Industrial Strategy and the African State:
The Botswana Experience

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The research for this article was partially supported by the Writing and Research Program of the John D. and Catherine T. MacArthur Foundation. Dr. Samatar gratefully acknowledges the generosity of MacArthur Foundation.

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**Introduction**

The state has been the central focus of much social science research on development in the last two decades. The debate has shifted from a view of the state as a central actor in directing development to one in which it is seen as a constraint on market forces and, consequently, development. The African state, in particular, has come under severe criticism since the early 1980s. Its critics attribute the continent’s general lack of economic progress to the state, arguing that it is ineffective and dominated by rent-seeking groups who lack the institutional discipline to induce systematic accumulation (Sandbrook 1986). Liberal and radical scholars agree on the African state’s impotence; however, their explanations and reform strategies are different. Radicals and activists advocate restructuring the state and its development institutions so that it can and will play a vigorous developmental role (Stein 1995; Samatar 1998). Neoliberal institutions and associated scholars argue for a minimalist state under the rubric of structural adjustment programs (SAP) and good governance (Sandbrook 1993; World Bank 1989, 1994a).

The neoliberal view of the state and its associated development strategy have held sway in Africa for over a decade. The few studies which existed on African industrial performance during this period show that SAP’s impact has generally been severe. A cursory examination of the performance of Africa’s manufacturing sector shows three industrial development phases: (1) independence-1970, (2) 1970-1980, (3) 1980-present. Industrial growth under state leadership characterizes the first phase. Available data for this period show that Africa’s manufacturing growth was mixed, with some countries performing better than others. Stagnation and a decline in industrial production marked the second phase, still under state tutelage. Rapid decline and deindustrialization characterize the period from 1980 to the present.

The situation has become so precarious since 1980 that some international organizations have given up on significant industrial growth or recovery in Africa. The United Nations Industrial Development Organization (UNIDO), in its 1991/92 Global Industry and Development Report, noted: “The prospects for industrial growth in Tropical Africa do not look promising in either the short- or the medium-run” (UNDO 1992, 51). This period coincides with the widespread adoption of neoliberal economic reforms and the dismantling of the activist role of

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1 Valk’s (1994) literature review on industry in Sub-Saharan Africa under SAP shows the lack of serious research on the subject. Also, see Stein (1992).
African states in industrial development. The concurrent decline of the interventionist African state and rapid deindustrialization since 1980 contrast sharply with the rapid industrial growth in most of the newly-industrialized countries (NICs) under the state’s tutelage.

This article revisits the relationship between the state and industrial development in Africa. The analysis shows the mutuality of states and markets in African industrialization, contrary to the neoliberal strategy. A disciplined activist African state that governs the market is essential for industrial development and recovery. Using empirical evidence from Botswana, we show how Botswana has induced a relatively successful industrialization project, contrary to the general trend of deindustrialization and retraction of state involvement in Africa in the 1980s and 1990s. This case study challenges the neoliberal camp’s belief about SAP’s efficacy in addressing the crisis in African economies. It also points to an alternative strategy, one in which the state and the market can work together to ensure development.

The article is divided into three sections. The first section reviews the literature on industrial policy and the African state’s role. The second section focuses on Botswana’s industrial policy that has laid the basis for industrial growth. The third section demonstrates the significance of the Botswana industrial experience and the Botswana state for African development.

State and Industrial Development in Africa

The role of industrialization in development cannot be overemphasized, and the emergence of a dynamic manufacturing sector has typically marked a country’s transition from low to intermediate income levels (Chenery, Robinson and Syrquin 1986; Hawkins 1986; Kitching 1989; Singh 1982). A strong industrial sector also generates employment and enhances the development of backward and forward linkages in the wider economy (Singh 1979; Kitching 1989, 6).³

Despite the evidence proving the importance of manufacturing in capitalist development, only a handful of Third World countries, particularly in East Asia, have achieved significant industrialization since the 1950s. Although the performance of Africa’s manufacturing sector has

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² “Industry” and “manufacturing” are used interchangeably in this article.
³ This does not imply that manufacturing automatically leads to improvement in living standards. The mere existence of industrialization does not necessarily lead to the satisfaction of basic human needs, but only creates the potential for the provision of such services.
always been poor, the sector has declined overall since the 1970s. Africa’s share of developing countries’ manufacturing value added (MVA) decreased from 3.6% in 1980 to 2.9% in 1988. Similarly, its MVA, which had been growing at 6.6% annually from 1970 to 1980, declined to 3.2% from 1980 to 1988. In addition, the continent’s per capita growth of MVA was 2.3% per annum from 1970 to 1980, but declined to only 0.2% from 1980 to 1988. The only industrialization measure for which Africa indicated an increase was the share of MVA in GDP. It increased from 7.4% in 1975 to 9.1% in 1990. However, the growth in share of MVA in GDP does not necessarily mean that Africa’s industrial sector expanded; rather, it was due to a decline in the contribution of other sectors (UNIDO, 1991).

Although differences exist among the performance of African countries’ industrial sectors, nearly all have experienced industrial involution since the 1970s. Even the manufacturing sectors of more “successful” countries, such as Cameroon, Cote d’Ivoire, Kenya, and Zimbabwe, have been declining since the late 1980s (Riddell et al. 1990, 6). Trends in the manufacturing sector’s performance in these successful countries and the timing of their decline are startling. The decline coincides with the period that these countries signed SAP agreements. State retraction and the plunging of the manufacturing sector do not necessarily indicate causality; however, this correlation is too important to ignore.

The manufacturing sector’s performance has been poor for over thirty years; however, the sector fared better in the fifteen to twenty years immediately after independence. In the early post-independence period, industry received prominence in almost all African countries’ long-term development strategies. However, by the early 1970s, a series of powerful external shocks

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4 Data on manufacturing in Africa are vague and rudimentary. See Riddell (1990) for a discussion of data problems.
5 For the periods 1970-1980 and 1980-1988, the contribution of construction and service to GDP declined from 8.3 to 3.9% and from 5.5 to 1.6% respectively. Similarly, the contribution of industry decreased from 5.5% to 1.6% during the same periods. Agriculture is the only sector that showed a modest increase from 1.0 to 1.2% for the same period (UNDO, 1991).
6 Cameroon’s MVA grew at an annual rate of 2.5, 11.3, and -4.3% over the periods 1963 to 1973, 1980 to 1988, and 1993 to 1994 respectively. Cote d’Ivoire registered a similar pattern of decline from 10.7 to -1.4% from 1963 to 1973 and 1980 to 1988 respectively. The situation for Kenya is somehow ambiguous: from 1963 to 1970, it was 8.6% per annum; it increased to 10.1% from 1970 to 1980 and decreased to only 2.2% per annum from 1990 to 1994. By contrast, the situation in Zimbabwe is more striking. From 1963 to 1973, the country’s MVA grew by 10.9% per annum; however, from 1990 to 1994, the sector was performing at a disappointing -5.6% per annum.
7 The Cameroonian government launched an economic reform program in 1988. Gate d’Ivoire also introduced its reform program in the early 1985. Kenya has been on and off with its reform efforts. Zimbabwe also initiated economic reform program in 1991.
8 This was often done with the advice and consultation of the international agencies. This conception of development was supported by many academicians (Prebisch 1950), international financial agencies, and consultants (Lewis 1955).
and domestic problems had hit many African countries (Jespersen 1992; World Bank 1981a; IMF 1989). The resulting economic crisis forced African states to seek relief from the international financial institutions. These financial institutions made loans conditional upon these countries’ implementation of a set of macroeconomic policies, or SAPs. Since the main premise of SAP is the efficiency of markets as a means to ensure resource allocation, African states were portrayed as responsible for their economic demise. In fact, some SAP supporters prefer market failure to state failure (Lal 1983).

The World Bank has been at the forefront of this anti-statist development strategy, and it first articulated its African agenda in the Berg Report (World Bank 1981a). The report insists that domestic policy inadequacies, resulting in overprotection of industry and bias against agriculture, have exacerbated the crisis (World Bank 1981a, 4). It then proposes an agriculture-based and export-oriented development strategy as a prelude to industrialization, urging African governments that “the pace of industrialization should not be forced” (World Bank 1981a, 95). The anti-industrial thrust of the Bank’s strategy was also explicitly stated in a 1984 report (World Bank 1984). The Bank considered African industry as a lethargic sector, consisting of large public investments that have contributed little to growth (World Bank 1984).

In the late 1980s, the Bank appeared to think differently about industry’s significance in African development (World Bank 1989). The 1989 study accorded industry a prominent role in Africa’s economic recovery. It also argued that the “stress on agriculture does not imply a minor role for industry” (World Bank 1989, 39). The change in the Bank’s rhetoric, however, has not been accompanied by a change in policy. The Bank recommends that markets need to be expanded, and the minimalist state is expected to create an enabling environment (World Bank 1989, 5). While the World Bank’s belated recognition of industry’s role in economic development is to be commended, its African polices do not reflect this recognition.

In its 1994 assessment of SAP, the World Bank literally had to go around Africa searching for cases of industrial successes to counter its anti-industrial critics’ bias (World Bank 1994b, 149-52). The report argues that the countries that improved their macroeconomic policies showed strong increases in their manufacturing sectors. The report bases its claim mostly on the

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9 This shift in development focus from states to markets is problematic since creating effective institutions to support a market economy requires strong states with high organizational capacity (Waterbury 1992). The debate, then, should be defined in terms of the type of state that is capable of ensuring development.
Ghanaian case. According to the report, new industries\textsuperscript{10} are better able to take advantage of new opportunities and have a higher propensity to save and experience greater upward mobility. The Bank concluded that since SAPs are leading to industrial growth, what is needed is to intensify existing polices (World Bank 1994b, 152).

Just as some World Bank publications are often misconstrued as advocating industrialization in Africa, they sometimes give false signals concerning the role of the African state in development. After mounting evidence from East Asia indicated the state’s important role in the region’s development (Amsden 1989; Wade 1990; 1996), the World Bank reluctantly “revised” its position on the state. The attempt to forcibly fit the Asian experience into its neoliberal agenda (Amsden nd) betrays the Bank’s new attitude toward the state. Despite these shifts in the Bank’s position, the role it assigns to the African state is quite different from the one for East Asian states. For instance, the Bank recognizes the importance of government policies in creating competitive firms in East Asia. At the same time, the Bank argues that due to problems of poor governance and administrative skills, African countries should rely on financial systems to create competitive firms. In Africa, emphasis is placed on better governance and democracy (World Bank 1989, 1991, 1993). However, C. Ake indicated that the World Bank’s new position has had only a cosmetic impact in Africa:

With few exceptions the democratization has been shallow; typically, it takes the form of multiparty elections that are really more of democratic process than a democratic outcome. Authoritarian state structures remain, accountability to the governed is weak, and the rule of law is sometimes nominal (1996, 137).

The World Bank’s attitudinal change belies the fact that even the so-called new democracies have no real autonomy from international financial institutions in their policy making powers. This autonomy was key to the East Asian successes.

The World Bank claims that it bases its support for market mechanisms on the industrial successes of the East Asian NICs. Its 1981 study on East Asian industrialization concludes that successful countries were those that avoided inward-looking trade policies and encouraged greater export orientation (World Bank 1981b). Supporting the World Bank’s position, researchers like B. Balassa (1981) and A.O. Krueger (1981) argue that protectionist policies in

\textsuperscript{10} The World Bank defined new firms in Ghana as firms established after 1963, two decades before SAP was introduced in the country. It is not clear how SAP could take credit for the success of such firms.
pursuit of import substitution were a failure; what succeeded were policies that “get prices right.”

More recently, another World Bank study of the East Asian miracle reechoed the importance of market liberalization in industrial development (World Bank 1993). To the World Bank, the task is clear: countries that want to industrialize must follow market signals, get prices right, and expose industries to competition.

Many studies on the NICs challenge the Bank’s faith in “unleashing the market.” These studies on the NICs point to the state’s central role in virtually all the countries that have industrialized (Amsden 1989; Wade 1990; Stein 1995, Clark and Kim 1995). Amsden argued that all the late industrializers in East Asia experienced significant levels of state intervention to get relative prices “wrong,” in order to overcome lateness penalties. Likewise, “discipline by the state over private enterprise was part and parcel of the vision that drove the state to industrialize” (Amsden 1989, 14). Similarly, R. Wade (1990) documents how the governments of Taiwan, South Korea, and Japan “governed the market” through policies, while at the same time allowing the vigorous functioning of the market to guide resource allocation.¹¹ In fact, the East Asian NICs are traveling on the industrial path pioneered by the Japanese (Lazonick 1991). Studies in Africa also give credence to the idea that interventionist state policies are sine qua non for successful industrialization. Zimbabwe’s industrial accomplishment has been attributed to state policies of protecting non-traditional categories of manufacturing (Riddell et al. 1990; Riddell 1994).¹²

Contrary to the World Bank’s insistence on using market signals to ensure allocation of productive resources, evidence from East Asia and Africa confirms the importance of developmental states¹³ in “governing the market” to ensure a successful industrial project. Moreover, SAP policies have had a decade and a half to effect positive and significant change in the productive sectors. Yet available evidence indicates that many African countries implementing SAP have not changed for the better (UNECA 1989; Campbell and Loxley 1989; ¹¹ Clark and Kim (1995) also highlight the state’s central role in the first phase of Asian industrialization. Beyond that level, they argue, specific firm strategies are very significant in stimulating export.

¹² During the years of Unilateral Declaration of Independence (1966-75), Zimbabwe expanded its manufacturing sector dramatically in the face of economic sanctions. Its MVA grew at a rate of 10.9% per annum. The industrial growth was stimulated by the government’s comprehensive system of foreign-exchange controls. Policies were also put in place to aid export expansion and economic diversification. In addition, agriculture was stimulated to facilitate the expansion of food processing and textile production. These policies provided the general context within which manufacturing growth occurred (Riddell 1990).

¹³ White and Wade’s (1988) definition of developmental state is similar to Duval and Freemen’s (1983) entrepreneurial states.
This article endorses the critical literature which calls for building effective public institutions and improving the capacity of the African state to selectively intervene to promote specific sectors (Stein 1994, 1845; Samatar 1998). Specifically, the Botswana state has, since 1982, guided an industrial project to achieve economic and social objectives without owning the means of production. Botswana illustrates how state policy has guided industrial development to: (1) diversify the country’s economic base away from diamonds and cattle; (2) improve gender equality in industry; (3) increase citizen participation in the industrial project; and (4) improve regional, rural, and urban balance in the distribution of the country’s industries.

**Industrial Policy and Development in Botswana**

Botswana was among the ten poorest and least developed countries in the world in 1966. Unlike many former British colonies or protectorates, Botswana inherited almost nothing in the way of physical and social infrastructure to enable it foster economic growth and development. Its per capita GNP at independence (1966) was less than $70. The country’s only manufacturing enterprise was the Botswana Meat Commission (BMC). Botswana typified “an extreme example of an economy exporting almost everything produced and importing almost everything consumed” (Harvey and Lewis 1990, 24; Mayo 1983). Colonial Botswana was a labor reserve for racist South Africa, exporting unskilled cheap labor and live cattle there (Tsie 1995, 29-30).

Despite its vulnerability to South Africa and its poverty, Botswana transformed its economy within fifteen years of independence (Mmusi 1983). The GDP’s average annual growth rate of 14.3% from 1965 to 1980 and 12.1% for 1980-85 was higher than the average for upper middle income countries (World Bank 1987, 204-05). Botswana’s manufacturing sector also grew at a 12.5% average from 1966 to 1980, compared to the 5.3% average for Sub-Saharan Africa (UNIDO 1991). Despite the GDP’s growth, agriculture and mining continued to dominate the economy. Furthermore, foreigners owned the majority of manufacturing firms and major commercial enterprises. Botswana was concerned about industry’s lagging rate, regional development imbalances, and low citizenship ownership of enterprise. Consequently, it embarked on a state-driven industrial policy. The Financial Assistance Policy (FAP) of 1982 was this program’s first formal articulation.
FAP: GOVERNMENT OBJECTIVES AND PRINCIPLES FOR FUND ALLOCATION

The FAP is a system of grants the government provides to assist with setting up or expanding selected private sector business in manufacturing, agriculture, mining, and mineral processing projects. FAP’s objectives include creating sustained employment for unskilled workers, producing goods for export or import substitution, diversifying the economy to lessen its dependence on agriculture and mining, promoting active citizen ownership of economic ventures, ensuring gender equity in industry, and upgrading citizens’ skill levels through training (MFDP 1994). Implicit in the policy is also the need to ensure equitable regional distribution, especially with regard to rural industrialization.

The government identified three business categories eligible for FAP support. The first includes small-scale enterprises (SSE). These have a maximum investment in fixed assets of P25,000. The second category is medium-scale enterprises (MSE). These include operations with an investment in fixed assets of between P25,000 and P900,000. The third group is comprised of the large-scale enterprises (LSE) with an investment in fixed assets in excess of P900,000. FAP for SSE is provided on a capital grant-only basis and is limited to citizens. Applicants must have technical competence in the product they produce and make a 25% equity contribution toward the project’s cost. FAP considers project location and the proprietor’s gender in allocating funds for SSE projects (Appendix 1). Female proprietors are eligible to claim up to a 15% subsidy of the total investment. Similarly, FAP favors rural areas over urban areas in allocating SSE grants (Map 1).

MSE and LSE entrepreneurs can choose from two types of grants: automatic financial assistance (AFA) and case-by-case financial assistance (CFA). The AFA option is open to new enterprises only. AFA offers three types of assistance: (1) a tax holiday in the form of reimbursement of tax paid for the first five years (100% in years one and two, 75% in year three, 50% in year four, and 25% in year five); (2) reimbursement of documented wage costs for

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14 The discussion on FAP is based on the three evaluations undertaken in April 1984, May 1988, and October 1994.
15 Although FAP provides grants for industrial, agricultural, and mining projects, this article focuses on the industrial sector.
16 The currency of Botswana is Pula (P).
17 Rules for SSE grant allocations favor rural location. Investments in the Rural Areas East (rural areas east of a line one hundred kilometers west of the railway line) can claim 20% of total investment from FAP funds; those in the Rural Area West (areas west of a line one hundred kilometers west of the railway line, excluding Maun) can claim a subsidy of 30%. By contrast, investment in the urban centers have no subsidy, those in the peri-urban centers obtain only 5%, while those in the primary centers get 10%.
unskilled and semi-skilled citizen labor for the first five years (80% of wages in years one and two, 60% in year three, 40% in year four, and 20% in year five); and (3) reimbursement of 50% of documented off-the-job training costs for citizen employees for five years.

The CFA option is available to new and expanding enterprises; therefore, it has more stringent requirements. CFA focuses on problems plaguing growing enterprises such as inadequate capital and market constraints. In addition to the labor and training grants, CFA enterprises are eligible for capital and sales augmentation grants. The capital grant is a lump sum payment to CFA enterprises. Entrepreneurs can claim up to P1 000 for each projected job. Payments cannot exceed 40% of the total fixed investment in urban areas and 70% in rural areas. The sales augmentation grant rewards proven sales. It represents 8% of sales in years one and two, 5% in year three, 4% in year four, and 2% in year five.

FAP’s intent is to support private sector enterprises in order to enable them to create sustainable jobs in a cost-effective manner. The economy will also benefit from these new jobs and the incomes generated. These gains are supposed to outweigh the costs to the government. Furthermore, assistance to individual enterprises is temporary. This implies that enterprises should be viable after FAP assistance ends. In addition, FAP assistance is to encourage investors to make business decisions benefiting the country’s development objectives, such as employment creation.

The allocation of FAP funds appears complicated and cumbersome, providing fertile grounds for abuse. To guard against this, the Ministry of Finance and Development Planning (MFDP) uses a computer-programmed, cost-benefit analysis to evaluate projects. The MFDP is responsible for implementing FAP; however, line ministries, according to the portfolio area under which individual projects fall, conduct project appraisals. Rural industrial officers appraise small projects in rural areas, while council planning officers appraise those in urban ones. Production development committees make decisions on small, rural projects. Administrative committees make decisions on small, urban projects. The Productive Employment Technical Committee, with members from many ministries, is at the apex of implementation. This committee approves both medium-scale and large-scale applications and has overall responsibility for directing FAP. The Chief Internal Auditor in MFDP monitors for abuse and

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18 Sectoral ministries, such as the Ministry of Commerce and Industry, the Ministry of Agriculture, and the Ministry of Minerals and Water Resources, play major roles in the implementation of the policy.
fraud and claims refunds from FAP-supported businesses which have overclaimed on their FAP grant.

**FAP AND INDUSTRIALIZATION**

The government has invested heavily in industrial development since the early 1980s. Table 1 indicates money disbursed under FAP and the number of projects that have benefited from it since 1982. The MFDP allocated and disbursed about $80 million\(^{19}\) to investors from 1982 to 1993. Total annual disbursements grew by over 120% from 1988 to 1991, but have stagnated since the proportion of total disbursements that went to SSEs increased from 10% in 1988 to 34% in 1992. Similarly, the number of projects that benefited from SSE grants increased from 103 in 1983 to 432 in 1993.

More than 470 MSE and LSE firms have also benefited from PAP. FAP disbursed a total of $59.5 million to MSE and LSE projects from 1982 to 1993. Of this amount, FAP disbursed 57% as labor grants, 16% as capital grants, 13% as sales augmentation grants, 2% as tax grants, while 12% were classified as “other.” Abuse in the system appears to be confined to a relatively small number of highly publicized cases (MFDP 1994). With such huge investments to various sized projects, it is important to determine whether the projects continue to survive and operate after the FAP funds are gone.

One concern over state support for industrialization in the Third World has been whether such projects will continue to be efficient after government assistance fades away. The experience of SSEs in Botswana shows that most enterprises continue to operate beyond the five-year subsidy period (Table 2).

SSE’s overall failure rate after five years of operation is less than 50%, an acceptable percentage by international standards. However, failure rates vary by region. The Northwest, Kgalagadi, and Chobe districts recorded the lowest survival rates. MSE’s and LSE’s survival rates (54%) at the end of five years are also higher than the 50% internationally acceptable standard. The survival rates after five years for the three categories of FAP funded projects are within the internationally acceptable standards. FAP’s performance on the government’s objectives (job creation, economic diversification, rural industrialization, citizen participation,

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\(^{19}\) The exchange rate between the Pula and the Dollar was 2:1 in the late 1980s. The current exchange rate is 3.75 Pula to the dollar.
and gender equity) remains to be analyzed. These are discussed in the next sections.

**JOB CREATION**

FAP was the government’s response to the 1976 National Development Plan’s call for a comprehensive employment-generation strategy. A study, commissioned by the Government of Botswana, indicated that the country needed to create about 35 000 new private sector jobs a year to absorb the growing army of unemployed youth (Lipton 1977). FAP’s main purpose has been to induce economic growth and diversification to speed up employment generation. FAP-supported projects created about 8,200 manufacturing jobs from 1982 to 1993 (Table 3). Of the FAP-induced jobs, SSEs created 41.5%. Medium-scale AFA, medium CFA, and LSEs created 20.7%, 28%, and 9.8% respectively of the FAP-supported manufacturing jobs. These numbers do not include jobs displaced by FAP jobs or jobs that would have been created without FAP inducement. FAP-supported medium and large scale industries created 4 700 jobs. This is an impressive number, considering that the total number of formal manufacturing jobs in 1992 was 19,800 — FAP created about 24% of these jobs (MFDP 1994, 132). In addition, substantial job spinoffs in the service sector result from FAP-assisted industrialization.

Overall, FAP has successfully created manufacturing jobs (Table 3). SSEs created the highest number of jobs at the lowest cost. The yearly cost per job for SSE projects is about P1 600. This figure compares favorably with the government’s benchmark of P2 500. The yearly costs per manufacturing job created by medium AFA, medium CFA, and LSEs are P4500, P5 000, and P6 100 respectively. From the government’s perspective, SSEs are more efficient than MSEs and LSEs in employment creation.

**ECONOMIC DIVERSIFICATION**

Mining and agriculture have been the backbone of Botswana’s economy. In the mid-1960s, agriculture contributed about 36% of the country’s GDP (Table 4). However, the share of mining in GDP rose sharply from zero in 1966 to 12% in 1976 and 47% in 1986. Agriculture contributed only 4.9% and the manufacturing sector, 5.3% to the country’s GDP in 1993. Although the structure of the economy was changing, when FAP was introduced in 1982, Botswana’s economy depended entirely on mining and agriculture. The government saw in FAP

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20 This total does not include Botswana Meat Commission jobs.
the potential to diversify the economy by increasing the manufacturing sector’s contribution.

Table 4 may suggest a decline in the manufacturing sector’s contribution to GDP. However, without FAP, manufacturing’s contribution to GDP would have declined further. This is what happened in the agriculture and construction sectors. Within the manufacturing sector, production diversification occurred, at least during FAP’s initial implementation (Table 5).21 SSE entrepreneurs highly favored textiles, block-making, welding, and carpentry in FAP’s early phase. Interest in these sectors has continued in 1994. Of the 2 800 SSE grants approved by 1994, 50% involved sewing and knitting projects, 20% were brick-molding projects, 9% were bakery or other food production, 8% were welding and metal works projects, and 15% were carpentry and furniture projects. Similarly, AFA and CFA grants have been heavily concentrated in textiles (16%) although some entrepreneurs invested in building materials (13.3%) and metal working (10.1%).22

Table 4: Changes in GDP structure (%): 1966 - 94 (selected years)

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Sources: Harvey and Lewis (1990, 32, Table 3.3); Europa (1997).

**RURAL INDUSTRIALIZATION**

Economic activity in Botswana has traditionally been concentrated in urban centers such as Francistown, Gaborone, Lobatse, and Juaneng. One of FAP’s objectives has been to shift the distribution of manufacturing away from these urban centers to rural areas. Appendix 1 shows incentives in the grant allocation for SSEs based on location. For FAP’s purpose, the country is

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21 The government attracted two major industrial firms to the country. These are Owens Corning Pipe Ltd. and Hyundai Car Company. Botswana’s major competitor was South Africa. The car company is an assembly line operation with no local content input except cheap labor.

22 The distribution of medium- and large-scale FAP projects by sector and sub-sector is presented in MFDP (1994); Table 4.2, p. 71.
divided into five regions (Map 1).

SSE projects tend to be concentrated in rural areas (Table 6). The percentages of SSE-approved grants to enterprises located in the rural east and west were 63.5% in 1982-85, 69.1% in 1986-87, and 57.6 in 1988-94. Rural enterprises received 1,677 of a total of 2,803 SSE grants or 59.8%. The picture is different for MSEs and LSEs.

CFA and AFA have similar incentives such as tax holidays and capital grants for rural firms. Unlike small-scale enterprises, medium-scale enterprises concentrate in urban centers. Only 11.5% of AFA grants for MSEs went to rural areas in the east and west. Similarly, only 18.6% of CFA grants for MSEs went to firms in rural areas. Over 67% of MA and 51% of CFA grants went to enterprises in urban centers. The locational distribution of LSEs is more balanced since about half the enterprises are located in rural areas.

FAP has successfully attracted industry to rural areas. However, FAP policies need to make MSEs more attractive to rural areas.

CITIZEN AND NON-CITIZEN PARTICIPATION

Before 1982, foreign nationals owned the majority of Botswana’s manufacturing. UNIDO estimated that in 1980, local participation in manufacturing was no more than eleven firms out of eighty-seven (UNIDO 1981, 32). This pattern of industrial ownership has changed significantly since FAP’s introduction. Citizen ownership of manufacturing enterprises increased to 47 out of 277 enterprises, over four times the number of citizen owned enterprises in 1980. Two years after FAP’s introduction, joint ownership was 71 and foreign ownership was 144 (Ministry of Commerce and Industry 1984-85, cited in Tsie 1995, 116).

FAP continues to turn ownership of industrial enterprises in favor of Botswana citizens (Table 8). By 1993, citizens owned 43.8% of all MSEs and LSEs. Citizens and non-citizens jointly owned 13.8% of the enterprises. Citizens owned over 60% of CFA and only 8% of AFA firms. However, non-citizens owned or jointly owned over 86% of medium AFA firms. Also, citizen owned enterprises received smaller average grants per enterprise compared to foreign or jointly owned enterprises (Table 8). Citizen owned enterprises, however, received larger average grants per projected employee. FAP has increased citizen ownership of enterprises although non-citizens have dominated AFA enterprises.
GENDER AND INDUSTRIAL POLICY

The literature on gender and industrialization in the Third World presents women as either benefiting from, or being exploited by, factory employment (Robinson 1986; Lim 1990). Others find women’s participation in factory employment highly contradictory and ambiguous. Although female employment can result in significant improvements in women’s positions within the family, they are still subjected to exploitation in such employment (Wolf 1992). Equally important in the literature is the discussion of women’s role in the informal sector, especially in food processing (Tinker and Cohen 1985; Musyoki and Orodho 1993). Surprisingly, little discussion, if any, exists on deliberate policies aimed at turning women into industrial entrepreneurs. However, evidence abounds on gender inequality across Africa (Momsen and Townsend 1987; Topouzis 1990). Women in many African countries have lower levels of income, education, and skills compared to men. Such gender inequality gives men advantages in terms of capital, skills, and loan accessibility. This inequality helps to confine women entrepreneurs in Africa to small-scale food processing and other related activities. Gender inequality requires a deliberate policy aimed at helping women; this is precisely one of the objectives of SSEs funded by FAP.

FAP includes a set of innovative incentives to make women industrial entrepreneurs. From 1982 to 1989, women entrepreneurs who established SSEs could claim up to 10% of their total investments in FAP grants. However, the 1988 evaluation team recommended an increase to 15%; the government adopted this recommendation. Botswana women have taken advantage of these FAP incentives, especially since 1989. From 1982 to 1988, women entrepreneurs accounted for only 19% of SSE entrepreneurs. However, by 1993, 48% of the industrial grants were for women-managed projects. Women entrepreneurs used FAP grants for new projects (48.2%) and for the expansion of existing projects (51.1%) (Table 9).

Although FAP’s recent evaluation did not categorize economic activity by gender, the 1984 report indicated that about 94% of women-owned establishments fell into the knitting, sewing, poultry, and baking sectors. Fifty-three percent of them engaged in knitting and sewing. In addition, the average investment size was considerably greater for men than for women. In fact, the average investment size for male-run projects was more than two and half times that of females (MFDP 1984, 57). Gender inequality continues to be a problem. At the same time, FAP’s achievements are significant, especially given the fact that women were denied such
opportunities during the colonial and pre-FAP eras. Moreover, women's involvement in SSEs has served as a training ground, providing them with opportunities to learn how to run large-scale businesses. FAP has encouraged women to become entrepreneurs and increased female ownership of small industrial firms. FAP still needs to make further improvements to alter gender imbalances.

Table 7: Distribution of Medium & Large Industrial Projects by Location.

<table>
<thead>
<tr>
<th>District</th>
<th>Medium AFA</th>
<th>Medium CFA</th>
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</thead>
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<tr>
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<td>205</td>
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<td>28</td>
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<td>S/Phikwe</td>
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<td>2</td>
<td>25</td>
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<td>Maun</td>
<td>3</td>
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<td>0</td>
<td>8</td>
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<td>56</td>
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<td>1</td>
<td>10</td>
<td>1</td>
<td>12</td>
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<td>1</td>
<td>2</td>
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<tr>
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<td>236</td>
<td>22</td>
<td>371</td>
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Source: MFDP (1994, 70, Table 4.1)

**Conclusion**

A policy’s success can be judged against its objectives. FAP was set up primarily to create jobs for the increasing Botswana population. In addition, it was to increase economic diversification, stimulate rural industrialization, increase citizen participation in the economy, and ensure gender equity in the ownership of enterprises. Indicators suggest the policy has been successful, although room for improvement exists. For example, it may be argued that given its large foreign exchange reserves of nearly five billion dollars, the government should invest more in SSEs. This is valid criticism only if the government is failing to support all feasible projects. None of the three FAP evaluations found this to be the case. The evaluations suggest that the problem is the country’s low absorptive capacity rather than restrictive government policy. A more valid criticism of government policy is that the state should take a more activist role and induce entrepreneurship rather than waiting for applicants to take the initiative.

Despite these shortcomings, significant entrepreneurial development has occurred under

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23 The success of a policy can also be measured by evaluating it against unstated goals.

24 The three evaluations of the FAP in 1984, 1988, and 1994 claimed the policy as successful, requiring few
FAP. The program has given small-scale entrepreneurs in Botswana business exposure and experience. Many of enterprises continue to operate after FAP support has faded away. Jobs created by FAP-supported SSEs are cost effective. Industries are being located in remote parts of the country which have suffered neglect since colonial times. The policy has given many citizens, and women in particular, an opportunity to start businesses that would have been difficult to undertake without FAP assistance. In addition, some entrepreneurs have improved their business and technical skills through training opportunities.

Comparatively, SSEs have been more successful than MSEs and LSEs. The cost per job in MSE and LSE enterprises is too high and requires governmental review. AFA policies, in particular, need to be reviewed since these projects continue to be urban in focus and dominated by non-citizens. Also, economic diversification has not increased beyond the initial successes.

The steady growth of Botswana’s industrial sector, particularly in the last decade and a half, sharply contrasts with the decay elsewhere in Africa. This growth occurred as the Botswana state expanded its involvement in the industrial sector while its counterparts all over the continent were sharply reducing their interventions. The precipitous decline of African industrial development since SAP policies took hold in the 1980s indicates that market failure does not lead to a better development outcome than state failure. Botswana defied the thrust of the prevailing development orthodoxy, which claims that African states cannot enhance industrial development through interventionist strategy. Botswana’s state-governed industrial strategy supports recent research on the East Asian miracle, which underscores the fundamental importance of state intervention in industrial transformation.

This Botswana study and those of East Asia do not indiscriminately endorse all state interventions. However, certain types of states can nurture entrepreneurship, give direction to the industrial project, and create the infrastructural needs of the economy. These cases also discredit the notion that pit the state against the market, as A.H. Amsden, J. Kochanowicz, and L. Taylor (1994) and M. Burawoy’s (1996) work clearly show. The question is not whether the state should play a key role in the development project, but what kind of state can play such a role and how can such states be created. Answering these questions is beyond the purview of this article (Samatar forthcoming). This article merely notes three key ideas that address the question: what kind of state can play a key role in the development project? A state capable of undertaking such

a project must be guided by leadership that has legitimacy from the public, but which also has autonomy from particularistic domestic and international forces. State leadership must be united, disciplined, and clear about the nature of the project it seeks to promote and the institutional and technical demands of such a development effort. Second, the political leadership should be able and willing to create a professionally insulated public service system that is technically equipped and has a clear mandate. The quality of Botswana leadership, its relations with its bureaucracy, and the bureaucracy’s professional autonomy distinguish Botswana from other African states. Third, such public institutions should be able to link up with civil society segments that have the potential to undertake productive enterprises (Evans 1995). Where such segments do not exist, public enterprises will spearhead the endeavor under terms which will ensure the effective use of public resources (Amsden 1989; Evans 1995).

These three qualities, culled from Botswana’s and the East Asian states’ experience, are characteristics most African states lack. Critics note that Botswana’s “exceptionality” is due to its small, homogenous population and mineral wealth. These do not provide sufficient explanation for Botswana’s success. If homogeneity and small population size are key, then Somalia should not be the model of a failed state and society. Moreover, if mineral wealth were sufficient to enable Botswana to conduct its development business more effectively, then other well-endowed countries, such as Gabon, Nigeria, and the former Zaire, should be models of success. Natural resource endowment does have a bearing on development. However, the state’s capacity to effectively induce development depends on the political leadership’s quality, legitimacy, and autonomy, as well as on its public institutions’ orientation and professionalism. Although recent electoral reforms have enhanced the legitimacy of many regimes, such gains have been lost due to extraordinary pressure from Western institutions and the willingness of African leaders to go along with their neo-liberal economic reforms. These circumstances auger poorly for a developing state which can gain these qualities and successfully embed with productive elements of civil society or take on the entrepreneurial role. We, therefore, agree with the wisdom of the late Claude Ake (1996) that the present recipe for reform will modernize poverty but will not deliver development that has a lasting meaning for the African population.

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25 Recent modifications in the World Bank’s attitude, calling for civil service reform, fall short of a larger transformation process that deals with leadership and accountability of public institutions. In itself, the Bank’s recommendations of civil service reforms will not take these countries far in the absence of these conditions. This dovetails with recent criticisms of reforms by Moore (1993; 1995), Robinson (1995), Stevens and Gnanaselvam
Appendix 1:

Summary of the Rules for Grants to Small-scale FAP Projects

FAP grants are calculated as a percentage of the total investment that is required to establish the project. The actual percentage is calculated separately for each small-scale project by accumulating percentages according to the table below. The percentage refers to the proportion of the cost of the project that SSE entrepreneurs can claim from FAP. There are four categories under which a claim can be made: location, status of owner, status of operator/manager, and job creation. Depending on its location, a SSE is eligible to claim only one of the percentages allowed under five subdivisions of the location category. For instance, a SSE in Rural Area West will be eligible for 30% of FAP subvention, while an SSE in Gaborone will get 0%. The same principle applies to all categories. Consequently, the figures in the appendix do not add to 100%.

(a) Location

Urban (Francistown, Gaborone, Lobatse, Jwaneng)  0
Pen-Urban (Mogodishane and Tlokweng)  5
Primary centers (Kanye, Mahalapya, Mochudi, Molepolole, and Serowe)  10
Rural Area East (Maun, Selebi-Phikwe and all rural areas east of a line 100 kilometers west of the railway line)  20
Rural Area West (all rural areas west of a line 100 kilometers west of the railway line, excluding Maun)  30

(b) Status of owner

Male owner
Female owner  15

(c) Status of operator or manager

Not operated by owner on a full time basis  0
Operated by owner on a full time basis, owner does not have any other paid employment  40

(d) Job creation

Each unskilled citizen employee  2.5

Note: The maximum accumulative percentage that is permitted is 95%. That implies that the owner’s contribution could be as low as 5%.


Bibliography


Table 1: Disbursements since 1982 at Current Prices and Number of Grants

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of Grant Small (P’000)</th>
<th>Amount of Grant Medium/Large (P’000)</th>
<th>Total Disbursements (P’000)</th>
<th>Small Grants as %</th>
<th>No. of Small Grants (Agriculture)</th>
<th>No. of Small Grants (Industry)</th>
<th>No. of Medium/Large businesses</th>
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<td>-</td>
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Source: MFDP (1994, 3-4, Tables 1.1 and 1.2).
Table 2: Success and Failure Rates for SSE Industrial Projects

<table>
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<tr>
<th>District</th>
<th>No. of Grants Approved</th>
<th>No. of Businesses Starting Production</th>
<th>No. of Businesses Currently operating</th>
<th>No. of Failed Projects</th>
<th>Success Rate As a % of Total Approved Grants</th>
<th>Success Rate as a % of Businesses Starting Production</th>
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<tr>
<td>Chobe</td>
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<td>41.5</td>
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<td>80.1</td>
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Note: N/A means not available.

Source: Adapted from MFDP (1994, 46, Table 3.3)
Table 3: Number of Jobs and Cost per Job in FAP-supported Projects

<table>
<thead>
<tr>
<th>Year</th>
<th>SSE 1</th>
<th>SSE 2</th>
<th>SSE 3</th>
<th>AFA MSE 1</th>
<th>AFA MSE 2</th>
<th>AFA MSE 3</th>
<th>CFA MSE 1</th>
<th>CFA MSE 2</th>
<th>CFA MSE 3</th>
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<td>827</td>
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</tr>
</tbody>
</table>

Notes:
1 — Number of recipients in each category.
2 — Total employment generated in each category.
3 — Cost (Pula) per job with 5-year time horizon for SSEs and 10-year time horizons for all others.

Source: Adapted from MFDP (1994, Tables 7.1, 7.5, 7.6, and 7.8).
Table 5: Sectoral distribution of SSEs

<table>
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<tr>
<th>Sector</th>
<th>1984</th>
<th>1994</th>
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<tr>
<td></td>
<td>No. of projects</td>
<td>%</td>
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<td>Sewing &amp; Knitting</td>
<td>128</td>
<td>43</td>
</tr>
<tr>
<td>Block-making</td>
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<td>Welding</td>
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<td>12</td>
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<tr>
<td>Carpentry</td>
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<td>11</td>
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<td>Bakery</td>
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<td>7</td>
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<tr>
<td>Others</td>
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<tr>
<td>Total</td>
<td>296</td>
<td>100</td>
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</table>

Sources: MFDP (1984, 1994)

Table 6: Number of SSE-Approved Grants for Industry by Area and Period

<table>
<thead>
<tr>
<th>Category</th>
<th>1982-85</th>
<th>1986-87</th>
<th>1988-94</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Urban</td>
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<tr>
<td>Peri-Urban</td>
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<tr>
<td>Primary Centers</td>
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Source: MFDP, (1994, 39, Table 3.1)
Table 8: Type of Ownership of Medium & Large Industrial Projects.

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<thead>
<tr>
<th>Ownership</th>
<th>Medium AFA</th>
<th>Medium CFA</th>
<th>Large</th>
<th>Total Number of Projects</th>
<th>Total Approved Grants (P million)*</th>
<th>Average Approved Grant Per Company (P’000)*</th>
<th>Average Approved Grant Per Employee (P)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citizen</td>
<td>9</td>
<td>143</td>
<td>3</td>
<td>155</td>
<td>101</td>
<td>270</td>
<td>8200</td>
</tr>
<tr>
<td>Non-citizen</td>
<td>78</td>
<td>63</td>
<td>1</td>
<td>142</td>
<td>79</td>
<td>305</td>
<td>4200</td>
</tr>
<tr>
<td>Joint Venture</td>
<td>20</td>
<td>28</td>
<td>1</td>
<td>49</td>
<td>41</td>
<td>315</td>
<td>6200</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Not Recorded</td>
<td>6</td>
<td>1</td>
<td>0</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>113</td>
<td>2.36</td>
<td>5</td>
<td>354</td>
<td>221</td>
<td>290</td>
<td>5800</td>
</tr>
</tbody>
</table>

* Refers to all FAP-funded projects (industry, agriculture and mining)

Source: Adapted from MFDP (1994, 72, Table 4.3; S.12, Table S.4).

Table 9: Distribution of SSE Grants by Gender of Sponsor

<table>
<thead>
<tr>
<th>Sex</th>
<th>New</th>
<th>Expansion</th>
<th>Unrecorded*</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>1199</td>
<td>418</td>
<td>326</td>
<td>1943</td>
<td>43</td>
</tr>
<tr>
<td>Female</td>
<td>1286</td>
<td>548</td>
<td>323</td>
<td>2157</td>
<td>48</td>
</tr>
<tr>
<td>Group</td>
<td>106</td>
<td>45</td>
<td>31</td>
<td>182</td>
<td>4</td>
</tr>
<tr>
<td>Unknown</td>
<td>75</td>
<td>61</td>
<td>101</td>
<td>237</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>2666</td>
<td>1072</td>
<td>781</td>
<td>4519</td>
<td>100</td>
</tr>
</tbody>
</table>

* Unrecorded refers to projects which were either new or expansions, but that cannot be determined from existing records.

Source: MFDP (1994, E.2, Table E.4).
Map 1: Botswana: Urban-rural regions and towns

*Rural Area East:* Maun, Seliebe-Phikwe, and all areas east of a line 100 km. west of the railroad.
*Rural Area East:* All rural areas west of a line 100 km. west of the railroad, excluding Maun.