Promoting SME Competitiveness in Botswana

A bottom-up approach to economic diversification
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PROMOTING SME COMPETITIVENESS IN BOTSWANA

A BOTTOM-UP APPROACH TO ECONOMIC DIVERSIFICATION
Small and medium-sized enterprises (SMEs) in Botswana are engines of job creation with significant potential to foster economic diversification.

Drawing on data from the SME Competitiveness Survey, this report shows that improved access to skilled labour has strengthened Botswana companies, especially in services. However, very low rates of certification to international standards, and infrastructure shortfalls, prevent many firms from going global. Young entrepreneurs often struggle to grow, and could benefit from management and accountancy training. With most firms perceiving major environmental risks and 40% investing to reduce their environmental footprint, Botswana SMEs are at the frontier of the green economy.
FOREWORD

Botswana’s Vision 2036 is a compass that directs the nation to its goal of prosperity for all, and it recognizes the essential role that small and medium-sized enterprises (SMEs) play in achieving this aim.

SMEs employ a significant share of the working population in Botswana and play a central role in its economic growth strategies. Making them more competitive can help the country achieve its development objectives by creating more jobs, strengthening sectors and developing business models that work.

At the international level, SMEs are instrumental to achieving the United Nations 2030 Agenda on Sustainable Development. They promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work (Goal 8); foster inclusive and sustainable industrialization and catalyse innovation throughout the economy (Goal 9); and make important contributions to ending poverty (Goal 1).

Through deep links to local, sub-regional and continental markets, SMEs help reap the full advantages arising from the recently launched African Continental Free Trade Area.

Botswana’s growth and development has been impressive. Good governance and investment in social services have reduced poverty. Yet diversification, critical to Botswana’s growth, remains a challenge. In this context, investment in the competitiveness of the nation’s small businesses is crucial to the future of the economy.

Effective change requires information, data, and analysis on the opportunities and constraints SMEs face to diagnose problems, facilitate evidence-based decision-making and assess the effectiveness of those decisions.

To this end, Botswana’s Local Enterprise Authority (LEA) and Ministry of Investment, Trade and Industry (MITI) partnered with the International Trade Centre (ITC) to assess the competitiveness of SMEs nationwide. Data from more than 600 companies in Botswana, interviewed for ITC’s SME Competitiveness Survey, show the strengths and weaknesses of firms and their business ecosystem.

This report provides evidence about SME competitiveness in Botswana. Government agencies and sector associations can use it to design policies and programmes that unleash the ability of SMEs to increase their sales and exports, and as a result encourage inclusive growth.

ITC, LEA and MITI share a common vision to build SME competitiveness so they can access more local, regional and international markets. Trade can facilitate diversification, enhance growth and eradicate poverty, especially if suitable domestic policies are in place. We see this report as an important step to make this vision a reality.

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International Trade Centre

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ACRONYMS

Unless otherwise specified, all references to dollars ($) are to United States dollars, and all references to tons are to metric tons.

<table>
<thead>
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<th>Acronym</th>
<th>Full Form</th>
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<tr>
<td>ITC</td>
<td>International Trade Centre</td>
</tr>
<tr>
<td>LEA</td>
<td>Local Enterprise Authority</td>
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<td>MITI</td>
<td>Ministry of Investment, Trade and Industry</td>
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<tr>
<td>MSME</td>
<td>Micro, small and medium-sized enterprise</td>
</tr>
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<td>SME</td>
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<td>SMECS</td>
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EXECUTIVE SUMMARY

Small and medium-sized enterprises (SMEs) are at the heart of the Botswana* economy. Many of the country’s jobs are in such firms, even though each one employs fewer than 100 people. SMEs are essential engines of job creation and are vital to economic and export diversification in Botswana.

Increasing the competitiveness of small companies can spur diversification and growth. When SMEs become more competitive, they can survive and thrive, generating the jobs and growth that the country needs. What’s more, heightened competitiveness equips them to innovate and to export across borders, further catalysing the sustainable economic development envisaged in Botswana’s Vision 2036.

To unleash their full potential to support economic development, SMEs in Botswana must capitalize on opportunities that build on their strengths and address their weaknesses. The broader business ecosystem, and policymaking at the national level, are essential in supporting these efforts and linking them to new opportunities. Yet policy depends on knowledge about the state of SME competitiveness in the country.

Empirical evidence on the strengths and weaknesses of Botswana SMEs can help identify these opportunities. To set this process in motion, the International Trade Centre partnered with Botswana’s Local Enterprise Authority and Ministry of Investment, Trade and Industry to assess the competitiveness of small businesses nationwide. The project included a survey administered to 616 businesses across the country in 2019.

This report analyses data from that survey, identifying challenges and strengths in firms’ capabilities and business ecosystem. Although the focus is on SMEs, large companies are included in the analysis for the sake of comparison. Focused research on selected competitiveness themes yields insights into the realities confronting the economy. Drilling down into how those themes are addressed among SMEs and in particular sectors and regions – and by companies led by women and youth – shows the detailed pattern of competitiveness across Botswana enterprises.

This report, along with complementary events and collaborations, disseminates the results in the hopes of triggering a dialogue on SME competitiveness and finding policy-based solutions that the Government can implement to support the small companies at the heart of the Botswana economy, and through them, the Batswana themselves.

* While ‘Botswanan’ is the adjective used by the United Nations, the report adheres to the language used in the country.

Overall good management of production processes, with a few laggards

Most Botswana companies follow professional management processes in running their businesses. Indeed, 85% keep track of revenues and expenses, and 77% of the goods they supplied were delivered on time. Yet the significant differences among interviewed firms on several measures of management performance indicate that some enterprises are lagging behind.

Women-led and youth-led companies trail other enterprises when it comes to adopting professional management practices and achieving results in terms of productivity, inventory and cash flow. For example, youth-led firms had a capacity utilization rate that was nine percentage points lower than in companies headed by their elders. This highlights an opportunity to boost SME competitiveness through management training for women- and youth-led enterprises.

Low rates of certification to standards

Very few Botswana companies are certified to national and international standards. More than 75% of survey respondents said they were not certified to any quality, sustainability or other standard. While firms may be following quality practices and communicating them to buyers in alternative ways, it remains the case that standards are often needed to enter new export markets.

Some companies are adopting standards – notably those that are larger, in the services sector and based in the Central region. Nonetheless, the survey evidence suggests that quality performance is a key weakness of Botswana SMEs, and one that may be particularly troublesome for would-be agricultural exporters. The growing adoption of standards by African smallholders has driven increased agricultural exports there, indicating that there may be lessons to be learned from across the region.

Target infrastructure investment to sectoral needs

A large proportion of manufacturing companies interviewed for the SME Competitiveness Survey in Botswana were dissatisfied with their access to water and electricity services. Three-quarters rated their access to water as ‘low’ or ‘medium’ and only 32% were satisfied with their access to electricity.
These findings suggest that manufacturing companies would appreciate more investment in these utilities.

SMEs in the agricultural sector, on the other hand, pointed to transport-related problems, with 53% identifying these issues as the biggest challenge they faced in meeting the cost and quantity requirements of buyers. The survey also found that companies in rural districts with fewer roads tend to be less competitive.

Financial inclusion requires a focus on specific groups of companies

Botswana companies are seeking financing, and 45% of respondents had obtained funding from a financial institution in the previous three years. However, access to external funding varies across different types of firms. Micro, manufacturing and youth-led enterprises were most likely to say they needed financing. Medium-sized firms and companies in the primary and services sectors had the best odds of receiving funding in the past. But microenterprises and small firms need it most in the future – three-fifths of surveyed microenterprises said they needed credit – and manufacturing companies were most likely to say they needed external financing to move forward. Interestingly, past access to financing and future needs were quite similar between women- and men-led firms. However, youth-led firms were more likely to need funding than those led by their elders.

Service companies excel at deploying skills for innovation

Firms in the services sector rated the availability and suitability of skilled labour higher than elsewhere in the economy, with 65% reporting a good match between the skills of their workforce and the needs of the company. Services SMEs are also translating skills into research and development activities that foster innovation more frequently than in other sectors in Botswana. Indeed, a third of interviewed service companies often create new products and processes, and innovation was more prevalent when skills were readily available.

The data from the full sample of 616 Botswana companies suggest that considerable progress has been made to improve the availability of skills needed by the private sector. However, skilled labour remains relatively scarce: just 43% of surveyed enterprises were satisfied with the skill set they found in the labour market when they looked to hire. Firms in Kgalagadi were the most upbeat about the availability of skilled workers, while those in Kgatleng and Chobe identified real shortages of skilled labour.

Botswana companies are investing for positive environmental impact

The SME Competitiveness Survey shows that Botswana enterprises worry about the impact of environmental risks on their business and are taking steps to reduce their environmental footprint. More than 60% of interviewed companies felt that environmental risks were significant for their business. Firms were most anxious about rising temperatures, though water scarcity and availability of inputs were also major concerns.

Agricultural enterprises were more likely than companies in other sectors to identify environmental risks as significant for their businesses. They also tended to take more measures to mitigate those risks. Botswana companies used a range of tools to mitigate environmental risks, from temperature controls to soil management practices.

This proactive stance vis-à-vis the environment is echoed in the data on SME environmental investments. Two-fifths of surveyed firms said they had invested in measures to reduce their negative impact on the environment in the preceding three years. Most firms had started their environmental actions by adopting waste management systems, while energy-efficient technologies and other measures were gaining in popularity.

Recommended policies to improve competitiveness in Botswana

Several policy recommendations emerge from the survey findings. They highlight concrete steps to achieve ‘Prosperity for All’, as articulated in Botswana’s Vision 2036, and the sustainable economic development pillar of that framework.

Investment in management skills among women and young entrepreneurs could yield dividends in terms of increased capacity to meet the quantity, cost and time demands of international and domestic markets. Similarly, efforts to address a bias against the financing of agricultural, micro and remote firms could mitigate the cash flow issues that undermine the competitiveness of these companies.

A strong, innovating services sector is an asset at a time when global services trade is booming and the share of services in global value chains is rising. There is an opportunity to invest in information and communications technology infrastructure and other support for services sector exports.

Furthermore, policies and programmes that bring together training institutions and the private sector can promote the appropriate matching of workforce skills and business needs so companies can access the skills needed to compete internationally. Efforts to expand access to reliable electricity and roads, and to mitigate exposure to climate change risks, would put even more wind in the sails of Botswana’s SMEs.
CHAPTER 1

UNLEASHING THE POTENTIAL OF SMALL BUSINESSES

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UNLEASHING THE POTENTIAL OF SMALL BUSINESSES

Small and medium-sized enterprises (SMEs) are at the heart of Botswana’s economy. Census data suggests that they represent roughly 90% of businesses and can potentially contribute to a significant share of employment. SMEs contributed about a third of gross domestic product in 2010. By virtue of the jobs they create and their impact on society, SMEs in Botswana play a central role in economic development.

Moreover, they have played a role in the growth of new economic activities in Botswana, and in so doing, have promoted diversification of the economy. The Government of Botswana has created policies, organizations and funds that underscore the importance of these companies.

Although SMEs have the potential to continue contributing to employment growth, persistent challenges to their competitiveness remain. This report identifies those challenges and how they can be addressed by concerned policymakers. Addressing the persistent obstacles faced on a daily basis by the country’s small businesses is all the more urgent in light of the promising opportunities they face on the horizon. Armed with the right business environment, Botswana SMEs can export their goods and services, attract investment, and begin a bottom-up process of economic diversification to make real the development aspirations of all Batswana.

Box 1: Government policies for small and medium-sized enterprises

The Small, Medium and Micro Enterprises Policy, adopted in 1999, provides a legal framework for these businesses in Botswana. Building on a 1992 survey and a 1998 task force report, the policy identifies major constraints to the success of micro, small and medium-sized enterprises (MSMEs) and guiding principles for the development of the sector. More recently, the Small Business Act of 2004 created the Local Enterprise Authority as a centre of excellence for entrepreneurship and sustainable SME development in the country.

Vision 2036 sets out a transformative agenda to make Botswana into a knowledge-based high-income country in the decades to come. Competitiveness and small enterprises feature strongly in this vision, notably in pillar 1 on sustainable economic development, where these firms are expected to contribute to an export-led economy underpinned by diversified, inclusive and sustainable growth driven by high levels of productivity. In light of this vision, many government policies support SMEs to facilitate economic diversification and reduce inequality and poverty.

Other government policies affect the realities that Botswana SMEs face. The Public Procurement and Asset Disposal Act 2002 and its revisions require government bodies to source 30% of their supplies from local firms. The government-mandated Citizen Entrepreneurial Development Agency provides subsidized credit as well as technical support for business development in Botswana. The Government also supports the Youth Development Fund, which provides subsidized credit and support to empower young people to start competitive and sustainable businesses.

A new National Entrepreneurship Policy was passed in 2019 on the basis of discussions with stakeholders. Other recent programmes include Tokafala, which supports SME entrepreneurship in Botswana, and the Supplier Development Programme, to support the competitiveness of small-scale suppliers in local and international markets.
To set this process in motion, however, leaders need better data about the state of SME competitiveness in the country and what needs to be done to improve it. That’s why the International Trade Centre (ITC) partnered with Botswana’s Local Enterprise Authority (LEA) and Ministry of Investment, Trade and Industry (MITI) to assess the competitiveness of SMEs nationwide. The project included a survey that was administered to 616 businesses across Botswana in 2019. This report’s insights into SME competitiveness are grounded in the data generated by that survey and the partnership that has supported it.

Figure 1  The SME Competitiveness Grid

<table>
<thead>
<tr>
<th>Pillars</th>
<th>Theme</th>
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<tr>
<td>Compete</td>
<td>• Quantity and cost requirements&lt;br&gt;• Time requirements&lt;br&gt;• Quality requirements</td>
</tr>
<tr>
<td>Connect</td>
<td>• Connecting to buyers&lt;br&gt;• Connecting to suppliers&lt;br&gt;• Connecting to institutions</td>
</tr>
<tr>
<td>Change</td>
<td>• Financing requirements&lt;br&gt;• Skills requirements&lt;br&gt;• Innovation and IP requirements</td>
</tr>
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</table>

Source: ITC.
Assessing the competitiveness of small and medium-sized enterprises

The survey used to assess the competitiveness of SMEs in Botswana was developed by ITC to allow countries to collect the data necessary to measure the competitiveness of their enterprises. The SME Competitiveness Survey (SMECS) has been applied in more than 38 countries, including Zambia, Kenya and Ghana. As of August 2019, more than 13,000 companies had been surveyed.

The tool is designed to combine information at the meso (local support ecosystem for businesses) and micro (firm capacity) levels to provide a nuanced picture of the capacity of a country’s private sector to compete in international markets. Although the focus is on small and medium-sized enterprises, some large companies are included in the survey so the competitiveness of SMEs and large firms can be compared.

The importance of competitiveness in driving firm survival, growth and trade make it a key element in economic development. For this reason, ITC has developed an analytical framework to understand firm competitiveness and how it can be improved over time. The framework is built around three pillars that drive the capacity to be competitive across three levels of the economy (Figure 1; see Annex for details). Each pillar is further subdivided into themes that are the subject of the analysis in this report.
CHAPTER 1 – UNLEASHING THE POTENTIAL OF SMALL BUSINESSES

The SME Competitiveness Survey in Botswana

LEA, with support from ITC, collected data using the SME Competitiveness Survey in Botswana. MITI provided high-level support to the initiative.

The Botswana SME Competitiveness Survey was a national firm-level survey. To facilitate the collection of data, a sample of companies was randomly selected from across the country. The sample was spread across regional districts, sectors (primary, manufacturing and services) and size (micro, small, medium and large). Data on firms operating in the primary (i.e. agriculture and mining), manufacturing and services sector were to be collected in roughly equal proportions for each region. To the extent possible, each subsector was to be composed of exporting and non-exporting firms.

LEA gathered data for the SME Competitiveness Survey from 616 Botswana enterprises in early 2019. Data were collected from several different areas of the country, including Greater Gaborone, Serowe, Francistown, Maun, Kasane, Tsabong and Ghanzi. The surveyed regions are highlighted in Figure 2 according to firm population density, with darker colours representing a higher concentration of surveyed companies.

Box 2: About MITI, LEA and ITC

MITI is the government ministry tasked with creating a conducive environment to promote investment and develop sustainable industries and trade with a view to diversifying and growing the economy, creating wealth and employment so there is prosperity for all. The Government established LEA in 2004 to promote the development of the MSME sector in Botswana, including through the provision of business development services and the identification of business opportunities at the domestic and international levels.

ITC is based in Geneva, Switzerland, as a joint agency of the United Nations and the World Trade Organization dedicated to strengthening the competitiveness of SMEs to build vibrant, sustainable export sectors that provide entrepreneurial opportunities, particularly for women, young people and poor communities.

Figure 2 Surveyed regions of Botswana

Source: ITC, based on SME competitiveness data collected by LEA in Botswana.
More than half of the companies interviewed operated in the services sector (Figure 3). This is consistent with evidence of the prevalence of services companies in the country’s private sector.

A strong tradition of women’s entrepreneurship is reflected in the fact that women led two-fifths of the companies, a rate of participation higher than in other sub-Saharan African SME Competitiveness Surveys. The survey data, which show that just 5% of respondents exported, confirm previous research suggesting that the private sector is inward-focused. Finally, the figure highlights that there are a relatively high proportion of micro-sized firms (four employees or fewer), which made up two-thirds of the sample.

Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana. Microenterprises are defined as those with four or fewer employees; small firms have 5–19 employees; medium-sized ones have 20–99 employees; and large firms have 100 or more employees. Women-led firms are managed by a woman and at least 30% owned by women.
About 93% of the surveyed enterprises said they were registered with or licensed by a national authority. Yet Botswana’s 2006/7 Informal Sector Survey indicates that informality is pervasive, and indeed four out of five firms in the country start operations without being formally registered.

What’s more, previous research indicates that about 70% of the country’s many informal start-ups fail within the first 18 months of operation. Most of the firms surveyed for this study had moved past that stage towards formalization and maturity: roughly 90% had been operating for more than two years, and the median company age was seven years.

As just 7% of the firms surveyed for the SME Competitiveness Survey are informal, the current analysis cannot cover them fully. Rather, the study focuses on the formal sector.
CHAPTER 2

ADOPTING PROFESSIONAL MANAGEMENT PRACTICES

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ADOPTING PROFESSIONAL MANAGEMENT PRACTICES

Being able to make a product that customers want at a reasonable cost is at the centre of a company’s value proposition – and its ability to compete on local and international markets. The ability to meet the quantity, cost and time demands of markets is closely tied to how the company is managed. Adopting professional management processes can ensure that production, finances and marketing operate smoothly and efficiently in support of company competitiveness.

Evidence from the SME competitiveness survey indicates that Botswana firms generally perform well when it comes to business management, with high mean scores on meeting market quantity, cost and time requirements. This strong performance masks significant differences between enterprises, however. The characteristics of a firm’s leadership appear to affect the adoption of professional management practices and, through this, its capacity to meet market quantity and time requirements.

**Good average productivity, timeliness, inventory and financial management**

The average company output of the surveyed Botswana enterprises was 58% of the maximum possible output, indicating that many companies were using at least half of their capacity. However, the degree to which firms used their potential varied widely, and many were far less productive. Similarly, companies’ rating of the efficiency of their inventory management system differed considerably: 43% of respondents highly rated their inventory system, while 24% said it was poor.
Botswana companies excel at delivering their products and services on time. The survey found that 27% of respondents always delivered their goods or services on time, and 45% had punctual delivery at least three-fourths of the time (see Figure 16). On average, 77% of supply was delivered on time.

Firm-level financial management is a crucial ingredient of competitiveness. To survive and thrive, SMEs must manage their flows of revenues and expenses to ensure that enough money is always on hand to pay bills. Most interviewed companies kept good records, with four of five tallying their revenues and expenses, and three-quarters keeping track of assets and liabilities. Though paper record keeping was most popular, electronic records were growing in popularity, with 243 of 555 respondents reporting that they tracked their finances by computer.

Furthermore, 80% of surveyed companies had a bank account for daily operations that was separate from any personal account, underscoring that firms tend to do a good job at monitoring and recording financial transactions.

Yet one of the most common reasons for bankruptcy around the world is short-term liquidity crises, when, for example, the firm is owed funds by a buyer and yet has to pay suppliers. This is why the viability of SMEs depends upon their ability to manage their cash flow.

As shown in Figure 5, just 46% of Botswana SMEs say they have a strong ability to manage their cash flow, with the rest less confident about their exposure to risk from cash flow issues. The persistence of cash flow issues, despite the keeping of financial records and banking practices, could indicate opportunities for improved short-term financing options in the SME sector.
Women- and youth-led firms less likely to follow best practice

Women headed 39% of the companies interviewed for this study. Analysis of survey data reveals several important differences between women- and men-run businesses. Companies that were headed by women were significantly smaller, measured in terms of number of employees, than those headed by men. Indeed, four out of five women-led companies were microenterprises with fewer than five employees (Figure 6).

Furthermore, the data indicate that women-led firms tend to hire a higher proportion of female employees. In 85% of women-led firms, most of the employees were women. Only 32% of men-led companies had more female than male workers.

Figure 6  More than 80% of women-led firms have fewer than five employees

![Graph showing the distribution of employees in women-led and men-led firms.](image)

Note: The graph is based on firms’ responses to the following question: “How many full-time employees does this establishment currently employ? Please exclude the contribution of seasonal and part time workers.”
Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana.

Figure 7  Women- and youth-led firms have less strong inventory and financial management practices

![Graph showing the percentage of firms with good inventory management, having a business bank account, and confident in cash flow management.](image)

Note: Respondents were asked: ‘In the last year, what was this company’s output as a percentage of the maximum output possible? 100% means all resources are fully employed and increase in output is not possible without increasing resources’ and to ‘please rate the efficiency of this company’s inventory management system’, whether ‘at this time, does this company have a bank account for daily operations which is separate from a personal account?’ and to ‘rate this company’s ability to manage its cash flow to reliably execute payments’. Women-led firms are managed by a woman and at least 30% owned by women. Youth-led firms have a top manager under 35 years of age.
Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana.
Women-led firms’ performance was less strong when it came to managing the day-to-day operations of their firms. Their deliveries were less punctual than those of men-led firms. Furthermore, when asked to rate the efficiency of their inventory management system, women-led firms were 14 percentage points less likely to say their inventory management was strong than men-led firms. In fact, across all measures of enterprise management, women and youth-led companies performed worse than the comparison group (see Figure 7).

A quarter of Batswana are under 25 years of age,\(^{11}\) yet 37% of the young people who want to work are unemployed.\(^{12}\) Providing decent work opportunities for these young people is crucial to maintaining social stability, reducing outmigration and putting youth innovation to work to foster economic development.\(^{13}\)

Facilitating access to business loans, training and advisory services can help youth create and succeed with their own enterprises. Indeed, Botswana has one of the highest rates of youth entrepreneurship in the world: 37% of young men and 29% of young women say they are self-employed.\(^{14}\)

The evidence in the SME Competitiveness Survey affirms that youth-led enterprises are alive and well in Botswana: young people under 35 years of age headed 27% of the firms in the surveyed sample.\(^{15}\)

Botswana youth-led firms follow best practices in production management less frequently than other companies. For instance, youth-led enterprises were twice as likely to keep no records and they were far less likely to have a separate business bank account.

These and other factors may be contributing to the poorer average performance among youth-led firms when it comes to meeting the quantity, cost and time requirements of their buyers. Analysis of the SMECS data reveals that the average capacity utilization rate of youth-led enterprises in Botswana was nine percentage points lower than that of other firms. This indicates lower productivity among youth-led companies.

### Policy insights: High-return investments in management skills for youth and women

Survey results highlight the opportunity to boost the competitiveness of SMEs in Botswana through management training for women- and youth-led enterprises. The evidence shows that although firms led by women and young people are numerous and well connected to their business ecosystem, they are not following best management practices and their ability to compete on quantity and cost is suffering as a result.

Research shows that training programmes have a very strong positive effect when provided to owners of companies that are struggling to survive, where the lack of managerial skills is a major impediment to innovation and growth.\(^{16}\)

Entrepreneurial training programmes for women- and youth-led firms in Botswana are a high-return investment of technical assistance resources, because they address management capacity gaps that would otherwise decimate SMEs led by women and youth.

Focused assistance would help these enterprises capitalize on their potential.\(^{17}\) This could include, for example, the deployment of youth entrepreneurship support programmes that boost management skills in particular. Elsewhere in Africa, business development services oriented towards young entrepreneurs and in-school financial literacy training programmes have proven successful.\(^{18}\)
CHAPTER 3

BOOSTING QUALITY FOR COMPETITIVENESS

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Boosting quality for competitiveness

Overseas markets have long been notorious for their exacting quality requirements, but regional and even domestic markets increasingly expect a high level of quality. Buyers require proof of certification to a standard so they can trust that the product or service is of sufficient quality. Adopting standards may boost sales on foreign markets, improve the image of a company or even decrease trade costs due to facilitated custom control regimes.\(^{19}\)

Indeed, many African SMEs are choosing to become certified to international standards.\(^{20}\) However, compliance with resource-demanding standards can require additional investment and financing to adjust the production process, product labelling and packaging.

Few Botswana companies are certified to a standard

Botswana enterprises score relatively poorly on meeting quality requirements of buyers. Figure 8 shows that 77% of survey respondents said they were not certified to any quality, sustainability or other standard.

The few companies from Botswana that are certified have chosen different schemes, ranging from international safety certificates to those offered by the Botswana Bureau of Standards (Figure 9). Surveyed firms also hold other certificates including Public Procurement Asset Development Board Certificate, ISO, horticultural guidelines, HACCP and veterinary guidelines certification.

Figure 8  Number of certificates held by surveyed firms

Note: Respondents were asked: ‘Does this establishment’s main product or service hold any of the following types of internationally recognized certificates?’ and ‘Does this establishment’s main product or service hold any certificate from the following institutions?’ Options included are shown in Figure 9.

Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana.
Figure 9  International safety, quality, Botswana and other certificates most popular

Note: Respondents were asked: ‘Does this establishment’s main product or service hold any of the following types of internationally recognized certificates?’ and ‘Does this establishment’s main product or service hold any certificate from the following institutions?’ The size of each box, compared to the size of the complete rectangle, indicates the proportion of that type of scheme in the total certifications held by surveyed companies in Botswana.

Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana.

Figure 10  Certification is rare among microenterprises and in the agricultural sector

Note: Respondents were asked: ‘Does this establishment’s main product or service hold any of the following types of internationally recognized certificates?’ and ‘Does this establishment’s main product or service hold any certificate from the following institutions?’

Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana.

Certification more common among service and centrally based firms

The prevalence of certification varies depending on firm size, and all categories of standards are more popular among large companies than smaller ones (see Figure 10). Indeed, large businesses are more than three times more likely to be certified than microenterprises.

Yet the type of certificate differs by firm size, too: medium-sized companies were more likely to become certified to Botswana Bureau of Standards schemes, while large firms tended to adopt sustainability standards and small enterprises mostly chose quality certificates.
Interestingly, standards were most popular in the services sector and less common in the agricultural sector. This contrasts with the trend in many other countries, where certification is most popular among agricultural companies. Indeed, with an average rate of certification to international quality, safety and sustainability standards of just 5% among interviewed agricultural companies, evidence from the SMECS suggests that most Botswana farms lack the certificates increasingly required by international buyers.

Furthermore, importers of Botswana beef may prefer quality characteristics that differ significantly from Batswana preferences – for instance, in terms of meat tenderness, storage and safety procedures, the cut, packaging and certification. Some farmers who were interviewed for the SMECS said water shortages prevented them from being able to meet the quality required by the market.

The popularity of international certification also varies across regions. It was most common in Central, Gaborone and Francistown regions (see Figure 11). This reflects important differences in the availability and cost of information on standards and certification across Botswana regions. Most respondents in Francistown and Kgatleng said that information was highly available, but the opinions of firms about the quality and cost of such information differed considerably.

Although few Botswana firms are certified, they may be following quality practices and communicating them to buyers in other ways. Some 70% of surveyed firms said they produced according to buyer requirements. This indicates that buyers are telling their Botswana suppliers about their market requirements, and Botswana companies are adjusting their production processes accordingly.

Figure 11  Companies get certified more often in the central district

Note: Respondents were asked: ‘Does this establishment’s main product or service hold any of the following types of internationally recognized certificates?’ and ‘Does this establishment’s main product or service hold any certificate from the following institutions?’ Options included international safety, quality, performance, sustainability and other international certificates; and Botswana Bureau of Standards, South African Bureau of Standards and British Standards. Source: ITC calculation based on SME Competitiveness data collected by LEA in Botswana.
This is confirmed by the fact that 62% of interviewed companies said they compete primarily by offering high-quality products and/or services. Taken together, the evidence indicates that SMEs are aware of the quality requirements of the market, and many are responding to their current buyers’ requirements.

Nonetheless, their failure to adopt certification schemes means most are not signalling their quality to potential new buyers or taking advantage of training programmes that accompany many such schemes. In light of this, support for certification could help improve the quality competitiveness of Botswana SMEs for international trade.

It is therefore troubling that fewer than half of the companies interviewed for the SMECS gave a strong rating to the quality infrastructure in Botswana (Figure 12). Indeed, 37% said the availability of domestic information on standards and certificates related to their main product or service was low, and just 30% said it was high.

Overall, the survey evidence suggests that quality performance is a major weakness of Botswana SMEs. Improvements in the quality infrastructure could help enhance access to information on market quality requirements, but they must be accompanied by the dedication of real resources to certification if SMEs are to successfully signal the quality of their goods to new buyers across borders. There is, however, a chicken-and-egg problem here, as SMEs often need financing and assistance from buyers to adopt these schemes. In the absence of pre-existing buyers willing to finance certification, there is a role for government and development institutions to support the certification process.

This is particularly relevant in the agricultural sector, where rates of certification are quite low compared with other similar countries. Although low rates of certification have historically been common in developing countries where small-scale farmers dominate the rural landscape, the increasing adoption of standards by African smallholders – notably in Kenya and Morocco – has driven increased agricultural exports there, indicating that there may be lessons to be learned from across the region.
CHAPTER 4

STRONGER INFRASTRUCTURE FOSTERS BUSINESS LINKAGES

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The opportunities available in Botswana stem from its position as a landlocked, sparsely populated country in southern Africa. The vast Kalahari Desert takes up most of the country, while the capital city of Gaborone is the economic, cultural and financial hub. About 10% of the population lives in Gaborone, which also hosts most of its manufacturing businesses. Cattle farming thrives in the semi-arid rural areas of the country, and indeed beef exports are an important part of Botswana’s trade pattern. The sparsely populated nature of the country, however, make the extension of effective infrastructure difficult.

Previous studies have highlighted that the cost of infrastructure, and utilities in particular, may be an important issue for Botswana SMEs. We know that around the globe, basic infrastructure influences the ability of enterprises to translate their capacities to organize production into fulfillment of market quantity and cost requirements.

Roads and the internet can play a key role in this respect, because high-quality transport and telecommunication infrastructure is a prerequisite for participating in trade flows and e-commerce. In Peru, for example, an impact assessment study estimated that the extension of the country’s road network in 2003–2010 increased total Peruvian exports by roughly 20% in 2010. Yet access to utilities from the business ecosystem is also important, because it affects the cost and reliability of production processes.
**Botswana companies need better utilities**

A significant proportion of manufacturing companies interviewed for the SMECS in Botswana expressed discontent with their access to water and electricity services. Three-quarters rated their access to water as ‘low’ or ‘medium’ (see Figure 13), suggesting that access to water is a constraint for most manufacturing firms.

Electricity services also garnered low ratings; only 32% of manufacturing firms were satisfied with the quality of these services. At the same time, 6% of these enterprises – and 21% of all companies in the sample – said they had no electricity connection, and by implication no internet connection, computers, or access to e-banking facilities.

Past evidence on infrastructure in Botswana has been mixed. Some studies say the high cost of utilities hinders competitiveness and is a reason enterprises fail to attract more foreign direct investment. Yet one study indicates that relatively few firms see this as an important constraint.

Indeed, several sources suggest that infrastructural bottlenecks, alongside high costs, may make Botswana SMEs less competitive. While the country overall scores well on electricity provision, there can be important delays in getting an electricity connection, reliability of supply is an issue and electricity can be expensive.

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**Figure 13  Botswana manufacturing firms are unhappy with their access to water**

![Figure 13](image)

Note: Manufacturing firms were asked: ‘How would you rate your company’s access to water for production purposes?’ Response options ranged on a likert scale from 1 (very limited or no access to water) to 6 (reliable access to water), as well as options for ‘do not know’ and ‘this company does not use water in its production’. Figure numbers reflect the number of respondents who chose options 1 or 2 (‘low’) as a percentage of the total number who chose a response on the likert scale. Similarly, responses of 3 or 4 are ‘medium’ and 5 and 6 are ‘high’.

Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana.

**Figure 14  Manufacturing companies are dissatisfied with electricity services**

![Figure 14](image)

Note: Companies were asked: ‘How would you rate the quality of your electricity provider?’ and ‘How would you range the costs of your electricity connection?’ Those choosing ‘do not have an electricity connection’ were excluded from the calculation. Response options and their categorization were as in other figures. Percentages reflect responses by manufacturing sector respondents only.

Source: ITC analysis based on SME competitiveness data collected by LEA in Botswana.
Transport is vital for farmers and remote regions

Being located in a landlocked country means agricultural SMEs in Botswana face relatively high transportation costs and lengthy shipping times when exporting to countries outside the region. Despite their rich history in cattle breeding and domestic sales, producers often lack the knowledge and capacity needed to sell overseas.

On one hand, the fixed costs associated with setting up cold chain and treatment infrastructure in a small country are more onerous. On the other, Botswana has a comparative advantage in livestock rearing, built on its rich savannah grasslands and knowledge of breeding methods that requires such infrastructure for export.

Weak business linkages among agricultural enterprises in Botswana may stem from a mismatch between the location and focus of supporting institutions. The wide geographical spread of livestock production makes these firms hard to serve, and support services have focused on production processes rather than ensuring that goods get to markets. Furthermore, fluctuations in supply, and differences in product quality and size, have weakened the link between supply and market demand.31

When asked to identify their main difficulty in meeting the quantity and cost requirements of markets, agricultural SMEs most frequently pointed to serious transport-related issues (see Figure 15). They spoke consistently about poor roads, about trucks getting stuck on improper roads, long distances from cattle posts to farms on bad roads, unreliable hired transport services and high transport costs.

Another set of answers pointed to low production levels that prevented farmers from meeting market demand. About 10% described poor farm management practices as their biggest challenge, and 15% cited other issues including theft, market registration and input-related issues. Access to inputs appeared to be a relatively minor obstacle, and indeed the quality and cost of information about suppliers received good ratings.

Figure 15  Transport-related issues are a serious challenge for most Botswana farmers

![Transport-related issues are a serious challenge for most Botswana farmers](image)

Note: Primary sector firms were asked to ‘please describe the biggest challenge your firm faces with respect to meeting its cost and quantity requirements’. Qualitative responses were categorized according to the topic of the response, and the number of responses about each topic expressed as a percentage of the total number of responding primary sector companies.

Source: ITC analysis based on SME competitiveness data collected by LEA in Botswana.
The geographical pattern of competitiveness in Botswana echoes that of its infrastructure (Figure 16). There are relatively competitive firms in Gaborone and Lobatse cities in the South-East and Francistown in the North-East, medium levels of competitiveness among the tourism and other firms in the Okavango Delta and parks in Ngamiland and Chobe, and lower levels of competitiveness in the arid Kalahari desert regions of Kgalagadi and Ghanzi as well as the mainly agricultural Central region. Interestingly, there is a positive connection between roads and competitiveness: districts with a higher concentration of roads have higher competitiveness scores.

Policy insight: Continued investment in infrastructure can bear fruit

The Government of Botswana has invested heavily in infrastructure over the last 50 years. This has delivered impressive results in terms of mobility, human development and marketing. Nevertheless, the insights generated from this analysis of interviews with Botswana SMEs indicate that more can be done.

Beyond tackling the manufacturing and agricultural constraints discussed above, efforts to deepen the information and communications technology infrastructure would support innovation in the services sector. Unlike some other elements of competitiveness, improvements in infrastructure and utilities are readily influenced by policymaking and can yield significant benefits to job-creating, diversification-enabling SMEs.

Part of the action agenda entails investment in ‘hard’ infrastructure, which is both challenging and important given the geographical terrain and landlocked nature of Botswana. The challenges of planning investment in infrastructure in landlocked countries are well-known, and policymakers have to choose priority projects while seeking out new financing.

Such efforts tend to work best when governments collaborate with the private sector to identify constraints, suggest solutions, build the trade facilitation infrastructure, remedy policy gaps and provide a supportive domestic environment for trade logistics service providers.32

Continued efforts to expand the reach of government services to SMEs based outside of Gaborone would enhance competitiveness. The national environment and business ecosystem broadly support Botswana SMEs, but these firms all too often fail to connect to the business services they need. The effective staffing and support of district and local business support organizations is difficult for the reasons discussed above, but essential in building an integrated and supportive business ecosystem for all of Botswana companies.

The development of linkages to water ports is particularly relevant for SMEs looking to export outside the region. Accords with neighbouring countries and participation in relevant cooperation forums can help build efficient transit transportation systems in Southern Africa, including through alternative routes that provide businesses with multiple options.33
CHAPTER 5

ACCESSING FINANCE HELPS FIRMS THRIVE

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ACCESSING FINANCE HELPS FIRMS THRIVE

Access to external finance is crucial for firms to start successfully, grow and survive. Indeed, research has shown that obtaining funding is an important factor in firm investment, growth, size\textsuperscript{34} and innovation.\textsuperscript{35} It also affects the ability of a company to enter export markets and expand abroad,\textsuperscript{36} which are capital-intensive efforts involving high up-front costs (i.e. needed to create distributor networks) and high variable costs (related to shipping, logistics and trade compliance).

Companies surveyed for the SME Competitiveness Survey in Botswana rated the quality of bank and insurance companies quite highly on average. Three of four gave a positive rating on the quality of banks, suggesting that Botswana companies that have interacted with financial institutions have been favourably impressed by them.

This indicates that the quality of the business ecosystem is quite good. However, this does not necessarily translate into actual financial access, since seemingly good-quality institutions can ration out their credit and charge very high interest rates.\textsuperscript{37} Indeed, the World Economic Forum ranked Botswana 69th out of 138 countries in financial market development in 2018, behind South Africa, Namibia and Mauritius, suggesting there is room for improvement in private sector access to finance in the country.\textsuperscript{38}

Access to external funding differs by company type

The survey data show that just 45% of respondents had obtained funding from a funding institution in the preceding three years (see Figure 17), consistent with other evidence from the country.\textsuperscript{39} A fifth had received money from a development financial institution (e.g. Citizen Entrepreneurial Development Agency, National Development Bank or Botswana Development Corporation). Targeted government programmes for increasing access to finance, including for youth, gender and poverty reduction, reached another 13%. Only 8% of respondents had received funding from a commercial bank.

Figure 17  Almost half of surveyed firms accessed funding in the past three years

Note: Respondents were asked: “Referring to the last three full calendar years, did this establishment access funding from any of the following types of institutions?”

Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana.
Access to external funding differed across company size, sector and leadership. Medium-sized enterprises were more likely to have received funding from a financial institution: 59% obtained funds, compared with only 44% of micro firms and 43% of large enterprises.

Relatively few manufacturing enterprises had acquired institutional financing in the prior three years: just 41%, compared with 48% of primary sector companies and 46% of services companies. Women-led and men-led companies had similar success in obtaining funding, suggesting that the gender gap in access to finance is relatively small in Botswana. However, youth-led firms were 6 percentage points less likely than other companies to have obtained financing in the past three years.

It is worthy of note that financial institutions in Botswana seem to have sectoral specializations (see Figure 18). Manufacturers tend to get more funding from commercial banks than companies in other sectors.

This mirrors research by the African Development Bank showing that the banking portfolio in Botswana is focused on household borrowing, and tends to avoid lending to SMEs in general and the agricultural sector in particular because of the perceived high risk of these sectors. Indeed, agricultural companies that were interviewed were more likely to have accessed funding through government programmes. Finally, development finance institutions were the main funders in the services sector.

Figure 18  Funding sources vary depending on sector

![Figure 18](image_url)

Note: Respondents were asked: “Referring to the last three full calendar years, did this establishment access funding from any of the following types of institutions?”

Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana.
Micro, manufacturing and youth-led firms most in need of new financing

When the survey broached the subject of future needs for financing, the pattern of responses was different (see Figure 19). While medium-sized firms were most likely to have received funding in the past, micro and small companies need it most in the future. Indeed, 61% of microenterprises said they needed financing, either in the form of a loan, equity, bonds, a line of credit or a letter of credit.

Companies in the primary and services sectors were more likely to have received funding in the past, but a higher share of manufacturers said they needed finance to move forward. The differences between men- and women-led firms remained marginal, but youth-led enterprises were again more likely to need financing.

Figure 19  Financial need is highest among micro, manufacturing and youth-led firms

Note: Respondents were asked: ‘Is this establishment in need of any of the following forms of financing? A loan, equity financing, financing through the issuing of bonds, a line of credit, letters of credit.’ A response is coded as ‘yes’ if the company responded in the affirmative for any type of financing.

Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana.
Individual companies are embedded in their local business ecosystem, which provides them with everything from peers with which to share information to banks that can provide financing. In Chobe, Francistown and Kgatleng, most respondents said the quality of the banks was good, which tended to boost the performance of companies in those regions (see Figure 20).

The ability to manage finances was highest in Chobe, Francistown and Gaborone, where respondents were most confident in their ability to manage cash flow and prepare a business plan. Yet companies in Ghanzi were far more likely to report financing needs than firms elsewhere in the country. Indeed, four out of five respondents from Ghanzi said they were seeking funding, compared with a national average of just three out of five.

![Figure 20: The quality of banks varies across Botswana regions](image)

Note: Respondents were asked to ‘please rate the quality of the banks you have encountered’. Answers ranged from 1 (low quality) to 6 (high quality) and ‘do not know’, and were categorized as in other figures.

Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana.

**Policy insight: Facilitating inclusive financing**

Taken together, the evidence in this section suggests that micro, manufacturing and youth-led firms have financial needs that are not being addressed by the financial sector. Governments can step in to correct financial market failures through credit guarantee programmes, seed capital and financial literacy initiatives. The Government of Kazakhstan, for example, has provided credit guarantees to young entrepreneurs through its support for the Damu Entrepreneurship Development Fund. The Government of Mauritius provided seed capital to the country’s SME equity fund that invests in domestic early-stage SMEs.
CHAPTER 6

MUCH PROGRESS MADE TO IMPROVE SKILLS FOR INNOVATION

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MUCH PROGRESS MADE TO IMPROVE SKILLS FOR INNOVATION

A skilled and educated workforce is central to the ability of firms to anticipate and adapt to change. Indeed, there is evidence of a link between work force education, experience and cognitive skills, on the one hand, and firm productivity on the other. The availability of a talented local workforce is not only a strong predictor of productivity, but also of a country’s ability to export and diversify the goods and services it sells overseas.

Botswana has in the past suffered from shortages of relevant skills. There was an insufficient supply of the specific skills needed by the private sector, stemming in part from the tendency of educational establishments to focus on skills suitable for the public sector. Early studies noted that the major problem was not a shortage of workers, but rather the lack of skilled, trained and experienced workers that matched business needs, including because of a gap between what educational and training institutions delivered and what industry needed in the labour market.

This was remedied to some extent, particularly in large, foreign-owned companies, by the immigration of skilled workers from the place of origin of the parent company and training provided to workers in establishments receiving foreign direct investment. Nonetheless, acute skill shortages, particularly in the SME sector, continued for some time. There is little recent empirical evidence on skills in the private sector to gauge the current state of play.

Making headway in matching workforce skills with company needs

Evidence from the SME Competitiveness Survey remedies this gap in the data, and suggests that although skilled labour is still relatively scarce in Botswana, significant progress has been made. As Figure 21 shows, 43% of interviewed firms were satisfied with the skill set they found on the labour market when they searched for a new employee. However, the remainder still rated skilled labour availability as ‘low’ or ‘average’.

The SMECS results indicate that the availability of skilled labour statistics is still low, but is not abysmal, and suggest that progress has been made in recent decades to improve labour force skills.

Figure 21  Firms happier with the skills of their workers than labour force skills

Note: Respondents were asked to ‘please rate the extent to which the skill set of currently employed workers matches the needs of this company’ and ‘please rate availability of skilled workers for hire’.
Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana.
The survey findings also suggest that most companies are finding the skilled labour they need. Almost two-thirds of respondents reported a good match between the skill set of their employees and their company needs. Firms are performing relatively well at tracking down the labour they need, perhaps as a result of lengthy searches for the right employee and/or on-the-job training.

Taken together with the results on the availability of skilled labour and other studies showing that business owners still struggle to find capable workers,49 the evidence suggests that there are opportunities to continue to improve skills for SME competitiveness in Botswana. This can help to reduce youth unemployment, in light of firm-level evidence that companies that highly rate the availability of skilled people for hire tend to have hired more young workers.50

**Innovation and skills are strongest in services**

When it comes to skills and innovation, Botswana services firms are the strongest. Companies in the services sector rated the availability and suitability of skilled labour higher than elsewhere in the economy. Half of these enterprises said the availability of skilled labour was high (see Figure 22), more than in the economy as a whole. Furthermore, 65% of services enterprises reported a good match between the skills of their workforce and the needs of the company.

**Figure 22  Skills of services sector workers usually meet company needs**

Note: Respondents were asked to ‘please rate the extent to which the skill set of currently employed workers matches the needs of this company’ and ‘please rate availability of skilled workers for hire’. Percentages reflect responses by services sector respondents only. Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana.
These figures indicate that services companies are relatively knowledge-intensive, successfully capitalizing on skills to drive their growth. Indeed, survey evidence suggests that services enterprises in Botswana are more engaged in research and development activities than firms in other sectors of the economy. The survey found that 17% of services firms committed significant resources to research and development and 34% often created new goods or processes, more than in other sectors.

The ability to continuously transform knowledge and ideas into new products, processes and systems is essential to a company’s capacity to change. Such innovation is all the more important today, as the knowledge economy increases the pace and economic value of knowledge-intensive parts of global value chains. Data from the SMECS indicate that innovation is most common in financial, insurance, professional and other services subsectors of the Botswana economy (see Figure 23). Indeed, more than two-thirds of financial firms said they often developed new or improved products or processes.

The healthy rate of innovation shown by these figures affirms the findings of an earlier study that found 20% of Botswana SMEs had engaged in more in-depth open collaborative innovation processes in which they exchanged information on problems and solutions with other companies to create business opportunities.

Figure 23  Product creation rates are highest in the financial subsector

Note: Respondents were asked to ‘please rate the frequency with which your company develops and implements new or improved processes or products’.

Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana.
Insights into the pattern of innovation in the services sector reinforce the fact that skills are being put to use to drive innovation in services SMEs. In the survey, services companies that said skills were highly available in the job market tended to innovate more often (see Figure 24). Conversely, companies tended to innovate rarely when faced with a skill shortage.

A similar pattern emerged regarding employee skills and innovation: when the skill set of workers matched the needs of the firm, the enterprise was more likely to create new products and services often.

The availability of appropriately skilled workers also appears to vary across districts. Respondents were most upbeat about the availability of skilled workers in Kgalagadi, while those in Kgatleng and Chobe identified real shortages in the availability of skilled labour.

Furthermore, men- and women-led companies appear to differ in their approach to innovation. Most women-led firms in Botswana only rarely developed and implemented new and improved processes or products, while most men-led firms did so often or sometimes.

Policy insight: Matching private sector skills needs and workforce training

Partnerships between technical and vocational training institutions and the private sector can ensure that the skills taught are relevant for the private sector. In Singapore, for instance, the Ministry of Trade and Industry and the National Manpower Council created an interlocking system of communication and interaction among government bodies, the private sector and higher education and training institutions to ensure that workforce skill demands were translated into changes in the population skill set. These initiatives have been crucial to the country’s successful upskilling of its workforce in the last 40 years.53

Support for ongoing training of workers within the firm and in training institutions can also ensure that companies have the skills needed for today’s global economy. This can be particularly hard for smaller companies: ITC survey data indicate that more than half of large businesses in the Gambia provide in-house training, compared with just 38% of micro and small enterprises and 33% of medium-sized enterprises.54 Yet investments in the job-relevant knowledge and personal attributes of workers, as well as their understanding of what is needed to do the job, affect the ability of an enterprise to meet cost, quantity and time requirements for competitiveness.55
CHAPTER 7

PROMOTING GREEN GROWTH

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PROMOTING GREEN GROWTH

Small and medium-sized enterprises can be part of the solution to the planet’s climate crisis. Many SMEs are adopting the sustainable production patterns that are needed to safeguard the environment for years to come. When companies adopt the sustainable production processes called for in Sustainable Development Goal 12, we speak of ‘green growth’: business development that provides decent livelihoods, fosters economic development and protects the environment.

Green growth and SMEs are connected in several ways. SMEs can reduce the extent to which they harm the environment through their activities. For instance, they can take measures to alter grazing practices that degrade the land, address polluting waste disposal in manufacturing and reduce natural resource use that erodes biodiversity. At the same time, these enterprises are exposed to risks when the environment is compromised – for example, from drought associated with climate change or when they are unable to access natural resource inputs that have been depleted.

Yet it must not be forgotten that there are also environmental opportunities. Global demand for environmentally sustainable products is increasing among consumers concerned about issues like climate change and biodiversity. Firms in developing countries can, through sustainability certifications, access these markets to fuel green growth. There are also opportunities to reduce environmental harm, lower costs and improve quality by adopting, and even exporting, environmental technologies.

Indeed, evidence shows that when appropriate incentives and financing are in place, SMEs readily adopt green technologies that reduce their greenhouse gas emissions,
boost their productivity and reduce costs. However, supportive business and environment policies, as well as targeted assistance, are needed to catalyse such win-win opportunities.58

Previous research has highlighted several important environmental issues relevant to SMEs in Botswana. Water scarcity and pollution are central among them. Agriculture, and particularly crop growing, is the sector most vulnerable to climate change in Botswana owing to its heavy dependence on rainfall and groundwater, both of which are affected by drought.59 Water shortages have occurred in Goodhope, Kweneng East, Kgalagadi, North West and Okavango, and have affected the competitiveness of firms there.60

Overgrazing of livestock, mining and inappropriate farming techniques have led to land degradation. Climate change and deforestation aggravate all of these harmful phenomena. At the same time, innovative water management techniques and solar power technologies offer opportunities.61

Climate change brings risks and opportunities

Data provided by Botswana enterprises underscores the fact that changes in the environment create both risks and opportunities. 62% of the companies that were interviewed for the SME competitiveness survey said that environmental risks were significant for their business. Rising temperatures were the top concern, followed by water scarcity and the availability of inputs (see Figure 25). Agricultural enterprises were the most likely both to regard environmental risks as significant for their businesses and to take measures to mitigate these risks.

Although most surveyed businesses saw looming environmental risks, few acted to tackle those risks. Just a quarter of respondents had invested in a measure to reduce environmental risks. Those investing to mitigate the risks the environment had to their businesses took up different tools, from temperature controls to soil management practices.

Figure 25  Changing temperatures and water scarcity perceived as biggest risks

![Figure 25](image)

Note: Respondents were asked: ‘Which of the following environmental risks are significant for your business?’ Another option was ‘None’.

Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana.
Botswana companies are investing for positive environmental impact

When asked to weigh in on their own impact on the environment, Botswana firms were remarkably positive. More than half of interviewed enterprises saw themselves as having a positive impact on the environment, while an additional third thought their environmental footprint was neutral. Just 11% of respondents believed they had a negative impact.

This proactive, proud stance vis-à-vis the environment is echoed in the data on concrete measures taken. Two-fifths of the surveyed firms said they had invested in measures in the prior three years to reduce their negative impact on the environment (see Figure 26). Most began their environmental actions by adopting waste management systems, though other measures were also gaining in popularity. For example, 5% of the enterprises in the sample had adopted energy-efficient technologies.

Figure 26  Two-fifths of Botswana businesses invest to reduce their environmental footprint

Note: Respondents were asked: ‘Did these investments present any of the following opportunities for your business?’ Options included ‘other opportunities’ and ‘no new opportunities’.

Source: ITC calculation based on SME competitiveness data collected by LEA in Botswana.
Although some companies invested in environmental measures to take advantage of business opportunities, many took action to reduce their environmental footprint without expecting anything in return. Almost half of the respondents who invested in the environment said the investments presented an opportunity for their business, and the remainder invested without an expectation of monetary return.

Companies that invested in energy-efficient, renewable-energy and water-efficient technologies often noted that these investments had resulted in lower input costs, increased product quality or other business benefits. On the other hand, firms that invested in waste management systems or used fewer chemicals most often did so for their own sake. That is, when asked about investments to reduce waste and chemical use, respondents most commonly said they did not present a business opportunity – but that they had undertaken them regardless.

Some types of companies were more interested in shrinking their environmental footprint. Firms that produced according to buyer specifications, in relatively tightly coordinated value chains, were more than twice as likely to invest in reducing their environmental impact – even when there were no business opportunities associated with their action. Companies in the services sector were more prone to take steps to reduce their environmental impact and to do so for its own sake.

What’s more, the nature of the business opportunities offered by the environment seem to differ significantly by sector. Environmental investments gave the primary sector the opportunity to step up production and improve product quality. In the manufacturing sector, however, this opportunity was matched by the promise of lower input costs. Other opportunities were paramount in the services sector.

Lower input costs and increased production were the top benefits of environmental investments across the economy, according to the 18% of surveyed companies that deemed their environmental investments an opportunity for their business.
CHAPTER 8

STRATEGIC POLICIES TO TAKE ADVANTAGE OF BUSINESS OPPORTUNITIES
PROMOTING SME COMPETITIVENESS IN BOTSWANA

STRATEGIC POLICIES TO TAKE ADVANTAGE OF BUSINESS OPPORTUNITIES

Small and medium-sized enterprises are today’s reality in Botswana, as most Batswana work for them. They are also tomorrow’s future, because they have great potential to contribute to the structural transformation and diversification of the economy. Helping these enterprises become more competitive would unleash their potential to kick-start transformative economic development in the country.

Using data from the SME Competitiveness Survey carried out in Botswana in 2019, this report finds that even though enterprises in the country have important strengths, strategically chosen policies can improve their performance, and in so doing enable them to take advantage of promising opportunities on the horizon. Additional research and data, for instance on the share of SMEs in the employment and economy of the country, would be a boon to future policymaking and programming in their favour.

Botswana SMEs have many strengths. They benefit from strong macroeconomic fundamentals grounded in good governance and a stable political environment based on Africa’s oldest democratic system.

Services SMEs perform well; other companies can benefit from their ‘backbone’ services to the rest of the economy.

The fact that women- and youth-led enterprises are able to access business ecosystem services such as finance and certification on a much more equitable basis than in other countries is proof that the potential of these firms is not being squandered. Finally, a vibrant set of young entrepreneurs is setting the groundwork for the future participation of Botswana in the knowledge economy.

Yet Botswana companies also suffer from some crucial weaknesses. Their utility bills may be higher than those paid by firms in competitor countries. Furthermore, the fundamental difficulties in establishing good infrastructure for all Botswana enterprises mean that many struggle to connect with buyers and suppliers. The cost of transporting products to ports and to overseas consumers is high because the country is landlocked. Low rates of certification to international standards cripple efforts to attract new international buyers. The lack of appropriately skilled workers continues to be a constraint.
CHAPTER 8 – STRATEGIC POLICIES TO TAKE ADVANTAGE OF BUSINESS OPPORTUNITIES

Table 1  SWOT table for Botswana small and medium-sized enterprises

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>Cost of utilities</td>
</tr>
<tr>
<td>Services sector</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>Relative equity in access to business system</td>
<td>Lack of port (landlocked status)</td>
</tr>
<tr>
<td>across gender and age of entrepreneur</td>
<td>Domestic educational and skills provision</td>
</tr>
<tr>
<td>Youth entrepreneurs</td>
<td>Low rates of certification</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>High growth rates in services trade in global</td>
<td>Decrease in diamond prices and/or global slowdown</td>
</tr>
<tr>
<td>value chains</td>
<td>reducing government revenues, meaning fewer funds</td>
</tr>
<tr>
<td>Management skills expansion among women- and</td>
<td>are available to invest in SME programmes</td>
</tr>
<tr>
<td>youth-led SMEs</td>
<td>Climate change risks curbing beef production</td>
</tr>
<tr>
<td>Passage of the African Continental Free Trade</td>
<td>and exports</td>
</tr>
<tr>
<td>Area increasing scope for trade within the</td>
<td>Climate change risks increasing prevalence and</td>
</tr>
<tr>
<td>region</td>
<td>severity of droughts, which could reduce access</td>
</tr>
<tr>
<td>Emerging market importers e.g. Egypt, Israel</td>
<td>to water and electricity</td>
</tr>
</tbody>
</table>

Furthermore, the international competitiveness of Botswana companies must be enhanced at a time when the economy faces multiple threats. A drop in diamond prices and/or mining revenues could shrink government revenues, undermining funding for SME programmes. Geopolitical dynamics are generating uncertainty about international trade that could slow global growth rates and threaten Botswana’s already concentrated export basket. Climate change threatens to increase the frequency and severity of droughts, and decrease average rainfall, which would reduce production and exports in the agricultural sector and cut access to water and electricity throughout the country.

In this context, it is encouraging to see major opportunities on the horizon for SMEs in Botswana. The global services trade is booming and the share of services in global value chains is climbing. Botswana is well positioned to capture a share of the services export market thanks to its strong services firms and stable governance. Investments in information and communications technology infrastructure and skills would help Botswana SMEs take advantage of this opportunity.

Experience elsewhere shows that providing management skills training to struggling firms can deliver meaningful impact. This suggests that investment in management skills among women and young entrepreneurs could yield dividends. Similarly, the fact that some groups have been relatively excluded from accessing finance – notably agricultural, microenterprises and remote firms – indicates that efforts to tackle bias against these types of companies would mitigate the cash flow issues that undermine their competitiveness.

Another opportunity lies in the signing of the African Continental Free Trade Area agreement. This agreement increases the scope for intra-African trade based on the alignment in consumer tastes, lower transportation costs and the relatively high proportion of value-added goods in intra-regional trade. Taken alongside the rise in emerging market importers in, for example, Egypt and Israel, there is serious trade potential.

Boosting the international competitiveness of small and medium-sized enterprises, including by addressing the issues identified by the analysis in this report, will be crucial in unleashing their potential to transform Botswana into a high-income, knowledge-based economy.
ANNEX

ABOUT THE SME COMPETITIVENESS SURVEY
ABOUT THE SME COMPETITIVENESS SURVEY

ITC analyses competitiveness using the three competitiveness pillars and three levels of the SME Competitiveness Grid (see Figure 1). Each pillar is subdivided into three themes. Although it was designed to focus on the competitiveness of small and medium-sized enterprises, the framework can also be used to assess the competitiveness of larger firms.\(^63\)

The three pillars of competitiveness are compete, connect and change.

- **Capacity to compete**: The first pillar refers to the static dimension of competitiveness, focusing on the current operations of firms and their efficiency in terms of cost, time, quality and quantity themes. This concept also extends to the immediate business and national environment. Examples of determinants include use of internationally recognized quality certificates (firm capability), access to technical infrastructure (immediate business environment) and low tariffs (macroenvironment).

- **Capacity to connect**: The second pillar centres on gathering and exploiting information and knowledge. At the firm level, this refers to efforts to collect information flowing into the firm (e.g. consumer profiles, preferences and demand), and efforts to facilitate information flows from the firm (e.g. marketing and advertising). At the immediate business environment level, this includes links to sector associations, chambers of commerce and other trade and investment support institutions. At the national level, the capacity to connect is predominantly about the availability of information and communications technology infrastructure. The capacity to connect is not strictly a time-sensitive phenomenon, but gathering and exploiting information is so fundamental to current and future competitiveness that they act as an essential link between the two pillars of static competitiveness and dynamic competitiveness.

- **Capacity to change**: The third pillar pertains to the capacity of a firm to make changes in response to, or in anticipation of, dynamic market forces, and to innovate through investments in human, intellectual and financial capital. This pillar incorporates the dynamic dimension of competitiveness. Industry phases and breakthrough or disruptive innovations all require strategy adaptations. Thus, the capacity to change includes how well firms access finance and invest in human capital, innovation and intellectual property protection. At the business or macroeconomic level, the ability of the environment to deliver these resources to companies is measured.

These three pillars of competitiveness can be examined at three levels of the economy.

- At the **firm level**, their ability to manage resources adeptly influences their competitiveness.
- At the **business ecosystem level**, factors that support firm competitiveness but are outside the firm – including the availability of skilled workers, infrastructure and business support organizations – are important.
- The **national environment** includes the macroeconomic and governmental factors that establish the fundamentals for the functioning of markets in the economy.

The SME Competitiveness Grid bridges a gap in composite indicators that focus on macroeconomic determinants of competitiveness rather than local or microeconomic determinants. The importance of macroeconomic determinants is fully recognized, however, and is reflected in the ‘national environment’ level of the competitiveness grid. ITC’s SME Competitiveness Outlook 2015 provides a more detailed description of the SME Competitiveness Grid and the methodology behind it.
How to measure the competitiveness of small firms?

Measuring all dimensions of competitiveness can be difficult. ITC created the SME Competitiveness Survey (SMECS) to allow countries to collect the data they need to measure the competitiveness of their enterprises. As of August 2019, more than 13,000 companies in 38 countries, including Botswana, had been surveyed (see Figure 27).

The SMECS is typically deployed in partnership with domestic trade and investment support institutions. ITC gives these institutions the software to gather and maintain an active database on micro, small and medium-sized enterprises, and helps their staff select samples and train interviewers.

The SME Competitiveness Survey helps governments and trade support institutions better understand the needs of their enterprises. The tool is designed to combine information at the macro (national business climate), meso (local support ecosystem for businesses) and micro (firm capacity) levels to provide a nuanced picture of the capacity of a country’s private sector to compete in international markets.

Policy makers and trade support institutions can use the findings to identify and address bottlenecks to competitiveness; to compare the competitiveness of enterprises based on size, sectors and location; and to better match firms with potential investors and buyers.

How to understand the competitiveness of small firms?

This report uses the conceptual framework described above to evaluate the Botswana SME Competitiveness Survey data and assess the competitive position of small and medium-sized companies in the country. Firm and ecosystem-level competitiveness is evaluated from firm-level survey data collected through the SMECS.
The report is structured according to selected themes in the SME Competitiveness Grid. Themes were included in the report analysis depending on whether the data indicate that Botswana has a particular strength or weakness in that domain, or if previous research suggests the topic is important to the country’s SMEs. The themes examined in the report include management for quantity, cost and time requirements; quality requirements; connecting to buyers and suppliers using infrastructure; financial requirements; and skills requirements.

A disaggregated analysis of the SMECS dataset in Botswana yields additional insights on each theme. Subsamples from each sector are analysed to assess sector-specific challenges and strengths. Results vary by firm size, defined according to number of employees. Women-led and youth-led firms are compared to their peers.

An examination of environmental issues rounds off the analysis by shedding light on sustainability implications. Where relevant, and notably in the final chapter, policy recommendations highlight opportunities to address issues that have been identified in the analysis of the data. The report presents highlights of the study of the data, given the limited space available. More analysis was conducted, and additional information can be further extracted from the data.
1 This figure is from a non-comprehensive 2016 census of a selection of enumeration areas (Statistics Botswana, 2016).
2 Unfortunately official statistics on the share of SMEs in employment are not available.
3 (Republic of Botswana, 2010).
4 http://www.intracen.org/smeecs/
5 (ITC, 2015).
7 (World Bank, 2010).
8 Although failing to register can be a rational response to the difficulty of travel and the costs to register, pay taxes and customs duties, it affects competitiveness (Songwe, 2019). The education of the entrepreneur and the age and sector of the firm influence the profitability of informal enterprises (Gaetsewe, 2018).
9 (Mannathoko, 2011).
10 This study defines ‘women-led firms’ as enterprises where at least 30% is owned by women and the top manager is a woman.
13 (ITC, 2019a).
14 (ITC, 2019a).
15 This study defines ‘youth-led firms’ as enterprises where the top manager was under 35 years of age or the survey respondent was under 35 years of age and was the owner, chief executive officer, director or senior manager.
16 (Yoshino, 2011).
17 (Diraditsile, 2017).
18 (ITC, 2019a).
19 (Henson, Masakure and Cranfield, 2011; Latouche and Chevassus-Lozza, 2015; Volpe Martincus, Carballo and Graziano, 2015).
20 (ITC, 2018).
21 (Ransom, 2006).
22 (ITC, 2019c).
23 (ITC, 2019b).
24 (Sentsho et al., 2007).
25 (Shemi and Procter, 2013; Shemi, 2012).
26 (Carballo, Cusolito, and Volpe Martincus, 2013)
27 (Sentsho et al., 2007).
28 (Sentsho et al., 2007; World Bank, 2015).
29 According to the World Bank Sustainable Energy for all database, 63% of the population had access to electricity in 2017 (https://data.worldbank.org/indicator/EG.ELC.ACCS.ZS?locations=BW).
30 (World Bank, 2019).
31 (Government of Botswana, 2012).
32 (Carruthers, 2018).
33 (UN, 2014).
34 (Ayyagari, Demirgüç-Kunt and Maksimovic, 2011).
35 (Demirgüç-Kunt, Beck and Honohan, 2008).
36 (Bellone et al., 2010; Berman and Héricourt, 2010).
37 (Stiglitz and Weiss, 1981; Okurut, Olalekan and Mangadi, 2011).
38 (Tabengwa, 2011; Bank of Botswana, 2019).
40 (Honde, 2018).
41 (OECD, 2018).
42 (Barro, 1991; Woessmann, 2011)
43 (Backman, 2014).
44 (Onkelinx, Manolova and Edelman, 2015).
45 (Cadot, Carrère and Strauss-Kahn, 2011).
46 (Temtime and Pansiri, 2004; Sentsho et al., 2007).
47 (Te Velde and Cali, 2007).
48 Some anecdotal information suggests that the continued immigration of skilled workers, notably from Zimbabwe and South Africa, has reduced skill shortages. However, the rise of private sector education in Botswana and imports of educational services also appear to have had an impact. On the first front, private sector education has spread in Botswana, with more than 100 private providers registered with the Ministry of Education by 2004. Yet young Batswana are increasingly going abroad to study, notably to South Africa, and coming back to work in Botswana armed with relevant skills. There is potential to improve educational opportunities in Botswana, reducing the need for young people to go abroad to study.
49 (Okurut et al., 2016).
50 (ITC, 2019a).
51 (Lawson and Samson, 2001).
52 (Ama and Okurut, 2018).
53 (Kuruvilla, Erickson and Hwang, 2002).
54 (ITC, 2018).
55 (Bacchetta et al., 2017).
56 (James, 2015).
57 See several such schemes at sustainabilitymap.org.
58 (Koirala, 2018).
59 (Department of Meteorological Services, 2011).
60 (BIDPA, 2012; Selelo et al., 2017).
61 (Wingqvist and Dahlberg, 2008).
62 (Songwe, 2019).
63 (ITC, 2015).
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