

PPIAF Assistance in the Republic of Botswana

A small, landlocked country in Southern Africa, the Republic of Botswana (Botswana) has transformed itself from a very poor country during the colonization period to a middle-income country since 1967, with one of the fastest growing economies in the world. In addition, Botswana has one of the lowest credit risks in Africa, on par with many countries in Central Europe, East Asia, and Latin America. The country's economic and social stability has facilitated foreign direct investment and allowed the economy to grow at a steady rate of 8% per year for the past four decades. The World Bank's 2011 Ease of Doing Business survey ranked Botswana 52 out of 183 countries. On the Corruption Perception Index compiled by Transparency International, Botswana was ranked 33 out of 178 countries in 2010, ahead of all its Sub-Saharan African peers¹.

The government of Botswana intends to foster stronger economic growth by promoting the diversification of its economy, increased competition, and an enhanced role for the private sector. Among the strategies identified by the government to sustain economic development are the strengthening of the institutional and regulatory framework through the establishment of a multi-sector regulatory body for the development of infrastructure, and the promotion of public-private partnerships (PPP) to increase the efficiency of services and cost competitiveness in infrastructure.

Technical Assistance to Strengthen Botswana's Institutional and Regulatory Framework

In 2002 the government of Botswana developed a program aiming to facilitate private sector participation in the ownership and/or operations of state-owned and other public enterprises. As a prelude to the implementation of the program, the government decided to undertake the appropriate regulatory reforms to support/facilitate private sector participation and to set up a suitable regulatory framework for the development of growth-inducing infrastructure sectors—energy, telecommunications, transportation (including roads and rail), and water and sanitation.

The government of Botswana received funding from PPIAF in 2003 to support a study for the creation of an independent multi-sector regulator. The main objective of the assignment was: 1) to review, analyze, and evaluate the existing regulatory structure for utilities; and 2) to recommend the necessary framework to facilitate the implementation of the government's decision to create a multi-sector regulator for the oversight of infrastructure sectors. In addition, an implementation plan for the establishment of the regulatory agency was to be developed.

The study was undertaken in two phases. The first phase of the study, which consisted of conducting a thorough review of the regulatory framework, was finalized in March 2005. While the objective of the study was to facilitate the establishment of a multi-sector regulator, the consultants recommended the strengthening of the existing telecommunications regulator (Botswana Telecommunications Authority), and the establishment of two separate regulatory authorities—one for the energy and water sectors and one for the transport sector. The report also recommended that each of the three regulatory bodies be headed by a Board of Commissioners (Board) that would be responsible for developing and enacting regulatory policy. It was also recommended that the Board be comprised of three to seven full-time commissioners, one of whom will be nominated Chair on a rotating basis, and that no government representatives or people employed by the utilities being regulated should be member of the Board.

The second phase of the study sought to develop an implementation plan for the policy (identified and recommended in the first phase) and full draft legislation on the establishment of the regulatory bodies for approval by the Cabinet, to be followed by enactment by the Parliament. The two deliverables were submitted to the government of Botswana in June 2005. Two workshops were held in Gaborone to build consensus among key stakeholders on the findings of the study. Though there has been consensus

¹ US Department of State website, Background Note: Botswana, <http://www.state.gov/r/pa/ei/bgn/1830.htm#econ>

among a wide range of stakeholders, some of the recommended reforms have yet to be adopted. PPIAF will monitor the results of this activity and report on the outcomes as they become available.

To date, the Botswana Telecommunications Authority is the only one, of the three recommended regulatory bodies, to be fully operational. In 2008 the Authority undertook a market study that revealed that the mobile market was functioning well, with strong penetration and coverage levels in comparison to benchmarks. The study concluded that no telecommunications operator had significant market power, evidence of effective competition. On the mobile telephony front, the study revealed that Botswana will continue to experience a strong growth in the prepaid market due to multiple subscriptions².

In 2009 the government of Botswana appointed the Mott MacDonald Group to help establish an energy and water regulatory agency as a way to attract private capital in these sectors. A draft bill for the establishment of the regulator is currently undergoing internal process, and is expected to be approved and enacted by the Parliament in July 2012. The Botswana Energy and Water Regulating Authority is expected to be fully operational in the first quarter of 2013³.

As for the transport sector, the Ministry of Works and Transport is considering putting in place a transport policy before proceeding in establishing a regulator. The draft National Integrated Transport Policy⁴, prepared in July 2011, recommended the grouping of regulatory bodies in the transport sector (i.e., Aviation Authority, Road Authority, Port Authority, River Transport Authority, railway regulator) into a National Transport Authority. This new authority will have responsibility for implementing this National Integrated Transport Policy through the statutory instruments that shall comprise, but not be limited to, the regulation, planning, funding, and promotion of multi-modal transport infrastructure and services.

Results of PPIAF's Support to Botswana's Institutional and Regulatory Framework

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> Analysis of the regulatory framework for infrastructure and utility sectors in Botswana, March 2005
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> Action plan to strengthen the Botswana Telecommunications Authority, and create the transport and energy/water regulatory agencies, June 2005
<i>Policies prepared or legal or regulatory changes recommended</i>	<ul style="list-style-type: none"> Draft legislation on the establishment of the water and energy regulatory agency, and the transport sector regulatory Authority submitted to the government of Botswana, June 2005
Capacity and awareness building	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> Two workshops held in Gaborone to build consensus among key stakeholders on the findings of the study, 2005

Category	Outcomes
Enabling environment reform	
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> Botswana Telecommunications Authority strengthened from 2004 to 2005

² <http://www.bta.org.bw/pgcontent.php?UID=7>

³ <http://www.mmegi.bw/index.php?sid=4&aid=416&dir=2012/February/Thursday9>

⁴ Draft Botswana Integrated Transport Policy: <http://www.gov.bw/en/Ministries--Authorities/Ministries/Ministry-of-Transport-and-Communications/Departments/Transport-Hub1/Draft-Botswana-Integreated-Transport-Policy/>

<i>Plans/strategies adopted</i>	<ul style="list-style-type: none"> Action plan to strengthen the Botswana Telecommunications Authority adopted, 2008
Capacity and awareness building	
<i>Consensus achieved</i>	<ul style="list-style-type: none"> Consensus achieved among stakeholders on recommended regulatory reforms, March 2005

Technical Assistance for Botswana's Transport Sector

Thanks to its location at the center of Southern Africa, Botswana has the potential to become a transport hub for the region. The government of Botswana gave the mandate to the Ministry of Works and Transport to coordinate the development of this hub, and to actively pursue various investment projects, regional harmonization initiatives, and business development activities to reposition Botswana as a regional hub for rail, road, and air transport, and to support the development of a competitive transport and logistics industry in the country. In 2008 the government requested technical assistance from PPIAF to conduct a pre-feasibility study of the Trans-Kalahari Railway, which would for the first time provide a rail connection between eastern Botswana and port facilities at Walvis Bay or at Lüderitz on Namibia's Atlantic coast. The overall objective of the study was to provide preliminary assessments of the feasibility of this proposed new rail link, to identify key requirements for the further development of these projects, and to recommend an appropriate approach for private sector participation if it was found to be feasible.

PPIAF funding helped to conduct an assessment encompassing various technical aspects including traffic analysis and origin-destination analysis by commodity and routing, commodity export routes and volumes, conducting appropriate economic and financial evaluations of the proposed corridor, recommending project implementation arrangements, and, as appropriate, advising on the best model for effective PPPs. Moreover, the study provided a preliminary assessment of the likely technical, economic, and financial feasibility of the new rail link from a suitable location in Botswana, connecting directly to a port on the Namibian coast.

The activity produced a comprehensive report that examined the railway alignments and port location options, as well as carrying out several technical assessments and examining the costs pertaining to the operations of the railway and the port. The report includes an initial environmental and social assessment, which was carried out together with an assessment of staffing and training needs for the new infrastructure. PPP options were examined in depth together with the existing railway and port legislation as well as the cross-border issues.

The existing railway network in Botswana and Namibia was assessed, and the possibility of linking these two networks was taken into account. The assessment concluded that the geometrical standards of the networks did not meet design criteria requirement for a high-volume long haul, and was therefore not recommended as a heavy haul line for the transport of coal and of general freight.

The report of the pre-feasibility study for the Trans-Kalahari Railway concluded that:

- Mmamabula (in Botswana) to Walvis Bay (in Namibia) is the recommended rail option in terms of capital and operational expenditure. This option has the shortest route in terms of track kilometers, the least escarpment elevation to overcome, the least amount of earthworks, and no tunneling required along the route.
- Walvis Bay port is the final recommended option for the location of the coal terminal and shipping facility. The study initially showed that Lüderitz port was preferred over Walvis Bay port, but due to the high cost of a Trans-Kalahari Railway line (because of the length of the railway, tunneling, and environmental constraints), the Lüderitz port option became economically unattractive, and therefore Walvis Bay port was recommended instead.

A financial and economic analysis of the recommended option was conducted based on a capital structure appropriate to a PPP infrastructure transaction, including a 70/30 debt/equity ratio, 8% cost of debt, and required return on equity of 20%—leading to a weighted average cost of capital of 11.6%. Consequently, the analysis indicated that the options were not commercially feasible without some government financial support. Considering the countries’ background in terms of the challenges and opportunities that both Botswana and Namibia face in terms of attracting private sector participation in major infrastructure development initiatives, various PPP options were evaluated for the financing of the Trans-Kalahari Railway. In terms of financing and operating the Trans-Kalahari railway and the Walvis Bay port terminal, the study recommended a design-build-operate-transfer as the best PPP option. A PPP action plan and its associated implementation plan, which takes into account the necessary PPP processes and actions, were developed.

The final report was well-received by the governments of Botswana and Namibia. In August 2011 the Botswana government signed a \$400 million loan agreement with the Organization of Petroleum Exporting Countries Fund for International Development for the implementation of an integrated transport project, including the financing of complementary studies for the Trans-Kalahari Railway, and two additional corridors (Mmamabula–Ellisras, and Moseitse–Kazungula). Plans are also underway to contract a private operator for the construction of the 1,500 kilometer, \$9 billion Trans-Kalahari Railway rail link that will connect the Mmamabula coalfields in Botswana to the Namibian port of Walvis Bay. According to the Botswana Ministry of Transport and Communications, the construction of the railway is expected to be completed by 2017⁵.

PPIAF will monitor other results achieved through this activity and will report its results and impacts when they are available.

Results of PPIAF’s Activities in Botswana’s Transport Sector

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> • Pre-feasibility study for the Trans-Kalahari Railway project, including a financial and economic assessment, an initial environmental and social assessment, an assessment of PPP financing options, and an assessment of human resources and training needs for the financing of the project, July 2011
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> • Action plan for introducing private sector participation in the Trans-Kalahari Railway project, July 2011 • Implementation plan for the Trans-Kalahari Railway project, July 2011

Looking Ahead: PPIAF and the PPP Agenda in Botswana

The government of Botswana has developed a strategic framework, called Vision 2016⁶, which aims to propel its socio-economic and political development into a competitive and prosperous nation. Vision 2016 identified the partnership between the government and the private sector as a key driver for economic transformation. Although Botswana has fairly well-developed infrastructure compared to its neighbors, it could certainly benefit from PPIAF assistance to enhance private sector participation in infrastructure to help the government achieve its goals of promoting regional integration and cross-border trade within the Southern Africa region.

⁵ <http://www.mmegi.bw/index.php?sid=4&aid=1108&dir=2011/February/Monday21>

⁶ Botswana Vision 2016 <http://www.vision2016.co.bw/>