

Assessment of Botswana's Services Sector

A Study for the BTPP/BIDPA*

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* The views presented in this paper are those of the authors and do not necessarily represent the views of the BTPP/BIDPA

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Executive summary

The role of the services sector in Botswana's diversification

Botswana has experienced one of the most impressive growth rates in the world over the last four decades and the highest rate of per-capita growth in the world between 1965 and 1998. The average growth rate since the 1980s has been 7.8%. Yet, the strategy of economic diversification during the eighties and nineties has had limited success, with a small reduction in the share of mining, and an increase in the share of services to the economy. The share of services rose from 37% in 1990 to over 50% of GDP in the second half of the nineties and it has not increased since then. Mining contributed a staggering 40% of the growth between 1965 and 1998.

The importance and potential of the services sector is underlined by its significant contribution to employment (61% of total employment and 75% of female employment). The largest private and parastatal employers include construction and commerce, which are also among the most labour intensive services in the economy. The contribution of commerce in total employment has been steadily growing in the last few years.

The country has become a net exporter of services for the first time in 2003. This is noticeable for a landlocked country, which tends to be a big net importer of transport services. Overall trade in services has grown substantially in the last few years, including ICT, financial services and government services. The services export capacity of Botswana is most in tourism, contributing 5% of GDP.

The share of the service sectors in inward FDI increased, while that of mining is decreasing, although it is still the largest recipient. This reallocation of FDI is in part due to the increasing inflows especially in finance, and to a lesser extent hospitality (linked to the tourism industry). The role of retail and wholesale sector in attracting FDI is also important, while transport and communications and utilities have increased their weight marginally (and may increase with possible privatisations). Overall services captured 36% of the total FDI stock in 2004 and 90% of non-mining foreign investments.

Thus, recent indicators (in as far as they can be properly measured) point to an increasing importance of the role played by the services sector in Botswana's economic development and diversification in the growth process. However, this is only the beginning for a sector which should have a bright future given the factor endowments if the relevant policy and regulatory frameworks are put in place. We suggest it is important to monitor and measure the importance of trade in services.

A coherent framework to developing trade in services

Developing trade in services is a complicated process. Botswana currently lacks an explicit trade in services policy or a detailed, holistic plan to develop trade in services. There are important strategy documents, such as the Vision 2016 which considers individual service sectors, or the recently discussed national trade policy which also selects some sectors for special treatment. However, developing trade in services, a catalyst to promote economic diversification away from traditional sectors, involves a fundamental shift in the mindset throughout the whole economy involving different types of actions.

The constraints to trade in services are complex and go beyond trade constraints. A very policy relevant approach is to distinguish amongst three sets of constraints. They include

- external constraints (e.g. international trade in services agreements),
- domestic regulatory and institutional framework and
- supply-side, or domestic capacity constraints.

This approach is particularly useful for several reasons. First it provides an analytical lens to developing trade in services – trying to make sense of the myriad of constraints to trade in services. Secondly, it delineates clear responsibilities for different actors in different sectors, ministries and other stakeholders. Having said this, lead co-ordination is required to ensure that the constraints identified are properly tackled. Finally, unlike in the case of trade in goods, domestic regulatory frameworks can be key. Thus, the approach points to what types of interventions are appropriate. In Botswana there are good examples that show this.

The effects of the banking and tourism sectors on Botswana's development is currently below potential. Recent tourism legislation aimed to address the effects that competition of foreigners had on domestic tourist enterprises. It used trade related domestic regulation, reserving certain sectors for nationals, to solve what in effect may have been a capacity problem. A problem often mentioned is that local tour guides lack access to credit in order to set up an own enterprise.

A lack of coherence in addressing capacity constraints are at the heart of the problem of why back office services essential for tourism and financial services in Botswana tend to be located in countries such as South Africa and Kenya. A boost for the back office services and hence the impact of services on the economy would be to develop the appropriate skills and IT infrastructure so that back office operations are facilitated. This needs to be a positive boost and not be a move toward a forced location policy. In other areas, trade constraints need to be addressed. For instance, regional financial regulation and improved access for its nationals abroad would help Botswana's exporters of services.

Trade in services and development, screening and scoping service sectors.

Botswana's service sectors are very diverse. They range from small sectors with a negligible contribution to employment (e.g. environmental and recreational, cultural and sporting services) to large sectors with high contribution to employment and GDP (e.g. construction) and substantial exports (e.g. tourism).

One way to prioritise service sectors is to take the GATS classification and score them along various criteria. These criteria capture the actual and potential contribution of these sectors to the country's exports, growth, employment and poverty reduction. The sectors are also classified according to the extent to which policy measures may be effective in lifting the constraints that hinder their development. Data on services trade is not always precise and Botswana would need to improve its system of recording in order to effectively track the progress of the different sectors.

Most sectors have a small export capacity, and they appear to be fairly uncompetitive especially relative to South Africa (i.e. the largest exporter of services in the region). Tourism, transport and to some extent financial services are the only sectors with significant capacity to export. Botswana appears to be a fairly large net importer of educational services (especially from South Africa) due to its lack of domestic capacity.

In contrast, services do constitute a fundamental part of Botswana's economy, with certain sectors representing a significant share of domestic GDP (i.e. construction, distribution, financial services and tourism). Other sectors are crucial through their *indirect* contribution to GDP, as they provide backbone services for the rest of the economy (e.g. education, health, transport, communication, business services).

Some sectors are crucial for development. Distributional service is the single most important sector for employment after the government. Construction is as important for employment as the entire manufacturing sector. Financial services and tourism have also a large share. As many of these sectors employ relatively unskilled labour, their contribution to development is enhanced further.

While all sectors have important constraints that could be addressed by policy measures, some appear to be able to particularly benefit from these measures in terms of strengthening their capacity to trade, such as financial services, education, tourism and business services. Also air services are amenable to strict regulations.

After a detailed analysis and considering the available studies and the presence of possible role models for the sectors, there seem three important services sectors for further analysis: financial services, tourism and educational services. Tourism is the service sector with the highest current exports (and also important for employment and GDP); finance has a high potential for exports and education could be the ideal sector for an import substitution strategy.

We have also identified other sectors which are important according to these criteria and which could be examined in the future. Table E1 summarises some of the constraints that could be analysed further in each of the sector (grouped according to the three types of constraints).

Table ES1 Some constraints to be addressed in other relevant services sectors

	Transport	Communication	Construction
External	<p>Need to or strengthen regional cooperation in transport issues (including harmonization and simplification of border operations and development of infrastructure network).</p> <p>Need to coordinate efforts at the regional level if Botswana were to develop an air cargo hub.</p>	<p>Need for a greater understanding of the potential role for GATS commitments in accompanying the process of liberalization, e.g. by carefully evaluating the requests made to Botswana in telecommunications by other countries.</p>	<p>Formal trade constraints do not appear important; streamlining of requirements to participate in public tender processes in South Africa may be beneficial to potential export activities.</p> <p>There have been requests by other countries in construction.</p>
Domestic regulatory	<p>Need to assess the potential impact of the current limited liberalization of air transport regulation (both BASA and domestic regulation) and the potential impact of Air Botswana's privatisation on the air transport industry.</p>	<p>Need to assess whether current regulation on electronic data exchange and on internet protocols is coherent with the desire to develop a BPO hub.</p> <p>Need to evaluate the potential effects of the current phase of liberalization in the sector (TLC, VOIP) and what this means for external trade in services negotiations.</p>	<p>Potential for improving government procurement operations, which currently seem to constrain the orderly development of the domestic sector</p>
Supply capacity	<p>Need to address the potential for skills shortages (e.g. bus drivers).</p>	<p>Need to assess the viability and importance of optic fibre cable initiatives in enhancing the quality and accessibility of telecommunication services.</p>	<p>Need to increase the availability of skilled labour (esp. construction engineers and quantity surveyors)</p>

Services in international trade negotiations

Botswana is member of WTO and GATS, and of a series of regional agreements, including the Southern Africa Customs Union (SACU) Southern African Development Community (SADC) and the African Union/African Economic Community, in which all the other SACU countries also participate. SADC protocols are drafted in three areas related to trade in services

- trade in services,
- finance and investment and
- migration.

Negotiations with the EU and US are also ongoing and these could also include services provisions. EPAs with the EU have the possibility of including services, with special and differential support measures.

For Botswana, these negotiations offer threats and opportunities. Threats because open up some sectors to further service providers may lead to unwelcome effects if the regulatory framework is not in place (though Botswana already tends to be open and non-discriminatory. However, it can also offer opportunities for Botswana because it can signal openness and attract investment and service providers. Further opportunities relate to better market access abroad for Botswana's services suppliers.

How then can the threats be minimised and opportunities be realised?

Botswana needs to think about the following issues

- what are the interests at various negotiation levels (e.g. commitments in GATS if investment promotion is aim; SADC for sensitive service sectors; connection to aid in EPAs)
- what are the key sectors of interest (defensive and offensive, e.g. tourism, financial and transport services)
- what are the key modes of interest (e.g., supply services through online transactions, through consumption abroad or through temporary migration or foreign direct investment)
- what is the most appropriate negotiating strategy (e.g. should it make commitments in services to get something back in services in other countries, or in agriculture, or because unilateral is good for the economy?)

The key issue is not whether Botswana needs to be engaged but how. It is only through active involvement in such negotiations that Botswana can signal openness to FDI in banking and other sectors, can get better access for financial services and Botswana's service workers in key countries, or can improve access to aid instruments to enhance the services supply capacity.

Crucial questions now need to be raised on how to engage in services negotiations and the complementary policies.

Trade in financial services: GATS, EPAs and complementary policies

Botswana has not listed the financial services sector in GATS (General Agreement of Trade in Services), despite the existence of non-discriminatory legislation and an already important presence of foreign banks. Banks in Botswana are amongst the most profitable in the world with a 40% average return on assets. Some large banks have a profit ratio of 100%. If profits are supra-normal more competition may well be needed and commitments in both GATS and possibly EPAs (Economic Partnership Agreements with the EU) help to signal this. It is also possible that high profits are a reflection of limited competitive pressures due to the relatively high entry costs in small markets, as banks emphasise. Policy should then focus on lowering the fixed costs of entry. Extending GATS commitments to financial services would need to coincide with a good regulatory framework. And this differs between insurance and banking.

The supervision in the banking sector is relatively advanced. As in most other countries, the supervision of banking is in the hands of the central bank (not a ministry). And while it may not be carrying out extensive checks, there are existing checks on banks. A revised banking act has brought banking legislation in line with changes in the global industry's norms for regulation, supervision and payments. Botswana seems ready for further GATS commitments in banking services to signal a move towards more competition.

The supervision of the pension and insurance industry is less well advanced and is inside the Ministry of Finance and Development Planning. The latter has been devising a Non-Bank Financial Institutions Regulatory Authority (NBFIRA) framework. Because some changes still have to take place it seems better to wait until the new authority is working before Botswana can make any commitments in GATS negotiations on the non-banking financial services sector.

A different but real constraint to trade in financial services is the weak conditions for back-office operations. Two main types of complementary policies are required: developing skills and developing an appropriate IT infrastructure. Without these, even a favourable incentive framework cannot keep companies in Botswana. The relatively poor quality of general IT infrastructure including poor data exchange processes is believed to have been a major cause of Barclays' decision to relocate part of its back office operations away from Botswana (via IFSC). Barclays were not able to get the right calibre of staff on an ongoing basis and the IT infrastructure did not match the requirements of the company. Thus small standalone units without appropriate support services may not work. The skills and IT framework needs to be fully up to scratch to international standards. Other banks also listed the lack of skilled labour as one of their primary concerns. The Standard Chartered back office services for Africa are located in Kenya. Hence, while trade commitments should be considered it should go hand in hand with complementary policies.

Promoting trade in education services: dampen ambitions, but step changes are needed

It is unlikely that Botswana will become a global education hub in the near future. However, it can try to improve the balance on trade in education services and regard the provision of education services as an import substitution strategy. It can also attempt to improve the relevance of its education sector to the development of other service sectors such as financial or tourism services. It can also move quickly to build up education expertise in niche areas such as nurse education, and use successful examples from the accountancy sector.

Botswana aims to build an innovative economy for the 21st century. Tertiary education plays a vital role in this by ensuring an adequate set of skills for the economy's needs. Trade in education services plays a unique role in Botswana: exports of services are low, but imports of subsidised education services are very high.

There has been little strategic direction towards the tertiary education sector. A recent document brings this out. *Towards a Knowledge Society: A Proposal for a Tertiary Education Policy for Botswana* (TEC, October 2006) suggested that the tertiary education system is fragmented with no clear oversight, has many small institutions failing to reap economies of scale, faces a proliferation of private institutions offering poor quality programmes at high costs, and with concerns about the relevance and quality of tertiary education programmes.

Botswana will not be able to fully withstand competition from countries such as South Africa. However, Botswana could aspire to become a regional hub for education in a limited number of subjects, and obvious candidates include education and training related to nursing, HIV/AIDS research, financial services, tourism and wetlands. It will also need to be open to foreign tertiary education institutes either through subsidiaries or in the form of partnerships with well-known business schools and universities and their staff, e.g. by using EPA agreements with the EU. Dubai, Singapore and now Mauritius have been reforming their tertiary education sector to become more open, attracting foreign business schools and foreign students.

Becoming an education services hub does not happen overnight when the economic fundamentals are lacking (although when economic fundamentals are right a few changes in the law and mode of attracting foreign schools can make a big difference, as in Singapore and Dubai). But filling a skills gap as part of an import substitution strategy is not impossible either. For instance, the Botswana Accountancy College (BAC), a private sector college subsidised by the Government of Botswana and Debswana, was founded in 1996 when the country had only four registered Botswana accountants. Now, there are 400. All of the qualifications that BAC provides are internationally recognised. This example shows that a public-private partnership can build up a tertiary education college from scratch and fill an important skills gap

The new tourism regulations

The new tourism regulations, 2006, state that the following tourist enterprises are reserved for citizens of Botswana or companies which are wholly owned by citizens of Botswana: Camping sites including caravan sites, Guest houses, Mekoro operations, Mobile safaris, Motorboat safaris and Transportation. Does this regulation counter past commitments by Botswana?

In fact, Botswana has already made commitments in 1995 in modes 1–3 including in the following sub-sectors:

9a Hotels&Restaurants (UN classification CPC641–643) and 9b Travel agencies and tour operators. CPC641–643 include services such as camping and caravanning, which would be reserved for nationals under the new regulations. GATS tourism sector 9b could include CPC 7471 travel agency and tour operator services. Thus, some operations in the new regulations might be included in CPCs for which Botswana has already made commitments. On this account the new regulations go against existing GATS commitments unless the newly reserved operations were classified as:

- tourist guide services (for which there are currently no commitments in GATS)
- mode 4 supply of services (it could have classified this as a mode 4 market access limitation, which is “unbound except as indicated in the horizontal commitments”.)

There are three options for the future.

1) Rewrite tourism regulations

Restricting services companies to citizens is not conducive to a vibrant services sector and would go against Botswana’s policy to diversify. It would be more efficient to promote domestic capabilities first, and then use immigration procedures rather than blunt restrictions on enterprises. A particular concern is the lack of access to credit for independent (indigenous) tour operators to set up their own business. The new regulations could limit the ability of foreign owned tourist enterprises to operate even if they brought new skills, marketing methods, finance, attracted new tourists and employed citizens. The impact of the new regulations have so far been limited as the number of nationally-owned tourism enterprises increased by 11% to only 247 last year.

2) Adequate interpretation of law

Another option for Botswana would be to clarify the new tourism legislation. It might be possible to regard the classified operations by non-citizens tourist enterprises as *self-employed* or *independent professionals* under mode 4, as in mode 4 schedules of other countries.

3) Revoke GATS commitments

Pursuant to GATS article XXI, a country wishing to reverse or add a further limitation can do so after a period of 3 years of the commitment being in place – (this includes tourism commitments as well). Further, it needs to negotiate compensation with all affected parties. This might be against the development of the sector.

Detailed suggestions

The report includes the following detailed suggestions

Tourism services

- Development of an explicit tourism plan that can be used by the stakeholders as a context for other activities.
- Use investment promotion and trade negotiations of *other* services to improve the provision of support services
- Obtain more effective regulation of work permits
- Maintain existing land leasing policy
- Provide appropriate and good quality skills
- Increase tourism marketing (for secondary sites) including in Southern Africa
- Improve air access

Financial services

- Improve discussions at the SADC level on integration of financial services
- Strengthen the network of double taxation agreements
- Monitor work permit issues in the financial services sector
- Improving the links between formal training to professional experience and enhancing education programmes tailored to the specific needs of the sector
- Improved connection to more and higher quality fibre optic cables in order to provide an environment conducive for back office services. Consider GATS commitments to facilitate investment in the ICT sector
- Consider taking GATS commitments in financial services sub-sectors, but need to assess appropriateness of current regulatory capacities, particularly for insurance services.

Education services

- Reduce reliance on imports of education services by speeding up plans for the Botswana International University of Science and Technology and the by expanding the capacity of the University of Botswana.
- Open up to foreign tertiary education institutes either through subsidiaries or in the form of partnerships with well-known business schools and universities, e.g. using agreements with the EU.
- Negotiate recognition agreements for Botswana's tertiary education institutes at the level of SADC.

Transportation services

- Botswana’s restrictive policies keep air access very expensive compared to other regional routes.
- While there may be negative consequences for the 320 employees of Air Botswana if it has to face more competition, and while there may also be some short term uncertainty in case Air Botswana failed to secure certain routes in the face of competition, a *gradual* move to liberalisation coupled with upgrading and if appropriate privatisation of the national carrier seems a suitable way forward.
- It is important to promote the idea of an air access unit, with inputs from the Ministries responsible for Trade and Tourism, in order to steer and analyse the restructuring process.

Table ES2 zooms in on the implications for Botswana’s position on trade in services negotiations

Table ES2 Botswana – issues of interest for international trade negotiations

	Tourism	Financial	Education (tert)
GATS	Sector is already open, and committed with success. New regulations may seem at odds with the spirit of GATS commitments	Botswana could consider GATS commitments in banking services, but may need a more phased approach in insurance.	Too soon to make GATS commitments, but review legislation and education strategy to promote private and foreign tertiary education institutes in key areas alongside plans for new public Tertiary education institutes.
EPA	Ask for Mode 4 access. Supply capacity measures in the area of tourism development programmes (EDF)	Commit banking services to the EU, would signal competition.	Partnerships with universities (cf Mauritius, Caribbean), student exchanges
SADC	Air transport access (towards more open skies agreements) Coordinated tourism promotion efforts.	Develop regional markets for financial products.	Mutual recognition of qualifications amongst countries, beginning at SADC level

1 Introduction

This report provides an assessment of Botswana's services sector with the aim to identify possible options, in particular in the case of ongoing regional and multilateral services trade negotiations, to support further exports of services from Botswana. Botswana has experienced one of the most impressive growth rates in the world over the last few decades, but this has been dependent on a few sectors, mining in particular. There have been long standing challenges to diversify the economy into new areas, including tourism, international financial services or professional services.

This study examines the services sector in Botswana generally by identifying key constraints to diversifying into and stimulate further trade in services, distinguishing between supply side, regulatory and external (e.g. regional) constraints. The key activities in this project have included an extensive inception phase, with seminars and discussions with stakeholders relating to possible roles that international negotiations in the area of trade in services can play to stimulate Botswana's trade in services and the role trade in services play in development, and which led information required to select sectors for further examination.

The approach we have taken in this study has been in consultation with BIDPA/BTTP, the Ministry of Trade and Industry, and others stakeholders and consisted so far of two phases: 1) Screening and scoping, where key sectors were selected; and 2) Analysis of key (trade-related) constraints in key sectors.

This report has the following structure. Section 2 reviews data on trade in services in Botswana, and section 3 provides an overview of measures affecting trade in services in Botswana. Section 4 screens and scopes in sectors for further analysis, and these are analysed in more detail in Section 5-7. Section 8 concludes with possible implications for Botswana's position on trade in services negotiations. A policy summary precedes this introduction

2 Overview of trade in services in Botswana

Botswana has experienced one of the most impressive growth rates in the world over the last four decades and the highest rate of per-capita growth in the world between 1965 and 1998.¹ The average growth rate since the 1980s has been 7.8%, about 40% of which can be explained by mining, which represents a significant share of the national economy (Table 1, where mining is included in industry).

The strategy of economic diversification during the eighties and nineties had limited success, with a reduction in the contribution of mining, and an increase in the contribution of services to the economy. The share of services increased from 37% in 1990² to over 50% of GDP in the second half of the nineties. However in the last few years it has averaged slightly below 50% of GDP (Table 1), with a lower share of most services, including the largest private ones (financial services, trade, construction and transport). While the share of the services sectors has fallen, the level of real activity has increased for virtually all services sectors, but the level of mining activity has increased even faster.

Table 1 Botswana GDP composition (% of value added – in 1993–94 constant prices)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Agriculture	4.1	3.6	3.3	2.8	2.4	2.4	2.3	2.2	2.2	2.1
Mining	33.9	33.9	38.1	37.7	39.6	42.5	40.4	40.8	39.6	43.2
Manufacturing	4.8	4.7	4.3	4.2	4.1	3.7	3.7	3.5	3.4	3
Services	52.8	53.6	50.3	50.8	49.8	47.8	50.5	49.5	50.4	46.7
Water and electricity	2.1	2.1	2	2.1	2.2	2.1	2.2	2.2	2.3	2.1
Construction	6.2	6.2	5.7	5.9	5.6	5.2	5.4	5	4.9	4.5
Trade, hotels and restaurants	9.9	10.7	9.8	9.6	9.5	9.3	9.9	9.8	10.6	9.1
Trade excl. H&R	8.3	9.2	8.3	8.4	8.3	8.1	8.7	8.3	9	7.7
Hotels & Rest.	1.6	1.5	1.4	1.2	1.2	1.2	1.3	1.5	1.6	1.4
Transport, post & TLC	3.6	3.6	3.4	3.7	3.6	3.3	3.4	3.1	2.9	2.8
Road transport	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.7	0.8
Air Transport	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Post & TLC	1.4	1.3	1.3	1.5	1.5	1.4	1.4	1.3	1.2	1.2
Banks, insurance & Business services	11.2	10.8	10.3	10.5	10.2	9.8	10.4	9.7	9.6	9.2
Banks & insurance	3.8	4.2	4.7	4.5	4.5	4.3	4.7	4.7	4.7	4.5
Real estate & business services	5.2	4.5	3.7	4.2	3.9	3.9	4	3.5	3.4	3.4
General government	15.4	15.8	15.1	15	14.8	14.5	15.4	16.1	16.4	15.6
Social and personal services	4.4	4.4	4	4	3.9	3.6	3.8	3.6	3.7	3.4
Non-Profit Institutions serving HH	2.1	2.2	1.9	1.9	1.9	1.8	1.9	1.8	2.1	2.3
Adjustment Items	4.3	4.2	4.1	4.4	4.1	3.4	3.1	4.1	4.6	4.8
Total value added	100	100	100	100	100	100	100	100	100	100

Note: Years run from July to June

Source: Bank of Botswana (2005)

¹ An academic account of the crucial role that institutions, historical factors and good policy choices have played in explaining this performance is given in instance Acemoglu et al. (2001).

² Source: WDI

The importance of the services sector is also underlined by its significant contribution to employment (61% of total employment and 75% of female employment was absorbed by the services sectors in 2001 – World Bank, 2006). If we take only private and parastatal employees, the largest employers include construction and commerce, which are also among the most labour intensive services in the economy. The contribution of commerce in total employment has been steadily growing in the last few years, while the other sectors have maintained a more stable pattern (except for some increase in education, which may need further investigation – are there new private educational institutions or are the existing ones increasing their activities? At what level of the educational ladder?). The rise in services' contribution to total employment has coincided with a reduction of public sector employment (entirely driven by the fall of the contribution by central government).

Table 2 Botswana sectoral employment (% of total employment)

	1996	1997	1998	1999	2000	2001	2002	2003
Private and parastatal	57.8	57.8	59.5	60.2	60.1	61.6	60.6	61.1
Agriculture	1.7	1.7	2.1	2.1	2.2	2.3	2.1	2.2
Mining and quarrying	3.8	3.6	3.2	3.1	2.9	2.5	2.7	2.8
Manufacturing	10.4	9.6	10.9	10.8	11.2	11.1	10.6	10.6
Services	41.9	43.0	43.4	44.1	45.1	45.7	45.1	45.6
Electricity and water	1.1	1.1	1.1	1.4	1.1	1.0	1.1	1.0
Construction	8.6	10.4	10.7	10.8	10.2	10.5	10.3	10.4
Commerce	18.0	17.9	17.3	17.4	18.7	19.6	19.2	19.4
Transport & comm	3.7	3.5	3.8	3.9	3.8	3.6	3.6	3.6
Finance and business	6.9	6.5	6.7	6.6	7.2	6.7	6.5	6.7
Community /personal	1.6	1.6	1.6	1.7	1.6	1.9	1.9	2.0
Education	1.9	1.9	2.2	2.3	2.4	2.5	2.4	2.5
General government	42.2	42.2	40.5	39.8	39.9	38.4	39.4	38.9
Central government	34.3	34.4	33.0	32.7	32.0	30.3	31.1	30.7
Local government	7.8	7.8	7.4	7.2	7.9	8.1	8.3	8.1
Total	226,800	241,600	257,100	262,300	266,500	273,782	279,724	285,383

Source: *Central Statistical Office*

This study is particularly concerned with the performance of Botswana's trade in services. Trade negotiators tend to divide trade in services by the way services are supplied across borders. The General Agreement of Trade in Services (GATS) uses four different modes of supply of services: cross-border supply (Mode 1), services consumed abroad (2), services supplied via commercial presence abroad (3) and services supplied via temporary movements of labour (4). Box 1 provides examples of these modes in the case of Botswana.

Box 1. Examples of modes of supply of services in Botswana

Potentially all modes of supply of services across borders are relevant to Botswana. For example Mode 1 trade in services occurs when a professional service (e.g.: inbound call management services via a call centre) is provided by a Botswana firm to a foreign client on-line

Mode 2 supply could refer for instance to a foreign visitors consuming services in Botswana (e.g. meal in a restaurant, night in a hotel, guided tour to a park) during their stay in the country (this would be a services export for Botswana).

Mode 3 supply may be related to the sale of a financial service (e.g. insurance product) by a foreign financial services firm, which has created a direct branch in Botswana. In this case Botswana would be importing the service. As this transaction is carried out entirely in the importing country's territory, and as it is not different from a domestic transaction (the only difference is that the operating branch is foreign owned), such mode of trade is difficult to record and information on its potential value is scarce (usually contained in FATS statistics).

Finally, mode 4 is related to the temporary movement of Botswana nationals (e.g. doctors, nurses) abroad in order to supply a specialized service in a particular country (e.g. medical, nursing). In this case Botswana would be exporting services. As for mode 3, even mode 4 transactions are difficult to record, and some creative ways of estimating the value of this type of trade may be needed (e.g. by inferring it from the number and types of professionals migrated abroad, or remittances received from abroad).

2.1 Modes 1 and 2 supply of services

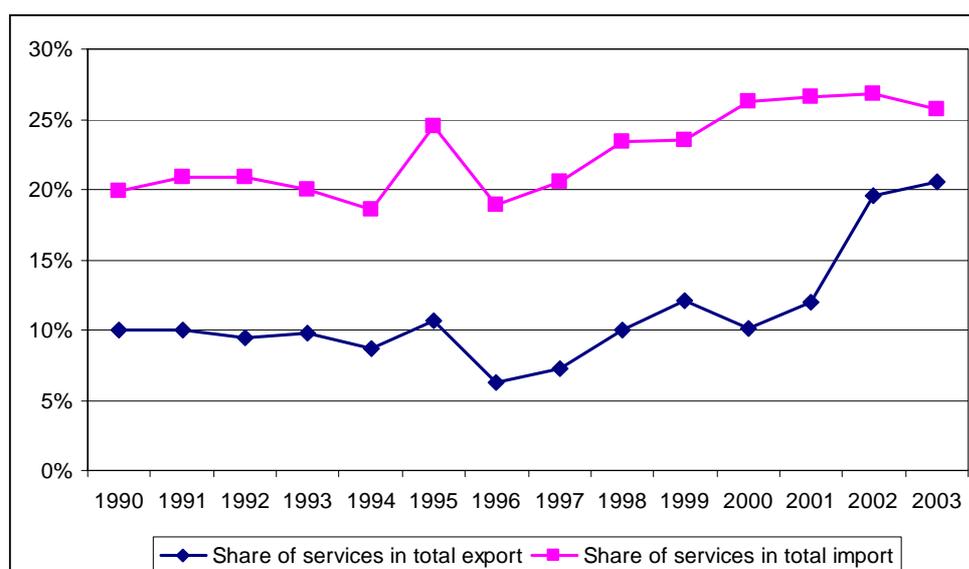
Most of the quantitative data readily available on services trade is related to Mode 1 and 2. Data by UNCTAD shows that the increase in services share in Botswana's economy has been accompanied by a rise in trade in services, which in 2003 represented 23% of total trade (this represented a marked increase from the 15% of the early 1990s) and 17% of GDP (World Bank, 2006). Pushed by exports (which trebled between 1990 and 2003), total trade in services peaked at US\$ 1.3 billion in 2003. The share of services in total export has been rapidly increasing since the second half of the nineties, from 6% to over 20% in 2003, representing a crucial way to diversify Botswana's production base.

This may actually not come as a surprise given the natural geography of the country: being a landlocked and scarcely populated country is more of a disadvantage for trade in manufacturing than for trade in services, because most manufacturing products require expensive transport costs and their costs of production are affected by the size of the market.

Table 3 shows the rising importance of trade in services using Bank of Botswana figures (see Box 2 for details on the data collection process). Botswana appears to be in the transition process from a net importer to a net exporter of services: while in 1996 exports were less than half of imports, in 2005 exports were more than imports.³

³ See below for a possible explanation of why this has been the case in 2005.

Chart 1 Share of services in total trade by Botswana, 1990-2003



Source: UNCTAD (2006) and World Bank (2006)

Box 2. Data collection on trade in services

The source of aggregate data on trade in services is the *Balance of Payments* (BOP) statistics collected by the Bank of Botswana. These data are based on foreign exchange transactions requested to commercial banks by their customers, who are required to complete a form in which they classify the sector the transaction belongs to. This data are likely to capture mode 1 and 2 supply of services, but not mode 3 and 4, which may be proxied by cross border investment and remittances in the BOP (though they are not perfect measures). Since the elimination of foreign exchange controls in 1999, there are no more obligations to declare the nature of such transactions. This has led to additional challenges:

1. customers filling in forms for foreign exchange transactions may not have the incentive to specify the correct sector to which the transaction belongs, or may misclassify the sector;
2. for transactions that do not involve forms filled in by the applicant (e.g. online purchase of services – this has so far involved very few firms), there may be problems of misreporting by the banks, which may either have no incentive in classifying the transaction accurately, or they may not have the competence to codify it correctly;
3. in case data on the transaction reaches the Central Bank without a classification of the sector, then the BOP staff tries to allocate the transaction to a sector on the basis of incomplete information, which may result in inaccurate classification.

Despite possible shortcomings, these data are most reliable information available on trade in services. Because such information is crucial to evaluate the competitiveness of the domestic services sector, it would be important to improve the way the data is recorded and collected. There are at least two ways in which this could be done:

- strengthening the capacity of commercial banks to record the data according to the principles used by the Bank of Botswana (e.g. by organizing courses)
- integrating this method of collection with firms' surveys.

Table 3 Botswana's trade in services (US\$ million) – interpret data with caution

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005 ¹
Services	-602	-841	-988	-721	-1,136	-1,010	-182	-46	-204	165
Export	541	767	1,270	1,706	1,657	2,083	3,108	3,184	3,511	4,497
Import	1,143	1,609	2,258	2,427	2,793	3,093	3,290	3,230	3,715	4,332
Transport	-467	-638	-693	-750	-888	-900	-1,054	-887	-977	-1,304
Export	133	138	210	251	265	308	351	342	390	434
Import	599	776	903	1,001	1,152	1,208	1,405	1,228	1,366	1,738
Travel	52	157	303	404	125	151	856	1,124	1,282	1,428
Export	310	495	903	1,083	1,134	1,345	2,019	2,261	2,578	2,871
Import	258	337	600	679	1,009	1,193	1,163	1,137	1,296	1,444
Other services	-188	-361	-599	-375	-373	-261	16	-284	-509	-34
Export	98	135	156	372	259	431	738	581	544	1,191
Import	286	496	755	747	632	692	722	865	1,053	1,150

1.. Revised estimates

Source: BoB

Table 4 provides a more detailed analysis of the composition of *other services* sector is helpful in identifying the main contributors to trade in services other than tourism and transport. It shows that “other services” is growing. “Other Services” has experienced a structural deficit throughout the period except in 2005, when extraordinary one-off service exports related to mining exploration have led to a surplus.

Table 4 Botswana's trade in "other Services" (Pula '000) – interpret data with caution

	Source	1997	1998	1999	2000	2001	2002	2003	2004	2005
<i>Exports</i>	(1)	135,079	156,343	179,776	258,566	431,177	727,953	647,045	550,166	953,229
Communications		72	2,048	2,989	1,857	31,466	61,466	46,586	37,712	85,552
Construction		1,023	5,849	516	4,165	42,394	51,418	48,760	40,008	62,633
Insurance		6,132	13,962	16,702	33,463	47,357	50,084	172,960	231,578	172,812
Financial services		5,399	13,025	5,345	21,128	16,438	8,612	11,506	17,266	23,175
Computer services		61	171	49	109	2,278	11,043	8,193	1,778	5,376
Royalties & lic. Fees		383	730	116	0	33	2,906	16,927	25,612	2,328
Merchanting		392	0	0	0	584	98	0	0	1,825
Leasing		676	718	512	905	2,508	6,713	2,006	2,367	3,398
Legal, accounting, management, etc		2,287	897	3,205	8,634	12,245	62,104	17,690	20,576	34,239
Advertising, mkt research, etc.		145	517	442	2,618	3,097	2,307	4,873	5,079	7,669
Research & development		1,196	2,559	2,422	4,914	6,295	6,587	14,498	17,956	10,439
Architect, engineering, tech. services etc		8,182	31,167	21,395	69,036	41,900	52,991	12,037	18,944	15,780
Agr., mining, etc		15,398	4,258	2,972	2,831	1,856	8,708	67,287	43,843	464,305
Other business services		9,001	17,926	18,227	11,769	44,046	84,133	123,840	61,659	240,908
Govt services nie		84,731	62,517	104,886	97,137	178,682	318,785	99,883	25,788	2,159
<i>Imports</i>	(2)	495,829	755,157	716,042	636,766	692,274	726,038	864,830	1,052,953	963,565
Communications	(2)	5,774	12,968	12,121	54,167	24,342	38,494	70,695	99,778	181,338
Construction	(2)	2,486	8,923	57,768	10,089	45,689	48,818	40,577	49,791	52,115
Insurance	(2)	62,315	67,409	80,460	93,359	78,967	90,024	106,567	191,067	134,963
Financial services	(2)	8,576	14,142	17,934	14,161	18,384	19,949	27,390	26,688	14,545
Computer services	(2)	1,148	1,261	9,207	13,407	25,271	23,886	30,131	33,654	30,015
Royalties & lic. fees	(2)	11,951	36,022	29,640	29,474	50,718	53,408	58,375	51,556	60,545
Merchanting	(2)	340	0	31	0	0	589	2,157	15,443	0
Leasing	(2)	26,632	16,212	38,893	31,680	27,653	25,261	15,421	65,059	12,209
Legal, accounting, management, etc	(2)	26,620	36,758	50,344	52,938	54,740	52,629	34,198	51,995	83,883
Advertising, mkt research, etc	(2)	5,992	10,708	9,602	6,232	12,398	10,762	8,168	9,013	20,154
Research & development	(2)	221	325	298	1,060	2,573	1,990	2,345	42,162	15,446
Architect, engineering, tech. services etc	(2)	191,050	385,711	211,585	119,207	154,961	150,052	174,397	153,043	66,523
Agr., mining, etc	(2)	148	183	442	203	9,189	8,094	1,408	122,518	149,259
Other business services	(2)	132,062	139,846	183,979	158,846	181,992	176,646	288,490	97,302	226,170
Govt diplomatic expenditure abroad	(3)	20,480	24,570	13,622	45,378	0	21,627	0	487	0
Govt. services nie	(2)	35	118	118	6,565	5,396	3,809	4,509	43,396	20,930

Notes: It is very difficult to measure trade in services, so some of the data should be interpreted with caution – the total values of imports and exports for 2005 differ from the figures in Table 3, as the latter are revised estimates.

(1) Foreign currency purchases reported by banks - see S/S: Srcecdocs\FrmA&S

(2) Foreign currency sales reported by banks - see S/S: Srcecdocs\FrmA&S

(3) MFDP Cash Flow Unit

Source: Bank of Botswana

The increase in services trade, however, has not been sufficient for Botswana to diversify away from its dependence on minerals (e.g. as Mauritius did in the case of sugar starting in the late 1970s and textiles starting in the 1990s). Indeed, the recent slowdown in GDP growth appears to be driven by low growth in non-mining sectors, and trade, hotels and restaurants in particular.⁴

2.2 Mode 3 and 4 supply of services

Mode 3 and 4 trade in services are important for the development of the services sector in Botswana. These modes of supply are more difficult to record and therefore to assess. FDI has been playing an increasingly important role in the promotion of crucial service sectors (mode 3 imports of services), such as business, financial services and tourism, including in the development of exports (e.g. Barclays recently chose Botswana as the headquarter of its accounting operations for the entire Africa, but then relocated see Box 3), and FDI has also helped to increase increasing competition, which provides an important incentive to enhance the efficiency of sectors, which are crucial input provides for the economy as a whole (e.g. IT and telecommunications, energy distribution, transport). Moreover, they may provide a fast track to transfer of technology, capital and know-how in skill-intensive sectors.

Botswana's attractiveness for FDI and its potential to diversify its economy is affected by a number of factors including trade in services regulations in mode 3 and 4 supply. For instance, UNCTAD (2003) reports that there are increasing difficulties in employing expatriates through hindrances in obtaining work permits. Therefore an analysis of mode 4 services trade (to deliver services temporarily both into Botswana and out of Botswana, most likely into the region) will also be important. Moreover, as highlighted by various analyses, the country seems to lack specific skills for the development of certain services sectors. Therefore temporary migration may be an important tool to address such skill gaps effectively.

Lefko-Everett (2004) finds that migration policies (which tend to underpin rules and regulations for temporary migration) have evolved from being very open to migration supporting the economic boom, to much less open more recently faded with refugees from Angola, Namibia and Zimbabwe (who can cross the border relatively easily) and as she argues with apparent less need for foreign skills due to the location policy. Data in Table 5 confirm a downward trend in the number of work permits granted by the Botswana immigration office in the last few years. Between 1999 and 2004 the total number of work permits has halved with reductions for all major source countries (South Africa, Britain, Zimbabwe, Zambia, India and Sri Lanka). As this declining trend involves workers from all nationalities, including those which are likely to have increased their labour supply to Botswana (e.g. Zimbabwe and Zambia), it is likely that government restrictions may have led to fewer work permits. This is also in line with evidence of an increasing attention by policy-makers on the number of foreigners employed in the public services. Restrictions on work permits are particularly harmful for services sectors with a severe shortage of specialized skills.

⁴ See BIDPA chief Lisenda Lisenda, *Daily news* "Non-mining sector performs below par", February 2006.

Table 5 Work Permits by Nationality, Botswana 1996–2004

Nationality	1996	1997	1998	1999	2000	2001	2002	2003	2004
South Africa	3,084	3,437	3,408	3,539	3,152	2,365	1,946	1,380	1,308
Zimbabwe	2,717	2,627	2,384	2,575	2,394	1,964	1,694	1,177	1,956
Zambia	609	635	608	637	562	459	428	321	383
Malawi	262	266	266	269	226	174	152	109	126
Ghana	293	293	347	208	158	143	109	64	56
Other Africa	555	588	598	1,591	853	744	630	462	559
British	1,771	1,672	1,422	1,039	905	798	664	466	401
Other Europe	863	831	727	1,058	662	506	414	309	276
Indian Sub-Continent	1,578	1,846	1,866	1,290	1,299	1,183	992	720	863
China	445	548	689	799	846	681	513	335	605
Other Asia	120	145	160	833	594	611	509	363	457
Other & Not Stated	412	447	386	299	28	174	163	120	137
Total	12,709	13,335	12,861	14,137	11,879	9,802	8,214	5,826	7,127

Source: CSO labour statistics

The value of services supplied through temporary migration is not available from official statistics, so we need to use proxies. One proxy for imports is the number of work permits issued by Botswana (as in Table 5). Another, more crude indicator, is total migration, and Table 6 presents bilateral stocks of migrants in Southern Africa, and Table 7 migrants from Southern African countries to the EU and US.

Table 6 Estimated migrant population, selected SADC countries

Destination countries	Origin Countries							Total immigrants	% of destination country population
	Botswana	Lesotho	Malawi	Mozambique	South Africa	Swaziland	Other SADC		
Botswana		1 137	1 603		13 001	243	22 554	38 538	2.5%
Lesotho	266							266	
Malawi	77							77	
Mozambique									
South Africa	58 458	489 862	25 083	634 997		189 599	671 863	2 069 861	4.8%
Swaziland	171							171	
Total emigrants	58 972	490 999	26 685	634 997	13 001	189 842	694 417		
% of origin country population	3.8%	26.3%	0.2%	3.4%	0.0%	16.2%	0.5%		

Notes: the gaps in the table do not indicate there is no migration is occurring between those countries, but rather that adequate data sources to base an estimate upon cannot be obtained. In addition, the table represents only inter-SADC migration, and is thus an under-estimate of total migration numbers. Because of the lack of data, we are thus forced to proceed using what is to some extent an incomplete estimate of regional migration patterns.

Source: <http://cgap.org/SAfricaRemittances/2.html>

Table 7 Southern African migrants to Europe and US 1995-2000 (annual flows)

	To Europe	USA	Total	Population	Average annual emigration rate % 1995-2000
South Africa	10825	2323	13148	41402390	0.03
Mauritius	2700	54	2754	1159730	0.24
Angola	2056	82	2138	12401580	0.02
Zimbabwe	1653	275	1928	12153850	0.02
Zambia	584	213	796	9665710	0.01
Namibia	607	26	633	1681820	0.04
Madagascar	584	37	621	14592380	0
Malawi	514	55	569	9884000	0.01
Comoros	290	2	291	530820	0.05
Mozambique	221	45	266	16965000	0
Botswana	208	14	222	1614190	0.01
Seychelles	52	14	66	78850	0.08
Swaziland	18	13	31	990530	0
Lesotho	15	8	22	1978090	0
Others	59				
Total	20385	3158	23484	125098940	0.02

Source: Black, Richard, 'Migration and pro poor policy in Africa, Working Paper C6, Sussex Centre for migration research, November 2004

Another proxy for mode 4 supply of services is remittances and compensation of employees abroad. Botswana currently receives \$US 38.9mn in remittances from abroad.

Table 8 Importance of remittance flows for Botswana

	2000	2001	2002	2003	2004
Workers remittances and compensation of employees, paid (US\$mn)	147.00	139.00	144.00	205.60	205.60
Workers' remittances and compensation of employees, received (US\$mn)	26.00	26.00	27.00	38.90	38.90

Source: <http://sima-ext.worldbank.org/query/>

Regarding measuring mode 3 trade, FDI patterns are available at the crude sector level, so it is difficult to disentangle movements in specific service sectors. However, it is interesting to note the fall in FDI inflows in the nineties as compared to the eighties, which has produced a decrease in the inward stock of FDI in 2002, but recovering in 2003 and 2004 (Table 9). The fall in FDI inflows has several explanations: relative loss of attractiveness to foreign investments (as other developing countries have recently opened up to FDI, while Botswana has not in relative terms and it has not carried out any major privatization operation), the development of a deep capital market which allows foreign firms to finance their investments through non-FDI forms, such as loans (or equity capital) in the domestic market (UNCTAD 2003 and Siphambe 2003).

On the other hand outward FDI has risen, making Botswana a net provider of FDI. The major driver of such outward expansion is mining through the growth in equity participation of Debswana into De Beers. The service sector does not appear to play any significant role in explaining the country's outward FDI, confirming the relatively small size of firms in this sector by international standards.

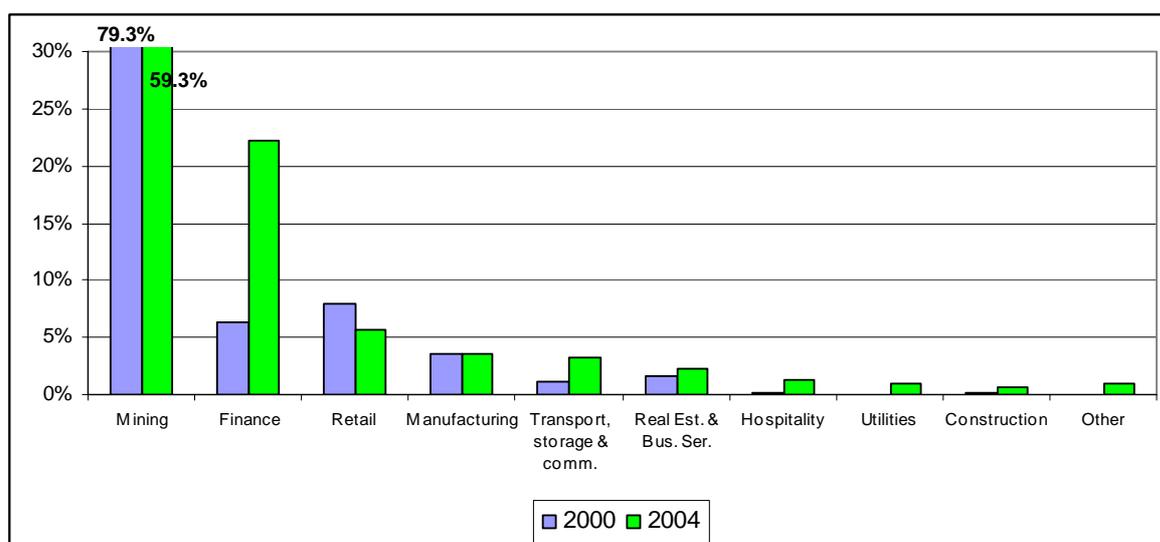
Table 9 Botswana FDI flows and stocks (US\$ million)

	Inflows	Inward stock	Outflows	Outward stock
1980	111.6	698.3	2.3	440.0
1990	95.9	1,309.3	7.4	447.2
1994	-14.2	998.5	9.5	484.5
1999	36.6	1,387.3	1.5	596.9
2000	57.3	1,821.0	2.3	517.0
2001	30.8	1,388.5	381.4	866.0
2002	404.6	854.1	43.0	1,023.7
2003	417.9	1,280.1	206.2	1,446.7
2004	391	982	-39	950
2005	346	1084	57	791

Source: UNCTAD (2006)

Mining is the largest recipient of inward FDI, although its share in total FDI has been decreasing while that of the services sectors increased. This reallocation of FDI is due in part to the divestiture of one of the largest mining companies in Botswana (BCL)⁵, and in part due to the increasing inflows of foreign investments in particular in finance, and to a lesser extent hospitality (linked to the tourism industry). The role of retail and wholesale sector in attracting FDI is also important, while transport & communications and utilities have increased their weight marginally. Overall services captured 36% of the total FDI stock in 2004 and 90% of non-mining foreign investments. Despite the fact that the increased inflows of FDI in services may not be sufficient to offset the fall in mining investments, these data confirm that services is a crucial sector to achieve the diversification needed for balanced development and continued growth in Botswana. However, there is little or no FDI related to new services priority areas such as the knowledge hub or the air cargo hub.

Chart 2 Stock of foreign direct investment, by sector, 2000–2004



Source: Bank of Botswana, Annual Reports.

⁵ Bank of Botswana (2002)

The divesture in some mining investment seems to be the major cause for the changes in the relative weights of FDI by source as well. South Africa has ceased to be the dominant source of FDI for Botswana, replaced by Europe, which has increased its share due to De Beers investments (through the Luxembourg branch) as well as due to some investment in the financial sector (mainly large British banks, such as Barclays and Standard Chartered) – see Table 10. Further data matching sectors and source of FDI is warranted in order to understand the potential role of external (intra-SACU, intra-SADC and extra regional) regulation of FDI flows in promoting services development in Botswana. Table 11 shows the major foreign direct investors in Botswana: UK firms appear to dominate investments in services (finance, construction and trade), while South African firms are more oriented to industrial activities.

Table 10 FDI level by source (%)

	2000	2004
Europe	36.9%	74.1%
Africa	61.0%	23.2%
South Africa	60.9%	20.9%
Middle East	1.0%	1.3%
Americas	1.0%	0.6%
Asia Pacific	0.1%	0.6%
Other	0.0%	0.1%
Total (in P millions)	9,826	4,204

Source: Bank of Botswana Annual Reports

Table 11 Main foreign firms investing in Botswana (see www.unctad.org)

Company	Home economy	Industry	Sales	Employees
A. Industrial				
Handigas	United Kingdom	Chemicals	..	..
Caps Botswana Trading	United Kingdom	Pharmaceuticals	..	..
Mosley	United Kingdom	Pharmaceuticals	..	..
Schindler Lifts	Switzerland	Machinery and equipment	..	..
Macmillan Botswana Publishing Company	United Kingdom	Printing and publishing	..	..
Debswana Diamond Company (Pty) Ltd.	South Africa	Mining	..	..
First Paper House Botswana (Pty) Ltd.	South Africa	Paper and paper products	..	..
Bic Botswana (Pty) Ltd.	France	Diversified	..	..
Power Components (Botswana) Pty Ltd.	United Kingdom	Electrical equipment	..	..
B. Tertiary				
First Paper House Botswana	South Africa	Trade	..	13
Balfour Beatty Power	United Kingdom	Construction	..	..
Mascom Wireless Botswana	Portugal	Telecommunications	..	..
Kentz Botswana (pty) Ltd.	Malaysia	Construction	..	..
Shell Oil Botswana (Pty) Ltd.	Netherlands/United	Distributive trade	..	..
Blackwood Hodge (Botswana) Pty Ltd.	United Kingdom	Construction	..	..
Manica Botswana (Pty) Ltd.	United States	Transport	..	..
BP Botswana (Pty) Ltd.	United Kingdom	Distributive trade	..	..
British Airways	United Kingdom	Transport	..	..
Caltex Oil (Botswana) (Pty) Ltd.	United States	Distributive trade	..	..
Engen Botswana Ltd.	Malaysia	Distributive trade	..	..
ICL Botswana (Pty) Ltd.	United Kingdom	Computer and related activities	..	..
Macmillan Botswana Publishing Co (Pty) Ltd.	Germany	Printing and publishing	..	..
Mosley (Botswana) (Pty) Ltd.	Belgium	Construction	..	..
C. Finance and Insurance				
			Assets	Employees
Barclays Bank of Botswana	United Kingdom	Finance	576	899 ^a
Standard Chartered Bank Botswana	United Kingdom	Finance	446	655 ^b
Stanbic Bank Botswana	South Africa	Finance	141	184 ^b

Sources: *The Banker's Almanac*, 2003 (London, Reed Information Services Ltd., 2003); *Thomson Analytics* (<http://analytics.thomsonib.com/>); *Who Owns Whom*, 2003 (London, Dun and Bradstreet, 2003) and *Major Companies of Africa, South of the Sahara 2000* (Graham & Whiteside Limited, 2000).

^a December 2001. ^b December 2000.

3 Overview of measures affecting trade in services in Botswana

Trade in services and the development of a service sector in general can be affected by a number of factors (Velde 2006). These include

- external constraints (i.e. international trade in services agreements), section 3.1
- domestic regulatory and institutional framework, (section 3.2) and
- supply-side, or domestic capacity constraints (section 3.3).

This section provides a general overview of external constraints, the main focus of the report, for the service sectors in general with in depth discussions for selected sectors at a later stage. As external constraints do not operate in a vacuum, we will also briefly describe potentially relevant constraints posed by domestic regulation and supply-side factors, also on the basis of the analysis of existing official documents.

3.1. International services trade policy

Botswana is member of WTO and of a series of regional agreements, including the Southern Africa Customs Union (SACU) Southern African Development Community (SADC) and the African Union/African Economic Community, in which all the other SACU countries also participate.⁶ Negotiations with the EU and US are also ongoing and these could also include services provisions. Botswana's capacity to negotiate trade agreements bilaterally is further curtailed by the 2002 SACU Agreement. Botswana's trade policy is clearly linked to these regions, particularly for trade in goods, although the regulation of trade in services has been more limited so far.

*GATS*⁷

Botswana has been cautious in making GATS commitments, such as granting national treatment and market access to foreign firms in scheduled sectors. Due to the positive list approach, Botswana were free to commit fewer or more sectors. These commitments tend to be less permissive than the actual regulatory practices in order for the countries to “keep the options open” (OECD 2005), though this does not take into account the potential benefits Botswana may obtain through a more predictable framework. Table 12 shows Botswana's commitments, which cover a few professional business services (architecture, engineering, medical, dental, and veterinary services; computer and related services, such as consultancy, software implementation, and data-base services; research and development; and real estate) and two tourism-related activities (hotels and restaurants, and travel agencies and tour operators). Measures affecting supply of computer services through commercial presence were generally either unbound, or subject to the requirement that foreign companies must be allowed to practice in their home country, and that qualifications of foreign nationals must be recognized by the appropriate Botswana body. Botswana made no commitments on supply of services by temporary movement of people, and generally on cross-border trade, requiring in some instances that the service be supplied through commercial presence by a supplier who meets all residency requirements, such as for real estate services (WTO 2003b).

⁶ Botswana ratified the SADC Trade Protocol on 7 January 1998 and the SADC Amendment Protocol on 1 December 2000 (signed 10 November 2000).

⁷ See appendix 7 for a standard introduction to GATS issues.

Botswana did not participate in the extended GATS negotiations on basic telecommunications (Fourth Protocol) or on financial services (Fifth Protocol). The telecommunications regulatory authority (BTA) was not convinced that joining the WTO Basic Telecommunications Agreement would offer immediate benefits to Botswana. Despite the market liberalisation in 1996, the telecommunication sector is a de facto monopoly, dominated by the only fixed-line voice services provider BTC (Botswana Telecommunications Company).

Table 12 GATS commitments by Botswana

	1	2	3	4	5	6	7	8	9	10	11	12	Total
In schedule?	X	X							X				3

Note: 1) business services, 2) communication services, 3) construction and related engineering services, 4) distributional services, 5) educational services, 6) environmental services, 7) financial services, 8) health related and social services, 9) travel related services, 10) recreational, cultural and sporting services, 11) transport services, and 12) other services.

Source: GATS schedules

Botswana has also imposed a few horizontal limits related to Mode 3 supply of services (FDI). Botswana has two types of limitation to market access (authorization requirement and local employment requirements) and one to national treatment (restrictions on remittances), which is in line with the average limitations of other Sub-Saharan countries, except Mauritius, which has more restrictions. OECD (2005) notes that while Botswana imposes some form of restrictions on land ownership for foreign nationals, it has not recorded this in the GATS commitments.

In the framework of GATS, the EC has requested Botswana to make commitments regarding business services, construction and engineering services, environmental services and tourism services, in addition to the requests relating to horizontal commitments and financial and telecommunications services (the full details of this are given in the Appendix 1).⁸

African Regional Trade Agreements and Trade in Services

The regional market may provide a crucial dimension in order for Botswana to develop a successful services export sector. Its core region SACU, which also includes South Africa, Namibia, Swaziland and Lesotho, and the larger SADC region offer significant markets that could be reached by services producers based in Botswana, exploiting the comparative advantage the country enjoys in terms of infrastructure, governance and capital availability and possibly certain skills. Such advantages may not be as important for trade in goods where high transportation costs may be a more relevant hurdle to export. Therefore it seems important to assess the extent to which regulations at the level of SACU and SADC may facilitate the development of trade in services. The Trade Policy Review by the WTO Secretariat on SACU (WTO 2003a) states:

“Export opportunities in the services sector remain largely unexploited, other than in South Africa and to some extent in Botswana and Namibia. In tourism, for example, where SACU's attractions are among the best in Africa, inadequacies in infrastructure and marketing/promotion, financial constraints, and lack of skilled labour have constrained the development of the sub-sector. Further liberalization and investment in services, in general,

⁸ The commitments on financial services were also requested by the US and a few other countries.

should improve the efficiency of other economic activities and the competitiveness of SACU's exports, especially by reducing costs related to, inter alia, telecommunications, transport, and energy.” It might be important to understand rules and regulation on trade in services at the level of SACU.

SADC regulates services through sectoral protocols on various sectors, including energy, tourism, transport, communications and meteorology. The aim of these protocols is to integrate infrastructure and harmonise procedures throughout the region in sectors considered of crucial importance for the development of the member countries. Specific goals and objectives of the protocols under infrastructure and services agreement are reported in Appendix 3.

A SADC Draft Annex on Trade in Services has also been under discussion. The project will need a discussion of services provisions (incl. external constraints) and opportunities for services exports at the level of SADC.

Given the importance of the SADC region for the trade in services for Botswana, it is clearly in the interest of the country to actively participate in the evolution of the SADC agreement on trade in services. This is also coupled with the determination of competition policy, which in certain services sectors, such as retail and distribution, could be implemented in cooperation with the rest of SADC in order to be effective (UNCTAD 2003). There are examples of South African firms setting up marketing or distribution companies in Botswana, charging much higher prices than in South Africa, and making it impossible for importers in Botswana to import directly.

We refer to SADC rather than SACU as the main regional forum for negotiating trade agreement in services for Botswana for two reasons. One is that SADC is a larger and potentially more important regional market for Botswana, as it includes relevant trade in services partners of Botswana, such as Zimbabwe, Zambia, Angola and Malawi. The other reason is that there are currently no services provisions in SACU, while the SADC Draft Annex on services is already a reference document in SADC that eventual negotiations in trade in services can build on. However this does not mean that Botswana may not have an interest in pursuing the trade in services agreement at the SACU level, especially if this could act as a fast track decision-making forum to regulate trade in services in the whole region.

Economic Partnership Agreements and trade in services

Botswana is also currently engaged in trade negotiations at the regional level (with SADC) in the context of the Economic Partnership Agreement (EPA) negotiations with the European Union. The outcome of such negotiations may have some impact on the potential development of Botswana's services sector, by inducing the liberalisation of (some) sectors to imports from the EU or by including complementary measures.

Te Velde *et al.* (2004) review the following main provisions on services in the Cotonou Partnership Agreement, which should be taken into account by an EPA:

- Extending EPAs to encompass the liberalisation of services in accordance with provisions of GATS (Cotonou Partnership Agreement, Art. 41.4).
- Reaffirmation of GATS commitments (Art. 41.2), progressive liberalisation (Art. 41.3) and EC support for ACP export capacity and it mentions the following sectors specifically: labour (i.e. mode 4), business, distribution, finance, tourism, culture and construction (41.5).
- The need for Special and Differential Treatment (SDT) for ACP suppliers (41.2 and 41.3).

- Special sectors: Maritime Transport (Art. 42), ICT/ Telecommunications (Art. 43), Tourism (Art. 24), Cultural services (Art. 27).

Whatever the trade contents of EPA negotiations, there is the need to discuss support measures for the service sectors. If there is a services component to an EPA, then there will also be a need for additional (SDT) measures, but it is not clear whether they need to be purely trade-related, or whether they can also be support measures (cf. Art. 34) *additional* to planned support. Conversely, the ACP needs to ensure that *existing* support by the EU in the ACP services is not used to force through EPA negotiations in services.

There are at least four ways forward for EPA services negotiations for ACP countries (and in general for ACP countries):

1. *No services agreement*. Restatement of partnership character as in CPA Art. 41.4. Channelling of current EDF resources to strengthen ACP capacity in the supply of services related to labour, business, distribution, finance, tourism, culture and construction and related engineering services (CPA Art. 41.5).
2. *No services agreement, with some SDT options*, such as additional resources, to satisfy 41.2 allowing for SDT of Botswana.
3. *Limited services agreement*. No Botswana commitments beyond GATS (CPA Art. 41.2), but with (significant) new EU commitments and inclusion of other SDT options while possible services EPAs satisfy the requirements of GATS Art. V. as well as SDT in CPA Arts 41.2 and 41.5.
4. *Advanced services agreement*, with both Botswana and EU participating and giving more commitments than under GATS.

In order to minimise trade diversion following an EPA, it is crucial not to give preferential access to EU services suppliers in sectors where third country suppliers hold a comparative advantage at the global level. Jansen (2006) argues that countries in Southern Africa may gain from including the financial sector and the tourism sector in the EPA negotiations. Te Velde (2005a) argues that ACP regions may include mode 4, as ACP countries, including Botswana, may have a potential to export services in this mode (and trade diversion is also less of a problem for this mode). And it could be easier to negotiate such sensitive issues at a regional level. Trade flows in general and tourism in particular would benefit from an open skies agreement between the African and the European region, but such an agreement seems unlikely to be concluded in the near future. Because of its strategic position at the heart of the Southern African region and its relatively developed financial sector, Botswana could particularly benefit from a regional liberalisation of tourism and finance to EU imports. This may help the country become a regional hub in such services.

The EPA may combine a trade in services agreement with technical assistance from the European Union towards the sectors and/or modes that are subject to negotiations. Jansen (2006) believes that such assistance could be important to improve domestic regulation and capacity in both financial (e.g.: strengthening prudential regulation) and tourism sector (e.g. improving environmental regulation, enhancing the supply and the quality of accommodation and of marketing efforts), and with respect to mode 4 (e.g. creating the legal and institutional set-up to ensure that only adequately qualified service providers move abroad and to ensure that their stays in host countries are temporary). For Botswana, which is not a major recipient of aid it might try to get support to get its training and education systems sufficiently geared towards the services sectors.

For other services sectors, in particular telecommunication and certain transport and business services, multilateral liberalisation seems to be more appropriate than a regional approach, as the EU does not appear to be the most efficient provider of these services (Jansen 2006). However, there needs to be an evaluation of whether an EPA with only limited services sectors' coverage is consistent with the condition in GATS that regional agreements ought to have 'substantial sectoral coverage'.

3.2. Domestic regulatory and institutional framework

External official reports (e.g. UNCTAD, 2003; OECD, 2005; WTO, 2003b) generally welcome the institutionally friendly conditions of doing business in Botswana (due to public sector efficiency, political and economic stability, lack of corruption). As already noted this seems to represent one of the major comparative advantages of the country and the question is how this can be used to provide efficient and effective regulations and institutions supportive of a competitive services sector. Moreover, services sectors are seen as an important component of Botswana's development strategy, see the national development plan Vision 2016 (see Box 2). However, there are bottlenecks which need to be addressed. While these constraints tend to relate to imports of services (through mode 3), they will have important direct effects on exports of services (e.g. through efficient infrastructure services). Here we present a general provisional assessment, with more findings in Monanne and Sesinyi (2001), and more detailed discussions in selected sectors at a later stage.

Box 2 Service sectors in Vision 2016

Vision 2016 is the name of a long-term government-led project, which sets the objectives for the country to be reached by the year 2016, when Botswana will have been an independent nation for 50 years. A presidential task group (consisting of 31 people) summarized this vision, identified the major challenges to be met to realise the Vision, and proposed a set of strategies that will meet them in a booklet entitled 'A Long Term Vision For Botswana: Towards Prosperity for All' (GoB 2004).

The diversification of the economy ("with mining, agriculture, industry, manufacturing, services and tourism all making a substantial contribution") is one of the major parts of the strategy described in the document. Although there is no precise strategy set up to develop the services sector, the document identifies some specific services sectors to be promoted alongside the challenges faced by them and general prescriptions to address them.

1) Natural, cultural and historical, wealth of the country could be used to develop the tourist industry, which would need further development of the "facilities of existing game reserves (such as Chobe and Moremi), for example by privatising their management, or by allowing the private sector to provide camps and facilities." Botswana should also aim to increase the volume of tourism, which should not necessarily conduct to catastrophic environmental cost. However, the environmental sustainability of Botswana's tourism resources needs to be carefully evaluated. "Local ownership and capacity building must be emphasised throughout the eco-tourism industry, so that local people have a stake in using its resources in a sustainable way."

2) The document also promotes the idea of establishing Botswana as a banking and financial services centre in the region, especially given the country's advantages in terms of efficient telecommunication, strong foreign reserves and economic stability. Moreover, "given the importance of the development effort that will be needed in the coming decades, it will be necessary for the banks in Botswana to be more development oriented", departing from "the conservatism of the past" and adding some elements of risk "if Botswana is to meet its ambitious development targets."

3) Transport is identified as another crucial sector to expand, given Botswana's "central location within the southern African sub-region, its easy access to the trans-Kalahari highway, the Maputo corridor, and to the rest of the southern African network." In order to be able to effectively provide transport services to its neighbours, the internal road and rail network and local transport services need to be improved, which would also facilitate the development of other sectors as well, particularly tourism.

4) Finally, Botswana could shift from being an importer to being an exporter of information services throughout the region. In order to reach that objective, "it is vital that there is an increased investment in telephone connections and international communication through internet services".

According to the Investment Policy Review (UNCTAD 2003) both foreign and domestic investment have generally enjoyed fairly good standards of treatment and protection in Botswana, although the country has never had a foreign investment law. FDI seems to have had a positive impact in the development of certain services sectors, in particular the financial sector, tourism and business services (UNCTAD 2003). Notwithstanding the good historical record of attracting and welcoming FDI, UNCTAD (2003) identify some supply-side constraints, which are not being properly tackled by the regulatory activity.

The UNCTAD IPR notes that such constraints in the labour market are actually aggravated by “inappropriate policy and administrative bottlenecks” (p. 33), which set high requirements for granting work permits, making the hiring of non-citizens fairly complicated. The rationale of such policies is a supposedly misleading belief that the employment of foreign nationals worked as an impediment for the employment of Botswana citizens, especially given the current substantial migratory pressure from neighbouring countries.

Competition is an area where the UNCTAD report believes the Government could be more proactive. A well-enforced competition law is needed to ensure against powerful investors becoming dominant and abusing market power to the detriment of consumers and industrial customers. Perhaps one example of this is the banking sector, which is associated with high cost on consumers with disappointing speed of basic operation.

A related issue concerns the relatively large presence of state owned monopolies in several services sectors, such as fixed telephone (Botswana Telecommunication Corporation to be privatised), energy distribution (Botswana Power Corporation), postal services (Botswana Post), railway (Botswana Railway) and air transport (Air Botswana, to be privatised). Some suggest that such monopolies are imposing high costs on the provision of these services, although the infrastructure system in place works efficiently, and we need to gather more specific information. The government has stated its objectives to privatise and liberalise several sectors of the economy⁹.

OECD (2005) confirms UNCTAD report’s view of a sound economic climate in Botswana, with no significant general limitations on FDI entry (except for the minimum investment requirements), including no limitations on foreign purchases of shares, and on transfer of profits and of proceeds of liquidation. However, some restrictions are imposed that affect services activities, including sectoral, land acquisition and post-entry legal restrictions.

Sectoral restrictions

There are restrictions on entry on specific services sectors, some in line with the general government objective to “encourage local empowerment” others simply for reasons to protect consumers in that sector. For example, foreigners wishing to invest in banks and insurance must obtain a specific license for prudential purposes. Foreign investment is prohibited in those sectors dominated by small and medium enterprises, including hawking and vending, butchery and fresh produce general trading, petrol filling stations, bottle stores (liquor stores), bars other than those related to hotel establishments, chibuku (traditional beer) bars, village type restaurant take-aways including restaurants with licences to sell alcoholic beverages, supermarkets (excluding chain stores and franchise operations), small shops such as clothing boutiques and shoe shops and miscellaneous, mail carriage, purchase

⁹ Last year, the government has decided to privatise BTC and liberalise the fixed telephone market (Government of Botswana 2006, see also Box 11), and the government has been receiving offers for the privatisation of the national airline (Business Day 2006).

of furniture by local authorities and government, procurement of uniforms, to government, local authorities and parastatals.

Land acquisition restrictions

The acquisition of real estate by foreigners linked to FDI is also restricted. There are three categories of land in Botswana: tribal land, state land and freehold land. Freehold land can be used for business purposes. Tribal and state lands can be used for business purposes through leases (and it can in some cases be converted to freehold land). Tribal land is usually allocated for short-term leases or permits (less than ten years) and may not be used as collateral for a loan. State land can be converted to long-term leasehold or freehold title that can be registered and pledged. No agricultural land can be transferred to non-citizens of Botswana, or companies that are majority foreign-owned, without ministerial approval and subject to zoning requirements. Ministerial approval is also required for foreign investors, but not national investors, to enter into arrangements to put tribal land to commercial use (zoning requirements).

Post-entry legal restrictions

Foreign investors do not have access to a class of incentives aimed at citizen-owned contracting firms and small enterprises, defined as those involving investments of less than US\$ 15,000.

Although foreign participation in the privatisation process is generally welcomed, the Ministry of Finance and Development Planning has stated that "restrictions may need to be imposed on foreign participation in certain companies for strategic or other reason that will be considered on a case-by-case basis".

Small government building projects, up to US\$ 25,000, maintenance and minor building works of government properties, road contracts and railway maintenance – fencing, reserve and draining, culvert construction, transport and plant hire, clearing and scrubbing bush, road marking, carting gravel, bridge painting, stock piling of material – are reserved for nationals of Botswana.

Foreign-owned companies are required to make an effort to employ or promote nationals of Botswana to jobs at the middle and senior management level.

Institutional set-up

Box 3 describes the main organisations involved in the promotion of trade in services.

Box 3 Botswana's institutional set-up for promoting trade in services

In order to promote trade, industry and service sector, Botswana has developed organizational infrastructure both within public and private sectors.

Within the public sector, Botswana Export Development and Investment Authority (BEDIA) was created as an autonomous body in 1997 to promote the industrialisation process of Botswana in order to diversify the economic base away from diamonds and beef. BEDIA has been promoting exports in various countries such as South Africa, Ghana, Zimbabwe, Zambia etc. by organising exhibitions and among others have also played meaningful role in developing global trade relations and has developed a guide for IT highlighting opportunities in the sector. BEDIA has also established overseas offices in South Africa and UK. The Board of Directors of BEDIA mainly comes from the private sector, while the organization is funded by Government subvention.

The institutional infrastructure of the private sector is centered around four organisations:

a) *Exporters Association of Botswana (EOAB)* is a non-governmental trade organisation which acts to facilitate global trade and enhance economic growth and diversification from traditional exports to non-traditional exports (manufactured goods and services). The Association has 70 members, the majority of which are exporters of goods (only ten are involved in services), but lacks adequate financial resources to operate, most of which comes from BEDIA. Amongst their members, transport & freight companies such as IDS couriers, Swift Freight Co., Botswana Export Credit Insurance and Export House Botswana are examples of successful exporting service firms. These firms are exporting their services to South Africa, Zimbabwe, United States and European Union.

b) *Botswana Confederation of Commerce, Industry and Manpower (BOCCIM)* is an association of business community mainly employers representing all sectors of the economy in an advocacy capacity. It was established in 1988 from another association (Botswana Employers Federation). BOCCIM is a large association (over 1,600 members) with a wide sectoral representation. Seventeen sectoral committees have been formed, of which 7 sectors fall within GATS categories.

c) *Botswana Chamber of Commerce and Industry (BCCI)*. The government pursued the business sector and even offered both technical and financial support in reviving the BCCI, even establishing its secretariat with full time staff but due to lack of interest the chamber could not operate as desired. The chamber is being upheld by a single enthusiastic businessman, who is its National Treasurer.

d) *Junior Chamber Botswana (JCB)* has been in formal existence since 1988 and affiliated to Junior Chamber International (JCI), a World Wide Federation for young professionals and entrepreneurs between the ages of 18 and 40 years. Its mandate is to contribute to the advancement of the global community by providing the opportunity for young people to develop the leadership skills, social responsibility, entrepreneurship and fellowship necessary to create positive change. Most of its services are service oriented, which are export-based services in different sectors of economy.

3.3. Domestic supply capacity for trade in services

Botswana may have the potential to become a hub in the supply of services at the regional level (which provides a rationale for pursuing regional trade in services negotiations), such as SADC. Much will depend on the domestic capacity and the comparative advantages of Botswana in relation to its regional neighbours.

Governance

Botswana enjoys a clear comparative advantage over its SACU and SADC partners in governance, as it is evident from Table 13, which shows various World Bank indicators, ranging from political stability to the enforcement of the rule of law. No other SACU member scores higher than Botswana in any indicator of governance. Within the SADC region only Mauritius scores higher than Botswana in 2 indicators. These results are confirmed by other reports, such as the Africa Competitiveness Report, which considers Botswana to have the most stable political environment of the whole Africa, and Transparency International, which ranked Botswana as the African country with the lowest perception of corruption since 1999. Such high standards of governance are among the reasons which induced Moody's and S&P to recently assign the country investment-grade ratings. A major question is whether Botswana can use this to develop effective and efficient institutions and regulations to support the services sectors.

Table 13 Governance Indicators, selected Southern African countries (2004)

	Political stability	Government effectiveness	Regulatory quality	Rule of law	Control of corruption
Botswana	0.70	0.83	0.96	0.73	0.86
Lesotho	0.27	-0.33	-0.26	-0.03	-0.05
Namibia	0.46	0.29	0.45	0.22	0.18
South Africa	-0.24	0.74	0.44	0.32	0.48
Swaziland	0.23	-0.60	-0.36	-0.95	-0.95
Mauritius	0.91	0.60	0.33	0.84	0.33
Mozambique	-0.15	-0.39	-0.29	-0.60	-0.79
Zambia	-0.16	-0.84	-0.49	-0.54	-0.74
Zimbabwe	-1.86	-1.20	-2.15	-1.53	-1.01

Note that the units of measure range from about -2.5 to 2.5, with higher values corresponding to better governance outcomes.

Source: World Bank

Capital availability

Such high rating is also related to the availability of capital in Botswana, given the relatively high rate of domestic savings (UNCTAD 2003), which allows raising capital for investment without resorting to international markets. This represents a potential major advantage for both domestic and foreign investors both in and outside financial services.

ICT infrastructure

Botswana enjoys a relative good position in ICT infrastructure at least within SACU. In terms of quality and access to ICT the country performs better than Lesotho, Namibia and Swaziland, and is close to South Africa, which on the other hand has the highest prices of ICT in southern Africa. At the SADC level Mauritius enjoys an ICT advantage in terms of access, quality and price. Instead Botswana seems to lag behind countries in the same group

in terms of economic development (upper-middle income), although this group includes countries which are mostly in other geographical areas. The real concern for Botswana in terms of regional competition appears to be related to the high price of its ICT services, especially for international long distance telephone calls. This would require a closer analysis of the telecommunications sector in the country, and in particular regulations concerning long-distance calls and access to broadband.

Table 14 ICT indicators, selected southern African countries (2004)

	Botswana	Lesotho	Mozambique	Mauritius	Namibia	Swaziland	South Africa	SSA	Up.-Mid. Inc. group
Access									
Tel. main lines per 1,000 people	79	20	4	287	63	42	104	17	220
International voice traffic (min. per person)	64			83	57	38	40		39
Mobile subscribers per 1,000 people	348	94	47	505	111	129	471	86	490
Population covered by mobile telephony (%)	85	80		99	88	90	96		84
Internet users (per 1,000 people)	25	17	5	146	39	24	81	15	133
Personal computers (per 1,000 people)	41	8	4	176	95	27	88	12	99
Quality									
International Internet bandwidth (bits per person)	23	1	1	146	4	1	29	4	176
Affordability									
Price basket for fixed line (US\$ per month, residential)	11.3	18.6	16.5	7.4	15.8	8.3	21.6	8.5	13.9
Price basket for mobile (US\$ per month)	11.1	14.3	10.9	4.8	14.7	16.6	13.5	13.5	11.1
Price basket for Internet (US\$ per month)	27	43.4	40.8	15	33.4	20.6	33.3	54.8	20.8
Price of call to United States (US\$ per 3 minutes)	2.88	3.28	1.17	1.67		2.97	0.79	2.43	1.03

Source: World Bank - ICT at a glance

Education

Botswana's workforce is generally well educated, especially given the country enjoys high levels of secondary education relatively to its neighbours (Table 15), except for Mauritius, whose secondary enrolment rates are similar to OECD countries.

Table 15: Net enrolment rates (%) in Southern Africa (2004)

	Primary	Secondary	Tertiary
Botswana	82.1	60.9	6.2
Lesotho	85.9	23.1	2.8*
Mauritius	95.1	79.6	17.2
Namibia	73.7*	37.4*	6.1*
South Africa	88.8*	61.7**	15.3*
Swaziland	76.7*	29.0*	5.0
Zimbabwe	81.9*	33.9*	3.7*

* data referred to 2003; ** data referred to 2000

Source: UNESCO

Notwithstanding the general high level of basic education, Botswana still has relatively low rates of tertiary education (Table 15), and in particular it suffers from a deficit of specific skills, which has emerged despite the heavy investment of the country in education (UNCTAD 2003). Arguably, the education system was biased from the country's independence towards the need of the public sector, neglecting some of the skills needed by the private sectors. Moreover, the rapid pace of the structural change of the economy has impeded the educational system to match the needs of the various sector of the economy; finally, the high incidence of HIV/AIDS is clearly exacerbating the skill deficit. FDI has been an important source of the types of skill lacking in the economy, through the employment of expatriates, the training of the local workforce and the movement of skilled labour from the parent companies' countries.

The Tertiary Education Policy document in 2005 stated that the proportion of Science and Engineering students as percent of total tertiary students, was 37% in 1997 but in 2004 only 23% of the University of Botswana's full-time undergraduate enrolments were enrolled in the science, engineering and technology disciplines.

Land

Land acquisition seems to represent a problem for domestic companies as well, as the serviced industrial and commercial land is scarcely available and it takes long period to be allocated an industrial or commercial plot.¹⁰

Physical infrastructure

Although transport in trade in services may not be as important as in trade in goods (particularly for mode 1 supply of services), the relatively high transportation costs imposed by the country's geography may actually constrain the ability of Botswana of developing certain services sectors, which involve transport activities, such as distributional services.

¹⁰ These points have been emphasized by BIDPA chief Lisenda Lisenda in Daily News (2006).

4 Screening and scoping

This section summarises the results of the screening and scoping part of the study (further details in appendix 2), on which basis sectors are selected for further examination. The results presented in this section are based on an analysis of data, secondary reports and consultations in Gaborone and Maun. We take each GATS sector in turn and discuss each sector on each of the following factors:

- Current or potential capacity to trade, particularly exporting from Botswana (e.g. tourism, professional services or IT enabled services). Trade policies will have greater effect if current capacity is greater.
- Direct and indirect effects on GDP and development (e.g. how infrastructure or transport type of services may affect GDP indirectly), including employment effects, which is relevant in assessing the poverty related impact of the sector. It will be more important to discuss policy measures for sectors with a larger effect on GDP or employment. Effects can be direct in terms of GDP and employment (e.g. construction, tourism) or indirect (through effects on “backbone” services – e.g. transport, communications).
- Possible importance of the effects of policy/trade measures (e.g. regional harmonization of regulation in professional services). This will discuss whether certain key policies in the context of a sector are likely to have an impact. However, at this stage, it will not reflect a complete picture of all regulations governing trade in this sector.
- Views of stakeholders
 - BTPP/BIDPA and government officials
 - Private sector (associations etc)
 - Other (utilities etc.), see appendix 5 for a list
- Complementarities with previous studies and existing knowledge (see appendix 6 for a provisional list)
- Possible role models in other relevant developing countries.

Table 16 provides a summary of the findings in appendix 2. On this basis, we suggest to examine the following sectors more closely in the rest of the report:

Tourism services: This is probably the most important service sector in terms of trade in services and contribution to employment and GDP. While it is a relatively well studied sector, there is not much detail available on Botswana’s position in trade in services negotiations. In particular, stakeholders suggested they wanted to know what effects GATS commitments may have had or could have in future. Because tourism is one of only few sectors in which commitments have been made, it is the best example to explain the main complex issues of GATS in a relatively straightforward case study. It will also have several role models which could act as reference point.

Financial services, this is a good second in terms of trade, with a good position regionally, though less important in the case of contribution to employment. It already allows foreign firms in the banking and insurance sectors but has not bound this in GATS. There are several studies available, however, they are not suitable in a trade in services context. In addition, Botswana has received requests to commit the sector in GATS (from the EC). We suggest to study the insurance sector (because of the current increase) and the banking sector. The study could also include BPO services (strictly outside the GATS category financial services).

Box 4 Excerpts from “A NATIONAL TRADE POLICY FOR BOTSWANA: ZERO DRAFT AND CONSULTATIONS”, BIDPA

Financial Services (trade related policies)

The establishment of supervisory and regulatory system for non-bank financial institutions; Government should expedite the repeal of the Botswana Stock Exchange Act and its replacement by Securities Act; Establishment of a deposit protection scheme and a national contingency plan to support the financial system in the event of a financial crisis; Strengthening of financial and money markets operations; Development of offshore regulation; and, Creation of a Central Securities Depository to clear bonds and equities. Finally, Botswana should make commitments of financial services at the GATS. This would lock in reforms that Botswana has made in the financial sector and provide signals to potential investors that policy reversal of the reforms made is unlikely.

Education services

Trade policy should consider the potential to increase exports of education services through, among others, promotion of commercial establishments of education institutions, especially at the tertiary level by local investors, foreign direct investors, joint ventures and other arrangements. This would increase local capacity to absorb more local and foreign students; promote education exports and reduce the import of education.

Given the potential to increase exports through commercial presence and the increasing modes of delivery of education services e.g. e-learning, the regulatory, supervisory and surveillance capacity should be improved to cope with the dynamism in the education sector arising from possibilities of e-learning to ensure better consumer protection against low quality programs;

Trade policy should consider a more concerted and coordinated approach to increasing science and engineering technology enrolment. Innovation is increasingly becoming a vital component of competitiveness. If Botswana is to achieve export-led growth, the development of technological capacity should be pursued vigorously.

Tourism services

Trade policy should continue to support the growth and development of the sector because it holds potential for both income generation and employment creation for the country.

Education services: This sector is currently not so important in exports of services, but Botswana could aim to reduce imports of services (it is in the unusual position that it supports students’ education abroad in a major way), and hence make a bigger direct and indirect impact on GDP and development. Of course, this would assume that Botswana can deliver top quality education for students at the same level as where the students are currently enrolled. One of the questions is whether and if so in what areas Botswana could aim to become a knowledge hub. Skills are important factors in all sector and mode 4 will also play a role, as attraction of mode 3 investors. Some developing countries have made GATS mode

3 commitments in the sector and attracted several business schools, other countries have been more cautious or have had more challenging experiences regarding the scope of GATS. It will study tertiary education in particular. There are several other countries that can act as possible role model.

This selection of service sectors mirrors the selection in the draft national trade policy (box 4), so this analysis could underpin that document in an important way. For instance, there are some clear suggestions and policy direction for education services which may need further consideration, while there is an explicit demand for an analysis of trade policy options in financial services, and an identified need to find trade policy options supportive of the tourism sector (of which GATS may have been one).

A detailed examination of the above sectors will cover different types of measures might help to develop trade in services in Botswana. In Te Velde (2006) we argue that there is very little theory to understand how the services sectors can be developed. However, it is possible to divide the constraints to further services trade into three types (as we have done in the pervious general sectors):

- domestic regulation (e.g. inadequate financial supervision, or lack of rule effective telecommunications regulators),
- supply side constraints, or lack of capabilities, such as inappropriate human resources (e.g. geared to mining, rather modern ICT and Tourism), and finally
- external constraints (trade barriers).

This analysis will be done on the basis of:

- data examination (in as far possible; some data such as mode 4 trade in services might be available through consultations with professional associations),
- key official texts (on laws and regulations),
- existing studies (e.g. BIDPA studies, diversification project and SATRN working papers and other) and
- consultations in Botswana (located mostly in Gaborone and Maun).

This approach should lead to two key outputs:

1. The analysis of the types of constraints of trade in services will lead to the identification of broad policy positions for Botswana in international trade in services negotiations at the multilateral, but also the regional level, with respect to the selected sectors.
2. The application of this approach might be replicated in more detail for other key sectors by researchers who we hope will be involved throughout the project. While there is a lot expertise on trade and trade policy, and on services sectors, there may need to be more capacity building in the area of what the analysis means for international trade in services negotiations.

Table 16 Summary of screening and scoping of sectors

	Current capacity to trade	Importance in GDP (direct & indirect)	Importance in development	Possible importance of policy measures (external E, regulatory R, and supply capacity S)	Stakeholder views	Complementarities with previous studies	Role models in other developing countries
1) business services	Little current capacity via mode 3; some niches for individual professionals and firms in mode 1 and 4. An estimated P 79m (leaving out mining related services) currently exported. Problem of available capacity and comparative advantage esp. wrt South Africa, from where much of these services are currently sourced.	Declining but substantial <i>direct</i> importance in GDP (3.4%). The <i>indirect</i> contribution to GDP is also important, as the sector provides crucial inputs into business competitiveness (e.g. marketing, accounting, legal, computer services)	The only data available on the sectoral share of employment aggregates the sector with financial services. We estimate a contribution of around 3%, with most of it being highly educated labour.	- E: Need for MRAs to facilitate market access abroad (e.g. architects) - E Need for understanding market access commitments in other countries - R: Potential for introducing regulatory framework to enhance the quality of services for professions such as accountants, architects. - S: Need for improving skills available, e.g. by linking formal education to on-the-job training	Significant interest in the development of business process outsourcing (BPO) activities. Possible importance of niches for developing high value added exports (e.g. legal, architecture services), although the development of such activities is very recent. The government has placed ICT services as a priority sector in its Vision 2016.	There are very few studies available on the sector, with a strong possibility of enriching the available information and finding relevant data.	India is the main BPO centre, but this has spread to African countries such as Mauritius, Ghana and South Africa with exports in several sectors via mode 1 and 4.
2) Comm. Services	Limited capacity in mode 3, which is usually the main export mode for the sector. Mobile telecommunications is dominated by foreign owned firms. Trade is growing rapidly according to BoP data with imports (P 181m mainly through foreign ownership) far bigger than exports (P 85m) in 2005.	Slightly declining and fairly low <i>direct</i> importance in GDP (1.2% in 2005). Crucial <i>indirect</i> importance as an input for various sectors (especially services) of the economy, e.g. cost of telecommunications is perceived to be a major constraint to the development of Botswana as a hub in certain activities (e.g. sales and reservation in tourism, BPO).	We estimate a limited total contribution in employment of around 1.9% (out of a total share of the transport and communication sector of 3.6%), which is likely to include mostly relatively skilled labour (with some exception, e.g. in postal services).	- E: Potential role for GATS commitments in accompanying the process of liberalization - E: need to evaluate the requests made to Botswana in telecommunications by other countries - R: wave of liberalization in the sector (TLC, VOIP), whose potential effects need to be evaluated - S: need to assess the viability of the fiber optic cable initiative in enhancing quality and accessibility of TLC services	General recognition of the crucial importance of the sector in improving the competitiveness of the economy. Little perceived export potential (the small size of the domestic market has not allowed to develop a domestic player of sufficient scale to export).	Possibility of complementing information available on GATS negotiations at the SADC level with analysis of Botswana's possible negotiating options.	Only few examples of successful international expansion in the TLC sector in Africa, mainly from large developing economies, able to exploit large domestic markets (South Africa, Egypt).

	Current capacity to trade	Importance in GDP (direct & indirect)	Importance in development	Possible importance of policy measures (external E, regulatory R, and supply capacity S)	Stakeholder views	Complementarities with previous studies	Role models in other developing countries
3) construction and eng. services	Limited current export capacity with little work carried out abroad by domestic firms. However, trade in construction services is increasing, with exports (mainly via mode 1) at P 62m in 2005 and imports at P 52m (although data does not capture the large presence of foreign owned firms which should generate imports via mode 3).	Important, albeit declining, direct GDP contribution (4.5%) The indirect relevance of GDP is mainly related to the role of construction as an input for economic agents, especially government and households.	It is one of the largest contributors to employment in the country, with a constant share of over 10%, which is composed of unskilled labour (with potentially significant effects on poverty reduction).	- E: requirements to participate in public tender processes in South Africa are fairly cumbersome - R/S: Need for increasing the availability of skilled labour (esp. construction engineers), e.g. by facilitating work permits' procedures. - R: Potential for improving government procurement operations, e.g. via better designed tenders and more efficient payment system.	Little potential for exports as the sector is already dominated by large foreign owned firms from South African, China and large international groups.	Possibility of complementing the information available on supply capacity and regulatory framework with an analysis of negotiating options and domestic regulation.	South Africa in US
4) distributional services	The sector facilitates trading capacity but it tends to generate very little international transactions, therefore it is not adequately recorded in BoP data. Mode 3 trade (mainly imports) is related to FDI in the retail sector in Botswana (mainly by South African companies).	The <i>direct</i> contribution to the economy is significant at around 10% (including water and electricity distribution). The <i>indirect</i> effects are also important in that wholesale trade and retailing services has an impact on households' budget constraint, as well as on business operations (mainly via energy distribution).	Significant impact on employment, with a contribution of around 19% in total employment for the entire commerce sector, including a possibly large amount of unskilled labour employed in small retailing and trading activities.	- R: Sector largely open and liberalized, except for energy distribution, which is dominated by Botswana Power Corporation (BPC). - R: Potential to evaluate effects of liberalization of the utility sector, esp. considering that energy distribution is one of the priority areas of SADC.	Not mentioned as one with a potential to export. It is rather considered as an important input to businesses (via energy distribution).	Few studies available	

	Current capacity to trade	Importance in GDP (direct & indirect)	Importance in development	Possible importance of policy measures (external E, regulatory R, and supply capacity S)	Stakeholder views	Complementarities with previous studies	Role models in other developing countries
5) educational services	Botswana is a net importer of educational services (via mode 2), with an estimate import value of around P 1bn in government expenditure, which makes education the major component of travel related imports. Estimates for exports are around P 21.5m in 2004 including living expenses of students.	The <i>direct</i> weight of the sector in GDP is likely to be relatively low as education is typically a non commercial service in Botswana (possibly recorded as Non-Profit Institutions serving households, whose share is 2.3% in 2005). The indirect effects are of paramount importance for the role of (tertiary) education in creating the skills adequate to the economy's needs.	The contribution of the sector to employment (private and parastatal) is limited, albeit increasing (2.5% in 2005).	- E: need to assess the potential for developing a hub for educational services - R: need to evaluate potential impact of opening up the sector to international competition - R: assessment of the opportunity for an import substitution strategy - S: potential importance of improving the supply skills available for the sector (e.g. lecturers)	Much perceived potential for the development of an educational hub in Botswana, which would also reduce the large (public) import of educational services.	Only the draft of one study is available on trade in educational services, so an analysis may address both possible domestic regulatory and international negotiating options.	South Africa and Brazil as regional hubs for tertiary education. Caribbean islands as offshore medical schools.
6) envir. services	No data available, but trade does not appear to be developed. Some imports (mainly via mode 3 and 4) from South Africa.	Small sector in the economy, the main contribution is <i>indirect</i> , especially for the potential effects on tourism.	Little employment generated directly or indirectly (the few main firms employ directly around 20 workers), with some effects on rural poor, especially for waste management and sanitation projects in rural areas.	- E: relevance of external constraints in accessing heavily protected markets (esp. South Africa); - R: importance of carefully designed public procurement projects; - S: Lack of access to cheap finance especially to expand in foreign markets.	Little export potential identified. Some opportunities may arise in the cross-border management of environmental resources in neighboring countries.	There is no formal study available on the sector in Botswana. One opinion piece dealing with supply capacity and regulatory constraints in environmental services provision is available	

	Current capacity to trade	Importance in GDP (direct & indirect)	Importance in development	Possible importance of policy measures (external E, regulatory R, and supply capacity S)	Stakeholder views	Complementarities with previous studies	Role models in other developing countries
7) financial services	Significant trade in these services, which are the largest in value of export revenues after transport and travel related. Exports (P 196m) were slightly bigger than imports (P 150m) in 2005, mainly due to the trade surplus in insurance (mainly via mode 3).	Relatively significant and increasing <i>direct</i> contribution to GDP (4.5% in 2005). The <i>indirect</i> relevance of the sector is likely to be also significant by regulating and providing access to capital and by providing insurance services for businesses and households.	Important contribution in employment at around 6.7% in 2003 (when considering the sector together with business services) – CSO data.	Liberal and open sector with no foreign exchange controls, but some challenges are present, including: - E: need for assessing relative competitive position to develop a financial services centre (including role of IFSC) - E: need to understand the potential impact of complying with the requests from other WTO members on financial services - R: important and complex domestic regulatory issues to be addressed for banking, insurance and other financial services - S: potential relevance of shortages of skilled labour available for the sectoral needs	Priority sector for the country's development prospects, as evident in the government's 2016 vision and in the establishment of the IFSC. Possible export opportunities in the insurance market through firms like BIFM and through the establishment of the Pan-African commodity exchange.	Possibility for integrating the available studies (covering domestic regulatory and supply capacity issues) with options for negotiating position. Also useful to use sector to exemplify key technical issues in GATS.	Financial service exports from Mauritius and Caribbean.
8) health and social services	Trade in health is mainly recorded as travel related activities and in remittance flows, as trade in Botswana tends to be dominated by mode 2 and 4. Evidence of some import of health services (via mode 2 and 4) and negligible exports (mainly mode 4).	The <i>direct</i> impact of the health sector on GDP is likely to be significant, although its contribution is limited by the fact that it is not recorded at market prices as it is publicly provided. The <i>indirect</i> impact on the economy is possibly more important as labour efficiency crucially depends on health conditions.	The contribution is likely to be large (included mainly in the public sector employment), despite the relatively low nurses/patients and doctor/patients ratios.	- R: Need to look at policy measures especially with respect to the shortage of skills - R: need to evaluate the potential impact for opening the sector to private competition (which is currently restrained)	The health services sector is mainly perceived as a service for the population. However, the country's expertise in the HIV/AIDS area may potentially provide a comparative advantage for eventual export activities (especially via mode 3 and mode 4).	At present a BIDPA study is looking specifically at trade in health services (mainly via movement of nurses).	South Africa is an important competitor at the international level (mode 2, 3 and 4). So are India (even via mode 1), Thailand and Caribbean.

	Current capacity to trade	Importance in GDP (direct & indirect)	Importance in development	Possible importance of policy measures (external E, regulatory R, and supply capacity S)	Stakeholder views	Complementarities with previous studies	Role models in other developing countries
9) travel related services	It is by far the largest exporter of services (mainly via mode 2) with over P 2bn in 2003 (estimation on the basis of travel related services figure). Imports seem to be very low and are mainly related to imports of educational services, though mode 3 regulations determine the conditions and market access for foreign Hotels in Botswana.	Fairly significant direct share in GDP (between 3.2% and 4.5%) in 1997, which is likely to have increased since as tourists expenditures have grown at higher rates than the overall economic growth rate during the past eight years.	Important share in total employment (estimated at 4.5% in 1997), with particularly significant effects on the poor (due to the rural location and the intensive use of relatively unskilled labour).	- E: difficult access for most local operators to foreign markets, especially overseas, so most sales of tourism packages occur via several intermediaries in other countries; - R: need for discussing the impact of various domestic policies, e.g. lease contracts, work permits, promotion of secondary sites - S: need for human resources development in accordance to the sectoral needs	The relevance of tourism has already been acknowledged by both private and public sectors, with initiatives as the establishment of the Hotel and Tourism Association (HATAB) and the public sector Tourism Board. The sector is considered to have an ample growth potential and it is one of the priorities of Vision 2016.	There is scope to complement information (focused on supply capacity and to a lesser extent on domestic regulatory issues) with an analysis of the negotiating options (including an evaluation of existing commitments) and on unaddressed domestic policy choices.	Several successful examples of developing countries, where tourism is one of the main export sectors (various Caribbean countries, Mauritius, Tanzania, Kenya).
10) recreational, cultural and sporting services	No data available. Trade is likely to be small and mainly confined to some recreational activity traded via mode 2 and 4. Some possibilities for cultural services linked to tourism.	Small direct and indirect impact on the economy.	Small effects on employment, with very few employed professionally.	- policies to promote cultural exchanges may be potentially helpful in developing trade.	Not regarded as a priority sector at this stage, although there may be some potential to exploit culture and music related to tourism.	Few studies available.	South Africa as sports event organizer
11) transport services	It is the second largest traded services sector. Botswana is a net importer due to its landlocked position, with imports of P 1.5bn in 2003 and P 420 m of exports (mainly via mode 1)	While the <i>direct</i> importance of transport is limited (1.1% of GDP), the <i>indirect</i> impact is crucial for the competitiveness of a landlocked country like Botswana both for goods and services (esp. through air transport)	Limited and stable contribution in employment (around 1.7% in 2003 – authors' estimate on CSO data).	- E: need for evaluating the role of regional cooperation (including harmonization and simplification of border operations and development of infrastructure network) - E/R: need to assess the impact of the current air transport regulation (both BASA and domestic regulation) - S: need to address the potential for skills shortages (e.g. bus drivers)	Government's view of making the country a potential regional transport hub (both for road and air transport). Road and railway transport are considered crucial for the development of the economy, while air cargo is an export oriented activity.	Few studies available. Possibility of developing a complete case study to inform negotiating options and domestic regulation.	Air cargo hub developed by Kenya and South Africa.
12) Other services	Negligible trade	Negligible	Negligible				

Source: consultation in Botswana and various studies and reports

5 Trade in tourism services

5.1 Overview

Tourism is a very important sector for Botswana. It is the most important service sector in obtaining foreign exchange, but behind mining, and among the most important ones in terms of contribution to employment and GDP. The sector is also important for development and poverty reduction.

Trade in services commitments and negotiations affect the tourism sector in various ways. *Tourism services* are exported via mode 2 with tourists coming mainly from Southern Africa, and high valued added tourist from overseas. Thus GATS tourism services mode 2 of Botswana's partner countries would be important – though these would be non-constraining in almost all cases. Mode 3 (imports of services) on the other hand is important because it regulates market access and treatment of foreign hotels, lodges, restaurants etc. Finally, mode 4 trade in services is also important: imports in the case of qualified professionals whose skills may be lacking (e.g. lodge managers and to some extent travel guides), and exports in the case of setting up or working in travel agencies abroad.

Negotiations in *other services* may also affect tourism services. For instance efficient financial and back-office services will be helpful for tourism. Transport services, and air access are important issues.

The main question addressed in this section is to understand the importance of existing and future trade in services commitments along side the other factors affecting the performance of the tourism sector. We also address the relationship between GATS commitments and the new 2006 Tourism regulations.

5.2 Importance of sector for economic development and poverty reduction

How does trade in tourism services affect development?

Tourism seems to have the potential for being one of the drivers of Botswana's economic development. It has a direct impact on economic development through its direct contribution to GDP, employment and via the generation of foreign exchange vital to sustain the country's imports. Indirectly, a well developed tourism capacity may enhance the attractiveness to other FDI. There are also significant indirect effects through linkages with the agricultural sector and other services sectors.

Tourism services are likely to have a substantial potential for poverty reduction. Tourism tends to be a labour intensive activity (particularly with respect to relatively less skilled labour) and it can be located in rural areas with potentially important backward linkages with the local agricultural sector.

The importance of trade in tourism services in practice

The tourism industry has experienced rapid growth over the past few years, with the number of licensed tourist establishments rising from 100 in 1998 to 226 in 2003 (Department of Tourism). Around 266 tour operators were licensed by the Department of Tourism, in addition to about 180 restaurants and similar establishments licensed by municipalities. Many tour operators are foreign owned (Monanne and Sesinyi, 2001). The supply of accommodation has increased substantially from 2376 rooms in 1998 to 3707 rooms in 2003, a growth of 60%. This is substantially higher than the growth in visitor arrivals of just more than 30% during the corresponding period.¹¹

The ownership structure of licenses issued to tour operators is as follows:

- Citizen owned: Accounted for 40% of licenses issued in 2003, compared to 23% in 1998 (closest to nationals);
- Joint Venture: Accounted for 27% of licenses issued in 2003, compared to 37% in 1998;
- Non-citizen: Accounted for 33% of licenses issued in 2003, compared to 40% in 1998.

The direct effect is substantial. A study by the Botswana Tourism Department in 1998 showed that tourism contributed between 3.2% and 4.5% to the GDP in 1997, depending on the method used for the calculation (i.e. expenditure or output approach). Since tourist expenditures have increased at higher rates than the overall economic growth rate during the past eight years, it is estimated that the sector's contribution to GDP has grown to more than 4.5%. The study assumed that tourism's share of total employment was the same as its share of GDP (estimated at about 4.5 percent), and that the total number of jobs generated by the tourism sector would be expected to be around 9,900 persons in 1997 (Leechor, 2004).

The indirect effect on the economy as a whole, though linkages etc, is also substantial. The WTTC (2006) estimates that the total contribution to the economy could be 8% and the sector is responsible for 9.6% of employment in the economy. Of course we should admit the difficulties in producing such estimates. Using the same methodology, table 17 shows that travel and tourism is relatively high in the region.

Table 17 Travel and Tourism Contribution in employment (direct and indirect), selected countries (%)

Botswana	9.6
South Africa	7.5
Mauritius	28.1
Zambia	3.4
Namibia	10.7
Kenya	9.2
SSA	6.6

Source: World Travel & Tourism Council

¹¹ This disproportionate increase in the supply of accommodation could be the result of increased investment in accommodation facilities during the late 1990's and early 2000 when tourism was in a strong growth cycle and visitor arrival had increased by approximately 47% between 1998 and 2000. Unfortunately tourism arrivals have been declining since 2000 and this has led to tourism accommodation increases having outstripped visitor growth.

There are two main types of tourists in Botswana:

- Overseas tourists usually consume high value services concentrated in the Okavango Delta area (in line the “high value low volume” tourism strategy implemented by some of the domestic tourist industry);
- African tourists may choose low-middle value holidays (e.g. self-driving, camping).

While there has been a decline in absolute numbers of tourists (after filtering out irregularities) total expenditure has risen, driving up the receipts from tourism close to P 3 mn in 2003 (USD 470 mn). Table 18 shows that the majority of tourists are African, with 50-60,000 overseas tourists. While the data records Zimbabweans and Zambians as tourists, most of these arrivals seem to be related to migration rather than tourism (as it is confirmed by the rapid growth of Zimbabwean “tourists” in a period of deep recession for that country). Once we filter out these arrivals, the data show a declining pattern between 2000 and 2003, which might be due to certain negative shocks (e.g. 9/11, SARS, Iraq war) rather than to an idiosyncratic decline of Botswana’s ability to attract tourists. According to the operators interviewed there has been a quick recovery of tourism in the last few years, which would suggest that the negative effect of the external shocks is fading away. There has been an increase in total receipts from tourism.

Table 18 Tourist arrivals in Botswana and tourist expenditure

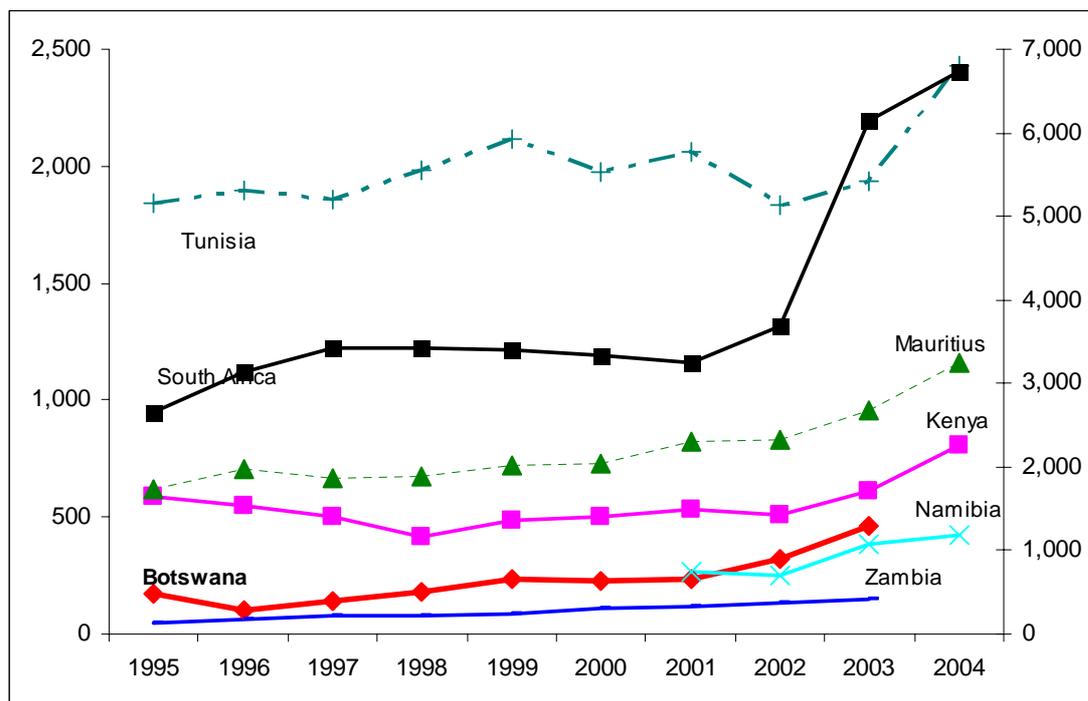
	1999	2000	2001	2002	2003
South Africa	393,528	507,610	478,044	407,247	354,984
Zimbabwe	245,630	311,452	319,174	401,424	435,940
Zambia	28,888	40,343	36,681	44,644	34,636
Namibia	39,952	40,429	36,681	34,814	29,415
USA	9,871	23,967	21,971	15,238	10,656
UK	15,519	22,868	19,283	18,077	14,445
Germany	8,209	13,317	8,875	8,640	6,584
Netherlands	4,460	7,038	6,030	5,161	4,181
Australia	5,577	8,217	5,756	5,488	4,118
France	3,219	4,562	4,358	3,679	2,730
Other countries	88,461	123,993	111,992	92,146	77,776
Total	843,314	1,103,796	1,048,845	1,036,558	975,465
Total without Zbw and Zmb	568,796	752,001	692,990	590,490	504,889
Major overseas countries	46,855	79,969	66,273	56,283	42,714
Expenditure (USD million)	234	313	300	309	356

Source: Department of Tourism

How well is Botswana doing compared to other countries?

Various data sources (incl. table 18) show that there has been a steady increase in tourism receipts over the past decade. Obviously it is doing better than Zimbabwe, but it also scores better than other neighbouring countries, see chart 3. For instance, Botswana has been growing similarly fast as Kenya. Comparisons with South Africa are made difficult because of the spike in 2003. Chart 4 shows that Botswana’s share of tourism receipts in GDP was also relatively high (though not as high as in Mauritius and Tunisia) and rising. Travel services are around three quarters of total exports of services in Botswana, higher than in most other countries in the region (chart 5).

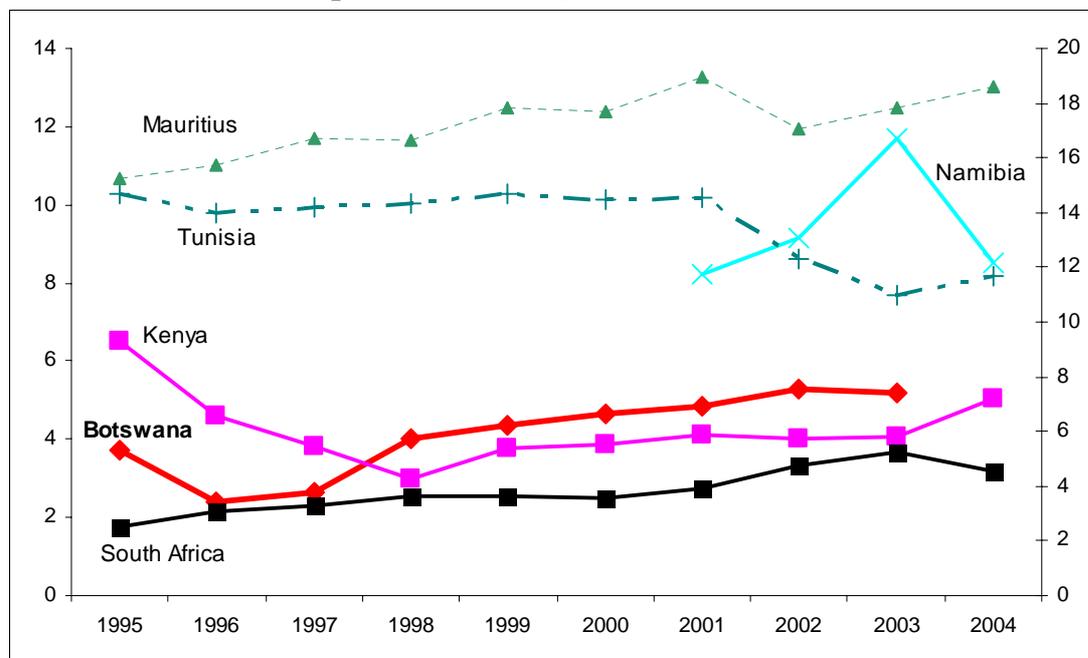
Chart 3 International tourism receipts, selected countries (current million USD)



Note: South Africa's values are on the right axis; receipts' values for Botswana are different from the expenditure values in Table 18 as they come from a different source.

Source: WDI 2006

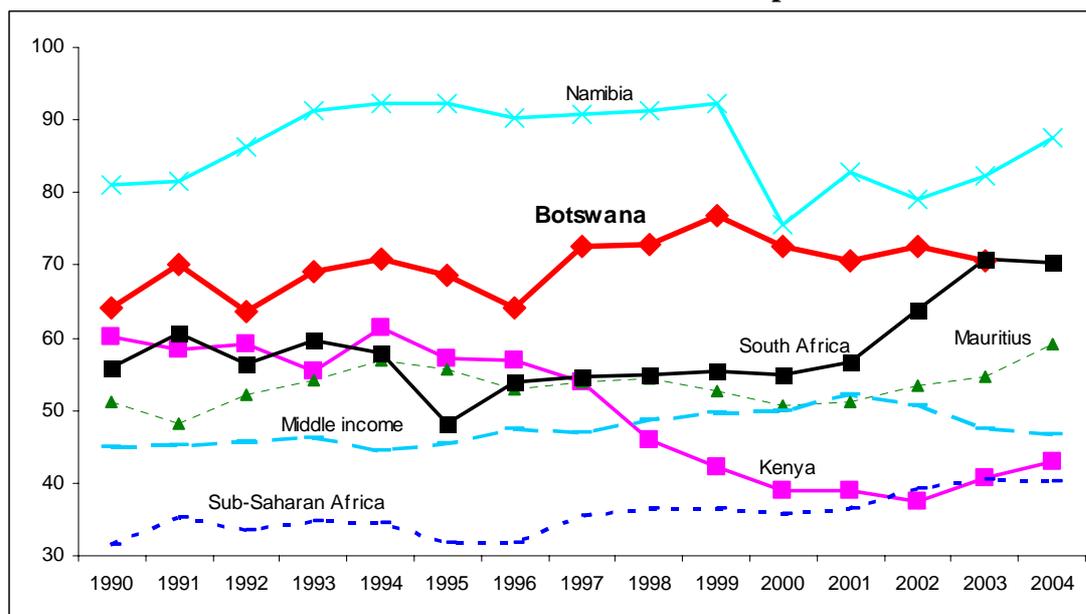
Chart 4 Tourism receipts as % of GDP, selected countries



Note: Mauritius' values are on the right axis

Source: WDI 2006

Chart 5 Travel services as % of commercial services exports



Source: WDI 2006

Comparative/competitive advantage of tourism services in Botswana

A number of factors play a role in determining Botswana's competitiveness as a tourist destination (both relative to the region and to the rest of the world):

- The country is politically stable and secure, which is relevant, specifically for the tourism sector and given the political turmoil in its neighbours
- Some argue it has an international recognition as a very prestigious, wilderness tourist destination, but
- It is not easy to reach, with little direct access from overseas (all through South Africa), and hence relatively costly to reach, and
- the perception is that the prices of Botswana's lodge are high.

Botswana ranks 115 in terms of absolute size and relative contribution to the national economy and number 41 for tourism growth prospects (out of 174 countries) according to the World Travel and Tourism Council.

5.3 Summary of relevant regulatory frameworks

The domestic regulatory framework of the tourism industry seems fairly straightforward. There are some regulatory limitations but these do not seem to impose any major constraint on the ability to trade in export services. The two main pieces of legislation regulating the operations of the tourism industry in Botswana include

- the Tourism Act (1992) and
- the Tourism Regulations (1996).

The Tourism Act provides for regulating the tourism industry with a view to promoting its development and well-being. It a) makes provision for the licensing of tourism enterprises and sets out the procedures in respect of applications for licenses, power of inspection, appeals, etc.; b) defines categories of tourism enterprises; c) makes provision for the introduction of a grading system for tourism enterprises; d) establishes a Tourist Industry Licensing Board; e) makes provision for the possible introduction of a training levy and the establishment of a National Advisory Council on Tourism.

Monnane and Sesinyi (2001) describe limitations relevant for GATS commitments, for both market access and national treatment in mode 3. In terms of the Tourism Act tourism enterprises are only allowed to operate if they are issued with operating licenses and existing licensees have to renew their licenses annually, except for when they are exempt from doing so by the relevant Minister. The tourism act states that any person wishing to carry on a tourist enterprise is required to apply to the Director of Tourism and supply information as required by the Director

The Tourism Regulations established the National Council on Tourism, specifies the requirements for a tourism license and hotel grading and lays down the license fees and training levies. The exact status of these documents is somewhat unclear as the regulations have since been amended to exempt certain categories of enterprises from licenses and to put the grading system on hold. Also, the new National Tourist Board has been appointed since (Leechor, 2004).

One possibly discriminatory rule affecting mode 3 market access includes that “Botswana citizens are encouraged to hold a substantial fraction of the shares in the safari companies.” Another affects mode 3 national treatment: “Licensed operators are required to keep proper registers indicating nationalities of visitors, classification of grades of all hotels as well as safety and sanitation of desirable standards” (Tourism Regulations, 1996).

Botswana has included GATS commitments covering two tourism sub sectors, 9a hotels and restaurants, and 9b travel agencies and tour operators. It has not included commitments in 9c tourist guides service, unlike some other countries, see table 19. The evaluation of the impact of such commitments on market access and national treatment is not easy as other factors will have played a more important role, and other countries will also have included such commitments.

Table 19 GATS commitments in Tourism

Country	Commitments (National Treatment or Market Access)
Botswana	9a, 9b (Mode 2 and 3)
South Africa	9a, 9b (except Mode 4) & 9c (Mode 2 and 3)
Zambia	9a, 9b, 9c (except mode 4)
Namibia	9a, 9b
Kenya	9a, 9b, 9c
Mauritius	
Tanzania	9a (for hotel above 4 stars category, only Mode 1)

Source: WTO

5.4 Analysis of key constraints

The main constraints to further development of this sector which have emerged from consultations and reports are the subject to an intense debate at the national level and appear to be related to domestic regulation and supply capacity. Related to services trade negotiations, Botswana has already committed some tourism sub-sector, so the question here is what have been the possible effects of these commitments, though there is scope for further commitments in other tourism sub-sectors.

We identified the following key issues, distinguishing amongst external, regulatory and supply capacity constraints:

External:

1. Difficult access for local operators to foreign markets

Most sales of tourism packages occur via several intermediaries, including tour operators and wholesalers overseas and in South Africa (which acts as sales hub for the Southern African region). Therefore, a substantial share of value-added accruing to actors along the tourism value chain accrues to companies outside Botswana. This is mainly a corporate issue, in that companies in Botswana are able to capture a greater share of the value chain when they are sufficiently competitive and skilled, and not a regulatory issue. On the other hand, if local operators find it difficult to enter value chains because of restrictive business practices by foreign companies (e.g. pressure due to uncompetitive behaviour), it might be helpful to be able to make a case in the relevant country (and hence ask to include competition policies in international negotiations, e.g. as the Dominican Republic has done in the case of the proposed Tourism Annex in GATS negotiations.).

There are also restrictions on personnel of tourism enterprises abroad. Some of these restrictions could be addressed by Mode 4 trade in services negotiations at SADC, EPA and GATS levels. Botswana can be open to attracting workers to address the skills gap in the hotel, financial services and education services sectors, and in return demand better access for its own workers such as tour guides and operators. Botswana should clearly identify the target markets by sector.

2. Allocation of work permits to foreign employees

There are difficulties in obtaining work permits for their foreign employees of firms located in Botswana (see e.g. UNCTAD, 2003). This seems to be related more to the procedure of granting permits rather than to the actual regulation itself. This constrains the ability of businesses to source adequate skills, and might be important for the tourism sector with skills gaps. This makes it difficult to employ qualified personnel especially in specified areas (e.g. lodge managers) creating some rigidities in the labour market (e.g. needing to keep on inefficient managers).

3. GATS commitments and effects of foreign companies

This has not come up as a major issue. On the contrary, the tourism sector has been performing particularly well despite or because of Botswana's commitments in two sub-sectors. At the least, GATS commitments are very unlikely to have worsened investment in tourism, but the GATS commitments themselves did not change the practice of non-discrimination (just the international binding). There is however some resentment against

foreign ownership as it is thought that Botswana may not capture as much from the tourism value chain as is possible. The strict interpretation of the presence of GATS commitments would not allow for subsidization to attract certain companies or improve the impact of existing companies using local content requirements (similar to TRIMs in the case of goods trade), and alternative ways need to be found for this (see Box 5) such as general linkage programmes or general supplier development programmes.

Box 5 GATS rules on subsidies and local content for services

GATS article XV deals with subsidies: ... in certain circumstances, subsidies may have distortive effects of trade in services. Members shall enter into negotiations with a view to developing the necessary disciplines ...“ It also recognizes the role of subsidies in relation to development and the need for flexibility, and asks for an information exchange concerning all subsidies related to trade in services.

There are already disciplines related to GATS that deal with subsidies. SCM agreement already provides scope for remedial action against unfair subsidization of services embodied in goods (as TRIMS does for local content requirements). For services, subsidies are considered “measures” within the meaning of the GATS, so MFN obligations apply (GATS Art. II). However, governments may choose not to subsidise foreign firms only; or use MFN exemptions. National treatment applies to the subsidy practices to the extent that a sector has been listed in a country’s schedule of commitments (GATS Art XVII). Botswana has done this for tourism services but not financial services. Limitations to commitments can be scheduled, some by sector, others horizontally. But if local content or subsidies are not mentioned for scheduled sectors, they are not permitted. Market access is precondition for binding effects in NT and MFN clauses; as without market access commitments there are no effects. GATS Art XV (2) states that adversely affected Members may request consultation; this shall be accorded sympathetic consideration; but no guidelines what to do, and no reference to the DSU.

There was no time table initially for services negotiations, but the 2001 guidelines suggests that Members shall aim to complete negotiations on Art XV prior to conclusion on specific commitments; however, it is far from clear whether disciplines will really materialise; not much has happened so far (and the Doha Round has now come to a standstill). It will be very hard to determine whether investment incentives are trade-distorting (different in case of goods) and when they are legitimate for public policy reasons (recognised by Art XV). What might be helpful is to have an information exchange on relevance of all / trade-distorting subsidies before deciding whether and how to deal with subsidies in GATS.

Regulatory:

1. Duration of lease for land concession contracts

The majority of valuable land from a tourism point of view (e.g. the entire Okavango Delta area) is tribal land, which can be utilized through leases of up to 15 years. After that period the lease is tendered through open competition. This new form of arrangement (earlier there was no limit of time to the lease) has been controversial and most of the industry views it as a limitation to its incentive to invest on the sites (due to the lack of security of the investment). On the other hand, there may also have been benefits from this regulation for the economy as whole. First, it stimulates competition between operators for the land and pushes up the prices of lease benefiting the government and local communities. Second, it may open potential windows of opportunity for Botswana to participate into the industry as

shareholders by participation in the tender at a later stage, while allowing their capacities to increase.

2. Weak international air access, and inefficient (domestic) air transport

There are no direct flights from the EU or US even though these constitute important markets for tourists in terms of revenues. Domestically, the air transport system from and to tourist locations is regarded as a major constraint to the development of the tourism industry. This constraint operates through various channels: poor levels of transport services offered to tourists (e.g. delays, cancellation, technical problems); and insufficient seat capacity, which creates problems of compatibility between supply of accommodation packages and supply of transport services.

Supply capacity:

1. Lack of adequate domestic human resources to fulfil the sectoral needs.

The shortage is especially severe for managerial roles (e.g. lodge managers) and some specialised skills (e.g. accountants, sales and reservation specialists). There is evidence that a substantial part of managerial and specialized jobs are covered by foreign employees (e.g. South African, Zimbabwean, Kenyan, see also box 6). Although some more formal training has been introduced in recent years especially in the Maun area (e.g. through the Maun technical college), the supply of skills seems to be insufficient for the needs of an increasingly demanding industry. The skill gap is particularly significant with respect to on-the-job training, as well as the appropriateness of formal education, as formal education is often de-linked from professional experience.

2. Relatively uncompetitive support services

The tourism industry is dependent on a number of support services (e.g. marketing, sales, reservation, IT), which are crucial for the competitiveness of the industry. A large number of tourism firms have decided to localize part of their operations in Johannesburg (see Box 6). This pattern is potentially a constraint to the capacity of the industry to generate revenue and employment in Botswana. If costs and technology permitted, it could also be better for the industry to have access to support services nearby.

3. Under-utilisation of secondary tourist sites

Most secondary (i.e. unknown) tourism sites (e.g. the Central Kalahari, the Western Delta, the Pans and the Kgalagadi) appear to be under-exploited due to lack of supply capacity and marketing efforts. These destinations are potentially a viable alternative to the most popular ones, and may alleviate pressures on the Maun area and spread the benefits of the industry across the country.

5.5 Possible implications for trade in services policy

Generally there is a lack of a detailed tourism plan around which the country can unite. Such a plan might be helpful to frame the present discussion of policies. For instance, Mauritius recently stated it would aim for 2mn visitors by 2015 up from 800.000 per annum now, and this has ramifications for different parts. There is a range of policy options that may potentially address the constraints identified in the previous section. We list them by constraint before turning our attention to services negotiations.

1. Investment promotion and other service negotiations.

There may be opportunities for extending the range of services activities targeted by the International Financial Services Centre (IFSC) to include tourism related services (e.g. sales and reservation services). Moreover, the use of new technology (e.g. internet) may help increasing direct sales. In this way Botswana could appropriate some further parts of the global value chain in tourism. However, the bulk of the market power is likely to be kept by large tour operators and wholesalers in Europe and North America, in part because of the geographic vicinity to the tourists.

Box 6 The establishment of tourism back-office operations in South Africa

A significant part of back-office operations including sales and reservation offices supporting the Botswana tourist industry are located in South Africa, Johannesburg. The largest tourism company operating in Botswana (Okavango Wilderness Safari) has established its sales, marketing and reservation office in Johannesburg, serving all its operations in Africa (but which are concentrated mainly in Botswana). It employs around 90 people.

A number of factors may have contributed for the decision to locate certain tourism related activities in South Africa:

- More efficient and reliable communications network in South African relative to Botswana. Given the communication intensity of sales and reservation activities, such relative advantage may be important.
- Greater availability of skilled personnel, especially as far as marketing and reservation competences are concerned.
- Easier access to foreign tour operators (which usually carry out the sales on behalf of the Botswana tour operator), most of which have a branch in Johannesburg
- Superior access to support services for the operations (e.g. computer and internet related support, publishing services for brochures).

On the other hand there are also incentives in setting these operations in Botswana, which could be exploited in case Botswana were able to tackle these deficiencies. In particular, establishing these operations in Botswana would reduce:

- the costs of communication between the lodges and the reservation (even if most communication occurs via internet, there is still a significant part which has to be dealt with on the phone or face-to-face)
- foreign exchange rate costs: as many tourism firms have their head office in Botswana, the price paid in South African currency to the sales department has to be converted in Pula when transferring it to the head office.

2. More effective work permit regulation.

There seems to be need to make the allocation of work permits more efficient and effective to help the industry in short-run while at the same time creating a appropriate and good quality skills at home. One option is to consider the adoption of mode 4 schedules for *temporary* access such as by the EC which allow intra-corporate transferees for a temporary period subject to conditions such as prior employment, education and experience. Others include the provision of objective criteria for the granting of permits or of a limited (and ideally decreasing over time) number of permits to firm (who can then allocate to employees).

3. Maintain existing land leasing policy

Whether the land leasing policy needs to be changed (especially in terms of the duration of the lease) is very much an empirical question. Some preliminary evidence seems to suggest

that despite the limited number of years for the concession, operators still find it profitable to participate into the tendering process, while the government would be able to obtain higher revenues due to higher prices. Is the appropriate length of leasing 10 years, 15 years or 20 years? Our limited evidence has not led us to think that the current length is not right. Of course, more detailed work would be needed.

4. Provide appropriate and good quality skills

Improve cooperation between training institutions and firms in the industry, by developing further specialised institutions, tailored to the specific needs of Botswana's tourism.

5. Increase tourism marketing

Increase promotion of secondary sites and design an effective tender process for the land in those areas. Some suggested it was not just the marketing that was lacking, but the funds to develop the sited prior to marketing.

6. Improve the provision of support services

There is a need to strengthen and improve the provision of services which supports back-office operations in tourism if Botswana wants to capture a higher share of the tourism value chain. In particular IT services (both at the supply capacity and at the regulatory level) need improvement together with the development of appropriate skills.

7. Improved air access

There are several options that may need consideration. One is the development of an efficient national air carrier either through privatisation or increased public investment in Air Botswana. A complementary option is to press ahead with further extensions of BASAs (Bilateral Air Services Agreements) and open skies agreements, including in the regional context (box 7). Air Botswana needs to improve and invest if it is to be able to withstand competition in a more open market.

Evidence for the region suggests that air access to Botswana is more constrained and as a result more expensive than to other countries, thus supporting a less restrictive policy in Botswana. Richman and Lyle (2005) compare prices of flights for destinations under 1 200km from Johannesburg. The costs of flights to relatively unconstrained routes where BA/Comair competes with the national carrier and Comair's no-frills carrier kulula.com has entered these markets tends to be lower, at SA Rand 0.52c per km to Windhoek and SA Rand 0.65c per km to Harare. This is in stark contrast with R1.57 per km to Maputo and R2.01 per km to Gaborone. Both of these are more constrained routes where only the national airlines of each country are allowed to fly the route. This indicates the relatively high price of flights to Botswana.

Myburgh *et al.* (2006) perform a statistical analysis of the effects of liberalisation on prices of flights and the number of visitors by air. They argue that based on air fares on 56 routes in SADC (including Botswana), air fares are 18 percent lower on liberalised routes, which could have increased passenger volumes by 14–32 percent (if capacity available). The presence of a low-cost airline on a given route has reduced prices by an average of 40 percent, which could have increased passenger volumes by 32–72 percent.

Reviewing evidence worldwide, Richman and Lyle (2005) also argue that

- Air transport liberalisation has been successful as a channel and catalyst for increased economic growth and employment, especially related to tourism.

- A decline in market share and traffic of the national carrier is likely to be much more than compensated by the benefits to the economy from increased air traffic to and from the country.
- The alternative to liberalisation is likely to prove much more costly to both a national carrier and the economy in the medium-term, with a probably increasing need for public subsidy to the carrier and an increasing opportunity cost for development of the national economy.

Box 7 Air access issues for Botswana

All domestic routes are controlled by Air Botswana. These include: Gaborone – Maun, Gaborone-Francistown, Gaborone-Kasane, Kasane-Maun. Air Botswana and South African Express both operate scheduled international transport. Air Botswana controls around 60% of the market (in 2000) and operates Gaborone – Johannesburg, Gaborone-Harare, Maun-Cape Town, Johannesburg–Maun, Johannesburg-Francistown. South African Airways runs regular scheduled international flights to and from Botswana: Johannesburg–Gaborone, Cape Town-Gaborone. Air Namibia operates a flight between Maun and Windhoek

Botswana has a fully operational Bilateral Air Services Agreement with South Africa, and a partially operational with Zimbabwe and Namibia. The rest of the bilateral agreements are not operational, with the London-Gaborone route (operated by British Airways) and the Paris-Gaborone route (operated by Air France) having been terminated in 1999. Most of the bilateral agreements are with countries in Africa and Europe. These countries are: Kenya, Malawi, South Africa, Zambia, Zimbabwe, Belgium, France, Germany, Netherlands, and United Kingdom. Botswana also has a bilateral agreement with Pakistan. The president suggested last year to activate the Botswana - Zambia route.

The recent re-negotiation of the bilateral air service agreement between Botswana and South Africa has made it possible for AB to operate the Maun-Cape Town route effective from October 2005 and for SAA to operate Johannesburg-Maun and Johannesburg-Francistown. The ministry of Works and Transport concluded a Memorandum of Understanding (MOU) with South Africa. An open skies policy regarding cargo services has come into force whilst multiple designation and multiple entry market access for passenger services is scheduled to come begin May 2007. This MoU should allow any Botswana or South African airline to fly from and to any airport between the two countries, stimulating competition in the air transport services between the two countries. The effects are likely to be beneficial for consumers (e.g. lower prices, more efficient services); on the other hand the liberalisation may pose serious threats to Air Botswana's survival, given the current relatively weak competitive position of the national carrier. Air Botswana made substantial losses initially, recorded profits in the early 2000s, but last year, fuel price caused losses for 2005.

Botswana is party to two multilateral agreements (BIDPA, 2003): The SADC Protocol on Transport and Meteorology and the Yamoussoukro Decision. One of the objectives of the SADC Protocol is to overcome the constraints of small national markets for some SADC airlines and to enhance competitiveness of regional air services in a global context. The Yamoussoukro Decision, signed by 50 African states in August 2000 is an Open Skies policy for Africa. When the agreement is fully operational, African airlines could fly over or land in any of the territories of member states. The US, for example, aims to conclude open skies agreement at a bilateral level.

Of course there are likely to be positive and negative experience. And there may be negative consequences for the 320 employees of Air Botswana if it has to face more competition. There may also be some short term uncertainty in case Air Botswana failed to secure certain routes in the face of competition. Therefore, a *gradual* move to liberalisation coupled with upgrading and if appropriate privatisation of the national carrier seems a suitable way forward. It would be important to promote the idea of an air access unit, with inputs from the Ministries responsible for Trade and Tourism, in order to steer and analyse this process.

There are further implications for tourism in trade in services negotiations. First, past tourism commitments in GATS have coincided with strong growth of the tourism sector with significant positive effects on development. There are more foreign companies and investment than before 1995, and investment has continued (Table 20 below). Some studies for other regions suggest GATS commitments might be one of a range of helpful determinants. Second, more offers could be considered in 9c, tourist guide services, and other (though this would be too open ended and needs clarifying using CPC numbers), particularly in relation to mode 4. Third, Botswana will have an offensive interest in better mode 4 access for establishing tour operators abroad, bearing in mind that mode 4 restrictions are unlikely to be the main cause.

Table 20 FDI stocks in tourism (million Pula and %)

	1998		1999		2000		2002		2003		2004	
	Equity	Total										
Hospitality	59	60	83	83	10	17	124	129	134	139	52	57
% FDI	2.2%	1.0%	2.1%	1.1%	0.2%	0.2%	2.3%	1.6%	2.4%	1.8%	1.3%	1.4%
% non-mining FDI	6.6%	4.8%	5.2%	4.6%	0.6%	0.8%	7.0%	5.7%	6.9%	5.7%	3.5%	3.3%

Source: BoB Annual Reports

Other GATS negotiations may also affect tourism in the future, in particular commitments conducive for investment in financial and related backoffice services and transport services. Negotiations on GATS rules may also be important, as they might affect non-committed sectors relating to negotiations on subsidies.

Botswana is engaged in other negotiations which can include services, such as EPAs: EPAs might be helpful for getting better access to mode 4 supply of services, streamline access to development funds (worth around €30-40mn over 5 years) that might help trade in services capacity (e.g. to satisfy CPA article 41.5, see Box 8 for previously EU financed projects). Finally, it is possible to think about the inclusion of additional services commitments. Jansen (2006) for instance argues that the ESA group of countries stand to gain from including financial services and tourism in EPAs. This would allow more competition between EU and South African firms in third markets. However, if the SADC-EU EPA will be a retrofit of the TDCA, any serious negotiations on services commitments are likely to be deferred until later.

Finally, there are ongoing discussions SADC. However, apart from regional integration of air transport (discussed in Box 7) the tourism sector might not be affected much.

Box 8 Aid for Trade: what projects have been funded by EDF in Botswana?

- Botswana trade development programmes
- Vocational training programmes (several projects)
- Botswana tourism development programme
- Francistown vocational teachers training centre and VTC
- Wildlife conservation & utilisation in Central & Southern Botswana
- Lobatse water supply
- Support for HIV/AIDS programme
- Aeromagnetic geological survey of Western Ngamiland
- Assistance to the base metal mining industry (SYSMIN)
- Several microprojects programmes
- Strengthening of government capacity in the appraisal and implementation of EU funded programmes
- Wildlife conservation and management programme
- Technical assistance to NAO's office
- Economic diversification of the mining sector (SYSMIN)

5.6 The new 2006 Tourism regulations and GATS consistency

What are the new Tourism regulations?

The 2006 Budget included reference to new regulations

“... under the revised Tourism Regulations... citizens will have exclusive rights to the operation of several types of small and medium tourism enterprises, such as guest houses, motor boat safaris, camping and caravan sites, mekoro, mobile safaris and tourism transfers and transportation.”

This was followed up by an official announcement in August 2006. The new tourism regulations, 2006, state that the following tourist enterprises are reserved for citizens of Botswana or companies which are wholly owned by citizens of Botswana:

- Camping sites including caravan sites
- Guest houses
- Mekoro operations
- Mobile safaris
- Motorboat safaris
- Transportation.

What exactly did the country commit in GATS in the tourism sector?

Botswana has already made commitments in 1995 in modes 1–3 including in the following sub-sectors

9a Hotels and Restaurants (CPC641–643)

9b Travel agencies and tour operators.

Box 9 shows what is included in CPC641–643. This includes services such as camping and caravanning, which would be reserved for nationals under the new regulations.

There are no CPCs listed under GATS tourism sector 9b, but this can include:

7471 Travel agency and tour operator services

74710 Travel agency and tour operator services

Thus, some of the operations in the new regulations above might be included in these CPCs for which Botswana has already made commitments.

The GATS tourism sector 9c includes:

7472 Tourist guide services

Box 9 Tourism, subsector 9A, UN Classifications for CPC641-CPC643

64	Hotel and restaurant services
641	Hotel and other lodging services
6411	Hotel lodging services
64110	Hotel lodging services
6412	Motel lodging services
64120	Motel lodging services
6419	Other lodging services
64191	Children's holiday camp services
64192	Holiday center and holiday home services
64193	Letting services of furnished accommodation
64194	Youth hostel and mountain shelter services
64195	Camping and caravaning site services
64196	Sleeping car services and sleeping services in other transport media
64199	Other lodging services n.e.c.
642	Food serving services
6421	Meal serving services with full restaurant service
64210	Meal serving services with full restaurant service
6422	Meal serving services in self-service facilities
64220	Meal serving services in self-service facilities
6423	Caterer services, providing meals to outside
64230	Caterer services, providing meals to outside
6429	Other food serving services
64290	Other food serving services
643	Beverage serving services for consumption on the premises
6431	Beverage serving services without entertainment
64310	Beverage serving services without entertainment
6432	Beverage serving services with entertainment
64320	Beverage serving services with entertainment

Are the new regulations contravening GATS commitments?

As indicated above it seems that the new regulations are contravening existing GATS commitments unless the newly reserved operations were classified as:

- 9c tourist guide services, for which there are currently no commitments in GATS, or
- mode 4 supply of services (see below under options).

Tourist guide services do not tend to include all of the above 'tourist enterprises', though this would need further examination. Also the nature of the words "tourist enterprises" seems to suggest that this relates to market access for foreign companies via mode 3. If the purpose had been to restrict foreign workers, it could have been possible to classify this as a mode 4 market access limitation, which is still open to Botswana because commitments in this mode are "unbound except as indicated in the horizontal commitments".

What are the options for Botswana?

1) Change the 2006 tourism regulations

Restricting services companies to citizens in this way is not conducive to developing the services sectors in Botswana; if Botswana is concerned about employment of citizens rather than national development, it would be more efficient to first promote domestic capabilities and then to use immigration procedures and work permits (mode 4) rather than restrictions on enterprises. For instance, the new regulations could severely limit the ability of foreign owned tourist enterprises to operate even if they brought new skills, marketing methods, finance, and employed citizens. Why does Botswana want to limit welfare enhancing, foreign owned guest houses? It will surely be more efficient to promote the capabilities of citizens to build and operate guest houses.

Also the impact of the law seems limited. While according to the budget of February 2007, the number of Botswana engaged in tourism related business increased by 11 per cent in almost a year, the level itself is quite low and stood at 247 last year, from 223 in 2005. What is not mentioned is how much revenues have changed.

Some argue that the listed activities are not key to foreign investment and that this is a rationale for restricting these activities to nationals. However, there is at least some foreign investment in these activities, so some commercial interest, and conversely, if there is not a lot of FDI in the sector there would be a need for attracting more for it, and providing a transparent and open framework for this would be important.

2) Interpret the new Tourism legislation

Another option for Botswana would be to clarify the new tourism legislation. It may well be aimed at specific tour guide companies, in which case it concerns mode 3 commitments in sector 9c. Leaving aside the potential inefficiency of doing this, it would limit the possibility of a GATS infringement in sectors 9a and 9b.

Another, perhaps more desirable option might be to regard the classified operations by non-citizens tourist enterprises as *self-employed* or *independent professionals* under mode 4. The European Union has introduced four categories in its EU-25 GATS offer

- ICT (Intra-Corporate Transferees), managers, specialists and new graduate trainees
- BV (Business visitors), both for services sellers and for establishing a business
- CSS (Contractual services suppliers),
- IP (Independent Professionals)

Botswana could introduce a similar schedule and indicate clearly where and when foreign temporary self-employed, independent professionals would be restricted.

3) Revoke GATS commitments

Revoking GATS commitments in tourism is directly against the spirit of Botswana's commitment to diversify the economy and develop the service sectors. It is inefficient to reinstate broad trade restrictions if the specific aim is to empower Botswana. It is more efficient to empower Botswana and provide them with the skills and qualities to compete with others. One particular concern emerging from the interviews in Maun was the lack of access to credit for independent (indigenous) tour operators to set up their own business.

If the country really wants to backtrack on its commitments to develop the tourism sector, and modify its GATS commitments, it can follow the procedures in Art XXI procedures, see box 10. A country wishing to reverse or add a further limitation can do so after a period of 3 years of the commitment being in place – which is the case for tourism commitments. Further, it needs to negotiate compensation with all affected parties – so it would need to find out who would lose out. Compensation is ill defined but can be in the form of increased services access in other areas. We are not familiar with the existence of any cases in developing countries which have requested to modify its GATS commitments.

Box 10 GATS Article XXI Modification of Schedules

1. (a) A Member (referred to in this Article as the “modifying Member”) may modify or withdraw any commitment in its Schedule, at any time after three years have elapsed from the date on which that commitment entered into force, in accordance with the provisions of this Article.
- (b) A modifying Member shall notify its intent to modify or withdraw a commitment pursuant to this Article to the Council for Trade in Services no later than three months before the intended date of implementation of the modification or withdrawal.
2. (a) At the request of any Member the benefits of which under this Agreement may be affected (referred to in this Article as an “affected Member”) by a proposed modification or withdrawal notified under subparagraph 1(b), the modifying Member shall enter into negotiations with a view to reaching agreement on any necessary compensatory adjustment. In such negotiations and agreement, the Members concerned shall endeavour to maintain a general level of mutually advantageous commitments not less favourable to trade than that provided for in Schedules of specific commitments prior to such negotiations.
- (b) Compensatory adjustments shall be made on a most-favoured-nation basis.
3. (a) If agreement is not reached between the modifying Member and any affected Member before the end of the period provided for negotiations, such affected Member may refer the matter to arbitration. Any affected Member that wishes to enforce a right that it may have to compensation must participate in the arbitration.
- (b) If no affected Member has requested arbitration, the modifying Member shall be free to implement the proposed modification or withdrawal.
4. (a) The modifying Member may not modify or withdraw its commitment until it has made compensatory adjustments in conformity with the findings of the arbitration.
- (b) If the modifying Member implements its proposed modification or withdrawal and does not comply with the findings of the arbitration, any affected Member that participated in the arbitration may modify or withdraw substantially equivalent benefits in conformity with those findings. Notwithstanding Article II, such a modification or withdrawal may be implemented solely with respect to the modifying Member.
5. The Council for Trade in Services shall establish procedures for rectification or modification of Schedules. Any Member which has modified or withdrawn scheduled commitments under this Article shall modify its Schedule according to such procedures.

6 Trade in financial services

6.1 Overview

The financial services sector is the largest service sector in value of export revenues after travel related and transport services and has established a good position regionally. The contribution of the sector to total employment may be less important than tourism, but will still be important.

Exports occur in three main categories:

- insurance services
- traditional banking services, and
- back-office services.

Trade in insurance services have been growing substantially over the past years, indicating a huge potential in this sector. The potential for trade in banking services seems to be significantly under-exploited, given the presence of the IFSC, a fairly deep capital market, stimulated also by large institutional savings related to the recent development of a pension fund industry, and the presence of a stock exchange.

The financial sector in Botswana is composed of three main sub-sectors: banking, insurance and pension and capital markets (security). We describe each of them in turn.

Banking Sector

Two banks, Barclays Bank of Botswana and Standard Chartered Bank of Botswana, dominated the banking sector until the 1980s. In 1990, the Bank of Botswana liberalized its licensing policy for new banks. It no longer determines whether the domestic market can absorb a new bank. The number of foreign bank licences is in principle unrestricted, but foreign banks must operate as locally incorporated subsidiaries while foreign bank branches are not allowed. Local ownership is encouraged. Thus, the licensing decision depends solely on whether a prospective new bank is sufficiently capitalized, and has access to the necessary skills and resources to ensure a sound banking operation. The objective is to facilitate the entry of new banks in order to promote competition and efficiency within the sector, and to stimulate the process of financial intermediation. The profits are currently high by regional standards.

Currently there are seven commercial banks operating in Botswana. The top four (Barclays Bank of Botswana, Standard Chartered Bank of Botswana, Stanbic Bank of Botswana and First National Bank of Botswana) account for 95% of total banking assets. All banks have majority foreign ownership (3 are South African, two are British, one Indian and one Zimbabwean).

Insurance and Pension Sectors

Botswana has several insurance companies which offer a full range of insurance products. Currently the insurance sector has 14 insurers (life and non-life insurers) many of which are wholly foreign owned (mainly South African) and three are joint ventures with local companies. In addition, there are 31 registered insurance brokerage firms (five with local ownership) and 126 corporate agents (a majority of which are foreign owned).

Botswana has significant amount of pension assets, which increased sharply with the government's decision to switch to a defined contribution scheme and fully funding of existing liabilities under the new scheme. There are about ninety pension funds with total assets of more than P 9 billion, of which about 45% is invested abroad. There are 80 local active funds, 8 external funds, 5 umbrella funds, 7 closed funds (no longer open for new members) and 13 inactive funds. However, these data appear to have changed recently (P 20 billion, and 70%).

Securities Sector

Botswana set up the Botswana Stock Exchange (BSE) in 1989 and there are currently 23 listed companies (16 local and seven foreign sector companies) and 44 traded securities, 19 of which are bonds. In addition to ordinary shares, three bonds are listed in the stock exchange. The composition of listed companies is more geared towards finance, wholesale, retail, property, brewing, security and oil industries. The BSE Committee is the regulating authority of the stock market, through the administration, share dealings, listings, take-overs and mergers. The securities sector comprises two registered stock-broking firms as well. A Pan-African commodities exchange should also be operational in the next future; however, the regulatory framework is not yet permissive.

The Botswana Insurance Fund Managers (BIFM), one of the largest fund managers in the country, owns between 8% and 10% of every listed company on the Botswana Stock Exchange, which to some extent has aided the low liquidity levels on the exchange.

There are two major questions in relation to financial services exports

- What could be the role of trade in services commitments in the financial services sectors?
- How can the IFSC promote back office services?

6.2 Importance of sector for economic development and poverty reduction

How does trade in financial services affect development?

Financial services contribute directly to GDP, through the value added of employees in banks, but can also be seen as important backbone services for the economy.

The *indirect* relevance of the sector is likely to be significant by regulating and providing access to capital and by providing insurance services for businesses and households. In particular, the high interest rate is considered to be a severe constraint to the growth of several businesses, especially small and micro enterprises. Moreover access to capital is a binding constraint for a significant part of the household as well.

The sector is relatively labour intensive, however the employment contribution is likely to involve mainly relatively skilled labour; therefore, the direct contribution to poverty reduction may be limited.

The importance of trade in financial services in practice

The sector makes an important and increasing *direct* contribution to GDP (4.5% in 2004/05 and an average of 4% in 1995/97 according to Bank of Botswana data). However formal banks are aimed predominantly at the 100-200,000 wage employees, while the poorer parts of the population are not reached.

Insurance services is the largest sub-sector in terms of trade (P173 million worth of exports, and P135 million worth of imports in 2005). There is mode 3 trade and trade in insurance products without registering subsidiaries in the country of the customer is restricted. Consultations seem to suggest that life insurance services form an important part of Botswana's exports (e.g. BIFM is particularly active through subsidiaries in various countries including Kenya, Tanzania and Zambia¹²). Trade in banking and other financial services is significantly less with P23 million of exports and P15 million of imports in 2005. However, importantly, 2005 was the first year in which Botswana experienced a trade surplus in this category.

In terms of contribution to employment, the financial services sector is recorded together with business services in CSO data, 6.7% of total employment in 2003. If we assume the same proportion of contribution in employment as that in GDP between the two sectors, the contribution in employment would be around 4% in 2005.

How well is Botswana doing compared to other countries?

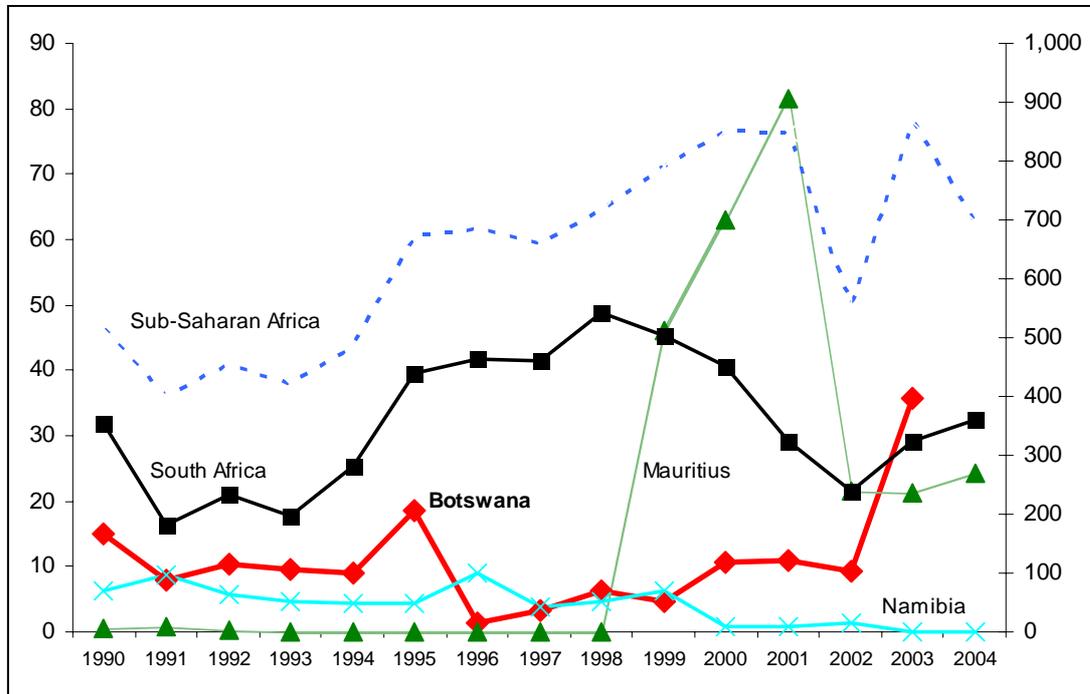
The sector's share in GDP is still relatively low compared to similar economies (Soylemezoglu 2005). Financial depth is also lower than Sub-Saharan economies at a similar stage of development. For example M2/GDP is about 26% in Botswana (which is the average in the whole Sub-Saharan Africa) vs. 52% in South Africa and 80% in Mauritius. The difference is even more striking in terms of bank assets/GDP. The penetration of the insurance sector seems to be lower than in similar comparators. The premium/GDP ratio in Botswana is 2.46%, while in Kenya is 3.3%, in Mauritius 4% and in South Africa 16.5%. However, the penetration of the insurance sector in Botswana is significantly higher than in most other African countries, where the ratio is around 1%.

Financial services exports from Botswana are doing well, and have risen consistently since 1996, thereby overtaking even Mauritius (though only a tenth of the value of South Africa's exports (Chart 6). Chart 6 shows that financial services exports are important compared to

¹² Bifm – Botswana Insurance Fund Management - is a wholly owned subsidiary of Botswana Insurance Holdings Limited (BIHL, see www.bifm.co.bw). BIHL is major listed companies on the Botswana Stock Exchange. Its controlling shareholder (54%) is Sanlam, a South African-based company. The remaining 46% is held by the Botswana public. Bifm was founded in 1975 as Botswana's first "Fund" manager. In 1998 the company was handling P770-million in investments. By 2001 this was P2-billion. In 2006 it is P11 billion. Based in Botswana, Bifm has an operation in Zambia that currently trades under the name 'Aflife Zambia'.

other countries, both as part of GDP and as part of total exports of services. The level and share of FDI in financial services has continued to rise (Table 21).

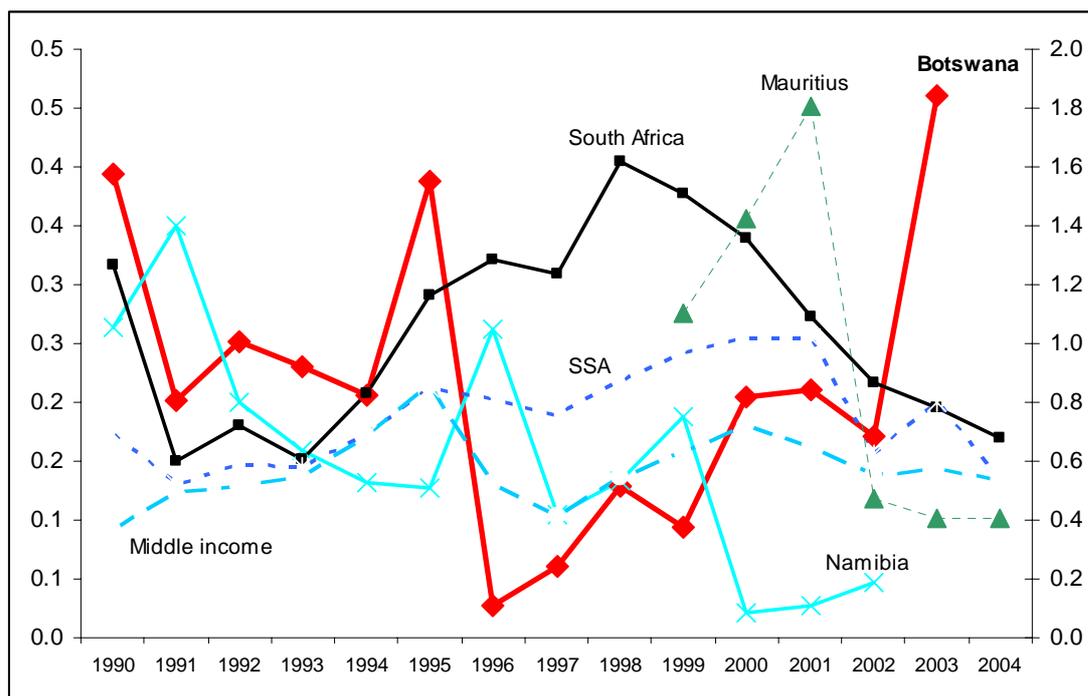
Chart 6 Financial services exports (million USD)



Note: values for South Africa and Sub-Saharan Africa are on the right axis.

Source: WDI 2006

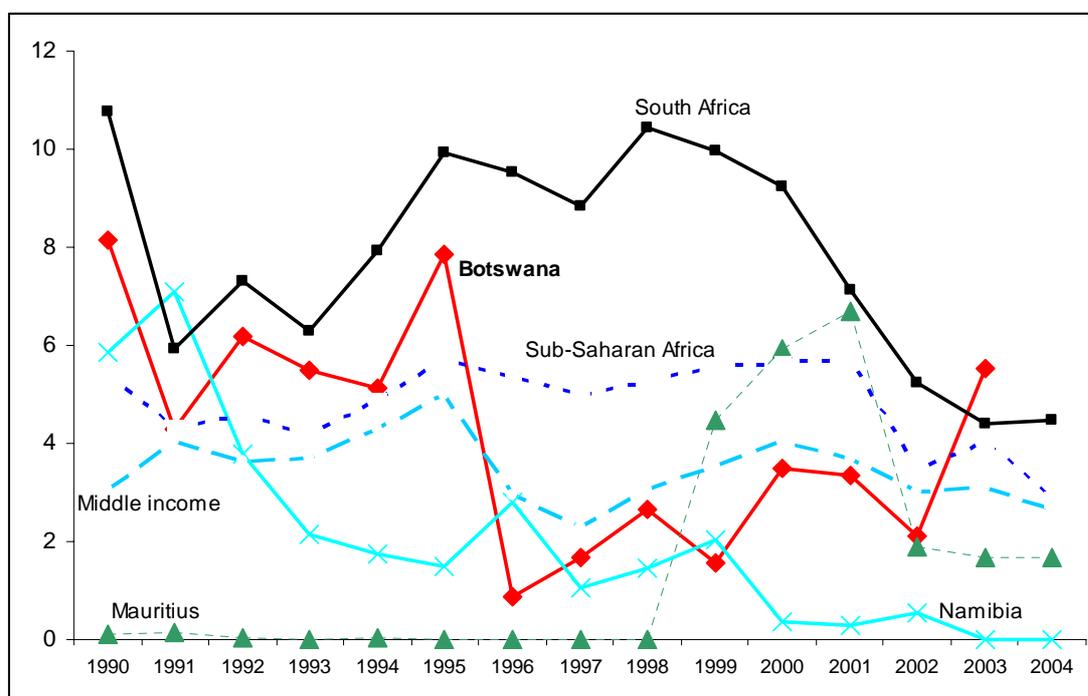
Chart 7 Financial services exports as % of GDP



Note: values for Mauritius are on the right axis.

Source: WDI 2006

Chart 8 Financial services as % of commercial services exports



Source: WDI 2006

Table 21 FDI stock in financial services (million Pula and %)

	1998		1999		2000		2002		2003		2004	
	Equity	Total	Equity	Total	Equity	Total	Equity	Total	Equity	Total	Equity	Total
Finance	149	226	466	523	516	619	648	803	718	873	931	931
% FDI	0.055	0.04	0.121	0.07	0.124	0.06	0.122	0.1	0.128	0.11	0.235	0.22
% non-mining FDI	0.166	0.18	0.291	0.29	0.324	0.3	0.366	0.36	0.372	0.36	0.625	0.54

Source: BoB Annual Reports

Comparative/competitive advantage of financial services in Botswana

The idea of promoting Botswana as a financial services offshore centre is well understood in the country and is based on a number of factors:

- a good record in terms of governance and political stability
- no foreign exchange controls
- a fairly developed network of double taxation treaties, which currently comprises South Africa, UK, Mauritius, Sweden, India and France, although it may need further expansion
- a fairly well educated labour force that can be trained for the firms' purposes (although some specific skills are lacking)
- a highly liquid market where firms could raise capital
- a modern regulatory framework for cross-border trade for insurance services
- proximity to the main regional services centre, Johannesburg
- the IFSC has been set up in 2003 with the mandate to establish a cross-border financial services industry in Botswana. It operates as a special license for companies which carry out offshore financial services operations allowing them to pay a lower taxation rate (15% instead of the standard 25% until 2020; and exemptions from withholding tax). It also helps companies with sometimes lengthy procedures for the installation of their business. The IFSC approved 5 applications of companies in 2005, bringing the number of certified companies operating under the International Financial Services Centre (IFSC) to 29.

6.3 Summary of relevant regulatory frameworks

Banking

Commercial banks are regulated and supervised by the Bank of Botswana, under the 1995 Banking Act and the attached 1995 Banking Regulations. The Act provides a legal framework for the ownership and supervision of banks.

The banking sector has been open and fairly competitive. Entry into the banking sector by foreign investors has been largely unrestricted.

Most of the restrictions apply to mode 3 of supply (commercial presence). One of the few restrictions (Section 9 (7) of the 1995 Banking Act) prohibits banks from establishing subsidiaries, branches or representative offices outside Botswana, without the prior written approval of the Bank of Botswana. Apart from a few other related restrictions under Section 9 of the 1995 Banking Act, there are no limitations regarding market access such as

limitations on the number of foreign banks allowed or on the number of foreign nationals that can be employed.

However, non-citizens are required to have a valid work permit (Employment of Non-citizens' Act, CAP 47:02, (4)(1)). The Botswana banking sector has no policies that discriminate against foreign owned banks. In fact there is a 15 per cent tax incentives (compared to the prevailing per cent corporate tax) up to the year 2020 aimed at attracting foreign financial institutions operating in foreign markets to the IFSC.

Certain licensing requirements allow banks to participate in the market. Some of these requirements include the "fit and proper test" which banks need to undergo and satisfy. For example, no person can become a director of a bank unless he is fit and proper in accordance with the criteria determined by the Bank of Botswana. Commercial and investment banks are also expected to fulfill a capital requirement of P5 million and P2.5 million for credit institutions and discount houses. Foreign bank applicants need the consent of a home supervisor.

Insurance Sector

The regulator of the insurance sector is the Registrar of Insurance, Pension and Provident Funds in the Ministry of Finance and Development Planning granting licenses as well as rules governing the operations of the sector. The sector is regulated under the Insurance Industry Act (1988) for domestic transactions, and by the recently approved International Insurance Act (2005) for international transactions. Regulation and monitoring of the insurance and retirement funds industries in Botswana as are the Insurance Industry Act of Botswana and the Pension and Provident Funds Act of Botswana.

A number of factors have affected the expansion of the Insurance Sector in Botswana. Most of the restrictions relate to Mode 3 of supply. The entry and operation of foreign insurance companies are limited by the requirement that only principal offices will be registered, thus branches are not allowed. Insurance companies are also required to pay up a minimum share capital of P2 million. The measures are aimed at protecting consumers and ensuring that insurance companies within the country retain sufficient funds to meet local statutory requirements and liabilities. The sector has no strong policies that discriminate between domestic and foreign insurance companies. However, the Insurance Industry Act stipulates the need for principal offices and officers to be registered and resident in Botswana, affecting both commercial presence as well as the presence of natural persons mode of supply. The said principal officer should have sufficient business and insurance experience to manage the company.

The introduction of the International Insurance Act, which was passed in May 2005, aims to create the fiscal and regulatory environment to make Botswana an attractive location from which international insurance services, such as reinsurance, captive insurance and related activities, can be provided to non-citizens and in currencies other than the Pula. It is one of the first laws of this type in Africa and may provide an important window of opportunity for developing Botswana as an offshore centre for insurance services.

Securities Sector

The stock market is highly liberal, following the liberalization of the capital account of the balance of payments. These measures have enabled foreign registered and listed companies to simultaneously list on the BSE and be regarded as domestic investments in Botswana. The

Botswana Stock Exchange Act (1994) is the main piece of legislation regulating the sector, although other relevant legislation includes Botswana Stock Exchange Listing Requirements and Botswana Stock Exchange Members Rules. The Ministry of Finance and Development and Planning also oversees the operations of the BSE.

The few restrictions that exist regarding market access, as per the Botswana Stock Market Act, stipulate that the public shall hold at least 20% of each class of equity shares, unless exempted by the stock exchange committee. Domestic residency of the firm and director is a prerequisite to becoming a member of the BSE. Part of the requirements to registration is that a stock-broking company should have at least one employee as a registered stockbroker.

Botswana has not entered into any GATS commitments in financial services.

Table 22 GATS commitments in financial services

	Financial
Botswana, Namibia, Tanzania, Zambia	No commitments
South Africa	7a (Mode 2 and 3)
Kenya	7a: Life insurance and broking (Mode 3), non-life (mode 2), auxiliary services, reinsurance (except Mode 4); 7b (except mode 4)

Source: WTO

6.4 Analysis of key constraints

The financial sector is already a fairly open sector with no foreign exchange controls and investment grade ratings. However various challenges are still present at external, regulatory and supply capacity level, many of which have been discussed in previous studies and national debates. An important challenge faced by Botswana's financial services sector is the appropriateness of the current financial system in dealing with the evolution of the sector. This is not an easy task: first, this is often technical relating to efficient regulatory structures and institutions such as the IMF are providing support; some of these issues have been highlighted and discussed at length already by Soylemezoglu (2005). This study aims to provide new impetus in a few key issues and focuses on other constraints to trade in financial services.

One of the problems facing Botswana, and despite a relatively healthy and growing banking sector, is that the proportion of private sector loans going to business has declined from 70% in 1990 to 45% in 2001. This indicates a shift of resources away from productive investment towards consumption, and corresponds to the failure of the country to diversify the economy. There is no vibrant lending to the private sector indicating that business may take few risks.

External:

1. Low level of integration at the regional level for certain financial products

This is especially true in the insurance market, where for example the harmonization of transport insurance products would be advisable at the SADC level.

There will also be restrictions for financial services providers through mode 4. Some of these restrictions could be addressed by Mode 4 trade in services negotiations at SADC, EPA and GATS levels. Botswana can be open to attracting workers to address the skills gap in financial services and in return demand better access for its own workers such as tour guides and operators. Botswana should clearly identify the target markets by sector.

2. Insufficient network of double taxation agreements

These are agreements between Botswana and other countries, in order to avoid foreign companies based in Botswana taxation in the country of the mother company as well. At the moment it is confined only to a few, albeit important, countries: South Africa, Mauritius, UK, Sweden, France, Zimbabwe, Namibia, India and Russia.

Regulatory:

3. Rigid work permits' regulation

This constrains the ability of firms to fill gaps in domestic skills, as financial services appear to be one of the sectors where such shortage is most severe (e.g. risk analysts, asset managers). Some work at the IFSC has begun to improve the situation. However, there are some fierce criticisms of the recent work permit climate at the major banks.

Supply capacity:

4. Shortage of skilled labour available for sectoral needs

This is related mainly to a lack of on-the-job experience but also applies to the lack of formal training in the skills needed by the sector. This is a problem, particularly for big banks when moving operations into the country. It is simply too difficult to find the right number of appropriately skilled workers.

5. Relatively poor IT infrastructure

While the ICT infrastructure is regionally well positioned, it is not sufficient for applications that would require high amount of data transfer, such as centralized back office operations of financial companies. Box 11 argues that a real step up in commitments is needed to ensure that support services are in order.

Box 11 Time for a real commitment to promote the overall business environment for trade in financial services

Our interviews with a selection of foreign owned banks suggested that Botswana has not yet been able to be as serious as is needed to promote the financial services. The IFSC is a good idea, however, all the indications are that there is a lack of appropriate complementary policies necessary for the ultimate success of the government's efforts to develop trade in financial services.

There are two types of complementary policies: skills development and developing an appropriate IT infrastructure. Without these, even a favourable incentive framework cannot keep companies in Botswana. The relatively poor quality of general IT infrastructure including poor data exchange processes is believed to have been a major cause of Barclays' decision to relocate part of its back office operations away from Botswana (via IFSC).

Barclays decided to go the IFSC as there were incentives and it wanted to help the IFSC given that it is a major bank in Botswana. It turned out to be a wrong decision for Barclays as they were not able to get the right calibre of staff on an ongoing basis and they had considerable network IT issues at the IFSC which they were unable to resolve. They then moved the entire regional office from Gaborone to Johannesburg as it made sense to consolidate all their activities into one place. Thus small standalone units without appropriate support services may not work as well. The IT framework needs to be fully up to scratch to international standards.

The Standard Chartered bank also listed the lack of skilled labour as one of their primary concerns. A lot of their back office services are done from Kenya, in part because they are able to deliver the number of workers required.

It thus seems that a lot more needs to be done on the real side of financial services, with a step up in the commitments to promote IT infrastructure and skills.

6.5 Possible implications for trade in services policy

There is a range of policy options that may potentially address the constraints identified in the previous section. We list them and then turn our attention to GATS negotiations.

1. Improve discussions at the SADC level on integration of financial services

Botswana has already established a relatively good position in the region on which it can build. While there have been ongoing discussions under the SADC protocol on regulatory issues, there has been relatively little on market access issues.

2. Strengthen the network of double taxation agreements

There might be a case to strengthen the network of taxation agreements.

3. Monitor work permit issues in the financial services sector

Much of this is being addressed. However, it is cited by big banks as a major constraint. If Botswana is serious about attracting FDI in knowledge intensive activities, it also needs to maintain a regime that is welcome to national and foreign talents.

4. Need for improved link between formal training to professional experience and enhancing education programmes tailored to the specific needs of the sector.

Improve relevance of existing training and education programmes and where necessary begin new education and training initiatives (we discuss the example of BAC in box 13 below). It is crucial that the private sector is involved in design but also in the operation of programmes. For instance, the private sector could offer internships or lectures for students enrolled at universities.

5. Improved telecommunication services

Better and cheaper access to telecommunications services will improve the position of the IFSC and financial services generally, and back office operations in particular. This has implications both for supply capacity and the regulatory level. The connection to more fibre optic cables would be an improvement in the capacity of the telecommunication providers (the open access EASSY system might help to overcome some problems associated with the closed SAT cable).

At the regulatory level, the government has considered the extent to which current competition in the telecommunication sector is sufficient to obtain the desired standard and efficiency of services. The Telecommunications Policy for Botswana which was adopted in 1995 aimed to introduce competition in the telecommunications sector which was followed by the Telecommunications Act of 1996. BTC used to have the monopoly with a mandate to provide all the telecommunications services to all areas. The implementation of the Telecommunications Act led to the creation of the Botswana Telecommunications Authority (BTA). The BTA has issued cellular licences to Orange Botswana (formerly Vista) and Mascom Wireless Botswana, Internet Services Providers (ISP) licences and Data licences. Box 12 discusses the future steps in liberalising the sector. This is expected to improve the situation. However, it is unclear what the best time-frame is for this. The public company needs to be restructured before being prepared for privatisation which ought to take time – but this could lead to severe postponement as was the case of Air Botswana.

Box 12 Further Liberalisation of the Telecommunications Sector

The Government decided to institute the following measures to open up the industry:

1) Lift the restriction on the provision of VoIP by value-added network service providers. 1 August 2006.

“Lift the restriction on the provision of VoIP by value-added network service providers” means allowing Voice over internet Protocol to be provided by Internet Service Providers (ISP). This is equivalent to issuing voice licenses to ISPs at national and international level, the market currently serviced by BTC, Mascom and Orange only.

2) Mobile operators start self providing (transmission links) 1 August 2006

“Mobile operators start self providing (transmission links)” means allowing Mascom and Orange to build their own backbone infrastructure to carry their traffic. Currently they are compelled to use the BTC infrastructure.

3) Current fixed line and cellular operators may apply for service-neutral licenses. 1 September 2006

“Service Neutral Licenses” are those licenses that allow an operator to provide all telecommunications services including voice, data, and irrespective of whether the service is transmitted wirelessly or on a wire.

4) New entrants may tender for service neutral rural/ district level licenses 1 September 2006

5) Liberalisation of the international voice gateway 1 October 2006

“Liberalisation of the International voice gateway” means allowing other players to provide international switching and transmission of voice services, the market that is currently a monopoly to BTC.

6) BTC attains a satisfactory level of tariff rebalancing. December 2007

“BTC attains a satisfactory level of tariff rebalancing” means allowing BTC to significantly complete their ongoing exercise of adjustment of their tariffs to align them with costs.

7) New entrants may tender for service neutral national licenses 1 July 2009.

Other measures include the establishment of a Universal Service Fund, Privatisation of the Botswana Telecommunications Corporation as follows: sell a significant proportion of between 40%–49% of the equity of the Botswana Telecommunications Corporation to a Strategic Equity Partner; allot a small proportion of shares of about 5% to citizen employees of BTC, sold at a deferred payment terms in the form of an Employee Share Option Plan; place a proportion of the shares between 15%–25% in the Privatization Trust Fund which will warehouse the shares for sale at a later date to Botswana; and retain between 25%–30% of the shares for later sale to the public by way of stock market listing.

Source: Botswana Telecommunications Authority

Because the government has announced ways to liberalise the sector, it should consider the possibility of committing the telecommunication sub-sector in GATS. It can bind existing liberalisation in the hope of attracting more FDI, or it can offer commitments that pre-signal liberalisation in accordance with the government's proposals (with or without a specific target date). Or it can wait to see when all the liberalisation steps have been finalised.

6.6 Different paths for GATS commitments in insurance and banking services

Botswana has not committed any of the financial services sectors to GATS. This is despite the existence of non-discriminatory legislation and an already important presence of foreign banks. The existing banks tend to have high profits rates, and are amongst the most profitable in the world with returns on equity of around 40%. Some of the bigger banks have a profit ratio of 100%. If profits are supranormal more competition may well be needed and GATS commitments may help to signal this. But it is also possible that high profits are a reflection of thin markets, sunk costs and risks, as emphasised by the bigger banks. It is unlikely that the biggest US banks will consider the small market of Botswana attractive – the fixed costs of going into Botswana are too high. Extending GATS commitments to financial services will need to coincide with an assessment of the domestic regulatory framework of the banking and insurance sectors. And this is currently different between insurance and banking services.

GATS commitments in banking services

The supervision in the banking sector is relatively advanced. As in most other countries, the supervision of banking is in the hands of the central bank (not a ministry). And while it may not be carrying out extensive checks, there are existing checks on banks. A revised Banking Act has given banks more flexibility in conducting their operations and brought banking legislation in line with changes in the global industry's norms for regulation, supervision and payments. All indications are that Botswana is ready for further GATS commitments and to introduce more competition,

GATS commitments in non-banking financial services

The supervision of the pension and insurance industry is less well advanced. There is a proposal to locate the regulator outside the Ministry and to build capacity in supervision of the non-banking sector, but so far the ministry is still regulating this. This is different in countries such as South Africa where the Financial Services Board (FSB) was established as a statutory body in 1990 and financed by the financial services industry itself, with no contribution from government. It supervises the control over the activities of non-banking financial services, and acts in an advisory capacity to the Minister of Finance. In Ireland, the Irish Financial Services Regulatory Authority is the regulator for the direct writing of industry from Ireland. The insurance regulator in Ireland is under the Minister of State for Science, Technology and Commerce and the prudential supervision function is carried out by a unit within the Insurance and Company Law Division of the Ministry.

The Ministry of Finance and Development Planning has been devising a Non-Bank Financial Institutions Regulatory Authority (NBFIRA) framework. The NBFIRA could be a department under the Bank of Botswana, the authority is necessary to regulate pension funds,

capital markets, provident funds as well as insurances. The Botswana IFSC is engaged in the legislative process to ensure that the regulator is responsive to the needs of a cross-border financial services sector.

Because these changes still have to take place it seems better to wait until the new authority is working before Botswana can make any commitments in GATS negotiations on the non-banking financial services sector. There is a need for trained staff; supervisory staff has increased from four in February 2001 to 12 currently.

7 Trade in education services

7.1 Overview

It is unlikely that Botswana will become a global education hub in the near future. However, it can improve the balance on trade in education services and regard the promotion of effective education services as an import substitution strategy. It can also improve the relevance of its education sector to the development of other service sectors such as financial or tourism services. And it can move quickly to build up education expertise in niche areas such as nurse education, and repeat successful examples from the accountancy sector.

Botswana aims to build an innovative economy for the 21st century. Tertiary education plays a vital role in this by ensuring an adequate set of skills for the economy's needs. Trade in education services plays a unique role in Botswana. Exports of services are low and Botswana could aim to increase the exports, but imports are very high and these could be reduced by becoming a regional hub (in key areas) and hence make a greater direct and indirect impact on GDP and development. Trade in education services relates almost exclusively to tertiary / higher education services.

Tertiary education is provided by the University of Botswana, Institutes of Health Sciences, Colleges of Education, Botswana College of Agriculture (BCA), Botswana Accounting College (BAC) and institutions that are affiliated to universities or colleges outside Botswana. The main institution operating in the sector is the University of Botswana, which is public and is the only university currently recognized in the country. However, the role of the private sector in tertiary education has grown in importance with over 100 private providers (e.g. technical colleges, and institutions providing vocational training) estimated to have registered with the Ministry of Education by 2004, and more in the pipeline awaiting registration by the Tertiary Education Council. Public tertiary education has been slow to respond to the demand of the labour market.

Finally, a more recent phenomenon evidenced in Botswana is that of off-shore providers who are increasingly utilising new technology to extend the scope of educational delivery across national borders.

Overall there has been too little strategic direction towards the tertiary education sector. The most recent documents on tertiary education bring this out. *Towards a Knowledge Society: A Proposal for a Tertiary Education Policy for Botswana* of October 2006 suggested that:

- the tertiary education system is fragmented with no clear oversight
- it has many small institutions failing to reap economies of scale
- there is a proliferation of private institutions offering poor quality programmes at high costs
- there are concerns about the relevance of quality of tertiary education programmes
- there is a challenge in access and participation
- and a weak institutional climate.

The document recommends a new tertiary education policy, but also notes the constraints to designing an appropriate human resources strategy in a country of 1.7 mn people and tertiary student education enrolment of 27,000.

It argues for a two-pronged approach:

- research, innovation, and teaching using Universities
- specialised training using colleges and institutions.

This chapter applies a “trade in services” lens to the education sector and its messages are consistent with the above. An improvement in the University sector is likely to reduce the demand for imported education services, and there is the possibility that in certain specialised areas, Botswana could build on its comparative strengths.

7.2 Importance of sector for economic development and poverty reduction

How does trade in education services affect development?

Education services have a *direct* effect. Because it is not recorded at market prices the direct impact of the tertiary education sector on to the economy is usually underestimated in official statistics, but the real direct contribution in GDP is likely to be significant (as it is a high value added service).

The *indirect* effects are more important as tertiary education helps to create the skills adequate to the economy’s needs, which are still lacking in many sectors of the economy. In this way, the tertiary education will have a major impact on growth and poverty reduction (Te Velde, 2005b).

Publicly financed imports of education services will be a drag on public finances, while exports will help the fiscal position as well as the prospects of an education hub..

The importance of trade in education services in practice

The Botswana government supports students abroad compensating for the lack of good quality and appropriate opportunities locally. The estimated value of imports of education services for Botswana is worth P 1bn in government expenditure. This may even be bigger if one considers the private component of this spending (e.g. private firms sponsored scholarship, family support). The data are recorded under the BoP category travel related imports.

Estimates for exports are around P 21.5 mn in 2004 including living expenses of students (see Table 23). This value represents the bulk of Botswana’s exports in educational services and has doubled over the past 5 years.

Table 23 Estimates of total tuition and fees paid to the University of Botswana by foreign students (Pula)

	1999	2000	2001	2002	2003	2004
Tuition	5,650,800	8,079,000	7,671,400	11,050,100	12,258,600	12,241,550
Other Fees	329,378	367,008	468,285	563,677	600,860	593,460
Living Expenses	4,838,044	5,840,116	5,959,221	8,621,835	9,241,060	8,706,550
TOTAL	10,818,222	14,286,124	14,098,906	20,235,612	22,100,520	21,541,560
Foreign Students (number and % in total)	854 (8.4%)	922 (7.9%)	801 (6.4%)	1,037 (7.8%)	997 (6.4%)	885 (5.7%)

Source: draft unpublished paper

The *direct* weight of the tertiary education in GDP is likely to be relatively low as education is typically a non commercial service in Botswana. The fairly widespread basic education is likely to keep pressure on the demand for tertiary education Botswana. The contribution of the sector to total employment (private and parastatal) is limited (2.5% in 2005), albeit increasing.

How well is Botswana doing compared to other countries?

Based on net enrolment rates in tertiary education, it would appear that the sector in Botswana is still fairly under-developed relatively to Mauritius and South Africa (see Table 15). Based on OECD data, student outbound mobility from Botswana is extremely high (with only Lesotho higher rates) compared to other African countries. Like Namibia, Swaziland and Lesotho, almost all outward students go to South Africa (table 24).

Tuition fees in Botswana are comparable to those in other developing countries. Fees range US\$2484- US\$3270 for undergraduate and US\$1987 – US\$2515 for postgraduates. The fees for undergraduates in Mauritius are US\$2,148 and US\$3,938 for postgraduates, and US\$3570 in Singapore. In South Africa undergraduate fees range from US\$1990–US\$6050. In the Caribbean, fees are US\$2296 for Humanities and Social Sciences, US\$2296 for Sciences, US\$2631 for Engineering and US\$9584 for Medicine.

Table 24 Student Mobility

Region	Students from a given country studying abroad (outbound mobile students) ^a			Top five destinations (host countries) for outbound mobile students (The number of students from given country studying in the host countries is shown in brackets)	Number of students from abroad - inbound	Net flow of mobile students (Inbound - outbound)	
Country or territory	#	Outbound mobility ratio (%)	Gross outbound enrolment ratio			#	Net flow ratio (%)
Botswana	9,471	71.6	4.5	South Africa (7,012), Australia (792), United Kingdom (700), U.S.A. (488), Malaysia (152) ²	...	...	...
Kenya	14,123	13.0	0.4	U.S.A. (7,381), United Kingdom (3,083), Australia (1,115), India (521), Canada (341) ⁴	...	...	...
Lesotho	4,537	74.3	2.0	South Africa (4,366), United Kingdom (42), U.S.A. (39), Australia (15)	116	-4,421	-72.4
Madagascar	3,995	9.5	0.2	France (3,487), U.S.A. (109), Germany (100), Switzerland (80), Canada (41) ⁴	1,219	-2,776	-6.6
Mauritius	7,224	40.6	7.0	France (1,893), South Africa (1,732), United Kingdom (1,646), Australia (860), India (366)	75	-7,149	-40.2
Mozambique	2,366	10.6	0.1	Portugal (1,066), South Africa (815), U.S.A. (93), United Kingdom (71), Australia (67)	...	...	...
Namibia	6,847	58.1	3.5	South Africa (6,530), U.S.A. (95), United Kingdom (74), Australia (24), Germany (16)	1,026	-5,821	-49.4
Rwanda	1,929	7.6	0.2	France (482), Belgium (376), U.S.A. (275), Burundi (217) ² , United Kingdom (82), Germany (77)	92	-1,837	-7.3
Seychelles	457	...	6.3	United Kingdom (189), Australia (117), France (32), New Zealand (25), Mauritius (15)	.	-457	...
South Africa	5,619	0.8	0.1	U.S.A. (1,971), United Kingdom (1,408), Australia (643), Cuba (340), Germany (196)	49,979	44,360	6.2
Swaziland	2,106	31.9	1.7	South Africa (1,882), U.S.A. (86), United Kingdom (67), Lesotho (17), Australia (13)	127	-1,979	-30.0
Uganda	2,454	2.8	0.1	United Kingdom (885), U.S.A. (696), Germany (121), India (93), Tanzania (82)	...	...	...
United Republic of Tanzania	3,907	9.1	0.1	U.S.A. (1,471), United Kingdom (1,053), South Africa (283), Australia (119), Germany (115)	275	-3,632	-8.5
Zambia	3,610	14.7	0.3	South Africa (1,363), U.S.A. (859), United Kingdom (541), Australia (317), Namibia (228)	...	...	...
Zimbabwe (p)	16,669	29.9	1.1	South Africa (10,586), United Kingdom (2,741), U.S.A. (1,999), Australia (892), Namibia (71)	...	...	...

Notes: **Outbound mobility ratio:** mobile students coming from a country/region as a percentage of all tertiary students in that country/region. **Gross outbound enrolment ratio:** (outbound GER): mobile students coming from a country/region as a percentage of the population of tertiary student age in their home country. This indicator expresses the volume of studies abroad on the same scale as the volume of studies at home as measured by tertiary gross enrolment ratios. They can be used together to show the total volume of tertiary studies of a country. **Net mobility rate:** the net inflow of mobile students to a country which is the number of mobile students studying in a country minus its number of students abroad as a percentage of the total tertiary enrolment in the country/region.

Source: OECD.

The 2006 budget speech signalled that there are already some measures, though slow in coming, that help to provide an adequate education for Batswana in Botswana, thus potentially lowering the government outlays on subsidising placements abroad and increasing the potential of Botswana to become a hub in certain education programmes. The government aims to maximise training opportunities, while reducing student placements abroad, e.g. through sponsorship in local private tertiary institutions that meet the criteria for registration and accreditation with the Botswana Training Authority and the Tertiary Education Council. The design for the expansion of the University of Botswana has started and construction of the project is estimated to cost P165 million during 2006/2007. The establishment of a medical school has also started with the Founding Head of the School of Medicine already identified and 240 Batswana medical students placed in partner medical schools throughout the world. The first 15 graduates are expected in January 2007.

If Botswana wants to succeed in becoming an education hub it needs to press ahead with its plan to strengthen science and technology development. Parliament approved a bill in 2005 for the establishment of the Botswana International University of Science and Technology, which is estimated to cost P5 billion. The University is planned to have the capacity to admit 10.000 students by 2016. Other projects for tertiary education include; construction of the Oodi and Selebi-Phikwe Colleges of Applied Arts and Technology, with a target enrolment of 1200 students from 2006. The Francistown College of Technical and Vocational Education, which has a target enrolment of 1400, is under construction this year.

Comparative and competitive advantages

A key issue is whether Botswana can enhance tertiary education and become more of a net student importer. Botswana can rely on a few factors that may make it a potentially viable hub for tertiary education services:

- high level of security throughout the country
- high level of tertiary education spending
- fairly good support infrastructure in place (e.g. IT, telecommunications)
- knowledge in certain areas due to the country's characteristics (e.g. HIV/AIDS, mining, engineering, and perhaps tourism and financial services)

While the number of inbound students has doubled over the last few years, and this can be seen as some success, the major issue is what education types could Botswana provide to rely less on imported services.

7.3 Summary of relevant regulatory frameworks

The tertiary education sector is regulated by the Tertiary Education Act (2005). The registration of institutions is regulated by the Tertiary Education Council under the supervision of the Ministry of Education. There does not seem to be an explicit prohibition for the establishment of foreign institutions, although there is none currently operating in Botswana. Below is an excerpt of the legal text which describes the requirements for the registration of an institution of tertiary education.

“Before issuing the certificate of registration to a private tertiary institution, the Council must be satisfied that:

- (a) the registration of a private tertiary institution is in the interests of tertiary education in Botswana;
- (b) there is proof of the continuing need for the institution and its services;
- (c) the institution makes and will continue to make a significant contribution towards broadening the availability of and access to tertiary education in the country;
- (d) the institution stands a good chance of operating successfully and that it will continue to do so independent of public funding;
- (e) the institution has reached and stands a good chance of maintaining high organisational and academic standards.”

(Art. 4 Tertiary Institutions (Registration Of Operating Public And Private Tertiary Institutions) Regulations, 2005)

The regulation is unclear: on the one hand registration could involve plenty of hurdles that need to overcome by a (foreign) private provider. On the other hand, it could be easy to register. The latter seems a challenge taken up in a recent TEC publication, and reflects the recent proliferation of private institutions offering poor quality programmes at high costs.

At the regional level, SADC countries signed a SADC Protocol on Education and Training, intended to harmonise the various regulations and standards of education (including tertiary) across the region and to promote the exchange of students and researchers across tertiary education institutions.

7.4 Analysis of key constraints

Constraints related to external conditions, domestic regulation and supply capacity are likely to affect both a strengthening domestic tertiary education and the promotion of export of education services.

External

1. Lack of links with foreign institutions, both in-country or at arms-length?

There is a need to assess the possible effects of GATS commitments (mode 3) in the education sector. Mauritius, Dubai, Singapore and the Caribbean are all well advanced in terms of thinking about attracting private investors in education.

2. Incomplete recognition of domestic credentials in other countries

Currently the Botswana high school leaving certificate is not valid to enter tertiary education in South Africa, where a further year of courses is required. Such lack of recognition increases the imports of educational services for Botswana.

Regulatory

1. Lack of an appropriate regulatory framework for dealing with the new modes of education

A recent phenomenon in Botswana is that of off-shore providers who are increasingly utilising new technology to extend the scope of educational delivery across national borders with important consequences for quality assurance, the protection of student and intellectual property rights, cultural maintenance, and national responsiveness. The recent Act does not seem to promote such private providers.

2. Rigid work permit regulations

In the education sector, skills are key to the success of the services. For this there needs to be the possibility of freely sourcing such skills (e.g. lecturers). A key constraint behind the new Science and Technology institute is the lack of suitable staff. However, in some cases there are implicit or explicit objectives to reduce the number of foreign staff workers, regardless of whether this is good or not for the institution.

Supply capacity:

3. Lack of sufficient capacity to satisfy the demand for education

The limited capacity (in terms of infrastructure, skills, land) of tertiary education causes a high level of current imports of education. The need for an import substitution strategy would need to consider both the high level of public spending and the potential positive externalities stemming from education imports via mode 2. A good example of an import substitution strategy is the BAC, see box below. Such an example might have lessons for other sectors or niche areas.

4. Slow responsiveness of public tertiary education institutions to changes in the labour market

As it is highlighted in the recent Tertiary Education Policy this is related to the public sector's incapacity of establishing linkages with the market, and of responding sufficiently in terms of curricula adaptation to improve the employability of their graduates.

Private institutions have been more responsive to labour market demand and when certain employers needed certain types of skills have been able to quickly come up with programmes to meet these demands. However, many of these institutions are small, far from being well established and are largely disconnected from the core of the tertiary education system.

7.5 Possible implications for trade in services policy

Two particularly important policy questions are: how can Botswana reduce its reliance on imports of education services? And, what measures may Botswana put in place to increase its exports? Policy measures at all levels (related to external conditions, domestic regulation and supply capacity) can help by affecting both a strengthening domestic tertiary education and the promotion of export of education services.

A major new initiative is the planning of the Botswana International University of Science and Technology, although the opening has already been delayed by at least two years until 2009. In April 2005, the government of Botswana and the UNDP suggested in its Human Development Report that science is a tool for the country's economic and social development, calling for increased funding to enhance research in universities.

The idea of developing an internationally recognised S&T is suitable as long as one considers the Botswana's capacity in trying to develop world class education in selected S&T subjects. For this S&T institution and the other technical colleges and institutes it is important that they are connected well with the private sector and that graduates obtain useful professional experience which is recognised elsewhere. On the other hand, the new and existing universities will need to work together and focus on complementarities. There has also been a second university in Mauritius but there are still questions about why the second university came into existence and whether the two universities can work together.

Botswana will not be able to withstand overall competition in education services from countries such as South Africa. However, if Botswana wants to become a world class regional hub for education in certain subjects, it will also need to be open to foreign tertiary education institutes either through subsidiaries or in the form of partnerships with well-known business schools and universities, e.g. using agreements with the EU. Dubai, Singapore and now Mauritius have increasingly been reforming their tertiary education sector to become more open, attract foreign business schools and become attractive for foreign students. Botswana may also have to learn from South Africa. The key question is what areas or subject. A detailed answer would need further research, but promising areas include health education (HIV/AIDS), mining and engineering related, and perhaps tourism and financial services.

Becoming a trade in education services hub does not happen overnight when the economic fundamentals are lacking (although when economic fundamentals are right a few changes in the law and mode of attracting foreign schools can make a big difference, as in Singapore and Dubai). But filling a skills gap as part of an import substitution strategy is not impossible either, as we describe in Box 13.

Box 13 The Botswana Accountancy College; filling a skills gap quickly

The Botswana Accountancy College (BAC) is a private college that provides business training in Accountancy, Computing, Business Management and Insurance. It is a private sector college subsidised by the Government of Botswana and Debswana. The college aims to provide world class tuition to reduce Botswana's reliance on foreign expertise. The qualifications that students are prepared for (AAT) are all internationally recognised and provide an excellent start to careers in business and technology. The majority of students are sponsored by the government of Botswana, while some are sponsored by private companies and others self-sponsored. The aim is to become self-financing in the medium term.

It was founded in 1996 when the country had only four registered Botswana accountants. Now, there are 400 registered accountants. For instance in 2001, it produced a total of 26 ACCA and CIMA graduates last year. In 1998 a total of 21 students qualified at ACCA and CIMA. In the first year of operation, 12 students qualified. All of the qualifications that BAC provides are internationally recognised and the college is one of few outside Britain to be awarded the Chartered Institute of Management Accountants "Quality through partnership" award.

The example of BAC shows that a public-private partnership can build up a tertiary education college from scratch and fill an important skills gap.

Source: BAC website and interview.

When thinking about the key areas in which Botswana could focus on, it is often suggested that Botswana could think about training of nurses. Box 14 examines this in more detail.

Box 14 Nurses education, migration and development

The migration of health workers, and nurses in particular, has become a hotly debated topic in relation to Botswana's health sector and development of the country as a whole. The government acknowledges that the loss of health workers is a major challenge. There are various causes and consequences of the migration of nurses and depending on this there will be different policy options to maximise development in Botswana. : A preliminary survey article finds the following

- *Causes:* Factors that cause migration of nurses from Botswana include low wages, heavy workload, poor working conditions (e.g. lack of adequate protection, high patient-nurse ratio), poor management, lack of promotion prospects and career development, and inflexibility of time allocation (e.g. nurses are often not allowed to work part-time). The high incidence of HIV/AIDS worsens working conditions further. It is not clear which type of interventions would be most effective.
- *Scale:* Emigration rates of nurses (and other health professionals) in Botswana are substantial, at about the average of sub Saharan Africa. The data vary in availability and quality, and based on data in receiving countries indicate that some 7% (less than 600) of the total workforce of nurses and midwives of Botswana origin were working in receiving countries such as South Africa and main OECD countries.
- *Effects:* There is debate in Botswana about the effects of migration, particularly what it means in terms of loss of key health workers. That said, the nurses per 1000 inhabitants ratio still stands at 2.65 and is twice that in sub Saharan Africa but below that in Namibia and South Africa. On the positive side, remittances from migrant nurses are likely to be significant: on World Bank data worker remittances and compensation from employees are at least 0.5% of GDP (remittances by nurses to Botswana are not known). Other benefits of emigration to Botswana may include increased access to capital, increased trade in goods and services, and return migration. While these positive effects have not yet been quantified they should not be ignored in the debate.

An increase in the supply of nurses is a straightforward way to tackle shortfalls in the nursing workforce. The training and education of health workers in a world with a growing demand for health workers is an appropriate export strategy for countries with a comparative advantage in this, i.e. where the investment climate is right for good quality and cheap education of nurses. The Philippines for example provides training to health workers, especially nurses, for migration as part of a wider policy to encourage worker migration. Filipino nurses constitute 76% of foreign nurse graduates in the United States. Similarly, Cuba has exported thousands of health workers as part of its bilateral relations with other countries and it retains some part of the incomes of doctors when working abroad. Countries such as China, India, Indonesia and Viet Nam are either actively involved or contemplating export strategies (Commander, 2004). Given the shortage of nurses in Australia and New Zealand investment by Pacific island governments and households in nurse training may constitute an efficient use of economic resources. Policies encouraging investment in source countries (including improvements to the investment climate for investors) may be more effective in fostering development than policies directly discouraging emigration.

Not all countries will have the comparative advantage and institutional capacity to implement such export strategies. The WHO (2006) notes that "these strategies have not been systematically evaluated, but experience indicates that they are resource intensive and require the establishment of institutional capacity for training and accreditation, and careful management of interactions with the internal or domestic health worker market."

Botswana's tertiary education system for nurses is based on the public provision of free education for professional nurses. In order to expand the training capacity for nurses the government may need to allow the private sector to train nurses. The case of the Philippines, where accredited institutions have increased from 210 in 1999 to 470 in 2006, shows that private institutions can drive a rapid scaling-up of the education capacity, as long as there is a growing demand. Botswana could also improve conditions for the immigration of nurses from neighbouring countries.

Source: Cali and te Velde (2007), "Migration of nurses from Botswana, What are the possible effects and policy options?" Draft paper for BTPP/BIDPA.

8 Conclusions

The main conclusions and policy implications are summarised in the policy brief at the beginning. The report also includes the following detailed suggestions

Tourism services

- Development of an explicit tourism plan that can be used by the stakeholders as a context for other activities.
- Use investment promotion and trade negotiations of *other* services to improve the provision of support services
- Obtain more effective regulation of work permits
- Maintain existing land leasing policy
- Provide appropriate and good quality skills
- Increase tourism marketing (for secondary sites) including in Southern Africa
- Improve air access

Financial services

- Improve discussions at the SADC level on integration of financial services
- Strengthen the network of double taxation agreements
- Monitor work permit issues in the financial services sector
- Improving the links between formal training to professional experience and enhancing education programmes tailored to the specific needs of the sector
- Improved connection to more and higher quality fibre optic cables in order to provide an environment conducive for back office services. Consider GATS commitments to facilitate investment in the ICT sector
- Consider taking GATS commitments in financial services sub-sectors, but need to assess appropriateness of current regulatory capacities, particularly for insurance services.

Education services

- Reduce reliance on imports of education services by speeding up plans for the Botswana International University of Science and Technology and the by expanding the capacity of the University of Botswana.
- Open up to foreign tertiary education institutes either through subsidiaries or in the form of partnerships with well-known business schools and universities, e.g. using agreements with the EU.
- Negotiate recognition agreements for Botswana's tertiary education institutes at the level of SADC.

Transportation services

- Botswana's restrictive policies keep air access very expensive compared to other regional routes.
- While there may be negative consequences for the 320 employees of Air Botswana if it has to face more competition, and while there may also be some short term uncertainty in case Air Botswana failed to secure certain routes in the face of competition, a *gradual* move to liberalisation coupled with upgrading and if appropriate privatisation of the national carrier seems a suitable way forward.
- It is important to promote the idea of an air access unit, with inputs from the Ministries responsible for Trade and Tourism, in order to steer and analyse the restructuring process.

Table 25 zooms in on the implications for Botswana's position on trade in services negotiations

Table 25 Botswana – issues of interest for international trade negotiations

	Tourism	Financial	Education (tert)
GATS	Sector is already open, and committed with success. New regulations may seem at odds with the spirit of GATS commitments	Botswana could consider GATS commitments in banking services, but may need a more phased approach in insurance.	Too soon to make GATS commitments, but review legislation and education strategy to promote private and foreign tertiary education institutes in key areas alongside plans for new public Tertiary education institutes.
EPA	Ask for Mode 4 access. Supply capacity measures in the area of tourism development programmes (EDF)	Commit banking services to the EU, would signal competition.	Partnerships with universities (cf Mauritius, Caribbean), student exchanges
SADC	Air transport access (towards more open skies agreements) Coordinated tourism promotion efforts.	Develop regional markets for financial products.	Mutual recognition of qualifications amongst countries, beginning at SADC level

Appendix 1 Services requests from EC

Commitments requested by the EC and its member countries to Botswana in the framework of GATS 2000 requests (from Cassim and Keeton 2006).

Horizontal Commitments

- Specify criteria to be fulfilled to obtain approval from Bank of Botswana with regard to fees due to non-resident service suppliers (Modes 1&2).
- Specify criteria to be fulfilled to obtain licence for juridical persons (Mode3)
- Remove the requirement whereby locals are given priority over foreign investors to purchase shares in resident companies (Mode 3).
- Remove labour market testing for intra-corporate transfers of managers, executives and specialists, in addition to persons with a degree or equivalent qualification transferring for training or experience (Mode 4).
- Remove restrictions relating to Business Visitors (foreign services suppliers seeking temporary entry to hold meetings, conclude contracts or set up commercial presence).

Vertical Commitments

Business Services Computer and Related Services

- Make full commitments under Modes 1,2 and 3.

Other Business Related Services

- Make full commitments under Modes 1,2 and 3 for 'Management Consulting Services' and 'Services Relating to Management Consulting'.

Telecommunications Services

- Make commitments to open the sector to full competition and foreign investment, especially in data transmission related services.
- Make commitments to the reference paper of the Basic Telecommunications negotiations.

Construction and Related Engineering Services

- Make full commitments under Mode 3.

Environmental Services

- Consider making commitments in terms of market access and national treatment of 'Water for Human Use and Waste Water Management', 'Solid/Hazardous Waste Management', 'Protection of Ambient Air and Climate' and 'Remediation and Cleanup of Soil and Water' (Mode 3).

Financial Services

- Follow the classification given in the Annex on Financial Services.
- Make commitments (Mode 3) to accept deposits, lending, financial leasing, transmission services and guarantees.

- Make commitments in Mode 1 for provision of provision and transfer of financial information, and auxiliary financial services.

Insurance

- Commit direct life and non-life insurance (Mode3).
- Make commitments in Mode 1 for reinsurance and retrocession.

Banking and Other Financial Services

- Make commitments (Mode 3) to accept deposits, lending, financial leasing, transmission services and guarantees.
- Make commitments in Mode 1 for provision of provision and transfer of financial information; and auxiliary financial services.

Tourism and Travel Related Services

- For 'Hotels and Restaurants including Catering' make commitments in Mode 3 to clarify the requirements that a foreign service provider is required to meet and the extent to which the requirements amount to a limitation in national treatment.

Appendix 2 Preliminary sectoral results based on consultations

1) Business Services

Current capacity to trade

This is a very heterogeneous services sector, with the boundaries with other services sectors not clear, so it is difficult to obtain a precise picture for all modes of trade in the various sub-sectors. At a general level there seems to be little current capacity to export via mode 3: domestic firms tend to have a too limited size to expand abroad, although there may be exceptions in specific activities (e.g. Turnstar Holding in the real estate services sector); some niches seem to be possible for individual professionals and firms especially through mode 1 and 4 (e.g. legal services, engineering consultancy, computer related services).

This dampened view seems in contrast with BOP data, on the basis of which we estimate exports of business services of P 543m in 2005¹⁴, with a huge growth over 2004 (P 110m). However P 464m of this exports come from mining related services (due to De Beers explorations), which have increased ten-fold from 2004. If we take out this seasonal component (related to traditional exports), exports in this sector total a more modest P 79m, which is higher than P 67m in 2004, but much lower than P 142m in 2002. Taken at their face value, these data confirm the relatively little export capacity in this wide range of activities (the largest sub-sector legal, accounting and management has exports of P 34m) and suggest that Botswana's relative competitiveness in these activities may not be increasing.¹⁵

Botswana appears to suffer from shortages of specific skilled labour (e.g. professional accountants, management consultants) and it seems to have a comparative disadvantage in business services especially with respect to South Africa, from where much of these services are currently sourced via mode 3 and mode 1. Mode 4 imports seem to be also important for services such as accountancy: for example around 80% of the 1000 professional chartered accountants registered with the Botswana Institute of Accountants are foreigners (mainly from Sri Lanka, India, South Africa, Zimbabwe, Kenya, Zambia, Malawi, Ghana and the UK). This tendency for Botswana to be a net importer of business related services is confirmed by imports figures, which in 2005 amounted to P 377m and P 228m without considering mining related services (down from 354m in 2004).

Importance in GDP and development

Data from the Bank of Botswana indicate a significant, albeit declining, *direct* importance of this sector (measured as real estate and business services) in GDP at around 3.4% in 2004/05. This share is lower than the average towards the end of the nineties (4-4.5%). The *indirect* contribution to GDP is also important, as the sector provides crucial inputs into business competitiveness (e.g. marketing, legal and computer related services). In particular the ICT appears to be one of the main areas which needs to be strengthened in order to improve the

¹⁴ We aggregate the following sectors: Computer services, Merchanting, Leasing, Legal, accounting, management, etc, Advertising, mkt research, etc, Research & development, Architect, engineering, tech. services etc. and Agriculture, mining etc. related services. We do not take into account *Other Business Services* category, as this seems to capture a wide variety of services sector not necessarily related to business services (it is a sort of residual category, which people use when they do not know how to classify transactions).

¹⁵ However the steep increase in *other business services* may in fact offset the decrease in the other sub-sectors. Given the information available, it is difficult to assess the extent to which this is the case.

relative competitive position of Botswana in most services sectors, including tourism, financial services, other business services.

In terms of the sectoral share in employment, the only data available aggregates the sector with financial services. The total figure is 6.7% in 2003, from which the share of business services may be estimated at around 3%, keeping the same proportion as that of the share in GDP between the two sectors. As this sector tends to be typically intensive in skilled labour, most of the employment generated is not likely to be directly related to poverty reduction. Somewhat an exception to this rule may be the business process outsourcing sector (BPO), especially call centres, which may generate relevant effects also for less and medium skilled (and thus generally poorer) people. However, BPO has not produced any significant contribution to employment so far.

Box The business services sector in GATS

The GATS category business services is a very heterogeneous category of services. It comprises several sub-sectors. In particular the GATS categorization includes:

- Professional services (including among others: legal, accounting, architectural, engineering, medical and dental, veterinary, nursing services)
- Computer and related services (including among others consultancy related to hardware installation, software implementation, data processing services)
- Research and Development services
- Real Estate services
- Rental/Leasing services
- Other business services (including among others: advertising, market research, management consulting and services incidental to agriculture and mining)

Such a categorization creates some ambiguities when comparing business services with other service sectors, to which some of the business related services may appear in name to belong to (e.g. medical and nursing services would be more properly thought of as health services; engineering services may also fall under construction services). These types of overlap may create challenges between the categorization that is used by GATS and the classification that is used for collection of data at the domestic level. For instance, we treat medical and nursing services in the health services sector.

Possible importance of policy measures

Because there is a wide variety of sub-sectors, there will be an equally varied set of policy measures that are potentially important. We highlight some potentially relevant such policies, based on external, regulatory and supply capacity constraints which have become apparent in consultations and from recent documents. The points are listed in terms of whether or not stakeholders suggested a need for certain policy measures.

External:

- Need for the development of a wide network of bilateral Mutual Recognition Agreement (MRA) to facilitate market access abroad for professional services providers (e.g. architects, engineers)
- Need for improved access in other countries's markets, distinguishing between regional approaches such as SADC and multilateral approaches at the GATS level, and depending on market access commitments already made.

Regulatory:

- A broad need for introducing specific regulatory frameworks to enhance the quality of services for professions such as accountants, architects, engineers, advertising professionals.

Supply capacity:

- Need for improving the quality of skills available, e.g. by linking formal education to on-the-job training, or creating centres for excellence in certain professions.

Stakeholder views

There is a significant interest in the development of BPO activities, exploiting the International Financial Services Centre (IFSC) platform to make Botswana a potential regional (or African) hub for business services, such as management of companies' inbound telephone calls through call centres, administrative and shared services activities.

There is also some recognition of the possible importance of developing exports in high value added professional services, such as legal, architecture, design engineering and some computer related services, although the development of such activities is very recent. The country in 2001 was ahead of South Africa in per capita exports of ICT services (with 51 USD per capita).¹⁶

Finally the government has also recognised the importance of the ICT sector and it has included it among the priority sectors in its Vision 2016 programme.

Complementarities with previous studies

There are very few studies available. Therefore, there would be a strong possibility of enriching the available information either through a complete case study or through an analysis of one or more specific sub-sectors. A study on the sector may also help to discuss trade and competitiveness data in several of the sub-sectors.

¹⁶ Source: World Economic Forum, "Global Information Technology Report, 2003-2004"

Possible role models in other developing countries

BPO activities have been spreading quickly throughout some of the developing world, starting in India which is still the main export centre (via mode 1), and spreading to African countries such as Mauritius, Ghana and South Africa. Several developing countries in South Asia and Africa have also exported in various business services sectors via mode 4 (e.g. accountants, engineers, software programmers). Botswana has imported some of these services via mode 4 from other developing countries. Mode 4 exports faces capacity constraints as well as regulatory constraints.

2) Communication Services

Current capacity to trade

As for most other developing countries, Botswana has a limited capacity to export via mode 3 in communication services, the main export mode for the sector. Mobile telecommunication is dominated by foreign owned firms (British and Portuguese-South African). Trade is growing rapidly according to BOP data with imports (P 181m) far bigger than exports (P 85m) in 2005.

Importance in GDP and development

The sector has a slightly declining and fairly low *direct* importance in GDP. According to BoB data, the weight of postal and telecommunications sectors was around 1.2% in 2004/05. This is surprisingly lower than the average share of the previous ten years (1.4%), given the rapid spread of mobile telecommunication throughout the country in recent years (mobile phones are currently three times as many than fixed line). Part of the explanation of the decline in the value of the sector may lie in the lower prices charged by telephone operators following the increased competition in the sector.

The *indirect* effect of the sector on the economy is potentially large as communication services (and telecommunications in particular) are crucial inputs into various sectors (especially services) of the economy, e.g. cost of telecommunications is perceived to be a major constraint to the development of Botswana as a hub in certain activities (e.g. sales and reservation in tourism, BPO, administrative and shared services); the relatively poor quality of data exchange processes is believed to have been a major cause of Barclays' decision to relocate part of its back office operations away from Botswana (via IFSC).

The total share in employment of the transport and communication sector was 3.6% in 2003, with around half estimated to be in the communication sector. While the direct contribution in employment is moderate but clearly present it is likely to have relatively low direct effects on poverty reduction insofar the majority of the employment consists of skilled labour (with potential exceptions, as for postal services). The indirect effects on poverty reduction are likely to be more important via increasing accessibility to telecommunication services for poorer household.

Possible importance of policy measures

Several regulatory constraints to the development of the sector are being addressed through the current phase of liberalisation, including: the opening up of mobile and fixed telephone services, where all three existing operators may freely compete (two mobile operators and one fixed line monopolist), the liberalisation of the voice over internet protocol (VOIP) and liberalisation of long distance phone calls market. Alongside this liberalisation process, there are various policy issues which may need further attention.

External:

- Need for a greater understanding of the potential role for GATS commitments in accompanying the process of liberalization, e.g. by carefully evaluating the requests made to Botswana in telecommunications by other countries.

Regulatory:

- Need to assess whether current regulation on electronic data exchange and on internet protocols is coherent with the desire to develop a BPO hub;
- need to evaluate the potential effects of the current phase of liberalization in the sector (TLC, VOIP) and what this means for external trade in services negotiations.

Supply capacity:

- Need to assess the viability and importance of optic fibre cable initiatives in enhancing the quality and accessibility of telecommunication services.

Stakeholder views

There is a general recognition of the crucial importance of the sector in improving the competitiveness of the economy. Such recognition has been one of the major drivers of the current process of liberalisation. On the other hand there is little perceived export potential for the sector. This is mainly related to the small size of the domestic market, which has not allowed to develop a domestic player of sufficient scale to export.

Complementarities with previous studies

There is at least one study on the telecommunications (TLC) sector in Botswana (Monnane 2003) and one on the negotiating position of SADC countries (Hodge 2003). Therefore there may be the possibility of complementing the information available on GATS negotiations at the SADC level with an analysis of Botswana's possible negotiating options informed by a study of current challenges and opportunities faced by the sector.

Possible role models in other developing countries

There are only few examples of successful international expansion in the TLC sector in Africa, mainly from large developing economies, which seem to have been able to exploit relatively large domestic markets (e.g. South Africa, Egypt).

3) Construction and engineering services

Current capacity to trade

The current export capacity in this sector appears to be limited with little work carried out abroad by domestic firms. This is in line with Botswana's factor endowments, which are scarce in labour, with a relatively high level of human capital. Notwithstanding these stylised facts, data show an upward trend in trade of construction services for Botswana, with exports at P62 m in 2005 and imports at P52 m. These data do not incorporate the significant presence of foreign owned firms (Chinese, South African, European and American), which would be likely to generate imports via mode 3.

Importance in GDP and development

The sector represents an important, albeit declining, share of GDP (4.5% in 2004/05). It is dominated by public spending in infrastructure, which has been declining in the last few years following a reallocation of public resources towards other sectors (e.g. health,

education). The *indirect* relevance of GDP is not so high as the *direct* one and is mainly related to the role of construction as an input for economic agents, especially government and households. However, the sector is one of the largest contributors to employment in the country, with a constant share above 10% of total employment over the past 10 years. Most of this employment is composed of relatively low skills and informal labour, with potentially significant effects on poverty reduction.

Importance of policy measures

Given the limited ability of domestic firms to compete abroad, the policy issues to be addressed mainly concern domestic regulation and supply capacity, while we did not encounter much discussion about external constraints.

Regulatory/supply capacity:

- Need for increasing the availability of skilled labour (esp. construction engineers and quantity surveyors), e.g. by facilitating work permits' procedures and/or expanding the supply of specific skills.
- Potential for improving government procurement operations, which currently seem to constrain the orderly development of the domestic sector, e.g. via better designed tenders and more efficient payment systems.

External:

- There are only few formal trade constraints at the international level, and they do not seem to be the major cause of the lack of exporting activities by Botswana's firms. However requirements to participate in public tender processes in South Africa are fairly cumbersome and their streamlining may be beneficial to potential export activities.
- Further, Botswana has received GATS requests to make commitments in the construction sector.

Stakeholder views

The construction sector appears to have little potential for exports, as it is already dominated by large foreign owned firms from South African, China and large international groups. Some recovery of the domestic market may occur in the near future spurred by the operations of the new international diamond trading centre.

Complementarities with previous studies

There is a comprehensive case study on the sector produced by BIDPA (Kaboyakgosi and Sengwaketse 2003). A further study may complement this analysis of the supply capacity and regulatory framework with an analysis of negotiating options and some further issues of domestic regulation (e.g. with reference to public tender processes) .

Possible role models in other developing countries

There are a few countries there are active in exporting construction services, including some Arab states and South Africa.

4) Distributional services

Current capacity to trade

The sector facilitates trading capacity but it tends to generate very little international transactions, therefore it is not adequately recorded in BoP data.

The main mode of services supply across borders is via commercial presence (mode 3). In the case of Botswana this mode is likely to generate mainly imports, related to the FDI in the retail sector in Botswana (mainly by South African companies, such as Pick 'n Pay and ShopRite). A local supermarket chain is emerging.

Importance in GDP and development

The *direct* contribution of the sector to the economy is very significant at around 10% according to Bank of Botswana data (including trade and water and electricity services). The *indirect* effects seem to be less relevant on the production side (except for energy distribution), although they are important on the consumption side as efficient wholesale trade and retailing services will affect the household budget.

Distribution is probably the largest single contributor in total employment of all services sectors. Data from CSO estimate a contribution in employment for the entire commerce sector of around 19% in 2003, most of which is likely to be accounted for by distribution activities. A large part of this employment is possibly accounted for by unskilled labour employed in small retailing and trading activities, thus significantly contributing to poverty reduction.

Importance of policy measures

Potential policy measures relate to:

Regulatory constraints:

- Potential to evaluate effects of liberalization of the utility sector, especially considering that energy distribution is one of the priority areas of SADC. The sector is already largely open and liberalized, except for energy distribution, which is dominated by Botswana Power Corporation (BPC).

External constraints

- Need for GATS impact assessment (and need for complementary policies). While Botswana has already allowed several foreign owned distribution companies (e.g. super markets), it has not made any commitments in GATS.

Stakeholder views

There is recognition of the importance of the sector as an input to business rather than as a potential for exports. In particular energy distribution is a priority sector at SADC level, with a protocol on it.

Complementarities with previous studies

No study is currently available, so there would be a possibility for a case study to present possible domestic regulatory and international negotiating options.

5) Educational services

Current capacity to trade

Trade in education services relate to tertiary / higher education services. Botswana is a net importer of such services (via mode 2), with an estimate import value of around P 1bn in government expenditure, which increases if one adds the private component of this spending

(e.g. private firms sponsored scholarship, family support). This is because the Botswana government supports students abroad. The data are mainly recorded as the BoP category travel related imports.

Estimates for exports are around P 21.5m in 2004 including living expenses of students (see Table 17). This value represents the bulk of Botswana's exports in educational services and it is slightly declining from 2003, essentially due to a downward trend in students' enrolment, which began in 2002. Such trend is partially offset by increasing fees and costs of living

Table 17: Estimates of total tuition and fees paid to the University of Botswana by foreign students (Pula)

	1999	2000	2001	2002	2003	2004
Tuition	5,650,800	8,079,000	7,671,400	11,050,100	12,258,600	12,241,550
Other Fees	329,378	367,008	468,285	563,677	600,860	593,460
Living Expenses	4,838,044	5,840,116	5,959,221	8,621,835	9,241,060	8,706,550
TOTAL	10,818,222	14,286,124	14,098,906	20,235,612	22,100,520	21,541,560
Foreign Students (number and % in total)	854 (8.4%)	922 (7.9%)	801 (6.4%)	1,037 (7.8%)	997 (6.4%)	885 (5.7%)

Importance in GDP and development

The *direct* weight of the tertiary education in GDP is likely to be relatively low as education is typically a non commercial service in Botswana. Employment in the sector may be recorded as part of Non-Profit Institutions serving households, whose share in total GDP is only 2.3% in 2004/05. The fairly widespread basic education is likely to keep pressure on the demand for tertiary education Botswana.

The *indirect* effects are more important as tertiary education helps to create the skills adequate to the economy's needs, which are still lacking in many sectors of the economy, as noted above. In this way, the tertiary education will have a major impact on growth and poverty reduction. The contribution of the sector to total employment (private and parastatal) is limited (2.5% in 2005), albeit increasing.

Possible importance of policy measures

Two policy questions are particularly important to address with respect to trade in education services: what issues are important to consider in assessing the extent to which Botswana needs to reduce its reliance on imports of education services? And, what measures may Botswana put in place to increase its exports? Policy measures at all levels (related to external regulation, domestic regulation and supply capacity) are likely to affect both a strengthening domestic tertiary education and the promotion of export of education services.

External:

- need to assess the potential for developing a hub for educational services
- need to assess the extent to which the recognition of domestic credentials is granted abroad
- need to assess the possible effects of GATS commitments (mode 3) in the education sector.

Regulatory:

- need to evaluate potential impact of opening up the sector to public and private suppliers.

Supply capacity:

- assessment of the opportunity for an import substitution strategy, considering both the high level of public spending and the potential positive externalities stemming from education imports via mode 2
- potential importance of improving the skills available for the sector (e.g. lecturers, managers).

Stakeholder views

There is a widespread acknowledgement of the potential for the development of an educational hub in Botswana, which would also reduce the large (public) import of educational services. Moreover policy makers in Botswana have long been convinced of the importance of higher education as a backbone of the economy. The country has one of the highest shares of education expenditure in GDP of all developing countries, though much of this is spent on overseas education. Moreover, the government has recently began the planning of a second university in Palapye specialised in science and technology.

Complementarities with previous studies

One draft study is available on trade in educational services, thus a supplementary analysis may address all possible constraints. There seem some obvious question marks about why Botswana imports such a high level education services; on the contrary, given Botswana's relative geographical and governance advantage in the region and its relative development in specific sectors (e.g. health, mining, financial services), certain education services may actually become an area of comparative advantage.

Possible role models in other developing countries

Some developing countries, such as South Africa and Brazil, have become regional hubs for tertiary education services. Other countries have attracted and developed specialised education institutes, such as the Caribbean islands with offshore medical schools and the Philippines with nursing schools.

6) Environmental services

Current capacity to trade

There are no data available on trade in environmental services, but export does not appear to be developed in a major way. Most environmental work is public and it is carried out mainly by local small and medium sized enterprises, which do not have sufficient comparative advantage to penetrate foreign markets. Some imports (mainly via mode 3 and 4) come from South Africa, whose companies control a sizeable part of Botswana's market.

Importance in GDP and development

It is a small sector in the economy, which is not recorded separately in the domestic data. The main contribution of the sector appears to be *indirect*, especially for the potential effects on tourism as part of the wildlife and environmental conservation of tourist sites.

The environmental services sector appears to generate little direct or indirect employment. The few main firms (e.g. Wave Sanitation, Skip Hire) directly employ around 20-30 workers, and may generate indirect employment (often via collaboration in rural areas) of similar magnitude. The poverty reduction effects of such employment may be felt by some rural poor, especially as far as waste management and sanitation projects in rural areas are concerned.

Importance of policy measures

The development of the sector crucially depends on the stimulus given by public regulation in imposing environmentally friendly standards to economic and social activities.

External:

- need to tackle external constraints in accessing heavily protected markets (especially South Africa);
- potential for helping Botswana firms overcoming high transaction costs in neighbouring markets (e.g. difficulty in getting appointments with the government).

Regulatory:

- Need for carefully designed public procurement projects to foster orientation quality in the sector.

Supply Capacity:

- Lack of access to cheap finance (which is now available at 15%) especially to expand in foreign markets, where more complex equipment and larger investment (because of higher transaction costs) may be needed;
- need to tackle the lack of specific engineering skills (e.g. process, mechanical)

Stakeholder views

There is little export potential. Some opportunities may arise in neighbouring countries in the process of recovery (e.g. Angola, DRC), but local and South African competition make those opportunities very difficult to exploit. Also, cross-border management of environmental resources is an area of potential interest.

Complementarities with previous studies

There is no formal study available on the sector in Botswana. One opinion piece dealing with supply capacity and regulatory constraints in environmental services provision is available

(Matalaote 2005) and could be complemented through a more formal analysis of the sector (including negotiating options).

7) Financial services

Current capacity to trade

Financial services are the largest service sector in value of export revenues after travel related and transport. Exports occur in two main categories: insurance services and traditional banking services. The former category is the largest one in terms of trade (P173 mn of exports vs. P135 mn of imports in 2005). Mode 3 trade also occurs as in general there are restrictions on trade in insurance products without registering subsidiaries in the country of the customer. Both exports and imports have been growing substantially over the past years, indicating a huge potential in this sector. Unfortunately we do not have enough data to clearly identify the determinants of this trade surplus; however consultations seem to suggest that life insurance services form an important part of Botswana's exports (e.g. BIFM is particularly active in this market, with subsidiaries in various countries including Kenya and Tanzania).

The capacity in trade in banking and other financial services is significantly less with P 23m of exports and P 15m of imports in 2005. The potential for trade in this category seems to be significantly under-exploited, given the presence of the IFSC, a fairly deep capital market, stimulated also by large institutional savings related to the recent development of a pension fund industry, and the presence of a stock exchange. The year 2005 was the first year in which Botswana experienced a trade surplus in this category.

Importance in GDP and development

The sector bears an important and increasing *direct* relevance to GDP (4.5% in 2004/05 vs. an average of 4% in 1995/97 according to Bank of Botswana data).

The *indirect* relevance of the sector is likely to be also very significant by regulating and providing access to capital and by providing insurance services for businesses and households. In particular, the high interest rate is considered to be a severe constraint to the growth of several businesses, especially small and micro enterprises. Moreover access to capital is a binding constraint for a significant part of the household as well.

In terms of contribution to employment, the financial services sector is recorded together with business services in CSO data, totalling 6.7% in 2003. If we assume the same proportion of contribution in employment as that in GDP between the two sectors, the contribution in employment is around 4% in 2005. Most of such employment is likely to be skilled, therefore the direct contribution to poverty reduction may be limited.

Possible importance of policy measures

The financial sector is already a fairly liberal and open sector with no foreign exchange controls and investment grade ratings. However various challenges are still present at external, regulatory and supply capacity level, many of which have been discussed in other studies and national debates. These include:

External:

- need to assessing the role and comparative advantage of Botswana in the region to develop a financial services centre (including the role of IFSC);
- need to understand the potential impact of complying with the requests from other WTO members on financial services (and concomitantly assessing possible options for negotiating position at the WTO level);
- need to assess the role of integration at the regional level as opposed to the multilateral level (e.g. harmonising transport insurance products at SADC level may be more relevant than at the multilateral level);
- need for strengthening the network of double taxation agreements between Botswana and other countries, in order to avoid foreign companies based in Botswana taxation in the country of the mother company as well.

Regulatory:

- Consultations addressed complex domestic regulatory issues in banking, insurance and other financial services to be examined in more detail;
- need to address the rigid work permits' regulation, which seems to constrain the ability of firms to fill gaps in domestic skills (financial services appear to be one of the sectors where such shortage is most severe).

Supply capacity:

- Need to address the shortage of skilled labour available for sectoral needs, e.g. by linking formal training to professional experience and by creating education programmes tailored to the specific needs of the sector;
- need to assess the extent to which deep capital markets and relatively high availability of funds may be channelled to support operations abroad.

Stakeholder views

In general Botswana is perceived to have a potential comparative advantage in the financial sector (due to exchange control liberalisation, fiscal advantage, relatively skilled labour force, strong rule of law and governance), which needs to be further exploited, but which also needs to be narrowed down. Financial services has become one of the priority sectors for the country's development prospects, as evident in the government's 2016 vision and in the establishment of the IFSC to harness the country's potential to become a regional hub for financial services.

The IFSC is active in creating a number of potential export opportunities:

- making Botswana a hub in *international insurance* activities exploiting the 2005 international insurance act, which allows a whole series of insurance intermediation activity to take place in Botswana serving the whole African market (e.g. reinsurance, captive insurance)
- exploiting the localisation of the Pan-African Commodities Exchange in Botswana, which would become a hub to enable a number of subsidiaries across the continent (should be operational in 3-5 years, generating around 200 jobs)
- based on the large capital base of the country, developing financial investment related opportunities abroad (e.g. BIFM and IFC are currently discussing to create a property investment fund, which would invest in African real estate opportunities, exploiting local expertise in mall development financing).

- broadening the regulatory framework in the banking sector to exploit niche opportunities for Botswana (e.g. related to the newly created diamonds trade centre).

Complementarities with previous studies

Not surprisingly, given the importance of the sector in government's policies, it is the sector with the largest amount of studies available among all services sectors (Gabaraane, 2003; Bester et al., 2004; Soylemezoglu, 2005; Boshwaen, 2005). However the next phase of this study would be an opportunity to integrate the large amount of information available (covering domestic regulatory and supply capacity issues) with options for a negotiating position (including an evaluation of the coherence between domestic regulation and the position in international negotiations).

Possible role models in other developing countries

Caribbean islands and Mauritius are amongst important players from the developing world with significant success in attracting export oriented activities in financial services. The experience for other, more similar countries that have already introduced GATS commitments may be helpful for assessing Botswana's possible commitments to GATS.

8) Health and social services

Current capacity to trade

Trade in health is mainly recorded as travel related activities and in remittance flows, as trade in Botswana tends to be dominated by mode 2 and 4. Given the paucity of data available, we are not able to estimate the size of health related exports and imports; nevertheless trade via mode 4 for health personnel appears to be the dominant form of exports and imports, especially as far as nurses are concerned. The consultations seem to suggest that imports are higher than exports in this mode (e.g. Zambian nurses would often go to Botswana first and then to the UK). There appears to be some evidence of imports of health services via mode 2 as well (from South Africa) and some via mode 3 through a foreign owned hospital in Botswana (Gaborone Private Hospital, owned by the South African group Afrex).

Importance in GDP and development

The *direct* impact of the health sector on GDP (through sector value added) is likely to be relatively significant, although its contribution is limited by the fact that it is not recorded at market prices as it is mainly publicly provided. The contribution in GDP is recorded under *Social and personal services*, which amount to 3.4% in 2004/05. Health expenditure by the government in the last years has risen quite substantially due to the HIV/AIDS pandemic.

The *indirect* impact on the economy is probably much more important as labour efficiency crucially depends on health conditions. Several studies suggest the incidence of HIV/AIDS will slow down the economy considerably. The contribution to total employment is likely to be large (included mainly in public sector employment), despite the relatively low nurse/patient and doctor/patient ratios.

Possible importance of policy measures

Several policy measures may be relevant for assessing trade in health services:

- need to evaluate the potential impact for opening the sector to private competition (which is currently restrained);
- need for an understanding of constraints in other countries to exports of services;

- need to tackle the shortage of specialised skills (especially nurses) via various policy measures.

Stakeholder views

The health services sector is perceived mainly as a public service for the population, with relatively little interest for developing it commercially. However, the country's expertise in the HIV/AIDS area may potentially provide a comparative advantage for eventual export activities (especially via mode 3 and mode 4), as would the potential for nurses.

Complementarities with previous studies

A BIDPA study is currently examining trade in health services (mainly via movement of nurses), and this could cover the main issues on the topic. Capacity constraints (skills) could also be addressed under trade in education services.

Possible role models in other developing countries

South Africa is an important competitor at the international level, which has developed mode 2 exports (with health tourists representing an increasing share of tourists to South Africa) mode 3 (with investments in the USA, UK and also Botswana) and mode 4 (nurses to UK, doctors on short term contracts with UK Hospitals to reduce waiting lists for cataract operations etc.). India, Thailand and the Caribbean have also developed successfully this line of export. India is also providing health services via mode 1 (e.g. X-ray reading services). The Philippines is an important example of nursing services export via mode 4.

9) Travel related services

Current capacity to trade

The tourism sector has currently the largest current export capacity in services, and is the second foreign exchange earner (after mining). Tourism services are exported via mode 2 with tourists coming mainly from Southern Africa and from overseas. The different origins of tourists tend to mirror different patterns of tourism: overseas tourists usually consume high value services mainly concentrated in the Okavango Delta area (in line the "high value low volume" tourism strategy implemented by some of the domestic tourist industry); African tourists opt mainly for low-middle value type of holidays (e.g. self-driving, camping). Table 18 shows that the majority of tourists are African, with 50-60,000 overseas tourists. While the data records Zimbabweans and Zambians as tourists, most of these arrivals seem to be related to migration rather than tourism (as it is confirmed by the rapid growth of Zimbabwean "tourists" in a period of deep recession for the country). Once we filter out these arrivals, the data shows a declining pattern between 2000 and 2003, which appears to be due to more to a global crisis induced by negative shocks (e.g. 9/11, SARS, Iraq war) rather than to a idiosyncratic decline of Botswana's ability to attract tourists. In fact according to the operators interviewed there has been a quick recovery of tourism in the last few years, which would suggest that the negative effect of the external shocks is fading away. Notwithstanding the decline in absolute numbers of tourists, the average expenditure has increased to an extent that total expenditure has risen, driving up the receipts from tourism close to P 3 mn in 2003 (USD 470 mn).

Table: Tourist arrivals in Botswana and tourist expenditure

	1999	2000	2001	2002	2003
South Africa	393,528	507,610	478,044	407,247	354,984
Zimbabwe	245,630	311,452	319,174	401,424	435,940
Zambia	28,888	40,343	36,681	44,644	34,636
Namibia	39,952	40,429	36,681	34,814	29,415
USA	9,871	23,967	21,971	15,238	10,656
UK	15,519	22,868	19,283	18,077	14,445
Germany	8,209	13,317	8,875	8,640	6,584
Netherlands	4,460	7,038	6,030	5,161	4,181
Australia	5,577	8,217	5,756	5,488	4,118
France	3,219	4,562	4,358	3,679	2,730
Other countries	88,461	123,993	111,992	92,146	77,776
Total	843,314	1,103,796	1,048,845	1,036,558	975,465
Total without Zbw and Zmb	568,796	752,001	692,990	590,490	504,889
Major overseas countries	46,855	79,969	66,273	56,283	42,714
Expenditure (USD million)	234	313	300	309	356

Source: Department of Tourism

Imports of tourism services are much less important than exports and are related mainly to current imports of educational services.

Importance in GDP and development

Tourism is a very important sector for Botswana's economy. An economic impact study by the Botswana Tourism Department in 1998 revealed that Tourism contributed between 3.2% and 4.5% to the GDP in 1997, depending on the method used for the calculation (i.e. expenditure or output approach). Since tourist expenditures have increased at higher rates than the overall economic growth rate during the past eight years, it is estimated that the sector's contribution to GDP has grown to more than 4.5%.

The indirect relevance of tourism in GDP can also be significant – it is related to the (limited) influence that a well developed tourism capacity may exert on the attractiveness of the country to FDI, but also depends on the ability of the tourism industry to create linkages with the agricultural sector and other services sectors.

The economic impact study assumed that tourism's share of total employment was the same as its share of GDP (estimated at about 4.5 percent), and that the total number of jobs generated by the re-defined tourism sector would be expected to be around 9,900 persons in 1997 (Leechor, 2004).

Possible importance of policy measures

The main constraints in this sector are already subject to an intense debate at the national level and appear to be related to domestic regulation and supply capacity. A number of issues to be addressed at the policy level have been identified, including external, regulatory and supply capacity constraints. However, given its important in the economy, and the fact that Botswana has already committed parts of the sector to GATS, the tourism sector would be an ideal case study to show technical issues as well as effects from making GATS commitments.

External:

- difficult access for most local operators to foreign markets, especially overseas, which implies that most sales of tourism packages occur via several intermediaries, including tour operators and wholesalers overseas and in South Africa (which acts as sales hub for the Southern African region);
- need to assess the effects of current GATS commitments;
- need to examine the challenges in the allocation of work permits to foreign employees, which makes it difficult to employ qualified skills and thus creates rigidities in the labour market (e.g. no incentive to fire inefficient managers).

Regulatory:

- need to understand the appropriateness of the lease for land concession contracts, which is currently 15 years for the most important sites: on the one hand a short period may reduce the incentive to invest on the site somewhat (due to the lack of security of the investment), on the other hand, it stimulates competition between operators for the land and pushes prices of lease up with benefits for the government.

Supply capacity:

- lack of adequate domestic human resources to fulfil the sectoral needs, especially as far as managerial roles (e.g. lodge managers) and some specialised skills (e.g. accountants, sales and reservation specialists) are concerned. Such problem point to a closer cooperation between training institutions and firms in the industry;
- secondary tourist sites (e.g. the Central Kalahari, the Western Delta, the Pans and the Kgalagadi) appear to be under-exploited due to lack of supply capacity and marketing investment;

Alongside these bottlenecks, there appear to be unexploited opportunities which may be fostered through adequate policies, e.g. there may be the potential for expanding the share of the industry's value chain localized in Botswana for example via the localisation of the marketing and reservation functions, which are currently carried out from South Africa.

Stakeholder views

The tourism sector is already recognised as one of the pillars of Botswana's economy and is considered to have an ample growth potential. Indeed the relevance of tourism has already been acknowledged by both private and public sectors, with initiatives such as the establishment of the Hotel and Tourism Association (HATAB) and the public sector Tourism Board. Because the trading potential is already recognised, it would be an excellent way to exemplify the main (technical) issues related to negotiations on trade in services.

Complementarities with previous studies

Leechor (2004) is the main study on tourism available and focuses on supply capacity and to a lesser extent on domestic regulatory issues. It identifies most of the constraints which emerged during our consultations. There is significant scope to complement the current available information with an analysis of possible negotiating options (including an evaluation of the existing commitments in tourism), effects of past commitments and domestic policy choices left unaddressed (e.g. skills supply, lease contracts).

Presence of role models in other developing countries

Tourism is one of the services sectors which has been more successfully exploited by a number of developing countries, where it has become one of the main export sectors, including various Caribbean countries, Mauritius, Tanzania, Kenya.

10) Recreational, cultural and sporting services

Current capacity to trade

There are no data readily available on this sector. It is likely to be small and confined to some recreational activity (e.g. live music and theatre events, sporting events) traded via mode 2 and 4. There may also be some minor trade in cultural services linked to tourism. In fact, a data collection exercise may lead to a better appreciation of the sector.

Importance in GDP and development

The sector has a small direct and indirect impact on the economy, although indirect effects may be somewhat relevant in fostering (cultural) tourism. The current impact on employment is likely to be negligible, with very few employed professionally.

Possible importance of policy measures

Policies to promote cultural exchanges may be potentially helpful in developing trade in this sector. The development of an enabling, national cultural foundation may also be important.

Stakeholder views

It is not regarded as a priority sector at this stage, although there may be some potential to exploit cultural and music industry related to tourism.

Complementarities with previous studies

No study is currently available, so there is plenty of potential for integrating the available information and collecting more primary data.

Possible role models in other developing countries

Possible role models include South Africa as sports event organizer, and the Caribbean with their well-known festivals and carnivals.

11) Transport services

Current capacity to trade

Transport services constitute the second largest traded services sector after tourism. Due to its landlocked position, Botswana is a net importer of transport services with imports of P1.5 bn in 2003 and P420 mn of exports. Most trade is likely to occur via mode 1. Although UNCTAD's Bop data does not include information on specific transportation modes, it is possible that imports for Botswana include maritime and road transport services for goods (given the country's structure of trade in goods). Transport exports are mainly related to tourism and transport of passengers and goods in transit via Botswana.

Importance in GDP and development

The *direct* importance of transport services is limited (1.1% of GDP in 2005) However, the real direct contribution of the sector is likely to be higher, as road transport is heavily subsidised by the government. The *indirect* impact is crucial for the competitiveness of a landlocked country like Botswana both for trade in goods (through road and maritime transport) and in other services (especially through air transport). In particular an efficient air transport system is fundamental for the development of tourism, but also of other services exports, intensive in movement of people (e.g. financial, business services, education).

The sector has experienced a limited and stable contribution in employment. The total share in employment of the transport and communication sector was 3.6% in 2003, out of which around half may be from the transport sector.

Possible importance of policy measures

Policy measures at all levels are potentially key to develop an efficient transport sector which serves the economy.

External:

- Need for evaluating the role of regional cooperation (including harmonization and simplification of border operations and development of infrastructure network);
- need to coordinate efforts at the regional level if Botswana were to develop an air cargo hub.

Regulatory:

- Need to assess the potential impact of the current liberalization of air transport regulation (both BASA and domestic regulation);
- need to evaluate the potential impact of Air Botswana's privatisation on the air transport industry.

Supply capacity:

- Need to address the potential for skills shortages (e.g. bus drivers).

Stakeholder views

Transport is considered as an essential component of the development strategy at the SADC level, and Botswana, given its central position in the region, is supportive of the idea of strengthening the transportation network. The government's view would be to develop a road transport services as efficiently as possible to serve the economy, and to make Gaborone a regional air cargo transport hub, to increase exports. The idea of an air cargo hub is potentially attractive, as Johannesburg airport (the current air cargo hub for SADC) is operating at over-capacity and Gaborone is relatively well connected to other neighbouring countries.

Developing exports in passengers transport may also be a viable option for Botswana given the high quality of capital equipment in the sector relative to most other SADC countries.

Complementarities with previous studies

There is no formal study currently available on the transport services sector. Therefore there is the possibility of developing a complete case study to inform both negotiating options and domestic regulation. However, some aspects of the sector, such as air traffic rights, are normally not included under trade in services negotiations.

Possible role models in other developing countries

Other African countries have developed important air cargo hubs, such as Kenya and South Africa. Mauritius is currently assessing the speed at which it should liberalise air traffic rights.

12) Other services sectors

There was not much information on this remaining service sectors.

Appendix 3 SADC protocols

Goals and objectives of the SADC protocols on infrastructure and services

Communication

Communications provides the infrastructure that facilitates information transfer. It comprises telecommunications, as the electronic means of information processing, transfer and delivery; and postal services, as the facility for accepting, transport and delivery of physical information packages. The dynamic pace of digital electronic technology has managed to accelerate the ability to transfer large volumes of software broadband transactional and broadcast information. Thus technology has converged the dissemination of information and techniques of communications resulting in one information, communications and technology (ICT) network.

It is, however, very enlightening to appreciate the distinction between the backbone infrastructure provisioning and information technology applications in order to realise the complementarities of ICT (infrastructure) and ICT's (IT applications).

For the purpose of this site, the primary focus has been on development of the regulatory (policy) environment and networks (infrastructure), nationally and regionally. Expansion of the communications infrastructure, especially telecommunications, is very capital intensive. Therefore, it has become imperative that private sector participation is encouraged to enable governments to concentrate on the social prerogatives of food security, health, education, etc. The SADC mandate is primarily coordinative and facilitative in its efforts towards an integrated and information-based regional economy

Meteorology

Mission

SADC shall strive to create a conducive environment for information sharing to alleviate the impact of weather-related natural disasters

The Directorate shall strive to help member States to provide multi-sector specific weather and climate products derived through national and regional capability in weather information analysis and prediction.

SADC shall assist the National Meteorological Services (NMS) to adopt cost-recovery strategies that will enhance cost-containment to achieve significant operational self-sustenance and development.

To help transform the Disaster Management Centre (DMC) into a SADC Climate Monitoring and Prediction Centre (CMPC).

To develop the Meteorological Association Southern Africa (MASA) into a recognised operating agency of SADC.

Goals

Continual update and upgrade of satellite receiving station and information data processing, analysis equipment and prediction methods (measure: enhanced sector specific weather data)
Pre-emptive human resource planning and technical development (measure: improved quality of products)

Establish MASA as a recognised SADC operating agency to improve climate information sharing.

Transport

The objective of SADC in the area of transport is to establish transport systems which provide efficient, cost-effective and fully integrated infrastructure and operations in support of regional economic development, integration and poverty eradication.

SADC Regional Transport System

The region's transport systems, particularly the railways, were initially constructed to radiate from the coastal ports to provide the colonial powers with access to and control over the inland areas. As urban and industrial centres began to develop, such as Gauteng, the Highveld of Zimbabwe and the Copper Belt in Zambia, the focus switched to inland transport. However, from a regional perspective, port-based routes or corridors continue to be important for the landlocked countries, particularly in international trade. The regional transport system offers most of the landlocked countries a choice of routes to the sea via road, rail and port systems of adequate capacity. Recent and ongoing investments potentially extend the range of choice.

There has also been considerable interest in the transport corridors in a wider development perspective, with ports and their connecting road and rail systems developed in conjunction with investment in industry, mining, agriculture and tourism. The most successful of these initiatives is the Maputo Development Corridor. The concept has been introduced to the other corridors linking regional ports with their hinterlands, and is being rolled out all over the region.

Energy

Goal

To ensure the availability of a sufficient, integrated, efficient and cost effective infrastructure system that will support and sustain regional economic development, trade and investment for poverty alleviation.

Objectives

Strive to harmonise national and regional energy policies, strategies and programmes on matters of common interest based on equity, balance and mutual benefit.

Co-operate in the development of energy and energy pooling to ensure security and reliability of energy supply and the minimisation of costs.

Co-operate in the development and utilisation of energy in the Region in the following sub-sectors: coal, new, and renewable energy sources, energy efficiency and conservation, and other cross-cutting themes of interest to member states.

Strive to ensure the provision of reliable, continued and sustainable energy services in the most efficient and cost effective manner.

Promote joint development of human resources and organisational capacity building in the energy sector.

Co-operate in the research, development, adaptation, dissemination and transfer of low-cost energy technologies.

Strive to achieve standardisation in appropriate energy development and application including the use of common methods and other techniques.

Tourism

Goal

To use tourism as a vehicle for achieving sustainable socio-economic development, poverty alleviation and as a key incentive for the conservation and utilization of the region's natural resources

Objectives

To use Tourism as a vehicle as a vehicle to achieve sustainable social and economic development through the full realization of the potential of the Region;

To ensure equity and balance and complementarity in the regional tourism industry;

To increase the participation of small and micro-enterprises, local communities, youth and women in the development of tourism throughout the Region;

To contribute towards human resource development of the Region through job creation and the development of skills at all levels in the tourism industries;

To create a favourable investment climate for tourism within the Region for both the public and private sectors, including small and medium scale tourist establishments;

To improve the quality and competitiveness and standards of service of the tourism industry in the Region;

To improve the standards of safety and security for tourists in the territories of Member States and to make appropriate provision for disabled, handicapped senior citizens in their respective countries;

To develop and market the region as a single but multifaceted tourism destination

To facilitate intra-regional travel for the development of tourism through easing or removal of travel and visa restrictions and harmonization of immigration procedures; and

To improve tourism service and infrastructure in order to foster a vibrant tourism industry.

Water

The SADC Water Division objective is to ensure water in Southern Africa becomes a sustainable resource through the coordinated management, protection, and equitable use of its shared watercourses. In doing so, it advances SADC's goal of peace and prosperity through regional integration.

Water is key, but limited resource in a region of vast economic, social, political and climatic diversity. Unpredictable availability, deteriorating quality, uneven distribution and competing demands, are a formula for international conflict and political instability. SADC has turned this threat into an opportunity for closer regional cooperation and harmonization through, among others, the adoption of an integrated water strategy.

The SADC Water Division has been tasked with creating the enabling environment for the integrated management of shared watercourses on a regional rather than national level. The two pillars supporting this integrated approach are the Protocol on Shared Watercourses and the Regional Strategic Action Plan.

Appendix 4 Timeline of study

The breakdown of deadlines for activities is as follows:

Activity	Deadline
Commencement of the project	24 th July 2006
Inception report phase	24th July – 31st August 2006
<ul style="list-style-type: none"> • Drafting of the inception report • Submission of the draft inception report • Presentation of the inception report and undertaking of consultation exercise 	14 th August 2006 14 th August 2006 tbc but falling in period 14 th -28 August 2006 31 st August 2006
<ul style="list-style-type: none"> • Submission of final inception report (This will include a discussion of consultations in Botswana, and a scoring of sectors to be included according to a number of criteria) • Submission of draft (final) report, (includes an analysis of the three constraints faced in the sectors prioritized in the inception phase report) 	7 th September 2006 5 October 2006
<ul style="list-style-type: none"> • Seminar to discuss the results in the first draft report and undertaking of further consultation exercise 	11 October
Drafting of the final report	February 2007
Presentation of the final report at a workshop aimed at key services sectors	February 2007
Submission of the final report	March 2007

Appendix 5 People consulted

We are grateful to John Hinchliffe, Kgomotso Autlwetse, Nick Charalambides and Tebogo Seleka for facilitating the study, in particular for organising the consultations and seminars.

Table A1: People consulted by services sector

ORGANISATION	SECTOR	CONTACT PERSON	DESIGNATION
Architects Collaborative	Business Services	Tshoganetso T. Rantshilo	Managing Director
Bank Of Botswana	Quantitative data	Geoffrey Shima Ncube	Senior Economist
Bank Of Botswana	Quantitative data	Pontsho M. Mochipisi	Senior Economist
Barclays Bank	Financial Services	Dominique Bruynseels	Head of Barclays Africa
BEDIA	Cross-sector	Reginald Selelo	Research Officer
BIA	Business Services	Tirtha Sen	Executive Officer
BIDPA	Cross-sector	Margaret Sengwaketse	Research Fellow
BIDPA	Cross-sector	Victoria Ndzinge-Anderson	Associate Researcher
BIDPA	Cross-sector	Johnson Tsoro Maiketso	Research Fellow
BIDPA	Cross-sector	Joel Sentsho	Senior Research Fellow
BJ Builders	Construction	Neil Withey	Contracts Director
BOCCIM	Cross-sector	Norman Moleele	Deputy Executive Director
Botswana Guides Association	Tourism	Kenson Kgaga	Director
Department of Tourism	Tourism	Thabologo Ndzinge	Director
Desert and Delta Safari	Tourism	Derek Flatt	General Manager
Econsult	Financial/Education	Keith Jefferis	Managing Director
Exporters Association of Botswana	Cross-sector	Loago Raditedu	Executive Director
Freight Forwarding Association	Transport	James Molokomme	President
HATAB	Tourism	Morongoe Ntloedibe-Disele	Chief Executive Officer
Horizon Ogilvy & Mather	Business Services	Mathata Gasennelwe	Managing Director
IFSC	Financial Services	Alan Boshwaen	Chief Executive Officer
IFSC	Financial Services	Kitso Lemo	Strategy & Research Executive
Kerr & Downey	Tourism	Diana Wright	General Manager
John Hinchliffe Consultants	Business Services	John Hinchliffe	Managing Director
Mascom	Communications	Odirile Motlhale	Communications & PR Manager
Maun Lodge	Tourism	Yasmin Potts	General Manager
Ministry of Comms. Science & Tech.	Communications	Alicia Ramaribana	Deputy Permanent Secretary
Ministry of Finance & Dev. Planning	Financial Services	Elaina Gonsalves	Director, Insurance & Pension
Ministry of Finance & Dev. Planning	Cross-sector	Wilfred Mandlebe	Secretary for financial affairs and Chairman of the Committee
Ministry of Trade & Industry	Cross-sector	N.M. Masisi	Deputy Permanent Secretary
Ministry of Trade & Industry	Cross-sector	Gemma Masonya	
Ministry of Works & Transport	Transport	Gerald Nyadze Thipe	Permanent Secretary
Ministry of Works & Transport	Transport	Dr C. Gopalakrishnan	Transport Economist
Nurses' Association of Botswana	Health	Joyce Tamocha	President
Okavango Wilderness Safaris	Tourism	Mark Havercroft	Group operation manager
SAMDEF	Communications	Irene Tshukudu	Investment Officer
SAMDEF	Communications	Charles Mundale	Chief Executive Officer
Seabelo's Express	Transport	Evans Twaambo	General Manager
Standard Chartered	Financial Services	Nigel Jones	Chief Executive
South African Express Airways	Transport	Robert Mpabanga	Country Manager - Botswana
University of Botswana	Education	Dr. Tscheko	Associate Professor (Economics)
WAVE Sanitation Services	EnvServices	Seteng Motalaote	Executive Chairman
Young Architects	Construction	Edward Mazhani	Architect Principal
Young Architects	Construction	David Young	General Manager

Appendix 6 Further studies

The list below is a non-exhaustive study of sectoral services studies:

Communications

- Monnane M. (2003), Botswana Telecommunications Services, SATRN Working Paper No. 3.

Construction

- Kaboyakgosi G. and M. Sengwaketse (2003), “Construction and Related Services”, SATRN Working Paper no. 4

Environmental Services

- Motalaote S. (2005), “Exporting environmental services: a seller’s perspectives”, prepared for the ITC Executive Forum on national Export Strategies.

Financial Services

- Gabaraane M. (2003), Botswana Financial Services, SATRN Working Paper No. 2.
- Bester H. et al. (2004), “Making insurance markets work for the poor in Botswana, Lesotho, Namibia and Swaziland – scoping study”, final report.
- Boshwaen A.P. (2005), Botswana International Financial Services Centre – Progress Review and Initiative to Enter the Cross-Border Market for Business Process Outsourcing in Financial Services, prepared for the ITC Executive Forum on national Export Strategies.

Tourism

- Leechor C. (2004), Developing Tourism In Botswana : Progress and Challenges, BIDPA.

Appendix 7 The GATS: an introduction

At the multilateral level, the GATS governs measures affecting trade in services (Article I) and serves as a basis for WTO members to progressively liberalise their services trade. The GATS regulates all trade in services, covers all modes of supply and applies to all types of domestic regulation at all levels of government (central, regional and local).

Part I of the GATS describes the scope of the agreement. It does not define services (it lists 161 service activities across 12 classified sectors – see Table D1) but focuses on supply aspects, which includes production, distribution, marketing, sales and delivery. GATS excludes services which are supplied in the ‘exercise of governmental authority’ and the greater part of the air transport sector.

Table: Classified sectors under the GATS

1) Business	7) Financial
2) Communications	8) Health
3) Construction	9) Tourism
4) Distribution	10) Recreational
5) Education	11) Transport
6) Environmental	12) Other

Disciplines

The GATS distinguishes between general obligations (in Part II) which are those measures which a country agrees to apply to all its services sectors and sector-specific commitments (in Part III) which apply only on specified sectors, as offered by each WTO member.

Table: Main provisions of the GATS

Obligation	Article	Subject Matter
General	I	Definition. Trade in services covers four modes of supply.
General	II	Most-favoured-nation (MFN) obligation. Option to invoke exemptions on a one-time basis.
General	III	Notification and publication. Obligation to create an enquiry point.
General	IV	Increasing participation of developing countries. High-income countries to take measures to facilitate trade of developing countries.
General	V	Economic integration. Sets conditions for free trade and similar agreements.
Sector-specific	VI	Allows for domestic regulation. Requirements concerning the design and implementation of services sector regulation including qualification requirements.
Sector-specific	VII	Recognition and qualifications, standards and certification of suppliers.
Sector-specific	VIII	Monopolies and exclusive suppliers. Requires that such entities abide by MFN and specific commitments (Arts. XVI and XVII) and do not abuse their dominant position.
Sector-specific	IX	Business practices. Recognition that business practices may restrict trade. Calls for consultation between members on request.
Sector-specific	XIV	General exceptions. Allows measures to achieve non-economic objectives.
Sector-specific	XVI	Market access. Defines a set of policies that may not be used to restrict market access for a scheduled sector unless they are listed in a member’s

		schedule.
Sector-specific	XVII	National treatment. Applies in a sector if a commitment to that effect is made and if no limitations or exceptions are listed in a member's schedule.
Sector-specific	XVIII	Allows members to make additional commitments e.g. regarding qualifications, standards and licenses.
Sector-specific	XIX	Calls for successive negotiations to expand coverage of specific commitments (Arts. XVI and XVII).
Sector-specific	XXIX	States that annexes are an integral part of the GATS.

Source: WTO

General obligations

For all sectors, the most-favoured-nation (MFN) principle (Article II) obliges non-discrimination between foreign services and services providers. The GATS allows for exceptions to the MFN principle by virtue of two provisions:

- 1) When the GATS first came into force in 1995, members were allowed a single opportunity to list exemptions from the MFN principle. These were intended to be permanent exclusions, but are subject to negotiation in the current round. These were often used to specify regional arrangements which would not meet the Article V rules (see below).
- 2) Regional trade agreements (RTAs) affecting services trade can be notified under Article V of the GATS.

In order to be compatible with provisions under Article V of the GATS an RTA must have 'substantial' sectoral coverage in terms of services sectors, volume of services trade and modes of supply (Article V:1a) and it has to provide for national treatment among services providers in the members party to the RTA eliminating 'substantially' all discrimination (Article V:1b). These conditions should be met after a 'reasonable' time frame. Unlike RTAs for goods, Article V:3 of the GATS provides 'flexibility' in the requirements for substantial coverage and non-discrimination where developing countries are parties to an agreement. In the context of reciprocal Economic Partnership Agreements, for example, this would allow the EU to liberalise more sectors and modes of supply to ACP countries than that provided by the ACP countries in return.

Article III of the GATS contains general obligations on transparency. Members are obliged to publish all domestic regulatory measures affecting services trade and establish enquiry points to provide specific information.

Finally, all WTO members must participate in rounds of GATS negotiations with the aim of achieving higher levels of services trade liberalisation (Article XIX). There are also provisions for further negotiations on developing GATS rules relating to emergency safeguard measures (Article X), government procurement (Article XIII) and subsidies (Article XV).

Sector-specific commitments

All other GATS commitments apply to the extent that each member has accepted them on a sector-by-sector basis. A member can make commitments (by mode of supply) to open its

market to foreign service suppliers (market access – Article XVI) and/or to guarantee non-discriminatory treatment between foreign and domestic suppliers (national treatment – Article XVII). Sector-specific commitments are listed in ‘schedules of specific commitments’. Members have complete flexibility to determine the sector coverage and substantive content of schedules. There is no minimum for the number of sectors to be included and while some countries have scheduled all major services sectors, others have listed a limited number of sectors. All members were expected to commit at least one part of a sector – usually in tourism. Members can also make market access and national treatment commitments *across* sectors (again for each mode of supply) in what are known as horizontal schedules of commitments. Sectoral and horizontal commitments and any limitations that may be attached inscribed in a member’s schedule of commitments constitute legally binding obligations.

There are some measures restrictive of market access, listed in Article XVI, which a member cannot maintain or adopt, unless specified in its schedule of specific commitments:

- 1) Limits on the number of services suppliers;
- 2) Limits on the total value of services transactions or assets;
- 3) Limits on the total number of services operations or the total quantity of services output;
- 4) Limits on the total number of natural persons that may be employed in a particular sector;
- 5) Limits on specific types of legal entity through which services can be supplied; and,
- 6) Limits on foreign equity participation.

In contrast to the GATT, national treatment applies only to those services inscribed in a member’s schedule and even then members can impose conditions and restrictions on national treatment, provided they are listed in their schedule of specific commitments. Unlike Article XVI, Article XVII provides no exhaustive list of measures inconsistent with national treatment. Nevertheless it makes clear that all *de jure* and *de facto* limitations that favour domestic suppliers must be scheduled if they are to be maintained.

Within the schedules of specific commitments:

- An entry of ‘none’ indicates that a member is bound to not having or introducing any measures that restrict market access or national treatment for a specific sector and mode of supply (but any limitations set out in the horizontal schedule still apply).
- The term ‘unbound’ indicates that no commitment has been made for a particular mode of supply, and the member is free to introduce limitations inconsistent with Articles XVI and XVII.
- ‘unbound*’ appears for sectors in which a particular mode of supply is not technically feasible e.g. cross-border supply of bridge-building services.
- All other entries which include specification of some commitments and limitations are known as ‘partial commitments’. A member is bound to not introducing any additional restrictive measures that violate market access or national treatment for a specific sector and mode of supply.

For sectors where WTO members have made specific commitments, Articles VI and VII deal with domestic regulation and recognition, respectively. Since negotiated commitments on market access and national treatment could be offset by restrictive domestic regulations these rules aim to ensure a predictable regulatory environment. Although disciplines on domestic regulation are still being developed, measures affecting trade in services must be

administered ‘reasonably’, ‘objectively’ and ‘impartially’ and should not constitute ‘unnecessary’ barriers to trade.

Finally, under Article XVIII members have the option of making additional commitments by listing liberalisation commitments that do not fall under market access or national treatment, such as on licensing requirements and procedures.

Progressive liberalisation

Part IV of the GATS sets out future objectives for negotiations on services. As a result of the Uruguay Round, WTO members committed under Article XIX of the GATS to resume negotiations on all services sectors by later than 1 January 2000 – the GATS 2000 negotiations. On the basis of this, all WTO members were committed to start a new round of negotiations, with a view to ‘achieving a progressively higher level of liberalisation’. Under these guidelines, the scope of the negotiations has to be comprehensive without *a priori* exclusion of any service sector or mode of supply. Though nothing specific to mode 4 negotiations appears in Article XIX, it emphasises the need to take into account the interests of all participants as well as to provide for special attention to sectors and modes of supply of export interest to developing countries. This was reiterated by the Doha Ministerial Declaration.

As part of this, and according to Article XXI, members can modify their schedules of specific commitments or withdraw any commitment within three years of it entering into force. In such circumstances, any member may ask for compensation which, if agreed upon, must be extended to all members.

Dispute settlement and annexes

Part V of the GATS sets out institutional provisions for consultation in case of possible disputes between members and assigns the WTO’s Dispute Settlement Mechanism to resolve and enforce decisions. Part VI contains the final provisions, including eight Annexes which deal with MFN exemptions, movement of natural persons, air transport services, financial services (2 annexes), maritime transport services, telecommunications (2 annexes).

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