

THE DRIVERS OF PRIVATE SECTOR INVESTMENT IN BOTSWANA: AN EXPLORATORY REVIEW

UDC 005:330.322

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Abstract. *This paper reviews the drivers of investment by the private sector in Botswana for the period from 1980 to 2018. The paper discusses the investment policies that the government has adopted over the years, the incentives, as well as the institutions that have been established to promote private sector investment. The Botswana government's economic development strategy is aimed at promoting economic growth through the private sector. Some of the key determinants of private investment, which have been analysed, include economic growth, public investment, credit to the private sector, gross domestic savings, trade openness, interest rate, inflation and foreign direct investment. Since the 1980s, the private sector investment has been fluctuating between 34.5 percent and 12.1 percent, with the highest level being recorded in 1980 and the lowest in 1996. The study shows that economic growth averaged 6.4 percent, public investment was 10.3 percent, credit to the private sector was 18.3 percent, gross domestic savings was 35.9, trade openness was 101.4 percent, interest rate was 3.6 percent, inflation was 8.9 percent and lastly, foreign direct investment was 2.6 percent during the study period.*

Key words: *private sector investment, economic growth, determinants, policies, Botswana*

JEL Classification: E2

Received September 03, 2021 / Revised November 14, 2021 / Accepted November 22, 2021

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1. INTRODUCTION

Economic growth is an important determinant of private investment. The linkage between economic growth and private investment has been studied by various researchers and their findings indicate a positive relationship between the two variables (see Karagoz, 2010; Adugna, 2013; and Nainggolan *et al.* 2015). The desired capital stock is determined by the cost of capital and the level of output (Serven & Solimano, 1992). Many studies in the literature have proposed the determinants of private investment. The determinants are public investment (Ribeiro and Teixeira, 2001; Bint-e-Ajaz & Ellahi, 2012); credit to the private sector ((Mitiku, 1996; Asante, 2000); trade-related variables such as trade openness, terms of trade and exchange rates (Acosta & Loza, 2005; Karagoz, 2010). Other variables include public debt; external debt; financial markets; credit markets; political instability; savings and financial development (see Acosta & Loza, 2005; Sisay, 2010; Lau *et al.*, 2019); and interest rates (see Bader & Malawi, 2010; Suhendra & Anwar, 2014; Magableh & Ajlouni, 2016).

The private sector has been identified by the government of Botswana as one of the key drivers of economic growth, diversification and employment creation and the government has come up with several policies and initiatives to promote the sector (Republic of Botswana, 2019). According to OECD (2005:112), “enforcing market discipline and promoting efficient allocation and use of economic resources, through the encouragement of private sector involvement in the country’s economic development, has been one of the key aspects of public policy and public sector reform agenda in Botswana”. Against this background, this study aims to analyse the trends of private investment and its determinants in Botswana during the period 1980 – 2018. The study further assesses the policies that have been pursued to promote private investment in Botswana during the study period.

The rest of the study is organised as follows: Section 2 reviews the government’s investment policies, incentives to promote private investment, and the institutions established to promote private investment. Section 3 discusses the trends of private investment and section 4 reviews the macroeconomic drivers of private investment in Botswana. Section 5 concludes the study.

2. INVESTMENT POLICIES IN BOTSWANA

Since its independence in 1966, the Botswana government has been working on economic diversification and private sector development. The Republic of Botswana (2019) states that the new economic development strategy is to promote economic growth through the private sector. The economic growth of the country over the years has been due to the prolonged and rapid expansion of the mining sector and the government, which has been largely financed by the revenue from the mining sector (Bank of Botswana, 2000). As the government and the mining sector account for almost half of the country’s gross domestic product (GDP), the country needs to diversify as it cannot depend on one sector of the economy (Bank of Botswana, 2000). Since the mineral sector lacks the potential for rapid economic growth, in order to boost diversification, the government needs to promote investment in other sectors of the economy and this was the objective of the National Development Plan (NDP) 7 and 8 (Kgakge, 2002). The efforts by the government have been working as there has been a decrease in the share of the mining sector and an increase of the non-mining sectors in the economy (Republic of Botswana,

2019). The contribution of the mining sector share to GDP declined from 25 percent in 2008 to 18 percent in 2018, while that of the non-mining sectors increased from 75 percent to 82 percent during the same period (Republic of Botswana, 2019:4)

The NDP 10, which was for the period April 2009 to March 2016, prioritised growth in the private sector. According to the Republic of Botswana (2009), the acceleration of the diversification of the economy from dependence on diamond towards the growth of the private sector was the plan of the NDP 10. For the NDP 10, the government had the strategy that seeks to “create a private-sector enabling and supportive policy environment, stimulate increased domestic and foreign private investment, and enhance competitiveness in goods and services markets” (Ministry of Finance and Development Planning, 2013:5). To develop a private-sector-friendly environment, the government aimed to improve the business climate by removing the negative effects of all the administrative, bureaucratic and regulatory barriers detrimental to private sector development (Republic of Botswana, 2009).

In the NDP 11, the first medium-term plan, which starts from March 2017 to March 2023 towards the implementation of the country’s second vision – Vision 2036 is outlined (Republic of Botswana, 2017). The NDP 11 aims to eliminate poverty and create employment. According to the government of Botswana, this will be achieved through the “implementation of six national priorities, namely i) developing diversified sources of economic growth; ii) human capital development; iii) social development; iv) the sustainable use of national resources; v) consolidation of good governance and strengthening of national security; and vi) the implementation of an effective monitoring and evaluation system” (Republic of Botswana, 2017:XV). According to the NDP 11 the strategies to create employment opportunities and promote economic growth will be implemented by “developing diversified sources of economic growth through initiatives such as beneficiation; cluster development; special economic zones; an economic diversification drive; and local economic development” (Republic of Botswana, 2017:XV).

According to NDP 11, the Botswana government aims to maximize the value addition from minerals through mineral beneficiation in order to promote the development of the private sector and grow the economy (Republic of Botswana, 2017). The government will also aim to adopt a cluster-based agenda that focuses on sectors in which the economy has a comparative advantage, such as the diamond, beef, tourism, financial services and mining sectors, emerging education as well as health services sectors (Republic of Botswana, 2017:59). The programmes such as local economic development and the Private Sector Development Strategy (PSDS) will be used to implement this initiative (Republic of Botswana, 2017).

As part of cluster development, the NDP 11 aims to promote the special economic zones through tax and regulatory reforms that will enable them to create job opportunities and grow the economy (Republic of Botswana, 2017). This initiative will promote the domestic and foreign direct investment which will significantly contribute to economic growth and create job opportunities (Republic of Botswana, 2017). During the NDP 11, the achievements of the economic diversification drive strategy will be consolidated by implementing the new Industrial Development Policy (IDP) in order to achieve the government objective of diversified and sustainable industries and ensure the beneficiation of local raw materials (Republic of Botswana, 2017:60). The last initiative will be local economic development, which will ensure that the country creates an environment that will encourage local investment and promote both SMMEs and major industries in the economy

and access to external markets, private investment and provision for infrastructure crucial for this initiative (Republic of Botswana, 2017).

Over the years, the Botswana government has implemented a number of schemes aimed at investment in private sector enterprises and parastatals. According to the Bank of Botswana (2001), some of the schemes implemented to finance private sector enterprises include the Financial Assistance Policy (FAP) and Small, Medium and Micro Enterprises (SMMEs).

The FAP was introduced in 1982 with the objective of facilitating the development of new and expanding productive enterprises in order to create employment opportunities and diversify the economy which is dependent on the mining sector (Valentine (1993). The objectives of the FAP were to facilitate rapid industrialisation; to diversify the economy away from dependence on large-scale mining and non-cattle and non-traditional agricultural projects; diversify the economy across regions, away from the major urban and peri-urban areas, and encourage rural industrialisation; to encourage sustained employment of unskilled labour and address Botswana's unemployment problem; to promote the acquisition and upgrading of the skills of Botswana citizens through training; and to stimulate citizen participation in the ownership of productive assets (Valentine, 1993:10).

The SMMEs policy, which is a financing programme, was introduced in 1999 (Bank of Botswana, 2000). The SMMEs policy aimed to achieve the following objectives, which are "to foster citizen entrepreneurship and empowerment; encourage the development of a competitive and sustainable SME community; achieve economic diversification; create sustainable employment opportunities; promote exports; promote the development of vertical integration and horizontal linkages in primary industries (agriculture, mining and tourism) for SMEs; and improve efficiency in the delivery of products to business." (OECD, 2005:113).

Due to the shortcomings of these schemes, both the FAP and SMMEs have been discontinued and replaced by the Citizen Entrepreneurial Development Agency (CEDA). The CEDA provides subsidised loans to commercially viable enterprises and runs a venture capital scheme (Bank of Botswana, 2001). The venture capital is made available for joint ventures between local and foreign investors (Bank of Botswana, 2001). The objectives of the CEDA are as follows: (i) to support business development through various funding mechanisms; (ii) to back agro-business, services property and manufacturing through subsidised loans, as well as to help citizens partner with foreigners in joint ventures; (iii) to foster citizen entrepreneurship and empowerment and promote economic diversification; (iv) to encourage the development of competitive and sustainable citizen enterprises; and (v) to create sustainable employment opportunities (Bank of Botswana, 2015:107).

One of the tax incentives to encourage investment is that companies registered with the International Financial Services Centre (IFSC), which has been replaced by the Botswana Investment and Trade Centre (BITC), benefit from zero-rated VAT and exemption from both Withholding Tax and Capital Gains Tax, while other companies pay 10 percent VAT, 7.5 percent Withholding Tax (reduced from 15 percent since 2011), and 15 percent Capital Gains Tax (OECD, 2014).

The government has also established institutions to promote investment, such as the Botswana Export Development and Investment Authority (BEDIA), which took over the work of the Trade Investment and Promotion Agency (TIPA) which is export development and investment promotion (Bank of Botswana, 2000). BEDIA's objective is to promote investment, especially in the manufacturing sector (Bank of Botswana (2000). It aims to achieve its objectives through the promotion of the country as an investment destination and to serve as a one-stop service centre that assists investors with permits for work and

residence; securing of land and buildings; business licensing; and assist with identifying potential citizen joint venture partners (Bank of Botswana (2000:87).

Another institution is the Botswana Investment and Trade Centre (BITC) which, according to the OECD (2014), was launched in 2012 after the merger of BEDIA with the Brand Botswana Management Organisation (BBMO) and the International Financial Services Centre (IFSC). Its objectives include investment promotion and attraction, and export promotion and development and as a one-stop service centre for investors, it minimises regulatory and bureaucratic costs (Bank of Botswana, 2015). In addition, the BITC provides business facilitation services such as company and business registration, trade licence applications and entry visas, and work and residence permits (Bank of Botswana, 2015).

3. PRIVATE INVESTMENT TRENDS IN BOTSWANA

The Botswana government has created an enabling environment for the private sector in order to grow the economy. Private investments in Botswana have fluctuated since the 1980s and averaged 18.9 percent as a percentage of GDP for the period 1980 to 2018. The highest level of private investment being recorded was 34.5 percent in 1980 and the lowest was 12.1 percent in 1996. Private investment decreased from 34.52 percent in 1980 to 12.62 percent in 1986 before it increased to 23.77 percent in 1990. After 1990 it dropped and stayed below 15 percent for most of the 1990s. Investment by the private sector as a percentage of GDP declined from 23.77 percent in 1990 to 12.14 percent in 1996. In the period 1992 to 2009, the performance of the private sector was lower at an annual average of less than 20 percent. However, private sector investment as a percentage of GDP improved in 2010 when it rose to 20.53 percent. Figure 1 shows the trends of private investment in Botswana as a percentage of GDP from 1980 to 2018.

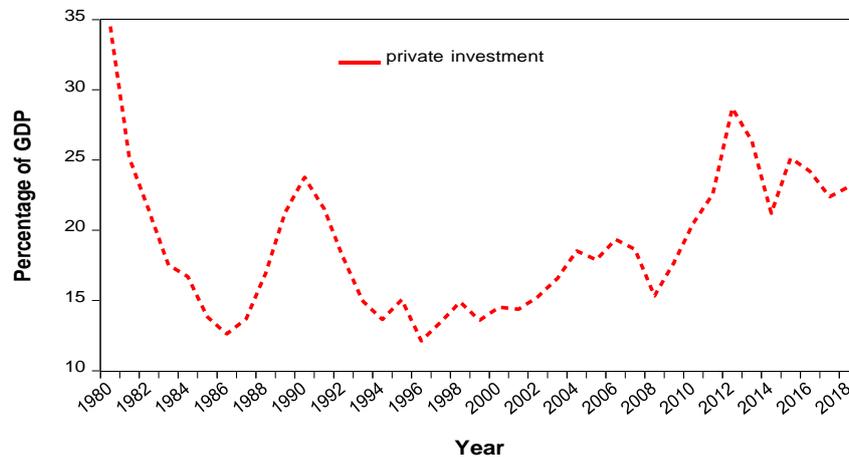


Fig. 1 Private Investment as a Percentage of GDP in Botswana (1980–2018)

Source: Own compilation from World Bank Development Indicators (2020).

Private investment increased from 14.39 percent in 2001 to 18.54 percent in 2004. In the 2003/04 period, total gross domestic investment accounted for 25.5 percent of GDP,

compared with 24.5 percent in the 2002/03 period and the increase was due to growth in private investment (OECD, 2005). Private investment was on the decrease before the 2008 financial crisis that affected many economies. Private investment decreased from 18.63 percent in 2007 to 15.33 percent in 2008. From 2009 investment by the private sector was on the rise once more and reached 28.69 percent in 2012 before decreasing to 21.22 percent in 2014.

4. TRENDS OF MACROECONOMIC DRIVERS OF PRIVATE INVESTMENT IN BOTSWANA

Many macroeconomic variables have been identified in the literature as the determinants of private investment. They include economic growth, public investment credit to the private sector, inflation, gross savings, foreign direct investment, interest rate, and openness of the economy. These macroeconomic variables are discussed within the Botswana context in this section.

4.1. Economic Growth

The economic growth rate in Botswana fluctuated in the review period. For the period 1980 to 2018, private investment averaged 18.9 percent as a percentage of GDP whereas economic growth averaged only 6.4 percent in the same period. The highest growth rate was 19.5 percent in 1988 and the lowest in 2009 with a growth rate of -7.7 percent (see figure 2). Figure 2 presents economic growth rates and private investment as a percentage of GDP in Botswana from 1980 to 2018.

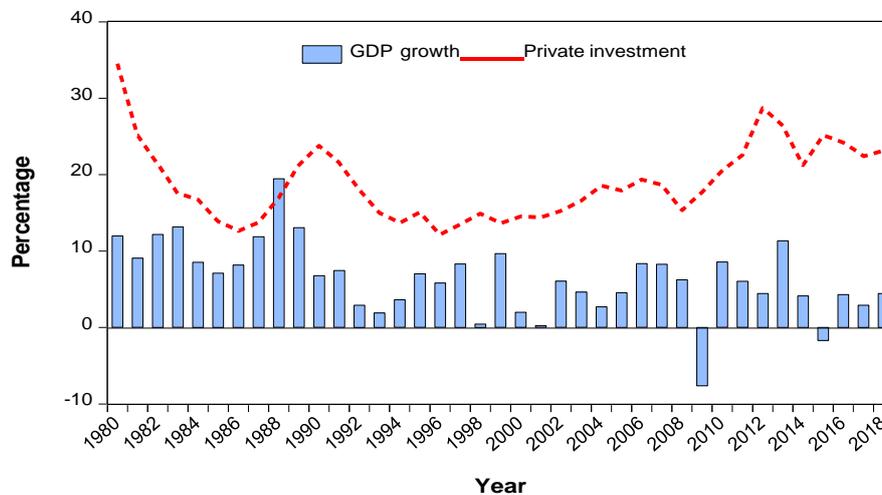


Fig. 2 GDP Growth Rate and Private Investment in Botswana (1980–2018)

Source: Own compilation from World Bank Development Indicators (2020)

The sharp decrease from 8.3 percent in 1997 to 0.4 percent in 1998 could have been because of the financial crisis that affected many economies. After 1998, the economy of Botswana grew to 9.7 percent in 1999 before it slowed down to 0.3 percent in 2001. The reason for higher growth in 1999 was increased activity in the mining sector and the

Orapa expansion project during the first half of 2000 (Bank of Botswana, 2000). In 2010 economic growth picked up and spiked to 8.6 percent. Afterwards, it decreased to –1.7 percent in 2015.

4.2. Public Investment

Public investment is a determinant of private investment as it can either crowd in or crowd out private investment (see Ghali, 1998). From 1980 to 2018, private investment in Botswana has always exceeded investment by the public sector. Botswana private investment as a percentage of GDP averaged 18.9 percent, while public investment as a percentage of GDP averaged 10.3 percent for the period 1980 to 2018. Figure 3 displays public and private investment as a percentage of GDP in Botswana from 1980 to 2018.

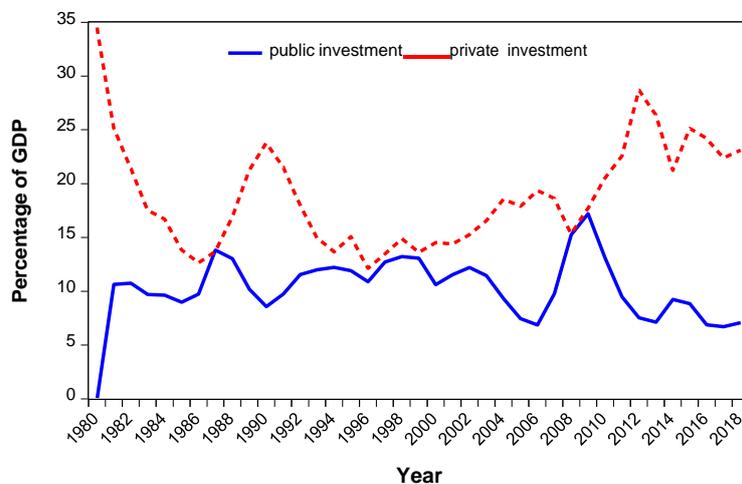


Fig. 3 Public Investment and Private Investment in Botswana (1980–2018)

Source: Own compilation from World Bank Development Indicators (2020)

While private investment declined continuously from 1990 to 1994, public investment continuously increased (see figure 3). Investment by the public sector strengthened from 8.6 percent in 1990 to 13.7 percent in 1994. According to the Bank of Botswana (2000), the share of gross fixed capital formation, which showed the increased pace of the government's investment programme, grew during the mid-1990s. But public investment as a percentage of GDP decreased from 13.2 percent in 1998 to 10.6 percent in 2000. The share of gross fixed capital formation declined in 1999/2000 owing to the slower real growth rates of government development spending (Bank of Botswana, 2000).

In 2003 public investment declined to 11.5 percent from 12.2 percent in 2002 and continued to diminish until 2006. In 2007, it rose to 9.8 percent and reached 17.2 percent in 2009 to decline again to 7.1 percent in 2013. For the period 2008 to 2009, both public and private investment averaged 15 percent in 2008 and 17 percent in 2009. Public investment was below 10 percent as a percentage of GDP from 2014 to 2018, whereas private investment as a percentage of GDP was above 20 percent.

4.3. Domestic Credit to the Private Sector

Credit is an important determinant of investment. For the period 1980 to 2018, private investment as a percentage of GDP averaged 18.9 whereas credit to the private sector as a percentage of GDP averaged 18.3 in the same period. As can be seen from figure 4, from 1980 to 1997, an upward and a downward trend in domestic credit to the private sector was evident in Botswana. It decreased from 11.3 percent in 1980 to 9.7 percent in 1997. However, from 1998 it started to grow, and from 2001 until 2018, it surpassed private investment levels.

Credit to the private sector increased from 22.7 percent in 2007 to 25.8 percent in 2008. It continued to rise to 28.9 percent in 2009 but dived to 27.2 percent in 2010. Unlike most other African countries, Botswana was able to provide finance for the SMEs through the two financial schemes, which are the Micro Credit Scheme and the Credit Guarantee Scheme that it established (OECD, 2005). The trend shows that when domestic credit decreases, private investment decreases, and when domestic credit increases, private investment also increases. The reason for this could be that the private sector needs credit from banks to finance its projects. Figure 4 presents domestic credit to the private sector and private investment as a percentage of GDP in Botswana from 1980 to 2018.

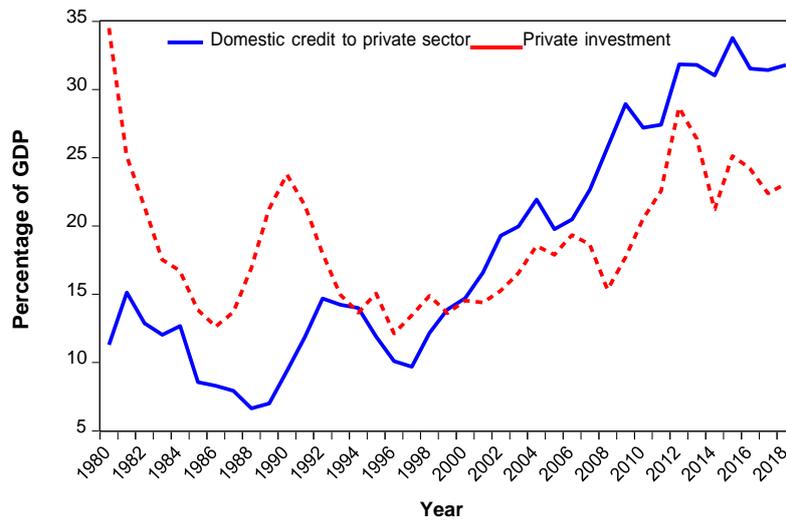


Fig. 4 Domestic Credit to Private Sector and Private Investment in Botswana (1980–2018)

Source: Own compilation from World Bank Development Indicators (2020)

4.4. Gross Domestic Savings

Domestic savings also boost investment, and according to Munir *et al.* (2010), private savings speed up private investment. Gross domestic savings for the period 1980 to 2018 averaged 35.9 percent as a percentage of GDP in Botswana. Figure 5 shows that from 1982 gross domestic savings were higher than private investment. The Botswana government is a major saver, and in June 1990, it accounted for over half of gross domestic savings, but this figure fell to just below 30 percent by June 1995 (Bank of Botswana, 2001). Figure 5 illustrates gross domestic savings and private investment as a percentage of GDP in Botswana from 1980 to 2018.

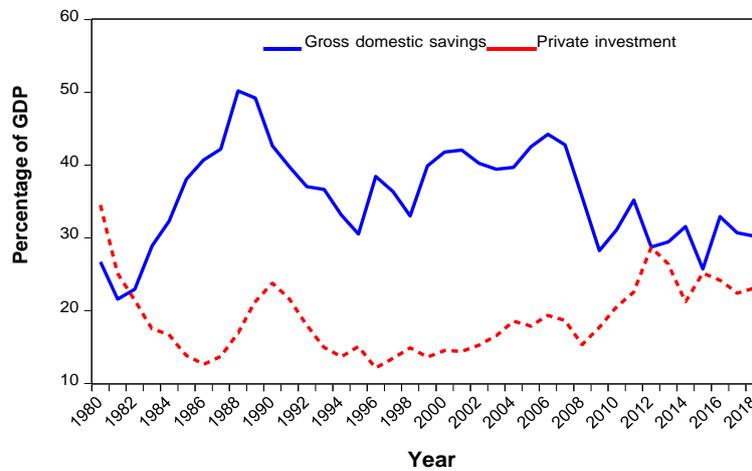


Fig. 5 Gross Domestic Savings and Private Investment in Botswana (1980–2018)

Source: Own compilation from World Bank Development Indicators (2020)

The Botswana government's savings performance depends largely on revenue from the mining sector (Bank of Botswana, 2001). It steadily rose from 1982 to 1988 and then continuously declined from 1988 to 1995. The performance of gross domestic savings in Botswana during the 1980s was characterised by an increasing trend but in the early 1990s by a declining trend (see figure 5). In the late 1980s, private investment intensified whereas in the early 1990s, it slumped. In 1996 gross domestic savings increased to 38.4 percent from 30.5 percent in 1995 before declining to 33 percent in 1998. Gross national savings decreased in 2002 to 40.3 percent from 42.1 percent in 2001. By 2004 it stood at 39.7 percent. According to the Bank of Botswana (2001), the decline in gross domestic savings during this period was due to a decrease in public savings. In 2009 gross savings stood at 28.2 percent compared to 35.6 percent in 2008 and 44.2 percent in 2006. After 2009 savings improved and rose to 35.2 percent in 2011.

4.5. Trade Openness

The openness of a country is vital, and according to Fielding (1997), an increase in trade has a positive impact on domestic investment. Trade openness is measured by the ratio of imports plus exports to the GDP. Botswana's ratio of imports plus exports to its GDP exceeded 70 percent for the period 1980 to 2018. For the period 1980 to 2018, private investment averaged 18.9 percent as a percentage of GDP, whereas trade openness averaged 101.4 percent as a percentage of GDP in the same period. The OECD (2005) affirms that exports in the country are limited to a small number of commodities (minerals) and focused at just a few destinations which are mostly in Europe. The country membership in the Southern African Customs Union (SACU) may have largely dictated its trade policy over the years because the agreement states that all trade negotiations or agreements between Botswana and third parties must be acceptable to other SACU members (OECD, 2005). Figure 6 shows trade openness and private investment as a percentage of Botswana's GDP from 1980 to 2018.

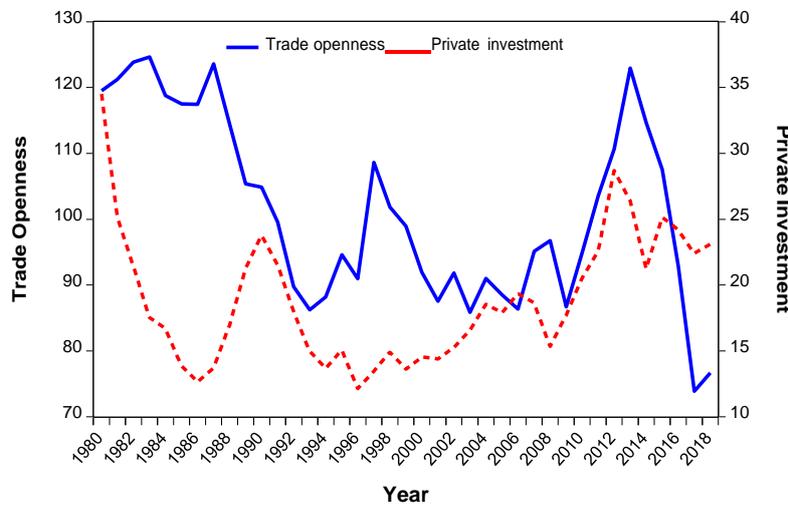


Fig. 6 Trade Openness and Private Investment in Botswana (1980–2018)
Source: Own compilation from World Bank Development Indicators (2020)

In the early 1980s, trade openness grew from 119.5 percent in 1980 to 124.6 percent in 1983. However, from the late 1980s to the early 1990s, there was a decline in trade openness measured by the ratio of imports plus exports to Botswana's GDP. The level of trade openness dropped from 123.6 percent in 1987 to 86.2 percent in 1993. In 1994 it started to rise and stood at 91 percent in 1995. The improvement in the country's trade openness during this period coincided with measures towards a more liberal trade regime (Malefane & Odhiambo, 2016). Trade openness improved to 108.6 percent in 1997 and, thereafter, continuously declined to 87.5 in 2001.

Trade openness in the 1990s and 2000s was less than in the 1980s. According to Malefane and Odhiambo (2016), the decline in Botswana's trade openness in the 1990s coincided with the agricultural sector's declining share in exports. Botswana's trade openness dropped from 96.7 in 2008 to 86.7 in 2009. The country's economy recovered after 2009, and trade openness increased from 86.7 percent in 2009 and to 123 percent in 2013. From 2013 to 2017, it continuously declined. Trade openness fell from 123 percent in 2013 to 73.9 percent in 2017. A factor that could have contributed to the slowdown was the decline in the export of rough diamonds in 2015 because of a decrease in the global market demand (Bank of Botswana, 2015).

4.6. Real Interest Rate

The real interest rate is a determinant of private investment. A study by Greene and Villanueva (1991) shows that there is a negative relationship between interest rates and private investment. For the period 1980 to 2018, private investment averaged 18.9 percent as a percentage of GDP, whereas real interest rate averaged 3.6 percent in the same period. The real interest rate of Botswana fluctuated from 1980 to 2018. In 1980, the interest rate was -1.6 percent, and in 2018 it reached 5.5 percent. Figure 7 presents the trends of real interest rate and private investment as a percentage of Botswana's GDP during the period 1980-2018.

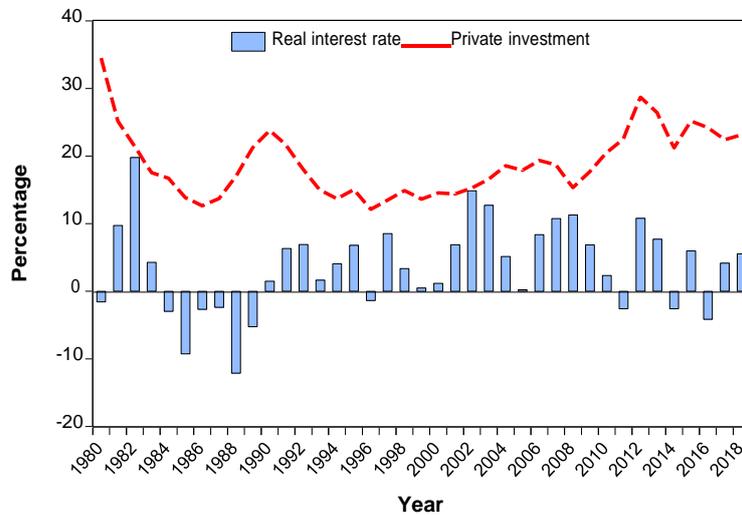


Fig. 7 Real Interest Rate and Private Investment in Botswana (1980–2018)

Source: Own compilation from World Bank Development Indicators (2020)

In 1980, the real interest rate was -1.6 percent. A sharp increase to 19.8 percent followed in 1982, the highest for the period 1980 to 2018. It declined sharply from 19.78 percent in 1982 to -9.3 in 1985. The trend shows that from 1984 to 1989, the real interest rate was negative. From 1989 it steadily grew to 6.9 percent in 1992 only to fluctuate again. In 1996, it was a negative rate of -1.4 percent before rising to 8.5 percent in 1997 and decreasing to 0.5 percent in 1999.

Botswana's real interest rate spiked to 14.8 percent in 2002 from 1.1 percent in 2000. It fell to 0.2 percent in 2005, then rose to 11.3 percent in 2008, and declined again to -2.6 percent in 2011. In 2012, there was a sharp increase from -2.6 percent in 2011 to 10.8 percent. The increase in the real interest rate in 2012 was owing to a decline in inflation (Bank of Botswana, 2012).

4.7. Inflation Rate

Inflation is also a determinant of private investment, and according to Hassan and Salim (2011), inflation erodes the purchasing power of money. During the period 1980-2018, private investment averaged 18.9 percent as a percentage of GDP, whereas inflation averaged only 8.9 percent in the same period.

Inflation was 13.6 percent in 1980 and 8.1 percent in 1985, the lowest for the 1980s. It then increased to 10 percent in 1986 before it sank to 8.4 percent in 1988. In 1992 the inflation rate grew to 16.2 percent, the highest annual inflation rate since 1981. After 1992, it continuously declined. It was 6.7 percent in 1998, increased to 8.6 percent in 2000, before it declined to 6.6 percent in 2001. It then rose to 9.2 percent in 2003. According to the Bank of Botswana (2000), a rise in fuel prices was one of the factors that drove inflation in 2000, which led to increased production costs. The decline in 2001 was the result of less external inflationary pressure, reinforced by the tight monetary policy maintained throughout the year (Bank of Botswana, 2001).

Figure 8 indicates the inflation rate and private investment as a percentage of Botswana's GDP from 1980 to 2018.

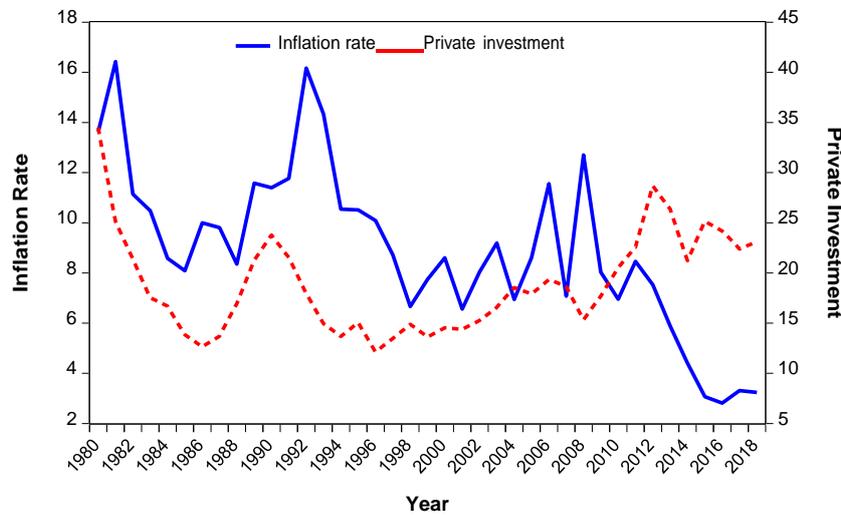


Fig. 8 Inflation Rate and Private Investment in Botswana (1980–2018)

Source: Own compilation from World Bank Development Indicators (2020)

Inflation declined from 11.6 percent in 2006 to 7.1 percent in 2007 before it increased to 12.7 percent in 2008. The high inflation in 2006 was due to the higher world prices of petroleum and the result of the new exchange rate regime that was introduced in May 2005 (Bank of Botswana, 2007). In 2007 the Monetary Policy Statement (MPS) set an annual inflation objective of 4 to 7 percent, but because of rising international oil prices and subsequent cost increases of imported foodstuff and petroleum products, the inflation rate was above 7 percent (Bank of Botswana, 2007). It maintained its downward trend from 12.7 percent in 2008 to 7 percent in 2010. The trend of the inflation rate shows that from 2013 until 2018, the inflation rate was within the target of 3 to 6 percent (see figure 8).

4.8. Foreign Direct Investment

Foreign direct investment is also a determinant of private investment. Foreign investment can stimulate domestic private investment, but it can also crowd out domestic private investment, as was found by Mutenyo *et al.* (2010). In Botswana, private investment has been higher than foreign direct investment for the period 1980 to 2018. For the period 1980 to 2018, private investment averaged 18.9 percent as a percentage of GDP, whereas foreign direct investment as a percentage of GDP averaged only 2.6 percent in the same period.

Foreign direct investment was higher in the 1980s than in the 1990s: it averaged 4.6 percent in the 1980s and just 0.3 percent in the 1990s. In the 1990s, it was negative, for example, in the period 1991 to 1994. In 1990 it increased to 2.5 percent from 1.4 percent in 1989 before attaining a record low of -6.9 percent in 1993 (see figure 9). For the period 2000 to 2018, foreign direct investment averaged 2.8 percent, whereas private investment averaged 20.1 percent. In 2000, foreign direct investment was recorded at 1 percent before declining to 0.56 in 2001. Then in 2002, it rose to 7.5 percent, which was the highest for the period 2000 to 2018 before declining to 5.6 percent in 2003. It dropped further to 4.4 percent in 2004 and fluctuated until it reached 1.3 percent in 2018. Figure 9

reflects the foreign direct investment and private investment as a percentage of GDP trends in Botswana from 1980 to 2018.

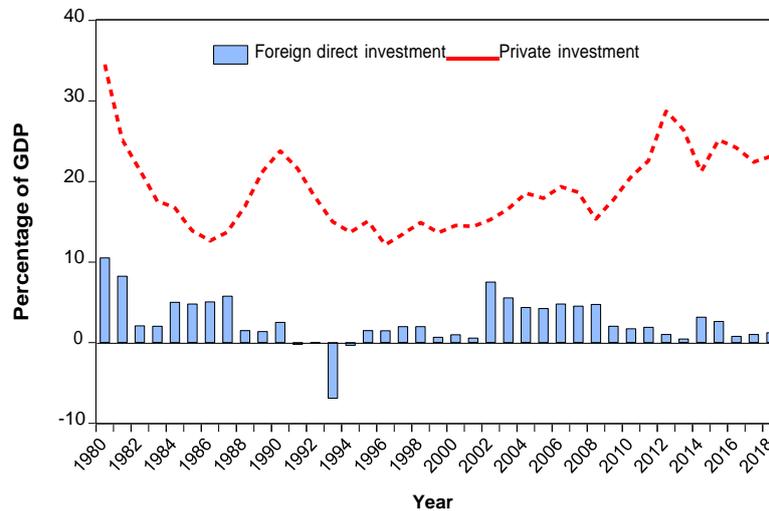


Fig. 9 Foreign Direct Investment and Private Investment in Botswana (1980–2018)

Source: Own compilation from World Bank Development Indicators (2020)

5. CONCLUSION

In this study, the policies and incentives of the Botswana government to promote private sector investment have been analysed. Since its independence in 1966, the government of Botswana has focused on economic diversification and private sector development. The private sector has been identified by the government as key in driving economic growth and, over many years, developed policies and initiatives to encourage private sector involvement. The government of Botswana has, over decades, implemented a number of incentives aimed at providing finance for investment. These include the FAP, which was established in 1982 with the aim of providing assistance to new and expanding enterprises, and the SMMEs, which were established in 1999.

This study also examined the macroeconomic drivers of private investment in Botswana in the period 1980 to 2018. The drivers include economic growth, public investment, credit to the private sector, gross domestic savings, openness of the economy, interest rate, inflation, and foreign direct investment. The findings of the study show that the policies that the government has implemented to promote the private sector have been working, as shown by the upward trend recorded during the periods, such as 1986–1990, 2001–2004, and 2008–2012. Since the 1980s, the private sector investment has been fluctuating between 34.5 percent and 12.1 percent with the highest level being recorded in 1980 and the lowest in 1996. The study shows that economic growth averaged 6.4 percent, public investment was 10.3 percent, credit to the private sector was 18.3 percent, gross domestic savings was 35.9, trade openness was 101.4 percent, interest rate was 3.6 percent, inflation was 8.9 percent and lastly foreign direct investment was 2.6 percent during the study period. In the

current study, the exploratory approach is used to analyse the key determinants of private investment and the co-movement between private investment and its determinants. It is recommended that future studies use empirical analysis and consider modern econometric techniques to examine the relationship between private investment and its determinants. The study is also mainly focused on the macroeconomic determinants; therefore, future studies can look at other drivers of private investment, such as institutional drivers that can explain the performance of private investment.

Acknowledgement: *This paper is based on doctoral research at the University of South Africa (UNISA). The usual disclaimer applies.*

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POKRETAČI INVESTIRANJA U PRIVATNI SEKTOR U BOCVANI: ISTRAŽIVAČKI PREGLED

Ovaj rad se bavi pokretačima investiranja privatnog sektora u Bocvani za period od 1980 do 2018. Rad analizira investicione politike koje je vlada usvajala tokom godina, podsticaje, kao i institucije koje su uspostavljene da bi se promovisale investicije u privatni sektor. Razvojna strategija vlade Bocvane usmerena je na promovisanje ekonomskog rasta putem privatnog sektora. Neke od ključnih determinanti privatnih investicija, koje se analiziraju, uključuju ekonomski rast, javne investicije, bruto društvenu štednju, otvorenost tržišta, kamatne stope, inflaciju i strane direktne investicije. Od 1980ih, investicije u privatni sektor fluktuišu između 34.5 procenata i 12.1 procenata, pri čemu je najviši nivo zabeležen 1980 a najniži 1996. godine. Studija pokazuje da je ekonomski razvoj u proseku bio: 6.4%, javne investicije 10.3%, krediti za privatni sektor 18.3%, bruto društvena štednja 35.9%, otvorenost tržišta 101.4%, kamatna stopa 3.6%, inflacija 8.9% i najzad strane direktne investicije su bile 2.6 procenata za vreme perioda istraživanja.

Ključne reči: *investiranje u privatni sektor, ekonomski rast, determinante, politike, Bocvana*