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SMALL IS PROFITABLE FOR AIR BOTSWANA

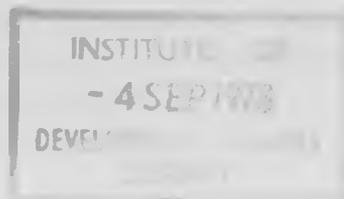
by: Dr. Robert Curry

Studies in Development Management

No. 4

March, 1978

**Botswana
Lesotho
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FOREWORD

The Institute of Development Management has undertaken a series of Studies in Development Management. These have a two-fold purpose; first to provide much needed additional materials based on local experience for use in IDM training courses and seminars; and second, to assist members of the IDM and others concerned in analysing development policies and programs and their implementation.

This study is the fourth in the series to be published. It was undertaken for the IDM by Dr. Robert Curry of the California State University, Sacramento, during the months of June and July, 1976.

The author assumes full responsibility for the contents of the study. Provided acknowledgement is made part or all of the study may be reproduced.

George V. Haythorne,
Director.

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Introduction

Managers and Government officials continually confront questions about which alternative policy objectives to pursue, what kinds of organisations to set up to pursue them, and how to administer or manage the organisations so the specified goals are attained. In effect, managers choose from among alternative policies, organisational structures, and methods of management. In a newly developing country such as Botswana, not only must managers and decision-makers look inward to the functioning of their enterprises and projects, but they must look outward to the development needs of the country. Management's policy objectives must be consistent with overall Government policy as spelled out in the National Development Plan. As with other enterprises, consistency with aims and objectives is a paramount consideration in Air Botswana's operations.

Air Botswana began its operations in 1972 after the issuance of the President's Directive, CAB 32/72. The directive was based on advice tendered to him at the 245th Cabinet Meeting, 5 July, 1972, and it allowed the Botswana Development Corporation to contract for provision of air services on a first-option basis. Under the directive, the Corporation was to issue a license to an appropriate national carrier. Air Botswana, a subsidiary of the Botswana Development Corporation, was designated the national carrier and granted first option on scheduled air services. The Director of Civil Aviation was to consult with the Corporation's subsidiary in matters pertaining to aviation. Following the decision to set up Air Botswana, a policy issue was confronted. What was the range of air services activities that Air Botswana ought to undertake? A related policy question was what type of organisation would best suit the company in its operations? In order to understand the logic underlying the policies selected, it is necessary to understand the history of air services in Botswana.

The materials prepared for this case are drawn from fact and are provided for classroom use. No effort has been made to evaluate the policies discussed herein. The case was prepared with the generous co-operation of officials from Air Botswana, the Botswana Development Corporation, the Ministry of Works and Communications and the Bank of Botswana.

II. The History of Air Services in Botswana to 1972

The country's air services industry began in the early 1960's when Herbert Bartoni, a resident of Francistown, financed a rather modest charter service with his own capital. His activities began to expand and rather soon he was providing a postal link to the Maun area. His services were a convenience but as his relatively small enterprise began to expand, he encountered financial difficulties. Because of the convenience that his flying service offered, the Government began subsidising Bartoni. In addition, the Government began to incur expenses in building a modest infrastructure on which he and aircraft generally could operate. Mr. Bartoni's enterprise eventually collapsed financially after a series of misfortunes including an air crash, and ill-thought out expansions. The company had expanded to include four planes and several pilots and the costs of providing air services were not covered by the revenues collected through the company's operations.

The next venture into airline services was engineered by David Morgan, also a resident of Francistown. In the mid 1960's, he formed and financed a company known as Botswana National Airway. Mr. Morgan was a Botswana citizen who, about the time of his entry into the air services business, also became involved in Government. He was one of the four nominated members of Botswana's first Parliament. He was also appointed Minister of Works and Communications. Just prior to independence, he had started Botswana National Airways without previous industry experience. The airline began as a relatively modest venture which its owner quickly expanded. His ambitious undertaking soon had Botswana National providing international freight and passenger services between Botswana and Johannesburg, Bulawayo, Lusaka and Livingstone. The company also operated air links between Botswana's main population and commercial centres. National Airways operated a fleet of aircraft composed of Dakotas and Beech-Barons. The Company's main administrative and managerial activities were conducted from Johannesburg. During the years in which it was in operation, the company failed to become a profitable venture, the revenue received from its freight and passenger services failing to match the costs of running the enterprise. Botswana National's management approached the Government of Botswana with its problems.

Botswana National, similar to its predecessor, over-expanded and relied on Government to support its ventures when they proved to be unprofitable. For some time the Government did pay a subsidy reaching approximately R50,000 annually. It was indeed awkward for Mr. Morgan to turn to Government for assistance given that he was not only a mem-

ber of Parliament but also a Minister of the agency over-seeing the functioning of Botswana National. However, by 1967 the situation had become so serious and beyond resolve that Botswana Airways terminated operations and ceased to exist.

In early 1969, a third company was formed, Botswana Airways Corporation Ltd. This enterprise was a joint venture between A.G. Burton and the Government. Burton and the Ministry of Public Works, representing the Government, each owned 50 percent of the Company. The Botswana Government supplied cash to account for its fifty percent shares and it gained equal board representation. However, the administrative centre continued to be located at Johannesburg where managerial policies were formulated subject to Government approval. It should be noted that Burton was a contractor who began operating in Zambia before moving to South Africa. Similar to Bartoni and Morgan, he had no previous experience in financing, planning, and managing an air services company.

Botswana Airways provided scheduled flights linking Botswana's main centres and it also supplied international air service connections to and from Lusaka and Johannesburg. The Company serviced these routes with a fleet of Fokker F.27 "Friendship" and smaller nine-seater Britten-Norman "Islander" aircraft. In its early years, the Company experienced the same difficulties as its predecessors. The Company's revenue collection continually failed to match costs and the "Friendship" aircraft were under-utilized. However, the airline projected an increase in demand and capacity utilization over a five-year period. The projected revenue increase failed to materialize sufficiently and year after year the Government had to subsidise the Company in order to cover its increasing operating costs. Paying the subsidies was not an easy undertaking for Government. Budgetary revenues were limited and pressing social and developmental demands competed for scarce public revenues. The Company continued to function under these conditions until 1972 when it ceased to operate. The subsidy became too costly to Government. Not only was Government paying an annual subsidy to the Company, but it also authorised overdrafts with local banks. As the Botswana Airways Corporation became an obvious and hopeless financial disaster, the Government stepped in and paid off the overdrafts and settled outstanding accounts with creditors. This marked the third time that Government had done so on behalf of airline enterprises.

The air services ventures of Bartoni, Morgan (Botswana National), and Burton (Botswana Airways), left many members of Parliament, as well as Government officials, quite pessimistic about the advisability of a national airline service for the country. They appreciated the convenience

air services provided. They also understood the usefulness of air services in overall planning and development. But the members of Parliament and government officials did not accept that the country should have an airline at all costs. The subsidisation and other costs meant foregoing other development projects in order to support a national carrier.

The collapse of the Botswana Airways Corporation left the country temporarily without a national airline. Air services were not totally disrupted because other scheduled and non-scheduled charter flights continued. Despite Botswana Airways' failure, a national service was needed and three factors indicated that air services in Botswana could become economically and commercially viable. First, passenger and freight traffic by air had increased substantially during the 1968 to 1972 period. Second, a rather substantial technical infrastructure supporting air services had been built in the country. Third, there were signs that demand would become sufficient to generate revenues enough to cover air services costs.

Annual increases in air traffic to and from Botswana, and between the country's main centres, are estimated to range from 25 to 30 percent for the 1968 to 1972 period. Although the data are incomplete, Table 1 summarises what is known about scheduled air travel in Botswana during 1972. Estimates place scheduled air services at about 75 percent of total air services, with non-scheduled accounting for the remainder.

The country's air services infrastructure in the early 1970's included main public airports at Gaborone, Francistown and Selebi-Pikwe. Other airstrips were located at Maun and Kasane and about forty auxiliary airfields in the country were mostly designed for the use of smaller aircraft. The Department of Civil Aviation, which was separated from the Meteorological Department in 1970/71, was (and remains) responsible for licensing and controlling all air traffic in Botswana. The Department continues to undertake certification of all aircraft, it licenses all aircrew members, aerodromes, air services, oversees the operation of the country's airports, and remains responsible for traffic control and communications. Established as the Civil Aviation Branch in 1967, the Department has provided infrastructure services which include an aeronautical fixed telecommunications system with Gaborone serving as the communications link between Johannesburg and Salisbury Flight Information Centres. Other air navigation aids include beacons at Gaborone, Francistown, Maun and Ghanzi. There is a V.H.F. communication system at the Gaborone airport which is also served by a basic fire-fighting unit. These infrastructure features were largely developed in the early 1970's and the Government planned at that time to improve existing facilities and to expand upon them.

TABLE I

Transport on Scheduled Air Services in
Botswana, 1972

Route	Aircraft movements	Passengers		Freight		Mail	
		Numbers Carried	Passenger Km ('000)	Tonnes carried	Tonne-Km	Tonnes carried	Tonne Km
(a) INTERNATIONAL							
Gaborone/Johannesburg/Gaborone	420	10,139	2,900	99,6	28,400	23,7	6,778
Selebi/Johannesburg/Selebi (1)	231	3,504	1,612	34,6	15,900	0,4	184
Gaborone/Lusaka/Gaborone	102	2,322	2,415	8,8	9,200	0,8	832
Francistown/Livingstone/Francistown (2)	48	217	90				
Sub Total	801	16,182	7,017	143,0	53,500	24,9	7,794
(b) DOMESTIC							
Gaborone/Francistown/Gaborone	337	3,797	1,576	33,3	13,800	3,1	1,287
Selebi/Francistown/Selebi	311	1,731	173	30,3	3,000	1,4	140
Francistown/Maun/Francistown	334	1,651	726	18,9	8,300	1,9	836
Gaborone/Selebi/Gaborone (2)	80	319	112	1,7	600	1,0	350
Other	367	754	289	4,1	1,600	1,3	564
Sub Total	1,429	8,252	2,876	88,3	27,300	8,7	3,177
Total	2,230	24,434	9,893	231,3	80,800	33,6	10,971

Notes: (1) April to December
(2) January to mid-June

Source: Planning Unit, Ministry of Works and Communications

In 1972, prospects for growing demands for air services in Botswana were reasonably promising. Mining operations were expected to lead to an increase in the demand for passenger services because the large expatriate community living in the area tended to travel relatively frequently. It was assumed that this would enhance an airline's revenue earning capacity. In addition, the border closure between Rhodesia and Zambia meant that traffic to and from Zambia's capital would be diverted from Salisbury either to Blantyre in Malawi or to Botswana's facilities at Francistown and Gaborone.

III. The Botswana Development Corporation and Air Botswana

For the foregoing reasons, another venture into national airline activity was an attractive proposition. Underlying the President's Directive CAB 32/72 were Cabinet discussions centering on the commercial viability of yet another operation. It was concluded that properly done, a national airline operation could become financially sound. The Botswana Development Corporation's management inherited the task of making Air Botswana a financial success. Management was mindful of the past failures and learned from them. Management recognised those aspects of air services that were costly and profit-reducing. These included owning (or leasing) aircraft. Purchase (or lease) costs were increasing as inflation gripped the countries where the equipment was built and sold. Operating costs were increasing particularly because rapidly rising petroleum prices globally caused fuel costs to jump substantially. Other cost factors impinged upon profits: catering was becoming more expensive, some nations were increasing landing fees, and labor and other associated costs were climbing.

However, other aspects of providing air services remained rather profitable. Ticketing agency services required little overhead capital and the returns were related to the expansion in revenue collected by the airlines for which ticketing services were provided. The ticketing agent received a commission regardless of whether the airline whose ticket was sold made a profit. In addition, providing ground-handling facilities would likely be profitable for Air Botswana. Since the facilities existed, additional capital outlays would be minimal and fees could be collected from expanded flight schedules regardless of whether the companies flying the routes did so profitably. In effect, ticketing and ground-handling services were tied to air traffic volumes, both in the number of flights and passengers served: they were not directly related to airline profits.

Air Botswana could have provided air services under its own name, but the Development Corporation did not want its subsidiary to get into the more costly and less profitable aspects of commercial aviation. The Corporation's management came up with a plan that subsequently proved to be astute. Air Botswana sub-contracted its national air traffic rights, a national asset, to private operators of scheduled airlines. This policy shifted the commercial risks involved to the private operators while placing control of the air services under the Development Corporation and the Director of Civil Aviation. Given this decision, Air Botswana performs these functions.

1. Provides a general sales agency service for foreign airlines on a commission basis;
2. Provides ground-handling facilities to foreign airlines on a fee basis; and
3. Provides scheduled charter services by sub-contracting its national traffic rights to a private operator on a commission basis.

At present, domestic air services are provided by scheduled and charter operators between Gaborone, Francistown, Selebi-Phikwe, Maun and Kasane. Air Botswana also operates a service between Johannesburg - Botswana - Lusaka and two other airlines - Zambia Airways and South African Airways - operate routes from Lusaka and Johannesburg respectively to Botswana's main centres.

The Company's profitability began with its first fiscal-year's operations. This is precisely what the Company's policy objective has been since its inception. Tables II and III show balance sheet and profit and loss data for fiscal years 1973 and 1974. The data show that Air Botswana registered an after tax profit of R42,795 for the year ending 30 June 1973. This profit was generated from a first-year revenue of R129,217. The situation improved for the year ending 30 June 1974 when an after tax profit of R53,812 was made out of a revenue of R190,638. When fully compiled, the data for 1975 and 1976 will also show a healthy annual profit. These profits make a useful and important part of the Development Corporation's holdings. In 1973, Air Botswana accounted for eight percent of the Development Corporation's after-tax profit as a holding company. This increased to almost eleven percent during the following year. The

TABLE II

AIR BOTSWANA (PROPRIETARY) LIMITED

BALANCE SHEETS

AT 30 JUNE 1974 AND 1973

SHARE CAPITAL			<u>1974</u>	<u>1973</u>
Authorised:				
10,000 shares of R1 each			<u>R10,000</u>	<u>R10,000</u>
Issued and fully paid:				
3 shares of R1 each			3	3
UNAPPROPRIATED PROFITS			<u>48 607</u>	<u>18 795</u>
			<u>R48 610</u>	<u>R18 798</u>
Represented by:				
FIXED ASSETS	<u>Cost</u>	<u>Accum. Depr.</u>	<u>Net Value</u>	<u>Net Value</u>
	R	R	R	R
Vehicles	2 000	692	1 308	1 734
Furniture, fittings and equipment	<u>10 186</u>	<u>1 460</u>	<u>8 726</u>	<u>4 771</u>
	<u>12 186</u>	<u>2 152</u>	<u>10 034</u>	<u>6 405</u>
CURRENT ASSETS				
Amount owing by associate company			136 248	-
Debtors and prepayments			781	85 360
Bank and cash			<u>64 163</u>	<u>105 249</u>
			<u>201 192</u>	<u>190 609</u>
CURRENT LIABILITIES				
Creditors and accrued charges			115 716	135 107
Amount owing to Holding Company			-	109
Provision for taxation			22 900	19 000
Dividend provision			<u>24 000</u>	<u>24 000</u>
			<u>162 616</u>	<u>178 216</u>
NET CURRENT ASSETS			38 576	12 393
			<u>R48 610</u>	<u>R18 798</u>

.....)
) DIRECTORS

TABLE III

AIR BOTSWANA (PROPRIETARY) LIMITED

PROFIT AND LOSS ACCOUNTS

FOR THE YEARS ENDED 30 JUNE 1973 AND 1974

	<u>1974</u>	18.7.72 to <u>30.6.73</u>
REVENUE		
Ticket, Freight and Charter Commission	R84 548	R60 550
Ground Handling	82 045	54 284
Royalties and Other	24 045	14 383
	<u>190 638</u>	<u>129 217</u>
EXPENSES		
Advertising	287	209
Audit Fee	2 000	1 200
Bank charges	856	574
Depreciation	1 295	857
Director's remuneration	12 430	-
General expenses	1 635	958
Hire charge	309	283
Insurance	710	476
Legal expenses	45	1 080
Loss on disposal of fixed assets	-	54
Management expenses	2 864	1 828
Printing and stationery	6 478	1 832
Provisions for doubtful debts	922	1 245
Rent	4 790	3 415
Repairs and maintenance	1 665	480
Salaries	60 412	43 819
Secretarial fee	861	710
Telecommunications	11 151	6 626
Training expenses	1 913	-
Uniforms	1 373	338
Vehicle expenses	1 478	1 032
Water and electricity	832	406
	<u>114 306</u>	<u>67 422</u>
PROFIT BEFORE TAXATION	76 332	61 795
Provision for income tax based on the profit for the year	22 520	19 000
PROFIT AFTER TAXATION	53 812	42 795
Dividend	24 000	24 000
	29 812	18 795
Unappropriated profit brought forward	18 795	-
UNAPPROPRIATED PROFIT AS SHOWN IN THE BALANCE SHEET	<u>R48 607</u>	<u>R18 795</u>

proportion is likely to climb even higher for the 1975-76 period. This occurred without a heavy initial capital outlay. The Company purchased the assets and equipment of its immediate predecessor for an outlay of approximately R5,000. Air Botswana's profitability is consistent with the Development Corporation's goal of acquiring investable surpluses and using them to finance undertakings that are in turn consistent with the National Development Plan.

Two basic organisational factors contribute to the financial success of Air Botswana. The first is shifting the administrative centre to Gaborone from Johannesburg, where it had been located under predecessor airlines, and the second is recruiting experienced top management. Another factor is a favourable agreement sub-contracting national air traffic rights. In 1974 the Board of Directors of Air Botswana appointed a Managing Director who had a number of years experience with BOAC before spending nearly twenty years with the East African Airways. This meant that an individual who was familiar with the industry, and who was also familiar with the problems inherent in providing air services on the African continent, was available to guide the day-to-day operations of the Company. In addition, Air Botswana's Sales and Training Manager was recruited with similar experience as was the Company's Head Accountant. Their combined experience complement the Managing Director's knowledge and managerial expertise.

The Company agreed to its key sub-contracting arrangements in 1974. Air Botswana entered into a sub-contracting agreement with an associate company, Air Services Botswana (Pty) Ltd. Under the terms of the agreement, Air Services Botswana operates a Hawker Siddeley 748 in Air Botswana's name on the routes served by the airline. The sub-contractor then pays a royalty to Air Botswana. To rationalise the use of aircraft to obtain a higher and more profitable capacity-use factor, Swazi Air contract to use the HS748 to operate some flights between Johannesburg and Swaziland.

Details of the sub-contracting arrangements are complex. Air Botswana contracts national air service rights to Air Services Botswana. Air Services, headquartered in Johannesburg, is primarily owned by Avdev Aviation Development Ltd., a corporation constituted under the laws of Switzerland. Air Services leases a Hawker Siddeley 748 from Avdev under the following specified conditions:

- (a) flights will be limited to Africa south of the Equator,
- (b) the lessee shall maintain the aircraft in good condition,
- (c) it shall perform repairs, replace parts and equipment when needed, and
- (d) it shall perform overhauls.

The lessor may recover damages in the event that conditions (b) through (d) are not met. Air Services is also closely involved with Protea Air Services, another South African company sharing the same mailing address as Air Services Botswana. This latter company, Protea, provides two services to Air Services. It leases a DC-3 which is used by Air Services Botswana on charter flights. In addition, Protea provides a management service to Air Services on a commission basis. Protea is also a subsidiary of Avdev, as is Swazi Air, the company working with Air Botswana to improve seating capacity utilisation on scheduled flights.

The contract between Air Botswana and Air Services Botswana provided that from 1st April 1974, twelve months notice of termination would have to be given by either party. In addition, no such notice could be tendered during the first eight years of the contract's existence. From 1st April 1974 to 31st March 1976, Air Botswana received a royalty of five cents per each statutory mile flown. In case of fare increases beyond those effective on 1st April 1974, a proportional share of the increases is to be paid to Air Botswana. The contract provided that from 1st April 1976, the per statutory mile flown rate would increase to 7.5 cents, with the same proviso about fare increases being proportionally shared. The new commission rate came into effect this year. Air Botswana also receives portions of fare increases since April 1976.

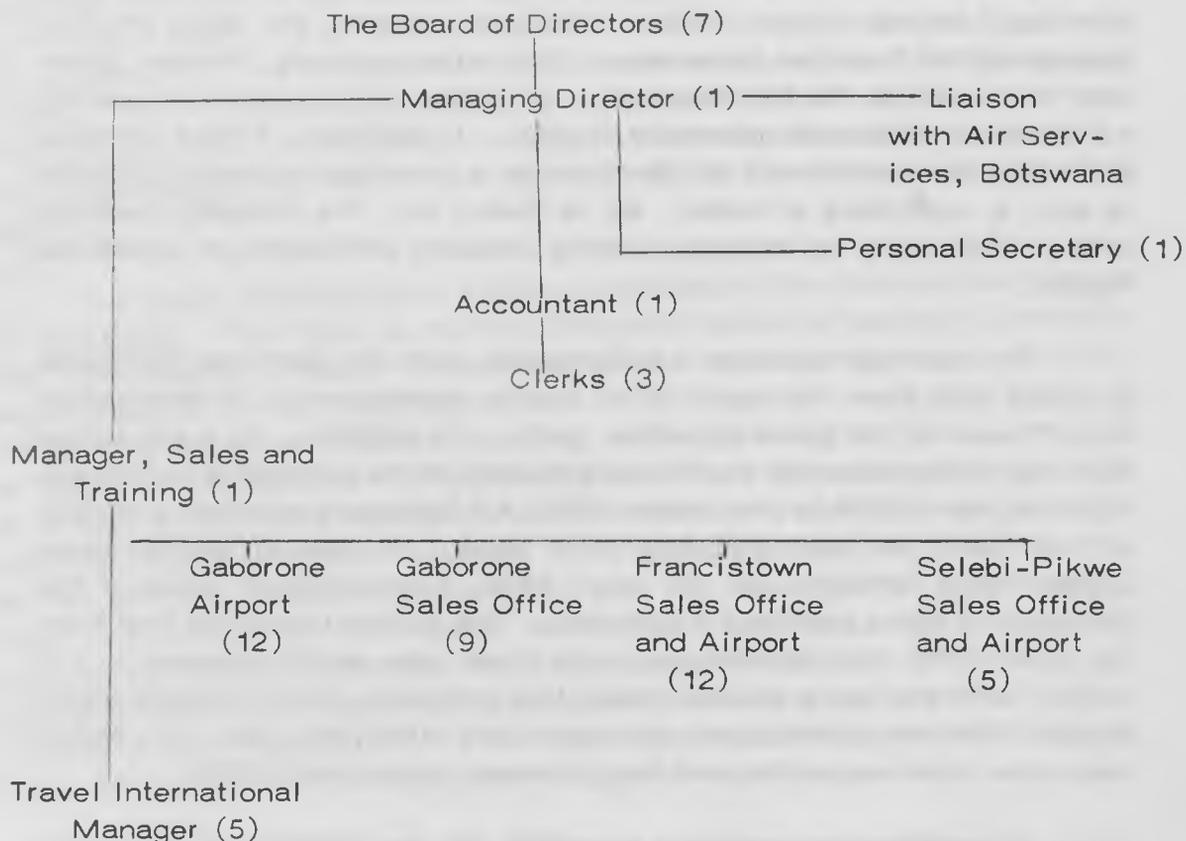
In addition to receiving royalties for the transfer of air traffic rights, Air Botswana receives payments from Air Services for ground-handling from Air Services Botswana, South African and Zambia Airways and any other line it services. Fees for all airlines are tied to those charged to South African Airways.

An additional source of revenue is a three percent ever-riding commission on all ticket sales by Air Botswana, both domestic and international in compensation for general sales agency duties.

IV. The Organisation and Management of Air Botswana

Air Botswana's organisation is straightforward, as shown in Chart I. The Managing Director oversees the organisation and is a member of the Board of Directors which appoints him. The Board has six other members, three from the Botswana Development Corporation and three representatives of Government - The Governor of the Bank of Botswana, the Permanent Secretary of the Ministry of Works and Communications, and the Administrative Secretary, Office of the President.

Chart I. Organisation: Air Botswana (Pty) Ltd.



The Company's general management is the direct responsibility of the Managing Director. He enjoys a wide latitude in planning, directing, coordinating and controlling the Company. He does so subject to the understanding that Air Botswana will be managed in a manner consistent with (a) the commercial interests of the Botswana Development Corporation, (b) the technical responsibilities of the Director of Civil Aviation, and (c) the provisions of the National Development Plan.

V. Air Services in Botswana: Supply, Infrastructure, Demand and Legal Framework
Supply:

The structure of the supply side of the industry involves both scheduled and non-scheduled charter airlines. Air Botswana, through Air Services Botswana, and Swazi Air - through an agreement to pool resources with Air Botswana - combine with Zambia and South African Airways to fill the demand for scheduled services. These scheduled flights account for about 75 per-

cent of all the country's air traffic. The remainder is provided by charter companies such as Desert Air and Kalahari Air Services. The annual demands for scheduled and charter services are estimated to increase by 17 to 25 percent for the next several years. Charter companies are expected to experience a somewhat greater rate of growth, perhaps to 30 percent if tourism expands at a steady rate.

Infrastructure

The airlines operate within a continually improving infrastructure. Bitumen airstrips have been built at the Gaborone, Selebi-Pikwe and Francistown airfield sites. However, none of the sites can currently accommodate heavy jet aircraft. A detailed plan for the development of civil aviation is being drawn up as part of the national transport plan now under preparation. During the 1976-1981 plan period, several projects, including jet aircraft flights, could be implemented. The improvement of physical facilities generally, as well as improvements in navigation and communication systems, will be undertaken. The planned relocation of the Airport at Gaborone to a site further from the city centre might be deferred. The present facility is to be upgraded to a standard capable of accommodating short-range jet aircraft.

Demand

On the demand side, an important part of the expected growth in the non-scheduled charter field is tied to tourism. Non-scheduled flights which already account for about 25 percent of all air travel in the country, are expected to continue growing at a more rapid rate perhaps reaching 30 percent.

Whether the expected growth actually comes about will depend on a number of factors. One is the success of Government policies designed to develop wildlife tourism; that is, hunting, fishing, and photographic safaris. Certainly some Government officials have reservations about the appropriateness and economic justification for extensive public investment in conventional mass tourism to Botswana. Under current circumstances, their concerns are well founded because growth in the number of tourist hunters, fishermen and game viewers visiting Botswana is limited both by the capacity of the wildlife areas and their physical accessibility. Investments, they urge, must be weighed carefully on a cost/benefit calculus. There are some favourable prospects regarding increase in incomes, employment, and revenues from this sector. It caters to the high-income tourist who is willing to pay dearly for the right to fish, hunt and view game

in one of the world's prime recreational areas. Expanding the modest facilities could be regionally important, particularly in the sparsely populated areas to the north and northwest, and Government has a project on the development of parks which would include Maun, the Okavango, Moremi, Chobe and the Nxai Pan. The development of accommodation at arrival and departure points would be left to the private tourist-oriented companies. The Government would develop modest tourist camps within the areas as well as provide improved roads servicing the parks.

Another factor is the growth in air traffic simply to provide the usual support to the general economic and social development of the country. A healthy charter and non-scheduled market may be to some extent independent of tourism.

The demand for Air Botswana's services might be enhanced by tourists coming from abroad when Air Botswana performs ticketing services. While this is unlikely, handling fees from Lusaka and Johannesburg flights could increase if tourism's growth generates more incoming and outgoing flights.

Air Botswana's main interest, along with its sub-contractor, is not tied to tourist travel. According to recent Development Plan analysis, there are five main conditions under which such travel is likely to increase: (a) when the demand is generated in a small area such as Gaborone, Francistown, or Selebi-Pikwe; (b) when the incoming or outgoing trips are non-stop or at least reasonably direct; (c) when they cover relatively long distances; (d) when alternative modes of transportation either do not exist or are expensive; and/or (e) when individuals place a high value on their time or the time that freight is in transit.

Legal Framework

Botswana's air services industry operates within a regulatory framework coming under the purview of the Ministry of Works and Communications. In addition, an Air Transport Licensing Authority exists and its functions are (a) to advise the Minister on matters appertaining to the provision of scheduled air services, both domestic and international, and (b) to license air operators to provide these services as necessary. The Authority's membership consists of the following members:

- | | | |
|-----|---|----------|
| (1) | Permanent Secretary Minister of Works
and Communications | Chairman |
| (2) | Director of Civil Aviation | Member |

- | | | |
|-----|--|--------|
| (3) | Representative from the Legal Department | Member |
| (4) | Member from the Private Sector | Member |
| (5) | Member from the Private Sector | Member |

The Authority requires Air Botswana to provide international and domestic scheduled air services to meet the needs of the Community in accordance with the terms of Presidential Directive of July 1972. In the event that Air Botswana is unable or unwilling to provide a scheduled service that the Authority consider necessary to serve a public need, then it will license another operator for this purpose.

The National Airline's operation is protected in that the Authority will not approve any application from other operators that will place them in a competition with the National Airline on the routes for which the National Airline is licensed. Air Botswana is entitled to make any commercial arrangement it wishes to provide the service for which it is licensed, but the Services must be implemented within 180 days of the license being issued.

The Authority considers applications from other operators for the provision of air services not provided by the National Airline. Any applications will be published and the National Airline will thus be provided with an opportunity to object. The Minister's policy directive to the Authority requires that body to give preference to the National Airline when granting licenses for scheduled services and any objection lodged by the National Airline will be sustained provided that Air Botswana is prepared to operate the service itself or arrange for it to be operated by a contracting agent.

Non-scheduled public transport operations and aerial work is controlled by the Ministry through the Director of Civil Aviation. The Director implements the Ministry's policy which is to encourage this type of operation to meet the public need and the needs of a developing economy. The National Airline is to be consulted in accordance with the terms of the 1972 Presidential Directive. Non-scheduled public transport operations are regulated as required, using current civil aviation legislation. Air Botswana is entitled to operate non-scheduled air transport services, but this type of operation is not covered by any license issued by the Authority. It is necessary for an application to be made to the Director of Civil Aviation for an Air Service Permit. In those cases when applications are received to operate non-scheduled services or perform aerial work from operators other than the National Airline, Air Botswana will normally be given pref-

erence provided that it has the capability, it's terms are reasonably competitive, and it's operation is in all other respects in order.

The Minister exercises control over fare structure and pricing in respect of scheduled and non-scheduled operations to ensure that air transport operators adopt a national pricing policy than can be shown as being closely related to costs. Also, it is the Minister's policy that in the foreseeable future the National Airline shall have a monopoly at Government Aerodromes for the handling of aircraft, passengers, baggage, and cargo. This does not provide Air Botswana with the right to sub-contract these functions. In the event that Air Botswana does not wish, or is unable to undertake these functions, the Minister may direct that public tenders are called.

The above framework is contained in "Guidance Material Provided to the Botswana Development Corporation Ltd. by the Ministry of Works and Communications on the Ministry's Air Transport Policy". In a replying letter from the Development Corporation, some additional points were made.

First, Presidential Directive CAB 32/72 sought to invest in The Botswana Development Corporation, as the commercial arm of Government, with the responsibility for using Botswana's airspace asset in a commercially sound way, generating funds to benefit the general development of the economy. Were any of these funds to find their way into expenditure for expanding or improving the general civil aviation infrastructure, they would do so via the normal Government allocation process: a civil aviation budget would be accepted by Government; and the Development Corporation would declare a dividend covering its agreed upon contribution to that budget.

During Air Botswana's four years the underlying policy that caused it to be created has not changed. However, differences of interpretation of the Presidential Directive between various civil aviation officials and the Board of Air Botswana have been noticed. Clearly, for Air Botswana to continue to be able to carry out its mandate, those areas where confusion has arisen should be clarified, and the intention of the Presidential Directive should be made absolutely clear.

Second, the Minister for Works and Communications might issue the following regulations, which he can do under the various pieces of enabling legislation that govern civil aviation:

1. A nominee of Air Botswana must be a member of any Air Transport Licencing authority that may be constituted.
2. All licences, of whatever duration, for domestic or international scheduled routes or services, or for international non-scheduled services for the carriage of both passengers and freight must be subject to the licensee entering into a royalty agreement with Air Botswana. Royalty agreements, or air fares, would, of course, be subject to review by the Board of Directors of the Botswana Development Corporation and therefore by Government thereby assuring that the national interest is reflected in any agreement or fare constructed.
3. All domestic and international charter flights, passenger or freight, that could compete with a scheduled flight must be subject to the approval of Air Botswana.
4. Air Botswana must be at liberty to establish both domestic and international fares subject to international agreements.
5. The Minister of Works and Communications instructs all members of the Ministry staff to take, at all times, all steps necessary to enable Air Botswana to fulfill all of its warranties and obligations arising from its contracts with Air Services Botswana.
6. A nominee of Air Botswana must be a part of any official negotiating team that deals with airline matters - such as bilateral treaties, etc.
7. Air Botswana must have the right to monopolize the handling of aircraft, passengers, baggage and cargo within Botswana.

This then in the unclear state of the legal framework under which Air Botswana operates.

VI. Policy Objectives

At this point, some policy objectives should be made clear. The Development Corporation's primary goal is to obtain profits from its various holdings in order to make investments leading to economic development and social progress in Botswana. This means that Air Botswana's policy objective, as a subsidiary company, is to operate profitably through an effective organisation, an efficient management, and within a favourable agreement with its sub-contractor, Air Services Botswana. Air Botswana has an interest in relatively high royalties in exchange for air traffic rights, a national asset. It also has an interest in relatively high fees for ground-handling and ticketing services. Air Services Botswana, a profit oriented private company, is interested in its own profits. Air Services is interested in obtaining a contract wherein its royalty payments and fee expenses are relatively low. But it is clear that while the two companies have conflicting objectives, they share an over-riding interest in maintaining a situation where neither bankrupts the other. And while it is not claiming near bankruptcy, Air Services Botswana is failing to make a profit. When the agreement was signed, it was envisioned that Air Services would begin to make money in its third year of operation. But operating costs have increased beyond expectations due to the rises in fuel prices, catering services costs, landing fees and the general level of inflation. The sub-contractor is requesting that Air Botswana delay further any imposing of the royalty increase that comes into effect on 1st April. Combined with an increase in fares with the permission of IATA, this action could go a long way towards coping with Air Services financial situation.

Another important set of policy objectives have to do with transport planning within national planning objectives. According to the current National Development Plan, the objectives of transport planning in Botswana are as follows:

- (a) to draw up an accurate inventory of resources available to meet the demand for movement of goods and passengers,
- (b) to recommend ways by which these resources can be used more efficiently in meeting existing demand,
- (c) to estimate future demand for transport services, and
- (d) to determine the best method of expanding the transport resources of the country in order to meet future demand taking into account various national objectives set out in the National Development Plan.

Air Botswana will have a role to play in the country's future air transport picture. It is expected that air traffic will expand rapidly during the 1973-1978 plan period as well as during the 1976-1981 time span. The most recent plan notes that, benefiting from the experiences of its predecessors, Air Botswana will most likely not attempt to operate new air services until it is sure of their commercial viability. The Plan goes on to note the possibility that Air Botswana might at some time in the future consider starting its own services, using its own aircraft, if demand expands sufficiently. Given the uncertainty about Air Botswana's commercial expansion, it seems reasonably likely that non-scheduled air charters will come to play an important role in the national transport scheme. They are able to service the more remote sections of the country where demand will not support scheduled service. In addition, air charter services provide a flexibility not offered by a set service schedule. They can react to needs rather than force passengers and freight-shippers to set their plans in response to a fixed schedule. This might be particularly cost-saving when one considers that valuable time is saved. Government officials and employees and people and goods from the private sector can be moved quickly and possibly at a cost saving.

Both the Ministry of Works and Communications and the Department of Civil Aviation see a necessity to expand the country's air services industry. But Air Botswana's management is not anxious to become part of a general expansion at this point in time.

Briefly, then, Air Botswana stands today as a financially successful company. Its success is founded on a threefold cornerstone: it is efficiently managed; its functions are limited to profitable ones; and it avoids commercial risks by leasing the national asset for which it is responsible - Botswana's air traffic rights. Any modification of what the Company does would most likely have its origins in the need for air services as an aspect of national planning.

VIII. Some Questions and Situations for Discussion

1. What important policy lessons might be drawn from Air Botswana's experience?
2. What organisational and Managerial lessons are there in the Air Botswana case?
3. Discuss the policy question of where a company such as Air Botswana might go? Should it minimise risk and maintain a status quo? Or should it attempt to become an even more profitable enterprise by expanding its operations?

4. Is a regional airline involving Botswana, Lesotho and Swaziland a potentially good idea? Discuss the possible benefits and costs associated with a regional scheme.
5. Should Air Botswana operate on a policy designed to focus on profits? Or should the airline expand air services even though they might not be profitable? Are the public benefits of improved mail, passenger and freight delivery services worth the social costs of Government subsidies?
6. You represent the Ministry of Finance in a fictitious country whose economic characteristics are similar to Botswana. In the past, your Ministry has financially subsidised a national airline. It was unable to cover its cost of operation with the revenue it collected. The extent of subsidisation became a serious proportion of total government spending just prior to the airline's collapse. Consider now that you have a profitable airline operating much like Air Botswana. Consider further that the Ministry of Planning and the Ministry of Transport (including air) has requested the airline to expand its activities to provide needed infra-structure services consistent with the overall development plan and the sub-plan in the transport sector. The airline contends that it cannot do so profitably. You appear to have three options: (a) to decide not to pledge a subsidy to the airline; (b) to decide to subsidise the airline in accordance with all of the wishes of the Ministry of Transport (which also has a bureaucratic interest in expanding air services); or (c) to subsidise the airline only to the point of meeting the goals and objectives of the National Development Plan which calls for fewer services than proposed by Transport. It is reasonable to expect that technically oriented staff in the Transport Ministry might believe that more services need to be provided than would more cost-conscious officials in the Ministry of Planning.
Discuss how you would approach a solution to the problem of deciding what to do. However, do not feel confined to the above options. You might find a better one. In addition, in this and the following situation, please note that neither necessarily depicts a situation currently facing Air Botswana.
7. You represent a Board of Directors whose subsidiary is a national airline much in the same way that Air Botswana is a subsidiary of the Botswana Development Corporation. The subsidiary, the national airline, has sub-contracted the national asset - air traffic rights - in exchange for a royalty payment. The sub-

contractor is a private enterprise, profit-making, company. But under the terms of the contract, and within the general economic situation, the sub-contractor company is not making profits. Its costs have soared beyond what was predicted at the time that the contract was signed. And because it is constrained by IATA from increasing fares substantially, it is in financial trouble. The sub-contractor comes to you with a proposition. He wants the airline to re-negotiate the contract's terms whereby a lower royalty would be paid to the national airline for the air traffic rights. You represent the parent company whose interest is in the national airline subsidiary continuing to make profits at least at current levels. Those current profit levels permit the development agency to finance other projects having social and economic usefulness. You appear to have two options: (a) you could agree to the sub-contractor's wishes and decrease the royalty thereby diminishing profits and the development agency's opportunities to make other investments; or (b) you could refuse to do so and take the chance of the sub-contracting company going bankrupt and ceasing operations. You might take the risk of the latter if you were sure that either the national airline itself could take over the provision of air services, or that it could find a satisfactory replacement.

Discuss what you would do in the case and do not feel confined to either of the options suggested above.



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