

**The South African Institute
of International Affairs**

Business in Africa Research Project

Africa's First Welfare State

**The Experience of South African
Firms Doing Business in Botswana**

Neuma Grobbelaar and Kaemete Tsotetsi

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About the SAIIA Business in Africa Project

This is the fourth country case study in a comprehensive review of business conditions prevailing in Africa, conducted by SAIIA's Business in Africa project. The report forms part of a series of country and sectoral studies undertaken with a view to extrapolating specific policy recommendations for African

governments on how to create a more supportive business environment in Africa.

The New Partnership for Africa's Development (Nepad) initiative emphasises the critical importance of the private sector in the continent's economic development. South Africa's track record as a significant, and even more important, a fellow African investor is a notable indicator of business confidence in the future of Africa. It is also paving the way for the private sector to play a stronger role in the continent's development.

Although it is generally assumed that South African investors are less averse than others to taking risks in view of their knowledge of, and proximity to, the African market in terms of appropriate technology and products, the SALLA Business in Africa project aims to verify whether this is indeed the case. Moreover, the research aims to identify critical areas in which reform is essential if Africa's private sector is to contribute to growth.

The Business in Africa project is headed by Neuma Grobbelaar, the Deputy Director of Studies at SALLA, and assisted by Hany Besada, the Business in Africa researcher.

The following reports have been published by the project thus far:

Games D, *A Preliminary Survey: The Experience of South African Firms Doing Business in Africa*, Business in Africa Report 1, SALLA, 2003.

Grobbelaar N, *'Every Continent Needs an America': The Experience of South African Firms Doing Business in Mozambique*, Business in Africa Report 2, SALLA, 2004.

Games D, *An Oil Giant Reforms: The Experience of South African Firms Doing Business in Nigeria*, Business in Africa Report 3, SALLA, 2004.

Besada H, *Glimpse of Hope in West Africa: The Experience of South African Firms Doing Business in Ghana*, Business in Africa Report 4, SALLA, 2005.

Methodology and Rationale

This report is based on a series of interviews that were conducted in Botswana in April/May 2004 with resident South African companies to research their experience of the Botswana business environment. SAlIA surveyed just under 20 South African firms currently operating in Botswana. The focus group comprised a representative segment of South African corporate and parastatal involvement in Botswana, and covered all sectors (construction, retail, property, services, mining, franchising and industry). The one-on-one interviews with businesses in Botswana were supplemented by follow-up meetings at some of the head offices of those companies in South Africa. In addition, interviews were conducted with a range of representatives of government and of private sector institutions that are directly involved in this area.

Surprisingly, the Botswana environment is characterised by a paucity of data on foreign investment which makes it difficult to draw conclusions and make comparisons over time. The data provided by the Botswana Department of Industrial Affairs and the Bank of Botswana (BOB) assisted the authors to overcome some of these problems. The study was also informed by research conducted by the Botswana Institute for Development Policy Analysis (BIDPA), the UN Economic Commission of Africa (UNECA), the UN Conference on Trade and Development (UNCTAD), the International Monetary Fund (IMF), the World Trade Organisation (WTO), the Ministry of Finance and Development Planning and the BOB.

The purpose of the study was to identify some of the pitfalls associated with doing business in a country such as Botswana, while also giving credit to some of the success stories. The study was also informed by Botswana's being a member of the Southern African Customs Union (SACU), as is South Africa.

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Executive Summary

Botswana has traditionally been a strong economic partner of South Africa. The foundation for this relationship dates back to the establishment of the Southern African Customs Union (SACU) in 1910. As former British colonies, both South Africa and Botswana share many institutional, political, economic and cultural traditions. As a result, South Africans generally find the operating environment both familiar and reassuring.

The country's spectacular growth over the last three decades has its origin in the prudent management of its rich diamond resources. The South African-based diamond giant, De Beers, has been the most significant investor since 1968 in this sector through its joint partnership with the Botswana government in the holding company, Debswana. However, South African investment in other sectors has increased substantially since 1994, with the dismantling of apartheid and the growing outward expansion of South African business activity into the rest of Africa.

Some of the main findings of this study are as follows:

- Most South African investors view the Botswana business environment as **stable, fairly free of corruption and investor-friendly**. Many South African companies have a long-standing presence in the country that predates 1994. However, investment has increased in every sector in Botswana since the 1990s, including property development, banking and mining, although franchising and retail seem to be the most dominant. Although the latter is the most visible, it is not perceived in Botswana as adding substantial value to the economy.
- Botswana's membership of **SACU holds clear advantages for South African investors**, and has strongly supported the

growth of the South African retail sector in Botswana. However, the study found that the Botswana government has mixed feelings about the benefits of SACU to its economy — especially in its earlier form, prior to the adoption of the re-negotiated customs agreement in 2002. SACU has been accused of undermining Botswana's manufacturing base and drawing foreign investment away from that country. The close economic inter-linkages between the two countries also imply that South African economic policy decisions often have unintended consequences for Botswana.

- Apart from mining, Botswana's **other sectors such as manufacturing, tourism and offshore financing are all contingent on the health of the South African economy** and its trade relations with regional neighbours, in particular Zimbabwe.
- Many South African businesses that were interviewed regarded Botswana as a **springboard into the rest of Africa** for their operations. Botswana's good infrastructure was cited as a positive factor in this assessment.
- Most South African companies considered the Botswana government's strong local employment policy as a positive and understandable factor. However, they mentioned as drawbacks some of the difficulties that they had experienced in acquiring work permits for foreign employees where necessary skills were not available in Botswana. Ironically, the **small population of Botswana is a factor that inhibits the expansion potential of the economy**. Indeed the reluctance of the Botswana government to embrace the employment of non-Batswana raises the question whether the country will be able to sustain its current high growth levels. There are also increasing numbers of alarming

xenophobic incidents in Botswana which are related to the spillover of economic refugees from Zimbabwe.

- Many Botswana and South Africans commented that although **consultation is one of the founding principles that ensures Botswana's political stability**, in reality this often translates into vacillation and a lack of decisive and quick action. This is reinforced by the dominance of the political space in Botswana by the Botswana Democratic Party (BDP) since independence. Although the uninterrupted rule of one party has also led to the development of a strong and vigorous opposition within the party itself, concerns were raised during the course of the survey that one-party dominance could have a negative impact on policy-making in the longer term.
- Related to the above, **a substantial proportion of society rely on the largesse of the Botswana government**. The country's social welfare policies, especially with regard to free education and subsidised housing, are becoming increasingly unsustainable. In recent years, the country has also experienced 'qualified' unemployment. Efforts to develop entrepreneurs through various assistance policies have been highly controversial, although the government's intentions are sound.
- **A key challenge for government policy is the diversification of the economy**. The Botswana government faces many obstacles in this regard. A number of these are external, and therefore difficult to manage at a domestic level. This study highlights some of the problems that the government has to overcome.
- However, **Botswana deserves credit for the development of an integrated, long-term vision for its society and its economy**. The government has not shirked its task of

identifying the many problems and challenges facing its society in a transparent and open manner and has flagged the diversification of its economy as a key objective.

- As in the case in other countries in the SADC region, the **dominance of South African business in Botswana** (especially in the highly visible sectors) **is very apparent**. Some companies that have been in the country since the 1960s are now considered Botswana businesses; however, many of the newcomers are strongly associated with South Africa. Careful management of local sensitivities, combined with good corporate practice, is required to ensure the positive reception of South African investors in Botswana, as it is in the other countries on the continent in which South Africa has business interests.