

The role of the services sector in Botswana's diversification

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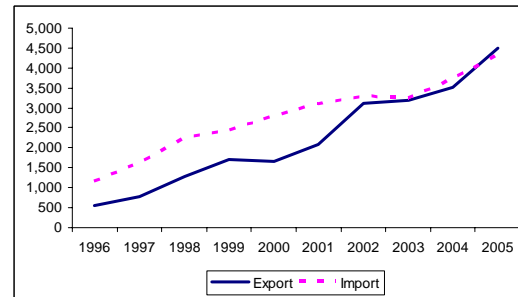
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Botswana has experienced one of the most impressive growth rates in the world over the last four decades and the highest rate of per-capita growth in the world between 1965 and 1998. The average growth rate since the 1980s has been 7.8%. Yet, the strategy of economic diversification during the '80s and '90s has had limited success, with a small reduction in the share of mining, and an increase in the share of services to the economy. The share of services rose from 37% in 1990 to over 50% of GDP in the second half of the '90s and it has not increased since. Mining contributed a staggering 40% of the growth between 1965 and 1998.

The importance and potential of the services sector is underlined by its significant contribution to employment (61% of total employment and 75% of female employment). The largest private and parastatal employers include construction and commerce, which are also among the most labour intensive services in the economy. The contribution of commerce in total employment has been steadily growing in the last few years.

The country became a net exporter of services for the first time in 2005. This is noticeable for a landlocked country, which tends to be a big net importer of transport services. Overall trade in services has grown substantially in the last few years, including ICT, financial services and government services. The services export capacity of Botswana is greatest in tourism, contributing 5% of GDP.

Chart 1 Trade in services, mn Pula



Source: Bank of Botswana

The share of the service sectors in inward FDI increased, while that of mining is decreasing, although it is still the largest recipient. This reallocation of FDI is in part due to the increasing inflows especially in finance, and to a lesser extent hospitality (linked to the tourism industry). The role of retail and wholesale sector in attracting FDI is also important, while transport and communications and utilities have increased their weight marginally (and may increase with possible privatisations). Overall services captured 36% of the total FDI stock in 2004 and 90% of non-mining foreign investments.

Thus, recent indicators point to an increasing importance of the services sector in Botswana's economic development and diversification strategy. However, this is only the beginning for a sector which should have a bright future given the factor endowments (i.e. landlocked economy, with a reasonable supply of skilled labour and governance) if the relevant policy and regulatory frameworks are put in place.

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