

## Entrepreneurship as a Catalyst for Economic Development and Diversification-A Case study of Botswana

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### Abstract

Entrepreneurs are considered as backbone for a country's economic development. Entrepreneurs are playing an important role in enhancing the standard of living of people and economic development of a country. In recent years economic growth has slowed down globally which reflect in the form of inflation and high rate of unemployment rate. To overcome this challenge most governments have taken different measures to alleviate these problems. In this study the author examined the role of entrepreneurship towards economic development in Botswana. Furthermore the author reviewed the economy of Botswana under different sectors like agriculture, mining, trade, tourism, private sector development and financial sector. This study also sought to find out the ways of diversifying the economy further to increase employment opportunities in Botswana. For this study the author analyzed published literature on the topics. Thematic analysis was used to identify the key themes guiding this study.

**Keywords:** Entrepreneurship, Economic development, Diversification

### Introduction

An entrepreneur plays an important role in creation of employment and income of people in a country. An entrepreneur faces more risk during the process of innovation to the industry. By effective usage of natural resource and human resource the entrepreneur acts as catalyst towards economic development. Entrepreneurship is a combination of skilled human resource, capital and technology. This is applicable to small scale business as well as large scale business. Therefore entrepreneurship is mostly involved in production of goods and services and thereby creates wealth. Through this process entrepreneurship generates employment and increase per capita income. The author attempt analyses the economy of Botswana and its diversification profiles and strategies. This paper is structured as follows: It begins with an introduction to the Botswana entrepreneurial framework, then a review of literature on the various schools of thought in entrepreneurship. This is followed by an explanation of the methodological positioning adopted in the study and reviewed diversification of Botswana economy.

#### Definitions of Entrepreneurship

According to Peter Drucker entrepreneurship is "a systematic innovation, which consists in the purposeful

and organized search for changes, and it is the systematic analysis of the opportunities such changes might offer for economic and social innovation."

Schumpeter defined the entrepreneur as the bearer of the mechanism for change and economic development and entrepreneurship as the undertaking of new ideas and new combinations that is innovations.<sup>3</sup>

Drucker defined the entrepreneur as a person who is willing to risk his capital and other resources in new business venture, from which he expects substantial rewards if not immediately, then in the foreseeable future.

#### Objectives

- 1) To assess the impact of entrepreneurship in economic development a country.
- 2) Reviewing the economy of Botswana under different sectors.
- 3) Identifying constraints hindering economic diversification;
- 4) Finding out the area to focus for further employment creation.

#### Literature Review

##### Importance of Entrepreneurship

Within the last decade more and more entrepreneurs are focusing their work on resolving social

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problems. Whether it's poverty or climate change, these important issues deserve the efforts of these eager entrepreneurs, and their work will benefit society not just through the jobs they create or the sleek product they deliver, but by the people they help.

Bangladeshi economist and Nobel Peace Prize winner Muhammad Yunus used entrepreneurship to help the poor of his country. In the 1970s, he began giving out micro-loans to basket weavers. He set up Grameen Bank in 1983 and continued his practice of micro-lending to others in poverty. The small loans with low interest rates inspired many recipients work their way out of poverty. Today, more than 58 other countries have used these principles to help their poor.

Van Praag and Versloot (2007) consider the literature on the impact of entrepreneurship on employment, innovation and productivity growth. They found that entrepreneurs do not spend more on R&D than their counterparts, although the quality and efficiency of their innovation is higher, and that their contribution to productivity growth is low. The majority of entrepreneurs would earn higher incomes as wage employees, and while entrepreneurs create more jobs relative to non-entrepreneurs, the quality of jobs they create is lower. Hence not all entrepreneurs drive development, and not all entrepreneurs are innovative (Shane 2009, Stam and Wennberg 2009).

In Africa and the developing world generally, lack of or poorly developed entrepreneurial capacity is one of the main factors that contribute to the continent's poor socio-economic performance (Kristiansen, 2001; Fick, 2002). Compared with the Americas, Europe and Asia, Africa has the lowest rate of entrepreneurial development and the highest rates of poverty and unemployment ( Naudé, 2010; Zoltan and Virgill, 2010; Naudé, 2011; Munemo, 2012).

## Methodology

In this study the author explored the impact of entrepreneurship towards economic development in Botswana through analysis of published literature on the topic. The economy of Botswana has been reviewed under different sectors namely agriculture, mining, trade, tourism, private sector development, foreign investment and financial sector. The study further reviewed different government programs implemented towards employment creation. Thematic analysis was used to identify the key themes guiding the study.

## Review of Economy of Botswana

### Role of Botswana Government

In 2001 the Botswana government implemented Citizen Entrepreneurial Development agency (CEDA). It provides loans to citizens owned enterprises subsidized interest rates as opposed to outright grants as under the Financial

Assistance Policy (FAP). Managed Venture Partners Botswana, CEDA also has a P200 million venture capital fund used to finance citizen owned companies or joint ventures with foreign investors.

Established under the Small Business Act of 2004, the Local Enterprise Authority (LEA) is another key agency, expected to play a critical role in promoting entrepreneurship and enterprise development among the SMME community in Botswana. It plays a leading role in the implementation of the SMME policy.

Botswana government established some key institutions to drive economic diversification. Important among these are the Botswana Development Corporation (BDC), the Botswana Export Development and Investment Authority (BEDIA) and recently the International Financial Services Centre (IFSC). Established in 1970, BDC is a development finance institution, created to fund commercially viable businesses and projects for the development and diversification of the economy. The Corporation also assists start ups whose risks are high, but are considered to have strategic development potential (Republic of Botswana 2005). The Corporation invests in medium to large scale enterprises through equity participation, loan financing, guarantees and the development of business premises for lease or hire. BDC's portfolio covers manufacturing, agribusiness, services, as well as property development and management. Projects currently under implementation include a glass manufacturing plant, with an estimated cost of P500 million; manufacturing and supply of steel pipes estimated at over P130 million (Republic of Botswana 2010). BEDIA was established in 1997, with the objective of promoting the establishment of manufacturing enterprises. It also identifies market outlets for goods manufactured in Botswana, and provides a service facility for potential investors to expedite clearances, residence and work permits, and factory space as well as land allocation.

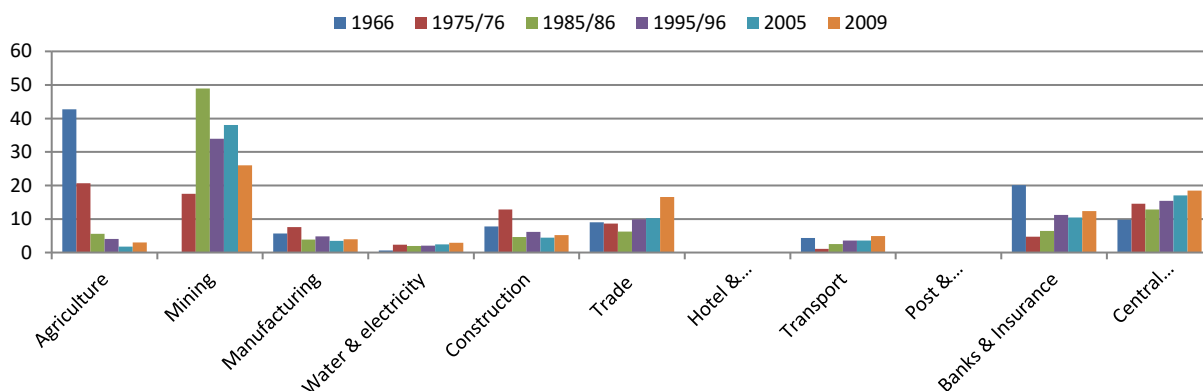
In line with the Botswana Excellence Strategy (2008), government has set up a National Strategy Office under the Office of the President, to coordinate implementation of economic diversification initiatives.

In Botswana at the time of independence, cattle was the most important economic activity. So after independence government took over Lobatse abattoir. Then after some years two more abattoirs were started in Maun and Francistown. In 1966 in Botswana's GDP more than 40 percent of revenue was contributed by agriculture. The second largest contributor was the service sector, including banks, insurance and business services. Subsequent to the discovery of minerals in 1970's structural changes took place in the economy. Then the share of agriculture declined from 42.7 percent in 1966 to 20.7 percent in 1975/76. By 1995/96, the share of agriculture had declined to 4.1 percent and 3.0 percent by 2009. The share of mining on the other hand, driven in large by diamonds, increased from 17.5 percent in 1975/76 to 33.9 percent in 1995/96, and 26.0 percent in 2009 ( Table1 ).

**Table 1:** Changes in the structure of the Economy (Selected Years)–in percent of GDP

	1966	1975/76	1985/86	1995/96	2005	2009
Agriculture	42.7	20.7	5.6	4.1	1.8	3
Mining	-	17.5	48.9	33.9	38	26
Manufacturing	5.7	7.6	3.9	4.8	3.5	4
Water & electricity	0.6	2.3	2	2.1	2.4	2.9
Construction	7.8	12.8	4.6	6.2	4.4	5.2
Trade	9	8.6	6.3	9.9	10.3	16.6
Hotel & Restaurants						
Transport	4.3	1.1	2.5	3.6	3.6	4.9
Post & Telecommunication						
Banks & Insurance	20.1	4.7	6.4	11.2	10.5	12.4
Central government	9.8	14.6	12.8	15.4	17	18.5

Source: Siphambe et al (2005), Bank of Botswana (2010)



**Fig: 1**

**Table2:** Sectoral Distribution of GDP (Million ofPula, 1993/94 Constant Prices)

	1966	1975/76	1985/86	1990/91	1995/96	2000	2005	2006	2007	2008	2009
Agriculture	387.6	431.1	318.9	480.6	489.9	451.1	401.2	397.4	432.8	434.3	547.5
Mining	-	365.3	2,790.8	3,956.8	4,076.3	7,119.0	9,134.2	9,854.8	9,661.7	9,308.7	6,787.5
Manufacturing	51.4	159.2	224.9	471.4	572.8	658.2	490.5	519.8	544.9	574.1	578.9
Water and Electricity	5.2	48.4	113.1	168.4	256.9	387.7	490.5	519.8	544.9	574.1	578.9
Construction	71.2	267.1	260.7	764.4	746.5	908.0	1,009.4	1,032.9	1,183.0	1,208.7	1,366.8
Trade, Hotels and Restaurants	81.4	179.0	361.6	591.2	1,192.7	1,635.9	2,051.7	2,245.1	2,487.7	2,641.9	2,728.1
Transport, Post and Telecommunications	39.4	23.5	141.5	323.5	437.7	594.3	720.7	794.8	881.8	1,011.0	1,132.1
Banks, Insurance and Business	183.0	97.5	367.4	884.5	1,351.5	1,735.0	2,238.5	2,404.6	2,606.3	2,996.6	3,112.1
General Government	89.2	305.0	730.5	1,355.0	1,854.9	2,570.7	3,740.0	3,693.4	3,847.6	4,146.6	4,299.6
Social and Personal Services	-	57.8	145.4	421.1	788.5	674.1	902.9	921.4	973.8	1,040.1	1,165.8
GDP at Constant Market Prices	908.6	2083.5	5708.1	10,009.8	12,029.5	17,401.2	22,462.9	23,613.2	24,748.2	25,520.8	23,989.8
GDP per Capita	1,682.5	2,861.9	5,175.0	7,584.0	8,073.0	10,601.5	12,973.6	13,530.1	14,084.3	14,425.4	13,468.1

Sources: H. Siphambe et al., Economic Development of Botswana: Facets, Policies, Problems and Prospects (2005); Bank of Botswana, Annual Report (2009).

The data presented in Table 1 has been illustrated graphically (Fig.1).

In 2015 Botswana’s GDP only 1.8 percent was contributed by Agriculture. The major contribution 65.3 percent was from Services followed by 32.9 percent from Industry.

Over a period of times tourism like trade, hotels, restaurants and financial services like banks, insurance and business services have been increasing in importance.

It is evident from the table 1 during the period 1975 to 2009 Tourism and Financial services were increased from 8.6 percent, 4.7 percent to 16.6 percent and 12.4 percent of GDP respectively.

The data indicates that over the past decade, the growth of the mining sector has been on a decline, but the nontrade sector like finance has been growing at a moderate pace. In the past years financial services have been growing at a faster rate than the mining sector.

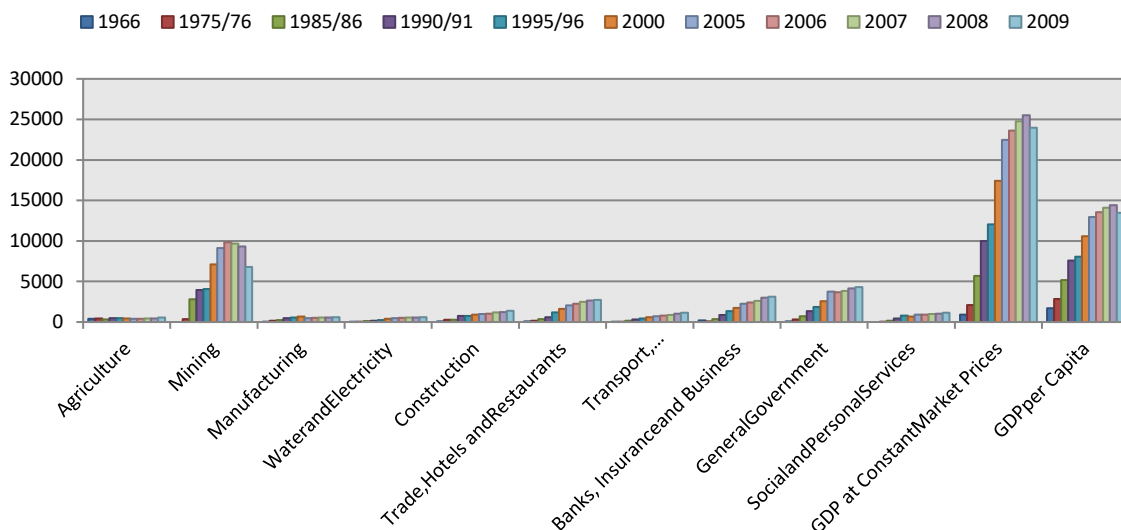


Fig: 2

The growth of other non-mining sectors during this decade has been somewhat unstable.

The data presented in Table 2 has been presented graphically in Fig.2

After independence, Botswana has had the highest average economic growth rate in the world, averaging about 9% per year from 1966 to 1999. At the start of the 21st century, however, the economy of Botswana stagnated up until the early 2010s when it registered for the first time since the economic boom a GDP growth up above the 6-7% target.

Agriculture still provides a livelihood for more than 80% of the population but supplies only about 50% of food needs and accounts for only 3% of GDP. Economic growth slowed in 2005-2008, then turned negative in 2009, contracting by 5.2%. This was due in part to a major recession in the industrial sector, which shrank by 30%,<sup>[12]</sup> and contrasts with most other African nations who experienced continued growth through this period.

One of the biggest problems is the inferior level of economy diversification they have. In 2008, they depended largely on services (45.2%), industry (52.9%) and agriculture (1.9%) strictly linked to the trade with South Africa.

**Botswana GDP Annual Growth Rate 1995-2016**

The economy in Botswana advanced by 1.6 percent in the second quarter of 2016, compared to a downwardly revised 2.7 percent growth in the previous quarter. Trade, hotels and restaurants grew 7.3 percent; finance and business service expanded 3.3 percent and construction advanced 3.4 percent, while mining contracted further by 13.8 percent. GDP annual growth rate in Botswana averaged 4.24 percent from 1995 until 2016.

**Trade**

The main export of Botswana is diamonds. Jwaneng, in Botswana, is the world's largest and richest diamond

mine thus the demand of diamonds from Botswana is fairly high. The diamond mine in Jwaneng provides many jobs for the unemployed in Botswana as people are needed to physically extract the diamonds, and to build the roads needed for their transport, for example. A source of foreign exchange is also introduced to the economy and it offers a potential basis for industrial development, and thus stimulates improvements within Botswana's infrastructure.

**Mining**

Two large mining companies, Debswana (formed by the government and South Africa's De Beers in equal partnership) and Bamangwato Concessions, Ltd. (BCL, also with substantial government equity participation) operate in the country. The Jwaneng diamond mine is the richest in the world today.

Since the early 1980s, the country has been the world's largest producer of gem diamonds. Four large diamond mines have opened since independence. De Beers prospectors discovered diamonds in northern Botswana in the early 1970s. The first mine began production at Orapa in 1972, followed by the smaller mine at Letlhakane. What has become the single-richest diamond mine in the world opened in Jwaneng in 1982. In 2002, a fourth diamond mine, Damtshaa, began operations. Botswana produced a total over 30 million carats (6,000 kg) of diamonds (about 25% of worldwide production) from the three Debswana mines in 1999, and is the highest producer of diamonds by value in the world. The Orapa 2000 Expansion of the existing Orapa mine was opened in 2000. A fifth diamond mine and the first not operated by Debswana is scheduled to have begun operations in 2008 in Lerala.

Most (70%) of Botswana's electricity is imported from South Africa's Eskom. 80% of domestic production is concentrated in one plant, Morupule Power Station near Palapye, operated by the Botswana Power Corporation. Debswana operates the nearby Morupule Colliery to

supply coal to it.<sup>[18]</sup> In early 2008, the entire southern African region was hit hard by massive shortages in power, since the region works to share its power resources through the Southern African Power Pool, with most of the capacity coming from South Africa. Botswana has in turn put in place plans through governmental expansion of the Morupule power station, as well as encouraging private investment in the form of a 4,000 megawatt power station by the Canadian Greenfield company CIC Energy to become a net exporter of power to the regional pool.

BCL, which operates a copper-nickel mine at Selebi-Phikwe, has had a troubled financial history but remains an important employer. The soda ash operation at Sua Pan, opened in 1991 and supported by substantial government investment, has begun making a profit following significant restructuring.

In the last years they discovered the presence of methane in the surroundings of the carbon mine of Morupule, near Francistown. According to predictions, the commercial quantity available is around 340 km<sup>3</sup>, and the extraction officially begun in the 2004.

#### *Tourism*

Tourism is an increasingly important industry in Botswana, accounting for almost 12% of GDP. One of the world's unique ecosystems, the Okavango Delta, is located in Botswana. The country offers excellent game viewing and birding both in the Delta and in the Chobe Game Reserve—home to one of the largest herds of free-ranging elephants in the world. Botswana's Central Kalahari Game Reserve also offers good game viewing and some of the most remote and unspoiled wilderness in southern Africa.

Tourism plays a large role in the Botswana economy. A number of national parks and game reserves, with their abundant wildlife and wetlands, are major tourist attractions. The main safari destinations for tourism are Moremi Game Reserve in the Okavango Delta, and Chobe National Park. Botswana is also participating in community based natural resource management projects by trying to involve villagers in tourism. One example is the village of Khwai and its Khwai Development Trust.

#### *Agriculture*

More than half of Botswana (preferred address of the people of Botswana) live in rural areas and are dependent on subsistence crop and livestock farming, together with money sent home by relatives in urban areas. Agriculture meets only a small portion of food needs and contributes just 2.8% to GDP—primarily through beef exports—but it remains a social and cultural touchstone. Cattle raising dominated Botswana's social and economic life before independence. The Botswana Meat Commission has a monopoly on beef production. The national herd was about 2.5 million in the mid-1990.

Only about 0.7% of total land area is arable. Crop production is hampered by traditional farming methods, recurrent drought, erosion, and disease. Most of the land under cultivation is in the eastern region. The principal crops for domestic use are sorghum, corn, and millet. Sorghum and corn production in 2004 were 32,000 tons and 10,000 tons, respectively. The sorghum and corn harvests comprise less than 10% of the annual requirement of 250,000 tons. In 2004, Botswana's agricultural imports (primarily cereals) exceeded agricultural exports by \$102.5 million. Grain is often imported from South Africa. Smaller quantities of cowpeas, beans, and other pulses are also grown. The 2004 output of all these crops was about 20,000 tons; in addition, 16,000 tons of vegetables and 10,000 tons of fruit were grown

#### *Private sector development and foreign investment*

Botswana seeks to diversify its economy away from minerals, the earnings from which have levelled off. In 1998-99, non-mineral sectors of the economy grew at 8.9%, partially offsetting a slight 4.4% decline in the minerals sector. Foreign investment and management have been welcomed in Botswana.

External investment in Botswana has grown fruitfully. In the early 1990s, two American companies, Owens Corning and H.J. Heinz, made major investments in production facilities in Botswana. In 1997, the St. Paul Group purchased Botswana Insurance, one of the country's leading short-term insurance providers. An American Business Council (ABC), with over 30 member companies, was inaugurated in 1995. Hyundai operated a car assembly plant in Botswana from 1994 to 2000.

Botswana seeks to further diversify its economy away from minerals, which account for a quarter of GDP, down from nearly half of GDP in the early 1990s. Foreign investment and management are welcomed in Botswana, and as a result, financial and services sectors have increased at an exponential rate in the 2000s to replace mining as the leading industry. Botswana abolished foreign exchange controls in 1999, has a low corporate tax rate (15%), no prohibitions on foreign ownership of companies, and a moderate inflation rate (7.6% November 2004). The Government of Botswana is currently considering additional policies to enhance competitiveness, including a new Foreign Direct Investment Strategy, Competition Policy, Privatisation Master Plan, and National Export Development Strategy. U.S. investment in Botswana remains at relatively low levels, but continues to grow. Major U.S. corporations, such as H.J. Heinz and AON Corporation, are present through direct investments, while others, such as Kentucky Fried Chicken and Remax, are present via franchise.

#### *Financial sector*

Botswana has a growing financial sector, and the country's national stock market, the Botswana Stock

Exchange (BSE), based in Gaborone, is given the responsibility to operate and regulate the equities and fixed interest securities market. Formally established in 1989, the BSE continues to be pivotal to Botswana's financial system, and in particular the capital market, as an avenue on which government, quasi-government and the private sector can raise debt and equity capital. Although the BSE has just under 40 companies listed, it plays host to the most pre-eminent companies doing business in Botswana. These companies represent a spectrum of industries and commerce, from Banking and financial services to Wholesaling and Retailing, Tourism and Information Technology.

Given Botswana's lack of exchange controls, stable currency and exceptionally performing stock market, the financial sector has attracted a host of global investors seeking better returns.

The recently established Non-Bank Financial Institutions Regulatory Authority (NBFIRA) is responsible for the oversight of all non-banking financial services entities in the country. As of 2005, about 54 percent of Botswana's population had access to formal or informal financial services, and 43 percent is banked (with access to at least one formal banking product). The overall access ratio is still low, especially in rural areas, where there are 3.8 branches and 73 ATMs per 100,000 people. Mobile banking services have just started to be offered. In recent years the government and Central Bank have undertaken serious steps to modernize the country's payment system infrastructure. These efforts included the establishment of a code-line clearing system for the exchange of cheques and electronic funds as well as a Real Time Gross Settlement (RTGS) system, including SWIFT connection. The stock exchange implemented a Central Securities Depository in 2007. Remittance Flows for Botswana amounted to USD 117 million in 2007, a figure that is higher than the total net value of official development assistance.

With respect to diversification, the industrial sector (narrowly defined) has diversified from only meat and meat products at independence to include other consumer goods, intermediate as well as capital goods. These products include dairy, beverages, bakery, textiles, tanning and leather, chemicals, rubber, wood, metal and other manufactured goods.

Despite having important forward and backward links crucial for industrialization, the agriculture sector remains weak and underdeveloped. It is estimated that only about 5 percent of the total area is considered suitable for arable agriculture and only about 1 percent is under cultivation yearly (SADC 2008). Rain-fed agriculture is possible for only one season, but it is considered risky as a result of unreliable rainfall and poor soils. Surface water for irrigation is also scarce, while groundwater resources are limited and expensive to exploit for irrigation. These conditions have more than contributed to the poor performance of the agricultural sector.

Tourism is one other key sector that has been identified as a conduit for economic diversification. The data also shows a 49 percent increase in revenue between 1998 and 2000. This sector contributes about 10 percent to GDP, with generally positive trends over the past decade. However challenges still remain with regard to diversifying the product base, as well as increasing citizen participation in the sector.

Despite numerous diversification initiatives, the economy of Botswana remains substantially dependent on diamond revenues. This section provides an overview of policies, strategies and institutions the government has established over the years to promote economic diversification. Because of the nature of the economy, the key focus of diversification efforts has been fostering the private sector as a strategic partner. Legwaila (2002) argues that since the private sector is very weak, the state has taken the task of nurturing the market with the hope of strengthening the partnership as the private sector develops.

## Summary and Conclusion

Entrepreneurs are nation builders. Minerals are a non-renewable resource and not dependable. So it is more important to diversify Botswana economy to sustain economic development.

The study reveals that entrepreneurs faces problems like inadequate resources and are unable to repay loans. As a result entrepreneurs are unable to achieve some of their objectives and to sustain themselves from loan revenues without government support.

In general in Botswana the agricultural sector has still potential for development. Lack of rainfall, uneven distribution of rainfall are the major hindrance in agricultural production.

Although maize is staple food in Botswana we produce only 10 percent of our total demand. In spite Botswana cattle population is 2.8 million local milk production is only 6 percent of country's requirement.

In this regard the author would like to give examples of other countries that Botswana could attempt to follow for diversification and employment creation. For example in India, diversity helps to keep a family of 35 well-fed and well-nourished without ever having to buy food from the local market. Showing the agronomist around his farm, the farmer notes the many different foods being grown, including rice, fruits and vegetables.

In addition to allowing the extended family to enjoy a life of self-sufficiency, some of the produce is also sold, providing the family with income. As stated by Mercola (2016) by providing infrastructure, training and financing, Amul, which is the largest dairy cooperative in India, has provided previously poverty-stricken people with a lucrative business option. For many, cow ownership has become a way to rise out of poverty.

Thanks to Amul, more than 3 million farmers now make a decent living selling milk, and the majority of

them have less than five cows. Through this cooperative, these millions of small-scale farmers are also able to satisfy India's demand for dairy products.

If this type of farming followed it would generate more jobs in rural areas and reduce migration to urban areas.

### Recommendations

- 1) The government should provide favorable environment for small businesses to support economic diversification.
- 2) The challenges faced by entrepreneurs such as availability of credit; lack of infrastructure facilities; and strict labor regulations need attention.
- 3) The graduates coming out of UB, BU and other institutions should try to be entrepreneurs than looking for job in the corporate sector and government.
- 4) Adequate attention required to improve inefficient government bureaucracy.

### Limitations

The factors examined in this study were not exhaustive. There are other factors such as number of entrepreneurs enhanced sector wise after implementation of different programmes in different period could focus. This study was based on secondary data collection.

Furthermore this study was made besides regular teaching load. So time constraint is an important obstacle for in depth study.

However, despite these limitations, this research has provided the impact of government programs on Botswana's economic development

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