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FOREIGN DIRECT INVESTMENT IN BOTSWANA: TRENDS, REFORMS AND CHALLENGES

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ABSTRACT

This paper gives an overview of foreign direct investment (FDI) in Botswana from 1980 to 2013. The trends in FDI inflows, reforms that have been implemented, and challenges that need to be addressed in order to increase FDI inflows into the country are also highlighted. Reforms on FDI have been two-pronged. Firstly, there are policies that are aimed at creating a vibrant industry important for investment. Some of the policies pursued are: supportive industrial policies, regional integration and bilateral and multilateral trade agreements. Secondly, there are policies that directly target FDI. Among such policies are investment incentives, regulatory reforms, exchange control relaxation, Bilateral Investment Treaties (BITs) and the creation of Special Economic Zones. The overall analysis of the study shows FDI inflows in Botswana have been highly volatile and depressed since 1980, although a gradual increase has been recorded since the mid-90s.

Key words: *Foreign Direct Investment (FDI); trends; reforms; challenges; policies*

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1. INTRODUCTION

Low investment levels in developing countries have been associated with low economic development and a number of challenges, such as widespread poverty and generally low living standards. In an effort to increase investment capital, most governments in developing countries opened up their economies to FDI. The investment gap in most developing countries is a result of low savings – not sufficient to support investment needs. Besides closing the investment gap, FDI is associated with other positive direct effects, such as the creation of job opportunities that benefit the locals. FDI also brings technology which is important in improving production, management and marketing efficiency, competitiveness of the host economy, also speeding up the integration of the host country into the global world. It is these positive effects that make FDI attractive to developing countries, including Botswana.

There is a vast amount of literature supporting the positive effects of FDI on economic growth and poverty reduction. Among empirical studies in support of a positive effect of FDI on economic growth is Esso (2010), which, in a study on the relationship between FDI and economic growth between 1970 and 2007 in Sub-Saharan Africa, confirmed a long-run relationship. Adam (2009), in a study on 42 Sub-Saharan Africa, between 1990 and 2003 found FDI to have growth effects. Feeny (2014), in a study on the Pacific Island countries from 1971 to 2010, found FDI to be associated with high economic growth. Almfraji *et al.* (2014) found FDI to positively affect economic growth in Qatar between 1990 and 2010. Other studies explored the importance of FDI on poverty reduction. Gohou and Soumare (2012), for example, in a study on 52 African countries between 1990 and 2007, found FDI to reduce poverty. Jalilian and Weiss (2002), in a study on the ASEAN countries, found FDI to reduce poverty. The positive contribution of FDI to economic growth and poverty reduction, among other benefits, makes it important to developing countries.

The neoclassical and endogenous growth theories also support a positive relationship between FDI and economic growth and poverty reduction. In the neoclassical growth theories, technology and labour growth are exogenous (Solow, 1956). FDI in the neo-classical theories, augments domestic capital, although diminishing returns in the long run makes FDI to have the same effect as domestic capital (Solow, 1956). However, in the endogenous growth theories, technological progress is endogenously determined, making FDI to have a long-term effect on growth by offsetting diminishing returns (Lucas, 1988; Romer, 1990). It is this short- or long-run relationship that makes FDI important in economic development and poverty reduction in host countries.

FDI in Botswana plays an important role in closing domestic investment gap. FDI increases the stock of capital for investment, helps in the creation

of jobs and increases competitiveness of the host country industries through technological transfer (Blomstrom and Kokko, 1996; Klein *et al.*, 2001). The government also get revenue from taxes levied – which is important in the provision of public services and supporting developmental programmes. High growth levels lead to an increase in job opportunities, general improvement in living standards and advancement in technology (Klein *et al.*, 2001). Although FDI plays a pivotal role in economic growth, there is need for a review of its importance in Botswana within a rapidly changing regional, global and economic environment. It is this gap that this study aims to fill by having a fresh look at FDI dynamics in Botswana.

The rest of the paper is divided as follows: Section 2 gives an overview of FDI in Botswana. Section 3 outlines the reforms that have been implemented to harness FDI inflows. Section 4 gives trends in FDI inflows and Section 5 highlights the challenges that have been faced in increasing FDI inflows. Section 6 concludes the paper.

2. FOREIGN DIRECT INVESTMENT IN BOTSWANA: AN OVERVIEW

The Transitional Plan for Social and Economic Development of 1965 marked the Botswana regime of implementing socio-economic policies through the National Development Plans (NDP). The government policies on FDI are enshrined in Pillar 2 in the NDP 10 that strives to build a prosperous, productive and innovative nation. The economy of Botswana in the 1980s was centred on mining following the discovery of diamonds in 1967. The main focus was building capacity in the mining sector to exploit and negotiate foreign direct investment deals with Multinational Companies (Criscuolo, 2008).

Government policies aimed at attracting FDI included: exchange control reforms, building a stable and sound macroeconomic environment, formation of investment support policies, regulatory reforms, trade agreements, regional integration, investment incentives, building Special Economic Zones among other policy initiatives aimed at supporting investment from both domestic and foreign investment. The government also made concerted effort to channel diamond proceeds to build and stimulate economic development – important for investment.

Despite the reforms implemented, FDI inflows remained depressed between 1980 and 2013. The average percentage of FDI inflows to GDP from 1981 to 1990 was 3.8%. From 1991 to 1994 Botswana recorded negative FDI inflows with the highest percentage registered in 1993 of 6.9% (World Bank, 2014). The percentage of FDI to GDP started increasing from 1994 to 2000, recording

an average percentage of 1.4% (World Bank, 2014). From 2002 to 2013 positive inflows were received. FDI inflows as a percentage of Gross Fixed Capital Formation (GFCF) were sluggish between 1990 and 1994 (UNCTAD, 2015b). The percentage of FDI to GFCF increased from 1995. The average percentage between 1995 and 2013 was 11.2 % (UNCTAD, 2015b). While greenfield inflows were characterised by sharp increases and deep falls, a general upward trend was recorded from 2003. From 2003 to 2013 the average inflows were \$515 million. The highest inflows were recorded in 2008, with \$1.9 billion; while the lowest was registered in 2013 with \$1.3 million (UNCTAD, 2015b). Greenfield inflows as a percentage of Africa greenfield inflows remained depressed between 2003 and 2013 with an average percentage of 0.58% (UNCTAD, 2015b).

Although FDI inflows improved from the 90s, the levels were low as measured by FDI as a percentage of GDP, GFCF and greenfield inflows. Botswana faces a number of challenges that are hampering high and consistent FDI inflows. These challenges include, among others, shortage of skilled labour; restrictive investment-related policies; restrictive access to land for industry development; lack of a single comprehensive document easily accessible to investors; and a localisation policy which affects recruitment of foreign employees.

3. FOREIGN DIRECT INVESTMENT REFORMS IN BOTSWANA

The economy of Botswana relied on mining in the early 1980s and it formed the major source of government revenue (UNCTAD, 2003). The foreign investment was concentrated in the extraction sector of the economy (OECD, 2014). A number of reforms have been implemented to increase FDI inflows directly or indirectly in Botswana that include exchange control relaxation, industrial development, regulatory reforms, trade and regional integration among other reforms that will be discussed in detail in this section.

As part of the regional integration initiative, Botswana is a member of Southern Africa Customs Union (SACU) that has consisted of South Africa, Swaziland, Botswana, Namibia and Lesotho since 1910 and was part of the renewed agreement in 1969 (SACU, 2015). Another agreement was signed in 2002 to further trade relations among the member states and establish new revenue sharing formula, facilitate coordination in competition, trade and protection of infant industries (SACU, 2015). SACU allows goods from member countries to be tariff-free, while a common external excise tariff is charged on non-members (SACU, 2015).

Botswana was a founding member of Southern Africa Development Co-ordination Conference (SADCC) in 1980 which transformed to Southern Africa Development Community (SADC) in line with political and economic devel-

opments in 1992 (SADC, 2015b). SADC recognises the importance of foreign direct investment in national economic development. Initiatives related to investment have been advanced through the formation of the Protocol on Finance and Investment, the launch of a free trade area and the Industrial Policy Framework.

In 1982 the government introduced the Financial Assistance Policy (FAP) with the objective to expand export market, create employment and develop skills (UNCTAD, 2003). The FAP offered grants to both foreign and local companies who wanted to start businesses in Botswana. The policy was abolished in 2001, due to the high failure rate of projects. FAP was replaced by the Citizen Entrepreneurial Development Agency (CEDA), which focuses on companies owned by Botswana citizens (UNCTAD, 2003). The discontinuation of the programme implied a reduction in incentives for foreign investors as they have no access to CEDA investment support programmes.

In 1997 Botswana came up with the long-term economic plan called Vision 2016. The vision encompasses seven pillars, with pillar 2 focusing on investment support – building a prosperous, productive and innovative nation (Vision 2016, 2015). The Vision 2016 constitute the main goals government target to achieve by 2016, while the National Development Plans (NDP) including the NDP 10 – spanning from 2009 to 2016 – are used as instruments to achieve the Vision 2016 targets.

In 1997 the Botswana Export Development and Investment Authority (BEDIA) was formed to offer investment promotion including overseeing the promotion of investment and exports (OECD, 2014). BEDIA had the National Committee on Trade Policy and Negotiations Forum that discussed broad investment and trade issues. BEDIA had a role to advocate for changes in laws that negatively affect establishment of business in Botswana (OECD, 2014:94). A dialogue was established between investors and the agency through the Botswana Investment Guide and the Aftercare Questionnaire (OECD, 2014).

Botswana signed Bilateral Investment Treaties (BITs) between 1997 and 2006 (UNCTAD, 2015a). Out of the BITs that Botswana signed, only two BITs with Germany and Switzerland are currently in force (UNCTAD, 2015a). The BIT with Germany was signed in 2000 and came into force only seven years later in 2007 while the BIT with Switzerland was signed in 1998 and came into force two years later (UNCTAD, 2015a). BITs help to boost investment protection on outward and inward FDI investments (UNCTAD, 2007). They set out policy guidelines on protection, expropriation and dispute resolution for foreign investments (UNCTAD, 2007). The extent to which Botswana utilises BITs to foster FDI is more limited than envisaged by the number of agreements signed as compared with those that have been put into force (UNCTAD, 2015a).

Botswana embarked on exchange control reforms in the 1990s and by the 1999 all exchange controls were removed (OECD, 2013). Foreign currency is available to all investors from domestic and foreign sources. Access is free without any consideration to export volumes of investor business (OECD, 2014). Foreign owned companies can access funds from financing houses like the Botswana Development Cooperation, although a certain percentage of the project costs are required from the investor (OECD, 2014).

The IFSC, which focused on off shore financial investment promotion, was established in 2003 and later merged with BEDIA in 2012. The IFSC promoted investment in financial services to foreign investors (IFSC, 2015). Any company that qualified for IFSC status enjoyed a number of incentives. The selection criteria was based on a sound business proposal, sustainability of the business and the capacity of the business to hire and train its staff. The incentives which were offered in turn included: low tax, access to an expanding taxation avoidance treaty network, facilitation of work permits and tax administration benefits (IFSC, 2015).

A company that registered with the IFSC benefited from a discounted corporate tax of 15% from 25% normal corporate tax rate (IFSC, 2015). They also had access to Botswana 200% tax trading rebate as well as exempt from value added tax, capital gains and disposal of shares (IFSC, 2015). For companies that released 49% or more of their equity for trading on the Stock Exchange, a capital gains exemption was granted on disposal of shares (IFSC, 2015). In addition, the IFSC also assisted foreign companies in the processing of work and resident permit.

Botswana pursue an increase in market access through multilateral and regional trade agreements. The programmes related to trade are under the Department of International Trade, created in 2003. The main responsibilities of the department are to implement, monitor and negotiate trade policy and negotiate trade agreements. The core departments on trade issues include the Multilateral Trade Division, Regional and Bilateral Trade and Trade Policy and Research Division. Grouping of trade issues ensures effective and sufficient attention is given to trade issues with the view of maximising benefits for economic diversification and development.

Botswana has passed and amended a number of acts to support investment registration, regulation and operation. The revised Companies Act of 2004 requires registration of companies and removal of the need for Memorandum of Association, providing simple registration forms (OECD, 2014). Foreign companies have three options open for registration of companies. These include: i) a company limited by shares; ii) a close company; and iii) a company limited by guarantee (Ministry of Trade and Industry (MTI), 2015a).

Besides registration of a company, companies are expected to have a licence when venturing into manufacturing. Eligibility for an industrial licence for companies that venture into manufacturing requires fulfilment of the Industrial Development Act 2006 and its Regulations of 2008 (MTI, 2015b). The licences are issued by the Industrial Licensing Authority and Regional Licensing Committee (MTI, 2015a). Import permits are required for imports outside SACU, Malawi and Zimbabwe (MTI, 2015a). The import permit issuance has been decentralised for ease of access to importers (MTI, 2015a).

The Industrial Development Act of 2006 decentralised licensing to local authorities through the District Licensing Committees (MTI, 2015b). A company can obtain a licence from the council in its location. The decentralisation process speeds up the licensing process.

The Protocol on Finance and Investment was signed by SADC member states in 2006. The Protocol highlights the importance of foreign investment and encourages nations to support and provide incentives to attract FDI (SADC, 2006). The main objectives of the Protocol are to achieve cooperation and convergence in policy related to FDI, macroeconomic stability, legal framework, harmonisation of FDI policies and financial market development (SADC, 2006). The Protocol covers the need for nations to support entrepreneurship in industries that support FDI. The importance of FDI is covered in Article 4 of Annex 3 of the Protocol (SADC, 2015a). The SADC Regional Indicative Strategic Development Plan (RISDP) provides factors that investors consider when choosing to settle in a country and act as a guideline on the areas that member countries can develop in order to be competitive in attracting FDI (SADC, 2015a). Under the Protocol, SADC provide template for Bilateral Investment Treaties as a way of harmonising investment policies and laws (SADC, 2012).

The government also signed a number of bilateral and multilateral trade agreements (AFDB and OECD, 2008). In 2006, the Southern African Customs Union (SACU) signed the SACU- European Free Trade Area (EFTA) to facilitate free movement of trade between SACU members and the EFTA members (BITC, 2015c). Botswana is also part of the African Growth and Opportunity Act, World Trade Organisation SACU-United States of America Trade, Investment and Development Cooperation Agreement (SACU US TIDCA) and SACU-European Free Trade Association Free Trade Agreement (SACU EFTA FTA), among other agreements (BITC, 2015c). These agreements help in the expansion of market for Botswana exports.

The SADC free trade area was launched in 2008 to facilitate free movement of goods within SADC while each member maintains external tariff on non-members (AFDB and OECD, 2008). Botswana trade relations with SADC are governed by the Protocol on Trade of 2005. The Protocol enhances economic

development and encourages the creation of a climate that support foreign investment (MTI, 2015d). The Protocol outlines the deepening of integration from a Free Trade Area by 2008 to a Customs Union by 2010, Common Market by 2015, and Monetary Union by 2016 (MTI, 2015d).

In 2008, Botswana passed the Trade Act S.I. 21, which provide for regulation of trade activities, licensing, monitoring and compliance to the law. The Act provides an avenue for government to build legitimate and competitive industry which can compete on the global world.

The Competition Act of 2009 established a Competition Authority and Competition Commission responsible for unfair business competition and resolution of competition matters (Competition Authority, 2015). The Competition Commission provides dispute resolution on matters related to competition. The Act is in line with the national Competition Policy for Botswana passed in 2005 (Competition Authority, 2015).

In 2010 government of Botswana came up with the Special Economic Zones Policy. The Special Economic Zone (SEZ) is a geographical economic area with its own administrative SEZ Authority (MTI, 2010:2). SEZ provides an investor-friendly environment and the main objective is to diversify the economy for sustainable development after diamond resources. They also act as incubators for competitive enterprises in Botswana (MTI, 2010). The government created six specialised zones, namely: Agriculture Hub, Innovation hub; Diamond hub; Education hub; Health hub; and Transport hub (MTI, 2010). The SEZs provide a competitive and attractive investment environment for business; diversification; private sector-led business clustering; efficiency, provision of incentives, equal treatment of domestic and foreign businesses (MTI, 2010). The incentive framework includes corporate tax reductions or exemptions, and duty-free importation of raw material and capital goods for businesses under the SEZs (MTI, 2010).

A merger of the IFSC and the BEDIA was formed in 2012. This resulted in the formation of the Botswana Investment and Trade Centre (BITC), created through the BITC Act of 2011, which led to the repeal of the BEDIA Act and dissolving the IFSC. The BITC is mandated to promote investment; develop strategy and competitiveness, export development and promotion, brand management and shared services; and promote special economic zones (BITC, 2015a). The creation of BITC led to harmonisation and coordination of investment promotion.

Investment sectors supported by BITC are: education, agriculture, energy, services, health, ICT, manufacturing, mining and transport, and logistics (BITC, 2015a). The BITC, through the Business Facilitation Plan, provides information related to the establishment of business ranging from company registra-

tion, work and resident permit application process and tax registration (BITC, 2015b).

Bilateral Investment Treaties (BITs), together with the constitution, make provisions for the protection of investors and compensation (OECD, 2014). The Companies and Intellectual Property Authority Act, number 14 of 2011, provides for the creation of the Companies and Business Name Office, Industrial Property Office and Copyright office. The Copyright and Neighbouring Rights Act and Industrial Property Act provide protection of investors in Botswana (OECD, 2014). Botswana is also part of international organisations on intellectual property like the Agreement on Trade Related Aspects of intellectual Property Rights and African Regional Intellectual Property Organisation.

The Industrial Development Policy of 2014, first launched in 1984 and reviewed in 1998 to align the policy with economic developments, focus on; modernisation, diversification, industry facilitation and support and development of infrastructure for industrial development (Republic of Botswana, 2014). The policy also supports development of skills necessary to support industrial development, and facilitates building a strong industry base which is important in attracting investment.

The SADC Industrial Development Policy Framework of 2014 recognises the importance of industry development in economic diversification (SADC, 2014). The main objective of the policy is to provide areas of cooperation at regional level. The policy framework acknowledges the role that member countries have to play in facilitating industrial development as a way of stimulating transition of respective economies to high-income countries and building a vibrant industrial base (SADC, 2014). The regional collaboration among SADC member states assists in solving problems such as market access, competitive bottlenecks, under-development of infrastructure and a narrow manufacturing base (SADC, 2014).

The MTI offers incentive programmes to investors like the drawback provision, Economic Diversification Drive and Rebate 470.03 (MTI, 2015c). The Drawback Provision allows exporters to claim back duty paid for imports in the manufacturing industry (MTI, 2015c). The Rebate 470.03 applies to manufacturers, importers and exporters (MTI, 2015c). The incentive programme provides rebate on all components and material covered in the permit for manufacturing goods exclusively for export outside the SACU (MTI, 2015c).

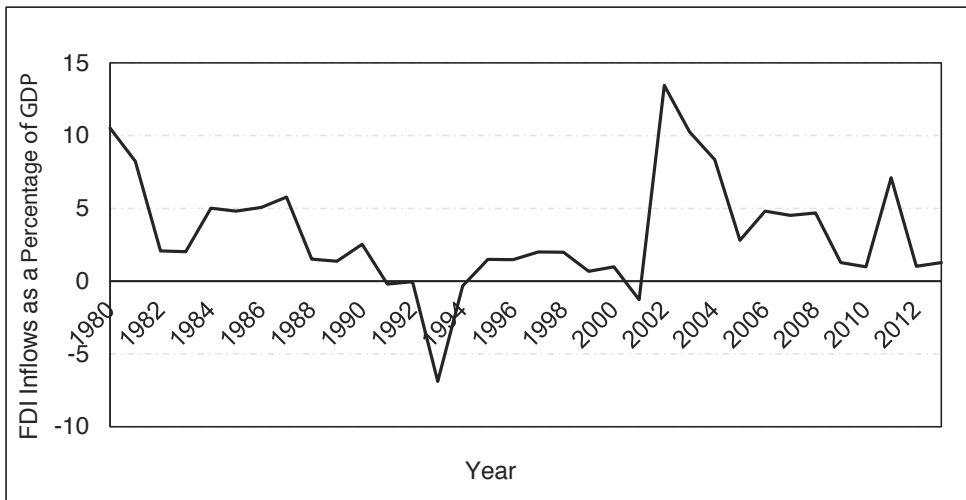
Foreign access to some sectors where public interest is regarded as priority is limited. These sectors are reserved for Botswana citizens (OECD, 2014). The restriction are pursued through the Localisation Policy, Reservation Policy and Economic Diversification Drive, especially the short-term strategy (OECD, 2014). The Industrial Development Amendment Regulation of 2008 reserves

small and medium manufacturing to citizens. The same reservation is provided in the Trade Act of 2008; Liquor Act of 2003; Public Procurement and Asset Disposal Board; Citizen Economic Empowerment Policy; Petroleum (Production and exploration) Act; and the Mines and Mineral Act of 1999 (OECD, 2014). Government also retains 15% of shares in the mining business for any mining licence issued (OECD, 2014).

4. FOREIGN DIRECT INVESTMENT TRENDS IN BOTSWANA

FDI inflows as a percentage of GDP were modest from 1980 to 2000 before taking a gradual upward trend to 2013 (World Bank, 2014). Figure 1 shows trends in FDI inflows as a percentage of GDP from 1980 and 2013.

Figure 1: FDI inflows as a Percentage of Gross Domestic Product 1980-2013



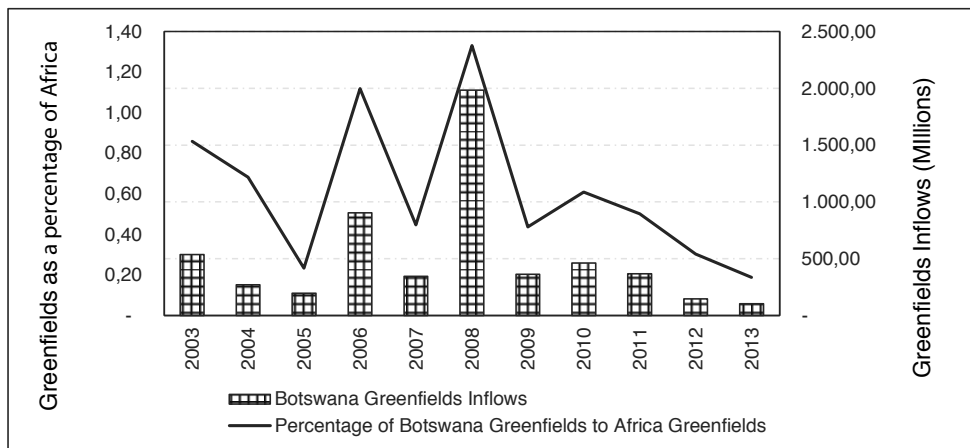
Source: World Bank, 2014

Figure 1 shows that FDI inflows as a percentage of GDP in 1980 were at a peak with 10.5%, before a decline of 21.6% in 1981 (World Bank, 2014). The FDI inflows continued on a downward trend from 8.2% to 2.1%, with another decline to 2% in 1983 (World Bank, 2014). The inflows improved by 146.7% in 1984 to register 5% before declining to 4.8% in 1985. In 1986 the percentage of FDI inflows increased to 5% and another increase of 14% was recorded in 1987 (World Bank, 2014). A downward trend was registered from 1988 to 1989 with 1.5% and 1.3% respectively. In 1990 the percentage increased by 84% to give 2.5%. From 1991 there was a decline, recording a negative 6.9% in 1993. The inflows remained negative in 1994 at 0.3% before improving to 1.48% in 1995

(World Bank, 2014). The period between 1995 and 2013 was characterised by large fluctuations, although the percentage of FDI inflows to GDP remained positive, with the exception of 2001 that recorded a negative 1.2% (World Bank, 2014). The average percentage over the period was 3.4%. Years with exceptionally high percentage of inflows to GDP were 2002, 2003 and 2004, with 13.4%, 10.2% and 8.3% respectively. FDI inflows as a percentage of GDP fluctuated much from 1980 to 2013 with major improvement recorded after 1994.

Greenfield FDI is new investment where a new firm is established forming a foreign affiliated company (UNCTAD, 2000:2). Greenfield leads to improvement in the productive capacity of a country with new linkages brought into the industry network. Figure 2 shows trends in greenfield FDI inflows in Botswana and greenfield as a percentage of greenfield in Africa.

Figure 2: Trends in Greenfield FDI Inflows and Greenfield as a percentage of Africa Greenfield FDI Inflows 2003-2013.



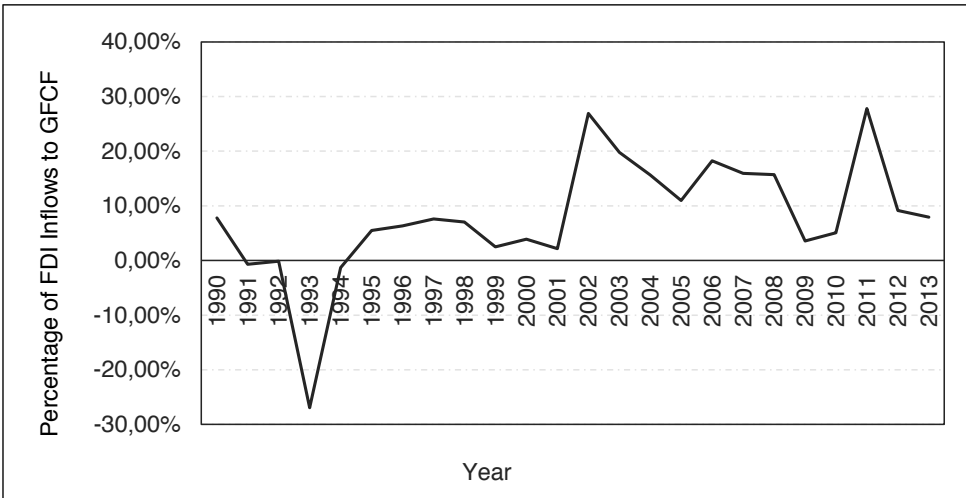
Source: UNCTAD: 2015b

Greenfield inflows in Botswana were at \$536 in 2003 before declining by 50% in 2004 to register \$270 million (UNCTAD, 2015b). In 2005 another decline of 28% was recorded before a sharp increase to \$903 in 2006 (UNCTAD, 2015b). In 2007 a decline of 62% was recorded to give an inflow of \$345 million. A sharp increase to \$1.9 billion was recorded in 2008 which also marked the highest inflow of greenfield FDI in Botswana between 2003 and 2013 (UNCTAD, 2015b). The peak was followed by a decline of 82% in 2009. From 2009 greenfield FDI inflows took a downward trend from \$460.9 million in 2010 to \$103.5 million in 2013. The average inflow of \$287 million was registered between 2009 and 2013 (UNCTAD, 2015b).

Greenfield FDI inflows in Botswana as a percentage of greenfield FDI inflows in Africa were low, averaging 0.58% from 2003 to 2013 (UNCTAD, 2015b). The percentage of greenfield inflows was at 0.86% in 2003 before declining to 0.23% in 2005 (UNCTAD, 2015b). In 2006 an increase of 0.9% was recorded, giving 1.12%, which is also the second highest percentage in Botswana greenfield inflows as a percentage of inflows received in Africa during the period (UNCTAD, 2015b). This was followed by a decline 0.67% in 2007 before an increase of 1.33%, was registered in 2008, giving the highest percentage of inflows from 2003 to 2013. A gradual decline was registered from 2009 from 0.44% to 0.19% in 2013 (UNCTAD, 2015b). The share of Botswana greenfields in Africa remained depressed over the period characterised by high fluctuations.

FDI inflows are important as a source of investment funds. FDI augment domestic investment capital to enable a high capital base difficult to achieve with domestic savings alone. Figure 3 shows trends in FDI inflows as a percentage of Gross Fixed Capital Formation from 1990 to 2013.

Figure 3: Trends in FDI inflows as a Percentage of Gross Fixed Capital Formation 1990 -2013



Source: UNCTAD: 2015b

In 1990, FDI inflows as a percentage of GFCF was at 7.8% before registering a decline in 1991 to give a negative 0.69% (UNCTAD, 2015b). The FDI inflows remained depressed in the negative, with the highest figure of -26.9% recorded in 1993 (UNCTAD, 2015b). In 1995 a 5.5% was recorded and a further increase of 0.82% was recorded in 1996 (UNCTAD, 2015b). In 1997, another increase

of 1.28% was registered before a downward trend from 1988 to 1999 (UNCTAD, 2015b). Major fluctuations were registered from 2000 and 2013, although the percentage of FDI to GFCF remained positive (UNCTAD, 2015b). The years which recorded high inflows were 2011, 2002, 2003 and 2006, with 27.8%, 26.9%, 19.8% and 18.3% respectively, while lowest inflows were recorded in 2001 with 2.15% and 2009 with 3.6% (UNCTAD, 2015b). The average percentage of inflows between 2000 and 2013 was 13% (UNCTAD, 2015b). An upward trend in FDI inflows as a percentage of GFCF was realised from 2000 (UNCTAD, 2015b).

5. CHALLENGES IN INCREASING FOREIGN DIRECT INVESTMENT IN BOTSWANA

Botswana has an acute shortage of skilled labour (Ministry of Finance and Development Planning, 2013:9). In response to the challenge, government has put in place policies that aim to address quality of education and increasing skills in the labour force. Among such initiatives are the Revised National Policy on Education of 1994 and National Policy on Vocational Education and Training of 1997. In 2009 the National Human Resource Development Strategy was also launched. The overarching objective of the policies is to provide education and skills oriented to the market needs.

Although Botswana has made strides in formulating laws and investment policies that protect investors, those laws are fragmented and not easily accessible to investors (OECD, 2014). The Botswana Constitution 1966 provides for protection of investors. In the case of expropriation for development for community benefits the aggrieved can seek recourse to Botswana courts and government is also obliged to pay compensation. In addition, the Acquisition of Property Act and the Tribal Land Act also make provisions related to expropriation. The laws are under different policy documents and there is no single document easily accessible to investors (OECD, 2014). This makes the information less accessible, resulting in some investors not being aware of the rights afforded to them under Botswana law (OECD, 2014).

According to OECD (2014:74), the Botswana framework for commercial dispute resolution is weak and outdated. The country ranked 74th out of 189 in 2015, a fall from 66th position in 2014 in the World Bank Doing Business ranking (World Bank, 2015b). The Trade and Dispute Act of 2004 provides for the establishment of an industrial court, but this has been dealing with labour-related disputes. Botswana lacks commercial courts dedicated to expeditious commercial dispute resolution. The Arbitration Act of 1966 does not make provisions for commercial courts in Botswana, but recognises the role of the High

Court of Botswana (OECD, 2014). The alternative dispute resolution platform is the Botswana Institute of Arbitrators, which is a voluntary informal dispute resolution and concentrates largely on the construction sector (OECD, 2014).

Botswana faces challenges in infrastructure development, which is important in regional and international accessibility (AFDB, 2009; OECD, 2013). The most critical infrastructure challenge is electricity generation, which has persisted from 2006 and is compounded by the reduced capacity of South Africa to export power to Botswana (AFDB, 2009). The financing gap across infrastructure sectors which cannot be closed by public funds has resulted in government considering Public-Private Partnership in infrastructure provision (OECD, 2013).

6. CONCLUSION

This paper has provided an overview of FDI in Botswana; highlighted policy reforms to boost FDI inflows; tracked the trends in FDI inflows and outlined the challenges that have been faced by government in its effort to increase FDI inflows. The government has implemented a number of policies aimed at increasing FDI inflows directly or indirectly which include: exchange control reforms in the area of dividend and repatriation of profits; regulatory reforms, for example, the Companies Act, Industrial Development Act and Amended Regulations to strengthen industrial base; development of Special Economic Zones; the formation of the Botswana Trade and Investment Centre to advance trade and investment promotion; and multilateral trade agreements, among other policy initiatives. In response to the policy reforms, FDI inflow increased gradually in the mid-90s, but the levels remained low. FDI inflows as a percentage of GDP were depressed from 1980 to 1994 with some years registering negative inflows. High percentages of FDI inflows to GDP were recorded from 2001 to 2013 with an average of 5%, while FDI inflows as a percentage of GFCF decreased from 1990 to 1994, before taking a gradual upward trend from 1995. Although a marginal fall was registered in 1999, FDI inflows continued the upward trend to 2013. Despite a gradual increase in FDI inflows, Botswana still faces a number of challenges. These challenges include, among others: shortage of skilled labour, restrictive investment-related policy, restrictive access to land for industry development, insufficient infrastructure, and lack of a single comprehensive and easily accessible information access on investment.

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IZRAVNA INOZEMNA ULAGANJA U BOCVANI: TRENDovi, REFORME I IZAZOVI

SAŽETAK RADA:

Ovaj rad daje pregled izravnih inozemnih ulaganja (FDI) u Bocvani u periodu od 1980. do 2013. godine. Proučavani su trendovi priljeva izravnih inozemnih ulaganja, provedene reforme i reforme koje je još potrebno provesti kako bi se povećala izravna inozemna ulaganja u zemlju. Reforme su dvosmjerne. Prvo, postoje politike čiji je cilj stvoriti dinamičnu industriju pogodnu za ulaganja. Neke od politika koje se provode su: politike potpore industriji, regionalna integracija te bilateralni i multilateralni trgovinski sporazumi. Također, postoje politike koje izravno utječu na izravna inozemna ulaganja. Među takve politike spadaju inicijative za ulaganja, regulatorne reforme, popuštanje kontrole tečaja, bilateralni sporazumi o ulaganjima te stvaranje posebnih gospodarskih zona. Sveukupna analiza studije pokazuje da su izravna inozemna ulaganja u Bocvani bila iznimno nestabilna i slaba od 1980-godine iako sa blagim porastom od sredine 1990-ih godina.

Ključne riječi: izravna inozemna ulaganja;; trendovi; reforme; izazovi; politike.