

## Online Case Study (PART Three)

### Developing the Competitive Advantage of an African Nation

Botswana is one of the most stable, democratic and corruption free countries on the African Continent. Twice the size of the UK, but with a population of only 1.4 million, it is a landlocked country, sandwiched between Zimbabwe to the East, Zambia and Angola to the North, Namibia to the West and South Africa to the South. A former British Colony, it has rapidly transformed itself from a scrub and desert country into a thriving, wealthy and vibrant economy based on the discovery and commercial development of diamonds in the 1970's. Botswana is one of the world's largest producers of high quality diamonds. Its economy has been inextricably linked with that of South Africa and it relies heavily on South Africa for its imports and exports.

Diamonds are not the only plank of the Botswanan economy. It also has rich deposits of coal, soda ash, copper and other minerals as well as a thriving cattle industry (with an EU beef quota which it can only fulfill 50%). However, it is also famously known the world over for its high value tourism, including destinations like the Okavango Delta and Chobe. Its climate is very favourable with long, hot summers and mild winters. Water shortages are a problem with much of the land being Kalahari Desert. Its population is centred mainly in the modern cities like the capital Gaborone, Francistown to the North, Ghanzi, Maun, Kasane and Selibe-Phikwe (a coal and steel town). Botswanans enjoy a high standard of living.

The Botswana economy is generally in good shape with real GDP growth forecasted at 4.5% for 2006-2010. Botswana has an 'A' rating in terms of local and foreign currency credit ratings, stable government, one of the best net external asset positions, low Government debt (7%), primarily domestic, and healthy general government balances. The Economy needs to grow at 8% per annum to meet the NDP9 (National Development Plan number 9) objective to triple incomes to US\$8500 but this may fuel inflation. Its very stable political situation makes Botswana one of the most attractive investment destinations in Southern Africa.

However, the economy is still heavily dependent on the mining sector, particularly diamond mining, through Debswana, [www.debswana.com](http://www.debswana.com) (a joint venture between the Government of Botswana and De Beers [www.Debeers.com](http://www.Debeers.com)) constitutes 40% of activity and 90% of exports ) and is showing signs of levelling off. Recently, Botswana has started sorting and polishing its own diamonds, once dependent on De Beers. Other key industries include coal, cattle rearing, for which it has an EU export quota, soda ash and some of the best high value tourism destinations in the world including the Okavango Delta and Chobe game reserve.

Inflation is currently 7.2% but forecasted in the 4% – 7% range. The unemployment level is standing 17.6% of the labour force. In addition, bank base rates are high; the currency crawl may give manufacturing a problem but boost tourism and mining. It still has a skewed income distribution (30% on or below poverty level). It is a perceived 'high cost' economy, has a slow privatization programme, low labour productivity, a large economic neighbour (South Africa). It suffers from a lack of a personal savings culture, lack of

vocational skills, a high AIDS/HIV infection rate and a small domestic market (1.4 million). On the AIDS/HIV infection problem, Botswana has adopted a very enlightened policy of firstly recognizing it's a problem and secondly, providing the necessary medication.

Future investment plans are mainly based on the beneficiation of mining, airport and infrastructure development, investment in financial services, development of tourist destinations and a plan to build a power generation capacity which would serve the Southern African Region based on the abundant coal deposits.

It is a member of the Southern Africa Development Community (SADC, the African equivalent of the EU), and, like the other 57 countries on the African Continent, is anxious to encourage foreign direct investment (FDI). It offers the usual incentives (tax holidays and cheap finance etc). It has been somewhat successful in its FDI strategy, attracting FDI in textiles, car assembly and tourism for example.

### **Moving Beyond Diamonds**

The Botswana Development Corporation (BDC) [www.bdc.bw](http://www.bdc.bw) the primary Botswana agency for commercial and industrial development, was incorporated in 1970 and has fulfilled its remit to date by the provision of equity and long term loans to viable business ventures sponsored by both local and foreign investors. Its role is:

- To drive the development of industrial and commercial activity in Botswana by being the primary agency in establishing industrial and tourism initiatives;
- The provision of financial assistance to investors with commercial viable projects;
- To provide assistance to projects that generate sustainable employment with commercial viable projects;
- To encourage citizen participation in business ventures;
- To stimulate growth in different industries to ensure diversification of the economy;

To fulfil its mandate the BDC offers the following services to investors:

- Equity Financing for industrial, agriculture and service investment initiatives;
- Loan Financing for industrial, property, agriculture and services investment initiatives;
- Premises letting for residential, commercial and industrial services;
- Invoice Discounting to provide the complete answer to slow paying customers, shortage of working capital and, if needed, protection against bad debts.

The Corporation is confident it will continue to fulfil its role in the development of commercial, industrial and developmental activity and its performance to date, indicates it has been successful in doing so.

Since 1998, two strategic plans have been implemented and the quality of its loan and equity portfolio has improved considerably with greater emphasis on risk management and a more rigorous credit approval system in respect of new loan advances and equity investments. The Corporation was ISO re-certified in early 2006. This further gives testimony to the fact that BDC's processes, procedures and quality management systems meet the stringent ISO 9001: 2000 requirements and that the Corporation is comparable to other world class organisations wherever they are located.

### **Setting the Strategic Direction**

BDC's Mission, Vision and strategic aims are ambitious. Its Mission is to be:

'The premier Innovative Investment Partner delivering flexible financial solutions'.

Its Vision is:

'to be the Leading Investment and Development Financier'.

Its leading strategic aim is to proactively contribute to the diversification of the economy by continuing to invest in commercially viable and sustainable business ventures. Its secondary aims are to:

1. To promote citizen (native Batswana) participation in business ventures.
2. To identify opportunities and develop, implement and monitor investments directly, or in partnership with other institutions, which impact on Botswana's economic and social development.
3. To create a culture in the organization which enables the delivery of the Mission and Strategy.

To deliver the Mission, Vision and Values, BDC had one major advantage and that was it had access to Government. But it also had other strengths including a sound financial management capability and risk assessment procedures, rigorous project evaluation criteria and procedures a good brand name and a competent management. It had, however, like most organizations, some weaknesses and threats including a powerful and economically strong neighbour in South Africa, but also, significantly, Botswana was land locked with a long haul by road to the neighbouring ports, undeveloped airport facilities, a relatively sparse road network and a perception of being a high cost economy. In summary, its core competencies are:

- Financial management
- Brand management in terms of the BDC name being generally known
- Flexibility in product packaging including long term financing and product mixing
- Greenfield financing
- Risk management expertise
- Economic and Financial Investment appraisal expertise

Its actual and projected income is:

Date	Income (Pula million)	Projected Income (Pula million)
2008	121	
2009		136
2010		160
2011		186

1 £ = 6 Pula (N.B Figures disguised)

BDC, as well as having its own in house functions including Treasury, Market Research etc. had a number of external facing functional areas. These included:

1. Property development and management

BDC owned its own domestic housing and commercial property and rented or let these out to individuals or companies.

2. Industry

BDC invested in a certain number of industries like clay ware, canning and artifacts. Some of these, like the clayware, were not performing to well and had to be financially supported year on year.

3. Invoice discounting

This was a relatively new venture for the company. It involved buying up invoices from companies at a discounted rate thus helping the seller's cash flow. BDC would then collect the money itself from the seller.

4. Agribusiness and services

As the title suggest, BDC offered agricultural services including contract tractor power to small scale farmers who could not afford to buy a tractor themselves.

The Company was divided structurally into two parts; the above services were grouped under one General Manager and could be titled as 'Customer facing activities'. The other part was all the 'inward facing activities' like the Legal Department, Management services (including IT, Marketing, Public Relations, management Accounting etc) and Human Resource Management. Both parts reported to a Managing Director, who was part of an appointed Board of Directors. It had a relatively few employees (less than 50) for such an important organization.

### What Next?

Given this scenario in 2008, BDC had to develop its strategy for the next three years. It was in a unique position offering a service as a source of capital on a partnering basis to any domestic or international investor. It was proving difficult to attract international investors given the Botswana situation and find sound local ventures meaning that BDC had funds with 'no where to go'.

### Case Discussion Questions

1. Identify the key issues in this case for BDC going forward to 2011. What core service was it offering to business customers currently and what products/services/markets could it develop in the future?
2. Suggest key priorities and action for BDC in its forward planning to ensure its growth/survival. What might derail its forward plans?
3. Suggest the most appropriate structure for BDC to ensure that it best serves its customer/markets identified in question 2.
4. What control measures do you suggest that BDC employ to monitor whether it is achieving its priorities suggested in Question 2 above?

### Sources

BDC Corporate Brochure (2008).

[www.bdc.com](http://www.bdc.com), accessed 2 September 2009.

[www.debswana.com](http://www.debswana.com) accessed 2 September 2009.

Botswana National Development Plan 9 accessed 2 September 2009 from [www.sarpn.org.za/documents/d0000257/index.php](http://www.sarpn.org.za/documents/d0000257/index.php) .

Business World Botswana (December 2007), Gaborone, Inprint.