

Small Is Not Always Beautiful: The State Enterprise Sector in Botswana

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1. Introduction

If there is state enterprise sector in Africa that is perceived as approaching the model preferred by the World Bank and International Monetary Fund of how such sectors should be created and managed and what their performance could be, then it is the state enterprise sector in Botswana.¹ Botswana's state enterprise sector has drawn praise for a number of reasons. First is its size. Up to independence in 1966, the country had only two state enterprises. These had increased to around ten in the mid-1980s. Compared to Tanzania's 400 plus organizations and Kenya's 181 state enterprises, Botswana's ten seem attractive indeed. Secondly, the above fact was attributed to the prudence, rationality and level headedness of the government. According to the World Bank, "the government has largely resisted the pressure, to which many other African countries have succumbed, to create state owned enterprises"²

It has further been claimed that choice of projects and organizations has been devoid of politics. The World Bank asserts that Botswana "has chosen projects and determined" the mix of public investment carefully.³ Harvey and Lewis add that "Botswana chose projects largely on the basis of their economic and social returns."⁴ Finally, regarding management, the World Bank claims that "Botswana has built an enviable reputation as having one of the most effective public sector managements in Africa and indeed among developing countries."⁵ A few years later, the Bank used phrases like "prudence," "farsightedness," "relative sophistication and reach," to describe Botswana public management.⁶

This paper re-examines some of the above claims. The next section focuses on the dynamics of state enterprise establishment in Botswana, and whether it was devoid of politics. The following section describes and analyzes the managerial forms and structures of state enterprise in Botswana. The issue of managerial competence and organizational performance is explored in section 4. The final section draws out lessons that can be learned from the case of Botswana.

2. State Enterprise Formation

As mentioned earlier, only two state enterprises were established during the colonial period. The Commonwealth Development Corporation (CDC) inspired Bechuanaland Protectorate Abattoirs Limited (BPAL), was formed in 1954,⁷ and the National Development Bank (NDB) was created in 1963, three years before independence. Both these organizations underwent serious re-organizations, on the eve of independence for the former and immediately after independence for the latter. During

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the 1965 elections for self-government the Botswana Democratic Party (BDP) had promised in its Manifesto to accelerate "the process of turning the Bechuanaland Abattoirs into a statutory corporation in order to give the cattle producers a bigger say in its affairs."⁸ Thereafter the pace of the negotiations picked up and at the end of that year, a Botswana Meat Commission (BMC) was established by law and came into operation on February 1, 1966. Seven months later the country became independent under the BDP. According to one observer, "nationalization, planned since the 1950s was precipitated in the mid-1960s ... to all appearances, by the political convenience of having nationalization coincide with independence to boost the party favored by the outgoing colonial government."⁹ The establishment of the commission had the effect of putting the cattle industry - the single most important income generating activity in Botswana at that time - under the control of cattle breeders rather than fatteners and speculators, and big farmers rather than small operators. This fact is very important because it is these very interests that assumed the reigns of political power at independence. As Harvey and Lewis put it "Botswana's government was largely a government of cattlemen."¹⁰ The key objective of nationalizing BPA and forming BMC, said the Botswana Attorney-General, "was that the country should retain (sic!) *political control* (emphasis added)."¹¹

While a reconstituted BMC assured control of the marketing and slaughter of their cattle, cattle farmers also had to worry about the breeding part of the industry. Underground and surface water supplies had to be developed; research into better breeds funded; veterinary services increased; and breeding grounds fenced. Five months before independence, then Minister of Finance (now President) Masire supported the findings of the "Chacko" Mission which had "recommended strongly that the National Development Bank (NDB) should be used as an agency of change."¹² He recommended that: (a) the scope of the NDB be widened; (b) its powers be increased; (c) its management be strengthened by the immediate appointment of "two senior government official to the Board of the Bank, one of them as chairman"; (d) the bank's agricultural extension services be expanded; (e) "credit ... be injected into the 'African Sector'; (f) "a more dynamic approach in the lending policies" be adopted "by accepting higher risks and unorthodox security"; and finally, (g) a greater number of loans be channeled to small farmers and local entrepreneurs.¹³ Most of the above recommendations were legislated into law in 1966 and 1967. According to Mr. Masire, the Bank had to "be used as an instrument of government policy."¹⁴ The primary objective of NDB was "injecting credit into progressive African agricultural undertakings."¹⁵

Several firms were established soon after independence. De Beers Botswana (DEBSWANA) was incorporated in 1969 to mine and market Botswana's considerable diamond wealth. The Botswana Power Corporation (BPC), the Water Utilities Corporation (WUC), the Botswana Housing Corporation (BHC), and the Botswana Development Corporation (BDC) were all established in 1970. The copper/nickel mining (Shashe project) led directly to the formation of the Botswana Power Corporation (BPC) and the Water Utilities Corporation (WUC) in 1970. Power and water were essential for the project. Initially, the idea was to create a Northern Power and Water Authority (NPWA) which would directly receive loans from external lenders

for the development of power and water facilities and even manage the whole construction phase of the project on behalf of the Botswana government.¹⁶ Following meetings with the World Bank in Washington in February 1970, Mr. Hermans, then Permanent Secretary in the Ministry of Development Planning, sent a telex to Botswana to the effect that "Bank now proposes that all infrastructure loans should be issued directly to government with on lending as appropriate NPWA. We consider that case for establishment of dual purpose NPWA is thus weakened and that opportunity should be taken to discuss alternate arrangements. Wish to propose that National Power Corporation should be created to run all power undertakings in Botswana that local water Boards or water affairs department should run regional water supplies."¹⁷ In reply, Mr. Landel-Mills, then Permanent Secretary to the President said, "You may proceed with discussions on the basis you proposed," but as regards water, he said "we prefer water affairs department to manage water units."¹⁸

Two bills were introduced in Parliament in May 1970 seeking to create the water and power corporations. A Minister said then, "it has been necessitated by the fact that as you know ...if we are going to get any money from the World Bank, the necessary steps to take will be to have a Water and Power authority in the North. Now since we have got the money from another source ...it has not been necessary to have these things."¹⁹ Later on during the same debates, the Minister went on to say "Members are aware, we are not quite independent insofar as the financing of this project, we depend in particular (on) the World Bank to provide a large sum of money."²⁰ Donor wishes were therefore very important in the formation of these two corporations.

The major rationale behind the establishment of BHC was to relieve the government of the task of building and managing public houses for state employees, especially expatriate officers. Later on, BHC played key roles in solving the housing problems of Botswana's petty bourgeoisie in general, and of Botswana civil servants in particular. This helped lessen their alienation from the ruling group, which was perceived as being biased in favour of foreign interests. The objective of supplying low income housing was added to its goals after the 1969 election which saw the rejection of the ruling party by the urban poor.²¹

The Botswana Development Corporation (BDC) was supposed not only to promote and/or attract foreign investments, but also to aid the entry of Botswana into the commercial and industrial fields. BDC's mission was therefore wider than that of NDB which was obliged to lend part of its funds to agriculture.²² The organization was to cater for the interests of budding Botswana entrepreneurs, including members of the ruling coalition, encourage diversification of the economy, attract foreign capital and offer new employment opportunities. In this BDC was little different from many other SOE in Africa.

The Botswana Agricultural Marketing Board (BAMB) is a statutory body created in 1974, to cater for agriculturalists. The corporation was to stabilize the price of sorghum, control the import and export of maize, and ensure the milling and storage of all grains.²³ The Botswana Livestock Development Corporation (BLDC) was formed in 1973 as a subsidiary of BMC to help small cattle producers who could not sell their cattle directly to the abattoir at Lobatse. The BLDC was to fatten cattle on

its ranches, and market them on behalf of the small farmer. A Central Bank was created in 1975. Since then only one other state enterprise has been formed, the Botswana Telecommunications Corporation (BTC). This followed the separation of telecommunications services from postal services in the ministry of works, and their being reconstituted into the BTC.

Early enterprises, the BMC and NDB, were clearly partisan, aimed at the service, development, and consolidation of big cattle farmers both white and African, as well as the upcoming so-called progressive farmer. This group included the traditional chiefly element, the *Dikgosa*. The second group of state enterprises, including the mining concerns DEBSWANA and the utilities corporations, BPC, WUC, and BTC, were mainly foreign funded and had the key objective of the exploitation of Botswana's natural resources in collaboration with the local ruling coalition.

BLDC and BAMB were created after the 1969 election in which the ruling party suffered embarrassing defeats at the hands of the combined opposition. These organizations were aimed at meeting the demands of the small cattle producers, and producers of grain who felt neglected in favour of the big cattle producers and their BMC. Indeed BAMB was formed a few months before the 1974 elections. The original aims of BHC as well as BDC were also expanded after the 1969 elections. Their aims became more "inclusive" and populist. In this regard, even the BMC underwent reforms following the elections, to meet popular concerns regarding its exclusionary practices.²⁴

However, those who live by the sword, die by the sword. All the state enterprises established to garner political support, ran into trouble as soon as the electoral threat disappeared. Following the 1974 elections in which the opposition was soundly beaten, interest in these organizations waned, and without exception all ran into serious financial problems in the post-1974 period. Also those programmes which had been adopted by other state enterprises for populist purposes, like BHC's low income housing programme, ran into serious trouble.

Finally, it must be noted that even though Botswana state enterprises were few numerically, their importance went beyond their numbers. Interests of the most powerful social groups were adequately covered. Cattle farmers had their BMC. Foreign interests had their DEBSWANA, the Shashe project, etc. Cattle breeders and prospective agriculturalists had the NDB. Expatriate civil servants had the BHC, and BDC; and even small cattle farmers and agriculturalists had the BLDC and BAMB. Infrastructural parastatals serviced everybody. All important economic activities were covered by state enterprises, or had some kind of state involvement. The state was heavily involved in cattle farming, development banking, utilities, telecommunications, marketing of grain, mining and housing.

It may also be noted that state enterprises accounted for at least 80 percent of the country's total recorded foreign trade between 1975 and 1984²⁵ Cast in this light the sector's smallness is more apparent than real. The sector has been as critical in Botswana as it has been in other African political economies.

3. Managerial Forms and Structures

The design and operation of parastatal form and structure in Botswana have equally been influenced by the quest for hegemony on the part of the ruling coalition, as they

have in many other African countries. The encapsulation of this objective in parastatal form and structures in Botswana has been guided by several assumptions unique to Botswana. These include the sanctity of private property, the primacy of individual capital accumulation, the indispensability of foreign capital and personnel, and lastly, a pervasive institutional and ideological timidity or what others call "cautious pragmatism."

Parastatal Forms

Most Botswanan parastatals are statutory bodies, created by special acts of parliament that specified their purpose, power, composition, officers, and finance. Only three corporations out of ten were incorporated as private companies. The statutory form was preferred because it presupposed and facilitated a pervasive state control and heavy involvement in the affairs of the corporation. Also, it justified the expenditure of public resources on the corporations in the form of subsidies, tax rebates, etc. Finally, it enabled the ruling coalition to claim credit for the good services being rendered by the corporation (especially during election campaigns.)

The choice of the statutory form was rationalized in terms of the specific tasks that a particular corporation was to carry out and within specific concrete conditions. Thus, while the cattle industry needed to be organized as a statutory corporation so as to best maximize cattle producer prices, the World Bank insisted that water and power be organized as statutory bodies so as to best guarantee repayment of the huge loans poured into the two organizations at the behest of the Bank.

On the other hand, according to then Vice-President Masire, the company form was "best suited to commercial operations; [it] was the form most easily understood by other businessmen ...[and]... most likely to attract high quality staff with business experience ...[and it]... will make it immediately clear to all concerned that it is intended that the BDC should be run on sound business principle."²⁶ History proved the Vice-President wrong as will be shown below.

Reasons for adopting the company form also differed. The Botswana Livestock Development Corporation (BLDC) was incorporated not because that was the most ideal form, as in the case of BDC, but for political economic reasons. The ruling coalition, especially the dominant large cattle producers, did not want the agency to be a department of BMC. There couldn't be another statutory agency in the livestock industry, because that was a preserve of BMC, in line with the interests of the ruling coalition which were reflected in its establishment act. At the same time, organizing the agency as an integral part of BMC would increase the latter's operating costs and eat into producer prices. The company form acknowledged the monopoly of BMC in the livestock industry, while shielding it from BLDC which was granted "financial autonomy." It would sink or swim alone. It promptly did the former.

Capital Structure

The capital structures of parastatals in Botswana share several features. First, and contrary to popular myth, most of the capital structures have not been conservative. Many have had high gearing (leverage) ratios. As can be seen in Table 1, except for the BMC, most corporations have had high loan-to-capital ratios all the time or most of the time. The most notorious corporations in this respect have been BTC

BPC (until the revaluation of assets in 1982), BHC, WUC, and BLDC (until massive re-financing in 1980).

Second, there has been a phenomenal explosion in parastatal assets from P4.25 million in 1966, to P461.85 million in 1984 as shown in Table 2. Third, almost all the capital, both loans and equity, has been provided by the state and international capital. Of the P211.69 million parastatal investment in 1981, which does not include investments in the mines (DEBSWANA [diamonds] and Bamangwato Concessions Limited [copper-nickel]), at least P201.9 million came from the state. State investments in parastatals have been mounting rapidly: there was an increase of almost 200 percent between 1979 and 1984, either in loans or equity through the Public Debt Service Fund (PDSF), the Revenue Stabilization Fund (RSF), and from the General Development Fund (DF). Most of the money from the latter fund, including all investments in equity, was appropriated from ordinary revenue through the budget.²⁷ Botswana state enterprises have therefore, been pushed by the 'visible' hand – the state – rather than the invisible one in the market place. This is important to bear in mind especially in these times of liberal fundamentalism.

Table 1: State Enterprise Loan to Capital Ratios

Year	NDB	BMC	BHC	BPC	WUC	BDC	BLDC	BAMB	BTC
1966	0.45	0.20							
1967		0.20							
1968	0.46	0.20							
1969	0.47	0.19							
1970		n.a.							
1971		0.13							
1972		0.09	0.70	0.96					
1973		0.05	0.93	0.98			0.68		
1974		0.03		0.98		0.50			
1975		0.03	0.96	0.98		0.46			
1976	0.46	0.25	0.95	0.98		0.59	1.14	0.65	
1977	0.44	0.27	0.93	1.00	0.9	0.64	1.24	0.65	
1978		0.24		1.01	0.8		0.71	0.65	
1979	0.28	0.13	0.93	0.72	0.8		0.71	0.57	
1980	0.60	0.14	0.91	0.68	0.8		0.71	0.50	1.00
1981	0.67	0.11	0.90	0.67	0.7	0.45	0.36	0.54	1.35
1982		0.12	0.95	0.59		0.46	0.30	0.00	2.00
1983	0.79	0.13	0.94	0.26	0.7	0.48	0.30	0.00	2.30
1984	0.85	0.23	0.93	0.34	0.8	0.51	0.30	0.47	3.20
1985			0.96						1.00

Source: Annual Reports.

Relatedly, some of the money invested by the state was borrowed from international capital and lent in turn to parastatals. This happened "when international institutions did not wish to lend to the corporations directly."²⁸ Such investments amounted to P48.8 million in 1981. Most of these loans went to the BPC, WUC and other Shashe copper/nickel-related projects and were coordinated by the World Bank.

Table 2: Parastatal Total Investment (million Pula)

Year	NDB	BMC	BHC	BPC	WUC	BDC	BLDC	BAMB	BTC	Total
1966	1.39	2.86								4.25
1967	n.a.	3.63								n.a.
1968	1.56	3.81								5.37
1969	1.89	3.93								5.89
1970	n.a.	n.a.								n.a.
1971	n.a.	4.56				.62				n.a.
1972	n.a.	5.17	.97	5.9	n.a.	1.3				n.a.
1973	n.a.	5.82	8.79	17.9	n.a.	2.6	.22			n.a.
1974	n.a.	6.38	n.a.	29.1	n.a.	6.0	n.a.			n.a.
1975	n.a.	4.69	15.63	30.6	n.a.	6.4	n.a.	.09		n.a.
1976	3.61	10.51	18.94	37.7	n.a.	8.4	1.4	.76		n.a.
1977	3.65	9.88	22.80	37.9	24.3	8.53	1.45	.82		109.33
1978	n.a.	10.97	n.a.	34.7	23.8	9.27	1.2	.80		n.a.
1979	4.90	20.47	32.20	37.6	25.0	n.a.	1.61	3.30		n.a.
1980	8.92	18.96	39.13	40.1	29.4	n.a.	1.61	3.80	10.10	n.a.
1981	17.17	21.06	49.14	51.6	32.1	25.9	3.06	3.50	8.16	211.69
1982	n.a.	24.99	55.89	62.7	n.a.	36.7	3.40	3.90	6.80	n.a.
1983	33.19	20.55	62.57	147.3	49.9	42.3	3.30	4.20	7.20	363.18
1984	42.64	26.02	68.69	196.4	70.1	50.1	3.30	4.60	4.80	466.65
1985	n.a.	82.38	n.a.	n.a.	n.a.	n.a.	2.30	n.a.	n.a.	n.a.

n.a.: not available

Source: Annual Reports.

International capital has been heavily involved in the capital structure of almost all Botswana's parastatals. (a) In mining, De Beers (South Africa) manages and owns half of DEBSWANA, the diamond corporation, while its sister corporation, Anglo-American, owns 30 percent of Botswana Roan Selection Trust, which in turn owns 85 percent of Bamangwato Concessions Limited (BCL), who operate the Shashe copper and nickel project. The Botswana government owns 15 percent of BCL. (b) The Commonwealth Development Corporation (CDC) which provided all of BMC's initial long-term loans was by 1984 involved in four more parastatals with total investments of P53 million. Its holdings included 20 percent of BDC's preference shares, as will be shown below. (c) The British government shouldered most of the pre-establishment costs as well as all the initial development costs of BDC.²⁹ Following chronic operational problems, BDC was recapitalized in 1979. By the subscription agreement of April 27, 1979, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), Deutsche Gesellschaft für Wirtschaftliche Zusammenarbeit (Entwicklungsklungs MBHCDED), and International Finance Corporation each purchased preference shares in BDC. In 1984, CDC also joined in, and the

four concerns now own 50 percent of BDC's share capital.³⁰ (d) Of the remaining parastatals, SIDA (Sweden) and IDA provided BLDC's establishment capital; a World Bank-led consortium provided the capital and loans for BPC and WUC; Banque de Paris et Pays-Bas (France), Cable and Wireless (UK), and Standard Bank (Botswana) provided 81 percent of BTC's loans, which in turn represented 85 percent of the corporation's total capital employed in 1982;³¹ and lastly, the United Kingdom and United States governments as well as the EEC, SIDA, African Development Bank (ADB) and the World Bank were all involved in NDB's capital structure through loan provision.³²

It is important to point out the above because state enterprise formation, capitalization, management (or mismanagement) is usually attributed to African governments. Rarely is the foreign hand identified. The case of Botswana though is typical of many African state enterprises. Foreign money and advice have been intimately involved in the sector just as they are now involved in the liberal revival!

The capital structures of the two corporations that were established purely for political "inclusive purposes" – i.e. BLDC and BAMB – were far weaker than those of other corporations. BLDC had a nearly incredible capital gearing ratio of almost 6:1, and there was no provision made for working capital.³³ The BAMB also lacked permanent development and operating capital in the early period. In response to a note from the permanent secretary of finance, directing that the Ministry of Agriculture "prepare a preliminary project memorandum to be submitted to... SIDA requesting finance for (a) establishment capital, (b) three years' operating costs, (c) working capital..." Agriculture's permanent secretary wrote to his management officer "can you please take action on the above by prepare drafts, *giving priority to (a) and lesser priority to (b) and (c)* [emphasis added]."³⁴ It is not only that BLDC and BAMB had little capital, radical gearing ratios and no working capital – other parastatals shared some of these features. What is most striking is the fact that the two "inclusive" corporations had trouble raising loans from commercial sources (which is understandable given their capital structure), and the government was initially very unwilling to bail them out, as it had done with other corporations.

There has been an exclusion of individual private investment in the parastatals. It was only in October 1984 that the BDC launched Sechaba Investment Trust which bought P5.8 million worth of shares held by BDC in nine different companies in exchange for 1,116,954 Trust shares which went to BDC. BDC then offered 40,000 of the Trust shares to the public. This move had been resisted by BDC management because of their fear that Botswana shareholders would disrupt the smooth relationships between BDC's expatriate management and the state.³⁵ Nor was the state particularly enthusiastic, as it did not wish to lose control.³⁶ Commercial Bank involvement has also been limited. Government loans outstanding to non-financial parastatals alone amounted to P260 million, while total commercial bank lending in Botswana came to P238 million in 1984.³⁷ Local commercial banks have especially been excluded from the long-term loans area. This has been a consequence of (i) the availability of "easy money" from the state, (ii) reputedly high bank interest rates, and lastly but most importantly, (iii) a reluctance on the part of expatriate parastatal managers to involve "snoopy" bankers in their affairs (as one general manager put it).³⁸ Apart from the state itself, long-distance, non-bank financial creditors with

little local knowledge have been preferred. The exclusion of individual, private Batswana as well as commercial banks, added to the other features discussed, has had a marked impact on organizational structures, to a consideration of which we now turn.

Organizational Structure

Organizationally, the parastatal branch of the state as a whole has had a lean and tight organization, with very clearly defined duties and responsibilities. This has by and large been a function of the executive branch. While parliament officially audits proposals brought before it, it tends unquestioningly to applaud, approve, and only very rarely to reject them, "in a manner closer to the best of the African one-party states than to the Westminster model."³⁹ Parliamentary input has been further minimized by the exclusion of its members (their protestations notwithstanding) from the boards of directors.⁴⁰ Also, in contrast to cases in other African countries like Tanzania, political parties in Botswana, especially the ruling party, are not formally involved in executive policy functions. In any case they go into virtual hibernation between elections. Finally, other populist or pseudo-populist groups have all been excluded; only the private sector has been included in the structures. "Representatives of peripheral and specialized interests" argued the BDC establishment consultants, "are unlikely to make a contribution which would justify their inclusion."⁴¹

A second, related feature of the organizational structures is that state enterprises have had a short chain of command headed by the president, who acts on the advice of the cabinet, which collectively receives, considers and discusses presentations from the various parent ministries of particular state enterprises. Only one person calls the shots in the president's office — his permanent secretary; there is only one central ministry — Finance and Development Planning — not two, and it has always been headed by the vice president, which further simplifies the authority relationship; and there are no regulating parastatals nor holding parastatals. A recommendation by the Presidential Commission in 1982 "that BDC become as soon as possible a central holding company"⁴² was accepted by the state "on the understanding that BDC will only set up a sectoral subsidiary when an activity becomes sufficiently weighty to stand on its own, and when it cannot sensibly be "hived-off" to the private sector [emphasis added].⁴² Also, there has been only one regulating agency, the Wages Policy Committee (WPC), which is tightly controlled by and reports to the one central ministry. Lastly, as will be discussed shortly, there has been a very clear, precise, and closely followed decision path controlled by the president. Botswana's decision path has been a onelane road.

The above has been a product of several related factors. The high degree of cohesion and agreement in the ruling coalition of Botswana has eliminated the disruptive cumventions of authority through factional and inter-strata strife. The pursuance of a conservative policy, too, have proved beneficial: there has been no radical change or restructuring attempted, no feathers ruffled, no roadblocks thrown into the decision path. Finally, the predominance of expatriates in the structure has preempted the use of the parastatal sector as an incubator for a Tswana managerial stratum. The expatriate majority has further reinforced the conservative authority structure,

in addition to the expatriates, other conservative influences came from donor agencies and consultants and international organizations such as the IMF and the IBRD which interact in major ways with the government administration."⁴⁴

4. Operations and Performance

Parastatal Financial Performance

Again, contrary to the general myth, Botswanan parastatals have generally achieved modest financial success, as shown in Table 3. The parastatals can be grouped into three categories, according to their performance: (a) those that have been profitable throughout their existence (only the BMC and WUC fall under this category); (b) those that have had mixed results but have been profitable more frequently than not (NDB, BHC, BDC and BLDC fall under this category); and (c) those that have consistently operated at a loss (like the BTC), or incurred losses more frequently than they have been profitable (BPC and BAMB are in this sub-category).

Table 3: Parastatal Profit and Loss (Pre-tax) (P'000)

Year	NDB	BMC ^a	BHC	BPC	WUC	BDC	BLDC	BAMB	BTC
1966	4	634							
1967	13	1,054							
1968		900							
1969	16	732							
1970									
1971		1,611				663			
1972		2,242	(46)	(41)	557				
1973		3,451	198	(59)	737				
1974		3,676	n.a.	(21)	717				
1975		1,536	n.a.	(242)		54			
1976	(15) ^b	7,987	(117)	(421)	89	(238)	6		
1977	63	5,282	82	(629)	81	483	(66)	(5)	
1978		4,293	n.a.	(438)	565	368	(445)	(125)	
1979	5	17,923	(190)	468	662		(271)	59	
1980	(14)	1,129	124	960	747		3	(84)	
1981	13	8,444	161	914	859	4,110	1,515	(261)	(5,156)
1982		12,349	219	2,551		5,276	4,523	128	(4,906)
1983	191	6,781	292	2,100 ^c	1,946	4,321	119	357	(2,966)
1984	(371)	12,662	(799)	8,213	153	5,375	173		(1,209)
1985			(975)						

a BMC figures exclude amounts paid to producers as bonuses.

b Numbers in parentheses represent losses.

c Revalued assets.

Source: Annual Reports.

Rates of return on investments have not been very high for a majority of parastatals as shown in Table 4. The exceptions are BMC, which has had very high returns, and BDC which has had moderately high returns. WUC has had low returns (an average of 2.1 percent per year); the rest have had negative or very low returns. However, average aggregate rates of return have not been bad, averaging 8.5 percent annually.

Also, the nine parastatals made a profit of P104.6 million in the twelve years. Finally, there was a decline in the rates of return on investment accompanying the coalition's phase of inclusionary behaviour: the attempts to spread around the profits of parastatals, which began in 1969, have continued even after the electoral threat disappeared and have resulted in lower rates of return for a majority of parastatals. While the percentage of return was in double figures up to 1969, it has been far below that in most years since.

Table 4: Parastatal Return on Investment (percent)

Year	NDB	BMC ^a	BHC	BPC	WUC	BDC	BLDC	BAMB	BTC
1966	.29	22.17							
1967	n.a.	29.04							
1968	.85	23.62							
1969		18.63							
1970									
1971		35.33				106.94			
1972		43.37	(4.74)	(0.69)		42.85			
1973		59.30	2.25	(0.33)		28.35			
1974		57.62		(0.07)		11.95			
1975		32.75		(0.79)		0.84			
1976	(.42) ^b	75.99	(0.62)	(1.12)		1.06	(17.00)	0.79	
1977	1.73	53.46	0.36	(1.66)	0.33	5.68	(4.55)	(0.61)	
1978		39.13		(1.26)	2.37	3.97	(37.08)	(15.62)	
1979	.10	87.56	(0.59)	1.24	2.65		(16.83)	1.79	
1980	(.16)	5.95	0.32	2.39	2.54		0.19	(2.21)	
1981	.08	40.09	0.33	1.77	2.68	15.87	49.51	(7.46)	(63.15)
1982	.56	49.42	0.39	4.07		14.38	13.32	3.28	(72.15)
1983	(.87)	33.00	0.47	1.43	3.90	10.22	3.61	8.50	(41.19)
1984		48.66	(1.16)	4.18	0.22	10.73	5.24	n.a.	(25.19)
1985			(1.18)						

a BMC returns include amounts paid to producers as bonuses.

b Numbers in parentheses represent losses.

Source: Parastatal Annual Reports and files.

Positive Factors

Several important factors account for the above outcome, by far the most important of which is financial policies applied to state enterprise. First, the coalition's practice of lending funds to parastatals at low interest rates has without doubt lowered their costs. Parastatals have generally been charged interest rates ranging between 6 and 10 percent by the state. Comparable rates charged by commercial banks ranged from 13 to 20 percent.⁴⁵

Second, debt financing had the further effect of shielding state enterprise from parliamentary pressure, especially from the small but vocal opposition, and even from backbenchers, for as Colclough and McCarthy observe, "...the alignment is not so much the government benches against the opposition as Ministers against the backbenchers."⁴⁶ As a former general manager of BDC put it, "while equity financing meant going before parliament, loan extension simply involved bureaucratic net-

working."⁴⁷ Debt financing thus further reinforced the bureaucratic character of structure.

Third, the state periodically bailed its enterprises out of extreme financial distress. Measures employed included direct grants, interest de-capitalization, suspension of loan and/or interest payments, conversion of loans into equity, increasing authorized share capital, extension of loans, hikes in rates charged by corporations, re-valuation of assets, etc. All parastatals have been bailed out by one or more of the above measures. There was always a certain degree of reluctance when it came to bailing out the "inclusive parastatal". Even though auditors warned that "serious liquidity problems will arise in the coming year unless adequate finance is obtained" for BAMB,⁴⁸ it took the ruling coalition months to act. According to the corporation, "it was not until November 1975 that permanent operating capital was made available."⁴⁹

Fourth, the state extended special subsidies to most of the parastatals, among them exemption from income tax;⁵⁰ subsidies to BHC and BMC, and a monopoly of sugar distribution for BDC. As far as BDC is concerned, a special report claimed that if one deducted (a) rents which accrued to BDC from its monopoly of sugar importation (which had correctly been described by BDC as "exceptional income unrelated to capital employed for services rendered,"⁵¹ but later only described as income from trade, "which was grossly misleading"); and (b) royalties from operators of Air Botswana, BDC profits between 1971 and 1978 would evaporate.⁵²

Lastly, the ruling coalition's labor policies, effected through the Wages Policy Committee (WPC) within the context of the exploitation of labour in Botswana, had the effect of keeping parastatal operating costs low. The state's income policy had three related components. (a) the State maintained that for unskilled workers, income "should equal the average rural income of farmers." The state argued that wage restraint would maximize growth of employment opportunities and prevent the exacerbation of income inequalities between rural and urban areas. (b) the State maintained that, given the shortage of skilled Botswana, their earnings should not be allowed to skyrocket and drive foreign investors away.⁵³ Consequently the state through the WPC intervened to keep salaries low. Colclough and Olsen claim that "the wage bill of one mining company was reduced by P78,000 as a result of WPC's intervention."⁵⁴ The WPC even complained to foreign companies that advertised vacant positions in Botswana. In response to an advertisement by Encyclopedia Britannica for a representative in Botswana, the WPC responded, "you indicated that the successful applicant could expect an income in excess of P15,000 p.a... a salary of P15,000 p.a. would clearly be in excess of the level permissible under government policy."⁵⁵ This policy when combined with the absence of any parallel controls on prices and profits, effectively kept corporate costs low. Indeed, this proved so effective a discouragement to the workers that state enterprises continually pressed the WPC for wage and salary increase for their demoralized employees. Even foreign companies were concerned. The managing directors of Standard and Barclays Banks in Botswana, for example, jointly wrote to the WPC "expressing serious concern over low salaries." They continued to say that "our shareholders are also worried."⁵⁶ (c) The third aspect of the policy was that expatriates were not covered by the above

restrictions as will be discussed below. In a sense, the profit and loss shown in company books meant very little in terms of gauging managerial commercial efficiency or effectiveness — they were more indicators of managerial political skills and acumen: organizations whose profitability coincided with the coalition's political goals at a certain point in time did well. All the above factors have been doubly important: not only have they had positive influence on parastatal performance but they also have managed to neutralize formidable negative factors, to which we now turn.

Negative Factors

Four factors have had a negative impact on parastatal performance. First, the pro-petit bourgeois distributive policies of state enterprise have had a negative impact on their balance sheets. BHC's house sales at below-cost prices, as well as the sub-economic rents charged expatriates and others for its high-cost units put the corporation's finances in a precarious situation. BDC's unloading of profitable units to members of the ruling coalition hurt the corporation's finances. BMC's pampering of the members of the ruling coalition, especially the big cattle farmers, through its pricing and grading policies, the grazier scheme, and its neglect of all cattle activities before the factory gate failed to enhance the long-term interests of Botswana. They were not instances of "farsightedness." In 1990, while commenting on BMC's performance the previous year, its chairman noted that "throughput... was most disappointing... [BMC] utilized only 52 percent of capacity for cattle and 30 percent for sheep and goats... In terms of grazing conditions, much of the country is over-stocked and overgrazed."⁵⁷ The order to BLDC to set attractive prices to be paid for cattle as long as they were not "so high as to put traders out of business"⁵⁸ could only have a negative effect on the corporation's operations and profitability.

A second negative factor was debt financing, which, as already discussed, was a key characteristic of parastatal financial structure. The preponderance of loans produced two related impacts. (i) Coming as they did from the state and aid agencies, they were on soft terms, which led to a certain laxity on the part of management. Many corporations couldn't have obtained loans from commercial sources on the basis of their financial performance; many parastatals like the BHC were not interested anyway.⁵⁹ (ii) Cheap as they may have been, they were still loans and parastatals had to repay the principal as well as interest. High loan-to-capital ratios of parastatals, as discussed before, therefore meant high fixed payments. This has been all the more significant since as one student of capital markets points out, "debt represents fixed charges that must be repaid, regardless of business conditions."⁶⁰ The effects of the above have been formidable.

Third, the preponderance of expatriates in the parastatals has at times exerted a negative effect on their development. Expatriates have been a very costly factor of production for parastatals. Expatriate presence in the parastatal branch occurs at five related levels: it does not start at the parastatal enterprise level as many people tend to assume. For many years it started with the principal secretary to the president and included several principal secretaries of the parent ministries. It also included many ministerial divisional directors, among them the critical directors of economic affairs and financial affairs in the central Ministry of Finance. Decision making at this apex of the parastatal branch of the state was clearly in expatriate hands. The highest of

these positions were localized after the 1969 elections, but expatriate influence still remains.

The next tier of expatriate presence is at the board of directors level. Until very recently, expatriates were a majority on most of the parastatal boards of directors, to the chagrin of many Batswana, including members of parliament. Debating the BDC, of whose board of seven members four apart from the general manager were expatriates, a white Motswana member of parliament said, "first of all I am not happy at all with the appointments of this board. I am very surprised that the Minister experience whatsoever... I would have thought that there are no businessmen in this country. If one or two have been appointed, I would not mind but to take four men... who do not have any [more] knowledge than they [the local people] have got... If I go to an expatriate and say to him I have a proposition here, ... what can he say to me? What does he know more than even I do?"⁶¹ Apparently not much, for as will be seen shortly, the BDC board soon ran the organization into the ground. There have been two kinds of expatriate board members: those who have become board members by virtue of their positions in government, and those who joined the board as representatives of foreign capital. Half of the DEBSWANA board is expatriate, and represents DeBeers, who owns 50 percent of the corporation. Cable and Wireless has two members on BTC's board of eight, in addition to the chief executive, a total of three; the Commonwealth Development Corporation was represented on the boards of BPC, BHC, and BDC, among others.

The next tier of expatriate involvement in the parastatal branch of state is at the level of management. There was no Motswana parastatal head (that is, executive chairman, managing director, or general manager) until 1978 when Mr. T. Madisa became executive chairman of BMC. A Motswana remained a deputy to every incoming expatriate general manager at BDC for more than ten years until 1986 when he assumed the head position. Below the executive chairman, the managerial and professional personnel remain solidly expatriate, even more so than in the central government ministries.⁶² In 1985, NDB had six expatriates and five Peace Corps volunteers in its senior and professional staff; BMC had come a long way from its scandalous early years but still at least one-third of the commissioners were foreigners and there were about 45 expatriates in the senior and professional echelons in 1985. The senior ranks of BHC formed an expatriate enclave, and five of the six senior posts at BPC were filled by expatriates. There were another sixty expatriates consisting mostly of the corporation's technical and professional cadre. Section 12(4)(b) of the WUC establishment act designated ten professional posts at the corporation as "senior officers" at the urging of the World Bank and these have invariably been filled by expatriates. Nine other senior positions were filled with expatriates. BDC had twelve expatriates, seven of whom occupied all of the top positions with the exception of the deputy general managership. The "inclusive parastatals," BLDC and BAMB, also had expatriates but to a lesser degree. BAMB had only three expatriate positions in 1985 and two were unfilled. Lastly, BTC had 23 senior staff from Cable and Wireless, 19 expatriates from Europe, and 56 expatriates from Asia. The corporation had only three Batswana with degrees and two more were in training.⁶³

The above picture of expatriate domination is attuned with the overall expatriate presence in Botswana, where in 1980 they constituted 6 percent of public sector employment, at a ratio of 2 expatriates per 1000 inhabitants.⁶⁴ (There was a decline of one percentage point between 1980 and 1987 to 5 percent.⁶⁵ Also, expatriates constituted 23 percent of the Group A category of higher level staff in government in 1982 (an increase of 4 percentage points from 19 percent in 1972), 53 percent of the professional cadres, and 31 percent of the technical cadres.⁶⁶

Expatriates' costs constitute a third reason for low parastatal profitability: they have proven a very costly factor of production. According to the World Bank, "the annual cost of expatriates... is roughly estimated to range between \$80,000 to \$140,000 [per individual] inclusive of allowances and benefits."⁶⁷ According to another World Bank study, expatriate dependence raised unit costs "because of the large share of such personnel in total employment, high salaries and housing benefits paid them, and high marginal rates of the personal income tax."⁶⁸

A fourth and final negative factor concerns the ongoing and considerable mismanagement in the parastatal branch of the Botswana state. There has been considerable mismanagement in the BHC. In addition, the BPC had what a former director of economic affairs in the Botswana government called a "problematic, indifferent management."⁶⁹ The NDB "lent unwisely" especially in the 1980s, according to two observers. They add that "the provision of bad debts accounted for 76 percent of the loss of P.3.4 million declared in 1985."⁷⁰ The case of BDC also deserves mention. A special report prompted by the insolvency of the corporation in 1978 found the parastatal "floundering without a clear sense of direction or what its proper function should be" and launching projects and subsidiaries which "went adrift from the beginning through bad management," "Typical of its sense of priorities... even after five years its second and third largest investments were in its own accommodation and housing for its own staff." It was so intoxicated with residential property that it seemed "to resemble a small boy with access to the jam cupboard." Commenting on the managing director's claim that BDC was "responsible for the... creation of...4000 jobs and... [has] been consistently profitable from the day that the doors opened for business," the report said that this is "so ridiculous it defies comment; a man who could say that would say anything."⁷¹

Parastatal mismanagement was a result of several related factors. Though some of the expatriate managers were fundamentally incompetent, some were simply inappropriately appointed. Economists lacking business experience were hired to manage BDC, for example "BDC's management," says a report mentioned above, "has been characterized on many occasions by sheer commercial naivete. The history of BDC," the reports concludes, "proves that business stand or fall by the quality of their management and the same thing is true of BDC itself."⁷²

Turning to mining, the accumulated deficit of the Selebi Pikwe Copper and Nickel Mine reached P608.2 million in 1984 and there were fears the deficit would climb to P1 billion in 1985. According to Harvey, "Anglo-American and AMAX, two of the world's really large and experienced mining groups, managed to make an expensive technical error... leading to large losses and a horrendous accumulation of debt."⁷³ Also, and equally importantly, some of the expatriate managers had their own private agendas. In the case of Mr. Taylor, BDC's first general manager, the attorney

general reported that "while we were drawing up the terms of the Agreement, we learned that Mr. Taylor was busy registering two companies... In the case of the former, Taylor was director and secretary and in the latter, his wife and son were directors... we were alarmed by these activities."⁷⁴ His successors re-oriented BDC from its initial role of acting as a "midwife" to enterprises to a holding corporation — especially of residential property. Nursing "small business during their most difficult years knowing that they will go their own way as soon as they are fledged requires altruistic dedication to a degree seldom found in businessmen," noted a special report.⁷⁵ Even their successor who was hired because of his experience and background in small-scale projects, did not do much according to a former BDC general manager.⁷⁶ Breeding small business did not enrich a resume.

The above went on because of the nature of the parastatal structure already discussed. At the very top, there was a notable policy vacuum. Moyo observes, for example, that "owing to the organization of responsibilities within Government, there exists no policy for modern industry."⁷⁷ Also, as late as 1986, there was "no consolidated record of parastatal financial and investment activities", according to the World Bank.⁷⁸ Parastatal investment programs were left to their boards of directors, which often proved problematic. All the boards consisted of non-executive directors who had other duties and responsibilities. Only BMC had members who had a vested interest in the efficient and effective functioning of the corporation. They saw to it that it functioned well. Other bodies abounded with disinterested expatriates and bureaucrats. Botswana popular classes, vocal members of parliament, energetic bankers, and the like were all excluded. Many board members lacked business experience, making them easy prey to corrupt managers. A report on BDC said that "the board must also be criticized for a complete lack of alertness which enabled what must be the largest defalcation in the history of Botswana to continue unchecked so long."⁷⁹

5. Conclusion

The Botswana case points to several conclusions as efforts to privatize and reorganize the state enterprise sectors in Africa continue. First, the sector's establishment was not apolitical as some would like to believe. The establishment of the sector involved intense engagements between and within various internal and international social groups and forces. The establishment agenda for many organizations went beyond profit making and economic development. Issues of "who gets what, how and when" were as prominent.

Second, the smallness of the sector is more apparent than real. The sector has adequately catered for the interests of important social groups in Botswana. The state, through state enterprises, has been involved in many economic activities in the country. Third, state enterprises can perform well and be profitable as some of the Botswana state enterprises have been doing. As is with the case in the private sector though, not all state enterprises have done well, even in Botswana. Grosh's study of Kenyan state enterprises confirms this point.⁸⁰ Thus, even after the current reforms, performance will still be mixed with the exception that poorly performing state enterprise will die more quickly, if they are not strategic.

Fourth, the smallness of the sector in and of itself has not been enough to assure effective and efficient performance. State enterprises success in Botswana has had a lot to do with the state. The state has played critical roles in enterprise establishment, structuring and operations. The state's securing finance, for example, has been a big factor in ensuring operational success. State enterprises in Botswana have not been apolitical. They have been deeply enmeshed in politics. Political support has been critical to managerial success. Also Botswana state enterprises have enjoyed protection from several market forces including commercial interest rates and charges, and a free labour force. These have not been unimportant factors in explaining organizational success. Such protection may have to continue.

As regards managerial personnel, expatriate managers and consultants have not always delivered. They are therefore not an automatic failure—proof panacea as it is pushed in some quarters. Also indigenous management if well trained, experienced and motivated, can manage well, as the limited evidence from BAMB and BMC demonstrate. David Leonard's study of four public managers in Kenya also proves this point.⁸¹

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Book Review

Africa's Wind of Change or Revolution

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John Henrik Clarke (1991) *Notes for An African World Revolution - African World Revolution - Africans at the Cross Roads*, African World Press Inc. Box 1892 Trenton, New Jersey, 450 pages, ISBN 0-86543-270-8 (HB) \$49.95 ISBN 0-86543-271-6 (PB) \$18.95

To many the crumbling of the nations behind the iron-curtain signalled a new wind of change across the African continent. Since the attainment of independence many African states adopted the governance system practiced in the then Eastern European Countries. The disappearance of this system showed how fragile the African governance system was. But is the tumbling of Eastern Europe really the beginning for a new system in Africa?

African at the Cross-roads makes a significant attempt of putting into correct perspectives the ills of the continent and what should be done in righting the wrongs caused by both external and internal factors. *Notes for an African World Revolution* brings together a comprehensive scientific and objective analysis of the roots of the African and African-American Freedom Struggle in the African World and within a rapidly changing global environment. The author does so through a detailed discussion of the "uncompleted revolution" of five monumental African leaders - Kwame Nkrumah, Patrice Lumumba, Marcus Garvey, Malcolm X and Tom Mboya. In addition he penetrates into the pathetic situation in Southern Africa from Angola, Mozambique, through Namibia to South Africa, the bastion of the policy of apartheid. In between these he looks at the grassroots struggle ranging from the conquest of the continent to the struggles for the freedom of the continent. He poses a pertinent question - "Can African People Save themselves"?

The important message of the book is that of mental decolonization; for as he puts it, decolonization must be based on "African people searching to be whole again and searching to be a nation again" (p. 16). He goes further to point out that only a revolution can save the continent. "African history, political or otherwise, has been seen mainly through the eyes of conquerors, missionaries, and adventurers, whose interpretation of Africa and its people in most cases is a kind of sick fantasy, it is time that Africans tell their own African story" (p. xi) and this implies that "our next assignment in history is nation management and nation structure" (p. 11). This is necessary if we are to be loyal to the cause of our liberation. Africans throughout the world must begin to practice the essential selfishness-of-survival. Our open-mindedness and our hospitality to strangers have been turned against us (p. 4).

Divided into five parts, part one - "Notes for an African World Revolution" sets the stages for the nineteenth century origins of the African and African-American freedom struggles, education for a new reality in the African world and ends with

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