



BOTSWANA

Botswana has an open economy. In 2012, imports and exports of goods and services amounted to 99.78% of GDP, with 47.02 percentage points accounted for by exports. As in other developing nations, Botswana's commodities sectors and tourism are, by value, the most engaged in global value chains. Official data from 2003-12 suggest that the sectors most engaged in global value chains (GVCs) are mining (diamonds, copper nickel, soda ash and gold), vehicles, textiles, beef and tourism.

Botswana exports its diamonds, mostly in their raw form, to the United States, Europe and Japan. Still, the diamond subsector is by far the country's main player in GVCs, accounting for 84.7% of the total value of principal exports in 2012. That year, polished diamonds, valued at USD 706.6 million accounted for 17.6% of diamond exports. The relocation of the Diamond Trading Company from London to Gaborone and the establishment of the Diamond Hub, with a focus on developing downstream activities such as diamond cutting and the manufacture of jewellery will significantly raise the sub-sector's contribution to gross value added.

Though important in terms of job creation, textiles and vehicles have weak prospects for long-term growth because of low domestic value added, high content of imported inputs and low domestic and international competitiveness. Beef exports, in carcass form, are largely destined for Europe. International tourism is a major and growing contributor to national output, employment and foreign exchange earnings. However, it is primarily wilderness based and not adequately measured in national accounts.

The potential development impact of these sectors' participation in GVCs is enormous. Mining has been the mainstay of the economy since the 1970s. In 2012, it accounted for 19.6% of GDP, 30% of government revenue and in excess of 84.7% of foreign exchange earnings. Movement up the value chain could contribute significantly to economic growth, export earnings, employment creation and government revenue. The government has effectively utilised mining revenues to finance the country's infrastructure and the development of its human capital. Between them, mining, tourism and beef directly account for approximately 17.2% of formal employment (Labour Statistics Report 2010). The indirect impact on employment and livelihoods is even larger because some of these activities, especially mining, have anchored the development of sources of livelihoods beyond the primary activity. Botswana has mining towns that have developed into the main centres of commerce, light manufacturing and services in their regions. Tourism has had a similar effect on Maun and Kasane in northern Botswana. On the downside, and with particular reference to mining, there are two concerns, namely: i) substantial external costs such as environmental degradation, disruption of livelihoods and ill health; and ii) the risk of the Dutch Disease phenomenon. Neither is adequately studied.

There is significant scope for Botswana to enhance its positioning within the minerals, beef and tourism value chains. In sum, the challenge lies in improving the investment climate. Through the Botswana Mineral Investment Promotion Strategy, Botswana continuously reviews the fiscal, legal and policy framework for mineral exploration, mining and the processing of minerals to secure the sector's competitiveness. The key priorities in this regard are enhancing licensing efficiency and the security of tenure; a fiscal regime that encourages investment in mining; improving information management and exploring opportunities for local value addition. The Diamond Hub is a good start in this regard.

The Mining Code of 1999 streamlined licensing and enhanced safeguards for tenure. It also provided for an investor -friendly fiscal regime, elements of which include a variable income tax rate based on project profitability, 100% capital redemption and stability. The National Integrated Geo-Science Information System helps address information failures. A promising move to expand processing capacity and therefore to place Botswana higher up the diamond GVC has been the relocation of the Diamond Training Company from London to Botswana and the government's decision to reserve a proportion of Botswana's diamonds for local processing. Both are products of tough negotiations which are paying dividends in terms of investment, quality jobs, and diversification into downstream activities in the diamond sector. Sustained investment in



mineral exploration is critical to Botswana's economic future because the profitability of mining known diamond deposits has peaked and is expected to decline.

The beef sector requires serious reform to improve its performance. The existence of the Botswana Meat Commission (BMC) as a state monopoly with sole responsibility for marketing beef outside Botswana constrains investment, innovation and competition in the sector. The BMC has had serious management problems for years, culminating in a parliamentary investigation in 2012 that revealed extensive managerial inefficiencies. Ongoing dialogue suggests that deregulation, including the privatisation of the BMC, is a possibility. Terminating the BMC monopoly may lead to the unearthing of alternative markets whilst more effective management of the threat of foot and mouth disease will ensure access to the EU market is sustained. The performance of the sector could also be enhanced by improvements in the quality of the national herd and management skills, especially in communal areas.

Tourism has significant potential for growth. Whilst the Botswana Tourism Board is doing a good job of marketing Botswana's tourism services, three other areas require urgent attention. One is the diversification of the product's emphasis on wildlife; culture, for instance, is an option. The second is enhancing the sector's capacity to provide services. The third is reforming the management of the tourism sector to ensure that a greater proportion of the tourism revenue is retained in the country. According to Botswana Tourism Statistics, only 10% of the tourism revenue is retained locally. This is partly because the bulk of Botswana's tourist bookings are handled in South Africa, and partly because the sector's supply chain is foreign-dominated.

Botswana faces a range of barriers to participation in global value chains. These include: relatively high costs of accessing input and output markets on account of being landlocked; serious power and water challenges and generally high utility costs; low labour productivity; and bureaucratic costs. Most worrisome, Botswana has been slow to initiate reforms to improve its business environment, managing only one reform in each of 2011 and 2012.

The foregoing challenges notwithstanding, Botswana has taken measures to enhance its capacity to participate in GVCs. These include: the pursuit of macroeconomic stability through strict adherence to a defined fiscal rule; the pursuit of a firm inflation target; and the accumulation of reserves as a buffer against shocks. More specifically, Botswana has developed a number of strategies to enhance competitiveness and the growth of Botswana's private sector. These include: the Botswana Excellence Strategy (2008), the Economic Diversification Drive (2011) and the Botswana National Export Strategy 2010-2016. The Botswana Confederation of Commerce, Industry and Manpower also developed the Private Sector Development Strategy (2009-2013). Other efficiency enhancing measures are investment in broadband width and the modernisation of the payment system.