

ANNEXURE I:



REPUBLIC OF BOTSWANA

***SPECIAL ECONOMIC ZONES POLICY
FOR BOTSWANA***

MINISTRY OF TRADE AND INDUSTRY

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GABORONE, BOTSWANA

Industrialization, Diversification and Export Development for Global Competitiveness

SPECIAL ECONOMIC ZONES POLICY FOR BOTSWANA

INTRODUCTION

Botswana's Special Economic Zones (SEZs) are created as geographically distinct economic areas with their own administrative SEZs Authority which provides investor-friendly business environment that will make Botswana the most preferred location for both domestic and foreign investment. The main objective of the SEZs policy is to diversify the economic and export base of Botswana into sectors that will continue to grow long after diamonds have run out. The policy provides for the development of public sector, private sector and public-private sector partnership SEZs across the country and sectors, as the market would dictate.

The Policy is developed within the context of the evolving global trade policy environment, which is characterized by the widespread process of globalization, a global shift towards free trade and the concomitant increased competition in the global economic arena. This environment defines the policy space for the development of Botswana's SEZs.

The SEZs Policy is also cast within the context of domestic policies, strategies and legislation that have a significant impact on the Policy and vice versa. This allows for the SEZs to be used as "economic laboratories" and "demonstration areas" for the development and growth of world class enterprises in Botswana.

The strategic policy considerations define the core elements of the SEZs Policy which must be implemented in order to realize its objectives, which will in turn lead to the realization of Vision 2016 ideal of "*prosperity for all.*" These include, among others, export orientation, the types of SEZs that Botswana would develop, the various elements of SEZs programmes, the SEZs legal and regulatory framework, and the institutional framework.

The Policy was developed through a consultative process covering a wide range of stakeholders, including Government Ministries and Departments, Parastatals, the Private Sector and Civil Society. It is therefore anchored on a participatory, inclusive and supportive process that would ensure buy-in from a wide spectrum of stakeholders.

BACKGROUND

Special Economic Zones (SEZs) have been in existence since the beginning of the 18th century and are widespread in both developed and developing countries. Initially, SEZs were mainly government owned. However, from 1980 private sector SEZs emerged, and grew astronomically, reaching 1200 by 2005. Numerically, SEZs have increased from 80 projects in 30 countries (1970s) to over 2000 projects in 120 countries in 2003. Corresponding figures for the value of exports are an increase from US\$6 billion to US\$600 billion, respectively. Employment figures increased from 1 million in the 1970s to over 50 million for China alone and 30 million for the rest of the world around 2003. These figures explain why SEZs are widespread and have continued to grow in numbers in spite of increased liberalization of trade in recent years.

Definition of Free Zones

The basic concept of SEZs includes the principles of geographical delimitation of the SEZ areas, management by a single SEZs authority, physical location within the SEZ as eligibility criteria for SEZs incentives, and separate customs area with streamlined procedures. The core definition of SEZs is contained in the Revised Kyoto Convention of The World Customs Organization (WCO), at Annex D thereto. SEZs are defined as an area “outside the customs territory” of a country characterized by minimal document requirements, non-cumbersome regulatory framework and generous economic incentives which include duty and tax free imports of raw materials and intermediate inputs as well as capital equipment. From this, a generic definition of free zones, which incorporates all the modern SEZs has evolved and is summarized in Box 1. Therefore, Botswana’s SEZs will be defined on the basis of one or more of these zone types or a combination of some of them.

TYPES OF ZONES

The first “modern zone” was established in Ireland in 1959. Since then, a variety of different zone setups have evolved that are subsumed under the SEZ concept in this paper, namely:

- **Free trade zones (FTZs)** also known as commercial SEZs are fenced-in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, transshipment, and re-export operations.
- **Export processing zones** are industrial estates aimed primarily at foreign markets. Hybrid EPZs are typically sub-divided into general zones open to all industries and separate EPZs are reserved for export-oriented, EPZ-registered enterprises.
- **Enterprise zones** are intended to revitalize distressed urban or rural areas through the provision of tax incentives and financial grants.
- **Freeport** typically encompasses much larger areas. They accommodate all types of activities, including tourism and retail sales, permit on-site residence, and provide a broader set of incentives and benefits.
- **Single factory EPZ** schemes provide incentives to individual enterprises regardless of location; factories do not have to locate within a designated zone to receive incentives and privileges.
- **Specialized zones** include science/technology parks, petrochemical zones, logistics parks, airport-based zones, and so on.

The Benefits and Costs of SEZs

Countries develop SEZs for a variety of reasons, including static benefits such as:

- attraction of both domestic and foreign direct investment through the provision of a variety of economic incentive packages and world class infrastructure, facilities and services;
- promotion and development of a diversity of exports into world markets;
- generation of both government revenue and required foreign exchange earnings, more especially in developing countries; and
- Employment creation, income generation and poverty reduction.

In addition, SEZs are also created with a view to reaping dynamic benefits which include:

- Demonstration effects whereby SEZs act as catalysts for policy reform and application of best practices in the production of goods and services;
- SEZs development may also be used as an “economic laboratory” wherein it provides opportunities to experiment on best practice economic policies that have not been tried in a particular country;
- Development of backward and forward linkage industries through SEZs linkages as well as linkages with local firms for raw materials, intermediate inputs and capital equipment;
- Growth poles for industry development and/or revitalization in underdeveloped or depressed areas;
- Technology transfer, skills upgrading and indirect employment creation;
- Development of modern business management skills, more especially the business management skills learnt from foreign investors;
- Economic diversification in resource-based economies.

Along with the benefits discussed above, SEZs may have significant challenges for the host country, which include:

- *Potential “Danger of the Race to the Bottom”* – this occurs when regional trading partners try to out-compete each other by offering more generous incentive packages in an attempt to attract more foreign investment into their countries. The ensuing

incentive war drains government budget and encourages rent-seeking behaviour among firms, with little benefits going to the host country;

- *Fly-by-night firms* – these are footloose firms which invest in SEZs with a rent-seeking motive. These usually hop from one country to another in search of more generous economic incentives to exploit. This type of rent-seeking behaviour may exacerbate the incentive war, resulting in very little benefits for the host countries;
- *Forgone Tax Revenues* – for SEZs that include tax exemptions and tax holidays, government may lose significant income in the form of forgone tax revenues. This loss may be inflated by the cost of other incentives that SEZs firms would receive;
- *Non-compliance with Internationally Accepted Standards* – in an effort to attract foreign investors into SEZs, some countries often ignore internationally accepted environmental, labour and health standards, which often prove to be costly for the country in the long-run.

Government recognizes the potential adverse impact the above challenges can have on the success of Botswana's SEZs and has therefore, ensured that they are adequately addressed in this policy.

Major Trends in Zone Development

The concept of SEZs is generic and covers both traditional and modern free zones. The traditional SEZs are characterized by government ownership, development and operation; ring-fenced enclave development, requirement to export 70-80% of manufactured products, promotion of FDI, lack of provision of services in SEZs areas and restrictions on unionization of labour.

In contrast, the modern SEZs are characterised by firm competition that is based on customized infrastructure, facilities and services that are tailor-made for the specific needs of firms and less on financial and fiscal incentives. Further, firms that are located inside the SEZs are integrated into the domestic economy as well as the global economy. The modern SEZs emphasize the adoption of economic incentives that are WTO compatible as well as adherence to ILO core labour standards. While successful government owned and operated SEZs still exist in many countries, and there is still merit in developing such, depending on prevailing economic conditions in the country, there is currently a strong emphasis on developing private sector and public-private sector partnership SEZs. Therefore, the SEZs policy for Botswana reflects these new SEZs developments and configurations.

SEZs in Botswana

The development of SEZs in Botswana came as a result of the recommendations of the Business and Economic Advisory Council (BEAC) in 2005.

Second, Government decided to create **six specialized zones called “hubs,”** which are currently at different stages of development. These are the Agricultural Hub, the Botswana Innovation Hub, the Diamond Hub, the Education Hub, the Health Hub and the Transport Hub. Below is a synopsis of the various “Hubs” that Government is developing:

i. The Agricultural Hub

The Agricultural Hub was established in May 2008 and aims to promote commercialization, diversification, investment and employment creation in the agricultural sector. The Hub creates a conducive policy environment that facilitates and supports the development of a sustainable and viable agricultural industry. The Hub aims to be a catalyst for the transformation of both arable and animal production agriculture. For arable agriculture, the Hub aims to transform the sector from being predominantly “rain-fed” subsistence farming to being predominantly “irrigated” commercial farming that targets both domestic and export markets. Likewise, the Hub aims to transform the animal production sector to be a viable, competitive and profitable commercial sector. In this way, the sector is expected to become competitive in the production of meat and meat products so that they meet the requirements for quality, price and health standards in both the domestic and international markets.

ii. The Botswana Innovation Hub (BIH)

The Botswana Innovation Hub's (BIH) broad objective is to integrate Botswana into the global economy. Specifically, the BIH aims to provide a platform for the development of a knowledge economy that will significantly contribute towards economic diversification, creation of new employment, increased productivity and the competitiveness of Botswana goods and services in world markets. To achieve this, the BIH aims at attracting technology-driven, knowledge intensive businesses, research institutes and advanced training organizations into the country; together with the promotion of innovation and entrepreneurship, utilization of technology and support for research and development (R&D) in both the public and private sectors. Further, the BIH aims at making Botswana an attractive and secure business location in the centre of Sub-Saharan Africa through the provision of appropriate economic incentives and the design of modern, high-tech and state of the art infrastructure.

The Botswana Innovation Hub Proprietary Limited has been established as a 100% government owned company. Further, a subsidiary company, the Botswana Innovation Hub Property (Pty) Ltd has also been set up to focus on the BIH property development and investments. Initially, the company will have a 51% share of ownership from Botswana Government in the form of value of serviced land (57 ha) and government financial contribution. The other 49% will go to private sector investment through equity. It is envisaged that in the long term, the private sector will have a majority share on the BIH Property Company and the businesses within the Hub, thus contributing to private sector growth and development, and the realisation of economic diversification.

iii. Diamond Hub

The Botswana Diamond Hub is charged with the responsibility of transforming Botswana from a leading rough diamond producer to a world centre for downstream diamond activities. The Diamond Hub aims to make cutting and polishing industry commercially attractive and economically viable on a substantial scale; attract international diamond traders in rough and polished diamonds; utilise the Botswana story through the development of diamond jewellery to supply niche markets; attract specialised diamond financing and technology to service downstream activities in Botswana, the region and the African continent; and utilise Botswana's Kimberley Certification Process capabilities to become a secure environment for the transportation of both rough and polished diamonds in and out of the country.

iv. Education Hub

The major objective for the establishment of the Education Hub is to develop Botswana into a regional centre of excellence for education. The specific objectives of the Hub are: to reduce the number of Botswana students studying outside the country (import substitution), attract international students (exporting education) and scholars, promote private investment in education by attracting world class institutions to establish in

Botswana and offer quality education, internationalize education and gain global recognition as a provider of quality education and, training and research. Further, Education Hub aims at capacity building of local institutions e.g. University of Botswana (UB) and Botswana International University of Science and Technology (BIUST), and promoting partnerships between local and international institutions. The Hub also aims at creating a conducive environment for the provision of education services through the removal of all barriers to investment in the sector.

The Education Hub is working at achieving its mandate through the provision of quality education, training and research in key strategic areas of science, engineering, technology, hospitality and tourism, finance and banking, etc; facilitation of alignment of skills development with national requirements by supporting initiatives of other Hubs and sectors through the provision of appropriate skills; and promotion of private sector participation in the education sector.

v. *Health Hub*

The Health Hub was established in 2008 with a view to identifying strategic initiatives and innovations to drive the transformation of quality and service delivery throughout the health sector. The Health Hub broad objective is to make Botswana a centre of excellence in healthcare service provision. To achieve this, the Health Hub aims to utilise both existing and planned infrastructure, and leverage on private sector capacity by leasing out space in public health facilities, establishing specialist clinical centers of excellence for local use and “medical tourism,” providing state of the art infrastructure for teaching and research at the Medical Teaching Hospital, establishing an AIDS Research and Expertise Centre at the Botswana Innovation Hub (BIH), establishing a Semi-Autonomous Medicines Regulatory Authority at the National Drug Quality Control Laboratory and establishing a National Public Health Laboratory at the BIH.

vi. *Transport Hub*

The Transport Hub was established to strengthen Botswana’s transportation connectivity both internally and externally with a view to complementing the country’s economic diversification endeavours. This will be attained through the provision of integrated, efficient, cost effective and sustainable transport system in key sectors and strategic investment areas as well as the creation of a conducive environment for the development of the transport sector. Further, the “Hub” aims to develop efficient cross-border road and rail transport linkages; attract international carriers through the implementation of Open Skies Policy; and create Botswana’s access to sea transport through the development of dry ports in neighboring countries.

THE POLICY ENVIRONMENT FOR SEZs IN BOTSWANA

This section outlines the domestic and international policy environment for Botswana's SEZs policy. It thus defines the parameters for the SEZ policy space provided by the policies and strategies that have an impact on investment.

Botswana's SEZs and Domestic Policies

The domestic policy environment has a significant impact on the SEZs Policy. The domestic policies, strategies, laws and regulations that define the parameters for the SEZs policy for Botswana include the NDP10, Vision 2016, the National Trade Policy for Botswana, the Industrial Development Policy, SMMEs Policy, Botswana Excellence: A Strategy for Economic Diversification and Sustainable Growth, the National Export Strategy, the Investment Strategy for Botswana, the Private Sector Development Strategy, the Employment Act, the Immigration and Citizenship Act, the Competition Law, etc. These policies, strategies and, laws and regulations, seek to create a conducive business environment for all investors. The following is a synopsis of the domestic policies, strategies and legislation that have a significant impact on the SEZs policy:

- *National Development Plan (NDP 10) and Vision 2016* - these define Botswana's broad parameters for a conducive business environment that may be exploited by the private sector and public-private sector partnerships to achieve the country's national objectives of economic diversification, employment creation, poverty eradication and prosperity for all by 2016. The SEZs policy will contribute towards these ideals by attracting world-class (both domestic and foreign) investment into the country;
- *Industrial Development Policy and Competition Policy* aim at developing efficient and competitive export-oriented industrial and services sectors; establishing free zones as a mechanism for facilitating and stimulating investment in the export sector; reducing the cost of doing business in the country; encouraging the adoption and use of modern technology in production; creating a conducive environment for the growth of SMMEs as well as developing a transparent, predictable, free and fair business environment for all investors. Government recognizes the complementarity between these policies and the SEZs policy and will ensure that this benefit is maximized;
- *Policy on Small, Medium and Micro Enterprises (SMMEs)* – aims to develop competitive and sustainable SMME community and promote the development of vertical integration and horizontal linkages between SMMEs and primary industries in agriculture, mining and tourism. The SEZs policy will result in the development of SEZs enterprises with different production value chains that offer identifiable opportunities for SMMEs to supply goods and services. Government will ensure that the opportunities for synergies, complementarities and linkages between SEZs

enterprises and SMMEs are maximized in order to advance the latter's development and integration into the SEZs businesses.

- *Science and Technology Policy for Botswana of 1998* is currently under review. The policy aims to make Botswana a globally competitive knowledge economy through research and development in identified priority sectors of the economy, establishment of technology driven and knowledge intensive industries, active private sector participation in technology research and innovation, and private sector capacity development through business incubation, entrepreneurial development and intellectual property protection. The policy also aims to have a strong University-Industry research collaboration in the quest for building a culture of research and innovation as well as creating centers of excellence in strategic science and technology areas. This Policy and the SEZs Policy have a common objective of attracting into Botswana investors on the leading edge of technological innovation and product development.
- *The Revised National Policy on Incomes, Employment, Prices and Profits of 2005* aims to have wages and salaries that reflect productivity, optimize employment opportunities and achieve social equity. Further, the policy aims to create a wage and salary structure that is supportive of Botswana's global competitiveness and the attraction of both domestic and foreign direct investment, as well as the flexibility to import labour where specific skills may be lacking in the country. These policy objectives are in line with the SEZs labour regime which aims at creating a conducive business environment for SEZs investors while simultaneously protecting the rights of workers in SEZs.
- *Botswana Land Policy*: Government is in the process of drafting a comprehensive land policy. Currently, the country's Land Policy resides in documents across Government Ministries and Departments. The Policy covers different aspects of land management, including land allocation and rights, land use and physical planning, land servicing and development, and land information. The Land Policy is important for the success of the SEZs because the latter needs land to be reserved in strategic areas of the country for the development of the zones.
- *Botswana Excellence: A Strategy for Economic Diversification and Sustainable Growth* main objective is to come up with various strategies and means for diversifying the economy. The strategy proposed the development of SEZs in strategic areas of the country such as Gaborone, Francistown, Serowe/Palapye, and Lobatse. The strategy further proposed special incentive packages that would attract both domestic and foreign investors into the zones. The development of SEZs is one of the strategies that have potential to achieve the objectives of the Botswana Excellence Model.
- *Botswana's National Export Strategy (NES)* aims at assisting Botswana firms to develop export competencies, access financial resources and market information, and thus achieve competitiveness that allows them to penetrate world markets. Government policy is for the SEZs to act as "economic laboratories" and

- “demonstration areas” where best practice strategies developed in the NES will be experimented using world class infrastructure, state of the art technology and the best human capital available. In the long-run all firms in the country are expected to adopt the same production and competitiveness techniques as those in the SEZs;
- *Investment Strategy for Botswana* - its main objective is to create a conducive environment for both domestic and foreign investors to operate successful businesses in the country. The SEZs are a “special case” of this strategy as they provide unique incentive packages and privileges that are not found elsewhere in the economy. The SEZs are thus “economic laboratories” and “demonstration areas” for the development and growth of world class enterprises in Botswana;
 - *National Human Resource Development Strategy 2009 – 2022*: vision is to develop Botswana’s human capital to be the most valuable resource of the country. The strategy aims to transform education across all levels of the education life cycle with a view to producing a labour force with relevant modern industry skills in all sectors of the economy. The strategy also aims to produce a labour force with capability to work in high-skill, high-tech and high-value jobs in the national economy, including the special economic zones, as well as the international economy.
 - *Private Sector Development Strategy* aims at developing a vibrant and globally competitive private sector that is capable of taking advantage of the market access opportunities opened by Botswana’s trade policies and strategies. Government recognizes the importance of the private sector in the development of SEZs, and will ensure that, while there is room for public sector-owned SEZs and public-private sector partnerships, the development of private sector-owned SEZs is given preference;
 - Botswana also has a wide range of *laws and regulations* that will affect the operation of SEZs in the country. These include, among others, the Trade Act, Industrial Development Act, the Control of Goods, Prices and Other Charges Act, the Copyrights and Neighboring Rights Act, the Industrial Property Act, the Competition Act and the proposed Legislation on the National Body.

Botswana’s SEZs External Policy Environment

The trade agreements and arrangements that Botswana has made with multilateral, regional and bilateral trading partners define the policy space that the country has for its SEZs policy. These include the World Trade Organization (WTO), the Southern African Development Community - European Commission Economic Partnership Agreement (SADC-EC EPA), SADC Free Trade Area, Southern African Customs Union (SACU), Bilateral Trade Agreements and Bilateral Investment Treaties (BITs);

The World Trade Organization and Botswana’s SEZs

Botswana became signatory to the WTO in 1995. As a result, the country must comply with all the WTO disciplines and provisions that affect the establishment and operation of SEZs.

These include the *Most Favoured Nation (MFN)* principle which requires equitable treatment of all WTO Members States in matters of trade; the *National Treatment (NT)* principle which requires equitable treatment of investors and their investments in WTO Member States; and the *WTO Agreement on Subsidies and Countervailing Measures (SCM)* which categorizes subsidies into prohibited subsidies, actionable subsidies and non-actionable subsidies. These principles define the parameters for the special incentives and privileges that Botswana may offer to firms which will locate inside the SEZs.

The SCM Agreement (Art. 27) and other sections of the WTO Legal Texts provide for Special and Differential Treatment (SDT) of developing countries. Specifically, the SCM Agreement states that "... subsidies may play an important role in economic development programmes of Developing Country Members" (Art. 27.1). The other SDT provisions relevant for SEZs development in Botswana are, *inter alia*, provisions aimed at increasing trade opportunities for developing countries, provisions under which WTO Members should safeguard the interests of developing countries, flexibility of commitments, the use of policy instruments, and transitional time periods. Therefore, Government will innovatively exploit these SDT provisions to support SEZs development in the country.

Regional Trade Arrangements and Botswana's SEZs

Botswana is party to several regional and inter-regional trade arrangements, including the SADC Free Trade Area, SADC EC Economic Partnership Agreement, the Southern African Customs Union (SACU), the SACU-EFTA Agreement, and the SACU-MERCOSUR Agreement. Generally, these aim at achieving free trade; liberalizing intra-regional trade in goods and services; promoting integration of Member States into the global economy and enhancing economic development, diversification and industrialization of the regions. Therefore, Government will, within the parameters set by these trade arrangements, create a conducive environment for the growth and development of SEZs in the country.

THE RATIONALE FOR SEZs POLICY FOR BOTSWANA

Botswana SEZs offer investors a transparent, predictable and free and fair environment for doing business. This environment allows Botswana's SEZs enterprises to produce goods and services that are globally competitive and thus trade effectively with the best in the world. It is thus important for achieving the country's objectives of developing a vibrant and globally competitive private sector; industrial development, economic diversification, employment creation and poverty eradication.

The Global Competitiveness Report (2008-2009) places Botswana at the transition stage between the factor-driven stage of development (Stage I) and the efficiency driven stage (Stage II), behind her major regional trading partners, Mauritius, Namibia and South Africa, who are already at stage II. It is therefore envisaged that, by creating economic islands with the best environment for doing business, Botswana will be able to attract the best multinational corporations into the country and thus shorten her transition from stage I to stage II, all the way to the innovative stage (Stage III) which would otherwise take many years to achieve.

The idea of creating SEZs is a product of Government deliberate effort to diversify the economy. SEZs are by nature centres of global business where a variety of goods and services that are globally competitive can be produced. Therefore, Botswana's SEZs offer the best strategic approach for achieving economic diversification.

BOTSWANA'S SEZs POLICY FRAMEWORK

Botswana's SEZs policy framework provides a broad outline of the issues covered in the policy. The policy covers the evolution of SEZs and shows that, when appropriately designed, they are beneficial to both developed and developing countries. Further, the policy discusses Botswana's domestic policies and strategies that complement the SEZs policy as well as Botswana's external trade obligations and how they define the policy space for Botswana's SEZs development;

The SEZs policy considerations, which form the core elements and content of the policy, are also covered. These include: the types of SEZs that Botswana may develop; the standards SEZs must meet to attain zone status; the incentive framework for the SEZs; criteria for approving SEZs investors; means and ways of SEZs financing; land and infrastructure in SEZs; environmental and health standards; SEZs market; SEZs labour regime; and the legal and regulatory framework for SEZs. Finally, the policy covers the institutional framework for Botswana's SEZs.

THE GUIDING PRINCIPLES FOR THE SEZs POLICY

The guiding principles define the underlying fundamentals for the success of the policy. The principles are directly related to the objectives of the policy. The guiding principles for this policy include:

- i. **Competitiveness and Attraction of Investment Flows** - attraction of domestic and foreign direct investment into the SEZs area(s) on the basis of customized world class infrastructure, hassle-free regulatory environment, quality business services, and business friendly labour relations, with less emphasis on financial and fiscal incentives;*
- ii. **Diversification** – to attract a diversified range of manufacturing enterprises, agro-business services, commercial services and business support services into the SEZs;*
- iii. **SEZs Development** – the SEZs Policy for Botswana reflects the new SEZs development and configurations with emphasis on the leading role of the private sector, as well as integrated development;*

- iv. ***Development and exploitation of Botswana's unique features and endowments*** such as the Okavango delta, the Tswapong hills, the Kgalagadi desert, cultural heritage sites, the nine months of sunshine, the abundance of diamonds, small population (potential to import talented and skilled labour), and Botswana's strategic location in SADC;
- v. ***Business Clustering*** – clustering of business enterprises to reap the benefits of economies of scale in infrastructure, reduced information cost and economies of scale in services provision; and economies of agglomeration which comes with co-location of economic activity inside the SEZs;
- vi. ***Efficiency*** - to provide an improved regulatory environment; world class infrastructure as well as a wide range of business services as a means of achieving efficiency and effectiveness in the provision of goods and services;
- vii. ***Access to the Domestic and Regional Markets*** – goods and services produced in SEZs will not be eligible for “national treatment” or “preferential certificate of origin,” but will be sold in the domestic and regional markets subject to import duties, taxes and other charges paid by importers;
- viii. ***SEZs Incentive Packages*** – to have a package of incentives that are determined according to Botswana's domestic and international trade obligations based on the following criteria:
 - *adoption of a predetermined common set of economic incentives and privileges across all zones;*
 - *Equitable and fair treatment of all firms seeking entry into the SEZs area;*
 - *WTO compatible economic incentives and privileges for all firms located in the SEZs.*
- ix. ***National Treatment*** – to accord foreign investors and their investments in SEZs treatment no less favourable than that accorded to citizen investors and their investments;
- x. ***Adoption of International Labour Organization (ILO) core labour standards*** in all SEZs in order to create a work environment and conditions that fulfill human rights and humane treatment of workers;
- xi. ***National Objectives*** - achieve the national economic development goals of industrial development, economic diversification, employment creation and poverty eradication;

- xii. *Non-expropriation and Transfer of Assets – SEZs laws, regulations and procedures provide for investors to freely repatriate profits, investment capital, dividends, interests etc outside the country.*

8. OBJECTIVES OF BOTSWANA’S SEZs POLICY

The SEZs Policy for Botswana is designed to attract world class domestic and foreign investors into the country’s SEZs where they will, *on the basis of world class infrastructure, state of the art technology, beneficial inter-sectoral linkages and agglomeration economies of scale, specially trained manpower with relevant modern industry skills, and targeted economic incentives*, produce internationally competitive goods and services that will enable Botswana to compete effectively with the best in world markets. Along with this broad objective, the SEZs policy has the following specific objectives, namely to:

- i. *Diversify the economic and export base of Botswana into sectors that will continue to grow long after diamonds have run out;*
- ii. *Provide a “hassle-free” business environment that offers investors a competitive edge in world markets;*
- iii. *Establish one-stop full-service business environment that caters for the needs of all businesses inside the SEZs areas;*
- iv. *Develop and sell Botswana’s unique features and endowments as a means of making the country the most preferred destination for business and tourism;*
- v. *Create business development opportunities for small, medium and micro-enterprise suppliers that will meet the expanding needs of SEZs enterprises;*
- vi. *Develop a portfolio of public sector, private sector and Public-Private Sector Partnership (ppp) SEZs as dictated by the market;*
- vii. *Develop SEZs that are integrated into the domestic, regional and international markets;*
- viii. *Cluster business enterprises according to their trade with a view to achieving mutually beneficial inter-sectoral linkages and economies of agglomeration within the SEZs;*
- ix. *Provide SEZs incentive packages that are consistent with Botswana’s domestic and international trade obligations;*

- x. *Develop SEZs labour laws that are consistent with ILO core labour standards;*
- xi. *Create employment through the development of suitable country-wide SEZs.*

STRATEGIC POLICY CONSIDERATIONS

The strategic policy considerations which define the core elements and content of this policy, should lead to the realization of its objectives as well as the national objectives of industrial development, economic diversification, employment creation and poverty eradication. This will, in turn, lead to the achievement of Vision 2016 ideal of “*prosperity for all.*” The policy is anchored on the attraction of high quality volumes of domestic and foreign direct investment into the SEZs and the production of all types of varieties of globally competitive goods and services for Botswana. The strategic policy considerations for the SEZs Policy include:

Export Orientation

Botswana’s SEZs will mainly focus on the development of priority export sectors whose goods and services have been identified as having actual/potential growth in demand and price in world markets. This will overcome the problems associated with the smallness of the domestic market and the lack of complementarities in the goods and services produced in the regional markets.

Types of SEZs in Botswana

Botswana’s SEZs will be created as geographically distinct economic areas with special economic incentives and privileges that allow them to produce globally competitive goods and services. The SEZs will be located according to their respective trade and availability of required raw material inputs, capital equipment, skilled labour and product market in order to maximize their comparative and competitive advantages. Government will follow the modern SEZs configurations, which define the types of SEZs which may be developed across the country and sectors. These include Free Trade Zones (FTZs), Export Processing Zones (EPZ), Enterprise Zones (EZ), Free Ports (FP) or Mega Zones, Single Factory EPZ and Specialized Zones. Botswana’s SEZs will be defined by one or a combination of these zone types as the market dictates. The development of the Zones will be preceded by sectoral studies which will define the attributes of the zone that may be developed in the area and the relevant zone configuration to adopt;

Government will, where feasible and economically viable, allow and encourage the development of multi-purpose SEZs with beneficial inter-sectoral linkages and agglomeration economies of scale. These are integrated large/mega zones covering large numbers and varieties of activities, including manufacturing, tourism, duty free shopping, informatics, warehousing, transshipment,

repackaging activities and creation of towns (resident facilities) with commercial and utility services within the SEZs.

In addition to the above types of zones, which are mainly targeted at investors in the upper market and leading edge of technological innovation and product development, Government will also encourage the development of “Global Villages” or centers for tourism and “hubs” for the display of Botswana’s cultural heritage and the exhibition and sale of traditional handcrafts, clothing, music and dance. To make the “Villages” cosmopolitan, these activities will also be opened to foreign participants to display their cultural heritage during specific times of the year.

Requirements for SEZ Status

Minimum standards and requirements that proposed SEZs must meet to qualify for the benefits of SEZs status are important in defining the quality and viability of the zones. These define the SEZs quality requirements and will encourage firms to utilize international best practice in SEZs development. Further, the set standards provide criteria against which the SEZs Authority would evaluate proposals. Government recognizes that the standards and guidelines for SEZs development will differ according to the specific sector market and locational demands. Government will ensure that SEZs development requirements, such as adequacy of master plan and investment attraction plan; minimum land area and finance based on demand and well-costed project plans; environmental standards; industrial clustering based on well-considered locational advantages; recourse for non-compliance with standards; minimum infrastructure requirements; and indicative performance standards such as target investment, utilization, production and exports, are met.

Incentive Framework

The SEZs Policy for Botswana has been designed to attract domestic and foreign investors into the country through the provision of economic incentives and privileges that government will give to enterprises that locate within the zones. These include:

- *corporate tax reductions or exemptions,*
- *duty-free importation of raw materials, capital goods, and intermediate inputs;*
- ***no restrictions or taxes on capital and profit repatriation;¹***
- ***exemption from foreign exchange controls;***
- *no charges on exports;*
- *exemption from local and indirect taxes.*

These incentives will be designed to conform to Botswana’s domestic and external trade obligations as defined in Section 4 of this Policy.

Government will innovatively design economic incentive packages and privileges to address the competitive advantage bottlenecks of Botswana firms, while avoiding overinflating government budget unnecessarily.

Criteria for Approving SEZs Investors

A clearly defined criteria for approving investors is critical for the success of SEZs and the optimal use of land and other resources and privileges extended to enterprises operating in them. Therefore, Government will , through the SEZs Authority, ensure that appropriate criteria for approval of SEZs investors is always in place. The approval of SEZs investors will be based on predetermined, transparent and clearly defined criteria which include: the amount of targeted investment to be brought; geographical location of the SEZ and investment; target industry, sector and product; target export volumes and values and their markets; investor's compatibility with the industry/sector cluster; maximum time allowed between land acquisition and commencement of operations to minimize land hoarding; mechanisms for penalizing or removing investors who fail to meet the set criteria; expected benefits from the investment in terms of production and exports; value addition and employment creation and direct and indirect government tax revenues.

SEZs Financing

Government recognizes that large amounts of start-up capital will be required at the beginning of each zone development. Therefore, the SEZs Authority will be vested with the authority to raise funding through the sale of equity on the open market; bank loans, venture capital or development financing provided by financial institutions in Botswana and/or outside the country. Government may also guarantee the loans for the initial cost of establishing the SEZs and have them administered by the SEZs Authority and its Board of Directors.

Land and Infrastructure

Government is committed to developing a portfolio of public sector, private sector and Public-Private Sector Partnership (PPP) SEZs as the market would dictate. This will require Government to designate land in strategically selected business areas which will be ring-fenced for the development of SEZs. The Draft Botswana Land Policy for 2010 provides for leases of up to a maximum of fifty (50) years for business and civic and community use of land. Since the Policy covers all the types of land use that will be required for Botswana's SEZs, it will be used to guide land allocation for all SEZs which will be developed in Botswana.

A high quality world class infrastructure will be critical for the competitiveness and success of Botswana's SEZs. Therefore, a comprehensive infrastructure master plan for SEZs, detailing the type and quality of infrastructure to be developed in each type of SEZ, will be developed by the SEZs Authority. As a pre-requisite for SEZs investment approval, each investor will be required to provide a well-developed building plan, accompanied by a detailed financial plan in line with the provisions in the SEZs master plan.

Environmental and Health Standards

Environmental protection in SEZs areas and rehabilitation of the environment for such areas when production is no longer viable, will be priorities of government. Botswana's environmental protection is motivated by the need to protect animal, plant and human life from industry emissions, pollutants and general environmental degradation. Botswana has signed several conventions on the environment and has put in place legislation that address the country's environmental concerns. SEZs enterprises will therefore be required to abide by all national and international environmental protection laws and regulations provided in these documents.

SEZs Market

Botswana's SEZs will be created to attract global investors who will produce goods and services that are mainly destined for global markets. Such investors will receive economic incentives and privileges that give them a competitive advantage over non-SEZs domestic and regional firms. Consequently, goods produced within the SEZs will not be eligible for "*national treatment*" or "*preferential certificate of origin*," but will be subject to import duties, taxes and other charges paid by importers into the domestic and regional markets. Therefore, goods going into the SEZs area from domestic and regional customs areas will be treated as exports. Likewise, goods from the SEZs areas into the domestic and regional customs areas will be treated as imports. In both cases the prevailing trade and customs policies of the country apply. Alternatively, goods produced in the SEZs may have access to the domestic and regional markets provided the SEZs investors pay a tax equal to the difference between the marginal benefit that SEZs investors have over and above non-SEZs investors.

SEZs Labour Regime

Government recognizes the need to have a SEZs labour law that is investor friendly while simultaneously protecting the rights of employees to a fair wage; to acceptable working conditions; and to fair treatment in cases of employment termination. The SEZs labour law will be developed on the basis of Botswana laws and the ILO Core Labour Standards that Botswana has adopted. The law will balance the requirements for SEZs enterprises to provide a work environment and conditions that promote human rights and humane treatment of workers with the need to equally empower employers to effectively deal with ineffective, inefficient and unproductive employees.

Legal and Regulatory Framework

A SEZs legislation, which will serve as a regulatory framework for the establishment and day-to-day operations of the SEZs, is critical for Botswana. Government will therefore put in place a new set of laws and regulations which will govern the development and operation of all SEZs and their enterprises in accordance with Botswana's SEZs Policy Objectives.

The Botswana SEZs law will be written to include all the legal requirements for the efficient and effective functioning of all modern SEZs. The scope of the legislation will encompass a broad variety of issues, including, but not limited to, the following: Business Registration and Licensing; Investment Policy and Guarantees; Taxation and Investment Incentives; Trade Facilitation; Customs and Origin Certification; Investment Promotion and Facilitation; Banking, Insurance and Securities; Labour and Immigration; ICT Regulation; Privatization; Public Health and Hygiene; Transportation; Utilities Provision and Regulation; Land Use; Property Development; and associated Environmental Protection; Security and Policing; and Municipal Services;

Some parts of the laws and regulations governing the activities and operations of SEZs may vary from one zone to the other, depending on their location, purpose and objectives.

As evident from **Appendix I**, a significant number of Botswana laws and regulations are currently under the purview of a variety of national and local government bodies, and may not be aligned to the activities of SEZs. Therefore, the Ministry of Trade and Industry will, in consultation with relevant Ministries and Departments; Parastatals and the Private Sector, develop a regulatory framework that will allow the SEZs Authority to be exempted from these laws and regulations for the smooth functioning and operation of SEZs in Botswana;

Even though it is assumed that all SEZs will be viable and profitable entities in the long-term, Government has seen the need to have a **SEZs exit clause** that allows for the closure of some or all SEZs when it is evident that their existence no longer serves the best interests of Botswana in terms of trade, increased domestic and foreign direct investment and social development;

As such, the SEZs law will empower the Minister of Trade and Industry to, where there is clear evidence of non-viability and unprofitability, terminate SEZs after consultation with vested authorities and relevant stakeholders, including SEZs enterprises and SEZs Authority, which have direct business and financial interests in the operations of the SEZs.

INSTITUTIONAL FRAMEWORK

An institutional framework that will ensure the success of SEZs in Botswana will be set up. Government recognizes that, in line with international best practice, Botswana's SEZs will have to be administered by a SEZs Authority which is autonomous, more especially in terms of staffing, budget, spending and policymaking. The Authority will also need to have flexibility and freedom from civil service rules; have broad powers and authority in decision making; serve as a one-stop-shop with delegated legislative power to provide various Ministries' services in core business-related areas; and report to the highest Government Authority;

The SEZs Authority will be vested with exclusive power to administer, coordinate and implement internal planning, land use and environmental matters, business registration and licensing, and procurement. In addition, the SEZs Authority will, in partnership with Government Ministries, Departments and Parastatals, be responsible for promotion and marketing, labour relations, health matters, security and law enforcement, utilities regulation, trade facilitation, and tax and customs administration;

The SEZs Authority will also be vested with the responsibility for the establishment of SEZs in designated locations of the country in accordance with the general charter given to it by the Board of Directors. The general charter will spell out the location, the nature of the businesses and business activities that may be operated or carried out within designated SEZs areas. The SEZs Authority will be mandated to operate each SEZ as a profit-making enterprise;

In accordance with international best practice, the SEZs Authority will have a Board of Directors to oversee the strategic direction and operation of all the SEZs in the country. The Board will comprise of representatives from the public sector, private sector and non-state actors, who will be appointed by the Minister of Trade and Industry. While the SEZs Authority will oversee the development and strategic direction of all the SEZs in the country, each SEZ will have an Administrative Committee that will run its day-to-day affairs in accordance with the laws, regulations and guidelines provided by the SEZs Authority.