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**Challenges for Agricultural Diversification in Botswana Under
the Proposed SADC-EU Economic
Partnership Agreement (EPA)**

**BIDPA Working Paper No. 27
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Tebogo B. Seleka



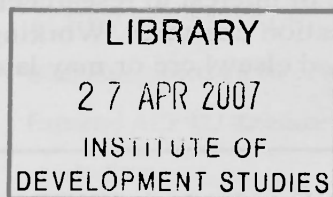
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Abstract

Botswana has been pursuing the economy-wide objective of economic diversification for the past three decades. This paper examines the challenges Botswana's Agriculture is likely to face under the EU/ACP Economic Partnership Agreement (EPA). While the sector has witnessed some diversification in the past, such success was, however, induced by the provision of government grants to investors and the use of import controls to minimize cross-border competition. It is argued that, since they involve trade liberalization, EPAs should theoretically reverse the progress so far made in diversifying the country's agriculture. It is further argued, however, that Botswana being a member of the Southern African Customs Union (SACU), hence a *de facto* member of the Trade and Cooperation Development Agreement (TCDA) between South Africa and the EU, it is currently exposed to the gradual trade liberalization under the TCDA. Thus, if import controls are to be removed under SACU, where they are currently being challenged, the TCDA impacts will trickle fully into the Botswana market even in the absence of EPAs. Furthermore, it would be imprudent for Botswana to negotiate and implement a different tariff reduction structure with the EU when the TCDA is already in existence. The paper concludes that policymakers should opt to promote the utilization of the EU development assistance to strengthen local institutions and promote the development of sustainable diversification activities within the sector.

1. INTRODUCTION AND BACKGROUND

For over two decades, economic diversification (ED) has been aggressively pursued by the Botswana government as a developmental strategy; the central idea has been to reduce the country's dependence on the mining sector, through promotion of growth in other sectors. In 1982, an economy-wide program, the Financial Assistance Policy (FAP), was introduced as a source of private sector investment grants for venturing into productive activities. FAP was in operation until the year 2000, and its primary objectives were to reduce the economy's dependence on large-scale mining, beef cattle production and the public service, and to promote employment creation. To further highlight ED as an important developmental strategy, *Sustainable Economic Diversification* was adopted as a theme for development during National Development Plan (NDP) 8 (Ministry of Finance and Development Planning, 1997).

Towards the end of the NDP 8 period, the Citizen Entrepreneurial Development Agency (CEDA) was introduced (in 2002), to replace FAP. CEDA provides subsidized loans to citizens venturing in productive activities. As with FAP, the primary objective of CEDA is to promote ED and employment creation. Distinguishing features are (1) there has been a move away from grants (free money) into highly subsidized loans, (2) an entrepreneur mentoring system has been added under CEDA to promote long-term viability and sustainability of the projects, (3) a credit guarantee facility is available under CEDA to promote entrepreneur access to credit, and (4) venture capital is available under CEDA to promote equity funding. During the current planning period (NDP 9: 2003/04 to 2008/09), one of the key developmental strategies is economic diversification, and the theme for development is '*sustainable and diversified development through competitiveness in global markets*' (Ministry of Finance and Development Planning, 2003). NDP 9 intends to promote diversification into Agriculture, Manufacturing, Tourism, and Financial Service, and to promote vertical diversification in the mining sector through promotion of value-adding activities.

While agriculture has declined, over time, from being the leading to being the second least contributor to GDP, it was not left out in the quest for diversifying the economy. The sector has received substantial financial support targeted at promoting diversification; key among these programs was FAP. FAP support has gone into the development of non-traditional agriculture, targeting, among others, horticulture, dairy and poultry (eggs and broilers) (BIDPA, 2004). Small stock production, a traditional activity, was the leading recipient of FAP funding in agriculture; however funding into this activity only stimulated the transfer of animals among owners with little, if any, impact on productivity growth, and hence contributed nothing to diversification at the national level. Although FAP support has not led to the reversal in the downward trend in agriculture's relative performance, it, however, did contribute to some, albeit minimal, agricultural diversification through import

substitution in non-traditional agriculture. However, it appears no impact was felt vis-à-vis promotion of export diversification.

In 2000, the African, Caribbean and Pacific (ACP) Countries and the European Union (EU) signed the Cotonou agreement, which allowed for the roll-over of ACP/EU Lome-type cooperation until the end of 2007. Negotiations are currently being held between the ACP and the EU on the new trade and development agreements, named Economic Partnership Agreements (EPAs), to replace the Cotonou agreement. EPAs would commence in January 2008, and the central objectives are to integrate the ACP states into the global economy and to ensure that future ACP/EU cooperation is in full conformity with the provisions of the World Trade Organization (WTO). One of the aims of the EPAs is to form Free Trade Areas (FTAs) between ACP regional groupings and the EU.

EPAs would facilitate trade through the removal of existing trade barriers between the EU and ACP regional groupings. Such move would undoubtedly affect Botswana's trade flows and impact on domestic producers and consumers. Producers of existing imported commodities may be negatively affected, further thwarting efforts and progress already made toward agricultural diversification through import substitution. This paper highlights issues that are relevant regarding the plausible impact of the ACP-EU EPA on Botswana's agricultural sector. We proceed as follows. In section 2, the need for agricultural diversification is briefly motivated. Section 3 provides a brief discussion on the effectiveness of past diversification efforts in the agricultural sector. In section 4, we discuss the plausible impacts of the EPA on agricultural diversification; we also suggest strategies and directions for improving agricultural performance, and hence competitiveness and diversification, under the EPA.

2. WHY AGRICULTURAL DIVERSIFICATION?

At independence in 1966, Agriculture was the leading economic activity as it accounted for a share of 40 percent in total Gross Domestic Product (Ministry of Finance and Development Planning, 1997; MoA, 1990). However, following the discovery of minerals in the 1970's, agriculture began to decline in relative importance, and today it only contributes about 2.4 percent to total GDP, and has been relegated to being the second least contributor to GDP; it only marginally surpasses the least contributor, Water and Electricity (Central Statistics Office, 2002; BIDPA, 2004). Two factors explain agriculture's relative decline over time; (1) the rapid growth of other economic activities, and (2) the stagnant growth of the agricultural sector, when viewed independently from other sectors. For example, during 1974-2000, agriculture was stagnant (it exhibited zero annual growth rate), whereas all other sectors registered positive annual growth rates; among these other sectors, the least growing sectors, Construction, Manufacturing and Water and Electricity expanded at annual rates of 7.4, 7.5, and 7.6 percent, respectively (Seleka, et.al., 2003).

Agriculture has also seen a decline in relative contribution to formal employment. For example, the sector contributed 12 percent to formal employment in 1972, compared with only 1.7 percent in 1998 (Central Statistics Office, various; BIDPA, 2004). Additionally, agricultural wages have consistently been the lowest, and the incidence of under-employment reported as widespread.

The decline in agricultural performance has run concurrently with massive public support to the sector, meant to achieve, among other objectives, agricultural diversification. In the grain industry, we have seen a number of programs introduced to promote agricultural production and productivity growth. The most predominant farm-level programs are the Arable Lands Development Program (ALDEP) and the Accelerated Rainfed Arable Program (ARAP), which supplied free capital and operating inputs to farmers, to further promote technology adoption and increased productivity (Seleka, 1999b).² ALDEP, which has recently been reviewed, had no impact at national level, although it might have contributed to poverty reduction at household level (Centre for Applied Research, 2002). ARAP did impact positively on cultivated area, output and yields, but such effects could not be sustained beyond the program implementation period (Seleka, 1999b). In non-traditional agriculture, the major support program was FAP. This program contributed to agricultural diversification, although the failure rate of supported projects was phenomenally high.

Although the agricultural sector is currently contributing very little to overall GDP, it is important to continue efforts toward promoting its growth. This is because the majority of rural households still depend on agriculture for food and informal and self employment. Lack of growth and diversification in the agricultural sector may accelerate rural-urban migration and hence exacerbate the level of unemployment and urban poverty. Moreover, agriculture has important linkages with other sectors, such as manufacturing; agricultural products can serve as primary inputs in the manufacturing sector, and hence as stimulus for diversification elsewhere in the economy. The cattle industry is an obvious example as it has strong linkages with the manufacturing and transport sectors (Tsheko, Seleka and Sigwele, 2004)). This implies that policies directed at

² ALDEP was a pro-poor program providing animal draft power (oxen, mules, or donkeys), animal drawn implements (ploughs, planters, cultivators and harrows), fencing materials, scotch carts, water catchment tanks, and fertilizer to eligible resource-poor farmers in rainfed arable agriculture. This program is currently in its second phase which was also intended to promote the use of packages obtained in the first phase, as most farmers left the implements idle. ALDEP has been evaluated and government still has to decide whether to continue it as a poverty reduction program for aiding resource poor farmers or to terminate it since it has not led to any visible transformation of smallholder arable agriculture at national level (see Centre for Applied Research, 2002). ARAP was a non-discriminatory program aiding farmers in rainfed arable agriculture through the provision of grants for ploughing/planting, input (improved seeds and fertilizer) procurement, water development, fencing of fields, and destumping (see Seleka, 1999b for an impact analysis).

economic diversification should continue to treat agriculture as one of the potential sources for overall economic diversification.

3. EFFECTIVENESS OF PAST DIVERSIFICATION EFFORTS

To adequately evaluate whether some diversification has occurred in the agricultural sector, one needs to employ indices commonly used to measure diversity. However, constructing such indices would require detailed income data, covering all sub-sectors within agriculture. Such data are currently unavailable. Nevertheless, intra-sectoral trends in output may shed some light on whether the progress toward diversification has been made. The following trends in dry-land arable agriculture, non-traditional agriculture and traditional livestock farming, therefore, shed some light into the progress so far made with respect to agricultural diversification.

3.1. Rainfed Arable Agriculture

Rainfed arable agriculture is dominated by the cultivation of the major staples of sorghum and maize, for subsistence to semi-subsistence (henceforth subsistence) and commercial purposes. Other grains include pulses/cowpeas, groundnuts, and sunflower. The subsistence system is the most prominent in terms of cultivated area, output and the number of households; this sub-sector accounts for over 85 percent of cultivated area. However, yields are much lower under the subsistence system, compared to its commercial counterpart. In the case of sorghum, for example, the subsistence sub-sector yields stood at 108kg/ha of cultivated area, compared with 525 kg/ha under commercial settings during 1979-90 and 1993 (Seleka and Dambuza, 2000; BIDPA, 2004).³

The trends in output and yields generally reveal that this sub-sector has not been a source of diversification, and that it has continuously lost its competitiveness over time, and, therefore, has been disintegrating. Yields have been very low, variable, and generally declining over time. To illustrate, when considering the period 1961-2000, cereal yields declined at 1.5 percent per annum, and average yields stood at 307kg/ha (BIDPA, 2004). The highest average cereal yields were realized in the 1970's. Yields of cash crops, such as pulses and oil-crops, have been stagnating to declining over time, despite the high hopes of policymakers to diversify into these crops; the yields of pulses declined at an annual rate of 0.67 percent, while those of oil-crops remained stagnant during 1974-2000. These trends have resulted in substantial expansion in imports over time, to meet the ever expanding demand for grains; imports of cereals, pulses and oil-crops expanded at 4, 15 and 16 percent per year during the same periods. Due to declining performance over time, the sub-sector has

³ It is noteworthy that these yields may be lower than usual because of the long period of drought during the early to mid 1980s. However, even in normal years yields in Botswana are much lower than what is attained in the neighboring countries, such as Zimbabwe and South Africa.

increasingly witnessed massive out-migration, particularly in recent years, implying that it has lost its relative competitiveness.

Given these trends, it is safe to conclude that rainfed arable agriculture has not been a source of diversification. This situation got worsened by the relatively poor grain yield levels in Botswana, compared to neighboring states, Zimbabwe and South Africa (BIDPA, 2004). Although this is the case, some progress in diversification has been recorded in the milling industry, particularly sorghum milling, where numerous mills were established during the 1980s through 1990s (Rorbach, et. al., 2000). Such progress was stimulated by FAP funding. While this is the case, commercial millers have relied heavily on imported grain, due to low domestic production volumes. Needless to say, future prospects for stimulating growth and diversification into this sub-sector would depend on the effectiveness of National Master Plan for Arable Agriculture and Dairy Development (NAMPAADD) to improve farm level productivity and output.⁴

3.2 Non-Traditional Agriculture

Botswana's non-traditional agriculture covers, among others, horticulture, dairy and poultry (eggs and broilers). This is the one sub-sector that has registered some positive progress vis-à-vis diversification (BIDPA, 2004). Significant progress has been made in the poultry industry. Poultry meat production rose at 11 percent annually during 1974-2000, whereas egg production rose at 6.5 percent per year during the 1961-2000 period. These surpassed growths in poultry meat and egg imports, which stood at 7.3 and 1.7 percent per year, respectively, during the same periods. Therefore, some diversification was achieved through import substitution in the poultry industry. The analysis of FAO data reveals that the country currently produces about 80 percent of its requirements of poultry meat and eggs, although it has been argued elsewhere that the country might be self-sufficient in the production of these commodities. Whatever the case might be, there is ample evidence that the country has made major strides toward import substitution and thereby diversification through the poultry industry.

The picture for horticulture, piggery and dairy is somewhat different. While domestic production in these industries expanded over time, imports soared at much faster rates, leading to increased import dependency over time. For instance, when measured in physical units, pig meat and milk production rose at only 1.4 and 1.7 percent per year (respectively) during 1974-2000, whereas imports of these products rose at annual rates of 19 and 12 percent (respectively). A similar trend was experienced in horticulture – domestic production of fruits, vegetables and

⁴ NAMPAADD was introduced in 2002 to assist farmers in dairy, rainfed and irrigated agriculture in improving farm level productivity. The program intends to commercialize the agricultural sector to increase its competitiveness, and to reduce the country's dependence on imports (see BIDPA, 2004 for further details).

starchy-roots expanded at 2.1, 1.5 and 2.4 percent per year during 1961-2000, whereas imports of these crops rose at 11, 12, and 13 percent per year, respectively, during the same period. Moreover, while the yields of fruits and starchy roots rose only marginally, at 0.6 and 1.4 percent per year, yields of vegetables dropped at an annual rate of 1.5 percent. Therefore, import substitution was not evidenced in the cases of dairy, piggery and horticulture, although the growths in domestic production, albeit minimal, may have contributed to some diversification.

Two forces have contributed to growth and diversification in the non-traditional sub-sector; FAP funding and quantitative restrictions on intra-SACU imports. From its inception in 1982 to 1998, FAP had funded a total of 781 non-traditional enterprises, and had created 1,268 jobs. However, supported projects were characterized by high failure rates; according to Rebaagetse (1999), about 50 percent of the projects funded had collapsed by 1998 (see a detailed disaggregated analysis in Tsheko, Seleka and Sigwele, 2004). This might have been reflective of the inability of entrepreneurs to replace capital assets obtained through the scheme. However, the continued entry of newly funded projects during the lifespan of FAP, might have provided wrong signals that supported activities were sustainable; hence one would expect that the collapse of FAP supported projects was accelerated after the termination of the program in 2000.

Import permits are used to regulate intra-SACU imports of key fruits and vegetables, poultry meat, pig meat, eggs, and fresh milk. They have been in place since 1985.⁵ Imports of key fruits and vegetables (orange, tomato, potato, onion, etc.) are completely blocked (permits are not issued) when domestic production is found adequate to meet local demand. Permits for imports of un-processed chicken meat and table eggs are not issued, unless under very rare circumstances when there has been a shortfall in domestic production. The same applied for whole pork cuts. Permits are only issued for the importation of production inputs, value-added products and special cuts, such as hatching eggs, point-of-lay pullets, day-old broiler chicks, chicken nuggets, chicken burger, marinated chicken wings, pork spare ribs, etc. Such import restrictions, coupled with FAP funding, have undoubtedly contributed positively towards the growth of the non-traditional sub-sector, and hence agricultural diversification.

3.3 Traditional Livestock Production

Traditional livestock (cattle and small stock) farming, particularly beef cattle farming, is the most prominent sub-sector within Agriculture. Due to the relatively high contribution of cattle in agricultural GDP and total exports, diversification efforts have been directed at promoting alternative farming activities to cattle farming. While small-stock

⁵ Note that the majority of imports originate from South Africa, which together with Botswana, Lesotho, Swaziland and Namibia, is a member of the Southern African Customs Union (SACU).

entrepreneurs have been major beneficiaries under FAP, there was an abuse of funds in that the animals were used more as a medium of exchange for channeling money from government to farmers – rather than in promoting productivity and viable business operations. Therefore, not much, if any, diversification in the traditional livestock sector has occurred over time. Livestock production is dominated by communal farming, which is characterized by lower off-take rates and higher mortality rates. Livestock management and husbandry practices are poor, and the tendency to hold livestock as a store of wealth or as savings appears to be widespread. This has resulted in overstocking of communal areas and land degradation (see Seleka, 1997;1999a). Therefore, the environmental sustainability of cattle and small-stock farming is currently questionable.

Beef - including beef by-products- is the only exported agricultural commodity. When viewed at national level, beef and hides and skins are important sources of foreign exchange – they collectively rank second after minerals. The success of these products is due to two reasons; (1) Botswana appears to have some comparative advantage in beef production due to the availability of rangelands, (2) Botswana beef exports have received preferences in the EU market, which is highly protected. While this is the case, the sub-sector has not fully exploited its potential, and hence there is scope for further growth and diversification, mainly through export diversification – the next section provides further elaboration.

4. ACP/EU EPA AND AGRICULTURAL DIVERSIFICATION

4.1 Brief Background on the Evolution of ACP/EU Cooperation

ACP/EU trade and development cooperation was formalized in 1975 under the Lomé convention. Lomé cooperation ran through four stages, Lomé I through Lomé IV, and ended in 2000 after operating for a period of 25 years. The cooperation involved EU assistance to ACP countries in funding developmental projects, and the non-reciprocal preferential access of ACP goods in the EU market. Preferential trade arrangements were run through a system of four commodity protocols, covering beef, sugar, rum and bananas. Botswana, being one of the ACP countries, has benefited under the beef protocol. In the case of this protocol, ACP states export beef to the EU under a tariff-quota system. Under this system, ACP beef exporters are exempted from 90 percent of EU import levies. Therefore, they receive higher than world market prices in the EU market.⁶ Botswana was assigned a quota of 18,916 tons of beef per year, which it was generally unable to fill due to supply-side constraints.

⁶ It was estimated that, in 1996, the EU beef price was 50 percent higher than the world market price due to import levies. Therefore, Botswana and other ACP beef exporters to the EU market, benefited from such higher price since they were exempted from the bulk of EU's levies.

During Lomé IV, ACP/EU negotiations on the new trade arrangement to replace the Lomé-type system began. Such negotiations were prompted by two major developments (Solignac Lecomte, 2001). The share of ACP exports to the EU market had declined, implying that preferences did very little to expand ACP exports, relative to non-ACP exports into the EU market – therefore a motivation to revise cooperation arrangements. Secondly, the preferential treatment of ACP countries in the EU market, which was based on colonial ties, was found to be incompatible with the provisions of the World Trade Organization (WTO). For example, such trade arrangement violated Article I of the GATT on non-discrimination, which stipulates that if preferences exist, they should be applied non-selectively to all members of the WTO. For example, in this case where the EU extended preferences to ACP countries, the same preferences should have been extended to all developing countries within the WTO.

ACP/EU negotiations resulted in the signing of the Cotonou Agreement (CA) in 2000. The CA outlines five areas on future ACP-EU cooperation:

- A political dimension intended to promote peace building, conflict prevention and resolution, respect for human rights, democratic principles and the rule of law, and good governance.
- A participatory approach meant to promote the active involvement of non-state actors in ACP-EU development cooperation.
- A development strategy aimed at poverty reduction, and intended to incorporate economic, social, cultural, and environmental issues in all aspects of development.
- Economic and trade cooperation aimed at integrating ACP economies into the world economy, and at formulating new ACP/EU trade relations.
- Financial cooperation to ensure that EU assistance to ACP states is coherent, flexible and efficient, to further ensure that assistance is based on and leads to performance.

The CA would continue Lomé provisions until the end of the year 2007 to allow ACP countries to adjust to a more liberalized trade arrangement. During the period of adjustment, ACP/EU negotiations on new cooperation agreements would be held. If negotiations succeed, new cooperation between ACP regional groupings and the EU would take effect from January of 2008. Such a trade and development agreement, named the Economic Partnership Agreement (EPA), would be based on reciprocity between the ACP countries and the EU. The partnership is expected to, among others, facilitate trade between the EU and ACP countries on a reciprocal basis, through the formation of FTAs.

4.2 Expected ACP/EU Relations under the EPA and Impact on Agriculture

While the structures and forms of the proposed ACP/EU EPAs are yet to be determined, it is common knowledge that what is being negotiated will entail the formation of Free Trade Areas (FTAs) between the EU on the one hand and ACP regional groupings on the other. It is also clear that a development agenda, where assistance would flow from the EU into ACP states, will be part and parcel of the agreement, to assist the ACP states to minimize the negative effects (improve the competitiveness of their sectors) and maximize the positive aspects (their potential gains through increased openness) – nicely put, the idea is to promote smooth integration of the ACP economies into the global economy.

The key expectation from the formation of an FTA is that Botswana and her SADC counterparts will have to open their markets for freer entry of imports from the EU – the reverse is also true, and hence we expect mutual benefit: the literature is abound on the positive correlation between openness and economic growth. However, the key question, which is the central basis for negotiations, is how much openness should be achieved between the two parties, particularly given the fact that there are wide disparities in their levels of development? To address this latter question we may have to resort to WTO provisions on Regional Trade Agreements (RTA). Article XXIV of WTO/GATT is the most relevant in this case. While selective preferences among WTO members are not permitted under Article I on non-discrimination, article XXIV provides a waiver in the case of RTAs. RTAs are thus permitted to apply lower tariff rates to members and higher rates to non-members. Therefore, the most plausible option would be to transform current non-reciprocal preferences to reciprocal preferences through the formation of FTAs, which are WTO compliant (see also Solignac Lecomte, 2001).⁷

As articulated in Thorp (2003), EPAs are partnership agreements and both sides of the agreement have rights and obligations. Negotiations on the reduction of trade barriers must, therefore, fit within the framework of the WTO; thus, a timetable must be adopted for the progressive removal of trade barriers, in accordance with WTO rules. Article XXIV calls for the elimination of customs duties and trade restricting rules in an FTA, for '*substantially all the trade*' among the FTA members (Bilal, 2002). While this is ambiguous and subject to debate, it is clear that the intention is to liberalize most of the trade within the FTA, and this should be the premise under which EPAs are negotiated. The Trade and Cooperation Development Agreement (TCDA) between the EU and South Africa, signed in 1999, is a relevant example here. Under this agreement, the EU

⁷ There are other alternatives, which appear unlikely given the current trends in ACP/EU negotiations. They include; (1) replacing discriminatory Lomé-type preferences with a new trade arrangement extending preferences to all developing countries, or (2) abolishment of current non-reciprocal preferences and reduction of EU's Most Favored Nation tariffs to benefit ACP and non-ACP WTO members.

(a more developed partner) is expected to liberalize 95 percent of its imports from South Africa, whilst the latter is expected to liberalize 86 percent (Bilal, 2002). Thus, the agreement involves substantial removal of trade barriers between the parties.

The most appropriate question is, what do we expect to happen vis-à-vis the reduction of trade barriers in Botswana's context, under the EPA? But before attempting to answer this question, it is noteworthy that two forms of restrictions are currently applicable for Botswana's current trade arrangements; (1) import permits on intra-SACU imports, applied to a range of non-traditional commodities (see earlier discussions), and (2) SACU external tariffs applied on goods entering the region from elsewhere, which are based on South Africa's tariff system. Botswana has recently consented to become party to the EU/SA TCDA, which was entered into without approval by smaller economies of the Southern African Custom Union (SACU).⁸ Since the EU/SA TCDA has made commitments vis-à-vis tariff reductions, it is unclear what Botswana is negotiating under SADC, as it is now bound by such commitments – that is, if we assume that the consent implies that Botswana is bound by the TCDA. Therefore, in the case of reductions in SACU external tariffs, it would be logical for Botswana to follow the EU/SA arrangements as most of Botswana's food imports from outside the region go through the South African food chains before ultimate entry into Botswana – deviation from this would imply that Botswana has to set-up its own tariff revenue collection system in which intra-SACU imports are also subjected to tariffs. What remains more problematic is the current quantitative import restrictions applied on intra-SACU imports. These are supposed to be removed as per the newly renegotiated SACU trade agreement and the SADC protocol on trade, and are incompatible with WTO provisions on non-tariff barriers. It seems logical that there would be calls to remove such trade barriers, although such move would cause substantial damage to local industries.

4.3 Future Challenges, Directions and Strategies

Promoting Import Substitution

As noted earlier, it is anticipated that the formation of an EPA would prompt the need for trade policy reform, with the view to reducing trade barriers within the EPA area. The reduction in SACU external tariffs, and the removal of quantitative import restrictions would undoubtedly impact negatively on Botswana's agricultural sector, which is already performing poorly. Poultry, dairy and horticulture, which have been perceived as potential sources of agricultural, and hence economic, diversification would be adversely affected by such a move. There is no

⁸ South Africa, the largest and dominant economy within SACU unilaterally entered into the TCDA with the EU, without the consent of the smaller SACU economies of Botswana, Lesotho, Namibia and Swaziland (BNLS). Botswana, Lesotho and Swaziland have recently consented to the agreement, and it has now being agreed that none of the members should in future enter unilaterally into a trade agreement.

doubt that imports would soar when that happens, and that most small-scale production units would be decimated, leading to increased unemployment and poverty. The question is; what can Botswana do to minimize the negative impacts on its agriculture? Minimization of the negative impacts of the EPA can only be realized if the competitiveness of the agricultural sector is enhanced. This would depend on the effectiveness of policies and programs pursued by the government to promote agricultural growth and diversification, and on the ability of the country to utilize EU support under the EPA to promote agricultural growth and diversification.

As noted earlier, the current concern relates to low farm-level productivity, compared to our competitors. The smallness in domestic production has also bred problems at the market level – local products cannot be efficiently marketed due to the underdeveloped nature of the marketing systems. This has turned into a vicious circle as markets may not develop without enough volume in domestic production and in the absence of good market coordination. Producers have complained about inadequate access to organized markets for their products, while retailers have complained about inconsistent, irregular and, hence, unreliable supply from the domestic market – it appears that such erratic supply has caused retailers to rely on imports (see Seleka, et. al., 2002). In sum, low farm-level productivity, which has led to low output volume, and poor market coordination, implies that local products cannot generally withstand import competition.

Several government aided programs have failed to reverse the foregoing scenario, and recently NAMPAADD was introduced to further advance governmental effort to improve agricultural growth and diversity. It is the expectation that NAMPAADD initiatives, coupled with CEDA funding, would stimulate agricultural growth and diversification. The focus of this program is on improving farm-level productivity through on-farm training of farmers and promoting collective action in both production and input/output marketing. It is expected that the adoption of improved on-farm technologies and collective action would improve productivity and agricultural growth, and hence promote diversification through import substitution.

If NAMPAADD targets are attained, it is highly likely that the adverse effects of the EPA and globalization in general would be minimized. However, the success of NAMPAADD would not only depend on the commitment of government to promote agricultural growth and diversification, but it would more lie on the actions of the private sector, including farmers, and non-state actors (for example, farmers associations). Without full commitment for change by these parties, not much progress can be made toward agricultural growth and diversification. In sum, it is logical to suggest that NAMPAADD efforts in dairy, horticulture and grain production should be continued as

strategies for promoting agricultural diversification through import substitution, even under the EPA.

Promoting Export Diversification

One of the key areas for achieving overall ED would be through promoting growth in exports. Such growth would stimulate employment creation domestically, and improve the country's balance of payments through generating foreign exchange. As noted earlier, agricultural exports are currently dominated by the beef industry, although efforts are currently underway to promote export-oriented ostrich farming. Although the beef industry has done relatively well, there is still some room for expansion as much attention is currently placed on the production of raw beef products, including by-products.

There is need, therefore, to aggressively explore the possibility of expansion into value-added product-lines for the export market, subject to meeting sanitary and phyto-sanitary (SPS) measures, particularly in the EU market. If indeed the EU is genuine about promoting export growth in Botswana and other ACP countries, this should be treated as a critical area for promoting expansion. EU support should, therefore, go into strengthening institutions for implementing policies intended to expand value-added exports. One critical move to promote export-oriented processing would be to allow private sector participation in the export market, subject to ensuring that SPS measures are strictly adhered to – this would entail policy reform to remove BMC's monopoly on the export market. Such a move would allow firms to specialize in certain product-lines geared at targeting the export market, and would lead to job creation locally.

Hides and skins are currently processed to wet-blue and exported in this relatively raw form by the Botswana Meat Commission (see Botswana Confederation of Commerce, Industry and Manpower, 2000).⁹ It is puzzling that the availability of hides and skins has not naturally stimulated the development of leather-based manufacturing industries, where hides and skins are important inputs. The key challenge is, therefore, to promote the development of tanneries for processing hides and skins into finished-leather (see Botswana Confederation of Commerce, Industry and Manpower, 2001). The availability of finished leather may stimulate the development of leather-based export-oriented manufacturing industries in the country; some import substitution as well may be achieved through this development. In line with this argument, the Botswana Export Development and Investment Authority (BEDIA) is currently promoting investment, including Foreign Direct Investment, into the leather industry, as inputs are available for creating a competitive industry locally.

⁹ The BMC tannery, the largest in the country, currently processes hides and skins into wet-blue for the export market, particularly the EU. This is a simple process which involves the removal of hair and fat from the skin. There is currently no finished leather tannery in the country.

There is also need to promote the development of the ostrich industry, which is still at a stage of infancy. While the potential of this industry is currently unknown, an abattoir has recently been constructed in Gaborone, with the capacity to handle 30,000 birds per year. However, due to low volume of supply, the abattoir only slaughters about 3,000 birds per year. Estimates are that the abattoir requires a minimum of 15 thousand birds per year to be able to operate profitably. According to the Botswana Ostrich Farmers Association (2004), there are currently 500 breeding hens in the country, producing about 3,000 chicks. However, under optimum animal management and husbandry practices, it is possible to produce 8,000 to 12,000 chicks per year from 500 hens. Therefore, there is potential to increase current output with substantial improvements in animal management and husbandry practices.

The world market for ostrich meat and leather is very strong, and South Africa is currently the leading world producer; about 350,000 birds were slaughtered in 1996, and SA accounted for about 80 percent (Kairi Consulting Ltd, 1999). Therefore, it is important to determine if Botswana has potential to expand its current output and exports, to become one of the world leaders in ostrich production and export. This may contribute toward export diversification and job creation. However, more emphasis needs to be placed on removal of supply-side constraints as the industry is currently operating with much idle capacity. Ostrich farming is a very complex business; and hence, there is need for farmers to be well trained in both the technical production and business management aspects. Moreover, research on the viability of ostrich farming under Botswana conditions needs to be undertaken to ensure the successful take-off and long-term viability of the industry.

Another area that has been identified as having potential for promoting export diversification is cut flower production. Although there is currently no domestic production of cut-flowers, it has been argued that there is potential to develop the industry through the use of urban wastewater for irrigation. The government has recently set-aside some land in Gaborone with access to wastewater, which it is believed can be utilized to, among other things, venture into cut-flower production to target the export market - the EU in particular. There is need to explore if potential indeed does exist; research needs to be aggressively pursued to test the viability of this option in stimulating export diversification.

EU Developmental Assistance under the CA and EPA

According to the CA, ACP countries qualify for EU support for institutional strengthening, to further promote their smooth integration into the global economy. The idea is to improve the competitiveness of sectors in ACP economies so as to minimize the negative and maximize the positive effects of globalization. Development funding would ensure the *active participation of non-state actors and the private sector*. Three broad areas of EU support to ACP states include economic development,

social and human development, and regional cooperation and integration. However, cross-cutting issues, such as gender, environment and natural resources, and institutional development and capacity building will assume centre stage in all aspects of developmental cooperation. Following Tsheko, Seleka and Sigwele (2004), we discuss only those areas that appear to have immediate relevance to Botswana's agricultural sector here; they include (a) private sector development, (b) institutional strengthening and capacity building, (c) technology development and transfer, (d) infrastructure development, and (e) institutional policy development and reforms. These, however, are by no means exhaustive.

(a) Private Sector Development. This involves supporting areas that promote an environment favoring private investment and competitiveness. The idea is to promote the development of viable, competitive and dynamic private sectors in ACP states. A number of areas are covered under private sector development, including financial, advisory, consultancy, and technical assistance; business information; consultancy capacity building; and technology transfer. *Fundamentally, the CA talks about the provision of "finance, guarantee facilities and technical support" for the creation, establishment, expansion, diversification and rehabilitation of private enterprises (Tsheko, Seleka, and Sigwele, 2004). Therefore, Botswana's private sector needs to seek support through this facility to promote agricultural competitiveness and diversification – but proposals should identify viable projects.* It is encouraged that the private sector takes an initiative in this case to determine how they can benefit to improve agricultural productivity. It appears that information dissemination needs to be improved, perhaps by the Ministry of Agriculture, to sensitize the private sector on areas of and procedures for possible EU support.

(b) Institutional Strengthening and Capacity Building. One of the NAMPAADD strategies is to develop production cluster/groups for farmers to engage in collective activities in production and input/output marketing, to further reduce transaction costs. It is, therefore, necessary to strengthen farmers associations to improve their capacity to mobilize farmers. This is consistent with the CA objective to encourage the active participation of non-state actors in development initiatives. Therefore, the Botswana Agricultural Union (BAU) has to assist farmers and commodity associations to come up with projects under institutional strengthening and capacity building. As articulated in Seleka et. al. (2002), farmers have complained that their associations have inadequate capacity to mobilize them into effective, coherent and cohesive groups, and have depended almost entirely on government funding to undertake their activities – in other words, farmers associations have failed to foster collective action among members.

Capacity building is not only relevant for farmers associations, but it also applies at individual farmer/farm level. Most farmers do not only lack farm-level technical skills, an area which needs to be aggressively

developed to promote diversification, but they also lack entrepreneurial skills, which are necessary for the success of any business. Globalization implies the need for timely and appropriate response to the ever changing economic conditions; and without entrepreneurial skills, firms cannot respond adequately. Therefore, there is need for capacity building of farmers, and those involved in agricultural businesses, in entrepreneurship.

(c) Technology Development and Transfer – One of the reasons why agricultural productivity is low is that technology transfer is slow. One of the activities of NAMPAADD would be to promote the adoption of advanced farming techniques through on-farm training. This effort requires intensification; and therefore, there is need to fund more projects aiding farmers to improve their technical performance – some of these projects are implemented by non-state actors. As pointed out earlier, the poor performance of the agricultural sector mainly originates from low farm-level yields, and significant improvements at this level would greatly improve agricultural performance.¹⁰

Equally important is technology development by institutions conducting agricultural research. Research is not only about determining how crops and animals perform under different conditions, but it is also about improving their performance to further enhance their economic contribution. Research is a process where new areas are continually explored to determine if new opportunities do exist. Therefore, there is need to diversify agricultural research into new crops/animals/products. For example, one area for possible diversification is veld products research. This area requires intensive investigation by institutions mandated with agricultural research. There is need to determine if EU funding would be available for moving towards this direction. Food technology research is another example, and there is need to intensify efforts in the area to promote value addition (see BIDPA, 2004).

(d) Infrastructural Development. It has been well established that a positive relationship exists between the level of infrastructure development and the level of economic development. Access to roads, telecommunications, and electricity, for example, may lead to productivity increases through reductions in transaction costs, and hence stimulate agricultural growth and diversification. The Ministry of Agriculture is currently undertaking a study on infrastructural needs in the country. The results of this study may be used to identify projects that may require EU assistance under CA/EPA – this is highly recommended as infrastructural development will improve Agriculture's performance. There is also need to develop the necessary infrastructure for ensuring that Botswana has the capacity to comply with SPS measures in the EU market, and to ensure

¹⁰ For example, there are instances where farmers do not follow recommended protocols in dairy, horticulture and poultry production. Broilers are often times fed less than their daily requirements for optimum growth, dairy cows are often left to fend for themselves, rather than being fed, and vegetables are sometimes not treated for pests and diseases. In arable agriculture, most traditional farmers have not adopted improved methods such as row planting.

that imports into Botswana are SPS compliant. The former is fundamental to ensure that Botswana's exports perform well under the EU's stringent SPS requirements. Funding from the EU is thus fundamental to develop relevant infrastructure along these lines.

(e) Institutional Policy Development and Reform. It has been observed that policies needed to promote sectoral developments are sometimes missing, rigid, or inadequate. A relevant example here relates to land policies, which are said to be rigid (Seleka, et. al., 2002). For example, farmers have to reapply to land boards before diversifying their production base – a horticultural farmer has to reapply to the relevant land board before adding a broiler or pig production enterprise. Because land boards are slow in processing applications, this often leads to loss of opportunities and reduces the responsiveness of farmers to dynamic economic conditions. Therefore, EU funding may be sought to revise or develop policies relevant for improving the competitiveness and diversification of the agricultural sector.

There is also need to improve capacity to enforce policies – land boards, for example, do not repossess land that is continuously left idle, even though there are provisions for doing so. There is also need to develop or enhance local capacity to adhere to trade-related policies, measures or conventions, such as the competition policy; protection of intellectually property rights; standardization, certification, and quality assurance; SPS measures; trade and labor standards; and consumer health. Again, EU funding would be instrumental in moving along these directions.

5 CONCLUSIONS

This paper provided an overview of trends in agricultural diversification over time. The paper argued that, even though Agriculture declined in relative economic importance over time and was stagnant when viewed in isolation, some diversification (albeit minimal) occurred in the non-traditional sub-sector. Much success was seen in broiler and egg production industries, where substantial import substitution occurred. However, it was highlighted that such success was mainly policy driven; FAP support was the major stimulus for the development of non-traditional enterprises, and quantitative import restrictions played a major role in ensuring the sustenance of some of the projects – notwithstanding the fact that some still collapsed.

The formation of an EPA means that Botswana has to reduce its trade barriers – therefore quantitative import restrictions in non-traditional agriculture, which are also not WTO-compliant, would have to be removed; the renegotiated SACU agreement and the SADC protocol on trade also call for their removal. Moreover, SACU external tariffs will have to be significantly scaled-down under the EPA. Such a move would cause some of the existing enterprises to collapse, and would reverse the

positive trends already made vis-à-vis agricultural diversification. The scope in mitigating the negative impacts of the EPA on producers would lie on the effectiveness of NAMPAADD in improving farm-level productivity – without the success of this program, agricultural performance will witness accelerated decline under the EPA. In future, it seems logical to also aggressively look into improving export diversification, through value-addition in the beef industry. Leather-based manufacturing appears to have potential since Botswana has inputs to support the industry. There is need to also investigate if there is potential for expanding ostrich production for the export market – the world market for ostrich meat and leather is very strong.

In order to improve the competitiveness of the agricultural sector under the EPA, EU support should go into private sector development, institutional strengthening and capacity building, technology development and transfer, infrastructure development, and institutional policy development and reforms.

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