

THE INFORMAL SECTOR REVISITED: BOTSWANA'S DEVELOPMENTAL
STATE AND MICRO-ENTERPRISE DEVELOPMENT

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KA PULA

Dedication

This dissertation is dedicated to my mother, whom I fondly call Korkor, an amazing woman who toiled year after year to make sure I achieved the best education possible.

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Abstract

Governments, policy-makers and academics have come to recognize and acknowledge the vital role played by the informal sector in facilitating economic development especially in the third world. To realize the full potential of the informal sector as a possible engine of growth, more research is needed as to how the state can create a favorable institutional, regulatory and policy environment that allows productive employment, income generation and growth of the informal sector. The dissertation goes beyond the neo-liberal theory informed antagonistic pathways that characterize the relationship between the state and informal sector in the literature because they operate at opposing logics. I argue that such one-dimensional assessment of state-informal sector relations is highly problematic and flawed because the state is packaged as a unitary category with no differentiation and critical interrogation. The dissertation unpacks the state and identifies different types of states with varying abilities and capacities to engage the informal sector productively. Secondly, the antagonistic pathways framework of analysis is counterproductive and limits the possibilities of the state engaging the informal sector positively for mutual development. An alternative scenario is possible but contingent on the character of the state or a state that goes beyond “the Smithian Watchman” to a developmental one. Using Botswana as a case study, the dissertation appropriates survey and interview data to interrogate how the developmental state engages the informal sector for mutual development or otherwise.

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Chapter One

The Developmental State, Informal sector and Economic Development

1.1 Introduction

The persistence of the informal sector in developing countries presents both opportunities and challenges for various institutional actors whose defined role and jurisdiction are best placed to manage the informal sector. Though the literature on the role of the developmental state in creating a favorable environment for large enterprise development and industrial transformation is voluminous, little has been done on how the developmental state engages informality in the development process. In this introductory chapter, I review existing literature on the relationship between the informal sector and state, interrogating areas of critical overlap and conflict.

1.2 The Informal Sector: Historical context of a Concept

During the 1950s and 1960s it was widely assumed that, with the right mix of economic policies and resources, poor traditional economies could be transformed into dynamic modern economies (Leys, 1996, Preston 1996). In the process, the “traditional sector” comprising of petty traders, small producers, and a range of casual jobs would be absorbed into the modern capitalist or formal economy and, thereby, disappear¹. This perspective was reinforced by the successful rebuilding of Europe and Japan after World War II and the expansion of mass production in Europe and North America during the 1950s and 1960s. By the late 1960s, however, the optimism about the prospects for economic growth in developing countries began to give way to concerns about persistent

¹ The formal or modern sector comprised regulated small to large enterprises and regular, stable and protected employment

widespread unemployment. Reflecting this concern, the International Labor Organization (ILO) mounted a series of large multi-disciplinary employment missions to various developing countries. The first of these was to Kenya in 1972. The Kenya employment mission recognized that the traditional sector had not just persisted but expanded to include profitable and efficient enterprises as well as marginal activities (ILO, 1972). To highlight this fact, the Kenya mission chose to use the term ‘informal sector’ rather than ‘traditional sector’ for the range of small scale and unregistered economic activities. The term had been coined a year earlier by Keith Hart in his 1971 study of economic activities in urban Ghana (Hart 1973).

Although both Hart and the Kenya mission team had a positive predisposition towards the informal sector; noting its efficiency, creativity and resilience, the concept received mixed reviews in development circles. Many observers subscribed to the notion that the informal sector was marginal or peripheral and not linked to the formal sector or to modern capitalist development (Tokman, 1978). Some observers continued to believe that the informal sector in Kenya, Ghana and other developing countries would disappear once these countries achieved sufficient levels of economic growth or modern industrial development (Trager, 1985). Others (Peattie, 1987) argued that industrial development might take a different pattern in developing countries, including the expansion of informal economic activities than it had in developed countries.

By the 1980s, the focus of the informal sector debate expanded to include changes that were occurring in advanced capitalist economies. In both North America and Europe, production was increasingly being reorganized into small scale, decentralized and more

flexible economic units. Mass production was giving way to “flexible specialization” or in some contexts, reverting to sweatshop production (Piore and Sabel 1984, Gertler, 1988; Scott, 1988; Dijk et al, 1997). These new patterns of capitalist development were and are still associated with the informalization of employment relations and with subcontracting production of goods and services to small scale informal units and industrial outworkers². In the process, the informal economy has become a permanent albeit subordinate and dependent, feature of capitalist development (Portes et al. 1989).

Meanwhile, in the 1980s, the economic crisis in the third world especially Latin America served to highlight another feature of the informal sector; namely, that employment in the informal sector tends to grow during periods of economic crisis (Tokman 1992). In the more recent Asian economic crisis, millions of people who lost formal jobs in the former East Asian Tiger countries tried to find jobs or create work in the informal economy (Lee 1998).

Elsewhere in Africa, Structural Adjustment and shock therapy were associated with an expansion of employment in the informal sector. Employment in the informal sector tends to expand during periods of economic crisis, adjustment or transition. When private firms or public enterprises are downsized or closed, retrenched workers who do not find alternative formal jobs turn to the informal sector for work because they cannot afford to be openly unemployed (Bangasser, 2000, Anand, 1999). Also, in response to inflation or cutbacks in public services, households often supplement formal sector incomes with informal earnings (Meagher, 1995).

² By informalization of employment relations, I mean the transformation of standard jobs into nonstandard or atypical jobs with hourly wages but few benefits or into piece-rate jobs with no benefits.

Globalization of economies in the 1990s further contributed to informalization (Standing 1999). Whereas globalization generates new jobs and creates opportunities for new markets, available evidence suggests that not all jobs created especially in the third world meet minimum or living wage requirements (Carr and Chen, 2001).³ Likewise, disadvantaged producers are not able to seize new market opportunities resulting from globalization (Standing, 1999). This is because global competition tends to erode employment relations by encouraging formal firms to hire workers at low wages with few benefits or to subcontract and out-source the production of goods and services. Global integration also reduces the competitiveness of many informal firms or self-employed producers vis-à-vis imported goods in domestic markets and vis-à-vis larger, more formal firms in export markets (Rodrik, 1997).

Although interest in the informal sector has waxed and waned since its ‘discovery’ in 1970s, informality has continued to prove useful as a concept to academic research concerned with poverty and labor issues. At present, the renewed interest and re-convergence worldwide in the informal sector stems from the fact that the informal economy has not only grown worldwide but has also emerged in new guises and in unexpected places (Lee, 1998, Hart, 2005, Maloney, 2003). For this reason, the renewed interest in the informal sector has been accompanied by significant rethinking of the concept. In tandem with the re-conceptualization of informal sector, this chapter explores

³ This assertion is embedded in a theoretical phenomenon called the “race to the bottom” whereby intense competition between nations or states (over investment capital, for example) leads to the progressive dismantling of regulatory standards or dropping of protections in order to survive.

the relationship between the state and the informal sector in the development process, a relationship that has not attracted a great deal of scrutiny.

1.3 Defining the Informal Sector

The informal sector is beset with definitional and conceptual problems such that there are almost as many definitions as there are people studying it. The problems of defining the informal sector have been very well summarized by Grey-Johnson (1992) as follows:

“Most attempts to define the informal sector despair even before beginning to do so. They start by referring to it as "elusive" "indistinct" a fuzzy concept, fraught with too many "grey areas" etc. From the conventional economics point of view, the sector appears to have little that can go into national accounting; it eludes government regulation, its operations are so diverse, it is difficult to locate within the production sectors of the economy. The "discovery" of the informal sector set development economists into some amount of disarray... it took an anthropologist, not an economist, to point out the serious error. Little wonder therefore that when the first real attempt was made to integrate these informal forms of production into prevailing economic theory, it met with a host of conceptual, definitional and measurement difficulties”.

This is why Singer (1991) concludes that "the informal sector is like a giraffe; it is very difficult to define, but once you see one, you know it is a giraffe."⁴ The various definitions can be categorized as follows:

(a) Multi-criteria definitions

Multi-criteria definitions of the informal sector rely on identifying the characteristics of the informal sector as the basis for defining it. This mode of defining the informal sector can be traced to the ILO/UNDP. In their epic definition of the

⁴ Singer, as quoted in Lubell, 1991

informal sector, the ILO (1972) identified seven key characteristics of informal sector activity which have been widely adopted. These include:

- i. Low entry costs, and general ease of entry.
- ii. Unregulated and competitive markets.
- iii. Reliance on indigenous resources.
- iv. Family ownership of enterprises.
- v. Small scale of operation.
- vi. Labor intensive and simple technology.
- vii. Skills acquired outside formal schooling system.

It is ambiguous whether all these criteria have to be met before an enterprise is characterized as informal, or whether some or simply one criterion has to be met.

(b) Labor market differentiation

The defining point of labor market definitions of the informal sector is protection or lack thereof with the informal sector viewed as unprotected and the formal sector protected. The notion of a dichotomous urban labor market is based on the idea of the existence of a highly fragmented labor market. Turnham et al. (1990) articulate two major approaches to defining the operation of segmented labor markets especially in developing countries. The first thesis posits a dual market consisting of a protected sector where wage employees enjoy social cover and benefits and where minimum wage laws apply and an informal sector where the influences of competition push wages down to an equilibrium level much lower than the average wage in the protected sector. In this thesis, it is mainly because of institutional and market forces that labor market segmentation

occurs.⁵ Marxist interpretations of the labor market segmentation model posit a large pool of reserve labor as predominantly responsible for holding down wages in the unprotected sector. Segmentation occurs due to protections enjoyed in the formal sector and the resultant wages being set above the equilibrium level.

In reacting to criticisms that this form of labor modeling suffers essentially from the same deficiencies associated with dualist theories⁶ Fields (1990) argues for a rethinking of the informal sector concept representing it not as one sector or a continuum but as two qualitatively distinct sectors.

c) Dependent Industrialization:

One of the most widely accepted definitions of the informal sector links its origins to the existence of a large surplus labor force that cannot be absorbed by the formal sector. The structural surplus of the labor force according to this definition originates in the particular form of industrialization in the third world, an industrialization process characterized by the import of capital intensive technologies in a context of rapid urban population growth. In this historical context, creating new jobs was costly and in spite of impressive rates of economic growth, large segments of urban populations could not gain access to modern wage employment. To subsist, individuals had to invent their own jobs in the informal sector. This point of view has been developed by numerous scholars associated with the International Labor Office and rooted World Systems theories of industrialization (Tokuman, 1989). In this perspective, urban economies are described as

⁵ The institutional forces as discussed by Fields (1990) include minimum wage laws, labor unions, pay policy for government workers and labor codes.

⁶ The critique is that dualist theories ignore the fact that the so called formal/informal idea is a continuum rather than two distinguishable sectors.

composed of a modern formal sector and an informal subordinated to the former. The informal sector is defined as a segment of the urban economy composed of small firms characterized by low capital-to-labor ratio. The informal sector is seen as heterogeneous, made up of segments with differential access to capital and income.

Dependent industrialization perspectives on the informal sector focus on informal firms as the units of analysis and link informality with the use of simple technologies and small size of establishments. This line of argument is theoretically linked to import substitution industrialization in the third world. Sainz (1998) argues that this approach must be updated to address the current neoliberal orthodoxy that pervades development literature. Specifically Sainz claims that the neoliberal model of development has broken the association between small firms, low productivity and simple technologies. The strength of the work of researchers working in this theoretical paradigm is that it roots analysis of the informal sector in the particular characteristics of dependent industrialization; a process of industrialization characterized by the limited absorption of labor into the modern sector of the economy. Its weakness on the other hand is that there is no particular place in the analysis for the role of the state.

To be sure, the state is not completely absent from the work of researchers in this paradigm. Tokuman (1989) argues that the state plays a key role in the industrialization process because of the weakness of the local elite in the third world. Yet he also argues that if there is a correlation between informality and operating beyond established state regulations this is not the result of state regulations or a defining characteristic of informal activities but a consequence of operating in a context characterized by a

structural labor surplus (Tokman, 1992). Sainz (1998) also discounts the importance of the state under neoliberalism and argues that as far as extension of social rights is concerned, the main actors are rising entrepreneurial elites. Sainz is undoubtedly right in arguing that the position of the state vis-à-vis entrepreneurial elites has weakened under the neoliberal model of growth. However the dismissal of the role of the state in the process of capital accumulation may be exaggerated.⁷

d) Legalistic definitions

A key tenet of legalistic definitions of the informal sector is that states play a key role in structuring markets. States have had a key role in the rise of modern markets and in promoting industrial development (Gerschenkron, 1962, Polanyi, 1957, Evans 1995). Tilly and Tilly (1998) also point to the numerous ways in which state actions regulate the process of proletarianization. For example states regulate labor demand through fiscal and monetary policies, influence labor supply through immigration or welfare laws. This partial list emphasizes the importance of looking at the ways in which state institutions structure economic relations. The issue of the relations between the state and the informal economy has been addressed by De Soto (1989) and Portes and several associates in a large body of academic work focused on developing the implications of state regulation in the emergence and shape of informal economies (Portes 1994, Portes, Castells and Benton, 1989, Portes and Sassen Koob 1987; Portes and Schaufli, 1993). De Soto and Portes both link the rise of informal economies to the presence of state regulations

⁷ The state continues to play a key role in industrialization. Indeed the successful adoption of the neoliberal model of industrialization is associated with strong states. Moreover, the international financial institutions seem to have rediscovered a role for the state in addressing the worst consequences of this model of development (World Bank 1997).

although they differ in their explanations of how state regulations lead to the rise of informal economies.

The various definitions discussed so far are underlined by three major conceptualizations of the informal sector. First is the dualist school, popularized by the ILO in the 1970s, subscribes to the notion that the informal sector is comprised of marginal activities, distinct from and not related to the formal sector, that provide income for the poor and a safety net in times of crisis (Hart 1973; ILO 1972; Sethuraman 1976; Tokman 1978). According to this school, the persistence of informal activities is due largely to the fact that not enough modern job opportunities have been created to absorb surplus labor, due to a slow rate of economic growth and/or to a faster rate of population growth.

Secondly, the structuralist school, popularized by Caroline Moser and Alejandro Portes (among others) in the late 1970s and 1980s, subscribes to the notion that the informal sector should be seen as subordinated economic units (micro firms) and workers that serve to reduce input and labor costs and, thereby, increase the competitiveness of large capitalist firms. In the structuralist model, in marked contrast to the dualist model, different modes and forms of production are seen not only to co-exist but also to be inextricably connected and interdependent (Moser 1978; Castells and Portes 1989). According to this school, the nature of capitalist development (rather than a lack of growth) accounts for the persistence and growth of informal production relationships.

Finally, the legalist school, popularized by Hernando de Soto in the 1980s and 1990s, subscribes to the notion that the informal sector is comprised of micro-

entrepreneurs who choose to operate informally in order to avoid the costs, time and effort of formal registration (de Soto 1989). According to de Soto et al, micro-entrepreneurs will continue to produce informally so long as government procedures are cumbersome and costly. In this view, unreasonable government rules and regulations are stifling private enterprise.

The definitional categorization of the informal sector in the above discussion sheds light on the complex nature of the phenomenon. Its meaning has remained somewhat elusive despite the voluminous research and literature. It has been the subject of controversy despite the fact that it has gained wide currency during the last four decades in development policy debates. In order to develop a strategy for the informal sector however, there is the need for a practical and working definition. The definition adopted for this research will be clearly delineated in the next chapter.

Thus far, I have explored the underlying reasons why the informal sector has been conceptualized in different ways by different researchers. A careful examination of the extensive literature suggests that the wide array of definitions could be the result of any or all of the following. First, research on which definitions are based are conducted in different socio-economic and political contexts, using different methodologies and inevitably ending up with differing, and in some cases, contradictory results. The second possible explanation for the differing conceptualizations is that, indeed, social scientists are seeing different parts of just one entity. The typical analogy here is the story of the blind man who went to "see" an elephant. The one who held the tail concluded that an elephant was like a hose pipe, while the one who touched the belly conceptualized the

elephant as resembling a big round ball. What this means is that researchers are correct in identifying these parts, but they are wrong in concluding their picture without taking the entire structure into account.

The purpose of this thesis is not to try and settle the theoretical debate of what the informal sector is or not. Striving for consensus for this project is not a necessary one mainly because of the fact that at the end of it all, the most useful definition would be one that is location, situation and purpose specific, depending on the issues that are being examined. The emphasis here is that there has been a tendency for researchers to focus narrowly on one aspect of the informal sector, and to almost disregard all other aspects. Whilst such an approach is obviously convenient in terms research demands, it contributes to an almost fruitless vicious cycle of research and criticism aimed at nullifying such findings. In this research, I take a holistic approach to defining and researching the informal sector which I think will prove invaluable.

1.4 Contending Theoretical Perspectives on the Informal Sector.

What is the informal sector? Why does it still hold theoretical purchase for academic researchers as well as policy analysts? Much has been written about the informal sector. Many scholars from different theoretical persuasions have analyzed this pervasive phenomenon and have created many definitions of its origins. Therefore to say something meaningful about the informal sector, it is necessary to locate the definition of the concept in existing field of studies and show that a new study such as this thesis can advance our understanding of such a debated topic. For this reason, the chapter concisely traces the meandering approaches to the concept.

1.4.1 Early Neo-Liberal and Marxist Approaches

Development economists of the 1950s and 1960s, and Marxist writers of the 1970s, shared the view that the informal sector consisted of traditional activities offering only bare survival on the margins of developing societies (LeBrun and Gerry, 1975; Leys, 1973). While there was disagreement between the two perspectives as to whether the penetration of the "modern sector" was the solution or the cause of informal sector poverty, neither camp saw in the informal sector any potential for independent growth. According to Portes and Sassen-Koob (1987), the marginalist view of the informal sector rested on three basic assumptions ingrained in both conventional and Marxist theories of economic development. These were:

- (1) That the informal sector is transitory and its economic mode of organization will be transformed with the development of modern capitalism
- (2) that the informal sector generates only subsistence-level activities and incomes; and
- (3) that the informal sector is primarily a feature of peripheral economies which essentially restates the first assumption that the sector will disappear with the advance of capitalist development.

Since the 1970s, two interrelated developments have challenged these marginalist interpretations. On the one hand, in most Third World countries, the model of state-led development has failed to generate an expanding and efficient modern sector; on the other, far from disappearing in the face of economic development, informal activities are on the increase not only in the Third World but in many industrialized countries as well,

and appear to suggest a potential for economic dynamism in an environment of formal sector recession and disintegration.

1.4.2 New Neo-liberal Perspectives and State Economic Crisis

The above-mentioned economic developments have given rise to significant changes in the understanding of the informal sector. A new neo-liberal perspective emerged in the early 1970s. In contrast to earlier marginalist analyses, neo-liberal scholars discovered in the informal sector an indigenous entrepreneurial dynamism suggesting a potential for employment creation and growth. Rather than being treated as a product of incomplete state intervention, the informal sector was recast as a victim of excessive intervention, which monopolized resources in favor of a small and inefficient formal sector, forcing the bulk of the population to meet their own needs outside the regulatory framework of the formal economy.

Since then, the neo-liberal position has been further developed, championed by the World Bank and popularized in Hernando De Soto's *The Other Path* (1989). According to the World Bank perspective, the informal sector has already developed the entrepreneurial skills and organizational structures necessary for economic take-off. This is demonstrated by the ability of informal enterprises to flourish even in the hostile environment of state restrictions. The promotion of the informal sector is seen to be in the standard free market prescriptions of economic deregulation, and the provision of necessary infrastructure (De Soto, 1989; World Bank, 1989).

Contrary to the neo-liberal position, a reformist position championed by the ILO recognizes a similar potential for dynamism in the informal sector, but locates the

obstacles to its realization not simply in the state but in the weaknesses inherent in the informal sector itself. Low incomes, low productivity, and limited skills and technology are seen as limitations to informal sector development that will not simply disappear with the deregulation of the formal economy. The ILO prescription is more rather than less state intervention, but of an enlightened kind, designed to foster informal sector productivity and more appropriate forms of access to resources, along with the removal of unnecessary state restrictions (Bromley 1990; ILO, 1972).

In its various forms, the revised neo-liberal position can be credited as the first to recognize that, in the modern context of state crisis, there is a potential for the informal sector to play an increasingly central rather than a residual economic role. However, the ability of neo-liberal analyses to develop this insight is hampered by a dualistic tendency to portray the informal sector as economically independent of the formal sector, rather than locating its capacity for growth and income generation within the historical context of formal sector dominance. There is also a lack of analysis of the precise operation and impact of linkages with the formal sector, and virtually no analysis of class relations within the informal sector, which is invariably represented as an undifferentiated collection of dynamic small-scale entrepreneurs.⁸

⁸ One of the main weaknesses of the neo-liberal analysis springs from its ideological commitment to the premise that excessive state regulation is the primary cause of informality. This contention is not borne out by comparative empirical evidence. A survey by Frey and Week, which ranked seventeen OECD countries according to the levels of restrictions and taxes, shows in many cases an inverse relationship between levels of economic regulation and levels of informal activity (Frey and Week. 1983). Frey and Week rank Sweden, Norway and The Netherlands among the highest in terms of state regulation, and Italy and the USA among the lowest. From this they conclude the probability of high levels of informal activity in the former set of countries, and low informal activity levels in the USA and Italy. African states, on the whole, extract an even smaller proportion of GDP for government expenditure than industrialized states, but many African countries have informal and parallel activity levels estimated at over 50 per cent of GDP, far higher

1.4.3 Marxist Reappraisals and Global Economic Crisis

Marxist commentators on the informal sector and their conceptual response to the changing economic context of informality emerged in the early 1980s, almost a decade after the neo-liberal writers. The core of the shift in Marxist analyses was a movement away from the conceptually loaded, empirically weak character of many of the studies of the 1970s, toward an approach that attempted to make Marxist analytical categories more effective for empirical investigation of specific informal sector experiences (Gerry, 1987; Portes et al., 1989). As Chris Gerry explains, some of the archetypal Marxist interpretations of the nature and economic role of informality were held up to scrutiny:

“This relatively recent Marxist reappraisal calls into question the notion that petty commodity producers are disguised wage laborers exploited by capital. It also questions the functionalist proposition that small-scale production subsidizes peripheral capital accumulation by providing cheap essential consumer goods for the mass market and by holding down wage levels through the role it plays as a major part of the industrial reserve army. (Gerry, 1987)”

In place of the old tenets of petty commodity production, Marxist thinkers have turned to a more concrete analysis of informal actors as involved in a variety of capital/labor relationships, as employers, owner-operators and various forms of waged and unwaged laborers (Bernstein, cited in Gerry, 1987). Further, the functionalist and universalist interpretations of the role of informal activity in peripheral capitalist accumulation has given way to a revived awareness of the wider tendency of capitalism to generate periodic crises, and to a new focus on the particularly central role of informality in the attempts of capitalist forces to regulate economic crisis.

than estimates for industrialized countries. Similar inverse patterns have been noted in the relationship between levels of unionization and levels of informal activity (Portes and Sassen-Koob, 1987).

The informalization approach represents the most comprehensive and most empirically well-grounded attempt to carry out this reappraisal. Informality is analyzed as a social and historical process, rather than as a sector. Particular attention is directed to the fact that informal activity involves the evasion and loosening of the institutional framework, of labor regulations laid down in developed and developing societies during the post-War period. This trend is analyzed in the context of the global restructuring of productive relations in response to recession, mounting indebtedness and increased competition from the newly industrialized countries (Portes and Sassen-Koob, 1987, Castells and Portes, 1989). Informal forms of production and distribution are seen as part of capital's search for flexibility in the use of labor, with the aim of avoiding the costs of social security obligations and other substantial overhead costs of formal sector operation. This is accompanied by shifts in the conditions of labor reproduction, in which households turn increasingly to informal activities to supplement a livelihood threatened by falling real wages and rising unemployment. (Beneria, 1991; Roberts, 1991).

Although increasingly pervasive, informalization is not seen as an automatic result of global recession; certain economic characteristics are required in order for it to develop as a viable strategy. It is less likely to occur in industries in which capital is highly concentrated and production difficult to decentralize, such as the auto industry, where such alternatives as global sourcing and the use of immigrant labor have been the preferred restructuring strategies (Castells and Portes, 1989; Weiss, 1987). Given these limitations, it is significant that, particularly in Third World countries, structural

adjustment reforms now enforce a process of systematic de-concentration of capital in the public sector, thereby creating conditions more favorable to informalization.

Beyond Marxist analysis, Weiss (1987) argues that the necessary conditions for the development of informality are not only provided by the features of an industry or economic sector, but also by specific socio-economic features of a society. Such features as a dispersion of small-scale operators, a marginalized labor source (usually women, youth or vulnerable ethnic communities) and a dense system of social networks, all vital to the development of an active informal sector, do not simply appear with the advent of crisis. In some cases, such as Weiss' example, Italy, or in East and West Africa, these features may have evolved as part of a society's specific political and economic history, which accounts for the greater susceptibility of such societies to informalization. Increasingly, however, these features are being created by deliberate state policies of decentralization, retrenchment and cut-backs in social services as part of the effort to restructure in the face of crisis. In many countries, even the scale of informalization since the onset of crisis demands the tacit compliance, if not the active encouragement, of the state. Thus, the expansion of informality since the 1970s cannot be attributed merely to the global economic situation or to the specific characteristics of a given society; it also demands the complicity of the state.

Within the informalization framework, four issues emerge as key to understanding the role, and the potential of the informal sector. The first three, identified by Castells and Portes (1989), are:

- (1) Features of differentiation within the informal sector and the specific character of informal sector labor,
- (2) Linkages with the formal economy; and
- (3) The attitude of the state toward the informal sector.

The contributions of other informalization studies suggest that a fourth issue deserves specific attention: the role of informal social networks in providing an organizational structure for production and marketing within the informal sector, and a framework for the recruitment and use of informal sector labor, Weiss brings out the issue clearly:

“How, then, in the absence of formal institutional mechanisms, are workers recruited and mobilized to co-operate or collude in illegal, unstable and often highly exploitative transactions? ... Because it operates outside the protective sanctions established by government and trade unions, the underground economy is particularly dependent on informal mechanisms of control. These mechanisms consist in a set of social connections, personal and kinship allegiances, which ensure the flow of labor market information and which connect the employer to a supply of 'trustworthy' labor, (Weiss, 1987)”

This thesis however focuses on the role of the state within the informalization framework and assesses how both engage each other for a positive outcome. Most importantly, borrowing from Samatar and Samatar, 2002 and Evans, 1995, the thesis goes beyond the uncritical analysis of the state as a unitary entity by differentiating various types of states and focusing specifically on the developmental state.

1.5 The Developmental State: A critical Review

The debate about the state has recently re-surfaced as a result of the collapse of the “Washington Consensus” and the failure of the much touted neo-liberal reorganization of the global economy in most of the countries of the South. As is well

known, the neo-liberal response to development crisis especially in the third world was premised upon the alleged failures of the state in advancing national development. Characterizing the role of the state in development as a problem, neo-liberal thought assigned restrictive roles to the state. However, anchored in Theda Skocpol's (1985) essay "Bringing the State Back In," social science theory during the late 1980s and 1990s has attempted to reposition the state vis a vis its role in national development.

Skocpol's work, reintroduced the related notions of state capacity and autonomy as key factors in political, social, and economic development⁹. The state was understood, at one level, to be a unitary actor vis-à-vis markets, social forces, and international pressures. It was also conceptualized as a set of institutions that structured the behavior, preferences, and strategies of all political actors, inside and outside of the actual state apparatus. The implications of this state-centric paradigm, both as an empirical reality to be studied and a theoretical construct to be debated, were far-reaching. More importantly, it created the space for the state to be deconstructed, differentiated and analyzed critically.

Of the many categories of states that the statist approach in social scientific theory-building generated, there was a general consensus around the idea of the 'developmental state' as a model for state led economic development. It should be noted, however, that the core tenets of the developmental state characterized by strategic state intervention into the market to facilitate industrial transformation and economic growth is in fact nothing new. Accounts by Alexander Gerschenkron (1962) highlight the extent to

⁹ For the purpose of this thesis, I define the state as a territorial organization that claims a monopoly in the legitimate use of authority and coercion of the people included in its geographic boundaries.

which nationalist government policies that distorted market forces were responsible for economic development in Europe. What is the developmental state? How does it differ from previous interpretations of state-economy relations?

The concept of the developmental state was used to explain the exceptional growth performances of specific countries initially in East Asia but more recently worldwide as resulting simultaneously from specific combinations of economic, political and institutional structures¹⁰. The concept was drawn up to describe processes underlying the spectacular growth of East Asian late industrializers including Japan, Korea and Taiwan¹¹. These late industrializers developed very diverse industrial structures¹² and grounded their industrialization on learning processes and the borrowing of technology rather than on creating new products.

Why did the East Asian developmental state enjoy so much attention in the postwar period? For one, the individual countries within the Asian region posted extremely high economic growth rates, beginning with Japan and followed by Taiwan, South Korea, Hong Kong, and Singapore. As a region, East Asian economies collectively outpaced developmental counterparts in Latin America and Africa. One must also appreciate the intellectual context out of which the East Asian developmental state model emerged. Government development policies in this region were neither socialist in design, nor did they promote completely unfettered markets. East Asian industrializers

¹⁰ For literature on the developmental state in an African context, see for example Taylor, 2003, Mkandawire, 2001, Samatar, 1999, 2002, Meisenhelder, 1997).

¹¹ Among a vast literature, the pioneering work of Johnson (1982), White (1988), Amsden (1989), Wade (1990), Evans (1989), Aoki et al. (1997).

¹² E.g. small firms in Japan and Taiwan and large conglomerates in Korea.

also defied the structural determinism of world systems and dependency theories¹³ prevalent in the 1970s and 1980s. In other words, the East Asian experience and the role of the state in facilitating postwar growth confounded existing capitalism-socialism and North-South debates (Chalmers Johnson, 1999). When understood against this ideologically charged context, it is not a stretch to see how the examples of Japan, Taiwan, and South Korea were thought to be *sui generis*. They were postwar anomalies, and their experiences demanded explanation.

Seminal works on Japan's postwar economic reconstruction featuring arguments about state leadership in industrial development first surfaced during the 1980s (Johnson, 1982; Samuels, 1987). Soon thereafter, a wave of empirical research and theoretical innovation further delineated the detailed nuances of state-led development in a broader range of East Asian cases. These studies not only examined different national experiences within the region but also highlighted the regional dynamism in Asia's postwar economic miracle (Deyo, 1987; Amsden, 1989; Wade, 1990; Woo, 1991; Noble, 1998). As such, they offered comparative insights into the different and by and large failed developmental projects among countries outside of the Asian region (Woo-Cummings 1999, Evans, 1995; Haggard, 1990; Gerrefi and Wyman, 1990). Arguments about weak or predatory states in Africa, politically captured states in Latin America, or the limitations of state socialist planning in the former Soviet countries were counterposed against the East Asian experience, and they illuminated what were then understood to be the core features of an effective developmental state.

¹³ See Cardoso and Faletto (1979), Wallerstein (1984), Andre Gundar Frank for an extensive discussion of World Systems and Dependency theories of development.

1.5.1 Key Features of the East Asian Developmental State:

The emergence of the developmental state especially benefited from what Gerschenkron saw to be the “advantages of economic backwardness.” By being economic laggards in the immediate postwar period, places such as Taiwan and South Korea benefited from the advantages of catch-up development. They learned the ways of economic advancement not from scratch but by importing knowledge, technology, and economic know-how from abroad (Amsden, 1989).

Second, it is often said that the East Asian developmental state, in the interest of facilitating rapid economic growth, “got the prices wrong” (Amsden, 1989). This assertion needs to be qualified. Although East Asian economies were not market disregarding, they were also not built on unfettered markets (Johnson, 1999). It would be too simplistic to say that their macroeconomic arrangements fell somewhere in between, as that would obfuscate the very strategic interaction between the state and market forces. The developmental states in Japan, South Korea, and Taiwan used public policy instruments to allocate productive resources rather than relying solely on the market. Wade (1990) argues that the East Asian developmental state targeted certain industrial sectors in its allocation of resources, sometimes playing a “big” leadership role in prospecting potentially lucrative industrial sectors and at other times playing a followership role in strengthening preexisting private-sector initiatives. Through the creation of tariff barriers, the subsidization of research and development and infrastructural development, the use of export incentives, and centralized control over the financial system, the developmental state demonstrated how getting the prices wrong

through government intervention into the market was an effective strategy to compensate for East Asia's relative economic backwardness and to jump-start the region's catch-up development.

Third, economic policy, including industrial policy, in the East Asian developmental state was primarily geared toward maximizing national productivity. In this respect, rapid economic growth constituted the "development" in the developmental state model. The distributive consequences of economic growth were less important to the East Asian developmental state, provided that social inequality was never too severe and that the trickle-down effects of aggregate growth continued to be felt. This rather narrow conception of development¹⁴ therefore precluded more concerted efforts in redistributive social policy. The East Asian developmental states in brief were social welfare laggards (Goodman et al, 1998). The few social programs that existed were for bolstering national economic productivity, not socioeconomic redistribution per se. Holliday (2000) appropriately termed the East Asian welfare regimes of the postwar period as "productivist" in their economic orientation. As often noted, the East Asian developmental states invested most of their capital into the provision of accessible education, which was justified as a means for human capital development and thus defined as an economic investment rather than as a social policy.

Fourth, the East Asian developmental states were highly capable states in terms of economic policymaking, implementation, and policy monitoring and enforcement (Haggard, 2004). The bureaucratic apparatus comprised highly trained technocratic elites,

¹⁴ Legitimated by the feelings of economic nationalism vested in East Asia's catch-up model of development

who were among each nation's best and brightest (Evans and Rauch, 2000). Bureaucracies within the developmental state were organized hierarchically, centered on specific pilot agencies such as the Ministry of International Trade and Industry (MITI) in Japan, the Economic Planning Board in Korea, and the Council for Economic Planning and Development in Taiwan. Vertical lines of authority fostered consensus among state-level policymakers, both facilitating horizontal cooperation between the line ministries and promoting policymaking efficiency. Finally, the state maintained both formal and informal networks linking government officials together with industry leaders. These networks not only ensured that policy directives from on high were implemented correctly, but they also functioned as critical upward transmission belts of market and industrial intelligence for state leaders to consider (Evans, 1995).

Fifth, the East Asian developmental state model was anchored in a relatively autonomous state. Its embeddedness within industry notwithstanding, the developmental state by and large functioned independently of popular social forces. On the one hand, relative autonomy among developmental states in East Asia meant that they avoided being captured by any dominant social class. State autonomy of this sort was crucial in East Asian development, and it is well known that the absence of such autonomy proved problematic in Latin America and postcolonial Africa. On the other hand, the state's relative autonomy meant that the East Asian developmental states were authoritarian. Labor unions were repressed and social movements depoliticized. To be sure, the Cold War context and geopolitical considerations among Western allies sustained authoritarian rule in the region, as long as the East Asian developmental states remained resolute in

their anti communist ideologies. Under these political conditions, policy agendas and the policy process were dominated by the state.

In sum, the East Asian developmental state was the product of a certain time and place. At the policy level, the postwar developmental state was characterized by its use of market-intervening policies. These policies were tolerated by the rest of the world because of the imperatives of postwar economic reconstruction and the need to contain the spread of communism during the Cold War. The developmental state was also understood in terms of its internal institutional configuration, for example, the hierarchical organization of the bureaucracy and the state's meritocratic recruiting procedures. Last, the developmental state was defined by its ability to balance strategic linkages with, and relative autonomy from, different societal forces.

In organizing the various components of the developmental state, academic discourse was able to distinguish between the objectives and the institutional/organizational attributes of a developmental state. Accordingly, the objectives were broadly conceived as national developmental visions, whilst the combination of the autonomy of state institutions with their embeddedness in societal alliances created the basis for the efficaciousness of the developmental state (Evans 1995).

Evans (1995) seminal work on the "Embedded Autonomy of the State" argues that sterile debates about how much states intervene in the economic development process have to be replaced with arguments about different kinds of state involvement and their outcomes. Evans argues that states vary dramatically in their internal structures

and relations to society with different structures creating different capacities for action¹⁵. Structures define the range of roles that the state is capable of playing and thus outcomes depend both on whether the roles fit the context and on how well they are executed. The vast literature on the developmental state (Samatar, 1999; Woo-Cummings; 1999; Weiss, 1998, 2000; Evans, 1995; Wade, 1990, Amsden, 1989, Leftwich, 1995, 2000) posit an internal organization of the state that comes much closer to approximating a Weberian bureaucracy with high levels of internal coherence as well as connectedness to society which allow for relative autonomy and the capacity to deliver on developmental projects. Evans (1995) subsequently identifies four developmental roles through intervention in the economy the state can play with outcomes depending on combinations of these roles¹⁶. These roles played by the state are believed to be important for the capitalist development process.

The importance of combining market rationality with state intervention through planning in the form of a capitalist guided market economy is a common thread that pervades the developmental state literature (Applebaum et al, 1992). Weber viewed the complementary nature and role of the marketplace, on the one hand, and the rational and rule-bound state bureaucracy, on the other, as “necessary components and complementary preconditions of modern capitalism” (Vartiainen 1999). Johnson (1982) describes this as plan rational as opposed to market rational economies. Rather than

¹⁵ For a critical analysis of state-society relations in the third world see Samatar, 1999 and Migdal, 1988.

¹⁶ The role of custodian highlights aspects of the conventional role of regulator whilst the role of demiurge is a way of playing out the more generic role of producer. The role of midwife involves the state assisting in the emergence of new entrepreneurial groups or to induce existing groups to venture into more challenging kinds of production. Husbandry consists of cajoling and assisting private entrepreneurial groups in navigating global challenges (Evans, 1995).

creating market distortions, state intervention seeks to augment market rationality in the long term by reducing risk and uncertainty through actions like augmenting the supply of investible resources, spreading or socializing long-term risks, and steering the allocation of investments by combining government and entrepreneurial preferences (Lubeck, 1992). This has been widely described as ‘governed markets’ (Wade 1990) and ‘disciplined markets’ (Amsden 1989), where the key to economic development is a “synergistic connection between a public system and a mostly market system, the outputs of each becoming inputs for the other” (Wade 1990). The developmental state thus defines its mission primarily in terms of long-term national economic enhancement, and regularly intervenes to improve competitiveness by creating competitive advantages, rather than comparative advantage (Pempel, 1999). It is this combination of incentives and market discipline that distinguishes the developmental state from other forms of states and which in the long run is crucial in attempts to transform and enhance productivity in the micro-enterprise sector.

Some scholars perceive the basis of the developmental state to be under pressure from processes of economic globalization (Newell, 2002, Ohearn, 2000; Kim 1999). Therefore, they argue that these processes erode the political and economic autonomy of state institutions and render them more market-orientated: “the era of neo-liberal triumph in the 1980s gave way to the radical structural change of the international political economy. It is more difficult for national governments to intervene and manage their economies with the global division of labor, absence of capital controls, and the operation of the world financial markets” (Kim, 1999). Arguments in defense of the developmental

state stress the necessity to critically reflect on the changing nature of the international political economy and to be aware of implications for lessons learned (particularly in the field of economic strategy and industrial policy) from the East Asian states (Weiss, 2000).

Another important global trend that challenges the validity of the traditional model of the developmental state as defined by Leftwich (1995) is democratization. The wave of democratization after the end of the Cold War convinced an increasing number of scholars of the necessity to modify the model (so far based on authoritarian states) and incorporate components of democratic political systems. The emerging model of a democratic developmental state defined the nature of a political system as an important additional element of state autonomy and embeddedness. A democratic political society creates channels of political participation and enables the state to engage its society in a programmatic partnership for national development (White, 1998).

The focus of the developmental state is how to reengineer the formal sector and as a result, has not paid much attention to the informal sector. In particular, the literature on the developmental state has been oblivious to the informal sector particularly when such states were set in the context in which large segments of the population operate in the informal sector. The critical overlap in the literature on the developmental state and informal sector has not been explored and theorized and therefore the need for more research to bridge the conceptual gulf in the literature. The informal sector facilitates initiative and entrepreneurship, the core tenets of the free market economy and thus can meaningfully contribute to the competitiveness of the market economy in totality if

assisted and guided. Guiding and assisting the informal sector for the realization of its potential in the capitalist development process on the other hand behooves a purposeful, autonomous developmental state with the capacity to transform the informal sector through appropriate kinds of intervention and regulation.

The consensus in the literature of Botswana's peculiarity and uniqueness as an African institution (Taylor, 2003, Samatar, 1999; Mkandawire, 1999; Edge et al, 1996) makes it a prime case study for exploring the relationship between the developmental state and informal sector in the third world context. Botswana's economic development success has been dependent on good governance and public management. Botswana's development project has been guided by good political leadership that has legitimacy from the public and also significant autonomy from particularistic domestic and international forces (Samatar, 1999). The quality of Botswana leadership, its relations with its bureaucracy, and the bureaucracy's professional autonomy clearly distinguish Botswana from most African states. Botswana thus echoes the developmental state of Johnson where 'politicians reign and the state bureaucrats rule' (1982). In addition to good political leadership, national cohesion around the development agenda and an elaborate system of planning based on five-year National Development Plans to articulate government policies and development priorities have been critical in the success of Botswana's development project.

The rapid economic development of Botswana sharply contrasts with the decline elsewhere in Africa. Botswana's economic growth was dependent on the expanded involvement of the state as a facilitator or entrepreneurial agent in the economy whilst its

counterparts all over the continent were reducing their interventions as prescribed by the World Bank through Structural Adjustment Programs (SAPs)¹⁷. Pilot institutions were established to stimulate growth in the private sector with the Botswana Development Corporation (BDC) and the Ministry of Finance and Development Planning (MFDP) serving as vivid examples of the state as an entrepreneurial agent.

Recognizing the importance of the informal sector, the Botswana government has engaged the sector explicitly through policies to improve productivity, income and employment creating capacity¹⁸. According the seventh and ninth National Development Plans encouraging the informal sector constitutes one element among several aimed at boosting the industrial development of Botswana. The informal sector itself has grown significantly over time. From pre-independence low levels mainly due to colonial policies¹⁹, the informal sector was clearly visible by the middle of the 1970s. A recent Informal Sector Survey (2000) by the Central Statistics Office (CSO) estimates that there are about 222,000 informal enterprises in Botswana. The trend in informal sector activities through employment creation and income generation for the poor clearly shows that the informal sector in Botswana serves a welfare function.

1.6 PROBLEM STATEMENT

In spite of impressive gains in political, economic and social development, Botswana continues to face great challenges in terms of sustainable human development. One of the major development challenges facing Botswana is unemployment. Though unemployment rates

¹⁷ It must be noted that Botswana states involvement in the economy was facilitated by its huge diamond reserves and therefore didn't have to follow World Bank dictates.

¹⁸ Clearly stated in 2006 state of the nation address by president Festus Mogae and budget statements from 2004-2006.

¹⁹ For consequences of colonial economic policy on Botswana see for example Parson 1984.

have fluctuated over the past two decades, they have persistently remained high, rising from 13% of the labor force in 1991 to 21.5% in 1996 and 17.6% in 2006 (RoB, 2006). The existence of such high unemployment rates in an economy growing at on an average of about 10% in the last ten years, and with population growing at just a little higher than 3% amounts to a policy problem requiring some explanation. One explanation is that mining, which accounts for most growth in the economy, creates little direct employment because of its relatively capital-intensive nature. Another explanation is that the agricultural sector, which is labor-intensive and therefore has the potential for generating employment, has declined over the years relative to the rest of the economy.

Closely related to the unemployment situation is the prevalence of poverty and inequality in Botswana. According to Botswana's Household Income and Expenditure Survey of 2003, the proportion of people living below the poverty line fell from 47 per cent in the early 1990s to around 30 percent in 2003. While there's been a significant drop in poverty levels from the 1990s, the poverty situation is still intolerable, particularly in a country with one of the highest per capita incomes in Africa. It also suggests the extent to which income distribution is highly skewed in favor of the few rich people. Lack of income, a direct consequence of lack of wage employment is singled out as an important factor contributing to poverty in Botswana.

Intricately linked to the problems of unemployment, poverty and inequality, is rapid urbanization. Urbanization in the last 20 years has become one of the most important trends in human settlement development and the prospects of all developing countries continue to be deeply affected by rapid urban population growth. At the time of independence only 4% of Botswana's population lived in urban areas. However, the

proportion has since increased rapidly to almost 10% in 1971, 18% in 1981 and 46% in 1991 (CSO, 2003). Rapid urbanization in Botswana has been mainly due to population migration from rural to urban areas in search of employment and a better quality of life (Gwebu, 2004). As a result of rapid urbanization, pressure on urban services and facilities (the "present needs" as defined in sustainable development) has become a serious problem especially in Gaborone and job opportunities have become too few for the large numbers of new urban dwellers. Consequently, the numbers of poor people within Gaborone is rapidly increasing.

To realize the full potential of the informal sector as a possible engine of growth and an important sector in Botswana's development project, more research is needed as to how the Botswana State can create favorable institutional and regulatory environment that allows productive employment, income and growth of the informal sector. There is also need for research on forms of support and intervention tailored to help informal sector micro-enterprises meet the challenges of Botswana's a competitive economy.

1.7 Purpose of the Research

As evident from the extensive literature reviewed, the persistence of the informal sector especially in developing countries presents both opportunities and challenges for various institutional actors whose defined roles and jurisdiction are best placed to manage it. Though the literature on the role of the developmental state in creating a favorable environment for large enterprise development and industrial transformation is voluminous, little has been done on how the developmental state in the third world context engages informality in the development process. The purpose of this research is to explore how the developmental state engages and incorporates the informal sector in

its development project given that it accounts for a significant proportion of most urban economies.

Since its discovery in the mid 1970s, a lot of effort and energy has gone into the assistance of the informal sector without critically assessing how best productivity in the sector can be enhanced. Most importantly, efforts at assistance mainly in the form of micro-credit programs have been poorly managed and implemented and thus making attempts to engage the informal sector in the development process redundant. In this research I argue that the viability of the informal sector as an engine of growth in the development project of third world countries depends a great deal on its position in relation to the state. Secondly the context of operations in the informal sector greatly influences the types of intervention that governments can undertake. Finally, appropriate regulation of the informal economy to enhance growth is dependent on a highly focused state with the relative autonomy and capacity to intervene appropriately in the informal sector.

1.8 Goals, Objectives and Research Questions

The developmental state is unique in engaging and creating regulatory and institutional environments that facilitate entrepreneurship. The capacity of micro-enterprises on the other hand to generate and sustain growth through employment and income is influenced by a multiplicity of both endogenous and exogenous factors which combine to provide opportunities and constraints to income generation, capital accumulation and hence employment generation. The goals of the research are therefore:

- a. To identify and analyze the opportunities for and barriers to micro-enterprise development and performance in Botswana.
- b. To identify and examine the attempts made by the Botswana government and micro-enterprises to overcome these barriers.
- c. To develop a framework that would strengthen the capacity and role of the Botswana government and micro-enterprises to enhance performance.

The specific objectives are to:

- a. Profile the informal sector in Gaborone
- b. Examine the extent to which micro-enterprises have been accepted and used by the government to meet its employment and income objectives as well as poverty alleviation.
- c. Assess the institutional and regulatory framework within which micro-enterprises operate and the extent to which the framework impedes and or enhances performance.
- d. Suggest ways of overcoming these barriers.

Following from the objectives, these central questions will be investigated:

1. What is the nature of Botswana's micro-enterprise sector?
 - a. What endogenous factors impact the performance of micro-enterprises in Botswana?
 - b. Do vertical and horizontal linkages amongst micro-enterprises on one hand and micro-enterprises and the formal economy on the other enhance or impede growth?

- c. What are the barriers to micro-enterprise growth and how are they negotiated?
2. What is the nature of the regulatory and institutional framework in Botswana and how does it impact micro-enterprises development?
- a. How is the Botswana state engaging the informal sector in its development project?
 - b. How do micro-enterprises articulate with state institutions, regulations and policies (FAP, CEDA, and BEDU)?
 - c. What is the impact of State institutions and regulations on the micro-enterprise sector and how does the regulatory and institutional framework facilitate and/or constrain micro-enterprise development?
 - d. What specific roles do state institutions play in enterprise development, how well are they executed and what are the outcomes?
 - e. How are constraints negotiated by micro-enterprises?

1.9 Significance of the Research:

The thesis brings the state theoretic and informal sector literatures into conversation and investigates specifically, the developmental state-informal sector conceptual conundrum. The thesis fills a conceptual gap in the literature since very little research has been done on how the developmental state engages the informal sector positively in the developmental process. Most importantly, exploring Botswana's developmental state and its interaction with the informal sector sheds light on how countries in the third world especially, sub-Saharan African can adapt to and facilitate

economic change and growth by guiding the market. Policy-wise, the research explores how establishing supportive policy, institutional and regulatory links with the informal sector facilitates growth, productive employment generation and equitable development.

Chapter Two:

Conceptual Framework and Methodology

2.1 Introduction

The chapter describes the scope of the study and the research methods used in conducting the case study in Gaborone, Botswana. In the ensuing text I also elucidate a conceptual framework within which the study is organized. The framework embeds the state and informal sector literatures by advocating a role for the competent developmental state able to critically engage the informal sector as part of its development project.

2.2 Scope of Study

Informal sector enterprises comprise a heterogeneous set of economic units. Studies have shown that these economic units can be divided into four sub-sectors (Hansen et al, 2004; Lubell, 1991; Turnham et al, 1990). These are:

- i. The petty commodity production and services sub-sector. These include enterprises involved in small-scale production of goods and those involved in the provision of services.
- ii. Enterprises in petty trading and related services (retail)
- iii. Enterprises involved in small-scale construction particularly construction of dwelling units and related activities.
- iv. Enterprises in the transportation sub-sector.

My research focuses on enterprises in the petty commodity production (manufacturing), retail and service sub-sectors. The choice of these sub-sectors does not imply that other sub-sectors are not important but rather it is recognition of the fact that it is in the manufacturing, retail and service sub-sectors that operating enterprises produce a

wide variety of goods and perform various kinds of services for a wide spectrum of people within Botswana's urban economy. Prevailing literature also indicates that the adoption of technology and innovative ideas are most prevalent and expanding in the manufacturing, retail and service sub-sectors (Sharda and Samsom, 2006). These sub-sectors are therefore crucial and advantageous to the Botswana state if it is to critically engage the informal sector and incorporate it into its development project. Indeed small-scale production, retail and service enterprises constitute a significant segment of economic activity in Botswana (Daniels and Fisseha, 1992; CSO, 2001). Despite their significance especially within Botswana's urban economy (Gwebu, 2004), very little is known about their operational characteristics, present and potential role in income and employment generation, capacity as seedbeds of industrialization and the impact of governmental regulation and policies on their performance and productivity. It is for these reasons that this study is focused on the manufacturing, service and retail sub-sectors of the informal sector in Gaborone.

2.3 Conceptual Framework

2.3.1 Problems of Defining the Informal Sector

A study of the informal sector has to begin with a definition of the term "informal sector". Since the concept was first introduced, researchers and policy makers have applied it to a diversity of enterprises and contexts. The result is a complete confusion about what the informal sector actually means. For instance it has at different times been regarded as synonymous with the urban poor (Daniels, 2004; Chen, 2004; Maloney,

2003; Sethuraman, 1997; Amin, 1996), and with immigrant populations in cities (Mitullah, 2004, Rempel, 1996).

Though attempts have been made to define and clarify the concept, it has remained elusive. Most attempts at defining the informal sector have been made within a dualistic economic framework ascribed to the urban economy of developing countries. Other articulations of the informal sector have been predicated on the enterprise as a unit of analysis whilst others have focused on the urban labor market rather than enterprises. For instance, Hart (1990, 1992) based his definition on the distinction between wage-earning and self-employment with the key variable being the “degree of rationalization of work”. That is whether or not labor is recruited on a permanent and regular basis for fixed rewards. Although Harts dichotomy is based on the characteristics of the enterprise, his definition of the target group remains vague.

Whilst Hart’s definitions based on the distinction between wage employment and self employment, some definitions of the informal sector are generally based on the number of workers engaged. The rationale for choosing such a number is often based on prevailing local regulations which stipulate that enterprises with employment above a certain number be registered with official bodies and thus operate within the institutional framework in place. The threshold for the number of workers engaged is mostly between five to ten persons and these are generally considered as micro-enterprises.

Definitions that depend solely on compliance to the institutional and regulatory framework may also be problematic. This is because what is considered as the institutional and regulatory framework that differentiates formal from informal varies

across space, place and scale. Registration, for example, is often considered as a good proxy for the entire institutional framework as it generally implies also compliance with other regulations like labor and trade. In practice this assumption may not hold as regulations originate from various departments within the same government and at different scales of governance; the rigor with which they are applied and the penalties for non-compliance may also differ. Consequently an enterprise may comply with some but not all regulations. For example some may be registered but fail to comply with labor or other regulations. The foregoing discussion makes it difficult to determine if an enterprise is operating within the recognized institutional framework, meaning that it complies with all relevant regulations. If an operation in the informal sector is defined in terms of non-compliance then the foregoing rhetoric leaves the status of enterprises ambiguous. For the purpose of this research, I adopt an operational definition based on a multi-criteria approach. I define an informal sector enterprise as an economic unit housed in a permanent or semi-permanent structure, established, owned and operated by one person or a few private individuals, producing a legal end product, employing five (5) or less individuals (micro-enterprise), and fails to adhere to established institutional and regulatory framework guiding enterprise operations²⁰.

The multi-criteria definition adopted allows for a holistic approach to informal sector research, avoiding the definitional quagmire and conceptual pitfalls that have dogged research in the field of enquiry. More importantly, the operational definition does

²⁰ In this research unless otherwise stipulated term “informal sector” is used interchangeably with “micro-enterprise sector”.

not advance an a priori judgment of whether informal sector activities are good or bad, leaving the matter to empirical investigation.

Two critical conceptual clarifications need attention in the operational definition of the informal sector adopted for this research. Firstly it is important to clarify the term micro-enterprise and its relation to the informal sector. Granovetter (1985) has argued that “small may not be beautiful, but it is certainly bountiful, and the combined activities of small and unregulated operations appear to be of more than marginal significance.” The very nature of being a micro (or very small) enterprise lends itself to operating in the informal sector. Such enterprises are largely invisible or operate at low levels of visibility. They may or may not have licenses, are often engaged in casual hiring, non-reporting of income and other informal practices. They are easily mobile, open or close at will, and thus, can hide from regulation (Castells and Portes, 1989). The result of such operational characteristics is an inverse relationship between scale of business operation and informality. The implication derived from such an inverse relationship is that scale of business operation is often used as a proxy for informality. It is however important to note that even though there is a strong overlap between informality and scale of business, not all micro-enterprises operate under conditions of informality. Some small enterprises are run by highly qualified personnel with substantial capital and well integrated into mainstream or formal economies. Likewise, it is evidenced that some large enterprises do appropriate informal strategies in their operations to reduce cost etc.

2.3.2 Conceptual Framework Adopted For the Study

A study of the state-informal sector conundrum must be guided by a conceptual framework that situates the research in existing literature and also serves as a guide. I deduce a framework that critically overlaps the state-theoretic and informal sector literature. The state and informal sector agents are said to operate at opposing logics or tangentially. Ideally, the state manifests itself as a regulator of activities in its territory with an aim to assure the collective good by making sure that everyone lives by the rules. In contrast, the dominant characteristic of informal sector enterprises is to avoid contact with the state, by-passing existing institutions, laws and regulatory agencies of the state or its co-optation through instruments like bribes or other incentives (Cross, 2000, Lomnitz, 1988). The relationship between the informal sector and the state has therefore been articulated as one of inevitable conflict and antagonism, a relationship that is structural in nature. It follows from the above premise that the more pervasive the enforcement of state rules and the greater the penalties for violation, the greater the effort informal agents will make to avoid regulation. Based on the above characterization of the relationship, it is possible to expect a close relationship between capacity of the state to enforce rules and regulations on one hand, and the character and scope of the informal sector. On cursory appraisal, it would seem that there is a linear inverse relationship between state capacity and informality but, in reality, the relationship is more complex because it is affected by additional factors like the regulatory intent of the state, the nature of civil society subject to it as well as the type of state in question i.e. whether the state is developmental or not.

Evans (1989) for example analyzes various models of the state by comparing the neoutilitarian model (minimize the state) with Weber (a coherent bureaucracy is necessary), Gerschenkron (state as surrogate entrepreneur) and Hirschman (state must provide incentives to invest). Evans uses these theoretical models of the state as a background to compare a developmental state (Japan) with a predatory state (Zaire). As an example of what he calls the predatory state in the third world, Evans describes the case of the Zaire. Under the long regime of Mobutu, the Zairian state degenerated into a collection of feudal domains that thrived on the collection of rents from firms and the population at large. Such a state cannot be expected to have the capacity to engage the informal sector meaningfully as a partner in the development process. The Zairian predatory state is an extreme example buttressing neoliberal and neoclassical critique of the nefarious consequences of state interference in the economy. For these advocates, all states sooner or later become predatory and inefficient in the allocation of resources. The logical consequence to such a position and more broadly that advanced by neo-utilitarian theorists is the complete removal of state interference from the market as inimical to its development. Such a position finds an enthusiastic Third World echo in the critique of the state advanced by de Soto (1989).

Another perspective on the predatory state highlights the behavior of rapacious state officials as de facto employees of outside entrepreneurs in an instrumental Marxist sense, who hire their services in order to obtain privileged access to government resources (be they contracts or the non-observance of regulations). The more state officials are willing to bend the rules for a price, the more the situation approaches that of

a free market in which goods and services are sold to the highest bidder (Moya-Pons, 1992). The marketization of state services does not in any way represent a triumph of the informal economy so much as the elimination of the distinction between the formal and informal sectors. Where the state does not regulate anything because it is at the mercy of market forces, there is no formal economy. Hence the formal/informal distinction loses meaning since all economic activities approach the character of those labeled informal.

The triumph of the market does not necessarily lead to capitalist development as would be anticipated from neoliberal theory; the opposite may actually be the case. In the absence of a stable institutional and regulatory framework, and credible enforcement of contracts and laws, long term productive investment becomes impossible. Under such conditions, entrepreneurship generally consists of the opportunistic appropriation of rents through purchase of state privileges rather than long term planning for profit since there is no outside arbiter of market competition, rules become uncertain, frustrating systematic capitalist planning and development. In fact man's natural propensity to barter and exchange one thing for another, the Smithian apothegm so dear to neoclassical theory does not furnish a basis for economic development on a national scale. Someone must stand outside the competitive rumble and make sure that rules are enforced and contracts observed. Otherwise no grounds exist for predictable exchange among the myriad of anonymous actors as it occurs in real markets.

About 50 years ago Polanyi (1957) argued that natural capacity and competencies did not create markets. Instead the road to the free market was opened and sustained by an enormous increase in continuous centrally organized and controlled interventionism. It

is the intervention of the state in economic life that creates a formal space of predictable and enforceable transactions where entrepreneurs can engage in risk-taking. There is however a flip side to Polanyi's argument and well captured by Adams's (1975) that "the more we organize society, the more resistant it becomes to our ability to organize it." A simplistic evolutionary view of the informal sector would depict it as dominant during an early era of weak regulation, while gradually becoming marginal and even insignificant as all facets of economic activity fall under state control. In fact largely the opposite might be the case. Since informal activities are defined precisely by their by-passing and escaping controls, it follows that the greater the scope and reach of attempted state regulations, the more varied the opportunities to bypass them. Lomnitz (1988) states the point succinctly that "order creates disorder; the informal economy creates its own informality." The problematic situation of state control and interventionism becomes obvious, that official efforts to obliterate unregulated activities through the proliferation of rules, regulations and controls often expand the very conditions that give rise to these activities. The point is captured in figure 2.1.

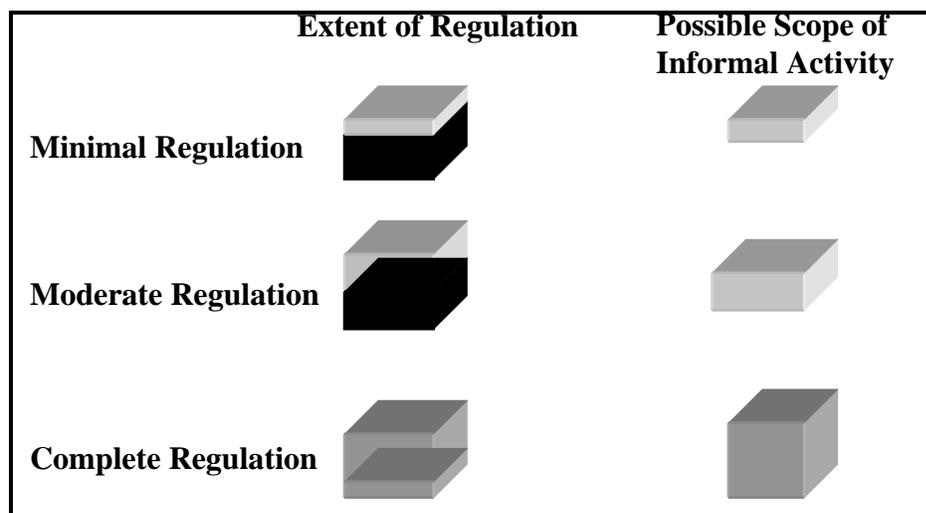


Fig. 2.1 State Control Paradox: the Informal sector and Regulation

Under conditions of limited state control most economic activity is self regulated but not informal since it does not contravene any rule. As rules expand, opportunities to bypass them increase accordingly until at the limit, the entire economy is subject to the possibility of rule violation for profit. To illustrate with a familiar case in point, tax avoiding schemes would not exist if there was no taxation system. The more intrusive the taxation system, the greater the incentive and the broader the opportunities to seek redress through concealment and through various ploys.

Empirical evidence however indicates that the scope of the informal sector varies considerably amongst states with comparable formal regulations and within nation states, among different regions and localities. For example the economies in Northern European nations are highly regulated but this has not produced a parallel burgeoning informal sector as could be predicted in fig 2.2 above. Similarly rising unemployment in old industrial cities of the United States northeast did not lead to a massive informal sector organized by members of the displaced working class. While these workers commonly engaged in casual income-earning and self-provisioning activities, the construction of complex chains of informal activity was beyond their reach. According to Waldinger, (1985) and Zhou (1992), informal sector activity remained confined for the most part to immigrant enclave economies in the United States.

In the light of the deviations explained above, I modify and reformulate Adams's and Lominitz's assertion as summarized in figure 2.2 predicting that the expansion of state regulation enhances opportunities for engaging in informal sector activities but does

not determine their actual size and form. The implementation of these informal sector opportunities depends on three other factors:

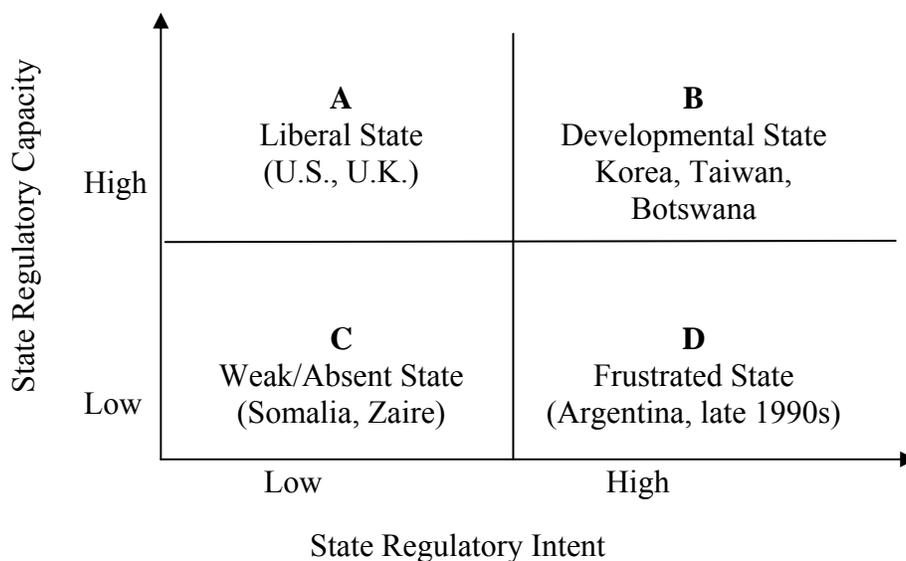
- a) the state's regulatory and institutional capacity
- b) the types of regulation (intervention)
- c) the appropriateness of regulations²¹

The capacity of official agencies and institutions to enforce the rules that they promulgate affects the extent to which informal opportunities can be appropriated and the forms they can take. It is also important to note that regulations and enforcing institutions must fit a specific context (context is used here to depict the structure and characteristics of the informal sector) and must be appropriate to enhance efficiency of outcomes.

Using Mann's (1986) distinction between forms of state power, I differentiate a despotic state which makes a lot of regulations and an effective state which is actually able to enforce its regulations. Informal economies arise when there is a discrepancy between these two forms of state power (fig. 2.3). At one end of the diagram is the liberal state, prized by neoclassical theorists. In this instance, the costs of formality are low because regulations are deliberately restricted. The informal economy is small because of the scarcity of rules to violate and the effective enforcement of those that exist. At the other end is the developmental state which exhibits a high regulatory intent albeit context specific regulation backed by high regulatory capacity. Although the costs of formality may be high in this instance, effective implementation of regulation limits informal sector activities.

²¹ Appropriateness of regulations refers to how best the regulations fit the context of micro-enterprise operations.

Fig. 2.2 Types of State by Relative Strength and Regulatory Intent and the Informal Sector



At the base of the schematic (Fig. 2.2) are what I call Weak and Frustrated States. A weak and/or absent state is one in which the state has low regulatory intent and a weak capacity to implement regulations. Such a state may leave society to its own devices producing a situation where economic exchanges are regulated exclusively by the norms of society itself. In the absence of the state, there is no informal economy because there are no rules to violate. The gradual, but still restricted, application of official rules produces an enclave type formal economy similar to that commonly found in sub-Saharan African countries where the scope of effective state regulation seldom extends beyond the capital city and a few areas producing minerals or agricultural goods for export. Most of the actual economies of these countries remain self-regulated rather than informal (Meagher 1995).

On the other hand, a Frustrated State may assign to itself a large load of regulatory measures because of high regulatory intent. This is the situation poignantly

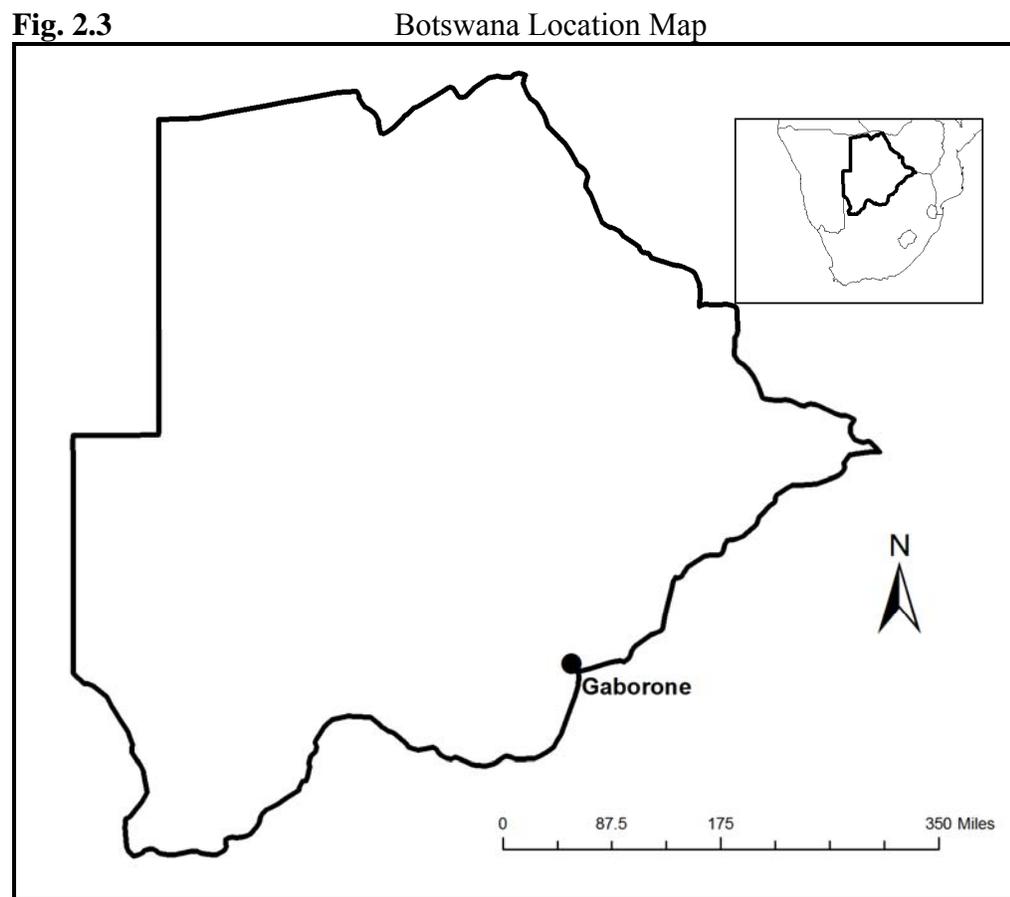
criticized by De Soto and his followers (De Soto 1989; Bromley 1994) in some Latin American economies. These states may be described as frustrated because of the permanent contradiction between the voluminous regulations that they spawn and their inability to enforce them in practice. The high regulatory intent and low regulatory capacity gives rise to a vast informal sector precisely because expanding rules force economic actors to find ways of violating these rules. According to De Soto (1989, 2000), these states, which he labels mercantilist, promote permanent inequality because they restrict the protections and resources associated with formality to the elite.

My research focuses on the developmental state aspect of the above elucidated framework. I interrogate how Botswana's developmental state deploys its capacity and high regulatory intent to actively engage the informal sector or otherwise as part of its overarching development project. Botswana was selected as a case study based on the fact that its performance record qualifies it as one of the very few developmental states in Africa (Samatar, 1999, Acemoglu et al, 2001, Taylor, 2003).

2.4 The Study Area

The research was conducted in Gaborone, the capital city of the Republic of Botswana, a country located in Southern Africa (See fig 2.3). Gaborone is the seat of government as well as an industrial, commercial and administrative hub of one of the most successful economies in Africa. Several reasons account for the choice of Gaborone as the spatial fix for the project. Research has shown that in sub-Saharan Africa, effective state regulation seldom traverses beyond major urban regions (Meagher, 1995). In the case of Gaborone, it is the largest urban agglomeration (population wise) in Botswana

with administrative, commercial and industrial functions and thus surveillance and implementation of regulations can be expected to be high. Gaborone is also the largest human settlement and the most densely populated urban region of Botswana, a country with a small and sparsely distributed population (1.8 million). These characteristics make Gaborone the perfect candidate for a study of informal sector-state relations and also important in itself as a research site.



Created by David Menyah, 2007

Gaborone is located in the southeastern corner of Botswana, a mere 15 kilometers from the border of regional hegemon, South Africa. The city derives its name from “Kgosi” (chief) Gaborone of the Batlokwa, a Tswana tribe bordering the city to the east.

Built between 1964 and 1965 from ground up, Gaborone became Botswana's capital on independence in 1966. As a colonial protectorate, Botswana was administered from Mafikeng in the Republic of South Africa. When the decision was taken to relocate the new capital, the two existing urban regions of Francistown and Lobatse were overlooked in favor of Gaborone village a small settlement for colonial officials (both expatriates and locals) who administered the Gaborone District²² (RoB, 1992). Gaborone village was a predominantly “white” non-mining community comprised mainly of state land and private farms with very few indigenous Africans living on them (Gwebu, 2004). The site was chosen as the capital city because of its closeness to its pre-existing colonial administrative offices in Mafeking, closeness to the important railway line linking South Africa and Zimbabwe, availability of ample government land and most importantly, proximity to a major water source, the Notwane River especially in a semi-arid country that is prone to persistent and cyclical drought conditions (Government of Botswana – GoB, 1963). Surrounding villages were also overlooked partly because they consisted of distinct ethnic settlements, which could have led to the development of ethnically-based residential locations or could have necessitated a forced relocation of entrenched communities to pave way for infrastructural development²³. Thus unlike most post-colonial capital cities in Africa, Gaborone was built from ground up, devoid from the problems associated with imposition of capital cities on pre-existing ethnic based urban regions.

²² Under colonial rule, the Gaborone District comprised the villages of Gaborone, the Batlokwa in Tlokweng Village and BaLete of Ramotswa and other outlying areas (Ministry of Local Government and Lands Department, 1992)

²³ The outlining villages include the Batlokwa village of Tlokweng, Bakwena village of Mogoditshane and Balete village of Ramotswa)

Declared a city as recently as in 1986, Gaborone's population has increased exponentially over the years from 3,855 in 1964 to 186, 007 in 2001 (Central Statistics Office - CSO, 2002). The explosion in population can be attributed mainly to immigration from rural areas, increasing by as much as 50% between 1971 and 2001 (CSO, 2001). By far, Gaborone is also the most densely populated area in the country with 789.9 persons per square kilometer²⁴ (Ministry of Lands, Housing and Environment, 2001). Aside from population increase, Gaborone has seen exponential growth in every other aspect concerning socio-economic infrastructure. As in most developing countries, rapid expansion and urbanization have been accompanied by and resulted in a variety of problems including but not limited to high rates of unemployment, poverty, acute shortage of housing, rising income inequalities, crime, high demand for land and a concomitant pressure on physical planning processes. The foregoing situation has put a severe strain on resources available especially to local government structures (Gaborone City Council (GCC)), to cope with demands. Resources amid various competing needs have become insufficient and inadequate. This is the context within which data was collected to investigate state-informal sector relations in Gaborone.

2.6 Sources of Data

Research into the operation of informal sector enterprises often presents problems because of the lack of published and reliable data on the characteristics and economic parameters of these enterprises. The problem has rightly been attributed to the nature of micro-enterprises themselves. As Liedholm and Mead (1987) indicate;

²⁴ Gaborone is spread over 169 square kilometers of land

"their numbers are vast, their locations are widely dispersed and often impermanent, problems of classification are intricate and proprietor's incentives to cooperate are weak. Moreover, much of this activity is invisible and can only be seen by those who penetrate the privacy of the household. In addition, most small proprietors do not keep written records, which means reliance must be placed on the accuracy of their memory recall".

The above description clearly captures the difficulties associated with capturing informal sector data of which Botswana is not exempt. Secondly, the very limited existing research on the informal sector in Botswana is national in scale and rural-biased.²⁵ The objectives and questions investigated in this research however required the generation and analysis of a comprehensive set of data on the Botswana's urban informal sector and its relations to the state. The study was therefore based on both secondary and primary sources of data.

2.6.1 Secondary Sources of Data

Sources utilized for the thesis included published and unpublished reports by individuals and government consultancy teams, official government documents such as census reports and legislation, reports on government economic policies and strategies particularly pertaining to micro-enterprise development, monetary and fiscal policies and reports on the evaluation of government programs. Recent surveys by the Central Statistics Office of the Ministry of Finance and Development Planning such as the Household Incomes and Expenditure Survey (HIES), Demographic Surveys and Informal Sector Survey were also utilized. Published media reports served as a valuable source of

²⁵ Throughout the research and dissertation writing phase, the researcher came across only two major research papers on the informal sector in Botswana. (Daniels and Feisseha, 1992, Informal Sector Survey, CSO, 2002)

secondary data and insight into state-informal sector relations in Botswana. Archival materials from Botswana National Archives were also utilized for in-depth historical analysis on Botswana.

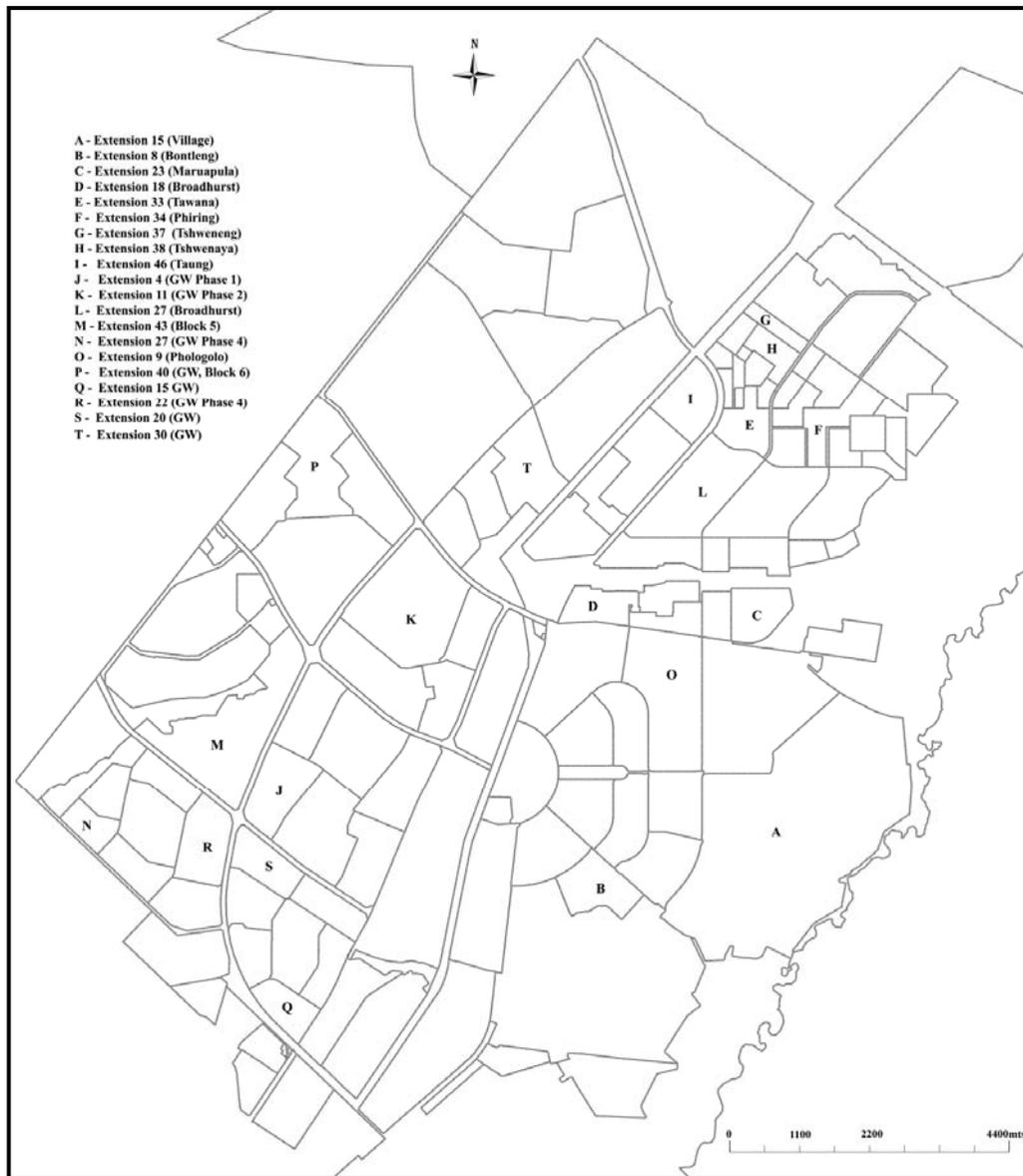
2.6.2 Primary Data Sources

Primary data formed an important component of data used in my analysis. Fieldwork for the collection of primary data proceeded in two phases that run concurrently between August, 2005 and July, 2006. In the first phase, senior officials in a myriad of public institutions, parastatals and private institutions which impact micro-enterprise development were interviewed by the principal investigator. The institutions visited included but were not limited to the Ministry of Finance and Development Planning (MFDP) to which the researcher was officially attached for the duration of the research, Ministry of Commerce and Industry, Citizenship Entrepreneurial Development Agency, the new (yet to be fully operational) Local Enterprise Authority (LEA), Gaborone City Council (GCC) and Botswana Confederation of Commerce, Industry and Manpower (BOCCIM). Within these institutions, 16 high ranking government officials, civil servants and bureaucrats were interviewed using open-ended semi-structured questionnaires (see appendix 2A for interview schedule). The interviews centered on the types of services provided, regulatory roles and regulations spawned and enforced by these institutions, the capacity and efficiency of enforcement and implementation as well as problems encountered in the execution of policies, rules and regulations.

The second phase involved interviewing informal sector micro-enterprises. A multi-stage stratified proportionate sampling design was used to select a sample for

interviewing. In the first stage, plan-localities in Gaborone were used as the sample frame and a sample of 20 localities were randomly selected out of a total of 106. As shown in figure 2.4, the sampled plan localities are widely spread across the city of Gaborone.

Fig. 2.4 Map of Gaborone Showing Sampled Localities



In the second stage, since the total number of informal micro-enterprise units in the twenty sampled localities was not known, it became necessary to establish a sample frame of micro-enterprises from which a reasonable sample of manufacturing, retail and

service units could be drawn. This was achieved by conducting an enumeration of all micro-enterprises that fit the operational definition assumed in the research for the sample localities. A total of 517 micro-enterprises were identified. A preliminary inventory of activities was also undertaken in this stage to enable the researcher categorize informal sector activities according to different activity groups (see appendix 2C for enumeration form). The enumeration was done with the help of two undergraduate research assistants from the University of Botswana and six members of the Church of Pentecost International (Gaborone Branch) Youth Ministry.

The definitive criterion that most impacted the enumeration was the use of permanent or semi-permanent structures as places of business. Permanent or semi-permanent structures suggest fixity in space and an element of permanency in the operation of micro-enterprises, a criterion that was critical for the purposes of location and return interviews. It is also apparent that such enterprises are more likely to be affected by government policies and regulations compared to micro-enterprises without fixed places of operation (mainly hawkers).

The sample size of micro-enterprises for each sampled locality was then determined based on a proportion of the total number of micro-enterprises enumerated (517) (see table 2.1). In each locality, the sample was determined for each activity group (manufacturing, service or retail) based on a proportion of the total number of businesses in that locality. The sample selection process was then carried out randomly and independently for each activity group in each locality (for illustration, see table 2.1 below). Enterprise owners or head caretakers were then interviewed in the selected

enterprises. I used two graduate research assistants from the University of Botswana alternatively in the interview phase to help overcome the language barrier and to facilitate smooth interviewing of respondents.

Table 2.1 Sampled Localities and Sampling Methodology

Sampled Localities	Total No. of Informal Enterprises	Enterprises by Type of Activity		Proportionate Sample		Stratified Proportionate Sample	
Gaborone West Extension 4	21	Service	6	21×120/517	5	Service	1
		Retail	13			Retail	3
		Manufacturing	2			Manufacturing	1
Gaborone West Extension 11	25	Service	8	25×120/517	6	Service	2
		Retail	14			Retail	3
		Manufacturing	3			Manufacturing	1
Gaborone West Extension 43	13	Service	4	13×120/517	3	Service	1
		Retail	9			Retail	2
		Manufacturing	0			Manufacturing	0
Extension 23 Maruapula	27	Service	10	27×120/517	6	Service	2
		Retail	11			Retail	3
		Manufacturing	6			Manufacturing	1
Broadhurst Extension 27	34	Service	12	34×120/517	8	Service	3
		Retail	18			Retail	4
		Manufacturing	4			Manufacturing	1
Phiring (Extension 34)	28	Service	10	28×120/517	6	Service	2
		Retail	12			Retail	3
		Manufacturing	6			Manufacturing	1
Extension 9 Phologolo	23	Service	10	23×120/517	5	Service	2
		Retail	12			Retail	3
		Manufacturing	1			Manufacturing	0
Bontleng Extension 8	34	Service	11	34×120/517	8	Service	3
		Retail	17			Retail	4
		Manufacturing	6			Manufacturing	1
Village Extension 15	48	Service	15	48×120/517	11	Service	3
		Retail	23			Retail	6
		Manufacturing	10			Manufacturing	2
Broadhurst Extension 18	31	Service	13	31×120/517	7	Service	3
		Retail	16			Retail	4
		Manufacturing	2			Manufacturing	1
Gaborone West Extension 15	22	Service	8	22×120/517	5	Service	2
		Retail	13			Retail	3
		Manufacturing	1			Manufacturing	0
Gaborone West Extension 30	25	Service	7	25×120/517	6	Service	2
		Retail	10			Retail	2
		Manufacturing	8			Manufacturing	2

Gaborone West Extension 20	18	Service	6	18×120/517	4	Service	1
		Retail	12			Retail	3
Sampled Localities	Total No. of Informal Enterprises	Enterprises by Type of Activity		Proportionate Sample		Stratified Proportionate Sample	
Gaborone West Extension 27	22	Service	6	22×120/517	5	Service	1
		Retail	16			Retail	4
		Manufacturing	0			Manufacturing	0
Gaborone West Extension 22	16	Service	5	16×120/517	4	Service	2
		Retail	10			Retail	2
		Manufacturing	1			Manufacturing	0
Taug Extension 46	21	Service	8	21×120/517	5	Service	2
		Retail	11			Retail	3
		Manufacturing	2			Manufacturing	0
Tawana Extension 33	36	Service	11	36×120/517	8	Service	3
		Retail	19			Retail	4
		Manufacturing	6			Manufacturing	1
Tshweneng Extension 37	23	Service	9	23×120/517	5	Service	2
		Retail	12			Retail	3
		Manufacturing	2			Manufacturing	0
Tshwenyana Extension 38	34	Service	13	34×120/517	8	Service	3
		Retail	17			Retail	4
		Manufacturing	4			Manufacturing	1
Gaborone West Extension 40	16	Service	3	16×120/517	4	Service	1
		Retail	12			Retail	3
		Manufacturing	1			Manufacturing	0
Total	517	Service	175		120		41
		Retail	277				66
		Manufacturing	65				13

Source: Field Research, 2005/2006

Structured open-ended questionnaires were used in the micro-enterprise interview phase of the fieldwork to gather both quantitative and qualitative data (see appendix 2B). The purpose of the interviews was to gather data on demographic and micro-enterprise profiles, their interaction with state agencies and institutions especially regarding access to service provision, perceptions about the impact of government policies and regulations amongst others.

2.6.3 Remarks on Methodology

The primary data was used to examine and investigate the context of informal sector operations in Gaborone. This includes conditions affecting the capacity and potential of the informal sector as an employment and income generator for growth and development in the manufacturing, retail and service sub-sectors. The material with which this aim was achieved was generated through a semi-structured questionnaire survey. This method of data collection has however been criticized as too clumsy an instrument to come to grips with concepts such as growth potential and constraints. The survey was thus complemented with selected case studies micro-enterprises to provide deeper insights. The reasons for incorporating case studies are clear; problems of micro-enterprises tend to derive from a constellation of interlinked factors. Such a context is more likely to be detected in a freely held interview than through a survey questionnaire. The other reason is a simple and practical one; respondents are likely to be much more relaxed and forthcoming in a conversation-like interview. This is of particular relevance in research on micro-enterprises who often are not registered and therefore need to be reassured that the information is not to be used for purposes of government intervention. Mindful of the pitfalls of survey data, this research whilst using the method took steps to avoid the pitfalls. The questionnaire survey was supplemented by an in-depth focused group discussion in the bus rank area of Gaborone, a known area of concentration of micro-enterprises. The focus group did not follow a semi-structured interview format but an informal discussion which provided valuable insights into the operational milieu of

micro-enterprises. The materials generated from these discussions complemented that which was generated through structured interviews.

The different sources of data provide a multilayered view that is seldom found in studies on the informal sector. In addition, each data source has its limitations. In combining these sources I hope to circumvent limitations and provide a more in-depth and comprehensive view of informal micro-enterprises and their relation to state in Botswana.

2.7 Methods of Data Analysis

Both qualitative and quantitative methods are employed in the analysis. Quantitative methods including descriptive statistics and cross-tabulations are used to examine the nature of the informal sector and how government policies, regulations and intuitions impact micro-enterprises. Qualitative methods are also used as an additional tool to explore in depth government policies, institutions and regulations on one hand and how they impact micro-enterprises by drawing on the case histories of individuals and institutions to illustrate and further explain statistical evidence emanating from the quantitative data.

Simon and Burstein 1985 observe that the process of data analysis involves the rearrangement, manipulation of raw data sets such that they yield the information they hold in as clear a manner as possible. I categorize and summarize the quantitative information from the questionnaires in the form of tables by using available computer software. To this end both quantitative and qualitative data were cleaned at all times. The data was then compiled and coded where applicable for easy storage into an Excel

database and was then imported into SPSS for statistical analysis using relevant statistical techniques.

In interpreting the data however, the following facts have to be kept in mind. The sample of 95 though randomly selected, and therefore statistically useful, is still a small sample. In addition, the measures used were largely qualitative, and therefore possibilities of rigorous hypothesis testing are diminished.

2.8 Limitations of the Study

With most studies limitations are anticipated with regard to time and resources for the implementation of some practical procedures for the research methodology. For this study, the following are some of the limitations that hindered the smooth progress of the research process.

Basing on the unregulated and unsettled nature of most informal sector activities, up to date inventories for the running of activities were seldom available for the perusal of the researcher. Official statistics on micro-enterprises are especially lacking in Botswana. What are available at times are estimates which are not reliable and dated. Likewise, there is lack of data on important issues concerning micro-enterprise development such as rates of start-up, survival and growth. This coupled with the crisis on the conceptual definition of the informal sector in the literature made it difficult for me to identify informal sector businesses to be included in the sample for investigation. Secondly respondents were not as forthcoming as the researcher would have liked, reluctant to give information or dishonest for fear of victimization since they were operating illegally. The foregoing situation was in spite of assurances of confidentiality.

These problems were compounded by the fact that I was not fluent in the local language (Seswana) and was almost always seen as an outsider. I had to rely on two research assistants for transcriptions and interpretations and this might have led to valuable information lost.

I was only able to cover 80 percent (95) of the informal sector micro enterprises in the selected sample (120) for interviewing purposes. Despite repeated visits to particular places and enterprises, I was unable to cover the total sample for reasons such as temporary cessation of activities in the selected enterprises and research fatigue. Dealing with research fatigue was particularly daunting since interviewees claimed they had participated in previous similar interviews with no tangible benefits. Time and again my research team was pressured to say how interviewees would benefit from the exercise. The result was a number of no shows and incomplete interviews. These were anticipated situations for the research considering the fact that informal sector activities are fraught with ease of entry and closure as well as temporality of operations. On the whole however, I was satisfied that respondents generously gave of their time, thoughts and experiences and did answer questions as posed. Though access to secondary sources of data on government policies and regulations towards small and micro-enterprises was not a problem extensive access to government officials, which was necessary for an in-depth understanding of the historical and institutional basis of current outcomes was a challenge. In as much as officials were willing to participate they were constrained by busy schedules. Repeat interviews were therefore frequent and necessary to complete interviews.

Chapter Three:

The Botswana State and Developmental Transformation

3.1 Introduction:

For over three decades, the African state has been at the heart of intellectual and policy debates. The reasons for the preoccupation are diverse but mainly centered on well-founded concerns about the origins, structure and record of the state. In fact the African state easily qualifies for the record in academic literature of perhaps having the highest number of epithets ever deployed to describe an institution. It has variously been described as “shadow state” (Reno 2000), “criminalized state” (Bayart, 1999), collapsed state (Zartman, 1995), “quasi-state” (Jackson 1990), “lame leviathan” (Callaghy, 1987), weak state (Migdal, 1988) and “suspended state (Hyden, 1983), all referring to the catastrophic failure and incompetence of the African state. In this chapter, I argue that Botswana’s development record is an exception to the dogma and confounds generalizations about the African state. I argue that Botswana’s exceptional development trajectory can be attributed to the complex intersectionality of class politics, hegemony, a conscious and focused leadership, competent bureaucrats and effective institutions that have come together to situate Botswana’s experience akin to a developmental state.

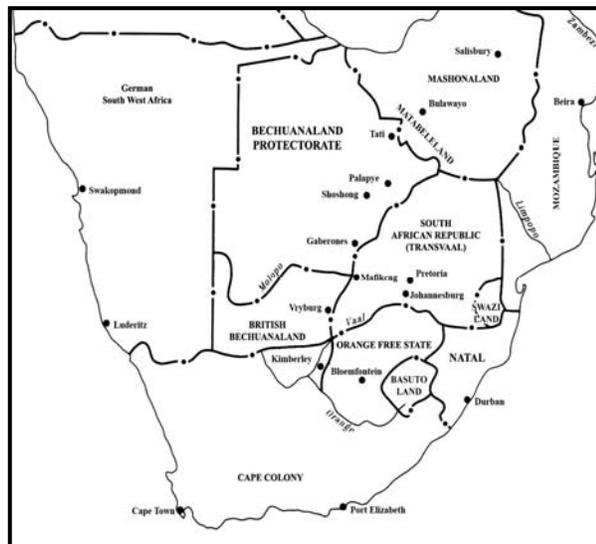
The chapter is divided into three major sections. In the first section, I explore the colonial (pre-independence) history and heritage of Botswana and interrogate how the colonization project stunted Botswana’s development experience. This review is necessary because it contextualizes and serves as a yardstick for measuring change in the contemporary era. It also makes it possible to identify the factors and processes that explain why change has, or has not taken place in Botswana. In the second section, I

interrogate the post independence development trajectory of Botswana assessing the complex interplay of factors that have contributed to the current status quo of Botswana as a developmental state in Africa. In conclusion, I assert that Botswana’s development trajectory has been splendid, akin to the developmental state.

3.2 The Pre-Colonial Period

According to Colclough and McCarthy (1980) and Campbell (1982), the geographical area currently known as Botswana, was initially inhabited by the San and Khoi peoples. Little is known about the origins or socio-political organization of the early peoples, but it is probable that the prehistoric populations of the region came and went in response to ecological and socio-political conditions (Parsons 1984). The Tswana, a group of Sotho-Bantu speaking peoples, who form a majority of today’s population migrated into present day Botswana from the Transvaal region of South Africa between AD 1500 and 1800²⁶ (Edge et al, 1998)(see figure 3.1).

Fig. 3.1: Map of Southern and Central Africa, 1880



Source: Maylam, 1980 (not to scale)

²⁶ Other Bantu speaking people (notably the Kalanga) migrated into Botswana from the north and northeast.

The westward migration from South-eastern Africa was stimulated mainly by internal fission of Tswana polities, competition from other indigenous African communities and later European pressure²⁷.

Mayard (1980), argues that two features profoundly shaped the response of the Tswana to external aggression by its neighbors; 1) the mobility of cattle which is the principal capital asset of the Tswana traditionally and 2) the abundance of land. The interplay of these two features in the face of external aggression resulted in the geographical dispersion of separated groups with common language and institutions reflecting a common heritage. In the long run however, the aggression of its neighbors which peaked during the *mfecane*²⁸ resulted in the uniting of separated Tswana groups against a common enemy and as Campbell (1997) argues laid the foundations for the future State of Botswana. Silitshena (1980) and Best (1970) argue that by the early to mid-nineteenth century, prior to colonization, most Tswana polities experienced economic growth and expansion resulting from sustained contact with various European communities through trade in southern Africa²⁹.

²⁷ By 1800 several related Tswana societies had established and were expanding (Herman, 1974). There are eight main Tswana polities, the Bangwato, Batawana, Bangwaketse, Bakwena, Balete, Bakgatla, Barolong and Batlokwa. There are also minority groups that have been incorporated into Tswana polity and these include the Bakalanga and Bayeyi. Early in the colonial period, the major tribes were acknowledged as protected polities and demarcated as tribal reserves.

²⁸ Mfecane (Zulu word), also known as the Difaqane, translates to “crushing” or “scattering”. It describes a period of widespread chaos and disturbance in Southern Africa between 1815 and about 1835. The Mfecane resulted from the rise to power of Shaka, the Zulu king and military leader, who created a militaristic and imperialistic kingdom in the region and the demand for land and water resources in an expanding Zulu Kingdom. The Mfecane led to the formation and consolidation of other groups such as the Matabele, and the creation of states such as the modern Lesotho.

²⁹ Silitshena for example argues that technological innovations and manufactured products that became available as a result of contact and trade with Europeans were incorporated into Tswana societies and increased their strength and prosperity

3.3 Colonialism and Underdevelopment

The period between 1870 and 1966 marked the colonization of the Tswana and the erosion of their autonomy as they were integrated into and incorporated as subordinate entities to European colonialists. Threatened by Boer/Afrikaner³⁰ expansions into their territories, Tswana chiefs³¹ sought the protection of Britain which had by then firmly implanted its colonial project in the region through the Cape Colony in present day South Africa³². As such, the Tswana were granted a protectorate status in 1885 (see fig 3.1 for a colonial map of southern Africa in 1890).

The minimalist arrangement of a protectorate instead of a crown colony suited both Tswana polity and the British colonist. Given the lack of rich agricultural lands, a perceived lack of natural resources and mobility of cattle, the principal asset of the Tswana, there were limited opportunities for predatory resource extraction, a central tenet of the colonization project. There was thus very little incentive for the British to establish firm control over the protectorate's economy (I refer to this phenomenon as "Averse Imperialism"). For Tswana chiefs there was to be minimal loss of effective power; the British will protect them from external aggression and they will govern internally. However I contend that relations between the Bechuanaland Protectorate and Britain also signified the genesis of a period of neglect and mal-development which extended well into the second half of the twentieth century. My contention is informed by theoretical literature which examines the unequal relationship between developed and less developed

³⁰ The Boers or Afrikaners are descendants of Dutch settlers in South Africa.

³¹ The chief as in most traditional African societies was the central political figure with power to allocate land for grazing, crops and residences in a purely agrarian Tswana polity dominated by cattle rearing.

³² The highly contested and confrontational relations between the British and Afrikaaners led to the later migrating further inland in search of land and to avoid the British.

nations, in which the dominant sustain their asymmetry by exploiting the resources of less developed nations and which in the long run leads to underdevelopment³³ (Baran, 1957, Frank, 1967, Amin, 1972, Wallerstein, 1976). The establishment of Bechuanaland protectorate meant that it became incorporated into the British colonial project. However, British interests were primarily in resource rich regions of Africa (Central and South) and thus the protectorate became secondary and a backwater to the British imperial project. As a result, the protectorate, especially its political organization and economy were minimally set up to complement British interests in southern Africa (Parson et al, 1995, Maylam, 1980).

Politically, the organization of the protectorate was such that a resident commissioner based in Mafikeng, South Africa, had authority over a modest staff of European officers including district commissioners (Parsons et al, 1995, Harvey, 1990, Edge and Lekorwe, 1998). The location of the administrative headquarters of the protectorate in South Africa is ample evidence of British lack of interest in effecting any direct control or financial outlays for the protectorates development. Simultaneously, a parallel indigenous organization was created whereby each Tswana polity was recognized as a tribal reserve and retained authority under the supervision of the new European layer of administration. The hope of self governance, determination and minimal intervention in traditional governance was however dashed with the complete political subordination of the indigenous African layer of government in the 1930s (Campbell, 1997).

³³ In this instance, I specifically define underdevelopment as the subversion of Tswana values and subsistence, and the creation of native dependence on a non-native society.

Externally the protectorate became an appendage of South Africa in the British Empire. It was the full intention of the British and South African governments to eventually incorporate the protectorate (together with other High Commission territories: Lesotho and Swaziland) into the South African Union created in 1910³⁴ (Campbell, 1997, Edge and Lekorwe, 1998). Indeed the prospects of incorporation represented a threat to the independent existence of Bechuanaland right up to 1961 when a republic was established in South Africa, a constitutional development which obliged Pretoria to leave the commonwealth because of its apartheid policies (Harvey, 1990). Moreover, in parallel to the creation of the Union of South Africa, a customs union was established between South Africa and Botswana, Lesotho and Swaziland (all landlocked countries). The customs union further strengthened the dominant position of South Africa in the sub-region with a virtually complete dependence in economic areas as trade, fiscal and monetary matters, employment, transport and communications. The customs union may be seen to reflect the official expectation to incorporate Botswana, Lesotho and Swaziland into South Africa which was then thought to be largely inevitable on account of economic and political pressure within the region.

Economically, the protectorate was required to pay for itself and be self supporting and not a burden to the British treasury (Wolff, 2000). The primary activity of the colonial administration was therefore to collect taxes locally to maintain a modest number of administrative officers, and law and order. According to Cooke (1978), during the whole colonial period, 75% of all expenditure went into administrative costs;

³⁴ The Union of South Africa was established by the British parliament as an independent dominion under the British crown. It resulted in the merging of the Cape Province, Natal, Transvaal and Orange Free State.

relatively small amounts went to developing the social infrastructure or the country's productive capacity in agriculture and manufacturing. The imposition of taxes on the indigenous population had a dire impact on the livelihoods strategies of Batswana. In a purely agrarian and subsistent culture, colonial taxation forced the Tswana to participate involuntarily in the wider market economy and created a basis of a migratory labor system³⁵ (Pike, 1971). Thus taxation forced upon the Tswana people the necessity of finding regular sums of money or income each year and this in turn forced the young within households to migrate to the farms, diamond and gold fields of South Africa in search of employment. The high demand for unskilled labor in South African mines and the need to earn cash in Bechuanaland therefore created a pattern of migratory labor that touched almost all the people that lived in the protectorate (Harvey, 1990, Parson, 1984).

Engaging in trade could be a means to earn a living in the protectorate. However, colonial trade policies and regulations were highly skewed against the indigenous Tswana population, favoring the dominance and monopoly of large scale traders often Europeans and later Indians. Best (1970) has documented how European traders monopolized this activity and managed to keep out Africans³⁶. Discriminatory acts such as the 1923 Credit Sales to Natives Proclamation had the effect of preventing Batswana from engaging in the money economy as traders. This proclamation was part of a series

³⁵ Colclough (1980) has also argued that cattle, the mainstay of the traditional economy was unequally distributed and income from crops was low and fluctuated as a result of successive droughts thus intensifying the labor migration process.

³⁶An extreme example of European traders' abuse of power is seen in the case involving chief Khama III and one European trader (Parsons, 1975). Khama was the chief of the largest Tswana tribe, the Ngwato. Considering his class position as an indigenous elite and the troubles he encountered setting up a trading company, one could conjecture an almost impossible situation for the ordinary indigenous population.

of legislation introduced into the protectorate after the First World War to separate the powers and interests of white and black communities, under the guise of equitable segregation. The end result was that indigenous African traders specifically Batswana only came into retail business in the late 1940s (Silitshena, 1980). In 1947, the protectorate administration created a special restricted general dealers license mainly for Africans. It permitted them to trade solely in African rural areas or tribal reserves but limited their sales turnover and prevented trading stands from being closer to European general dealers thus effectively excluding Africans from trading in the villages of the reserves. The result was that as late as 1949, there were only a total of ten African-owned stores in Bechuanaland as opposed to 155 European owned ones (Best, 1970). The discriminatory nature of colonial trade regulations were inimical to petty traders and the development of local entrepreneurship, a nagging problem which I will show in subsequent chapters. The colonization process changed Tswana society at its economic and political base from formerly self-sufficient peasants in a tributary society to a “proletarianized peasantry adapting peasant production and wage work into a new form of working class existence” (Parsons, 1975).

3.4 Post Independence Development Transformation: Extraordinary Record

At independence in 1966, Botswana was among the poorest of the world’s least developed countries with a per capita income estimated at between US\$70 and US\$90 (Mogae, 2005). The economy was predominantly agrarian (40% of GDP came from agriculture); the population largely semi-literate and the majority of its labor force dependent on mine and farm jobs in South Africa. There was marginal exploitation of

mineral resources for development, whilst industry was almost non-existent, comprising little more than an abattoir and a small manufacturing sector based mainly on the livestock industry (RoB-NDP 9, 2003). Institutional and physical infrastructure was at best very rudimentary; an administrative capital did not exist and there was only 7 kilometers of tarred road in the whole country and no other communications infrastructure of note other than a railway line from South Africa passing through Botswana to Zimbabwe (then Rhodesia). Botswana were thus a people profoundly separated by physical space in their 582,000 square kilometers of land. An even more serious development constraint was the lack of state capability. The entire development budget and more than half of the recurrent budget was funded through grants in aid, primarily from the United Kingdom. Institutions of state depended on expatriate personnel because of a very weak base of nationals trained to a level sufficient to run the public sector bureaucracy (Acemoglu et al 2003, National Development Plan 9, 2003, and Samatar, 1999)³⁷. Under these circumstances, Botswana's prospects for rapid development at independence were exceptionally bleak.

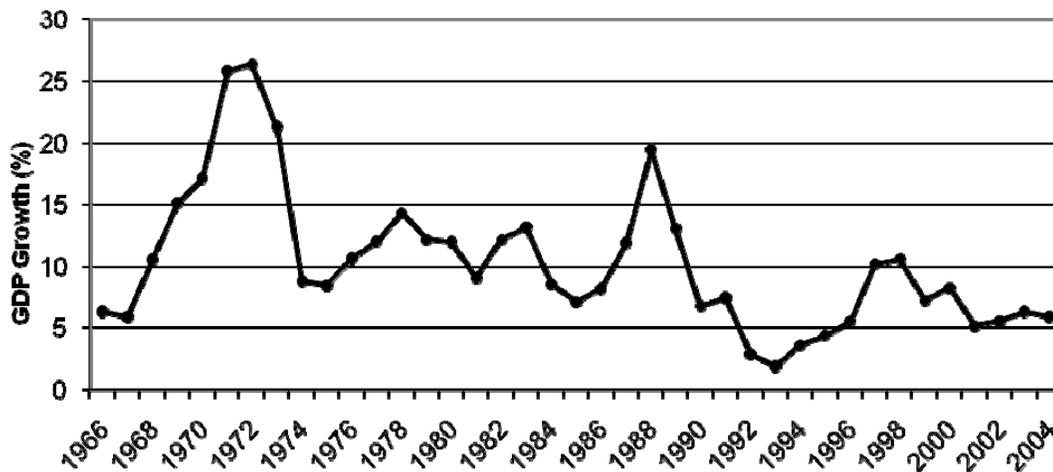
In the light of Botswana's immediate post-independence circumstances, the Government undertook a development program aimed at raising living standards through employment creation and the provision of infrastructure and social services, underpinned by prudent and growth supporting macroeconomic policies. Essentially, the country adopted a mixed economy strategy that recognized the need for free market and enterprise to exploit economic opportunities and generate employment, while the

³⁷ The "Bechuanaland Protectorate Development Plan 1963/68" and the "Transitional Plan for Social and Economic Development 1966" also expatiate extensively on the situation in Botswana at the time of independence.

government ensured wider provision of infrastructure and services to enable broad based development. This approach is clear from the initial development plans that guided implementation of the country's development strategy.

Over the past four decades, Botswana's economy has recorded impressive economic growth rates as reflected in its gross domestic product (GDP). Figure 3.2 shows that growth accelerated significantly after independence, and was at its highest in the decade of the 1970's. It peaked in the early 1970's, with annual real GDP growth rates of about 26% in 1971 and 1972.

Fig. 3.2: Botswana GDP Growth Rates (Annual %)



Source: Created from World Bank, World Development Indicators Data, 2007.

Starting from a very low level, the exceptionally high growth rates of the 1970's in which annual growth was in double digits in eight years of the decade are particularly striking in lieu of the general world slowdown in growth due to the oil crisis. Growth remained high in the 1980's, with the lowest annual growth rate during any year of the decade being 7.13%. As table 3.1 below shows, average real GDP growth rates by decade (1960's split

into the pre- and post-independence periods) have however slowed significantly from the 1990's until the present, decreasing from 15.4% in the 1970s to 4.89% in the 1990s.

Table 3.1: Real GDP Growth 1960-2004

1960-1965	1966-1969	1970-1979	1980-1989	1990-1999	2000-2004
6.31%	10.47%	15.40%	11.35%	4.89%	4.92%

Source: Created from World Bank: World Development Indicators, 2007

Compared to other countries, Botswana is one of a few select countries that have been able to sustain high growth rates decade after decade³⁸. It has also continually outperformed many economies including the former East Asian tigers with the exception of the last decade. As table 3.2 shows, with the exception of Singapore, Botswana's GDP per capita growth rate in aggregate terms in the 1975-2004 block period was higher than the East Asian tigers and totally outclassed most African countries.

Table 3.2 Economic Development Trends: Botswana and Select African/Asian Countries.

Country	2004 GDP/Capita \$US	1975-2004 GDP/Capita Annual Growth Rate (%)	1990-2004 GDP/Capita: Annual Growth Rate (%)
South Korea	25,191	4.7	3.8
Singapore	14,136	6	4.5
Malaysia	4,753	4.1	3.5
Botswana	5,073	5.7	4.2
Mauritius	4,889	4.4	3.9
Ghana	409	0.6	1.9
Lesotho	730	4.7	4.5

³⁸ Easterly and Pritchett (1993) elaborate the fact that economic growth is usually short-lived.

Kenya	481	(.)	-0.6
Nigeria	560	0.2	0.8

Source: Created from World Bank - World Development Indicators Data, 2007.

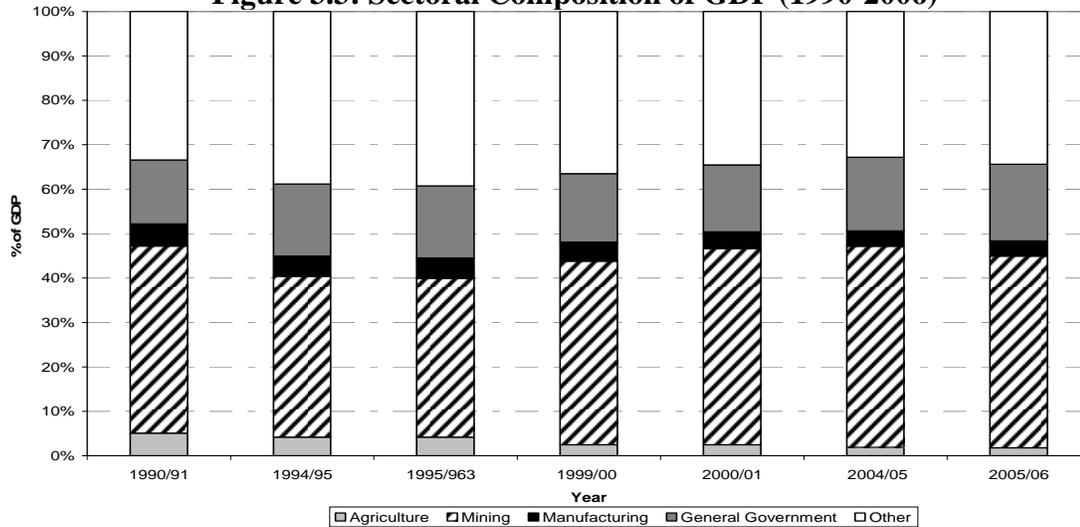
3.4.1 Changing Economic Structure³⁹

The post-independence growth of Botswana's economy discussed in the previous section has been accompanied by a transformation in the structure of economic activity. Structure determines the resilience and robustness of an economy in the face of external shocks. This is because a broad based economy has multiple engines of growth and development and can therefore cope better with major downturns in one or two sectors than a concentrated economy. Figure 3.3 below is a temporal snapshot showing the changing sectoral distribution of Botswana's GDP in real terms (1993/94 prices) for the last decade and half (this period has the most complete datasets available). The declining share of agriculture, from 5.1% of GDP in the 1990/91 fiscal year to just 1.7% in 2005/06 is a process that has been ongoing since independence. In 1966, the economy was dominated by agriculture, which accounted for about 43% of GDP.⁴⁰ The level of industrialization has been low as reflected in the relatively small percentage of GDP originating from the manufacturing sector.

³⁹ Economic Structure in this context refers to the sectoral origins of national output.

⁴⁰ The continuous decline of agriculture is dramatically captured by its contribution to GDP (value added). See appendix 3A for graphical illustration.

Figure 3.3: Sectoral Composition of GDP (1990-2006)



Source: Bank of Botswana: Annual Reports 1990-2007

In spite of the increased pace of modernization in recent years, manufacturing's share of GDP, which was 5.7% in 1966 declined to 4.7% in 1990/91 and further to 3.3% in 2005/06. In addition to the manufacturing sector, the performance of the services sector needs to be highlighted. This sector captured in figure 3.3 has consistently witnessed rising trends in its contribution to GDP over the years. Likewise, the government sector has also witnessed remarkable growth since independence and has contributed to the structural transformation of Botswana's economy, averaging about 16% of GDP over the period from 1966. This is not a surprising development, since over the years, the government has implemented numerous public investment and development programs in addition to being an important source of wage employment in the country. The government sector is also significant because over the years it has acted as a channel through which wealth generated in other sectors of the economy particularly mining has been reinvested in the economy.

However, the single most important catalyst that has greatly impacted Botswana's economy structurally has been the discovery of minerals especially diamonds and copper-nickel. The mining sector over the years has become the dominant economic activity, accounting for 50.7% of GDP in 1985/86 and 41.6% in 2005/2006 (Bank of Botswana, 2007). According to Jefferis (1998), the domestic cost of production of diamonds is low compared to their overseas value (priced in American dollars) and as a result, sales for Botswana are extremely profitable. Despite the high revenues that have accrued to the state as a result of mineral rents, the government has maintained sound fiscal and prudent monetary and exchange rate policies that have resulted in a negligible level of foreign debt and most importantly, avoided the Dutch Disease (Mogotsi, 2002). For example, Botswana's disciplined fiscal policy has kept government expenditure from growing as fast as government revenues over the long term (Maipose and Matsheka, 2008). Likewise, liberal money and banking policies have generally provided stability to the macro economy and financial sector, facilitating the accumulation of rents to the state.

Unlike most resource rich countries in the Third World, Botswana has managed to avoid tendencies of mismanagement and corruption. Consequently, Botswana's foreign exchange reserves have increased dramatically from absolutely nothing in the early post independence period to almost 8 billion dollars or the equivalent 30 months of imports of goods and services in 2006 (table 3.3).

Year	Amount
1966	0
1977	0
1987	2,057
1997	5,675
2000	6,317
2001	5,897
2002	5,474
2003	5,339
2004	5,600
2005	6,309
2006	7,993

Source: Samatar, 1999, Bank of Botswana Annual Reports 2004-2007

The accumulation of substantial government savings and foreign exchange reserves in turn has provided an important cushion that enables the country to ride out economic downturns with special reference to the global diamond market, while at the same time, careful management of the country's reserves has generated a significant return to the nation. In addition, Botswana's sound economic administration, fiscal discipline and commitment to free market principles have led to sterling ratings by international standards setting institutions. In recent years, Moody's Investor Services and Standard and Poors rating agencies have given the country an A-plus credit rating, the highest sovereign credit rating in Africa. These ratings based on external debt and liquidity positions have enhanced Botswana's international stature and ability to attract foreign capital to support the process of economic development. Furthermore, the prudent management of Botswana's economy has put it in a unique position in Africa in that it

has not adopted pervasive World Bank-IMF supported Structural Adjustment Programs. There has been no need to do so since the country has with the exception of 1981/82 fiscal year recorded substantial balance of payment surpluses (Bank of Botswana, 2003). In fact it is one of only two African countries that are net creditors of the Bretton Woods institutions; investing in, rather than borrowing from, the World Bank and the IMF. In sum Botswana's impressive economic record has been built on a foundation of wisely using revenue generated from its natural resource base to fuel economic development through prudent fiscal and monetary policies and management practices.

3.4.2 Social and Human Development

Getting macro-economic indicators right is important for any country to attain its developmental goals and in Africa has been the main reason for structural adjustment programs. However, more essential in the attainment of higher levels of economic development is human development. This significant shift in development discourse is well articulated in United Nations Human Development Reports. Botswana has long been cognizant of this fact with the rapid post independence economic improvement accompanied by rapid human and social gains⁴¹.

Botswana's population grew rapidly in the period following independence in 1966 but as real incomes grew as a result of rapid economic growth, the population growth rate dropped significantly from 3.0 in 1964 to 2.2 in 2001⁴². At the same time, the proportion of the population aged between 15 to 64 has grown significantly thus reducing the age

⁴¹ In as much as mineral rents formed the basis of Botswana's developmental transformation, it must be noted that the 1969 re-negotiation of the 1910 Southern African Customs Union Agreement gave Botswana a larger share of the Union's revenue pool and thus contributed to its economic transformation (Tsie 1998).

⁴² In recent years, the reduction in Botswana's population growth rate has also been attributed to the high prevalence of AIDS cases.

dependency ratio from 113 persons per 100 of the working population in 1971 to 71.4 in 2001 (see table 3.4).

Table 3.4: Population and Demographic Indicators

<i>Census Year</i>	1964	1971	1981	1991	2001
<i>Population (000)</i>					
Male		272.5	443.1	634.4	813.5
Female		324.5	497.9	692.4	867.4
Non-Botswana		10.9	15.7	29.6	60.7
Total	296.3	596.9	941.0	1,326.8	1,680.9
<i>Population Growth Rate</i>	3.0	3.1	3.4	2.7	2.2
<i>Population Distribution (%)</i>					
0-4		17.6	18.8	14.6	11.7
5-14		29.9	28.8	28.6	25.0
15-64		46.9	47.6	51.8	58.3
65 and older		5.6	5.1	4.9	5.0
<i>Dependency Ratio (per 100)</i>		113.0	110.0	93.0	71.4

Source: Central Statistics Office, 2005

Major emphasis has been placed on providing and improving basic education and primary health care. School enrolments and literacy rates have risen due to purposeful and rapid investment in education since independence. As a result, the basic adult literacy rate has risen from 68.9% in 1990 to 81% in 2006 (Central Statistics Office - CSO, 2007). The country has also attained a 97% primary enrolment ratio, rising from 51% in 1980 and 71% in 1998. In actual figures, primary school enrolment has gone up 83,000 in 1970 to 328,600 in 2005 (see table 3.5). Further in recent decades, gender balance has consistently reflected greater than 50% female primary enrolment (CSO 2007). As part of a national education policy, transition to the junior secondary level is 100% ensuring universal basic education for all. However, the transition to senior secondary has been lower than 50% (CSO, 2007). Meanwhile secondary school and university enrolments

which start from much lower bases than primary school enrolments both grew at double digit rates between 1970 and 2005.

Botswana's healthcare strategy since the mid-1970s has emphasized the widespread provision of primary health care to the many rather than provision of hospitals and doctors to the few (Leith, 2005). As table 3.5 shows, since the 1980s the expansion of nurses (mostly in primary care clinics) exceeds that of doctors. The bottom up approach to healthcare has resulted in a dramatic decline in infant mortality from 94.8 per 1000 live births in 1970 to 56.6 in 2000 and before accounting for the impact of AIDS, in an increase in life expectancy from less than 50 years at independence to lower 60s in the early 1990s (see table 3.5).

Table 3.5: Selected Social Indicators

	1970	1975	1980	1985	1990	1995	2000	2005
Education enrolments (1,000)								
Primary	83	116	172	224	284	319	324.9	328.6
Secondary	3.9	3.9	18.3	32.2	56.9	105	162.7	
Tertiary	0.14	0.14	0.93	1.77	3.68	5.5	11.2	
Select Health Indicators								
Life expectancy at birth (years)	52	55.1	58.3	61.3	61.1	50.7	46.3	34
Infant mortality rate (per 1,000)	94.8	80.8	71.2	61.4	59.4	68.8	56.6	87
Under-5 mortality rate, (per 1,000)	142	115	84	65	58	66	101	120
Health Services per 100,000 population								
Doctors			15	17	18	27	30	31*
Nurses			124	176	188	252	261	266*
Type of Health Facility	1998	1999	2000	2001	2002	2003	2004	2005
General Hospitals	16	16	16	16	16	16	17	17
Primary Hospitals	15	15	17	17	17	17	17	17
Clinics	225	227	232	230	242	257	259	261
Health Posts	323	325	324	321	340	336	nd	nd

*Sources: National Development Plan 9, Government of Botswana. 2003, CSO updates, 2007, World Development Indicators, 2007. * 2003 Values*

The exception to Botswana's success story in the health sector has been the spread of HIV. In 2005 there were an estimated 270,000 people living with HIV (CSO, 2006). This in a country with a total population below two million which gives Botswana an adult HIV prevalence rate of 24.1%, the second highest in the world after Swaziland. The socio-economic impact of such a high rate of HIV/AIDS prevalence cannot be understated. It has resulted in a wiping out of decades of laudable social and human development. For example reversing the trend of rapid population growth seen in most African nations, HIV/AIDS is expected to result in Botswana's population falling by a quarter by 2025. Life expectancy in Botswana has also declined significantly to 34 years from 61 years in 1990 (see table 3.5 above). This is just over half of the mean life expectancy for middle income countries (MICs) of which Botswana is part (World Bank, WDI, 2007). Life expectancy in Botswana is predicted to fall below 30 years by 2010, by which time two out of five children are expected to be AIDS orphans (IMF 2001). The foregoing discussion shows that HIV/AIDS has been an antithesis to Botswana's development project. Its debilitating impact has amongst others resulted in recent declines in Botswana's Human Development Index (HDI) as calculated by the UNDP. As table 3.6 shows, compared to other MICs in Africa, Botswana has experienced a consistent decline in its Human Development Index from .68 in 1990 to .57 in 2004. Concomitantly, it dropped 21 places in global HDI rankings between 1990 and 2003 and is currently ranked 131 globally.

Table 3.6: Comparative Human Development Index Trend

	HDI Rank							
	2006	1975	1980	1985	1990	1995	2000	2004
Seychelles	47	0.842
Mauritius	63	..	0.661	0.692	0.726	0.749	0.779	0.8
South Africa	121	0.653	0.673	0.703	0.735	0.741	0.691	0.653
Botswana	131	0.5	0.575	0.636	0.68	0.66	0.598	0.57

Source: UNDP: Human Development Report Statistics, 2007

The forgoing discussion clearly shows that successive Botswana governments have purposefully invested in the social and human development of the country especially in education and healthcare with tangible results. However, the progress attained so far is being undermined by devastating impact of HIV/AIDs though a systematic and comprehensive attempt is being made to tackle the problem.

3.5 The State and Development: Explaining Botswana's Development Trajectory

Given Botswana's disadvantaged beginnings as a country, what explains its extraordinary development record before HIV took hold? Why has Botswana distinguished itself from the vast majority of states in Africa? There are two major accounts of Botswana's development trajectory in the literature. One school of thought may be called the "miracle school" and it is mainly positive and largely economic in approach (e.g. Harvey and Lewis, 1990, Dale, 1995, Danevad, 1993, Stedman, 1993). Scholars within this paradigm uphold the dominance of growth promoting economic policies adopted by Botswana as responsible for its development achievement. They argue that:

- a) Botswana's minerals policy established mutually profitable arrangements with foreign investors specifically the De Beers diamond conglomerate which facilitated its participation in one of a very few successful international marketing arrangements.
- b) Trade policy kept the economy open to competition from imports, and maintained access to markets for some important non-mineral exports.
- c) Money and banking policies generally provided stability to the macro economy and to the financial sector. Fiscal policy, on the whole, has been disciplined and exchange rate policy avoided the peril of an overvalued currency commonly encountered following mineral discoveries.
- d) Labor market policies avoided both the extremes of an exorbitant real minimum wage and a bidding war for scarce talent.

The second school of thought which I refer to as the “political economy” school evolves out of a critique of the miracle school. Scholars within the political economy framework argue that in as much as the miracle school is varied, its approach to Botswana's post independence development is largely uncritical and misses the inherently political nature of Botswana's experience (Colclough and McCarthy, 1980, Parsons, 1984; Tsie, 1995, Taylor, 2006, Good 1992, 1999, Jefferis and Kelly, 1999; Gulbrandson, 1996). Scholars using such a framework amongst others, question the scenario where there is poverty in the midst of plenty.

In explaining Botswana's development trajectory in subsequent sections, I adopt the political economic approach to critically unpack Botswana's experience and situate its

experience in the developmental state literature. I argue that the roots of Botswana's exceptional experience lie not only in the domain of economics but also politics. In as much as Botswana's growth record is explained in the first instance by economic policies pursued (itself an indicator of good governance), the evolution of policies did not emerge out of a vacuum. The evolution was mediated, maintained and shaped by interests, institutions, and leadership. This sentiment is clearly articulated by the country's former president when he states that:

"I do not agree with the characterization of Botswana's development experience as a miracle somehow suggesting some divine intervention or inexplicable reason for what was achieved. Natural resources, no matter how lucrative, cannot develop a country without political stability, sound economic management and prudent financial husbandry" (Mogae, 2005).

Such an approach opens up space for a holistic and critical interrogation of Botswana's development; acknowledging its rapid economic growth whilst at the same time questioning contradictions that have developed alongside its development project.

Mineral wealth has been an integral part of Botswana's transformation, essentially freeing the country of foreign exchange constraints in its development process. However, abundance of minerals alone explains absolutely nothing in assessing Botswana's success because mineral resources themselves are no guarantee of growth. In fact experiences of other African countries have shown that mineral wealth (diamonds in particular) could be more of a liability than an asset. Significant mineral exporters like Sierra Leone, Democratic Republic of Congo (DRC), Liberia and Angola for example are amongst the poorest nations in the world with the weakest growth records. Further, virtually all these countries have undergone civil wars. These cases demonstrate that natural resources and particularly diamonds may in fact sabotage nation building and development. Given that

in other African countries, diamond endowments seems to be more strongly correlated with civil war than with economic success, mineral rents can be understood as a necessary though insufficient condition for Botswana's growth record. Leith (2005) captures this sentiment clearly when he remarks that "the growth of the Botswana economy is not simply a story of a mineral enclave with an ever growing government attached to a stagnating traditional economy".

Similarly, it is conceptually problematic to define Botswana's developmental state simply from its economic performance point of view because not all countries with good growth rates are developmental states. As Mkandawire (1998) puts it,

"the definition of the developmental state runs the risk of being tautological since evidence that the state is developmental is often drawn deductively from the performance of its economy. This produces a definition of a state as developmental if the economy is developing and equates economic success to state strength while measuring the later by the presumed outcomes of policies".

In consonance with Mkandawire (1998), I argue for a redefinition of Botswana's experience and developmental states in general away from an economistic basis to one whose ideological underpinnings are developmental and seriously attempts to deploy its political and administrative resources to the task of economic development.

Ideological underpinnings are required in order to give the developmental project a hegemonic aspect to it, in that the project gains consensus and attracts broad sections of the population. Following from Mkandawire, in Botswana there has been a definite commitment by the state to pursue development. This goes back to the immediate post independence period and the first presidency of Sir Seretse Khama who was conscious in developing what had hitherto been a relative backwater to the British Empire (Parsons, Henderson and Tlou, 1995). Woo-Cummings (1999) has argued that nationalism and a

national vision lies at the heart of the developmental state. The slogan “*ditiro tsa dithlhabololo*” (work for development – Taylor, 2003) has underpinned Botswana’s development trajectory since 1966 with a strong sense of nationalism: “in many respects, development has been Botswana’s ideology” (Lewis. 1993). As asserted by Seretse Khama:

When we attained independence in 1966, we had no economic base from which to proceed with the development of our country. Our chances of survival as a viable country were almost nil but we were not discouraged nor could we ever willingly return to the old days of colonial neglect. Having accepted the challenges of our independence, we had no other alternative but to get down to work to make our independence a meaningful one. (Khama 1980)

The process of nation building after independence therefore took on a nature that was inspired fundamentally by the task of development. The emphasis on national development as a guiding ideological construct has therefore been absolutely crucial to Botswana’s transformation. This development culture, spearheaded by a conscious and disciplined leadership was accepted and advanced by the political and bureaucratic elites and by the professional institutions they built, and subsequently the development project gained widespread acceptance (Tsie, 1996).

The role of political and bureaucratic elites in Botswana’s development trajectory highlights class politics as playing an important role. A critical piece of scholarship situated in class dynamics that attempts to account for why Botswana’s developmental record is different from most other African states is Samatar’s (1999) “An African Miracle”. Touching on one of the main factors accounting for Botswana’s success, Samatar asserts that “a key force that distinguishes successful from failed states is the social chemistry of the dominant class” (Samatar, 199:72). However, his argument goes a

step further compared to other accounts by asserting that Botswana's wealth grants the elite a certain space that can be used to resolve inequalities through determined policy choice and implementation.

Likewise, Samatar argues that Botswana's success as a developmental state is located in a professional Weberian-style bureaucracy that has conducted and implemented policymaking efficiently, essentially made possible by an alliance amongst elites. The elite alliance having shared a desire to consolidate their hold on the post independent state as a means to accumulate and gain influence, privileged policies that sought to attract private Foreign Direct Investment (FDI) whilst receipts from investments were diverted into national development projects (Hill and Mokgethi, 1989). In essence, the ruling elite's accumulation project had a reciprocal aspect to it, predicated on policies that benefited the long-term interests of the nation's economy and populace as a whole. Such interventions and policy initiatives have been possible because the strong state apparatus built post independence did not deteriorate into private patronage networks and fiefdoms as elsewhere in Africa thus minimizing rent seeking activities (Theobald and Williams, 1999).

The legitimacy of the ruling elites is crucial if it is to attain set development goals. In Botswana, the ruling elite's appeals to national solidarity (as evident in the many speeches of President Khama) combined with active provision of goods and services facilitated by the discovery of diamonds in the post-independence era helped craft and consolidate their legitimacy in the eyes of the ruled, satisfying the criteria that a

developmental state must have legitimacy⁴³. Crucially at independence, the first president enjoyed a legitimacy drawn from his position as a (former) chief of the dominant Tswana tribe (Ngwato) that was unrivalled. This coupled with the legacy of neglect left by the British meant that there was no real opposition to the Khamaian agenda. Unlike most other African colonies and territories, Britain left behind no army or strong bureaucracy, and a weak middle class. As put by (Molutsi, 1989), the Tswana “educated elite was so small that it ended up collaborating with the colonial state, chiefs and European settlers to form the new ruling class at independence” In essence, the British neglect created a critical technical and political vacuum at independence.

The vacuum created was a double-edged sword because whilst it meant a state with crippled capacity at independence, it also gave Khama and his partners the room to maneuver and consolidate political power. For example, any chiefly threat to the new state’s legitimacy was nipped in the bud with the chieftaincy act of 1965. The act granted power to the president to recognize or not recognize a traditional ruler, making all chiefs subordinate to the central government⁴⁴. In addition, a house of chiefs was established but with no legislative powers (Somolekae and Lekorwe, 1998). The foregoing at one instance meant that potential opposition to building up a strong state apparatus and organizing a concerted opposition to the new government was dissolved and the potential site of alternative power removed. One result was that traditional rulers, now dependent

⁴³ It must be noted that the provision of basic services and the relative qualitative upliftment in the lives of the masses as a result of mineral rents granted the elite project a national rather than simply a class appearance thus in itself granting a cloak of legitimacy to the post 1966 project..

⁴⁴ Likewise, a fragmented opposition has meant that the ruling Botswana Democratic Party (BDP) has enjoyed hegemonic if not wholly unchallenged status at the national level since independence (Mokopakgosi and Molomo, 2000; and Osei-Hwedie, 2001)

on the state for official recognition, served as facilitators for the implementation of policy particularly in rural areas. In this sense whilst accorded respect and status, the chiefs' role was re-invented and transformed, making them agents of the government at the grass-roots level.

Also, in a move similar to other developmental states, groups in Botswana outside the state administration have been poorly developed and disorganized (Molutsi and Holm, 1990, Carroll and Carroll, 2004, Carbone, 2005). Civil society in particular has been dismissed as weak, circumscribed and inactive with minimal influence on public policy (Taylor, 2003, Sebudubudu and Osei-Hwedie, 2005). Taylor (2003:221) adds that:

“the Botswana government has exhibited highly undemocratic tendencies to portray those organs of civil society it deems beyond its control as foreign stooges, and has not been shy to play the race card against any foreign supporters of civil society in an adversarial relationship with Gaborone”.

In particular, opposition parties have been weak due to intra-party factional fighting, weak organizational structures and poor capacity to promote alternative policies. The weak and fragmented opposition has meant the lack of a counter-hegemonic project at the national level since independence with the ruling Botswana Democratic Party (BDP) in Botswana winning each and every election by landslides (Osei-Hwedie, 2001). I contend that weak, poorly developed and disorganized groups outside the state can be attributed to the fact social engineering like in other developmental states has been integral to the project. For example, the purposeful and strong social and human investments of the Botswana government as argued by Molutsi and Holm, 1990, have led to minimal opposition to dominant elites programs. The limitations on organized labor have also been highlighted by some observers (Mogalakwe, 1997).

Furthermore, the post-colonial elite dominated Botswana's National Assembly (parliament) in such a way that state resources were not diverted to maintain private patronage networks, as pervasive in other parts of Africa, but rather were deployed for development. This can be attributed to a relative autonomy which allowed the political and bureaucratic elite to formulate policies that benefited national development even whilst benefiting traditional elites e.g. policies vis-à-vis cattle production (Acemoglu, 2001). In addition, the relative autonomy of the state was aided as the key source of government revenue was one that was not solidly connected to the rest of the domestic economy. With an economy based on an extractive resource industry, a sector with minimal backward linkages to the economy in terms of domestically supplied inputs, there was little to no opportunities for cooptation of the state.

The post independence political elite did not only enjoy a relative autonomy but enjoyed an embedded autonomy simultaneously that developed from enduring and dense networks between the public and private sectors. For example President Khama's position as a (former) chief of the Ngwato, the dominant Tswana tribe, essentially ensured his embeddedness with traditional authorities and their subjects. The autonomy of the political leadership was also socially anchored within wider webs and networks that linked factions of the elite (cattle-ranchers, politicians and bureaucrats) together. This embedded autonomy created a dynamic interaction between various groups that in effect stimulated policies favorable not only to the elites themselves but also to development. This embedded autonomy meant that at independence the new leadership

enjoyed traditional legitimacy but were also relatively autonomous from dominant chiefly groups, as well as the broader population (Samatar, 1999).

Clearly developmental states must be involved in a network of ties that secure them to groups or classes that become allies in the pursuit of societal goals. What has occurred in Botswana is a typical developmental state situation where the bureaucracy and the ruling party mesh. Evidence to confirm this is the commonness of the recruitment of senior civil servants directly not just into ruling party politics but into senior government posts (Charlton, 1991). The classic example being the immediate past president, who has variously been Planning Officer, Director of Economic Affairs, Alternate Governor for Botswana at the IMF, Governor of the Bank of Botswana, Permanent Secretary to the President, Secretary to the Cabinet, Minister of Development Planning and finally vice president in 1992 before taking over the presidential reins in 1998. In short, he was a career technocrat and a civil servant.

A critical explanation for the superb performance of Botswana has been the crystallization of the state's development efforts in National Development Plans (NDPs)⁴⁵. According to Todaro (1985), NDPs are deliberate attempts by Botswana's government to coordinate economic decision making over the long run, and to influence, direct and in some cases control the level and growth of the nation's principal economic variables in order to achieve a predetermined set of development objectives. NDPs are therefore a manifestation of the willingness of the ruling elite to articulate a national vision and a commitment to development. As Robi (1994) puts it, Botswana has

⁴⁵ There have been a total of 9 national development plans since independence. The current development plan (NDP 9) runs from 2003/4 – 2008/2009.

established “a national perspective that will carry the national psyche to a level of providence, with a sense of future, so as to define its ambition or desired level of progress”. Since its inception in 1968, NDPs have been the centerpiece of the state’s development effort, striving with a general goal of raising the living standards of the population. In line with this, development plans have been guided by the planning objectives of sustainable development, rapid economic growth, economic independence and social justice (Republic of Botswana, 1997). The NDPs have the advantage of granting policy implementers a great degree of space between them and politicians. By this I mean that the technical document drafted by experts and then approved by elected representatives serves as the blue print for government policy. “Once the new plan is approved, politicians’ proposals not in the plan are set aside on the grounds that only emergency measures can be adopted until the next plan is formulated” (Molutsi, 1989). Botswana then echoes the developmental state of Chalmers Johnson (1981) where “the politicians reign and state bureaucrats rule”.

In effect, class interests in specific projects are obscured by the over-arching ideology affixed to the notion of development. One of the successful aspects of the ruling party’s (BDP) hegemonic projects has been the ability to cast development as a class-neutral process whereby the state is projected as a benevolent provider of resources and services irrespective of status. As Mogalakwe (1997) remarks:

“for the most part of the post colonial period the labor movement in Botswana has been reminded time and time again of its responsibility to the nation. The petty bourgeoisie state elite have on various occasions stressed the need for wage restraint, industrial peace and political stability in order to achieve national development”.

Ensuring that the state is seen as neutral contributes to its legitimacy and that of the regime (Du Toit (1995).

In conscious imitation of another developmental state's Vision 2020 (i.e. Malaysia), a presidential task group produced a document entitled "A framework for a long term vision for Botswana". This vision 2016 is supposed to be a national manifesto to guide future NDPs as well as broad government policy and is a statement of long term goals, with proposals for a set of strategies to meet the goals (Republic of Botswana, 1997). According to Mkandawire (1998), "it is this ideology-structure nexus that distinguishes developmental states from other forms of states. In terms of ideology, such a state is essentially one whose ideological underpinnings is developmentalist in that it conceives its mission as that of ensuring economic development". Vision 2016 and the various NDPs are an indication of the developmental nature of the Botswana state as "by planning within the context of a market economy; government policy has tended to influence the direction of government expenditure during the planning period while providing an environment in which private sector activity can thrive" (Edge, 1998: 334).

However, development planning alone obviously does not explain Botswana's experience. Development commitment needs to be matched by institutional capacity. Certainly, the robustness and levels of capacity of state institutions in other developmental states have been crucial (Chang, 1999, Weiss, 1998). Yet at the same time, institution building was not simply a bureaucratic procedure but sprang from political determinations, and "if the politics do not give rise to the kind of state which can

generate, sustain and protect an effective and independent capacity for governance, then there will be no positive developmental consequences” (Leftwich, 1993).

As Maudeni (2001) puts it, “creating a truly developmental state requires that the whole government machinery must be subordinated to the leadership of an economic agency of the state”. This agency in Botswana is the Ministry of Finance and Development Planning (MFDP). After independence in 1966, the government saw to it that the MFDP, which spearheaded developmental policies, was staffed by an able civil service and situated in the Vice-President’s office. In fact it is pertinent to note that prior to becoming president after Khama’s death, Masire was Minister of Finance and Development Planning for five years and had been Vice President for fourteen years. Similarly, the current president Festus Mogae had been Masire’s Vice President for five years as well as being Minister of Finance and Development Planning. Such an economic agency and its close link to the executive has secured a balance between development planning and budgeting as well as strengthening the capacity to implement national goals and demonstrating a commitment to economic development.

According to Parsons (1995), the MFDP has dominated other ministries that deal with sectors of the political economy such as agriculture, education and health. It played an important role especially in the early days of independence, identifying suitable development projects via detailed development planning and successful solicitation of external funds at a time when local capital was scarce. Because of the high degree of professionalism within the bureaucracy and the scope granted to the MFDP in advocating projects, the state was highly successful in securing donor funding. With the discovery of

diamonds in 1970, the MFDP decided to embark on a project to borrow capital with the knowledge that these loans could be paid off. Capital was then diverted into roads, schools, hospitals, parastatal Botswana Development Corporation (BDC) investments and civil service expansion. As a result the economy expanded at an accelerated rate and manufacturing and commercial activity took off in urban areas (Parsons, 1995). By 1980, receipts from diamonds allowed the payment of all of its debts and the MFDP then returned to its former position of not incurring debts in excess of projected state earnings, a policy it largely adheres to today (Siphambe et al, 2005). In like manner, the renegotiation of the South African Customs Union Agreement in 1969 (Tsie 1998) and the 1975 renegotiation with De Beers Diamond Company for half and half ownership of all the country's diamond mines (compared to the previous 85-15 percent share in favor of De Beers) attest to the capacity of bureaucrats and institutions in Botswana.

The strong institutional capacity of the state created a space and ability to intervene in the economy in specific ways. Samatar (1999) argues that the Botswana elite successfully utilized the receipts from the country's diamonds to expand the state as facilitator or entrepreneurial agent. This change in philosophy has been crucial with the state not shying away from an active involvement in promoting the market. Pilot institutions have been built to stimulate growth in the private sector, the Botswana Development Corporation (BDC) being a prime example. It was established in the 1970s as Botswana's main agency for commercial and industrial development. Its primary objective is to assist in the establishment of development of commercially viable businesses in Botswana. Its role includes the provision of financial assistance to investors

with commercially viable projects, and building partnerships with investors capable of creating and growing commercial viable businesses and supporting projects that generate sustainable employment for Botswana (Kaunda, 1999). An important aim the BDC is to encourage citizen participation in business ventures.

The Financial Assistance Program (FAP) was another example of the state as an entrepreneurial agent. Established in 1982 and revised in 1989 and 1995, FAP was created to assist businesses which produce or process goods for import substitution or for export. However despite good intentions, FAP became a non-sustainable project. Most investors only came to Botswana due to the strong incentives offered through FAP, such as tax-free grants and fixed capital assistance. The effective result was that many investors paid little to nothing in making their investments and there was widespread abuse of the program (Good and Hughes, 2002). As a result FAP failed in generating a meaningful indigenous class of entrepreneurs. The failure of FAP as an entrepreneurial project by the state is mediated in factors which discourage investment in the country's manufacturing sector. Firstly, the import burden from the strong exchange rate of the country's currency, "Pula", vis-à-vis other regional currencies is very high. The very limited domestic market and the lack of locational advantage against competition from countries within the sub-region also weigh against Botswana. These factors, combined with a strong domestic belief that FAP was a scheme by which mostly 'fly-by-night' foreigners could scam the country, meant that FAP was seen not only as a non-sustainable development option for Botswana but also one that was acting against citizen empowerment (Good and Hughes, 2002)

I have touched on the role of the bureaucracy in Botswana's developmental state but this needs expanding. The country possesses an effective and competent bureaucracy that has been able to implement policy directives, without miring itself and the country in over-expenditure and other pitfalls associated with a large number of bureaucracies in the third world. Expatriates have been retained, as opposed to much of Africa, in order to help train up a local but competent and educated civil service. Because of the lack of education afforded to local Botswana under the colonial period, this gradualism was necessary. The local cadre of bureaucrats therefore underwent a period of tutelage and learning that has enabled them to gradually and smoothly take over the running of the country (Du Toit, 1995). Now Botswana's civil service has a proven capacity to take pre-emptive policy action and generally pursue policies in the long term interest of the country (Charlton, 1991). This, combined with well trained and well educated Botswana with a low tolerance threshold for corruption, means that the bureaucracy in Botswana is a tool rather than an obstacle for development. It can also be argued that the embedded autonomy of Botswana's bureaucracy and diverse ministries have served Botswana well, cushioning policy from special interest lobbying (Molomo, 1989). Freed from such diverse pressures emanating from below, the bureaucracy has served a crucial role in Botswana's transformation. The government's heavy investment in infrastructure, health and education and its attempts to foster industrial development has been predicated on the creation of a meritocratic bureaucracy and extensive state capacity (Acemoglu et al, 2001).

Furthermore and relating Botswana's bureaucracy to the developmental state literature on the autonomy of the bureaucracy, I agree with Du Toit (1995: 121) when he asserts that "the autonomous bureaucracy in coalition with the ruling BDP has succeeded through its technocratic priorities of growth and stability in establishing a solvent enough state which is able to deliver public goods on a non-tribal and non-regional basis, so as to ensure that the minimum requirements of non-excludability are met. Ensuring that the state is seen as neutral not as an ethnic body contributes to its legitimacy and that of the regime".

3.6 Conclusion

This chapter has provided a sweeping summary of Botswana's pre and post independence development trajectory. I have shown how independent indigenous Tswana polities were incorporated into the imperial British colonial project and how the process led to adverse socio-economic and political outcomes for the newly independent nation. Thus, at independence in 1966, Botswana was considered amongst the wretched of the earth and in the bottom ranks of the development ladder. However its post-independence transformation has been unique and immense, surpassing the development trajectories of most third world countries to gain middle income status. I have argued for a critical assessment of Botswana's experience beyond econometric measures and for the primacy of politics in the complex process of development as fundamental and decisive. The complex intersectionality of class politics, hegemony, a conscious and focused leadership, competent bureaucrats and effective institutions have come together to situate Botswana's experience akin to a developmental state. In essence, I concur with the

assessment that Botswana has defied the thrust of prevailing development orthodoxy which claims that the African state is a failure and cannot enhance industrial transformation through an interventionist strategy. However, nearly all discussions of Botswana's development experience have focused on the role of the state in formal sector development. This thesis embarks on the state's role in informal sector development.

CHAPTER 4:

The Informal Sector in Gaborone: Empirical Evidence from the Field

4.1 Introduction

An analysis of the relationship between the state and informal sector requires an examination of the characteristics of both categories especially the later in order to better understand the tensions and strains of the relationship in a specific context. This chapter examines data collected through interviews in Gaborone with the aim of exploring the characteristics and identifying factors that influence the performance of informal micro-enterprises. The chapter also focuses on the significance of the informal sector as a contributor to economic growth, employment and income creation. Four questions guide this discussion. First, what are the structural characteristics of Gaborone's informal sector? Second, what factors explain the performance of informal businesses? Third, what are the growth prospects for informal micro-enterprises? And finally, how do micro-enterprises interact and link with other sectors of the economy? The findings provide a framework to interrogate government institutions, policies and regulations in subsequent chapters. I adopt a historical and comparative approach in my analysis with the objective of situating the Gaborone case study in broader discourses on Botswana's informal sector. Descriptive statistics are used extensively while profiles of individual case studies are used intermittently to reinforce the evidence.

The chapter is organized into four major sections. The first section contextualizes the chapter by giving a historical and comparative account of the size of Botswana's informal sector. The second section engages the structural characteristics of Gaborone's informal sector exploring the type, age and ownership characteristics of enterprises. It

also assesses reasons for start up, sources of capital, physical and locational characteristics of enterprises. The third section interrogates input and output analyses of informal production systems, linkage analysis and employment characteristics. The final section assesses patterns of growth, problems and prospects of micro-enterprise sector in Gaborone.

4.2 Size of Botswana's Informal Sector

The accurate size and magnitude of the informal sector in Botswana is not known partly because of the lack of conceptual clarity, ambiguous nature and definitional quagmire that besets the phenomenon. However, various surveys provide some estimates on the extent of the informal sector. Colclough and McCarthy (1980) note that opportunities in the urban informal sector have grown rapidly from insignificant proportions before independence. They note that the 1964 census had found "about 2,000 persons in non-agricultural self-employment, most of whom were craft or other types of production workers". From the low pre-independence levels, the informal sector was clearly visible by the mid 1970s. A Central Statistics Office (1974) survey estimated that about 4,500 persons were engaged in the informal sector nationwide. Subsequently, a Labor Force Survey in 1984 showed that the informal sector grew by 17 percent during the period 1984-1987 (CSO, 1984). A most recent government sponsored study of the informal sector (1999/2000), shows that 13,400 (15.8%) of a total 84,833 surveyed households were identified to be engaged in some form of informal activity (CSO, 2001).

Available evidence on the informal sector in Botswana point to a gradual and steady increase in the size of informal activity especially in major urban centers. However,

Botswana's informal sector is relatively small, less vibrant and a recent phenomenon compared to other countries and regions in Africa especially West and East Africa. Aside the country's small population size which limits the absolute size of the informal sector, the reasons underlying the country's relatively small informal sector are historical and structural in nature. Unlike countries in West Africa, where Europeans and foreigners (Indians and Lebanese) had less success in penetrating parts of a remarkably well developed pre-colonial and colonial indigenous trade networks, Botswana experienced a more pervasive colonial impact on comparatively less developed indigenous trade networks. The advent of colonialism and its associated restrictions and regulations (especially those regulating labor flows and urban settlement patterns) had the effect of restricting indigenous Batswana to particular economic activities⁴⁶. As mentioned in chapter three, the structural transformation of a subsistence agrarian Tswana society through colonial taxation into an international migrant labor based wage economy for example had the effect of denying Batswana the ability to engage in entrepreneurship. Furthermore, colonial legislation on where Batswana could live, productive activities they could engage in and to what magnitudes, stipulations on where and how products could be sold all had the effect of undermining entrepreneurial development in colonial Botswana. Colonial policies therefore not only arrested the development of indigenous enterprises and entrepreneurship, but also restricted the participation of Batswana in commerce thus making it almost impossible for any new commercial ventures to emerge. An appreciation of this historical background of the informal sector is important because it

⁴⁶ This does not mean that some illegal trading activities did not take place, especially in the native reserves where only Africans lived.

sheds light on some of the contemporary problems of micro-enterprise development in Botswana.

4.3 Structural Characteristics of Informal Enterprises in Gaborone

4.3.1 Type of Enterprises

Micro-enterprises were divided into three major categories in this research namely, manufacturing, retail and service enterprises. The total number and composition of these informal enterprises interviewed in Gaborone is presented in table 4.1 below.

Table 4.1: Category and Types of Micro-enterprises⁴⁷

Category	Frequency	Percentage	Business Type
Manufacturing	13	13.7	Art/crafting/pottery Brick making Carpentry Knitting Metal Work (Welding/tinsmithing) Tailoring/dressmaking
Service	32	33.7	Appliance repair, Phone shops Auto repair, Car wash Food Preparation Mending tires Photography Salons (Barbing/Hairdressing) Shoe repair, Tent repair
Retail	50	52.6	Convenience (Tuck) shops Grocery/fruit retail Selling electronics/cassettes Selling groceries Vending garments
Total	95	100	

Source: Dissertation Field Research (2006)

⁴⁷ Classification of enterprises into the various categories was very problematic since some activities are cross-cutting. For this reason, the classification for this research slightly differs from the International Standard Industrial Classification (ISIC) categorizations. This is especially true for activities considered as services in this research.

The survey results based on systematic random sampling show that the informal sector is very varied and diversified and on the whole, the retail and service sub sectors dominate the informal landscape. These account for 52.6% and 33.7% respectively of all businesses surveyed. The manufacturing sub sector is the least populated; accounting for 13.7% of total enterprises. My survey results complements a 2001 national informal sector survey report in which retail trade accounted for 48 percent and manufacturing 16.5% of total enterprises surveyed (CSO, 2001). Likewise the survey results closely mimic national employment trends in which the retail sector is the second largest after agriculture which accounts for 30.9 percent of all employed (CSO 2006).

The dominance of the retailing sub sector, which encompasses vending general goods, groceries, electronic equipment and garments, can be attributed to several factors. Such enterprises have less need for heavy initial capital outlay. Retail businesses also have a shorter gestation period thus returns accrue to owners much faster than would otherwise be the case for manufacturing enterprises. The concentration in the retail sub-sector is also attributable to the ease of entry and minimal skills requirement for engagement. The combined effect of the above stated reasons is the special appeal of the retail sub-sector to individuals especially those who use the informal sector as a stop-gap measure or as a temporary source of income and employment in their livelihood trajectories.

Compared to the retail sector, the manufacturing sector, which includes activities such as welding, tinsmithing, and carpentry, generally requires significant capital outlays,

bulky machinery and specialized skills. For these reasons manufacturing activities in the informal sector in Gaborone do not attract many informal entrepreneurs.

Services make up the second largest sector, accounting for 34% of enterprises surveyed. The size of the service sub-sector relative to manufacturing in Gaborone I argue is attributable to the urban nature of its economy. Gaborone is the major industrial, commercial and administrative hub of Botswana. As a result, it enjoys a higher standard of living as manifested in higher levels of disposable income in its local urban economy as compared to peri-urban and rural localities. The higher level of disposable income in turn provides a support base especially for personal and other services. For instance personal service enterprises like hairdressing salons and photo studios as well as general electronic goods repair enterprises auto repair and service enterprises dominate in Gaborone.

In as much as table 4.1 clearly delineates enterprises operating in the three sub-sectors, some enterprises engaged in a combination of different activities across and within sub-sectors. For example, in the service sector, food preparation was often combined with retailing of grocery items. Likewise auto repair was often combined with general metal work. At least one business was a combination of metalwork and carpentry. Enterprises in the manufacturing sector in particular tended to offer a combination of production and repair services. The cross-cutting multi-functionality applied particularly to tailoring/dressmaking, carpentry, and metalwork businesses.

In sum, the survey results show that the retail sector is the most dominant in Gaborone followed by services and manufacturing respectively. However, cross-cutting

activities across the three sectors were also prevalent. The dominance of retail micro enterprises in Gaborone however has serious implications for the long-term viability and growth of the informal sector. This is because the activities in question are residual in nature and result in far too many people (usually concentrated in small spaces) selling almost the same items (Tokman, 1996).

4.3.2 Age of enterprises

The age composition of businesses operating in the informal sector (i.e. the length of time of operations) may give some clues regarding the life span of informal sector enterprises and also possibly their stability or transitional character. The age of individual businesses may also have implications for the managerial capacity and adaptability and hence the ability for the informal sector to generate and sustain employment and income. While the age structure of enterprises in the informal sector is useful in relation to the above mentioned issues, it should be noted that there are limitations especially since this research did not seek to establish which enterprises had graduated into the formal sector and the process of their transition. Such an analysis will require further research through a tracer study to isolate enterprises that have graduated into the formal sector and the process of their transition. Table 4.2 shows the age structure of enterprises in the various sub-sectors.

**Table 4.2: Age Distribution of Enterprises and Sector of Operation
(Percentage)**

	Age in Years*			Total
	11-8 (1996-1999)	7-4 (2000-2003)	0-3 (2004-2006)	
Manufacturing	7.7	61.5	30.8	100
Services	0	43.8	56.3	100
Retail	0	24	76	100
All Sectors	1.1	35.8	63.2	

*Source: Dissertation Field Research (2006) * Period of establishment in brackets*

Notable features and trends from table 4.2 are that 63.2 percent of all enterprises surveyed have been in existence for a maximum of three years compared to enterprises operating for the 4-7 years (35.8 percent) and 8-11 years (1.1 percent). In general, the bulk of enterprises (99 percent) are relatively young with an insignificant number of enterprises (1 percent) operating for more than eight years. This trend is an indication of the widely acclaimed temporary nature of informal sector enterprises (Thomas, 1992, Chickering and Salahdine, 1991) and corroborates previous research on Botswana's informal sector (Daniels et al, 1992).

A closer examination of table 4.2 shows that whilst the number of informal enterprises in the manufacturing sub-sector more than doubled between 1996 and 2003, there was a more than 50 percent decrease in the number of manufacturing enterprises by 2006. On the contrary, the service and retail sub-sectors experienced consistent increases in the number of enterprises engaged with the retail sector experiencing a more than 50 percent increase in enterprises between 2003 and 2006. The above trend indicates a relatively high degree of stability especially of enterprises in the service and retail sub-sectors and perhaps suggests a relatively high rate of survival of informal enterprises.

4.3.3 Ownership Patterns of Micro-Enterprises

The breakdown of ownership is looked at from the point of view of single, joint or partnership and family modes of ownership. I also examine ownership by males and females with the aim of assessing which gender dominates the informal sector in Gaborone. A third aspect of this section explores the distribution of ownership according to educational attainment.

4.3.3.1 Nature of Ownership

Ownership of informal sector enterprises constitutes some form of business structure. Businesses are owned singly as sole proprietorships, jointly as partnerships or collectively owned by a family. The results of interviews indicate that out of a total of 95 enterprises, 81 (85.3%) units were owned as sole proprietorships, A further analysis of Table 4.3 shows that the highest number of sole propriety enterprises are in the retail sub-sector (42), followed by the service sub-sector (29) and manufacturing (10). The dominance of sole proprietorships in Gaborone cannot possibly take anyone by surprise because it is not a unique phenomenon.

Table 4.3: Type of Ownership by Business Category (Percentage)

	Enterprise Type			Total
	Manufacturing	Services	Retail	
Sole ownership	10.5	30.5	44.2	85.3
Family ownership	2.1	3.2	8.4	10.5
Partnership	1.1	0	0	4.2
All Categories	13.7	33.7	52.6	95

Source: Dissertation Field Research, 2006

The identified trend is consistent with other Botswana specific research (Daniels et al, 1992, CSO 2001) and with the informal sector literature in general. According to Romatet (1983) for example, Calcutta's informal sector is predominantly dominated by

sole owners, consisting as much as 91 percent of units. Elsewhere in Africa, Anand and Nur (1985) have demonstrated that in the Sudan 84 per cent of informal sector enterprises are owned by sole proprietors whilst and 87 percent in Nigeria (Dada, 1995).

The widespread prevalence of sole proprietorships demonstrates the significance of self-interest in such business undertakings. Once in business, sole owners are clearly motivated by profit making. These are individuals who do not have alternative means of earning an income and are aware that the capital injected in these micro-enterprises must make a handsome return. In other words informal sector units are the only means of survival for their owners. Their success is thus paramount and their failure creates peril. Thus once started, owners strive hard to ensure success.

The second largest category of enterprises (10.5%) was family owned. It is plausible to conclude that such family owned enterprises are a source of additional income for the household and supplements other sources of household income. Most of the enterprises within this category operate within the retail sub-sector, are normally run from home and operated by women.

The least prevalent form of ownership is partnerships (4.2%). Within this category, 25% of businesses were manufacturing businesses and 75 % services with no retail respondents. Interviews revealed that these partnerships were generally based on a gentleman's agreement without any legal backing and binding. A number of reasons may account for the low prevalence of the partnership mode of ownership in Gaborone. Considering the fact that most of the enterprises interviewed operate in the retail and service sectors, the businesses are themselves small and the capital outlay required not

too significant. Thus proprietors are able to go it alone without partners, who in most instances are sources of additional capital for the enterprise but do not play a significant role in the day to day management and running of the enterprise. Two possible explanations for this kind of behavior are pertinent. It is most likely that absentee partners do not want to be closely identified with street vending businesses. More accurately, however, is the possibility that behind such enterprises is a gainfully employed individual in the formal sector of the economy.

The likelihood of a “behind the scenes partner” or absentee partner is especially pertinent considering the extremely high rates of rural-urban migration (Gwebu, 2004). Time and again, individuals receive relatives from their villages who come to town in search of jobs. If such relatives are unable to locate jobs, a common occurrence in Gaborone, they become economically dependent. In time, employed relatives find it cheaper and indeed more rational to provide dependent unemployed relatives with the necessary cash requisites to start a small retailing business which might prove gainful on the part of the job seeker. In the meantime, the employed relative maintains not only a rear guard interest in the enterprise but also keeps a look around for a more suitable job in the formal sector for such a relative. In this instance, the informal sector is used as a stepping stone for better options in the future. The foregoing discussion to a large extent also accounts for the temporality and relative dominance of retail and service compared to manufacturing businesses in Gaborone.

4.3.3.2 Ownership by Gender

The gender of owners of informal sector enterprises is important in a number of ways. It may speak to questions of access to employment in the formal sector and poverty. When ownership of micro-enterprises is analyzed by gender, an interesting pattern emerges. The survey result shows that there are more men (51.6%) operating in the informal sector in Gaborone compared to women (48.4%) as owners (see table 4.4 below).

Table 4.4: Type of Ownership by Business Category and Gender

	Enterprise Type			Total
	Manufacturing	Services	Retail	
Sole ownership				
<i>Female</i>	6	10	22	36
<i>Male</i>	7	19	20	45
Partnership				
<i>Female</i>	0	2	0	2
<i>Male</i>	1	1	0	2
Family ownership				
<i>Female</i>	2	0	6	8
<i>Male</i>	0	0	2	2
<i>Total</i>	13.7	33.5	52.9	95

Source: Dissertation Field Research, 2006

This statistic is unique for two major reasons. Considering the fact that national statistics indicate a higher rate of unemployment amongst women (55.5 percent), it would have been plausible to have more women operating in the informal sector. Secondly, the higher rate of male participation in Gaborone is a deviation from the informal sector literature. Research on Botswana almost always shows a bias towards women regarding ownership in the informal sector. The Naledi Baseline Survey for example indicated that

75% of the informal small scale businesses in Naledi⁴⁸ are female-owned (Marshall, et. al., 1983). Likewise the most recent informal sector survey by the Ministry of Finance and Development Planning shows a gender division of 44.7% males and 55.3% females (Central Statistics Office, 2001). The discrepancy in results can be attributed to the operational definition of the informal sector adopted for this research. In as much as permanent or semi-permanent physical structures were used as a criterion in defining the informal sector, it excluded a very significant, vibrant and largely female dominated category of hawking.

A further analysis of gender and sector of operation however shows a largely conventional division. Women are particularly concentrated in retail activity compared to the manufacturing and service sectors where men provide a notable rivalry. For example, auto-repair businesses were owned solely by males and food preparation solely by females. The most plausible explanation for female dominance in the ownership of retail enterprises is the lack of formal training and industrial (technical) skills and therefore relevant experience. Hence the informal retail sector provides the necessary and readily available safety net for such otherwise unemployable women. Secondly, the gendered participation in particular sectors of the informal sector in Gaborone supports sections of the informal sector literature which argue that women concentrate in areas of economic activity that are compatible with their productive roles, particularly those which are an extension of domestic labor and household production (Whyte, 1991)

The prevalence of women in the retail sector is also attributable to lack of necessary education and skills required in other sectors. As table 4.5 below shows,

⁴⁸ Old Naledi is a low income slum area located in the south eastern part of Gaborone.

though there were more females (35) with primary education as compared to men (27), the trend is totally reversed with higher levels of education. For example there were more men with secondary and technical training compared to women.

Table 4.5: Gender, Education and Sector of Operation

			Education					
			No			Post		
			Schooling	Primary	Secondary	Secondary	Other*	Total
Male	Sector	Manufacturing	0	5	2	0	0	7
		Services	0	11	4	0	5	20
		Retail	2	11	9	0	0	22
	Total		2	27	15	0	5	49
Female	Sector	Manufacturing	0	5	1	0	1	7
		Services	0	7	5	0	0	12
		Retail	1	23	1	1	1	27
	Total		1	35	7	1	2	46

Source: Dissertation Field Research, 2006 * Refers to institutions that specialize in technical training.

Although such educational inequalities exist, it does not preclude individual entrepreneurs from breaking the education and technical skills wall. The sample of informal sector enterprises included one woman who runs a carpentry business and is profiled below.

Profile 1: Female Carpenter

The operator is an ex-brigade trainee with a Trade Test C⁴⁹. She has been running her own business since 1999. She decided to start her own business because she had the skills to do so, and because she wanted to create employment opportunities for others. Currently she has two male employees, including a brother who works as salesman/carpenter.

⁴⁹ Brigades in Botswana are community vocational schools that provide skills training especially in rural areas. Trade-Testing is the official vocational testing and certification system of Botswana. The certification system is of three levels i.e. Trade Test ‘C’ level, Trade Test ‘B’ level and finally National Craft Certificate level (NCC). A NCC holder is a fully qualified artisan.

She worked for four years after completing her brigade training, and then started her business. Shortly after starting she attended a business school training course and another organized by Integrated Field Services (IFS) of the Ministry of Trade and Industry. She feels she needs additional training in marketing, and would like to upgrade her Trade test B. Her employees according to her assessment are doing well. Her brother learnt everything from her (as an apprentice), but the other learnt his skills in the design and technology course at Junior Secondary school. She wouldn't want to send her employees for training.

In sum, ownership patterns of micro-enterprises in Gaborone tend to follow a set pattern. The majority of businesses operate in the retail sector and are mainly sole proprietorships. Women dominate these sole propriety enterprises and they generally tend to be less educated especially in technical skills than men.

4.3.4 Starting an Informal Enterprise

A variety of reasons were delineated for business start-ups. These are grouped into four major categories, none of which are mutually exclusive. These are:

- a) Economic/survival purposes
- b) Taking advantage of opportunities arising
- c) Utilization of acquired skills
- d) A desire to be self employed.

For many of those interviewed (69.5 percent), the basic motivation and reason behind starting their enterprise was simply to earn a living. One respondent with a bakery for example said that starting her business "was a matter of survival. When you want to survive you start any type of business, and learn the skills on the job". This was typical of responses by operators in the non-skilled activities of retailing. In skilled activities, such as metalwork, auto-repair and tailoring/dressmaking operators had mostly acquired their skills before starting their business. However, there were exceptions in which operators

did not have the requisite skills themselves, but capitalized on a business opportunity and hired skilled employees.

The ability to take advantage of business opportunities was the second most important reason for establishing an informal operation as 7.3 percent of interviewees noted. This was particularly true of enterprises in the retail and service sub-sector especially food preparation where entrepreneurs need virtually no technical skills to get started. For example, a respondent running a cook shop stated that she had “realized that this type of enterprise did not exist in the area where she now runs her business, and she decided to set up a caravan. She felt it would provide a quick and convenient stop for people to get traditional food.” In some instances, however, entrepreneurs had the necessary technical skills that allowed them to take advantage of a market situation. A respondent dress-maker had started her business because she realized she could sell clothes to low income earners, who could not afford imported ready-made clothes. Similarly, an auto mechanic profiled below started his business because he realized that there was demand for auto-mechanic services from vehicle owners who could not afford to go to formal garages.

Profile 2: Auto Mechanic

Modise is a male who operates a one-stop salvage centre with spares for all car makes. “We specialize in breaking and dismantling all Volkswagen cars, vans, and mini-buses from the early 1970s to date and supply all Volkswagen parts. Modise claims he never underwent any formal training in motor mechanics. He owes his passion for vehicle repairs to his father who owned a general electrical shop in Lobatse specializing in servicing and repairing radios. “Since my father wanted me to assist him with some of the repair jobs in my spare time, he allowed me to experiment with the circuits and always came to my assistance when I

couldn't detect a fault. This sharpened my desire to try a hand at motor vehicle electrical circuits. The opportunity to experience a real motor vehicle repair job dates back as early as the mid-1970's, when a Mozambican motor mechanic, who was by then working in Botswana, introduced me to vehicle reconditioning and general repairs." While under the mentorship of this veteran motor mechanic, he acquired the hands-on experience to repair vehicles. After completing Form 5, he left for Johannesburg in the mid 1980s without sitting for the final examinations due to financial problems. "This is the period when I got my real exposure to the VW family that included fault detections and repairs of fuel injectors and electrical circuits common to VW makes,"

After years of perseverance, I felt confident I could now operate on my own and returned to Botswana. Back home, after realizing that there were critical spare shortages of offline vehicle makes, he decided to build a salvage bank from non-runners, write-offs or accident damaged vehicles. "At first I used to purchase spares from car breakers or shops, but as the shortages worsened and new VW makes arrived on the market. I decided to create a spares bank from salvaged vehicles. The results were astonishing because within a few months I had almost every spare in stock." He has groomed several apprentices who are now offering specialized services.

Modise continues to face challenges of being a very small-scale car repairs and service business operating from a residential premise. The Ministry of Lands and Housing has turned down an application for a more spacious and serviced industrial plot and at the moment the Gaborone City Council has served him notice for immediate evacuation. He also lacks sufficient space which limits his operations.

The prevailing dynamic of enterprise startup in Gaborone from the foregoing discussion is survivalist in nature and most importantly takes advantage of business opportunities. The ability to realize opportunities, niche-markets and risk enterprise development in the informal sector in Gaborone is a resource that can be enhanced through citizen empowerment schemes by the Botswana government to facilitate income generation and employment creation.

4.3.5 Sources of Capital

Access to capital has been a major problem for informal actors across the world. Botswana is no exception in this regard, despite serious effort by government. Almost half of interviewed operators (46.3 percent) started their enterprises solely with their own resources (see table 4.6). Such seed capital predominantly originates from monies saved through previous employments. It is significant, however that over 50 percent of interviewees acquired credit from elsewhere to start their enterprises. Within this cohort, 70.6 percent obtained credit from parents, other relatives and from friends.

Table 4.6: Source of Start-up Capital

	Frequency	Percent	Cumulative Percent
Own Savings	44	46.3	46.3
Other relatives and friends	29	28.4	74.7
Money lender	14	14.7	89.5
Parents	7	7.4	98.9
Partner	1	1.1	100.0
Total	95	100.0	

Source: Dissertation Field Research, 2006

An insignificant number (2 percent) obtained credit from a partner whilst 27.5 percent borrowed from money-lenders, a form of informal banking system. Institutional formal sector finance is obviously not an important source of startup capital for all the enterprises. Generally, start-up credit was in the form of cash (78.4 percent), equipment (3.9 percent) and a combination of both cash and equipments (17.6 percent).

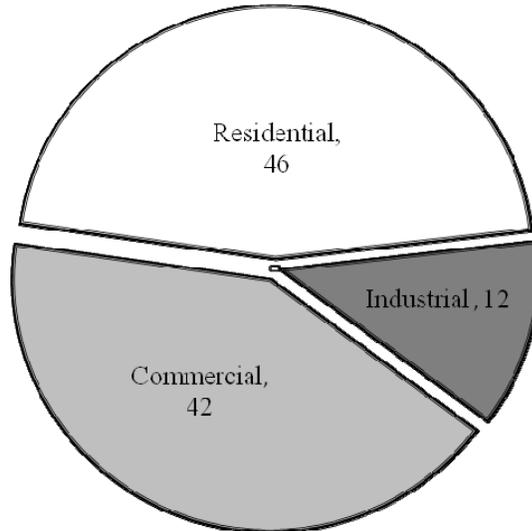
4.3.6 Physical and Vocational Characteristics of Micro-enterprises

The physical characteristics of micro-enterprises in this context refers to the type of structures from which operators conduct business, ownership status of the structures, land or plots on which structures are located and access to infrastructure. In Gaborone micro-enterprises use various structures for their businesses. The operational definition of informal enterprises limited this research to enterprises operating from permanent or semi permanent structure. Permanent structures were characterized mostly by enterprises operating from verandas or rooms of mainly residential buildings or use of fenced and unfenced residential yards as their workshops. 30.6% of enterprises interviewed operate in the open. Two factors can be identified for the sort of decision to conduct business in the open. First, the operator does not want to pay rent, hoping that this imparts a cost-saving measure. This reasoning makes economic sense as operators end up making significantly much higher rates of return on their investment than would otherwise be the case. Secondly, operators biding their time in the informal sector have little incentive to invest as they wait for the opportunity of a more permanent job in the formal sector. Other micro-enterprises operate from semi-permanent structures such as stalls, wooden kiosks, caravans⁵⁰, sheds, and tents which provide some form of protection from the elements. These are nearly always located in space (e.g. next to an office block, factory or schools) to strategically take their service and products to the intended customer.

⁵⁰ Caravans are trailer type recreational vehicles used as kitchens and storage by Gaborone's colorful street side caterers.

There is considerable variation in locations from where micro-enterprises operate as shown in figure 4.1. 46 percent of enterprises interviewed operate from residential areas, 42 percent on commercial and 12 percent on industrial areas⁵¹.

Fig. 4.1: Location of Business (%)



Source: Dissertation Field Research (2006)

A more detailed examination suggests that retail enterprises have a disproportionately higher tendency to operate from commercial zones (see table 4.7). This trend can be expected since the aim of such businesses is to locate in areas of population concentration for access to market.

⁵¹ There are three land use categories in Gaborone; residential, commercial and industrial. Residential refers to homes from which for a long time, business could not be legally conducted. Commercial areas refer to areas designated by land-use planners as locations mainly for shops. The industrial refers to industrial sites where much of the manufacturing takes place. Most factory shells are located in these areas.

Table 4.7: Business Category and Place of Business

	Area Location of Business			
	Residential	Commercial	Industrial	Total
Manufacturing	10	0	3	13
Services	15	9	8	32
Retail	19	31	0	50
Total	44	40	11	95

Source: Dissertation Field Research (2006)

A significant number of retail enterprises also operate from residential zones. Such enterprises are largely made up of neighborhood convenience shops (also locally called tuck shops – see appendix 4A and 4B for illustration) that sell general goods in single units. Service sector enterprises such as auto-repair and metalwork businesses also tend to operate from residential plots. However some service enterprises also operate from stalls and shops in commercial places. Typical amongst these enterprises are hairdressing salons, barber shops and food processing businesses. Food processing enterprises are very widespread and dominant in Gaborone and tend to operate in commercial as well as places of increased pedestrian traffic and population concentration such as next to schools, bus and taxi stations, office and industrial complexes. Structurally food processing enterprises operate largely from caravans or trailers and locate in variable places based on demand⁵² (see appendix 4C and 4D). It is clear from the statistics that micro-enterprises do not locate according to the zoning requirements of the city. This is despite the fact that (as shall be discussed in more detail in the next chapter), the Gaborone City Council has bye-laws and regulations concerning land-use in particular zones of the city (see appendix 4E for a land use map of Gaborone). This non-compliance with zoning

⁵² Food processing is mainly done by women and they are locally called “caravan ladies”.

requirements accounts for part of the reason why local authorities often end up at logger heads with these entrepreneurs.

The availability of workshops and land or plots on which micro-enterprise activities could be undertaken determines the siting of enterprises and hence the location pattern of small enterprises in any settlement. 34.2 percent of all work places are owned by operators, 32.6 percent are rented, whilst 33.2% of those interviewed do not own their workshops and yet do not pay rent. Micro-enterprises are scattered throughout Gaborone with major concentrations in the central business district particularly around the Bus and Train Stations (see appendix 4F). There are also considerable concentrations around supermarkets and malls in Gaborone. The spatial pattern of micro-enterprise distribution in Gaborone clearly is a result of the unavailability of serviced plots for enterprises. In instances where the city council has provided space and facilities for the perusal of micro-enterprises, they tend to be grossly inadequate. This results in the occupation of plots and open spaces which belong to the Gaborone city council or private individuals and because their location is usually not legal or authorized they are often subjected to eviction threats. Secondly such enterprises face problems of lack of access to utilities like water and electricity since their location is not authorized.

An enquiry into the reasons for the present location of the enterprises revealed that 49 percent of enterprises located where operators were able to find space, 35 percent chose convenient sites in order to attract more customers and 16 percent chose sites very close to their homes to enable them combine their work with household chores.

4.4 Inputs for Informal Sector Goods and Services Production

4.4.1 Material Inputs

Micro-enterprises produce and distribute a wide range of goods and services using inputs of various types and from various sources. Manufacturing, service and retail inputs are therefore an important and integral part of informal sector operations. Interview results show that most operators acquire their inputs mostly from other individuals and enterprises. 73.7% of sampled enterprises obtain their material inputs from intermediaries; mainly traders and other retail outlets. Only 26.3% of enterprises obtain their inputs mainly from large scale manufacturing firms and wholesale dealers. Secondly, 80% of all enterprises obtain their supplies from Gaborone as Table 4.8 shows.

Table 4.8: Location of Main Suppliers of Inputs for Micro-Enterprises

	Frequency	Percent	Cumulative Percent
Gaborone	76	80.00	80.00
Towns and villages outside Gaborone	10	10.53	90.53
Outside Botswana	9	9.47	100.00
Total	95	100.00	

Source: Dissertation Field Research, 2006

Almost 10% of enterprises obtain their input outside Botswana. This statistic is important as it does not reflect and reinforce widely acknowledged dependent economic linkages between Botswana and regional hegemon, South Africa. Nevertheless, it is an indication of Botswana's agricultural dependence on South Africa, as respondents from this category are mostly individual fruit and vegetable vendors. It is also an indication of the structural problems Botswana's faces in its agriculture as a result of adverse climatic

conditions. The profiled retailer below clearly captures the agricultural produce dynamics between the two countries.

Profile 3: Fruits and Vegetable Retailer

Fifty-year-old Madatha's life revolves around the informal sector. For the past 7 years, he has not known any better sector to pin his hopes on than retail trade. He ventured into this sub-sector after trying his luck without success in the formal sector. "I specialize in the sale of bags of oranges, potatoes and onions from South Africa. In all these years, this has been my way of life," he declares proudly. Over the years, he has moved from many places around town in search of a convenient selling point.

At times, Madatha drives over 300 kilometers to and from Brits in South Africa to get his stock. Occasionally, he fetches his produce from Rustenburg, and Magaliesburg (see appendix 4G for a map of southern Africa showing mentioned locations)⁵³. Although it means a lot of work to fetch the stock and sell it in Gaborone, Madatha likes this form of life as it provides for his family's needs.

He chose to specialize in oranges, tomatoes and onions as "oranges are a simple product that we have throughout the year because of the modern technologies they employ at the various farms in South Africa". Since he deals with various farmers in South Africa, he is able to provide oranges and other fruits and vegetables from January to December without interruption.

Madatha sells fruits and vegetables in bulk and some of his customers include people who buy from him to sell in singles. He describes the business as a game of survival since there is little or no support from the government.

Although escalating petrol (gas) prices are a major challenge, he confides that it will not deter him from making a living. He may be struggling to fend for his family but he prides himself in the fact that he has managed to purchase a bakkie⁵⁴ for his

⁵³ Rustenburg and Magaliesburg are cities located in the North West Province of the Republic of South Africa. It is critical and important to note that over 65% of the population of the province is indigenous Tswana. Traditional kinship relations in addition to location may therefore be crucial reasons why the subject in the profile acquires his stock from this region.

⁵⁴ A bakkie is a van or light truck comprising a cabin and open back, often used for the transportation of goods.

business, which he uses for transportation and sale of the products.

The consistency and regularity of supply of inputs for informal sector enterprises is crucial as it has implications for the survival of these businesses. The survey results show that 87 percent of respondents have their main suppliers on average supply over 75% of all their essential material inputs. However varied results were obtained regarding the pattern of supply of inputs as table 4.9 shows.

Table 4.9: Pattern of Supply of Material Inputs (Percentage)

	Frequency	Percent of Enterprises	Cumulative Percent
Occasionally	50	52.6	52.6
Regularly - Monthly	34	35.8	88.4
Regularly - Weekly	8	8.4	96.8
Daily	3	3.2	100.0
Total	95	100.0	

Source: Dissertation Field Research, 2006

A greater proportion (52.6%) of all sampled enterprises procure inputs occasionally whilst just 3.2 percent of enterprises procure inputs on a daily basis. This is especially the case with food preparing businesses (Caravans). The pattern of procuring inputs is influenced by the level and nature of demand for the goods and services as well as the financial resources available for managing these micro-enterprises. This is especially the case when inputs have to be procured with cash rather than on credit basis. 97% of all the operators buy their inputs with cash. Only a mere 3% buy them on credit.

The terms for purchasing inputs and also the resources available to operators determine the quantity that can be purchased at any point in time and hence this determines the frequency of purchase. 32% of all the operators surveyed purchase their

inputs in bulk. The rest obtain them in small quantities on regular basis (38%) and on irregular basis (30%).

4.4.2 Tools and Equipments

Informal sector enterprises operate with very simple tools and equipment to produce a variety of goods and services. However, these tools and equipment are acquired in various forms. They could be bought new, second hand (used) or self-constructed. Tools and equipment are also acquired from various sources such as other informal sector enterprises, formal sector enterprises or any combination of the above means. The survey results show that about 39% of all enterprises bought some of their tools and equipment new whereas about 43% bought tools and equipments used. However, in both cases informal sector enterprises were the major direct suppliers of tools and equipment, followed by formal large scale or commercial enterprises. The above foregoing discussion shows the importance of informal sector enterprises as direct sources or intermediaries for small-scale production and service enterprises in the procurement of tools and equipment in Gaborone. Like material inputs, 55% of enterprises surveyed acquired their tools and equipment mainly through cash payment and 44 percent through partial credit arrangements.

4.4.3 Financial Characteristics

Access to operating capital is one of the nagging problems of informal sector enterprises. Once established, the success of a micro-enterprise depends on how well it is managed. Management of enterprises on the other hand depends on a number of factors including the managerial ability of operators as well as the financial resources available

to them. In terms of operating capital, 22.1% of all operators depend on their own savings either generated from their enterprises or from other activities or both (see table 4.10). 21% depend on informal sources of capital through money lenders and 16.8% depend on friends and relatives. A significant proportion of respondents (34.7) however depend on a combination of all the above discussed factors for operating capital.

Table 4.10: Sources of Operation Capital

	Frequency	Percent	Cumulative Percent
Own Savings	21	22.1	22.1
Money Lender	20	21.1	43.2
Friends and Relatives	16	16.8	60.0
Advance Payment by Clients	2	2.1	62.1
Banks and other Financial Institutions	3	3.2	65.3
Other	33	34.7	100.0
Total	95	100.0	

Source: Dissertation Field Research, 2006

It is noted from table 4.10 that formal banking institutions play a very insignificant role in providing operational capital for micro-enterprises. This is largely a result of the inability of micro-enterprise operators to approach banks for help and also because they lack the necessary collateral to secure financial assistance. About 53% of respondents never made any attempt to secure credit from banks. This suggests the lack of confidence in the ability to secure credit from formal sector financial institutions despite the abundance of banking institutions in Gaborone. The lack of confidence in formal financial sector may undermine any governmental efforts to facilitate access to credit for micro-enterprises. The inability to secure credit on the other hand is often a direct result of poor records kept by informal enterprises. Only about 26% of all the

operators interviewed keep record of accounts for their enterprises. Various reasons were given by those who do not keep records. 44% of said they kept their accounts mentally. Another 34% thought that keeping record of account was not necessary; 18% complained that they could neither read nor write and about 4% of them considered the volume of their business too small to warrant record keeping of their business accounts.

Profile 4: Driving School Instructor

Moruti, 26, started a driving school in 2005 to offer the best services in Gaborone at very affordable prices. A former delinquent, he quit living irresponsibly on the streets after realizing that crime does not pay and this sense of rehabilitation prompted him to set up his business venture. He says: “instead of engaging in anti-social behavior, I decided to channel my energies into running my own business”. Although he did not start the business with the hope of raking in huge profits he was pleasantly surprised by the amount of goodwill that customers have shown him. “I realized that a lot of Batswana were being ripped off their hard earned cash by unscrupulous driving schools that did not only over charge them but also delayed the learning process. Many clients just appreciate my efforts to run an honest business and through word of mouth my clientele base has grown a lot.” He goes on to say that some customers are made to spend over six months at a driving school without getting their licenses. According to Moruti, his business is different because most of the time his clients take two to three months to acquire the necessary skills to get a license. There are some slow learners of course who would take a longer time to be ready for a driving test but it’s never anything over four months, he said. Queried about why his colleagues delay the learning process, Moruti said: “They have every reason to delay students so that they can charge them a monthly fee for longer.” Another thing that makes his business unique is that he charges P250, which is much cheaper than other driving schools. Before starting his own driving school, Moruti worked for someone else’s driving school to gain experience as an instructor. “While I was working I saved money, which I used as start up income for the business,” said the young man who underwent an extensive five- months driving instructor program at the Department of Road Transport and Safety. “It is a government sponsored program and it’s free. The course basically teaches the

skills necessary to be a driving instructor. After acquiring the certificate from this school I started operating.” Some of the challenges that he has faced so far have to do with the intense competition for clients from other driving schools that seem to be mushrooming everywhere in Gaborone.

4.5 Output and Marketing

Output and marketing of goods and services are crucial for the survival of informal sector businesses. Micro-enterprises produce and/or sell a variety of goods and services to various clients or customers. Some produce a range of goods whilst others concentrate on the production and/or delivery of only one good or service. Likewise, goods and services are either produced or sold regularly, against an order or temporarily, depending on the level of demand. 83% of surveyed enterprises manufacture sell and/or offer their services on a regular basis. Retail and service businesses such as tailoring/dressmaking, hairdressing or beauty salons, restaurants and other eating places tend to dominate enterprises within this category. On the other hand, manufacturing enterprises produce goods mainly against orders.

The main market for goods and services in the informal sector are individual households and individuals. About 96% of all the enterprises sell mainly to individual households and persons. Thus rather than producing and selling goods and services to specific groups or enterprises, informal sector enterprises cater for the needs of the general public. Only 4% of the enterprises sell and offer their services mainly to informal and formal sector enterprises. In addition, only 4% of all enterprises obtain sales contracts. 96% of all sampled enterprises had their customers coming mainly from Gaborone and 3% from other peri-urban regions.

Another feature of the marketing system of micro-enterprises is that most of the enterprises that produce goods also retail them. Amongst the sampled enterprises, 88% sell their goods and services directly to their customers without the use of any intermediaries. 63% of all enterprises sell their goods and services on cash-only basis whilst 37% sell on cash and credit terms. The flexible and varied marketing strategies adopted by informal sector entrepreneurs facilitates their access to a large segment of the urban market. However, it has its disadvantages in that it can adversely affect the cash flow of micro-enterprises as clearly articulated in the profile below.

Profile 5: Label Designer

Mpho is a label designer by profession. Apart from taking art classes in Junior Secondary School, he has never been to a formal label designing school. To showcase his talent, he carries previous eye-catching samples on media ranging from paper to cloth that he has designed and successfully marketed. He started designing labels using funds raised from personal savings; "I earned from odd jobs in Gaborone from 2004 to 2005, when I decided to go into designing full time. From a paltry number of t-shirts and matching track suits that I adorned with my label, which sold off briskly, I decided to pursue the career to greater heights." But like all new ideas, Mpho's business suffered the setbacks and weaknesses of an unauthenticated product. "Although I was frustrated by unsavory remarks from skeptics when I approached larger textile companies offering to design labels for their garments, I soldiered on. I owe gratitude to my mother who has given me both the moral support and allowed me to use her sewing machine for designing embroidered labels". The greater chunk of his clientele is drawn from the informal fashion sector, that prefer to vend their apparel in places such as the Gaborone bus rank, station and some other open air markets. The majority of his customers instruct him on the type and major features of the labels that they would want to attach to their garments ranging from the hidden under collar to the auspicious shirt front or back. "It takes me at least two days from start to finish of label. I begin with a pencil or crayon outline that I finally transpose on to cloth media before showing the client the sample. On approval, I take the garments to printers, pay the costs and then invoice the client." But as a nascent and small kick-start business, "most clients either refuse to pay or delay payment until they feel they can afford to. Again being a small business venture, I cannot take defaulting customers to court for

settlement, because I can only afford paying the legal costs at the expense of depleting my rather scanty working capital.” Mpho intimates that when he failed to make the grade in Carpentry and Joinery at the Tswapong Brigade from 2002 to 2004, he thought that marked a backward slide in job prospects. He then took odd jobs ranging from bus conductor, car wash to stores officer. When he realized the latent talent in label designing, Mpho knew that all his encounters comprised the ideology of ‘two steps backwards, one step forward’. “All the hardships that I experience have toughened me for hard times, from which I can always chart the way forward. I hope to expand my business portfolio as soon as I become eligible to qualify for a bank loan.”

4.6 Linkages (Backward and Forward)

A basic question in discussing the informal sector is how it is linked to other sectors of the economy, in particular, the formal sector? Linkages defined in this research as the relationship between (inter) and within (intra) sectors are analytically important because they act as a mechanism for transmitting growth and resources from one sector to another⁵⁵. There are basically two types of linkages; backward and forward (ILO, 1985). These linkage types can best be understood by focusing on the set of factors that influence the demand and supply of goods and services. Supply side factors generate backward linkages while demand side factors generate forward linkages. Backward linkages occur when an enterprise absorbs inputs from other enterprises while forward linkages occur when an enterprise provides inputs to other enterprises. The crucial question that is interrogated regarding linkages is not simply whether they exist but the nature of the linkages i.e. whether they are benign or exploitative.

⁵⁵ While one may distinguish between several types of linkages, interfirm, intersectoral, forward and backwards, vertical and horizontal, to name but a few, such a classification is beyond the scope of this research. The important insight in this discussion is that important linkages exist between the formal and informal sectors.

The results of the survey show that only 26.3% of enterprises obtain a greater proportion of their inputs directly from formal sector enterprises i.e. large scale manufacturing firms, while 73.7% of enterprises obtain their inputs from informal sector intermediaries and other retail outlets. Thus, in terms of material inputs, the informal sector is ultimately the major source of materials inputs. This situation arises from the fact that most informal sector operators are unable to purchase inputs in bulk and therefore are unable to take advantage of discount prices associated with bulk purchase. Concomitantly, micro-enterprises are unable to deal directly with formal large scale enterprises which offer such possibilities. The results therefore indicate strong and direct backward linkages between informal enterprises especially in the retail sub-sector in Gaborone's urban economy.

Similarly, in terms of start-up and operational capital, the survey results show the insignificant role played directly by the formal sector and the predominant role played by the informal sector in providing capital for setting up micro-enterprises. However, it must be noted that the formal sector plays an indirect role in this respect as operators had worked within the formal sector and had either acquired skill or saved up and thus helped with funds to set up their enterprises.

Informal sector enterprises sell very little to the formal sector enterprises and organizations. Thus there is an insignificant backward linkage from the formal to the informal sector. Informal sector enterprises sell to several individuals and households and only 4% of the enterprises covered in the survey sell their products and or offer their

service mainly to formal sector enterprises. Also only 16% of the enterprises had ever had a sale contract from the formal sector.

The survey results also show that informal enterprise units especially in the manufacturing sub-sector have very weak forward linkages with informal commercial units as most enterprises which produce goods also retail them without using intermediaries or other retail outlets to market their goods and services. Thus there is a general lack of specialization within the informal sector in Gaborone as compared with enterprises in the formal sector.

The urban informal sector enterprises also tend to have very weak direct spatial linkages within their district and regional economies. For instance 76 percent of all the enterprises obtained their inputs mainly from Gaborone. This is not surprising because Gaborone is a major commercial center. Inputs from outside Gaborone are mainly from the agricultural or the rural sector and are in the form of foodstuffs and agricultural produce. Most of these are obtained mainly from retailers or intermediaries. About 93% of all the sampled enterprises sell mainly to customers residing in Gaborone showing again the localized nature of the market for informal sector enterprises.

The evidence presented in this section supports the hypothesis that there are weak direct inter-sectoral linkages between the informal and formal sector enterprises in Gaborone's urban economy. On the other hand there are strong linkages within the informal sector itself; particularly between the manufacturing and service sectors on one hand and the retail sector on the other. Thus the mode of operation of micro-enterprises

and hence their survival and sustenance depends very much on their own internal sources of strengths and weaknesses.

This section has thus thrown some light on some of the salient features of enterprises in the production and services sub sector of the informal economy. These features are likely to have both direct and indirect effects on the capacity of the informal sector enterprises to generate and sustain employment and earnings. In Gaborone the survey results shows that in the context of customers, market, inputs and output flows, inter-sectoral linkages do exist albeit in very limited magnitudes. About 99% of micro-enterprises sell directly to final consumers.

4.7 Employment Characteristics and Potential of Micro-enterprises

The importance of employment generation in Botswana's economy has received unequivocal attention in the past few years due to the high rates of unemployment in its economy. Unemployment rates increased from 13.9 percent (1991 Census) to 19.5 percent (2001 Census). The 1995/96 labor force survey also estimated the unemployment rate at 21.5 percent and the most recent nation-wide household income and expenditure survey (HIES) estimated the rate at 23.4 percent in 2002/03. The implications for these trends include an expanded role for the informal sector in solving the thorny problem of unemployment and poverty. Thus assessing the employment characteristics and potential of the informal sector in Gaborone is crucial.

The survey results show that the majority of informal enterprises (60%) are owner operated ventures meant for self-employment of individuals and with no permanent employees (see table 4.11). Retail as compared to manufacturing and service enterprises

dominate businesses with no employees. This should come as no surprise considering the fact that based on their characteristics; retail enterprises are less likely to have multiple employees. Enterprises that have permanent employees make up 40% of the total sample with no enterprise having more than three employees. Manufacturing and Service enterprises have the highest concentration of employees compared to retail businesses.

Table 4.11: Number of Employees and Sector of Operation (Percentage)

Sub Sector	Number of Employees				Total
	None	One	Two	Three	
Manufacturing	15.4	38.5	38.5	7.7	100.0
Services	40.6	25.0	28.1	6.3	100.0
Retail	84.0	8.0	6.0	2.0	100.0
Total	60.0	17.9	17.9	4.2	100.0

Source: Dissertation Field Research, 2006

Two important points need to be noted regarding the nature of employment. Though the foregoing discussion shows minimal permanent employment in the informal sector in Gaborone, there were individual cases in all sub-sectors where casual workers were utilized. One brick maker for example, explained that "my business has no permanent employees. I employ casual laborers as and when I need them". Likewise, an important source of labor appropriated by informal sector enterprises is family labor and these include wives, children and other relatives. 37.4% of enterprises interviewed use unpaid family labor. This was particularly the case in enterprises that operate from homes. Secondly, the jobs that employees hold tend to be multi-functional in nature. For example, in the hair dressing business (service sub-sector) employees tend to be responsible for cleaning the operational space of the enterprises, actual hair dressing (cutting, styling, braiding, etc) and record keeping. Multi-functionality which characterizes both employers and employees

is inherently a programmatic and survivalist strategy aimed at cost reduction and maximization of the utility of employees.

Table 4.12 shows that most informal sector enterprises (83.2%) operate between 8 and 11 hours a day whilst an insignificant proportion operates less than 7 hours a day. It is however difficult to determine how many of the hours are devoted to productive work in the informal sector in Gaborone. Operators have to work long hours with very rudimentary and inadequate tools and few employees to meet deadlines, retain customers and expand market areas. This is necessary for survival especially under conditions of intense competition and restricted markets. 72.6% of enterprises interviewed work between 6 and 7 days a week. The forgoing trend in hours and days worked points to the degree or intensity of employment in the informal sector in Gaborone. That is micro-enterprises tend to employ few people but employees tend to work longer hours and days.

Table 4.12: Number of Hours Worked in a Day by Employees/Operators		
	Frequency	Percent
4-7	16	16.8
8-11	79	83.2
Total	95	100.0
Number of Days worked in a Week by Employees		
	Frequency	Percent
One-Four	0	0
Five	26	27.4
Six	56	58.9
Seven	13	13.7
Total	95	100.0

Source: Dissertation Field Research, 2006

The research also sought information from respondents regarding difficulties in recruiting workers. 86.3% of operators did not experience such difficulties. However not all those

who seek employment in the informal sector are successful. Three major factors were isolated as most important in influencing the size of employment within the informal sector. As table 4.13 shows good business, space for working and requests from relatives and friends are the most important factors in descending order of importance. The results also show that space as a constraint and the need to satisfy the requests of relatives and friends when they seek employment either for themselves or their wards are comparatively more important factors that influence the size of employment in micro-enterprises in Gaborone.

Table 4.13: Factors that Influence Employment

	Frequency	Percent
Good Business	68	71.6
Size and availability of work space	16	16.8
Relatives/friends looking for work	6	6.3
Other	5	5.3
Total	95	100.0

Source: Dissertation Field Research, 2006

As previously stated, the tendency seems to be towards self-employment rather than employment creation. In countries like Ghana and Kenya, which are pioneering sites for academic thought and research on the informal sector, the majority of the workforce in the informal sector are wage earners and apprentices (Hart, 1973, 1992, ILO, 1995). Thus comparatively, Botswana's urban informal economy can be characterized based on employment trends as relatively underdeveloped. The empirical evidence on Gaborone's informal sector therefore casts doubt on the potentiality and ability of the sector to effectively address the issues of job creation.

4.8 Patterns of Growth, Problems and Prospects for Growth in the informal Sector.

4.8.1 Patterns of Growth in Micro-enterprises

Informal sector enterprises can be among the most dynamic in developing economies. This real (unsubsidized) economy diffuses itself into diverse pores of the economy in a myriad of production, distribution and services sectors, often in the face of massive regulation. The survey result show that 76 percent of businesses reported that their enterprises had expanded since they were established. Operators were again asked to indicate the nature of growth recorded in their enterprises as illustrated in table 4.14 below.

Table 4.14: Proportion of Enterprises and Nature of Growth

Nature of Growth	Frequency	Percent
Reinvested in current business	37	38.9
Increased turnover	5	5.3
Acquired better tools and equipments	32	33.7
Other forms of Expansion	5	5.3
No Expansion	16	16.8
Total	95	100.0

Source: Author's Field Research (2006)

The largest proportion of the operators (38.9%) indicated that they had reinvested their profits in their enterprises. A comparatively high proportion (33.7%) had acquired better tools and equipments. Only 5.3% of enterprises recorded increased turnover from their operations. The low percentage of reported profit-making should be regarded with skepticism because micro-enterprises are known to under report profits in order to avoid taxation and visibility by regulators. The survey also investigated different modes of expansion.

Operators were asked to state whether they had introduced new goods or services, apart from what they started with, since enterprises were established. Only about 31.7 percent of enterprises indicated this achievement and 67.4% of enterprises had introduced new methods of producing goods and in rendering services and new products. 31% of the enterprises had either built new workshops or renovated old ones since the enterprise was established.

4.8.2 Problems of Micro-enterprises

Informal sector or micro-enterprises are known to exist, survive and sometimes expand under severe constraints. Once the initial difficulties of setting up an enterprise have been overcome, operators face the problem of managing enterprises smoothly and effectively and possibly expanding. Problems arise from the very characteristics of small enterprises themselves which also affect their operative conditions. They also arise from factors outside their control i.e. the general economic environment in which they operate. To ascertain the type and nature of constraints to their operation and existence, operators were asked to state the most critical problems affecting the operations of their enterprises. The responses are summarized in table 4.15.

Table 4.15: Constraints to Increased Productivity (Percentage)

	Manufacturing	Service	Retail	Total
Lack of Finance	29.4	15	50.9	47.2
Lack of Customers/patronage	21.6	43.8	24.5	23.4
Premises/space	23.5	15	8.5	13.9
Lack of startup training	3.9	13.1	3.8	6.7
Raw materials shortage	19.6	8.8	6.6	4.1
Other (managerial incompetence)	2	4.3	5.7	4.7
Total	13.7	33.5	52.9	100

Source: Author's Field Research (2006)

The results indicate that finance, considered in terms of working capital and capital for expansion or improvements is the most severe and important problem facing all micro-enterprises, accounting for 47.2 percent of all respondents. The paramount significance of lack of finance as a problem for enterprises elevates the fact that it underlies virtually all other problems micro-enterprises face. Respondents were asked to elaborate on the nature of difficulties associated with finances. Responses included problems associated with applying for loans, including lack of required information on enterprise records and financial plans, complicated application processes, lack of collateral or security provisions and harsh interest rates and repayment terms.

Small scale enterprises generally do not have access to credit from banking institutions and other forms of institutional credit (Buckley, 1997; Lycette and White, 1989, Squire, 1981). As this research has shown, most operators depend on their own savings and also credit from other private sources, which generally tend to be exploitative. In as much as these sources sustain enterprises and enable survival, they cannot be relied on for major investments in order to achieve self sustained growth. Such an upward trend in growth on the other hand is essential if micro-enterprises are to develop into medium and large scale enterprises. In other words there is a need for a substantial infusion of capital into the micro-enterprise sector, coupled with good management, to ensure growth.

A number of reasons have been given in the literature as hindering access of informal enterprises to the formal sector capital market. These include administrative difficulties involved in processing loan applications from the numerous small scale

operators, (Lindholm and Mead, 1987, 1998); lack of adaptability of banking institutions in developing countries to the particular needs and circumstances of small operators (Thomas, 1992) and lack of serious appreciation of the particular financial problems of small-scale enterprises (Buckley, 1997).

However financial problems do not arise solely from inaccessibility to credit from formal sector sources; they also result from the poor financial management characteristic of small-scale enterprises. It has been noted that a substantial proportion of operators do not keep records of cash receipts and disbursements. Moreover business receipts and disbursements are hardly separated from household income and expenditure. Most micro-enterprise operators are poorly educated and have minimal knowledge of elementary bookkeeping yet most of them cannot employ knowledgeable or qualified personnel to handle their financial transactions. Moreover financial management is one function which micro-enterprises generally do not delegate to others. In addition, given that lack of finances is a dominant constraint, the vast majority of enterprises especially in the manufacturing and service sub-sectors extend significant amounts of credit to their customers, which ends up disrupting the flow and availability of capital for micro-enterprises. Thus the financial problems must be seen as arising from factors both internal and external to micro-enterprises.

Closely related to financial constraints is the problem of inputs. Operators pointed to high cost of inputs (raw materials), high transport costs, lack of funds to purchase them and low quality as their major problem as far as acquisition of inputs was concerned and the inability to purchase inputs in bulk in order to obtain discounts. The availability of

inputs influences greatly the level of activities of micro-enterprises. As it has been noted in earlier sections, operators obtain much of their inputs from intermediaries and local retail shops at generally high prices and on a cash basis.

Lack of adequate demand or ready market for their products was the second most important problem identified by respondents. The empirical evidence indicates that the rapid proliferation of small-scale enterprises leads to numerous businesses selling and/or manufacturing similar products and targeting a very limited urban market in Gaborone. The result is intense competition amongst micro-enterprises especially in the retail and service sub sectors and a saturation of the market. Competition is further exacerbated by the abundance of large scale local and international chain stores that also target the limited urban market⁵⁶. As the research shows, the main market for micro-enterprises are individual customers and that shows very limited demand from the formal sector of the economy for micro-enterprise goods and services. For example interviews with respondents show that no informal enterprises have contract arrangements with formal sector businesses or organizations, thus eliminating a crucial source of demand.

Small-scale enterprises produce goods and services using a very low level of technology. Almost all the enterprises covered in this study are poorly equipped in terms of tools, equipment and machinery and also workshops. Operators often have to apply ingenuity and resourcefulness in the use of these resources for the survival of their enterprises. 65% of the operators complained that apart from inadequacy of tools, they have to contend with problems related to loss and damage to their tools and equipment.

⁵⁶ These large scale chain stores are mostly foreign owned. Dominant owner source countries are South Africa, India and China.

This is partly due to lack of adequate security arrangements for their workshop and tools. Another 11% complained of the poor quality of their tools and equipment. These factors point to the need for some technological upgrading or modernization appropriate for small scale-enterprises especially in terms of the use of tools, equipment and other techniques of production and organization. The use of simple, but modern, tools appropriate for the level or volume of work will help small-scale production and services enterprises achieve higher levels of efficiency in the production and delivery of goods and services. This must be supported by arrangements for regular maintenance of tools and equipment.

Apart from tools and equipment, micro-enterprise also have very serious problems with locational stability and a lack of premises or working space for their workshops. 49 percent of operators interviewed indicated that they have difficulty obtaining premises/working space (land) to conduct their business. Often workshops and retail structures are located in areas that contravene planning and zoning regulations. One important end result of the locational problems of micro-enterprises is that it impacts their ability to secure funding from promotional credit facilities as a major requirement is to have an established location. It also results in the lack or unreliability of supply of facilities and utilities such as water and electricity. Another major problem with workshops is their unsuitability with respect to the space available to the individual operator and also the unsuitability of the location relative to the public or customers, who patronize the goods and services of these small enterprises. Congestion of workshops in certain areas within the urban environment, location of workshops in some residential

area creating environmental pollution, particularly noise pollution, are equally serious problems.

Perhaps the worst problem micro-enterprise operators face is that of lack of tenure for the plots or land on which they have their workshops and the frequent threats of eviction by their landlords and municipal officials. This problem is especially pervasive in the retail sub sector. When eviction takes place, micro-enterprises are often not provided with adequate and serviced plots and this tends to worsen the already serious problem of lack of access to basic infrastructure and services. The lack of proper premises from which to operate has contributed to frequent harassment by municipal governments. Some informal sector entrepreneurs rent stalls from the city council. It was observed upon a visit to such locations, however, that the premises are small: meant just for storage of stock and rarely maintained by the city council.

Other problems of enterprises which were not explicitly mentioned during interviews relate to the management and organization of micro-enterprises. The mode of skill acquisition within the micro-enterprise sector (primarily through the apprenticeship system especially in the manufacturing sub-sector) does not incorporate an essential input in management techniques. Also sole proprietorship, a dominant mode of ownership and operation in Gaborone does not allow for division of labor, as all aspects of management are performed by the sole proprietor or operator. The organizational procedure of such enterprises is not formalized and this is bound to act as a constraint to the possible expansion of such enterprises. Small-scale operators hardly use new and modern management techniques. These include accounting, costing, market assessment and

financial planning. The lack of these and other inputs in their management practices contribute directly to the backwardness of their enterprises and compounds their disadvantage on the product market (Thomas, 1992). Lack of entrepreneurship skill and start up training were also mentioned. Respondents felt that some kind of training in entrepreneurship would better prepare to succeed in their business endeavors.

4.8.3 Prospects for Growth

To ascertain prospects for survival, growth and development, operators were asked to assess the performance of their business for the past two years and hence, their plans for expansion or otherwise, and what they considered to be the general prospects for their enterprises. Growth in this respect refers to increased output in goods and services, increased patronage and hence increased level of profits generated. In their assessment of the performance, 84.2% of the operators indicated that their enterprises had grown. Amongst enterprises that have experienced growth, manufacturing enterprises recorded the highest incidence of growth (92.3%), followed by the service sub-sector (84.4%) and then retail enterprises (82%). Among enterprises that had experienced little or no growth, retail enterprises dominate followed by service and manufacturing enterprises.

In addition about 70.5% of the operators have plans to expand their micro-enterprises. The operators who had no plans to expand gave various reasons for that position. These include low demand or poor market, problems with finance, lack of space and the lack of necessity for expansion currently because the enterprise is too young. Regarding employment generation, only 5.3% of enterprises stated they had plans to

employ more people, with 46.3% uncertain about the prospect of hiring employees. However only 20% of the operators who intend to employ more people plan to take on wage employees. The other 80% intend to increase the size of their workforce by taking on unpaid family labor and other casual labor. Varied reasons were given by operators who do not intend to employ more people in the immediate future, including adequate present workforce, lack of finance and lack of space. From the forgoing discussion, it is evident that a significant proportion of the enterprises seem to have reached the upper limits of employment generation at rather low levels. Operators seem not to be interested in increasing the size of their workforce, even those with actual or potential good business performance.

Operators were asked whether they had plans to move their enterprises to other locations in the future. Only about 32 percent of the operators indicated they had such plans. Various reasons were given. These include problems with infrastructure, lack of space, threat of eviction or demolition of workshop and unsuitable nature of workshops and finally inadequate customers and lack of progress in business at their present sites.

Finally, operators were asked whether they had intentions to change jobs. Only about 22% have plans to change jobs for a number of reasons, the most important being the problem of lack of progress recorded in enterprises. Others were simply not satisfied with their present positions as self employed people. Operators again were asked whether they would like to seek wage employment in the formal economy and 65% answered in the affirmative.

These results indicate that a majority of operators in micro- enterprise prefer to seek wage employment in the formal sector rather than be self employed in the informal sector. Judging by the responses of the sampled enterprises and on the basis of the analysis carried out, it is possible to speculate that the informal sector is likely to expand in Gaborone if employment trends in the formal sector do not improve. However, expansion is likely to be in the form of increased number of enterprises that might be set up in the future, relative to the number of enterprises that might go out of business. On the other hand expansion is likely to lead to an intensification of competition and reduction in market share for the individual enterprises, which will in turn impact the levels of production and retail of goods and services. In terms of employment, individual operators are not likely to increase the size of their workforce but the employment level in the sub sector as a whole is likely to be increased by the future net increase in micro-enterprises.

The question is how can productivity, income and employment levels be enhanced in the face of the numerous constraints facing informal sector micro-enterprises? Productivity, growth, income and employment generation can become a reality if the Botswana government becomes more serious in meeting the needs of these micro-enterprises in the economy. Interestingly enough, interviews indicate that operators look to the Government for the solution to their problems. The following chapter therefore engages and critically assesses government policies, regulations and institutions and the impact these have on the informal sector.

Chapter Five

Strategies, Policies and Regulation of the Informal Sector (1980-2006): A Contradiction

5.1 Introduction

In assessing micro-enterprise development, it may seem odd that attention is drawn to the role of the state, especially in its full-blooded developmental form. This is because the widespread view of the relationship between the state and micro-enterprise sector is that the less the state interferes the better. Against this view, I argue that the state needs to play a developmental role above and beyond that of the Smithian 'state as watchman' or the minimalist state sanctioned by the Washington consensus. The development of micro-enterprises presupposes a proactive and interventionist policy and state capacity to pursue such policies. I argue that any strategy designed to stimulate micro-enterprises and articulate them dynamically with other sectors of Botswana's economy needs a more active and developmental state.

Although much of the writing on micro-enterprises tends to succumb to a Manichaeian discourse in which small is beautiful and big is ugly, realistic strategies must involve walking on two legs within a fairly coherent industrial policy. If industrialization based on highly protected large-scale industrialization has not been a resounding success in Africa, Botswana included, the case for a small and micro-enterprise based development strategy is not closed. In this chapter I assess the policy and regulatory environment for the informal sector in the period between 1980 and 2006. I explore specifically, Botswana's industrial policy and its relation to the informal sector, as well as strategies of the state towards the informal sector using Botswana's citizen empowerment

strategy. I analyze specific legal instruments of regulation and how they impact informal sector enterprises using a case study of informal communications or phone shop businesses.

5.2 The Developmental State and Industrial Policy

Industrial Policy has been one of the pillars of development policy among virtually all the high-performing developmental states. Industrial policy serves as an overarching policy which sets the parameters for other economic policies within developmental states. Johnson, (1984) provides a succinct definition of industrial policy. According to him, industrial policy is “a summary term for the activities of governments that are intended to develop or retrench various industries in a national economy to maintain global competitiveness”. It is therefore an initiation and coordination of the activities of government to leverage upwards the productivity and competitiveness of the whole economy and the industries in it. As such, industrial policy is the attempt by government to move beyond the broad aggregate and environmental concerns of monetary and fiscal policy of the market system and enables the state to choose between winning and losing industries. Such an agenda is in recognition that transformation of industrial structure is poorly accomplished through the market mechanism. Therefore, industrial policy is informed by the fact that changes in industrial structure are enhanced by coordinated government interventions. Reviewing Botswana’s industrial policy is therefore the most pragmatic and practical starting point for interrogating the policy environment as well as the role of the state in micro-enterprise development.

Botswana's industrial policy is an exception in Africa and contrary to World Bank orthodoxy. This is because African countries have been counseled against the proactive interventionism that underlies industrial policies especially by the World Bank on the grounds that it requires skills and discipline that African states do not have (Mkandawire and Soludo, 1999). Even if industrial policy worked in successful economies, African states are seen as too weak and prone to capture by vested interests such that the pursuit of industrial policies would produce perverse outcomes. Consequently the most important case against states in Africa was no longer faith in flawless markets, but rather the view that whatever the degree and extent of market failure, African states could not correct them in ways that did not make things worse (Nabudere, 2006). The emergent consensus is that what has obviously worked in other late industrializers is simply a non-starter in Africa. Such perceptions make Botswana as a case study unique and important in exploring alternatives for African progress and development.

5.3 Botswana's Industrial Development Policy and the Informal Sector

Botswana's industrial policy has been well stipulated and articulated. Government Paper No. 2 of 1984 was the first coherent attempt at an Industrial Development Policy in Botswana (RoB, 1998). It adopted import substitution as one of the main strategies for achieving diversification. The basic theme was to diversify the economy away from dependence on the primary sector, especially mining. The current Industrial Development Policy, however, has shifted the strategy since 1998 to export – oriented growth. As the National Vision 2016 underscores, the main challenge is to build up manufacturing to play a more crucial role in diversifying the economy. In 1998, however, the government

found need to revise the policy due to increasing intensity of international competition and globalization and the great desire for economic diversification from minerals to the industrial sector among other sectors. The resultant and presently valid 1998 Industrial Development Policy shifted Botswana's development strategy to an export-oriented industrialization. The industrial policy also clearly addresses the role of small, medium and micro-enterprises in the development process.

5.3.1 Small, Medium and Micro Enterprises Policy

Botswana embarked on an industrial project that facilitates employment and diversification of its economy through the encouragement and support of small, medium and micro-enterprises (SMMEs). Therefore encouraging the informal sector constitutes one element among several aimed at boosting industrial development in Botswana.

Although Botswana does not have a comprehensive informal sector development policy, it realized the potential and importance of SMMEs in creating jobs and generating income since support from formal sector is limited in this regard. Taking into account the socio-economic objectives incorporated in successive National Development Plans, Botswana's SMMEs policy, the first of its kind in the country, was approved in 1998 as an integral part of the government's strategy towards industrial development and economic diversification with the intention of developing the informal sector. The SMME policy was the result of the recommendations of a SMMEs Task force set up by the government. The Task Force was unique in itself because unlike in most developing countries, where SMME policy has been developed primarily by government officers and by inter-departmental government committees, the Botswana government acted boldly by

departing from this tradition, and appointed an independent Task Force with majority representation from the private sector to steer the development of an SMME policy (RoB, 1998). Though the policy is not specific to the development of the informal sector, nevertheless, it provides a framework within which the informal sector can be nurtured. The SMMEs policy is meant not only to create an enabling environment for informal enterprises to flourish but also grow and eventually become self-sustaining. The policy is also intended to develop citizen entrepreneurship and empowerment and thereby increase the proportion of citizens' participation in economic activity. Besides this, achieving economic diversification, promoting exports, creating sustainable employment opportunities and promoting integration and linkages between SMMEs and primary industries in agriculture, mining and tourism received attention (RoB, 1999).

The SMME policy's emphasis is on institutional arrangements to encourage and support entrepreneurship, streamlining and simplifying the regulatory process involved in setting up of micro enterprises. An important aspect is increasing access to finance as many of these enterprises have financial constraints posed by majority financial institutions that refuse to extend credit in the absence of collateral and insufficient contribution of owners. The focus is also on market opportunities and deals with education and training that play a vital role in the development of entrepreneurial motivation. Promoting vocational education and training to meet the needs of the informal sector has received much attention in the policy.

It is obvious that though there is no specific policy on the informal sector, the Botswana government is taking a proactive role in forging the development of a vibrant

informal sector that would not only provide another conduit for economic growth in the country but also facilitate government efforts at diversifying the economy. In the following section, I engage one strategy through which the government is impacting the informal sector.

5.3.2 Citizen Economic Empowerment: Reservation Policy and Financial Assistance Policy

In the 1990s, a new paradigm shift emerged in development thinking. Empowerment has been at the center of this paradigm shift and attempts to re-conceptualize development and development strategies aimed at poverty alleviation. In line with this new thinking, the 1993 Human Development Report (UNDP 1993) states that “development must be woven around people, not people around development – and it should empower individuals and groups, rather than disempowering them”. This rethinking has been brought about by the fact that despite decades of development assistance accompanied by growth in some instances, the number of people who are in absolute poverty continues to increase. Empowerment, therefore, is seen as a response to the failure of modernization and ‘trickle down’ economics of the 1970s and the 1980s, and the widespread perception of the State’s inability to intervene successfully on behalf of the poor or other disempowered groups in the society.

In the Botswana context, citizen economic empowerment as a strategy evolved out of the precarious human and economic conditions at independence as discussed in chapter 3. Citizen economic empowerment has therefore been understood to mean a set of policies or programs designed to benefit a specific segment of the society; the Botswana. There is a widespread perception or belief that citizens are disempowered by

temporary residents from other countries who command more economic power in business in the form of investment, higher technical skills and entrepreneurship. Thus some interpret the concept of citizen economic environment to mean the creation of indigenous businesses to rival the more successful foreign business interests within Botswana.

Commitment to citizen economic empowerment is evidenced in the number of programs and policies that have been put in place since independence to encourage citizens to participate actively in the economy. These programs and government policies are outlined in the various National Development Plans and Industrial Policy documents. It is important to know whether the citizen economic empowerment strategy has been deployed to benefit the informal sector.

5.3.2.1 Financial Assistance Policy

Successive governments in Botswana have used financial intervention through credit provision to assist indigenous businesses and to enhance citizen empowerment. This objective was first deployed through the Financial Assistance Policy (FAP). FAP was introduced in 1982 as an incentive and subsidy policy aimed at creating employment opportunities and encouraging investment in a range of economic activities (RoB, 2001). It provided direct financial assistance to private sector firms engaged in selected sectors of the economy. All FAP assistance was provided in the form of grants. These grants were aimed at promoting the creation of self-sustainable enterprises, on the assumption that economic and/or social returns to Botswana were greater than the purely financial returns to the projects assisted.

The structure of FAP incentives were designed in such a way as to stimulate employment creation through encouraging investment in labor-intensive activities. FAP actually consisted of two different schemes, one for small-scale projects, which was restricted to citizens, and which primarily consisted of a capital grant for new or expanding activities. The second, for medium and large-scale projects, was open to both citizen and non-citizen investors, and was the government's main incentive scheme for attracting foreign investors. Although FAP for Medium and Large-scale projects includes a small capital grant, the main form of assistance was wage subsidies for unskilled workers and a grant paid against approved training costs.

From its inception in 1982 until termination in 2000, FAP grew enormously in size and complexity. At the same time, a range of concerns emerged about the scheme from recurrent reviews by the government (RoB, 2001). These included the fact that the scheme was no longer achieving its objectives and that its structure as a system of grants encouraged abuse and corruption. The size and complexity of the scheme had also grown way beyond the capacity of the relevant government departments to effectively monitor it and also the cost to the Botswana government was out of all proportion to any benefits that resulted from the scheme. In the last review of the program in 1999, it was recommended that the high cost of operating the FAP scheme was unsustainable and was no longer a sensible use of scarce public funds. The long running FAP scheme was thus restructured to run under a new agency, the Citizen Entrepreneurial Development Agency (CEDA). Under CEDA, FAP has been transformed from a grant scheme into a subsidized credit program.

5.3.2.2 Reservation Policy

Another important citizen empowerment oriented policy appropriated by the Botswana government is the Reservation Policy. In order to promote the participation of Batswana in economic activity, the government introduced a ‘reserved activities’ policy in the mid-1980s. The essence of this policy was that certain economic activities are reserved exclusively for citizens and companies that are wholly-owned by citizens. As listed in the SMME Task Force Report (1998), reserved activities are classified into commercial, manufacturing and construction activities (see appendix 5.1). Importantly, the bulk of enterprises interviewed in this research fall within reserved activities for Botswana citizens, an indication that the policy is creating the opportunity for Batswana to participate in the economy meaningfully.

The Reservation Policy has however suffered from the effects of import competition, which in Botswana’s case cannot be avoided under the Southern Africa Customs Union (SACU) agreement. This competition has made it difficult for many reserved activities to survive, particularly in urban areas, although on the other hand, the competition has controlled the monopoly effects inherent in the policy.

5.3.4 Local Procurement Program (LPP)

Previously known as the Local Preference Scheme (LPS), the LPP was introduced in April 1997, and seeks to enhance the development of local entrepreneurship. The main purpose of the program is to channel a proportion of orders for Central Government Supplies (30%) to locally-based SMMEs (irrespective of the nationalities of the owners of the enterprises) and thus create a readily available market. According to the policy,

beneficiaries must be licensed, achieve 25% local content and satisfy any two of the following conditions: employ not more than 200 persons; have an annual turnover of between P200, 000 and P5, 000,000; and have an investment in productive machinery of between P50, 000 and P5, 000, 000 (Moroka, 2006).

Although in the past the rules concerning procurement were very complicated and open to conflicting interpretations, in 2001 these rules were simplified and consolidated under one law: the Public Procurement and Asset Disposal Act (No 10 of 2001). Under this law, the Central Tender Board was renamed the Public Procurement & Asset Disposal Board. The District Tender Boards were reconstituted as Procurement and Asset Disposal Committees operating within the District administrations but answerable to the central PPADB in the capital, Gaborone.

The above discussed schemes all attest to the Botswana government's concerted and persistent efforts at advancing entrepreneurship and advancement for its citizens. Though these policies are not targeted at the informal sector specifically, they do not exclude the sector either. I will show in later sections that in as much as informal sector enterprises are not excluded from citizen empowerment schemes, other government regulations inadvertently tend to undermine informal sector participation in such programs. In spite of these shortcomings, there is no doubt that the Botswana government has been proactive in its attempts to engage the informal sector.

5.4 Assessing the Policy Environment for the Informal Sector

Traditionally, provision of credit, technical assistance, and marketing support has formed the standard package of services to the informal sector and the small and micro

enterprises (SMEs) in developing countries. This standard approach can be classified as supply driven approaches (SDA) (Tendler and Amorim, 1996) and the results, at best, have been mixed. Broadly, the reasons can be classified into two categories. The first deals with the nature and design of the programs themselves and the second relates to the characteristics of the firms and the sector they are designed to assist. With regard to the nature of the programs, one of the major drawbacks of SDA has been its focus on micro level conditions without regard to the overall macroeconomic policies in the economy such as those relating to exchange and interest rates etc. which play a crucial role in the performance of this sector (Mead and Liedholm, 1998 and Levy et al, 1999). Macroeconomic policies in a country frequently shape the opportunities and threats to this sector especially in the context of increasing economic globalization (Haggblade et al, 2002). Second, in stagnant economies, these approaches, especially provision of micro-credit, may result in merely redistributing poverty as new entrants divide the existing market into smaller and smaller segments (Haggblade et al, 2002). Third, as these programs often aim at providing employment for surplus labor through credit assistance for opening of new firms, in a stagnant economy, it may lead to “low” road to competitiveness based on low wages and almost nil or very weak labor rights (Schmitz and Musyck, 1994). These programs often do not stress upon innovation and flexibility in improving the competitiveness of firms.

At the firm or sector level, the major drawback of SDA has been its tendency to focus on the weaknesses of the sector and the firms, and presume that they are pathetic and hence need to be supported (Tendler and Amorim, 1996). The facts may just be the

opposite. In several cases, small firms play a major role in the economy at national and even international levels. For example, in Japan and South Korea, small and medium enterprises have played a very significant role in exports (Levy et al, 1999). Secondly, the standardized services are targeted at a large number of firms based on the presumption that there are problems generic to all firms. It fails to assist firms in producing quality goods for confirmed orders or contracts which is often one of the most serious problems faced by them (Tendler and Amorim, 1996).

In Botswana's case, the state has not only adopted a supply driven approach in its attempt to facilitate micro-enterprise development as exemplified in FAP but has complemented the supply driven approach with a demand driven approach (DDA) to deal with the informal sector holistically. DDAs assist the informal sector have several advantages over SDA in improving performance both at firm and/or sector level and at support agency level (Tendler and Amorim, 1996). DDA focuses on providing the SMEs with a market for their products, associated technical help and often finance. In the case of Botswana, demand is generated with procurement by government agencies and not through large private firms in subcontracting relationships as in the case of Japan (Levy et al, 1999). DDAs are also more effective in reducing the transaction and monitoring costs of purchasing and ensuring quality from the SMEs and may lead to lower costs and better quality. It focuses on customized assistance to firms and is also more problem and results oriented due to fear of rejection and non-renewal of contract. Due to its focus on groups of small firms, it also leads to positive externalities through sharing of orders, specialization, joint purchase of inputs, and joint solving of problems (Giuliani,

Pietrobelli and Rabellotti, 2005; Helmsing, 2001; Altenburg and Meyer-Stamer, 1999; Humphrey and Schmitz, 1996).

In concluding this section, states can promote or support micro-enterprises on both the supply and demand sides. However, stressing one side of the problem always leads to arguments that either supply or demand is a major constraint on the expansion of the informal sector. This is, in a sense, a fruitless discussion since the relationship between supply and demand has the characteristic of a cobweb. Rapid growth in demand can reveal supply factors as the constraints. However, after a while, supply may overtake demand giving the impression that it is demand that is a constraint. This yields a 'cobweb' movement of the supply and demand relationship. Consequently, depending on conjuncture and the types of questions asked, either supply or demand will be a constraint. State policy must therefore constantly consider both blades of the scissors. Botswana's appropriation of both strategies in an attempt at informal sector development therefore makes it unique and points at its developmentalism. Adopting prudent and holistic strategies towards the informal sector however is not sufficient to guarantee the development of the sector. Such strategies must be supported and complemented by the appropriate regulations to facilitate informal sector development.

5.5 The Legal and Regulatory Framework and Its Impact on Informal Sector Businesses

It is apparent that the impact of legislative and regulatory requirements on business has come to receive a prominent position in scholarly and policy debates concerning small business development (Feige, 1990, Tokman, 1992 and Tokman and Klein, 1996). This is because of their costly nature, particularly on micro-enterprises. It is therefore important that

legislating and regulating the micro-enterprise sector must be done carefully, thoughtfully and innovatively so as to facilitate and not suppress growth. This is especially pertinent in view of the fact that the informal sector is important in creating employment and income opportunities especially for the poor as discussed in chapter 4. Therefore, in the interest of increasing employment, stimulating economic growth, and achieving social justice, a strong case can be made for the removal of the barriers to the development of informal enterprises. In the subsequent segments, I focus on three pieces of legislation; the Companies Act, Industrial Development Act and the Trade and Liquor Act that impact informality in Botswana. The regulations spawned by these legislative instruments relate most closely to the operations of micro-enterprises and specify the guidelines for business registration, taxation, conditions of production and work in terms of health and safety, and labor laws. I limit the analysis to business registration and examine how processes and procedures of registration disadvantage and constrain informal sector enterprises. Finally, I case study a predominantly informal service in Gaborone, phone shops and analyze how it is impacted by government regulations.

5.5.1 The Companies Act

The Companies Act is the first key statute regulating market entry or the establishment of a business in Botswana (Cap: 42.02). It provides rules and regulations on the formation, registration, management, administration, and dissolution of various types of companies. First enacted in 1959, a review of the Act was commissioned in 1999 with a brief that underlined the need for a legal and regulatory framework that would encourage a competitive or less restrictive commercial environment and would facilitate domestic commercial activity. This review of the Act was supposed to establish a “more

friendly” regulatory framework for small businesses that complemented the objectives of the policy on promotion of the role of SMMEs in the economy (RoB, 1999).

5.5.2 The Industrial Development Act

The Industrial Development Act regulates entry into manufacturing businesses that are not otherwise regulated by specific pieces of legislation. It establishes an Industrial Licensing Authority responsible for the supervision of industrial development and for the issuance of licenses for the manufacture of products offered for sale in Botswana. The Act lists the following grounds for refusal to grant a manufacturing license:

- that the capital, technical skills or raw materials available are, in the opinion of the Authority, inadequate to secure the successful establishment and operation of the enterprise, and failure of the applicant’s enterprise might prejudice the successful development of the industry concerned;
- that a licence for the manufacture of the proposed product “has already been granted to some other person in respect of the same part of Botswana and such licence is an exclusive licence”;
- that the granting of the licence, in the opinion of the Authority, would not be “in the best interests of the economy or public will of Botswana or of the particular industry concerned”; and
- that the applicant has already been issued with or applied for licences in respect of four or more manufacturing enterprises under this Act and could only be considered for a further licence with the written approval of the Minister.

These stipulations show an attempt to effect an industrial development policy, one that has since undergone important revisions and reorientation.⁵⁷ The revised policy takes into account changes to domestic and international trading environments brought about by globalization and regional and multilateral trading arrangements. It advocates reorientation of industrial development towards the opportunities and challenges presented by these developments.

5.5.3 The Trade and Liquor Act

The Trade and Liquor Act regulates entry into businesses for the supply of goods and services, mostly to end-users. It establishes a national authority and local licensing authorities for the issue of licenses in respect of trades or businesses such as import and export, agency, auctioneers, pharmacy, general dealing, wholesale and retail, supermarket, motor dealers, garage and workshop, petrol stations, dry cleaning and laundry marts, hairdressers and restaurants.⁵⁸ A distinct part of the Act also regulates the sale or supply of intoxicating liquor in specified places.⁵⁹ The Act has been under review for some time.⁶⁰

The grounds for rejecting an application for a trade license include:

- (a) That the applicant is a minor; or

⁵⁷ Republic of Botswana, *Industrial Development Policy for Botswana*, Ministry of Commerce and Industry, Government Paper No. 1 of 1998, Government Printer, Gaborone.

⁵⁸ Sections 3, 4, 5 and 7.

⁵⁹ Part IV, sections 28 to 46.

⁶⁰ The Act was passed as No. 29 of 1986. It was substantially amended by Act No. 15 of 2003

(b) That the issue of a license would conflict with town planning or zoning schemes or health or other regulations.⁶¹

(c) That licenses have to be renewed within twelve months, and

(d) Certain types of licenses or businesses are reserved for citizens of Botswana.

Clearly an important basis for rejection of a license application, conflict with regulations negatively impacts informal businesses in that by their nature and operational characteristics, they contravene these regulations.

Another issue of concern relates to the sweeping powers of the Minister to suspend, cancel, or withdraw a license at any time if, in his/her opinion, this is in the interests of the inhabitants of a particular area or of Botswana generally. It is asserted that the Minister “shall not be obliged to furnish reasons for any decision taken by him in terms of this section, and such decision shall be final and shall not be questioned in any court.” In order to promote a vibrant, competitive trading environment, this provision could be replaced by one suggesting a competition regulator which will consider appeals against decisions of the Minister or any other licensing authority.

Evidence from my study of micro-enterprises show that the three described legislative instruments above are the key Acts that impact micro enterprise development albeit negatively. However to understand the extent to which these three instruments of legislation disadvantage micro-enterprises, it is important to assess the regulations they

⁶¹ Section 14 as replaced by section 11 of the Trade and Liquor (Amendment) Act, No. 11 of 1993.

spawn. In the following section I review business registration processes and argue that they are antithetical to micro-enterprise development.

5.5.4 Obtaining a License: Procedures and Problems

An important problem in trying to assess the impact of the regulatory and bureaucratic requirements on business is pinning down particular provisions affecting specific entrepreneurial activities. Rules may exist, but those for whom they are meant may not be aware of them. In addition, the mechanisms for enforcement may be so ineffective that the existence of such rules is rendered almost irrelevant. Thus, as Levy (1993) has noted, perceptions of the entrepreneurs concerning the impact of different constraints "represent an important, but not definitive source of information". Consequently, in order to appreciate and give full meaning to the perceptions of respondents, I investigated all the requirements that one would have to fulfill in order to obtain a license to trade in Botswana. There is a standard form that one would have to complete in order to obtain a trading license. I discuss below, the type of information required by the form and the challenges involved. It must be noted that the Trade and Liquor Act is the primary legislative instrument governing the issuing of trading licenses in Botswana. The Act details what requirements should be met, under what circumstances, etc. The application form is therefore naturally designed to ensure that this Act is fully complied with.

(a) Gazetting the Intent to Trade

As soon as an individual or group of people have decided on what they want to trade in (i.e., whether they want to sell shoes, food etc), they have to establish for a fact, what

kind of license they require. The Trade and Liquor Act details a list of the various licenses that can be issued, fees to be paid for each, and the licensing authority responsible.

Once the kind of business license required has been established, the potential entrepreneur has to advertise their intent to trade in the Government of Botswana Gazette. Until recently, when this Act was amended, the purpose of having this advertisement was so that "any person who wishes to object to the issue of the license to the applicant shall, within 14 days of the last publication of the notice, give notice in writing of his intention to oppose the application and the grounds thereof to the secretary and the applicant." Among the several reasons that could be used to make the objection would be that several such licenses have already been issued. It is important to note that, it has always been perfectly normal to protect businesses from competition. This part of the Act provided this protection.

The advertisement has to appear on two successive Fridays. One may wish to add that in order to ensure that the advert will be considered at a particular meeting, the applicant has to be aware of certain not so obvious but important aspects of this issue. The Government Gazette comes out only on Fridays and the licensing authority meets once every month. In order for one's application to be considered, it has to have appeared twice on two successive Fridays. After the second Friday, there has to be 14 days before the licensing committee meets. What this actually means is that unless you have made the right calculation, or unless you have received timely advice, your application might take much longer than normally would have been the case. What is even more interesting about this process is that, if the applicant does not get it right entirely, for example, if plot number (for business location) is missing, he/she may be asked to re-advertise.

Once the applicant has successfully completed the Gazetting process, now the actual application process has to begin. After all, the fuss so far was only about stating one's intention to trade. Once this has been done, the application form has to be filled, and this involves several visits to different offices. The various pieces of information required by this form are discussed below;

(b) Type of license

Each kind of business license has its own requirements. For example, according to section 17 of the Trade Act, regulations may provide that holders of certain licenses carry on such trade only "(a) from prescribed premises; or (b) in prescribed areas of the country."

(c) Location of Business

Here the applicant is supposed to state where the business will be operated from. Simply put, this section requires the plot number from where the business will be run.

(d) Business Name or style

If the name of the Company is not the same one the applicant intends to use in order to trade, the Registration of Business Names Act requires that he/she register the name at the registrar of Companies. On average, this is a process that normally takes two to three days, but it can go up to two weeks depending on the volume of applications traffic that the Register of Companies has to consider.

(e) Number and Names of Other Businesses Associated with or Owned by the Applicant

This information is required in order to establish if the applicant has other business interests elsewhere. The rationale here is that if such businesses have no bearing on the

current business, such interests have to be disclosed so that if they number more than four, the minister's approval can be sought. This would also require time. Note that the whole idea behind a regulation such as this one was to regulate the numbers and types of businesses being set up. It used to be well within the powers of the licensing committee to refuse an applicant with a license because the committee feels such an individual is overstretched.

(f) Applicant's Corporate Status

The applicant is required to state whether they wish to trade as a sole proprietor, in partnership with others, company or other. If the applicant wishes to form a company for example, they would have gone through the process of company registration and paid a minimum fee. Because of the legal complexity of this process, many people choose to have it done for them by lawyers, and that comes at a cost.

(g) Other Required Information about the Company

These includes the following:

- a. registered name of company.
- b. Trading Name of the Company if different from that given in section B 1. (a)
- c. Address of the Company.
- d. Name and address of the Company's Secretaries;
- e. Percentage share of the citizen equity holding
- f. Particulars of all directors.

(h) Financial Information;

The information required here is the amount to be invested, where such amount will be obtained from, and the amount already held in a bank account. Whatever amounts the applicant claims to have, documentary evidence is required as proof. Though seemingly a straight forward requirement, this has its own complexities. First, if an applicant approaches a financial institution such as CEDA or the National Development Bank for funding, they will also require the applicant to have a license. This is in addition to other detailed information such as feasibility studies and financial breakdowns that such financial institutions usually rightly require. Note here that the big catch is that while the licensing authority requires proof of financial position before issuing the license, the banks and parastals also require a license before any loans can be approved and disbursed.

(i) Particulars of Land/premises

Information required here is as follows:

- plot number or landlord certificate no. and date.
- whether the plot is zoned commercial,
- whether the annual land board rent has been paid,
- if the premises are leased, the applicant is supposed to state the owner as well as the date of expiry of the lease, and plot size.

The major aim here is to make sure that whatever premises have been identified are acceptable to the licensing authority, both in terms of satisfying zoning requirements, and satisfying other government building regulations.

A key problem associated with this requirement of the application is that in urban areas where there is such a shortage of land (Gaborone being the worst), most entrepreneurs lease

premises. This requirement ends up being costly because the applicant literally has to secure the premise, and of course start paying the rent before they have even been issued with a license. In a situation where as noted earlier, an application has been turned down for a variety of reasons, it becomes a rather difficult arrangement. Ultimately in instances where leases are signed, but licenses refused, the end result is loss of scarce capital for applicants.

It must also be noted that as a result of the problem of shortage of serviced land, partly a result of government monopoly of serviced land, it is not uncommon for an application for land to take years. The end result is not only inflated rentals beyond the means of an average person, but also an increase in the cost associated with doing business.

(j) Health and Building requirements;

As soon as the process of gazetting the intent to trade is set in motion, the potential entrepreneur has to approach a health inspector to request the premise be inspected. If the premises do not pass the inspection, no certificate will be issued and the license will consequently not be given. Note that it is up to the entrepreneur to prove that he/she has complied with the health requirements to trade.

(k) Residence and work permits;

This is a requirement which is relevant only where the business is going to be managed by a foreigner/expatriate. Until fairly recently, obtaining a work permit took rather long, sometimes even up to more than a year. As with the other requirements above, those issuing work permits, (i.e., labor and immigration office), would demand that the applicant have a license to trade before a work permit can be obtained. The source of anguish here has always been the requirement that one obtains a trading license first before work permits can

be issued, while the offices dealing with work permits insisted that the license to trade be available before work permits can be issued. The process of obtaining a work permit is also not that simple.

There are no expatriates operating in the informal sector as most informal sector activities are reserved for citizens (at least officially). However, it should be obvious that if an informal manufacturing firm were to do well to the extent of growing bigger and more complex, and thus seek to engage some specialized skills not locally available, it would have to put up with this frustration. Note that shortage of skilled manpower in Botswana is said to be among the worst in Southern Africa.

It is important to note that the above description and discussion only pertains to starting a business. Maintaining a license and remaining in business also requires compliance with a number of other requirements such as tax legislation, labor laws etc. Unless one is literate, or can afford the services of a business consultant, this process is overwhelming and inaccessible. It is no surprise, under these circumstances that the identification of constraining legislative and regulatory provisions as well as their removal has been an on-going process in Botswana. The discussion so far clearly shows a scenario that does not favor and in fact is detrimental to a micro-entrepreneur trying to operate legally.

5.5.5 Why Formalize?

The process described so far, if completed, confers a certain type of legal status to the prospective entrepreneur that yields some benefits for him/her, and for the state as well. Until a recent amendment to the Trade Act, the most significant benefit accruing from

completing this process was that a particular business would be shielded from competition from future possible competitors. Such an entrepreneur, (once given a license), would for example have a right to object to a similar type of business being established within the same area as theirs. He/she could claim the market is too small to accommodate new businesses, or claim that the proximity of the new business is too close to his/hers. The process of gazetting somebody's intent to trade was supposed to provide such an opportunity to all who perceived themselves as having an interest, to come forward, and block the establishment of such a new business.

In addition, licensing authorities are also allowed to make commercial judgments about an applicant's business. The proposed business license could be refused on the grounds that the applicant's financial resources do not appear to be adequate, or that the idea might just be impossible or difficult to implement. A 1983 Presidential Commission on Economic Opportunities had been critical of this practice, and saw it as an act of preventing entrepreneurs from taking risks, something they rightly concluded was none of the state's business. Thus, a 1993 amendment reads as follows:

“Applications for licenses should not be open to objections by competitors. The adoption of this recommendation means that the publication of the application in the Gazette will be for purposes of information only. There will no more be objections entertained. Licensing authorities are not to make commercial judgments about the applicant's business. This recommendation proposes automatic granting of a license once the planning, zoning and health regulations are satisfied. Therefore, the powers of the Licensing Authorities which unnecessarily hinder private investment are to be curtailed” (Trade and Liquor Amendment Bill, 1993).

Apart from ensuring that once the license is obtained, the entrepreneur will be shielded from competition, the license also gave such holders access to wholesalers from where goods are cheaper than in retail wares. Obviously buying cheap increases the competitive edge of the business. This has now been relaxed, and informal businesses also have access to wholesalers. Thirdly, in the case of manufacturing businesses, import licenses and easier access to foreign exchange are some of the benefits.

The state also derives advantages from this process. Once the process of formalizing has been completed, and a new business has entered the business landscape, the tax man gets ready to reap the benefits. An example of such tax is the income tax which is mandatory for everybody with formal employment. Each new business represents a broadening of the central government's tax base. In addition, each new business that has completed the process would have appropriate premises inspected by the health inspector, and in compliance with whatever requirements (e.g., zoning, planning etc). From the point of view of governing by the state, this process facilitates smooth governance.

From the forgoing discussion, it is important to realize that the difference between formality and informality has been the way the two relate to the law, the former enjoying a much more protected status, while the other would enter a business terrain where competition is stiff. Even though the ongoing process of liberalization may be seen to be removing some of these benefits formerly solely enjoyed by the formal sector, formalizing still has advantages over being informal. Through the Botswana Confederation of Commerce, Industry and Manpower - BOCCIM (the mouth piece of the private sector, and the key link with the government), formal business continues to have a forum through which their concerns

are communicated to the state. For example, some of the programs such as the Local Procurement Policy where the state undertakes to utilize the services or buy goods produced by the private sector are some such benefits. Others include the labor subsidy grants, all of which do not accrue to the informal sector.

From this brief outline, it should not be difficult for the reader to appreciate why the Botswana government should have as one of its goals for supporting the informal sector, the idea of ensuring that such businesses graduate to become medium-scale, or large and formal. Viewed this way, one may accurately refer to it as a breeding ground for business. There are some benefits to be reaped. On the other hand, if these micro-enterprises are to graduate to formality, they have to make it through a very challenging formalization processes that increase startup costs. Appreciating the requirements and complexities of the legal and regulatory environment is a primary requirement in creating suitable circumstances where graduation can be facilitated and realized. This is precisely why describing the process above is a must in any exercise aimed at shedding light on whether graduation to formality is feasible.

5.5.6 Case Study: Regulating Phone Shops/Kiosks

In 1997, the Botswana government passed an Act to legislate communications services. This effort resulted in the introduction of private telephone shops so as to liberalize the hitherto monopoly of the utility. To regulate and provide a development control framework especially for Local Authorities, national policy guidelines were introduced by the government. The aim was to ensure that activities related to the liberalization of the communications industry were not an unacceptable nuisance to

neighbors; did not have adverse environmental effects; were aesthetically appealing and made material considerations related to “development” of land for the purpose of establishing phone shops.

Statutory Framework

For any policy to be mandatory it must have a legal backing. In this case, the statutory framework within which the national policy guidelines on the licensing and siting of phone shops and kiosks are embedded are predicated on the Town and Country Planning Act 1997 (RoB, 1997) against the backdrop that they make provisions for the formulation of any regulation pertaining to development whenever the need arises.

Considerations of Applications for Phone Shops

According to the national policy guidelines, aesthetics, type of structure proposed and the character and use of the proposed site are of paramount importance in assessing applications for phone shops. The application process itself consists of an a) an application letter; b) a location plan and c) a site plan showing the proposed site with dimensions from neighboring plots, premises and structures. A license is granted for a maximum period of two years after which it can be renewed if the Local Authority is satisfied with the operation and the land is still available to the operator.

Location of Phone Shops

The national guidelines for the issuance of license for phone shops also stipulate that shops are not located along road reserves, operated from residential homes and located in a manner such that they hinder or obstruct the vision and free movement of motorized and non-motorized traffic (RoB, 1997). Such locations include road reserves,

pedestrian walkways, road junctions, etc. The guidelines also stipulate that there be public places of convenience at least within a radius of 400 meters from the proposed phone shop. Where such facilities do not exist, a special arrangement should be made with neighboring business owners for callers to use their facility. Proof of this agreement should be submitted with the application letter. In case the above arrangement is not attainable, the operator/applicant is supposed to provide a portable place of convenience.

Operating Structures

The structures used to house phone shops must be of a common material and or color. They should also be in conformity with its surrounding environment in all its physical attributes, i.e. size, colors, height etc. This measure is to ensure that the structure does not become an “eye sore” or degrade surrounding amenities (RoB, 1997). Material used in the construction of phone shops should be fire resistant and well ventilated to ensure the health and safety of the telephone attendant and callers. The national guidelines also stipulates that structures be maintained and renovated as soon as the need arises, with the local (Planning) authority having the power and right to ask for the structure to be renovated or replaced. Failure to do so can result in the permission being revoked. Finally, persons caught violating regulations are guilty of an offence and liable to be charged a fixed penalty set by the local authority.

The above stated regulations disadvantage, and forces illegality, on the majority of phone shop operators in Gaborone. Previous chapters have shown that the informal sector in Gaborone is survivalist, made up mainly of the poor trying to make a living. In as much as the government of Botswana has as its strategy to empower citizens, these

regulations end up preventing individuals from participating in this niche market legally because requirements for a license are strenuous, time-consuming and in some instances almost insurmountable. The end result is a widespread prevalence of phone shops operating in Gaborone amidst illegality. Informal phone shops locate randomly in Gaborone targeting areas where there are large volumes of pedestrian traffic, such as bus stations, shopping areas (e.g. bars, restaurants, general dealers, etc) and strategic positions (e.g. road junctions, institutional facilities such as hospitals, colleges, etc).

5.6 Conclusion

Botswana has long realized the importance of the informal sector in fostering economic growth and creating jobs. As stated by the Minister of Finance and Development Planning Mr. Baledzi Gaolathe in the 2006 Budget Statement, “promotion of such informal sector employment will be pursued as an important part of improving our employment outlook”. As a result, there has been the introduction over the last three decades of targeted intervention mainly through financial support as well as advisory programs to help Botswana establish their own enterprises. Through Botswana’s Citizen Empowerment Scheme, and the adoption of both demand and supply side strategies, it can be concluded that the government is acting as a promoter, facilitator and regulator of micro-enterprise development. However, these programs have been set up more in reaction to specific problems encountered rather than as the basis of a comprehensive and more focused government policy on micro- enterprises development in the country. As a result there is no coherent policy on the informal sector though the sector has benefited from some policies and programs.

However, the legal and regulatory environment for the informal sector operations mitigate against any benefits resulting from government policy and intervention in the sector. This is because insofar as the company framework relates to micro-enterprises, no special dispensation is given to the sector and it is subjected to the same registration and licensing regimes as larger companies. This has resulted in inherent biases against the informal sector. Excessive, complex and rigid laws and government regulations tend to be too demanding on the resources of micro-enterprises. The result is that though the government attempts to empower its citizens and incubates the micro-enterprise sector through policies like the citizens reservation policy, very few micro-enterprises benefit from diverse forms of resources made available by the government.

Chapter Six

Institutional Framework, Capacity and Micro-Enterprise Development

6.1 Introduction

The dissertation thus far has argued that the proliferation and growth of micro-enterprises is of fundamental importance for economic development as well as for efficiently translating growth into enhanced employment opportunities and incomes in Botswana. However micro-enterprises are particularly dependent upon sound economic policies and more importantly nurturing institutional frameworks and capacity to facilitate their growth performance.

While development theorists have been aware for some time that in order for states to promote development they must enjoy some significant degree of independence from elite control, the recent developments have stressed that even while enjoying the required autonomy, states may nevertheless lack the capacity to intervene effectively. To promote development, state leadership need to not only achieve a measure of autonomy from local elites but also bolster the capacity of state institutions. The elements that go toward enhancing state capacity are varied, but there has been some convergence around one particular element, namely, its internal cohesiveness. In order to promote development, states need to be able to act as corporate entities with broadly collective goals, rather than as the sum of the individual strategies of state institutions. So one way to make states “developmental” is to enhance their capacity, and the means to do that is through securing their internal cohesiveness.

The question becomes, then, how the state can secure internal cohesion or coherence to enhance capacity. Evans (1995) and Weiss (1998) argue that the most important means for the state to secure internal coherence is for it to be endowed with an effective, rule driven bureaucracy. This view needs to be amended somewhat. While a bureaucratic culture does certainly enhance the state's corporate identity, it is not enough. In order for it to be effective as a developmental state, bureaucratic rationality must also be structured in an appropriate apportionment of power among state policy agencies⁶².

In this chapter I examine the formal institutional environment (mainly institutions of the state) for micro-enterprise development in Botswana and assess how inter and intra institutional relations facilitate or hinder the micro-enterprise experience. I also assess the capacity of state institutions in facilitating growth and development of the informal sector. The thesis underlying the chapter is that even though state institutions responsible for micro-enterprise development in Botswana conform to bureaucratic rationality, the lack of internal coherence and cohesion and skewed apportionment of power amongst state agencies have undermined attempts to enhance growth performance in the informal sector.

The chapter is organized into three major sections. The first section engages theoretical formulations of institutions as well as their capacities. The second major section discusses the institutional environment for micro-enterprise development by examining two institutions at the national level; Ministry of Finance and Development

⁶² Evans has also argued persuasively that simply having a cohesive state is not enough for it to bring about developmental success. State cohesiveness has to be complemented by a dense thicket of ties between planning agencies and firms to facilitate continual transmission of information between the two actors (Evans 1995, chap. 3).

Planning (MFDP) and Ministry of Trade and Industry (MTI) and their associated parastatals. At the local level, the focus is on the Gaborone City Council (GCC). The final section connects concepts with my findings.

6.2 Conceptualizing Institutions and Capacity

Informal enterprises adopt a range of organizational forms, but the political, social, legal and economic systems within which they make their choices is exogenous to them. Government determines the structure of rights or the “rules of the game” in which individual economic actors make choices. Put differently, the nature of the institutions and coordination mechanisms that make up the economic environment affects the choice of micro-enterprises' organizational structure.

Following neo-institutionalist economics, institutions can be defined as rules, formal rules such as statutes that constrain behavior (Eggertsson 1994). As the theory is concerned with behavior, institutions are defined as effective rules, rather than nominal rules, with emphasis on enforcement. While conceiving of institutions as rules, we are logically led to examine the agencies and organizations through which these rules are operationalized and that is the primary focus of this chapter. If we focus on the institutional environment that specifically influences the economic performance of informal sector enterprises, then the framework consists of three major agents: the government, the quasi-government and the private, non-governmental agencies. This research focuses specifically on governmental and quasi-governmental (parastatal) organizations milieu.

Analysis of the institutional framework can be done in two ways depending on the particular focus: a) the institutional framework that is conducive to small enterprise operations and b) the growth constraints to micro-enterprises and the institutional arrangements that can help overcome such obstacles. The latter approach is more dynamic than the former. In this research however, I choose a more eclectic approach, to incorporate factors, developed over time, that influence the performance of micro-enterprises in addition to factors that in general are conducive to their proper functioning.

The institutional framework does not only include the matrix of governmental and parastatal organizations but also importantly the capacity of these organizations to deliver. To understand the role of the Botswana state in effectively engaging the informal sector as part of its overarching development project, it is therefore important to define in clearer terms its institutional capacity, which hinders or allows it to be highly adaptive and strategic in harnessing the potentialities of the informal sector. Here, I adopt Weiss's (1998) definition of state capacity as "the ability of policymaking authorities to pursue domestic adjustment strategies that, in cooperation with organized economic groups, update or transform the industrial economy". State institutional capacity is thus a negotiated product of institutions governing domestic activities.

The formal institutional setting within which economic agents act, as defined for this research, has a strong bearing on the growth and proliferation of micro-enterprises, or otherwise. The idea that the institutional framework can be a determining factor in stimulating or slowing informal activities arose relatively recently. The economic environment was previously the primary concern for a sound development of micro-

enterprises. For example, as discussed in chapter 5, the case of Botswana clearly shows the government tried to promote micro-enterprises by granting targeted financial support to help citizen owned new and existing enterprises through programs such as FAP. For several decades, the financing problems of micro-enterprises were analyzed and aid programs undertaken in that domain. Researchers only began to pay more attention to the role of institutions in development and to study the impact of the institutional framework on informal activities in the 1980s. The institutional setting and its capacity to deliver has therefore become as important as the economic regime and macroeconomic policy in determining whether informal sector enterprises yield prospects for economic and socially viable development. These assertions are embedded in overarching theoretical literature on the efficacy of institutions in economic development. In their contribution to the Handbook of Economic Growth, Acemoglu, Johnson, and Robinson (2004:2) for example pull no punches when they state that “differences in economic institutions are the fundamental cause of differences in economic development” Rodrik et al (2004: 1) are equally straightforward; “the quality of institutions trumps everything else”. Easterly and Levine (2003) and Bardhan (2005) offer further support for the primacy of institutions (not just institutions but their quality also matter) in economic development.

Thus far, I have made a case for an analysis of the efficacy of the formal institutional framework in informal sector development in Botswana. This is because governmental and parastatal institutions at both local and national scales in and of themselves impact informal sector development. In addition, the institutional framework at varied scales is an important conduit of state policy formation and execution. In this

regard, I conceptualize the State as a set of contested institutional structures and social practices that possess specific power and authority to effect changes and to achieve specific policy goals. To Mitchell (1991: 90), the State should not be taken as “essentially an actor, with the coherence, agency, and subjectivity the term presumes”. Instead, the state should be viewed as a network of institutional mechanisms that internalizes the state-society distinction and maintains the social and political order (see also Jessop, 1990; Weiss, 1998; 2003; Brenner et al., 2003). Similarly, Poulantzas (2000) arguing from a class perspective asserts that the state is “the specific material condensation of a relationship of forces among classes and class fractions”. Thus the State is not a thing, an object or instrument, but a social relation between classes. The state is, in effect, the ever changing material expression of the balance of class forces; it is the institutional accretion of the effects of past class struggles. The state’s structure and internal organization, that is, is constantly modified and re-shaped by struggles between classes and between class fractions. It follows from the above points that the state is not a monolithic, unified bloc; it is a fractured apparatus, riven with contradictions, fissures and divisions. Neither is it an apparatus which is entirely controlled by, or which exclusively represents the interests of, the ruling class. The struggles of the working class shape the state’s structure and, therefore, working class power (to a certain extent) is manifested and embedded within the state and their interests are reflected in various aspects of state policy.

Though the modern state is not monolithic, characterized by numerous forms of institutions with often divergent functions, nevertheless, developmental states have a high degree of internal coherence and capacity which gives them sufficient integrity to be

considered as a unit (Evans and Rauch, 1999). In this regard, the recent re-focus on the state among scholars of economic development has generated some significant theoretical innovations. Among these has been an emphasis on the issue of state capacity as a distinct subject of study. While development theorists have been aware for some time that in order for states to promote development they must enjoy some independence from elite control, the recent turn has stressed that even while enjoying the required autonomy, states may nevertheless lack the capacity to intervene effectively. To promote development, political elites need to not only achieve a measure of autonomy from local elites but also bolster the quality of state institutions.

The elements that go toward enhancing state capacity are manifold, but there has been some convergence around one particular element, namely, its internal cohesiveness. In order to promote development, states need to be able to act as corporate entities with broadly collective goals, rather than as the sum of the individual strategies of their functionaries. So one way to make states “developmental” is to enhance their capacity, and the means to do that is through securing their internal cohesiveness. The question then becomes, is the Botswana state as expressed in its apparatus and institutions internally coherent enough to facilitate growth and transformation of the informal sector? What do good, quality institutions mean in the case of Botswana?

While Acemoglu et al (2003) stick to the label ‘institutions of private property’, their actual historical analysis of the Botswana case focuses on political institutions, political choices and the state apparatus. Botswana’s relative success, they argue, depended on the ability of Botswana’s leadership to build a state apparatus that avoided

the coercive concentration of property rights and focused on building capacity to provide effective infrastructure. They emphasize the importance of “a number of critical decisions made by Botswana’s post independence leaders” (Acemoglu et al 2001: 1). The essence of these choices was to focus on the construction of a relatively non-coercive, resource-based, developmental state (Leith 2002). Botswana’s political leaders were able, early on, to secure a source of revenue which in turn, allowed the government to maintain a reasonably well paid, meritocratic bureaucracy in which “probity, relative autonomy and competency have been nurtured and sustained” (Parsons 1984 quoted in Acemoglu et al, 2003: 18)⁶³. In short, exceptional resource endowments and a legacy of stable political institutions gave post-independence leaders the option of tolerating political constraints in return for continued adherence to the existing ‘rules of the game’ on the part of political competitors, instead of opting for maximizing their share of the wealth and investing in the means of violence necessary to keep political competitors from doing the same. The critical question to ask at this point is does the informal sector in Botswana enjoy an equally positive institutional environment that facilitates growth and development?

As discussed in chapter 5, public policy response to the informal sector in Botswana has been precisely what one would expect on the basis of Acemoglu, Johnson, and Robinson’s institutional analysis. Yet, the empirical evidence from interviews and surveys conducted in Gaborone indicates that the impact of the government’s effort on informal sector appears to have been minimal. What explains this conundrum? I show in subsequent sections that the minimal impact of Botswana’s policies on the informal

⁶³ The main source of revenue; diamond exports, was secured through a proactive contract with a transnational diamond mining company (DeBeers) that gave the government 50 per cent of all export revenues and also through a renegotiation of the South African Customs Union (SACU).

sector especially can be attributed to a lack of synergy (cohesiveness and coherence) within the institutional framework at various scales in what I call ‘disembedded scales of institutional governance’ and a skewed distribution of power amongst agencies that does not facilitate effectiveness.

6.3 National Level Institutional Framework

At the national scale in Botswana, two major institutions and their associated parastatals play a crucial role in informal sector development. These are the Ministry of Finance and Development Planning (MFDP) and the Ministry of Trade and Industry (MTI). In this section, I examine the performance of these two very important institutions and their associated parastatals, examining how they fit into the concept of bureaucratic rationality and how they impact the informal sector. What roles do these institutions play regarding the informal sector? How effective are the relations between these primary institutions, and how does it affect their capacity to impact the informal sector?

6.3.1 Ministry of Finance and Development Planning

The MFDP is the single most important institution in Botswana for policymaking and development planning after the national cabinet led by the president (Nyamadzabo interview, Gaborone, February, 2006). As a joint Ministry that combines finance and development planning and responsible for planning and budgeting, MFDP has been quite a success story in Botswana. This institutional arrangement has helped to promote coordination between planning and budgeting activities and has avoided the many planning and budgeting conflicts that are common in other developing countries.

As the pilot institution, it is responsible for directing all economic activity and financial management of the state, akin to MITI in Japan. The Ministry is the institutional nerve centre or engine room of the Botswana's economic development process. Its overall mandate is to coordinate national development planning, mobilize and prudently manage available financial and economic resources (Gasietsiwe interview, Gaborone, 2006). Furthermore, the ministry is responsible for the formulation of economic and financial policies for economic development. The MFDP therefore plays a crucial role in prudently translating the Botswana government's strategies for development into substance.

Samatar (1999) argues that the role of the Ministry in the economic development process is in two phases, a less active role in setting government strategy through the formulation of "white papers" and a second phase which involves translating strategies into plans and projects. How is the ministry setting the agenda for informal sector development in Botswana? Clearly, the MFDP through budget statements and development plans has clearly outlined the need to develop the informal sector to help mitigate problems of unemployment and lack of income (Budgets, 2004-2006, NDPs 7, 8 and 9). It is important to mention at this point that the willingness of the MFDP to engage the informal sector and thus incorporate it into the government's development project is a bold step considering the fact that the sector borders on issues of legality and drains the government of possible revenue. To operationalize the need to develop the informal sector, the Central Statistics Office (CSO), a department within the MFDP, undertook the first ever nationwide survey of the informal sector in 1999/2000, the results of which

have been used to guide MFDP's decisions on the informal sector. The commitment to developing the informal sector is further evidenced in the establishment of Citizen Entrepreneurship Development Agency (CEDA).

The Citizen Entrepreneurial Development Agency (CEDA) is an autonomous statutory body established under the jurisdiction of the Ministry of Finance and Development Planning. It was set up in 2001 by the Botswana government in response to recommendations from both a national conference on citizen economic empowerment held in 1999 and the fourth evaluation of the long running government Financial Assistance Program (FAP) which was characterized as inefficient and unsustainable (FAP Review, 2000). The shift from FAP to CEDA marked a fundamental change in the government's strategy in enterprise development from outright grants provision to a more holistic approach which involved development of and access to entrepreneurial and management skills training, monitoring, mentoring and provision of finance through subsidized interest rates on loans. The new approach to enterprise development is captured by CEDA's slogan "*Bosa Bosele*". Literally translating as the "rising sun", it metaphorically refers to a re-awakening or re-emergence in reference to the failed and discontinued FAP project (Kayawe interview, Gaborone, April 2006). CEDA also underlies a national project to combat a perceived problem of lack of entrepreneurialism that has bedeviled Botswana society. This sentiment is well articulated by former president Mogae when he stated that "we are using schemes such as CEDA to force a transition from the agrarian conditions in which most of our people lived to a more enterprising community of citizens" (Mogae, 2007).

As the 2006 CEDA annual report clearly states, the guiding principles and objectives of the agency are as follows,

- *the overriding principle is one of additionality; in that enterprises nurtured by CEDA must add value to the economy.*
- *foster citizen entrepreneurship and empowerment through encouragement of local entrepreneurial culture and increasing the level of entrepreneurial skills.*
- *to achieve economic diversification in line with National Development Plans.*
- *encourage the development of competitive and sustainable citizen enterprises by rewarding competitiveness and discouraging inefficiency.*
- *create sustainable employment opportunities through development of sustainable citizen enterprises.*
- *improve efficiency in the delivery of services to business, in particular the small business support services (e.g. advisory and training services), which have been of inferior quality and poorly marketed in the past, by delivering these services more effectively through more thorough preparation.*

The shift in emphasizes from outright grants to a specific focus on the development of viable and sustainable citizen owned business enterprises is an indication of the commitment of the Botswana government to enterprise development under CEDA. Assistance provided is therefore aimed at ensuring improved access to finance and entrepreneurial training for citizens, to better equip them with the requisite skills for running businesses and, in the long-run, engage in sustainable economic activities. As an institution, CEDA's operations span all sizes of business enterprises from very small to very large. However the main focus in this segment is on CEDA's assistance to small enterprises.

An important aspect of CEDA's activities is to provide targeted loans at subsidized interest rates. This is a critical function because, as discussed in chapter 4, one of the most important and prevalent problems micro-enterprises face in Gaborone is

access to finance. As such the provision of loans at subsidized interest rates provides a soft window for Batswana who wish to start or expand their business operations⁶⁴. It is important to note that support for projects that qualify under the small/micro-scale assistance are wholly reserved for citizen owned projects. This is consistent with the country's "reservations policy" that limits the participation of non-citizens in specific sectors of the economy and at specific scales in an attempt to shore up the capacities of indigenous entrepreneurs. This is what Evans (1995) refers to as midwifery as the state tries to promote rather than police this mode of production. In a nutshell, through reservations, the Botswana government incubates and shelters citizen owned informal enterprises to facilitate growth and competitiveness.

The minimum amount of loans disbursed under the micro/small scale assistance is P500 (approximately \$US80) and the maximum P150, 000 (US\$23,000). An interest rate of five percent (5%) per annum is charged on these loans. Repayment periods generally vary according to the size of the loan and the project cash flow, but generally the smaller the loan amount, the shorter the repayment period. The maximum repayment period is 60 months or 5 years, with some flexibility for projects of a special nature in sectors such as agriculture (urban and peri-urban agriculture included). There is also a grace period on the repayment of loans, which varies depending on the implementation schedule and gestation of the project but is generally not more than 24 months. In sum,

⁶⁴ 70 per cent of CEDA's clients represent start-ups while the remaining 30 per cent constitute those in existence (Matsheka, 2007 - CEDA refocuses loan facility 31 October, 2007 – Daily News).

CEDA ensures that the repayment of loans is tailored to the capacities and capabilities of beneficiary micro-enterprises⁶⁵.

CEDA also manages a Venture Capital Fund established with P200 million to provide risk capital to citizen owned projects, and joint ventures between citizens and foreigners. It offers seed capital to businesses with local shareholding. Partners then join management of the company with a maximum of 49% shareholding, depending on the proportion of funds injected. They quit the board and dispose of shares when the loan is fully paid. The objective is to help relieve the equity capital constraint, which affects most citizen investors. As recently as April, 2007, it instituted a new program; the Young Farmers Fund (YFF); set up to combat the highly pervasive youth unemployment problem.

However CEDA is not just a finance institution. An important aspect of its mandate is to provide training, monitoring and mentoring programs for enterprises under its umbrella. The objective is to pair new enterprises with local private sector business consultants and to facilitate access to other government programs to train and mentor citizen businesses on management and marketing skills, thereby enhancing prospects of success of their programs (Matsheka interview, 2006).

The objectives of CEDA require a framework of specific requirements from citizens accessing loan funds from CEDA. The overriding principle in the specific

⁶⁵ However CEDA's repayment conditions have been characterized as harsh and unrealistic especially regarding the grace period for repayment of loans. Some members of parliament have even argued that since it was founded CEDA has often given Batswana headaches when it was actually formed to make life easier for budding entrepreneurs. They argue that it is time government considered extending both grace and repayment periods for CEDA loans, especially in view of the slow rate at which business sectors such as agricultural undertakings generate profit. The public outcry and MP complaints led to the Minister of Finance Baledzi Gaolathe assuring Parliament that the Agency's loan repayment policy would be reviewed (Daily News, November 26, 2006).

requirements is to identify and nurture a committed entrepreneur with a viable and sustainable business idea. As a result, CEDA clearly states in its guidelines specific criteria that must be met for assistance. These criteria and guidelines determine the inclusivity of its programs, determining who gets assisted or otherwise. In order to assess CEDA's performance regarding the micro-enterprise sector, it is important to interrogate its performance record vis-à-vis criteria for assistance and ground truths through interviews conducted in Gaborone. Such an approach allows for a comprehensive, multifaceted and thorough assessment of performance and creates space for identifying shortfalls and room for improvement.

Since inception, CEDA has approved a total of 1,807 projects valued at P995 million, creating 14,903 job opportunities. The service sector received the largest share of funding at 40 percent; while the agricultural sector received 19 percent; manufacturing 15 percent; retailing 14 percent; and property development 11 percent, as at the end of December 2007. The CEDA Venture Capital Fund financed projects are expected to generate 956 employment opportunities, while the CEDA Credit Guarantee Scheme has created 897 jobs, also as at December 2007. The CEDA Young Farmers Fund has approved 42 projects valued at P14.9 million, since it was established in April, 2007 (2008 Budget).

To be eligible for CEDA services, individuals or enterprises must satisfy a set of criteria that I argue undermines the ability of informal sector enterprises to fully participate and benefit from the scheme. The criteria include the legality of businesses as well as their viability (CEDA application guidelines, 2006).

First, the legality clause which requires prospective entrepreneurs to secure the necessary registration, licenses and permissions for a proposed project, as required by law, though legitimate, clearly limits the participation of informal sector enterprises most of which operate without these requirements⁶⁶. Thus despite the high visibility and knowledge about the operations of CEDA (98% of enterprises interviewed knew of the existence of the agency), not a single informal enterprise interviewed recorded benefiting from the agency.

Secondly, to demonstrate viability, businesses are required to submit detailed business proposals and plans as part of the loan application process. Viability is evaluated according to the five main criteria: management, market, projected profitability, sustainability, and anticipated growth of the business (Kayawe interview, 2006). Also, regular reports are required of all approved projects after approval to monitor progress, costs of which are borne by the enterprise. Considering the fact that over 65% of respondents in the informal sector survey had only basic (primary) education, it is obvious that such a requirement places tremendous limitations on informal sector enterprises to engage CEDA meaningfully. Basing its argument on viability, CEDA has recorded extremely high rejection rates especially in the micro-enterprise/small business category (Matsheka interview, 2007). In fact it totally stopped funding ventures in particular sectors of the economy especially trading because it argued that the market was saturated. Though such actions are justifiable as CEDA attempts to protect its

⁶⁶ The legality clauses also include securing necessary land and premises from which the project is to operate.

investments, critics have slammed such actions as contrary to the governments empowerment drive (Mmegi, 2007).

In all cases, promoters are encouraged to contribute towards the project cost as equity or owner's contribution to share the risk, show some commitment and confidence in the project, as well as to lighten the burden of repayment (Macholo interview, 2006). Contributions may be in cash or in kind or a combination of both. Also all assets financed by CEDA are automatically used as security by CEDA (Guidelines, 2006). In addition, where there are no fixed assets funded by CEDA or funded assets do not provide adequate security; promoters are required to pledge other properties or assets as security or to sign personal guarantees or sureties in lieu of such securities (Matsheka interview, 2006). Such assets are reclaimed and auctioned when enterprises default on loan terms as CEDA tries to recover its investment. Figure 6.1 below clearly captures what happens to recovered assets. Considering the fact that the survey results indicate Gaborone's informal sector as incipient and serving a welfare function; that is most participants are engaged in the sector for survivalist and not profit making reasons, CEDA's stringent cost sharing and security requirements disadvantages and ultimately, excludes micro-enterprises which generally find it difficult raising startup capital and thus limits possibilities of benefitting from CEDA.



Fig. 6.1: Roadside advertisement of recovered assets by CEDA. Gaborone, January 2006

CEDA is set up to forestall the pitfalls that characterized its predecessor, FAP. As a result, its framework for operations have been developed with a view to dealing with some key management issues, namely the need for a sound infrastructure to enable thorough appraisal of projects, mentoring of entrepreneurs, monitoring, and evaluation of the managerial effectiveness of projects (Matsheka Interview, 2006). In order to address these issues, CEDA is set up as a relatively autonomous organization answerable to the government through its Board of Directors. The accountability of CEDA to government is crucial in that it is bankrolled by the state. The MFDP, responsible for monitoring the effective implementation of government plans and projects, plays a crucial role in the workings of CEDA through appointment of the Board of Directors. The Board of Directors' chief functions are to direct, monitor and control the strategic direction of CEDA, ensuring that sound business policies are practiced and the objectives of the

agency are met. The control of the Board by the MFDP ensures that government as CEDA's main financier has a prominent position in the operation and direction of the agency. However the MFDP is not only interested in reigning in CEDA as a parastatal. Intent on avoiding the pitfalls of its predecessor FAP, the MFDP appoints representatives from the commercial sector, government and non-government agencies. In this way, commercial sensibilities balanced with the social responsibility of government come to bear on the operations of CEDA.

To enforce its mandate, meet its objectives and safeguard its integrity as an institution, CEDA's internal organization approximates what Weber refers to as bureaucratic rationality. CEDA is professionally managed, headed by a Chief Executive Officer (CEO) who is accountable to the Board of Directors (See appendix 6A and B for CEDA organizational charts). The main role of the Chief Executive Officer is to lead the management team by providing long-term strategic vision to ensure that the objectives of CEDA are met as an agency for the development of citizen entrepreneurs (Matsheka Interview, 2006). Further, it is the role of the Chief Executive Officer to manage the agency to achieve success in improving the managerial ability of citizen entrepreneurs who borrow from CEDA. The CEO is held to the highest of standards by his appointers, the MFDP, who use the renewal of contracts every three years to leverage performance. As an example, in June 2006, the Minister of Finance and Development Planning dispatched the Auditor General to thoroughly examine the financials and operations of CEDA as a precondition to the renewal of the CEO's appointment.

The high level of accountability of the CEO is transcendent through the agency with rule bound and professionally trained bureaucrats committed to the success of CEDA. The agency is characterized by an elaborate hierarchical division of labor directed by explicit rules impersonally applied (see appendix 6C). Rules and guidelines on the qualifications and key responsibilities of the main category of staff are clearly documented in the operation manuals of CEDA. With a very attractive and competitive remuneration structure, job security and manifold opportunities for upward mobility, CEDA is able to attract and keep some of the most qualified personnel on the job market (Machiba – Human Resource Manager Interview, March, 2006).

In addition to the meritocratic bureaucratic culture evident at CEDA, the agency is organized and structured to facilitate the ability to meet its mandate. A Research and Development Department exists to support the requirement of CEDA for quality information and for the identification of sound business opportunities. The department is also tasked with ongoing communication with various Government departments to acquire and to disseminate information impacting on potential entrepreneurs (Kayawe, 2006).

An operations department consists of Branch Officers, Business Development Officers and support staff. The role of Branch Officers is to review decisions made by the Business Development officers. The Business Development Officers are responsible for projects from application to implementation and through the monitoring and mentoring stages i.e. from application to successful completion.

The financial department is responsible for financial controls and implementation with the objective of monitoring the successful achievement of projects against certain predefined key indices. In addition, there is reporting on the overall financial state of CEDA. Likewise, an internal audit department functions to ensure that there is internal compliance with procedures and that there are sound controls in place to prevent undue risk.

An Information Technology Department is responsible for the provision and maintenance of the infrastructure to enable good communication channels with Government Departments, commerce and other bodies. A Public Relations and Marketing department is responsible for marketing CEDA and its objectives widely and accurately. The department receives and re-directs complaints and disseminates information to the public at large and the investor community on the achievements of CEDA. A Human Resources department ensures that employees are adequately trained, remunerated and have adequate working conditions to meet the objectives of CEDA.

Finally CEDA has Technical Advisors who are line specialists coming from Government departments or from commerce. Technical Advisors ensure that CEDA is embedded with other relevant government departments in enterprise service delivery.

6.3.2 Ministry of Trade and Industry

The Ministry of Trade and Industry (MTI) plays a crucial role in Botswana's incipient informal sector development. As the survey results show, the majority of informal sector businesses in Gaborone are trade and manufacturing oriented and thus fall under the purview of MTI. The Ministry is primarily responsible for business promotion

and industrial development and plays an important role in the economic diversification project of the state. The Ministry is charged with the responsibility to create an enabling environment for private sector growth, attracting investment and promoting exports, and negotiating trade agreements amongst others.

From its inception the MTI has been responsible for development and promotion of wildlife, tourism, consumer protection, trade licensing, industrial licensing, registering of companies, intellectual property rights issues, setting of petroleum prices, entrepreneurial development and small business promotion. As a result of a Presidential Directive (decree) in 2001, the Ministry was reorganized and strengthened to focus on policy formulation, implementation and monitoring instead of regulation. Amongst parastatals and institutions subordinate to MTI and responsible for informal sector advancement are the Local Enterprise Authority (LEA), Small Business Council (SBC) and Small Business Promotion Agency (SBPA)

The Presidential Directive (2001) to reorganize the Ministry included the creation of a Local Enterprise Authority (LEA). LEA was officially established by the Small Business Act of 2003 of the Republic of Botswana. It is a statutory specialized autonomous agency whose mandate is to take over the responsibility of implementing policies and programs for promoting local entrepreneurship development in a consolidated manner. As a result the agency, since establishment, has amalgamated the responsibility for entrepreneurial development such as the Integrated Field Services and Small Business Promotion Agency, previously departments embedded within the MTI. LEA was thus created to become a coordinated and focused one-stop-shop Authority that

will provide support services to the local industry needs of SMMEs, encompassing training, mentoring, local and international marketing, technology support and product development (RoB, 2003). Its establishment was another effort of the Botswana government to assist in the conceptualization, development, operations and growth of the SMME sector such that the enterprises meaningfully contribute to the growth and diversification of Botswana's economy.

According to the Small Business Act of 2003, LEA's functions include:

- The provision of assistance to SMEs as they setup by supporting them in the development of business plans and undertaking feasibility studies.
- Supporting SME and guiding their transition from one level or size to the next growth phase by ensuring that they are given adequate support should they need to approach financial institutions for funding, and then LEA would guide them in the preparation of their application for finance.
- Improving coordination and communication between support structures for SMEs and SMEs.

The LEA has as one of its functions to facilitate the access to funding for enterprise development as well as expanding existing enterprises through regular consultation with financial institutions. The financial institutions available to LEA to promote the access to funding include CEDA, commercial banks, the National Development Bank and Peo Holdings, a joint venture between government and De Beers Botswana.

LEA is a relatively very young institution. At the time of undertaking field research, it was operating under the direction of a Board and a Chief Executive Officer,

who were charged with the responsibility of setting it up and providing it with long term strategic vision to attain the organization's objectives as set out in the Small Business Act (2003). It is thus difficult to fairly assess its performance.

The Small Business Act also established the Small Business Council (SBC). The SBC was instituted to facilitate the development of the SMME sector. It is located within the MTI and its members are appointed by the Minister. The council is responsible for:

- advising the Minister on all matters pertaining to the formulation of policies and programs as well as the promulgation of legislation to regulate the operations of SMMEs, to ensure that the interests of this sector are adequately provided for.
- reviewing the impact of government policies and regulations on SMME development and making recommendations as to policy and regulatory changes in order to promote SMME development and
- monitoring the growth of the SMME sector and playing an advocacy role in addressing the problems and needs of the sector.

From the above stated functions, it is obvious that the SBC was set up as an advisory body representing SMME interests and concerns and not program delivery (Dimbunu interview, December, 2005). The mandate of the Small Business Council includes, among others, and I quote:

- *to review the impact of Government policies and regulations upon citizen enterprises and make recommendations as to policy and regulatory changes in order to promote citizen entrepreneurial development.*
- *to monitor the health, problems and needs of citizen enterprises.*
- *to develop proposals for new projects and programs to strengthen citizen enterprises.*
- *to oversee the monitoring of all support programs that impact upon citizen enterprises.*

Finally, the Small Business Promotion Agency (SBPA) was mandated to implement the Small, Medium and Micro Enterprise (SMME) Policy of 1999. The Policy provides a comprehensive framework for the development of SMMEs cutting across the economy. The Agency provides business training programs, mentoring and counseling services, through the engagement of qualified consultants in the areas of basic business management, marketing and record keeping countrywide. Technical skills training support and advisory services are also provided simultaneously with these other programs. Training costs are met by the agency, which in turn requires a nominal contribution from the clients. Mentoring and counseling services are also provided at hourly rates and are intended to address specific areas where entrepreneurs experience problems (Dimbunu Interview, December, 2005).

6.4 The Local Context: Gaborone City Council and Informal Sector Development

Local authorities in Botswana play an important role in governance and make choices on behalf of citizens within their areas of jurisdiction. As a result, elections are held every five years to give citizens the opportunity to elect those representatives that they feel would best represent and/or articulate their needs (Mosha, 2001). Over time, however, local authorities have come to be seen as agencies for local administration of services in a predetermined manner instead of local government constituted as an expression of local choice. This perception is justified and largely attributable to top-down post independence planning which focused on provision of basic social infrastructure, which was completely lacking at independence.

The city of Gaborone is not exempt from this trend of local governance in Botswana. It is governed by a Council headed by an elected Mayor and a City Clerk. The city has elected councilors heading various Committees in the Council. The Gaborone City Council (GCC), like all local authorities in Botswana is not an autonomous body. Local authorities in the country are nowhere mentioned in the constitution and have no inherent competence derived from the constitution. The country is a unitary state and Parliament is the sovereign power with full competence in all areas of jurisdiction (Wunsch, 1998). The Council exists by virtue of ordinary Acts of Parliament (The Township Act, Chapter 40:02 of 1965 and the Local Government (District Council) Act; Chapter 40:01). These acts describe inter alia the powers and duties of councils, their regulatory instruments and byelaws as well as their sources of revenue and accounting/auditing procedures. The general duties of councils can be summarized as to "exercise its powers so as to secure and promote the health, order and good government of the area for which it has been established". (Cap 40:01/02; 29). Councils also have power to make byelaws in these areas prescribing what licenses and permits are required and what fees must be paid for acquiring them. Local governments like the GCC are therefore the implementers and enforcers of regulations. However, "no byelaw made by a council shall be of any force and effect unless it is approved by a Minister and published in the Gazette (Cap 40:01). This requirement clearly forces an articulation of scales between the local and national.

Through its role as enforcer of regulations, the GCC plays a critical role in the development of the informal sector. The GCC administers the Trade and Liquor Act

which regulates commercial activities in the economy. It does this by issuing licenses to all businesses operating within its area of jurisdiction. The GCC also derives some income from institutions (commercial premises) involved in trade and supply of goods in its jurisdiction. The most important forms of taxes in this category are licenses, market and food vendor charges, and entertainment taxes (Matenge interview, 2005). The justification for licensing is to prohibit, control and regulate trade and occupations, as necessary. General schedules of all current tariffs and charges for services in the municipality are published, while legal notices are used to cover new cases or inclusions. Taxes in this category are either annual flat rate taxes, such as licenses, or payable on use of services, such as market levies paid by traders on entry to flea markets.

However these sources of revenue form a very negligible portion of the GCC's income. In general, the GCC is funded by government through a Revenue Support Grant, known as Deficit Grant and Development Grants (Mosha, 2001). Currently the Deficit Grant accounts for 64% of the GCC's revenue. In addition, it receives 100% of its development funds in the form of grants from the Central Government. The GCC is thus totally dependent on the central government for its bread and butter. Such dependence limits the council's ability to be entrepreneurial. This assertion is buttressed by the fact that with a few exceptions (e.g. local abattoirs, wholesale traditional beer outlets), they are discouraged from trying to raise revenue by embarking upon potentially profit making businesses (e.g. provision of rental housing or public transport) due to potential problems (Matenge interview, December, 2005). In addition, government funding of the GCC is closely integrated and linked with National Development Plans. The city, like all other

local authorities, prepares a 6-year development plan which runs concurrently with the 6-year National Plan. The plan is further broken into annual plans. Once a plan is approved, funds are guaranteed by central government as such a plan would be part of the national plan. This is vivid example of the interdependence of scales with the hawkish MFDP which is responsible for development planning ensuring that the GCC tows the line regarding the national development agenda.

Although the potential for the GCC to encourage, facilitate and promote small business is considerable, mainly because it is most visible to informal enterprises and is most informed about their activities, virtually nothing has been undertaken in this regard. The status quo is due to the fact that the GCC views itself as a controller and regulator rather than as a development agent. An interview with the city Clerk (2006) highlighted various factors that inhibit the GCC from engaging in small business promotion. These include lack of a revenue base, the controlling influence which central government exerts over the establishment and implementation of development targets that do not recognize the GCC as an agent of business promotion, lack of personnel experienced or trained in business promotion, and legal rules which inhibit business development, such as the zoning regulations which local authorities are obliged to enforce.

In fact the GCC's role as an enforcer rather than promoter frustrates the incipient entrepreneurial spirit within the informal sector, a trend contrary to the National government's development strategy of enhancing citizen economic empowerment through entrepreneurship. The increasing number of traders and micro-enterprises in Gaborone are seen as a problem because of non adherence to the rules of the game e.g.

acquiring of licenses and adhering to zoning regulations. Informal sector enterprises are the hardest hit as their scope of operation is limited and access to serviced and suitable land from the GCC is nonexistent which is also compounded by restrictive land legislation and policies. Thus the GCC is empowered by restrictive laws at the expense of informal entrepreneurial encouragement and development.

The contentious relationship between the informal sector and GCC is best illustrated with the Caravans scattered all across Gaborone. Caravans being physical structures have a bearing on physical planning in Gaborone. This means city council has rules and regulations covering their operation, how and where to locate. City Council byelaws require operators to clean up around their businesses and maintain a standard of cleanliness. There is also a payment of license fees on an annual basis. However there is ineffective enforcement of rules and regulations. The lack of a clear policy on caravans by City Council makes it difficult for GCC authorities to operate effectively. Interviews with Caravan operators clearly indicated that it was almost impossible to judge whether they were meeting council standards since they were vague and unclear. The majority of caravan operators interviewed did not have valid operating licenses or they were long expired thus exposing them to regular visits and threats from council byelaw enforcers.

An anonymous GCC official, who deals with licensing of small businesses and law enforcement, indicated in an interview that the city council had no regulation concerning caravans because they did not issue caravan licenses. He claimed that informal operators applied for trade or hawker licenses with the understanding that they were going to sell uncooked food and other merchandize. However after license

acquisition, they illegally sell or operate caravans. The officer stated however that in cases where entrepreneurs wanted to locate near an industrial site, it was up to such an owner to give consent. Once consent is given, it is considered legal and such enterprises escape raids and eviction by council officials. The officer indicated that council did not issue caravan licenses because cooking food involved both health and hygienic issues for the cook and consumer. Because caravans operate in areas with no water, sanitary facilities and unhealthy environments in general it is difficult for council to issue licenses on grounds of public health. In cases where they are located near industries, the situation was much better. The relationship between caravan operators and the GCC is symptomatic of the relationship between Gaborone's informal sector and the city council.

6.5 Connecting the Dots: Institutions, Capacity and Informal Sector Development

In this section, I assess how well the institutions discussed in the previous section fit the developmental state model and how this serves or otherwise the informal sector. This is done by exploring the power relations between the institutions of state and how well they fit into the bureaucratic rational model. From the detailed discussions above, suffice it to say that the parastatal agencies described are designed to be specialized extensions of the state's administrative machinery, positioned under two central ministries: the Ministry of Finance and Development Planning (MFDP), and the Ministry of Trade and Industry (MTI). It is true that Botswana's administrative machinery is ill-suited to an effective strategic engagement of the state within the market for the purpose of informal sector development. Botswana's institutional framework suffers from some of the pathologies of a highly centralized and hierarchical bureaucracy that works well

for macroeconomic management but proves stagnant and even moribund in dealing with the dynamic complexities of informal sector development through partnership.

It is apparent that Botswana's institutional setting is a near-approximation of the Weberian ideal of bureaucracy with its hierarchical organization, departmentalization, division of labor, specialization, division of responsibility, the application of the merit principle, specific responsibilities assigned to every position in these institutions in the form of job descriptions, and responsibilities defined by the Constitution. The strength of this system is that it is well rooted in the normative foundation of public administration in democratic polities, which rests on regime values, constitutional theories and citizenship theories, among other things (Cooper, 2004). Boundaries serve many purposes. They establish in clear terms who has legitimate access to certain decision-making arenas, and who is responsible for what. They make it possible for those who occupy senior positions to exercise control and hold subordinates to account for their decisions and activities. Botswana's doctrine of ministerial responsibility is logically consistent with these forms of bureaucratic boundaries.

However, these established boundaries of bureaucratic organization have come at a cost to the country's ability to engage the informal sector in achieving economic development. Barbara Carroll and David Siegel's (1999) work on the pitfalls of bureaucracy provides an instructive analytical lens for evaluating Botswana's challenges in certain policy implementation, especially economic diversification and citizen empowerment. They argue that there is too much of rigid hierarchical relationships between certain ministries and their field agencies in ways that constrain the autonomy

and managerial flexibility of the latter. Paradoxically, such hierarchical rigidity has tended towards a lack of unified or unifying organizational vision or culture, creating a situation where one finds divisions in orientation and perspective not only between ministries and parastatals, but also between agencies that are supposed to have interrelated and synergistic mandates.

There is also the lack of embeddedness of public agencies within their environment of operation as a result of the preoccupation of certain central ministries, especially Ministry of Finance and Development Planning (MFDP), with seeking to achieve responsibility and responsiveness from public agencies. Senior level bureaucrats are often preoccupied with establishing and maintaining mechanisms to ensure that subordinates in field agencies are complying with head office rules and procedures. This is not necessarily a bad thing, and is arguably necessary in a democratic system. Yet preoccupation with this goal often conflicts with agents' need for some relative freedom to be responsive to local situations within a given sector of the economy. MFDP's operational ethos has been characterized as one of command and control of processes in ways that reveal a lack of intimate understanding of clients' needs whereas subordinate agencies like CEDA tend to be more attuned to those needs yet subjected to all the stifling controls from above (interview with a senior official at the Botswana Institute for Development Policy Analysis (BIDPA), October, 2005). In other words, there exists a great divide, a fractured reality that separates the "worlds" of ministries and parastatals both vertically between ministries and agencies and horizontally among agencies.

Another dimension of Botswana's bureaucratic organization is the uneasy tension between the equally compelling goals of differentiation and integration. Differentiation refers to the need for a division of labor so that each organizational unit has a set of specified duties and responsibilities, whereas integration is concerned with the coordination of activities of these separate units. While MFDP and the Ministry of Trade and Industry (MTI) share different responsibilities and definitely need clear distinctions in their operational mandates, much fragmentation in policy implementation could be overcome by a closer coordination between these two ministries (interviews with an official at Botswana Export Development & Investment Agency (BEDIA), September, 2005). Failing to integrate their operational strategies has tended to create conflicting priorities and uneasy tensions between MFDP, more preoccupied with financial conservatism, and MTI which has an operational predisposition towards development resource allocation. Given the hierarchical superiority of MFDP, the general policy stance tends toward fiscal conservatism. Different signals from different ministries and senior bureaucrats leaves subordinate agencies confused and torn between conflicting policy priorities.

In a nutshell, the administrative machinery and institutional setting of Botswana is highly bureaucratic, hierarchical, and overly centralized in the MFDP. This has resulted in three interrelated problems of institutional rigidity (or lack of agency autonomy and flexibility); organizational fragmentation (or the lack of interlinkages between agencies); and weak legitimacy (the failure of agencies to be well embedded in relational networks with private sector partners, in this instance the informal sector).

The over-centralization of policy formulation, implementation, supervision and implementation within MFDP is hardly conducive for building the government's capacity in network governance for informal sector development, among other things. This has worked well for the management of the macro-economy. However, achieving informal sector development requires an entrepreneurial state engaging in strategic and fluid partnerships with micro-enterprises in overcoming structural constraints and nurturing entrepreneurial capacities.

Chapter Seven

Re-imagining State-Informal Sector Relations

7.1 Introduction

The purpose of the thesis was to revisit the informal sector, examine its relationship with the state, specifically how state institutions, policies, and regulations impact the informal sector. The literature on the state and informal sector characterizes the relationship as highly antagonistic, leaving little room for positive engagement and mutual development. However, I have argued that such a premise is highly problematic. The literature treats the state as an undifferentiated category especially in the case of Africa. Informed by neoliberal theory, the state is lumped together as a gorgon, highly inefficient and ineffective, and thus must intervene minimally in the market. On the contrary, informed by the work of Samatar and Samatar (2002) and Evans (1995), I have argued that there are different types of states with different capacities to deliver. The thesis thus focuses specifically on the “developmental state” and its relationship to the informal sector. The chapter is divided into two major sections. In the first section, I summarize the research findings and recommend solutions that will help streamline and stabilize state-informal sector relations for mutual benefit. In the second section, I articulate the theoretical contributions of the findings and thesis.

7.2 Gaborone’s Informal Sector: Research Findings

The result of the research shows that the informal sector in Gaborone serves as an important livelihood strategy for the many engaged in it through income and employment generation. This fact is well supported by the voluminous literature on the urban

informal sector in Africa (Owusu, 2007; Ologunde and Ako-Nai, 2005; Sethuraman, 1997). In addition, Gaborone's informal sector is survivalist. It is dominated by retail businesses followed by service and manufacturing businesses respectively. The dominance of retail sector in Gaborone has serious implications for the long-term viability and prospects for growth of the informal sector. This is because the activities in question are residual in nature and result in far too many people selling almost the same items and thus generating intense competition. The most successful firms are however found in the manufacturing sub-sector, and to some significant extent, the service sector. Such firms are run by entrepreneurs with some primary or post primary education, and exhibit certain business practices not characteristic of the rest. This suggests to a large extent that training does influence business behavior and could be beneficial to informal sector enterprises.

The findings also strongly suggest that the manufacturing sector is the most difficult to participate in with constraints such as lack of suitable premises, lack of prerequisite skills and finance being prevalent. The problem of securing serviced industrial plots or working space in Gaborone is nationally recognized. Under the circumstances, it is clear that those seeking working space are seriously disadvantaged. Such problems have the potential of seriously undermining the goal of having the informal sector play a seedbed role in the industrialization process.

A gender analysis of the informal sector shows that men slightly dominate as owners of enterprises. The result is contrary to findings in the informal sector literature as well as other research in Botswana (CSO, 2001). Such discrepancy can be attributed to

the operational definition of the informal sector adopted for this research. In as much as permanent or semi-permanent physical structures were used as a criterion in defining the informal sector, it excluded a very significant, vibrant and largely female dominated category of hawking. A further analysis of sex and sub-sector of operation however shows a largely conventional division. Women are particularly pronounced in retail activity compared to the manufacturing and service sectors where men provide a notable rivalry. Hence the retail sector provides the necessary and readily available safety net for otherwise unemployed women. Food vendors (locally referred to as caravan ladies) are an especially visible and prevalent group in Gaborone and they are mostly women. Gendered division in particular sectors of the informal sector supports strains of the informal sector literature which argue that women concentrate in areas of economic activity that are compatible with their productive roles, particularly those which are an extension of domestic labor and household production (Anushree and Khan, 2008; Rakowski, 1994). The prevalence of women in the retail sector is also attributable to lack of necessary education and skills required in other sectors.

Most operators depend on their own savings and also credit from other private sources, which generally tend to be exploitative. In as much as these sources sustain enterprises and enable survival, they cannot be relied on for major investments in order to achieve self sustained growth. Such an upward trend in growth on the other hand is essential if micro-enterprises are to develop into medium and large scale enterprises. In other words there is the need for a substantial infusion of capital into the micro-enterprise sector coupled with good management to ensure growth.

Sole proprietorship as a form of business ownership dominates the informal sector, a largely conventional distribution, followed distantly by family ownership and partnerships. The highest numbers of sole propriety enterprises are in the retail sub-sector, followed by the service sub-sector and manufacturing. The dominance of sole proprietorships in Gaborone cannot come as a surprise because it is not a unique phenomenon. However this trend has serious implications for the viability and ability for micro-enterprises to expand.

Informal enterprises produce goods and services using a very low level of technology. Almost all the enterprises covered in this study are poorly equipped in terms of tools, equipment and machinery and also workshops. Often ingenuity and resourcefulness have to be applied in the use of these resources for the survival. The inadequacy of tools as well as their loss and damages are problems informal enterprises deal with persistently.

A study of linkages within the informal sector and between the informal and formal sectors is important because they play an important role for the formulation of strategies for the promotion of the sector. They also determine the nature and scope of intervention in the sector. The thesis shows that in Gaborone, in the context of customers, market, inputs and output flows; inter-sectoral linkages do exist albeit very limited magnitudes. There are weak direct inter-sectoral linkages between the informal and formal sector enterprises. On the other hand there are strong linkages within the informal sector itself; particularly between the manufacturing and service sectors on one hand and the retail sector on the other. Thus the mode of operation of micro-enterprises and hence

their survival and sustenance depends very much on their own internal sources of strengths and weaknesses. These features are likely to have both direct and indirect effect on the capacity of the informal sector enterprises to generate and sustain employment and income.

The growth of informal sector enterprises is very important if they are to meaningfully contribute to Botswana's development. Growth, referring to increased output in goods and services, increased patronage and hence increased level of profits generated by enterprises as well as employment showed mixed results. Over two-thirds of sampled enterprises indicated that their enterprises had grown. In this category, manufacturing enterprises recorded the highest incidence of growth. In addition, over 70% of enterprises had plans to expand their business. However, the employment characteristics of enterprises indicate a low potentiality for growth and support the survivalist argument. The survey results show that the majority of informal enterprises are owner operated ventures meant for self-employment of individuals and with no permanent employees. Secondly, less than 5% of enterprises had plans to employ workers. Within this cohort, operators intend to increase the size of their workforce by taking on more family labor and other types of employees but not wage labor. It is evident that a significant proportion of the enterprises seem to have reached the upper limits in the employment generation at rather low levels. Operators seem not to be interested in increasing the size of their workforce despite actual or potential good business performance. The pertinent question ask is: how is the state improving and

enhancing productivity, income and employment levels in lieu of the operational characteristics and constraints facing informal sector micro-enterprises?

Based on the operational characteristics of the informal sector, the following recommendations are pertinent:

- Since it has emerged that the majority of enterprises are individually owned, it is important to start encouraging and nurturing other forms of ownerships that encourage collective effort such as partnerships and cooperatives to ensure synergies and sharing of ideas between members of the group and facilitate productivity.
- The government must revisit its procurement processes and requirements to create a window within which the informal sector can easily sell to and access the government market. This is especially critical since inter-sectoral linkages are weak in Gaborone's informal sector. Creating such linkages will generate growth in the informal sector.
- An effort should be made at ensuring that the informal sector has permanent structures from where to operate as most of them actually operate from foot paths, streets, residential areas and open spaces. In a bureaucratic rational state where rules and regulations are enforced to the letter, stringent implementation of zoning regulations coupled with the lack of availability of serviced plots has led to some conflicts and antagonisms that characterize the informal sector literature. To circumvent this problem, it is incumbent on both the central government and

Gaborone City Council to diligently work together to set aside designated spaces from which informal sector enterprises can operate.

- Poor equipments tend to be a drag on informal sector productivity. Technological upgrading or modernization appropriate for micro-enterprises especially in terms of the use of tools, equipment and other techniques of production and organization are therefore necessary. The use of simple, but modern tools appropriate for the level or volume of work will help micro-scale production and service enterprises achieve higher levels of efficiency in the production and delivery of goods and services. Having summarized the operational characteristics of the informal sector, how is the Botswana government engaging the informal sector and how successful has it been?

7.2.1 Policy Environment

Interest of the Botswana government in the informal sector is largely motivated by a desire to fight unemployment, poverty and to generate upward mobility and empower its citizens. Although there is no comprehensive informal sector development policy, successive governments have long realized the potential and importance of Small, Medium and Micro enterprises (SMMEs) in creating jobs and generating income since support from the formal sector has been limited in this regard. As elaborated in chapter 5, the acknowledgement of the informal sector is evidenced in Botswana's Industrial Development Policy and successive National Development Plans, key documents that guide the government's overarching development project. Therefore encouraging the

informal sector constitutes one element among several aimed at boosting industrial development in Botswana.

Botswana's SMME policy which clearly articulates the intention of developing informal sector is an integral part of the government's strategy towards industrial development and economic diversification. Though the policy is not specific to informal sector development, nevertheless, it provides a framework within which the informal sector can be nurtured. The SMME policy is meant not only to create an enabling environment for informal enterprises to flourish but also grow and eventually become self-sustaining. The policy is also intended to develop citizen entrepreneurship and empowerment and thereby increase the proportion of citizens' participation in economic activity. The policy also focuses on promoting integration and linkages between SMMEs and primary industries in agriculture, mining and tourism. More importantly, the SMME policy's emphasis is on institutional arrangements to encourage and support entrepreneurship, streamlining and simplifying the regulatory process involved in setting up of micro enterprises. An important aspect of the policy is targeted at increasing access to finance. This objective is exceedingly important as many informal sector enterprises experience financial constraints posed by majority financial institutions which refuse to extend credit in the absence of collateral and insufficient contribution of owners. The SMME policy is also focused on creating market opportunities for informal enterprises. The articulation of the SMME policy clearly indicates the need to help micro-enterprises evolve. However the question is has good intent articulated through existing policy evolved into practice in Botswana?

The findings show that Botswana has adopted a holistic strategy in its support for micro-enterprises development. Its policy framework clearly shows both supply and demand side approaches have been adopted in the effort to engage the informal sector. For example whilst facilitating access to finance and credit through programs such as the Citizen Entrepreneurship Development Agency, the government has also attempted to create the necessary market for products through its Local Procurement Program (LPP). In addition, the governments Reservation Policy has created the necessary space and incubation for micro-enterprises to gain a foothold in a highly competitive market economy. This approach to enterprise development is different from other countries in Africa that tend to adopt either supply-side or demand-side approaches. Botswana's appropriation of both strategies in an attempt at informal sector development therefore makes it unique and points to its developmental nature, characterizing it both as a facilitator and promoter of microenterprise development.

However, adopting prudent and holistic policies and strategies towards the informal sector is not sufficient to guarantee the development of the sector. As clearly stated in chapter 5, informal enterprises are inadvertently excluded from the myriad of government programs set up for their benefit. Such strategies must be supported and complemented by the appropriate regulations to facilitate informal sector development. Subsequently, there is the need for reforms in two areas:

A) Regulatory Environment

The regulatory environment for micro-enterprise operation in Botswana has been counter-productive and continues to undermine the government's stated goal of positively

engaging the informal sector. One pivotal legislative instrument, the Trade and Liquor Act is particularly worthy of mention. The Act delegates authority to local governments to issue operating licenses and regulate trade in their areas of jurisdiction. Regulations associated with the Act also stipulate processes for obtaining and conditions on the operations of each license specify the types of goods that each license holder can or cannot sell and in some cases, stipulate trading hours for some license categories. As discussed in the chapter 5, and using Phone shops/kiosk regulations as an example, it is obvious that the processes and requirements for obtaining a license are quite cumbersome and serve as a deterrent to entrepreneurship especially in the informal sector considering their operational characteristics. Generally, enterprises that are most dissatisfied with the regulatory environment are mainly retail and service enterprises. It is equally true that they constitute the largest segment of enterprises that do not comply with most regulations. It is clear that the existence of any set of regulations does not deter new businesses from entering the informal sector, nor remaining in it, again an indication of the survivalist nature of Gaborone's informal sector. It is not surprising for example, that despite the insistence by the Gaborone City Council on certain demands, Gaborone's flamboyant food vendors or Caravans Ladies keep mushrooming around the city. The informal sector thus represents a segment of the business community which will get on with business despite what the law says. These enterprises engage in legitimate economic activities but without having complied with all the major legal requirements governing such business.

Recommendations

A vast majority of informal sector operate under semi-legal or illegal conditions in the sense that they do not comply with one or more existing regulations. Regulations essentially define the framework within which the enterprises conduct their business. Presently, the government and local authorities are empowered by restrictive laws at the expense of entrepreneurial encouragement and development. To acquire a trading license for example is more often than not too complicated, lengthy and to a greater extent frustrating. The need for general regulations which relate to and govern for example the health, safety and sanitation aspects of micro-enterprise activities is recognized as absolutely essential. However, it is also recognized that while they are so needed for the welfare of the community they are intended to serve, they nevertheless inadvertently inhibit the operations, growth and progress of micro-enterprises. Regulations such as registration and licensing should therefore be monitored closely to ensure that they do not stifle growth.

In this regard, Botswana is well known for the recurrent reviews of government programs and activities to ensure efficiency. However, regulations impacting informal sector operations have not benefitted from this status quo. Recurrent reviews of informal sector regulations with input from stakeholders will help reduce the regulatory bottlenecks micro-enterprises face.

It must be stated that regulations are instituted for a particular purpose and are a necessary tool in Botswana's overarching development project. For example in an attempt to guide the market, CEDA using market saturation as an excuse rejects over 90% of applications from the retail sector and is more willing to grant loans to

manufacturing enterprises. This is clearly an attempt to make the manufacturing sector more vibrant, competitive and the engine of growth of the economy compared to retailing which generates very few jobs. Though they may come as a cost to the informal sector, regulations should not always be seen as negative but also as an instrument to guide an overarching development project. The intent here is not a blind critique of regulations but an assessment of the regulatory environment to eliminate unnecessary or badly conceived regulations that hinder progress.

B) Institutional Reform

The institutional environment was defined in this research as organizations through which rules are operationalized, specifically focusing on governmental and quasi-governmental institutions. It was important to analyze the institutional framework because it is an important conduit of state policy formation and execution. As discussed in chapters 3 and 6, Botswana has had a long history of developmentalism. It has transitioned from the bottom ranks of the world order at independence in 1966 to a middle income status. This transformation I have argued is attributable to a complex intersectionality of class politics, hegemony, a conscious and focused leadership, competent bureaucrats and effective institutions that have come together to situate Botswana's experience akin to a developmental state. Has the informal sector enjoyed the same institutional competencies that has characterized Botswana's development trajectory?

At the national level, two important institutions dominate state-informal relations regarding policy making and regulations. The Ministry of Finance and Development

Planning (MFDP) is the single most important institution in Botswana for policymaking and development planning after the national cabinet led by the president. It is a central power house responsible for development planning and an institutional nerve center in Botswana's economic development process. The MFDP through various documents has clearly outlined the need to develop the informal sector to help mitigate problems of unemployment and lack of income in Botswana. Its commitment to informal sector development is evidenced in the establishment of Citizen Entrepreneurship Development Agency (CEDA), an autonomous parastatal under the jurisdiction of the MFDP. Its main responsibility is to empower citizens through the development of and access to entrepreneurial and management skills training, monitoring, mentoring and provision of finance through subsidized interest rates on loans.

The Ministry of Trade and Industry (MTI) also plays a crucial role in Botswana's incipient informal sector considering the fact that a majority of informal sector businesses are trade and manufacturing oriented and thus fall under the purview of MTI. The Ministry is charged with an overarching responsibility of creating an enabling environment for private sector growth. Its extensive network of parastatals including the Local Enterprise Authority (LEA), Small Business Council (SBC) and Small Business Promotion Agency (SBPA) play a crucial role in informal sector advancement. At the local level, the Gaborone City Council (GCC) is responsible for regulating the informal sector and in fact the most visible institution to informal sector operators

The institutions set up to operationalize informal sector policies like Botswana's overarching institutional framework, are a near-approximation of the Weberian ideal of

bureaucracy with hierarchical organization, departmentalization, division of labor and specialization. These characteristics have placed Botswana uniquely in the third world context in that it has avoided the corruption and nepotism that plague developing countries and undermine their efforts at informal sector development. However, these characteristics have come at a significant cost and disadvantage to informal sector development. The highly centralized administrative and bureaucratic machinery characteristic of the MFDP and MTI has resulted in three interrelated problems of institutional rigidity or lack of peripheral agency autonomy and flexibility; organizational fragmentation and a resultant lack of interlinkages between agencies; and weak legitimacy resulting from the failure of agencies to be well embedded in relational networks with informal sector agents. In sum, there is a lack of synergy (cohesiveness and coherence) within the institutional framework at various scales in what I call 'disembedded scales of institutional governance' and a skewed distribution of power amongst agencies that does not facilitate effectiveness. The over-centralization of policy formulation, implementation, and supervision though has worked well for the management of the macro-economy, proves stagnant and even moribund in dealing with the dynamic complexities of informal sector development. Achieving informal sector development in Botswana requires a unique kind of developmentalism from the state, one that goes beyond the institutional structures that have worked so well to transform Botswana's economy. These institutions must be flexible enough to engage in strategic and fluid partnerships with the informal sector so as to overcome structural constraints and nurture entrepreneurial capacities. However the lack of cohesion and coherence

(synergy) at both national and local scales in the institutional setting and sometimes rigid regulations are undermining the Botswana state's efforts at informal sector development.

Recommendation

Productivity, growth, income and employment generation can become a reality if the Botswana government restructures the institutional framework, making it sensitive to informal sector needs. Government officials must not see the mushrooming of micro-enterprises as a problem but rather an opportunity to the problems of unemployment and poverty. The major concern should be how best to encourage them to become sustainable and create the appropriate environment to facilitate growth.

There is the need for an autonomous institution set up solely to facilitate informal sector development. Alternatively, there needs to be established within the existing institutional framework specific departments set up for informal sector development. The current practice of subsuming the informal sector under other government programs is clearly not working. For example, CEDA, the main agency responsible for assisting financially tends to focus more on formal medium and large scale enterprises even though its mandate also covers micro-enterprises. Setting up an informal sector specific institution or departments within existing parastatals like CEDA and LEA will enhance policy implementation capacity. Also, the informal sector is not a homogeneous entity. It is composed of several types of enterprises engaged in a variety of economic activities with different levels of productivity. A stand-alone institution will show sensitivity to this fact and help focus and streamline government efforts to informal sector development. A stand alone institution will for example be able to separate productive from welfarist

enterprises and thus channel resources to specific enterprises with the potential for growth.

To achieve the necessary flexibility and synergy within the institutional framework, there must be an effort to restructure the institutional environment within which the informal sector operates. The centralization of policy making decisions within the MFDP and MTI is problematic in this regard. The most visible layer of government to the informal sector is local government, in this case, the Gaborone City Council and therefore it is better placed for informal sector development. There is the need for an intensification of Botswana's decentralization process that will empower the GCC with more decision and policy making authority. However decentralization should go hand in hand with institutional capacity-building at the local level which will create the space for local authorities to promote dialogue with informal sector operators. The policymaking process at this level of administration needs to be opened up so that it can be informed by the experiences of those directly affected. This will significantly improve the implementation of GCC policies towards the informal sector.

There is the need for better coordination of and consultation on policy between the various organs of government as represented by different ministries and parastatals and also between central government and local authorities. Such a move will minimize duplication and ensure that local authorities are in sync with central government policy towards the informal sector.

7.3 Conceptual Significance of Findings

The thesis examined the conceptual overlap in the literature on the informal sector and the state in its full blown developmental form. The informal sector facilitates initiative and entrepreneurship, the core tenets of the free market economy and thus could meaningfully contribute to the competitiveness of the market economy in totality if assisted and guided. Guiding and assisting the informal sector for the realization of its potential on the other hand behooves a purposeful, autonomous developmental state with the capacity to transform the informal sector through appropriate kinds of intervention and regulation. Two important ideas emerge conceptually from the research findings

A) State-Informal Sector Relations: Position Matters

The position of the informal sector vis a vis the state is crucial if we are to go beyond the antagonistic pathways that characterizes the literature on state informal sector relations. Recognizing the informal sector as a partner in development is the first step in overcoming antagonisms borne out of the structural position of the state as regulator and informal sector enterprises as evaders of regulation. However, positionality is not a sufficient condition to ensure engagement of the state and informal sector for mutual development.

B) Beyond positional analysis, engaging the informal sector requires a purpose driven and focused state with the capacity to engage the informal sector. Such a state creates:

- An Appropriate Policy and Regulatory Environment: The informal sector is a very diverse and thus to engage it positively, there is need to create innovative policies that counter the myriad of bottlenecks informal enterprises face. In Botswana's instance, through a myriad of policies and

programs, the government is acting as a facilitator and promoter of informal sector development. However, a favorable policy environment must be complemented by appropriate regulations. As the Botswana case study shows, regulations can be antithetical and negate a conducive policy environment.

- Secondly, having a conducive policy and regulatory environment does not guarantee informal sector development. It must be complemented by a favorable institutional environment with a capacity to deliver. As the findings show, the institutional environment that has helped transform Botswana's macroeconomic development trajectory over the years has proved problematic in efforts at informal sector development. The institutional framework suffers from some of the pathologies of a highly centralized and hierarchical bureaucracy that proves stagnant in dealing with the dynamic complexities of informal sector development. In Botswana, the problem is not the capacity to deliver but the appropriateness of the institutional framework. Decentralization and devolution of power to local government and lateral Ministries and parastatal are necessary for informal sector development whilst simultaneously ensuring an integrated coherence. Thus synergy within a differentiated institutional framework is necessary.
- Finally, to complement appropriate regulations and policies as well as a favorable institutional framework, there is the need for political

leadership, an element that is missing from Botswana's informal sector development experience.

In sum, the informal sector is not disappearing both in theory and practice. In actuality it continues to flourish and serve as an important livelihood strategy for many in the third world. It is thus important for the state (both in theory and practice) to truly engage the informal sector as a development partner and create a pathway to income and employment for the many who participate in it. However the success of state-informal sector relations is dependent on the complex intersectionality of a conscious and focused leadership, competent bureaucrats and effective institutions and a dynamic regulatory environment to overcome the structural antagonisms that has characterized the relationship. There is the need for a holistic approach to informal sector development which can best be achieved by a particular kind of state; the developmental state.

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Appendix 2A

Institutional Interview Schedule

Date of Interview: _____

Place of Interview: _____

Institution Code: _____

Position of Respondent: _____

Type of Institution: Public

Parastatal:

The purpose of this study is to explore the relationship between Botswana's "developmentalist state" and micro-enterprise development. Your institution was selected because it was established specifically to encourage entrepreneurship in Botswana. I would appreciate it if you could spend time with me to go through these questions. The answers you provide will remain anonymous in any written report and your responses will be treated in the strictest confidence. Feel free during the interview to interrupt, ask for clarification of the interviewer, criticize the line of questioning etc. The following questions are just a guide for the kind of issues that we may discuss during the interview; other questions may be added for further clarification.

1. Since when have you been working with this institution?

2. Can you briefly tell me the history of this institution?

3. What type of services does your institution provide (especially for enterprise development)?

4. Who are the major clientele of the institution? Specify

5. How many people are on the staff?

6. How many employees are permanent staff?

7. What are the criteria for recruiting new employees and how are they recruited?

8. What are the criteria for the promotion of employees in the institution?

9. Do you have record of any employee who has resigned from this institution? What were their reasons?

10. How does your institution finance its budget?

11. Has there been any change in the way the budget is financed? Explain

12. Can you give some idea about the general organizational structure of your institution?

13. What are the problems you face as an institution in your service delivery process?

14. What has been and/or will be done to overcome some of these problems?

15. How does your institution intervene in micro-enterprise development?

16. Have there been any changes in the nature of services that your institution provides? Explain the nature of the changes.

17. What factors precipitated these changes?

18. How do you see the quality of services provided by your institution? Has it changed over the years?

19. Will you say that there has been an increase or decrease in demand for the services provided by your institution in the past ten years? (If the institution is less than ten years old, since the institution was established).

20. What do you think are the main reasons for the increase or decrease in demand?

21. Would you say your efforts at intervention have been success? What are the reasons for your response?

22. Which level of government does your institution account to and what is the nature of the relationship?

23. Has government policy with regards to your institution changed in recent times?

24. What is/was the nature of change and what precipitated the change?

25. Does your institution formulate its own micro-enterprise policies and regulation?
Explain your response.

26. What are the criteria used in identifying micro-enterprises for assistance?

Appendix 2B

Informal Sector Interview Schedule

Background Information

1) Date of Interview: 2) Place of Interview:

3) Type of enterprise

Manufacturing Service Retail

4) Area:

Residential Commercial Industrial

5) Age: Sex: Male Female

6) Marital Status: Married Single Divorced

7) If married wife/husbands occupation

8) Nationality

9) Indicate highest level of education:

No schooling Primary education
Secondary/commercial Post secondary
University Other specify

10) Indicate what type of training you would require to improve your business:

General education
Managerial skills
Bookkeeping financial skills
Do not need any training
Other (specify)

11) Do you undertake any other activities to supplement this enterprise?

Yes No

12) If yes what activities

13) Year of initial start of operation

14) Who started the enterprise?

Don't Know Myself Parent
Relative Friend Other (specify)

15) Type of ownership:

Sole owner Partnership
Family Ownership Cooperative
Other (specify)

16) State specific reason for establishing the business:.....
.....
.....

17) Did you secure any credit to start this business?

Yes No Don't Know/ No Response
Other (specify)

18) If yes to question 18, from whom did you get it?

Government Support (specify)

Bank (name of Bank)

Parents Other relatives
Friends Money Lender

19) Nature of credit obtained to start business

Cash only Equipment only
Cash and equipment Other (specify)

20) How do you assess the performance of your business at present?

Doing well (substantial)
Satisfactory (some profit)

- Break even
- Making loses
- Don't know (can't tell)

21) What were three most important difficulties in starting your enterprise? (Indicate in order of importance)

- Lack of adequate capital or credit
- Finding suitable premises
- Technical know-how/skilled workers
- Government regulation (specify)
- No difficulties at all
- Any other specify

22) If you had problems how did you overcome them?

- Assistance from friends and relatives
- Formed partnership
- Borrowed money
- Government assistance
- Other, (specify)

Enterprise Location and Infrastructure

23) Why did you decide to operate your business in this area/spot (detailed response)?

.....

24) Type of structure of enterprise: (Researcher Identify)

- Kiosk Workshop (fenced open)
- Single room office Building compound
- Open Air/ Veranda Other

25) Ownership of business premises:

- Self/owner
- Rented
- Leased
- Other (specify)

26) Ownership of land on which business is established

- Public
- Private
- Family
- Squatter
- Other (specify) _____

27) Do you have any problems at the present site?

- Yes
- No

28) If yes, specify

29) What major tools/inputs do you use in your operations? (Specify)

30) In what form did you acquire your present inputs/equipment/tools?

	Formal	Informal	Other (Imported)
New	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Secondhand	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Self-constructed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bought second hand and made substantial improvements			<input type="checkbox"/>

31) How did you acquire your present equipment/tools?

- By credit (fully/partially)
- Cash (fully)
- Other (specify) _____

32) Have you ever received technical advice from any government organization on how to use and maintain inputs/tools/machines?

Yes

No

33) If yes to Q32, how was the contact made?

Source of Inputs

34) Which main raw materials/inputs does the enterprise use?

35) Who are the main suppliers of your raw materials/inputs (rank in descending order of importance)?

Intermediaries (traders)	<input type="checkbox"/>
Large manufacturers	<input type="checkbox"/>
From government organization	<input type="checkbox"/>
Buying cooperatives	<input type="checkbox"/>
Direct from farmers	<input type="checkbox"/>
Other (specify) _____	

36) Where are your main suppliers of raw materials located?

In Gaborone	<input type="checkbox"/>
Towns and villages outside Gaborone	<input type="checkbox"/>
Outside the region	<input type="checkbox"/>
Imported goods	<input type="checkbox"/>

37) How often do you obtain inputs?

Infrequent	<input type="checkbox"/>
Regularly (monthly)	<input type="checkbox"/>
Regularly (weekly)	<input type="checkbox"/>

38) How do you pay for the inputs?

Cash	<input type="checkbox"/>	Credit	<input type="checkbox"/>
------	--------------------------	--------	--------------------------

Both Other (Specify)

39) In what form do you buy your raw materials?

Bulk Little bits/Irregular
Little bits/regular other (specify)

40) Enumerate the key problems related to raw material/input acquisition for your enterprise:

.....
.....
.....

41) How do you manage these problems?

.....
.....
.....

42) How many people did you originally start this business? (Inclusive of operator) _____

43) How many currently work in the enterprise (including operator) _____

44) How many are engaged as working proprietors _____

45) Number of regular paid employees _____

46) Unpaid family workers _____

47) Apprentice learners _____

48) How many hours in the day do workers work? _____

49) How many days in the week do your workers work? _____

50) Do you have any problems in recruiting or finding new workers?

Yes No

51) If yes specify.....
.....
.....

52) What major factors influence the number of persons working in the enterprise at any time?

- When business is good (increased demand)
- Relatives and friends looking for jobs
- Size of space for enterprise
- any other specify

53) Do you have plans to recruit more workers for the enterprise?

- Yes No Can't tell

54) What are the major problems you have with your workers?

Paid workers.....

Apprentices

55) How do you solve these problems?

.....
.....
.....
.....

Products and Marketing Policies

56) What are the main products/services of the enterprise? Rank in order of importance

.....
.....

57) Who are your main customers? Rank them.

- a) b)
- c) d)

58) Percentage of production/services that goes	1	2	3	4
Direct to local customers through retail	↓	↓	↓	↓

Wholesalers	↓	↓	↓	↓	↓
Retailers/Middleman	↓	↓	↓	↓	↓
Government agencies/departments/organizations	↓	↓	↓	↓	↓
Organized institutions	↓	↓	↓	↓	↓
Other small-scale enterprises	↓	↓	↓	↓	↓
Other (specify)					

59) What system of marketing do you operate for your goods/services?

Cash terms only

Cash and credit terms

Other (specify)

60) What type of competition do you have with other enterprises like yours and in which products or services?

.....

.....

.....

.....

61) Nature of competition with other enterprises

	High	Medium	Low	
Price level	↓	↓	↓	↓
Quality differentiation	↓	↓	↓	↓
Labor	↓	↓	↓	↓
Other specify	↓	↓	↓	↓

62) Do you obtain sales contracts from government organizations/institutions/large firms/middlemen/individuals?

Yes

No

63) If yes name a few:

64) If yes how often do you sell to them?

- Infrequently/Occasionally
Regular every week/month
Standing order
Other (specify) -----

65) Indicate the major source of initial financing:

- Own savings
Loans from friends and relatives
Contribution from other partner
Loans from commercial banks/other financial institutions
Government lending agencies and programs (specify)
Any other (specify e.g. pension) -----

66) How does your enterprise meet financial needs for working capital?

- Borrowing from friends/relatives
Borrowing from money lender
Borrowing from banks and other financial institutions
Own savings
Advance payment by client
Other (specify) -----

67) Have you ever attempted to secure assistance from Government agencies and institutions?

Yes No

68) Did you experience any difficulties in securing assistance from government institutions?

Yes

No

69) If yes list difficulties

.....
.....
.....

70) If so at what stage of business growth?

	Yes	No
Start of business	<input type="checkbox"/>	<input type="checkbox"/>
Expansion	<input type="checkbox"/>	<input type="checkbox"/>
Working capital	<input type="checkbox"/>	<input type="checkbox"/>
Management training	<input type="checkbox"/>	<input type="checkbox"/>
Other specify		

.....

Growth Trends and Prospects:

71) Do you intend to operate this enterprise in the next five years?

Yes No Can't tell

Other (specify)

.....

72) Do you have plans for expanding this enterprise?

Yes No

73) If no give reasons

.....
.....
.....

74) Have you introduced new goods since the beginning of the enterprise?

Yes No Can't tell

75) Have production and service delivery methods changed since the start of the enterprise?

Yes No Can't tell

76) Do you plan to move the enterprise out of the present site?

Yes No Can't tell

77) If yes why?

.....
.....
.....

78) Indicate in order of importance (from most to least) the three main difficulties affecting the expansion of your enterprise:

Lack of customers (market)	<input type="checkbox"/>
Non-payment of debts	<input type="checkbox"/>
Unavailability of finance	<input type="checkbox"/>
Lack of management skills	<input type="checkbox"/>
Lack of capital equipment	<input type="checkbox"/>
Lack of skilled personnel	<input type="checkbox"/>
Heavy taxes and license fees	<input type="checkbox"/>
Lack/irregular supply of inputs	<input type="checkbox"/>
Lack of space	<input type="checkbox"/>
Difficulties with existing regulations	<input type="checkbox"/>
Any other specify	<input type="checkbox"/>

79) Has this enterprise grown since establishment?

Yes No Can't tell

80) If yes how?

Established new branches	<input type="checkbox"/>
Reinvested in expansion of existing firm	<input type="checkbox"/>
Enlarged turnover	<input type="checkbox"/>
Acquired better tools	<input type="checkbox"/>
Other (specify)	<input type="checkbox"/>

81) What are you currently doing to improve business?

Purchase new equipments

Seeking further training

Seeking assistance from government institutions

Seeking loan from banks and other institutions

Reinvesting profit from business

Any other (specify)

82) What three measures would you like government to introduce for assisting you improve your enterprise (start with most important)

.....
.....
.....

83) Is current government policy on small business development favorable to the development of your answer?

.....
.....
.....

84) Have you heard of any program/policy by government to assist small businesses like yours?

Yes No

85) If yes specify

.....
.....
.....

86) When starting the enterprise which government offices did you visit and for what purpose?

87) Did you comply with directives?

Yes

No

88) If no why?

89) Which regulations were difficult to comply?

90) Has compliance to regulations been costly to the enterprise? Explain

91) Are there regulations that govern your enterprise that you are not happy/comfortable with?

92) What are they and what are your concerns with these regulations?

93) In what ways has government been helpful to your enterprise?

APPENDIX 2C

**Informal Sector Micro-enterprise Census Form
Gaborone, Botswana.**

Code: _____ Date: _____

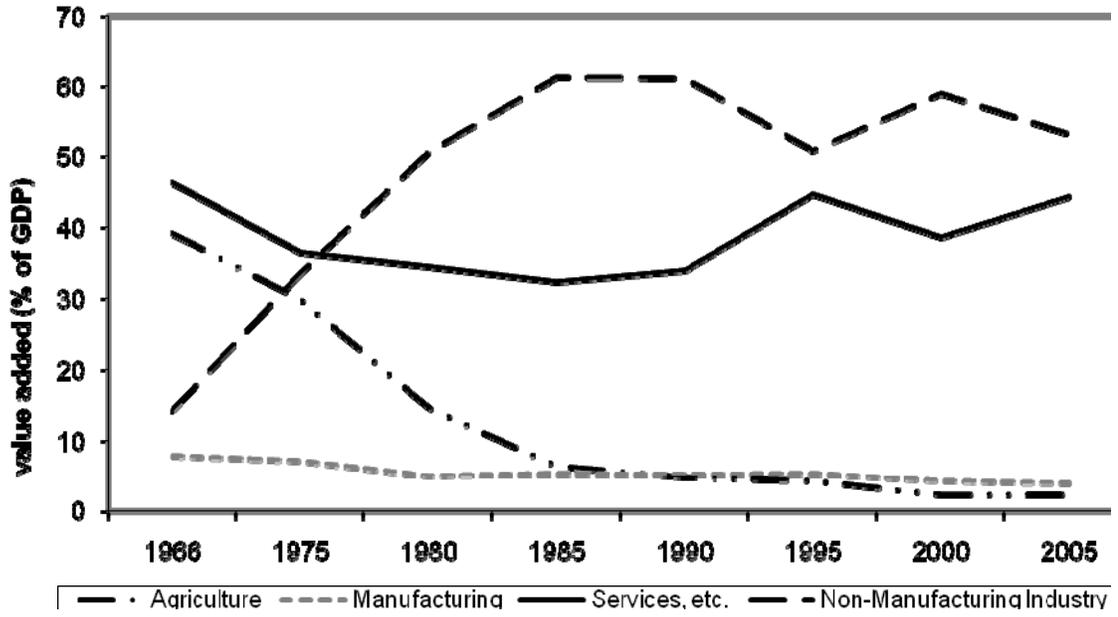
Enumerator: _____

Format for Basic Survey

Name	Location		Type of Business	Business Description
	Locality	Street Name		

Appendix 3A

Sectoral Contribution to GDP (Value Added)



Appendix 4A

Typical Neighborhood Convenience/Tuck Shop



Source: Author's Field Research (2006)

Appendix 4B Tuck Shop



Source: Author's Field Research (2006)

Appendix 4C:
Typical Caravan Structure used widely in Gaborone for mainly Service Sub-sector Activities



Source: Author's Field Research (2006)

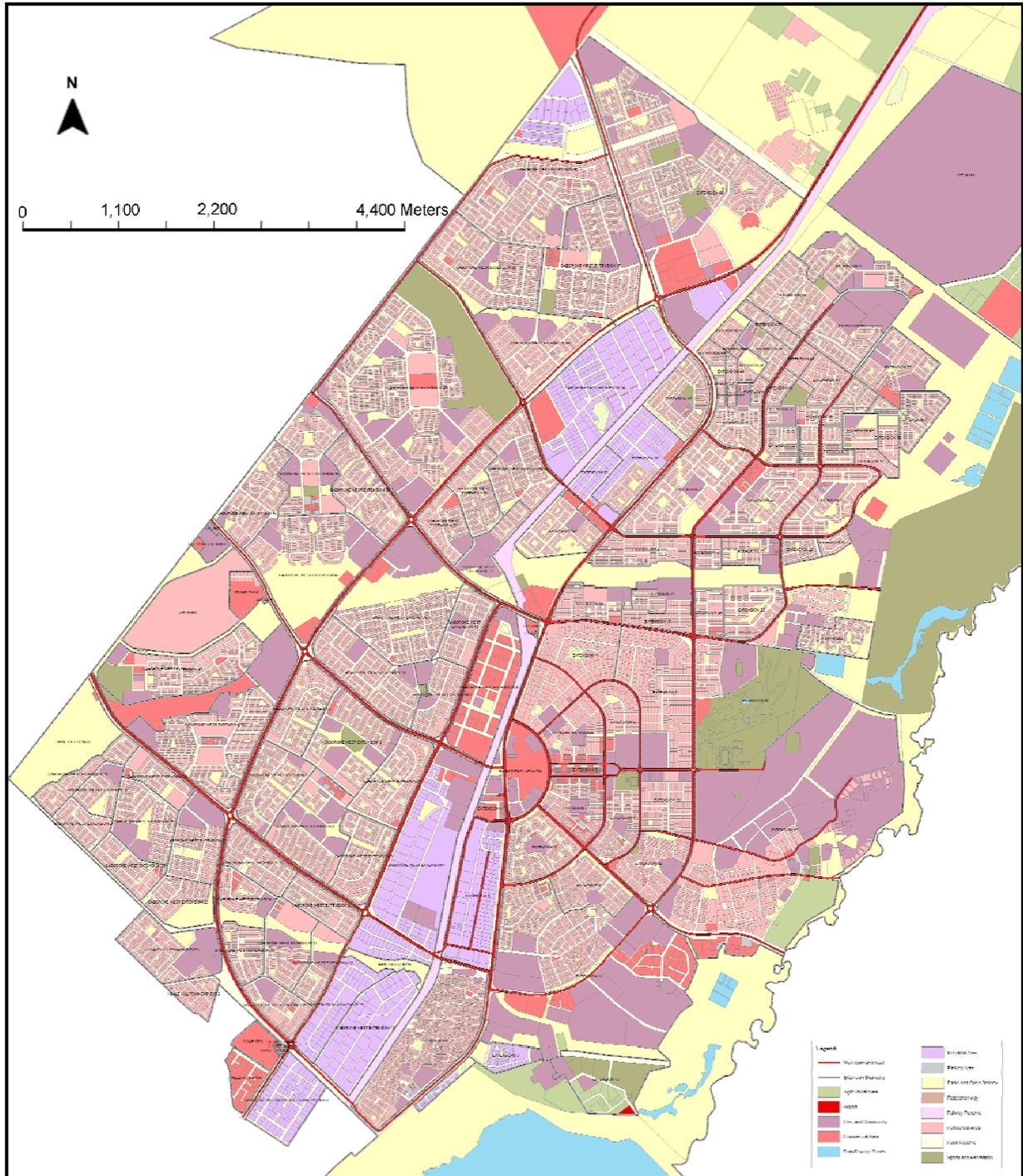
Appendix 4D
Roadside Catering Popularly called "Caravan Ladies"



Source: Author's Field Research (2006)

Appendix 4E

Land Use Map of Gaborone, Botswana



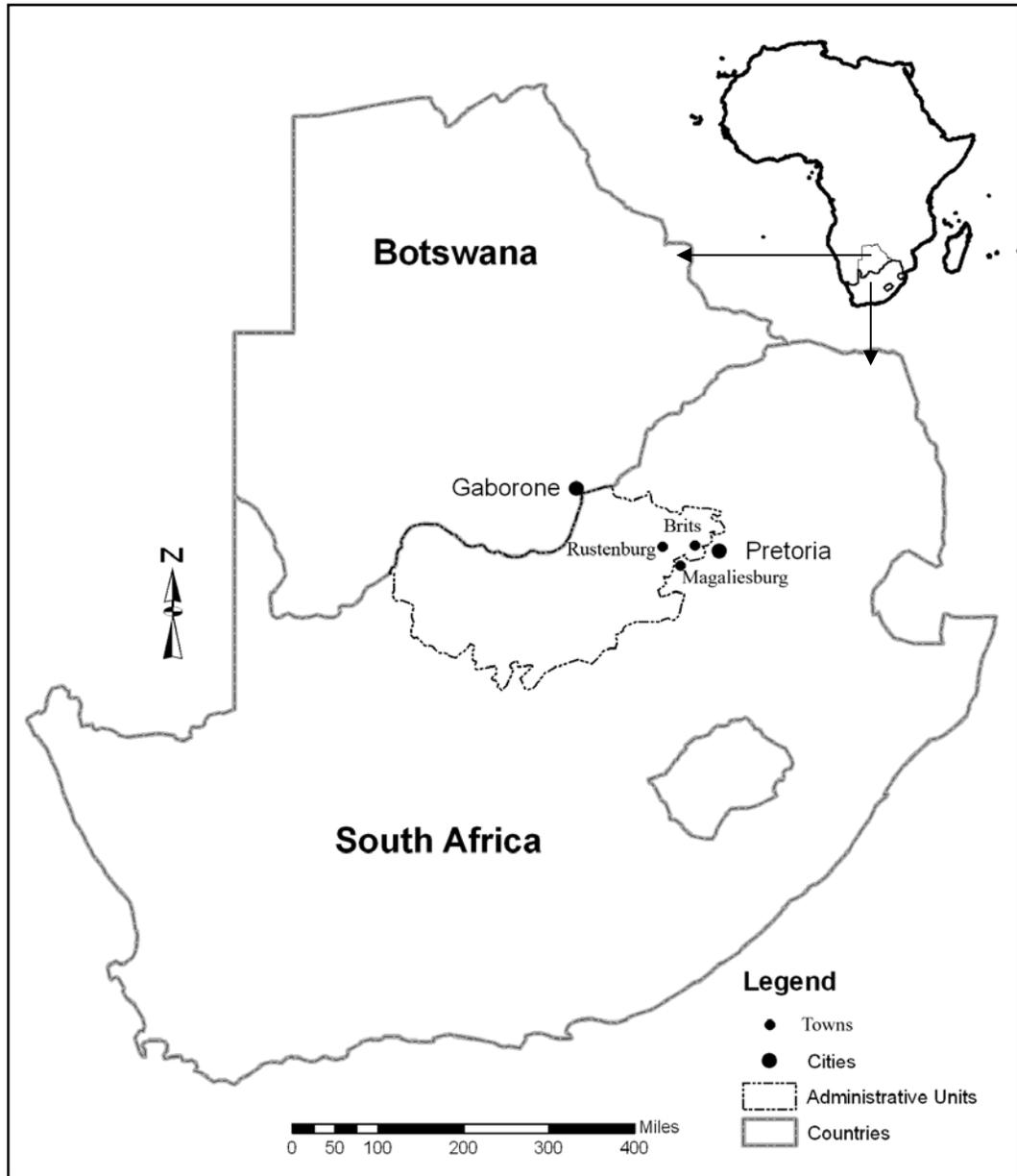
Created by David Menyah, 2006. Data access granted by the Department of Survey and Mapping, Gaborone, Botswana.

**Appendix 4F:
Gaborone Central Bus Station: Locus of Informal Activity**



Source: Author's Field Research (2006)

Appendix 4G
Map of Botswana and South Africa showing Farm Locations



Created by Author, 2007

Appendix 5A

Botswana Reserved Activities

In order to promote the participation of Botswana in economic activity, certain economic activities are reserved exclusively for citizens and companies which are wholly-owned by citizens. The policy has to date been implemented in respect of:

Certain commercial activities:

Licenses to carry on the following trades or businesses are only issued to citizens of Botswana, or to companies wholly-owned by citizens of Botswana:

Bars (except for those in hotels); Hawker; Street Vendor; Bottle Store; Butchery and Fresh Produce (including milk); Chibuku Bar; General Trading; Petrol Filling Station; Simple Specialty Operations, e.g. clothing boutique, footwear; Supermarkets, excluding chain stores and franchise operations; Village type restaurant/takeaway including restaurant liquor; Taxi Service; Security Guard; and Dairy Produce

Certain manufacturing activities

Licenses to carry on certain types of manufacturing enterprise are reserved for citizens of Botswana, or companies wholly-owned by citizens: the baking of bread; the manufacture of burglar bars; the manufacture of school uniforms; the manufacture of protective clothing; the milling of sorghum; the manufacture of school furniture; and the manufacture of cement and baked bricks.

Certain construction and other activities performed for Government: The following road and railway maintenance contracts are reserved for citizens and wholly-owned citizen companies: Fencing; Maintenance of roads; Reserve and drainage; Clearing bush; Culvert construction; Transport and plant hire; Stock piling of materials; Carting gravel and chippings; Bridge painting; and Road marking, fog spray and resurfacing bitumen roads (for this category, non citizen firms are only to be considered when citizen contractors have tendered unsuccessfully).

In addition, the Central Tender Board should only consider applications from firms wholly owned by citizens for registration in certain categories of building contractor; maintenance and minor building works for government properties is reserved for citizen contractors; transportation of mail is also usually reserved for citizens.; and directives to central government, local authorities and parastatals require that tendering for furniture, uniforms, overalls and dust coats is restricted to local firms (which need not necessarily be citizen-owned).

Source: SMME Policy, 1999

Appendix 5B
Typical Phone Shop Located in Open Space, Gaborone



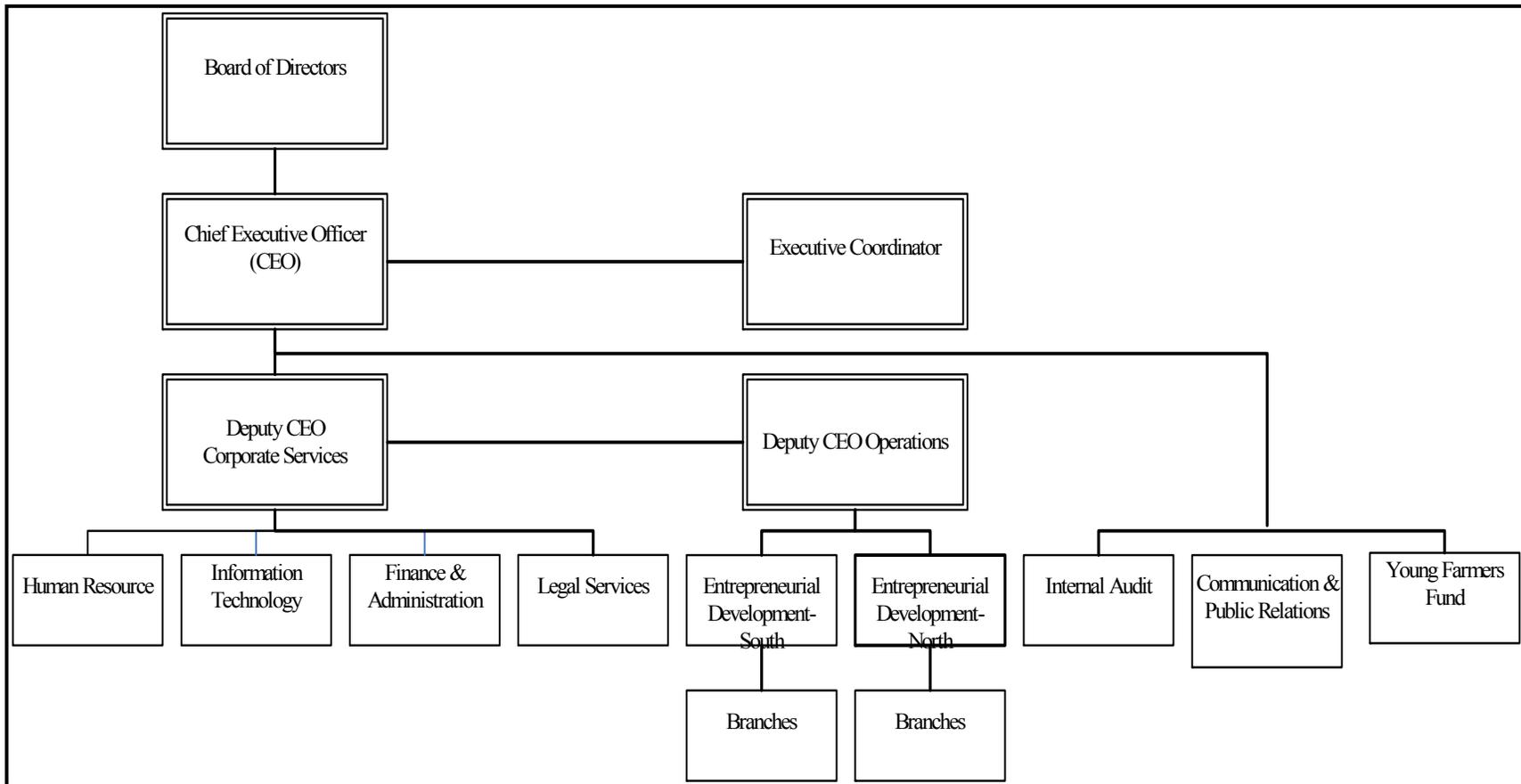
Source: Author's Field Research (2006)

Appendix 5C
Phone Vendor, Gaborone



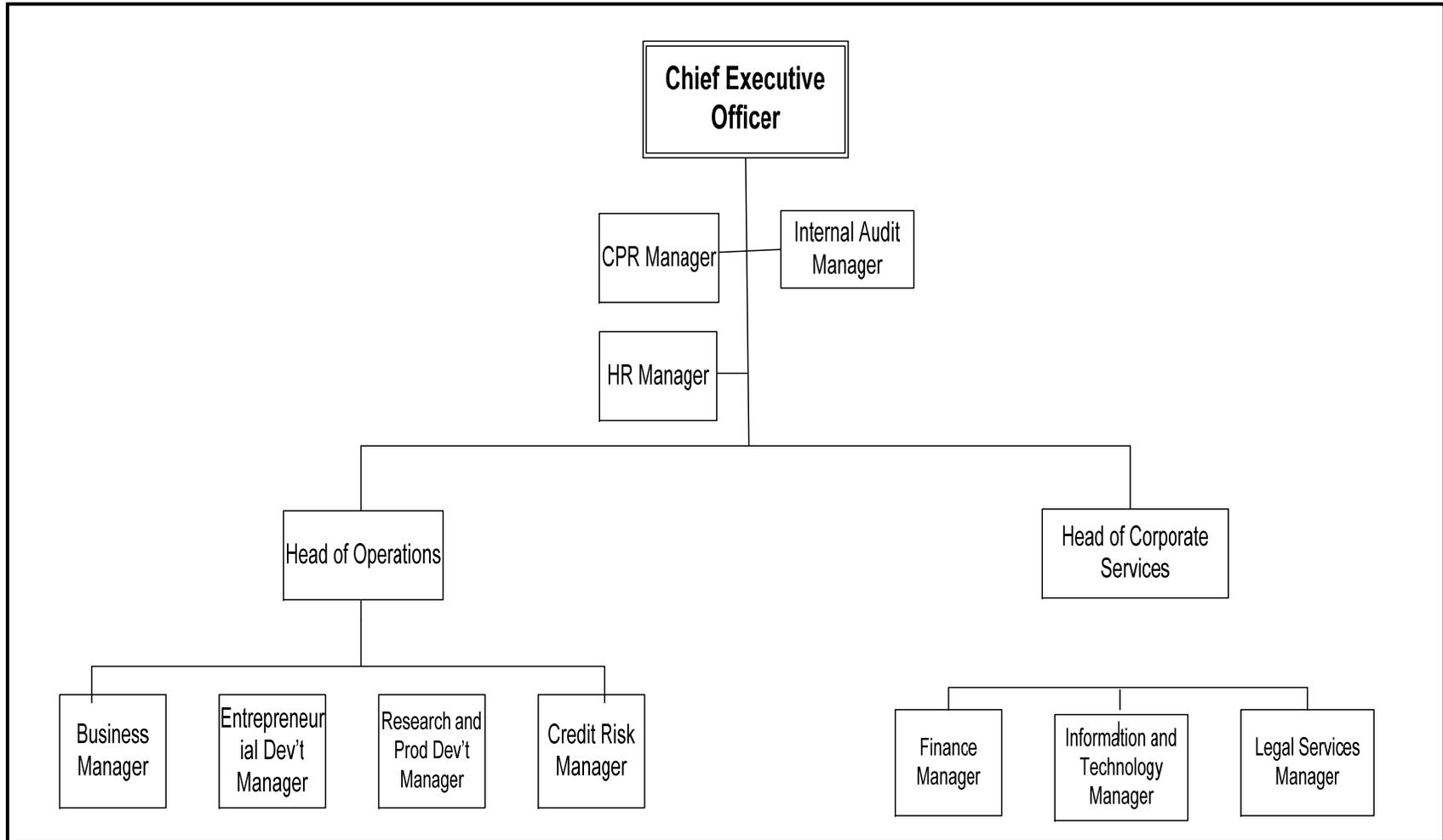
Source: Author's Field Research (2006)

**Appendix 6A
CEDA ORGANIZATION STRUCTURE**



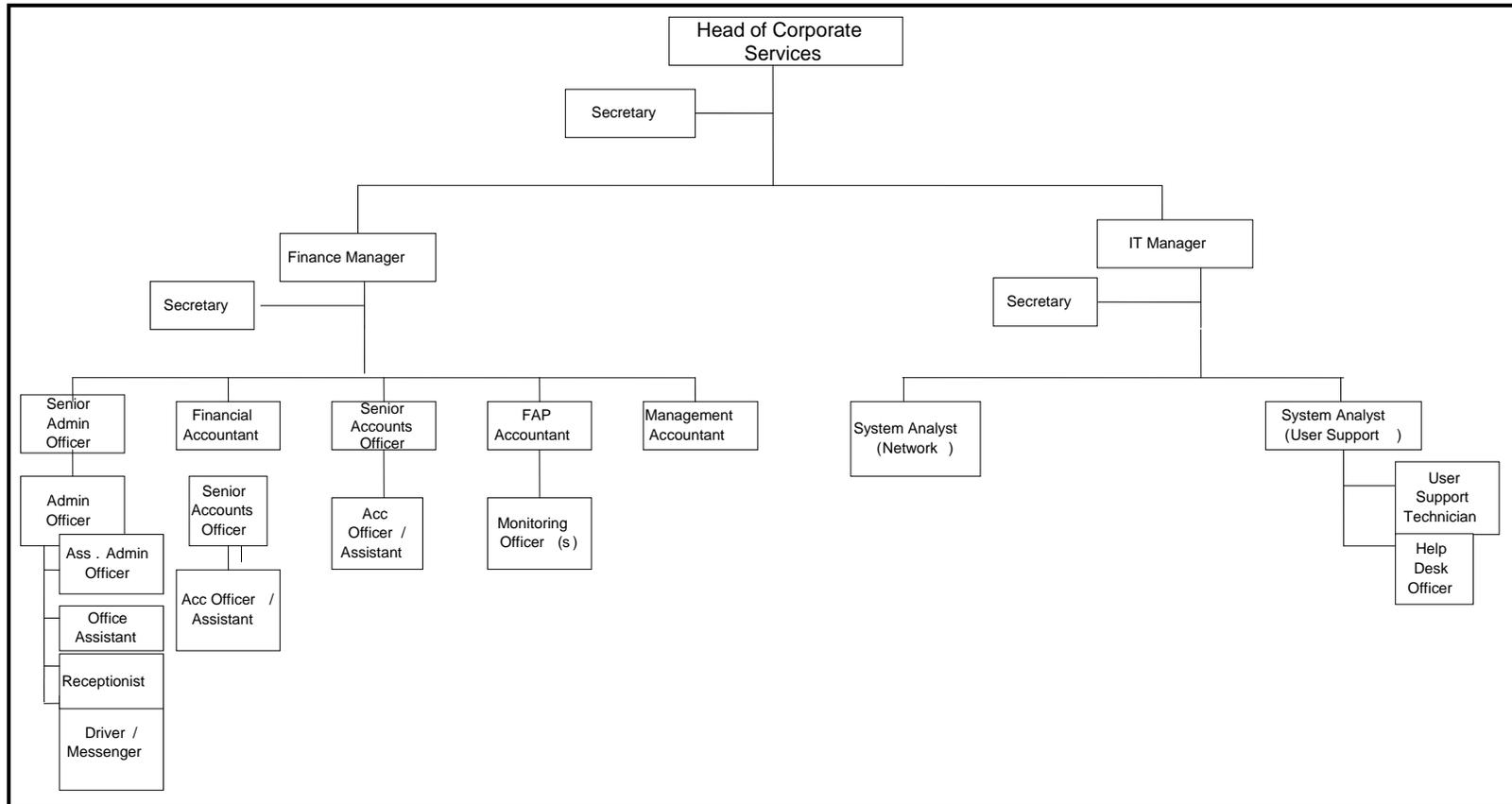
Source: CEDA Annual Report. 2007

**Appendix 6B
CEDA MANAGEMENT STRUCTURE**



Source: CEDA Annual Report, 2007

Appendix 6C CEDA CORPORATE SERVICES STRUCTURE



Source: CEDA Annual Report, 2007