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# Botswana Country Report

For the SADC-DFRC 3P



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# Botswana



## 1 Overall evaluation of Botswana's readiness for PPPs

### 1.1 Background

We evaluated the Member Country by looking at 6 broad categories, containing a number of sub-categories. The six ('6') broad categories include:

- Attractiveness of the member countries
- Availability of domestic capital and debt funding
- Judicial system
- Governance and decision making
- Ease of doing business in the member country
- PPP environment in the member country

The information and indicators were obtained from external sources like World Bank, World Economic Forum, IFC, Ibrahim Index of African Governance, KPMG country reports and actual visits to the member countries (with exception to three ('3') countries, namely , Democratic Republic of Congo, Swaziland and Seychelles). Where possible, KPMG utilised its in-country office to address the categories and answer questions surrounding the projects.

On the country visit (on 26 June 2013) we met with:

- the member country's Treasury/PPP unit: Archie Makepe – Chief Economist, Ministry of Finance;
- Botswana Insurance Fund Management (BIFM) – Mr Kudzani Pickup and team;
- First National Bank: Mr Boiki Tema and team; and
- KPMG local office representatives.

Each sub-category was rated either one ('1'), two ('2'), three ('3') or four ('4') based on the indicators from various reputable sources. Where one ('1') and two ('2') refers to "Developing towards PPP readiness" and three ('3') and four ('4') indicates a "Maturing level of PPP readiness". Where no information was available, no value was given. Where there was an element of subjectivity, KPMG, based on years of experience, applied its own mind in coming up with a value. The overall broad category value is addressed in more detail below.

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## 1.2 Attractiveness of Botswana

Use the information in the table below and on the excel spreadsheet provided to conclude

Attractiveness of the member country	Source of information	Findings
GDP % growth for last 3 years	World Bank data used for 2011	5.70%
Actual GDP in numbers (size of economy), current USD\$	World Bank data used for 2011	17 327 510 032
Lending Interest rates	World Bank data used for 2011	11
Inflation rate	www.tradingeconomics.com/country-list/inflation-rate	7.20%
Credit Rating	Country Visit	A-
Political Stable and Absence of Violence (rating of 0 to 100)	Country Visit	84.9
Macro-Economic Environment (score 1 to 7)	Country Visit	4.52

### Attractiveness of Botswana, overall result is a three ('3')

Botswana has had an average growth of GDP over the last three years of 5.7% off a strong base of a GDP of some USD 17,327 million. GDP per capita is one of Africa's highest at USD17,000 USD/Capita which has resulted in a relatively high savings rate that has, in turn allowed for the development of strong banking and pension fund institutions. It has the highest credit rating in SADC with an investment grade rating (Moody's A2 – stable). This analysis results in an overall value of three ('3'), Botswana is thus considered "maturing" in terms of this category.

## 1.3 Availability of domestic capital and debt funding

Use the information in the table below and on the excel spreadsheet provided to conclude

Availability of domestic capital and debt funding	Source of information	Findings
Number of banks	Country Visit	8
Number of equity investment funds	Country Visit	4
Number of pension funds	Country Visit	97

# Botswana



3 year history of bond issuance	Country Visit	<p>Over the fiscal years 2010/11 to 2012/13, there were 6 bonds in issue with a total nominal value of BWP4.5million to BWP5.5 million, with one bond having a term of 15 years – others largely fall within the 5-10 year range. The bond market is not considered liquid.</p> <p>Assessment of available capital(local) for investment- in the case of Government, it is projected that a total sum of P73.5 billion will be spent during the current National Development Plan 10, which runs between 2009/10 and 2015/16. A total sum P34.3 billion was spent in the first four years of the plan period, and therefore the balance of P 39.2 billion will be spent over the next three years.</p>
Assessment of available capital (local) for investment	Country Visit	<p>The market capitalisation of domestic companies in the Botswana Stock Exchange is P 4.456 billion and that of the foreign companies' amounts to P 372,600 billion.</p>

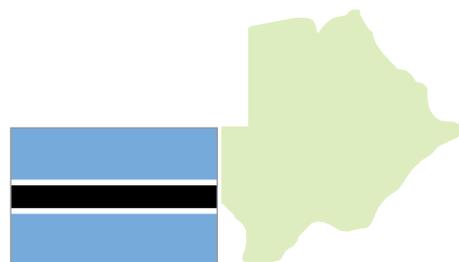
## Availability of domestic capital and debt funding in Botswana, overall result is a three ('3')

The capital markets in Botswana are mature but small with a total market capitalisation of domestic companies of P4.5 billion (USD525million). That of foreign companies is much larger at P372bn reflecting the export nature of extractive industries in the country. There are 8 domestic banks operating in a small but well regulated market. A large number of pension funds are present indicating a strong but fragmented savings market. The limited number of equity funds and relatively illiquid bond market (six bonds of a total issuance of around USD570million in the three years between 2010 and 2013) indicates that infrastructure investments will require careful structuring to not overburden the project finance ability of banks and equity funds and to access the institutional investors' funds. This analysis results in an overall value of three ('3'), Botswana is thus considered "maturing" in terms of this category.

## 1.4 Judicial system

Use the information in the table below and on the excel spreadsheet provided to conclude

# Botswana



Judicial system that contributes to effective commercial dispute resolution	Source of information	Findings
Enforcing Contracts (country ranking from 1 to 185)	Doing Business 2013 – The World Bank and IFC (ranking 1 to 185)	68
Rule of Law (rating of 0 to 100)	Governance indicator, World bank, 2011 data	69.5

We used the key indicator ‘Enforcing Contracts’ from Doing Business as they focuses on how public institutions function in the case of a commercial dispute<sup>1</sup>. Doing Business measures the time, cost and procedural complexity of resolving a commercial lawsuit.

## Judicial system of Botswana, overall result is a three (‘3’)

Botswana ranks 68<sup>th</sup> in the world in terms of enforcing contracts and has a rating of 69 out of 100 for rule of law indicating a relatively stable and reliable judicial platform for commercial dispute resolution. This analysis results in an overall value of three (‘3’), Botswana is thus considered “maturing” in terms of this category.

## 1.5 Governance and decision making

Use the information in the table below and on the excel spreadsheet provided to conclude

Governance and decision making in member country	Source of information	Findings
Institutions (score 1 to 7)	The Global Competitiveness Report 2012-2013, World Economic Forum (score 1 to 7, with 7 being the best)	4.82
Africa’s Governance (score out of 100)	Ibrahim Index of African Governance (score out of 100)	77
Voice and accountability (rating of 0 to 100)	Governance indicator, World bank, 2011 data	60.6
Government effectiveness (rating of 0 to 100)	Governance indicator, World bank, 2011 data	68.2
Regulatory Quality (rating of 0 to 100)	Governance indicator, World bank, 2011 data	69.2
Control of Corruption (rating of 0 to 100)	Governance indicator, World bank, 2011 data	80.1

## Governance and decision making of Botswana, overall result is a three (‘3’)

<sup>1</sup> Doing Business 2013, the World Bank and IFC

# Botswana



It scores well in all governance (77 out of 100 in the Ibrahim Index of African Governance) and political stability assessment (85 out of 100). The Government effectiveness rating is 68.2 out of 100. Botswana is also one of Africa’s most corruption-free countries with a Control of Corruption rating of 80.1 out of 100. This analysis results in an overall value of three (‘3’), Botswana is thus considered “maturing” in terms of this category.

## 1.6 Ease of doing business in the member country

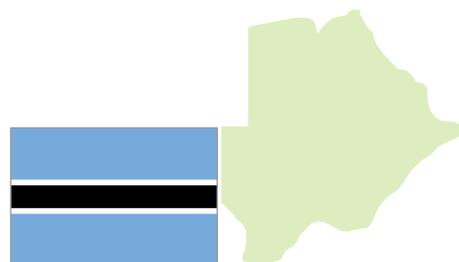
Use the information in the table below and on the excel spreadsheet provided to conclude

Ease of doing business in the member country	Source of information	Findings
Starting a business (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	99
Dealing with Construction permits (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	132
Getting electricity (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	90
Register property (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	51
Getting credit (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	53
Protecting investors (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	49
Paying taxes (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	39
Trading across borders (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	147
Resolving insolvency (country ranking from 1 to 185)	Doing Business 2013 - The World Bank and IFC (ranking 1 to 185)	29

### Ease of doing business in Botswana, overall score is a two (‘2’)

Botswana is ranked 99<sup>th</sup> in the world for Starting a Business, and 147<sup>th</sup> for Trading Across Borders, and has a ranking of 53<sup>rd</sup> for Getting Credit and a far poorer 132<sup>nd</sup> for Dealing with Construction Permits. This analysis results in an overall value of two (‘2’), Botswana is thus considered “developing” in terms of this category.

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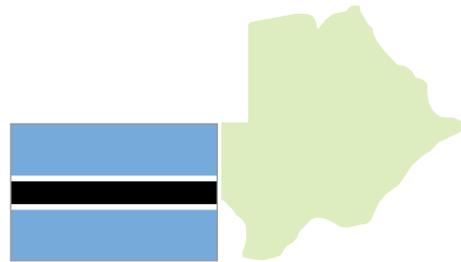


## 1.7 PPP environment in the member country

Use the information in the table below and on the excel spreadsheet provided to conclude

Enabling environment in the member country for PPPs	Source of information	Findings
Legal system enabling PPPs in the member country	Country Visit	Ministry of Finance
- Is there a presence/development of enabling legislation ie PPP Law/regulations etc?	Country Visit	There is no specific legislation on PPP. Implementation of projects on PPP basis is allowed under the existing law being the Public Procurement and Asset Disposal Board (PPADB) Act and the pilot office project was implemented on the basis of existing law.
- Does a policy for private participation in the member country exist?	Country Visit	Botswana adopted a PPP Policy and Implementation Framework in 2009 to provide a clear guidance to adopting PPP as a method of procurement. The policy comprises of the Institutional Structure of the PPP Unit, PPP Procedures and Guidelines and the Standardised Contract Provisions. Furthermore, the Government of Botswana in 2000, adopted its privatisation policy aimed at providing an optimum balance between the public and private sector, so as to achieve sustainable economic growth.
- Public Sector appetite/capacity and experience relating to PPPs in the member country	Country Visit	

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<p>Is there Political support for PPPs?</p>	<p>Country Visit</p>	<p>In 2002/2003 Budget speech and the National Development Plan 9, Government announced that the Public Private Partnerships would be used to extensively as a form of procuring and financing infrastructure projects in the public sector. In 2009, the Government adopted a PPP Policy and Implementation Framework and the Cabinet directed that a PPP unit be established under the Ministry of Finance and Development Planning. The projects that were or are to be implemented were approved at political level through the National Development Plan and the annual budget.</p>
<p>- Is there a PPP focal point/ Unit in the member country?</p>	<p>Country Visit</p>	<p>The Ministry of Finance and Development is the custodian of PPP policy and is responsible for coordination and monitoring of the policy and projects, approve PPP feasibility studies and bid evaluation reports. There has been a delay in establishing the PPP unit due to financial constraints. However, the post of Head of PPP unit has been created and has been re-advertised because the candidates that were initially short listed could not meet the requirements. The Head of the unit is expected to be appointed during the second quarter of this financial year.</p>

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<p>- Does an existing PPP track record in the member country exist?</p>	<p>Country Visit</p>	<p>There is growing interest of private sector on PPP's. So far, Office of the Ombudsman, office accommodation for 90 employees; 10 year concession period.</p> <p>SADC Headquarters Building- capacity for 250 personnel with option to expand to 400, with a 17 year concession period.</p> <p>The following are not PPPs, but were provided as examples of public-private arrangements:</p> <p>Debswana Mining Company.</p> <p>Service contracts (refuse collection; security services; laundry and cleaning services at hospitals; catering services at Tertiary Institutions of Education and Health and Police Colleges; maintenance of government computers by Ministry of Transport and Communication; repair and maintenance of Government vehicles, landscaping services). Contract management-rehabilitation and maintenance of 336 km roads on the basis of an Output and Performance Based Road Contract (OPRC), it will also involve upgrading of some roads from gravel to bitumen standard-the project is at a tender stage. Renting out of office space in hospitals. Lease rentals at different camp sites, game reserves and national parks.</p>
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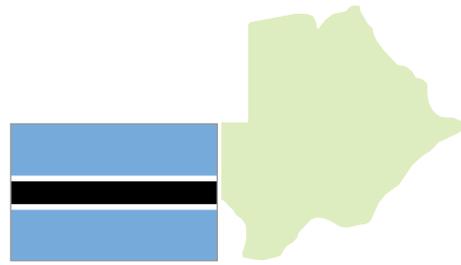
# Botswana



Private sector capacity, capability and appetite	Country Visit	
- Are multiple firms active in the PPP market?	Country Visit	A consortium of firms implemented the two projects that have been undertaken to provide office accommodation for the Office of the Ombudsman and the SADC Headquarters. These were the financiers, construction companies and facilities management entities.
Does capacity exist in the private sector?	Country Visit	<p>(MoF) There is capacity in the private sector, in terms of skills, liquidity and ability to deal with risk.</p> <p>The private sector has mixed views of the PPPs on the two buildings above, in terms of recovery of charges from the government and hence, the impact on the financial model and covenants.</p> <p>The private sector is very eager to participate in PPP deals. While there may be a challenge in ensuring that there is a skills base to implement these deals in both the private and public sector, there is a lot of willing and access to advisor or consultants.</p> <p>However, the communication from the public sector needs to improve in terms of policy development and the pipeline of projects.</p>

PPP environment in the Botswana, overall score is a three ('3')

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Although Botswana does not have a specific PPP law, it does have a PPP Policy and Implementation Framework (2009) and a PPP Unit in the Ministry of Finance and Development.

The Government has procured an office accommodation PPP and a variety of service contracts that are good indicators of PPP viability in terms of risk transfer to the private sector. In addition, the SADC Headquarters in Gaborone is a PPP in itself. This analysis results in an overall value of three ('3'), Botswana is thus considered "maturing" in terms of this category.

## 1.8 Observations

Our results are based on the most recent verifiable information available at time of the report

Reputable external sources were used where appropriate and fact based observations were made.

The Ministry of Finance representative was not aware of the status of the projects identified in the STAP, as they are managed by the individual ministries. However, once a PPP head and unit are in place, this should change.

Due to historical underinvestment in infrastructure, the government has identified projects across all major sectors in the NDP.

There have been a number of unsatisfactory infrastructure arrangements with Chinese construction companies, resulting in incomplete or unusable assets. These also had no local development opportunities or returns as the Chinese companies tend to use their own supplies, labour etc.

The financial sector is not used to having long term lending arrangements. However, this is seen as a function of the lack of long term deals in the past, and something that can be remedied through their regional/international affiliates and proven syndication arrangements.

## 1.9 Conclusion

While there appears to be a lot of appetite and interest, the specific enabling environment is still developing in terms of legislation and public sector capacity. In addition, the country has a history of only 2 PPP projects. Therefore, unless the PPADB act can be seen as a suitable placeholder and there is sufficient access to the required skills, Botswana may not be an ideal candidate for PPP implementation over the short term. Overall Botswana is thus considered "maturing" in terms of this category.

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