Republic of Botswana

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Industrial Development Policy for Botswana

Ministry of Trade and Industry

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<th>Description</th>
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<tr>
<td>BOCCIM</td>
<td>Botswana Confederation of Commerce, Industry and Manpower</td>
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<tr>
<td>BEDIA</td>
<td>Botswana Export Development and Investment Authority</td>
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<tr>
<td>BNPC</td>
<td>Botswana National Productivity Centre</td>
</tr>
<tr>
<td>BITC</td>
<td>Botswana Trade and Investment Centre</td>
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<tr>
<td>BRICS</td>
<td>Brazil, Russia, India, China and South Africa</td>
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<tr>
<td>CEDA</td>
<td>Citizen Entrepreneurial Development Agency</td>
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<td>CEE</td>
<td>Citizen Economic Empowerment</td>
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<td>COMESA</td>
<td>Common Market for East and Southern Africa</td>
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<td>CSO</td>
<td>Central Statistics Office</td>
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<td>EAC</td>
<td>East Africa Community</td>
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<td>EDD</td>
<td>Economic Diversification Drive</td>
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<td>FAP</td>
<td>Financial Assistance Policy</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FIAS</td>
<td>Foreign Investment Advisory Service of the World Bank</td>
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<td>FTA</td>
<td>Free Trade Area</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>ICT</td>
<td>Information and Communications Technology</td>
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<tr>
<td>IDP</td>
<td>Industrial Development Policy</td>
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<tr>
<td>IPRCDB</td>
<td>Industrial Policies for Reducing the Cost of Doing Business</td>
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<td>IFSC</td>
<td>International Financial Services Centre</td>
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<tr>
<td>LEA</td>
<td>Local Enterprise Authority</td>
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<tr>
<td>MDG</td>
<td>Millennium Development Goals</td>
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<tr>
<td>MVA</td>
<td>Manufacturing Value Added</td>
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<tr>
<td>NDP 10</td>
<td>National Development Plan 10</td>
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<tr>
<td>NEDC</td>
<td>National Economic Diversification Council</td>
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<tr>
<td>NES</td>
<td>National Export Strategy</td>
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<tr>
<td>SACU</td>
<td>Southern African Customs Union</td>
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<td>SADC</td>
<td>Southern African Development Community</td>
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<td>SEZs</td>
<td>Special Economic Zones</td>
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<td>SMMEs</td>
<td>Small, Medium and Micro Enterprises</td>
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<td>WBDBR</td>
<td>World Bank Doing Business Report</td>
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<tr>
<td>WEFGCR</td>
<td>World Economic Forum Global Competitiveness Report</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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INDUSTRIAL DEVELOPMENT POLICY FOR BOTSWANA

1.0 INTRODUCTION

Industrial Development Policy (IDP) is part of the broader development strategy which includes knowledge and capital accumulation. The IDP provides a high-level framework for policies, initiatives, laws and regulations governing the development of “industry” – broadly defined to include manufacturing and services. The principles adopted in the Industrial Development Policy underpin many other important policies, such as Trade Policy and Investment Policy as well as other sectoral policies. The Industrial Development Policy is designed to provide a framework supporting long-term growth, as well as addressing constraints to that growth. It has thus been made to be consistent with higher-level policies, such as the National Development Plans and the Botswana Excellence Strategy. Further, it has also been made to be flexible, and thus able to accommodate the changing domestic, regional and international economic environment.

This Policy gives a synopsis of the review of the 1998 Industrial Development Policy and its challenges. As a broad Policy, it also highlights the linkages, synergies and complementarities with both domestic and international policies and strategies. The major objective of the Industrial Development Policy for Botswana is to expand the country’s industrial base through the development of diversified, sustainable and globally competitive industries. This will be done through implementation of strategic policy thrusts covered under six (6) major headings, namely, Industry Creation and Development; Industry Promotion and Facilitation; Industrialisation and Citizen Economic Empowerment; Development of Infrastructure and Industry Relevant Skills, Private Sector Capacity Development and Other Policy Fundamentals.

It is envisaged that when fully implemented, Botswana would achieve the industrialisation aspirations captured in the IDP2014 Vision and Theme:

<table>
<thead>
<tr>
<th>Policy Vision Result:</th>
<th>Botswana would have “Diversified, sustainable and globally competitive industries.”</th>
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<tbody>
<tr>
<td>Policy Theme Result:</td>
<td>Botswana would become a 21st Century Industrialized African Economy.</td>
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</tbody>
</table>
2.0 BACKGROUND

2.1 Approaches to Industrial Policy\(^1\)

Industrial Development Policy (IDP) is generally defined from two broad perspectives. First, is the market approach which assumes that required industries in a developing economy will emerge in response to “market-friendly” policies which require little or no government intervention. In this case, the major role of government is to create a conducive business and investment environment for the private sector as well as development of institutions with democratic and transparent governance structures. The Policy is premised on the assumption that required markets and market institutions exist and are efficient, which may not always be the case in developing countries.

For the second approach, Industrial Development Policy takes the form of self-discovery and experimental processes\(^2\) in which both government and the private sector engage in strategic collaboration and coordination which include information exchange; policy design, implementation and negotiations; programme monitoring and evaluation; and finding quick resolutions to the problems of market failure and strategic policy failures. Through this process, sectors, products and commodities with actual/potential growing domestic and international demand are identified for development by the private sector. The policy approach is characterized by evolutionary, flexible and adaptable institutions which are dynamically responsive to the challenges of industrial development under globalisation.

2.2 Globalization, Competitiveness and Industrial Development Policy

The advent of globalisation has ushered into the global economy an era of borderless economies where developed and developing countries; technology-rich and technology-poor economies; and industrialised and less–industrialised economies compete in the global village on equal or near equal terms. This environment has significant implications on the form that Industrial Policy would take and the institutional structure for its implementation. This Industrial Policy environment is usually characterised by stiff competition driven by the following:

- The shrinkage of economic distance due to advances in technological progress; the revolution in road, rail and air transport as well as the revolution in information and communication technology;

- Rapid technical change which calls for all firms to adopt new skills, upgrade their production structures, develop modern infrastructure as well as flexible and adaptable institutions suitable for today’s industrial activities;

- Investment in technology adaptation and innovation in order to move up the technology ladder as well as the product sophistication ladder;
• The ease and rapid movement of productive resources across countries which makes comparative advantage based on natural resources like cheap labour and raw materials less important as sources of competitiveness;

• The development of sophisticated supply-chains and distribution networks driven by multinationals that operate their businesses under intricate webs of contractual and non-contractual relations which makes it difficult for new firms to enter such supply-chains;

• The Changing Patterns of Competitive advantage in response to the relocation of processes and the forces of innovation;

• The growth in information-intensive manufacturing in which value added comprises of weightless activities like research, design, engineering, marketing and networking. This increases even the competitiveness of landlocked economies whose transport costs are generally high;

• Liberalisation of trade, such as the general removal of tariff and non-tariff barriers to trade which have resulted in an increasingly free and competitive industrial environment.

The above drivers of competitiveness mean that the IDP2014 is designed to achieve industrialisation in this dynamic and rapidly changing environment.

2.3 Botswana’s Position in World Competitiveness and Industrialisation

The Global Competitiveness Report divides economies into three broad categories. First, is the Factor-Driven Economies in which countries’ competitiveness, mainly developing countries, is based on natural resources like cheap labour and raw materials as well as basic institutions and infrastructure. Second, is the Efficiency-Driven Economies which have learned to adapt and use the technologies vacated by developed countries as well as develop their goods market efficiency, labour market efficiency, financial market efficiency, among others. This category comprises of emerging market economies such as Brazil, Russia, India, China and South Africa (the BRICS Countries) as well as the Newly Industrialised Countries of East Asia. The third is the Innovation-Driven Economies which comprises of countries at the leading edge of technological innovation and industrial development. These include mainly the Industrialised Countries and the Newly Industrialised Countries of East Asia. Botswana is currently at the transition stage between the Factor-Driven Stage and the Efficiency-Driven Stage, behind her regional trading partners: Mauritius, Namibia, South Africa and Swaziland who are already in Stage II.
The challenge for Botswana in world competitiveness and industrialisation is two-fold: first, is to overcome the competitiveness challenges outlined in the previous section and break into the global value chains and supply networks in order to become a global industry player; and second is to develop strategies that will allow her to catch-up with the Emerging Market Economies, the Newly Industrialised Countries, all the way to the Industrialised Countries industry by industry, sector by sector and product by product. This Policy outlines strategic objectives and policy considerations that will assist Botswana to achieve these outcomes.

2.4 Botswana’s Industrial Policy Path

Botswana’s Industrial Development Policy (IDP) path has over the past thirty years been driven by economic themes within the context of the country’s policies and strategies, namely, economic diversification, employment creation, private sector development as well as spatial distribution of production activity. The first Industrial Development Policy (1984), focused on industry production for the domestic market through import substitution, anticipating that there would be sufficient growth in the domestic demand to provide a market for a rapidly growing manufacturing sector. A range of policy measures and institutions evolved over this period. The first major policy initiative in support of industrial development was the Financial Assistance Policy (FAP) of 1982, which provided a range of capital grants and employment subsidies for small, medium and large scale enterprises in manufacturing, non-traditional agriculture and tourism.

The second IDP1998 entailed a change of emphasis from import substitution to export-led growth. This reflected the realisation that export-led growth is more dynamic to support long-term growth better than the import substitution strategy which is based on the relatively small domestic market (see Table 2.1 below on Botswana’s Industrial Policy Path). The IDP1998, however, retained a central role for manufacturing as the engine of growth and industrial diversification. The IDP1998 led to the establishment of many industry supporting institutions, including: the Local Enterprise Authority (LEA) which provides business development support and entrepreneurship training to Small, Medium and Micro Enterprises (SMMEs); and the Citizen Entrepreneurial Development Agency (CEDA) which replaced the FAP and provides interest subsidized loans to citizen companies, including SMMEs. Other important institutional changes relating to the IDP1998 include the Botswana National Productivity Centre (BNPC), as well as the establishment of the Botswana Export Development and Investment Authority (BEDIA) and the International Financial Services Centre (IFSC), which have since 2012 been merged to form the Botswana Trade and Investment Centre (BITC).
# Table 2.1: Summary of Botswana’s Industrial Policy Path

<table>
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<tr>
<td><strong>Import Substitution Domestic Market</strong></td>
<td><strong>Export-Led Growth</strong></td>
<td><strong>Export-Led Growth</strong></td>
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<td><strong>Private Sector Development</strong></td>
<td><strong>Both Export and Domestic Markets</strong></td>
<td><strong>Both Export and Domestic Markets</strong></td>
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<td></td>
<td><strong>Private Sector Development</strong></td>
<td><strong>Creation of Opportunities for Private Sector Development</strong></td>
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<td></td>
<td><strong>Creation of Institutional Structure for Privatization</strong></td>
<td><strong>Strategic use of Privatization</strong></td>
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<td></td>
<td><strong>Competitive Manufacturing and Services Industries</strong></td>
<td><strong>Development of High-Priority High Impact Sectors/Initiatives (Big Bangs)</strong></td>
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<td></td>
<td><strong>Creation of Industrial Development Institutions</strong></td>
<td><strong>Strengthening Implementation of Industrial development Initiatives</strong></td>
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<td></td>
<td><strong>Human Resource Development and Training (Institutions)</strong></td>
<td><strong>Strengthening development of relevant industry Skills</strong></td>
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<td></td>
<td><strong>Policy for Technology and Industrial Development</strong></td>
<td><strong>Effective use of Technology for Industrial Development and Global Competitiveness</strong></td>
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<td></td>
<td><strong>Institutional support for SMMEs Participation in Industrial Development</strong></td>
<td><strong>Strengthening SMMEs Participation in Industrial Development Initiatives</strong></td>
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</table>
Together with the above institutions created during the IDP1998, the Policy achieved significant levels of economic growth and employment creation as well as economic diversification. Economic growth and employment creation continued to be robust, registering 6.4 percent and 2.3 percent for the period 1994 and 2008, respectively. Average economic growth declined to 2.9 percent while average employment increased to 6.18 percent for the period 2008 to 2011. This growth was mainly driven by the primary sectors of the economy, namely the agricultural sector (beef) and the mineral sector (mainly diamonds and copper/nickel); with a significant contribution from the services sector which expanded enormously and grew faster than the manufacturing sector despite the fact that fiscal incentives were mainly directed towards the manufacturing sector.

Notwithstanding this, Botswana has experienced some modest levels of economic diversification over the years. For instance, average shares of GDP for 1998; 2008 and 2012, respectively are: Agriculture (3.1%; 1.8% and 2%); Mining (40.1%; 38.3% and 20.3%); Manufacturing (4.6%; 4.0% and 5.8%); Construction, Water and Electricity (8.1%; 7.4% and 8.6 %); Services (28%; 32% and 41.5%) and Government Services (15.5%; 17.0% and 15.6 %). While these changes are fairly significant for the services sector, manufacturing, which has higher potential for reducing the country’s dependence on minerals, has remained fairly constant over the years.

The IDP2014 will maintain focus on the export led growth, while simultaneously exploring other sectors with potential to drive industrial growth.

2.5 The Challenges of the Industrial Development Policy of 1998

Generally, the IDP1998 did not achieve the desired level of industrialization and economic diversification as well as employment creation due to several factors. These include:

- **Ineffective Coordination of Industrial Policy Initiatives/Implementation**

  An institutional framework was suggested to, firstly, oversee and monitor the implementation of the policy; secondly, enhance the profile of industrial development in Botswana; thirdly, effectively address constraints identified as impeding the growth of businesses; and finally, improving delivery of services by the private sector. Even though a number of institutions have been set up from 1984 to the current period, the need for the proper coordination and identification of synergies in the institutions charged with achieving similar goals has remained a challenge.

- **Production Capacities Constraints**

  A significant number of local industries continue to face capacity constraints. This impediment results in local companies failing to take advantage of the available market opportunities locally, regionally and globally. At the same time companies face competitive pressures in the domestic market due to the openness of the
economy, which makes it difficult for new entrants to take-off and mature in their businesses as well as venturing into regional and global markets.

- **Inadequate Infrastructure and Energy Supply for Industrial Development**

  Challenges facing the local industry include high cost of utilities, particularly, power which results from both domestic and regional shortages. The prohibitive costs of power are exacerbated by weak regional infrastructure and the frequent power cuts which occur despite the integrated nature of the power suppliers in the region. In addition, inadequate infrastructure in relation to telecommunications, roads and rail networks continues to be an impediment for industrial development efforts.

- **Mismatch of Industry Skills**

  Education and training play a vital role in the development of entrepreneurial skills and business acumen. *The Revised National Policy on Education; National Policy on Vocational Training (1997)* and the *Industrial Development Policy (1998)* place emphasis on human resource development and training as key ingredients for industrial development. Both technical and business development training is essential. The current trend is that there are many tertiary institutions graduates with skills that do not match industry requirements. This underscores the need for alignment of tertiary curriculum and programmes with industry skill requirements.

- **Research and Development, Industrial Innovation Systems Still Lagging Behind**

  Many businesses are slow to innovate or apply technology to improve competitiveness, and also lack resources and time to acquire the appropriate knowledge relevant to their needs. The thrust in this Industrial Development Policy is to encourage technological competency to be able to stand global competition. Businesses increasingly compete on the basis of their ability to apply innovative technologies on product development, marketing, production, distribution, after-sales service, business sophistication in terms of value-chain breadth, production process sophistication, willingness to delegate authority and the extent of marketing. All these require Research and Development (R&D), which is only at nascent phase in Botswana.

- **Poor Financing and Resource Mobilization**

  Access to finance has been identified as most critical for SMME development. Many entrepreneurs lack the necessary financial equity to start business or expand existing ones. Those that are successful meet their equity needs from retained earnings, and the number is often very low.

  Most financial institutions are averse to providing credit to SMME’s for a variety of reasons. These include: lack of collateral, insufficient owners’ equity contribution, inadequate record keeping management, poorly prepared business
plans, and the negative perception financial institutions generally have on the failure rate of the manufacturing sector.

- **Regional Initiatives Challenges**

Botswana is a member of regional groupings like Southern Africa Customs Union (SACU) and Southern Africa Development Community (SADC) and currently these Regional Economic Communities (RECs) are pursuing deeper integration initiatives in the form of the Tripartite Free Trade Area. Botswana has undertaken commitments under these regional groupings which have a bearing on how the country conducts its industrial development.

Most of the challenges discussed above are still prevalent even today and will be addressed in this Policy.

### 3.0 THE INDUSTRIAL DEVELOPMENT POLICY ENVIRONMENT

This Section outlines the domestic and international policy environment for Botswana’s Industrial Development Policy. It thus defines the parameters for an Industrial Development Policy space provided by the country’s policies, strategies and programmes as well as the legislation currently being implemented. The primary objective of the IDP2014 in this case is to have a policy space for promoting Botswana’s industrialisation and global competitiveness.

### 3.1 The Interface between Industrial Development Policy and Other Domestic Policies

The domestic policy environment has a significant impact on Industrial Development Policy. The following are some of the domestic policies, strategies, laws and regulations that define the parameters for the IDP policy space:

#### 3.1.1 Vision 2016 and National Development Plan (NDP 10)

The NDP10 follows the integrated planning approach which is anchored on the seven Pillars of Vision 2016, which include, among others, An Educated and Informed Nation and A Prosperous and Innovative Nation. Vision 2016 anticipates that Botswana will have diversified its economy with mining, agriculture, industry, manufacturing, services and tourism all making a substantial contribution to GDP by 2016. This is complimentary to the IDP2014 which aims to develop competitive and sustainable industries by 2016 and beyond.
3.1.2 National Trade Policy for Botswana (2009)

Trade Policy refers to Government specific statements, legislation and agreements, guidelines and pronouncements on trade all of which define how a country would conduct trade with its trading partners. Trade Policy is complementary to the IDP2014 because the latter will develop export oriented industries whose goods and services will be targeted to the markets availed through the former.

3.1.3 National Export Strategy for Botswana (2010)

The major objective of the National Export Strategy (NES) is to expand Botswana’s current levels of exports and place new ones into the international markets as well as diversifying the country’s export base. This will complement the IDP2014 whose objective is to develop industries with a strong export focus which will take advantage of the opportunities opened by the National Export Strategy in international markets.

3.1.4 Economic Diversification Drive (EDD) Strategy (2011)

The EDD Strategy is based on the use of Government interventions to promote local production and to achieve quick wins and early harvest of low hanging fruits in targeted sectors of the economy where private sector efficiency and competitiveness may be achieved quickly. The Strategy also aims to develop a vibrant and globally competitive private sector; diversify exports and export markets; develop goods and services that comply with domestic and international standards; and develop an entrepreneurial culture for business growth and enhanced citizen participation in the economy. The EDD Strategy is complementary to the IDP2014 as it aims to develop high-priority high-impact sectors which are also the target of the latter.

3.1.5 Co-operatives Transformation Strategy (2012)

The main objective of the Strategy is to develop new generation Co-operatives based on modern business practices. The Strategy is anchored on eight (8) Co-operatives Strategic Transformation Pillars which include, among others, change of mind-set and encouragement of youth participation with a view to develop autonomous, vibrant, competitive and profitable co-operatives businesses. This Strategy will complement the IDP 2014 which also aims to develop vibrant, competitive and profitable industries which only differ from Co-operatives at business ownership level.
3.1.6 **Investment Strategy for Botswana (2010)**

The Investment Strategy aims at creating a conducive environment for both domestic and foreign firms to invest and flourish in Botswana. Thus, the success of the IDP2014 is dependent on the conducive environment that will be established by the investment strategy focusing on improving efficiency and international competitiveness of industries.

3.1.7 **Special Economic Zones Policy (2011)**

The main objective of the SEZs policy is to diversify both the economic and export base of Botswana into sustainable sectors that will continue to grow long after minerals have run out. The SEZs Policy provides for the development of public and private sector SEZs as well as public-private sector partnership SEZs. The SEZs will attract world class investors to develop world class industries which will produce world class goods and services for world markets. This will be complementary to IDP2014 which aims to develop globally competitive industries of all types, including those in the SEZs.

3.1.8 **Competition Policy for Botswana (2008)**

The Competition Policy aims to create a free and fair trade environment which allows all businesses in the industry to compete on the basis of price, quality and service delivery. This Policy is important for industrial development because it will create an environment for free and fair trade for all the existing and new industries that will set up in Botswana because of this Policy’s initiatives.

3.1.9 **Citizen Economic Empowerment Policy (CEEP) (2012)**

Citizen Economic Empowerment is defined as a set of interrelated interventions aimed at strengthening the ability of citizens to own, manage and control resources, and the flexibility to exercise options, which will enable Batswana to generate income and wealth through a sustainable, resilient and diversified economy. The CEEP is complementary to IDP2014 because the latter will open industry business opportunities in the form of business development and ownership for entrepreneurs, and employment creation for Botswana labour – unskilled, semi-skilled and highly skilled. All these will fulfil the aspirations of the CEEP, namely, to have active citizen participation in the economy as well as their full benefit from all the country’s industrial, trade and other economic activities.
3.1.10 Entrepreneurship Development Policy for Botswana (2014)

Entrepreneurship Development Policy for Botswana (development on-going) involves the development and inculcation of entrepreneurship culture amongst Batswana. It also encourages citizens to learn and adopt existing and new entrepreneurship traits and skills of globally successful entrepreneurs. This would complement the IDP2014 which aims to develop globally competitive industries through entrepreneurial innovation and creativity.

3.1.11 Private Sector Development Strategy

The Private Sector Development Strategy aims at creating an enabling business environment for private sector development and growth as well as putting in place interventions to alleviate impediments to the sector’s growth. The strategy proposes interventions that would help the private sector investors to acquire the capacity and skills that would promote competitiveness in the global market. It proposes strategies that will reduce the cost of doing business and facilitate access to markets, aims at stimulating the development and growth of the private sector in Botswana to play its role in socio-economic development. The IDP2014 will complement the Strategy by addressing constraints faced by industry.

3.2 The External Policy Environment for Industrial Development Policy

The Industrial Development Policy landscape is changing rapidly at both regional and global levels. This is shown by the development of the Common Industrial Policy for SACU, the SADC Industrial Development Policy Framework and the regional integration developments at the Tripartite FTA between SADC, EAC and COMESA; as well as the developments at the continental level where African leaders have recognised the importance of industrial development for the continent. These developments mean that Botswana’s Industrial Development Policy has to be aligned to the provisions and obligations contained in the above policies. Botswana, who is a Member of the WTO, has to also take cognisance of her obligations with such multilateral organisations.

Botswana’s external policy environment will affect the country’s industrial policy space as it regulates export subsidies, quantitative restrictions and other industrial and trade policy measures which have over the years been used to promote industrial development. This means that the success of the Industrial Development Policy under the prevailing circumstances would require creativity and deftness.
4.0 INDUSTRIAL DEVELOPMENT POLICY: RATIONALE, VISION AND MISSION

Rationale:

The general justification for industrial policy is based on historical evidence that the transition from an economy based on primary activities (mining and agriculture) to a more diversified one based on secondary (manufacturing, energy, construction) and tertiary (services) activities can be speeded up by appropriate policy support. The secondary and tertiary sectors can generate greater employment and income opportunities than other sectors, with greater potential spill overs for the rest of the economy. For Botswana, additional justifications for industrial policy include the urgent need for economic diversification, and the need to decide how to use the historically high surpluses from diamond revenues to stimulate other sectors of the economy.

Vision:

To have diversified, sustainable, and globally competitive industries.

Mission:

IDP2014 aims at promoting development of diversified and viable industries as well as commercial sectors, using skilled personnel and appropriate technology whilst leveraging on active private sector collaboration and participation.

5.0 PRINCIPLES OF INDUSTRIAL DEVELOPMENT POLICY

The guiding principles for the Industrial Development Policy define the underlying fundamentals for the success of the Policy. The principles are directly related to the objectives of the Policy. These include:

i. Export-Based Industries – development of export-oriented industries with a view to overcoming the limitations of Botswana’s small domestic market which promotes the development of a small industrial base;

ii. Economic diversification – diversification of the economy through export-oriented industrialisation and development;

iii. Global Competitiveness – for Botswana industries to close the gap with industries in the Emerging Market Economies and the Industrialised Countries;

iv. Cluster Creation and Development – promote industry clustering in order to reap the benefits of economies of scale in infrastructure and services provision; as well as the benefits of agglomeration of industrial activity;
v. **Geographical Distribution of Industries** – distribution of industries across the country according to each region’s comparative and competitive advantage;

vi. **National Objectives** – to serve as a conduit for the realisation of the national development goals of industrial development, economic diversification, employment creation and poverty eradication;

vii. **Citizen Economic Empowerment** – to ensure that citizens participate and benefit from all the opportunities opened by industrial development; and

viii. **Industrial Incentives and Support** – provision of targeted fiscal and financial incentives to address industry-specific bottlenecks and/or opportunities; as well as non-financial support focusing on the improvement of both the business environment and the investment climate.

### 6.0 OBJECTIVES OF THE INDUSTRIAL DEVELOPMENT POLICY

The major objective of the Industrial Development Policy for Botswana is to expand the country’s industrial base through the development of diversified, sustainable and globally competitive industries. In addition to this broad objective, the Policy has the following specific objectives:

i. To develop export-oriented industries with a view to overcoming the limitations of Botswana’s small domestic market and the concomitant small industrial base;

ii. To develop a roadmap to close the gap between Botswana and the Emerging Market Economies, the Newly Industrialised Countries and the Industrialised Countries – industry by industry, sector by sector and firm by firm;

iii. To promote resource-based industrialisation in order to optimally exploit and use the country’s abundant natural resources;

iv. To promote service-led industrialisation with a view to overcoming Botswana’s challenges associated with being landlocked;

v. To unlock business opportunities for the private sector;

vi. To promote the development of regional strategic industries and find a niche in regional value chains;

vii. To promote the development of strategic rural industries according to each region’s comparative and competitive advantages;

viii. To promote citizen participation in all the opportunities opened by industrial development; and
ix. To promote effective stakeholder coordination and collaboration.

7.0 THE STRATEGIC POLICY THRUSTS

The strategic policy considerations define the core elements and content of the Industrial Development Policy. These will be implemented for the realization of the Policy Vision, namely, “To have diversified, sustainable and globally competitive industries.” The implementation of the strategic policy thrusts will also lead to the realisation of the national goals of industrial development, economic diversification, employment creation and poverty eradication. The strategic policy thrusts for the Policy include:

7.1 Industry Creation and Development.

7.1.1 Industrial Diversification

Industrial Diversification is the process of creating new industrial capacity and sectoral diversification. It involves investing in new manufacturing activities and thus increasing the role of the manufacturing sector in the economy. Further, industrial diversification involves the expansion of the range of products produced for both the domestic and international markets. To achieve this, the Industrial Development Policy will promote the development of all types of manufactured products as outlined below:

- **Resource-based Manufacturing** which includes agro-based manufacturing aimed at exploiting Botswana’s abundant agricultural resources which have hitherto not been fully utilized; and mineral-based manufacturing aimed at maximizing the benefits of mineral beneficiation in all of Botswana’s mineral resources;

- **Low-technology manufacturing** aimed at the development of low-technology low-labour skill manufactured products such as textile, clothing and footwear which the country’s SMMEs will be able to produce;

- **Medium technology manufacturing** which mainly aims at the development of medium-technology medium-labour-skill manufacturing such as automotive, engineering firms, which Botswana’s emerging medium sized businesses will be able to develop either on their own or in the form of joint ventures with foreign-owned companies from outside the country;

- **High technology manufacturing** which will be done by firms at the top-end of technological innovation and development. These will be developed by firms in the Special Economic Zones and other large firms in the economy, including foreign direct investment from outside the country.
7.1.2 Industrial Upgrading and Modernization (IUM)

IUM is the process of upgrading and modernisation of industries and related services. This involves product upgrading, process upgrading and functional upgrading at company level as well as capacity building of industrial support institutions. Product upgrading involves value creation and value addition as firms engage in new industrial activities such as product design, branding, marketing and logistics; and product diversification as firms move into the production of new industrial products that allow them to move up the product sophistication ladder. Process and Functional Upgrading would involve capacity building of industrial support institutions, which include: Government Ministries and Departments; Parastatals; Private Sector, Civil Society and Labour Organisations. This would include promotion of quality management systems, skills upgrading and the use of advanced technology as well as production equipment and machinery.

Government will, in collaboration with key stakeholders, ensure that upgrading and modernisation of industries and related services is done in order to improve Botswana industries’ global competitiveness as well as access to national, regional and international markets.

7.1.3 Development of Backward and Forward Linkages Industries (Industrial deepening) involves the creation of backward and forward linkages and complementarities between sectors and industries at national, regional and international levels. This would lead to the formation of national, regional and global value chains as well as industrial clusters, both of which result in the development of “industrial parks and zones.”

The value chain of a product or service defines the process of production, starting from research and development; to material supply and production; and delivery to the market; all the way to product disposal and recycling. Government will facilitate the process of value chain mapping for all products and services in order to define areas for appropriate policy interventions and support to the private sector. This will be done with a view to increasing efficiency and effectiveness within the existing national value chains; building new value chains; and moving up the value chain in order to reap higher returns from more value added activities. Government will also facilitate entrance of local industries into regional and global value chains in order to exploit the opportunities of being integrated into the global economy.

Industrial clusters are defined as geographic and sectoral concentration of interconnected firms and institutions. Industrial clusters are generally characterised by (i) geographical proximity which leads to availability of a pool of qualified workers with advanced skills and competences as well as tacit knowledge and innovation resulting from unplanned interaction of the labour force; (ii) availability of raw materials as well as specialised and customised services; (iii) flexible specialisation which enhances production efficiency and organizational adaptability resulting from economies of scale and scope; (vi)
external economies in which suppliers, trading agents, intermediaries and financiers are attracted by the geographical and sectoral concentration of firms; and (v) co-existence of competition and cooperation which enhances the sustainability of the firms.

Government will promote and facilitate the development of industrial clusters across all sectors of the economy in order to capture the benefits outlined above and thus increase the competitiveness and sustainability of the country’s existing and emerging industries. To this end, Government will promote and facilitate the development of Clusters in Botswana, starting with Diamonds, Beef, Tourism, Mining, Financial Services and Health Services Clusters.

7.1.4 **Natural Resource-based Industrialisation** is anchored on the fact that most of today’s wealthiest countries, which include among others: Australia, Canada, Germany, Japan, Norway, Sweden and the United States of America – industrialised through the development of their natural resource industries. To achieve this, governments in these countries implemented a mixture of policies which include, among others:

- Development of industries based on the country’s natural resources which defined their areas of comparative advantage;

- Resource-based industries were linked to universities and research institutions. This led to the development of new technologies, inventions and products as well as the development of industry-relevant skills (artisans, engineers, managers and scientists);

- Promotion of private sector-led industrialisation;

Botswana abounds in many natural resources, including minerals (coal, diamonds, copper/nickel, gold, etc.); agriculture (cattle, small stock and varieties of crops); wind (power); sunlight (solar power); wildlife (tourism); attractive historical and cultural sites (tourism); and rich multi-cultural traditions. Therefore, Government will ensure that the relevant learning from the experience of successful resource-based economies around the world are benchmarked, customised and adapted to suit Botswana’s environment in order to achieve the optimum level of industrialisation out of the country’s natural resources.

7.1.5 **Service-led Industrialisation** describes an industrialisation trajectory in which rapid income growth, job creation, gender equality and poverty eradication is led by the services sector. This services-led growth has also been called the “Services Revolution,” referring in particular to the services-led economic transformation in India and South Asia in general.

Services fall into two broad categories, namely, traditional services and modern services. Traditional services include trade, hotel, restaurants, beauty shops, barbers, transport and public administration. These services have for many years
been thought of as being characterised by non-transportability; non-scalability; low productivity growth; non-tradability across borders and domestic demand-driven which requires face-to-face interaction.

The modern services include communications, finance, insurance, remote access services, call centres, education and business related services. These are commercial services whose growth is directly linked to the revolution in information and communication technology (ICT). These services are at the centre of the services revolution which is being driven by three global forces — technology, tradability and transportability or the 3Ts.

Government recognises the potential of the services sector to be a major engine of growth for the country, with commercial services leading the services export-led growth. Given this, Government will create a conducive environment for the development of the services sector, attract both domestic and foreign investors into the sector, and liberalise strategic service sectors with strong export potential. Government will also put in place essential inputs for a services-led growth economy, namely, strong telecommunications (telephone and internet); advanced education (secondary and higher); aviation (deregulation and competition in air transport) and connectivity. Finally, Government will develop a comprehensive Services Sector Development Strategy with a view to ensuring that the full benefits of the Services Revolution are maximised for the country.

7.1.6 Regional and Global Value Chains

Industrialisation through Regional Integration Initiatives in Botswana is motivated by efforts to facilitate and achieve regional industrial development in the Southern African Customs Unions (SACU) and the Southern African Development Community (SADC). For instance, the SACU Vision aims to have:

“Industrialized, diversified and integrated economies characterised by equitable, sustainable and globally competitive industries with high employment and growth multipliers”

The broad and general objectives of the sub-regional industrial development policies include: (i) to upgrade and link the regions industrial base through exploitation of industrial complementarities and promotion of cross-border value chains; (ii) promote balanced and equitable regional industrial development; (iii) promote inclusive Industrialisation; (iv) promote labour-absorbing industrialisation path; and (v) facilitate cooperation on the development of industries.

Government recognizes the potential benefits of cooperation and collaboration in regional industrial development through regional integration initiatives. Therefore, Government will use her position in these regional economic communities to negotiate for favourable conditions for Botswana industries to invest in the region, including: (i) the ease of doing cross-border business; (ii)
removal of restrictive tariff and non-tariff barriers; (iii) simplification and removal of restrictive rules of origin; (iv) promotion of trade facilitation initiatives; and (v) regional funding of projects that facilitate cross-border regional trade.

7.2 Industry Promotion and Facilitation

7.2.1 Promotion of Domestic and Foreign Direct Investment (FDI) is based on the recognition that both types of investment play a critical role in the country’s industrialisation. Government recognises the importance of domestic investment for industrialisation, more especially its critical role in economic diversification where high priority, high impact sectors/sub-sectors to drive the country’s industrialisation agenda have been identified. Government will thus continue to put in place support mechanisms aimed at creating a conducive business environment and investment climate for domestic investors.

FDI will be attracted to a country for a variety of reasons, including FDI which is resource-seeking, efficiency-seeking and market-seeking. FDI will benefit Botswana through industrial development and the resultant acquisition of new technology, managerial skills and employment creation. Government recognises the importance of FDI for industrialisation, and has put in place institutions to attract FDI. Further, Government is developing a legislative framework for the development of Special Economic Zones (SEZs) which are meant to attract world-class investors to produce world goods and services for world markets.

7.2.2 Initiatives for Reducing the Cost of Doing Business and Increasing Competitiveness

These are aimed at improving the business environment; investment climate; provision of appropriate infrastructure for industry and promoting industry efficiency through privatisation. The policy initiatives are meant to reduce the cost of doing business with minimum financial cost to Government.

Improvements in business environment and investment climate in Botswana are being addressed through the implementation of the World Bank Doing Business Report (WBDBR) and the World Economic Forum Global Competitiveness Report (WEFGCR) requirements. The WBDBR Report compares and ranks the performance of 181 countries against eleven critical factors on the ease of doing business. Over the last two years (2011/12 and 2012/13) Botswana has, out of 181 countries, ranked 52 and 54 respectively. This indicates marginal decline in global competitiveness and thus the need for the country to do more to improve its business environment and its firms’ competitiveness.

The World Economic Forum Global Competitiveness Report (WEFGCR) has over the years developed twelve pillars of competitiveness which define the extent a country may benefit from participation in the global economy, the extent to which it may create wealth for its people and what it would take a country to move from one stage of competitiveness to the other. Over the last two years
(2011/12 and 2012/13), Botswana has, out of 144 countries, ranked 80 and 79 respectively. This indicates marginal improvement in global competitiveness and thus the need for the country to do more to improve its business environment and its firms’ competitiveness.

Government recognises the importance of addressing these factors for global competitiveness and has put in place two high level Competitiveness Committees to address them. These are: the National Doing Business Committee which comprises of Government Ministries and Departments, Parastatals, the Private Sector and Labour Unions, and is chaired by the Permanent Secretary in the Ministry of Trade and Industry; and the Cabinet Sub-Committee on Doing Business which includes the Ministry of Trade and Industry; Ministry of Minerals, Energy and Water Resources; Ministry of Labour and Home Affairs; Ministry of Local Government; Ministry of Health and the Ministry of Finance and Development Planning, and is chaired by the Minister of Trade and Industry.

7.3 Industrialisation and Citizen Economic Empowerment (CEE)

7.3.1 Citizen Economic Empowerment

The main aim of CEE is to increase active citizen participation in the country’s industrial development initiatives. Government will mainstream CEE initiatives into all the country’s industrial development programmes and initiatives with a view to ensuring that citizens fully participate and benefit from the country’s industrialisation. Further, Government will ensure that the special needs of the vulnerable groups (such as women and youth; and people with disability) which include access to employment opportunities, education and training with relevant industry skills and entrepreneurship skills, are mainstreamed into the core elements of this Policy with a view to ensuring that its benefits also reach these groups.

7.3.2 SMME Development

Government will increase her efforts to facilitate SMME capacity development for acquisition of new technology and relevant industry skills for domestic and global competitiveness; provision of appropriate infrastructure to support SMMEs participation in local industry activities; promotion of SMME business to business linkages and business linkages between SMMEs and the large chain stores as well as the creation of supply contracts, joint ventures and partnerships between SMMEs businesses and FDI companies; and where appropriate, allowing local communities and non-Governmental Organizations to develop business activities and employment opportunities for SMMEs in rural villages. Overall, SMMEs businesses will be oriented to have both domestic and export focus with a view to overcoming the challenges associated with the small domestic market and achieving global competitiveness.
7.4 Development of Infrastructure and Industry Relevant Skills

7.4.1 Adoption and Development of Technology

The Role of Technology in Industrial Development is critical because it enhances industry competitiveness and hence its profitability and benefits for the entrepreneur. Government recognises the importance of science and technology as catalysts for industrial development and will thus promote affordable access to ICT infrastructure; develop and review intellectual property legislation to promote Research and Development in Science and Technology; provide a conducive environment for adaptation, development and diffusion of technology in Botswana; improve the performance of Science and Technology training and research institutions to ensure that they produce quality scientists and outputs. Government will also develop an appropriate regulatory framework to support implementation of e-Commerce, e-Marketing and e-Government in business activities.

7.4.2 Industry Relevant Skills

Industry relevant skills are developed from the pool of secondary and tertiary education graduates with a view to meeting the labour requirements of all industries and improving productivity. To achieve this, Government will collaborate with all relevant stakeholders to formulate policies and programmes that will ensure that the education system produces graduates with relevant industry skills in accordance with the following principles: (i) the quantity and quality of training should be based on market demand; (ii) the training programmes should provide equitable opportunities for all segments of the labour force; (iii) performance related remuneration system with appropriate labour incentives should be used in order to enhance productivity; (iv) funding and coordination of training should involve the private sector; (v) private sector representatives should be appointed to the Boards of public institutions providing technological and skilled services and training.

7.4.3 Industrial Development and Labour Standards

Government is aware of the fact that, in the pursuit for industrialisation, workers’ rights, health, safety and dignity, may sometimes be overlooked; resulting in social, economic and political consequences which in the end work against the industrialisation programme. Consequently, Government will ensure that the industries that set up in Botswana observe and respect the country’s labour laws and the International Labour Organization core Labour standards relating to the respect for workers’ rights, health, safety and dignity.
7.5 Private Sector Capacity Development

7.5.1 Private Sector Development

This requires that the private sector, which has been earmarked to drive the country’s industrialisation, is equipped for: (i) development of entrepreneurs who will be able to take advantage of the opportunities for industry development opened by the Policy; (ii) identification of required industry skills and effective participation in the required training; (iii) participation in Research and Development; (iv) participation in technology adaptation, development and innovation; and (v) participation in quality control, standards and production. To achieve these milestones, private sector participation in industry development will remain paramount; public-private sector partnerships will be strengthened; and all impediments to industry development by the private sector will be addressed. This will result in private sector-led industrialisation which is in line with international best practice.

7.5.2 Institutional Capacity

Institutional Capacity of Government Ministries and Parastatals involved in industrial development and related activities will be strengthened to ensure that the benefits of this Policy are maximised. Government will also advocate for Institutional Capacity Development at regional level in order to also reap the benefits of regional collaboration in the development of industries with cross-border business linkages and complementarities.

7.5.3 Privatisation

Promotion of industry efficiency through strategic privatisation is based on the assumption that, generally, the private sector is more efficient in the production of goods and services. Government therefore, developed a Privatisation Master Plan with a view to privatising state-owned enterprises where there is evidence that investment returns would be high enough to attract private sector investment and the resultant privatisation would lead to efficiency gains, productivity gains, cost saving and enterprise self-financing as well as improvements in customer service and satisfaction. As such Government will continue to pursue the privatisation efforts with a view to promoting industrialisation.

7.5.4 Public-Private Partnerships

Government recognises the strategic importance of infrastructure for industrial development and will, in collaboration with the Private Sector and other Stakeholders, provide appropriate infrastructure to support the development of strategic industries, including rural industries, across the country. The provision of infrastructure will be based on each region’s comparative and competitive advantage, with a strong bias towards export activities where it is apparent that its benefits would outweigh those of the domestic market.
7.6 OTHER FUNDAMENTALS

7.6.1 Industry Financing

Industry financing is part of a continuum of industrial policy initiatives ranging from those that cost little and benefit every firm at one end, to those that cost a lot and benefit primarily one or few firms. This continuum begins with regulatory reforms and improvements in the investment climate, which would be “costless” to Government but very beneficial to all firms in the country.

Industrial financing may take many forms including government financing, private sector financing and individuals financing. Government financing may include, when broadly defined, low corporate tax rates, fiscal and financial incentives, infrastructure financing, subsidised loan finance and government procurement preferences. Government will, in providing industrial financing, prioritize “costless” industrial policy options, followed by funding industrial policy options that benefit many or all firms, followed by funding industrial policy options that benefit one or a few firms only. Government will ensure that industrial financing addresses specific industry bottlenecks and constraints, along with identified opportunities, all done taking cognisance of the WTO rules.

To achieve the above, Government would select industrial financing tools and targets that:
- Support the provision of substantively new goods and services rather than existing ones;
- Generate significant spill-over and demonstration effects;
- Are conditional on achievement of measurable benchmarks, but also transparent and easily accessed;
- Have explicit exit or sunset conditions or clause;
- Are supported by strong and transparent performance monitoring, reporting and impact assessment; and
- Address specific firm bottlenecks and constraints as well as opportunities.

Private sector financing may take the form of commercial bank loans, stock market financing and other forms of specialized investment funding. Government will promote industrial financing by the private sector, including through public-private partnership (PPP) financing as well as Government guarantees to private sector financiers on carefully selected investments.

7.6.2 Intellectual Property Rights Protection

Intellectual Property Rights Protection is important as it ensures that the benefits of research in Science and Technology for industrial development accrue to deserving companies. This promotes companies’ investment in technology and innovation. Government is therefore committed to the protection of intellectual property rights for industrial researchers, inventors, designers and innovators in line with her national and international commitments.
7.6.3 Environment

Government is aware of the adverse impact that industrial development may have on the environment. This may be in the form of industry waste and emissions that could pollute water, soil and air; soil degradation, littering from solid waste, pollution from oil and chemical waste. These may have negative impact on human health and safety; as well as plant and animal life. Given this, Government will ensure that companies that set up industries in Botswana observe and respect the country’s national and international environmental laws and regulations. Further, Government will ensure that environmental laws and regulations are mainstreamed into the country’s industrial programmes and initiatives in order to reduce potential side effects of industrialisation on the environment and climate. Government will, while implementing environmental laws and regulations, take cognizance of the cost of addressing environmental issues for Botswana in relation to her developing country status.

7.6.4 Health and Safety Standards

Government is cognisant of the fact that sustainable and globally competitive industries would require a healthy and productive workforce. Consequently, Government will ensure that industries put in place measures to protect workers’ health from industry hazards. Further, Government will ensure that industries mainstream health issues such as HIV/AIDS into their work programmes as well as undertaking workplace programmes that effectively address the health and safety needs of their staff and families.

7.6.5 Research and Development

Resources dedicated to Research and Development (R&D) are limited and this has led to inability to deepen technology linkages within key sectors in the country and in the region. This has also resulted in loss of commercial opportunities of indigenous products and knowledge to other parts of the world and limited participation of the country in regional and global value chains. Therefore, Government will promote Research and Development through provision of required resources to both government research institutions and the private sector; promotion of public-private sector collaboration in R&D and commercialisation of industrial products as well as their patenting. This will further promote exploitation of synergies at national level and sharing of best practice in order to improve competitiveness.
8.0 INSTITUTIONAL FRAMEWORK AND INDUSTRIAL GOVERNANCE STRATEGY

One of the challenges identified in the IDP1998 is that the Industrial Development Policy was uncoordinated and lacked institutional direction. To address this challenge, this Industrial Development Policy will be implemented through the National Economic Diversification Council (NEDC) which is chaired by the Minister of Trade and Industry; deputized by the President of BOCCIM. The Policy will be implemented through the National Economic Diversification Council (NEDC) whose membership is being revised to ensure effective coordination and collaboration on the delivery of each Stakeholder’s mandate. Figure 9.1 shows the Institutional Structure of NEDC and the place of IDP2014.

An Implementation Matrix has been developed to ensure effective implementation of the Policy and monitoring achievement of its milestones. Further, the Policy will be reviewed every five (5) years or as and when the economic environment dictates.
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Figure 8.1: Institutional Structure

- National Economic Diversification Council
- Economic Diversification Drive (Botswana Excellence Strategy)
- Economic Diversification Thematic Areas
- Sectoral Development & Linkages
- Export Development & Promotion
- Investment & Finance
- Entrepreneurship Development
- Technology Development, Transfer & Innovation
- Quality Control, Standards & Production
- Research & Development

- Industrialised Economy
- Diversified Exports
- Enhanced Citizen Economic Empowerment
- Increased Employment
- Improved Quality of life

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2A robust self-discovery process involves domestic industry linkage with global value chains and suppliers; leverage of knowledge, technology and market access in industrialized countries and continuous industrial learning by firms in developing countries.

3The new tools for comparative advantage include “…technological competence; industry-relevant skills; work discipline and trainability; competitive supplier clusters; strong support institutions; good infrastructure and well-honed administrative capabilities.” See Lall, Sanjaya and John Weiss, 2003. “Industrial Competitiveness: The Challenge for Pakistan”, Background Paper for the Asian Bank Institute, Policy Seminars on International Competitiveness in Pakistan, Page 9.


7 The role of *Technology* in services revolution means that due to technological innovation and development (telephone and internet), services can now be produced and stored in digital form and scaled up into giant global businesses. *Transportability* means that services can now be transported over long distances at very little cost and no effect on quality, thus allowing service-led export growth; and lastly, *Tradability* means that many modern services can be traded across borders with very little government interference as there are no borders, customs or tariffs for these services.

8Government owns three development finance institutions that provide finance for industry: the Citizen Entrepreneurial Development Agency (CEDA), the Botswana Development Corporation (BDC), and the National Development Bank (NDB).