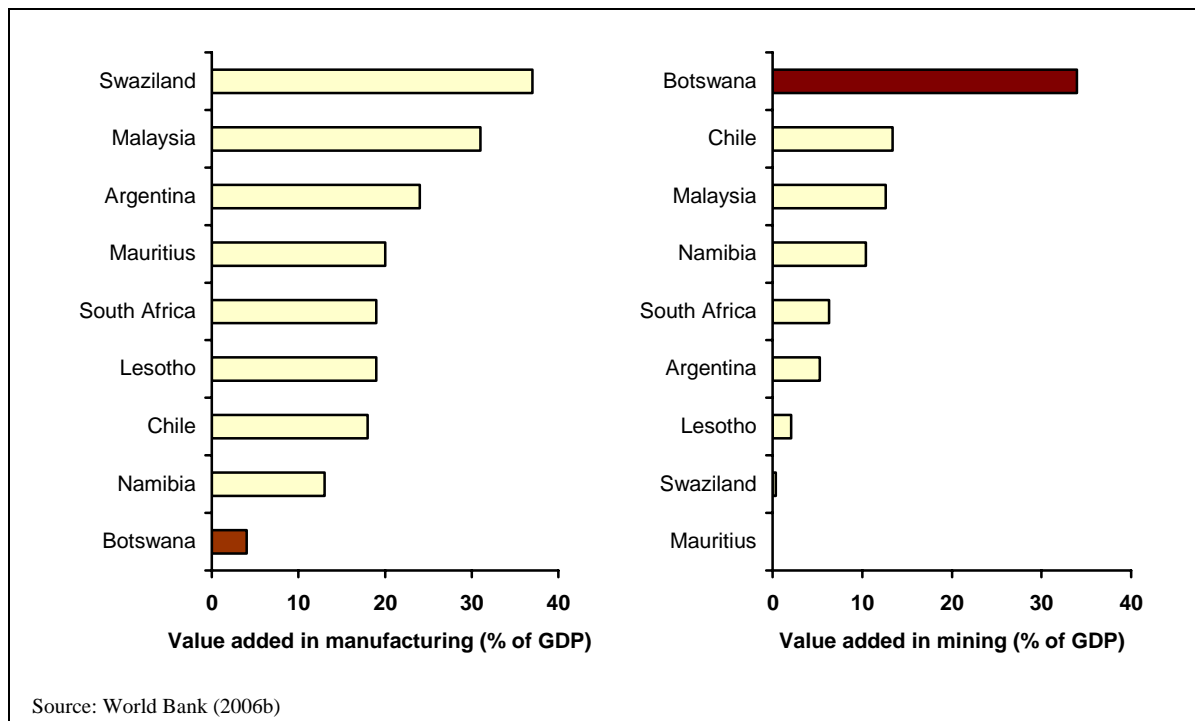
Figure 1: Per capita income is similar in Botswana to most of the proposed comparator countries.



15. Rather than comparing Botswana to other economies in Sub-Saharan Africa, Botswana is also compared to other middle-income countries where firms are relatively productive and that have relatively good investment climates—Argentina, Chile, Malaysia and Mauritius. These countries are chosen for several reasons. First, if Botswana is to diversify into competing in international markets in manufactured goods, firms will need to be able to compete with similar firms from other middle-income economies. Given Botswana's wage structure relative to low-income countries such as India, China or even other countries in Sub-Saharan Africa, firms will find it difficult to compete in low-skilled and highly labor intensive sectors. Focusing on better performing middle-income economies is therefore useful. Second, several of these countries have already successfully moved from producing primary goods (including mining for three of the four economies) to producing manufactured goods.

16. Mining accounts for a larger share of GDP—and manufacturing a smaller share—in Botswana than in any of these proposed comparators (see Figure 2). Although mining is fairly important in South Africa, Namibia, Malaysia, and Chile, it is far less important than it is in Botswana.

Figure 2: Mining is far more important in Botswana than in the comparator countries, including those where mining is relatively important such as Malaysia, Chile and Namibia.



3. Firm Performance and Competitiveness¹¹

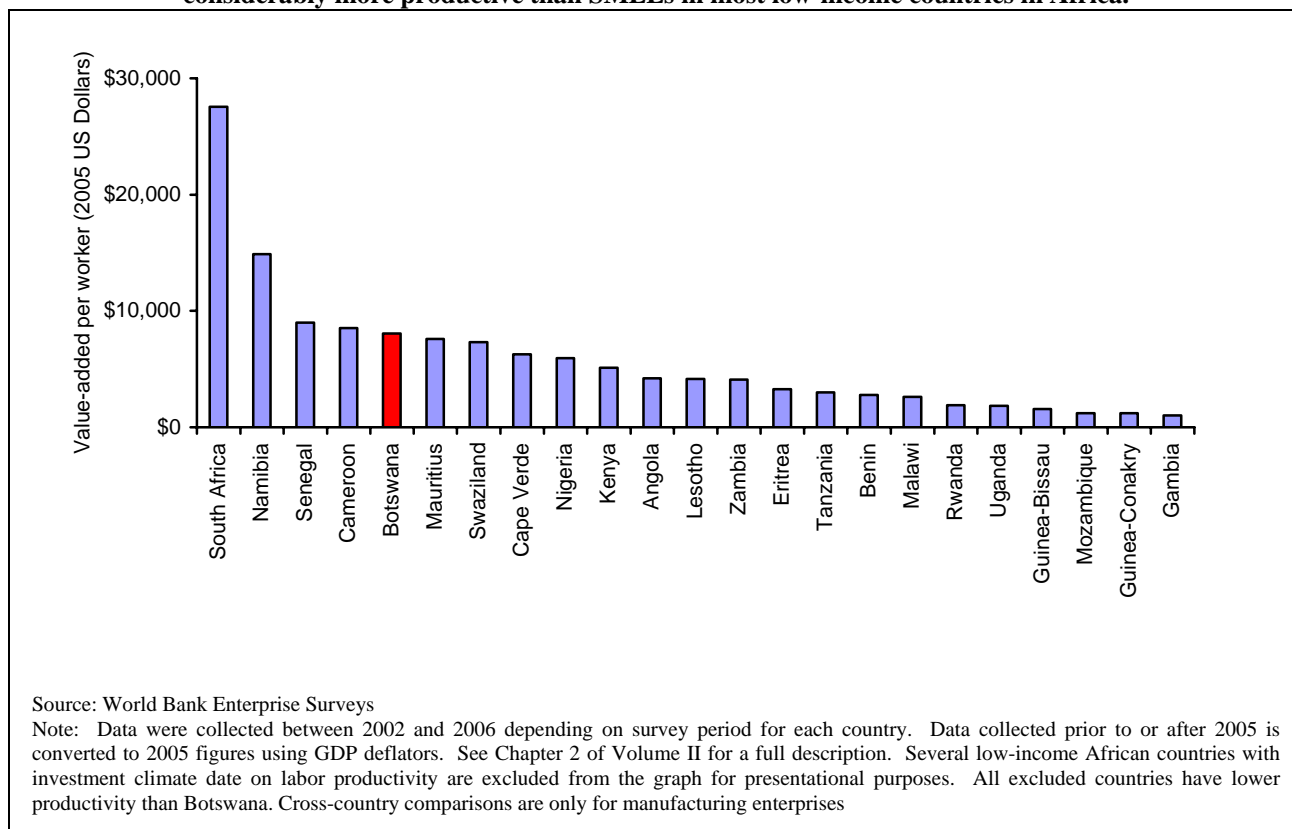
17. Before looking at constraints to investment and growth, it is interesting to compare firm performance in Botswana with firm performance in other countries. Comparing firm performance gives some idea of how competitive firms are and provides perspective on later results with respect to the investment climate.¹² Because the measures of firm performance are better defined for manufacturing firms, this section focuses on these SMLEs in this sector.

*Firm Productivity*¹³

18. Compared to manufacturing SMLEs in other countries in Sub-Saharan Africa, firms in Botswana are relatively productive. Of the 31 countries in Sub-Saharan Africa where World Bank Enterprise Surveys have been completed, labor productivity, the amount of output that the firm produces per worker, is higher for the median firm in Botswana than for similar firms in all but four countries—South Africa, Namibia, Senegal and Cameroon (see Figure 3).¹⁴ Although the difference between Botswana and the two middle income economies in SACU, Namibia and South Africa, is relatively large, the median SMLE in Botswana is only slightly less productive than the median SMLEs in Cameroon and Senegal. Labor productivity is far higher than in most

of the low income countries in Sub-Saharan Africa—about US\$8000 per worker in Botswana compared to between \$1000 and \$4000 per worker in most low income countries.

Figure 3: Manufacturing SMLs in Botswana—and the other middle income countries in SACU—are considerably more productive than SMLs in most low-income countries in Africa.

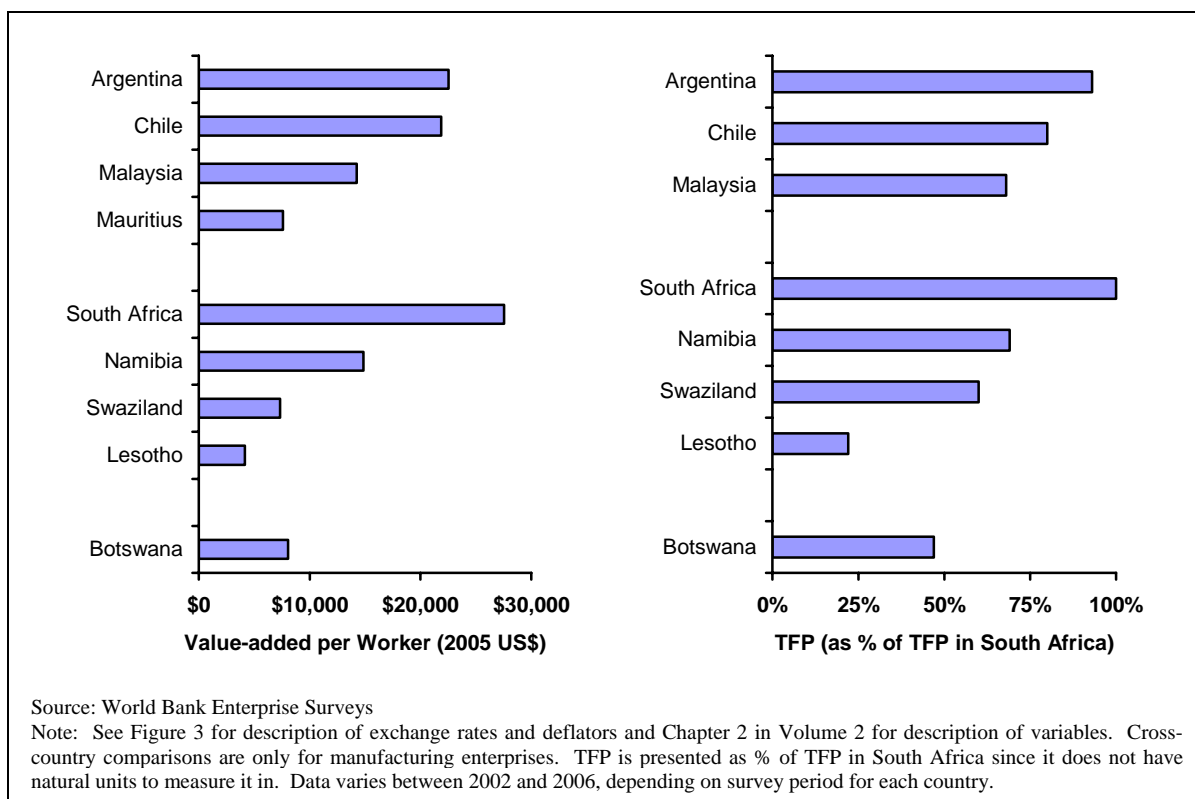


19. Results are similar looking at a broader measure of productivity, total factor productivity (TFP), which takes into account how much machinery and equipment the firm has. Out of the 24 countries in Sub-Saharan Africa for which data are available from the World Bank Enterprise Surveys, TFP is higher in Botswana in all but three—South Africa, Namibia and Swaziland.

20. Although productivity is higher in Botswana than in most low income countries in Sub-Saharan Africa, Botswana compares less favorably with the upper middle income comparator (see Figure 4). In addition to being lower than in Namibia or South Africa, both total factor productivity and labor productivity are considerably lower than in Chile or Argentina—where median labor productivity is over \$20,000 per worker—and Malaysia, where it is \$14,000 per worker. Labor productivity is slightly higher than in Mauritius.

21. Botswana, an upper middle income country, does compare more favorably with some of the lower middle-income comparator countries. Labor productivity is slightly higher than in Swaziland, although total factor productivity is lower. Labor productivity is also slightly higher than in Thailand (about \$7000 per worker) and China (\$6000 per worker). Productivity is lower however than in the best performing provinces in China such as Hangzhou and Shenzhen, where productivity is close to the levels observed in Malaysia and Latin America.

Figure 4: Labor productivity and Total Factor Productivity are lower in Botswana than in most of the comparator countries.



22. In general, Botswana compares more favorably with the comparator countries when comparisons are based upon total factor productivity. For example, whereas labor productivity is about twice as high in Namibia and over three times as high in South Africa as in Botswana, TFP is only 50 percent higher in Namibia and twice as high in South Africa. One reason for this is that firms in most of the comparator countries, with the exceptions of Argentina, Mauritius, and Swaziland, are more capital intensive (i.e., they use more capital per worker) than firms in Botswana do (see Chapter 2 in Volume 2).

23. Within Botswana, there are some differences with respect to labor and total factor productivity between SMLEs of different types. As in most countries, productivity is higher for exporters, foreign-owned firm, firms that use technology more intensively, firms with university educated managers. For example, exporters in Botswana are about 36 percent more productive than non-exporters after controlling for other differences such as sector and size of firm (see Table 2).

24. There is also little evidence that older firms were more productive than younger firms in Botswana after controlling for other things (see Chapter 2 in Volume 2). This suggests that despite the government's attempts to encourage manufacturing sector growth, there is little evidence of a maturation process with respect to age of firms

25. One notable difference between Botswana and other countries is that in most countries firms with bank loans tend to be more productive than firms without loans. This is not

surprising—firms that receive bank credit might be more productive because they find it easier to invest in modern equipment or in the human capital of their management or workforce. Or they might be more productive because banks only give credit to firms that are already relatively productive. In contrast, SMLEs with bank credit do not appear to any more productive in Botswana than SMLEs without credit. This suggests that bank credit is either less beneficial or that banks are less good at screening applicants in Botswana

Table 2: Comparison of TFP between firms within Botswana

	Difference in TFP between firms in Botswana
Firm has bank credit	-31%
Firm exports	36%
Firm is foreign-owned	31%
Firm has technology licensed from foreign company	3%
Firm uses internet	9%
Firm's workers are unionized	89%
Firm's manager has university education	17%
Firm's manager has an MBA	9%

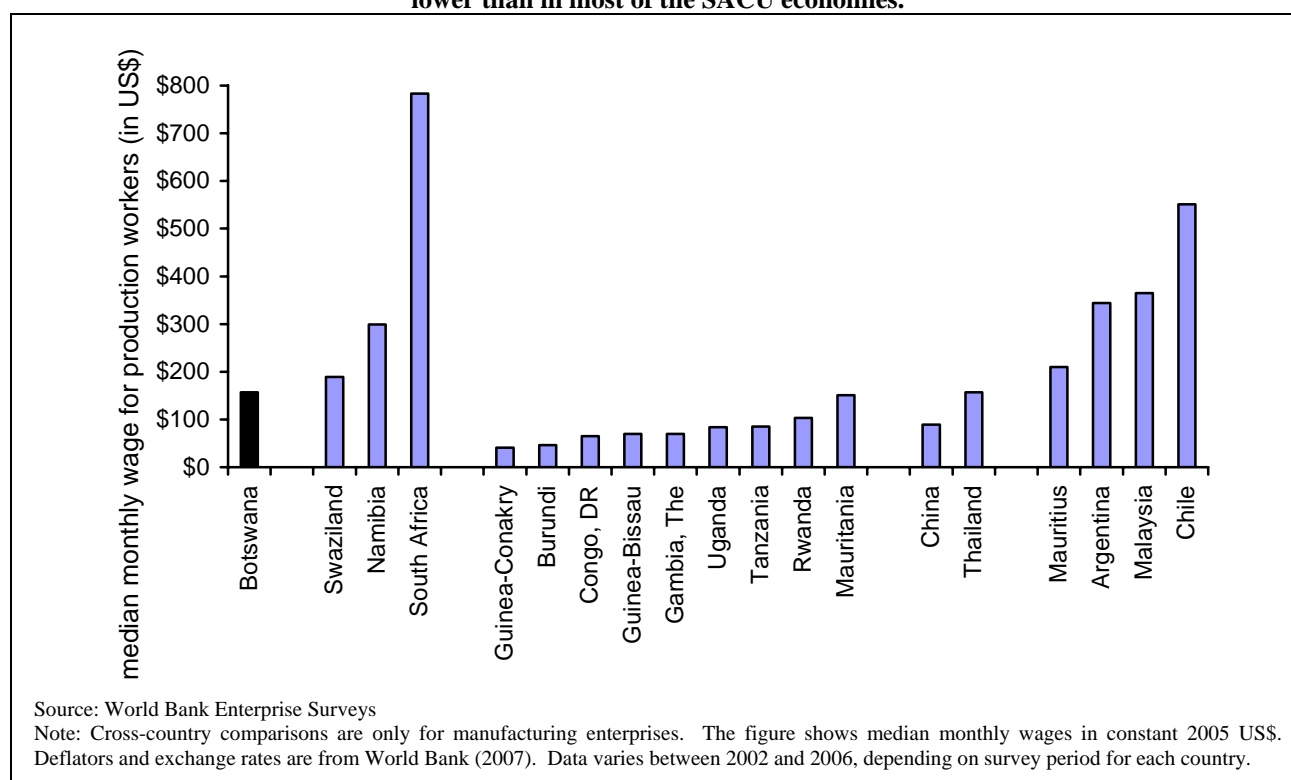
Wage Levels

26. Although productivity is an important determinant of competitiveness—whether firms can compete in international markets—other factors are also important. One important factor is wage levels. When wages are high, and this is not commensurate with high productivity levels, firms will find it difficult to compete on international markets and will find themselves facing stiff competition from imports.

27. Figure 5 shows median monthly wages for full-time production workers in Botswana, other countries in Sub-Saharan Africa, some low-wage lower middle income countries in Asia, and the middle income comparator countries. It is important to note that these comparisons do not account for differences in human capital or the sectoral composition of manufacturing in the comparator countries.

28. The median monthly wage for full-time permanent production workers in Botswana is just over \$150. This is higher than in most low-income countries in Sub-Saharan Africa. With a few exceptions, such as Mauritania, the median monthly wage is lower than \$100 per month for production workers in most countries (see Figure 5). Wages are also higher than in China and are about the same as in Thailand.

Figure 5: Median monthly wages for production workers are higher in Botswana than in China, but are lower than in most of the SACU economies.



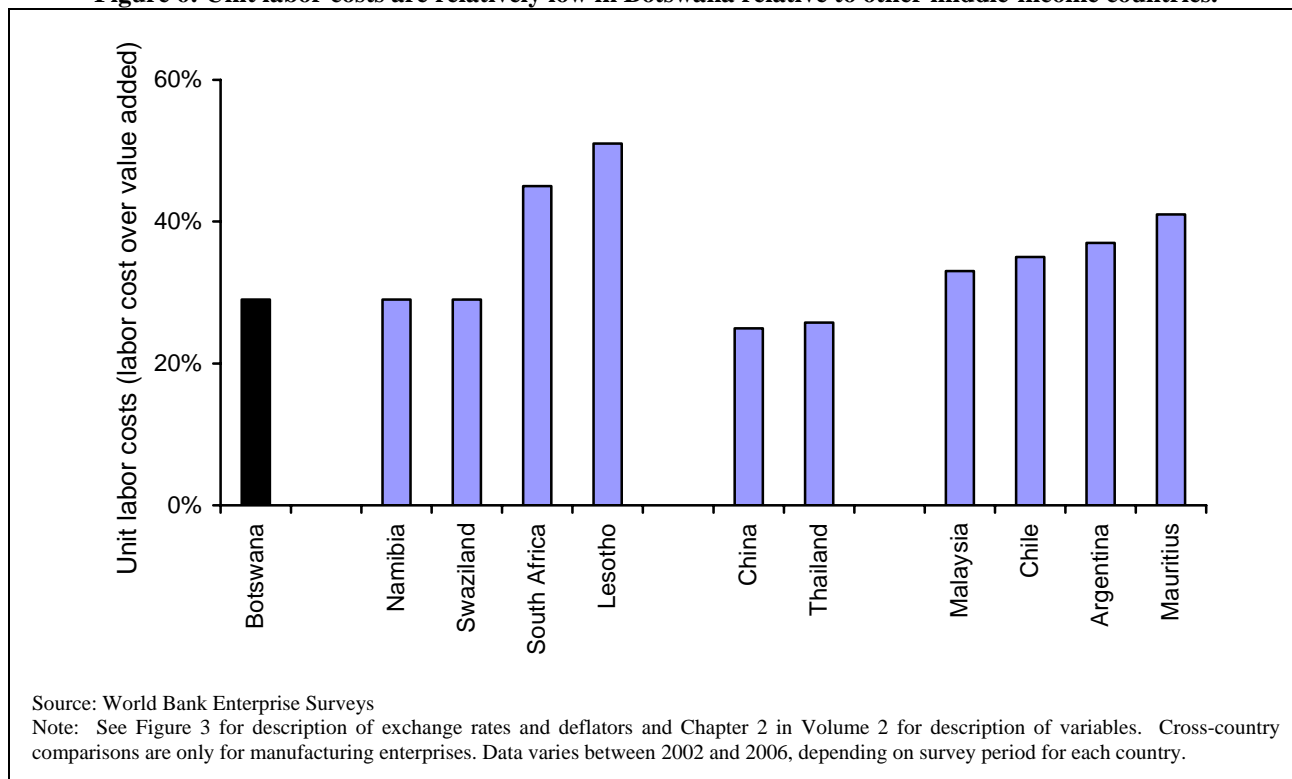
29. In contrast, median monthly wages for full-time permanent production workers is lower in Botswana than in most of the middle-income comparator countries (see Figure 5). Wages in Botswana are considerably more competitive than two of its neighbors, Namibia and South Africa, where production workers earn twice as much, and five times as much, as they would in Botswana.¹⁵

30. Although median wages gives some indication of how labor costs affect competitiveness, differences in wages can reflect differences in things such as worker education and worker skills. That is, wages might be high because the cost of labor is high or might be high because workers are well educated or highly skilled and, hence, are more productive. Because wages and productivity are both lower in Botswana than in most of the middle-income comparator countries, firms could potentially remain competitive despite low labor productivity.

31. Unit labor costs (labor costs as a percent of value-added) are a measure of labor costs that take differences in productivity into account. Unit labor costs are higher when higher labor costs are not fully reflected in higher productivity. When unit labor costs are higher (i.e., when labor costs are higher compared to productivity), firms will find it more difficult to compete on international markets. Although unit labor costs are not the only factor that affect competitiveness—for example, they do not take the cost of capital or capital intensity into account—they are a better measure of competitiveness than labor costs alone.

32. Unit labor costs are relatively low in Botswana. Although labor productivity is lower than in the best performing middle income countries, labor costs are even lower. Unit labor costs are about 30 percent of value added—similar to unit labor costs in Namibia, Swaziland and Malaysia. They are considerably lower than South Africa, Mauritius or Lesotho and are slightly lower than in Chile or Argentina. They are, however, higher than in China or Thailand. This suggests that labor costs are probably not a huge drag on competitiveness in Botswana.

Figure 6: Unit labor costs are relatively low in Botswana relative to other middle-income countries.



33. Wages differ across firms and workers.¹⁶ In many countries, large firms pay higher wages than small firms. This does not appear to be the case in Botswana. Although there is some evidence that very small enterprises with less than 10 employees pay less than other SMLEs, large firms do not appear to pay more than either small- or medium-sized firms.

34. SMLEs that are more profitable pay higher wages than other firms—a one-million Pula increase in profits results in wages increasing by between about 1.5 and 2 percent. This suggests that some form of rent-sharing taking place with workers capturing some part of excess profits.

35. Another interesting finding is that firms with access to external credit do not appear to pay higher wages than firms without access after controlling for other factors. This is broadly consistent with the results from the productivity section that suggests that firms with access to credit are not any more productive than firms without access to bank credit.¹⁷

36. Worker characteristics matter as well. An additional year of schooling is associated with an 8 to 10 percent increase in wages.¹⁸ In addition, there is good evidence that women get paid less than men. On average, female workers earn between 20 and 30 percent less than similar male workers. Finally, union member do not appear to earn more than similar non-union

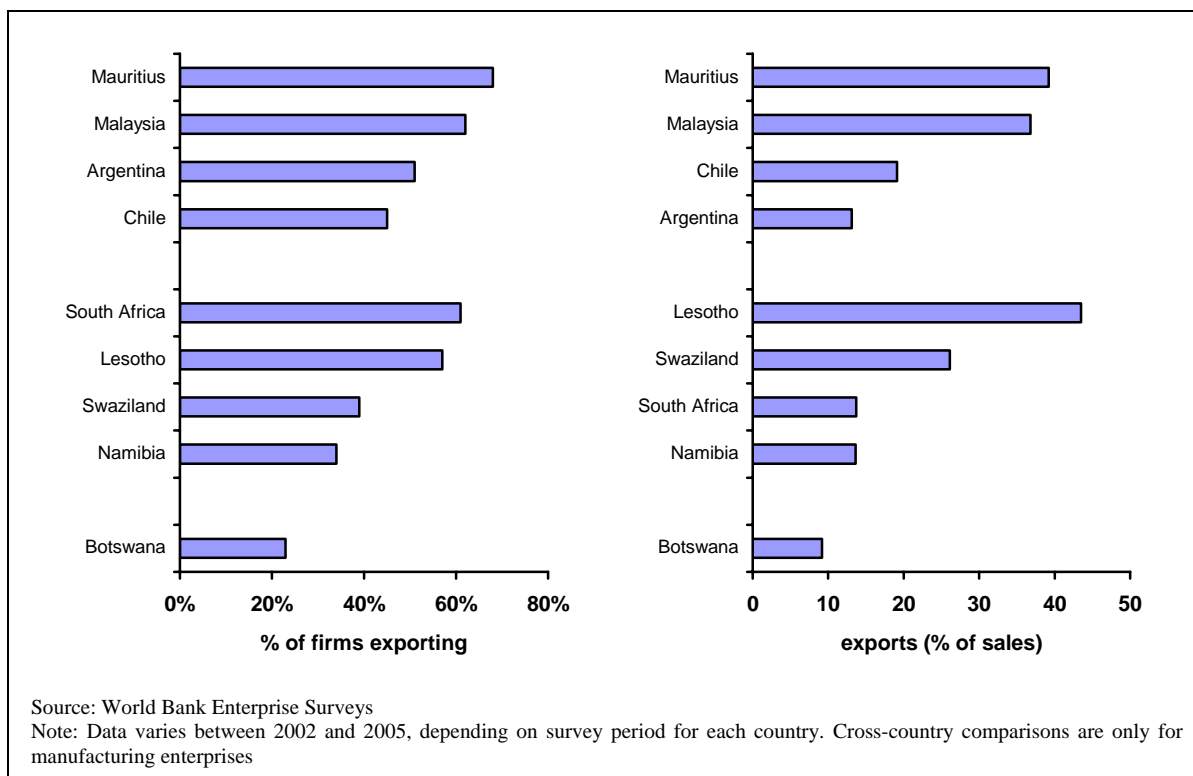
workers. This provides little support for the idea that collective bargaining is resulting in higher wages.

Exports

37. As well as providing information on how well firms are integrated in international markets, export behavior also indicates how competitive firms are. Because it is harder for firms to compete on international markets than in domestic markets, where they are better protected from competitors by location and policy, exporting suggests that firms are more competitive.¹⁹

38. SMLEs from Botswana do not compare favorably with SMLEs in the middle-income comparator countries in this respect. Less than a quarter of manufacturing SMLEs in Botswana export and, on average, exports account for only about 10 percent of output. This is lower than in any of the comparator countries, including other countries in SACU. Close to 40 percent of SMLEs in Namibia and Swaziland export and, on average, they export about 14 percent of their output in Namibia and 26 percent in Swaziland. Firms from Botswana are also far less likely to export than firms in the middle income comparator countries from outside of Africa.

Figure 7: Compared to manufacturing firms from other middle-income economies, relatively few firms from Botswana export—and those that do, do not export very much.



39. Although Botswana compares unfavorably with the middle-income comparator countries, it compares more favorably with other countries in Sub-Saharan Africa. Of the 31 countries with comparable data in Sub-Saharan Africa, SMLEs in Botswana were more likely to export than

SMLEs in 15 of them. Results are similar when countries are ranked based upon exports as a share of output—Botswana comes in close to the average for Sub-Saharan Africa.

40. Why do fewer SMLEs from Botswana export than from the other middle-income comparator countries? The small size of the domestic market—and the consequent small size of firms in Botswana—might play a role. The large fixed costs associated with setting up an international distribution or service network will generally make exporting easier for large enterprises. Many previous studies have found that large firms are considerably more likely to export in developing countries than small firms are—something that remains true even after controlling for the potential for reverse causation (i.e., the fact that entering export markets allows firms to grow).²⁰

41. This, however, is unlikely to be the whole story. Both Namibia and Swaziland are small, but firms from these countries are more likely to export. Further, even when we restrict the sample to small enterprises with less than 50 workers, small enterprises from Botswana are less likely to export than similar sized firms in other countries. Whereas only 12 percent of small enterprises in Botswana export, 26 percent of small enterprises in Namibia and 20 percent in Swaziland do. This suggests that the low propensity to export might reflect that SMLEs from Botswana are not highly competitive compared to SMLEs in other middle-income economies.

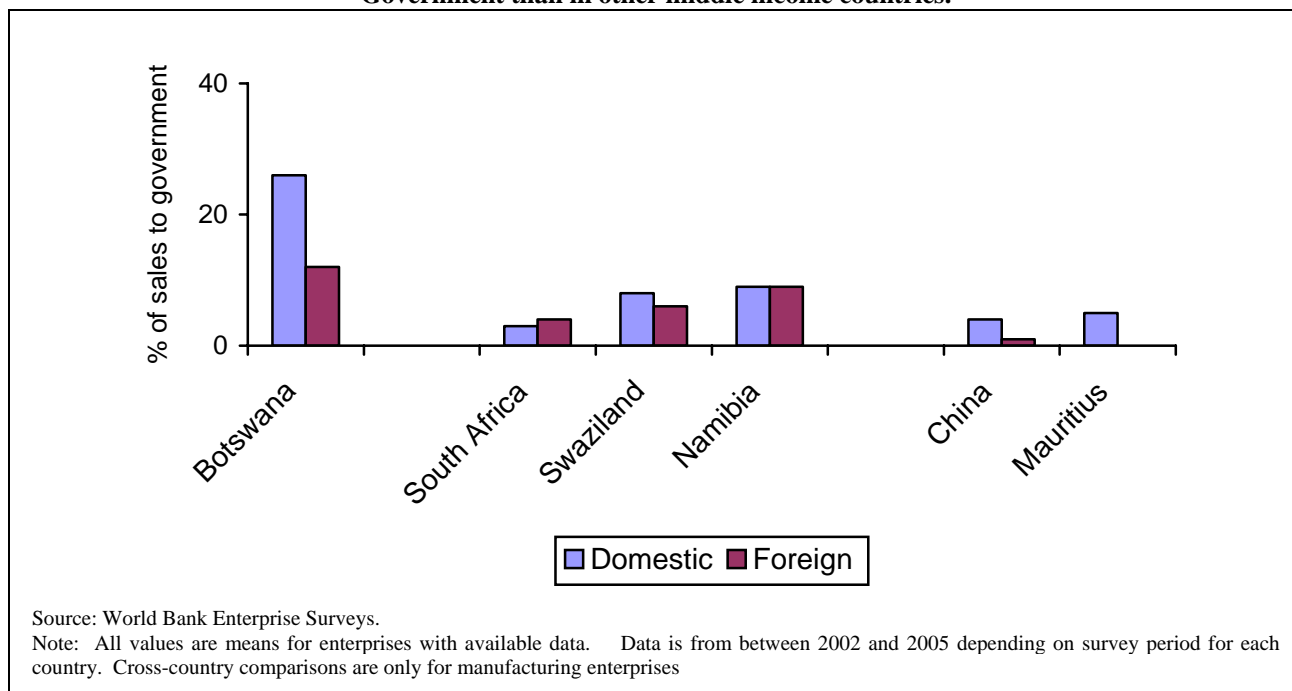
42. Other evidence also suggests that SMLEs are not highly competitive. Exports in Botswana are heavily weighted towards Sub-Saharan Africa. As in Namibia and Swaziland, the average SMLE sells about half of its exports in SACU, with South Africa being the most common destination. Inter-SADC exports outside of SACU were far more important in Botswana than in Namibia or Swaziland, accounting for 25 percent of exports from Botswana, but only 11 percent from Namibia and 18 percent from Swaziland. As a result, firms in Botswana are less likely to report exports to developed economies than firms in Namibia. The average manufacturing exporter sent only 24 percent of its exports to developed economies compared to 38 percent in Namibia.

43. Some firms from Botswana are more competitive than others. Foreign-owned firms are more likely to export than domestic firms in Botswana—34 percent of foreign-owned firms are compared to less than 17 percent of domestic firms. Foreign-owned firms were also more likely to export to developed economies—34 percent of exports of foreign-owned firms were to developed economies compared to only 10 percent of exports of domestically owned firms.

Sales to Government

44. Another way that SMLEs in Botswana differ from firms in the comparator countries is that sales to the government, government agencies and state-owned enterprises are more important in Botswana than in other countries. Over 50 percent of manufacturing SMLEs sold some of their output to the government, compared to 40 percent in Namibia and 30 percent in Swaziland. Sales to the government are also important as a share of sales. On average, sales to the government account for about 20 percent of manufacturing firm sales, compared with about 10 percent of sales in Namibia and Swaziland.

Figure 8: Firms in Botswana—especially domestic firms—sell significantly more of their output to Government than in other middle income countries.



45. Sales to the government are particularly important for domestic firms—for the average domestic manufacturing SMLE in Botswana, sales to the government account for over one quarter of sales. In fact, on average, sales to the government are more important to domestic firms than exports. Sales to the government do not account for more than 10 percent of sales of domestic firms in any of the other middle income comparator countries for which data are available. Given that foreign owned firms appear more competitive than domestic firms (based either on export performance or standard measures of productivity), this suggests that policies related to government purchases might favor domestic firms.

4. Perceptions about the Investment Climate.²¹

46. In addition to collecting information on productivity, firms are also asked about the investment climate—including competition from the informal sector, crime, taxation, worker education and skills, corruption, regulation, and infrastructure. Although most of the questions are quantitative (such as how many times did power go out in the previous month, how much do you spend on security, and how much time do senior managers spend dealing with regulation), managers are also asked what they see as the biggest problem that they face.

47. Although there are many problems with questions on firm perceptions (see Chapter 3 in Volume II for a full discussion), it is a natural to start any analysis of the investment climate by looking at what firm managers said were the biggest problems that they faced. Objective data on many of these issues are discussed later in this report and in greater detail in Volume II.

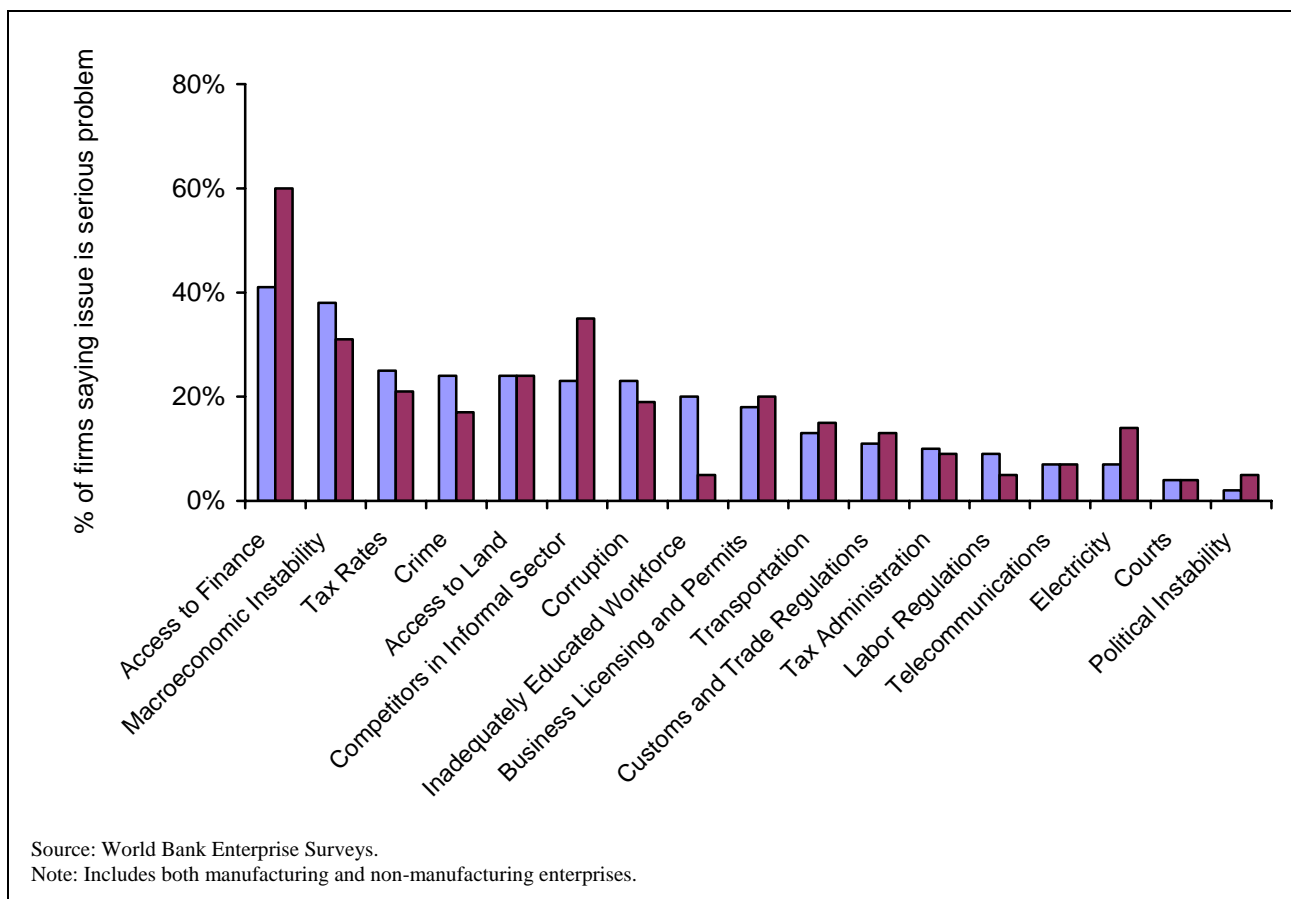
Main perceived constraints

48. The Enterprise Survey asks firms to rank how much each of 17 areas of the investment climate are a constraint on the current operations of their business. Among the small, medium-sized and large enterprises (SMLEs)—that is, firms with more than five employees—firms were most likely to say that access to finance and macroeconomic instability were serious problems (see Figure 9).²² Significant numbers of firms (about 18 percent and above) also cited tax rates, crime, access to land, competition from informal firms, corruption, inadequately educated workers and business licensing as serious obstacles. Very few firms—only about 1 in 10 firms or fewer—rated other areas of the investment climate as serious obstacles. As in Namibia and Swaziland, very few firms rated any aspect of infrastructure or regulation, except for business licensing, as serious concerns.²³

49. For the most part, microenterprise managers had very similar concerns to managers of SMLEs. This is not always the case. In South Africa, for example, microenterprise managers had very different concerns from managers of SMLEs.²⁴ Whereas SMLE managers in South Africa were most concerned about worker skills, macroeconomic instability, labor regulation and crime, microenterprise managers were most concerned about access to finance, the cost of finance, transportation, and access to land. The same was true in Namibia—microenterprise managers also had different concerns from SMLE managers. In contrast, there was a lot of overlap between the concerns of microenterprise and SMLE managers in Swaziland.²⁵

50. Although similar, the concerns of microenterprise and SMLE managers are not identical. The most noticeable differences are that very few microenterprise managers said that worker education are a serious concern and many more reported that competition from firms in the informal sector are a serious problem. Indeed, microenterprises were more likely to say that competition from informal firms was a serious problem than any other area of the investment climate except for access to finance. Further, although access to finance was the main concern of both SMLEs and microenterprise managers, microenterprise managers were far more likely to say that it was a serious problem—about 60 percent of microenterprises compared to about 40 percent of SMLEs.

Figure 9: SMLEs and microenterprises have similar views on the investment climate in Botswana



Differences in perceptions among SMLE managers

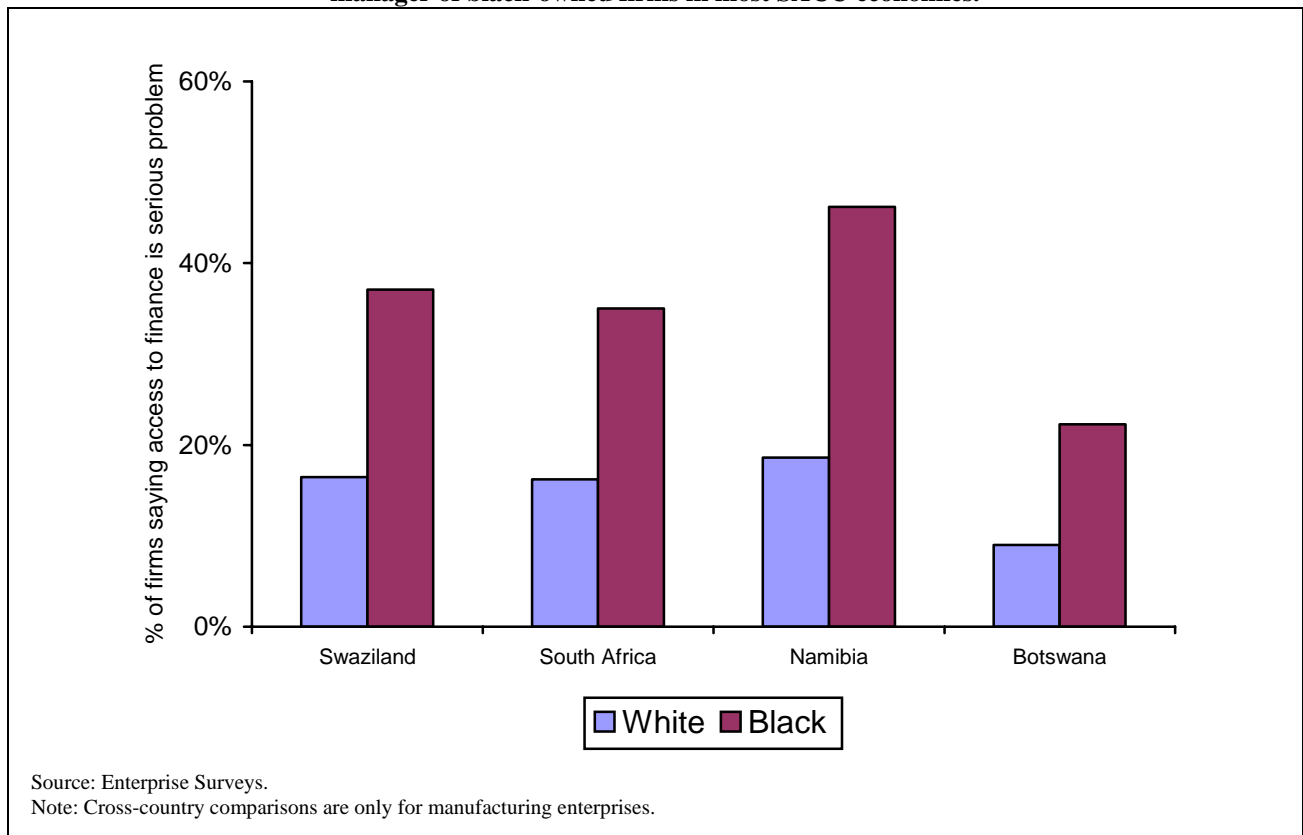
51. In addition to differences between SMLEs and microenterprise managers, managers of different types of SMLEs and microenterprises often have different concerns about the investment climate. Because there are only a relatively small number of microenterprises, it is difficult to look at differences among different types of microenterprises. Therefore, the main focus is on differences in perceptions between different types of SMLEs²⁶

52. One notable difference is that manufacturing firms tended to be more concerned about skills shortages than firms in retail trade or other service sectors. Whereas about 31 percent of managers of manufacturing SMLEs said that inadequately educated workers were a serious problem, only 22 percent of other service firms and 12 percent of retail trade firms said the same. In fact, managers of manufacturing SMLEs were more likely to say that inadequately educated workers were a serious problem than any other area of the investment climate except access to finance and macroeconomic instability. To the extent that the Government would like to diversify the economy towards manufacturing, workers skills and education might be a serious concern.

53. Another difference is that, as in most countries, managers of smaller firms are more likely to say that access to finance is a serious problem than managers of larger firms. Whereas 60 percent of microenterprise managers and 47 percent of small enterprise managers said that access to finance was a serious constraint, only 16 percent of managers of medium and large enterprises said the same.

54. Perceptions about access to finance also differed by ownership type. As in other countries in Southern Africa, managers of white-owned enterprises were less likely to say that access to finance was a serious problem than managers of indigenously owned enterprises (see Figure 10). The difference was quite large, even after controlling for other factors that might affect access to finance—managers of white owned enterprises were more than 19 percentage points less likely to say that access to finance was a serious problem than managers of indigenously owned firms. Among white-owned SMLEs, access to finance only ranked as the eighth largest constraint—among indigenously owned SMLEs it ranked top, with nearly twice as many firms saying it was a serious problem as any other problem.

Figure 10: Managers of white-owned firms are less likely to say access to finance is a serious problem than manager of black-owned firms in most SACU economies.



55. There were also some significant differences concerning perceptions about tax rates. Whereas 11 percent of manufacturing SMLEs said that tax rates were a serious obstacle—making it the 12th ranked obstacle for these firms, about 27 percent of non-manufacturing SMLEs said the same—making it the third ranked constraint for non-manufacturing firms.

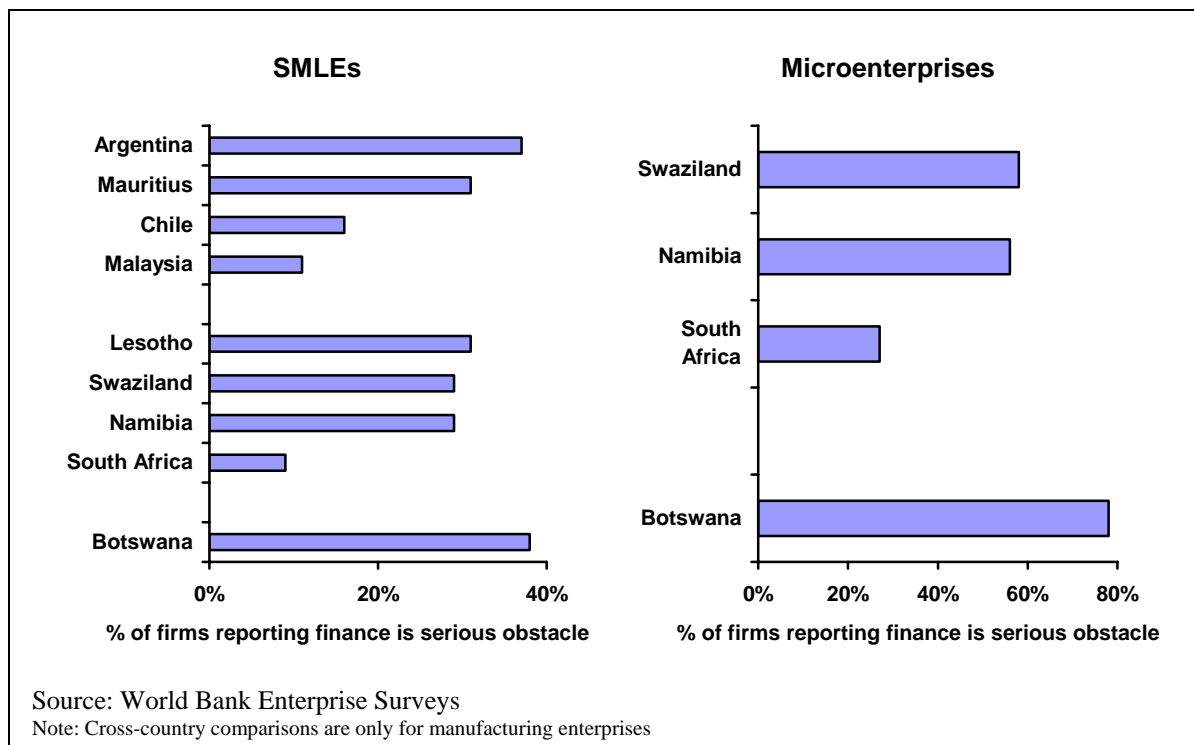
56. Although perceptions provide a useful starting point for the analysis, it is difficult to draw strong conclusions based upon subjective data. A natural question is, therefore, does objective evidence support the subjective evidence from the perceptions data?

57. The next sections of the report look at objective data on the investment climate, comparing Botswana with the comparator countries and comparing objective data for firms within Botswana. This volume focuses mostly on those areas of the investment climate that firms said were a serious problem or on areas where the objective data leads to a similar conclusion. Other areas of the investment climate, such as infrastructure and some areas of regulation, where Botswana rates well with respect to both the objective and subjective indicators are discussed in Volume II.

5. Access to Finance²⁷

58. Microenterprises and SMLEs were both more likely to say that access to finance was a serious obstacle than any of the other areas of the investment climate that were asked about in the Enterprise Survey. Although it is difficult to make cross-country comparisons based upon subjective indices, this is more than in most of the comparator countries, especially compared to the comparator countries outside of SACU (see Figure 11). The one exception outside of SACU is Argentina, a country still recovering from the massive banking crisis that hit it at the beginning of the decade.²⁸

Figure 11: Firms in Botswana were more likely to say that access to finance was a serious constraint on their operation than firms in other middle-income countries.

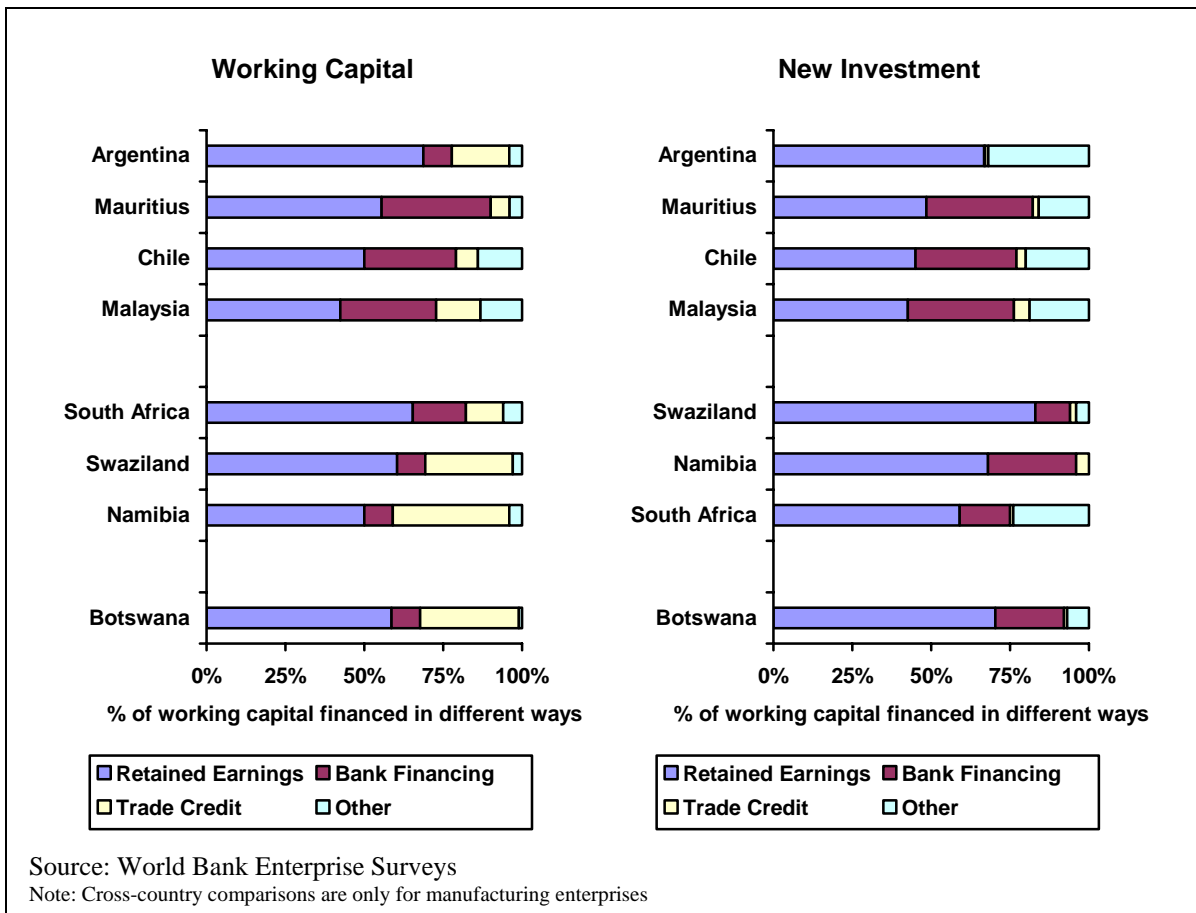


Objective Indicators of Access to Bank Financing

59. The Enterprise Survey also asks firms objective questions about their use of bank and other financing. These indicators, which are discussed in greater detail in Chapter 5 of Volume II, show that SMLEs in Botswana use bank financing about the same amount as SMLEs in the other SACU economies. But with the exception of Argentina, they generally use bank credit less than in most of the comparator countries.

60. For example, the Enterprise Survey asks firms how they finance short-term working capital and long-term investment. In all countries, retained earnings—the income that the firm has left after paying for intermediate inputs, wages and other costs—is the most important source of funds (see Figure 12). But SMLEs in Botswana are more reliant on retained earnings to finance both working capital and new investment than firms in Chile, Mauritius, or Malaysia.

Figure 12: Firms in Botswana use bank financing less than firms in the middle-income comparator countries outside of SACU.



61. Why are SMLEs in Botswana so dependent upon retained earnings to finance working capital and investment? One reason is that SMLEs in Botswana and the other SACU economies use bank financing less than in the non-SACU comparator countries. Whereas firms in Botswana, Namibia and Swaziland finance about 10 percent of working capital through bank financing, firms in Chile, Malaysia, and Mauritius finance between 30 and 35 percent in this

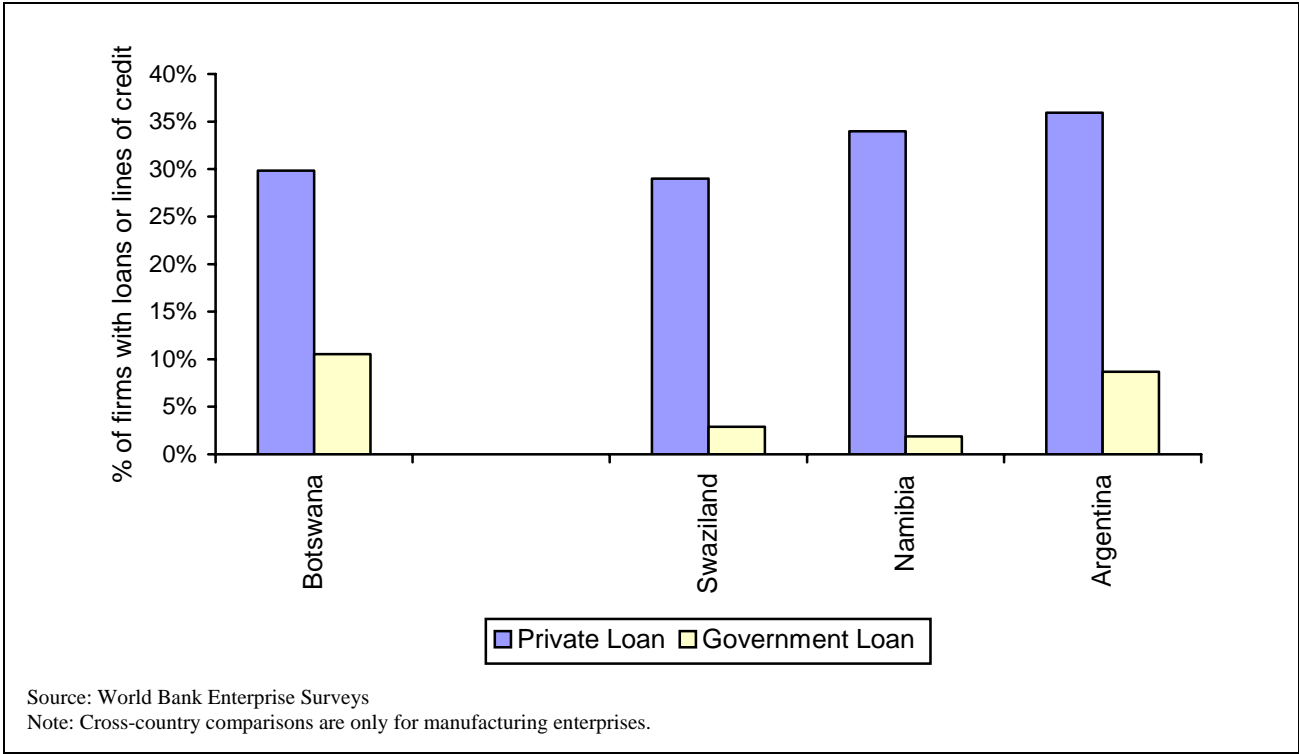
way. Similarly, firms in Botswana finance about 22 percent of new investment through bank financing, compared to between 30 and 35 percent in the non-SACU comparator countries.

62. Another difference between Botswana and the non-SACU economies is that firms in Botswana rely far more heavily on trade credit—credit from suppliers and customers—than firms in the non-SACU economies. On average, firms in the non-SACU comparator economies finance about 5 to 15 percent of working capital in this way compared to 28 percent in Swaziland, 31 percent in Botswana and 37 percent in Namibia.

63. Although firms in Botswana use bank credit less than in the non-SACU economies, it is important to note that in other ways financial markets in Botswana display the level of development expected of a middle-income country. Long-term finance is available—loans to SMLEs have an average loan maturity of 5 years. Collateral requirements are relatively fair and a variety of collateral is used, including movable assets and receivables, further indicating financial sophistication. Interest rates, however, are high, averaging about 15 percent.

64. State banks play a more important role in Botswana than in the comparator countries for which similar data are available. About 10% of firms have state loans relative to about 30% with non-state loans (see Figure 13). In fact, although firms in Botswana are more likely to have loans than firms in Swaziland, the difference is very small once loans from government sources are excluded.

Figure 13: Loans from government sources are more important in Botswana than in the comparator countries.



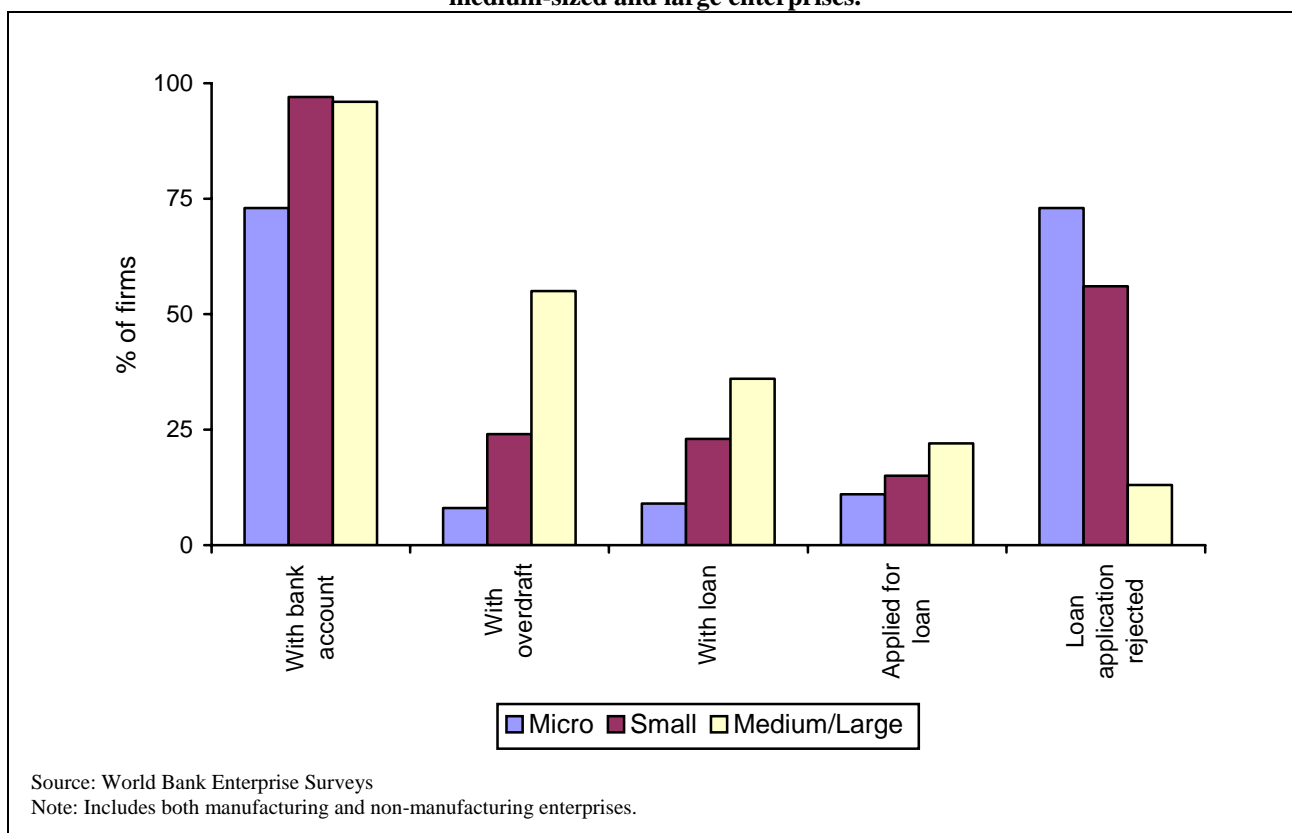
65. An important question is whether loans from state-owned institutions are crowding out lending private commercial banks or providing credit to firms that would not be able to get loans from private banks. Although answering this question definitively would require more in-depth

research, the evidence from the World Bank Enterprise Survey is mixed. After controlling for other factors than might affect access to credit using regression analysis (see Chapter 5 in Volume II), state banks appear to target young firms (that is, firms that are less than 5 years old). But microenterprises are no more likely to have loans from state-owned institutions than other enterprises. Not surprisingly, foreign-owned firms are less likely to have loans from state-owned institutions.

Differences in Access for Different Types of Firms

66. As in most countries, different types of firms have different levels of access in Botswana. As in most other countries, micro and small firms use credit products less than other firms and report that access to finance is a greater obstacle. Among microenterprises only about 15 percent use any of the credit products, compared with about 45 percent of SMLEs. Even within the SMLE sample, smaller firms have less access than medium and large firms (see Figure 14).

Figure 14: Access to credit is a more serious obstacle for microenterprises and small enterprises than for medium-sized and large enterprises.



67. Although few microenterprises use bank financing in Botswana, this is not unusual. Only about 10 percent of manufacturing microenterprises had an overdraft or line of credit in Botswana—similar to Namibia, South Africa and Swaziland. But this is higher than in most other countries in Sub-Saharan Africa where similar surveys have been conducted. In the other 10 countries where similar surveys were completed in 2006, fewer than 5 percent of microenterprise had an overdraft facility or line of credit and in several countries none of the surveyed microenterprises had overdraft facilities or lines of credit.²⁹

68. As discussed earlier, managers of indigenously owned firms were more likely to say that access to credit was a serious problem than managers of white-owned firms. Despite this, there were few differences between indigenously and white-owned firms with respect to the objective indicators. After controlling for other things, indigenously owned firms do not appear to be less likely to have a loan, to be more likely to be rejected or to use bank financing less than white-owned firms. Similarly, there was no evidence that female-owned firms are disadvantaged with respect to access to credit. In fact, female owned firms were less likely to report being rejected for a loan even after controlling for other things and used more bank financing to fund working capital.

69. Investment in productive assets is one of the desirable outcomes of access to finance. Investment is important as a source of growth and efficient capital allocation. Firms in Botswana that have overdrafts, lines of credit and loans are more likely to invest and invest more than other firms. Loan applications are also significantly related to investment, while being rejected for a loan reduces the amount of investment. This is consistent with the argument that access to credit increase investment.³⁰

6. Macroeconomic Instability³¹

70. Except for access to finance, SMLE managers were more likely to say that macroeconomic instability was a serious constraint on their current operations than any other areas. Microenterprise managers were also concerned about it—they ranked as the third largest constraint. This might seem peculiar given Botswana's reputation for excellent macroeconomic management, its relatively modest—although not low—inflation, and its extremely rapid growth.³²

71. One factor that probably had a large effect on concern about macroeconomic instability is the timing of the survey. The devaluation of the pula in May 2005 and along with continually rising oil prices revived inflationary pressures pushed inflation higher in late 2006 and early 2007.³³ It peaked at 14 percent in April 2006, higher than at any other point over the previous decade. Since this time it has decreased, reaching about 7 percent by early 2007 (see Figure 15). Thus, it is likely that at least in part concern about macroeconomic instability reflects transitory problems related to the spike in inflation.

72. Another possible issue is that the exchange rate has been relatively unstable. In the 2004 World Bank Enterprise Survey for South Africa, manufacturing firms were more likely to say macroeconomic instability was a serious problem than any other area of the investment climate except for worker skills.³⁴ The South African firms that were most concerned about macroeconomic instability were firms involved in international trade—South African importers and exporters were more likely to say that macroeconomic instability was a serious problem than other firms and South African firms that exported to the United States—the country with the currency against which the Rand was most unstable—were especially likely to say that macroeconomic instability is a serious problem. This suggests that exchange rate instability was driving the concern in South Africa.

Figure 15: Inflation, which has been modest—although not low—in Botswana peaked just before the Enterprise Survey was implemented



73. Since the Pula is pegged to a currency basket with a heavy weight upon the Rand, it is possible that a similar issue might be affecting perceptions in Botswana. If exchange rate instability is the main reason why firms are concerned about macroeconomic instability, firms involved in international trade outside of the SACU should complain more about macroeconomic instability than other firms. This does not appear to be the case. Exporters were no more likely to say that macroeconomic instability was a serious obstacle than other firms.³⁵ Manufacturing SMLEs exporting outside of SACU were more likely to say that macroeconomic instability was a serious concern than manufacturing SMLEs that only exported to SACU (38 percent compared to 20 percent).³⁶ But there were no more likely to do so than non-exporting firms (37 percent). Similarly, importers were no more likely to say that macroeconomic instability was a serious problem than non-importers.³⁷ Together, this suggests that exchange rate instability is probably not the main concern related to macroeconomic instability in Botswana.

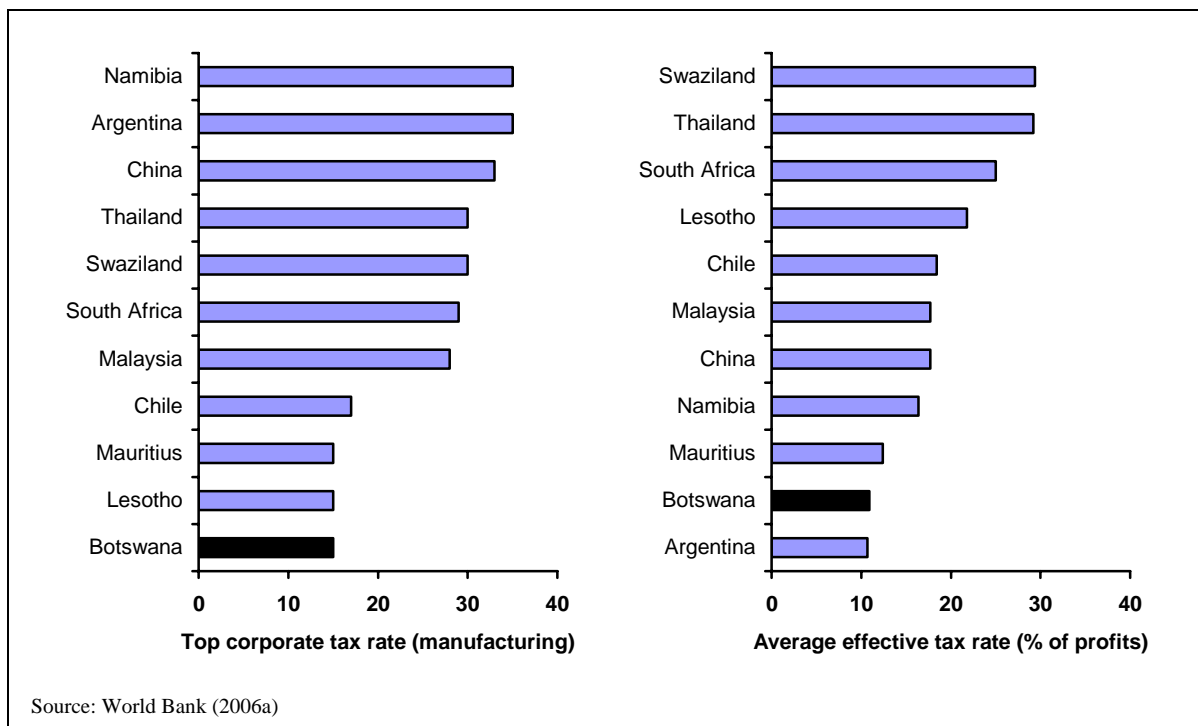
7. Taxes³⁸

74. After access to finance and macroeconomic instability, SMLE managers were more likely to say that tax rates were a serious problem than any of the other areas of the investment climate that they were asked about. Although microenterprise managers were less likely to say tax rates were a serious problem than SMLE managers, it ranked third for microenterprise managers as well.

75. This is not surprising—tax rates typically rank among enterprises’ greatest concerns in investment climate assessments. According to the *2005 World Development Report*, enterprise managers ranked tax rates among the top five obstacles in all upper middle-income countries and in over 4 out of 5 countries in Sub-Saharan Africa where World Bank Enterprise Surveys had been completed at that time.³⁹

76. Botswana, however, is known for its favorable tax environment. For firms in sectors other than manufacturing and not in Botswana’s International Financial Services Centers, the basic company tax is 15 percent.⁴⁰ For firms in the International Financial Service Centers and in the manufacturing sector, the basic company tax is 5 percent. In addition, companies are also generally liable for a 10 percent additional company tax (ACT). As a result, the total company tax rate is essentially 25 percent for non-manufacturing firms and 15 percent for manufacturing firms.⁴¹ This is lower than in most of the comparator countries (see Figure 16). Broader measures of tax rates, such as the average effective tax rate which takes into account other aspects of the tax code such as depreciation allowances, also suggest that the burden of taxation is low in Botswana.⁴²

Figure 16: Corporate income taxes are low in Botswana.

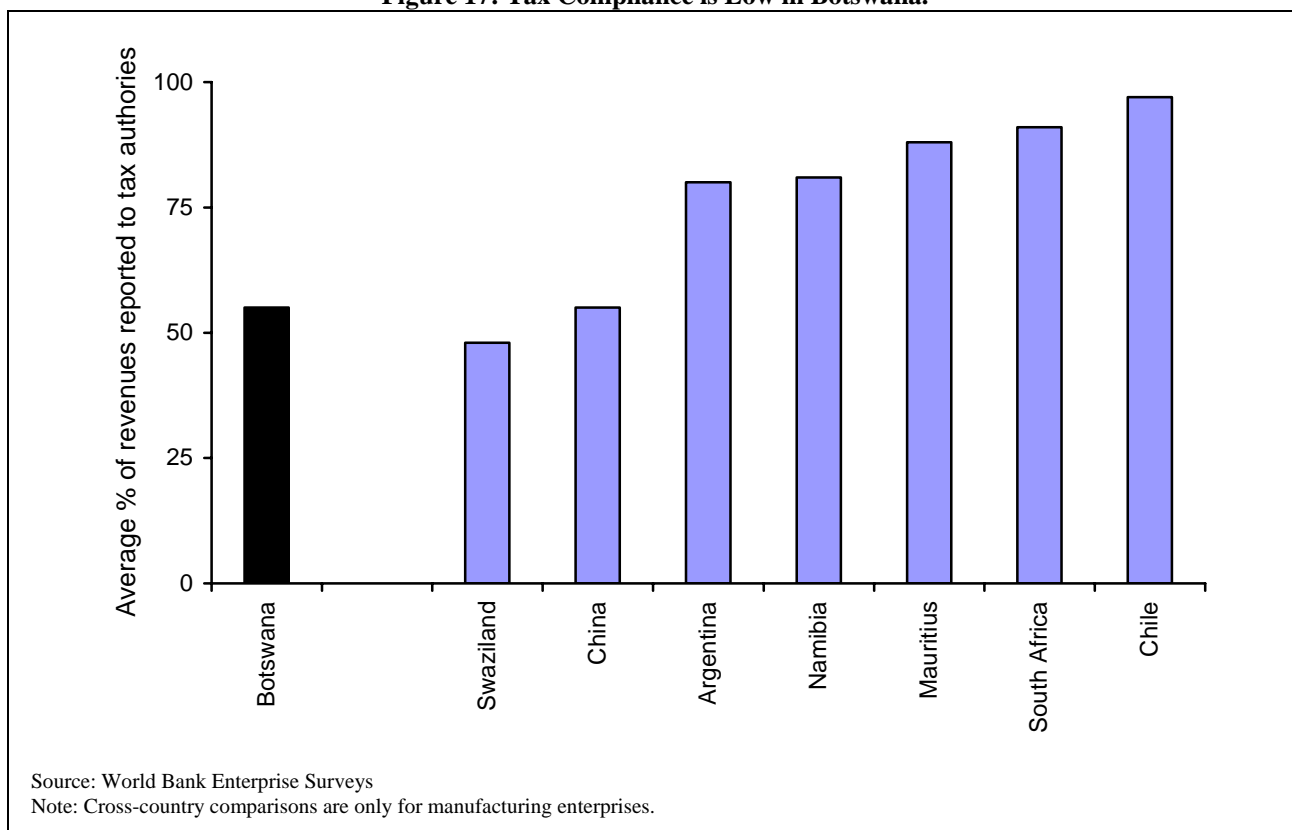


77. So given that taxes are relatively low, why do firms complain about them as much as they do? One possibility, as noted above, is that firms typically see tax rates as a serious problem. But there are other possible reasons as well. One is that manufacturing firms receive preferential tax treatment. Given this, it is not surprising that retail and other service firms were more likely to say that tax rates were a serious obstacle for them (see above). Although taxes on service firms are not high by international standards, managers of service SMLEs might feel that the preferential treatment afforded manufacturing firms is an unfair burden on them.

78. Another factor that might account for the high number of complaints about tax rates is non-compliance among some firms. Firm owners and managers can become frustrated if they feel that other potential taxpayers are avoiding paying their fair share of taxes and this could potentially affect their views about tax rates. A 2004 FIAS study noted that there was significant non-compliance among businesses, which restricted the growth of the tax base and increased the burden on the enterprises that actually pay taxes.⁴³

79. The evidence from the World Bank Enterprise Survey is consistent with this earlier report, also suggesting that tax compliance is a problem. When firms were asked during the survey to estimate the percentage of total annual sales that a typical establishment in their line of business usually declares for tax purposes, the average answer was only about 55 percent. Although firms in low-income countries often report high levels of non-compliance, this is high compared to other middle-income countries. In particular, among the comparator countries firms reported higher levels of non-compliance only in Swaziland (see Figure 17).

Figure 17: Tax Compliance is Low in Botswana.

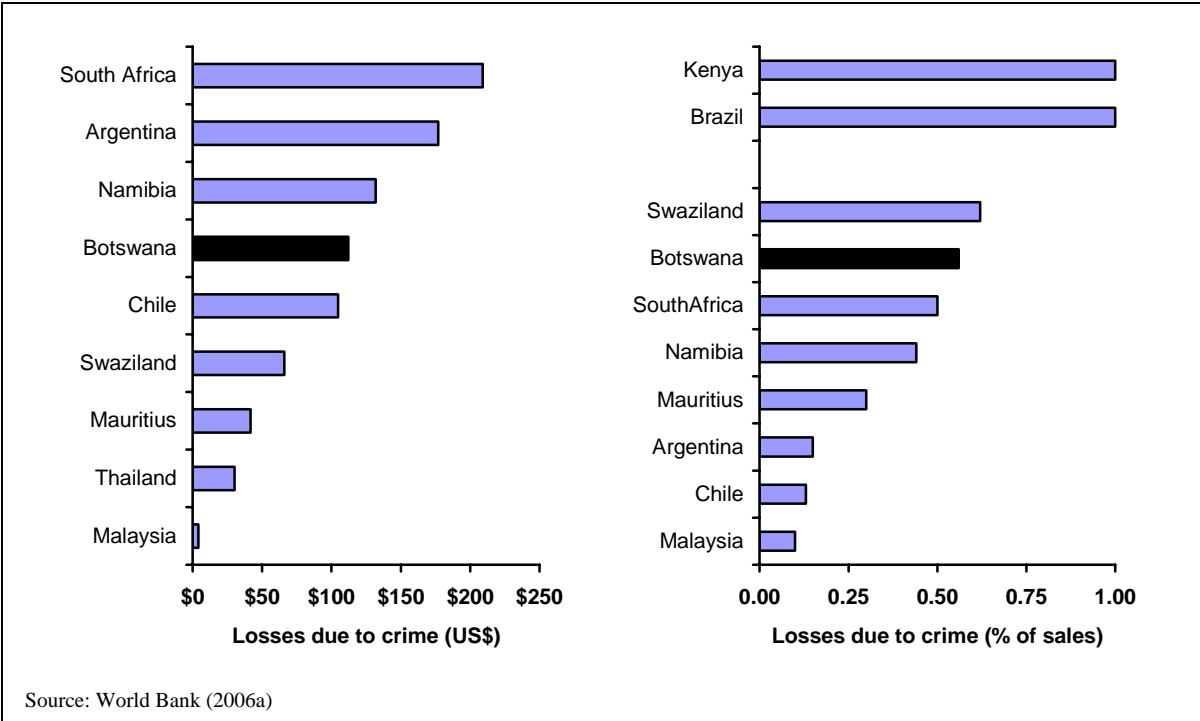


8. Crime⁴⁴

80. Firms in Botswana are concerned about crime. SMLE managers were more likely to say that crime was a serious obstacle than any other obstacle except access to finance, macroeconomic instability, and tax rates (see Figure 9). Although microenterprise managers were less concerned, nearly 20 percent of these managers were also concerned.

81. In addition to asking about perceptions about crime, the Enterprises Survey also asks firms about losses due to crime and the cost of security. The direct costs associated with crime are relatively high in Botswana. The median firm reports that the combined cost of crime and security is about \$112 per worker per year or 0.6 percent of sales (see Figure 18). The cost in US dollars is lower than in Namibia or South Africa, but is quite high compared to most of the comparator countries

Figure 18: The cost of crime is high in most SACU economies.



82. Because firms in Botswana are less productive than firms in Namibia and South Africa, the cost is even higher as percent of sales. In all three economies, the cost is about 0.5 percent of sales—the differences are generally small and are not statistically distinguishable from each other (i.e., any differences might be due to chance rather than that there is a difference). In addition to being higher in terms of US dollars, the cost is also higher as a percentage of sales than it is in most of the comparator countries. The cost, however, is lower than in the countries with the highest costs due to crime such as Kenya and Brazil.

83. It is important to make note that the question on losses due to crime will mostly be losses to theft, vandalism and other non-violent crimes. To the extent that many people are more concerned about violent crime than property crime, these questions do not reflect overall concern about crime. In contrast, the subjective question is more general—the question on whether managers see crime as an obstacle does not specifically refer to non-violent or property crime. It might not be surprising, therefore, if managers are most concerned about violent crime that although losses do not appear to be significantly higher as a percent of sales in South Africa, firms are far more likely to say that crime is a serious problem (about 30 percent of firms in South Africa compared to 20 percent in Botswana). In summary, the evidence from the World

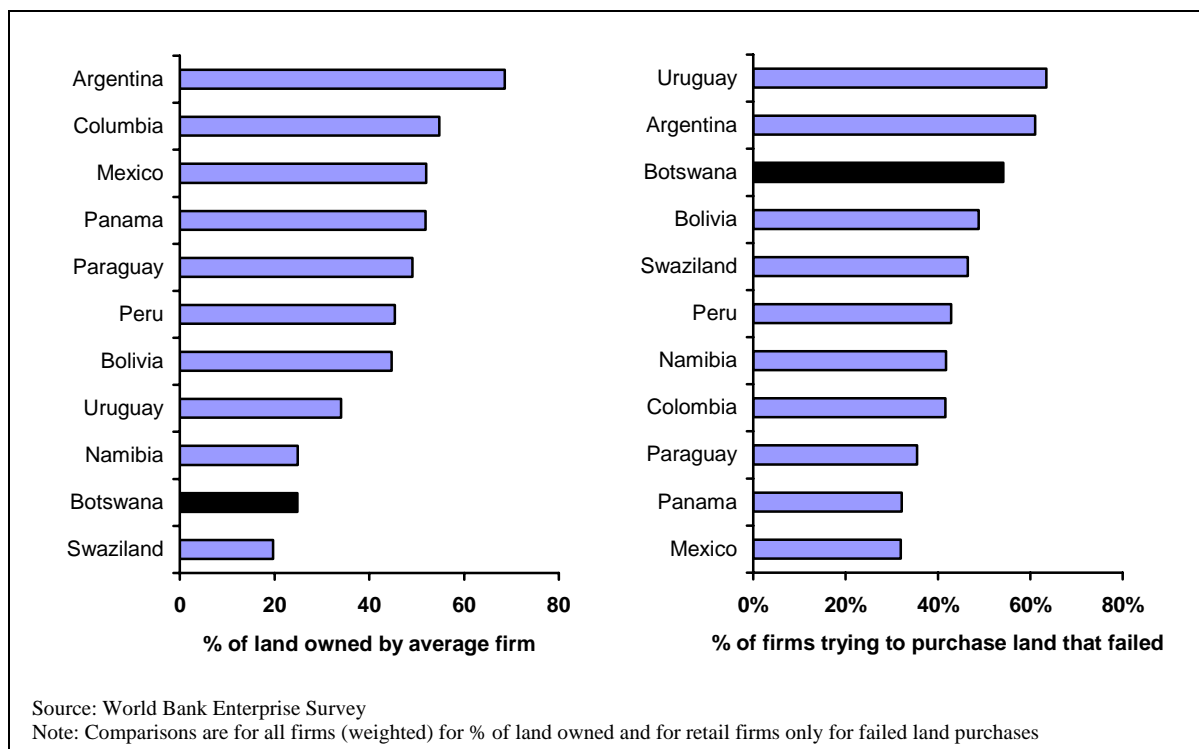
Bank Enterprise Survey suggests that Botswana is representative of countries where crime and security may be considered an important, though not all-consuming, problem

9. Access to Land.⁴⁵

84. Almost one-quarter of SMLE managers and a similar number of microenterprise managers rated access to land as a serious obstacle to their firm's operations. The high level of concern about access to land is consistent with results from an earlier report, which found that few firms were satisfied with the land access situation in 2004. The FIAS report notes that investors found it extremely difficult to access land, despite the abundance of idle property.⁴⁶ Although the Government of Botswana supported land market development and efficient use of land since independence, access to land presented a major impediment to private investment, particularly in the land-intensive sectors such as manufacturing and tourism.

85. The Enterprise Survey includes some objective questions on land ownership. For SMLEs and microenterprises, about three-quarters do not own any land. Although this is similar to Namibia and Swaziland, this is low compared to other middle income countries (see Figure 19. Although comparable data were not available for most of the comparator countries, on average firms in most Latin American countries own more than half their land, compared to only 20-25 percent in Botswana, Namibia and Swaziland. Firms in Botswana that had tried to purchase land were also more likely to report that they had been unable to do so than in most of the middle-income countries in Latin America for which comparable data were available.

Figure 19: Firms in Botswana are less likely to own the land they use and are more likely to have failed during attempted land purchases than in most middle income countries in Latin America.



10. Worker Skills⁴⁷

86. Although worker skills and education did not rank among the top constraints overall in Botswana, they did rank as the third most important constraint for manufacturing firms. About 31 percent of manufacturing firms report the shortage of skills as a major or severe impediment to their operations. The percentage of firms in Botswana that report a lack of skills to be a major or severe constraint is a little lower than Namibia, South Africa and Mauritius, but higher than in the other middle income comparator countries.

Cross-Country Comparisons

87. Skills shortages can arise either as a result of poor instruction in schools or a curriculum that is not consistent with the required skills in the labor market. To identify the source of the inadequacy, Table 3 examines the years of schooling of a typical worker in the typical firm in the manufacturing sector. The typical worker in the modal firm in Botswana has between 7-12 years of schooling. While this is lower than in Chile and South Africa, it is higher than in the other comparator countries. Moreover, 13 percent of firms report average education levels of more than 12 years of schooling—higher than in any of the comparators except Chile. These results suggest that part of the problem with skills arises from an inadequate curriculum in formal institutions of learning.

Table 3: Percent of firms saying that the average worker in the firm has completed different levels of schooling

	0-6 years	7-12 years	>12 years
Chile	4	72	24
Mauritius	97	0	4
South Africa	10	78	12
Botswana	20	66	13
Namibia	34	61	5
Swaziland	37	53	7

Source: World Bank Enterprise Surveys

Note: Cross-country comparisons are only for manufacturing enterprises.

88. One way that firms can deal with a skills shortage is to provide firm-based training. However, the ability of firms to impart the requisite skills will depend on a variety of factors that include the extent of demand for skills acquisition, the availability of external training by specialized firms and financial and space constraints at the firm level.

89. Less than two-fifths of manufacturing firms in Botswana provide training. This is fewer than in most of the comparator countries (see Table 4). In comparison, over 70 percent of firms in Thailand, China and Chile provide training to their workers and over 60 percent provide training in South Africa and Mauritius. Botswana also lags behind Namibia and Swaziland in this respect

90. For firms that do provide training, firms in Botswana compare more favorably, falling in the middle of the distribution of all comparator countries with respect to the proportion of the workforce that is trained. Interestingly, there is a strong negative correlation between the percent of firms offering training programs and the number of workers trained for those firms with

training programs (0.75). For example, China and Chile rank first and second with respect to the percent of firms with training programs but rank in the bottom half for percent of workers trained. It is important to point out, that the data used in this table cannot determine the quality of the training provided or the duration of training provided.

Table 4: Firm-based training: prevalence and percent of workers trained

Country	% Firms Offer Training	% Skilled workers trained	% Unskilled Trained
Botswana	38	57	41
Malaysia	42	81	76
Namibia	44	68	41
Swaziland	49	64	27
Mauritius	62	34	18
South Africa	64	45	47
China	72	48	25
Chile	72	34	25
Thailand	76	---	---

Source: World Bank Enterprise Surveys

Note: Cross-country comparisons are only for manufacturing enterprises.

Differences across firms and workers

91. Consistent with a firm response to shortage of skills, firms that report that worker education and skills was a serious constraint were more likely to train their worker. About 41 percent of firms reporting skills shortage as a major or severe constraint provide training compared to 36 percent for firms for which skills are not a major/severe constraint.

92. Other factors also affect firms' decisions with respect to training. Although after controlling for other factors, there is little evidence that size, export behavior or foreign ownership have a large impact on the propensity that firms have towards training, other factors do seem to play a role.⁴⁸ The most robust relationship is that firms that are active in HIV-prevention or testing of their workers are more likely to train than other firms. Similar results have been observed with respect to training and HIV prevention in other countries in Sub-Saharan Africa.⁴⁹

93. An examination of training at the individual worker level suggests that formal schooling is an important complement of firm-based training—firms are more likely to provide training to educated workers. As with wages, there is some evidence of sexual discrimination. Female workers are between 5 and 8 percentage points less likely to receive training. It is important to note, however, that other factors might play a role. This issue deserves further attention.

11. HIV/AIDS⁵⁰

94. Although HIV/AIDS is not one of the specific constraints that the Enterprise Survey asks about, HIV/AIDS has the potential to be a severe burden on the private sector in Botswana. The economic impact of HIV/AIDS on firms comes through dual channels of both reduced labor force (through absenteeism or lack of availability of skilled workers) and possibly lower productivity (through sick workers). For those firms that decide to engage in prevention or provide treatment support for workers, there are also direct costs.

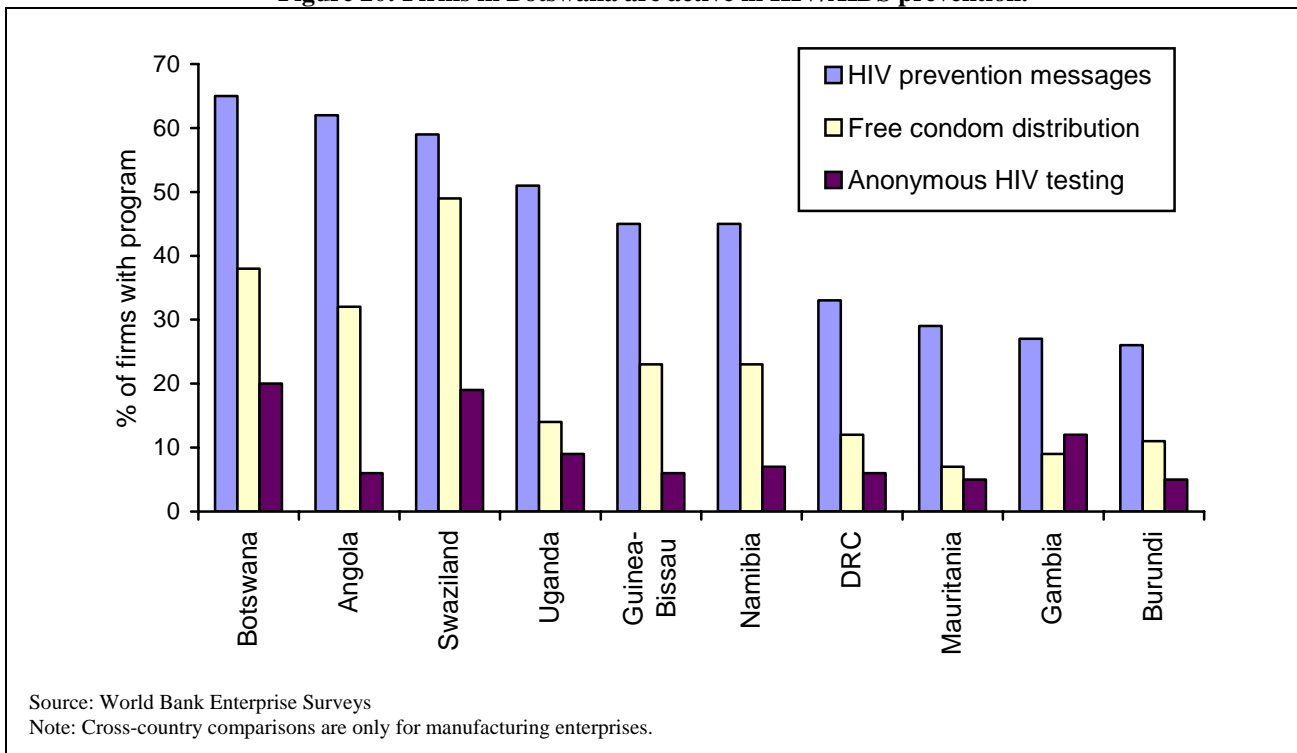
95. The cost in Botswana could be high. In 2004, The Government of Botswana estimated that the national prevalence rate is 17.1 percent for persons over 18 months olds. Estimates from the International Monetary fund suggest that the HIV/AIDS crisis could slow growth by as much as 2 to 2.5 percentage points per year over the next decade.⁵¹

Private Sector Response

96. The World Bank Enterprise Surveys ask managers a series of questions about how HIV/AIDS has impacted their businesses and how they have responded to the crisis, and asks workers, in the worker survey, about their knowledge of HIV/AIDS. Since questions on HIV/AIDS have only been asked in the most recent rounds of the survey in only the Africa region, data on the comparator countries, except Namibia and Swaziland, is not available. Because of this, this section also compares Botswana with additional countries in Sub-Saharan Africa where the same questions have been asked. According to UNAIDS estimates, these countries generally have lower prevalence rates than in Botswana.

97. According to data from UNAIDS, the Botswana government spends more on HIV/AIDS per worker than in any of the other African countries surveyed. For example, it spends almost four times as much as in Namibia and over thirty times as much as that in Swaziland.

Figure 20: Firms in Botswana are active in HIV/AIDS prevention.



98. The private sector is also active. Previous studies on HIV in the workplace have suggested that there might be a tradeoff between public and private HIV prevention activities—for example, suggesting that firms have to fill the void in HIV care when governments are not very active. This does not appear to be the case in Botswana. The percent of firms conducting

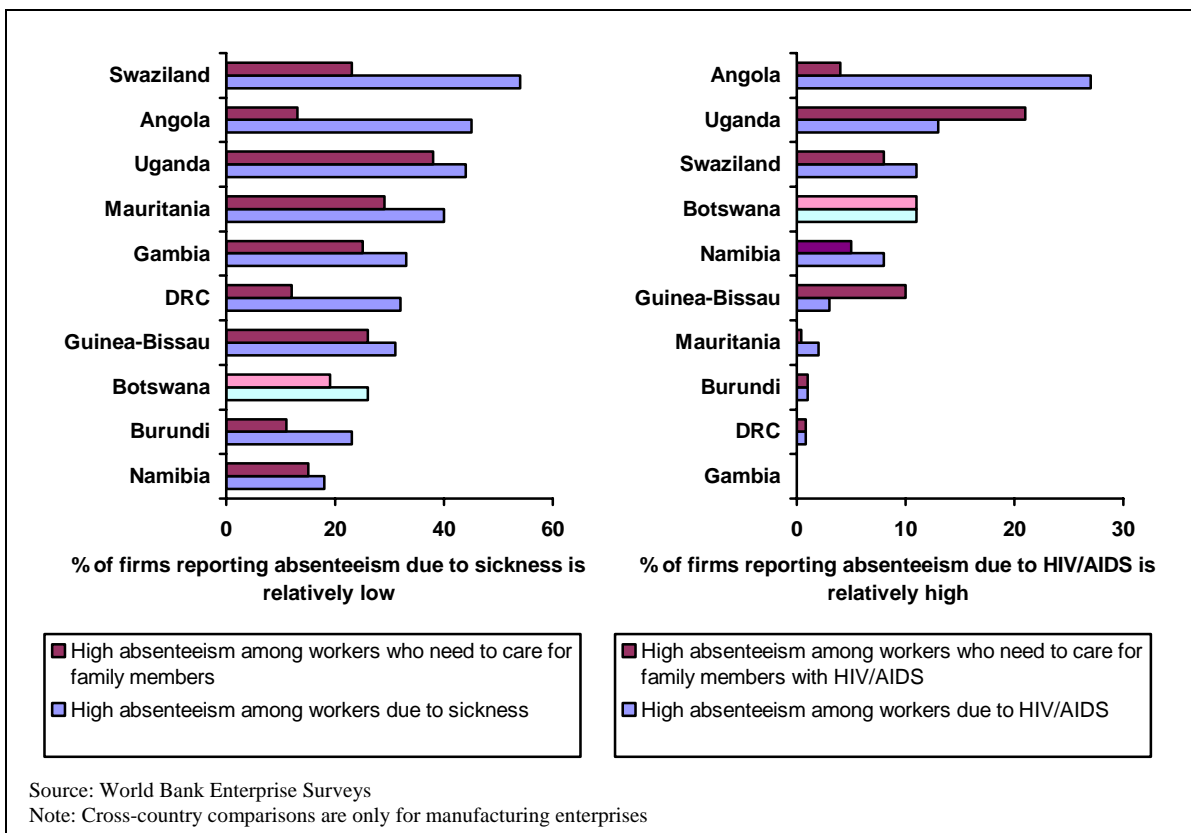
prevention activities is higher in Botswana (73 percent conduct any activity) than in any of the 9 other countries with comparable data. Botswana had the highest percentage of firms issuing HIV prevention messages (65 percent), the highest providing anonymous HIV tests (20 percent), and the second highest distributing free condoms (38 percent).

Worker Absenteeism by Country

99. Worker absenteeism causes a loss to firm productivity, and absenteeism can be exacerbated by the presence of HIV infections in the workforce or community, when workers have to be absent either because of personal illness or because of caring for family members or friends. Since many managers have no way of knowing whether absenteeism is due to HIV/AIDS or not, it is important to look at both types of absenteeism. Perhaps surprisingly, Botswana and Namibia both report low rates of absenteeism, despite their relatively high HIV prevalence rates. Botswana has only the eighth highest absenteeism due to sickness (26 percent). The low rate of absenteeism might reflect the strength of the national health sector in Botswana in comparison to its neighbors. That Botswana has managed to keep absenteeism low despite the high HIV prevalence rate is a good sign that the health system is performing well in Botswana.

100. But Botswana compares less favorably when asking managers specifically about HIV-related absenteeism. Botswana has the third highest absenteeism among workers due to HIV/AIDS (11 percent), and the second highest absenteeism among workers taking care of family members sick from HIV/AIDS (11 percent).

Figure 21: Worker absenteeism is relatively low in Botswana—although absenteeism due to HIV/AIDS is relatively high.



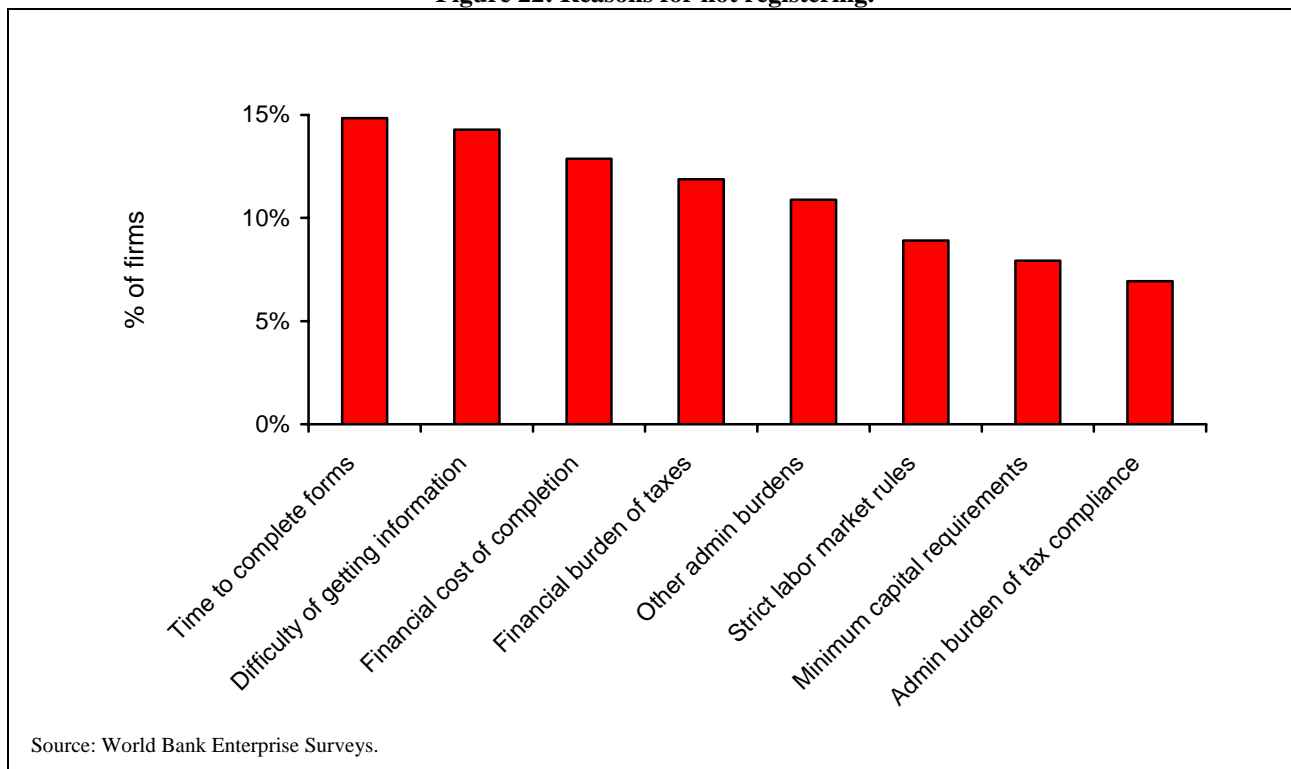
12. Informality⁵²

101. Competition from the informal sector worries a considerable number of firms in Botswana, with about 23 percent of SMLEs and 35 percent of microenterprises ranking it as a major or very severe constraint to doing business. Concern about informality is higher in labor intensive sectors such as garments, hotels and restaurants, and retail trade. Although microenterprises are more concerned about competition from the informal sector, smaller SMLEs are not generally more concerned than larger SMLEs.

102. The evidence from the microenterprise survey suggests that informality is not particularly high in Botswana. Almost all (97 percent) of the microenterprises reported being registered with at least one government agency—compared to only about three-quarters of microenterprises in Namibia, Swaziland and other countries in Sub-Saharan Africa where microenterprise surveys have been completed. Although these claims of registration should be treated cautiously, given that managers of unregistered firms are probably nervous about admitting to being unregistered during interviews, it is important to note that this is broadly consistent with the macroeconomic estimates that also suggest informality is lower in Botswana than in other countries in Africa. Moreover, it is not clear that managers of unregistered microenterprises have a greater incentive to lie about their registration status in Botswana than they do in other countries.

103. So why are enterprises so concerned about informality? One possibility is that it might reflect concern about informal or unfair competition from registered firms. Firms are also worried about tax compliance by their formal competitors—although almost all believed their competitors reported some of the income to the tax authorities. Firms that complain about competition from the informal sector say that ‘firms like theirs’ report less of their income to the tax authorities (44 percent) than firms that are less concerned about competition with informal competitors (54 percent).

Figure 22: Reasons for not registering.



104. When microenterprise managers (both registered and unregistered) were asked why they believed unregistered firms did not register, the most common response was that it was time-consuming and difficult to complete registration procedures. This is consistent with evidence from the Doing Business report that suggests that registration procedures are quite burdensome.⁵³

13. Conclusions

105. Although firms in Botswana are more productive than firms in most low income countries in Sub-Saharan Africa, productivity is lower than in many of the middle-income comparator countries. Moreover, other factors also suggest that competitiveness might be an issue: few firms export, especially outside of SADC; domestic firms rely heavily upon sales to the Government; and profitability is relatively low. In part this probably reflects structural aspects of the economy: Botswana is small in terms of population, landlocked, and relatively remote. Moreover, the heavy dependence of the economy on natural resources probably makes it more difficult for firms to remain competitive on international markets even if the effect is not prohibitive. Although previous macroeconomic studies suggest that this has not played a particularly important role in Botswana, further analysis might be useful.

106. Even if structural problems (e.g., due to size or ‘Dutch disease’) are reducing competitiveness, investment climate improvements can still help. Although the investment climate is already favorable in many ways—infrastructure is good, the corporate income tax is very competitive, the burden of regulation is modest (with some exceptions) and corruption is low—there are areas where some improvements would be possible. In particular, improving tax administration to reduce evasion, improving business licensing to reduce informality, and

improving land allocation would reduce the burden that these areas of the investment climate have on firm performance.

107. Several of Botswana's problems appear to reflect regional problems. Crime is one of these areas. The cost of crime is high in all of the SACU economies and crime can easily spill over borders. HIV/AIDS is another issue with similar characteristics.

108. Access to finance is another area where problems reflect regional issues, such as those related to competition in the banking sector. Many of the banks in Botswana operate across the entire region and access to finance is low in all of the SACU economies. Although this is the case, access to finance appears to be more binding for SMLEs in Botswana (and Swaziland) than in South Africa. Most SMLEs in South Africa that did not have loans did not want them—often relying upon their parent companies or their own earnings to finance investment. In contrast, many of the small enterprises—and some of the medium and large enterprises—in Botswana reported they would like to have loans but cannot get them. For microenterprises, access to finance is difficult even in South Africa. In this respect, regional responses to increase competition in the banking sector are important.

109. One aspect of access to finance that appears more specific to Botswana is the degree of government intervention in the sector. Firms in Botswana are far more likely to have loans from the Government than in any of the other SACU economies. Given that there is a less clear correlation between firm performance and access to credit in Botswana than in other countries and that access to private credit seems particularly low in Botswana, it would seem useful to look more in depth at the issue of both the effectiveness of these programs and whether they are supplementing or crowding out private credit.

110. It is also important to note that the Government has been active in promoting diversification. Domestic firms are heavily dependent upon the government for many services. For example, sales to the government are very important for firms in Botswana and the government also plays an important role in allocating credit. Further analysis on the impact that this has on firm performance and behavior would be useful.

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¹ See Chapter 1 in Volume II for a more detailed discussion of these topics

² World Bank (2007).

³ Many studies have looked at the ‘natural resource’ curse (Eifert and others, 2002; Gelb, 1988; Sachs and Warner, 2001)

⁴ Cordon and Neary (1982) discuss Dutch Disease.

⁵ See, for example, Leith (2005) and Acemoglu and others (2003).

⁶ This includes other mining, although mining is dominated by diamonds (International Monetary Fund, 2006a).

⁷ Economist Intelligence Unit (2006). Similarly, *Vision 2006* sees Botswana as having a diversified economy with mining, agriculture, industry, manufacturing, services and tourism all making substantial contributions (Presidential Task Group of a Long-Term Vision for Botswana, 1997). It notes that one of the main challenges in this is to ‘build up manufacturing to play a more central role in the economy’ (p. 18).

⁸ Data is from International Monetary fund (2005) and World Bank (2007)

⁹ See Chapter 1 in Volume II for a more detailed discussion of these topics

¹⁰ Sampling is described in Chapter 1 in Volume II and in detail in an Appendix to Volume II.

¹¹ The issues in this section are discussed in more detail in Chapter 2 of Volume 2 (productivity, exports, and sales to government, unit labor costs) and Chapter 4 (wage levels).

¹² These results are discussed in greater detail in Chapter 2 in Volume II.

¹³ Chapter 2 of Volume II describes the different measures and the statistical analysis underlying them and discusses the advantages and disadvantages of the measures.

¹⁴ The actual measure of labor productivity used in this report is value-added per worker. This is the amount of output that the firm produces less the cost of raw materials (such as iron or wood) and intermediate inputs (such as engine parts or textiles) used to produce the output divided by the number of workers.

¹⁵ In Chapter 2 of Volume II labor cost comparisons are made using average labor costs from the firms’ financial statements. Cross-country comparisons of wages using median wages for full-time permanent production workers can be different from comparisons using average labor costs from the firm’s financial statements for several reasons. One is that labor costs from the firms’ financial statements include wages for non-production workers, managers, and professionals. In countries such as South Africa, where manager’s wages are high relative to production workers (Regional Program on Enterprise Development, 2006), this might have a significant effect. Other things, including the ratio of production to non-production workers, ratios of skilled to unskilled production workers, differences in average (relative to median) education levels, differences in ratios of full-time and part-time workers, differences in ratios of permanent and temporary workers, and many other factors, can also affect these comparison. But in this case, the results are similar. In both cases, Botswana appears towards the lower end with respect to wage costs compared to the comparator countries. Further, in both cases, wages costs are about the same as in Swaziland and Thailand, higher than in China; lower than in Namibia, Mauritius, Malaysia, and Argentina; and far lower than in Chile or South Africa.

¹⁶ See Chapter 3 in Volume II for a more detailed discussion of these topics.

¹⁷ See Chapter 4 and Chapter 2 in Volume II

¹⁸ This is consistent with estimates for other middle income countries (Psacharopolous, 1993; 1994)

¹⁹ Indeed, many studies have shown that exporters are more efficient and more productive than non-exporters. The large literature on this topic is summarized in Tybout (2003) and Keller (2003).

²⁰ See Biggs (2003) for a summary of the literature on this topic. Clerides and others (1998) find evidence consistent with this for Colombia, Mexico and Morocco. Similarly, Grenier and others (1999) found that large Tanzanian enterprises export more than smaller enterprises. Finally, using data from several countries in sub-Saharan Africa from the mid-1990s and 2000s, Bigsten and others (2004), Söderbom and Teal (2003) and Clarke (2005) found similar results.

²¹ See Chapter 3 in Volume II for more details

²² Enterprise managers were asked to rank each obstacle on a five-point scale between 'no obstacle' and a 'very severe obstacle'. Figure 9 shows the percent of each type of firm that rated each area as a 'major' or 'very severe obstacle'. In the text, the enterprise manager is described as saying that the area of the investment climate is a serious obstacle if they ranked it as a major or very severe problem.

²³ See Regional Program on Enterprise Development (2007a; 2007b).

²⁴ See Clarke et al. (2007) and Regional Program on Enterprise Development (2006)

²⁵ ²⁵ See Regional Program on Enterprise Development (2007a; 2007b)

²⁶ Chapter 3 in Volume 2 presents a more detailed econometric analysis of these differences. The analysis in Chapter 3 is based upon a similar cross-country analysis presented in Gelb and others (2007).

²⁷ See Chapter 5 in Volume II for more details

²⁸ See Mussa (2002) for a discussion of the Argentine bank crisis.

²⁹ Similar surveys have been conducted in Angola, Burundi, Democratic Republic of Congo, the Gambia, Guinea-Bissau, Guinea-Conakry, Mauritania, Rwanda, Tanzania, and Uganda.

³⁰ However, an alternative explanation could also be possible – that those firms with investment may have good growth potential and hence would be favored by banks. Without additional data or experimental design it is impossible to infer the causality of investment and access relationship.

³¹ See Chapter 6 in Volume II for more details

³² See Leith (2005)

³³ See Economist Intelligence Unit (2006)

³⁴ See Regional Program on Enterprise Development (2005)

³⁵ In fact, about 27 percent of exporters and 40 percent of non-exporters said that macroeconomic instability was a serious problem. Econometric results in Chapter 3 in Volume II show that the difference is not statistically significant even after controlling for other factors that might affect perceptions.

³⁶ Data on destination of exports is only available for manufacturing SMLEs

³⁷ About 35 percent of importers and 45 percent of non-importers said that macroeconomic instability was a serious problem. This difference is also not statistically significant.

³⁸ See Chapter 6 in Volume II for more details

³⁹ See World Bank (2004)

⁴⁰ See International Monetary Fund (2006b)

⁴¹ See Foreign Investment Advisory Service (2004)

⁴² See World Bank (2006a) for a description of the calculation of the average effective tax rate. Also see Chapter 5 in Volume II for more detail.

⁴³ See Foreign Investment Advisory Service (2004)

⁴⁴ See Chapter 6 in Volume II for more details

⁴⁵ See Chapter 6 in Volume II for more details

⁴⁶ See Foreign Investment Advisory Service (2004)

⁴⁷ See Chapter 4 in Volume II for more details

⁴⁸ See Chapter 4 in Volume II for more details on these regression results.

⁴⁹ See Ramachandran and other (2005)

⁵⁰ See Chapter 6 in Volume II for a more detailed discussion of these topics

⁵¹ According to IMF projections, in the absence of HIV/AIDS, Botswana could grow at an annual rate of between 4.9 and 5.5 percent between 2005 and 2015. In a scenario with HIV/AIDS and with no Government intervention, annual growth would be 2.9 percent by 2015. In a scenario with HIV/AIDS, but with an active intervention policy, growth could be 4.1 percent over the same period (Masha, 2004).

⁵² See Chapter 6 in Volume II for a more detailed discussion of this topics

⁵³ Although evidence from the registrar suggests that the Doing Business indicators overestimate the time it takes to start a business, the evidence still suggests that this is fairly burdensome.