

POLICIES IN SUPPORT OF GROWTH ENHANCING ENTERPRENEURIAL ACTIVITY IN BOTSWANA

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ABSTRACT

This paper relies on existing literature to describe policy options for promoting growth enhancing entrepreneurial activity in Botswana. The framework developed by the World Economic Forum and extended by the Global Entrepreneurship Monitor is used to identify factors likely to be important at the stage of development where Botswana is thought to be. Based on this framework, the paper describes a number of policy options relating to both the macroeconomic and the microeconomic context. These include optimising on existing bilateral and multilateral trade agreements, encouraging research and development (and ensuring that the knowledge created from such research benefits SMEs), and addressing the apparent skills mismatch in the labour market. Financial inclusion for SMEs, improving effectiveness of existing subsidy schemes and reduction of regulatory burdens are also important. Decisive response to water and electricity shortages problems is also essential.

1. INTRODUCTION

While the debate on policies likely to succeed in promoting sustainable development continues, stimulating entrepreneurial activity has become a central component of strategy in both developed and developing economies (see OECD/United Nations 2011). It is believed entrepreneurial activity increases innovation and competition and, consequently, economic growth. Focus on entrepreneurial activity is also gaining momentum in Sub-Saharan Africa. Botswana, on which this paper exclusively focuses, is no exception. To this end, the government is constantly searching for effective ways to promote entrepreneurial activity, with particular emphasis that revolves around smaller businesses (SMEs).

Emphasis on SMEs is consistent with trends in both developed and developing economies in which SMEs have become prominent. According to

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Wennekers and Thurik (1999), the past two decades have seen a drastic change in the way in which SMEs are perceived by policy makers and researchers. They argue that SMEs are now more than ever seen as vehicles for entrepreneurial activity. SMEs as candancy as vehicles of entrepreneurial activity has been partly attributed to the so called 'European Paradox' in which a lot of countries in Europe experienced stagnation despite large investments in knowledge creation in the 1990s (Wennekers & Thurik 1999). Entrepreneurship, and in particular small firms, emerged as the missing link between knowledge investments and economic growth (*ibid*). Subsequent research has focused on policies to promote entrepreneurial activity.

In the literature, one encounters ample evidence that reflects growing orientation towards small businesses. The experience of the United States of America (USA) between the 1970s and 1990s is the most impressive. During this period, the employment share of the 500 US largest firms (the so called Fortune 500) dropped from 20% in 1970 to 8.5% by 1996 (Carlsson 1992, 1999). According to Acs (1999) the employment share of small firms stabilised at 51% between 1982 and 1992, peaking at 52% between 1985 and 1997. Loveman and Sengenberger (1991) emphasize that this trend did not only occur in the USA, but elsewhere in the industrialized world. OECD (2005) reveals a 66% private sector employment share for SMEs. It also shows SMEs constitute the dominant form of business organization, with up to 99 percent of the business population being SMEs.

Though shares vary across countries, a similar pattern is apparent in developing countries. Ayyagari *et al.* (2007) show that SMEs account for a significant proportion of employment in developing countries, even though a sizable proportion is informal. Botswana, on which this paper sharply focuses, is no exception. Statistics (see section 2) suggest that the business population in Botswana is dominated by SMEs (up to 98%). They also suggest SMEs account for a considerable proportion of employment.

The growing ascendancy of SMEs has coincided with increasing interest in policies designed to promote entrepreneurial activity revolving around these production units. This paper is situated in this literature. It explores policies to support entrepreneurial activity in Botswana, with a sharp focus on SMEs. The paper is organized as follows. Section 2 describes the type of entrepreneurial activity said to be growth enhancing. The literature recognises that the impact of entrepreneurial activity on economic growth varies according to type of entrepreneurial activity. The literature distinguishes between 'opportunity-driven' entrepreneurial activity and 'necessity-driven' entrepreneurial activity. Policy makers are encouraged to focus on opportunity-driven entrepreneurial activity as it has a higher impact on growth. Section 3 describes the economic significance of SMEs to Botswana. Section 4 explores policy options for promoting growth enhancing

entrepreneurial activity in Botswana. The conclusion is presented in section 5.

2. WHAT TYPE OF ENTREPRENEURIAL ACTIVITY IS GROWTH ENHANCING?

According to Reynolds *et al.* (2002) individuals participate in entrepreneurial activity either because they perceive an '*entrepreneurial opportunity*' or they feel compelled to start businesses because all other options for work are either absent or unsatisfactory. The impact on economic growth from entrepreneurial activity induced by recognition of an entrepreneurial activity varies greatly from that which is induced by lack of options (Reynolds *et al.* 2002). Entrepreneurs who are induced by recognition of entrepreneurial opportunities expect their ventures to produce more high-growth firms (*ibid*). Reynolds *et al.* (2002) claim that as a result of the expected high growth of firms of these types of entrepreneurs, entrepreneurial activity induced by recognition of entrepreneurial opportunity is likely to exert a positive influence on economic growth. In contrast, those compelled by a lack of options are thought to have little ambitions, if any and the impact on economic growth of entrepreneurial activity induced by necessity is likely to be very small, if any.

Acs (2006) employs entrepreneurship data from the 2004 Global Entrepreneurship Monitor report to construct a proxy for the ratio of opportunity entrepreneurship and necessity entrepreneurship to test this claim. He then fitted a polynomial regression line to examine the correlation between this ratio and a country's per capita GDP. He found a positive correlation between the ratio and per capita GDP, with per capita GDP appearing to be higher in countries with a higher opportunity ratio (for example Belgium and Iceland) and lower in countries with a lower opportunity ratio (for example Uganda and South Africa).

He also claims to have found evidence that the ratio tracks positively with development variables such as exports, licensing receipts, research and development (R&D) expenditures and education spending. While he does not address causality, he argues that the positive correlation between the ratio and per capita GDP, together with the positive correlation between this ratio and other development variables, suggests that entrepreneurial activity is likely to be good for economic growth if it is motivated by opportunity recognition rather than lack of options. The policy implication is that policy makers should be concerned with creating an enabling environment for opportunity-driven entrepreneurial activity to flourish.

3. ECONOMIC SIGNIFICANCE OF SMESTO BOTSWANA

For a long time, Botswana has not had a comprehensive database for SMEs. One might argue this, has not only impacted on development planning, but

also on research about the importance of SMEs. During the 2006/7 financial year, the Central Statistics Office (presently, Statistics Botswana) conducted its maiden census of enterprises. The report was published in 2010. This paper relies on this census to highlight the economic significance of SMEs in Botswana. The census included formally registered enterprises only, and so the indicators highlighted exclude informal enterprises.

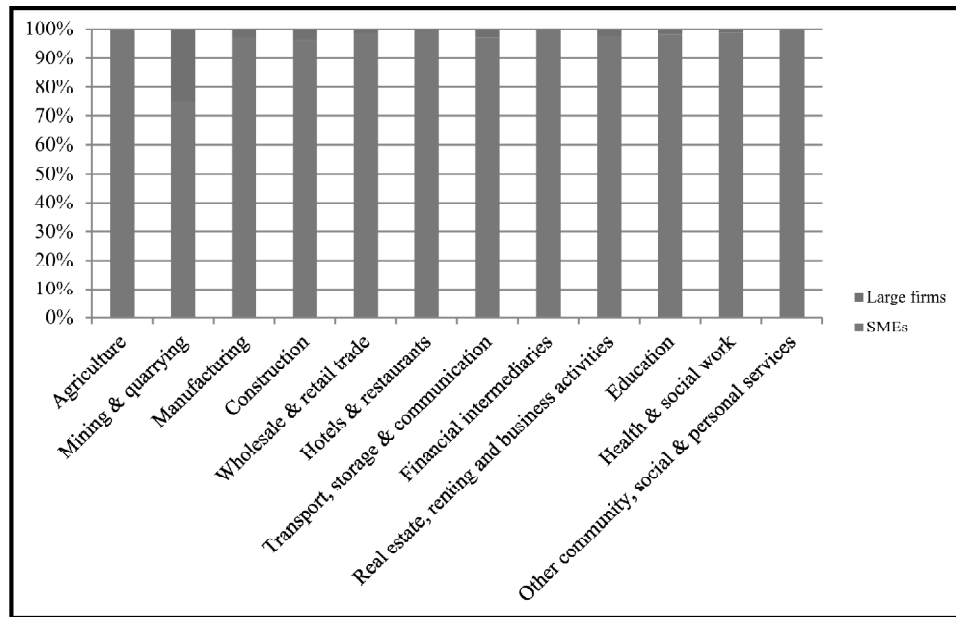
3.1. SMEs as a proportion of the business population

Figure 1 shows the distribution of enumerated enterprises by economic activity and size in Botswana. It reveals SMEs account for a large proportion of enterprises in all economic sectors. In agriculture, for example, all enterprises enumerated were SMEs. In community, social & personal services, financial intermediaries, hotels & restaurants, health and social work, wholesale & retail trade as well as manufacturing, SMEs accounted for at least 95% of enterprises. Clearly, SMEs dominate the business population in Botswana. A successful policy of promoting growth-oriented SMEs could result in significant gains for the economy.

3.2 Employment share of SMEs

Figure 2 reveals SMEs account for a significant proportion of employment. In education, health & social work, and community, social & personal

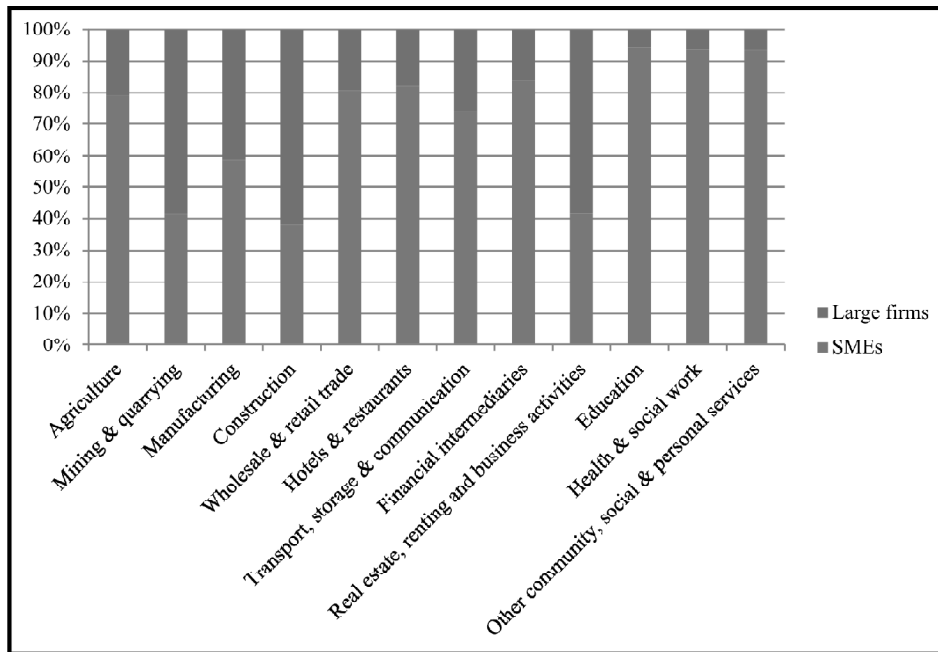
Figure 1: Distribution of enterprises by economic activity and size



Source: Author's computation based on Central Statistics Office (2010)

services, SMEs account for at least 90% of employment. In other service sectors (financial intermediaries, hotels & restaurants, and wholesale & retail), they account for at least 80% of employment. These are consistent with patterns in the OECD and other developing countries. From Figure 2, it can be concluded that SMEs play a significant role in employment generation within Botswana.

Figure 2: Employment Share of Enterprises by Economic Activity



Source: Author’s computation based on Central Statistics Office (2010)

While data on the contribution of SMEs to the country’s Gross Domestic Product are not available, the dominance of SMEs in terms of business population and employment share suggest SMEs are playing a significant role in the economy. A policy of promoting entrepreneurial activity revolving around these production units thus seems logical.

4. POLICIES FOR PROMOTING ENTREPRENEURIAL ACTIVITY IN BOTSWANA

This paper explores policies likely to promote growth enhancing entrepreneurial activity in Botswana, with a sharp focus on SMEs. The paper relies on existing literature on factors thought to be important at the stage of development Botswana is believed to be. This is done within the framework developed by the World Economic Forum (WEF) and extended

by the Global Entrepreneurship Monitor (GEM) to reflect the role of entrepreneurial activity on economic growth, and policies likely to promote entrepreneurial activity. For the sake of brevity, this framework is not presented in this paper. The paper highlights critical factors for a country such as Botswana. A detailed description can be seen in Amoros *et al.* (2014).

4.1 Botswana's stage of development: key factors for entrepreneurial activity

The WEF and the GEM characterize Botswana as in transition from being factor-driven to being efficiency-driven (see Schwab 2014 and Amoros *et al.* 2014). Entrepreneurial activity at this stage is thought to revolve around a healthy set of basic requirements (well-developed public and private institutions, quality physical infrastructure, stable macroeconomic environment, and a healthy and educated workforce at this stage) and efficiency enhancers (higher education and training, goods market efficiency, labour market efficiency, financial market sophistication, technological readiness, and market size).

Institutions are humanly devised constraints that structure political, social, and economic interaction (North 1991). They consist of customs, traditions and codes of conduct, laws and property rights. By reducing uncertainty in exchange, institutions determine transaction and production costs, and hence profitability and feasibility of entrepreneurial activity (North 1991). How well-developed institutions are is likely to have an influence on both the scope and quality of entrepreneurial activity. *Physical infrastructure* encompasses roads, railroad infrastructure, airport infrastructure, electricity supply and telecommunications. Infrastructure is critical to attracting foreign direct investment (FDI), among others. FDI is essential not only for technology transfer, but for transfer of skills, participation in international production networks and access to international markets.

Stability of the macroeconomic environment encompasses stability of macroeconomic variables such as inflation, interest rates, exchange rate, balance of payments, and public and private debt among others. In a stable macroeconomic environment businesses are able to assess the feasibility and profitability of entrepreneurial activity. *Health and education* relates to human capital formation. According to Barro (2001) a higher stock of human capital facilitates absorption of superior technologies with potential to increase efficiency in production. *Higher education and training* is particularly critical.

Goods market efficiency encompasses intensity of local competition, extent of market dominance, and effectiveness of anti-monopoly policy. The extent to which goods markets are efficient has the potential to encourage

or suppress entrepreneurial activity. For example, in contexts where anti-competitive legislation is effective in discouraging anti-competitive behaviour, entrepreneurial activity can be expected to be higher. Just as efficiency of goods markets is important, so is the *efficiency of labour markets*. The efficiency of labour markets encompasses the extent to which there is cooperation in labour-employer relations, the extent to which there is flexibility in the determination of wages, and capacity to attract and retain talent. The extent to which labour markets are efficient also has potential to encourage or suppress entrepreneurial activity. If labour market regulations are so rigid that businesses find it difficult to recruit foreign skilled labour for, example, it may limit firms' ability to harness the benefits of latest technologies that require specific skills.

The *financial system*, which consists of financial markets and financial intermediaries, is expected to channel financial resources to their most productive use. The effectiveness with which the financial system performs this function can influence entrepreneurial activity in an economy. By reducing uncertainty in the financial system, and facilitating access to financial services at competitive prices, a well-functioning financial system is likely to encourage entrepreneurial activity, with economic gains expected from policies aimed at improving stability of the financial system and improving the relative ease with which businesses can access financial services, and at competitive prices.

Technological readiness comprises the extent to which an economy is able to harness the benefits of existing technologies and improve efficiency in the production of standard products and services. Improving efficiency in the production of standard products is likely to have a positive impact on the success of entrepreneurial activity. The *marketsize* (local and international) also signifies feasibility and potential profitability of entrepreneurial activity. It is difficult to imagine that entrepreneurial activity will thrive where the market size is very limited. For economies that are limited in terms of the domestic market, policies aimed at increasing integration with trading partners are critical.

In addition to developing a healthy set of basic requirements and efficiency enhancers, the Global Entrepreneurship Monitor emphasizes the importance of developing entrepreneurship framework conditions at this stage of development (see Bosma *et al.* 2009 and Amoros *et al.* 2014)). These include availability and accessibility of finance (including debt, equity, grants, and subsidies) for SMEs; the extent to which public policy gives support to entrepreneurship; the extent to which national research and development (R&D) leads to new commercial opportunities and is available to SMEs, the presence of property rights; commercial, accounting, and other legal and assessment services and institutions that support or promote

SMEs; entry regulation; ease of access to physical resources telecommunications, utilities, transportation, land or space at a reasonable price; presence and quality of government programs directly assisting SMEs at all levels of government; the extent to which training in creating and managing SMEs is incorporated within the education system at all levels; as well as the extent to which social and cultural norms encourage entrepreneurship.

4.2 Policy options for Botswana

Drawing from the literature described above, this section outlines the range of policy options for promoting growth enhancing entrepreneurial activity in Botswana. The description is twofold: macroeconomic context and microeconomic context.

4.2.1. Macroeconomic context

Economic integration and international trade

Increased integration with trading partners offers opportunities for wider market access. For Botswana, which has a small domestic market, wider market opportunities afforded by economic integration are critical. Statistics Botswana (2014) reveals that while a large percentage of Botswana's imports originated in countries within the Southern Africa Customs Union (SACU), Southern African Development Community (SADC) and the rest of Africa, a large percentage of Botswana's exports have been to Asia and Europe (see Statistics Botswana 2014)¹. While Botswana has opened up for businesses in countries in SACU and SADC to export to Botswana, it appears it is not optimising on market access afforded by being a member of these regional blocks. Economic gains could result from encouraging SMEs to export to these countries.

Through the Botswana Investment and Trade Centre (BITC), and the Ministry of Trade and Industry (MTI), efforts should be made to assist SMEs not only identify market opportunities within SACU, SADC, and the rest of Africa but enable them to take advantage of these opportunities. Policies aimed at reducing trade barriers, (for example, the time spent on dealing with, and cost of regulatory procedures for trading across borders) will make it easier for SMEs to take advantage of these opportunities. Besides increasing integration with regional trading partners, economic gains could result from optimising on access to international markets in Asia and Europe which already exist, including identification of new opportunities in these markets. The Ministry of Trade and Industry, in collaboration with the Botswana Investment and Trade Centre, should actively seek new opportunities for exporting SMEs in these markets. Botswana has to make use of bilateral agreements and multilateral trade agreements that it has

already entered into or is still negotiating. These include the Africa Growth and Opportunity Act (AGOA) which provides preferential access to markets in the United States of America (US), the SACU - Mercado Cum del Sur (MERCOSUR) Preferential Trade Agreement (PTA), which provides market access for countries in SACU to South American markets, the SACU - European Free Trade Association (EFTA) Free Trade Agreement (FTA), which provides duty free and quota free access to the Norwegian, Icelandic and Swiss markets for SACU member states, and the ongoing SACU - India PTA, which is aimed at providing market access to the Indian market.

Health and education

Health and education, particularly higher education and training, are critical to enhancing human capital. At Botswana's stage of development, human capital plays an important role in the absorption of technologies with the potential to increase efficiency in production. Improvement in efficiency is likely to increase the profitability of engaging in entrepreneurial activity. Botswana has, over the years, invested significant resources in education. As a proportion of government spending, education has been among the highest expenditure items. For example, for the 2015/16 and 2016/17 financial years, the Ministry of Education and Skills Development received the largest share of the proposed Ministerial recurrent budget. If producing the right skills for the economy is used to reflect the quality of spending on higher education and training, one might argue that the skills mismatch apparent in Botswana's labour market (see IMF 2014) reflects a problem with quality of spending in Botswana's higher education. In recent years the government has responded by approving the establishment of the Human Resource Development Council (HRDC) to coordinate national human resource development planning, with a view to aligning higher education and training with the needs of the labour market (see the Human Resource Development Bill of 2013). This policy implementation is currently on-going.

While aligning human resource development planning with the needs of the labour market is critical to improving the quality of spending on higher education and training, any reforms to higher education and training must incorporate entrepreneurship education. It is essential, however, for entrepreneurship education to also be incorporated at lower levels of education with a view to inculcating an entrepreneurship culture in Botswana. A significant problem that threatens to negate advances made on human capital in the past is HIV/AIDS. While mortality rates due to HIV/AIDS have declined significantly due to the provision of free Anti-Retroviral drugs through the public health system, prevalence rates remain high, particularly for the age group 30-49. Preliminary results of the latest AIDS Impact Survey indicate a national prevalence rate of about 16%, women being the most affected (see Statistics Botswana 2013). The report

also reveals that prevalence is higher in urban areas compared to rural areas, which have experienced a drop.

This is despite the fact that government, through the Ministry of Health and the National AIDS Coordinating Agency (NACA), has over the years facilitated public education programmes aimed at creating awareness with a view to curbing the rate of new infections. It appears that the uptake of these public education programmes is low, particularly in urban areas where prevalence rates are higher. While the impact of HIV/AIDS on SMEs in Botswana has not been analysed, intuition suggests extended absenteeism from work due to illness is likely to affect the productivity and efficiency of firms, and hence profitability of entrepreneurial activity. It is thus critical for efforts to be made to increase awareness and encourage behavioural change, particularly in urban areas.

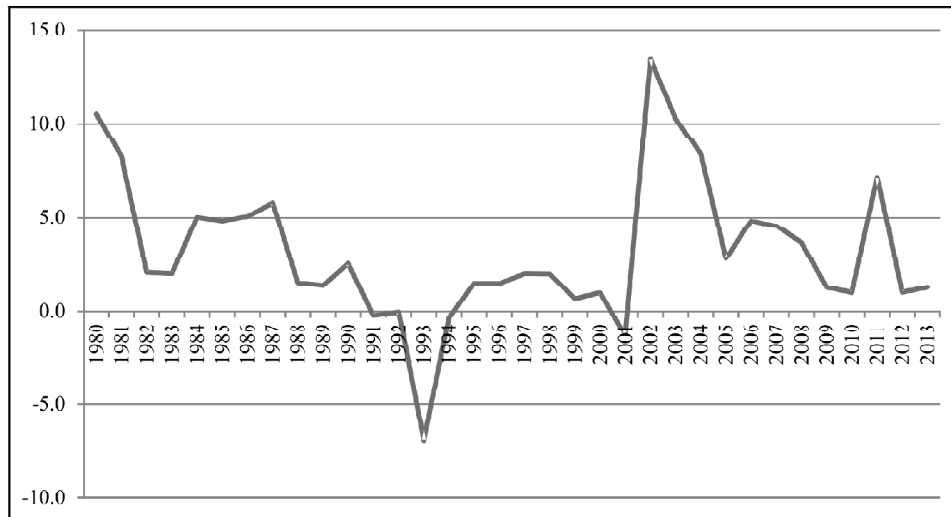
National research and development (R&D)

National research and development (R&D), particularly through universities and other institutions of higher education and research, could play an important role in the design of improved methods of production, with the potential to enhance profitability of engaging in entrepreneurial activity. Given that economic activity in Botswana is dominated by SMEs (at least in terms of the number of enterprises and private sector employment) which are not likely to invest significantly in R&D due to limited financial resources, or have inadequate technical skills to do so, national R&D is essential. The crucial thing, however, is making sure that SMEs can benefit from national R&D. Establishing close links between national institutions undertaking R&D and associations representing SMEs, (such as the Small Business Council (SBC), the Botswana Exporters and Manufacturers Association (BEMA) as well as the Botswana Chamber of Commerce, Industry and Manpower (BOCCIM)) and institutions that support SMEs, (such as the Local Enterprise Authority (LEA)) is critical to facilitating R&D knowledge transfer to SMEs.

The Botswana International University of Science and Technology (BIUST), which started operating during 2012 was established with the objective of encouraging R&D, so was the Botswana Institute of Technology, Research and Innovation (BITRI)². It is important to ensure, however, that the knowledge generated in these institutions, including other institutions such as the University of Botswana (UB), the Botswana College of Agriculture (BCA), and the National Food Technology Research Centre (NAFTRC) can be commercialised and benefit the economy in terms of facilitating entrepreneurial activity.

Openness to foreign direct investment (FDI)

UNCTAD (2003) revealed that Botswana has been open to FDI since independence in 1966, although a large percentage has been into the mining

Figure 3: Botswana FDI, net inflows (% of GDP)

Source: Authors computation based on World Development Indicators³

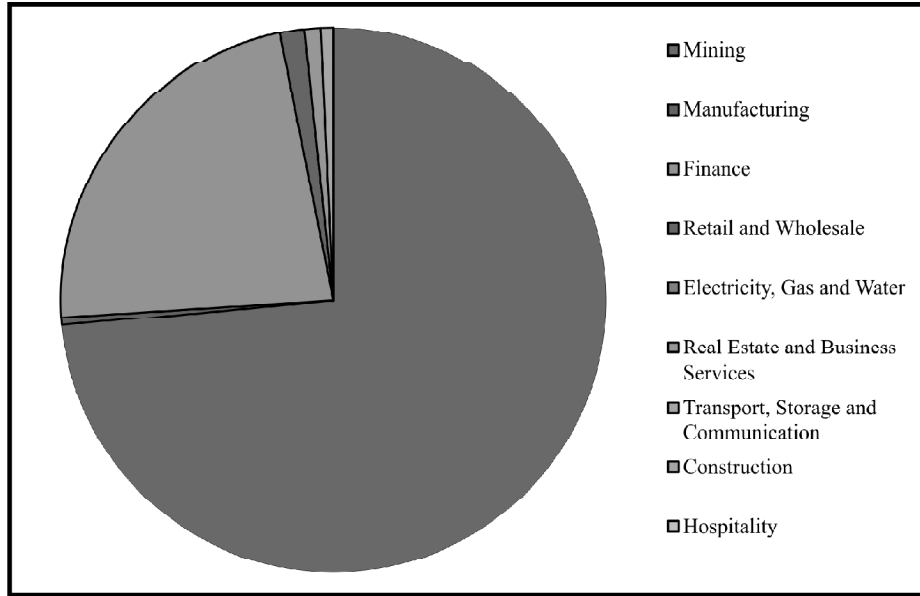
sector. Figure 3 shows the trend of FDI net inflows (as a percentage of GDP) for Botswana for the period 1980 - 2013, with FDI net inflows peaking at 13.5% of GDP in 2002. Since 2002, however, FDI net inflows have declined. In 2013, FDI net inflows were estimated at 1.3% of GDP. While it is difficult to identify specific causes of this decline in the context of this study, the data suggests Botswana is losing competitiveness in attracting FDI, which is likely to impact negatively on efforts to enhance entrepreneurial activity. This underlines the importance of policies aimed at improving competitiveness with a view to attracting more FDI.

Figure 4 shows the percentage distribution of Botswana's FDI flows by industry in 2012 with mining dominating all other sectors, which underlines the importance of facilitating FDI inflows into other economic sectors. Some of the important determinants of FDI inflows include macroeconomic stability, openness to international trade, human capital, and quality of infrastructure, tax incentives, and availability of venture capital which underscores the importance of improving the overall macroeconomic context. Besides the macroeconomic environment, removing regulatory burdens could boost attractiveness.

Government can also optimise on opportunities afforded by existing bilateral and multilateral trade agreements such as the SACU - United States of America (USA) Trade, Investment and Development Cooperation (TIDCA) which allows SACU member states, to benefit from cooperation and assistance from the USA. The ongoing SACU-India PTA offers an opportunity for Botswana as a member of SACU to impress on the importance

of technology and skills transfer, particularly in the area of Information and Communications Technology (ICT) in which India is becoming one of the leading players globally.

Figure 4: FDI by Industry-2012 (% of total)



Source: Authors computation based on estimates of the Bank of Botswana⁴

Stability of the exchange rate

Botswana is currently operating a crawling peg exchange rate regime, implemented through continuous adjustment of the trade weighted Nominal Effective Exchange Rate (NEER) of the Pula (Botswana currency) at a rate of crawl based on the differential between the Bank of Botswana's inflation objective and the forecast inflation of trading partners. This regime was adopted in 2005 with the objective of improving stability of the Real Effective Exchange Rate (REER) and avoiding the need for sizable discrete devaluations which was the case with the fixed exchange rate system used previously. Avoiding discrete devaluations and revaluations is critical to maintaining credibility of the mechanism, with credibility expected to impact business sentiment and willingness to engage in entrepreneurial activity positively. Credibility of the crawling peg mechanism, it must be noted, also depends on the stability of inflation and public debt, which implies that the conduct of monetary and fiscal policy is also important to maintaining credibility of the crawling peg mechanism.

4.2.2. Microeconomic context

Access to finance

Availability and accessibility of financial resources to SMEs is one entrepreneurial framework condition essential to enhancing entrepreneurial activity (also see Amoros *et al.* 2014). The 2014IMF article IV consultation report on Botswana reveals that while Botswana's banking system is well-capitalised, profitable and liquid, financial inclusion, particularly with regard to SMEs, is a concern (see IMF 2014). This point is also emphasized in the latest monetary policy statement of the Bank of Botswana (see Bank of Botswana 2014). Encouraging competition in the banking sector (through liberalization of entry regulations) could improve availability, variety, flexibility, and affordability, of financial services available to SMEs.

While the Bank of Botswana should not be seen as directing banks on their allocation of loans, the Bank of Botswana could still play an active role in encouraging banks to extend loans to small businesses with viable business plans. It is important to note that, currently, Botswana does not have a centralised institution that compiles the credit history of businesses operating in Botswana. This makes it difficult for banks to assess the risk of small businesses, which may explain why they are reluctant to lend to SMEs, particularly given that most of them are not able to provide adequate collateral. The establishment of such an agency would reduce information asymmetry, making it easier for banks to assess the risk of lending to SMEs, which may improve their willingness to extend loans to them. Strengthening of property rights through improving efficiency and transparency of the legal system may also encourage institutional lenders to lend to SMEs. Strengthening of bankruptcy laws is also essential (see OECD 2014).

Ordinarily, institutional lenders would prefer to deal with formalised businesses, which in most cases keep proper accounting records that lenders may use to evaluate the health of their businesses. Informal SMEs rarely keep such records, which diminishes their chances of getting credit from institutional lenders. Encouraging formalization through reducing regulatory burdens associated with formalization may improve SMEs chances of accessing institutional credit.

Improving the effectiveness of existing subsidy schemes could also enhance SMEs' access to financial resources. In 2001 the government established the Citizen Entrepreneurial Development Agency (CEDA) to provide loans at subsidised interest rates as well as trade finance (invoice discounting, factoring, performance bonds, suppliers' guarantees and bank guarantees) to financially viable local businesses⁵. Given that SMEs continue to experience difficulties in accessing financial resources as highlighted in

IMF and Bank of Botswana reports (see IMF 2014 and Bank of Botswana 2014), it is worth looking into the responsiveness of this initiative to the needs of SMEs with a view to identifying areas for improvement. It is also worth looking into the complexity and burden of administrative procedures involved in accessing funds through this initiative.

The local equity market is another avenue that could be used to improve SME access to financial resources. At the present moment SMEs are hardly able to raise funds through the Botswana Stock Exchange (BSE), possibly due to listing requirements and compliance costs. Liberalising listing requirements and reducing administrative burdens and compliance costs could make it easier for SMEs to raise funds through this avenue, especially medium firms.

Access to skilled labour

Access to skilled labour is likely to permit SMEs to absorb superior technologies with the potential of improving efficiency and hence profitability of entrepreneurial activity. Besides addressing the skills mismatch in the labour market, it is important for government to ease regulations and processes (for example, immigration laws and procedures for acquiring work and residence permits) that impact on the ability of SMEs to engage expatriate skilled labour, especially for skills that are in short supply locally. Ensuring that the income tax system does not act as a disincentive to foreigners is essential.

Business advisory services

In an economy trying to nurture entrepreneurial activity such as Botswana, provision of business advisory services to potential entrepreneurs can play an important role in assisting them develop viable business plans, developing marketing plans, identifying potential markets, identifying potential sources of raw materials, identifying potential sources of finance, as well as getting through registration and licensing. It can also be helpful in assisting existing businesses improve on product quality and branding, identifying new markets both locally and internally, as well as taking advantage of existing government support schemes for SMEs. One of the main institutions charged with the responsibility of providing business advisory services to SMEs in Botswana is the Local Enterprise Authority (LEA)⁶. Improving the capacity of staff of the Authority, especially through training on business evaluation, market research and identification of opportunities is essential to improving the impact of the advisory services they provide on enhancing entrepreneurial activity. Extending these services to rural areas will be critical to enhancing entrepreneurial activity in rural areas which may in turn promote rural development.

Competition policy and business regulation

Anti-competitive behaviour may have a negative impact on entrepreneurial activity by suppressing new entries. During 2009 the government of Botswana adopted competition legislation which also established a competition authority and commission (the Botswana Competition Authority) charged with the responsibility of prevention of, and redress for anti-competitive behaviour (see Competition Act 2009)⁷. Transparency in the operations of the Authority is essential to ensuring credibility. Training of the staff of the Authority is key to improving operational efficiency.

Besides addressing anti-competitive behaviour, government has to adopt complementary policies aimed at reducing administrative and regulatory burdens on SMEs. While it is difficult to estimate the size of Botswana's informal SMEs sector (due to data limitations), one can reasonably argue that the higher the burden of regulation the higher the likelihood of SMEs operating in the informal sector. SMEs operating in the informal sector are likely to find it difficult to access not only institutional credit, but some of the support schemes meant to assist SMEs, which may further stunt their growth. Simplifying business registration and licensing forms and procedures and providing one stop shop services for registration and licensing services could assist, not only in encouraging SMEs in the informal sector to move into the formal sector where they would be able to access services, but encourage new business formations. Simplification of taxation forms and submission procedures could also be helpful. Provision of online services by tax authorities (Botswana Unified Revenue Services) could help in reducing the amount of time and money spent on dealing with taxation procedures and submissions.

Government policy

The extent to which government policies, especially government procurement policies, are supportive of SMEs can influence entrepreneurial activity. The government of Botswana has over the years adopted a number of procurement policies aimed at increasing opportunities for SMEs to gain access to government procurement, notably the reserved sectors policy (1982), local procurement policy (1997), and recently the economic diversification drive (EDD) initiative. The EDD is intended to ensure that procuring entities support SMEs through a preference margin of 15% (see Ministry of Trade and Industry 2010). Monitoring of procuring entities is essential to ensure compliance. It is important, however, to ensure that administrative and registration procedures allowing SMEs to participate are simplified.

Property rights

Botswana is considered to have a good set of property rights institutions secured by an efficient legal system that also provides for transparency

(see Acemoglu *et al.* 2001, Iimi 2007, Humphreys *et al.* 2007, and Seidler 2010). Seidler (2010) emphasizes that the strength of property rights institutions has also assisted the country in minimising public sector corruption⁸. This does not imply that improvements are not necessary. Improving the operational efficiency of the legal system is critical to reducing costs involved in addressing contract disputes. Independence and transparency of the operations of the judiciary are essential to maintain credibility of the system. It is also important for policy makers to ensure that property rights and laws evolve with changing economic conditions so as to maintain relevance. Worth noting is that the perception of foreign investors of protection of property rights in Botswana can have an influence on their willingness to establish businesses in Botswana, which may further enhance entrepreneurial activity.

Provision of infrastructure

The ease with which SMEs can access physical resources (for example, telecommunications, utilities, transportation, land or space) at reasonable prices, as emphasized by Amoros *et al.* (2014), has an influence on entrepreneurial activity. Economic gains are expected from policies aimed at improving SMEs access to physical resources. Policies to improve SMEs access to physical resources include reducing the financial burden associated with electricity, water and telecommunication connections. Simplification of application procedures and reducing the waiting period for inspections and connections is also essential.

While the telecommunications sector has been liberalised, water and electricity supply remain state monopolies in Botswana. In recent years, Botswana has been experiencing acute shortages of water and significant interruptions in electricity supply, which not only has negative consequences on existing businesses, but can, affect investor sentiment and the ability to attract FDI. The Bank of Botswana (2015) in fact cites water and electricity shortages as a major challenge for businesses in Botswana. These shortages are said to have affected business confidence. This point is also highlighted in the 2014 IMF article IV consultation report on Botswana (see IMF 2014). Improving efficiency in the delivery of water and electricity supplies is essential. With regard to telecommunications, it is essential for the Botswana Communications Regulatory Authority (BOCRA) to ensure that pricing of telecommunications services is not to the exclusion of SMEs. Access to internet services at reasonable prices can allow SMEs to adopt internet based models of running businesses for example, electronic-commerce (E-commerce), which not only have potential to reduce transaction costs of operating businesses but improve visibility and market outreach.

5. CONCLUSION

The purpose of this paper has been to explore policy options for promoting growth enhancing entrepreneurial activity in Botswana. The paper draws from existing literature on factors thought to be critical to enhancing entrepreneurial activity in a country at Botswana's stage of development. In particular, it relies on the framework developed by the World Economic Forum and extended by the Global Entrepreneurship Monitor, which identifies factors essential to promoting entrepreneurial activity at each stage of development. Botswana is classified as in transition from the factor-driven to the efficiency driven stage of development in terms of this framework. Policy makers in countries at this stage are encouraged to focus on 'basic requirements', 'efficiency enhancers' as well as entrepreneurial conditions.

Based on this framework, the paper describes a number of policy options for Botswana to promote growth enhancing entrepreneurial activity. Policy options relating to the macroeconomic context include stimulating research and development (R&D), particularly in tertiary institutions and ensuring that the knowledge created generates opportunities for SMEs. They are also encouraged to optimise on the wider market access afforded by being signatory to bilateral and multilateral trade agreements. The Botswana Investment and Trade Centre (BITC) and the Ministry of Trade and Industry (MTI) should play a leading role in assisting SMEs benefit from these agreements. Skills mismatch in the labour market is a continuing worry for both policy makers and industry in Botswana. With the setting up of the human resource development council (HRDC), it is anticipated that this problem will be addressed somewhat.

Policy options relating to the microeconomic context include ensuring financial inclusion for SMEs (i.e. increasing variety, flexibility and affordability of financial services, and easing requirements for raising funds through the local equity market). Improving effectiveness of existing subsidy (financial and otherwise) schemes is also critical. Reduction of regulatory burdens and anti-competitive behaviour are also essential. Water and power shortages have in recent years been major challenges for Botswana. Studies have shown that these shortages are affecting business confidence. How government responds to these problems in the short and medium term will be critical for businesses.

Notes

1. SACU member states include Botswana, Lesotho, Namibia, South Africa, and Swaziland while SADC member states include Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.

2. R&D transfer to SMEs may also occur when graduates of these institutions start their own business once they complete their higher education certificates, diplomas or degrees, which underscores the importance of entrepreneurship education being incorporated into the curriculum in higher education.
3. See databank.worldbank.org.
4. See Bank of Botswana (2013).
5. www.ceda.co.bw
6. www.lea.co.bw
7. Also see www.competitionauthority.co.bw
8. Botswana has over the years consistently been ranked the least corrupt country in Africa and one of the least corrupt developing countries in the world. In the latest report published by Transparency International, for example, Botswana is ranked 30th out of a total of 177 countries in perceived public sector corruption in the world (see Transparency International 2013).

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