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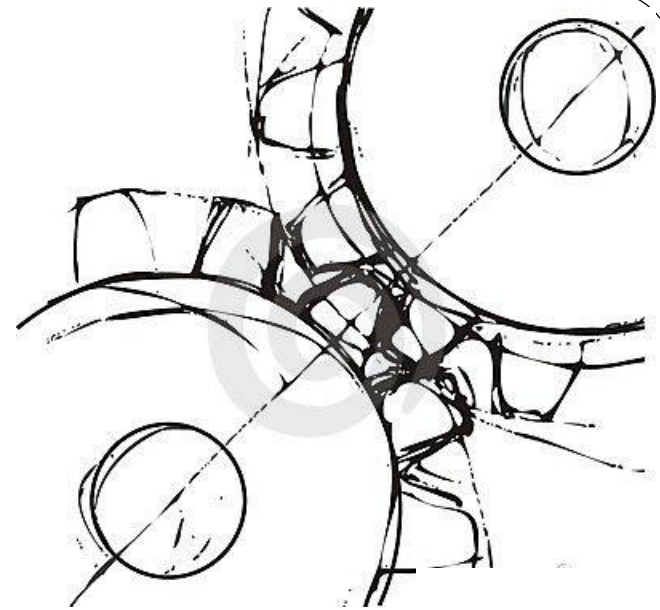
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Growing Manufacturing: *Assessing Botswana's Diversification Efforts Through Manufacturing Sector Growth*

Outline

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- ❖ Research Motivation
- ❖ Botswana's Diversification Efforts
- ❖ Challenges Faced by Manufacturing Firms
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Introduction

❖ Importance of Manufacturing

- Manufacturing success has been the path for economic growth for developed nations:
 - England, US, Germany, Japan, and more recently, newly industrialized nations like Singapore, Korea, Taiwan and China
- Manufacturing is a key driver of rapid long-term sustainable economic growth:
 - It adds value
 - It creates more jobs than any other sector
 - It drives innovation throughout every segment of the society
 - It delivers consumer solutions
- A vibrant manufacturing sector therefore plays an important role in maintaining a globally competitive innovative economy.

Research Motivation

❖ Manufacturing in Botswana

- The government of Botswana has formulated a number of national policies and strategies to promote the growth and development of the economy.
- One key national policy is [Vision 2016](#).
- To implement the Vision 2016 Strategy, the government is encouraging and supporting setting up of new enterprises in different sectors of the economy by different stakeholders.
- For much of the past two decades, the emphasis on diversification has been on developing the manufacturing sector.
- Diversification efforts in manufacturing have not been generally successful – the sector has largely remained stagnant.

Research Motivation

❖ Manufacturing in Botswana

Performance of Manufacturing Sector contribution to total GDP in Botswana (Siphambe 2007) :

1966: **5.6%**

1975-76: **8.2%**

1990-91: **5.0%**

2005-06: **3.4%**



Composition of GDP by sector for period 1966 - 2006 (IMF World Economic Outlook database)

Botswana GDP by sector (%)

	2008	2012
Agriculture, hunting, forestry, fishing	2.8	2.9
of which fishing		
Mining	29.2	21.9
of which oil		
Manufacturing	6.3	6.4
Electricity, gas and water	1.0	-0.5
Construction	5.5	7.4
Wholesale and retail trade, hotels and restaurants	14.8	16.6
of which hotels and restaurants		
Transport, storage and communication	4.9	6.2
Finance, real estate and business services	13.8	15.9
Public administration, education, health and social work, community, social and personal services	16.1	16.4
Other services	5.7	6.8
Gross domestic product at basic prices / factor cost	100	100

Source: Data from domestic authorities.

Research Motivation

- By promoting diversification into manufacturing and other sectors, the government hopes to promote sustainable development of the economy:
 - With the different economic sectors playing an important role.
- Despite government efforts in promoting the manufacturing sector, it remains in an ‘infancy stage’, contributing significantly less to the economy, compared to other sectors.
- This study therefore aims to:
 - Review government efforts in diversification of the economy through growing the manufacturing sector.
 - Identify challenges faced by manufacturers in starting and in growing their firms.
 - Draw some lessons for Botswana from the success story of other countries.

Diversification Efforts

- **Vision 2016**

- Introduced in August 1996.
- Aims to achieve sustainable economic growth – *to triple the 1996 real GDP per capita by 2016.*
- Initially more emphasis in manufacturing, but now *diversification efforts have broadened: Business and Financial Services, Tourism and diversification within the Mining Sector.*
- Recent growth in economic activity is still based around Mining.
- *Strategy unlikely to be achieved* – (2013 budget speech, mid-term review of NDP 10).

- **Economic Diversification Drive (EDD)**

- Aims to achieve diversification through product and market diversification in addition to *"the primary sector, services sector and the manufacturing sector.*
- EDD developed strategies for the **leather, dairy, textile and clothing industries** during the 2012/2013 financial year – (*Republic of Botswana 2014 Budget Speech*).

Diversification Efforts

- **National Development Plan 10**
 - Aims to create business opportunities for the private sector.
 - *NDP 10 has identified Tourism, International Financial Services, Energy, Agriculture and Manufacturing as the main potential sectors for diversification* – (2009-2013 country strategy paper: Botswana, 2009).
- **The Financial Assistance Policy (FAP)**
 - Started in 1982.
 - Consisted of a capital grant to assist in the start up or expansion of Manufacturing, Agriculture and Tourism projects – (Sekwati 2010).
 - Focused on more socio-economic issues which included female business starters being "*eligible to claim a 15% subsidy of the total investment*" and "*FAP favouring rural areas over urban areas*" – (Owusu & Samatar , 1997).
 - Recommendations from its fourth evaluation report led to the cessation of the FAP programme as it highlighted issues "*of abuse, overinvestment in rarely used machinery and poor monitoring*" (Owusu & Samatar 1997).
 - Replaced by the Citizen Entrepreneurial Development Agency in 2001.

Diversification Efforts

The Botswana Development Corporation (BDC)

- **2008:** - BDC invested P309 million into the start up of the Glass manufacturing project in Palapye.
- **2009:** - BDC invested P183 million in various manufacturing projects alone.
 - P75 million was invested into the can manufacturing project.
 - P500 million was invested into various projects including a footwear manufacturing project.

BDC Challenges:

- Failure of high investment manufacturing projects:
 - Lobatse Tile: An investment of P170 million was liquidated.
 - Golden Fruit: Initially set up through the BDC but faced financial problems which required for it to be bailed out by P24 million.
 - Fengyue Glass Manufacturing: BDC has invested approx. a Billion Pula into the project which was later liquidated before it started operation.
 - Motor Company of Botswana (Hyundai): BDC invested P85.6 million and the project operated for only seven years (1993 – 2000) before being liquidated.

Diversification Efforts

- **Botswana Export Development and Investment Authority (BEDIA)**
 - Established in 1997
 - Core mandate is to promote the establishment of manufacturing businesses in Botswana
 - Main objectives to identify markets outside the country for locally produced goods.
 - Assists external investors in setting up business in the country with minimal hassle from all bureaucratic procedures.
- **Citizen Entrepreneurial Development Agency (CEDA)**
 - started in 2001 to provide citizen owned businesses with loans at subsidized interest rates.
- **Local Enterprise Authority (LEA)**
 - Established in 2004
 - An initiative of the SMME policy aimed at promoting entrepreneurship within small scale businesses.
 - Provides training, mentorship and incubation to small enterprises

Challenges Faced by Manufacturing Firms

- Poor work ethic of the labour workforce
 - Poor labour productivity
 - Lack of creativity and innovation
 - As a result, the sector is uncompetitive
- Poor access to finance
 - High cost of borrowing (prime rate 15 – 17%)
 - Inhibits firm creation, growth and development
- Lack of skilled labour which affects:
 - Development of new goods
 - Development of new markets for products
 - Development new advanced production processes
- Small market size
 - Companies need to be globally focussed to justify investment
 - Botswana's proximity to South Africa, which is more competitive and has a larger market size.

Challenges Faced by Manufacturing Firms

- Poor enterprise and entrepreneurship promotion
 - Poor entrepreneurial skills (*Inhibits creation of new firms and growth existing firms*)
 - Lack of business start-up training
 - Poor dissemination of information on government assistance programmes
- Excessive government laws and regulations resulting in a hostile business environment
 - Affects business through cost of compliance
 - Inhibits formation, registration & growth of new firms
 - 61 days to set up a company in Botswana
 - 3 days to set up a company in Mauritius
 - Sub-Saharan Africa average – 45.6 days
 - Encourages informal practices and corruption
- Capacity constraints in terms of infrastructure
 - E.g. Access to a reliable supply of electricity and water

Strategies for Growing Manufacturing

- Introduce a globally competitive regulatory framework and improve performance of government bureaucratic processes
 - Remove administrative and regulatory barriers to new firm entry and growth
 - Speed up business set up process,
 - Remove resource and cost burdens associated with compliance
 - Reduce regulatory burden faced by Manufacturing SMEs by developing differentiated tax policies for relatively new firms (e.g. tax holidays for start-ups)
- Provide access to cheap financing to new firms and manufacturing SMEs
- Find better ways to efficiently use production factors such as natural resources, labour, physical and human capital
 - Promote adoption of workplace productivity improvement strategies like Lean Manufacturing.
 - Productivity gains in a firm = increased business profitability
 - Increased profitability facilitates business expansion and investment in R&D and new advanced technology
 - The main force for high, long-term economic growth rate is productivity gains in existing firms

Strategies for Growing Manufacturing

- Develop science, technology and innovation policy which promote advance manufacturing
 - Development of globally competitive innovative products
 - Development of advanced manufacturing processes
 - Adopt innovation through imitation to facilitate learning by implementation – manufacture products designed elsewhere – facilitates technology transfer
- Promote innovative / technological entrepreneurship
 - Increase the frequency of creation of high growth firms (resources, financing, networking, etc)
 - Increase innovation and R&D in manufacturing SMES (networking, universities, etc.)
- Adopt education and workforce policy that develops superior talent
 - Ability to develop and attract the world's most talented workers - Key to creativity and innovation
- Stronger collaboration between manufacturers and universities

Conclusions & Recommendations

- For the past two decades, Botswana has been on a drive to promote manufacturing sector growth
 - Growth of sector largely remained stagnant.
- Challenges faced by the sector includes:
 - Capacity constraints in terms finances, human capital, infrastructure which inhibits creativity and innovation
 - Poor workplace productivity which results in high cost of production
 - An uncompetitive regulatory framework resulting in a hostile business environment.

Conclusions & Recommendations

- Recommended strategies to grow the manufacturing sector includes:
 - Development of appropriate industrial policies:
 - To promote creation of high-growth manufacturing start-ups.
 - To remove administrative and regulatory barriers to new firm entry and growth
 - To promote adoption of workplace productivity improvement strategies to increase profitability and growth
 - To promote creativity and innovation.
 - To facilitate firm development and attraction of the world's most talented workers
 - To facilitate stronger collaboration between manufacturers and innovation ecosystem (universities, etc)