

Public Private Partnerships (PPP) For Economic Development:

A Case Study of Botswana Development Corporation (BDC) Limited

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Introduction

A Public Private Partnership (PPP) is the collaboration between public bodies such as central government or local authorities, and private companies in a joint venture for development of an economic activity. “Instead of governments borrowing to fund capital spending on infra-

structure such as buildings, roads and hospitals, it involves the private sector” (Australian, 2003). Public private partnership is the best way to improve public services, it is better run than a bureaucratic setup, securing excellent management skills and financial acumen. It creates better value for taxpayers. Public private partnership is a

hybrid product of total privatisation and Private Finance Initiative (PFI). In privatisation, public ownership is transferred to private organisations whereas in PFI, the task will be handed over to the private contractors who meet the costs and then lease the finished project back to the public sector. PPP is neither total transfer as privatisation nor contracting out as PFI. In this case, Public and Private sector partners collaborate. Both have stakes in the project. Both contribute

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share capital, management skills, etc. for the success of the project.

Literature Review

Jane et al (2003) published a series of articles related to these partnerships which embraced a variety of manifestations and issues emerging in such arrangements. Jody (2000) focused on the implication of PPP in the services funded by the government and further discussed the benefits of PPP in shared governance.

Many countries around the world have effectively implemented PPP. The United Kingdom was the first to adopt PPP in the 1990s (Wallis, 2002). Hong Kong wanted to follow this example because in Britain PPPs “are at the heart of the government’s attempts to revive public services. In January 2002, a Scottish fire service became the first in the country to consider the use of these partnerships (BBC News)” and the Government of Ireland identified PPP in its National Development Plan 2000-2006 as essential in delivering the needed infrastructure required on the national road network (National Road Authority, 2004).

The Government of Australia is pushing for public-private partnerships and is trying to coordinate a national response to this issue (Australian, 2003).

In view of the inadequacy of the public services provision in India, it was suggested to use private money to fund public services through these partnerships for faster completion of the projects (Rediff. Com. India, 2003).

According to the Canadian Auditor General, PPPs are more expensive and stated “that accountability for quality of services and cost containment will be reduced and costs to taxpayers will be higher than they would have been if the hospitals were built in the traditional manner of public tender, private construction, and public ownership and operation” (Toronto Star, 11/30/2002). However, the Minister for Health defended the partnerships stating the cost per patient is lower than in total government involvement hospitals (Toronto Star, 12/03/2002).

It is cautioned that PPPs are subjected to the unstable industrial relations environment (Wilson, 2002).

It is seen that many countries experimented with privatisation, contracting out and partnerships. There are merits and demerits to each arrangement as instruments for economic development of any country, more so for developing nations like Botswana. The PPP system is not directly experimented in Botswana and so far no author has provided research on the issue of PPP in Botswana. Hence, it is the aim of this paper to fill the existing gap in the literature.

Research Problem

In a developing nation like Botswana, there should be special institutions with a mission to provide excellent service activities which are profitable and contribute to the economy of the country. Traditionally, these activities were provided by the Government of Botswana. Soon

after its independence (1966), the Government of Botswana took a policy decision to invite private participation in service and business ventures. With this mission in mind the Government of Botswana planned to create a development corporation to become the country’s main agency for commercial and industrial development. This corporation was to be different from other government public sector undertaking in its setup, organization, management, delivery and development. It was also to depart from the total control of the Government and invite private partnership with the corporation. With these objectives in mind, Botswana Development Corporation Limited (the Corporation) was established in 1970 wholly funded by government, with the main objective “to assist in the establishment and development of commercially viable businesses in Botswana” (BDC, AR 2002:2). The Government of Botswana reiterated in its strategy for development of industry and commerce the need for joint ventures with the private sector through the Corporation and Ministry of Finance & Development Planning (MFDP, 1979). It was the aim of the Government that the Corporation should become a vehicle for government involvement in certain ventures (MFDP, 1985) and to invest in venture capital through BDC in the private sector (MFDP, 1991).

The Corporation invites private partnership in the commercially viable business projects with the private sector contributing at least 25% of the

total project cost including the working capital and management participation; effectively a public private partnership. As mutually balanced roles and activities among state, market and society are needed to underpin effective development of any system (Paul and Harry, 2001), it is the aim of the paper to study the roles and activities of these partnerships, to pinpoint the route followed in the Botswana Model and to study the success of the Botswana Development Corporation Limited as a case study.

Objectives of the Paper

The main objectives of the paper are:

- To evaluate the administrative aspects of these partnerships;
- To examine the Botswana Development Corporation in particular;
- To study the methods followed such as equity participation, loan financing etc.;
- To appraise other activities of the Corporation other than provision of direct funds; and,
- To debate the influence of these partnerships over the economic development of the country.

Hypotheses

- H1: BDC adopts a mono-system of PPP.
- H2: Agriculture as a backbone of the country attracts wider private sector participation; industrial sectors and property management sectors require a huge capital base, hence more government participation will be traced out

and in each service sector the affiliated system will be found.

- H3: Subsidiary type of participation is more attractive than other types such as associated and affiliated participation in public private partnerships.
- H4: Public private partnerships will not add the needed value for the economy of the country.

Methodology

The organizational, administrative and operational aspects of the Botswana Development Corporation are benchmarked with the archives, administrative, review and annual reports of BDC. The Government of Botswana's policy on these partnerships was examined and the National Development Plans were reviewed through to assess the views of the Central Government relative to the Corporation. The study period was restricted to the years 1999-2002 for the purposes of this study. As 1999 characterized the Corporation's commencement of its Strategic Plan and introduction of fundamental changes in every aspect of operations (BDC, Annual Report 1999), it is taken as a base to project the trends of the rest of the period up to 2002. The published annual reports 1999-2002 of BDC are extensively analysed and used in the research.

Botswana Development Corporation Limited

The Corporation was established in 1970 as Botswana's main agency for commercial and industrial

development. It was incorporated as a Public Limited Company under Companies Act of Botswana (1959). The Government of Botswana owns 100% of issued capital of the corporation. The main objectives of the BDC are to assist in the establishment and development of commercially viable businesses in Botswana taking the State to the market via partnership with private individuals and organizations. The Corporation supports projects that create employment and develop the economy of the country. It supports the viable business units which use locally available resources, produce products for export, foster links with the local industry and contribute to the development of the economy of the country.

It also provides services such as equity participation, loan financing and provision of commercial, industrial and residential property. BDC was the first to float the concept of a financial district at Fairground Office Park in 1990 which is now a center for financial services companies, law firms, and regulatory authorities (Gaolathe, 2001).

For the year ending 2002, the Corporation had partnerships with 94 companies in the service industry, property development and management, as well as in agribusiness (Senye, 2002).

Administrative Set Up of BDC

In order to appreciate the impact of the Corporation, it is necessary to review the administrative set up.

Table 1
Administrative Set Up

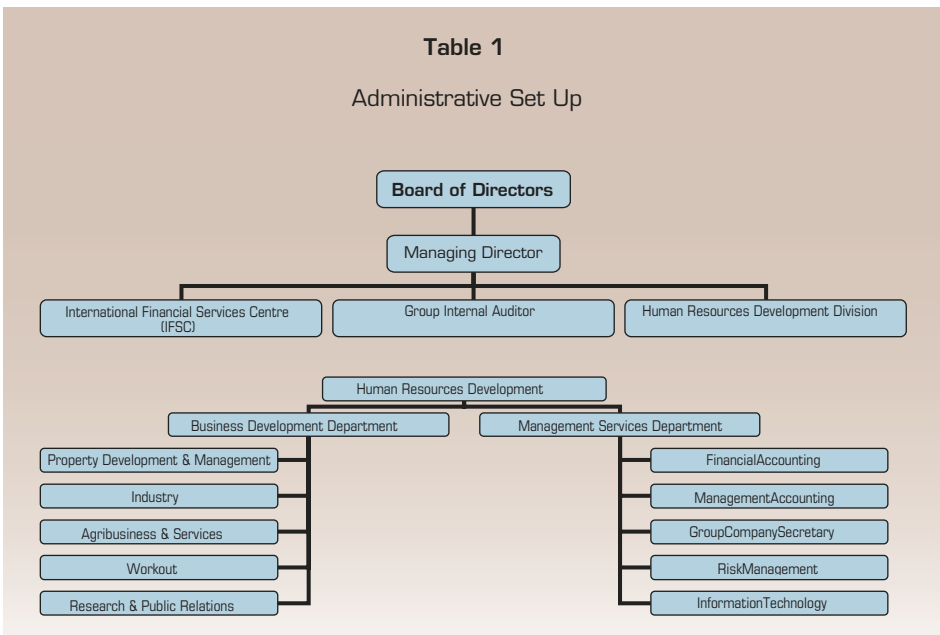


Table 1 (above) displays the administrative set up of the Corporation. Policy decisions are made by the Board of Directors and the Managing Director executes these policy decisions. International Financial Services Centre, Group Internal Audit and Human Resources Development Division are under direct control of the Managing Director. In addition with the assistance of General Managers of Business Development Department and Management Services Department, the Managing Director administers other divisions. The General Manager for the Business Development Department is responsible for Property Development & Management, Industry, Agribusiness & Services, Workout and Research & Public Relations Divisions. The General Manager for Management Services Department is made responsible to the proper functioning of the departments such as

Financial Accounting, Management Accounting, Group Company Secretary, Risk Management and Information Technology. “The Business Development Department has an overall responsibility to market the products and services of the Corporation, identify, evaluate and monitor projects that fall under the Corporation’s sectors of participation” (BDC, AR 2002:15) and the Management Services Department “has operational responsibility for Management Services support to the Corporation. Such support is directed at ensuring that the Corporation delivers the highest level of customer service to its clients” (BDC, AR 2002:25).

Role of the Corporation in Partnerships

The Corporation contributes and lends to all sectors of businesses and provides a guarantee to the subsidiary, associated and affiliated companies

(MFDP, 1997). It also plays a leading role in the “marketing of a range of selected, industry specific international financial services” (MFDP, 1997:142). It is made responsible to have sustainable economic diversification of agricultural products, product development, use of natural resources and creation of markets in Botswana and elsewhere.

The Corporation also provides assistance to medium to large scale enterprises by participating in equity and financing and provision of commercial, industrial and residential real estate. The Corporation’s model insists that the private sector partner contributes at least 25 percent of the total project cost (including the working capital).

Generally, the Corporation participates in two major areas namely, the provision of Capital and through the provision of real estate. The products are:

- 1) equity participation;
- 2) direct financing; and,
- 3) loan guarantees.

There are three types of PPP in BDC, i.e., PPP where the Government of Botswana plays a major role through financing and management (subsidiary type), where it undertakes less of a role (associated type) and where its participation is lending the private sector and giving needed directions. In addition to finance, BDC provides various types of services to its partners such as providing land, factory units, custom-built facilities as well as commercial and industrial development.

Table 2

Sector wise Public Private Participation (in Units) through BDC

Year	Sector	Subsidiary		Associate		Affiliated		Total	
		No.	%	No.	%	No.	%	No.	%
1999	Agriculture	3	10	2	10	5	11	10	10
	Industry	3	10	9	45	29	63	41	43
	Services	4	13	6	30	6	13	16	17
	Property Mgt.	17	57	3	15	6	13	26	27
	Not consolidated*	3	10	-	-	-	-	3	3
	Total		30	100	20	100	46	100	96
2000	Agriculture	3	10	2	9	3	8	8	9
	Industry	3	10	10	46	24	67	37	42
	Services	4	13	7	32	4	11	15	17
	Property Mgt.	17	54	3	13	5	14	25	28
	Not consolidated*	4	13	-	-	-	-	4	4
	Total		31	100	22	100	36	100	89
2001	Agriculture	2	6	2	9	2	6	6	7
	Industry	3	9	9	41	19	61	31	36
	Services	4	13	6	27	3	10	13	16
	Property Mgt.	19	59	5	23	7	23	31	36
	Not consolidated*	4	13	-	-	-	-	4	5
	Total		32	100	22	100	31	100	85
2002	Agriculture	2	6	2	9	2	6	6	7
	Industry	3	9	9	41	19	60	31	36
	Services	4	13	6	27	1	3	11	13
	Property Mgt.	19	59	5	23	10	31	34	40
	Not consolidated*	4	13	-	-	-	-	4	5
	Total		32	100	22	100	32	100	86

*The Companies have not been consolidated because they are either non-operational or recent financial statements are not available (Source: Compiled from Annual Reports of BDC for 1999-2002)

Table 2 highlights the Corporation's participation (number of units) in the private sector. The types of participation are subsidiary (50% to 100% share capital contribution), associate (less than 50% share capital contribution) and affiliate (no share capital contribution but only loans).

Table 2 portrays the overall participation of BDC in the private sector. During the period of study 1999-2002,

property management dominates in the subsidiary; industry takes major share in associate and affiliated companies.

In subsidiary type of participation, the property management sector recorded 57%, 54%, 59% and 59% in 1999, 2000, 2001 and 2002 respectively and followed by the service sector registering 13% in all years. The subsidiary type did not register a significant

role in the agricultural and industrial sectors, registering between 6% and 10%. It is found that the private sector is shy to take active financial participation in the property management sector, hence; the Corporation contributes share capital to the subsidiary company ranging from 50% to 100%. Private sector participation as Associate or Affiliated Company in the industrial sector is worth noting. This

analysis reveals that the private sector is more committed for the development of industries than agriculture, services and/or property development.

In 1999, the Corporation partnered in 96 units, of which 30 were subsidiary, 20 units were associates and 46 units are from affiliates. Affiliated participation dominated in 1999, followed by subsidiary and associates. Participation in industry registers 43% followed by property management and development at 27%, services at 17% and agriculture at 10%. Agriculture is the least participated area in all types of companies, industry is the highest participated activity in associate and affiliated type of companies and property development dominates in subsidiary type. The same pattern is located for the rest of the study period. As Botswana is confronted with frequent droughts and generally low rainfall, no private sector partner is forthcoming to participate in the subsidiary type of companies where the Corporation (public sector) is going to contribute the maximum equity capital and takes maximum risk.

Investment Capital and Loan Contributions to Private Companies

As stated earlier, the Corporation's contribution to share capital to private companies varies from 50% to 100% in case of subsidiaries and less than 50% to associate companies and only loans to affiliated companies.¹

Table 3 displays the units' participation in percentage of share capital and loans by year.

In 1999, out of the total share capital contribution of 535BWP², 56% of share capital went to associated companies and the rest to subsidiary companies. 29% of companies have 100% participation in share capital and 15% companies have 50%-99% share capital contribution. Majority of loans are given to affiliated companies followed by associated companies. The analysis of overall contribution towards share capital and loans reveals that associated companies received maximum financial assistance followed by subsidiary and affiliated companies.

In 2000, 100% share capital contribution to subsidiary tops the list by registering 48% followed by associated with 43%. In case of loans, affiliated companies secured the largest percentage (45%), followed by associated companies (35%), and subsidiary companies (16%). Here again, associated companies secured more financial assistance followed by subsidiary and affiliated companies.

In 2001, subsidiary companies with 100% share capital contribution top the list (40%), followed by associated companies. In the case of loans, associated companies registered maximum with 38% followed by affiliated companies (36%) and subsidiary companies. For the third consecutive year, companies attracting the maximum financial participation of the Corporation was associated companies securing a share of 38%, followed by subsidiary and affiliated companies.

2002 registers more share capital

contributions in associated companies followed by subsidiary companies. Surprisingly, one hundred percent subsidiary companies are given maximum loans (43%), followed by affiliated (41%) and no loans are given for associated companies. The overall analysis of the financial participation of the Botswana Development Corporation with the private sector reveals that subsidiary companies secured maximum financial assistance followed by associated companies.

The analysis of the share capital contribution reveals that in two years (1999, 2002) associated companies received a larger percentage of share capital. In 2000 and 2001, subsidiary companies received a larger percentage of share capital. In the case of loans, affiliated companies received a larger percentage in 1999, 2000 and 2002. And in 2001, associated companies received the largest percentage of loans.

Agriculture

In this sector the highest contribution was from the subsidiary type arrangement, registering 77%, 80%, 69% and 75% respectively in years 1999, 2000, 2001 and 2002. This analysis confirms that there is only one way left for the agricultural development in the country, i.e., public sector. The private sector is not risking their capital.

Industry

Associated companies topped the list for the industrial finance in all years registering 51%, 55%, 53% and 50% in the years 1999, 2000, 2001 and

Table 3

PPP by BDC showing Share capital contribution and loans to Private Companies

	PPP		Share Capital		Loans		Total Participation	
	No	%	(P000)	%	(P000)	%	(P000)	%
1999	21	100	156743	29	57881	13	214624	22
	6	50-99	77664	15	18634	04	96298	10
	20	<50	299173	56	152615	35	451788	46
	46				208783	48	208783	21
	*3		954	00	646	00	1600	1
Total	96		534534		438559		973093	100
2000	25	100	202182	48	70743	16	272925	32
	2	50-99	35809	08	16094	04	51903	6
	22	<50	181666	43	155393	35	337059	39
	36				198590	45	198590	22
	*4		3736	01	0		3736	1
Total	89		423393		440820		864213	100
2001	22	100	209127	40	68358	16	277485	26
	6	50-99	70916	14	43153	08	114069	11
	22	<50	194094	37	208273	38	402367	38
	31				193059	36	193059	18
	*4		45861	09	28593	05	74454	7
Total	85		519998		541436		1061434	100
2002	22	100	157780	31	177239	43	335019	36
	4	50-99	104070	20	-		104070	11
	25	<50	208832	40	3554	01	212386	23
	31				189288	46	189288	21
	*4		45861	09	39402	10	85263	9
Total	86		516543		409483		926026	100

2002 respectively. The private sector is very interested in the industrial sector, and that this is an indication that the Corporation supports their participation.

Service

Except in 1999, all years registered maximum financial participation in associated arrangement companies.

In the same year, affiliated companies received the maximum financial support. It is an indication, that both associated and affiliated companies are being developed in the service sector, therefore a true growth sector.

Property Development

This is another area where more influence of BDC is located. All years

registered that subsidiary type of companies received maximum financial assistance by registering 88%, 89%, 86% and 82% for 1999, 2000, 2001 and 2002 respectively. This is an indication that there should be more drive by government through public private participation in property development.

Overall analysis reveals that the

Analysis of BDC PPP's by Sector

Table 4

Sector wise participation in capital and loans by BDC

Year	Agriculture		Industry		Service		Property		Others		Total	
	P000	%	P000	%	P000	%	P000	%	P000	%	P000	%
1999												
Subsidiary	8302	77	38705	09	22732	28	241183	88			310922	0.38
Associate	798	07	232680	51	46142	28	19553	07			299173	0.36
Affiliated	1700	16	183203	40	11480	57	12400	05			208783	0.25
Others									1600		1600	0.00
TOTAL	10800	01	454588	55	80354	10	273136	33	1600		820478	1.00
2000												
Subsidiary	8595	80	39919	08	28821	24	253493	89			324828	0.37
Associate	743	07	261654	55	75573	64	21283	08			359253	0.41
Affiliated	1400	13	174354	37	14360	12	8476	08			198590	0.22
Others									3736		3936	0.00
TOTAL	10738	01	475927	54	118754	13	283252	32	3736		886607	1.00
2001												
Subsidiary	6909	69	108051	19	23820	20	252773	86			391553	0.36
Associate	2000	20	309353	53	82969	70	28236	10			422558	0.39
Affiliated	1171	12	166541	29	12481	10	12866	04			193059	0.18
Others									74454		74454	0.07
TOTAL	10080	01	583945	54	119270	11	293875	27	74454	7	1081624	1.00
Subsidiary	8617	75	147015	25	23820	18	285995	82			465447	0.40
Associate	1583	14	292064	50	92694	72	38159	11			424500	0.36
Affiliated	1335	12	150921	26	12276	10	24757	07			189288	0.16
Others									85263		85263	0.07
TOTAL	11535	01	590000	51	128790	11	348911	30	85263	7	1164498	1.00

(Source: Compiled from Annual Reports of BDC for 1999-2002)

associated type arrangement is getting more attractive.³ The Government of Botswana should develop more of the associated type partnership; gradually weaning out subsidiary and loan types of finance where it takes the most risk.

The above analysis proves that public private partnerships, especially in associated type of companies as

with the Botswana Development Corporation, is more desirable to the third world developing nations such as Botswana.

Value Created and Economic Development by PPP through BDC

The Corporation through partnerships has created value and

contributed to the economic development of the country. "Its primary objectives are to develop infrastructure and create employment by providing capital to fund investment and economic growth in Botswana. While achieving those objectives, the Corporation also adds value to people's lives by rewarding those who help in achieving its goals" (BDC, AR 2002:7).

Table 5

Table showing the value created and usage of the value during the period 1999-2002 (P000)

	1999		2000		2001		2002	
	(P000)	%	(P000)	%	(P000)	%	(P000)	%
Interest on loans	69967	97	57273	64	43206	65	45042	60
Dividends	26908	37	35461	40	32834	50	43029	58
Sundry income	2247	3	7536	09	5986	09	4703	06
Profit on sale of investment	(15229)	(21)	0		1958	03	0	0
	83893		100270		83984		92774	
Less cost of supplies and services	12106	(16)	11577	(13)	17892	(27)	17985	(24)
Total value added	71787	100	88693	100	66092	100	74789	100
Distributed as follows:								
To employees payroll costs	10127	14	9287	11	10286	16	11171	15
To providers of finance interest on loans	31252	44	34440	39	22033	33	21578	29
To Government as Company taxation on profits	0		0		(4183)	(6)	(7725)	(10)
To providers of permanent capital as dividends	0		0		0	0	11273	15
To maintain and expand the Corporation, depreciation provisions against investments	175504	244	25379	28	10862	16	12400	17
Profit retained	(145096)	(202)	19591	22	27094	41	26092	34
Total	71787	100	88694	100	66092	100	74789	100

(Source: Compiled from Annual Reports of BDC for 1999-2002)

Table 5 reveals that the partnerships added values of P72m, P89m, P66m and P75m respectively in years 1999 to 2002, made distributions to employees, government, shareholders and retained capital for further development.

The main source of value addition is interest on loans followed by dividends. This is a clear indication that the Corporation is gradually moving to share capital participation and reducing its loan participation.⁴

Overall, analysis of Table 4 reveals that the Corporation created value

for the economic development of the country.

Botswana Development Corporation, through its participation with the private sector, could deploy significant capital and increased employment from 1999 to 2002. Except for 1999; it secured a positive return on capital employed (BDC, AR 2002). By encouraging the citizen participation in business ventures, fostering the linkages with the local industry, the Corporation has contributed to the economic development of the country.

Conclusion and Suggestions

The research confirmed that there is little private sector interest in agriculture. This leaves only the public sector.

During the period of study 1999-2002, associated and affiliated systems of PPP were more prominent in the industrial sector. The analysis revealed that the private sector is more committed for the development of industries than agriculture, services and property development. This is an encouraging sign and

further partnerships should be developed using the associated and affiliated arrangements.

Subsidiary types of partnerships are more dominant in property and service sector compared to other associated and affiliated. This is an indication that these activities may not be profitable, hence private sector participation is weak. This requires further initiatives by government to stimulate private sector participation.

The analysis of value added revealed that the Corporation is gradually moving towards share capital participation and reducing its loan participation. Except for 1999; there was a normal distribution of value. An analysis of Table 4 revealed that the Corporation created value for the economic development of the country. In the long run, it may be advisable to decrease share capital participation and increase the affiliated arrangement.

The traditional system of State Administration, where the State took total responsibility for the country's development is outmoded and may be effectively replaced by public private partnerships. The success story of Botswana Development Corporation from loss lending (P97.7m loss in the year 1999) to profit (P78.3m profit in 2002) generation is an encouraging sign to develop further partnerships using the affiliated arrangement.

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Endnotes

- 1 In addition to share capital, the Corporation also contributes to loans for subsidiary and associated companies.
- 2 Botswana Pula
- 3 36%, 41%, 39% and 40% respectively in the years 1999, 2000, 2001 and 2002
- 4 Value added is distributed to employees as pay roll costs, payment of interest on loans borrowed, retention of profit, etc. In 1999, the Corporation had used more than the value created for development purposes. There was normal distribution